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By email: [RDR-FAMR-ReviewCfI@fca.org.uk](mailto:RDR-FAMR-ReviewCfI@fca.org.uk)

Dear Sir/Madam,

## **Financial Services Consumer Panel (The Panel) response to the Review of RDR and FAMR Call for Input**

The Panel welcomes the start of the FCA's review into both FAMR and RDR and looks forward to contributing throughout the review period. The Panel supports the proposed consumer research that will be conducted to support the review in addition to the Financial Lives Survey.

The focus of the review is to determine whether advice and guidance services meet consumer needs. We believe this continues to be the fundamental question for the review. The Panel believes that a lot of good work was carried out by the FCA throughout both projects, with robust and detailed findings following extensive research. To ensure progress, the review must focus on what is in the best interests of consumers. We caution the FCA to avoid re-opening old arguments, long since dealt with. Instead, we hope this will be the opportunity to further improve the way consumers can access the financial markets – particularly around valuable financial advice and guidance.

The Panel has always been clear on its position regarding advice and guidance.

*"Advice is either regulated (the adviser recommends a course of action), or it isn't. Consumers do not need to understand the difference, but they need to know what they are getting, what they are paying, and the extent to which they are protected if they have a problem. People need help that is impartial. They have an interest in knowing whether their adviser is trying to sell them a product – and will benefit financially from doing so, directly or indirectly - or whether the adviser is looking impartially at their overall financial position and helping them meet their financial goals. We believe that the term 'guidance' should be a protected term, offered only by organisations that can provide a truly impartial service. Advice or guidance which is not impartial should include 'sales' in the title. This would be much easier for consumers to understand. Consumers should not have to determine what type of advice is right for them and why. Firms need to be clear about the service they are offering and take responsibility for ensuring*

*consumers aren't misled into thinking they are getting regulated advice when they aren't.*<sup>1</sup>

It is still our view that the term 'guidance' should be a protected term, and we hope that if findings from the review prove that consumers are still unclear about the difference between advice and guidance, this review may bring about that change.

We also hope that the review takes identifies what could be changed to improve access to good financial advice, including the cost of advice.

The Panel believes there is an opportunity to look at the way competition is working in the advice market. The FCA Investment Platforms Market Study and Retirement Outcomes Review revealed problems in both the advised and non-advised markets and poor treatment of orphan clients who continue to pay for services they are not receiving. We continue to see conflicts of interests, mis-selling, poor outcomes on DB to DC transfers, etc. Consumers fail to make decisions because of complexity. We believe there is a need for innovation and digital solutions for a personalised, accessible service. The review should look at other jurisdictions for examples of good practice (e.g. US, Canada, Australia, etc).

We are keen to see a shift away from business models which focus on product sales to a market structured to address overall consumer financial health with availability of advice in key life stages.

Yours faithfully

Wanda Goldwag

Chair, Financial Service Consumer Panel

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<sup>1</sup> Consumer Panel response to GC17/4: Financial Advice Market Review (FAMR): implementation part I – Section 4: non-advised sales May 2017

## **FCA Questions**

### **Q1 Is there any other evidence we should consider in our review of the RDR and FAMR outcomes and indicators in Annex 1 and Annex 3?**

The FCA has gathered extensive data which show examples of the consumer journey (e.g. Retirement Outcomes Review and Investment Platforms Market Study). We support the proposal for research on the consumer journey. The FCA should also seek data from the regulatory family. These are key sources of rich data that would show evidence of how the advice market is meeting consumer needs or where it is failing them. The Financial Ombudsman Service, Financial Services Compensation Scheme and the Money & Pensions Service (incorporating TPAS, Pension Wise and Money Advice Service). All these organisations deal extensively and directly with consumers.

### **Q2: How do different groups of consumer access appropriate advice and guidance? Does this vary by financial need or consumer group?**

Royal London's research found that 40.8% of people who received advice consulted either an IFA firm or self-employed IFA. Only 29% got advice from a bank or building society employee.<sup>2</sup>

Most consumers turn first to the internet when they need information or advice. Therefore, the access points or portals to advice or guidance they find there are crucial as to whether they find the service they need.

However, there are still 5 million people in the UK classified as digitally excluded<sup>3</sup> and this group should not be forgotten. Many have a critical need for the right advice or guidance and risk of being unable to find the help they need because of the 'digital by default' society we now live in. We would suggest this group is worthy of special consideration when the FCA is conducting its review. In particular – how are the national public guidance services (e.g. the Money & Pensions Service, Citizens Advice, Age UK, etc) ensuring that information and guidance is available through sources other than the internet.

As an example, the Panel's research into the 'protection gap' found the key trigger to purchasing critical illness was prompting by a financial adviser or mortgage broker. If by a financial adviser, this generally had occurred during a consultation to cover pension planning or holistic financial life planning. Otherwise, first time property buyers or those seeking to re-mortgage had received the recommendation from a mortgage broker/adviser. The research also suggests that consumers who purchase critical illness are *already* pre-disposed towards the product in some way i.e. by knowing someone who has had a critical illness and witnessing the subsequent financial impact or from having seen adverts/charity appeals with 'people like them' getting a critical illness. However, for most, critical illness was bought in tandem with a larger financial product (typically a mortgage), which was their main focus of attention.<sup>4</sup>

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<sup>2</sup> <https://adviser.royallondon.com/globalassets/docs/shared/misc/ilc-uk-value-of-advice-report.pdf> pg 14

<sup>3</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/articles/exploringtheuksdigitaldivide/2019-03-04>

<sup>4</sup> [https://www.fs-cp.org.uk/sites/default/files/bdiffernt\\_protection\\_research\\_final.pdf](https://www.fs-cp.org.uk/sites/default/files/bdiffernt_protection_research_final.pdf)

### **Q3: Are there any barriers to consumers accessing advice or guidance that meets their needs or to firms providing them?**

Using data collected from YouGov, Old Mutual Wealth and Intrinsic<sup>5</sup> found that the barriers discouraging people from taking advice are:

- One-third (33%) said they did not believe they had enough wealth for an adviser to help them
- 31% feared 'paying for something they didn't need'
- 30% said they believed advisers may be biased toward some products
- 19% were unsure which advisers to trust
- 15% weren't convinced an adviser could offer value
- 16% said they thought it was hard to know which adviser would give them what they need

Only 1 in 5 (20%) said they saw no barriers preventing them from speaking to an adviser.

The Panel believes other factors below are barriers to consumers accessing advice:

#### *The cost*

The cost of advice, or the *perceived* cost, can act as a barrier. Many consumers over estimate what they might pay for advice and therefore are reluctant to take the first steps fearing that even a "free" initial meeting will commit them to paying further fees. Financial advisers do, of course, have terms of business and within those terms of business fees are mentioned, but we would question how clear and accessible that information is.

We would like to see this FCA review undertake a survey of the information provided to consumers on fees to try and establish best practice and consistency across the market. A Financial Times survey found that its readers were most annoyed by the lack of transparency in advice fees and just over 7% of readers who took the survey did not know how much they were paying for advice.<sup>6</sup>

But even if all advisers are encouraged to provide better, more transparent consumer information on fees, this information should be available *before* a consumer seeks advice. According to a Financial Times survey, approximately 30% of people who received advice thought it was free, including around 15% of people who had received advice from an IFA.<sup>7</sup> Regulated advice is often much more transactional these days – and we believe a 'menu' of average fees charged for certain transactions would not be too difficult to provide. This information could be available in various places online including consumer organisations such as the Money & Pension Service but also on the FCA website. The transparency of fees and charges is an issue for other sectors too i.e. the legal sector.

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<sup>5</sup> <https://www.oldmutualwealth.co.uk/Media-Centre/2015-press-releases/october-2015/template/>

<sup>6</sup> <https://www.ft.com/content/f62af1c2-f25c-11e8-ae55-df4bf40f9d0d>

<sup>7</sup> Ibid Pg. 12

### *Lack of trust*

The FCA's Retirement Outcomes Review found that those who were fully withdrawing their pension pots were doing so due to a lack of trust in pensions due to past scandals.<sup>8</sup> The Panel is concerned that this fundamental lack of trust in the industry to do the right thing leads consumers to actions which may not be in their best interests for long-term savings. Interestingly, Canada Life's 'Expanding Horizons Research' of 2018<sup>9</sup> showed that 17% of over 50s won't seek professional advice because the Government is recommending Pension Wise instead. 28% said they did not trust financial advisers.

The industry and government must work together to create an advice market that consumers can have confidence in. The FCA might benefit from looking at how other jurisdictions have dealt with the challenges (e.g. fiduciary rule in the US) and whether other jurisdictions have undertaken innovation which has created a market which offers more efficient and broadly accessible advice.

### *Supply-side barriers*

Research conducted on behalf of Royal London in 2017 by ILC suggested that as well as demand-side barriers to advice, there are supply challenges caused by the fragmented nature of the advice market and the reducing numbers of regulated financial advisers. The same research also showed that *'the level of trust in financial advice will be dependent on how consumers view financial intermediation in general. In this regard, a **cultural shift across the retail financial services sector to put consumers first** will be necessary to support increased trust, and drive up demand for expert advice.'*

The FCA's Data Bulletin June 2018 does confirm that there are a large number of small intermediary firms – 89% of firms have 5 advisers or fewer – however it also confirmed that large firms account for a high proportion of all advice staff. The total number of adviser staff was reported as 26,311 which represents an increase of 3% on numbers for 2016, so it would seem as though concerns over a decreasing number of advisers available to provide regulated advice may be unfounded. However, the Panel is still concerned about quality of advice, professionalism and standards of conduct in the sector.

One of the areas where reduced access can cause problems is where consumers require advice on a DB transfer – especially if this is a UK Citizen living abroad. We understand a barrier to firms offering this type of advice is the cost of Professional Indemnity (PI) insurance.

### **Q4: Do consumers have the right information to compare advice and guidance services and to shop around? How easy is it for them to compare services?**

Searching for, and finding the right financial adviser is still a complex and daunting task for most consumers. Internet searches often result in linking consumers to lead generation services as opposed to a searchable directory, which is very unsatisfactory as these sites don't allow any comparison between firms.

We are aware of only one non-commercial directory which is the directory hosted by the Money & Pension Service but currently, this directory only covers retirement planning. However, we welcome the fact that the directory is to be extended to mortgage intermediaries following the FCA's Mortgage Market Study.

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<sup>8</sup> <https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review>

<sup>9</sup> <http://documents.canadalife.co.uk/retirement-sentiment-index-surviving-market-volatility.pdf>

Other adviser directories exist but they are commercial, and it is not clear whether firms appear on these directories simply because they pay to be on there or whether they are selected by some other criteria.

The FCA register - primarily there so consumers can check that the adviser they have chosen is regulated - is complicated to use and does not have clear, consumer-friendly information. We welcome the work that is proposed to update the register and to build a new adviser directory, provided this will result in a more reliable, simpler customer journey. We would refer the team to our response to FCA proposals to the Directory.<sup>10</sup>

The Panel feels that examples of fees should be displayed on both commercial and non-commercial directories, as part of the criteria that most consumers use to choose a service or provider of a service is cost. However, currently this is not available. In addition, the areas firms are permitted to advise on should be clearly marked and any past regulatory sanctions clearly shown.

As we have said in our response to Q3 information about fees and charges is simply not there, and yet, for many consumers this is the most important feature when considering whether to take regulated financial advice. Old Mutual Wealth consumer research showed that 'When asked to select factors that discouraged them from taking advice, 37% of those surveyed said that 'the cost of getting advice' was an issue that put them off seeing a financial adviser. Asked what they would be prepared to pay for advice, 44% said that they would not be prepared to pay a fee. A third (33%) said they were unsure and 15% said they would pay only up to £250.<sup>11</sup>

#### **Q5: What barriers exist to making advice or guidance service more affordable?**

We are dubious about the argument that the cost of obtaining regulated advice is high because firms are concerned about potential future liabilities or because they are unclear on where the regulatory boundaries lie. The Panel has not seen any evidence that long-term liability has caused widespread issues for firms, although we understand how it could be a problem for sole trader or micro firms looking to exit the market. We think the solution here is to look at the costs of professional indemnity insurance and consider how this market could be improved.<sup>12</sup>

True guidance services are difficult to offer commercially as the very essence of 'guidance' is that it is non-commercial and free to consumers. A guidance service that needs to pay for itself can only do this through sales, and then it ceases to become guidance and instead becomes non-advised sales. That is why we believe true financial guidance can only be provided by impartial independent organisations that are not for profit e.g. charities and arm's length public bodies such as the Money & Pensions Service.

The cost of advice is often driven by the cost of PI insurance. In our response to the FCA's FAMR Call for Input in 2015 we stressed our support for PI insurance and would not like to see the protection it offers weakened, but we do believe a review of the market is long overdue. If there is the possibility that PI insurers are effectively stifling competition, perhaps this is something the FCA's competition team might look at.

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<sup>10</sup> [https://www.fs-cp.org.uk/sites/default/files/fscp\\_response\\_introducing\\_the\\_directory.pdf](https://www.fs-cp.org.uk/sites/default/files/fscp_response_introducing_the_directory.pdf)

<sup>11</sup> <https://www.oldmutualwealth.co.uk/Media-Centre/2015-press-releases/october-2015/template/>

Data collected by OUGOV in July 2015 UK adults aged over 35

<sup>12</sup> [https://fs-cp.org.uk/sites/default/files/financial\\_services\\_consumer\\_panels\\_response\\_to\\_famr\\_24122015.pdf](https://fs-cp.org.uk/sites/default/files/financial_services_consumer_panels_response_to_famr_24122015.pdf)

The FCA might also consider whether existing charging structures are fair and represent value for money for consumers. For example, is it fair for advisors to charge on the value of a portfolio as opposed to a fixed fee? How are advisers addressing ongoing conflicts of interest in recommendations and suitability assessments?

**Q6: Do advice and guidance services offer sufficient quality and choice to meet the needs of different consumer groups? Are any consumer groups underserved?**

In its own research in 2018, the FCA found that quality was one of the concerns of consumers, but not the main driver as to why consumers did not seek advice. We have no evidence about the quality of financial advice or of financial guidance but numerous thematic reviews by the FCA have found cause for concern.

We believe the main consumer groups underserved by both advice and guidance are UK Citizens living abroad who find it very difficult to find a UK based adviser to help them and no guidance service who can offer help. In addition, as mentioned in Question 2, individuals who are digitally excluded are often underserved and those needed advice on DB transfers find it difficult to find a financial adviser willing or able to provide advice.

**Q7: Do consumers have confidence and trust in advice and guidance services and do these services address their needs?**

The Panel has no specific recent evidence to substantiate this, but our belief is that consumers do not trust financial advisers or the financial services industry. The FCA's Retirement Outcomes Review<sup>13</sup> found that a general lack of trust in pensions is the main reason consumers fully withdraw their pots. However, the research found this was typically based on negative media coverage of the broader pensions sector, including DB schemes, rather than personal experience. Consumers' mistrust was also driven by the perception that pension money was 'doing nothing sitting there' and that the pension rules were constantly changing, to their detriment.

Royal London's research found that 'the two most powerful driving forces of whether people sought advice was *whether the individual trusts an IFA to provide advice and the individual's level of financial capability*'.<sup>14</sup>

The Panel's research on annuities<sup>15</sup> found that there were several reasons why consumers did not use financial advisers in this particular context. The main factors were:

- Lack of awareness of, and trust in, the benefits of advice;
- Lack of familiarity: consumers felt apprehensive about speaking to someone who they imagined would have financial knowledge far greater than their own, and that therefore they might not understand what the adviser was saying, or would be made to feel stupid;
- Concern over costs and benefits. People did not know what the cost of advice might be, or how to evaluate the potential value of advice. For some, this was a consequence of inexperience in using advisers. Others were unconvinced of how much value an adviser could add over and above their own efforts;
- Disappointment with previous advice experience in relation to other products.

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<sup>13</sup> <https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review>

<sup>14</sup> <https://adviser.royallondon.com/globalassets/docs/shared/misc/ilc-uk-value-of-advice-report.pdf>

<sup>15</sup> [https://www.fs-cp.org.uk/sites/default/files/optimisa\\_annuities\\_final\\_20130708.pdf](https://www.fs-cp.org.uk/sites/default/files/optimisa_annuities_final_20130708.pdf)

While these experiences relate to a particular market, it seems likely the conclusions can be applied to other markets or to professional advice in general.<sup>16</sup>

**Q8: Do consumers who take advice or use guidance services get better outcomes than those who do not? If so, how, and if not, why not?**

The Panel believes that consumers who do take guidance and regulated advice do have better outcomes. Feedback from Pension Wise surveys confirm that those who have taken a Pension Wise appointment are much more knowledgeable about their options at retirement than those who have not used the Pension Wise service at all.

For example, 74% of Pension Wise appointment customers were correct in stating, when asked, that you could leave your money in your pension pot and arrange to take it as a when you need it, compared to those who had not used the service at all (37%).<sup>17</sup> 'The overwhelming majority (92%) of appointment customers are satisfied with their Pension Wise experience overall, and seven in ten (69%) are very satisfied. The high level of satisfaction is similar across telephone and face-to-face customers, and is not significantly different from the 2016/17 figure (94%).<sup>18</sup>'

Further research<sup>19</sup> has shown that customers who receive financial advice can be better off by around £40,000, with people more likely to save, have greater pension wealth and have more financial assets, compared to those who do not receive any financial advice. The research showed the positive value of financial advice amongst all types of consumer, not just the wealthy.

The Panel's research into the 'protection gap' also found that consumers who been sold a protection product experienced a sense of relief. The main benefit was perceived to be the peace of mind of receiving a lump sum if struck down with a 'critical' illness helping them or their families to cope financially.

**Q9: What are the key advice and guidance services offered in the market and do they meet the needs of all consumer groups?**

Investments (27%), mortgages (24%) and pensions (15%) were the most commonly cited reasons for seeking financial advice according to 2017 research.<sup>20</sup>

**Q10: What new business models are being developed and how will they meet consumer needs?**

We assume new digital advice and guidance models are continuing to be developed, and the Panel remains concerned about the business models of these technology solutions. As with commercial guidance services, commercial online services need to make a profit and profit can generally only be generated through advertising or through product sales (or investment management costs). Consumers must be able to understand the costs they are paying and the type of service they are receiving (i.e. whether they are protected under consumer law if things go wrong).

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<sup>16</sup> <https://www.fs->

[cp.org.uk/sites/default/files/financial\\_services\\_consumer\\_panels\\_response\\_to\\_famr\\_24122015.pdf](https://www.fs-cp.org.uk/sites/default/files/financial_services_consumer_panels_response_to_famr_24122015.pdf)

<sup>17</sup> <https://www.gov.uk/government/publications/pension-wise-service-evaluation-2017-to-2018-customer-experiences-and-outcomes/knowledge-of-specific-facts-about-pension-freedoms>

<sup>18</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/775610/pension-wise-service-evaluation-2017-18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775610/pension-wise-service-evaluation-2017-18.pdf)

<sup>19</sup> <https://adviser.royallondon.com/globalassets/docs/shared/misc/ilc-uk-value-of-advice-report.pdf>, pg. 5

<sup>20</sup> Ibid



The Panel's research<sup>21</sup> into online investment services found that neither of these elements were clear to users and we fear little has improved.

**Q11: What aspects of advice and guidance services do consumers value and why? Does it vary by consumer group or financial need?**

The Panel's 2015 research<sup>22</sup> found that consumers use several different decision-making processes when buying a product, with variations in the time spent, extent to which they shopped around, and whether or not they sought advice. Some of these behavioural differences were based on the product type being acquired, and some were related to the particular characteristics of individual consumers, including their age, socio-economic status and confidence in financial matters.

Advice does not of course need to be related to buying a product. People may also want help with, for example, understanding complex terms and conditions ('jargon busting'), interpreting financial statements, budgeting and financial planning.

The main point is that different consumers have different needs, and we think further research on the needs of different segments is required.

**Q12: What emphasis do consumers place on the cost of advice and guidance against other elements of value for money?**

**Q13: Are there any barriers to effective competition between firms offering advice or guidance?**

The Panel does not believe there are any obvious barriers to competition.

**Q14: Are the rules and guidance around advice and guidance working well?**

The Panel has often commented that the various rules and guidance from the FCA regarding the regulatory boundary between advice and guidance provide firms with the clarity they need to understand where the services they provide to consumers sit. We therefore feel there is no reason why firms should have any issues with the rules and guidance and hope they do not see this review as a mechanism for re-opening old issues.

**Q15: Are there points where the regulatory system may drive too many people to seek advice?**

No comment.

**Q16: Does regulation support the development of advice and guidance services, including automated advice services, that work well for firms and consumers? How can it be improved?**

No comment.

**Q17: Did FAMR or the RDR result in unintended consequences that have caused consumer harm?**

No comment.

**Q18: How have consumer needs for advice and guidance services changed since RDR and FAMR initiatives were introduced.**

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<sup>21</sup> [https://www.fs-cp.org.uk/sites/default/files/final\\_panel\\_position\\_paper\\_online\\_investment\\_and\\_advice\\_services.pdf](https://www.fs-cp.org.uk/sites/default/files/final_panel_position_paper_online_investment_and_advice_services.pdf)

<sup>22</sup> <https://www.fs-cp.org.uk/sites/default/files/consumers-coregulators-research-2015.pdf>

**Q19: Are there any new or emerging trends (for example, the ageing population and increased pension flexibility) that will lead to further changes in consumer demand for advice and guidance services?**

**Q20: What changes to the market might be needed to encourage consumer interaction with, and good outcomes from, advice and guidance services in the future?**

**Q21: What market developments have taken place since the RDR and FAMR reviews? What impact have these had on consumers, the market and competition?**

**Q22: What future market trends do you expect to see and what do you expect their effects will be?**

**Q23: What opportunities and barriers are there for developing advice and guidance services in the future?**

**Q24: What emerging risks to consumers do you see in the market?**

Research by Royal London highlights the fact that increasingly consumers are looking at internet-based solutions including online non-advised routes in order to support financial planning needs. However, as cited in question 10, the Panel's research into online investment services showed that consumers were woefully unaware of the type of journey they were undertaking (i.e. advised or non-advised). We do not believe that clarity of online services has improved enough, and more needs to be done to link online or digital journeys safely to regulated financial advice.

The Panel fully supports the implementation of the Pensions Dashboard which will encourage consumer engagement with their pensions and drive an increase in demand for advice and guidance services. The Panel has some concerns though, as we said in our response<sup>23</sup> to the DWP's Pensions Dashboard Feasibility Report Consultation. The implementation of Open Banking has shown that there are significant challenges for firms in exposing their legacy systems to new technologies and costs associated with updating systems to deliver better outcomes for consumers. Even more concerning is the potential for inadequate governance of the Pensions Dashboard, which could lead to a further lack of trust in the industry and service itself. The Pensions Dashboard governance should follow good corporate governance and ensure the independent chair is both supported by and held accountable by a board or similar body.

The evolution of Open Banking and Finance creates the opportunity to integrate money management tools into guidance and advice processes which may boost access and engagement in the advice sector, but again flags the same concerns around consumer consent and sharing data.

Experience from Open Banking suggests that the existing regulations will not be sufficient as they do not codify the needs of consumers in all eventualities (e.g. revocation of consent). They will also not address issues of liability, traceability (of data as it flows through the system) etc. These are as much technological issues which have an impact on the provision of information to the consumer, as they are policy-based. These issues should be considered as more digital offerings in the advice sector come to market. The FCA will also need to be vigilant in monitoring the market for digital promotions in the pensions space that could further affect consumers' trust in the market, as seen in the recent London Capital and Finance mini-bond case.<sup>24</sup>

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<sup>23</sup> [https://www.fs-cp.org.uk/sites/default/files/fs-cp\\_dwp\\_pensions\\_dashboard\\_consultation\\_response\\_20190128\\_2.pdf](https://www.fs-cp.org.uk/sites/default/files/fs-cp_dwp_pensions_dashboard_consultation_response_20190128_2.pdf)

<sup>24</sup> <https://www.fca.org.uk/news/statements/update-independent-investigation-london-capital-finance>