Consumer Research
84

Financial Services Authority

Consumer purchasing and outcomes survey 2010

Prepared for the
Financial Services Authority
by TNS-BMRB

May 2011

Financial Services Authority

Consumer Purchasing and Outcomes Survey 2010

TNS-BMRB Report for the Financial Services Authority (FSA)

JN 209041

May 2011

ISO 27001 Cert No. 0498 ISO 20252 ISO 9001

Content

ACKNOWLEDGEMENTS

TNS-BMRB was responsible for all aspects of data collection.

We acknowledge the advice and support received from Tim Burrell, James Dresser, Margaret Watmough and other members of the Financial Services Authority project team. We would also like to thank other members of the TNS-BMRB project team namely Liz Bellchambers, Kayleigh Rich and Jenny Turtle for their contributions throughout the different stages of the project. A special thank you is extended to Andrea Finney from the Personal Finance Research Centre at the University of Bristol for her help in designing the questionnaires and comments on the draft report.

In enabling us to carry out the project in the way that we did we would like to thank the product providers and platform providers for their cooperation and help. Finally, and most importantly, we thank the survey respondents for giving their time to participate in the study.

THE AUTHORS

Barry Fong is an Associate Director at TNS-BMRB. He has worked for TNS-BMRB for over six years and has co-authored a number of reports published by the FSA.

Rebecca Hamlyn is a Senior Associate Director at TNS-BMRB. She joined TNS-BMRB in 1995 and has nearly 20 years of experience specialising in quantitative public sector research.

GLOSSARY

The definitions used in this glossary have been taken from a variety of sources, all of which are listed in the bibliography. However, for more detailed information on some of these terms, please browse the Glossary of the FSA Handbook at http://fsahandbook.info/FSA/html/handbook/Glossary. The FSA's online Handbook provides access to the FSA's legal rules and guidance.

Where a definition is a survey-adapted definition rather than an official definition, this is noted.

Advised sale	An advised sale occurs when an adviser of a regulated firm gives a personal recommendation to the customer to purchase a regulated product after assessing the customer's needs and circumstances. This is specific and individual advice to the customer and is not generic.
Annual statements	Statements given by product providers to customers on a yearly basis detailing the specific investments held, the value of the investments and any benefits accrued.
Child trust fund (CTF)	A long-term, tax-free savings or investment account for children born on or after 1 September 2002, which they can access once they turn 18.
Chi-squared Automatic Interaction Detector (CHAID)	A technique that can be used to find predicting factors of a dependent variable and highlight interactions, usually in the form of a classification tree diagram.
Choosing Products (CP)	The financial capability domain that assesses consumers' knowledge about financial products, their attitudes to risk, and their behaviour and confidence in selecting appropriate financial products. The questions were only asked if they had purchased a product in the last few years.
Collective investment	An investment where lots of people pool their money into a fund, which is then invested and professionally managed by an independent manager. Also known as open-ended investment funds.
Consumer Purchasing and Outcomes Survey (CPOS)	A strategic piece of quantitative research first conducted by the FSA in 2007 looking at consumer behaviour through the process of purchasing financial products. The 2010 survey looked at consumer behaviour through the process of purchasing retail investment products.

Consumer	This describes any of the four survey groups which CPOS 2010 covers: recent purchasers, long-term purchasers, non-purchasers and non-users.
Disclosure	This relates to financial advisers describing the level and type of service they offer in a clear and transparent way to consumers.
Distribution bond	A single premium investment policy. The funds are invested in equities and gilts and an income is paid each year to the policyholder, dependent on the performance of the investments. If over 50% of the fund allocation relates to the distribution fund then the product is reported as a distribution bond. If less than a 50% allocation is made, the product is reported as a unit-linked bond.
Endowment savings plan	An endowment plan with a fixed term, with benefits paid on death within the term or on maturity.
Engage	In CPOS 2010, this is used to describe either contacting an adviser about purchasing a retail investment product or purchasing a retail investment product within the last five years. Non-users, by their definition, have not engaged in the retail investment market and can be said to be non-engagers in the market.
Equity ISAs	This is one of the five product groups that CPOS 2010 covered. Equity ISAs are a tax-free investment product which may include investments such as individual shares or bonds, or collective instruments.
Exchange Traded Fund (ETF)	An open-ended investment fund which tracks certain indexes and is bought and sold on an exchange rather than through a fund manager. Sometimes referred to as being passively managed.
Financial adviser	This can be any adviser working in a bank, building society, insurance company, solicitors, accountants, wealth manager, stock broker or a firm of independent financial advisers (IFAs), who gives information or advice about financial products.
Financial capability	Financial capability can be conceived as encompassing five different areas, or 'domains'. These domains are Keeping Track, Planning Ahead, Choosing Products, Staying Informed and Making Ends Meet. There is no single indicator to

	accurately represent the concept of financial capability. Individuals may be particularly capable in one or more areas, but lack skills or experience in other areas. In each of these domains, a number of questions have been developed or adapted to gather information. These questions have been designed to identify those with higher and lower degrees of financial capability through the formation of scores. These scores should be treated as relative measures and do not identify groups whose financial capability may be said to be 'too low', 'inadequate' or 'failing'.
Financial confidence	Non-users' self-assessed confidence in terms of their understanding of different financial products in general.
Financial experience	Non-users' self-assessed experience in terms of purchasing financial products in general.
Financial Services Authority (FSA)	The financial services regulator for the UK.
Free-standing additional voluntary contribution (FSAVC)	A pension top-up policy for an occupational pension, but separate from an employer's pension scheme and normally run by an insurance firm.
Guaranteed income/ growth/ investment bond	Income and growth bonds, including guaranteed income and guaranteed equity bonds, which have guarantees and pay a percentage of the movement of one or more index.
Independent Financial Adviser (IFA)	A professional who is authorised and regulated by the FSA to advise on suitable financial products after researching the whole market, having investigated a customer's needs and circumstances. Their advice can be paid for by a fee or commission. In CPOS 2010, the survey definition of an IFA is a financial adviser who works for a firm of financial advisers, an accountants or solicitors, a stockbroker or wealth manager (not a bank, building society or insurance company); and is understood by the consumer to be an IFA.
Individual pension transfer	A transaction resulting from a decision made, with or without advice from a firm, by a customer who is an individual, to transfer deferred benefits from: a) an occupational pension scheme; or b) an individual pension contract providing fixed or guaranteed benefits that replaced similar benefits

under a defined benefits pension scheme.
Benefits are transferred to a stakeholder pension scheme or to a personal pension scheme (including a self-invested personal pension scheme) or to any deferred annuity policy (including a pension buy-out contract) where the eventual benefits depend in whole or in part on investment performance in the period up to the intended retirement date.

Individual Savings Account (ISA) Savings or investment products that earn tax-free interest. These products allow an investor to only invest up to a set limit in each tax year.

Investment bonds This is one of the five product groups that CPOS 2010 covered. It includes the product types from PSD of with-profit bonds, unit-linked bonds and distribution bonds.

Investment risk In the context of CPOS 2010, investment risk is how much risk a consumer is prepared to take that they might lose some of the money they put into an investment. The measure is self-defined and runs on a scale from no risk at all, low risk, moderate risk to high risk.

Investment Trust A company listed in the United Kingdom or another European Economic Area (EEA) State, which has approval from HM Revenue and Customs (or would have if it was resident and listed in the UK). Investments are made in shares of the quoted company and the price of the shares is determined by the demand. Investment trusts are often referred to as being closed ended.

Keeping Track (KT) The financial capability domain that relates to keeping track of one's own finances.

Key Features Document (KFD) Important information about the financial product (pension or other investment) that a customer is buying. It describes the main aspects of the product, such as its aims and the risks.

Liquid financial assets Cash savings or financial assets that could quickly be converted to cash. They can be held in a variety of locations such as current accounts, savings or deposit accounts, cash ISAs, premium bonds or cash stored at home.

Long-term purchaser (LP) Defined in CPOS 2010 as: consumers who had bought an equity ISA, unit trust, investment bond, 'other' investment product or pension in April 2008.

Making Ends Meet (MEM)	The financial capability domain that indicates whether people are able to live within their means: to keep up with bills and whether they ever run out of money.
Multi-tied adviser	In CPOS 2010, this is defined as a financial adviser who is able to give advice on product options from a limited range of companies and is not understood by the consumer to be an IFA.
Non-advised sale	A non-advised sale occurs when no personal recommendation is made to the customer. The customer receives information on the product to enable them to make an informed decision about whether it meets their own needs and circumstances. Non-advised sales include 'execution only' and 'direct offer transactions'.
Non-purchaser (NP)	Defined in CPOS 2010 as: adults aged 18 or above who had contacted a financial adviser in the last two years about a retail investment product but did not make a purchase.
Non-purchasing groups	These comprise both the non-purchasers and non-users, as defined by CPOS 2010.
Non-user (NU)	Defined in CPOS 2010 as: adults aged 18 or above who had not contacted a financial adviser nor purchased a retail investment product in the last five years, but who said they had at least £3,000 in liquid financial assets at the time of interview.
Ongoing (financial) advice	In CPOS 2010, this describes further financial advice given to long-term purchasers, either by the financial adviser who they had most contact with when buying the product or another financial adviser, since buying the investment product.
Open Ended Investment Company (OEIC)	A type of open-ended investment fund.
'Other' investment products	This is one of the five product groups that CPOS 2010 covered. It includes the product types from Product sales data (PSD) of with-profit endowments, Structured capital at risk products (SCARPs), endowment savings plans and guaranteed income/growth/investment bonds.
Packaged products	These are investment products that: offer indirect exposure to underlying financial assets, are primarily structured to provide capital accumulation (although some are structured to provide principal protection), are designed for the mid- to long-term

retail market; and, are marketed directly to retail investors.

Pensions This is one of the five product groups that CPOS 2010 covered. It includes the product types from PSD of stakeholder pensions (individual), personal pensions (individual), FSAVCs, individual pension transfers, pension opt outs and Self-invested personal pensions (SIPPs). Group personal pensions were excluded as these products are not sold with the same advice structure as other products.

Pension opt out A transaction resulting from a decision made, with or without advice from a firm, by a customer who is an individual, to:

a) opt-out of an occupational pension scheme of which they are a current member; or
b) decline to become a member of an occupational pension scheme that they are eligible to join or that they will become eligible to join at the end of a waiting period

in favour of a stakeholder pension scheme or a personal pension scheme (including a self-invested personal pension scheme).

Personal pension (individual) A scheme of investment designed for saving for retirement that is a registered pension scheme, other than an occupational pension scheme, set up in accordance with HM Revenue and Customs regulations.

Planning Ahead (PA) The financial capability domain that assesses whether people are able to deal with sizeable financial commitments that they know are coming. It also looks at whether people have made provision for unexpected events. Attitudes towards planning for the future are also considered as part of this domain of financial capability.

Platform provider These are Internet-based services used by intermediaries (and sometimes individual investors) to view and administer investments. They tend to offer a range of tools that allow advisers to see and analyse a client’s overall portfolio, and to choose products for them. As well as arranging transactions, platforms generally arrange custody for clients’ assets. Platform providers can cover both wraps and fund supermarkets. Wraps and fund supermarkets are similar, but while fund supermarkets tend to offer wide ranges of unit trusts and OEICs, wraps often offer greater access to other products as well. Wraps also tend to support advisers that want to agree their own remuneration with their clients, instead of receiving commission.

Post Implementation Review (PIR)	In the context of the Retail Distribution Review (RDR), the Post Implementation Review will seek to evaluate any changes and reforms to regulations affecting the retail investment market following the RDR, and to determine the extent to which the desired outcomes are being obtained.
Post-sales experience	In CPOS 2010, this describes a purchaser's experience after having purchased the retail investment product. For recent purchasers, it describes the events that have occurred since their sale was administered in April 2010. For long-term purchasers, it describes the events that have occurred since their sale was administered in April 2008.
Product provider	These are providers of retail investment products that submit PSD to the FSA on a quarterly basis. They exclude platform providers.
Product Sales Data (PSD)	Since 1 April 2005, product providers have been required to provide the FSA with transaction-level data on all sales of regulated mortgage contracts, retail investment products and certain pure protection products to retail and private customers. This covers direct sales by firms' own sales forces and sales made by intermediaries. Reporting firms are required to submit PSD reports quarterly. Retail investment product sales data exclude data on transactions made via fund supermarkets and nominee accounts.
Purchasers	These are consumers who have either purchased a retail investment product in April 2010 (RP) or in April 2008 (LP).
Recent purchaser (RP)	Defined in CPOS 2010 as: consumers who had bought an equity ISA, unit trust, investment bond, 'other' investment product or pension in April 2010.
Regulated (financial) advice	In CPOS 2010, this is defined as having obtained information or advice from a financial adviser, where the adviser asked a lot of detailed questions about their needs, circumstances, including full details of their income, outgoings and existing savings and investments.
Remuneration bias	This is where a financial adviser recommends a particular type of product and/or a particular provider depending on the commission paid on the product.
Retail Distribution Review (RDR)	Launched in June 2006 by the FSA to address persistent problems in the retail investment market. The RDR is one of the

	core strands of the FSA's consumer protection strategy. The overarching aim is to review the retail investment market with a view to helping consumers achieve a fair deal from the financial services industry and have confidence in the products they buy and in the advice they take. See http://www.fsa.gov.uk/pubs/discussion/dp07_01.pdf
Retail investment market	This is where investment products that are typically marketed to retail customers are bought and sold. PSD classifies the retail investment products that make up the market into 31 categories. For CPOS 2010, a narrower definition of the retail investment market was used comprising just 16 of the categories.
Retail investment products	In CPOS 2010, these are defined as the five product groups of equity ISAs, unit trust, investment bonds, 'other' investment products and pensions, which cover the 16 PSD product types.
Risk	See 'Investment risk'.
Risk averse	In CPOS 2010, this describes a consumer who will accept a lower degree of investment risk.
Risk tolerant	In CPOS 2010, this describes a consumer who will accept a higher degree of investment risk.
Scope of advice / market coverage	This describes how much of the retail investment market a financial adviser is able to advise on, in terms of the product options available. They can either advise on financial products from all companies on the market, products from a limited range of companies or products from a single company only.
Self invested personal pension (SIPP)	An arrangement that forms all or part of a personal pension scheme, which gives the member the power to direct how some or all of the member's contributions are invested.
Single-tied adviser	In CPOS 2010, this is defined as a financial adviser who is able to give advice on product options from a single company only and is not understood by the consumer to be an IFA.
Sophisticated investor	In CPOS 2010 this describes consumers with one or more of the following characteristics: a higher level of education, more prepared to accept higher investment risk, with higher levels of financial capability on 'Staying Informed', and from households with a higher household income.

Stakeholder pension (individual)	A registered personal pension scheme established in accordance with Part I of the Welfare Reform and Pensions Act 1999 and the Stakeholder Pension Schemes Regulations 2000(S.I. 2000/1403)3. Stakeholder pensions are a type of personal pension. They have to meet certain standards to ensure they are flexible and have a limit on annual management charges. The minimum payments are also low and a person can stop and re-start payments whenever they wish.
Staying Informed (SI)	The financial capability domain that looks at whether people keep abreast of changes in the economy, keep track of new financial products and changes to existing ones, and whether they know where to get help and advice.
Structured capital at risk product (SCARP)	A structured product, other than a derivative, which provides an agreed level of income or growth over a specified investment period where: a) the customer is exposed to a range of outcomes in respect of the return of initial capital invested; b) the return of initial capital invested at the end of the investment period is linked by a pre-set formula to the performance of an index or other factor; and c) if the performance is within certain thresholds, full repayment of the capital occurs. If it is outside these thresholds the customer could lose some or all of the initial capital invested.
Tied adviser	This describes a financial adviser who is either a single-tied or multi-tied adviser.
Understanding of advice	In CPOS 2010, this is defined as a consumer's understanding of whether their financial adviser was an independent financial adviser (IFA). It is a limited measure, however, since it looks only at the scope of advice that their adviser could provide. It does not take into account whether the adviser offered to be paid through a fee.
Unit-linked bond	A contract where the premium buys, or is deemed to buy investment units in a selected fund. The value of the policyholder's fund is linked to the value of the units (see guidance relating to distribution bonds).
Unit trusts	This is one of the five product groups that CPOS 2010 covered. It includes the product types from PSD of unit trust/OEICs and

investment trusts.

Whole of market adviser A regulated financial adviser who is able to offer advice about financial products from all companies on the market, but is not an independent financial adviser (IFA).

With-profit bond Includes all single premium policies where a lump sum is paid into a with-profits fund made up of investments such as company shares, fixed interest securities, commercial property and money. Unitised with-profit bonds are reported under this category.

With-profit endowment These are regular premium policies which combine investments with life cover. With-profits endowment policies are normally enhanced with regular bonus payments. Bonuses are added to the sum assured and once added can be withdrawn at certain times, usually at death or maturity and possibly other times specified in the product terms. Bonuses may be added annually (known as the reversionary bonus) and at the end of the term (a terminal bonus) depending on investment performance.

EXECUTIVE SUMMARY

Introduction (Chapter 1)

Background & Objectives

The **2010 Consumer Purchasing Outcomes Survey (CPOS)**, conducted by TNS-BMRB on behalf of the Financial Services Authority (FSA), is a strategic quantitative research project focusing on consumer behaviour in relation to the purchase of financial products. The 2010 survey builds on an earlier survey, CPOS 2007. However, while CPOS 2007 had a broader remit, the 2010 survey was specifically focused on the **retail investment market.** One of the survey's aims is to develop some baseline indicators for the FSA's **Post Implementation Review** (PIR) of the **Retail Distribution Review** (RDR).[1] The indictors will be used in the PIR to measure the success of the RDR. In particular, the FSA intends to use the CPOS survey to set baseline indicators on consumers': understanding of the types of advice sought; engagement in the market; and, perceptions of the quality of services and trust on advice received.

More widely, the survey had the following aims:

- to examine consumers' decision-making processes during purchase/non-purchase;
- to uncover reasons why individuals who appear to have the potential to invest do not engage in the retail investment market;
- to examine what influences consumer engagement with the market;
- to explore consumer understanding of the different types of financial advice; and
- to understand the nature of the relationship between the financial adviser and consumer after the sale and on an ongoing basis.

Survey method

To meet the wide-ranging objectives of the study **four surveys** were conducted targeting four distinct groups of consumers – definitions and survey methods employed for each group are summarised in Table 1. Full details of the survey methodology are described in the accompanying Technical report.

Recent purchasers and ***long-term purchasers*** were identified from **Product Sales Data** (PSD), which were provided by a sample of providers for sales in April 2010 (***recent purchasers***) and April 2008 (***long-term purchasers***). An additional sample of platform providers also supplied sales data for the aforementioned time periods.

The ***non-purchaser*** and ***non-user*** groups were identified through population screening using the TNS-BMRB Omnibus survey. The incidence of a ***non-purchaser*** in the general population was 3%, and the incidence of a ***non-user*** was around one in five (18%).

[1] http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_18.shtml

Table 1

CONSUMER GROUPS INTERVIEWED IN CPOS 2010

	Definition	Identified from	Survey mode	Number of interviews
Recent purchasers (RP)	Consumers who had purchased a product in April 2010 (two to four months before interview)	Product Sales Data April-June 2010 (and Platform providers)	Telephone interview	5,024
Long-term purchasers (LP)	Consumers who had purchased a product in April 2008 (just over two years before interview)	Product Sales Data April-June 2008 (and Platform providers)	Telephone interview	510
Non-purchasers (NP)	Consumers who had contacted a financial adviser in the last 2 years about purchasing a product but did not make the purchase	Omnibus – screening the general population	Face-to-face interview	667
Non-users (NU)	Consumers with £3,000+ in liquid assets at time of interview who had not either made an investment purchase or contacted a financial adviser about such a purchase in the last 5 years	Omnibus – screening the general population	Face-to-face interview	1,105

Using data from all four surveys, information about the entire **purchasing journey** could be garnered. This covered the initial **search for information**; **contact with a financial adviser** (where relevant); and, the **purchase decision** through to the consumer's experience of **post-sales advice** and information. ***Recent purchasers*** and ***long-term purchasers*** were asked to think about the sales experience with respect to one particular product, regardless of whether they had purchased multiple products during that process. Similarly, ***non-purchasers*** were asked to think only about their experience in relation to one product they decided against purchasing. This made the questionnaire easier to follow, and ensured that all questions were answered on a single consistent product.

Product scope

The research covered a number of specific investment products, which were grouped into five main groups as detailed in Table 2.

As noted above, in the two purchaser surveys (***recent purchasers*** and ***long-term purchasers****)* consumers were selected from PSD. PSD identified the most common retail investment products purchased by these two groups over the relevant sampling periods as pensions and equity ISAs. They made up around three-quarters (72%) of all relevant transactions in April to June 2010 and six in ten (61%) transactions in April to June 2008. The samples aimed for an equal numbers of interviews in each product group, although the interview data were then weighted back to PSD population proportions to enable analysis at the overall retail investment product level.

Table 2

RETAIL INVESTMENT PRODUCT TYPES COVERED BY CPOS 2010*

Equity ISAs	Equity ISA
Unit trusts/ Investment Trusts	Unit trust / Open ended Investment Company (OEIC); Investment Trust
Investment bonds	With-profit bond; Unit-linked bond; Distribution bond
'Other' investment products	With-profit endowment;[2] Structured capital at risk product (SCARP); Endowment savings plan; Guaranteed income/ growth/ investment bond
Pensions[3]	Stakeholder pension (individual); Personal pension (individual); Free-standing additional voluntary contribution (FSAVC); Individual pension transfer; Pension opt out; Self Invested Personal Pension (SIPP)

* Product Sales Data definitions

Profile of consumers (Chapter 2)

Demographic and financial profiles

Recent purchasers, ***long-term purchasers*** and ***non-purchasers*** were broadly similar in demographic profile, reflecting the fact that all three groups have had some level of engagement in the retail investment market to a lesser or greater extent. ***Non-users*** tended to be more polarised by age and, compared with the other groups, had lower levels of qualifications, lower income levels, and higher proportions who were retired from work.

Compared with ***non-purchasers*** and ***non-users***, ***purchasers*** were more **financially capable**[4] on both the Planning Ahead and Staying Informed domains and had a greater tolerance for **investment risk**.[5] ***Non-users*** stood out as being highly risk averse. However, risk aversion was associated with certain subgroups across all four consumer groups, namely older consumers, female consumers and those on the lowest incomes.

[2] Within the purchaser surveys, the large majority (c. 90%+) of interviews within this 'other' investment group were represented by purchasers of with-profit endowments. Thus, throughout the report, analyses of this product group largely reflect the experience of sales of this particular retail investment product.

[3] Group Personal Pensions were not included as they are not sold with the same advice structure as other pension products in this category.

[4] Financial capability was measured on three domains in the study: Planning Ahead, which captures capability in preparing for future financial commitments; Staying Informed, which captures the extent to which consumers monitor changes in the wider economy that may affect their personal finances; and, Choosing Products, which assesses information-seeking and decision-making behaviour when purchasing financial products.

[5] Risk was self-assessed by consumers as the risk they are prepared to take of losing some money put into an investment.

Consistent with ***non-users***' lack of engagement with the market, a half (52%) of ***non-users*** reported being '*not very*' or '*not at all*' financially experienced, while over four in ten (44%) said they had never held a longer-term investment – this latter group tended to be younger, less highly educated and on lower household incomes compared with ***non-users*** with previous investment history.

Profile by product group and how purchase administered

Within ***recent purchasers,*** there were also demographic distinctions between purchasers of different types of investment product, reflecting the different life stages and circumstances which lead to different investment decisions. Compared with purchasers in the other categories of investments, purchasers of **unit trusts** and **investment bonds** had a higher likelihood of being older, retired, and on a low income. On the other hand, purchasers of products in the **'other' investment products** category were younger relative to the other product groups and, together with **pension** purchasers, were more likely to be in full time employment.

Purchasers of investment products administered through **platform providers** were indicative of a more sophisticated investor. These purchasers had a greater than average propensity to be aged 65+, retired, educated to at least degree level and earning a household income of at least £80,000 a year. They were also more prepared than average to take higher investment risk, and had higher than average financial capability scores.

Background to investment decision (Chapter 3)

Barriers to investment (non-users)

The ***non-user*** group was roughly equally split between those who had previous experience of investment purchase but not in the last five years (48% of all ***non-users***); and those who had never taken out an investment product (44%). For the latter group, the main **barrier to investment** was simply a **lack of interest or knowledge** (24%), suggesting that non-investment was not necessarily an active consumer decision. For those with previous experience, **affordability** (24%) was key to their decision not to invest. Although ***non-users*** appeared to have funds to invest (at least £3,000 at the time of interview), only about half (54%) felt that they could set aside this amount for five years suggesting that their money was needed for a more short-term goal. Lack of affordability as a reason for non-investment was accentuated among those who did not feel they could put aside at least £3,000 for five years.

Would ***non-users*** invest if these affordability obstacles were removed? Presented with a hypothetical scenario where they had £3,000 to save or invest for five years, only around three in ten (28%) ***non-users*** said they would *probably* or *definitely* consider purchasing a longer-term investment product with the money, suggesting that lack of investment for this group is more attitudinal than circumstantial.

Around two-fifths (38%) of ***non-users*** were **completely resistant to investing**, saying that they would definitely keep this hypothetical sum in a savings account. Compared with those more receptive to the idea of investing, those who preferred to remain unengaged in the investment market were characterised by a lower investment risk appetite, an older age profile, lower incomes, lower levels of qualifications, lower levels of financial confidence and a lack of previous investment history. CHAID analysis indicated that **risk appetite** was the key factor in terms of likelihood to invest amongst this subgroup.

Motivations to invest (recent purchasers and non-purchasers)

The reasons that prompted the investment decision differed by product choice. **Retirement planning** was the key motivation behind consideration of pensions as well as (to a lesser extent) investment bonds, unit trusts and equity ISAs. **Tax efficiency** was a key motivation behind purchases of equity ISAs.

Sources of information (recent purchasers and non-purchasers)

When considering purchasing an investment product, three-quarters (77%) of ***recent purchasers*** said they obtained information or advice from a **financial adviser**, while other sources consulted included product information from providers (29%), information from newspaper articles (24%), information from friends or family (20%) and best buy tables (17%). Although around half (50%) of ***recent purchasers*** **shopped around** from more than one source, they relied most heavily on advisers. Around seven in ten (69%) ***recent purchasers*** said that the adviser was either their sole or, where multiple sources used, their most influential source of information. Purchasers of products administered via platforms were more likely than purchasers of products administered via product providers to see the adviser as the most influential source.

When advice had been sought from a financial adviser, the large majority of both ***purchasers*** 88%) and ***non-purchasers*** (79%) had received **regulated advice**,[6] according to the survey definition. When receiving regulated advice, ***recent purchasers*** were more likely to have consulted an IFA or adviser from a firm of financial advisers (50%) than an adviser at a bank or building society (38%). Purchasers of pensions, ‘other’ investment products and those on greater incomes were particularly likely to use a firm of financial advisers as opposed to a bank or building society.

The main reasons for taking advice from a financial adviser among both ***recent purchasers*** and ***non-purchasers*** were: insufficient existing knowledge about the products available; advisers’ perceived ability to recommend the most suitable products; and, trust in the advice given. Choice of adviser was often based on an existing relationship (38% of ***recent***

[6] Regulated advice was defined in CPOS 2010 as being asked detailed questions about needs and circumstances, including full details of income, outgoings and existing savings and investments. This distinguishes those who engaged in a full discussion with a financial adviser with e.g. those who spoke about a retail investment product with one of the bank cashiers, or had been given non-bespoke product information such as leaflets and brochures. See Appendix D for further information.

purchasers who sought financial advice), while recommendations from banks (24%) and from friends and colleagues (20%) were also important.

Using a financial adviser (Chapter 4)

Understanding the relationship between advisers and consumers is key to the RDR proposals which concern improved transparency about the scope of advice offered by advisers; increased professionalism among advisers; and, the elimination of remuneration bias (bias arising from advisers being adversely incentivised to recommend certain products or providers through their payment method).

Barriers to seeking advice

A quarter of ***recent purchasers*** (23%) said they did not seek information or advice from a financial adviser, these purchasers tending to be more **sophisticated** investors with **confidence** in their own decision-making. Self-confidence was particularly strong among those with high Staying Informed financial capability scores, whilst those with lower capability scores also cited the expense of advisers and the perception that advice was not relevant to them.

Three-fifths of ***non-users*** (60%) had never sought advice from an adviser. As with their reluctance to invest (Chapter 3) the reasons for this were dependent on their financial resources: those with less to put aside cited lack of affordability, while those with more cited self-confidence or lack of interest.

Overall, only one third (34%) of all ***non-users*** would have the inclination to invest based on advice if their financial circumstances allowed. This fairly low figure signifies a high level of resistance to seeking financial advice with a view to investment within this specific group.

Incentives to seeking advice

Those who had not used advice in the recent past but were 'in scope' to do so – that is, ***recent purchasers*** who had bought without advice, and ***non-users*** who said they would consider investing on advice if circumstances allowed – were asked what might encourage them to invest. Unbiased advice and whole of market advice were the strongest draws, while transparency of fees was less important to these potential advice seekers (although as many consumers associate adviser cost with commission, which is not an explicit consumer 'cost', this may explain the low level of importance attached to this factor).

Those with low financial capability scores were less likely than those with higher scores to be encouraged by most of these factors, continuing to suggest an ingrained level of resistance among those least engaged with the investment market (see also Chapter 3).

Impartiality and status disclosure on market coverage

Where advisers were used, the experience was largely positive, with both ***recent purchasers*** and ***non-purchasers*** giving high ratings on adviser impartiality and clarity of explanation on the scope of advice. However, given that **disclosure** on market coverage by regulated advisers is an industry requirement, it is notable that around a quarter of ***recent purchasers*** (26%) and ***non-purchasers*** (20%) did not recall either written or verbal disclosure on market coverage.

Understanding of advice

Impartiality, **disclosure** on market coverage, and **clarity** of the cost of advice were more likely to be associated with IFAs than tied advisers, where information about the type of adviser they saw was able to be ascertained from respondent data. However, there was a large proportion of ***recent purchasers*** and ***non-purchasers*** (around 40%) who **misunderstood** the concept of 'independent' advice type, either believing they saw an IFA who was only able to give restricted advice, or being unaware whether the advice they received was fully independent. Correct understanding was greater among those who were more affluent, educated and willing to take higher investment risk – all attributes consistent with the more sophisticated investor.

Trust in advisers

A key message from CPOS 2010 is that trust is driven by actual **experience** of using advisers rather than general perceptions. ***Recent purchasers*** who bought their investment after consulting an adviser were the most trusting group, while ***non-users*** who had had no contact with an adviser for at least five years were the most distrustful. In addition, ***recent purchasers*** were more trusting of their own adviser than they were in the financial advice sector in general. However, the perceived quality of advice received was also relevant, with those who recalled clarity and disclosure on product range, and who viewed their adviser as fully impartial, being the most trustful. This suggests that the RDR objective of improving clarity for consumers will help increase trust in the investment advice sector.

Trust appears to be driven by **professional standards**, while distrust is driven by advisers **not acting in the customer's best interest**. These findings again help reinforce the RDR proposals to improve trust in the advice sector through increasing minimum qualifications for investment advisers, and eliminating remuneration bias.

Deciding what to buy (Chapter 5)

Key Features Document (KFD)

The FSA requires that firms must give consumers of packaged investment product a KFD at the point of sale. One in eight (13%) ***recent purchasers*** said they did not receive a KFD, and a further 16% could not recall receipt.

The KFD is intended to provide key pieces of information about the product (such as aims of the product and the risks involved) in a standardised format. However, this document, when received, was not always fully utilised. Around six in ten ***recent purchasers*** (64%) and ***non-purchasers*** (62%) who received a KFD said that they either read the whole document fully or just the parts they thought were important. Those more financially capable in terms of Staying Informed were more likely to have read the documentation fully.

The KFD was revealed as a key document in decision-making for ***recent purchasers***, with 80% who received it saying it helped them make the product choice. ***Non-purchasers*** made much less use of the KFD, although a third (32%) said it had helped them to consider the risks.

Making the decision to buy or not to buy

Nearly all ***recent purchasers*** who had received regulated advice (92%) received a product **recommendation**. Virtually all recommendations received were thought to be clearly explained and were backed up by written correspondence.

Around two-thirds (65%) of ***recent purchasers*** made their product choice on the recommendation, or under the influence, of an adviser while one-quarter (27%) made the choice to buy entirely by themselves.

Recent purchasers who chose a product based on an adviser's recommendation as opposed to making the choice on their own were more likely to be older, female, have a low appetite for investment risk; to have seen an adviser who was an IFA, and have purchased the product via a platform. On the other hand, autonomous decision-making was associated with self-confidence which, in turn, was associated with greater levels of affluence and education.

Thus, failure to follow an adviser's recommendation was not related to poor advice and this is further backed up by the finding that only 4% of ***non-purchasers*** cited distrust of their adviser as a reason for deciding not to buy (lack of affordability and unsuitable timing were the main reasons given).

So, while negative experiences of advisers did not impact on investment decisions, the converse was true for positive experience. Trust, often arising from an existing relationship with an adviser, was the key factor behind following an adviser's influence or recommendation, which further supports the findings noted in Chapter 4 that previous good experience is the key driver of trust in advisers.

Post-sales experience (Chapter 6)

For retail investment products and pensions, information or advice that extends beyond the purchase is important for ensuring that the products continue to meet the purchaser's needs. Part of the RDR proposals on improving clarity of advice services to consumers is full transparency – not just on the initial purchase but also on the ongoing services advisers can or will provide.

Post-sales advice and purchases

The majority of ***recent purchasers*** who bought a product on recommendation by an financial adviser either already had or planned to speak to that adviser again post-sales (81%). Six in ten (60%) ***long-term purchasers*** who received regulated advice on their original purchase said they were **offered** ongoing advice relating to the product purchased from the adviser, while four in ten (42%) had **taken** such further advice. For both purchasing groups, developing an ongoing relationship with the adviser appeared more important for those who had consulted IFAs as opposed to tied advisers.

The overwhelming majority taking further financial advice found it helpful while those who declined further offers of advice mainly cited a lack of need as opposed to a poor initial service.

Over one third (37%) of ***long-term purchasers*** had purchased other retail investment products since the original purchase two years ago, and propensity to make a further purchase was related to incidence of further advice – 42% of those who sought further advice from the adviser involved in the original purchase purchased another product subsequently.

Post-sales information

Annual statements enable purchasers of retail investment products to stay informed on the progress of their products and review them in light of their performance or market conditions. Again, they form an important part of reducing consumer detriment, which is one of the key goals of the RDR. However only one-fifth (22%) of ***long-term purchasers*** had read all of the detail contained in the annual statements sent to them. As with the Key Features Documentation discussed in Chapter 5, the more financially capable on Staying Informed were most likely to fully utilise the information provided in annual statements. However, despite variable levels of usage, the large majority of ***long-term purchasers*** (81%) found the annual statements clear and easy to understand.

Information needs in the retail investment market post-purchase appear largely to be fulfilled, with the majority (79%) of ***long-term purchasers*** receiving any information saying it was the right amount to keep them updated about their investment. However, one in five (18%) said there was not enough information, with purchasers of equity ISAs more likely than average to want more information post-sales (27%).

Product retention

Clearly limiting the after-sales window to around two years makes the survey somewhat restricted in its ability to cover the longer-term view, although the survey does provide a positive picture of the after-sales service experience. The large majority (88%) of ***long-term purchasers*** still had their investment product two years after their initial purchase. The two-year retention rate was slightly higher for those purchasing via an IFA (94%) than via a tied adviser (84%). In this two year after-sales period, complaints about products purchased or the advice associated with the purchase were extremely rare (3%).

Overall conclusions

Looking across the findings as a whole, the following cross-cutting themes emerged.

Engagement is strongly related to capability, knowledge and experience

The overall picture of the different investor groups is that those who eventually **purchase** a product tend to be more sophisticated in terms of their risk profile and financial capability scores, and this sophistication is particularly pronounced among those who purchase products administered through platforms.

Non-users on the other hand, who had at least £3,000 in liquid assets but had not engaged in the retail investment market in the previous five years, were characterised by lack of prior experience in the investment market, and much lower than average levels of risk tolerance and financial capability. Lower than average levels of education and income were also associated with lack of consumer engagement.

For a core subset of the non-engaged, resistance to investment is attitudinal rather than circumstantial

A high proportion of ***non-users*** said that they would not invest even if they had the means, indicating a strong attitudinal resistance to investment among a core subset of ***non-users***; risk aversion in particular was strongly associated with lack of desire to invest. The least financially capable investors also appeared to be the most resistant to seeking advice, which further supports the association between low levels of engagement and attitudinal resistance.

The adviser is the most influential source of advice

Among those who were considering an investment product, there was a high level of reliance on advisers, when compared with other sources. While around half of ***recent purchasers*** shopped around using multiple sources of information and advice, the large majority saw the adviser as their sole or most influential source. This suggests that the adviser is the main conduit between consumers and products, which is key to the RDR proposals: these include a focus on improving clarity and professional standards within the investment advice sector.

Consumers frequently misunderstand the concept of 'independent' advice

Around two-fifths of the groups who had recently engaged in the retail investment sector appeared to misunderstand the concept of 'independent' advice, either believing they saw an IFA who was only able to give restricted market advice, or being unaware whether the advice they received was fully independent. The RDR proposals, which seek to clarify this concept for consumers, should help to improve consumer awareness on this issue and allow them to better distinguish between the different forms of advice on offer.

Trust is related to the central RDR proposals

The survey findings suggest that trust in the investment advice sector is related to professionalism, transparency, disclosure, impartiality, and acting in the consumer's best interests. This reinforces the three central proposals of the RDR (*improving clarity for consumers about advice services; increasing minimum qualifications for investment advisers; elimination of remuneration bias*) and suggests that further movement towards these goals will increase trust in the sector.

Adviser engagement drives trust[7]

Trust in advisers is more driven by actual experience of using an adviser than generalised perceptions; thus, achieving greater engagement in the investment advice sector will further reinforce the RDR aims. However, the CPOS survey indicated that trust is not the main driver of engagement. For more sophisticated investors who chose to invest without advice, lack of trust was a factor but the greatest barrier to engagement was confidence in their own decision-making; while for those with less experience and less money to put aside, barriers were more related to affordability and lack of interest. However, for a subset of ***non-users*** with some previous financial experience, lack of trust did appear to be a factor in their non-engagement in the market.

Positive experience of advisers is key to ongoing engagement

Buying a product based on recommendation was largely based on trust and a good adviser relationship, thus further reinforcing the association noted above that trust in the investment advice sector is driven by engagement in this sector. Given this, it is unsurprising to find that the majority of purchasers who followed their adviser's recommendation either already had or planned to seek further post-sales advice.

[7] It is worth noting that the survey measures of 'trust' were relatively simplistic compared with more detailed studies which have addressed this issue, see e.g. Wells, J. and Gostelow, M. (2009) *Professional Standards & Consumer Trust: A summary of existing research*. London: Financial Services Authority

Negative experiences of advisers are rare and do not impact on consumers' decision-making

Where advice was sought, most consumers received a recommendation. However, a significant proportion decided to ignore this recommendation and make their own decision. Deciding against adviser recommendation, or indeed deciding not to purchase at all, was very rarely associated with negative adviser experiences. In addition, when a decision was made by ***long-term purchasers*** to decline an offer of further advice, this was mainly associated with lack of need rather than negative experience of advisers. In the two years since purchase, the large majority of ***long-term purchasers*** had retained their product and were happy with the after-sales information received while complaints were virtually non-existent.

1. INTRODUCTION

1.1 Background to the study

This report provides the main findings of the 2010 Consumer Purchasing and Outcomes Survey (CPOS) conducted on behalf of the Financial Services Authority (FSA)

The 2010 survey builds on a similar survey conducted in 2007.[8] The focus of the CPOS series is on consumer behaviour and the decision-making process when purchasing financial products. However, while the 2007 survey covered the consumer experience in relation to a wide range of products (investments, complex and general insurance, mortgages, pensions and decumulation products), CPOS 2010 focused specifically on the *retail investment* market, covering the following products:[9]

- equity ISAs;
- unit trusts;
- investment bonds;
- 'other' investment products; and
- pensions.

Further work focusing on the other non-investment product markets may be conducted in the future, either through a future CPOS survey or as a related piece of work.

Both the 2007 and 2010 surveys were carried out by TNS-BMRB on behalf of the FSA; fieldwork for the 2010 survey took place between June and August 2010.

1.2 Objectives of the study

The FSA is the regulator for the UK financial services sector and one of its statutory objectives is to secure the appropriate degree of protection for consumers. In helping to inform this outcome, the research had a number of specific aims. In particular, the research was designed to investigate the following in the context of the retail investment market:

- consumers' decision-making processes during purchase/non-purchase;
- the reasons why individuals who appear to have the potential to invest do not engage in the retail investment market;
- what influences consumer engagement with the market;
- consumer understanding of the different types of financial advice (i.e. independent or restricted); and
- the nature of the relationship between the financial adviser and consumer after the sale and on an ongoing basis.

[8] http://www.fsa.gov.uk/pubs/consumer-research/crpr76.pdf

[9] See Appendix A for full details

A particular focus of this survey was on the *purchasing journey* and the role of receiving *regulated* advice in purchasing retail investments. Previous research conducted for the FSA has examined what might be the 'ideal' advice process.[10] However, it should be borne in mind that there is no single unified process for purchasing retail investments. Experiences may differ according to the specific product purchased, whether the consumer received advice, and what type of consumer they are in terms of their capability and knowledge.

In CP09/18 (June 2009)[11] the FSA publicly committed to carry out a targeted Post Implementation Review (PIR) of the Retail Distribution Review (RDR). This survey will contribute towards setting some of the baseline indicators the FSA wants to use in the PIR to measure the success of the RDR. In particular, the FSA intends to use the CPOS survey to set baseline indicators on:

- consumer understanding of the types of advice sought;
- consumer engagement in the market; and
- consumer perceptions of the quality of services and trust on advice received.

1.3 Survey method

To meet the wide-ranging objectives of the 2010 study, four separate surveys were employed targeting four distinct groups of consumers:

- ***Recent purchasers (RP)*** – those who had purchased an investment product within the previous two to four months (see Section 1.3.1).
- ***Long-term purchasers (LP)*** – those who had purchased an investment product around two and a quarter years previously (see Section 1.3.1).
- ***Non-purchasers (NP)*** – those who had contacted a financial adviser about an investment product in the previous two years but decided not to purchase it (see Section 1.3.2).
- ***Non-users (NU)*** – those who appeared to have the financial potential to invest but had not sought advice nor purchased an investment product in the previous five years (see Section 1.3.3).

Together the surveys can provide a fuller picture of both motivations and barriers to investment, and can explore to what extent different aspects of the purchase journey – for example the use of an adviser – influences decisions made.

[10] http://www.fsa.gov.uk/pubs/consumer-research/crpr73.pdf

[11] http://www.fsa.gov.uk/pages/Library/Policy/CP/2009/09_18.shtml

Figure 1 summarises the four consumer groups interviewed in CPOS 2010, in terms of the methods employed and the survey objectives.

Figure 1

CONSUMER GROUPS INTERVIEWED IN CPOS 2010

	Definition	Identified from	Survey mode	No. of interviews	Objective
Recent purchasers (RP)	Consumers who had purchased a product in April 2010 (two to four months before interview)	Product Sales Data April-June 2010 (and Platform providers)	Telephone interview	5,024	Explore consumers' decision-making during the purchase journey and advice process and uncover the factors which help consumers make a final product choice
Long-term purchasers (LP)	Consumers who had purchased a product in April 2008 (just over two years before interview)	Product Sales Data April-June 2008 (and Platform providers)	Telephone interview	510	Examine the longer-term post-sales experience in terms of further advice, product updates and product retention
Non-purchasers (NP)	Consumers who had contacted a financial adviser in the last two years about purchasing a product but did not make the purchase	Omnibus – screening the general population	Face-to-face interview	667	Explore the customer journey as for RP but also to look more specifically at the reasons why people decide against a product purchase
Non-users (NU)	Consumers with £3,000+ in liquid assets at time of interview who had not either made an investment purchase nor contacted a financial adviser about such a purchase in the last five years	Omnibus – screening the general population	Face-to-face interview	1,105	Look at the barriers to investment among those who appear to have the potential to invest but do not engage in the retail investment market

Recent and ***long-term purchasers*** were selected using product sales data (PSD) provided by firms and platform providers, while ***non-purchasers*** and ***non-users*** were interviewed via the TNS-BMRB Omnibus survey. Further details are provided below. For full technical details of the study, including further details of the approach to sampling and weighting, please see the accompanying Technical Report (to be published separately by the FSA).

1.3.1 Recent purchasers (RP) and long-term purchasers (LP)

'Recent purchasers' (RP) were defined as ***adults aged 18 or above who had purchased a retail investment product in April 2010, two to four months before the interview***. Overall, 5,024 telephone interviews were conducted with this group.

'Long-term purchasers' (LP) were defined as ***adults aged 18 or above who had purchased a retail investment product in April 2008, a little over two years before the interview***. Overall, 510 telephone interviews were conducted with this group.

Recent Product Sales Data (PSD) were used to assess market size and share and so to inform the sample design and selection of providers to approach for the survey. Product providers are required to provide PSD on all sales of retail investments,[12] mortgages and a limited range of pure protection products. The data cover sales by firms' own sales forces and sales made by intermediaries. PSD are usually submitted quarterly, according to the accounting quarters.

However, to identify consumers who had purchased products in the aforementioned time periods, selected providers (and an additional sample of platform providers[13]) were asked to supply sales data for specific product types sold within specific time periods, outside the standard reporting cycle. These data contained personal data on clients that would not routinely be collected through PSD, which firms submit on a quarterly basis. Appendix A details the five specific product groups that the study focused on.

A representative sample of firms was asked to supply data. Firms were sampled on the basis of market share (using statistics derived from PSD data covering April to September 2009). Using a sample helped to minimise the overall burden on firms. Forty-seven firms provided sales data for the study and these comprised 40 product providers (who regularly submit PSD to the FSA) and seven platform providers who are not part of the same PSD reporting mechanism but service a proportion of the retail investments market.

Once the data had been received from firms, records were selected at random but with the intention of achieving 1,000 interviews in each of the five product groups of interest for the RP survey and 100 interviews in each of the five product groups of interest for the LP survey. These targets were achieved in all product groups, except for one group in the RP survey.[14] The final response rates to the two surveys were 34% in the RP survey and 26% in the LP

[12] http://www.fsa.gov.uk/pubs/other/retail_invest_report_09.pdf

[13] Internet-based services used by intermediaries (and sometimes individual investors) to view and administer investments. A definition of platforms can be found in a FSA factsheet: http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/factsheet_wraps.pdf. The Glossary also contains a definition.

[14] The target of 1,000 interviews was not met for the 'other' investments product group in the RP survey. This was due to a combination of low sales of products in this category over the sampling period and some of the firms with larger market share in this product category not providing sales data for the survey. Both of these factors meant that there were insufficient useable records available to meet the target.

survey. Although low, these response rates are not untypical for surveys which use providers' sales data as a sample source. Further discussion on the response rates can be found in the separate technical report.

The targets for each of the product groups mentioned above were selected to ensure adequate scope for analysis in each of the five groups and did not reflect true market proportions. Therefore, upon completion of the surveys, the data were weighted to PSD information obtained for the quarters in which the purchases were recorded: April to June 2010 for the RP survey; and April to June 2008 for the LP survey (see Figure 2).

Figure 2

PRODUCTS PURCHASED BY RECENT AND LONG-TERM PURCHASERS

	Number of interviews	Unweighted	Market (from PSD)
	n	%	%
Recent purchasers (RP)			
Equity ISA	1,048	21	40
Unit trust	1,193	24	14
Investment bond	1,000	20	6
'Other' investment product	736	15	7
Pension	1,047	21	32
Base:	*5,024*	*5,024*	*538,314*
Long-term purchasers (LP)			
Equity ISA	103	20	31
Unit trust	103	20	15
Investment bond	103	20	12
'Other' investment product	101	20	13
Pension	100	20	30
Base:	*510*	*510*	*569,034*

One caveat should be mentioned at this stage. At the time of the survey there was no whole market information available for transactions recorded by platform providers so the survey findings for these transactions could not be aligned with the true population profile of transactions recorded by platform providers.

To enable whole of market analyses, estimates were made – in consultation with the FSA – for the proportion of platform provider transactions in the whole market. For the ***recent purchasers*** survey (for sales in April 2010), platform provider transactions were estimated to make up 30% of the overall market; for the ***long-term purchasers*** survey (for sales in April 2008) the estimate was made at 10%. Thus the data were further weighted according to these estimates.

Various product types could make up a single product group (see Appendix A). However, no targets were set at the individual product level; the purchase was regarded as in scope for the survey as long as it met the criteria for the wider group. In both the RP and LP surveys the large majority of interviews obtained with those who had purchased an 'other' investment product had purchased a with-profit endowment (RP: 89% and LP: 99%), so sales of this particular product type drive the large majority of results in this product group.

The data from the majority of firms also revealed the proportion of sales in each product group that were classified as advised and non-advised (see Figure 3). An advised sale occurs when an adviser of a regulated firm gives a personal recommendation to the customer after assessing the customer's needs and circumstances, i.e. bespoke rather than generic advice. A non-advised sale occurs when no personal recommendation is made to the customer. The customer obtains information on the product to enable them to make their own informed decision about whether it meets their own needs and circumstances. Non-advised sales include 'execution only' and 'direct offer transactions'.[15]

Figure 3

PSD FOR APRIL TO JUNE 2010 AND APRIL TO JUNE 2008, BY ADVISED SALE STATUS OF PRODUCT GROUP

	Advised sale %	Non-advised sale %	*Base*
April to June 2010			
Equity ISA	86	14	*213,033*
Unit trust	64	36	*76,540*
Investment bond	90	10	*34,585*
'Other' investment product	57	43	*39,322*
Pension	66	34	*174,834*
ALL	75	25	*538,314*
April to June 2008			
Equity ISA	81	19	*174,664*
Unit trust	55	45	*83,174*
Investment bond	98	2	*65,707*
'Other' investment product	55	45	*73,186*
Pension	65	35	*172,303*
ALL	71	29	*569,034*

Sales of investment bonds and equity ISAs were more likely to have been conducted as advised sales compared with sales of the 'other' investment products. This pattern was true for both April to June periods of 2010 and 2008.

Figure 4 shows the profile of interviews achieved in the RP and LP surveys that were classified as advised and non-advised sales by providers.

[15] Definitions taken from the FSA's Retail Investments, Product Sales Data Trend Report, August 2009: http://www.fsa.gov.uk/pubs/other/retail_invest_report_09.pdf

Figure 4

ACHIEVED INTERVIEWS IN RECENT AND LONG-TERM PURCHASERS SURVEYS, BY ADVISED SALE STATUS OF PRODUCT GROUP

	Advised sale	Non-advised sale	Unknown	*Base*
	%	%	%	
Recent purchasers survey				
Equity ISA	75	21	4	*1,048*
Unit trust	82	14	4	*1,193*
Investment bond	80	12	7	*1,000*
'Other' investment product	23	77	-	*736*
Pension	87	8	6	*1,047*
ALL	77	18	4	*5,024*
Long-term purchasers survey				
Equity ISA	67	25	8	*103*
Unit trust	60	33	6	*103*
Investment bond	76	23	2	*103*
'Other' investment product	5	95	-	*101*
Pension	85	14	1	*100*
ALL	66	29	5	*510*

Although the interview data were weighted to reflect the true product distribution, the data were unable to be weighted to reflect the true distribution of advised and non-advised sales. This was due to missing data on this classification variable from some providers. Thus the RP and LP survey data, although broadly representative at the overall market level, may not fully reflect the true proportion of advised and non-advised sales. This should be taken into account when looking at product group analyses.

1.3.2 Non-purchasers (NP)

'***Non-purchasers' (NP)*** were defined as ***adults aged 18 or above who had contacted a financial adviser in the last two years about a retail investment product but did not make a purchase***.

To recruit these consumers, a screening question was placed on the TNS-BMRB Omnibus survey,[16] targeting adults aged 18 or above during June to August 2010, as follows:

> *Thinking about the last two years, that is since {month of interview} 2008, have you had any contact with a financial adviser about purchasing any of these investment products,[17] even if you didn't act on their advice? IF NECESSARY ADD: By a financial adviser I mean*

[16] TNS has two face-to-face omnibus surveys every week that each interviews a nationally representative sample of 2,000 adults aged 16 years or over across Great Britain using random location sampling.

[17] See Appendix A for the list of eligible products asked about.

an adviser in a bank, building society, or insurance company, an independent financial adviser (IFA) or an adviser from a firm of solicitors, accountants, stockbrokers or wealth managers.

If the consumer answered 'yes' to the above question but then stated that they had **not** made a purchase, they met the criteria for interview. If the consumer met the criteria for more than one product then one product was chosen at random on which to base the interview.[18] Overall, 667 face-to-face interviews were conducted with this group.

Figure 5 shows the penetration levels in the general population for the target group. It first shows the population penetration levels of those who had consulted an adviser about each product type, whether or not they made a purchase; then the proportion of this subset who decided against purchasing at least one of the products they sought advice on.

Figure 5

NON-PURCHASERS OMNIBUS SURVEY SCREENING

Product group	**Had contact with an adviser in last two years about purchasing this investment**
	Column %
A. Equity ISA	4
B. Unit trust	2
C. Investment bond	1
D. 'Other' investment product	1
E. Pension	3
F. ANY OF THE ABOVE	9
Base: All adults aged 18+	*24,560*

	Contacted adviser in last two years about purchasing this investment					
	A. Equity ISA	B. Unit trust	C. Investment bond	D. 'Other' investment product	E. Pension	F. Any products
	%	%	%	%	%	%
Purchased the investment	78	70	75	52	58	66
Did not purchase the investment	22	30	25	48	42	34
Base:	*966*	*538*	*298*	*170*	*644*	*2,022*

Note: consumers could have contacted an adviser about multiple products

[18] Note that if a consumer saw an adviser about more than one product, and some purchases were made, they were still eligible for the NP survey if at least one product consulted about was not purchased.

Around one in ten adults in the general population (9%) reported contacting a financial adviser about purchasing at least one of the eligible retail investment products in the previous two years. Contact was most likely to occur in relation to purchasing an equity ISA or pension (4% and 3% respectively).

When adults had contacted an adviser, the rates of non-purchase were highest for pensions (42%) and ‘other’ investment products (48%). Overall, of those who had contact with an adviser in the last two years about purchasing at least one investment product, one third (34%) did not purchase at least one of the products they consulted the adviser about. Thus the overall penetration rate in the general population of ‘***non-purchasers***’ according to the survey definition was 34% x 9% = 3%.

1.3.3 Non-users (NU)

‘***Non-users’ (NU)*** were defined as those who **appeared to have the potential to invest but had neither purchased an investment product nor sought any advice on such a purchase in the past five years.**

As with the NP group, screening questions were placed on the TNS-BMRB Omnibus, but targeting adults aged 18+ in July 2010. The screening questions were as follows:

A) In the last FIVE years, that is since {month of interview} 2005, have you had any contact with a financial adviser about purchasing any of these investment products, even if you didn’t act on their advice?[19]

{IF NO TO A}:
B) And still thinking just about the last five years, have you actually BOUGHT any of these investment products (that is, without having contacted a financial adviser about it)?

{IF NO TO B}
C) Can I just check, how much do you personally hold either in cash savings or in financial assets which could quickly be converted into cash? {Banded amounts shown}

Thus a more specific definition of non-users was: ***adults aged 18 or above who had not contacted a financial adviser nor purchased a retail investment product in the last five years, but who said they had at least £3,000 in liquid financial assets at the time of interview***.

Overall, 1,105 face-to-face interviews were conducted with this group.

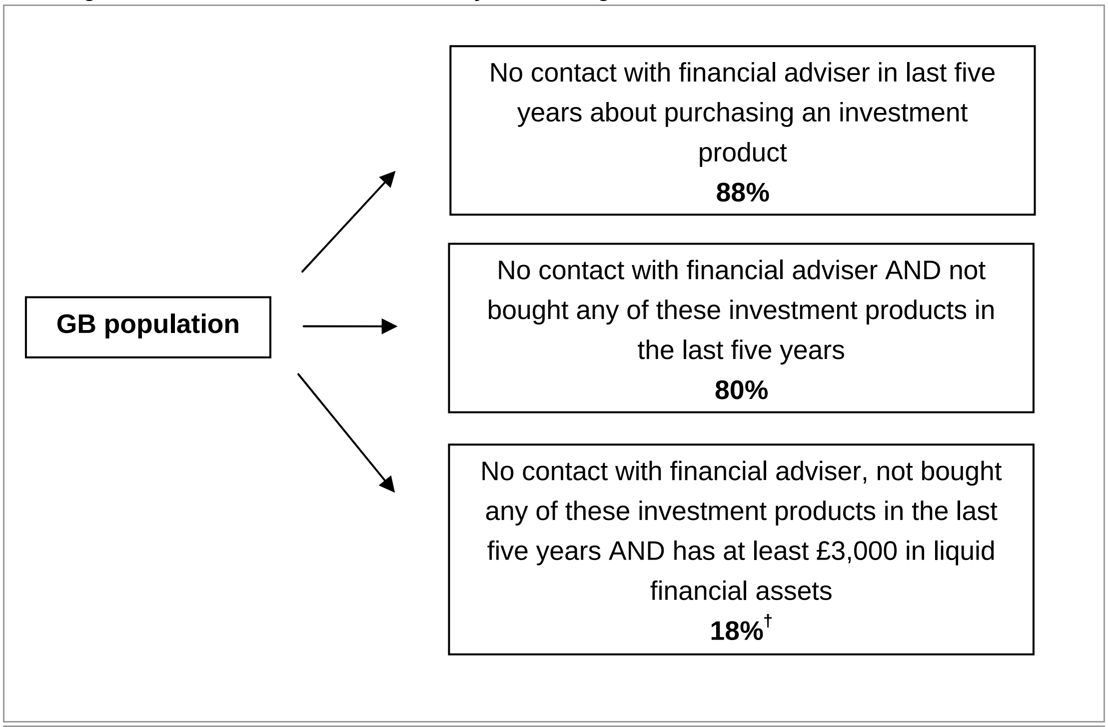
Non-users were defined in this way in order to uncover the reasons why individuals, who the FSA believed would have the potential to invest, did not engage with the retail investment market. Potential to invest was defined as holding at least £3,000 in liquid financial assets.

[19] The same investment products as covered in the other surveys were asked about – see Appendix A for the full list.

These criteria were borne out of market analysis (unpublished) that the FSA conducted in 2007, which classified the characteristics of consumers who hold retail investment products. One of the top predictors of investment holdings was identified as holding financial assets of at least £3,000 in total. Thus the non-user survey used the results of this analysis to help inform the eligibility criteria for the survey.

Figure 6 illustrates the proportions of the general population that met the screening criteria for this survey.

Figure 6 Non-users Omnibus survey screening



Base: All adults aged 18+ (12,275). † Note: there was a high level of refusals (45%) to the final screening question about the amount of current liquid financial assets. Thus this figure of 18% was derived by applying the same eligibility rate found among those who did give an answer to the liquid assets question to those who did not. This assumed that the eligibility rate was the same for both groups, which may not reflect the true situation.

The large majority of the population (88%) fulfilled the criteria for not having contacted a financial adviser or purchased a retail investment in the past five years. However, a much smaller proportion fulfilled these criteria while also having the requisite amount of liquid financial assets. Overall, around one in five (18%) members of the GB adult population met the definition for the ***non-users*** survey.

1.4 Survey limitations

Although the surveys deliver valuable information towards the overall objectives, it is important to interpret the results in this report in the context of the research methodologies employed. There are some limitations in the way the research was carried out which are best noted upfront, so that these caveats can be taken into account when interpreting the findings.

- ***Consumer recall/self-reported measures:*** Throughout the report, results are guided mainly by consumers' answers to questions on, for example, the type of adviser they saw, what type of firm their adviser worked for and how their adviser was paid. However, it is well known in surveys of this nature, that consumers are not always fully aware of the correct details and may sometimes give the wrong information due to misunderstanding. Inevitably, self-reported data on these types of measures are not always 100% accurate due to consumer misunderstanding, and may not necessarily tie-in with the administrative data. However, given that the administrative data were incomplete for a number of records, self-reported data were used in its place to ensure full coverage.

- ***Simplified classification variables:*** Some of the measures which are useful for classifying consumers are typically collected through a variety of detailed questions: for example, attitudes to investment risk or whether regulated advice was received. However, given space and time considerations on the questionnaires, it was not possible to ask all of these constituent questions and so, in many cases, more simplified derivations were used. In addition, as with the measures discussed above, these measures were self-assessed, rather than based on more objective measures.

- ***Use of multiple advisers:*** For the RP, LP and NP surveys, where the questionnaires referred to contact with a financial adviser, an attempt was made to direct all questions to a single adviser contact i.e. the one they had most contact with or the one who recommended a product to them. However, purchasing behaviour does not always follow a set pattern and it is feasible that consumers may have sought advice from one adviser and purchased via another, which may have led to discrepancies when talking about the adviser experience.

- ***Survey definition of non-purchaser:*** The definition of 'non-purchaser' relates to a very specific form of non-purchasing behaviour. The consumer in question has contacted a financial adviser in the last two years but has decided not to purchase an investment product, although they may have purchased another investment product in its place. Thus it does not represent consumers who had made no purchases in the previous two years, but rather consumers who had given serious consideration to purchasing one particular investment product but then decided not to do so.

- ***Survey definition of non-user:*** Non-users were specifically defined to capture those who appeared to have the capability to invest but did not. One of the key criteria was holding at least £3,000 in cash or in assets easily convertible to cash at the time of interview. Thus it does not cover non-investors who did not currently have £3,000 in liquid assets but may have done so in the previous five years,

- ***Different data collection modes:*** When results from across the four surveys are compared, the different modes of data collection should be noted (Omnibus quota surveys for NP and NU compared with random probability samples for RP and LP based on data from firms selling products).

- ***Representativeness of samples:*** As discussed in Section 1.3.1, full market data were not always available to allow weighting to accurate population profiles. For the RP and LP surveys there was no way of knowing whether the sample accurately reflected transactions administered through platform providers, through a lack of whole market information. Also, transactions through product providers had the limitation of not being aligned fully with the population profiles of advised and non-advised sales.

- ***Sales data from platform providers:*** Given the rise in transactions administered through platform providers in recent years, it was important to include these providers when selecting the purchasers for the RP and LP surveys. However, the distinction between sales administered through platform providers and product providers is not always clear, since those respondents whose details were provided by platform providers will have purchased investments that will be reported as PSD sales, albeit often by a different firm. Likewise, many of the purchasers whose details came from product providers will have their investments placed on a platform. Thus, when looking at the results, it will not be clear whether this was the purchaser making a choice to specifically purchase through either a product provider or platform provider, or the adviser making a choice on whether to administer the investment via a platform.

- ***Sampling of providers:*** Finally, the RP and LP surveys were conducted with a selection of purchasers drawn from a sample of product and platform providers, as it was unfeasible to approach every provider. Although an attempt was made to select as many of the largest providers as possible and thus cover a greater proportion of transactions in the market, the final list of providers that supplied sales data excluded some of the largest firms. Therefore, when randomly selecting the sample of purchasers to interview, a large proportion of transactions in the market was not covered. Further information on the non-coverage in the RP and LP surveys can be found in the separate Technical Report.

1.5 Differences from CPOS 2007

Although CPOS 2010 was the second study in the CPOS series, comparison of findings between the two studies has not been made in this report. This is because the 2010 survey was different to the 2007 survey in a number of fundamental ways, as a result of changing FSA priorities. These are outlined below:

- ***Differences in product scope:*** CPOS 2007 had a broader focus covering mortgages, general insurance and decumulation products, as well as pensions and investments. CPOS 2010 focused only on the retail investment products market.

- ***Differences in methodology:*** The four target audiences for CPOS 2010 have been detailed above and represent the focus of interest for the 2010 priorities. In CPOS 2007, the focus of interest was more on the purchasing journey and an attempt was made to measure close to ‘real time‘ purchasing behaviour through interviewing people who were *considering* purchasing a product, and then re-contacting them at a later stage after they had either purchased the product or decided not to purchase. Additional surveys of recent and long-term purchasers were also conducted in 2007 but these were not comparable with 2010 as different selection criteria were applied.

1.6 Notations used in the report

The following conventions have been applied throughout the report:

Percentages

Due to rounding, percentage figures may not always add up to 100%. Furthermore, where the information in tables and charts is based on multi-coded questions, the percentages could add up to more than 100%.

All survey percentage figures are based on weighted data, unless otherwise specified.

Statistical significance

Throughout the report, whenever the text comments on differences between sub-groups of the sample and between surveys, these differences have been tested for significance and found to be statistically significant at the 95% confidence interval.

Symbols in tables

The symbols below have been used in the tables and they denote the following:

[ ]	percentage based on fewer than 50 respondents (unweighted)
*	percentage value of less than 0.5
-	percentage value of zero
..	not asked

All bases shown in tables and charts are the unweighted totals.

1.7 Report coverage

Figure 7 provides a contents overview of the report, and summarises which survey groups are covered in each section.

Figure 7

CONSUMER GROUP COVERAGE THROUGHOUT THIS REPORT

	RP	LP	NP	NU
Chapter 2: Profile of consumers				
2.1 Introduction	✗	✗	✗	✗
2.2 Personal characteristics of all consumers	✓	✓	✓	✓
2.3 Financial capability and risk attitude of all consumers	✓	✓	✓	✓
2.4 Purchases administered on platforms	✓	✗	✗	✗
2.5 Further profiling information on non-users	✗	✗	✗	✓
Chapter 3: Background to investment decision				
3.1 Introduction	✗	✗	✗	✗
3.2 Background to not investing	✗	✗	✗	✓
3.3 Background for decision to invest	✓	✗	✓	✗
3.4 Sources of information	✓	✗	✓	✗
Chapter 4: Using a financial adviser				
4.1 Introduction	✗	✗	✗	✗
4.2 Barriers to seeking advice from a financial adviser	✓	✗	✗	✓
4.3 Experience of using an adviser	✓	✗	✓	✗
4.4 Understanding of advice	✓	✗	✓	✗
4.5 Understanding of commission	✓	✗	✓	✓
4.6 Advisers: perception of trust	✓	✗	✓	✓
Chapter 5: Deciding what to buy				
5.1 Introduction	✗	✗	✗	✗
5.2 Key Features Document	✓	✗	✓	✗
5.3 Receiving a recommendation	✓	✗	✓	✗
5.4 Making the decision to buy	✓	✗	✗	✗
5.5 Making the decision not to buy	✗	✗	✓	✗
Chapter 6: Post-sales experience				
6.1 Introduction	✗	✗	✗	✗
6.2 Post-sales financial advice	✓	✓	✗	✗
6.3 Recent use of financial advisers	✗	✓	✗	✗
6.4 Post-sales information from product providers	✗	✓	✗	✗
6.5 Post-sales experience of product bought	✗	✓	✗	✗
6.6 Further purchases	✗	✓	✗	✗

KEY:

✓ *the consumer group is within this section*

✗ *the consumer group is not covered in the section at all*

2. PROFILE OF CONSUMERS

CHAPTER SUMMARY

- CPOS 2010 covered four different consumer groups: recent purchasers; long-term purchasers; non-purchasers; and non-users (see Chapter 1 for definitions). This chapter considers the profile of these four groups in terms of their demographics, attitudes and behaviours towards financial decision-making, and (for non-users) previous investment history.
- The four groups varied in terms of their demographic and financial profiles. ***Recent purchasers***, ***long-term purchasers*** and ***non-purchasers*** were broadly similar in profile, although ***non-purchasers*** were slightly younger in profile than both purchaser groups. ***Non-users*** tended to be more polarised by age and, compared with the other groups, tended to be have lower levels of qualifications, lower income levels, and higher proportions who were retired from work. Compared with ***non-purchasers*** and ***non-users***, ***purchasers*** were more financially capable on both the Planning Ahead and Staying Informed domains (see Section 2.3.1 for definitions of these measures).
- CPOS 2010 covered the purchases of five different groups of retail investment product. The reasons why ***recent purchasers*** bought different products were influenced by their life stage. ***Recent purchasers*** of pensions, as well as 'other' investment products tended to be younger and were more likely to be in employment. Purchasers of unit trusts and investment bonds tended to be older, retired, and have lower incomes. Equity ISA purchasers had an average age profile similar to the whole retail investment market.
- Investment risk appetite was self-reported by all consumers. Both purchasing groups tended to have a higher appetite for investment risk compared with ***non-purchasers*** and ***non-users***. However, risk aversion was more prevalent in certain subgroups across all consumer groups – being female, older, retired, having a household income less than £20,000 per annum, and not being educated to at least degree level were all associated with being prepared to take no risk at all when investing.
- There was demographic variation between ***recent purchasers*** whose investment transaction was administered through a platform provider as opposed to a product provider. Compared with purchases through a product provider, those whose transaction was placed through a platform provider were more likely to be older, retired, have higher levels of education and have higher household incomes.
- By definition, ***non-users*** had at least £3,000 in liquid financial assets at the time of interview but had not engaged in the retail investment market in the five years previous.[20] Only half (54%) of this group said they could set aside at least £3,000 for five years or more.
- Consistent with ***non-users***' lack of engagement with the market, half (52%) of ***non-users*** reported being '*not very*' or '*not at all'* financially experienced, while over four in ten (44%) said they had never held a longer-term investment – this latter group tended to be younger, less highly educated and on lower household incomes compared with ***non-users*** who had previous investment history.

[20] Although ***non-users*** are defined as having the potential to invest for the purposes of this survey, it does not mean that investment would be the right decision or a suitable recommendation for all people with similar circumstances.

2.1 Introduction

Four surveys were employed to tackle the wide-ranging objectives of the study: recent purchasers; long-term purchasers; non-purchasers; and non-users. Section 1.3 gives the precise definitions of these groups and explains how they were sampled. This chapter provides a profile of the four groups in terms of demographics, financial capability levels and investment risk appetites. This helps provide a context for the detailed results reported in the remaining chapters.

Although not necessarily an active distinction in consumer choice, ***recent purchasers*** whose sales were administered through a platform provider are compared against those whose sales were administered through a product provider.

Finally, ***non-users*** are assessed in terms of their savings and investments history to help form a picture of their previous engagement in the retail investment market.

2.2 Personal characteristics of all consumers

There were some notable differences between the groups of people interviewed for the study. ***Recent purchasers*** and ***long-term purchasers*** were similar in demographic profile to each other. This is not surprising since they are effectively the same group of people, but ***long-term purchasers*** were drawn on the basis of having purchased their investment product a longer time ago. However, there were clear differences in profile between the purchaser groups and the non-purchasing groups (see Figure 8).

Figure 8

PERSONAL CHARACTERISTICS, BY SURVEY

	RP	LP	NP	NU
	%	%	%	%
Age				
18-24	2	*	5	8
25-34	5	6	15	13
35-44	18	21	19	16
45-54	26	25	24	19
55-64	30	29	21	14
65+	19	18	16	30
Gender				
Male	63	63	59	57
Female	37	37	41	43
Employment status				
Full time	56	59	55	46
Part time	13	10	13	10
Not working	3	8	12	11
Retired	28	24	20	33
Highest education level reached				
Degree or higher	58	54	56	45
Further qualification (between school and university)	11	14	12	15
Secondary/ high school education completed	14	16	21	20
Foreign qualifications	*	1	*	*
Vocational qualifications	8	10	4	7
None of these	8	6	7	13
Household income per year				
Under £20,000	14	17	20	26
£20,000-£39,999	33	33	33	34
£40,000-£59,999	23	25	24	23
£60,000-£79,999	11	12	11	8
£80,000 or more	19	14	12	9
Base:	*5,024*	*510*	*667*	*1,105*

Note: Bases shown are for all survey group respondents. However, ‘don’t know’ and ‘refused’ responses have been excluded from the bases when calculating percentages so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

The main demographic differences between the four groups can be summarised as follows:

- ***Recent purchasers***, ***long-term purchasers*** and ***non-purchasers*** were broadly similar in terms of their gender, employment status and level of qualifications. However, compared with the purchasing groups, ***non-purchasers*** were younger in profile (20% were aged under 35 compared with less than 10% of the purchasing groups). In addition, ***recent purchasers*** tended to be in higher income brackets compared with the other groups: 30% had a household income of £60,000 or more compared with around a quarter of ***non-purchasers*** (23%). However, the broad similarities between the three groups is not too surprising given that all three groups have engaged with the retail investment sector in the recent or longer-term past, either in terms of purchasing an investment product or seeking advice about one.

- ***Non-users,*** who are characterised by their *non*-engagement in the retail investment market, had a rather different profile. Compared with the other three groups, they had a more polarised age profile (22% were aged under 35 and 44% were aged 55); they also had a higher proportion among them who were retired (33% compared with 20-28% of the other groups). They had lower levels of qualifications (45% were educated to at least degree level compared with 54-58% of the other groups) and had a much lower income profile compared with the other groups (26% had an income of under £20,000 a year compared with 14-20% of the other groups).

Focusing now on ***recent purchasers***, Figure 9 shows how their personal characteristics varied by the type of product purchased.

Figure 9

PERSONAL CHARACTERISTICS OF RECENT PURCHASERS, BY PRODUCT GROUP

	Overall	Equity ISA	Unit trust	Investment bond	'Other' investment product	Pension
	%	%	%	%	%	%
Age						
18-24	2	2	1	*	5	2
25-34	5	4	3	*	22	8
35-44	18	17	9	3	32	27
45-54	26	23	24	17	22	35
55-64	30	32	33	40	10	25
65+	19	23	31	39	9	2
Gender						
Male	63	59	60	58	65	73
Female	37	41	40	42	35	27
Employment status						
Full time	56	50	36	20	79	84
Part time	13	14	15	16	7	9
Not working	3	3	6	5	2	4
Retired	28	33	43	59	12	3
Highest education level reached						
Degree or higher	58	60	54	46	48	61
Further qualification (between school and university)	11	10	11	8	22	12
Secondary/ high school education completed	14	13	15	18	21	13
Foreign qualifications	*	*	*	*	-	*
Vocational qualifications	8	8	8	15	5	8
None of these	8	8	11	13	4	7
Household income per year						
Under £20,000	14	15	25	32	4	5
£20,000-£39,999	33	33	35	44	31	29
£40,000-£59,999	23	22	16	13	36	28
£60,000-£79,999	11	11	9	5	19	14
£80,000 or more	19	19	15	6	10	24
Base:	*5,024*	*1,048*	*1,193*	*1,000*	*736*	*1,047*

Note: Bases shown are for all recent product purchasers. However, 'don't know' and 'refused' responses have been excluded from the bases when calculating percentages so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

The motivations for purchasing different products appeared to be driven by differences in consumers' life stages. Compared with other purchasers, those who purchased investment bonds or unit trusts were older in profile, more likely to be retired, and had more modest incomes. It is seen later in Section 3.3.1 that one third (32%) of investment bond purchasers were motivated by plans for retirement but also one in six (16%) had a desire to make their money grow faster; the motivations to purchase unit trusts were similar.

Equity ISA purchasers, on the other hand, were more spread across the ages, with the highest concentration aged 35 or over (95%). They were much less likely than investment bond or unit trust purchasers to be retired, and they tended to have much higher incomes. Those purchasing 'other' investment products were characterised by younger, working consumers, with relatively higher levels of income compared with investment bond and unit trust purchasers.

Finally, pension purchasers were characterised by working people, mainly aged 35-64, and male, with relatively high earnings. Pension purchasers, together with equity ISA purchasers, had the highest level of education in terms of the proportion with at least a first degree.

A more detailed look at the characteristics of ***recent purchasers*** buying different product groups was conducted using CHAID.[21] CHAID is a statistical technique used to explain the most discriminating definition of a chosen factor (the dependent variable) in a data set (see Appendix B for further details). The dependent variable was the type of product purchased in April 2010. CHAID was run to help understand which subgroups of ***recent purchasers*** were most likely to buy one product as opposed to buying any of the other products. A range of demographic variables were included in the model to help find the most distinctive characteristics.[22, 23]

The CHAID model found that the most important distinguishing factor in terms of product choice was the purchaser's age, thus linking-in with a purchaser's life stage.

The subgroup of ***recent purchasers*** **aged under 35** had the highest propensity to purchase pensions or 'other' investment products.[24]

For ***recent purchasers*** **aged 35-44 years old**, there was a difference in purchasing behaviour among those with different levels of investment risk appetite.[25] Those who were only prepared to take a low risk or no risk at all in an investment were more likely to invest in 'other' investment products (13% of all products purchased) compared with those prepared to take a moderate or high risk (2%).

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[21] Chi-squared Automatic Interaction Detector

[22] The independent variables included in the model were sex, age, working status, highest level of education, household income, investment risk appetite and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products (these latter three variables are explained in Section 2.3.1).

[23] One caveat of this model should be noted: where multiple products had been purchased only one would have been randomly selected to base the interview on. Thus, as well as the selected product, it is possible that other retail investment products may have been purchased at the same time.

[24] The 'other' investment products category was mainly represented by with-profit endowments but also included other products like endowment savings plans and structured capital at risk products (SCARPs).

[25] Investment risk appetite is defined later in Section 2.3.2.

For ***recent purchasers* aged 45-54 years old**, risk appetite and household income were key differentiators. Purchasers aged 45-54 with a household income of less than £40,000 per annum were more likely to purchase investment bonds (7% of all products purchased) compared with higher income households (1%).

For ***recent purchasers* aged 55-64 years old**, the main differentiator was their working status. Those who were retired mainly purchased equity ISAs, unit trusts and investment bonds (94% of all products purchased). Those who were working full time purchased these products to a lesser extent (67%), being more likely instead to purchase pensions (32%).

2.3 Financial capability and risk attitude of all consumers

In addition to these personal characteristics, a number of profiling questions were asked to ascertain consumers' financial capability and their attitude towards investment risk.

2.3.1 Financial capability

The FSA's Baseline Survey of Financial Capability[26] showed that levels of financial capability are most appropriately measured with separate scores for five distinct domains.[27] Each domain captures different aspects of people's involvement with money and financial products. While individuals may be particularly capable in one or more areas, they may lack skills or experience in other areas. Thus one single measure of financial capability is not sufficient and should instead be viewed across individual domains. The five domains are: 'Planning Ahead'; 'Staying Informed'; 'Choosing Products'; 'Making Ends Meet'; and 'Keeping Track'.

The CPOS 2010 surveys did not cover all five domains due to space limitations on the questionnaires. Two domains, Making Ends Meet (which captures information about people's ability to cope with meeting their financial commitments and their attitude towards managing money) and Keeping Track (which focuses on the extent to which people keep an eye on their budgets) were considered less of a priority in this context and were therefore not included in CPOS 2010.

The three remaining domains were all captured in CPOS 2010. The domains of Staying Informed and Planning Ahead were captured for all four survey groups. Planning Ahead captures people's capability in relation to anticipating and preparing for future financial commitments, both in terms of major known events and in making provision for unexpected events; while Staying Informed captures the extent to which people keep abreast of changes in the wider economy that might have implications for their own financial situation.

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[26] http://www.fsa.gov.uk/pubs/consumer-research/crpr47.pdf

[27] The domains were defined quantitatively in Atkinson A., McKay, S., Kempson, E. and Collard, S. (2006) *Financial capability in the UK: results of a baseline survey,* Consumer research 47. London: Financial Services Authority. Further developmental work by Adele Atkinson in 2009 (unpublished) has led to the design of a smaller set of questions that enable more rapid measurement of the same concepts – these were adapted for use in CPOS 2010.

The final domain of Choosing Products was only suitable for measurement among ***recent purchasers***. This domain assesses individuals' information-seeking and decision-making behaviour in connection with financial products they had bought. As this domain can only be derived for those who purchased an investment product, a score was not possible for ***non-purchasers*** and ***non-users***. For ***long-term purchasers*** a score was not derived due to questionnaire space limitations.

Each domain was scored from 0 (low capability) to 10 (high capability). In addition to the raw scores, scores were combined into four summary categories to divide each audience into those with high, medium and low financial capabilities. The derivations of these measures enable comparisons to be made between consumers from each of the different surveys.[28]

The financial capability scores for each consumer group are summarised in Figure 10.

Figure 10

LEVELS OF FINANCIAL CAPABILITY, BY SURVEY

	RP	LP	NP	NU
	%	%	%	%
Financial capability score – Planning Ahead (PA)				
0-5	10	13	27	24
6-7	16	17	26	26
8-9	27	31	25	28
10	47	40	22	21
Financial capability score – Staying Informed (SI)				
0-3	11	14	30	53
4-6	37	39	47	35
7-8	35	36	16	9
9-10	17	12	7	3
Financial capability score – Choosing Products (CP)				
0-4	14	..	..	..
5-7	25	..	..	..
8	29	..	..	..
9-10	32	..	..	..
Base:	*5,024*	*510*	*542*	*1,105*

The two purchaser groups were generally more capable than the two non-purchasing groups on the two dimensions of Planning Ahead and Staying Informed. For the purchasing groups, the median Planning Ahead score fell into the 8-9 categories, while for ***non-purchasers*** the median score fell within the 6-7 categories. On the Staying Informed measure, ***non-users*** stood out as having much lower scores relative to all of the other groups, with the median

[28] For further detail on how the financial capability measures were derived in CPOS 2010, see Appendix C

Staying Informed score in the 0-3 category for ***non-users***, while it fell within the 7-8 category for ***recent purchasers*** and 4-6 for the other groups. This implies that most ***non-users*** take little notice of the wider economy, in regard to its impact on investments, which is consistent with their non-engagement in the retail investment market.

2.3.2 Attitudes towards investment risk

There are many ways of assessing consumers' attitude towards investment risk. The FSA has recently published guidance for firms in considering the best way of gauging a customer's risk profile.[29] In CPOS 2007 a composite measure was created to represent consumers' appetite for risk from combining their levels of agreement to a set of 18 statements. Given the data requirements and space limitations on the CPOS 2010 questionnaires, it was unfeasible to ask so many questions in order to derive one measure. Thus a simpler approach was taken and all consumers in the CPOS 2010 surveys were asked to self-assess their own attitude to investment risk:

> *In general, how much risk are you prepared to take that you might lose some money you put into an investment?*

Consumers were then able to answer on a broad scale of risk ranging from 'no risk', 'low risk', 'moderate risk' or 'high risk. The measure has been derived from one question which has been self-assessed and these limitations should be borne in mind. The question responses are summarised in Figure 11.

Figure 11

RISK APPETITE, BY SURVEY

	RP	LP	NP	NU
	%	%	%	%
Self-reported investment risk appetite				
No risk at all	9	13	23	39
Low risk	41	41	44	35
Moderate risk	43	38	27	19
High risk	5	7	3	2
Don't know/Refused	1	1	3	5
Base:	*5,024*	*510*	*542*	*1,105*

It is clear that ***non-users*** have little to no appetite for investment risk compared with those who purchase investments or who have considered purchasing one: four in ten (39%) ***non-users*** were not prepared to accept any risk compared with one quarter (23%) of ***non-purchasers*** and only around one in ten of both purchasing groups (RP: 9%; LP: 13%). Half (48%) of all ***recent purchasers*** were willing to take a moderate or high risk with the money they put into an investment.

[29] http://www.fsa.gov.uk/pubs/guidance/gc11_01.pdf

Risk aversion was associated with certain personal characteristics, and these patterns were common to all four consumer groups (Figure 12). To aid comparison, these figures have been shown against the personal characteristics of the four consumer groups overall.

The following general patterns emerged across all four groups:

- Risk aversion was higher than average among older people aged 65+; women; those who were retired; those without any formal qualifications; and those on low household incomes of less than £20,000 per annum.
- Risk aversion was lower than average among men; those working full time; those educated to at least degree level; and those on higher household incomes.
- As ***non-users*** are associated with higher proportions of women, people aged 65 or over, people with lower qualifications, and people with lower incomes (see Section 2.2), this helps explain why this group is so much more risk averse than the purchasing groups.

Figure 12

PERSONAL CHARACTERISTICS OF CONSUMERS PREPARED TO TAKE NO RISK AT ALL WHEN INVESTING, BY SURVEY

	RP		LP		NP		NU	
	No risk at all %	Overall %	No risk at all %	Overall %	No risk at all %	Overall %	No risk at all %	Overall %
Age								
18-24	2	2	2	*	5	5	6	8
25-34	5	5	4	6	14	15	9	13
35-44	13	18	21	21	17	19	13	16
45-54	21	26	13	25	27	24	16	19
55-64	33	30	35	29	20	21	17	14
65+	26	19	25	18	17	16	40	30
Gender								
Male	43	63	57	63	43	59	48	57
Female	57	37	43	37	57	41	52	43
Employment status								
Full time	43	56	46	59	45	55	36	46
Part time	14	13	10	10	19	13	10	10
Not working	5	3	10	8	12	12	9	11
Retired	39	28	33	24	23	20	44	33
Highest education level reached								
Degree or higher	33	58	37	54	44	56	36	45
Further qualification (between school and university)	13	11	8	14	15	12	11	15
Secondary/ high school education completed	27	14	32	16	22	21	23	20
Foreign qualifications	-	*	4	1	-	*	*	*
Vocational qualifications	9	8	5	10	5	4	9	7
None of these	18	8	15	6	14	7	20	13
Household income per year								
Under £20,000	30	14	26	17	31	20	35	26
£20,000-£39,999	39	33	27	33	31	33	32	34
£40,000-£59,999	16	23	36	25	25	24	20	23
£60,000-£79,999	10	11	9	12	3	11	8	8
£80,000 or more	4	19	2	14	10	12	5	9
Base:	*694*	*5,024*	*90*	*510*	*130*	*667*	*456*	*1,105*

Note: Bases shown are for all survey group respondents. However, 'don't know' and 'refused' responses have been excluded from the bases when calculating percentages so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

2.3.3 Further information about recent purchasers, by product group

This section examines ***recent purchasers*** in more detail, with regard to their financial capability levels and investment risk appetite.[30] In particular, the focus is on the variation between ***recent purchasers*** of different retail investment products (see Figure 13).

Figure 13

LEVELS OF FINANCIAL CAPABILITY AND RISK APPETITE OF RECENT PURCHASERS, BY PRODUCT GROUP

	Overall	Equity ISA	Unit trust	Investment bond	'Other' investment product	Pension
	%	%	%	%	%	%
Investment risk appetite						
No risk at all	9	9	12	12	30	5
Low risk	41	41	43	51	46	38
Moderate risk	43	45	40	35	22	47
High risk	5	4	4	1	2	8
Don't know/Refused	1	1	1	1	1	2
Financial capability score – Planning Ahead (PA)						
0-5	10	7	5	6	31	17
6-7	16	15	15	15	17	20
8-9	27	28	23	18	26	29
10	47	50	57	62	26	33
Financial capability score – Staying Informed (SI)						
0-3	11	10	12	12	18	11
4-6	37	36	33	34	46	41
7-8	35	37	38	38	25	31
9-10	17	17	18	16	10	17
Financial capability score – Choosing Products (CP)						
0-4	14	13	8	7	60	16
5-7	25	27	26	15	19	24
8	29	28	32	38	9	29
9-10	32	33	34	39	12	32
Base:	*5,024*	*1,048*	*1,193*	*1,000*	*736*	*1,047*

Note: Bases shown are for all recent product purchasers. However, 'don't know' and 'refused' responses have been excluded from the bases when calculating percentages for 'Investment risk appetite' so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

[30] ***Long-term purchasers*** were similar in profile to ***recent purchasers*** so detailed analysis has focused only on ***recent purchasers***

The key characteristics of the different product purchasers were as follows:

- Purchasers of unit trusts had higher than average scores on the Planning Ahead domain.
- Purchasers of investment bonds had a lower than average appetite for risk and higher than average scores on the Planning Ahead and Choosing Products domains.
- Purchasers of 'other' investment products had a much lower than average risk profile, and also had much lower than average scores on all three capability domains, especially in regard to Choosing Products. This latter finding is largely driven by the fact that a large proportion of sales of 'other' investment products were non-advised (see Figures 3 and 4 for further details). As the Choosing Products financial capability measure is based on the tendency to seek information from an adviser, and act on advice, the low score among this group is expected.
- Pension purchasers had lower than average Planning Ahead scores.

2.4 Purchases administered on platforms

In recent years there has been an increasing amount of investment business administered on platforms. Given the lack of existing external information about transactions placed on platforms, it is useful to view the characteristics of those who purchased products that were administered via platforms here, and how these compare with those purchased through product providers (see Figure 14). As mentioned in Section 1.4 there were limitations in the approach used for sampling transactions administered through platform providers, which should be borne in mind when viewing the results. Platforms also tend to be used by advisers rather than consumers therefore any distinctions between product providers and platform groups probably relate to a difference in the type of adviser seen, rather than a distinction in consumer choice between these two types of provider.

Figure 14

PERSONAL CHARACTERISTICS OF RECENT PURCHASERS, BY ROUTE OF ADMINISTERING PRODUCT PURCHASE

	Overall %	Product provider %	Platform provider %
Age			
18-24	2	2	1
25-34	5	6	4
35-44	18	19	18
45-54	26	28	20
55-64	30	29	33
65+	19	16	26
Gender			
Male	63	62	65
Female	37	38	35
Employment status			
Full time	56	59	49
Part time	13	12	14
Not working	3	4	3
Retired	28	25	35
Highest education level reached			
Degree or higher	58	52	72
Further qualification (between school and university)	11	12	8
Secondary/ high school education completed	14	16	9
Foreign qualifications	*	*	*
Vocational qualifications	8	9	6
None of these	8	10	4
Household income per year			
Under £20,000	14	17	9
£20,000-£39,999	33	35	29
£40,000-£59,999	23	23	22
£60,000-£79,999	11	12	10
£80,000 or more	19	14	29
Base:	*5,024*	*3,543*	*1,481*

Note: Bases shown are for all respondents within the subgroup. However, 'don't know' and 'refused' responses have been excluded from the bases when calculating percentages so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

Compared with other investors, people who purchased investments administered on a platform were more likely to be aged 55 or over; retired; educated to a higher level; and to have a higher level of income.

Further profiling information about these purchasers can be found in Figure 15 which highlights their levels of financial capability and risk attitude in relation to their acceptance of possible loss of money in investments.

Figure 15

LEVELS OF FINANCIAL CAPABILITY AND RISK APPETITE OF RECENT PURCHASERS, BY ROUTE OF ADMINISTERING PRODUCT PURCHASE

	Overall %	Product provider %	Platform provider %
Investment risk appetite			
No risk at all	9	13	3
Low risk	41	43	38
Moderate risk	43	39	52
High risk	5	4	5
Don't know/Refused	1	1	1
Financial capability score: Planning Ahead (PA)			
0-5	10	12	6
6-7	16	19	12
8-9	27	28	23
10	47	41	59
Financial capability score: Staying Informed (SI)			
0-3	11	13	6
4-6	37	41	30
7-8	35	33	41
9-10	17	14	23
Financial capability score: Choosing Products (CP)			
0-4	14	16	9
5-7	25	27	21
8	29	28	29
9-10	32	29	40
Base:	*5,024*	*3,543*	*1,481*

Note: Bases shown are for all respondents within the subgroup. However, 'don't know' and 'refused' responses have been excluded from the bases when calculating percentages for 'Investment risk appetite' so, although the overall bases represent the total sample, in practice the base sizes will vary slightly for each measure

Purchasers whose investments were administered via a platform provider tended to have a higher investment risk appetite and were more financially capable on all three domains that measures were available for, compared with their counterparts who did not have their retail investments administered through a platform provider.

2.5 Further profiling information on non-users

This section will focus on the non-user group: that is, those with at least £3,000 in liquid financial assets at the time of interview who had neither contacted a financial adviser nor purchased a retail investment product in the previous five years. Thus the group represents consumers who, in theory, had the capacity to invest but chose not to do so.

2.5.1 Financial experience and confidence

Non-users self-reported their financial experience and financial confidence (see Figure 16).

Figure 16

NON-USERS' SELF-REPORTED FINANCIAL EXPERIENCE AND CONFIDENCE

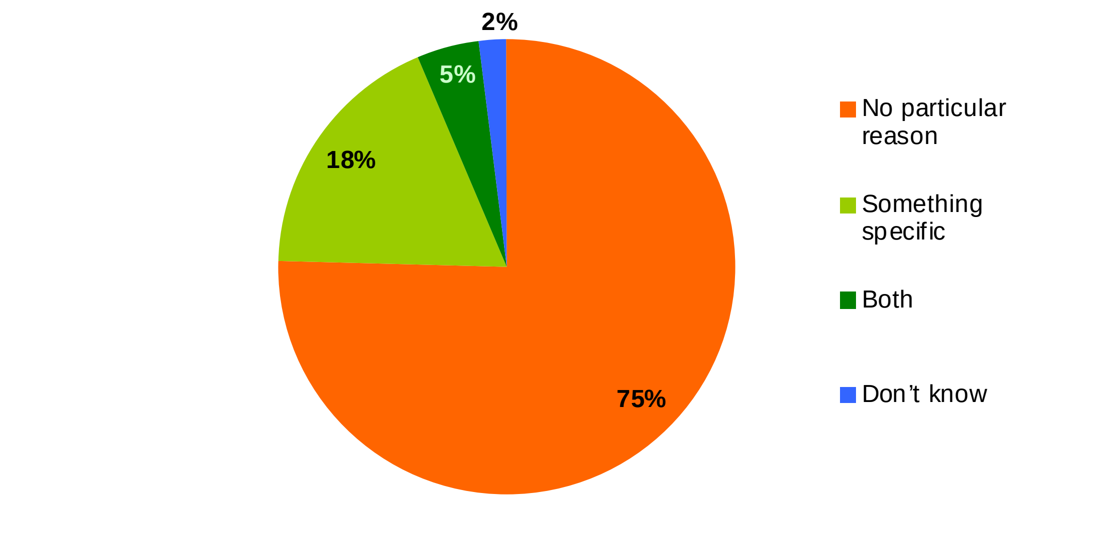
	%
Self-reported financial experience	
Very experienced	7
Fairly experienced	35
Not very experienced	36
Not at all experienced	15
Don't know/refused	6
Self-reported financial confidence	
Very confident	9
Fairly confident	46
Not very confident	30
Not at all confident	10
Don't know/refused	5
Base:	*1,105*

Four in ten (42%) ***non-users*** reported being *'very'* or *'fairly'* financially experienced when it came to purchasing financial products, although just 7% reported being *'very'* experienced. A similar story emerged in terms of financial confidence with over half (55%) of ***non-users*** saying they were *'very'* or *'fairly'* financially confident, but only 9% saying they were *'very'* confident in their understanding of different financial products.

2.5.2 Savings history

By their definition, ***non-users*** had at least £3,000 in liquid financial assets at the time of interview but had made no purchase of, nor sought advice on, any investment product in the previous five years. When ***non-users*** were asked *why* they were holding at least £3,000 in cash or in financial assets that could easily be converted to cash, the majority of ***non-users*** said they were not saving this money for any particular reason (see Figure 17).

Figure 17 Whether non-users are saving for a specific reason



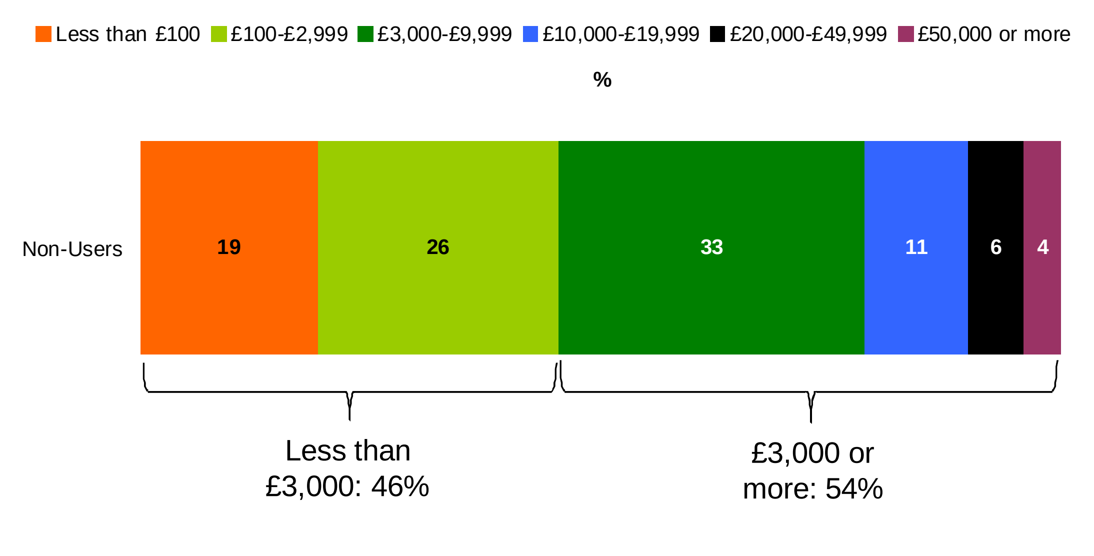
Base: All NU (1,105)

Three-quarters (75%) of ***non-users*** said that they kept this money for no particular reason with around one in five (18%) saying they were saving for something specific. However, this latter response could have meant that they were holding the cash or assets as an emergency fund that could be accessed at short notice.

Where a specific use was cited, ***non-users*** were asked what this was: the most common responses were plans to spend the money on major house repairs (18%), to put the money towards buying a house (18%), for a holiday (17%) or for their retirement (16%).

Although they had at least £3,000 in liquid financial assets at the time of interview, this did not necessarily mean that they would be able to invest in a longer-term investment product. Figure 18 shows how much of their liquid financial assets ***non-users*** felt they could set aside for at least five years.

Figure 18 Amount of savings non-users could set aside for at least five years



Base: All NU excluding those who answered 'Don't know' or Refused' (771)

Just over half (54%) felt they could set aside at least £3,000 for at least five years. As would be expected, ***non-users*** from higher income households (£80,000 or more a year) were more likely to feel able to put aside larger sums of money than those from lower income households (less than £20,000 per annum). One third (34%) of those in lower income households felt they could set aside less than £1,000 for at least five years, compared with 11% of higher income households. At the other end of the scale, four times as many in higher income than lower income households could set aside £20,000 or more for five years (19% and 5% respectively).

A further measure examined was the proportion of ***non-users'*** total savings that could be set aside for the next five years. This measure was constructed based on answers to two questions: firstly, the total amount of money they held in savings; and secondly, the amount they felt they could put aside for at least five years. Responses to both questions were based on bands (for example, between £3,000 and £4,999), and where the bands matched, this was recorded as being able to set aside 'all or most' of their savings.

Figure 19

HOW MUCH OF SAVINGS COULD BE SET ASIDE FOR AT LEAST FIVE YEARS

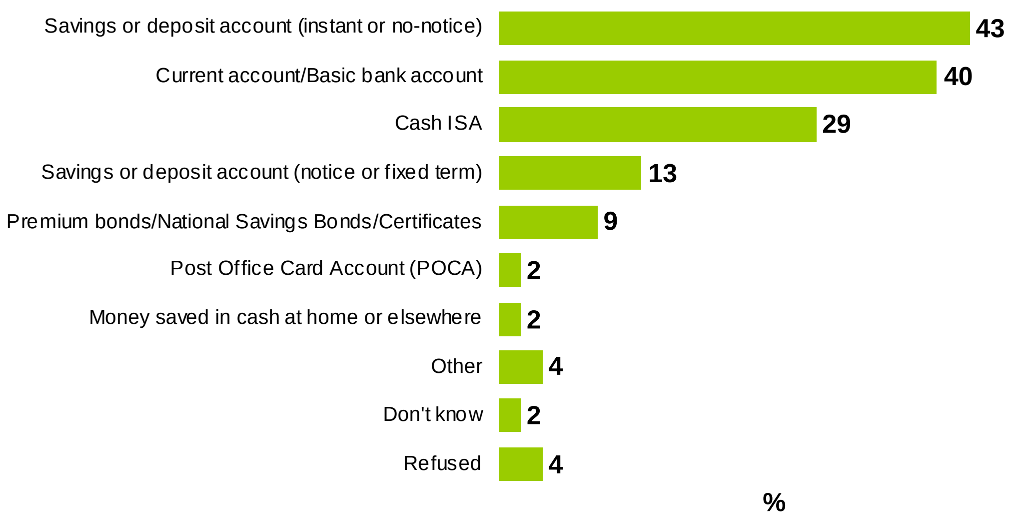
Amount personally held in cash savings or financial assets that can be quickly converted to cash	Could set aside an amount less than total savings	Could set aside 'all or most' of savings	Base
	%	%	
£3,000-£4,999	74	26	194
£5,000-£9,999	75	25	195
£10,000-£19,999	71	29	156
£20,000-£49,999	68	32	103
£50,000 or more	70	30	68
Overall	72	28	716

Bases: All NU, excluding those who answered 'Don't know' or 'Refused' and those who gave no further detail about amount held in savings.
Note: 'Don't know' and 'Refused' made up 29% of all responses originally.

Figure 19 shows that, among ***non-users***, there was little difference in the proportion who felt able to set aside all or most of their savings, by the total amount they had in liquid assets. Around a quarter to a third (25% to 32%) considered that they could put aside most or all of their savings regardless of how much they held in total. This would suggest that, regardless of current liquid asset holdings, ***non-users*** are equally pragmatic in their assessment of what they can set aside and what they need to hold in case of emergency.

The main places where ***non-users*** kept their savings were instant access savings or deposit accounts (43%) and current accounts (40%). The full range of facilities that ***non-users*** utilised is shown more fully in Figure 20.

Figure 20 Where non-users keep their savings



Base: All NU (1,105)
Note: respondents could give more than one answer

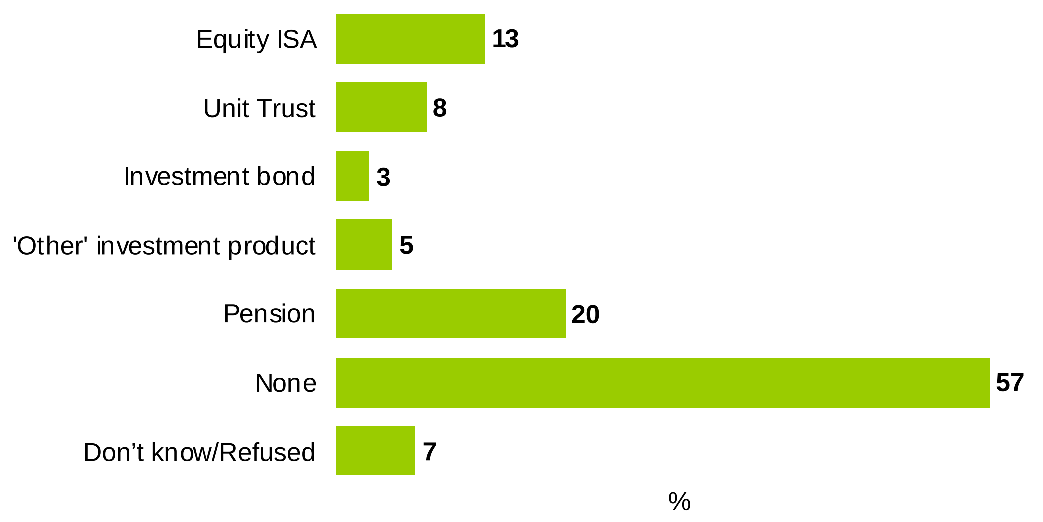
Two-thirds of ***non-users*** (64%) revealed that they only kept their savings in one of the named locations. A further one-fifth (19%) had two savings locations while one in nine (11%) divided their money between three or more locations.

2.5.3 Investment history

By definition, ***non-users*** will not have purchased any investment product in the five years prior to the interview. However, there was an interest in finding out about longer-term investment holdings, purchased more than five years before the interview.

Around six in ten (57%) ***non-users*** held no longer-term investment products at the time of interview while one-third (36%) revealed that they did have a longer-term investment at this time. Figure 21 shows which longer-term investments were held.

Figure 21 Non-users' current investment holdings (taken out at least 5 years ago)



Base: All NU (1,105)
Note: respondents could give more than one answer

The most commonly held longer-term investment product was a pension[31]. One in five (20%) ***non-users*** had a pension at the time of interview. If pensions are excluded from the list of eligible investment types then the proportion holding a longer-term non-pension investment at the time of interview drops to one in four (24%).

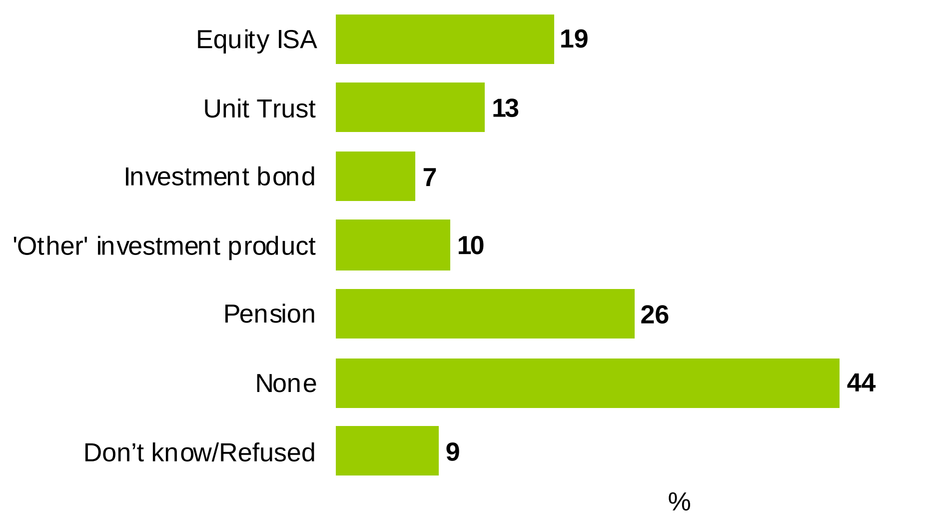
The amount held in longer-term investments by these ***non-users*** varied. Excluding those who refused to say, three in ten (30%) did not know how much they had already invested, one quarter (24%) had £20,000 or more while the remainder (45%) had less than £20,000 already invested.

Of those who held longer-term investments, one in six (17%) said that they had not personally purchased these investments, for example it could have been a product purchased by a partner. Females were more likely than males to have not been involved in the purchase decision (23% and 13% respectively). Those who considered themselves to have little financial experience were more likely (22%) than those who considered themselves more experienced (13%) not to have been personally involved in the purchase of a longer-term investment product. A similar trend in non-involvement was also evident among those with lower financial confidence, lower financial capability and those with a lower investment risk appetite, when compared with those with higher scores on these attributes.

The extent to which a non-user is totally unengaged with the retail investment market can be gauged by examining their *previous* investment holdings. Over four in ten (44%) had never held a longer-term investment while a half (48%) had past experience of investments (see Figure 22 for the full list of investments held in the past).

[31] The ***non-users'*** questionnaire only included individual personal pensions and individual stakeholder pensions in this definition (see Appendix A).

Figure 22 Non-users' previous investment holdings

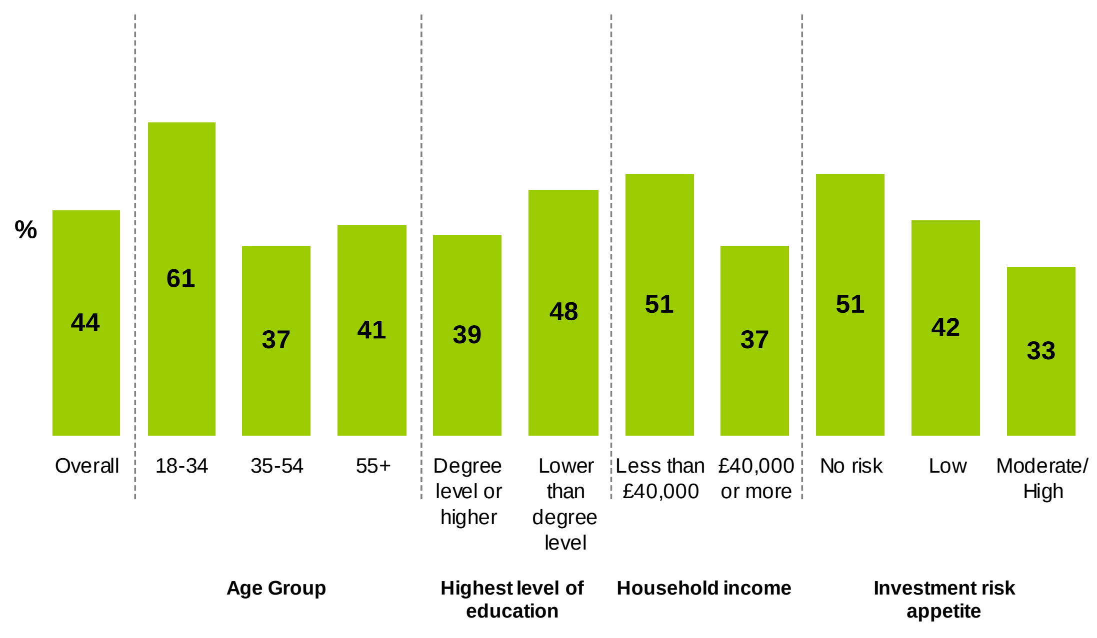


Base: All NU (1,105)
Note: respondents could give more than one answer

Pensions were the most common type of historical investment (26%). If pensions are excluded, the proportion that had ever held non-pension investments falls to one in three (35%).

As Figure 23 shows, among ***non-users***, younger consumers had the highest levels of non-engagement in the investment market. Other groups with higher than average propensities to have no previous investment history were the less well-educated; those with lower household incomes; and the more risk averse. Other factors related to a lack of previous investment history included lack of Internet access (52% had no investment history compared with 42% with Internet access); a low score of 0-5 on the Planning Ahead financial capability domain (50% compared with 37% who scored 10); and a low score of 0-3 on the Staying Informed financial capability domain (50% compared with 35% who scored 9 or 10).

Figure 23 Proportion of non-users who had never held a longer-term investment



Base: All NU (1,105); 18-34 (208); 35-54 (334); 55+ (559); Degree level or higher (452); Lower than degree level (653); Less than £40,000 (511); £40,000 or more (291); No risk (453); Low (375); Moderate/High (220)

The statistical technique of CHAID (see Appendix B) was used to provide a more detailed look at the types of consumers least likely to have ever held a longer-term investment. The dependent variable was whether or not ***non-users*** had ever held a longer-term investment. Again, a range of demographic variables were included in the model to help find the most distinctive characteristics.[32]

This indicated that the characteristic of no previous investment history was closely linked to whether they had ever consulted a financial adviser. Six in ten (57%) ***non-users*** who had never consulted a financial adviser had never had a longer-term investment compared with 21% of ***non-users*** who had consulted an adviser.

Those who had never consulted a financial adviser could be split further to reveal other subgroups highly unlikely to have ever held a longer-term investment: age and capability score on the Staying Informed domain were found to be further differentiators within this subgroup. Within those who had never contacted an adviser, eight in ten (80%) ***non-users*** aged under 35 with a low Staying Informed financial capability score of 3 or less had never had a longer-term investment.

Non-users who had never consulted a financial adviser with a higher Staying Informed financial capability score of 4 or more but who said they had less than £3,000 that they could

[32] The independent variables included in the model were sex, age, working status, Internet access, highest level of education, household income, amount of savings able to set aside for at least five years, consulted a financial adviser, financial experience, financial confidence, investment risk appetite and the financial capability domains of Planning Ahead and Staying Informed.

to set aside for at least 5 years were another group unlikely to have had a longer-term investment (62%).

Annual household income was a further differentiator among ***non-users*** who *had* consulted a financial adviser in the past. If the non-user had contacted an adviser and had a household income of less than £40,000 a year, they were three times as likely to have never had a longer-term investment compared with those with a higher income (33% and 10% respectively).

3. BACKGROUND TO INVESTMENT DECISION

CHAPTER SUMMARY

- This chapter first considers why non-investors have chosen not to invest and their propensity to invest given the right circumstances. It then looks at the motivations for investment among those groups who at least considered a purchase. Finally, the chapter considers the extent to which financial advisers were sought by these groups, and their reasons for using advisers (barriers to using advisers are then covered in Chapter 4).
- The main reasons why ***non-users*** had not bought a retail investment product previously were to do with affordability/lack of funds and lack of motivation. Affordability was a much greater concern for those who could set aside less than £3,000 for at least five years.
- Given a hypothetical scenario where ***non-users*** were asked to imagine that they had £3,000 to save or invest for five years, around three in ten (28%) said they would at least consider purchasing a longer-term investment product with the money. Two-fifths (38%) would be resistant to investing this money, preferring to put it into savings. Compared with those receptive to the idea of investing, those who preferred to remain unengaged in the investment market were characterised by a lower investment risk appetite, an older age profile, lower incomes, lower levels of qualifications, lower levels of financial confidence and a lack of previous investment history.
- ***Recent purchasers'*** and **non-purchasers'** main motivations for investing were retirement planning and tax efficiency. Motivations varied by the product purchased and were interlinked with a recent purchaser's life stage – thus, while retirement planning was a motivation for pension product purchasers, tax efficiency was more of a reason behind equity ISA purchases.
- At the beginning of the product purchase journey, both ***recent purchasers*** and ***non-purchasers*** were equally certain about what product they wanted when they started to obtain advice or information about it. However, ***recent purchasers*** who had higher levels of qualifications, and who were more financially capable on the domains of Planning Ahead and Staying Informed, tended to be more certain at the outset.
- There was a tendency for ***recent purchasers*** to rely on information or advice from a financial adviser – seven in ten (69%) said the adviser was the most influential source of information when deciding what to buy. Thus, if advisers are the main conduits between products and consumers, improving professionalism among advisers, as part of the RDR proposals, may help to improve clarity on products and services, and create a more transparent market, which in turn could reduce consumer detriment.
- When receiving regulated advice, ***recent purchasers*** were more likely to consult an adviser from a firm of financial advisers, such as an IFA (50%) rather than advisers from banks or building societies (38%). The choice of different types of firms and their advisers was driven by the product purchased, although for all product groups, there was a greater tendency for those with higher household incomes to choose a firm of financial advisers.
- The main reasons for taking advice from a financial adviser among both ***recent purchasers*** and ***non-purchasers*** was insufficient existing knowledge about the products available; advisers' perceived ability to recommend the most suitable products; and their trust in financial advisers.

3.1 Introduction

The consumer's decision-making process begins with the choice of whether or not to invest in a retail investment product. For those who choose not to invest, the barriers to investment are investigated (Section 3.2). Among those who choose to invest, the background to this decision is examined, focusing on both their motivation to invest and the source of capital used (Section 3.3).

3.2 Background to not investing

This section focuses on the ***non-users*** consumer group who, although having at least £3,000 in liquid financial assets at the time of interview, had not engaged in the retail investment market for at least five years. However, it should be acknowledged that although ***non-users*** are defined as having the potential to invest for the purposes of this survey, it does not mean that investment would be the right decision or a suitable recommendation for all people with similar circumstances and this limitation should be borne in mind when interpreting the findings in this section.[33]

3.2.1 Reasons for not investing previously

Although ***non-users*** had not engaged in the retail investment market in the previous five years, some will have investment holdings taken out beyond five years ago (see Section 2.5.3). Half (48%) of all ***non-users*** had previously taken out investment products, whether or not they still held them; while 44% had never held any investment products at any stage of their life.[34] This section explores the barriers to investment for these two groups. The latter group is perhaps of most interest, since these appear to be the most resistant investors.

Lack of affordability and lack of motivation (e.g. 'never thought about it') were the main reasons given for non-interaction with the investment market. Reasons given also varied by the amount of money consumers had available to put aside (see Figure 24).

[33] In future, if targeting a similarly defined group, it may be better to identify consumers who have both emergency cash reserves <u>and</u> a further £3,000 which could potentially be invested.
[34] These figures do not add up to 100% due to a small proportion (9%) who could not remember whether they had any previous investment holdings, or who refused to provide this information.

Figure 24

NON-USERS' SELECTED REASONS FOR NOT PURCHASING LONGER-TERM INVESTMENTS, BY AMOUNT OF MONEY ABLE TO SET ASIDE FOR AT LEAST FIVE YEARS (UNPROMPTED)

	Previous investments taken out, but not in the last five years			Never taken out any investment products		
	Overall	Less than £3,000	£3,000 or more	Overall	Less than £3,000	£3,000 or more
	%	%	%	%	%	%
Never thought about it	11	11	10	24	24	24
Needed the money for something else/ couldn't afford it/ not enough money or spare cash	24	37	21	22	31	16
Preferred to keep in cash savings	14	17	13	15	14	17
Don't want to invest/ not interested in investments	10	8	9	12	10	15
Wanted/needed money to be easily accessible	5	6	5	8	7	9
Already got sufficient money invested	11	8	13	3	3	4
Base:	*513*	*146*	*229*	*494*	*189*	*176*

Note: respondents could give more than one answer

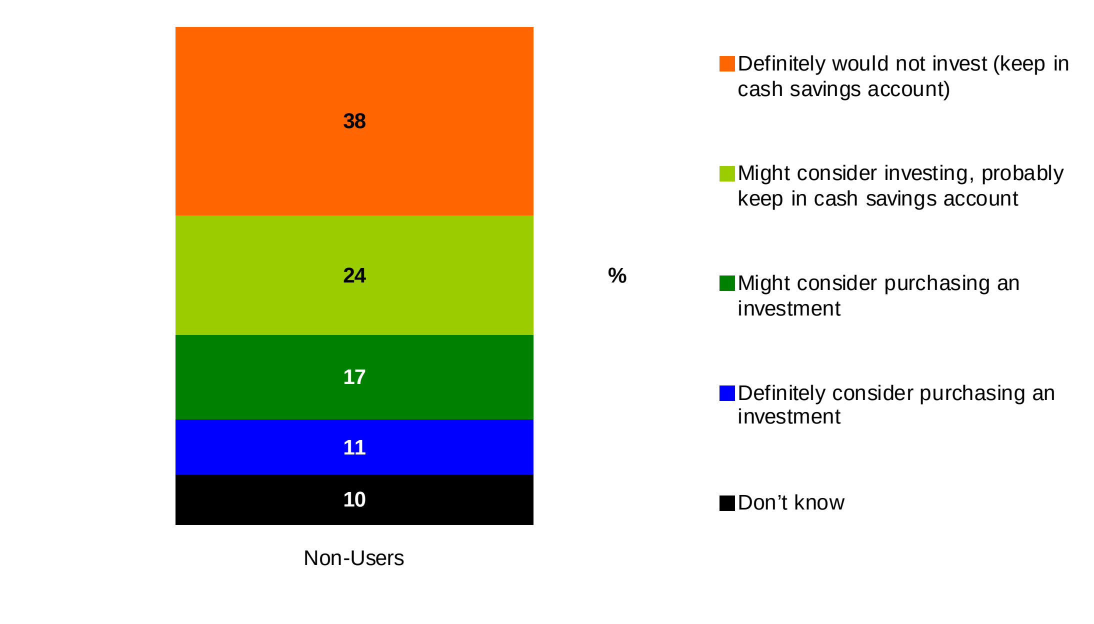
For those with no previous investment history, the key barriers to investment were simply never having thought about it (24%) or lack of affordability (22%) – the latter factor was particularly emphasised among non-investors with less than £3,000 to put aside (31%). Among those who had taken out investments in the past (but not in the previous five years), the barriers to investment were similar, although lack of affordability rather than lack of motivation was the key factor, especially among those with smaller amounts to set aside.

This suggests that, for those with no previous investment history, either lack of knowledge or lack of interest are the key barriers. In the next section, ***non-users'*** propensity to invest, given the right circumstances, is examined.

3.2.2 Willingness to invest in future

To gauge the potential level interest in investment among those who had not done so in the past five years, ***non-users*** were presented with a hypothetical scenario and asked to think what they would do if they had £3,000 they could afford to set aside for five years or more. Given the choice between saving it in a cash savings account or purchasing an investment, the majority (62%) said they would probably or definitely save it, while 28% said that they would, at least, consider investing the money (see Figure 25).

Figure 25 Whether non-users would prefer to save or invest a hypothetical £3,000

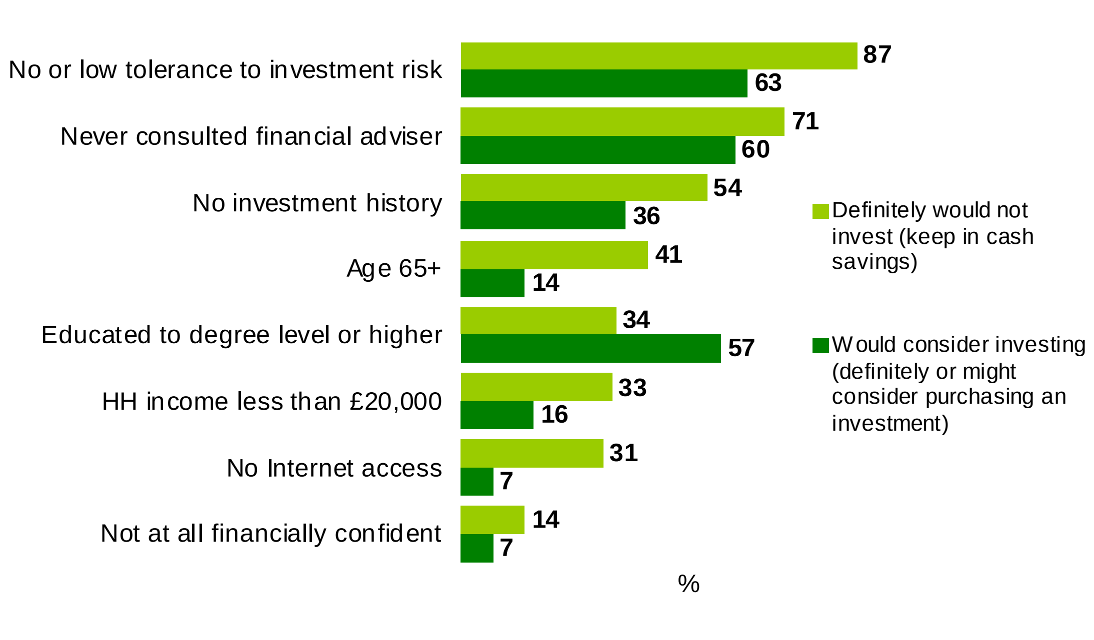


Base: All NU (1,105)

The propensity to save rather than invest in this hypothetical scenario was higher for those who, in reality, had less money they could set aside. Thus, of those who said they could set aside less than £1,000 for five years, seven in ten (70%) said they would definitely or probably keep it in a cash savings account. This compares with 61% of those who could set aside between £1,000 and £9,999, and 58% of those who could set aside £10,000 or more.

Figure 26 compares the profile of those who would consider investing with those who would definitely not invest.

Figure 26 The non-users least likely to invest



Base: All NU who definitely would not consider investing in a longer-term investment product if they had £3,000 that they could set aside for the next five years (447); All NU who would consider purchasing a longer-term investment product if they had £3,000 that they could set aside for the next five years (289)

Compared with those receptive to the idea of investing, those who were resistant tended to be older, less highly educated, from lower income households and without any previous investment history (54% had never invested and 71% had never consulted an adviser).

Although not shown in Figure 26, there was a further variation in propensity to invest by financial capability measures: Planning Ahead and Staying Informed. The Planning Ahead measure (see Section 2.3.1) represents the extent to which the consumer has money saved for a 'rainy day'; how long they are able to survive financially to cover a lost income; and, what they would do to meet an unexpected major expense. Higher scores indicate consumers who have the resources to meet any such unexpected eventualities and were associated with reluctance to invest. Of those most resistant to investing, 28% scored the maximum level on the Planning Ahead scale (score of ten). In contrast, only 16% of those who would consider investing had an equivalent high score. This indicates that a reluctance to invest may be related to a more cautious attitude adopted by those who like to plan ahead for the unexpected i.e. that money will be readily available if they need it.

Multi-variate analysis, using CHAID (see Appendix B), was conducted to further uncover the key factors which differentiated those who would invest compared with those who would not. The dependent variable was whether or not ***non-users*** would consider investing. A range of demographic variables were included in the model to help find the most distinctive characteristics.[35]

[35] The independent variables included in the model were sex, age, working status, Internet access, highest level of education, household income, amount of savings able to set aside for at least five years,

CHAID indicated that risk appetite was a key differentiator in terms of propensity to invest. Thus, eight in ten (78%) of those who had no appetite for risk said that they would probably or definitely not invest compared with 41% of those who had a moderate to high appetite for risk. Within the subgroup of ***non-users*** not prepared to take risk, the retired were particularly likely to want to save rather than invest – two-thirds (67%) said they would not consider investing it and would definitely keep it in a cash savings account).

3.3 Background for decision to invest

This section looks at the motivations behind the initial investment decision for both ***recent purchasers*** who did go on to invest, and ***non-purchasers*** who decided against investing (Section 3.3.1). After looking briefly at sources of capital (Section 3.3.2), the decision-making process involved in choosing a product type is then explored (Section 3.3.3).

3.3.1 Main motivation

Retirement planning was the key motivator for investing with over one third (37%) of ***recent purchasers*** and ***non-purchasers*** (34%) saying this was their main reason for considering investing. Given that pensions made up one third (32%) of all sales of the retail investment products of interest in CPOS 2010 (see Figure 2 in Chapter 1), this drives the overall level of retirement planning.

Motivations for investment varied by product type considered (see Figure 27). Focusing first on ***recent purchasers***, while retirement planning was clearly the main purpose behind pension purchases (75% gave this as their reason for purchase), it was also a key factor in purchasing investment bonds (32%), unit trusts (26%) and equity ISAs (24%). Equity ISAs were also purchased for tax efficiency reasons (35%) while ‘other’ investment products were usually taken out for more short-term saving such as to put money away securely (29%), or to save for a specific eventuality (20%).

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investment holdings, consulted a financial adviser, financial experience, financial confidence, investment risk appetite and the financial capability domains of Planning Ahead and Staying Informed.

Figure 27

MAIN REASON FOR CONSIDERING TO INVEST, BY PRODUCT GROUP (PROMPTED)

RECENT PURCHASERS

	Overall	Equity ISA	Unit trust	Investment bond	'Other' investment product	Pension
	%	%	%	%	%	%
Was planning for my retirement (as lump sum or regular income)	37	24	26	32	10	75
To save in a more tax efficient way	24	35	17	13	9	8
Wanted to make my money grow faster	10	11	17	16	10	3
Needed to sort out my finances in general	6	6	9	12	4	4
Wanted to put some money away so I wouldn't spend it	6	7	7	8	29	1
Someone else advised me to think about making an investment	6	5	8	10	3	4
Pay for children/ grandchildren's education	4	5	6	1	8	1
Wanted to save for an occasion or event	3	2	3	2	20	1
Base:	*5,024*	*1,048*	*1,193*	*1,000*	*736*	*1,047*

NON-PURCHASERS

	Overall	Equity ISA	Unit trust	Investment bond	'Other' investment product	Pension
	%	%	%	%	%	%
Was planning for my retirement (as lump sum or regular income)	34	27	20	28	28	48
To save in a more tax efficient way	11	20	11	9	7	7
Wanted to make my money grow faster	8	14	7	12	8	4
Needed to sort out my finances in general	11	10	9	7	13	13
Wanted to put some money away so I wouldn't spend it	5	5	7	6	9	3
Someone else advised me to think about making an investment	3	1	5	4	4	3
Pay for children/ grandchildren's education	9	4	25	11	5	4
Wanted to save for an occasion or event	4	5	1	6	10	3
Base:	*667*	*173*	*126*	*57*	*63*	*248*

Note: both RP and NP could only give one answer and only the most common reasons are shown

Among ***non-purchasers***, retirement planning was again a key motivation for considering taking out any of the five types of investment, while tax efficiency once again stood out as a motivator for purchasing equity ISAs (20%). Saving for the education of future generations was a key reason for those who considered but did not eventually purchase a unit trust (25%).

Looking across all the products bought by ***recent purchasers***, tax efficiency was more likely to be an incentive to invest among the more financially capable as measured by the Planning Ahead and Staying Informed domains. Tax efficiency was mentioned as a motivation by 28% of those who scored 10 on the Planning Ahead domain and 31% of those who scored 9 or 10 on Staying Informed. In contrast, this was only mentioned by 10% of those scoring 5 or less on Planning Ahead and 16% of those who scored 3 or less on Staying Informed).

The main factors that help determine whether someone buys a product for tax efficiency reasons were drawn out using a CHAID model (see Appendix B). In this case, the dependent variable was whether or not a recent purchaser cited the main reason for considering to invest as ‘to save in a more tax efficient way’. CHAID was run to help understand which adults were most likely to mention this reason. A range of demographic variables were included in the model to help find the most distinctive characteristics.[36]

The CHAID model indicated that the key factor which differentiated those who invested for tax efficiency reasons versus those who did not was product choice i.e. purchasing an equity ISA as opposed to another product.

Thus, 35% of those with equity ISAs invested for this reason as opposed to 11% who purchased other products. Within equity ISA purchasers, those prepared to take some investment risk were more likely to indicate tax considerations as their primary reason for investing (37%) compared with those not prepared to take any risk at all (15%). A further pattern emerged among equity ISA purchasers prepared to take some investment risk, with those most financially capable on the Staying Informed domain scoring 9 or 10 being more likely to be motivated by tax efficiency (49%), compared with less capable purchasers scoring 6 or less (30%).

Among purchasers of other types of retail investment product (not equity ISAs) the propensity to cite tax efficiency as a motivator increased when the purchaser was not working or retired. Within this group, those not in work or retired were twice as likely to cite this motivation compared with those in work (18% and 9% respectively).

In addition, those who were in work full time or part time and had purchased a unit trust or investment bond were more likely to say they wanted to save in a more tax efficient way (16% and 13% respectively) compared with the equivalent subgroup who purchased a pension or ‘other’ investment product (both 7%).

[36] The independent variables included in the model were product group, sex, age, working status, highest level of education, household income, investment risk appetite and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.

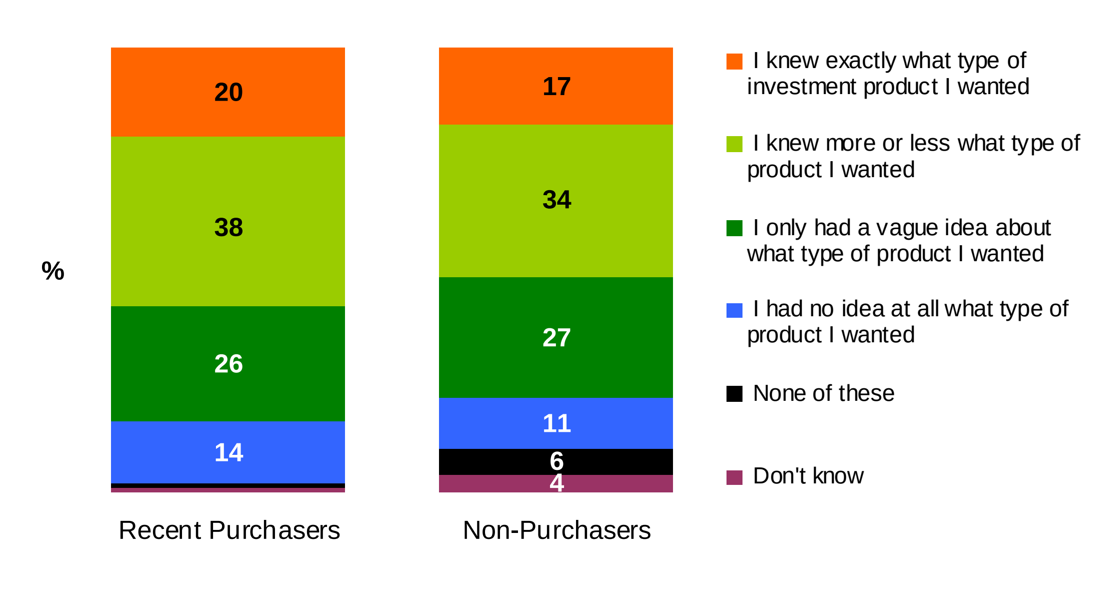
3.3.2 Source of capital to invest

To purchase a retail investment product a consumer should have sufficient funds that they are able to lock away for the medium to long-term. For ***recent purchasers***, this capital tended to be sourced either from their regular income (30%) or from their savings (26%). The source of capital for the investment varied by the type of product they eventually purchased. Those who purchased a pension or an 'other' investment product were more likely to fund the contribution into the investment via their regular income (46% and 69% respectively). Purchasers of the three remaining product groups relied mainly on savings to put money into those investments (equity ISA: 35%; unit trust: 25%; and investment bond: 24%). However, a maturing investment was also an important source for both purchasers of unit trusts (22%) and investment bonds (24%).

3.3.3 Certainty about what they wanted

At the beginning of the purchase process, people start with varying degrees of certainty about the product that they are seeking to purchase (see Figure 28).

Figure 28 Statement which came closest to how consumers felt when they started to obtain information or advice on their investment product



Base: All RP (5,024); All NP (667)

The majority of ***recent purchasers*** (58%) said they knew more or less or exactly what investment product they wanted when they started to obtain information or advice. ***Non-purchasers*** exhibited a similar amount of certainty on this same measure (52%). The reasons why ***non-purchasers*** eventually decided not to purchase are discussed in Section 5.5.

Generally, more sophisticated investors tended to be more certain about the choice of investment product at the beginning of the process (see Figure 29).

Figure 29

RECENT PURCHASERS' CERTAINTY WITH WHAT TYPE OF PRODUCT THEY WANTED AT BEGINNING OF PURCHASE PROCESS, BY SUBGROUP

	Knew more or less or exactly	Vague idea or no idea at all	None of the statements/ Don't know	*Base*
	%	%	%	
Overall	58	40	1	*5,024*
Highest education level reached				
Degree level or higher	63	35	1	*2,668*
Lower than degree level	51	47	1	*2,356*
Financial capability score – Planning Ahead (PA)				
0-5	50	49	1	*613*
6-7	51	48	1	*809*
8-9	56	43	1	*1,239*
10	64	34	1	*2,363*
Financial capability score – Staying Informed (SI)				
0-3	38	61	1	*596*
4-6	52	46	2	*1,892*
7-8	63	36	1	*1,743*
9-10	75	24	1	*793*
Financial capability score – Choosing Products (CP)				
0-4	81	18	2	*953*
5-7	63	35	1	*1,138*
8	55	45	1	*1,351*
9-10	48	51	2	*1,582*

Around two-thirds (63%) of ***recent purchasers*** educated to degree level or higher knew at least more or less what they wanted compared with those not educated to this level (51%). Those with the highest level of financial capability for Planning Ahead were also more certain (64%) compared with those in the lowest group (50%). This pattern was mirrored with the Staying Informed domain with three-quarters (75%) of those scoring 9 or 10 knowing at least more or less what they wanted at the outset compared with 38% of those scoring less than 4.

The opposite trend was observed for those high on the Choosing Products financial capability domain – eight in ten (81%) of those with the lowest capability knew at least more or less what they wanted compared with one half (48%) scoring 9 or 10. This latter finding indicates that those who do not tend to seek advice had a surer idea of what they wanted at the start of the process, whereas those who tend to seek advice clearly needed more guidance to help them choose the correct product.

Those who ultimately purchased investment bonds were less likely to know exactly what product they wanted at the outset compared with purchasers of 'other' investment products

(9% and 46% respectively). In Section 2.2 it was shown that investment bond purchasers were older and less affluent compared with purchasers of 'other' investment products which may help explain this.

3.4 Sources of information

This section investigates the information-seeking processes used by consumers when deciding what product to purchase, and more specifically whether consumers 'shopped around' before making a decision. Typical behaviour of shopping around includes obtaining information from a number of different sources or consulting a professional financial adviser.[37]

As a reminder, ***non-purchasers*** were selected on the basis of having contacted an adviser, whereas ***recent purchasers*** may or may not have used an adviser. Therefore it is not possible to compare the sources of advice for ***recent purchasers*** and ***non-purchasers*** with validity.

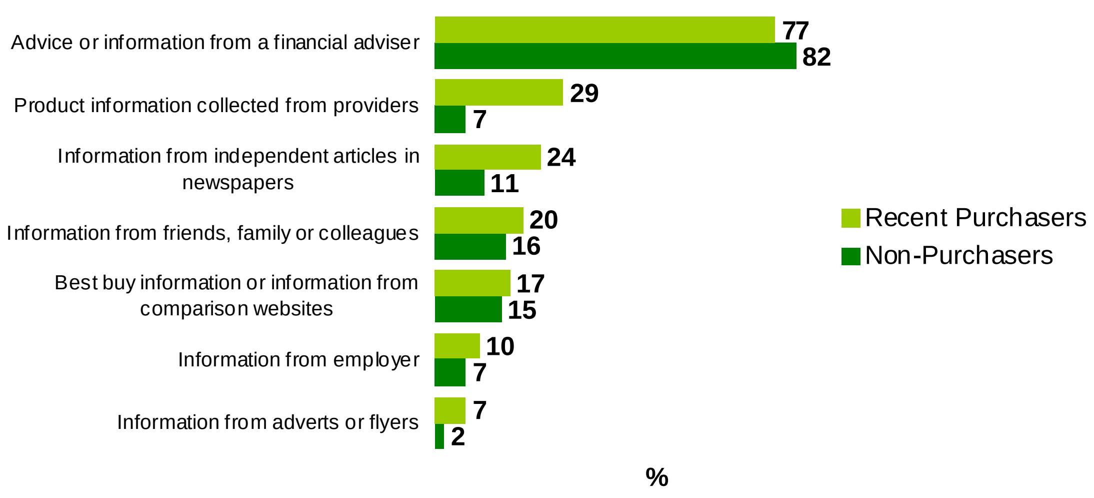
3.4.1 Sources of information or advice used

The most commonly used source of information or advice among both ***recent purchasers*** and ***non-purchasers*** was a financial adviser. This was reported by 77% of ***recent purchasers*** and 82% of ***non-purchasers*** (see Figure 30).[38]

[37] Shopping around was also covered by CPOS 2007, although in this previous survey purchasers were contacted on more than one occasion throughout the advice process, so the chances of picking up all advice sources used was maximised. In CPOS 2010, where advice sources were only picked up retrospectively, there was a chance that consumers may not have mentioned all sources used.

[38] Although ***non-purchasers*** were partly defined as having contacted a financial adviser in the previous two years, not all claimed to have obtained information or advice from them when deciding whether or not to purchase the investment.

Figure 30 Sources of information or advice personally obtained when deciding what product to buy (PROMPTED)



Base: All RP (5,024); All NP (667)
Note: respondents could give more than one answer and only the most common sources are shown

Three in ten (29%) ***recent purchasers*** mentioned collecting product information from providers while a quarter (24%) gathered information from independent articles in newspapers. One in five (20%) consulted friends, families or colleagues before making the purchase decision and a similar proportion (17%) used best buy information or information from comparison websites.

For ***non-purchasers***, after a financial adviser, the next most prevalent sources of information or advice used were information from friends, families or colleagues (16%) and best buy information or information from comparison websites (15%).

The breadth of a consumer's search can be ascertained by counting the number of individual sources of information or advice used when deciding what investment product to buy. For ***recent purchasers***, half (47%) only used one source of information or advice. One quarter (26%) used two sources, a further 16% used three sources while 9% used four or more sources.

Non-purchasers, in comparison, consulted a slightly narrower range of sources, as indicated by a lower mean score displayed in Figure 31 (1.5 compared with 1.8 for ***recent purchasers***).

Figure 31

NUMBER OF INDIVIDUAL TYPES OF INFORMATION/ADVICE SOURCES USED

	Recent Purchasers	Non-Purchasers
	%	%
One	47	55
Two	26	29
Three	16	8
Four or more	9	4
No information collected/Don't know	2	5
Mean average	**1.8**	**1.5**
Base:	*5,024*	*667*

Within ***recent purchasers***, propensity to shop around from multiple sources was higher than average among younger purchasers (71% of purchasers aged under 35 compared with 44% of purchasers aged 55 or over); purchasers with higher household incomes (52% of those with a household income of £20,000 or more compared with 39% of those with an income of under £20,000); and purchasers who were more financially capable on the Staying Informed domain (57% of those scoring 9 or 10 compared with 36% of those scoring 0 to 3);

Figure 32 shows that ***recent purchasers*** who used an adviser tended to shop around less than those who relied on other sources, possibly because they believed the adviser would do the shopping around on their behalf.

Figure 32

RECENT PURCHASERS: NUMBER OF INDIVIDUAL TYPES OF INFORMATION/ADVICE SOURCES USED, BY USE OF ADVISER AS A SOURCE OF INFORMATION

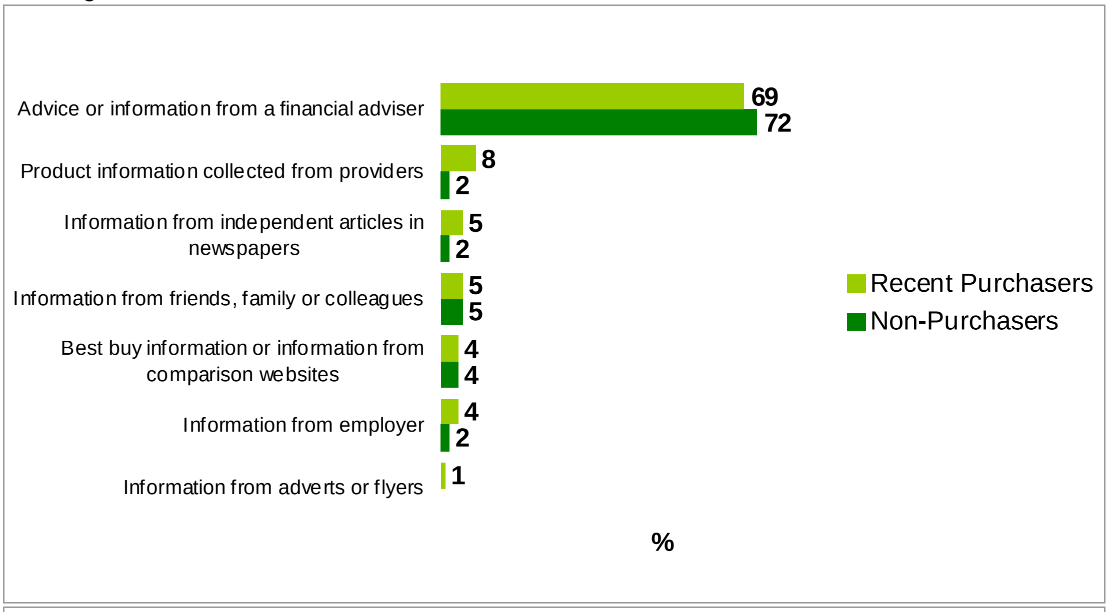
	Overall	Used information/ advice from adviser	Did not use information/ advice from adviser
	%	%	%
One	47	51	36
Two	26	26	27
Three	16	14	21
Four or more	9	9	6
No information collected/ Don't know	2	-	9
Mean average	**1.8**	**1.9**	**1.8**
Base:	*5,024*	*3,638*	*1,386*

For one half (51%) of ***recent purchasers*** who used an adviser as an information source, it was the sole source of information. For those who did not use an adviser, one third (36%) used only one source of information. Despite this difference in the proportion using just one source, the average number of sources used was not significantly different, whether they used information from an adviser or not.

3.4.2 The most useful source of information or advice

Of all sources used, both ***recent*** and ***non-purchasers*** were asked which was the most influential (if only one source was used this was assumed to be the most useful). Advisers stood out as the most influential source, although this is to be expected given that they were the most commonly used source (see Figure 33).

Figure 33 Source of information or advice which was most influential

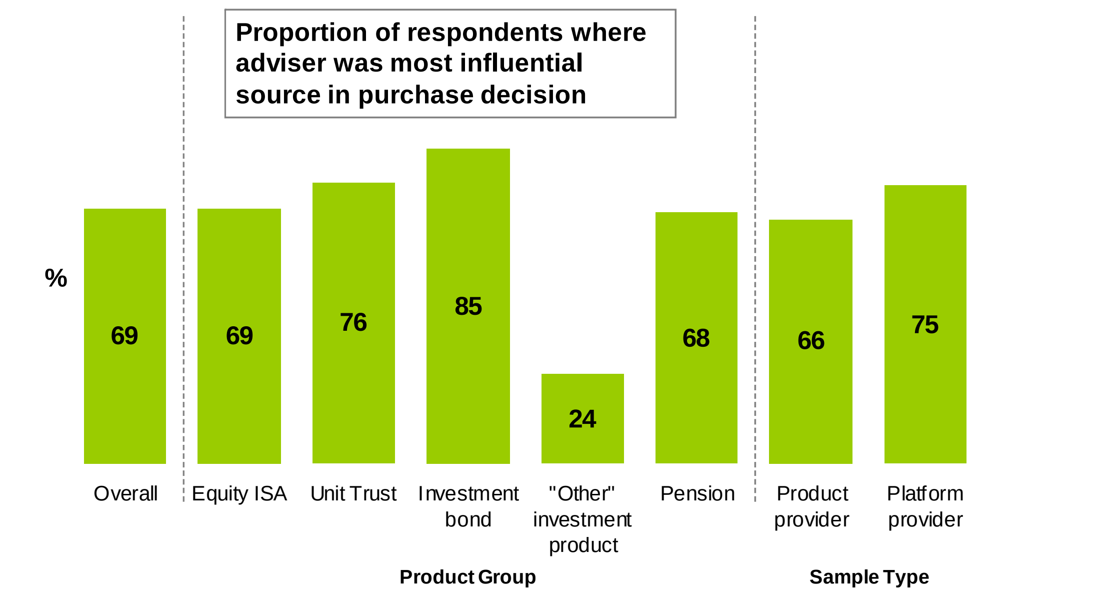


Base: All RP (5,024); All NP (667)
Note: only the most common influential sources are shown

Around seven in ten ***recent*** and ***non-purchasers*** said the adviser was the most useful source of information or advice (69% and 72% respectively), while only negligible proportions gave this rating to other sources of information. One of the central tenets of the RDR is improving standards of professionalism among financial advisers – given that ***recent purchasers*** tend to rely heavily on the information or advice of advisers, this would seem to justify its need.

The extent to which the adviser was regarded as the most influential source varied according to the type of product sold to ***recent purchasers*** (see Figure 34).

Figure 34 Recent purchasers: the adviser as the source of information or advice which most influenced purchase decision



Base: All RP (5,024); Equity ISA (1,048); Unit trust (1,193); Investment bond (1,000); 'other' investment product (736): Pension (1,047); Product provider (3,543); Platform provider (1,481)

The adviser appeared to be most relied upon when the consumer purchased an investment bond (85% of purchasers of this product cited the adviser as the most influential) and least relied upon for 'other' investment products (24%). These findings are likely to be related to the extent to which sales of different products were 'advised' or 'non-advised'. An 'advised' sale is one where an adviser gives a bespoke personal recommendation to the customer after assessing the customer's needs and circumstances. According to PSD obtained from the FSA for the period April to June 2010, nine in ten investment bond sales (90%) were recorded by firms as 'advised' while the same was true of only 57% of 'other' investment products (see Figure 3 earlier). Thus the findings in Figure 34 mirror these market data.

Purchasers whose sale was administered through a platform provider appeared to be more reliant on a financial adviser compared with purchasers whose sale was administered through a product provider (75% and 66% respectively). This overall pattern was also apparent for purchases across all of the product groups.

3.4.3 Consulting advisers

When asked about whether they had consulted financial advisers in deciding which investment product to buy, ***recent purchasers*** and ***non-purchasers*** were asked to think about those working in banks, building societies, insurance companies, solicitors, accountants, wealth managers, stock brokers or independent financial advisers (IFA). In ascertaining whether regulated financial advice had been received, a definition was used which was adapted from work funded by the FSA on the quality of regulated advice.[39]

It should be noted that the perception of whether or not regulated advice was received was recorded by consumers themselves and may not necessarily tie in with the data recorded by providers. Unfortunately the product data supplied for the two purchasers surveys were not complete enough to ascertain officially whether regulated advice had been received and so the survey relied solely on consumer reporting. In any case, a measure was needed for ***non-purchasers*** as well as ***purchasers*** so a consistent measure which could work for both groups was needed.

If consumers had sought information or advice from a financial adviser, they were asked:

> *Did the adviser ask you a lot of detailed questions about your needs and circumstances, including full details of your income and outgoings, and existing savings and investments?*

Where the answer was *'yes'*, this was defined as having received regulated advice.

This measure helps distinguish those who engaged in a full discussion with a financial adviser compared with, for example, those who entered a bank and spoke about a retail investment product with one of the bank cashiers, rather than one of their advisers, or those who had merely been given 'information' about products, including being given leaflets by someone in a branch.[40,41] In particular, it helps to distinguish the strength of contact that ***non-purchasers*** had with a financial adviser.

The large majority of both ***recent purchasers*** and ***non-purchasers*** who consulted an adviser had received regulated advice, according to this survey definition. Nine in ten (88%) ***recent purchasers*** and eight in ten (79%) ***non-purchasers*** who used information or advice from a financial adviser had received regulated advice. Based on all respondents, the proportions of *all* ***recent purchasers*** and *all* ***non-purchasers*** who had received regulated advice were 68% and 64% respectively.

It should be noted when looking at results in this section that, although the questionnaires attempted to guide the respondent to answer about a single adviser contact, in some cases respondents may have sought advice from one adviser and purchased via another and thus they may have given answers about the 'other' adviser. Therefore there may be inconsistencies that arise as a result.

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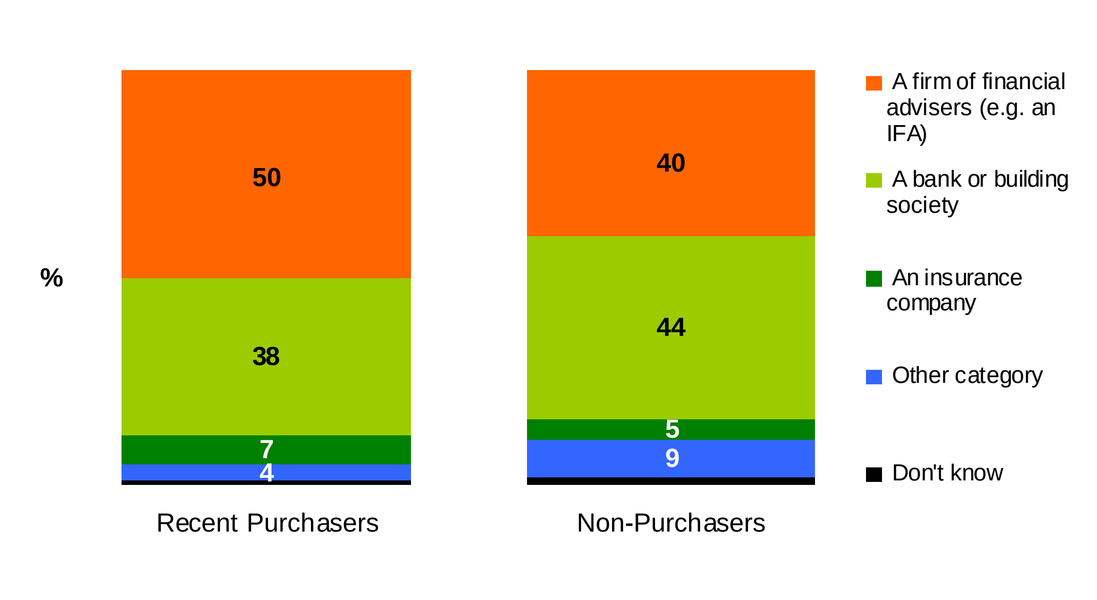
[39] The project was led by the Personal Finance Research Centre (PfRC) at the University of Bristol: http://www.bris.ac.uk/geography/research/pfrc/themes/advice/quality-of-advice.html

[40] Previous research indicates that there is confusion among some consumer groups about what 'regulated advice' is. See 'Exploration of consumer attitudes and behaviour with regard to financial advice and the implications of RDR proposals' by the Financial Services Consumer Panel, January 2008 (http://www.fs-cp.org.uk/publications/pdf/rdr_report.pdf)

[41] Further details of how this definition differs from the FSA's work on the quality of regulated advice can be found in Appendix D.

The type of adviser who they received the regulated advice from varied by survey group (see Figure 35).

Figure 35 Type of company financial adviser worked for

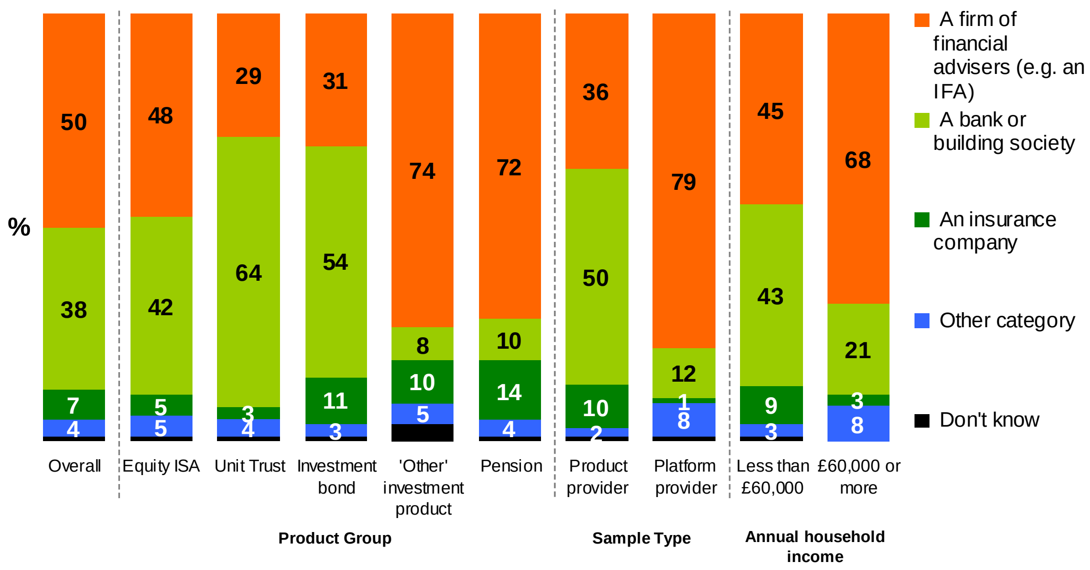


Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

Recent purchasers (50%) were more likely than ***non-purchasers*** (40%) to have seen an adviser working for a firm of financial advisers or an IFA.

There were also differences in the type of adviser seen between different groups of purchasers: namely, by the product purchased; whether the investment was placed through a platform provider or product provider firm; and, by annual household income (see Figure 36).

Figure 36 Recent purchasers: type of company financial adviser worked for, by sub-groups



Base: All RP who sought regulated financial advice (3,217); Equity ISA (664); Unit trust (872); Investment bond (799); 'Other' investment product (91); Pension (791); Product provider (2,075); Platform provider (1,142); Less than £60,000 (2,129); £60,000 or more (696)

Over seven in ten purchasers of 'other' investment products and pensions had received regulated advice from a firm of financial advisers (74% and 72% respectively). On the other hand, over half (54%) of purchasers of investment bonds and two-thirds (64%) of unit trust purchasers had received regulated advice from an adviser working at a bank or building society.

As expected, sales recorded by a platform provider were more likely to have been advised by an adviser from a firm of financial advisers (79%) compared with product provider firms (36%).

The type of adviser sought for regulated advice was strongly related to income. The proportion seeking regulated advice from a firm of financial advisers rose from 22% among those in households earning less than £20,000 a year to 70% in households which earned £80,000 or more a year. Conversely, lower income households were much more likely to use bank or building society advisers than higher income households (ranging from 68% of those in the lowest income bracket to 18% of those in the highest). Although this difference was apparent at the overall level, Figure 37 shows that the difference was mainly driven by consumers of certain investment products, especially equity ISAs and unit trust investments.

CHAID analysis, using whether or not the recent purchaser saw a firm of financial advisers as the dependent variable,[42] confirms that the product group was the most important differentiating factor.

[42] The independent variables included in the model were product group, sex, age, working status, highest level of education, household income, investment risk appetite, whether plan to speak to adviser again post-purchase, number of sources of information/advice used during purchase process and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.

Figure 37

RECENT PURCHASERS: TYPE OF COMPANY FINANCIAL ADVISER WORKED FOR, BY HOUSEHOLD INCOME LEVEL

	Under £20,000 %	£20,000-£39,999 %	£40,000-£59,999 %	£60,000-£79,999 %	£80,000 or more %
Overall					
A firm of financial advisers (e.g. an IFA)	22	45	60	64	70
A bank or building society	68	42	26	27	18
An insurance company	7	10	9	6	2
Other category	3	3	2	3	10
Don't know	1	1	2	1	-
Base:	*578*	*987*	*564*	*264*	*432*
Equity ISA					
A firm of financial advisers (e.g. an IFA)	24	45	61	53	67
A bank or building society	67	46	30	37	15
An insurance company	7	5	5	8	3
Other category	3	3	2	2	15
Don't know	-	*	3	-	-
Base:	*96*	*209*	*137*	*58*	*92*
Unit trust					
A firm of financial advisers (e.g. an IFA)	12	26	39	49	54
A bank or building society	84	68	55	41	28
An insurance company	-	3	5	2	2
Other category	2	2	1	7	16
Don't know	2	1	1	-	-
Base:	*217*	*273*	*114*	*54*	*86*
Investment bond					
A firm of financial advisers (e.g. an IFA)	16	34	44	[24]	[27]
A bank or building society	68	50	45	[53]	[61]
An insurance company	11	12	9	[20]	[8]
Other category	4	2	2	[-]	[3]
Don't know	*	2	-	[3]	[-]
Base:	*227*	*299*	*92*	*33*	*35*
'Other' investment product					
A firm of financial advisers (e.g. an IFA)	[100]	[66]	[78]	[55]	[77]
A bank or building society	[-]	[7]	[7]	[8]	[23]
An insurance company	[-]	[16]	[9]	[16]	[-]
Other category	[-]	[9]	[4]	[4]	[-]
Don't know	[-]	[2]	[2]	[16]	[-]
Base:	*3*	*33*	*26*	*12*	*9*
Pension					
A firm of financial advisers (e.g. an IFA)	[60]	64	67	89	80
A bank or building society	[9]	8	11	5	16
An insurance company	[29]	26	17	2	*
Other category	[2]	2	4	2	4
Don't know	[*]	*	2	2	-
Base:	*35*	*173*	*195*	*107*	*210*

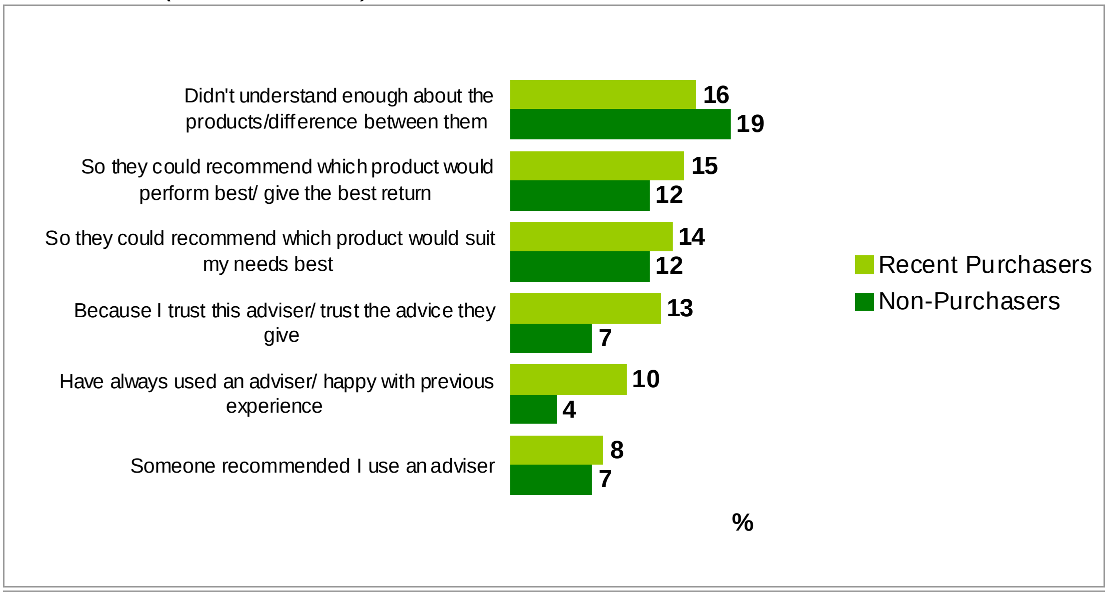
Among pension purchasers, lower income households tended to have a slightly higher propensity to use an insurance company to inform their decision (26% of those in households earning below £40,000 a year compared with 8% earning £40,000 or more).

Finally, both ***purchasers*** and ***non-purchasers*** were asked further questions about the range of companies that their adviser was able to advise on and whether they understood their adviser to be an 'independent financial adviser'. This is one of the main proposals of the RDR – that advisers should be more transparent as to whether they can provide fully independent advice or whether they are restricted in their range of companies and products. However, as covered in more detail in Section 4.4, a large proportion of consumers gave answers inconsistent with what should be feasible in practice. Thus, caution should be applied when using this constructed survey measure.

3.4.4 Reasons for using an adviser

Both ***recent purchasers*** and ***non-purchasers*** raised similar points as to the main reason why they decided to take advice from a professional financial adviser (see Figure 38). Responses were collected unprompted.

Figure 38 Main reason for getting advice from a professional financial adviser – top 6 reasons (UNPROMPTED)



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

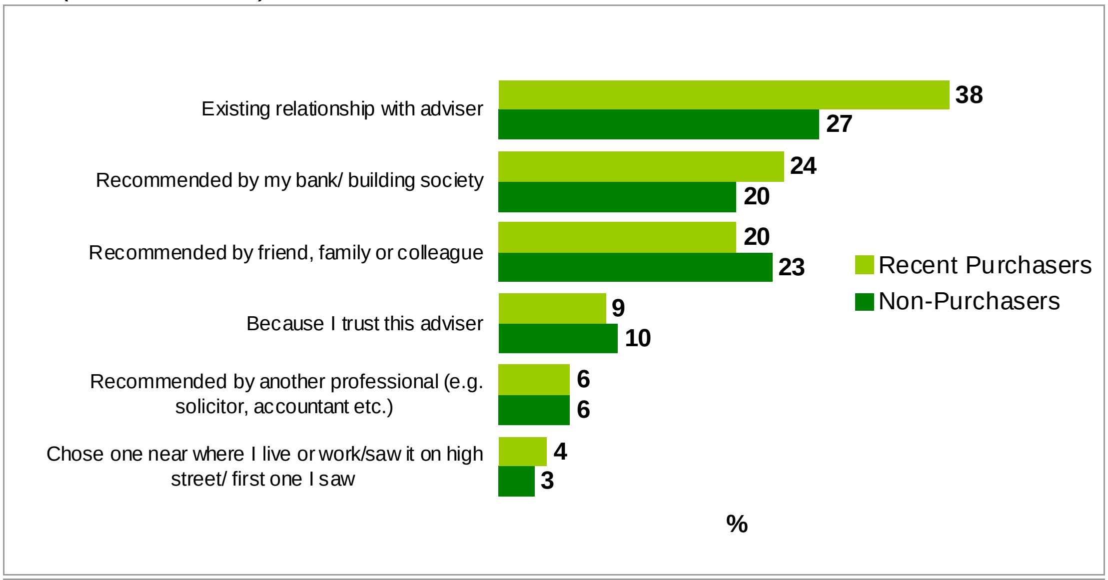
No one single reason dominated responses. Answers included: a lack of their own knowledge about the products on offer; the adviser's ability to provide a recommendation on both performance and suitability; and, their ability to trust the adviser.

There were some small differences by the type of product purchased. Only 5% of purchasers of 'other' investment products said that they did not understand enough about the products compared with around one in five (19%) investment bond purchasers.

Purchasers of investment bonds were also around half as likely to say that the main reason for using an adviser was because they trusted them or they trusted the advice they gave, compared with purchasers of all other product types (7% and 13% respectively).

Turning to how consumers chose their particular financial adviser, four in ten (38%) ***recent purchasers*** had chosen their adviser based on an existing relationship compared with a quarter (27%) of ***non-purchasers*** (see Figure 39).

Figure 39 Reasons for choosing this particular financial adviser – top 6 reasons (UNPROMPTED)



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)
Note: respondents could give more than one answer

Purchasers were more likely to cite an existing relationship as being a reason for choosing the adviser if the adviser they saw was an independent financial adviser (45%) rather than a multi-tied (28%) or single-tied adviser (29%). Given the profile of purchasers whose transaction was placed through a platform provider, it is also unsurprising to see that an existing relationship was more likely to be a reason for purchasers whose sale was administered through a platform (46%) compared with purchasers whose sale was administered through a product provider (34%).

The other main driving factors in choosing an adviser appear to be because of a recommendation either from their bank or building society or from friends, family or colleagues. A quarter (24%) of ***recent purchasers*** and one in five (20%) ***non-purchasers*** mentioned they chose their adviser based on the bank's/building society's recommendation. A similar proportion (20%) of ***recent purchasers*** and ***non-purchasers*** (23%) chose their adviser based on a recommendation from friends, family or colleagues.

4. USING A FINANCIAL ADVISER

CHAPTER SUMMARY

- This chapter examines the adviser experience and, in doing so, helps measure the market against the desired outcomes of the RDR. The RDR proposals concern improved transparency about the scope of advice offered by advisers; increased professionalism; and the receipt of unbiased advice. More specifically, the proposals aim to eliminate remuneration bias, that is, bias arising from advisers being adversely incentivised to recommend certain products or providers through their payment method.
- For those who had made a recent investment purchase but did not seek advice, the main reason was their own confidence in making the correct decision (70%). These investors tended to be younger, more highly educated and from higher income households compared with investors who used advice to inform their purchase.
- Knowing that they would receive unbiased advice would be the strongest incentive for seeking advice among those who did not seek advice on their recent purchase; while knowing that the adviser could give whole of market advice was also important. Relative to these factors, cost of advice and knowing that the adviser had the relevant qualifications were seen as less important.
- Only a third (34%) of ***non-users*** would have the inclination to invest on advice if their financial circumstances allowed, signifying a high level of resistance to seeking advice within this specific group.
- Increased transparency on an adviser's scope of advice is a key proposal arising from the RDR. Although a large majority of both ***recent purchasers*** and ***non-purchasers*** who sought regulated advice were positive about the adviser they used in terms of impartiality and clarity of explanation on the scope of advice, around a quarter (26% and 20% respectively) did not recall written or verbal disclosure on market coverage.
- Transparency, as measured by views on clarity about product scope, was greater among ***recent purchasers*** who had seen an IFA compared with those who had seen tied advisers (based on their own perception of the type of adviser they saw).
- Based on a measure developed for this study, it is apparent that many ***recent purchasers*** misunderstand the concept of 'independent' advice in relation to the adviser they used – the 'transparency' element of the RDR proposals seek to clarify this concept and it is clear that there is room to improve consumer understanding.
- Achieving greater trust in the investment advice sector could lead to greater engagement, and so to more consumers seeking advice,[43] which in turn could help reduce consumer detriment. A key message from CPOS 2010 is that trust is driven by the experience of using advisers rather than general perception. ***Recent purchasers*** who bought after consulting an adviser were the most trusting group, while ***non-users*** of advice were the most distrustful. In addition, ***recent purchasers*** were more trusting of their own adviser than they were in the financial advice sector in general.
- Trust appears to be driven by professional standards, while distrust is driven by advisers not acting in the customer's best interest – this adds weight to the RDR proposals to increase standards of professionalism and eliminate remuneration bias.

[43] http://www.fsa.gov.uk/pubs/other/andrew_tyrie_rdr.pdf

4.1 Introduction

This chapter is concerned with the use of a financial adviser to inform consumers' decision-making in the purchase of a retail investment product. It follows on from the previous chapter, which dealt with the prevalence of advice-seeking as a source to inform the purchase, by exploring the adviser experience in more detail. The adviser experience is central to delivering the proposals of the RDR since advisers are one of the ways in which consumers can receive more clarity on products and services. Through improved clarity, it is hoped that the chances of mis-selling can be minimised.

The chapter first considers the barriers to investment: from the point of view of ***recent purchasers*** who decided not to purchase through an adviser, and from ***non-users*** who appeared to have the potential to invest but had not sought any advice in the previous five years. As ***non-purchasers*** were selected on the basis of consulting an adviser it was not possible to look at barriers to advice among this group.

The chapter looks in more detail at the advice experience for both ***recent purchasers*** and ***non-purchasers*** who had sought regulated advice, and contrasts the experience of the two groups in terms of their recall of status disclosure (impartiality, scope of advice) and payment method. Being transparent about the scope of advice offered by advisers is one of the ways in which the RDR proposals hope to improve clarity in the retail investment market.

Next, the chapter covers consumers' understanding of independent financial advice in terms of the scope of advice offered and impartiality, which ties in with whether consumers are currently clear about the advice offering available in the market.

Finally, the chapter explores attitudinal variation between the consumer groups on trust in financial advisers and what drives perceptions of trust and distrust.

4.2 Barriers to seeking advice from a financial adviser

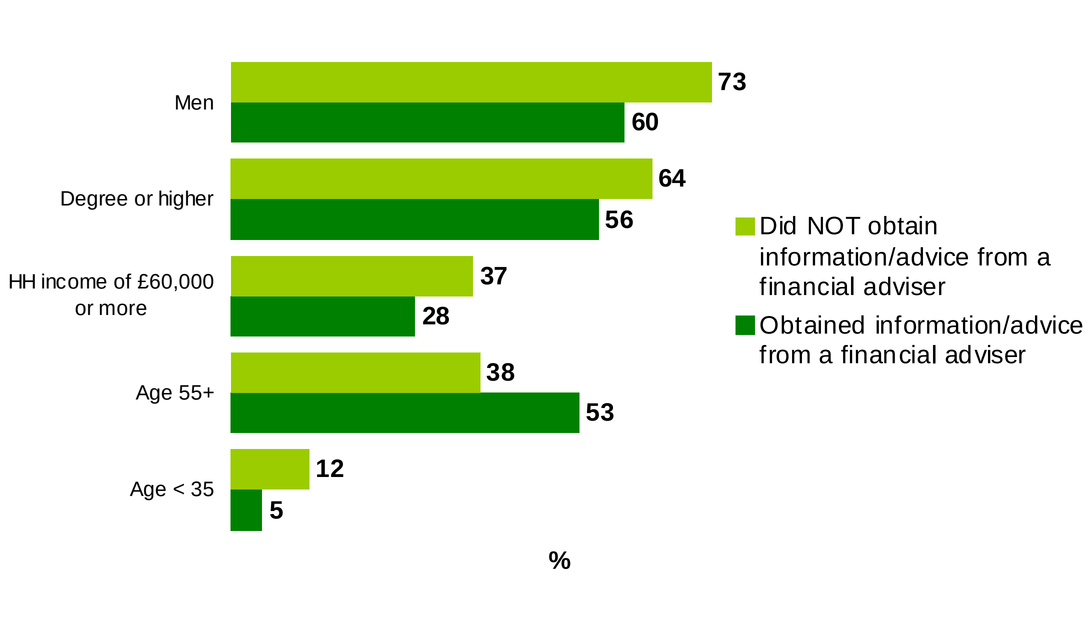
4.2.1 Recent purchasers – reasons for not seeking advice

Chapter 3 explored the principal motivations for using an adviser; this section deals with the converse, i.e. why consumers do *not* seek advice or information from an adviser. The focus is first on ***recent purchasers***, where three-quarters (77%) of purchasers did seek advice or information from a financial adviser and one quarter (23%) did not.

Before exploring the key reasons for not seeking advice, some insight can be gained from comparing the profile of consumers who purchased with advice with the profile of those who purchased without advice.

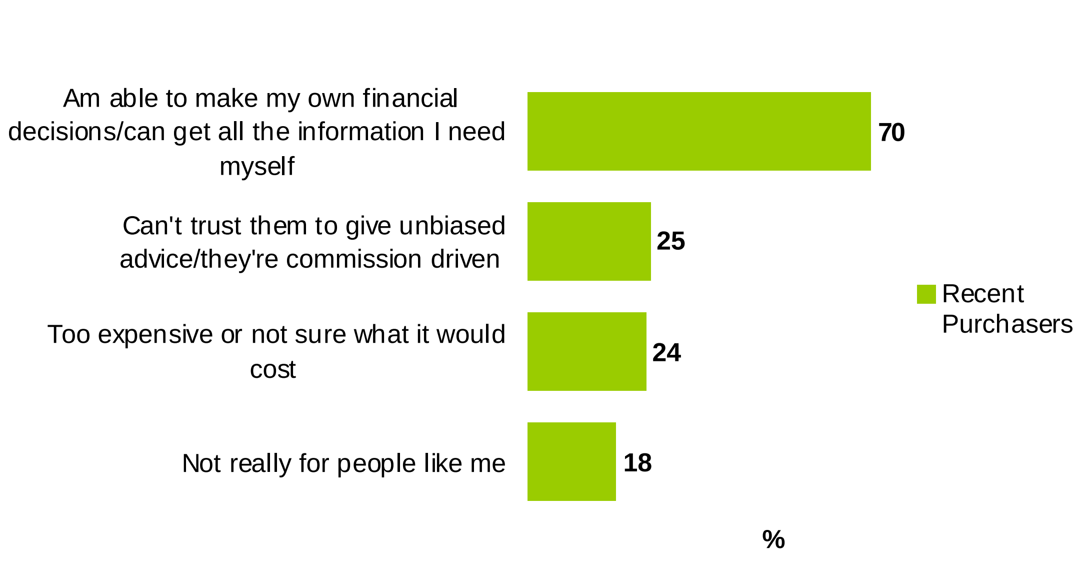
As Figure 40 shows, those who purchased without advice were disproportionately male, in high income households and educated to degree level, and the profile was more skewed towards the younger investor. This would suggest that products bought without advice are associated with more sophisticated investors who have the confidence to make their own decisions, and this assertion is backed up by the findings displayed in Figure 41, which show that the key reason for not seeking advice is, indeed, confidence.

Figure 40 Profile of recent purchasers who did and did not receive advice regarding their purchase



Base: All RP who obtained advice or information from a financial adviser (3,638); All RP who did not *obtain advice or information from a financial adviser (1,386)*

Figure 41 Main reasons recent purchasers did not seek information or advice from a financial adviser when purchasing product – top 4 reasons (PROMPTED)



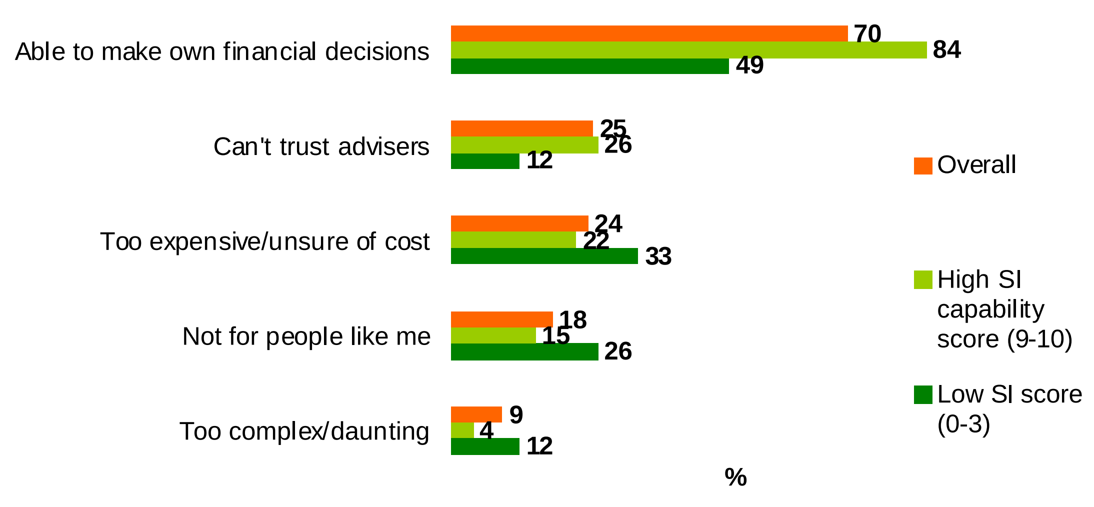
Base: All RP who did not obtain advice or information from a financial adviser (1,386)
Note: respondents could give more than one answer

The reasons for not seeking advice varied by type of investor, with those prepared to accept a high investment risk having a much higher than average propensity (91%) to state that self-confidence was the main barrier, while those prepared to accept no risk at all were more likely than others to say that they considered advice to be potentially too expensive (26%) or that they found the idea too daunting (12%).

The financial capability indicator of Staying Informed (which indicates the extent to which people keep abreast of changes in the wider economy) also helped explain the variation in the reasons why people do not use an adviser. As shown in Figure 42, those not using advisers with a high score on this measure were more confident (84%) than low scorers (49%) in their ability to make their own decisions and were also twice as likely to be distrustful of advisers (26% compared with 12% respectively). On the other hand, low scorers were more likely than high scorers to have been put off by perceptions of cost and complexity.

Taking these findings together it is clear that confidence is the major barrier for the more sophisticated investors – although lack of trust also plays a role – while for less sophisticated investors, the main barriers are cost and complexity.

Figure 42 Main reasons recent purchasers did not seek information or advice from a financial adviser when purchasing product, by Staying Informed (SI) financial capability measure – top 5 reasons (PROMPTED)

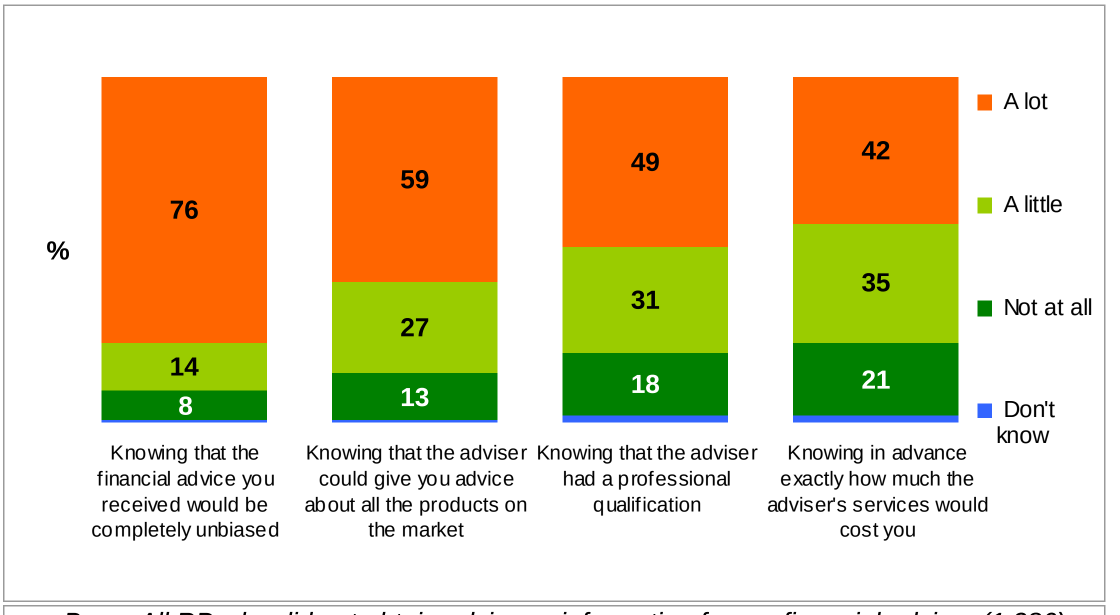


Base: All RP who did not obtain advice or information from a financial adviser (1,386); with a high SI score of 9-10 (239); with a low SI score of 0-3 (172)
Note: respondents could give more than one answer

After looking at the main barriers to advice-seeking among purchasers, the next step was to examine what factors might encourage these purchasers to consult an adviser in the future.

All ***recent purchasers*** who had purchased without advice were asked to what extent each of four factors might encourage them to seek advice in the future: knowing that advice would be completely unbiased; knowing that the adviser could advise on the whole of the market; knowing the adviser had a professional qualification; and, knowing the cost of the services in advance. As shown in Figure 43, unbiased advice was the strongest incentive for seeking advice (76% said this would encourage them *'a lot'*), while the cost of the adviser was relatively unimportant (42% saying this would encourage them *'a lot'*). However, as covered in Section 4.3.4, it is known that many consumers associate adviser cost with commission, which is not an explicit consumer 'cost'; this may explain the low level of importance attached to this factor.

Figure 43 Extent to which different measures might encourage recent purchasers who did not seek advice to do so in the future



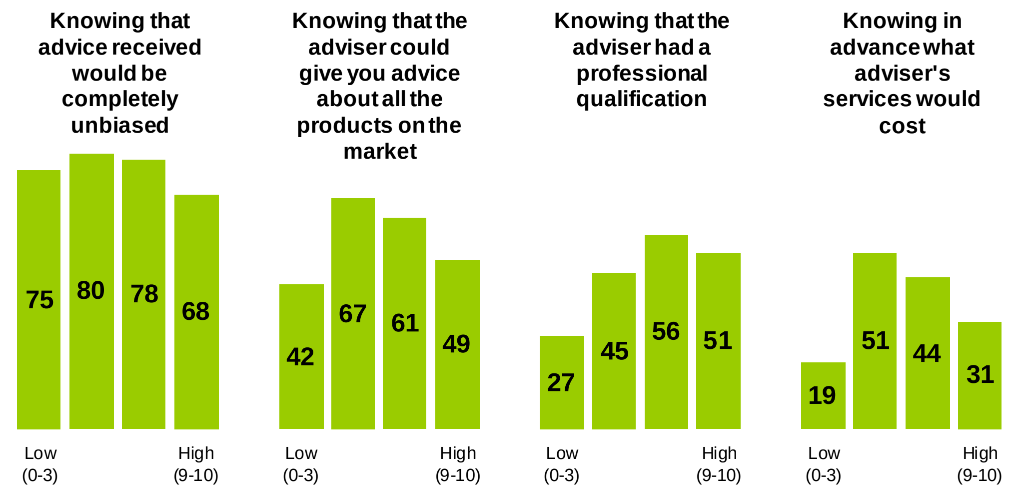
Base: All RP who did not obtain advice or information from a financial adviser (1,386)

The issue of ensuring unbiased advice is an important one in the RDR proposals. It concerns remuneration bias, that is, bias which may arise from advisers being adversely incentivised to recommend certain products or providers through their payment method. What is shown here is that unbiased advice is the most important aspect of the encouragement measures asked about, without necessarily being linked to remuneration bias.

Another facet of the RDR proposals involves increasing the professionalism of financial advisers. For ***recent purchasers*** who had not sought advice, half (49%) said that knowledge of a qualification would encourage them to seek formal advice in the future, with around one in five (18%) saying it would not provide any encouragement at all.

In Figure 42 above it was seen that more sophisticated investors, as measured by the Staying Informed capability measure, had different reasons for not seeking advice than the more novice investor. Thus it is also interesting to view the above attitudes by different capability scores (Figure 44). The data in this chart clearly show that the less knowledgeable investor had a lower likelihood than those more knowledgeable to be motivated by any of these factors, with the exception of unbiased advice, which was a key incentive for all investor groups. Professional qualifications were also important for more sophisticated investors. However, on the whole, for each of the four factors, those with middle scores were most likely to be encouraged by these different attributes, while those at the lowest and highest ends of the scale were least likely to be swayed. This suggests that the barriers identified above for those at the higher and lower end were firm barriers and that these two groups would be most resistant to changing their mindset on this issue.

Figure 44 Extent to which different measures might provide a lot of encouragement to recent purchasers who did not seek advice to do so in the future, by Staying Informed financial capability score



Base: All RP who did not obtain advice or information from a financial adviser with low SI score 0-3 (172); SI score 4-6 (527); SI score 7-8 (448); high SI score 9-10 (239)

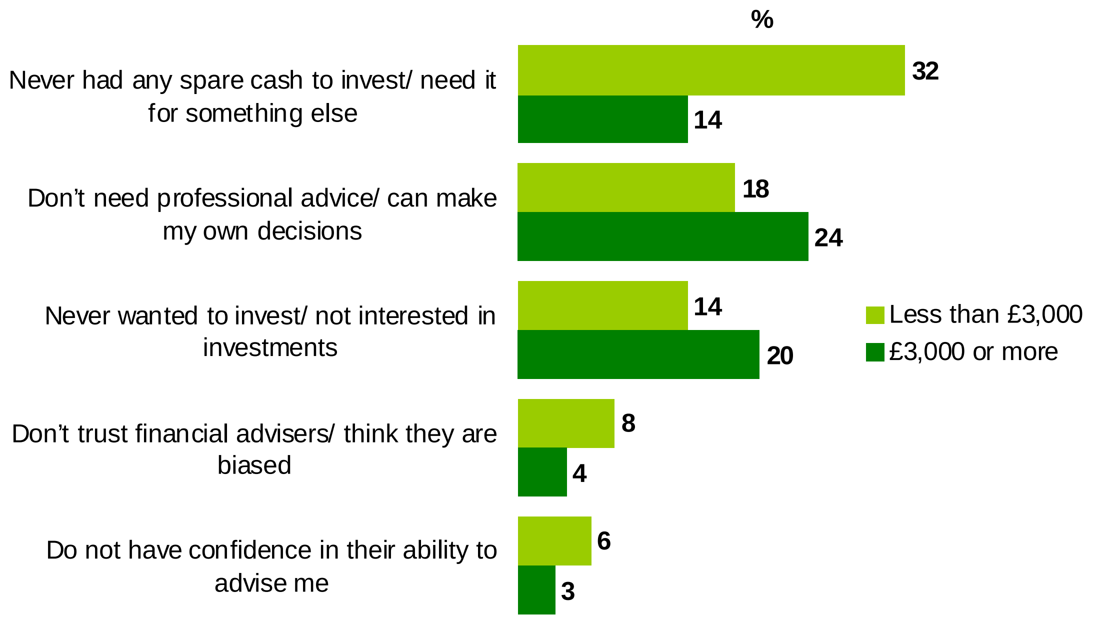
4.2.2 Non-users

Non-users were selected on the basis of non-interaction with the retail investment market in the previous five years either in terms of advice-seeking or purchasing. However, they appeared to have the potential to invest (at least £3,000 in liquid financial assets). Thus it is of interest to explore this group's reasons for not seeking advice.

Three in ten ***non-users*** (30%) had sought advice longer than five years ago, while 60% had never sought advice and 10% could not recall. The profile of ***non-users*** who had sought advice in the past tends to match the profile of other investor groups and the following subgroups were most likely to have sought advice in the past: those aged 45+ (36%); those with a household income of £80,000 or more a year (49%); with £10,000 or more in savings to put aside (45%); and, with previous or current investments taken out more than five years ago (46%).

The reasons why ***non-users*** had never sought advice varied by the amount they had to set aside for the next five years (see Figure 45). The main barrier to advice-seeking for those with less than £3,000 to set aside was financial – 32% of this group could not afford to tie up their spare cash in investments. For those with more money to potentially invest, the barriers were mainly self-confidence (24% of non-advice seekers with £3,000 or more to set aside mentioned this) and lack of interest (20% of the above group stating this).

Figure 45 Non-users who had NEVER sought advice: reasons why by amount of savings they could set aside for next five years (UNPROMPTED)

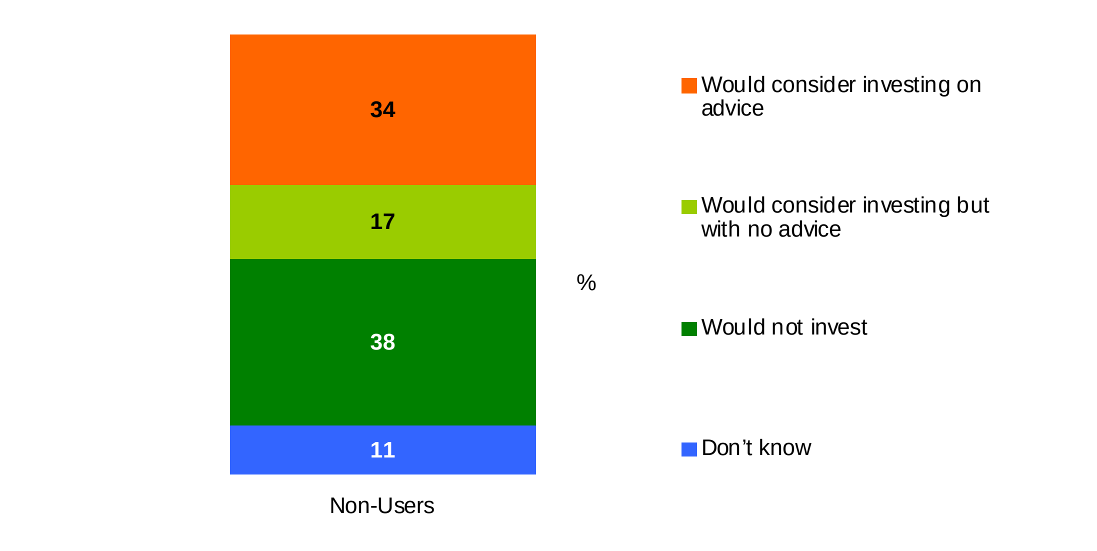


Base: All NU who have never consulted a financial adviser with less than £3,000 to set aside for the next five years (236); with £3,000 or more to set aside for the next five years (246)
Note: respondents could give more than one answer and only the most common reasons are shown

All ***non-users*** (including those who had sought advice in the past) were then asked to think hypothetically what they would do if they had £3,000 to set aside for the next five years (see Figure 25 in Section 3.2.2). While only 11% said that they would definitely consider purchasing a longer-term investment product, a further 41% said that they might consider it. Thus half (52%) of all ***non-users*** would have the inclination to invest if financial circumstances allowed.

This subset of ***non-users*** who were open to investing was asked to what extent they would consider getting financial advice to help them decide on a longer-term investment product. Among this subset the propensity to consider seeking advice was high, with two-thirds (66%) saying that they probably or definitely would get advice. Figure 46 shows the propensity to invest and seek advice based on *all* ***non-users***. It shows that, overall, only one third (34%) of all ***non-users*** would have the inclination to invest based on advice if their financial circumstances allowed. This fairly low figure signifies a high level of resistance to seeking financial advice with a view to investment within this specific group.

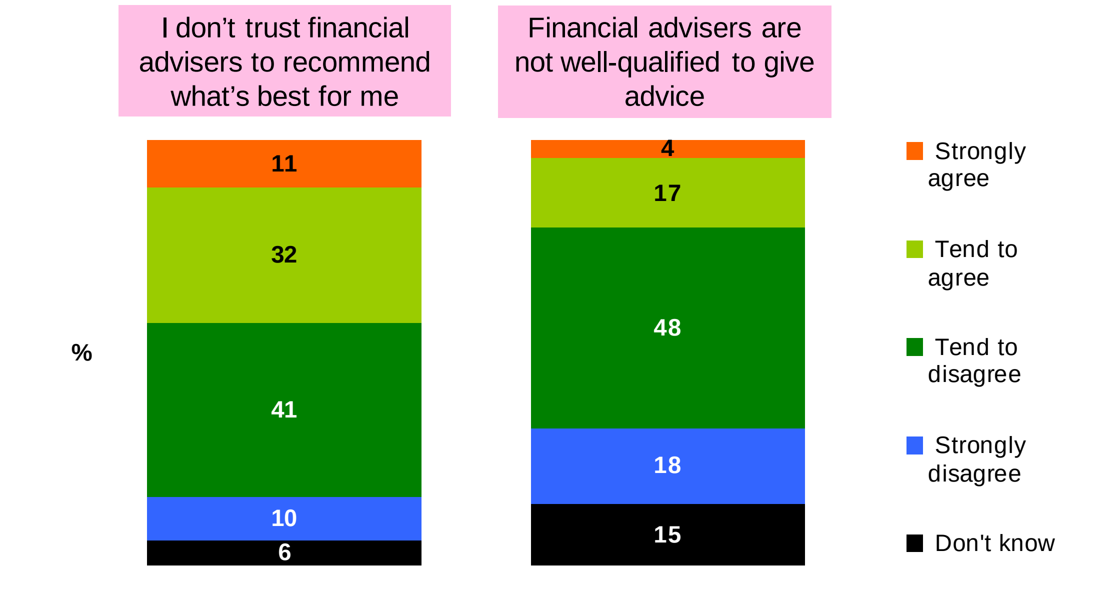
Figure 46 What non-users would do with a hypothetical £3,000 they could afford to set aside for at least five years: propensity to invest and seek advice



Base: All NU (1,105)

Further questions were asked of ***non-users*** who would consider investing to ascertain their attitudes towards financial advisers on two aspects (see Figure 47).

Figure 47 Attitudes of non-users with a propensity to invest towards financial advisers



Base: All NU who would consider investing in a longer-term investment product if they had £3,000 that they could set aside for the next five years (544)

Around four in ten (43%) consumers in this subgroup agreed that they did not trust financial advisers to recommend what was best for them.[44] However, only one in five (20%) agreed that they did not have the necessary qualifications to give advice. Although increasing professionalism is one of the key aspects of the RDR, it may not have as much effect on ***non-users*** with a propensity to invest, since the majority already believe them to be well-qualified.

[44] Other aspects of trust are explored further in Section 4.4

As seen earlier, this subgroup could be divided into those willing to invest with advice and those willing to invest but without taking advice. Those willing to invest but without seeking advice were much more critical of advisers than those willing to invest with advice: 59% of those willing to invest without advice considered that advisers cannot be trusted to recommend in their best interests compared with 35% of those who said they would seek advice before investing; they were also more likely to criticise financial advisers' qualification levels (29% compared with 16%).

Distrust of advisers making a recommendation that was best for them was associated with the more financially experienced and confident non-user. One half (49%) of those who reported being financially experienced agreed that they would not trust an adviser to recommend something for them compared with 39% of those not financially experienced (48% and 37% respectively of those financially confident and not financially confident). So, a seemingly unfavourable impression of financial advisers does appear to exist among a subset of ***non-users***.

In order to ascertain what might encourage ***non-users*** to consult a financial adviser, ***non-users*** who said they would at least consider investing a hypothetical lump sum of £3,000 were asked to consider which out of seven statements would offer them the most encouragement to consult an adviser. Respondents were asked to rank each of the statements and Figure 48 shows how they were ranked from highest to lowest. Although the questions were asked in different formats, the pattern of results mirrors those shown in Figure 43, which demonstrates that both ***purchasers*** and ***non-users*** are motivated largely by impartiality and scope of coverage, while transparency of fees was not considered to be an important factor.

Figure 48 What would provide most encouragement for non-users with a propensity to invest to consult a financial adviser

Base: All NU who would consider investing in a longer-term investment product if they had £3,000 that they could set aside for the next five years (544)

4.3 Experience of using an adviser

This section covers the adviser experience, among both ***purchasers*** and ***non-purchasers*** who received advice from a financial adviser, including those working in banks, building societies, insurance companies, solicitors, accountants, wealth managers, stock brokers or independent financial advisers (IFAs). More specifically, this section is restricted to those who received the survey definition of **'regulated advice'**. As discussed in Section 3.4.3, 'regulated advice' in this survey was defined as being in receipt of a full discussion about the consumer's needs and circumstances, including full details of their income, outgoings and existing savings and investments. In this way those who, for example, simply made an enquiry with a bank cashier or were given a leaflet or other basic information were screened out of further questioning.

4.3.1 Classifying adviser status

Both ***recent purchasers*** and ***non-purchasers*** who sought regulated advice were asked about the type of adviser they saw i.e. whether an IFA, an adviser from a bank/building society or another type of adviser. They were also asked whether they understood the adviser to be offering advice on the whole of the market, from a limited range of companies or from one company only. Finally, they were asked if they considered their adviser to be an '*independent* financial adviser'. It is well-known that in these types of surveys consumers are often unsure about the type of adviser they saw, and can offer apparently contradictory responses to these three questions. In order to try to get an accurate picture of adviser profile, information from the following three questions was combined in order to more accurately assign the correct adviser type (see Appendix E for a full derivation).

Q1 Thinking about this financial adviser what type of company did they work for?

1. A bank or building society
2. An insurance company
3. An accountants or solicitors
4. A firm of financial advisers (e.g. an IFA)
5. A stockbroker or wealth manager
6. Somewhere else

Q3 Did you understand him/her to be an INDEPENDENT financial adviser (an IFA)?

- Yes
- No, they weren't an IFA

Q2 When the adviser was talking about the product options available to you, do you know if they were able to give advice on…?

- Financial products from ALL companies on the market
- From a LIMITED RANGE of companies e.g. two or more companies but not all those which were available on the market
- From a SINGLE company only

This enabled advisers to be profiled into four groups:

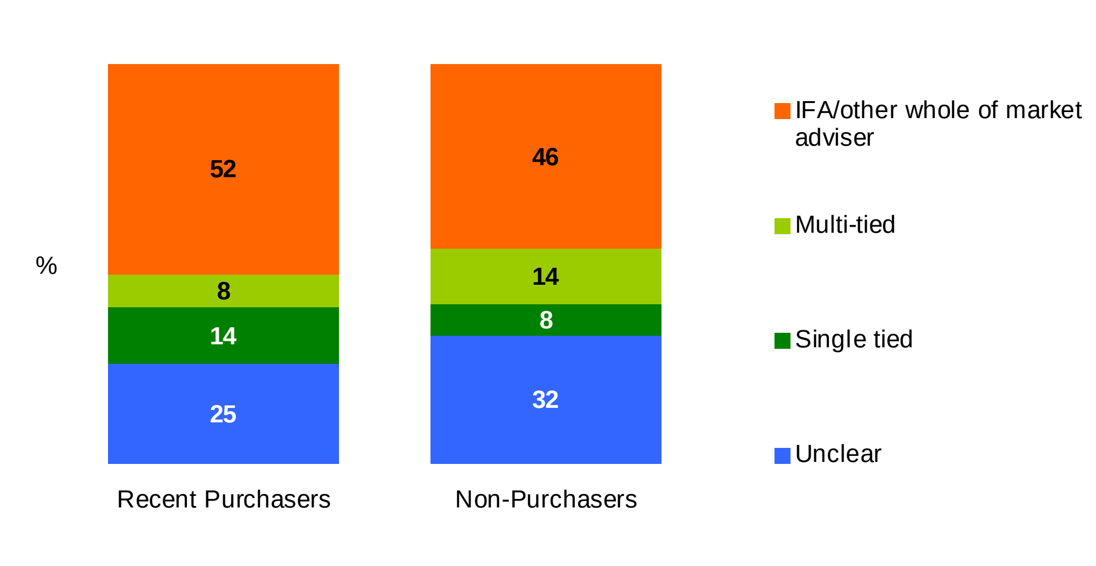
- IFA/other whole of market advisers;
- multi-tied advisers;
- single-tied advisers; and
- advisers who could not be classified due to respondent contradiction.

The first three of these tie in with formal FSA definitions. The fourth group represents advisers who the respondent said were based at a bank/building society/insurance company but were also regarded as an IFA, a combination which is not possible in reality.[45]

As shown in Figure 49, the profile of advisers seen among ***recent purchasers*** and ***non-purchasers*** in receipt of regulated advice was very similar, with around one half having consulted an IFA, and one in five contacting a tied adviser.

[45] Although an attempt was made via question wording to direct all questions to a single adviser contact, in some cases respondents may have sought advice from one source and purchased via another, which could explain some of the discrepancies that arose.

Figure 49 Type of adviser consulted (recent purchasers and non-purchasers)

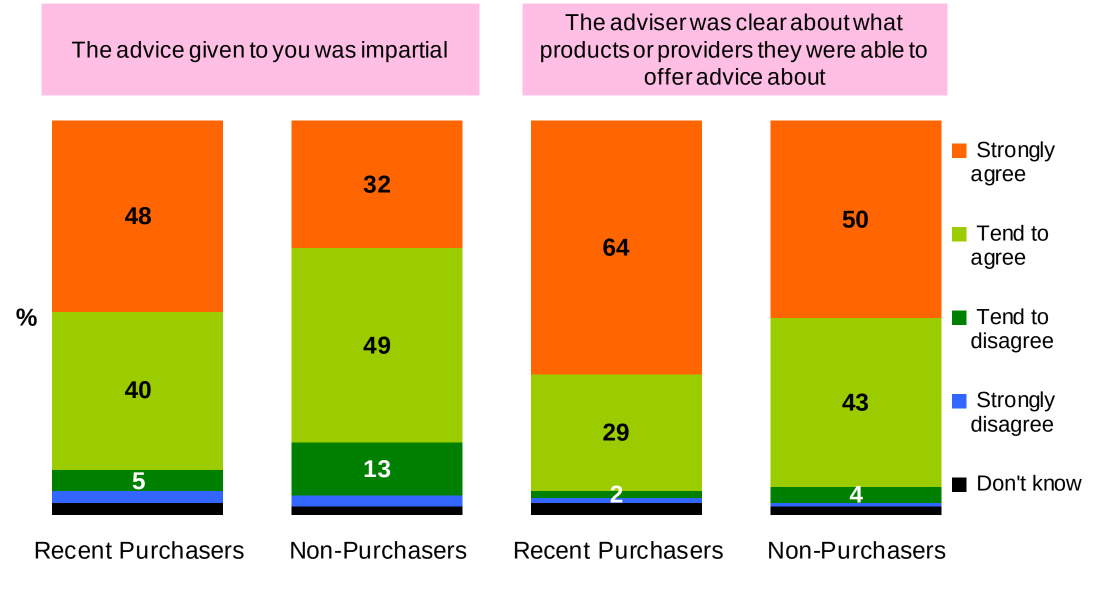


Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

4.3.2 Impartiality and scope of advice

Both ***purchasers*** and ***non-purchasers*** who received regulated advice were asked to what extent they agreed that their adviser was *'impartial'* and *'clear about what products or providers they were able to offer advice about*' (Figure 50). On the whole, ***purchasers*** were much more positive than ***non-purchasers*** about the adviser experience, with considerably higher proportions strongly agreeing that the advice they received was impartial (48% RP, 32% NP) and that the adviser was clear about the scope of advice offered (64% RP, 50% NP). However, combining the proportions who said *'strongly agree'* and *'tend to agree'*, the overall level of positive feedback was high for both groups with at least eight in ten of both groups viewing the advice as impartial and at least nine in ten thinking their adviser was clear about product scope.

Figure 50 Consumer perception of the financial advice received (recent purchasers and non-purchasers)



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

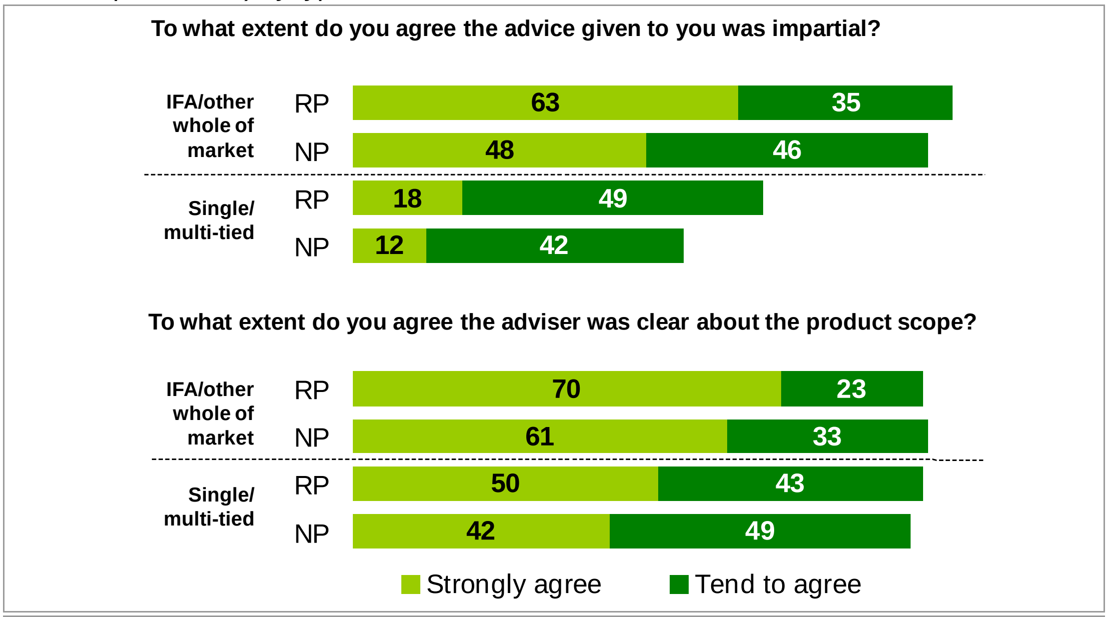
Looking now at whether or not this perception varied by type of adviser, Figure 51 compares these results for ***non-purchasers*** and ***recent purchasers*** who saw an IFA vs. a tied adviser.[46] Across both groups, it was clear that impartiality was more likely to be associated with an IFA than a tied adviser.[47] However, ***recent purchasers*** were more likely than ***non-purchasers*** to consider their tied adviser to be impartial.

Consumers regarded virtually all advisers, whether tied or independent, as being clear about the products or providers they were able to offer advice on.

[46] Sample sizes within the NP survey do not allow single and multi-tied advisers to be examined separately. Results in the figure exclude the fourth group comprising those who believed they saw an IFA at a bank/building society as this information was regarded as incorrect and therefore unreliable.

[47] It is worth noting that 'impartial' is a subjective term and it is not wholly clear how respondents interpreted this. Some may have regarded impartiality as offering advice on the whole of the market, while others may have been aware that the advice was limited in terms of product scope, but still considered that the advice given across those products was impartial.

Figure 51 Consumer perception of the financial advice received (recent purchasers and non-purchasers) by type of adviser seen

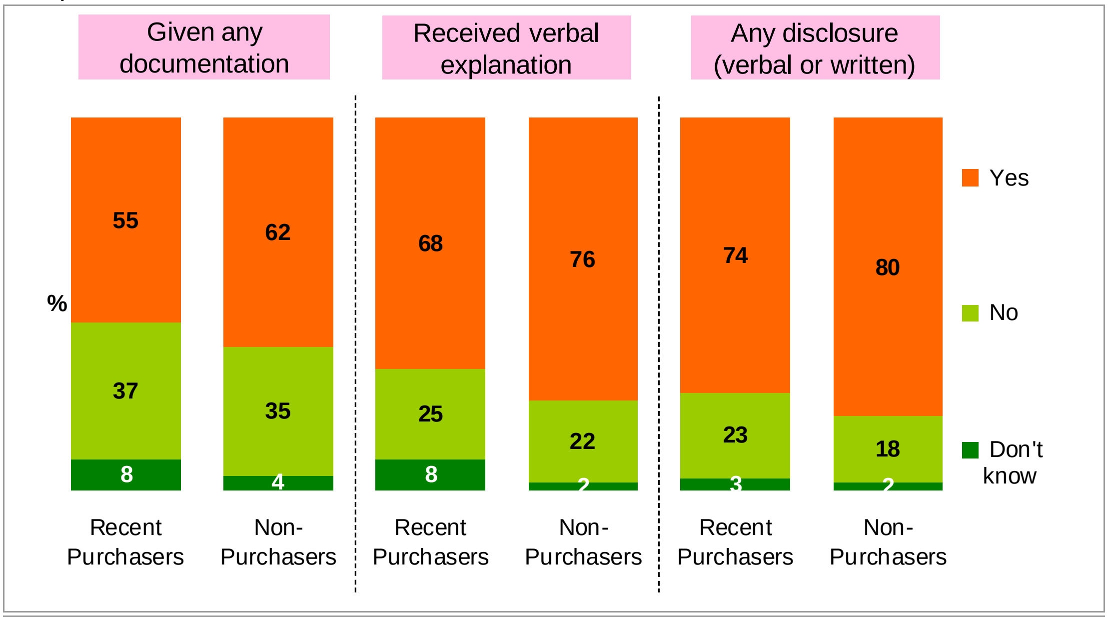


Base: All RP who sought regulated financial advice who saw an IFA/other whole of market adviser (1,657); Saw a single or multi-tied adviser (679); All NP who sought regulated financial advice and saw an IFA/other whole of market adviser (188); Saw a single or multi-tied adviser (94)

4.3.3 Status disclosure in relation to market coverage

As shown in Figure 52, ***non-purchasers*** were slightly more likely to say that either documentation was received or that a verbal explanation was given on the market coverage the adviser was able to give advice about. Although it is clear that caution needs to be applied when interpreting these results due to the high likelihood of recall error, the data do give some indication of the level of disclosure of market coverage. Almost two-thirds recalled documentation and around three-quarters recalled verbal disclosure on this. When combining the results, 74% of ***recent purchasers*** and 80% of ***non-purchasers*** recalled disclosure in either form. However, although not all ***recent purchasers*** and ***non-purchasers*** recalled disclosure, Figure 50 demonstrated that nearly all were in agreement that the information on the scope of the market was clear.

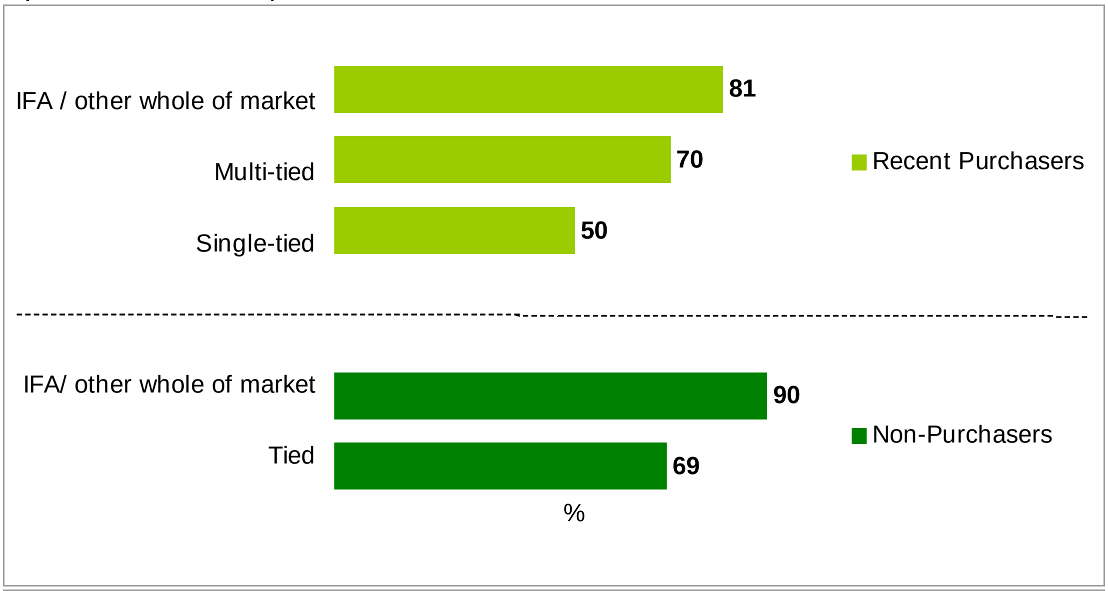
Figure 52 Written or verbal disclosure of market coverage: recent purchasers and non-purchasers



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

Disclosure on market coverage was linked to adviser type with 81% of ***recent purchasers*** who had seen an IFA recalling disclosure (either written or verbal), reducing to 70% of multi-tied advisers and 50% of single-tied advisers (see Figure 53). The pattern was similar for ***non-purchasers*** (results for multi- and single-tied advisers combined due to low sample base).

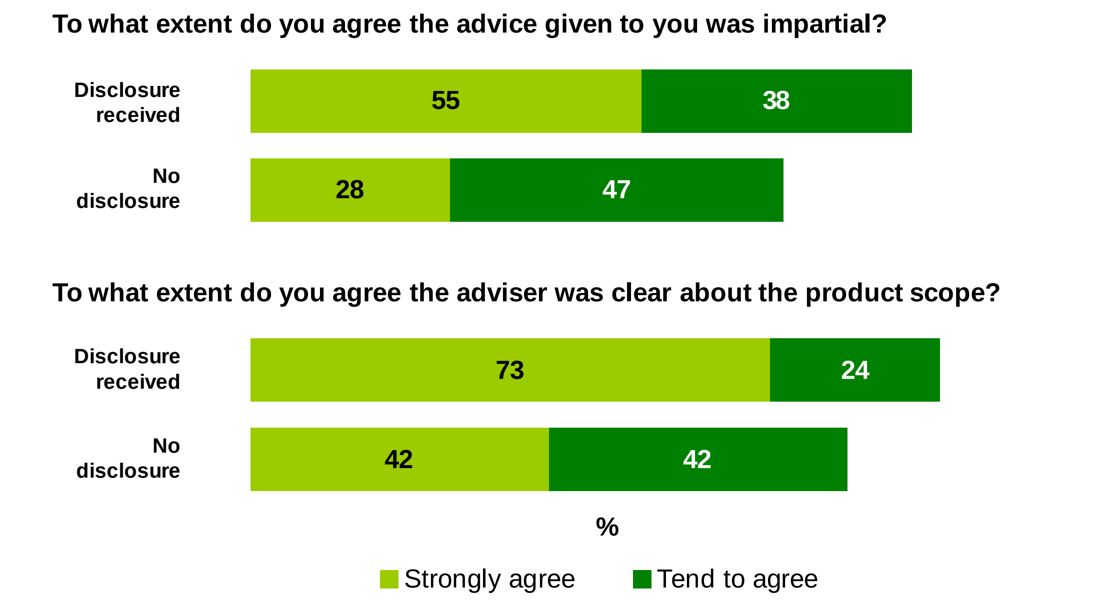
Figure 53 Disclosure (written or verbal) of market coverage by adviser type: recent purchasers and non-purchasers



Base: All RP who sought regulated financial advice who saw an IFA/other whole of market adviser (1,657); Saw a multi-tied adviser (294); Saw a single-tied adviser (385); All NP who sought regulated financial advice and saw an IFA/other whole of market adviser (188); Saw a single or multi-tied adviser (94)

Receipt of market coverage disclosure information was clearly linked to a viewpoint of impartiality and product coverage as shown in Figure 54.[48] Where disclosure was recalled (either written or verbal) ***purchasers*** were far more likely to strongly agree that the adviser was impartial and that the adviser was clear about the scope of advice in terms of which products they could advise on. Thus, although disclosure does not appear to be associated with purchaser, decisions it clearly is related to the view of the adviser.

Figure 54 Consumer perception of the financial advice received by disclosure (written or verbal) of number of companies able to give advice about: recent purchasers



Base: All RP who sought regulated financial advice who received written or verbal disclosure (2,372); who did not receive disclosure (742)

4.3.4 Status disclosure in relation to how adviser was paid

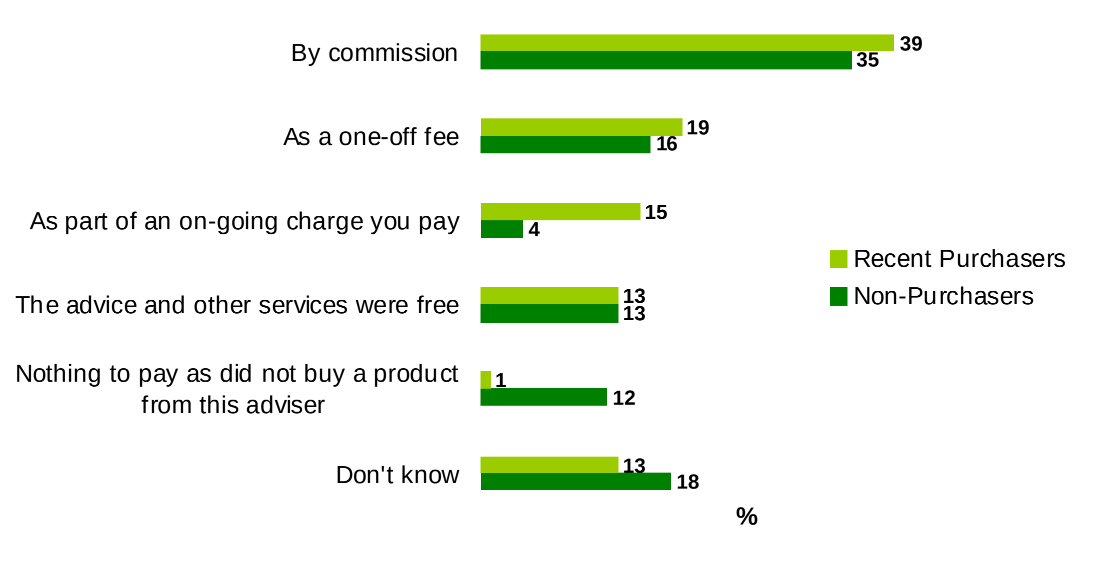
Purchasers in receipt of regulated advice (that is, advice which included a full assessment of the customer's needs and circumstances) were asked how the adviser was paid. ***Non-purchasers*** in receipt of such advice were asked how the adviser *would* have been paid had they gone through with the purchase. As with other questions on advisers, the results were based on consumer perception and the reliability of their answers cannot be backed up by external evidence – this is particularly the case for ***non-purchasers*** who may have based their response on a guess. However, the data in Figure 55 would suggest that adviser commission was the most common payment type (39% among ***purchasers***) with others paying their adviser through a one-off fee (19%) or as part of an ongoing charge (15%). Some believed the services to be free (13% of ***purchasers***) although of course it could be that in these cases the adviser was taking a commission but that this was not known by, or was not made clear to, the purchaser.

Non-purchasers were more likely not to be aware of the payment method (18% compared with 13% of ***purchasers***), which is backed up by the finding that purchasers were far more

[48] Based on ***recent purchasers***, but the pattern within ***non-purchasers*** was the same

likely than ***non-purchasers*** to think that the cost of advice was made clear to them (75% compared with 57%).

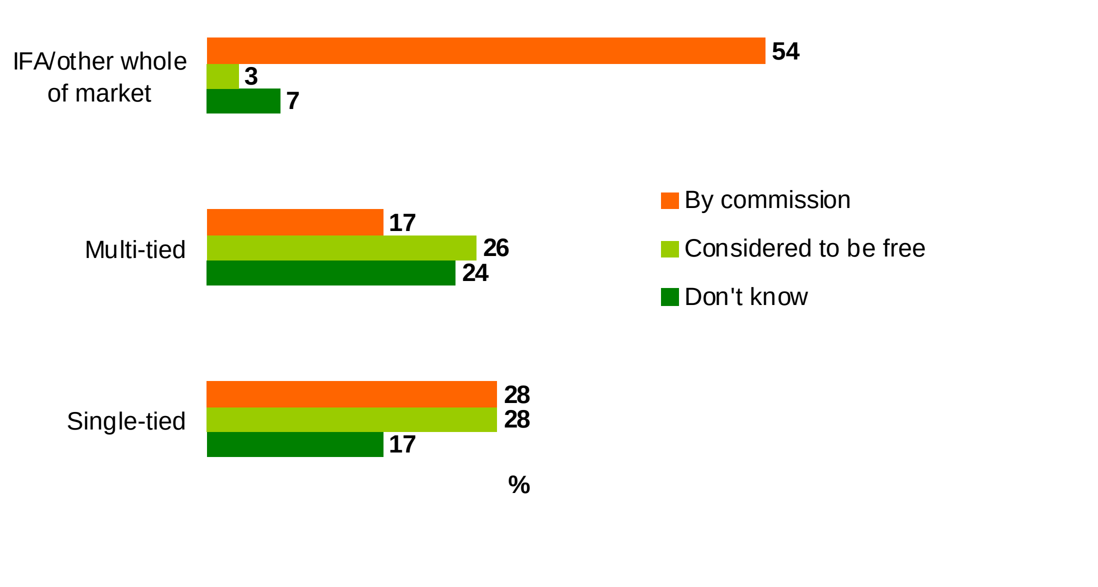
Figure 55 How adviser was paid (recent purchasers) or would have been paid (non-purchasers) for their services



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)
Note: respondents could give more than one answer and only the most common responses are shown

Perception of fees varied by payment method (Figure 56). Focusing on ***purchasers***, IFAs were much more likely than tied advisers to be associated with commission (54% compared with 17% of multi- and 28% of single-tied advisers). Conversely, consumers were much less likely to be aware of the payment method with tied advisers as compared with IFAs, and were also much more likely to be of the opinion that the services were 'free'. This is backed up by the finding that purchasers seeing IFAs were far more likely to say that the cost of advice had been made clear to them upfront (55%) compared with those seeing either multi-tied (30%) or single-tied advisers (32%).

Figure 56 How adviser was paid by type of regulated adviser seen: recent purchasers



Base: All RP who sought regulated financial advice from an IFA/other whole of market adviser (1,657); from a multi-tied adviser (294); from a single-tied adviser (385)
Note: respondents could give more than one answer, although not all responses are shown

Recent purchasers who perceived their adviser to be paid either by fee or commission were asked if they tried to negotiate this payment. The overall level was low: 9% made an attempt to negotiate and 7% successfully managed to negotiate a reduction. The level rose among investors prepared to take the highest level of risk when investing (16%).

4.4 Understanding of advice

In Section 4.3.1 it was explained that many ***recent purchasers*** and ***non-purchasers*** did not give consistent answers about the scope of advice (whole of market or limited) and whether or not they understood their adviser to be an *independent* financial adviser. In this section the answers to the following two questions are looked at more specifically in order to gauge consumers' level of **understanding** of the status of their adviser.

Q2	Q3
Q2 When the adviser was talking about the product options available to you, do you know if they were able to give advice on…? • Financial products from ALL companies on the market • From a LIMITED RANGE of companies e.g. two or more companies but not all those which were available on the market • From a SINGLE company only	Q3 Did you understand him/her to be an INDEPENDENT financial adviser (an IFA)? • Yes • No, they weren't an IFA

The first stage involved conducting a simple cross-tabulation of the two questions for both ***recent purchasers*** and ***non-purchasers*** (see Figure 57). The pattern of responses was very similar for the two groups. The table shows that the large majority of ***recent purchasers*** and

non-purchasers 'correctly' identified their whole of the market advisers as an IFA. However, among those who saw advisers who could only advise on products from a limited range, the majority believed (incorrectly) that the adviser was an IFA. When seeking advice from an adviser tied to one company, the proportion realising this was not an IFA rose, but still around one third of both ***recent purchasers*** and ***non-purchasers*** thought them to be an IFA. In the table below, 'correct' answers are shown in bold type, based on respondents who gave consistent responses.[49]

Figure 57

UNDERSTANDING OF WHETHER THEIR ADVISER WAS AN IFA: % 'CORRECT' AND 'INCORRECT' RESPONSES

RECENT PURCHASERS

	Adviser was able to advise on…			
	Whole of market	Limited range of companies	One company	Don't know
	%		%	%
Adviser was understood to be…				
An IFA	**95**	67	34	58
Not an IFA	1	**26**	**47**	24
Don't know	3	7	19	18
Base:	*1,420*	*890*	*622*	*285*

NON-PURCHASERS

	%	%	%	%
Adviser was understood to be…				
An IFA	**91**	55	30	50
Not an IFA	8	**37**	**67**	23
Don't know	1	8	3	28
Base:	*225*	*167*	*74*	*76*

The data above show the proportion of respondents that gave the 'correct' answer and the proportion that gave an 'incorrect' answer. The category of 'incorrect' includes those who did not know their adviser status and/or did not know whether or not their adviser was an IFA. As shown below in Figure 58, around three-fifths of both groups appeared to correctly understand their adviser status while two-fifths apparently did not understand or did not know what type of adviser they saw.[50]

[49] It is worth emphasising that a 'correct' response is based on respondents who give consistent answers to the two questions, and there is no possibility of externally verifying from administrative data whether or not their understanding was indeed correct. Therefore the data related to this measure should be taken as indicative only.

[50] An IFA would also need to offer the option to receive payment via a fee, although this was not included in the definition of 'correct' responses due to the complexity that this would have involved. Thus this is a relatively simplistic measure of understanding of advice.

Figure 58

UNDERSTANDING OF WHETHER THEIR ADVISER WAS AN IFA: % 'CORRECT' AND 'INCORRECT' RESPONSES

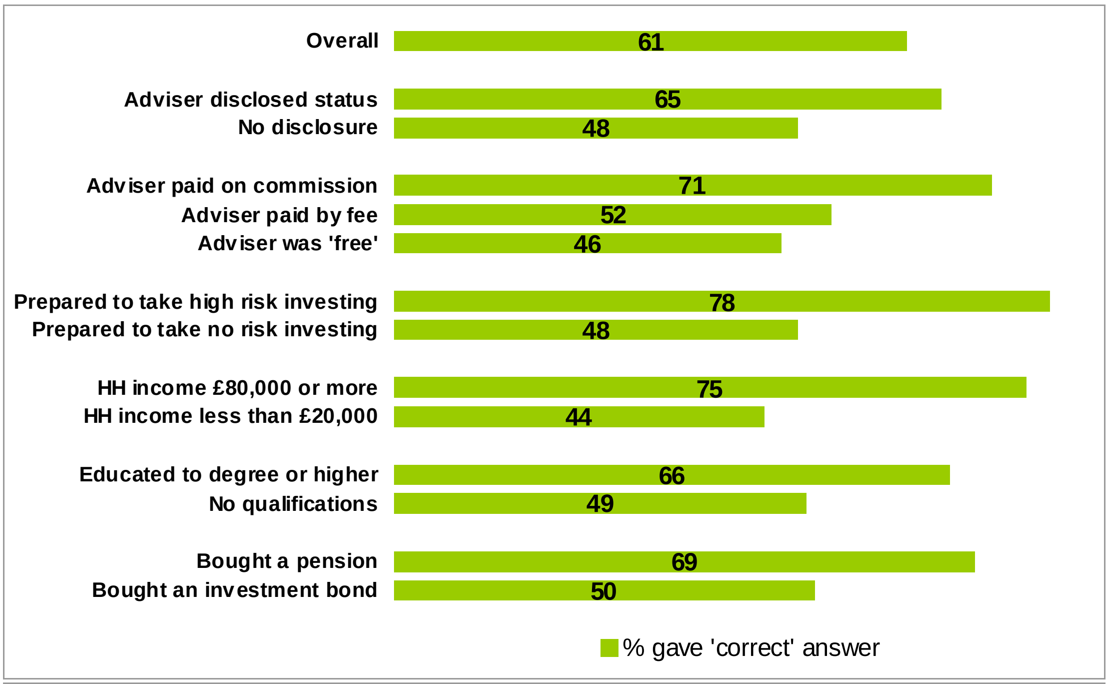
	Recent purchasers	Non-purchasers
	%	%
Correctly identified adviser status	61	58
'Incorrect' answer/not known	39	42
Base:	*3,217*	*542*

Figure 59 then breaks down the distribution of 'correct' responses for ***recent purchasers*** and shows that the following groups of investors were disproportionately likely to correctly identify the status of their adviser:

- those who said their adviser disclosed the range of products they could advise on;
- those who said their adviser was paid on commission;
- investors willing to take high risk;
- those with a household income of at least £80,000 a year;
- those educated to degree level or higher; and
- those buying a pension product.

Thus, as expected, greater understanding is observed among the groups that are consistent with the more sophisticated investor.

Figure 59 Recent purchasers: subgroups most and least likely to correctly understand status of their adviser



Base: All RP who sought regulated financial advice (3,217); adviser disclosed status (2,372); no disclosure (742); adviser paid on commission (1,206); fee (623); 'free' (466); prepared to take high risk investing (97); prepared to take no risk investing (359); household income of £80,000 or more (432); income less than £20,000 (578); educated to degree or higher (1,673); no qualifications (324); bought a pension (791); bought an investment bond (799)

Further analysis of misunderstanding was conducted using CHAID. The dependent variable was those who gave the 'incorrect' answer.[51]

Household income was the main differentiating factor, which was also identified above. However, more specifically, female investors with a household income of less than £20,000 were found to be extremely likely to misunderstand their adviser's status (62% giving an incorrect combination of answers). Upon removing income from the model, education level appeared to be the next key differentiator in misunderstanding.

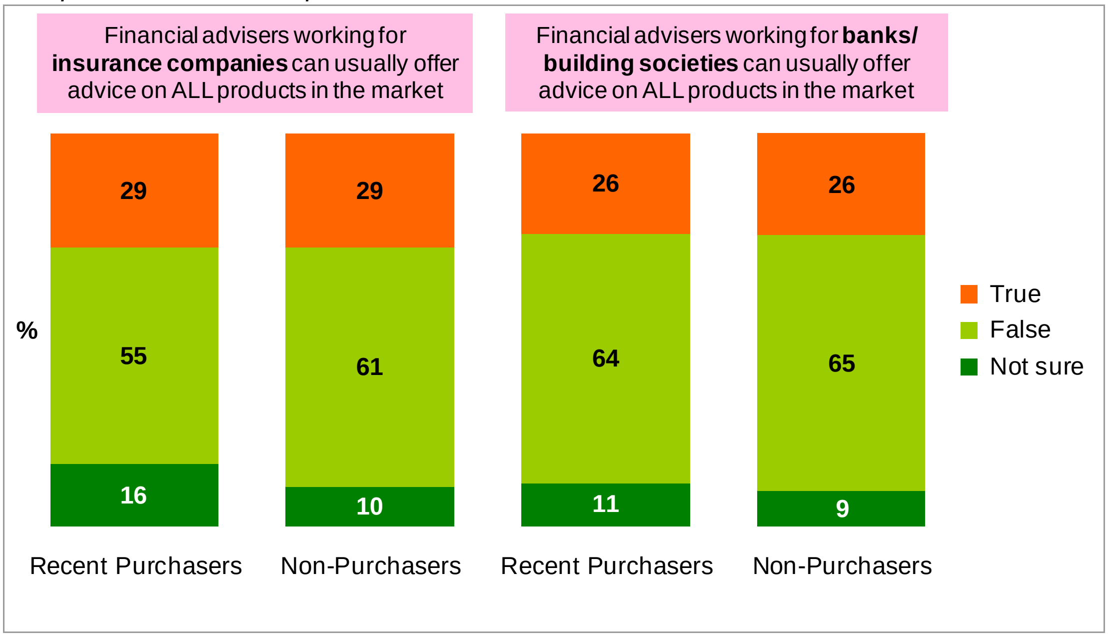
Understanding of adviser status was also measured by asking some simple true/false knowledge questions. ***Purchasers*** and ***non-purchasers*** were asked whether they believed the following statements to be true or false:

- Financial advisers working for **insurance companies** can usually offer advice on ALL products in the market.
- Financial advisers working for **banks/building societies** can usually offer advice on ALL products in the market.

[51] The independent variables included in the model were product group, sex, age, working status, highest level of education, household income, investment risk appetite, whether plan to speak to adviser again post-purchase, number of sources of information/advice used during purchase process, whether received a KFD and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.

As shown in Figure 60, around six in ten of each group correctly identified these statements as false, with around one quarter incorrectly believing them to be true.

Figure 60 Understanding of range of advice provided by tied advisers: recent purchasers and non-purchasers



Base: All RP (5,024); All NP (667)

Within ***recent purchasers***, the propensity to give the correct answer was related to the level of sophistication of the investor as measured by two factors. Firstly, it was found to be associated with the financial capability measure of Staying Informed, which measures the extent to which investors keep abreast of the wider economy. For example, 72% of those with a high score of 9-10 correctly knew that advisers in banks or building societies could not give whole of the market advice, this falling to 47% of those scoring 0-3.

Similarly, 78% of those prepared to take a high risk in investment correctly identified the above response compared with only 43% of those not prepared to take any risk.

4.5 Understanding of commission

The three consumer groups of ***recent purchasers***, ***non-purchasers*** and ***non-users*** were asked:

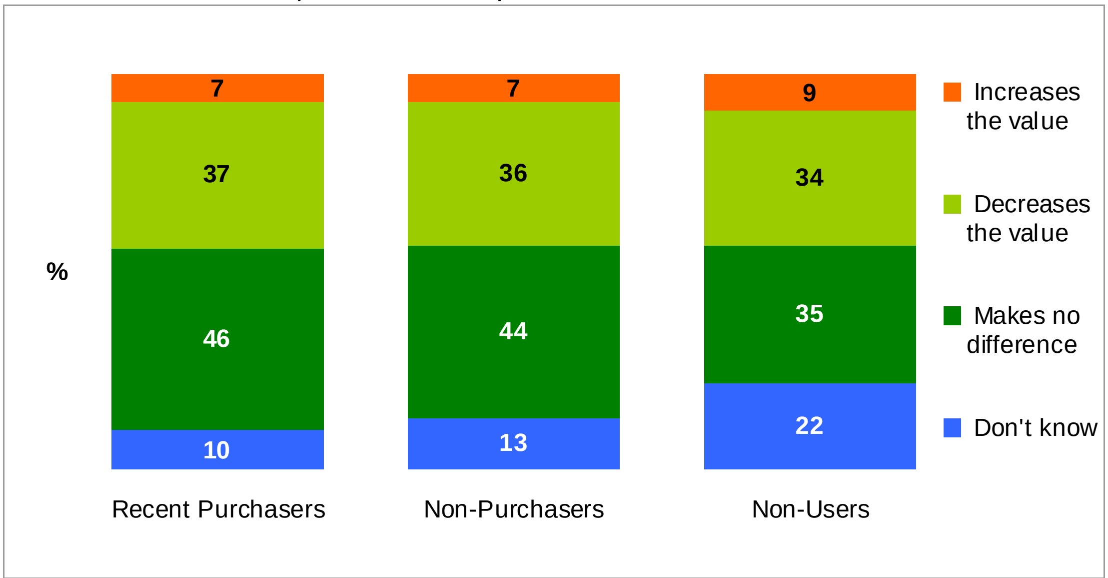
If an adviser is paid by commission from the investment provider, what effect do you think this has on the final investment value of what you might get back? Increases the value; decreases the value; or makes no difference.

This was to test consumers' understanding of how commission is paid.

One of the ways that commission can be misunderstood by consumers is that they think that the amount of commission paid to an adviser does not affect them or their fund as commission is 'between the provider and adviser'. However, taking the example of two identical products where one has commission charges and the other does not – the one with commission will typically have higher product charges and so the value of the fund the customer gets back on cashing in their investment is less.

Understanding was low across all consumer groups with only around one third of each group correctly responding that the value would decrease (Figure 61).

Figure 61 Understanding of effect on final investment value if adviser is paid by commission: recent purchasers, non-purchasers and non-users



Base: All RP (5,024); All NP (667); All NU (1,105)

Around half of ***recent*** and ***non-purchasers*** incorrectly thought that payment by commission would make no difference to the investment value, while this fell to a third of ***non-users***. A small minority of all consumer groups believed that the investment fund value might increase.

Given that this concept is fairly nuanced, it is unsurprising to find that more sophisticated investors understood this better. Among ***recent purchasers***, those educated to degree level or higher were more likely to understand compared with those without a degree (41% and 31% respectively). Also, one half (47%) of purchasers with the highest incomes of £80,000 or more a year understood this compared with one quarter (27%) of those on the lowest incomes (less than £20,000 a year).

The most financially capable purchasers (as defined by scoring 9 or more on the Staying Informed domain) were around twice as likely to say the value decreased compared with those who scored 3 or less (49% and 25% respectively). A similar pattern emerged with respect to the Planning Ahead domain – four in ten (40%) of the most capable (scoring 10) understood this compared with three in ten (29%) of those scoring the least (5 or less).

However, the reverse relationship was apparent when looking at the Choosing Products financial capability domain, which is not related to financial sophistication, but more to a tendency to seek and act on advice. The lowest scorers (4 or less) on this domain i.e. those who tend to purchase independently rather than through an adviser, understood this concept better compared with those scoring 9 or 10 (46% and 36% respectively believed the value would decrease). Given that the highest scorers on this financial capability domain are those who typically tend to rely on the financial adviser for advice and information, it would suggest that this is an area where advisers could do more to explain this to consumers.

4.6 Advisers: perception of trust

This section looks at the extent to which the different consumer groups trusted financial advisers, both within their own client-adviser relationship (where relevant) and more generally. It should be noted that CPOS 2010 only touched on certain aspects of trust. For a more extensive review, particularly in relation to professional standards and consumer engagement, see Wells et al. (2009).[52]

In 2006, the FSA found that while around 70% of consumers do not seek advice from an investment adviser,[53] trust can be a more important factor than price for selecting an adviser.[54] Improved trust in the investment advice sector could then lead to greater engagement in investment advice and so to more consumers seeking advice.

Most of the questions in CPOS 2010 concerning trust were asked across the three main consumer groups (***recent purchasers***, ***non-purchasers*** and ***non-users***),[55] which allows an examination of whether trust, or a lack of it, might be a factor in why people do not purchase or do not engage in the retail investment market.

Where trust, or lack of trust, existed further questions were asked to determine the basis of these viewpoints i.e. what are the key drivers of trust or distrust?

4.6.1 Level of trust in advisers generally

This section begins by looking at some general attitudes towards advisers, not focusing on any specific client-adviser relationship. The same questions were asked of the three consumer groups as explained above. However, looking across the three groups, it is not a straightforward comparison because of the different definitions of the three groups. As a reminder the three groups were selected on the basis of the following definitions:

[52] Wells, J. and Gostelow, M. (2009) *Professional Standards & Consumer Trust: A summary of existing research*. London: Financial Services Authority. Available at: http://www.fsa.gov.uk/pubs/other/psct.pdf

[53] Financial Capability in the UK: results of a baseline survey, FSA (2006): 'In the last 5 years, have you received any professional advice about planning your personal finances? By that I mean things like planning for retirement, tax planning, or investing money, but please do not include advice related to running a business.'

[54] http://www.fsa.gov.uk/pubs/consumer-research/crpr65a.pdf

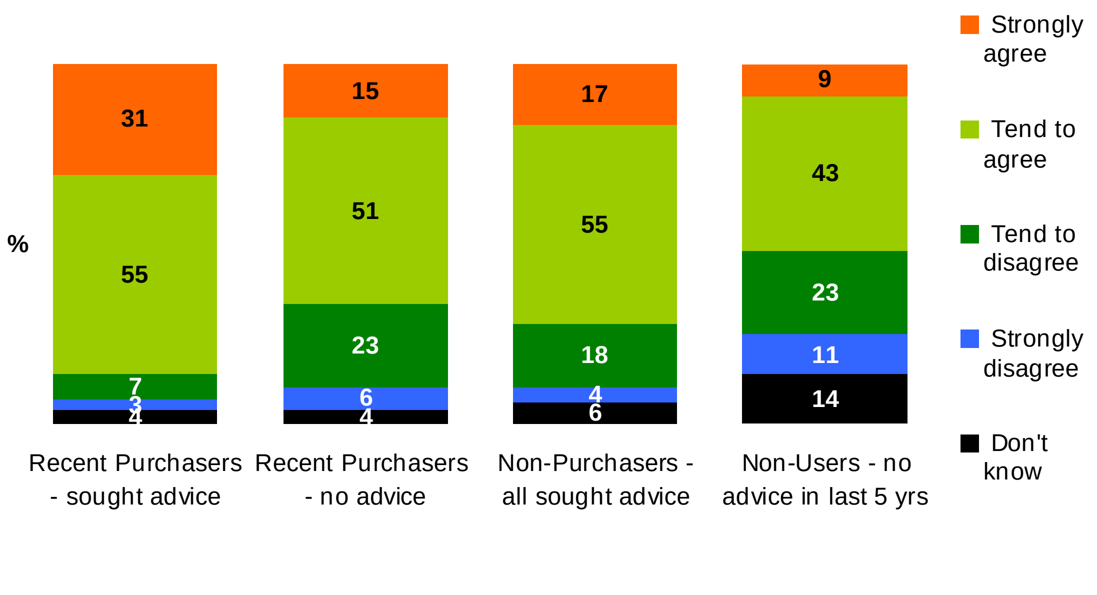
[55] The LP survey was mainly focused on an exploration of the post-sales experience

- **RPs:** Adults 18+ who had recently purchased a retail investment product.
- **NPs**: Adults 18+ who had contacted a financial adviser in the last two years about a retail investment product but did not purchase.
- **NUs:** Adults 18+ who had *not* contacted a financial adviser nor purchased a retail investment product in the last five years and had at least £3,000 in liquid financial assets.

Thus it is crucial to understand, when comparing these groups on the basis of attitudes towards financial advisers, that all ***non-purchasers*** *had* consulted an adviser recently, all ***non-users*** *had not* consulted an adviser recently, and *some* ***recent purchasers*** had consulted an adviser while others had not. It was also seen from Chapter 2 that the three groups had a very different profile in terms of levels of financial capability and risk attitudes towards the investment market, with ***recent purchasers*** being much more capable than ***non-purchasers*** and ***non-users***. All these differences need to be borne in mind when looking across the groups. In order to compare the groups with a little more validity, the ***recent purchasers*** have been broken down into two groups: those who sought advice from any type of adviser on their purchase; and, those who did not.

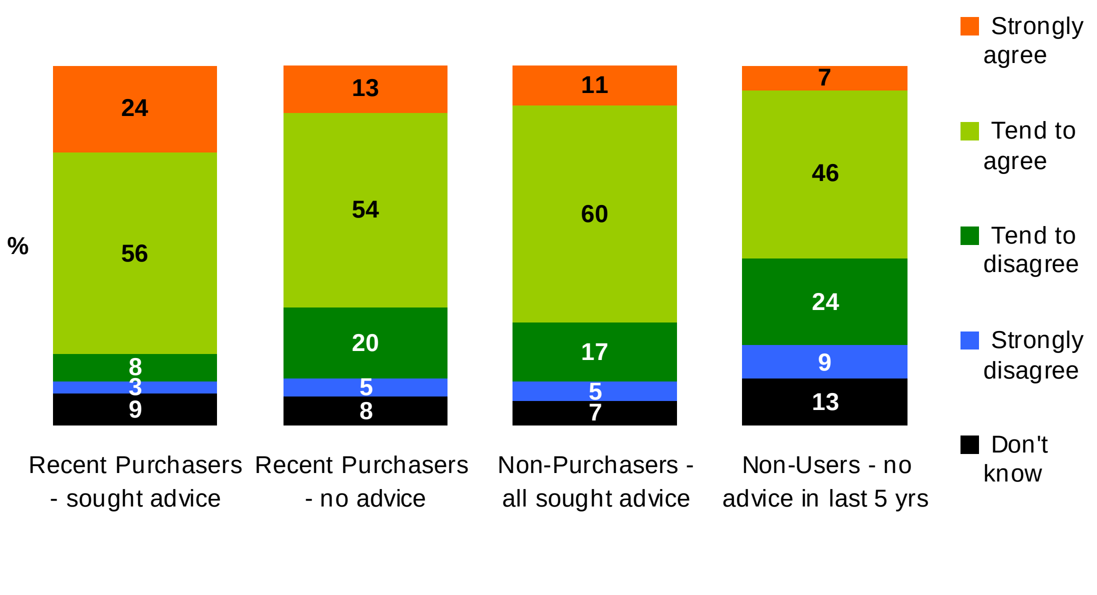
Figures 62 and 63 show levels of agreement to the statements: *Financial advisers make all their recommendations based on what they think is best for their clients* and *Financial advisers can be trusted* for the four groups discussed above. It is clear that levels of trust are mainly associated with recent experience in using an adviser. ***Recent purchasers*** who purchased on advice were the most positive in their views about trust, while ***non-purchasers*** who sought advice were slightly more positive than purchasers who did not seek advice. ***Non-users*** on the other hand, none of whom had used an adviser for at least five years, were the most sceptical in their views – one third having a negative perception of advisers on both statements. This clearly indicates that trust in advisers is more closely linked to previous use of them, rather than to whether or not people had made a recent purchase.

Figure 62 Agreement with the statement 'Financial advisers make all their recommendations based on what they think is best for their clients' : RP, NP & NU



Base: All RP who sought regulated financial advice (3,217); All RP who did not seek regulated financial advice (1,807); All NP who sought regulated financial advice (421); All NU (1,105)

Figure 63 Agreement with the statement 'Financial advisers can be trusted' : RP, NP & NU

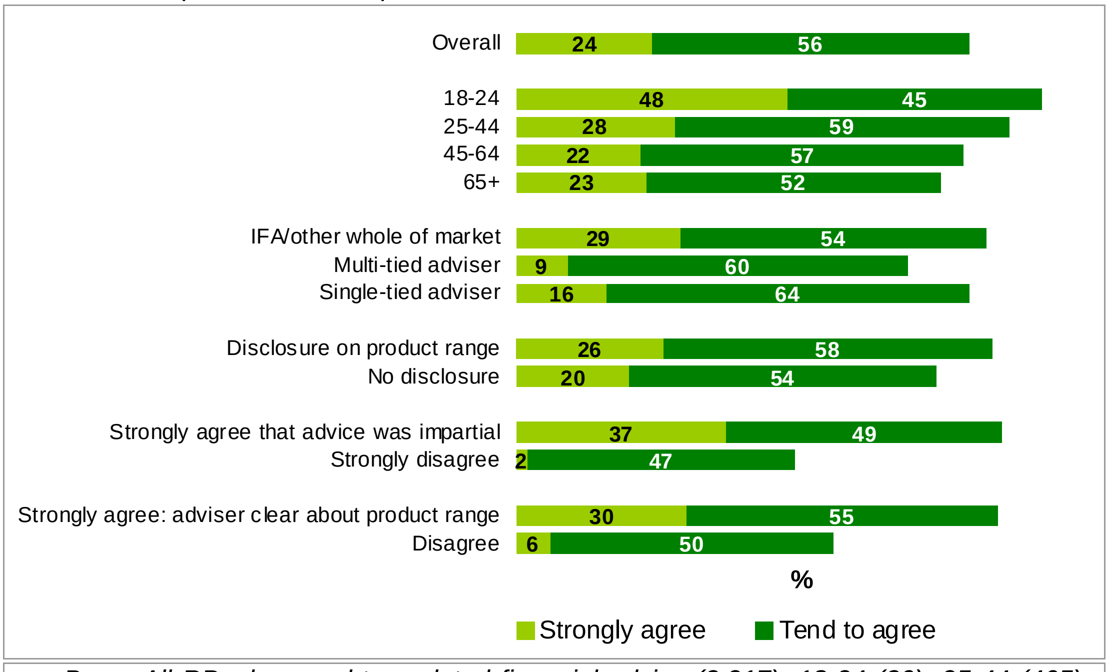


Base: All RP who sought regulated financial advice (3,217); All RP who did not seek regulated financial advice (1,807); All NP who sought regulated financial advice (421); All NU (1,105)

The report now looks in more detail at subgroup breakdowns within ***recent purchasers***. The focus is on ***recent purchasers*** who had sought advice rather than all ***recent purchasers*** because, when variation was found within the total group, this was generally related to whether or not advice had been sought. Therefore it was of more interest to find out how the different experiences of those who *had* sought advice were related to their views on trust. The discussion concentrates on the statement, *Financial advisers can be trusted,* although the pattern of results was similar for both of the attitude statements on trust.

Figure 64 shows that perception of trust was related to user ratings of quality of advice when contacting an adviser. Thus levels of trust were highest when purchasers: saw an IFA as opposed to a tied adviser; received written or verbal disclosure on the adviser's status; strongly agreed that the advice given was impartial; and, strongly agreed that the adviser was clear about products he or she was able to advise on. Interestingly there was also a strong age gradient with younger advice seekers far more trusting of advisers than those aged 65+.

Figure 64 Agreement with the statement 'Financial advisers can be trusted' by age and adviser experience: recent purchasers



Base: All RP who sought regulated financial advice (3,217): 18-24 (30); 25-44 (465); 45-64 (1,943); 65+ (762); IFA/other whole of market adviser (1,657); multi-tied (294); single-tied (385); disclosure (2,372); no disclosure (742); strongly agree advice impartial (1,551); strongly disagree advice impartial (68); strongly agree adviser clear on product range (2,039); disagree adviser clear on product range (88)

Given that ***recent purchasers*** had all purchased an investment product in April 2010, it is perhaps surprising that any of those who sought advice from an adviser would disagree that 'Financial advisers can be trusted'. However, 11% of this group did (tended to or strongly disagreed).

Although this distrust was related to advisers *in general*, there was evidence to suggest that they were more disappointed with the purchase process they went through with their own adviser compared with other purchasers. Focusing on the small subset who disagreed that 'Financial advisers can be trusted', one quarter (23%) of this group disagreed that the advice their adviser gave them was impartial. This compares with 7% of those who agreed that 'Financial advisers can be trusted'. Similarly, 11% of the distrusting group did not believe their adviser was clear about what products or providers they were able to offer advice on, compared with only 2% of the trusting group.

Around one quarter (27%) of the distrusting group claimed that they do not accept everything their adviser recommends compared with 3% of the trusting group. This is further shown by 22% of the distrusting group saying they made the final product choice entirely by themselves or following the influence of someone other than the adviser. This compares with 12% of the trusting group saying this.

Male purchasers who had sought advice were more likely to distrust advisers in general (14%) compared with 6% of females. Those who held no qualifications were also more likely to distrust advisers compared with those educated to degree level or higher (20% and 11% respectively). A greater proportion of those who had consulted a tied adviser (15%) distrusted advisers compared with 9% of those who saw IFAs.

Finally, levels of distrust varied by financial capability. A lower level of Planning Ahead capability was associated with higher distrust – one in ten (10%) of those who scored the maximum of ten on this domain had a distrust of advisers, compared with 18% of those who scored five or less. However, a higher level of Staying Informed capability was associated with higher distrust – 14% who scored highly (9 or 10) on the Staying Informed domain distrusted advisers compared with 8% of those scoring 6 or less. Higher distrust therefore exists among purchasers less able to prepare for future financial commitments but who are capable of monitoring the wider economy for changes that may affect their own financial situation.

In an attempt to uncover why the distrusting group followed through with the purchase, despite appearing to have a general distrust of advisers, this group was asked why they used an adviser. There was no clear picture from the responses given: 5% of this group said that they used an adviser because the advice was free; 4% said that they could only buy the product if they saw an adviser first; while 10% of the distrusting group said they did not understand enough about the products or the differences between them to purchase without an adviser.

4.6.2 Drivers of trust and distrust

Respondents in each of the four groups who had agreed and disagreed to the statement, *Financial advisers can be trusted,* were asked their reasons for their viewpoint.

Figure 65 demonstrates that, for ***recent purchasers***, trust was largely based on the premise that advisers need to maintain their integrity to get business (25% of those who sought advice for their recent purchase and 29% of those who did not). For those who had sought advice, trust was often built on the basis of a long-standing relationship (18%), while for those who had not sought advice, the security of knowing that the industry is regulated helps drive trust (18%). Thus for purchasers, trust was premised mainly on professional reputation and integrity.

Figure 65

REASONS FOR TRUSTING FINANCIAL ADVISERS, BY SURVEY GROUP: ONLY MAIN RESPONSES SHOWN (UNPROMPTED)

	RP – sought advice %	RP – no advice	NP – all sought advice %	NU %
Advisers need to retain professional reputation/ would not get business if untrustworthy	25	29	14	16
Long-standing relationship	18	10	11	8
They are regulated/ operate under regulation	15	18	19	11
No problems so far	14	10	13	9
Seem trustworthy	12	12	10	9
Knowledgeable	9	9	27	24
Good brand name/ reputable company	8	8	8	6
Have to keep to professional standards	7	8	10	12
Well-qualified	6	9	20	19
Base:	*2,607*	*1,190*	*296*	*586*

Note: respondents could give more than one answer

For the other groups, however, trust was much more likely to be based on the perceived level of knowledge of advisers (27% of ***non-purchasers*** and 24% of ***non-users***) and their qualifications (20% of ***non-purchasers*** and 19% of ***non-users***). Thus, for these less experienced investors, trust was based more on the external profile of the adviser rather than any existing relationship.

However, looking more generally at the reasons why consumers trust advisers, several individual reasons can be grouped together to form an all-encompassing topic of 'professional standing' – these include 'adviser need to retain professional reputation', 'knowledgeable', 'well-qualified' and 'have to keep to professional standards'. Taken together, 39% of ***recent purchasers*** who sought advice mentioned this compared with 47% of ***recent purchasers*** who did not seek advice for the purchase. For ***non-purchasers***, 53% cited one of these reasons while 53% of ***non-users*** did so. Consequently the motivations for trust are largely the same across the four consumer groups, although for ***recent purchasers*** who sought advice a previous relationship with their adviser is also important.

The existence of regulation and the fact that firms operate within regulations were cited by a section of consumers as being a reason for trusting advisers. It ranged from 11% of ***non-users*** to 19% of ***non-purchasers*** who had sought advice. It should be borne in mind that responses were given spontaneously so although the proportions appear low, this could mean that though it is still a driver of trust, it is not a principal driver and may be a 'hygiene' factor i.e. an attribute that is expected as opposed to sought.

Figure 66 below shows the main reasons why the different survey groups *distrusted* advisers. Only three main reasons were highlighted: a perception that advisers were commission-driven; a perception of bias towards the company's own products; and, previous bad experience. Although a perception that advisers are commission-driven dominated the responses given by the distrusting, this perception was heightened among those groups who either had not sought advice or who had not made a purchase. Thus, purchasers who had sought advice on their recent purchase were less likely than other groups to feel this, although it was still the central driver of distrust.

Figure 66

REASONS FOR NOT TRUSTING FINANCIAL ADVISERS, BY SURVEY GROUP: ONLY MAIN RESPONSES SHOWN (UNPROMPTED)

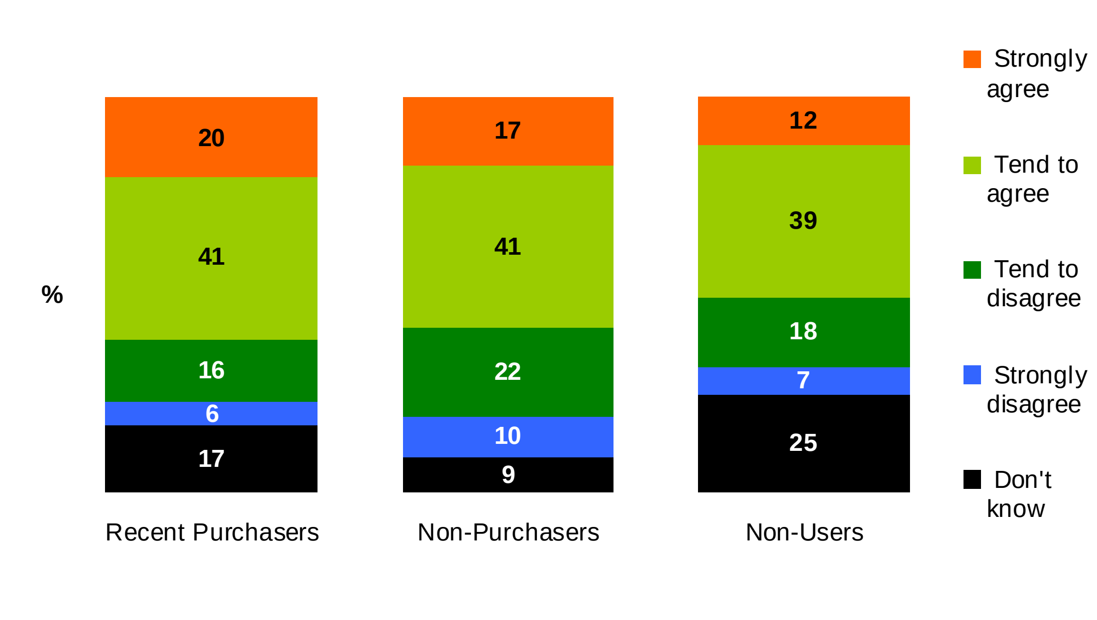
	RP – sought advice %	RP – no advice	NP – all sought advice %	NU %
Commission driven	45	55	56	62
Only try to sell their own company's products	25	24	24	24
Previous bad experience	15	17	-	4
Base:	*339*	*463*	*95*	*367*

Note: respondents could give more than one answer

As with the drivers of trust the key drivers of distrust can be grouped together in a common way. The main driver behind distrust appears to be 'not acting in the customer's interests', comprised of 'commission driven' and 'only trying to sell their own company's products'. Taken together, 56% of ***recent purchasers*** who sought advice cited this reason compared with 66% of ***recent purchasers*** who did not seek advice for the purchase. For ***non-purchasers***, 80% mentioned this while 75% of ***non-users*** did so.

The three consumer groups of ***recent purchasers***, ***non-purchasers*** and ***non-users*** were then asked a question relating to the fact that independent financial advisers have to offer customers the option to pay via a fee. They were asked whether they agreed with the statement that: *You get more impartial advice if you pay by a fee, rather than the adviser receiving commission.* Around six in ten of ***recent*** and ***non-purchasers*** agreed with this, while this level fell to around half of ***non-users*** (Figure 67).

Figure 67 'You get more impartial advice if you pay by a fee, rather than the adviser receiving commission': recent purchasers, non-purchasers and non-users



Base: All RP (5,024); All NP (667); All NU (1,105)

Having seen that the main reason for purchasers distrusting advisers was because of commission bias, this perception among consumers would appear to support the FSA's stance on changing the rules regarding adviser charging to eliminate this very problem.[56] Interestingly, there was little difference in general agreement with this statement by purchasers who had consulted IFAs compared with tied advisers when purchasing their investment. However, purchasers who had paid a fee for their advice were slightly more likely to agree compared with those who explicitly mentioned that their adviser was paid by commission (65% and 53% respectively).

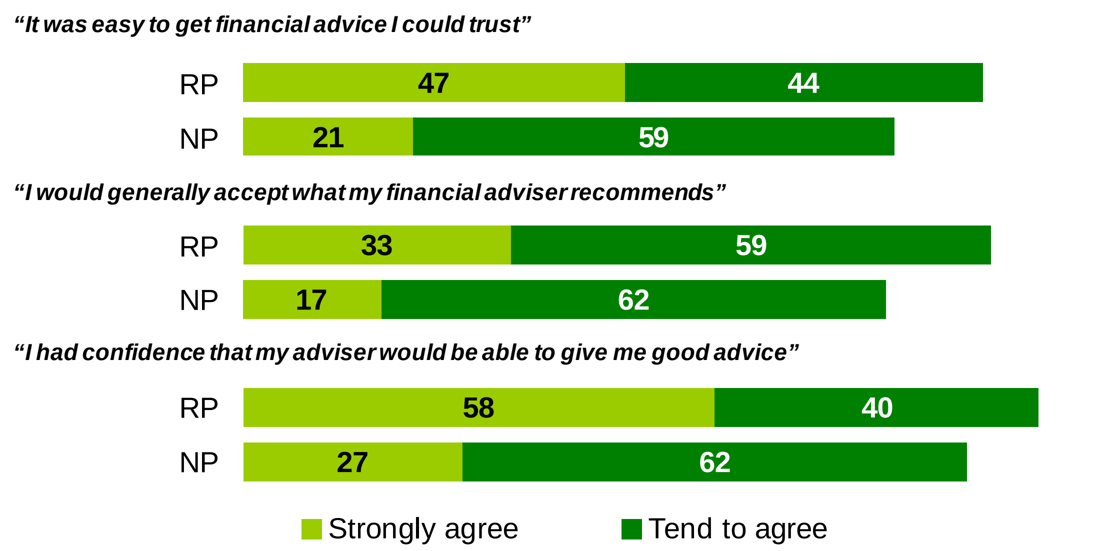
4.6.3 Level of trust in adviser recently consulted

The above discussion focused on consumers' views of advisers in general, in relation to trust. Three further questions were asked of ***purchasers*** and ***non-purchasers*** who had sought advice, to find out how well they rated their adviser.

As Figure 68 shows, most consumers were trusting of the adviser they saw, although ***recent purchasers*** who had sought advice tended to have stronger positive views – for example the proportion strongly agreeing that they had confidence in their adviser to give them good advice was twice as high among ***purchasers*** (58%) as among ***non-purchasers*** (27%).

[56] http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/056.shtml

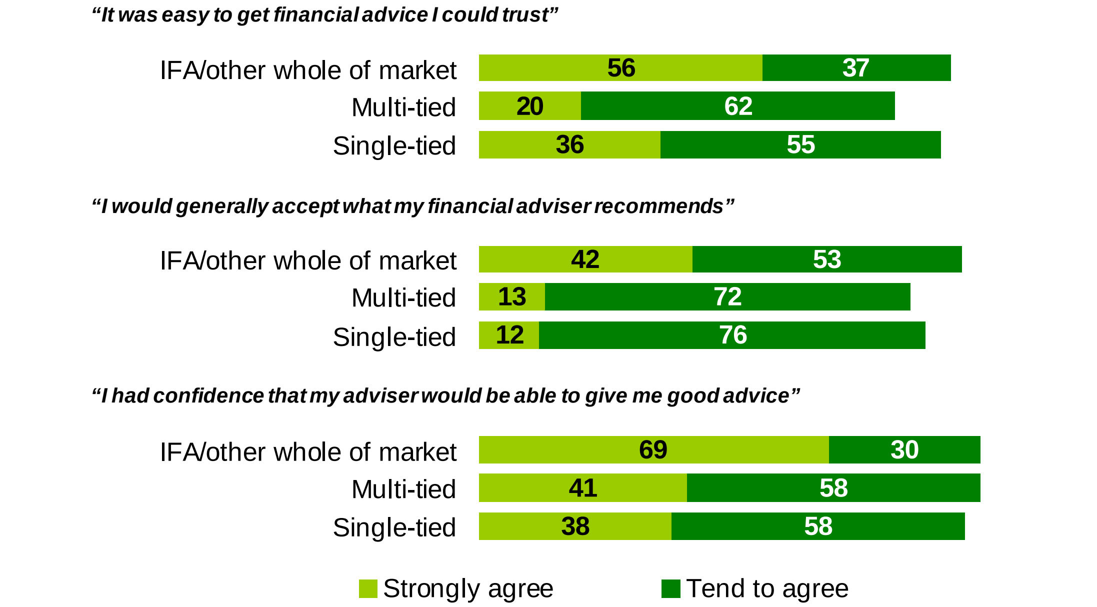
Figure 68 Agreement with statements about trust in recent adviser experience: RP and NP



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

Breaking down the results for ***recent purchasers***, it can be seen that IFAs were generally associated with higher levels of trust compared with multi-tied and single-tied advisers (Figure 69). For example 56% strongly agreed that it was easy to get advice they could trust if they had seen an IFA, this proportion dropping to 20% for multi-tied and 36% for single-tied advisers.

Figure 69 Agreement with statements about trust in recent adviser experience by adviser type: recent purchasers

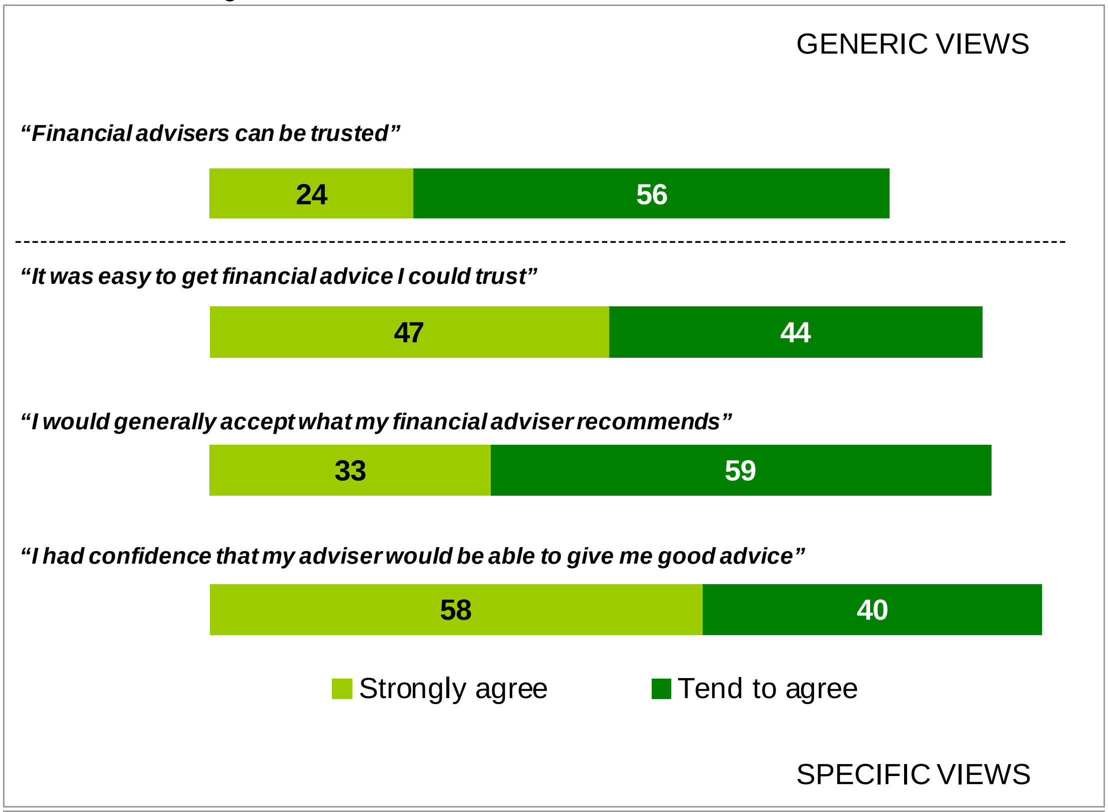


Base: All RP who sought regulated advice from IFA/other whole of market adviser (1,657); multi-tied adviser (294); single-tied adviser (385)

4.6.4 Trust in own adviser vs. trust in advisers generally

The previous section demonstrated that ***recent purchasers*** had a high level of trust in the adviser they made their purchase through. Figure 70 summarises the information from Figures 63 and 68, and shows that purchasers had much higher levels of trust in the adviser they used, compared with advisers in general: for example 24% of ***recent purchasers*** who had sought advice strongly agreed that, *financial advisers* [in general] *can be trusted,* while twice this level (47%) considered that it was: *easy to get financial advice I could trust.* Thus, purchasers have more confidence in advisers they have actually used than advisers in general – this is likely to be due in part to a degree of self-justification i.e. purchasers will believe they made the right decision if they subsequently followed through with a purchase recommended by an adviser. It also suggests that, while purchasers have a relatively guarded view of advisers in general, they mostly feel confident that the adviser they personally selected could be trusted.

Figure 70 Recent purchasers who sought advice: agreement with statements about trust in advisers in general vs. advisers consulted



Base: All RP who sought regulated financial advice (3,217)

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5. DECIDING WHAT TO BUY

CHAPTER SUMMARY

- This chapter examines the level of receipt of Key Features Documents amongst ***recent purchasers*** and ***non-purchasers*** who had at least considered investing, and the extent to which such documentation was read and used. The chapter also considers the influence of an adviser in ***recent purchasers'*** decisions about product choice. Finally, the reasons for deciding against the investment are explored for the ***non-purchaser*** group.
- The FSA requires that firms give consumers of packaged investment products a Key Features Document (KFD) at the point of sale (packaged products include life investment and personal pension products and most collective investments).
- One in eight (13%) ***recent purchasers*** said that they had not received a KFD and a further 16% could not remember whether or not they had received one.
- The KFD is intended to provide key pieces of information about the product (such as aims of the product and the risks involved) in a standardised format. However, not all ***recent purchasers*** and ***non-purchasers*** who received it read the whole document fully. Around six in ten ***recent purchasers*** (64%) and ***non-purchasers*** (62%) who received a KFD said that they either read the whole document fully or just the parts they thought were important. Those more financially capable in terms of Staying Informed were more likely to have read the documentation fully.
- In making a final decision about purchasing the investment product, two-thirds (65%) of ***recent purchasers*** said they made their choice either on the recommendation of, or under the influence of, an adviser. One quarter (27%) made the choice to purchase entirely by themselves.
- ***Recent purchasers*** who chose a product based on an adviser's recommendation as opposed to making the choice on their own were more likely to be older, female, have a low appetite for investment risk, have seen an adviser who was an IFA, and have purchased the product via a platform.
- Non-purchase of a product was very rarely associated with negative experiences of consulting a financial adviser. Lack of affordability and unsuitable timing were the most frequently reported reasons for not investing after having contacted an adviser.

5.1 Introduction

This chapter focuses on ***recent purchasers*** and ***non-purchasers***, examining their thought processes when deciding whether or not to purchase the investment product. Not everyone who starts out looking to buy a particular product does so and this chapter will look at influences on the final product choice, the use of the Key Features Document (KFD) in making the final decision, the presence of an adviser's recommendation, and the reasons given for either following through with the purchase or deciding against it.

5.2 Key Features Document

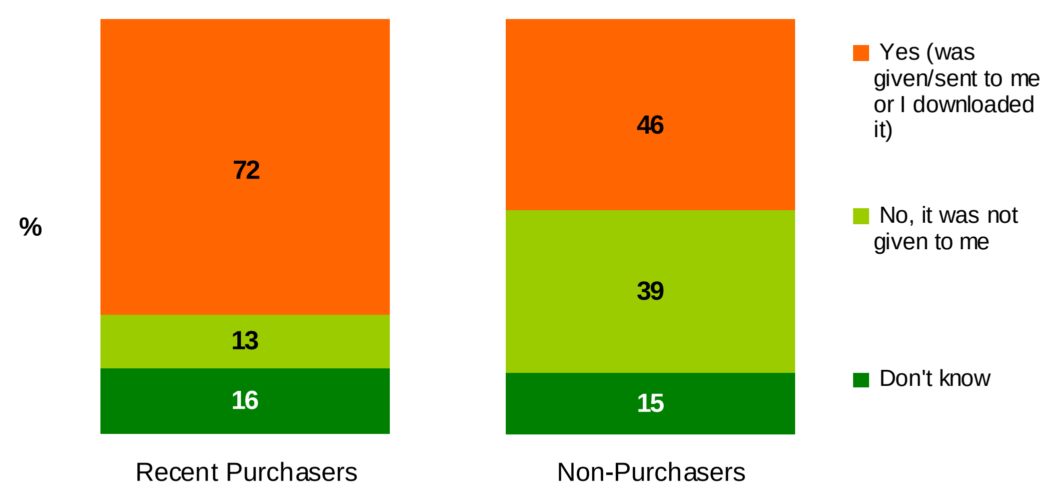
FSA rules stipulate that firms must give consumers a Key Features Document before they buy a packaged product, and this should be provided by the time of the point of sale. KFDs are specific documents designed to give consumers the information they need to make an informed decision in a way that enables them to compare products. Packaged products include life investments, personal pension products, and most collective investments. All KFDs must include key headings outlining the product, its aims, the investor's commitment, risks, questions and answers (Q&As), and product charges. The detailed information is for firms to complete depending on the particular product. In the event of a non-advised sale, some advisers supply this information though they are not required to.

During the surveys, consumers were asked whether at any stage they had received a 'Key Facts or Key Features Document' related to the product they bought or intended to buy.[57] Consumers were given additional clarification, if necessary, that the document would have described the product, its aims and risks, and may also have shown them how much they could receive from their investment.

Regardless of whether they had sought regulated advice, all ***recent purchasers*** and ***non-purchasers*** were asked if they had obtained or looked at a KFD relevant to the product they were intending to buy or had already bought. Seven in ten (72%) ***recent purchasers*** had received the document whilst less than half (46%) of ***non-purchasers*** had (see Figure 71).

[57] 'Key Facts' was included in the description since it is a logo the FSA designed so consumers would know that the document on which it appears is a disclosure-type document.

Figure 71 Whether received a Key Features Document related to product bought or thinking about buying



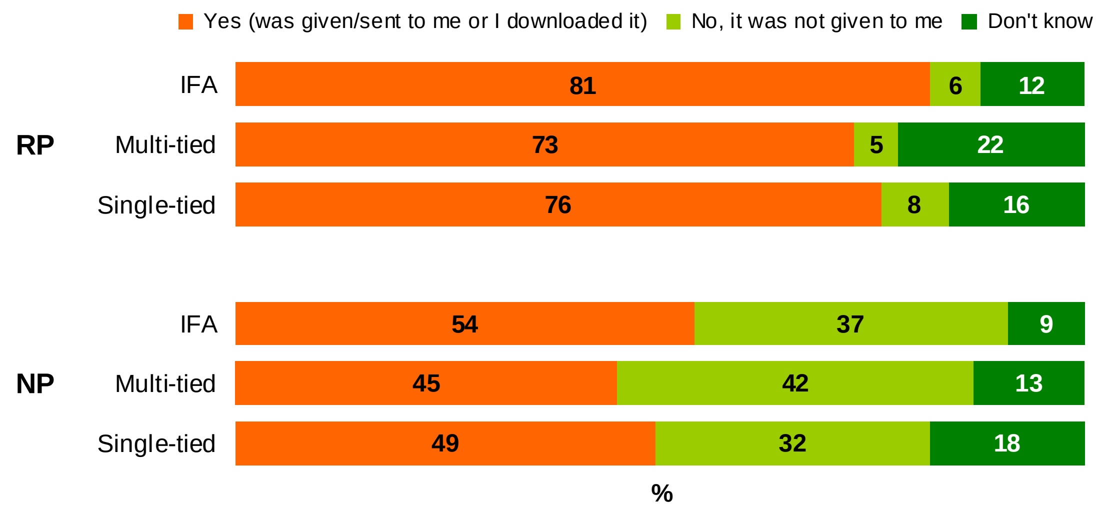
Base: All RP (5,024); All NP who obtained advice or information from a financial adviser (542)

A relatively high proportion of ***recent purchasers*** and ***non-purchasers*** did not know whether they received the KFD (16% and 15% respectively).

The rate of KFD receipt among ***non-purchasers*** was related to the stage of the purchase process that they reached. Thus, two-thirds (63%) of ***non-purchasers*** who got as far as receiving a letter regarding the adviser's recommendation recalled receiving the KFD compared with three in ten (28%) of those who received regulated advice but said they did not receive a recommendation.

Product disclosure occurred more frequently when the purchaser spoke to an IFA compared with other types of adviser (see Figure 72).

Figure 72 Whether received a Key Features Document related to product bought or thinking about buying, by type of adviser seen



Base: All RP who sought regulated financial advice who saw an IFA (1,644); Saw a multi-tied adviser (294); Saw a single-tied adviser (385); All NP who obtained advice or information from a financial adviser who saw an IFA (222); Saw a multi-tied adviser (76); Saw a single-tied adviser (52)

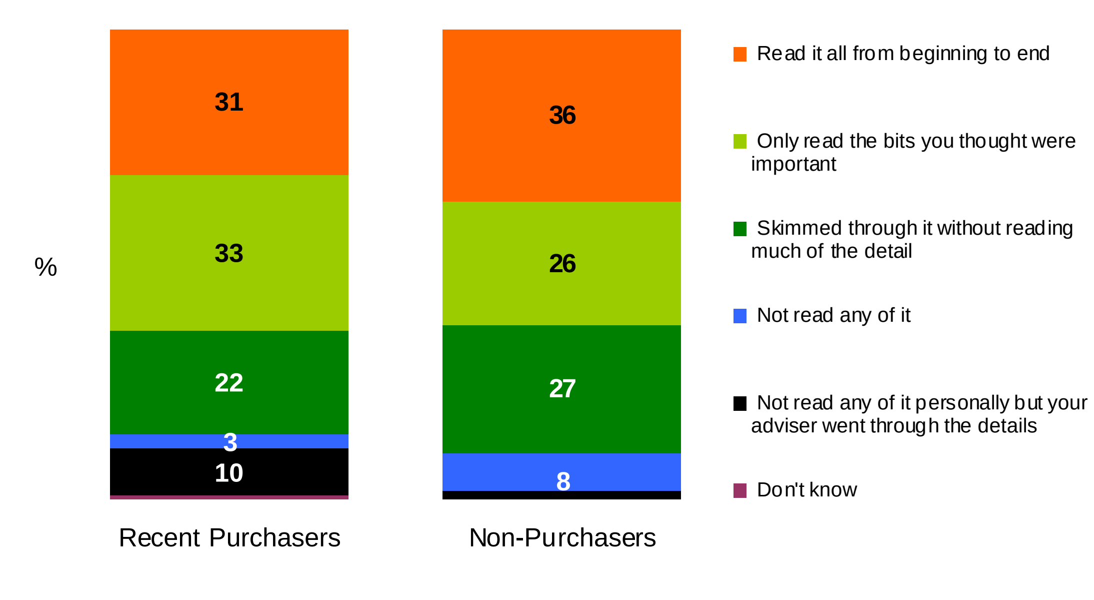
Eight in ten ***recent purchasers*** (81%) who saw an IFA recalled being given a KFD, slightly higher than the rate of receipt among multi- and single-tied advisers. However, this difference was mainly caused by a higher proportion of consumers seeing these types of advisers who did not recall whether or not they were given a KFD (22% of purchasers who saw multi-tied advisers and 16% who saw single-tied advisers did not recall, compared with 12% of those who saw IFAs). When 'Don't know' responses are removed from the analysis then the proportions who did receive a KFD become more consistent across adviser types (IFA: 93%; multi-tied: 94%; single-tied: 90%).

KFDs were more likely to be recalled when regulated advice had been received, and this was the case for both ***purchasers*** and ***non-purchasers***. The rate of receipt among ***recent purchasers*** was 77% when regulated advice was received and 62% when it was not; for ***non-purchasers*** the equivalent comparison was 51% and 30%. This relates to the point made earlier: that it is mandatory for the KFD to be made available for advised sales but not for non-advised sales.

5.2.1 Reading the Key Features Document

Overall, three in ten (31%) ***recent purchasers*** who received a KFD said that they read the document from beginning to end (see Figure 73).

Figure 73 Whether personally read the Key Features Document



Base: All RP who received Key Features Document (3,580); All NP who received Key Features Document (247)

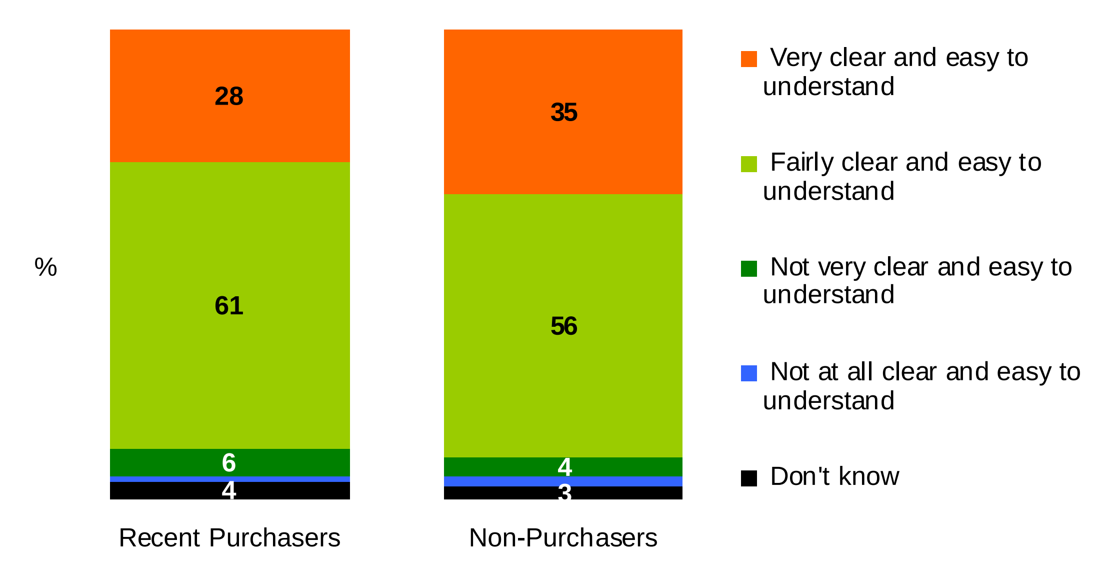
A further one third (33%) of ***recent purchasers*** said they only read the parts which they deemed the most important, a fifth (22%) said that they skimmed through it without reading much of the detail, while just 3% said that they had not read any of it. The pattern among ***non-purchasers*** was broadly similar.

There were small differences in the proportion of ***recent purchasers*** who were likely to read the key features documentation fully by product type and capability score. Those who purchased investment bonds were more likely than equity ISA purchasers to have read the documentation fully (38% and 29% respectively). Those with a higher level of Staying Informed capability, so scoring 9 or 10, were more likely to have read the documentation fully (42%) compared with 16% of those who scored 3 or below.

5.2.2 Understanding the Key Features Document

Everyone who had received a KFD was asked if they had found the documentation clear and simple to understand. The majority of ***recent purchasers*** (89%) said this was the case, with three in ten (28%) saying it was *'very'* clear and easy. ***Non-purchasers*** also expressed few difficulties in comprehending the KFD with 91% saying it was clear and easy to understand (see Figure 74).

Figure 74 How clear and easy to understand they found Key Features Document



Base: All RP who received Key Features Document (3,580); All NP who received Key Features Document (247)

Although reported comprehension was high among ***recent purchasers*** of all ages, older purchasers were slightly less likely to agree that the KFD was *'very'* or *'fairly'* clear and easy to understand, with 87% of those aged 65 or over thinking this compared with 93% of those aged under 35.

Understanding of the KFD was related to the extent to which it was read. Four in ten (43%) ***recent purchasers*** who had read the KFD from beginning to end found it *'very'* clear and easy to understand. This contrasts with 16% of those who skimmed through it without reading much of the detail. Combining figures of those who said *'very'* or *'fairly'* clear, overall, comprehension was higher among those who read it fully compared (95%) with those who had only skimmed through it (85%).

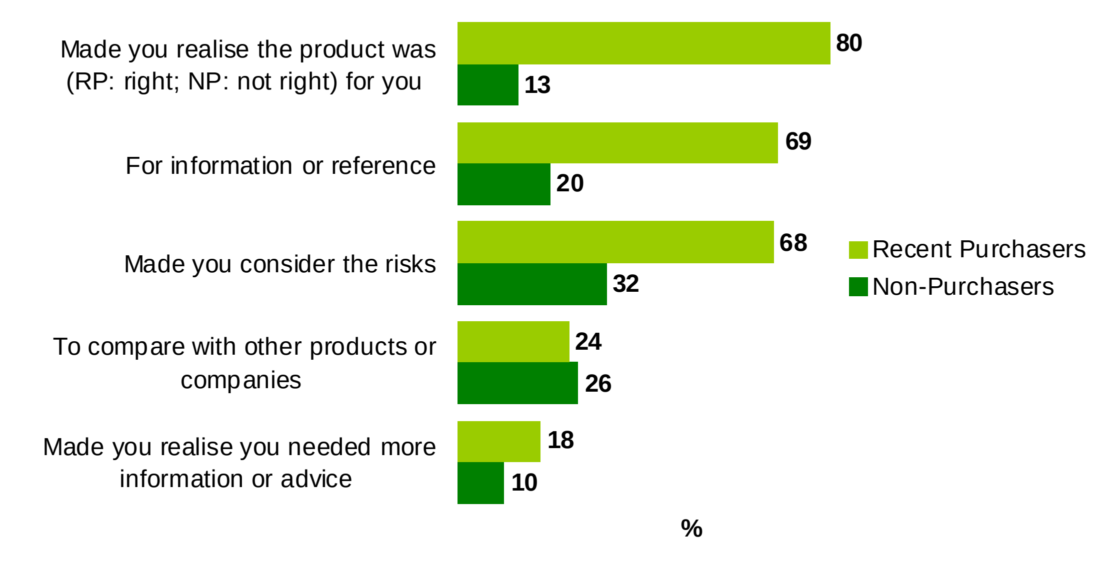
Recent purchasers in the lowest income bracket of the survey (defined as a household income of less than £20,000 per annum) were less likely to agree that the KFD was clear and easy to understand (84%) than purchasers from more affluent households (91%).

Financial capability in the domain of Staying Informed was also a distinguishing factor in terms of levels of understanding. Nine in ten (92%) of those scoring 9 or 10 (highest) said the KFD was clear and easy to understand compared with 81% of those who scored 3 or below. There was also a strong link between finding the KFD clear and easy to understand and the purchaser's level of certainty about what they wanted to buy at the outset. Almost all (93%) of those who knew exactly what they wanted at the outset found the KFD clear and easy to understand compared with three-quarters (74%) of those who had no idea at all about what type of product they wanted. Thus, purchasers who were more assured at the outset were more likely to find the document clear and easy to understand whereas those who were more uncertain (and arguably those for whom the KFD would be more useful) found the KFD less straightforward.

5.2.3 How the Key Features Document was used

Everyone who had received a KFD was asked how they had used the information within it. Both ***purchasers*** and ***non-purchasers*** were read out a list of ways in which the information could be used and asked which applied to them. Use of the KFD varied by survey group (see Figure 75).

Figure 75 How the information in the Key Features Document was used (PROMPTED)



Base: All RP who received Key Features Document (3,580); All NP who received Key Features Document (247)
Note: respondents could give more than one answer and only the most common reasons are shown

Recent purchasers cited a broader spread of uses (an average of 2.6 compared with 1.1 among ***non-purchasers***). This might be explained by purchasers, having followed through with the purchase, wanting to know more about their product.

The main uses made of the KFD by ***recent purchasers*** were to help confirm they had made the right product choice (80%), to use as a source of reference (69%), and to help them to consider the risks (68%).

The most common uses of the KFD among ***non-purchasers***, on the other hand, were to help them consider the risks (32%), to compare with other products or companies (26%) and to use as a reference source (20%).

Recent purchasers who had received regulated advice were more likely than those who received non-regulated advice to say that the KFD had made them realise the product was suitable for them (83% compared with 70%) and that it helped them to consider the risks (71% compared with 61%).

5.3 Receiving a recommendation

The data in this section relate to survey recall of whether a recommendation was received. Information on receipt of a recommendation was recorded by two sources. Firstly, the survey asked:

> *Did you receive a recommendation for a specific investment product after having spoken to the adviser?*

Secondly, for ***recent purchasers***, as part of the product sales data that were supplied for use in the survey, there was information which indicated whether or not the sale was advised (implying a recommendation was received). A comparison was made of the level of correspondence between the two data sources.

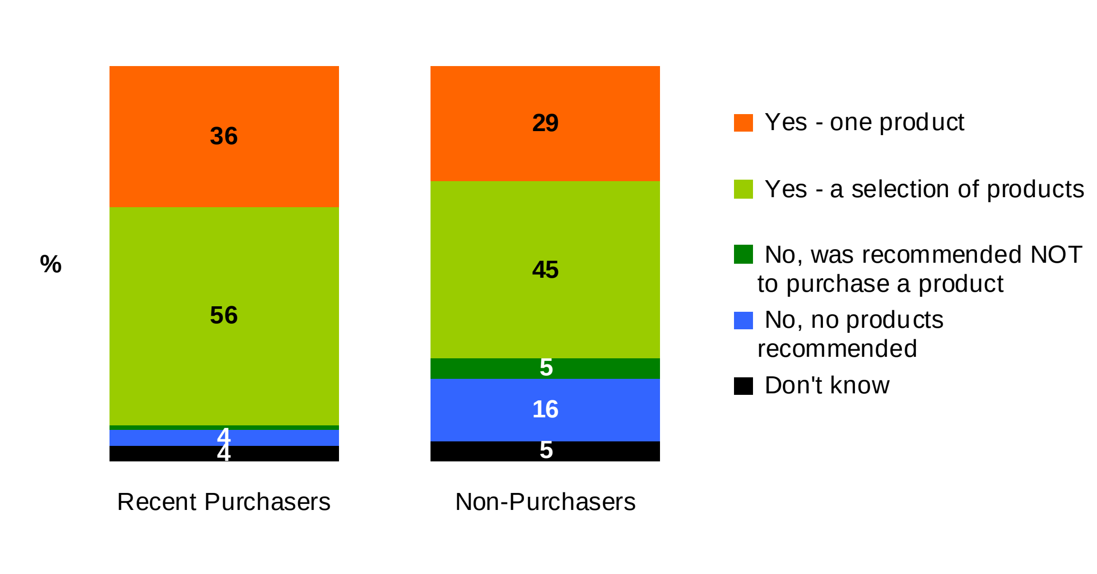
The two sets of data, although correlated, did not have a high level of correspondence. Where a sale was recorded as advised on PSD, 68% of ***purchasers*** said a recommendation had been received; and where a sale was recorded as non-advised on PSD, 38% said that a recommendation had been received. The total degree of non-correspondence was 33%.[58,59]

Nearly all ***purchasers*** (92%) who received regulated advice claimed to have received a recommendation – usually for a selection of products (56%) rather than a single product (36%). ***Non-purchasers*** were less likely to have received a recommendation although this is expected as they will not have got as far through the advice/sales process as purchasers (see Figure 76).

[58] This excludes those where the product sales data were incomplete and so a comparison could not be made (508 cases).

[59] There are some methodological issues which might explain some of the non-correspondence. As discussed earlier, although an attempt was made via question wording to route all questions to a single adviser contact, in some cases respondents may have received a recommendation from one adviser but purchased on an execution-only basis elsewhere. This might result in an adviser contact being recorded as a 'recommendation' by the survey but as non-advised by the administrative data.

Figure 76 Whether recommendation was received (recent purchasers & non-purchasers)



Base: All RP who sought regulated financial advice (3,217); All NP who sought regulated financial advice (421)

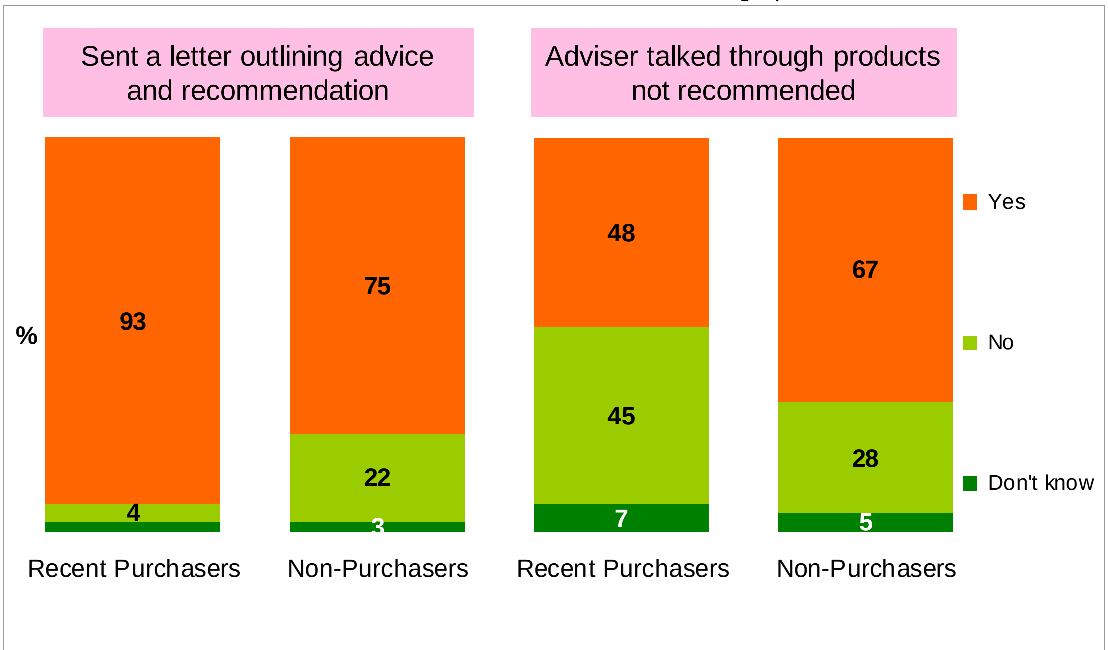
For ***recent purchasers***, multiple product recommendations were more likely through an IFA (60%) or multi-tied adviser (52%) than through a single-tied adviser (36%). The latter was more likely to be associated with single product recommendations (57%).

Figures 77 and 78 show how clearly the recommendation was considered to have been explained by the adviser, and to what extent the recommendation was backed up by documentation. Among ***recent purchasers***, recommendations were felt to be *'very'* clear (75% feeling this), and in the most part followed up by written correspondence (93%). As would be expected, ***non-purchasers*** – who would not have gone as far down the purchase process – were less likely to feel that the explanation was clear or to say that the recommendation was backed up in writing. On the other hand, ***non-purchasers*** were more likely than purchasers to say that the adviser had talked through products not recommended. This suggests that non-purchase may have arisen due to advisers pointing out that certain investment products may not have been suitable for their needs.

Figure 77 Purchasers and non-purchasers who received a recommendation: how clearly was this explained

Base: All RP who received a recommendation (2,948); All NP who received a recommendation (311)

Figure 78 Purchasers and non-purchasers who received a recommendation: whether documentation received and whether adviser talked through products not recommended



Base: All RP who received a recommendation (2,948); All NP who received a recommendation (311)

5.4 Making the decision to buy

All ***recent purchasers*** were asked how their final product choice was made: following the financial adviser's recommendation; influenced by a financial adviser; influenced by someone else; or, a choice made entirely by themselves. The proportions are summarised below:

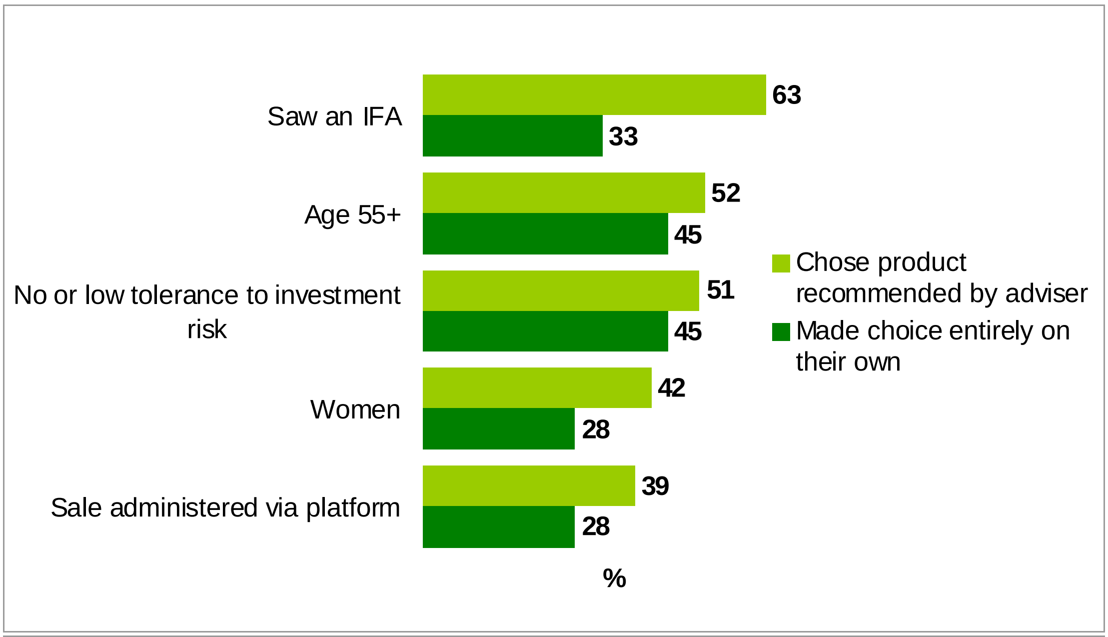
- One third (34%) chose an investment product recommended by a financial adviser.

- A similar proportion (32%) was influenced in their final choice by a financial adviser.
- Six per cent were influenced in their final choice by someone else e.g. a friend or relative.
- One quarter (27%) made the choice entirely by themselves.

Overall, two-thirds (65%) of ***recent purchasers*** said their final choice was either influenced by, or made on the basis of a recommendation by, an adviser. The proportion deciding after input from an adviser varied by the type of product purchased. Investment bond purchasers were much more likely (82%), and 'other' investment product purchasers much less likely (22%), than average to make their choice after input from an adviser. However, in Chapter 1 (Figure 3) it was observed that most sales of investment bonds were advised sales, while most sales of 'other' investment products' were non-advised. Therefore, the survey results tie in with expectations.

Figure 79 compares the profile of purchasers who bought on recommendation from an adviser vs. those who made the choice entirely by themselves (even if the purchaser's choice matched the adviser's recommendation).

Figure 79 The recent purchasers most likely to choose the product recommended by the financial adviser



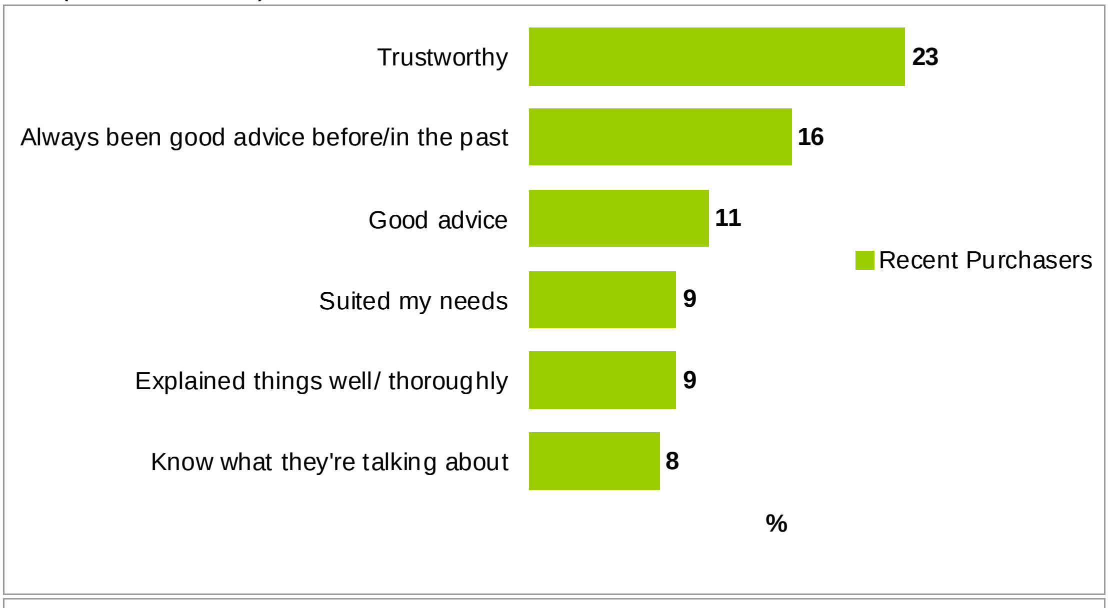
Base: All RP who bought product recommended by financial adviser (1,648); All RP who made the decision to purchase entirely by themselves (1,515)

Figure 79 shows that those who chose a product based on an adviser's recommendation as opposed to making the choice on their own were more likely to be older, female, have a low appetite for investment risk, have seen an adviser who was an IFA, and to have purchased the product via a platform.

Recent purchasers were asked to describe, unprompted, why they had made the choice about the final purchase in the way that they did i.e. why they either followed the adviser's recommendation or made the choice entirely by themselves.

The main reason given for making a decision on influence from an adviser was trust (23% of this subgroup citing this). One in six (16%) of this group mentioned past good experience while other top ranking reasons are shown in Figure 80.

Figure 80 Reasons for being influenced by the adviser – top 6 reasons (UNPROMPTED)



Base: All RP who were recommended a product or a selection of products and bought a product recommended by the financial adviser or who followed adviser's influence (2,629)
Note: respondents could give more than one answer

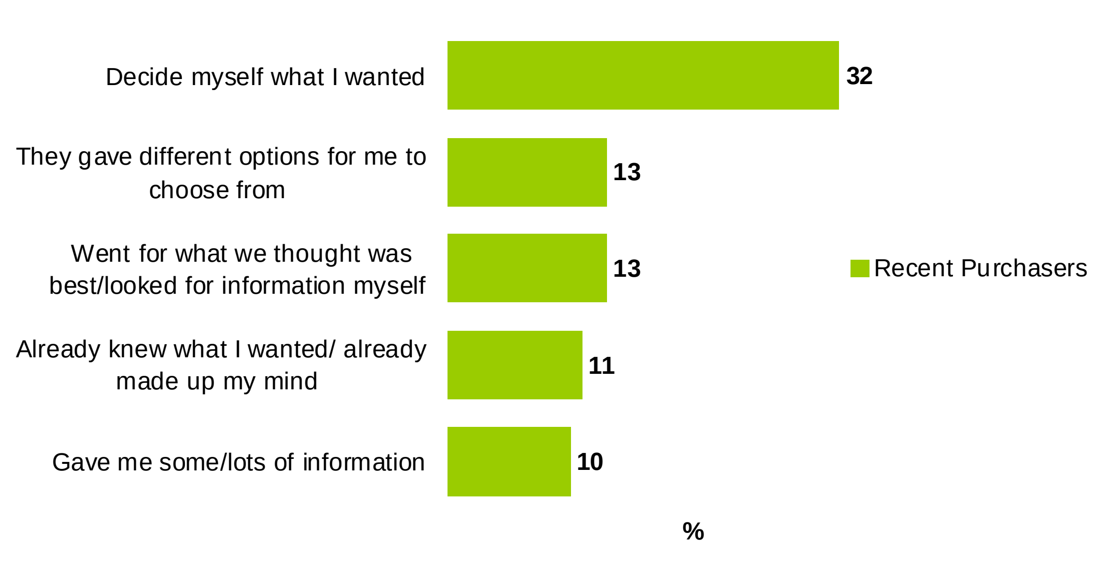
It was seen in Section 4.6.2 that, for purchasers, trust was driven mainly by professional reputation and integrity. Here the adviser's trustworthiness was more frequently cited by those who were educated to degree level or higher (25%) compared with those less well educated (18%). Those who consulted an IFA were also more likely to mention trust as a reason for being influenced by an adviser (30%) compared with those who saw a tied adviser (13%). Three in ten (31%) of those who purchased a product which was administered on a platform cited trust as a reason compared with 18% of those who bought the product administered through a product provider.

Consulting an IFA, and the investment being administered on a platform, were also characteristics associated with citing past good experience of advice as a reason for making a decision on their adviser's influence. One quarter (23%) of those who consulted IFAs said that they chose their product after influence from an adviser due to previous good experience compared with 7% of those who consulted tied advisers. One quarter (25%) of those who purchased a product administered on a platform also cited this as a reason for deciding after adviser input compared with 12% of those who bought the product administered through a product provider.

The most common reason for making a decision on their own without adviser influence, despite receiving a recommendation from them, was confidence in their own ability to decide

(32%). The other most common reasons given by these purchasers are displayed in Figure 81.

Figure 81 Reasons for making the choice to purchase entirely by themselves or being influenced by someone other than a financial adviser, despite being recommended a product by a financial adviser – top 5 reasons (UNPROMPTED)



Base: All RP who did not follow adviser's recommendation (213)
Note: excludes those who gave the answer that they did follow the advice/recommendation, which is in contradiction to the question. Also, respondents could give more than one answer

Propensity to cite wanting to make one's own decision about product purchase (saying 'Decide myself what I wanted') was related to income and education. Thus propensity was highest in more affluent households (48% of purchasers with an annual household income of at least £40,000 compared with 21% of purchasers with an income below £40,000). There was a striking difference in the propensity to make autonomous decisions by education (48% of purchasers educated to degree level or higher made their own decision compared with 21% of purchasers not educated to degree level).

5.5 Making the decision not to buy

Non-purchasers were asked to explain, unprompted, why they eventually decided not to purchase the investment product despite having contacted a financial adviser about it. A wide variety of reasons were given and no one reason stood out. The most common reasons cited by ***non-purchasers*** are shown in Figure 82.

Figure 82

NON-PURCHASERS: WHY THEY DECIDED NOT TO PURCHASE THE INVESTMENT PRODUCT (UNPROMPTED)

	%
I needed the money for something else/ could no longer afford it	12
Felt it was not the right time to invest	10
Got an existing product/ already invested	10
The product did not seem very good value	8
Decided to invest in different type of investment product instead	8
Preferred to spend the money on something else	6
Still unsure after speaking with the adviser	5
Just for information purposes/ enquiring/ getting advice	5
My circumstances changed/ no longer needed to invest	5
Concerned about the way the market was going to perform	5
Didn't trust the adviser/ the advice given	4
Base:	*667*

Note: respondents could give more than one answer and only the most common reasons are shown

The most common reason given for not purchasing was affordability (12%). One in ten (10%) mentioned that it was not the right time to invest and the same proportion mentioned that they had an existing product or had already invested.

Affordability was more likely to be cited by those who were aged under 45 (18%) compared with those who were older (8%). Those with children at home (15%) were also more likely to give this reason for not purchasing compared with those without children at home (10%). Investment risk attitude was also a distinguishing factor: ***non-purchasers*** prepared to accept no risk or only a low risk were more likely to mention this reason (14%) compared with those prepared to accept a moderate to high risk (8%). Those who had a low score on the financial capability measure of Staying Informed were also more likely to cite affordability as an issue (14% of those who scored 3 or less compared with 3% of those who scored 9 or 10).

Only 4% of ***non-purchasers*** mentioned that they did not trust the adviser or the advice that they gave as a reason for not purchasing the investment product, indicating that lack of trust in advisers was not relevant in this situation.

6. POST-SALES EXPERIENCE

CHAPTER SUMMARY

- This chapter focuses on the post-sales experience for ***long-term purchasers***, including the extent to which: further advice has been taken or is intended; annual statements are reviewed; and, investments are still held two years after initial purchase. The purpose of the RDR is to result in a retail investment market which satisfies consumers' needs through improving the clarity with which firms describe their services to consumers. Part of this is to ensure that investment products continue to meet purchasers' needs after the initial purchase; advisers should be transparent about what ongoing services they will or can provide to purchasers after the sale.
- Six in ten ***long-term purchasers*** (60%) who had sought regulated financial advice for their initial purchase said they were offered ongoing advice for the product. However, the majority (81%) of ***recent purchasers*** who bought on recommendation from an adviser had either already spoken or planned to speak to the same adviser again to discuss the product they had purchased. Therefore there is a clear demand for an ongoing adviser-consumer relationship.
- Four in ten ***long-term purchasers*** (42%) who sought regulated financial advice when purchasing had taken further financial advice from the same adviser since the purchase. Being offered ongoing financial advice, and taking it, were more likely to be associated with IFAs than tied advisers.
- Annual statements enable purchasers of retail investment products to stay informed on the progress of their products and review them in light of market conditions. Again, they form an important part of reducing consumer detriment, which is one of the key goals of the RDR. However, only one-fifth (22%) of ***long-term purchasers*** had read all of the detail in the annual statements – most (69%) had selectively read the parts they thought were important or had only glanced through them.
- As with the Key Features Documentation discussed in Chapter 5, those more financially capable on the Staying Informed domain were most likely to have read the annual statements in their entirety.
- Information needs in the retail investment market post-purchase appear to be largely fulfilled, with the majority (79%) of ***long-term purchasers*** receiving information saying it was the right amount to keep them updated about their investment. However, one in five (18%) said there was not enough information, with purchasers of equity ISAs more likely than average to want more information post-sales (27%).
- The ***long-term purchasers'*** survey focused only on those who had purchased a product two years previously which makes the survey somewhat limited in assessing post-purchase experience. However, the large majority (88%) of this group still had their investment product two years after their initial purchase and the retention rate was slightly higher for those purchasing via an IFA (94%) than a tied adviser (84%). Complaints about products purchased or the advice associated with the purchase were extremely rare (3%).

6.1 Introduction

This chapter covers the part of the customer's journey after the purchase has been made. It will look at post-sales information and advice and its use. This is important for retail investment products since customers are frequently told that the value of their investments can go down as well as up so they may get back less than they invested. Post-sales information or advice can help to ensure the product bought continues to meet the customer's needs.

The majority of the analyses conducted in this chapter are based on the data collected from ***long-term purchasers***, while drawing on extra information gathered from ***recent purchasers***. The demographic profile of ***recent purchasers*** and ***long-term purchasers*** was very similar, which was to be expected (see Chapter 2).

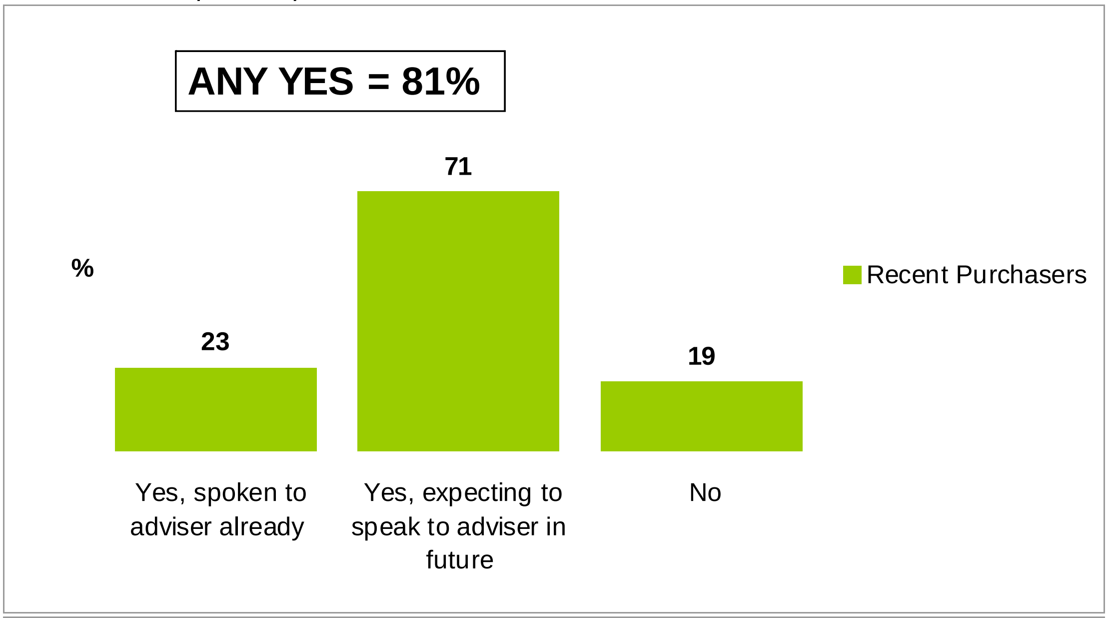
6.2 Post-sales financial advice

6.2.1 Recent purchasers

Recent purchasers who had bought a product recommended by an adviser were asked whether they planned to speak to the same adviser again in the future to discuss the investment product purchased. This helps to establish how important the purchaser felt a post-sales relationship with the adviser would be in helping them monitor their investment.

At the time of interview (about two to four months after the purchase), one quarter (23%) of ***recent purchasers*** of recommended investment products had already spoken to the adviser to discuss the product purchased. Seven in ten (71%) expected to speak to the adviser at some point in the future about their investment. These two responses were not mutually exclusive and overall, eight in ten ***recent purchasers*** (81%) had either spoken to or had plans to speak to the same adviser again in connection with the product they had purchased (see Figure 83).

Figure 83 Whether purchasers plan to speak to the same adviser again to discuss the investment product purchased



Base: All RP who bought product recommended by financial adviser (3,132)
Note: the 'Yes' responses could be multi-coded

There were some small differences in rates of re-contact by the type of product purchased. Those who purchased an equity ISA were less likely to have already spoken to or expect to speak to the adviser in future to discuss the investment (78%) compared with those who purchased a pension (87%) or investment bond (86%).

Purchasers who had received regulated advice were more likely to speak or plan to speak to the same adviser again (83%) compared with those who had not (65%). Those who consulted IFAs were also more likely to speak or plan to speak to them again in future (91%) compared with those who had consulted tied advisers (71%).

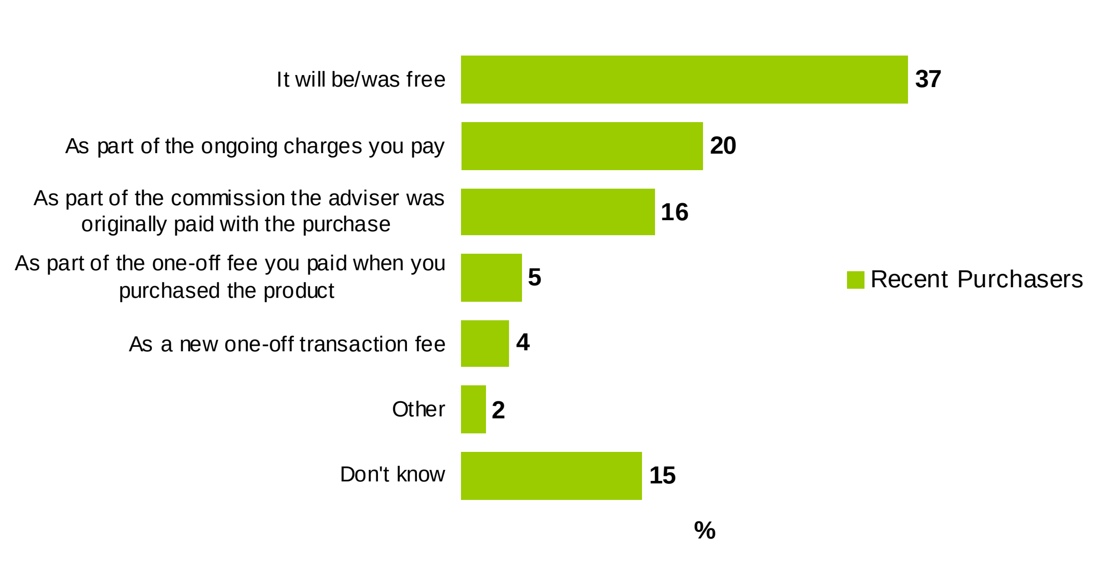
Purchasers whose sale was administered via a platform provider also displayed more evidence of wanting to have an ongoing relationship with an adviser regarding their investment (89%) compared with purchasers whose sale was administered through a product provider (77%). By their nature, platforms offer a range of tools that allow advisers and investors to analyse their portfolio, thus it seems intuitive that purchasers using a platform are more likely to be interested in staying informed about their investment.

Purchasers who were more financially capable on the domain of Staying Informed were also more likely to want to keep in touch with the adviser about their investment. Nine in ten (89%) of the highest scoring group, scoring nine or ten on this domain, had already spoken to or planned to speak to the same adviser again compared with seven in ten (71%) of those scoring three or less.

Using CHAID to analyse the characteristics of ***recent purchasers*** who were **not** planning to speak to their adviser again post-purchase,[60] it was seen that almost half (49%) of those who had seen a single-tied adviser and were working full time did not to plan to speak to the adviser again. In contrast, only 2% of those who saw an IFA, were aged 55 or above and had a household income of £60,000 or more a year did not plan to speak to their adviser again.

Recent purchasers who planned to speak to or had already spoken to the adviser to discuss the investment purchased were asked how the adviser was paid or would be paid for these ongoing services. From Figure 84 it can be seen that the most common response to this was that the services were or would be 'free' (37%).

Figure 84 How adviser was paid or would be paid for ongoing services



Base: All RP who have seen/will see adviser to monitor product progress (2,596)

As seen in Section 4.3.4 these results were based on consumer perception and the reliability of their answers cannot be backed up by external evidence. The strong belief that ongoing advice services are free suggests the adviser's services are actually being paid for by commission from the product provider, but that this was not known by, or was not made clear to, the purchaser during the original purchase process. For example, the adviser's commission may be funded by charges made by the product provider and deducted from the investment but the consumer is unaware of what these charges are paying for.

One in five (20%) mentioned that the adviser would be paid as part of the ongoing charges they already paid while 16% said it was part of the commission the adviser was originally paid with the purchase. A further 5% believed the adviser was paid as part of the one-off fee paid at the time they purchased the product. Combining these responses together, four in ten

[60] The independent variables included in the model were product group, sex, age, working status, highest level of education, household income, investment risk appetite, type of adviser seen, number of sources of information/advice used during purchase process, whether received a KFD and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.

recent purchasers (41%) therefore believed that no additional costs would be incurred as they were covered by existing or previous payments.

There was a sizeable proportion who did not know how their adviser was paid or would have been paid for their ongoing services (15%).

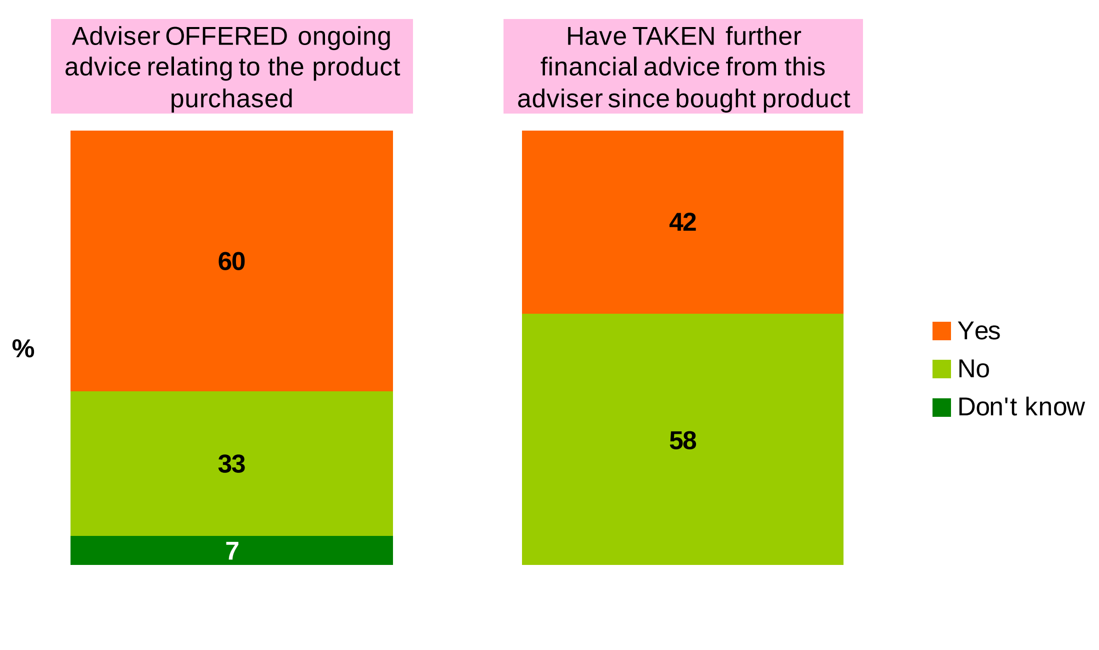
Knowing how the adviser would be paid for ongoing services was highly correlated with knowing how they were paid for advice on the original purchase. Three-quarters (75%) of purchasers who claimed the adviser's services in relation to the original purchase was free thought that ongoing services would be free as well. Six in ten (60%) of those who said their adviser was paid for advice on the original purchase via a charge on their investment said the same of ongoing services. Four in ten purchasers (40%) who said their adviser was paid by commission for the original purchase believed that ongoing services would be paid for out of the original commission. One third (32%) of purchasers who said they had paid their adviser a one-off fee for the original purchase said that ongoing services would be paid for from that original fee.

Those who consulted tied advisers were around twice as likely to say that ongoing advice from the financial adviser would be 'free' (53%) compared with those who had consulted IFAs (28%). Again, as seen in Section 4.3.4, purchasers seeing tied advisers were more likely than those receiving advice from IFAs to be of the opinion that the services during the original purchase process were 'free' and far less likely to say that the cost of advice had been made clear to them upfront. Thus, since disclosure on fees appears to be poorer for purchasers seeing tied advisers, it is perhaps unsurprising that a large proportion of this group believe their ongoing services are free.

6.2.2 Long-term purchasers

Switching the focus back onto ***long-term purchasers*** but still tackling the subject of post-sales advice, purchasers who had sought regulated advice at the time of the product purchase were asked whether their adviser had offered them any ongoing advice relating to the product they had purchased. Six in ten (60%) had been offered ongoing advice while four in ten (42%) said they had taken further advice from the same adviser, although this was not necessarily about the same product (see Figure 85).

Figure 85 Further advice offered or taken



Base: All LP who sought regulated financial advice (265)

Those who consulted IFAs were much more likely to have been offered ongoing advice in relation to the product purchased (72%) compared with those who had consulted tied advisers (39%).

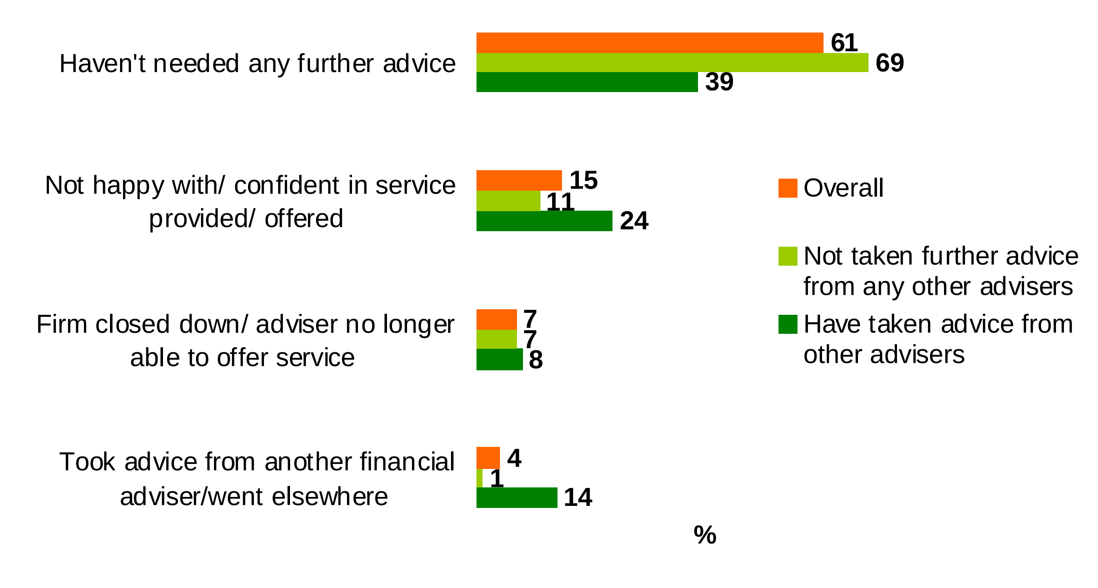
A similar pattern was observed in relation to *taking* further financial advice from the same adviser, with two-thirds (64%) of purchasers who had consulted IFAs having done so compared with 18% of those who had consulted tied advisers. Purchasers whose sale was administered through a platform provider were also more likely to have taken further financial advice from the same adviser compared with purchasers whose sale was administered through a product provider (73% and 36% respectively).

Long-term purchasers who had taken further financial advice from the same adviser had sought advice, on average, three times in the two years since purchasing the original product, although the most common response was two times, mentioned by one third (32%).

All purchasers who had taken further advice from the same adviser found it helpful, with the majority (70%) finding it *'very'* helpful.

The reasons given for **not** taking further advice from the same adviser are shown in Figure 86; these are broken down by whether the purchaser had taken no further financial advice at all or had taken further advice (including for other matters) but from a different financial adviser (see Section 6.3 for further discussion of this latter group). Caution should be exercised when looking at the latter results because of the very low base.

Figure 86 Reasons for not taking further advice from same adviser – top 4 reasons (UNPROMPTED)



Base: All LP who have not taken further advice from original financial adviser/firm of advisers (147); Have not taken further advice from any other financial adviser/firm of advisers (109); Have taken further advice from another financial adviser/firm of advisers (38)
Note: respondents could give more than one answer

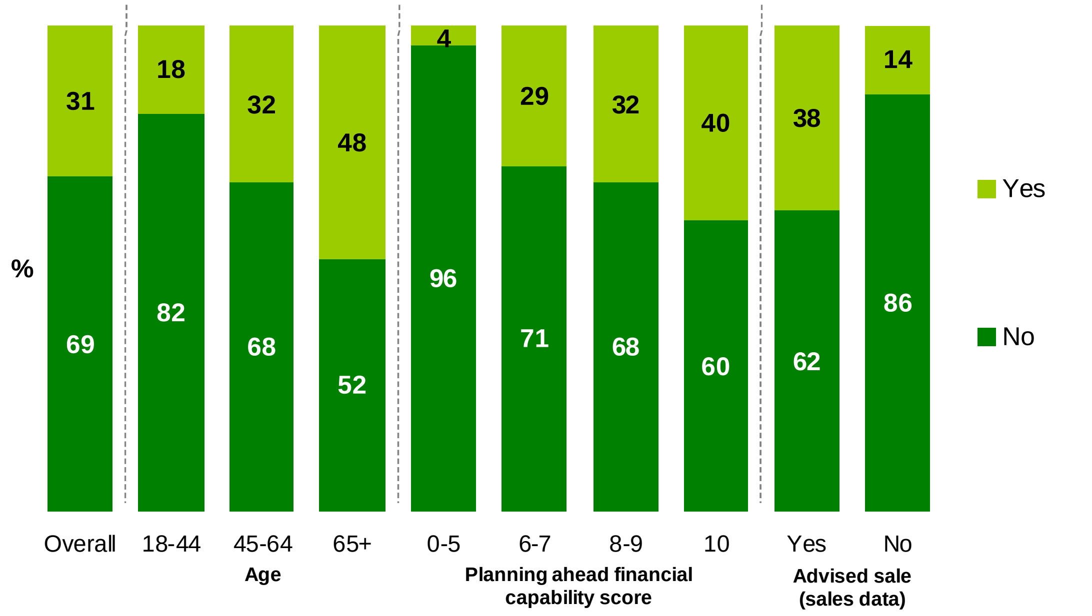
The main reason for not taking further advice from the original adviser was lack of need rather than poor service. Seven in ten (69%) of those who had not taken further advice from any adviser said they had not needed any further advice from their original adviser. However, four in ten (39%) of those who had seen other advisers but not the original one, including for other matters, said they had not needed any further advice from their original adviser.

A poor service from the original adviser was the reason given by 11% of those who had not taken any further advice at all and by one quarter (24%) of those who had taken further advice on any matter from a different adviser.

6.3 Recent use of financial advisers

Regardless of whether or not they had sought financial advice about the investment product they had purchased two years ago, all ***long-term purchasers*** were asked whether, since purchasing this product, they had taken any financial advice on that product or on any other matter from a financial adviser. Three in ten (31%) had done so (see Figure 87).

Figure 87 Whether taken any financial advice on any product or matters from any adviser



Base: All LP (510); Age 18-44 (138); 45-64 (255); 65+ (114); Planning Ahead score 0-5 (68); 6-7 (99); 8-9 (141); 10 (202); Advised sale – Yes (321); Advised sale – No (155)

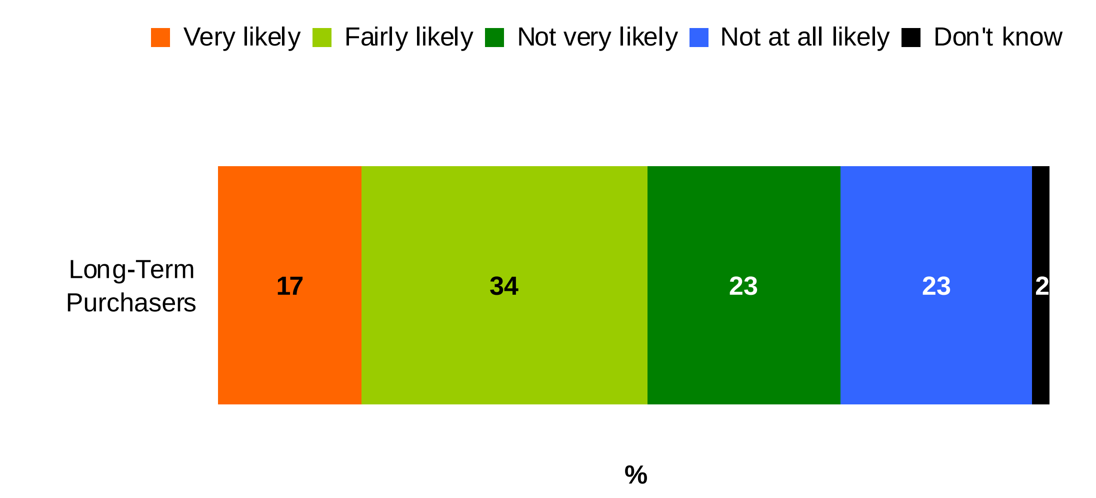
Half (48%) of purchasers aged 65 or over had taken financial advice since purchasing the product two years ago, compared with 18% of those aged between 18 and 44. Those who scored highest on the Planning Ahead financial capability measure were also much more likely than those who scored five or less to have taken financial advice (40% and 4% respectively).

As a way of gauging the adviser market retention level, it is noteworthy to see that four in ten ***long-term purchasers*** (38%) whose original transaction was an advised sale (based on product sales data) had taken further financial advice in the two years since the purchase. This compares with 14% of those who purchased their original product as a non-advised sale.

As with further advice from the original adviser, advice from any financial adviser was also rated very highly in terms of how helpful it was. Nine in ten (91%) of those who had taken financial advice found it helpful, with over half (55%) finding it *'very'* helpful.

All purchasers who had not taken any advice from a financial adviser since buying their investment product two years ago were asked about the likelihood of their seeking formal advice on financial matters in the next two years. As Figure 88 shows, half (51%) were likely to seek advice in the future, with one in six (17%) being *'very'* likely to do so.

Figure 88 Likelihood of seeking formal advice on any financial matter in the next two years



Base: All LP who have not taken any further financial advice from any financial adviser since buying product (285)

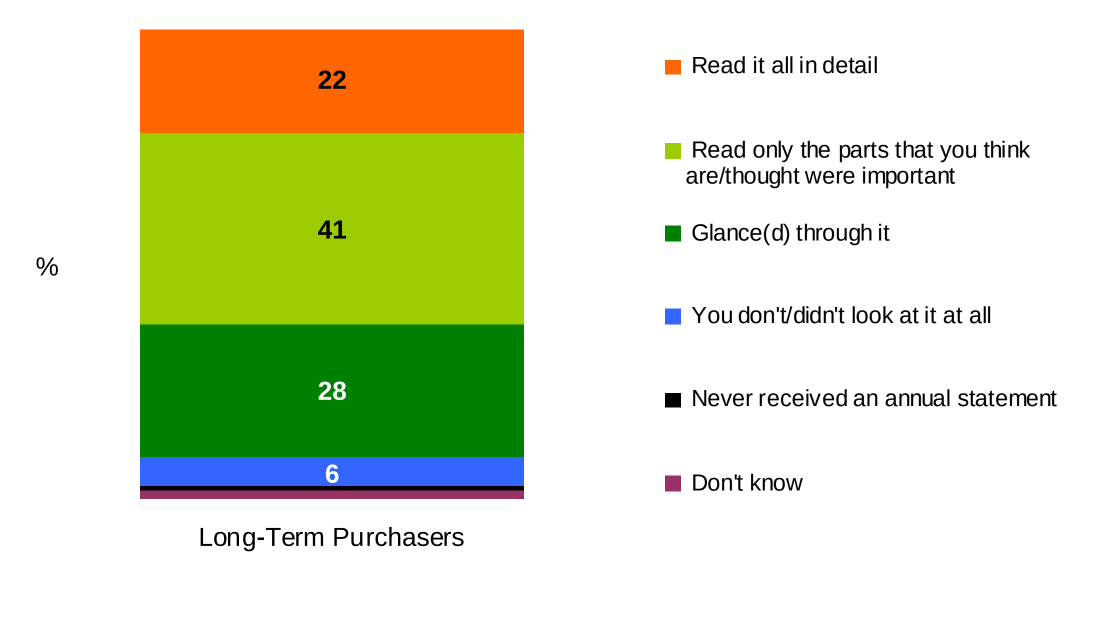
Those who had received regulated advice at the time of the original purchase were more likely to say they would seek formal advice in the next two years, compared with those who had not (70% and 39% respectively).

6.4 Post-sales information from product providers

6.4.1 Annual statements

Everyone who purchases a retail investment product should receive annual statements from their provider. One in five purchasers (22%) said that they read these statements in detail, almost double that proportion (41%) read only the parts they thought were important, while 28% just glanced through them. Only 6% did not look at them at all (see Figure 89).

Figure 89 How closely purchasers read annual statements for their investment product



Base: All LP (510)

Male purchasers were more likely to say that they read the statements in their entirety (30%) compared with female purchasers (8%). The majority of female purchasers tended either to read only the parts they thought were important or to just glance through the statements (both 42%).

If the transaction was carried out as an advised sale (as recorded on the sales data supplied by firms) then purchasers were more likely to say they read only the parts which they thought were important (46%) compared with transactions carried out as non-advised sales (27%). However, purchasers who bought on advice were less likely to have read the statements in their entirety (19%) compared with non-advised purchasers (31%).

Purchasers who had taken financial advice from any adviser since taking out the investment two years previously were also more likely to say they read only the parts which they thought were important (51%) compared with those who had not (36%).

There were also differences with regard to financial capability (see Figure 90).

Figure 90

HOW CLOSELY PURCHASERS READ ANNUAL STATEMENTS FOR THEIR INVESTMENT PRODUCT, BY FINANCIAL CAPABILITY

Row %

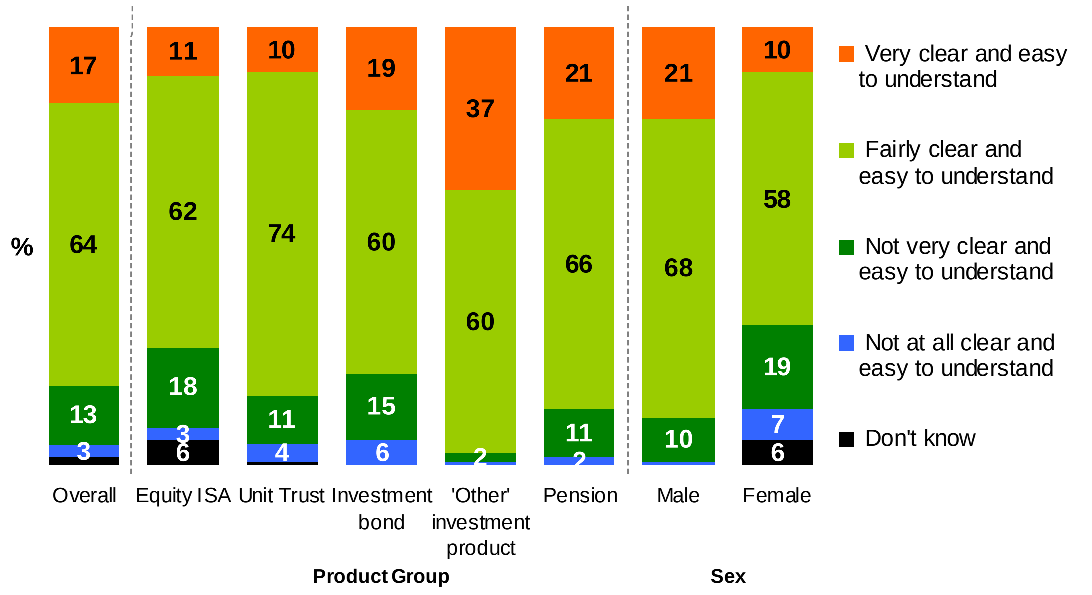
	Read all in detail	Read only important parts	Glanced through it	Didn't look at it	Never received statement	Don't know	*Base*
Overall	22	41	28	6	1	2	*510*
Financial capability score – Planning Ahead (PA)							
0-5	12	48	24	16	-	1	*68*
6-7	13	43	37	2	4	-	*99*
8-9	21	41	28	7	-	3	*141*
10	30	37	26	4	1	2	*202*
Financial capability score – Staying Informed (SI)							
0-3	9	31	49	10	-	1	*65*
4-6	14	46	28	8	2	2	*210*
7-8	30	40	22	5	*	2	*174*
9-10	39	36	24	-	*	-	*61*

More thorough reading of statements was related to high capability scores on both Planning Ahead and Staying Informed domains. Those in the highest scoring bands were much more likely than purchasers in the lowest scoring bands to read all of their statements in detail (Planning Ahead: 30% of those scoring 10 compared with 12% of those scoring five or less; Staying Informed: 39% of those scoring 9 or 10 compared with 9% of those scoring three or less).

The least financially capable purchasers on the Staying Informed domain were twice as likely to just glance at their statements (49%) compared with the most financially capable (24%). The least financially capable purchasers in terms of Planning Ahead were the most likely to not look at their annual statements at all (16%).

Where purchasers did at least glance at their statements, the majority found them to be clear and easy to understand (81%). One in six (17%) found them *'very'* clear and easy to understand (see Figure 91).

Figure 91 How clear and easy to understand purchasers found the information contained in annual statements



Base: All LP who have looked at annual statements (469); Equity ISA (94); Unit trust (95); Investment bond (98); 'other' investment product (91): Pension (91); Male (304); Female (165)

Purchasers of 'other' investment products (mainly with-profits bonds – see Section 1.3.1) were much more likely to say that the annual statements were *'very'* clear and easy to understand (37%) compared with purchasers of investment products from the other groups (15%). Male purchasers were more likely than female purchasers to claim they found the statements clear and easy to understand (89% and 69% respectively).

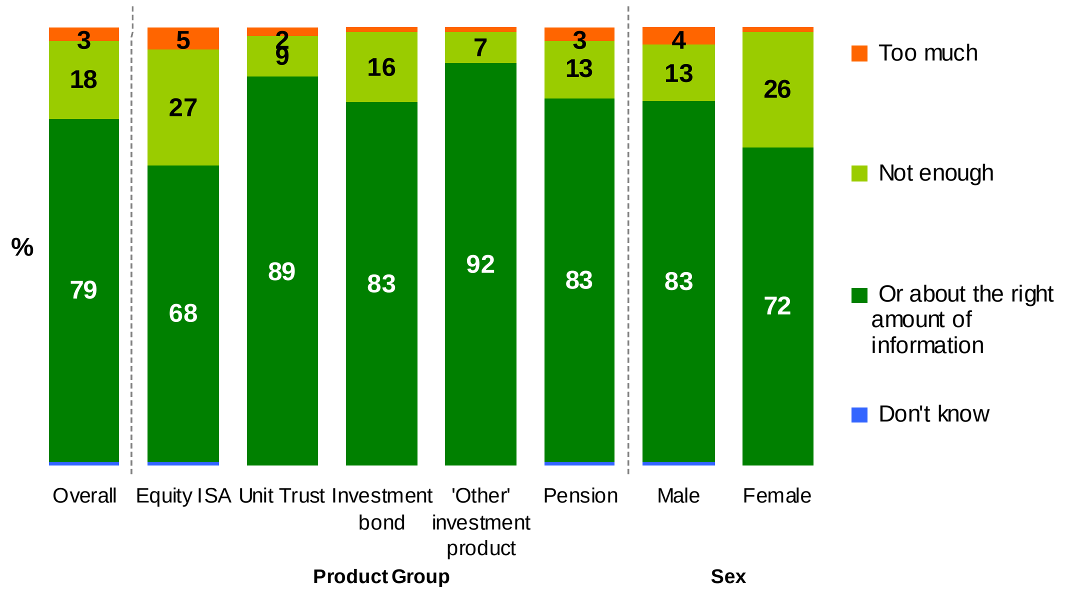
6.4.2 Other information received

Three in ten purchasers (28%) said they had received other information from their product provider, apart from annual statements, about the product they had purchased. The majority (64%) had not received other information while the remaining 8% did not know. There was little noticeable variation by the type of retail investment product purchased or by whether or not the sale was advised.

6.4.3 Rating of information received from product provider

All purchasers who had received either annual statements or other information from their product provider since purchasing the product were asked whether the amount of information they did receive was appropriate to their needs. Eight in ten (79%) said that they had received about the right amount of information to keep them updated on the progress of their investment (see Figure 92).

Figure 92 Rating of the amount of information received to keep them updated on the progress of their investment product



Base: All LP who have received annual statements or other information about product (496); Equity ISA (102); Unit trust (100); Investment bond (101); 'Other' investment product (99): Pension (94); Male (319); Female (177)

A further 18% said that not enough information had been given to them while 3% made the opposite case, saying there was too much information. Purchasers of equity ISAs were three times as likely as unit trust purchasers to say that not enough information had been given (27% and 9% respectively). Female purchasers were twice as likely as male purchasers to say this (26% and 13% respectively) although, as noted in Section 6.4.1 above, they were also more likely than men to admit that they did not read their annual statements in detail. The information contained in the statements is perhaps seen as less accessible by women, which results in their feeling less well informed.

There were further differences related to a purchaser's financial capability in terms of Planning Ahead. Of those who scored highest on this domain, the majority (86%) said they had received the right amount of information. This compares with two-thirds (65%) of purchasers who were the least capable on this domain (score of five or less).

6.5 Post-sales experience of product bought

Nine in ten ***long-term purchasers*** (88%) still had the product that they had purchased two years ago, with 11% saying that they did not. Purchasers who had consulted an IFA were more likely to still hold the investment at the time of the interview (94%) than purchasers who had seen a tied adviser (84%).

Those who no longer had their investment product were asked why they had sold or transferred their investment. The results in this section should be treated with caution since the base size is less than 50.

The most common reasons given were the investment's poor performance (28%) and a change in their own circumstances, including needing to spend all or some of the money invested (26%).

While one in five (22%) of this group (excluding those whose product had matured or where the provider went out of business i.e. those who had no choice but to move their investment) said they made the decision to sell or move their investment on the recommendation of a financial adviser, the majority (61%) made this decision entirely by themselves.

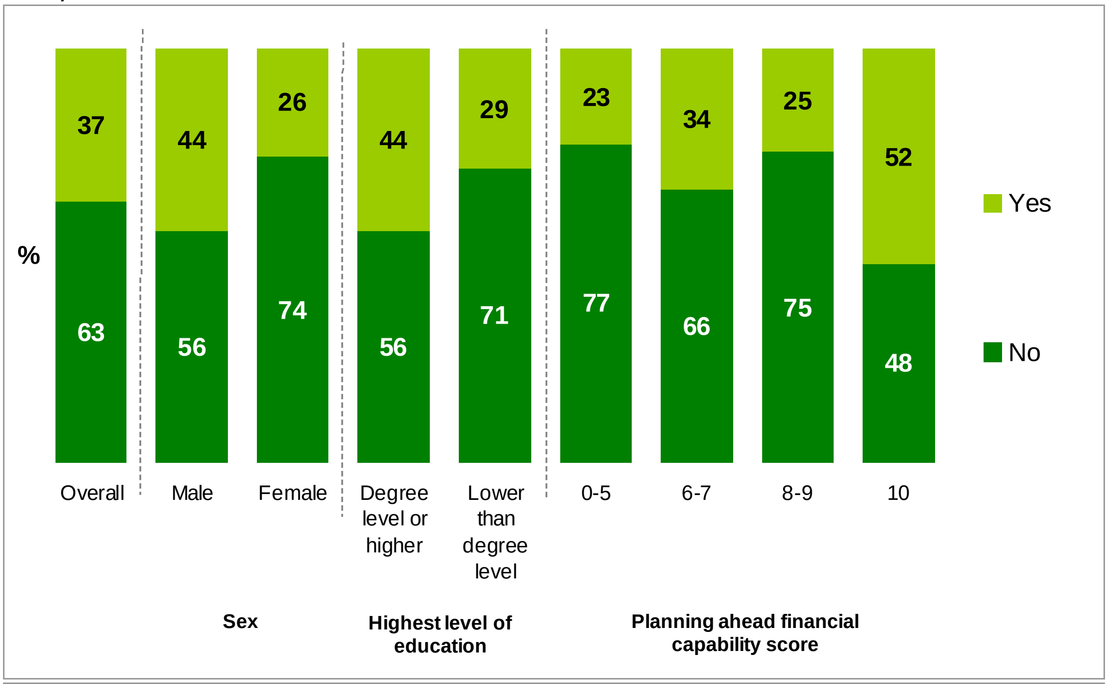
Most people who did sell or move their investment said they reinvested all or some of the money in one or more other investment products (61%). One in four (23%) spent all or some of the money, while one in five (19%) put all or some of the money into a savings account.

Very few purchasers (3%) had made a complaint about their investment product or the adviser who sold or advised them about it. As the products had only been purchased two years ago, and this is a relatively short period of time to hold an investment, the result should be seen in that context.

6.6 Further purchases

Since purchasing an investment product in 2008, over one third (37%) of purchasers had bought another investment product in the two years since then (see Figure 93).

Figure 93 Whether purchased any other retail investment products since original purchase in 2008



Base: All LP (510); Male (331); Female (179); Degree level or higher (270); Lower than degree level (240); Planning Ahead score 0-5 (68); 6-7 (99); 8-9 (141); 10 (202)

Male purchasers were more likely to have purchased another investment product than female purchasers (44% and 26% respectively). Those educated to degree level or higher were also more likely to have made a subsequent purchase (44%) than those who were not educated as highly (29%). There was a further difference by a purchaser's financial capability score in Planning Ahead. Of those who scored highest, half (52%) said they had made another purchase. This compares with one quarter (23%) of purchasers who were the least capable on this domain (scored five or less).

Making a subsequent purchase was strongly related to taking further financial advice. Around four in ten (42%) of those who had taken further financial advice from the adviser involved in the original purchase had made a subsequent investment, compared with a fifth (22%) of those who had not taken advice from this adviser again. Similarly 55% of those who had taken advice on any matter from any adviser after their 2008 purchase, had made a subsequent purchase, compared with 29% of those who had not taken any subsequent advice.

The most common products bought subsequently were equity ISAs (24% of all ***long-term purchasers***) followed by unit trusts (17%). Eight per cent had purchased an investment bond while 7% each had purchased either a pension or a product from the 'other' investment products group. It is interesting to examine the relationship between the original and subsequent products purchased. Equity ISAs, for example, were purchased by 22% of those who had purchased this product in 2008, but also by 35% of those who had originally purchased a unit trust and 27% of those who had purchased a pension. Of those who had originally purchased an 'other' investment product (mainly with-profits plans), 50% had subsequently purchased another product of this type, the majority a ten year savings plan.

When saying what type of products they had bought since their original purchase in 2008, purchasers were given a list of 11 investment product types to choose from.[61] One half (52%) had purchased just one product type since their main purchase in 2008, 27% had purchased two different types, whereas the remainder (21%) had purchased three or more types of products. Although this does not show a comprehensive view of how many more investment products they purchased (since it is unknown how many products of the same type they may have bought), it gives an indication of the breadth of products purchased since the original purchase in 2008.

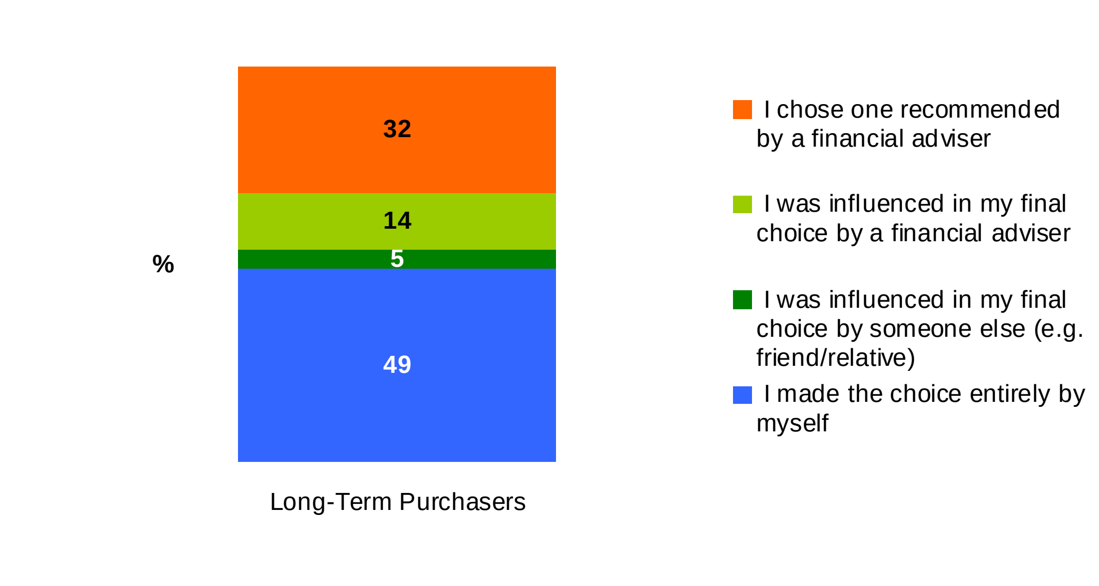
Earlier it was seen that making a subsequent purchase was related to taking further financial advice. The results also show that a wider scope of subsequent purchasing is associated with taking further financial advice. Thus, those who subsequently bought three or more different types of investment products were more likely than those who had gone on to buy one or two different product types to have taken further financial advice from the same adviser who advised on the original purchase (75% and 53% respectively). Similarly, 69% of those who had made a subsequent purchase of three or more different types of investment products had

[61] The list of products was the same as those used in the screening questions for the NP and NU surveys (see Appendix A).

taken further financial advice from *any* adviser after the original purchase compared with 40% of those who had purchased just one or two.

The way in which the purchaser chose which product to take out subsequently was divided, similar to the way in which the purchaser made the decision about the original purchase in 2008. From Figure 94 it can be seen that one half (49%) made the choice entirely by themselves while one third (32%) chose one recommended by a financial adviser.

Figure 94 How the final choice about subsequent purchase was made



Base: All LP who have bought a retail investment product since purchasing product in 2008 (206)

The way in which the subsequent purchase was made was highly correlated to the original purchase in 2008. Thus, of those who made the purchase decision in 2008 based on an adviser's recommendation and had made a subsequent purchase, two-thirds (64%) also chose a product for the subsequent purchase recommended by a financial adviser, while one quarter (25%) made the choice by themselves on that occasion.

In a similar fashion, of those who said they made the purchase decision in 2008 entirely by themselves and had made a subsequent purchase, eight in ten (78%) made the choice to purchase by themselves again, while 6% of this group made the purchase decision in 2008 based on an adviser's recommendation.

People purchasing three or more product types since 2008 were more likely to have made the decision to buy based on an adviser's recommendation (52%) compared with those purchasing just one or two types (26%).

If the purchaser did choose a product for the subsequent purchase based on an adviser's recommendation, the majority (61%) used the same adviser or firm as the one who advised on the main purchase in 2008, while 37% used a different adviser or firm.

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APPENDIX A – PRODUCTS COVERED BY CPOS 2010

Recent purchasers and long-term purchasers

When firms were asked to submit product sales data, they were asked to submit information for the following product types which sat within five broad product groups.

Equity ISAs	Unit trusts/ Investment Trusts	Investment bonds	'Other' Investment products	Pensions
Equity ISA	Unit trust / OEIC	With-profit bond	With-profit endowment	Stakeholder pension (individual)
	Investment Trust	Unit linked bond	Structured capital at risk product (SCARP)	Personal pension (individual)
		Distribution bond	Endowment savings plan	Free-standing additional voluntary contribution (FSAVC)
			Guaranteed income/growth/ investment bond	Individual pension transfer
				Pension opt out
				Self Invested Personal Pension (SIPP)

Non-purchasers and non-users

Eligibility for these two surveys was established on the basis of certain behaviours in relation to the products listed below.

Non-purchasers were asked to consider whether they had contacted a financial adviser in the previous two years in relation to these products. ***Non-users*** were asked to think further back over a five year period and, in addition, whether they had purchased a retail investment product in that period from the same list of products.

Product type	Broad product group
Equity ISA, sometimes called a Stocks & Shares ISA, investment ISA or Maxi ISA (but NOT Cash ISA)	**Equity ISAs**
Unit trusts	**Unit trusts/ Investment trusts**
Investment trusts	
Child trust fund (CTFs) accounts which specifically invest in company shares (NOT CTF Savings accounts)	
OEICs (Open Ended Investment Companies)	
Insurance bond / Investment bond (but NOT National Savings such as premium bonds and Cash ISAs)	**Investment bonds**
10 Year Savings Plan	**'Other' investment products**
Endowment policy (but NOT policy linked to a mortgage)	
Exchange Traded Funds (ETFs)	
Individual Personal pension	**Pensions**
Individual Stakeholder pension	

APPENDIX B – CHI-SQUARED AUTOMATIC INTERACTION DETECTOR (CHAID)

CHAID (Chi-Squared Automatic Interaction Detector) is a technique that can be used to find predicting factors of a dependent variable and highlight interactions. It separates the data into statistically different groups, based on the probability of having a particular characteristic. CHAID can be used to work out what variables have the biggest impact and where they need to be split in order to create groups that optimise prediction or classification of the dependent variable. The groups created are statistically different to each other in terms of their effect on the dependent variable.

CHAID works by using Chi-squared to test lots of combinations of cross-tabulations and determines where and how many splits are needed to create groups that are significantly different to each other. It merges categories that are not statistically different and separates variables into the appropriate categories.

The CHAID method has certain advantages as a way of looking for patterns in complicated datasets. First, the level of measurement for the dependent variable and predictor variables can be nominal (categorical), ordinal (ordered categories ranked from small to large), or interval (a ‘scale’). Second, not all predictor variables need be measured at the same level (nominal, ordinal, interval). Third, missing values in predictor variables can be treated as a ‘floating category’ so that partial data can be used whenever possible within the tree. Fourth, if an appropriately conservative set of statistical criteria are used, the resulting models will primarily emphasise strong results without over-capitalising on chance. On the other hand, it must be remembered that with CHAID modelling there is always a potential for too much to be seen in the data even when very conservative statistical criteria are used. Nonetheless, in those cases in which there is not a strong theory in an area that would clearly indicate which variables are, and are not, probably predictors of some dependent measure, CHAID will be very useful in identifying major data trends.

Conducting the CHAID analysis

To explore the relationships that may exist between certain key variables within the survey and consumers’ characteristics, CHAID modelling was used. The choice of this technique was based on the requirements of the data. Independent variables which were thought to affect the outcome of the dependent variable were entered into the CHAID models.

Seven separate models were run; the findings of which are described in the main report. Further details of these models are shown below, including the independent variables that were tested as well as the key predictor to come from the models. Several iterations of each model were run in order to refine the models, including and excluding variables as appropriate, as well as varying certain technical parameters.

	Report location	Independent variables included	Key predictor
Model 1 (recent purchasers) Which retail investment product purchased	Section 2.2	Sex, age, working status, highest level of education, household income, investment risk appetite and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products	Age
Model 2 (non-users) Whether ever held any longer-term investments	Section 2.5.3	Sex, age, working status, Internet access, highest level of education, household income, amount of savings able to set aside for at least 5 years, whether ever consulted a financial adviser, financial experience, financial confidence, investment risk appetite and the financial capability domains of Planning Ahead and Staying Informed.	Whether ever consulted a financial adviser
Model 3 (non-users) Whether would ever consider investing in a longer-term investment	Section 3.2.2	Sex, age, working status, Internet access, highest level of education, household income, amount of savings able to set aside for at least 5 years, investment holdings, whether ever consulted a financial adviser, financial experience, financial confidence, investment risk appetite and the financial capability domains of Planning Ahead and Staying Informed.	Investment risk appetite
Model 4 (recent purchasers) Whether main reason for considering to invest was to save in a more tax efficient way	Section 3.3.1	Product group, sex, age, working status, highest level of education, household income, investment risk appetite and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.	Product group
Model 5 (recent purchasers) Type of company that financial adviser seen worked for	Section 3.4.3	Product group, sex, age, working status, highest level of education, household income, investment risk appetite, whether plan to speak to adviser again post-purchase, number of sources of information/advice used during purchase process and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.	Product group

Model 6 (recent purchasers) Whether understood adviser's status	Section 4.4	Product group, sex, age, working status, highest level of education, household income, investment risk appetite, whether plan to speak to adviser again post-purchase, number of sources of information/advice used during purchase process, whether received a KFD and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.	Household income
Model 7 (recent purchasers) Whether planning to speak to the same adviser post-purchase	Section 6.2.1	Product group, sex, age, working status, highest level of education, household income, investment risk appetite, type of adviser seen, number of sources of information/advice used during purchase process, whether received a KFD and the financial capability domains of Planning Ahead, Staying Informed and Choosing Products.	Type of adviser seen

APPENDIX C – DERIVING FINANCIAL CAPABILITY SCORES

The derivation methods below outline all of the questions that are needed to create simple indicators for the three domains of financial capability used in CPOS 2010. Five domains of financial capability were identified in the original analysis of the Baseline Survey of Financial Capability but only three measures were looked at in this study.

The questions were designed to measure levels of financial capability at an individual level. Therefore they rely on responses that reflect the respondent's position, rather than the household.

Each domain is scored from 0 (low capability) to 10 (high capability). To enable easier analysis, groups were formed for each domain to more easily show consumers with high and low financial capability. The ranges of scores included in the various bands were set arbitrarily, but was done in such a way so as to ensure each group had a sufficient base size for analysis.

The approach taken in CPOS 2010 was to keep the derivations as simple as possible whilst still providing an indication of levels of financial capability across the required domains. It should be kept in mind that these measures have not been formed from as much detail as in the original analysis of the Baseline Survey of Financial Capability.

Planning Ahead financial capability score

To create the financial capability score for this domain, three questions need to be asked. Two questions can be used in their raw form with responses corresponding directly to scores, whereas the third question is used as the basis for a derived variable. This derived variable has values corresponding to scores. The PA score for a respondent is obtained by summing the three scores together.

Question	Response	Score
(RP question 45; LP question 35; NP question 38; NU question 33): Please tell me how strongly you agree or disagree with the statement 'I always make sure I have money saved for a rainy day'.	Strongly agree	3
	Tend to agree	2
	Tend to disagree	1
	Strongly disagree	0
	Don't know	1
	Refused	1
(RP question 46; LP question 36; NP question 39; NU question 34): For how long would you and your partner (if you have one), be able to make ends meet if you lost the main source of income coming into your household?	Less than one month	0
	More than one month but less than three months	1
	More than three months but less than six months	2

	More than six months but less than 12 months	3
	12 months or more	4
	Don't know	1
	Refused	3

Derived variable

Question	Code	Response	Derivation of scores
(RP question 47; LP question 37; NP question 40; NU question 35): How would you find the money to meet an unexpected major expense? By major, I mean an expense equivalent to your whole income for a month, or more.	1	Draw money from current account (excluding any overdraft facility)	If the respondent would draw from their current account or use savings ONLY (codes 1 or 2) they are given a score of 3. If the respondent would draw from their current account or use savings (codes 1 or 2) AND use another method (codes 3 to 5) then they are given a score of 1. All other respondents are given a score of 0.
	2	Use existing savings/ investments	
	3	Borrow the money (including use an overdraft)	
	4	Get help from family/friends	
	5	Some other way (e.g. sell something, earn extra money, cut spending)	
	6	Would not be able to find money	
	7	Don't know	
	8	Refused	

The PA score can take a minimum value of 0 and a maximum value of 10.

Staying Informed financial capability score

To create the financial capability score for this domain, two questions need to be asked. One question can be used in its raw form with responses corresponding directly to scores, whereas the second question is used as the basis for a derived variable. This derived variable has values corresponding to scores. The SI score for a respondent is obtained by summing the two scores together.

Derived variable

Question	Code	Response	Derivation of scores
(RP question 48; LP question 38; NP question 41; NU question 36): Which, if any, of these things do you	1	Changes in the housing market	Scores are derived by counting the number of responses given between codes 1 and 8.
	2	Changes in the stock market	

personally keep an eye on? I'll read out a list – just give me a yes or no for each one.	3	Changes in interest rates	However, if the respondent monitors both changes in the housing market and changes in interest rates (codes 1 and 3) this is only counted once towards the total. Thus scores for this derived variable range from 0 to 7.
	4	Changes in the rate of inflation	
	5	Changes in taxation, e.g. income tax, inheritance tax, capital gains tax	
	6	Changes in the job market	
	7	Changes in state pension, benefits and tax credits	
	8	Best buys in financial products	
	9	None of the above	
	10	Don't know	
	11	Refused	

Question	Response	Score
(RP question 49; LP question 39; NP question 42; NU question 37): And how frequently do you tend to monitor [it/them]?	At least once a week	3
	At least once a month, but not once a week	2
	Less than once a month	1
	Don't know	0
	Refused	0

The SI score can take a minimum value of 0 and a maximum value of 10.

Choosing Products financial capability score

To create the financial capability score for this domain, two questions need to be asked. A third question usually needs to be asked in order to ascertain that a financial product had been purchased recently. However since this was known from the product sales data supplied by providers, it was unnecessary in this instance.

Both of the questions that were asked can be used in their raw form with responses corresponding directly to scores. The CP score for a respondent is obtained by summing the two scores together.

Question	Response	Score
(RP question 9): And which ONE source of information or advice did you feel most influenced your decision about which investment product to take out?	Advice or information from a financial adviser in a bank, building society, insurance company, solicitors, accountants, wealth manager, stock broker or an independent financial adviser (IFA)	5

	Best buy information or information from comparison websites (e.g. in newspapers, financial magazines or websites)	6
	Information from independent articles in newspapers, magazines, radio or TV programmes etc	4
	Product information collected from providers or from providers' own websites (e.g. given to you or mentioned by insurance companies or staff in banks or building societies)	3
	Information from adverts or flyers about specific products (seen or heard or sent in the post)	2
	Information from friends, family or colleagues	3
	Information from employer	3
	Anything else (Other SPECIFY)	3
	No information collected at all	1
	Don't know/remember	0
	Refused	1
(RP question 29): Which one of the following statements best describes the way you finally chose which investment product to take out?	I chose one recommended by a financial adviser	4
	I was influenced in my final choice by a financial adviser	3
	I was influenced in my final choice by someone else (e.g. friend/relative)	2
	I made the choice entirely by myself	1
	Don't know/can't remember	0
	Refused	0

The CP score can take a minimum value of 0 and a maximum value of 10.

APPENDIX D – DEFINITION OF REGULATED ADVICE

In CPOS 2010, it was felt necessary to use a simplified measure to define whether a consumer had received regulated advice when deciding what investment product to purchase. A measure needed to be derived for ***recent purchasers***, ***long-term purchasers*** and ***non-purchasers***. As ***non-purchasers*** were identified from the general population via screening on the Omnibus survey, no prior information existed so it needed to be a consistent measure which came from consumers directly.

The definition used in CPOS 2010 was that if consumers had sought information or advice from a financial adviser, they were asked whether the adviser asked a lot of detailed questions about their needs, circumstances, including full details of their income, outgoings and existing savings and investments. If they had, this would be defined as having received regulated advice.

This would help distinguish those who engaged in a full discussion with a financial adviser compared with, for example, those who entered a bank and spoke about a retail investment product with one of the bank cashiers, rather than one of their advisers or they had merely been given ‘information’ about products, including being given leaflets by someone in a branch.

The definition of receiving regulated advice in CPOS 2010 had evolved from the FSA’s work on the quality of regulated advice in that, for a consumer to have received regulated advice, it did not apply further criteria that the consumer:

- filled in a questionnaire or a list of their income and financial commitments with the adviser;
- was provided with documents by the adviser which explained how he or she was paid for their services; and
- was provided with documents by the adviser which explained the number of different companies they were able to give advice about.

Questions were asked in the relevant surveys to provide answers to the latter two criteria but it was felt preferable that a less strict definition be applied to receiving regulated advice compared with the FSA’s pilot study. The latter two criteria would instead provide indications of whether advisers were fulfilling their disclosure obligations during the sales process, since these documents have to be given by regulated financial advisers. The first condition about needing to have filled in a questionnaire was felt not to be necessary as it was in addition to having already been asked detailed questions about their needs and circumstances.

APPENDIX E – DERIVING THE TYPE OF FINANCIAL ADVISER SEEN

Defining the type of financial adviser spoken to

		Type of company that financial adviser worked for (RP question 11; LP question 8; NP question 15)		**Scope of advice adviser able to give advice on** (RP question 12; LP question 9; NP question 17)		**Whether understood adviser to be an IFA** (RP question 13; LP question 10; NP question 18)
Independent financial adviser (IFA)	=	Accountant or solicitors OR Firm of financial advisers (e.g. an IFA) OR Stockbroker or wealth manager OR Somewhere else	AND		AND	Yes, I already knew this OR Yes, they explained this at the time
Other whole of market	=	Accountant or solicitors OR Firm of financial advisers (e.g. an IFA) OR Stockbroker or wealth manager OR Somewhere else	AND	Financial products from ALL companies on the market	AND	No, they weren't an IFA
Multi-tied	=			From a LIMITED RANGE of companies e.g. two or more companies but not all those which were available on the market	AND	No, they weren't an IFA
Single-tied	=			From a SINGLE company only	AND	No, they weren't an IFA

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099
Website: http://www.fsa.gov.uk

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