Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Advice Gap Research

Foreword by Adam Phillips, Consumer Panel Chair

A great deal has been said by many commentators, including the Panel, about the "advice gap" and how the gap might be filled. This debate has intensified as we approach the deadline for the implementation of the Retail Distribution Review and only one thing has become absolutely clear during this time: there is a danger that we are all talking about slightly different things, with consequent misunderstanding and circular thinking. It is not surprising that no new ideas have been forthcoming of late.

We commissioned Nick Hurman and Ian Costain to take a snapshot of the advice market for us, clarifying where the gap might really lie and identifying underlying causes and potential solutions. The resulting report is a detailed qualitative assessment based on in-depth discussions with a wide range of key stakeholders.

This is a complex area and there are no easy answers. To a degree the structure of the advice market is driven by regulation, not by demand and is characterised – even distorted - by a general backdrop of mistrust and lack of confidence on the part of many of those who would benefit from financial advice. Earlier discussions between industry and the regulator seem to have reached an impasse and if there is no further progress, consumers will continue to lose out.

Opening up the advice market and securing engagement with consumers cannot be achieved unless all the interested stakeholders get back around the table and begin a more creative debate. We hope that in publishing this report we will stimulate that debate and that this will ultimately lead to better outcomes for consumers.

The views expressed in the research report are those of the authors, but the report provides a helpful and well-informed basis from which to move forward.

Financial Services Consumer Panel
March 2012

FINANCIAL SERVICES CONSUMER PANEL

RESEARCHING THE "ADVICE GAP"

A REPORT BY:

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1. Executive Summary

This short paper sets out the findings and conclusions from a programme of qualitative research carried out in January 2012 with providers of financial advice, guidance and help – both regulated and non-regulated – with a particular focus on the market for long-term savings and protection products. The research also covered a smaller group of key stakeholders interested in the public policy around this market. The research was commissioned by the Financial Services Consumer Panel as part of their work researching the perceived "advice gap" in this area.

The paper analyses the financial advice models currently in use and maps these figuratively to show their positioning. It looks at how 'advice' can be defined by public policy, regulators, providers and consumers. It also analyses the views of providers and stakeholders on the expected future developments in the scope, availability and use of advice services in response to significant policy changes such as the FSA's Retail Distribution Review (RDR).

Nature and extent of the "advice gap"

There is a general acceptance that there is a "savings gap" though there is no agreed quantification of its magnitude. However, whilst it is clear that the issue of the provision and use of financial advice is considered relevant and important to all parties, the analysis shows that the question of the "advice gap" posed by the Panel elicits strikingly different responses from respondents as to the nature and scope, and the causes and solutions proposed.

It would appear that public policy around how to address the savings gap – and therefore in turn any potential advice gap – is far from settled. There is a need to establish what would be good outcomes, and quantify the extent to which the current and future position falls short of this. This would address calls for more evidence-based research, in particular with consumers, to inform the debate.

There is a striking difference between the views of policymakers and those of other respondents interviewed. The primary focus of policymakers and consumer bodies is on how consumers can be motivated and equipped to engage with the range of services available on the market. Product and service providers, on the other hand, tend to focus on the cost of engagement which they believe is leading to a growing number of customers who are uneconomic to serve.

The challenge is not just about availability but also – in the absence of any encouragement or persuasion – it is about getting consumers actually to use what is available.

There is a need, as always, for joined-up policy. At one level this is about coherence across multiple initiatives such as the RDR, automatic enrolment, the development of simplified advice, and the Money Advice Service.

More fundamentally however it is about the policy role played by the FSA – it would appear that HM Treasury are keen to afford them latitude whereas the FSA's objectives are such that many of these problems are not theirs to solve. However, the market has become very much defined by the regulatory framework. Current discussions around the objectives of the Financial Conduct Authority should aim to ensure that the role it has in enabling public policy is fully reflected.

Range of models

The impact of the RDR on full advice has been widely researched and these findings support other research setting out the impacts that are widely anticipated.

Focused advice works well for needs where the product solution is readily and correctly identifiable, for example pension annuities and protection. The commercials are again very dependent on the cost of customer acquisition. There are though risks if the best solution for the customer either sits outside a common product solution or requires it to be applied in a particular way.

Simplified advice is seen as having a great deal of potential though the regulatory approach seems to be increasingly working against its provision. The regulatory landscape therefore appears problematic in terms of allowing a degree of experimentation and therefore the building of evidence bases. There seems to be the opportunity for scalability – as evidenced by the larger providers interested in this space - which is constrained by both the regulatory framework and also by the necessary scale of investment.

Considerable attention is being paid to the provision of assisted non-advised services. However, it would appear that consumers often perceive these services as being advice or at least fairly close to it. This has led in turn to caution on the behalf of providers and some less than optimal customer interactions. There is a potential read-across to the Mortgage Market Review (MMR) where the regulator has determined that any human interaction equates in effect to advice.

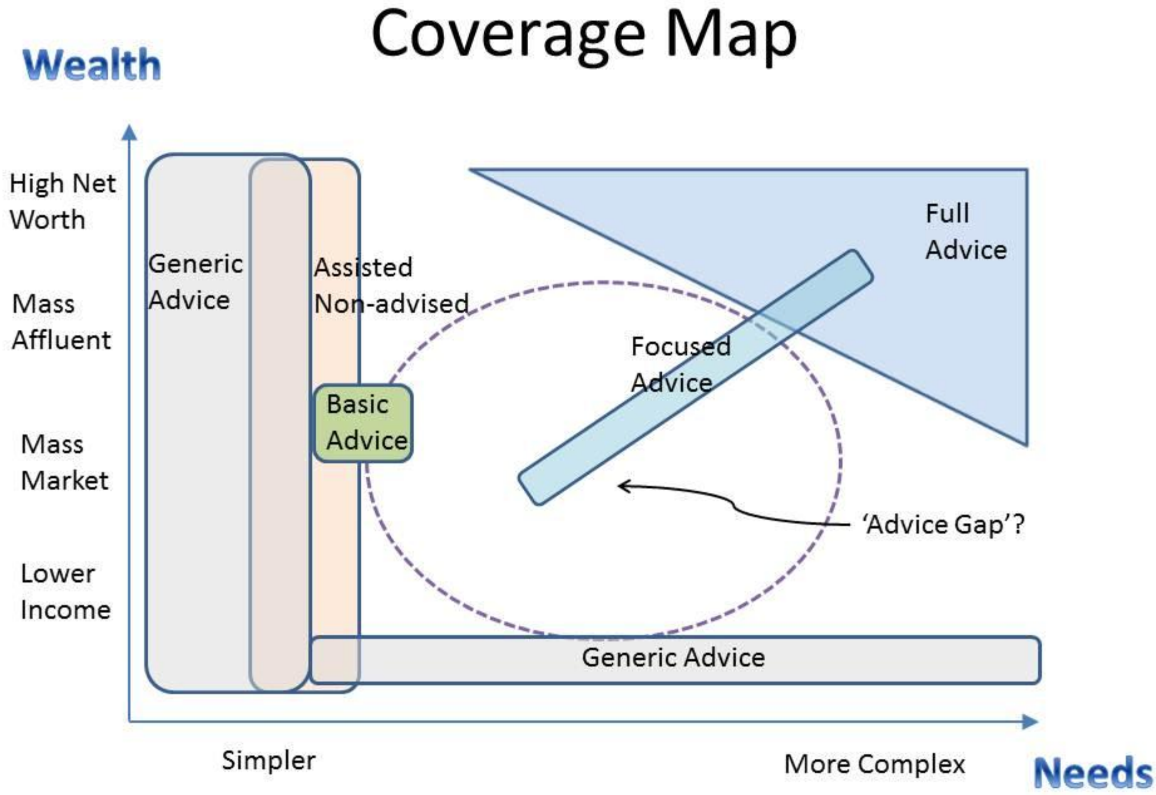
Generic advice services recognise the importance of consumers needing to take action and are beginning to push closer to the regulatory boundary than they have done previously. With generic advice advising on need – but stopping short of making specific recommendations – there are no commercial organisations operating in this space (although some employers do offer generic advice as part of their employee benefit offers).

Overall Conclusions

Having considered the "problem" (the nature and extent of the advice gap) and the "solution" (the range of models) each in isolation, we can draw some overall conclusions as follows:

- An initial, and obvious, observation is that the word "advice" is being used in many contexts and is often being interpreted in different ways. Consumers interpret the word "advice" according to the situation, in a much broader and more elastic way than the way in which regulation defines the word. As a result, consumers will commonly perceive assisted non-advised services as being "advice" which risks creating an expectation that the appropriateness of the product for them can be relied upon. In any dialogue, clarity of the context in which the word "advice" is used becomes extremely important.

- The existence of a savings gap is widely acknowledged even though it has not been quantified. There is a strong case made for the existence of an "advice gap" when consideration is given to the range of models currently being delivered and their reach. We have provided a diagrammatic representation of how current services map onto the market below and where the "advice gap" is seen to be. Those who take issue with the notion of an "advice gap" do, however, tend to agree that there is an "engagement" gap on the part of consumers.



- From our research with organisations who are currently focusing on providing or investigating provision of services, it is worth noting that:
    - No organisations are covering the simplified advice space as currently defined by the FSA
    - There are no commercial organisations operating in the generic advice space (although some employers do offer generic advice as part of their employee benefit offers)
    - Those who play exclusively in the focused advice space are niche players.

- Developing models and impact on mass market consumers:
    - With full advice moving up market, the focus of development has been around producing advisory services that are of value to mass market consumers and which have lower costs.

Types of Advice Model

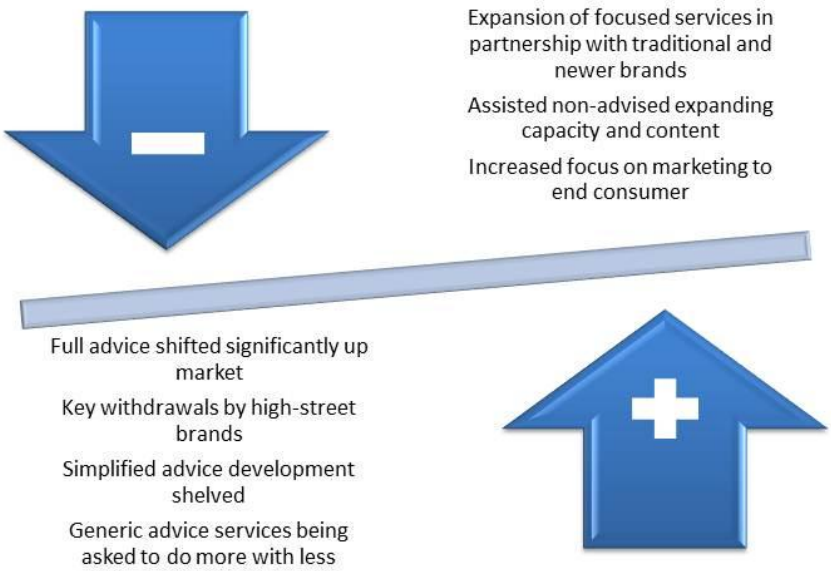
	Holistic ⇨	Specific
Higher Depth ⇩	• Full advice	• Focused Advice
Lower Depth	• Simplified Advice • Basic Advice • Generic Advice*	• Assisted non-advised

* But not product specific as non-regulated

The diagram above shows that there are two different approaches. One is to try to limit the scope of the advice to make it more specific - focused advice. The other is to try and reduce the depth of analysis – simplified advice. If both these approaches are applied together then we tend to up with services that are assisted non-advised. Our research suggests that the simplified advice box is largely being passed over so that attention is either going toward focused advice or, more often, onto assisted non-advised, leaving a gap in the market for lower-depth holistic advice. Generic advice has an important part to play in addressing this gap. But as it is non-regulated, it must be partnered with another model for the consumer to gain access to product solutions unless these solutions (such as deposit products or occupational pensions such as NEST) sit outside the FSA's regulatory boundary.

- Considering the various developments – and what this means for mass market consumers – we have identified a number of opposing forces acting as set out below.

‘Mass market’ coverage: opposing forces



- Public policy around the advice gap seems far from settled and, yet, at the same time the market is being defined by a strong regulatory framework. There appears to be a disconnect in that so much attention is being paid to the solution when the problem statement remains so poorly defined.

- The regulatory framework and existing regulatory boundaries act as significant constraints on the development of the market. As a result, organisations are being very cautious about the regulatory boundary and this has created a void. In addition, consumers often perceive non-advised as being advice (as is recognised in the FSA’s approach in the Mortgage Market Review).

- Advisory businesses are continuing to report reductions – actual and planned – in adviser numbers and re-segmentation of their client base and exclusion of more existing clients from pro-active engagement.

- The general picture is one of little current growth potential in the overall provision of financial advice, guidance and help for commercial providers without further regulatory change, with an expected shift from full advice to assisted non-advised and continued development of generic advice to fill this gap with the challenge to translate advice into action.

2. INTRODUCTION AND SCOPE OF WORK

The Panel believes that all consumers who need it should have access to good financial advice. The need for advice will vary according to individual circumstances and lifetime events. The advice market is, however, fragmented. The imminent introduction of the Retail Distribution Review (RDR) allied to the on-going challenge of persuading disenchanted consumers to renew their enthusiasm to save has focused attention on the need for an effective advice market which meets various consumer needs at various times. The challenge is to assess whether cost-effective, quality financial advice to the mass market is feasible, and whether it can be delivered in such a way that maintains consumer protection, enhances confidence in the market and in advice itself and allows various viable distribution models to be progressed.

In order to address this challenge, in 2011 the Panel initiated a programme of work to look at the "Advice Gap". This has as its primary objective "to help progress the development of models of advice that allow mass market consumers to access advice at an acceptable cost." As part of this programme, the Panel was keen to review the breadth and depth of advice services currently on offer – to include focused, simplified and generic models. The Panel therefore commissioned this research from us[1] to consider and assess the various advice models which exist currently, looking at how they address current market needs and which market segments they service. The Panel's primary focus is regulated advice, given that is what falls within the scope of the FSA. However, as well as established regulated models, the Panel expressed interest in some of the more recent introductions, such as those that are available online and non-advised services, which may in some cases exist on the perimeter of what can be classed as regulated.

As the trigger for this work has been the RDR, our research focuses on researching models that primarily address the needs for advice on products covered by the RDR. These are termed packaged investment products (principally investment and pensions products). But we have also researched across broader savings and (life) protection products as these are typically closely connected to investments and pensions in consumers' minds and in broader financial planning processes.

3. METHODOLOGY

Our approach was based on a combination of desk research and specific research with providers and stakeholders and was structured as follows:

3.1 ANALYSING MODELS CURRENTLY IN USE

This drew on desk research and our own experience of models that have developed in the market, identifying the main types of models and positioning these in the overall advice market.

We explored where these fit in terms of scope and usage, complexity for consumers and providers and how these fitted with consumer needs as expressed in previous published research. We mapped these out into a visual representation.

In addition to the desk research, we also consulted with 7 key stakeholders in the advice gap debate to test our mapping of the market with their perspective and also to highlight any other models and variations (either

[1] Profiles of the authors are contained in Appendix 1

in existence or under development) that they believed would be suitable for further research. All of these interviews were carried out face to face. The list of organisations interviewed is set out in Appendix 2.

3.2 Researching models as detailed case studies

The largest part of the work was interviewing case study organisations, providing us with insight into the models identified. The organisations were chosen to reflect the range of models analysed and to reflect a range of different outlooks and strategies.

We designed a structured interview plan, to ensure consistency, exploring:

- relevant background to the organisation's interests in this space - strategy, core competencies and "unique selling points"
- the design of the advice model, how it has developed and the regulatory/compliance framework it sits within
- the target market it addresses, and products and services it delivers
- the appeal of the model to consumers and issues that can arise in the process
- assessment of the scale of operation, volumes of business and relative profitability of the model
- opportunities and threats arising from anticipated change (e.g. the implementation of the Retail Distribution Review, automatic enrolment into workplace pension schemes)
- future plans and perceived current operational, commercial or regulatory/legal barriers to development
- what would need to happen for the organisation to want to extensively develop the model, potentially expanding to new target markets, or to develop new models (for example around generic, basic, simplified or focused advice)

We then conducted 19 provider interviews with key senior executives. 16 of these were face to face and 3 by telephone. Further details of our respondents are in Appendix 2.

3.3 Analysing coverage now and going forward

The analysis was structured around two key themes:

- the nature and extent of the advice gap
- the current, and potential future, range of models - including the parts of the market that they do, and could, serve

We drew out firstly our conclusions for each theme individually.

We then brought together our overall conclusions to draw out inferences about:

- the coverage of consumer needs by the various models and the perceived gaps
- the types of organisation offering these services and how these influence availability and coverage
- the potential to grow the models and factors influencing this potential
- the regulatory issues and how these might be overcome or mitigated
- the potential impact of RDR and other future regulatory change and
- where coverage might then grow, shrink, change or disappear and the likely reasons for this

Finally we made some recommendations based on our research findings.

4. Findings and Conclusions

4.1 Key themes

The two principal themes that this research explored were:

- the nature and extent of the advice gap
- the current, and potential future, range of models – including the parts of the market that they do, and could, serve

Whilst both themes were covered with all interviewees:

- the focus with the stakeholder groups was on the advice gap
- the focus with the providers was on the range of models

The two themes are of course inter-related and inter-dependent. Understanding the nature and extent of the advice gap is helpful, for example, in establishing whether there are issues that need addressing from a public policy perspective. The range of models reflects the opportunities, principally for commercial organisations, to provide products and services. These models are heavily governed by regulation and are impacted by public policy.

At a high-level the two themes represent the problem and the solution. There is a risk that issues can get conflated and for this reason the findings and conclusions are firstly considered for each of the two themes individually, and then brought together into some overall conclusions.

4.2 Nature and extent of the advice gap

4.2.1 Introduction

The purpose of this section is to summarise the findings from the discussions around the nature and extent of the advice gap. By the nature of the subject there is a strong public policy dimension, and so the focus below is on the views of the principal policymakers, namely HM Treasury and the FSA.

4.2.2 Findings – policymakers (HM Treasury and FSA)

HMT:

- acknowledge that people should, and could, be saving more
- accept that there is a resultant savings gap which is, as yet, unquantified
- have concerns about specific situations where people do not get any advice at all (such as those with smaller annuity pots)
- believe there is, in the wider sense of the definition, an advice gap and that is being addressed by policy activity, principally through the development of the Money Advice Service
- support policies such as automatic enrolment – and believe there is a potential opportunity to capitalise on the employer relationship – and also support the Retail Distribution Review (RDR)

- recognise that good consumer outcomes require a co-ordinated approach between public and regulatory policy

FSA:

- hold the general view that consumers could save more
- note that the question of whether people should save more is a policy rather than a regulatory question
- recognise that some consumers could benefit from a simplified advice service but that such services have to be offered with appropriate regulatory safeguards to protect consumers
- believe that advice and guidance is readily available for those consumers who seek it out
- acknowledge that the RDR may impact on consumer access to advice at the margins initially, but believe this may well be reversed in the medium term as the professional reputation of financial advice is enhanced by the RDR reforms - attracting both consumers and, importantly, new professionals to the marketplace
- see the Money Advice Service as being a key player in the market, engaging consumers to take action to improve their financial outcomes

4.2.3 Findings – observations from other stakeholder groups and from providers

A number of consistent themes emerged across a range of trade associations and a range of providers (from those offering full advice through to those offering generic guidance):

- belief that there is a significant and growing advice gap with a growing number of un-served customers
- the need for a "proper" holistic advice service for the mass market
- acknowledgement of significant gaps in awareness and confidence – with the view that responsibility for addressing awareness sits largely at the public policy level
- under-provision of advice also largely driven by under-buying by consumers arising from their lack of engagement with financial services
- engaging with customers requires some form of encouragement or persuasion – as long-term saving represents a discretionary purchase – and this carries a cost
- driving for the lowest product charges can result in poor outcomes for consumers if it means that there is insufficient margin to pay for the cost of customer acquisition. The cheapest products can end up being accessed by the most capable as opposed to the most needy
- the challenge is not just about availability, it is about consumers actually using what is available
- a lack of clarity in public policy with significantly more analysis, and potentially evidence, required to inform understanding and decision-making
- general support for the Money Advice Service though:
    - question marks over whether it can really help people through transactions
    - tension between questions of whether it will deliver the promised benefits (and whether its marketing programme is going to be big enough) and the cost to industry

- a view that automatic enrolment and the RDR are directionally right
- confidence needs to be re-established in the professionalism of advice and the security of providers – and, to this extent, the rhetoric from policymakers could helpfully be positioned as extolling the virtues of good advice rather than leading on, for example, the "banning of commission"

On the other hand, the perception of one significant consumer group is quite different.They do not believe there is a big advice gap as perceived by the industry (which they characterise as the sale of products which are high-cost and poor value). Nor do they see that there are many un-served customers. They therefore have no particular concerns about the falling number of regulated advisers.

Others however note the loss of regulated advisers able to handle the affairs of lower income and vulnerable consumers.

But they all consumer groups recognise a big gap for advice in the dictionary sense of the word as evidenced by demands for their various helpline and other advisory services.

4.2.4 Conclusions

There is general acceptance that there is a "savings gap" though there is no agreed quantification of its magnitude. However, whilst it is clear that the issue of the provision and use of financial advice is considered relevant and important to all parties, the analysis shows that the question of the "advice gap" posed by the Panel elicits strikingly different responses from respondents as the nature and scope, and the causes and solutions proposed.

It would appear that public policy around how to address the savings gap – and therefore in turn any potential advice gap – is far from settled. There is a need to establish what would be good outcomes, and quantify the extent to which the current and future position falls short of this. This would address calls for more evidence-based research, in particular with consumers, to inform the debate.

There is a striking difference between the views of policymakers and those of other respondents interviewed. The primary focus of policymakers and consumer bodies is on how consumers can be motivated and equipped to engage with the range of advice services available on the market. Product and service providers, on the other hand, tend to focus on the cost of engagement which they believe is leading to growing numbers of customers who are uneconomic to serve.

The challenge is not just about availability but also – in the absence of any encouragement or persuasion – it is about getting consumers actually to use what is available.

There is a need, as always, for joined-up policy. At one level this is about coherence across multiple initiatives such as the RDR, automatic enrolment, the development of simplified advice, and the Money Advice Service.

More fundamentally however it is about the policy role played by the FSA – it would appear that HM Treasury are keen to afford them latitude whereas the FSA's objectives are such that many of these problems are not theirs to solve. However, as illustrated in the next section of this report, the market has become very much defined by the regulatory framework. Current discussions around the objectives of the Financial Conduct Authority should aim to ensure that the role it has in enabling public policy is fully reflected.

4.3 Range of models

4.3.1 Introduction

It has been particularly striking that, unprompted, most interviewees immediately defined the market in the context of the regulatory framework and therefore in terms of the range of models that sit within it. So very quickly the discussion was about full advice, focused advice, simplified advice, basic advice, non-advised, generic advice or execution only. Whilst unsurprising, this is in itself very telling – regulation has firmly defined the market.

The purpose of this section therefore is to focus on the findings from the interviews with product and service providers which explored their current models and their future plans. The discussions included the impact of future anticipated change, such as the RDR, and thoughts on product design and the cost of regulation.

Types of Advice Model

	Holistic	**Specific**
Higher Depth	• Full advice	• Focused Advice
Lower Depth	• Simplified Advice • Basic Advice • Generic Advice*	• Assisted non-advised

* But not product specific as non-regulated

The figure above tabulates the different types of advice model researched. We define these as follows:

Full advice: researching all aspects of a client's financial needs, forming holistic financial plans with prioritised actions covering all relevant regulated and non-regulated products and investments

Focused advice: focuses on one area of a client's financial needs, as directed by the client, with research and specific recommendations solely within this need area – for example protection, pensions or annuities

Simplified advice: applies a standard series of questions, typically in the form of a decision-tree, to establish a client's needs and priorities to drive recommended product actions from a limited range of simpler products

Basic Advice: is a specific form of simpler advice where the recommended products can only be from the 'Stakeholder' suite of products as defined in regulation

Generic Advice: assesses client's needs and forms plans and recommendations that stop short of regulated advice – i.e. specific recommendations to take out, amend or cancel a specific regulated product or investment from a specific provider. Typically, though not exclusively, generic advice researches in lower depth as the recommendations are less specific than for regulated advice

Assisted non-advised: the provision of information and guidance to assist a client to purchase a product, where this assistance leaves the assessment of suitability to the client

Execution Only: in this study, we have used the definition of 'order taking' to describe execution only and have defined any assistance or guidance beyond this as a form of assisted non-advised

4.3.2 Findings – providers and their trade associations

Full advice:

- high cost of delivery together with significant costs associated with taking on the liability for advice
- relatively low levels of operating profits reported for advisory businesses limiting the opportunity for further investment
- evidence supporting the general hypothesis that the RDR will reduce adviser capacity by around 20%: around half will be lost in the run-up to the implementation of the RDR; and the other half in the period immediately thereafter
- there are examples of complete withdrawal from offering full advice to the retail market for a range of reasons – Barclays' exit being particularly high-profile
- a segmentation of client viability based on higher amounts of investable assets and/or income – threshold figures of around £100,000 investable assets or £50,000 of income were quoted by a number of respondents
- indications that the cost to customers is likely to be more expensive than they expect – there is some recognition that the willingness of consumers to pay fees is dependent on both the confidence of the adviser (believing they're worth it) and the presentation of value to the customer (so that they see it is worth it)
- expectation of a high proportion of "orphan" un-serviced clients and resultant issues around loss of commercial value and potential servicing issues for these clients: a number of respondents quoted estimates of around 80% of existing clients falling into this "orphan" category with only 20% being designated for future active engagement

Focused advice:

- those that have specific product solutions – such as Annuity Direct (pension annuities) and Lifesearch (protection) – feel generally satisfied that the regulation is clear enough to give them comfort
- the evidence suggests that as the regulatory costs, whilst still significant, are lower than for full advice then more mass market customers can be profitably served – but there are still very clear price points beneath which it is uneconomic to serve (indications from existing providers are that this falls around the level of those on average earnings)
- the Well Money Clinic provides an example of a totally fee-based (i.e. all fixed price) largely focused advice service for mass market customers. The Well Money Clinic is part of an IFA firm, and the model is

based on the client instructing the firm on the areas they would like to focus on. The majority of referrals come from Which?'s Helpline

- another new model, largely at the trial stage, is Decide2. Working in partnership with firms that give full advice, they are seeking to offer focused advice to that segment of customers for whom full advice is seen as uneconomic

- the commercials for all these models are very dependent on the cost of customer acquisition and an efficient network and process of referrals becomes a critical success factor. In turn therefore a dependency is created on these business partnerships (which are with organisations typically dealing with a wider range of customer needs)

SIMPLIFIED ADVICE:

- seen by many, especially those with access to mass market customer bases, as having a great deal of potential – though all developments now appear to be on hold following the FSA's latest guidance consultation

- the perception is that the FSA – particularly in light of their guidance consultation – is increasingly closing off the opportunities for development

- in particular, the liability costs associated with giving simplified advice (the perception being that the liability costs are similar to if full advice were given) rules out its consideration completely for many providers on the basis of commercial viability given the thinner margins expected from simplified advice services and products

- those that see opportunities include the Lighthouse Group which has more than 200 IFAs in its affinity-based model which serves mass market customers through appointments made at workplace seminars. They think the model has the potential to be hugely scalable but it is constrained by the lack of availability of advisers. They believe that an appropriately designed simplified advice model would create the opportunity for significant development. That model would need to allow them to employ, for example, graduates and deploy them in call centres dealing with customers who had more basic requirements – in this way graduates could be economically useful whilst, at the time, training to become regulated advisers

- the limited room for manoeuvre appears to restrict providers' ability to run pilot exercises (so that they can experiment and build evidence bases) and there is seen to be a "first mover disadvantage" in developing the regulator's confidence in a new service or product

BASIC ADVICE:

- Basic advice remains a niche offering. The particular position of the current champion appears context-specific and so difficult for others to replicate.

ASSISTED NON-ADVISED:

- an area where quite a number of providers are focusing their attention

- provider strategies appear to be focused either around

    - customers who are comfortable and confident enough to self-serve or

    - customers who do not have access to advice (and who tend to be in the core of the mass market)

- providers report that consumers often perceive these services as being advice or at least fairly close to it – this has led:

    - providers to almost exclusively use the telephone to provide this service (as there is an audit trail)

    - providers to withdraw their face-to-face service even though it would otherwise be commercially viable and

    - other providers to dismiss this market completely

- the risks related to the regulatory boundary have led to providers taking a very cautious approach which can, at the same time, make for some rather stilted and less than helpful conversations with customers as well as also some frustrations from customers

- where customers self-serve, and have invested time in understanding the product and have to an extent become self-educated, the risks associated with not understanding what they have bought reduces

- in a post-RDR world some fear that it will be positioned as "free advice" – in the same way that full advice today is often perceived as free – and there will not, therefore, be a level-playing field given the application of adviser charging to regulated forms of advice

- it is also seen that the way that the RDR might impact on platforms could potentially undermine some models and bring additional operational issues

- some providers observed that the regulator should reflect on the direction taken by the Mortgage Market Review (MMR), where human interaction is deemed to be advice, in order to give clarity to customers and to providers

- some observed that clear policy and guidance was needed from the regulator on appropriate safeguards and the sorts of products that could be sold on an assisted non-advised basis (and, in this context, some concern was also expressed that the MiFID classification of some products as being complex could limit opportunities)

GENERIC ADVICE:

- those offering this service are recognising the importance of consumers needing to take action – and are beginning to push as close to the regulatory boundary as they can

- many of these services have the characteristics of assisted non-advised albeit that they advise on need and stop short of specific recommendations

- recognition that employers have a potentially important place to play in supporting employees with generic advice either as bespoke employee benefit offers or via MAS

- the introduction of automatic enrolment is seen as a big challenge on the horizon for those that provide generic advice

Note: As noted above "execution only" has been defined in the context of order-taking and therefore the comments of those providers that were interviewed, who might describe their service as execution only, have been captured under assisted non-advised above.

During the discussions on the various models product design was touched on a number of times, the general premise being that the development of models other than full advice should lead, in some way or another, to simpler products.

The cost of regulation was frequently raised as an issue – partly in terms of the costs it adds in terms of the length and nature of the process, but principally in relation to the costs related to taking the liability for the advice given.

4.3.3 Findings – observations from policymakers (HM Treasury and FSA)

Full advice:

- HMT: do not expect the post-RDR gap for regulated advice to be significant based on the FSA's RDR cost benefit analysis – and indeed the RDR should provide the market stimulus to develop more cost-effective advice models

- FSA: expect absolute number of advisers likely to fall in the short term but in the longer term could be slightly higher as new starters are attracted into a more professional industry

Simplified advice:

- HMT: supportive of FSA stance contained within their recent guidance consultation

- FSA: recognise that some consumers could benefit but remain to be convinced that the industry's calls for change would result in better outcomes for these consumers

Assisted non-advised:

- FSA: there are particular challenges in ensuring that the regulatory boundary is not crossed, especially as this type of service can appear to be very similar to simplified advice

- FSA: the regulatory position that this is non-advised does not necessarily reflect the consumer's understanding

- FSA: recognitionthat some consumers, by not taking advice and making their own decisions could result in poorer outcomes

Products:

- HMT: see an important linkage between the nature of products (simple versus complex) and the provision of advice

- FSA: envisage that the growth in direct-to-consumer offerings will result in simpler products

In terms of solutions, the FSA are clear that the answer is not solely about reducing the cost of regulation.

The FSA do recognise that the regulatory definition of advice can be unhelpful and that EU regulation, for example, MiFID, can be a constraining factor.

4.3.4 Findings – observations from other stakeholder groups

Another stakeholder group observed:

- simplified advice gives concern that the industry wants to sell products without a requirement to assess suitability
- they are sceptical about assisted non-advised as the sales setting creates a conflict of interest – and also consumers will think they have been advised
- they believe that the argument that the cost of regulation is too high is disingenuous

4.3.5 Conclusions

The impact of the RDR on full advice has been widely researched and these findings support other research setting out the impacts that are widely anticipated.

Focused advice works well for needs where the product solution is readily and correctly identifiable, for example pension annuities and protection. The commercials are again very dependent on the cost of customer acquisition. There are though risks if the best solution for the customer either sits outside a common product solution or requires it to be applied in a particular way.

Simplified advice is seen as having a great deal of potential though the regulatory approach seems to be increasingly working against its provision. The regulatory landscape therefore appears problematic in terms of allowing a degree of experimentation and therefore the building of evidence bases. There seems to be the opportunity for scalability – as evidenced by the larger providers interested in this space - which is constrained by both the regulatory framework and also by the necessary scale of investment.

Considerable attention is being paid to the provision of assisted non-advised services. However, it would appear that consumers often perceive these services as being advice or at least fairly close to it. This has led in turn to caution on the behalf of providers and some less than optimal customer interactions. There is a potential read-across to the MMR where the regulator has determined that any human interaction equates in effect to advice.

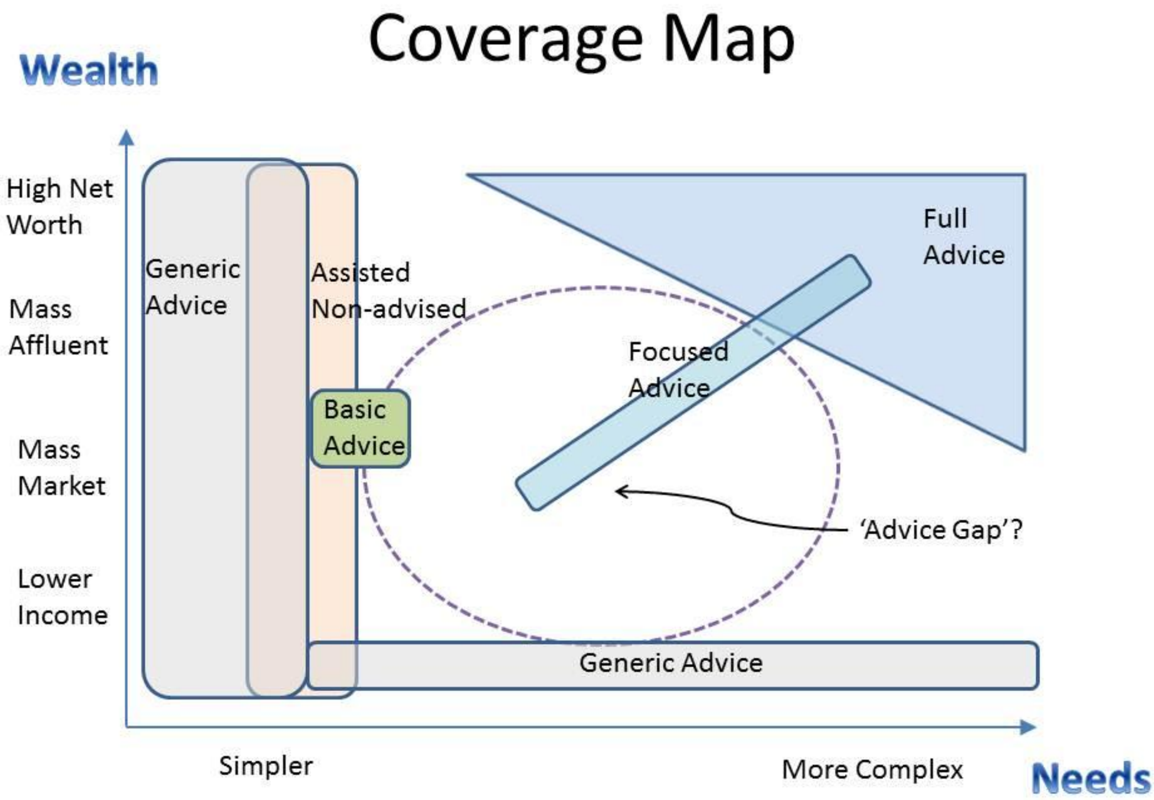
Generic advice services recognise the importance of consumers needing to take action and are beginning to push closer to the regulatory boundary than they have done previously. With generic advice advising on need – but stopping short of making specific recommendations – there are no commercial organisations operating in this space (although some employers do offer generic advice as part of their employee benefit offers).

5. Overall Conclusions

Having considered the “problem” (the nature and extent of the advice gap) and the “solution” (the range of models) each in isolation, the purpose of this section is to draw some overall conclusions.

1. An initial, and obvious, observation is that the word “advice” is being used in many contexts and is often being interpreted in different ways. Consumers interpret the word “advice” according to the situation, in a much broader and more elastic way than the way in which regulation defines the word[2]. As a result, consumers will commonly perceive assisted non-advised services as being “advice” which risks creating an expectation that the appropriateness of the product for them can be relied upon. In any dialogue, clarity of the context in which the word “advice” is used becomes extremely important.

2. The existence of a savings gap is widely acknowledged even though it has not been quantified. There is a strong case made for the existence of an advice gap when consideration is given to the range of models currently being delivered and their reach. We have provided a diagrammatic representation of how current services map onto the market below and where the “advice gap” is seen to be. Those who take issue with the notion of an “advice gap” do, however, tend to agree that there is an “engagement” gap on the part of consumers.



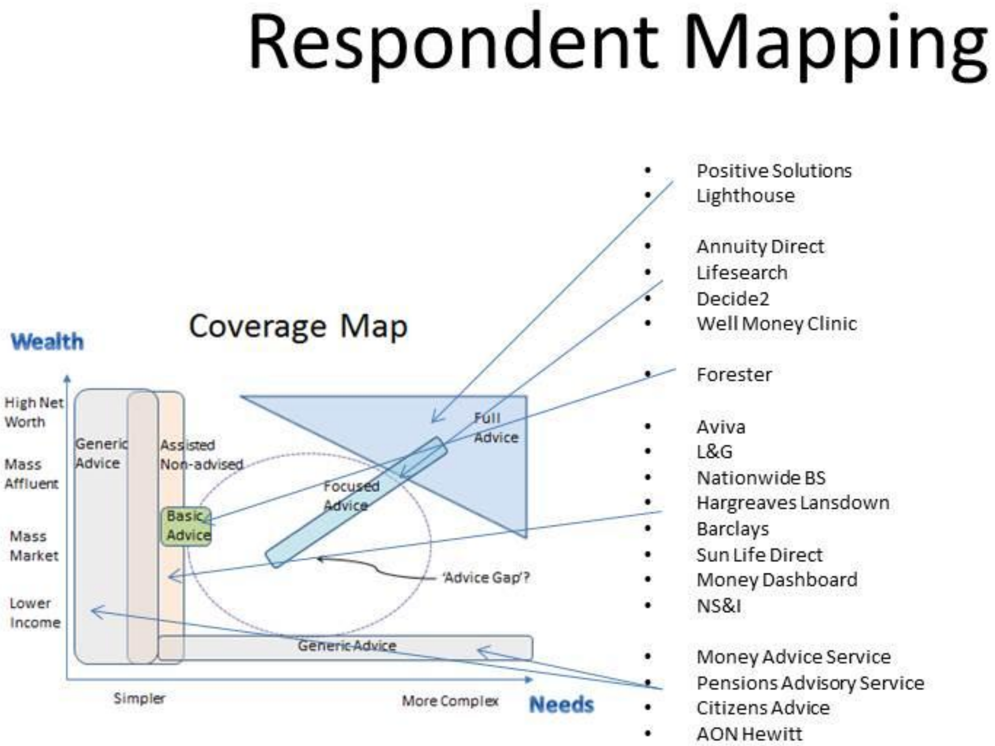
3. The diagram below maps where different types of organisation we interviewed are currently focusing on providing or investigating provision of services. It is worth noting the following points:

   a. No organisations are covering the simplified advice space as currently defined by the FSA

[2] This point is expanded on in Appendix 3

b. There are no commercial organisations operating in the generic advice space (although some employers do offer generic advice as part of their employee benefit offers)

c. Those who play exclusively in the focused advice space are niche players



4. Developing models and impact on mass market consumers:

a. With full advice moving up market, the focus of development has been around producing advisory services that are of value to mass market consumers and which have lower costs.

Types of Advice Model

	Holistic →	Specific
Higher Depth ↓	• Full advice	• Focused Advice
Lower Depth	• Simplified Advice • Basic Advice • Generic Advice*	• Assisted non-advised

* But not product specific as non-regulated

The diagram above shows that there are two different approaches. One is to try to limit the scope of the advice to make it more specific - focused advice. The other is to try and reduce the depth of analysis – simplified advice. If both these approaches are applied together then we tend to up with services that are assisted non-advised. Our research suggests that the simplified advice box is largely being passed over so that attention is either going toward focused advice or, more often, onto assisted non-advised, leaving a gap in the market for lower-depth holistic advice. Generic advice has an important part to play in addressing this gap. But as it is non-regulated, it must be partnered with another model for the consumer to gain access to product solutions unless these solutions (such as deposit products or occupational pensions such as NEST) sit outside the FSA's regulatory boundary.

b. Considering the various developments – and what this means for mass market consumers – we have identified a number of opposing forces acting as set out below.

Types of Advice Model

	Holistic ⇒	Specific
Higher Depth ⇓	• Full advice	• Focused Advice
Lower Depth	• Simplified Advice • Basic Advice • Generic Advice*	• Assisted non-advised

* But not product specific as non-regulated

5. Public policy around the advice gap seems far from settled and, yet, at the same time the market is being defined by a strong regulatory framework. There appears to be a disconnect in that so much attention is being paid to the solution when the problem statement remains so poorly defined.
6. The regulatory framework and existing regulatory boundaries act as significant constraints on the development of the market. As a result, organisations are being very cautious about the regulatory boundary and this has created a void. In addition, consumers often perceive non-advised as being advice (as is recognised in the FSA's approach in the Mortgage Market Review).
7. Advisory businesses are continuing to report reductions – actual and planned – in adviser numbers and re-segmentation of their client base and excluding more existing clients from pro-active engagement.
8. The general picture is one of little current growth potential in the overall provision of financial advice, guidance and help for commercial providers without further regulatory change, with an expected shift from full advice to assisted non-advised and continued development of generic advice to fill this gap with the challenge to translate advice into action.

Nick Hurman

Ian Costain

March 2012

Appendix 1: Author profiles

NICK HURMAN

Nick is an independent industry professional who has been closely involved in the RDR access debate. In his work with AEGON[3], he researched how consumers would design access to products and advice if given a clean sheet of paper and formed the basis of a series of engagement activities and events with stakeholders such as the FSA, FSCP, HMT, Which? and the ABI. He has also acted as research director for the Resolution Foundation developing the case and business model for a national generic advice service subsequently taken forward in the Thoresen review. Recent published work includes research on savings incentives and consumers' motivations for savings for the CII in March 2011[4] and on defining straightforward outcome products for the FSCP in June 2011[5].

Nick has 30 years of experience of retail financial services both as an industry executive and consultant with organisations such as Legal & General, Price Waterhouse and AEGON UK. He has managed focused advisory services both as Managing Director of London Life and Chief Executive of NPI Membership Services. As Director of SAGA's financial services arm, he was responsible for a full independent financial advice service to their members as well as the provision of a wide-range of retail financial services by post, telephone and web including banking and savings products, investment products and services, annuities and equity release. As an independent consultant, he has also worked in the public policy arena with the DWP, the FSCP, NEST, the PHSO, SHIP and the CII and with a number of research and actuarial consultancies.

Nick holds an MBA in Insurance and Risk Management from City (now CASS) business school in addition to his BSc from University College, Durham and is a Fellow of the Chartered Insurance Institute and a Chartered Insurer.

IAN COSTAIN

Ian has 25 years' experience of retail financial services. He has a commercial actuarial background and has considered the financial viability of a range of advice models across different organisations including bancassurers, life & pension companies and IFA networks.

More recently Ian's focus has been on policy and he was Head of Public Affairs at AXA from 2004 to 2009. During his time at AXA Ian led a research project, working with behavioural psychologists, on how advice can be made effective in terms of consumers actually taking action ("Turning good intentions into actions"[6]) and he also led the policy aspects of the acclaimed AXA Avenue campaign (where one half of a street got financial advice and the other half didn't).

Ian has been an independent consultant since 2009 and his assignments have included public policy work for AIFA, Nationwide Building Society, The Pensions Regulator, and the Actuarial Profession.

Ian is a Fellow of the Institute of Actuaries and has a BSc in Mathematics from the University of Bristol.

[3] http://www.aegon.co.uk/industry/shaping-our-industry/research/opinion-leader-research/index.html .
[4] http://www.knowledge.cii.co.uk/system/files/TP52_Hurman_Effective_Incentives_for_Saving_16Mar2011_0.pdf
[5] http://www.fs-cp.org.uk/publications/pdf/straightforward_outcome.pdf
[6] See http://www.dectech.org/docs/briefs/Brief-AxaPart1.pdf & http://www.dectech.org/docs/briefs/Brief-AxaPart2.pdf

Appendix 2: List of Interviews

Stakeholder Group

Organisation	Interviewee(s)	Job Title
FSA	Peter Smith Richard Taylor	Head of Department, Investments Policy Manager, Retail Distribution
HMT	Carl Pheasey Ros Fergusson Lucy Sterne	Head of Financial Capability Advice Lead, Financial Services Group Head of Financial Capability (from Feb)
ABI	James King Jacqueline Thornton Helen White	Assistant Director, Retail Conduct Policy Advisor, Distribution Assistant Director, Consumer Policy
BBA	Peter Tyler	Policy Director, Retail
AIFA	Stephen Gay	Director General
PFS	Fay Goddard	Chief Executive
Which?	Dominic Lindley Rebecca Fearnley	Principal Policy Adviser Chief Adviser, Money Helpline

Case Study Group (* =Telephone Interview)

Organisation	Interviewee(s)	Job Title
Positive Solutions	Jim Reeve	Chief Executive Officer
Lighthouse	Malcolm Streatfield	Chief Executive Officer
Retirement Angels/Annuity Direct	Alan Higham	Founding Director
Lifesearch	Tom Baigrie	Chief Executive Officer
Forester Life	Jason Rose	Head of Governance
Aviva	Alex Hughes	Market Change Manager
Legal & General	Danny Wynn Adrian Boulding	Director, Platforms and Policy Policy Director, Wealth
Money Advice Service	Tony Hobman Mark Fiander Francis McGee	Chief Executive Strategy Director Policy Lead
TPAS	Marta Phillips	Chief Executive
Citizens Advice	Teresa Perchard	Director of Policy
Nationwide Building Society	John Wilkinson	Head of Protection and Investments
Hargreaves Lansdown	Ian Gorham	Chief Executive Officer
Barclays	Paul McNamara	Managing Director – Insurance and Investments
AON Hewitt*	Martin Laws	Head of Flexible Benefits, UK
Decide 2*	James Dean	Director
NS&I	John Prout	Director, Retail Customer
Sun Life Direct	Graham Jones	Transformation and Commercial Director
Well Money Clinic	Robin Keyte	Founder
Money Dashboard*	Gavin Littlejohn	Chief Executive Officer

Appendix 3: Regulatory, Helping and Selling Advice

The use of the word 'advice' in discussions around financial advice is recurrently problematic. Advice is a difficult word as it means subtly but significantly different things to different people (see figure below). It can even mean different things to the same people, when used in different contexts. This complexity arises because it is a precisely defined regulatory term as well as a word used by consumers to do with recommendations about what is best for them.

Consumers recognise that there are different types of advice. Consumers will typically use 'advice' in a 'helping' context. When used in this sense, they are seeking advice that is very much 'on my side' – there are no conflicts of interest to manage or imperatives for someone to sell them something. It is equipping them to translate their needs and wants into products and actions. This advice is very personal to them: they are looking for advice that is non-judgemental and takes full account of their habits and behaviours, as well as their specific financial circumstances.

Given the choice, consumers typically want to separate this 'helping' advice from advice designed to sell them a product or service. They want 'helping' advice to ensure they are properly equipped to enter the retail market to transact.

However, once in the market, they are also looking for advice as to how a particular product offer might meet their needs. They understand that such advice is 'selling' advice – that is, whilst seeking to find an appropriate product to match their needs, there is an incentive in the advice process to persuade the consumer to purchase.

Consumers recognise advice – recommendations about what is best for them – exists in both 'helping' and 'selling' contexts. But they also know that these come from different places with different motives. Consumers want this to be clear.

Regulated advice presents some problems to this consumer picture of the world. Regulated advice has been designed to assist consumers by managing the conflicts of interest of financial advisers seeking to offer advice to a consumer yet remunerated by selling product. But in doing so, regulated advice joins up 'helping' and 'selling' advice into one process, if it ends up recommending a regulated product purchase. This is because it places significant burdens on the adviser to establish the facts and attitudes of the consumer for themselves – in doing this they will move into the 'helping' advice space whereas the consumer's context is of the process as 'selling advice'. This creates an incongruence that can leave the consumer inherently distrustful of the resulting advice.