FAMR Secretariat
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

22 December 2015

Dear Sir/Madam

Financial Advice Market Review (FAMR). Response to the call for input.

As executives of major retail investment firms, each of which will submit a more detailed response, we write to offer collectively some constructive design principles we believe could underpin a new guidance regime arising from FAMR.

The need UK consumers have for easily accessible and affordable advice has been highlighted by the Pension Freedoms reform. From conversations with our own customers since April, we understand first-hand their preference is for help from existing providers and organisations they know. However, such firms are nervous of crossing the 'regulated advice' line with all the responsibilities and costs that incurs. Indeed, such are the concerns which exist about the possibility of retrospective regulatory intervention (including censure) that we believe clarity about the boundary lines needs to be built into the design of a new regime.

Clearly the industry must work with our regulator to find advisory propositions that work for more consumers but if this were simply a supply-side issue, we would not all still be in search of a solution. We believe a deeper understanding of the nature of demand is required before policymakers commit to full scale regulatory engineering work. Our recommendation is that such an understanding would be best gained by focusing initially on the At Retirement market.

From our own research and experience of customer behaviour since the reform, many customers want more than just an explanation of what options are available to them at retirement. Whilst they are often able to form a view on what options are appropriate for their personal circumstances, they would welcome guidance before committing. Such guidance could help a customer:

- Understand the options available
- Takes account of factors relevant to their circumstances
- Followed a sensible decision making process
- Arrived at a decision similar to 'people like you' or if not, to understand why

Such support would amount to 'generic guidance' not regulated advice - and could be clearly distinguished as such by not offering a personal recommendation. Delivering 'generic guidance' could be supported by digital tools such as industry-wide decision trees, portable fact finds, digital passports and other mechanisms that are already emerging as well as talking to a 'generic guide' on the telephone. Our experience thus far is that customers gain reassurance from speaking to a person. Such guides would not need to be professionally qualified to the same level as authorised advisers.

Once built on these design principles, simple and low cost solutions should be tested in a 'safe' environment to ensure consumer protection, ease of use and practicality.

We believe that such a customer-centric approach would provide an effective middle way to address the current 'gap' that would sit between regulated advice and execution-only. We have deliberately focused on the principles underpinning such a regime in the belief that if these principles can be demonstrated to provide positive customer outcomes, the industry and the regulator can refine the detail.

Yours faithfully

David Bellamy
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Rob Devey
Chief Executive Officer, Towry

Paul Feeney
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Standard Life plc

Response to:
Financial Advice Market Review

December 2015

Standard Life

Executive summary

The UK advice market does not currently meet the needs of the vast majority of people. While the market for regulated advice is working well, it is accessible – and affordable – to a relatively narrow section of the population.

The resulting 'advice gap' has become increasingly apparent in the wake of the Retail Distribution Review and more recent pensions freedom reforms. Consumers now have the ability to take very significant financial decisions – particularly around retirement - but do not have a symmetrical level of support to help them make the right choices. This is likely to be compounded over time as the success of automatic enrolment leads to more people facing complex decisions at retirement.

While there is no 'silver bullet' solution to this advice gap, we believe there are a number of steps that should be taken to address the supply and demand issues which have created the advice gap.

1. Simplify advice terms

The current range of 'advice' choices is too complex from a consumer perspective i.e. regulated advice, simplified focussed advice, restricted advice, execution only. Advice should be put into simpler, more easily understood terms: **regulated advice** or **guidance.**

Regulated advice would continue to be a process in which a qualified financial adviser would assess a customer's financial circumstances broadly or in specific areas, as defined by the customer. This would ultimately result in a personal recommendation. Guidance would be a generic term for processes in which a customer is provided with factual and impartial information about the potential solutions available to them and make them feel sufficiently confident to take their own informed decisions.

2. Clarify the regulatory boundary between advice and guidance

The regulatory boundary between advice and guidance needs to be more clearly defined. In spite of recent efforts to clarify what constitutes advice and what doesn't, this continues to be an area of ambiguity which creates significant risks for the adviser. As a consequence, full regulated advice is most likely to be used by consumers with significant investible assets (£150k or more) for whom such advice is economically viable.

This has left many consumers facing a binary choice between full regulated advice and non-advised ('execution only') sales with limited options in between. The risks of providing guidance which is later deemed to be advice and the potential consequences – such as fines or mass remediation – currently make it unattractive relative to the commercial benefits.

We therefore believe there needs to be a review of the guidelines contained in FG15/1 with the aim of giving market participants greater certainty that in 'doing the right thing' for consumers they are operating within regulatory boundaries and not exposing themselves to the risks of retrospective regulation and consequential liabilities.

3. Create 'safe harbour' processes

In addition to having a clearer dividing line between advice and guidance, a welcome development would be 'safe harbour' processes which advisers and providers can use to guide customers towards good outcomes with confidence they are operating within regulatory parameters i.e. not providing guidance which will be later deemed to be advice.

A 'safe harbour' process could either have regulatory approval – possibly through a streamlined review and sign off – or be based on specified principles set out by the regulator. A principles-based approach would carry a degree of interpretation risk for the adviser or provider. This would need to be addressed (e.g. if a process is *prime facie* compliant it will not be later deemed to be non-compliant). A ‘safe harbour’ process could have a number of standard features:

- A minimum level of questions about the individual’s personal circumstances.
- Adequate risk warnings (similar to those we ask of customers seeking to exercise their pension freedoms).
- A clear explanation of the risks which sit with the provider, and those which sit with the customer e.g. provider carries the execution risk but customer bears the investment risk.

4. Increase consumer help with financial basics

Advisers and providers need greater flexibility to help customers take basic financial decisions which will almost invariably lead to good outcomes. These could include things like paying off high interest debt, taking out life assurance, starting a pension or making fuller use of ISA allowances. There should also be greater latitude to steer customers away from actions which are almost certainly not in their interests, such as giving up guaranteed benefits or moving pension assets into blatantly dubious investments.

Having helped customers deal with financial basics, advisers and providers can then focus on providing guidance (or advice if appropriate) for more complex financial decisions relating to long-term financial security at appropriate points in their lives. Various ways in which it should be possible to help customers:

- Increased use of ‘nudge’ behavioural influencers to direct people towards ‘no regrets’ decisions (i.e. decisions which will almost certainly be to their benefit such as increasing pension contributions or matching an employer’s contributions).
- Basic investment guidance i.e. moving to a diversified portfolio to help spread risk.
- Increased use of financial health dashboards.
- Greater use of online tools e.g. assessment of risk appetite and capacity for loss.
- Clear direction towards promoted funds and investment models (reducing the problem of indecision through too much choice).

5. Encourage innovation

The use of technology – including so called ‘robo advice’ – has a key role to play in reducing the cost of advice and developing new ways of engaging the customer. Standard Life already uses guided journeys which provide customers with information related specifically to the option they have chosen to explore. This tailors the guidance to the individual’s needs and helps them to make an appropriate decision without requiring a fact find. Encouraging firms to develop innovative solutions – possibly through the ‘regulatory sandbox’ - represents a key opportunity for closing the advice gap. However, a number of issues will need to be addressed:

Scale - The development and maintenance of digital solutions can be high. Commercial viability requires scale which can be a challenge for smaller market participants. Addressing the high level of market fragmentation and the barriers to consolidation – such as potential exposure to historic liabilities through acquisitions and mergers – would help to address this issue.

The human factor - There will always be a natural desire among some customers to speak to a person as part of the full advice process. We therefore see greater automation or so-called ‘robo advice’ as a complementary or supporting part of the process, rather than a complete solution to meet the advice needs of customers.

6. Improve consumer education

Levels of financial literacy in the UK remain low and need to be addressed. The financial sector, regulators, government and public advice organisations need to work even harder both individually and collectively to create a more financially capable society. This should include increased co-operation between private and public guidance bodies with incentives for doing so e.g. reduced levies for firms which run financial education classes and courses (similar to those offered by T Rowe Price in the US).

7. Strengthen public guidance

Public guidance is - and should remain - an essential component of the overall landscape to serve those people who are unable to access other sources of advice. The challenge is to increase consumer awareness and take up of guidance from bodies such as The Pensions Advisory Service and the Money Advice Service. For example, Standard Life is currently implementing changes to give Pension Wise more prominence in its retirement 'wake-up' packs. We also highlight the availability of Pension Wise via several other channels, including online and over the phone, and we are working with the FCA to look at how we can make further improvements.

The merger of public guidance organisations would offer several possible benefits – a single point of entry for consumers, potentially better use of limited financial resources, consistent advice and delivery standards – but these would have to be balanced against the disruption and costs required to implement such a change. Another option is the creation of a new central body to serve as an entry point for consumers and help to filter them towards the right source of guidance provision. A key function of this new entity could be oversight of the delivery of public guidance, establishing basic standards for guidance and, ultimately, achieving a higher level of co-ordination to improve consumers' interaction with these services.

Conclusion

In summary, the FAMR represents a significant opportunity to re-define the advice market so all consumers – regardless of their individual wealth – have access to advice according to their circumstances and specific needs. We believe the FAMR should therefore be measured against the following outcomes:

- Advisers, providers and other market participants widen their propositions to serve those consumers most in need of advice, not just those they serve already.
- Consumers understand the advice and guidance options available and can choose what is most relevant to their need and circumstances e.g. level of assets, life stage, etc.
- There is a greater consumer understanding of the value of advice and guidance, rather than a narrow focus on cost.

Standard Life looks forward to contributing to this process.

For further information contact:

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FAMR Questions

Q1: Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

There are real practical issues to address in providing advice to people in vulnerable circumstances, such as those with disabilities (e.g. customers with hearing loss or deafness accessing a telephone based service). Potential mitigants:

- Multiple-channel delivery to help cater for people with different needs e.g. web, telephone, mail, face to face.
- Firms need to implement 'vulnerable customer' policies, with a range of process adaptions which can be relied upon to accommodate those individuals.
- Establish a source of public funding (akin to Legal Aid) to assist vulnerable customers with the cost of guidance or advice.
- Review the role that charities play in supporting low cost or free guidance services for different disability/vulnerable customer groups.
- Increase the role of non-financial organisations in providing guidance, possibly in partnership with firms.

Q2: Do you have any thoughts on how different forms of financial advice could be categorised and described?

The current range of 'advice' terms is overly complex for the consumer. There are too many terms and definitions with differing regulatory, process and documentation hurdles i.e. information, guidance, help, execution only, restricted advice, full advice etc. The problem is compounded by the different definitions of 'advice' from a regulatory perspective. The challenge is to align the industry's definition with what the customer understands as advice. From a customer perspective we would propose simplifying advice into two customer-friendly terms: **regulated advice** and **guidance**.

Regulated advice would continue be a process in which a qualified financial adviser will assess a customer's financial circumstances broadly or specific areas as defined by the customer and ultimately make a personal recommendation. The market should move away from using confusing definitions such as independent and restricted. We believe it would be more helpful to provide the customer with the following information:

- The professional standing of the adviser, e.g. diploma, chartered, etc.
- The range of advice they typically give, e.g. mortgages, investments, savings, pensions, retirement planning, tax, etc.
- Potential conflicts of interest/limits on the intermediation.

This should be developed into a simple and universal 'menu' which shows all the areas in which a firm can provide advice i.e. a simple 'tick' to show yes/no. This would immediately illustrate to consumers any restrictions on the advice provided (full advice range vs limited advice range).

Any product or investment tie-ins would be disclosed in the same documentation, but separate to the advice range (i.e. not as now where the product restriction defines the advice category).

Guidance would be a generic term for processes whereby a firm or adviser provides factual and impartial information about the benefits and risks of potential solutions available to a customer (but no specific recommendation). This would be done in a balanced and unbiased way to help educate customers so they are sufficiently confident to make their own informed decision. Characteristics would include:

- It could be face to face, phone-based or online customer journeys (or a combination of all three) but badged as guidance towards an appropriate decision by the customer rather than a personal recommendation.
- Generic or product specific information, providing any restrictions are made clear to the customer (i.e. provider of guidance is only offering own or a limited range of products).
- Where appropriate, processes could use ‘nudge’ behavioural techniques to encourage people to take decisions where they are regarded as universally beneficial e.g. increased pension contributions.
- There is a clear understanding that the final decision and responsibility for the outcome sits with the individual – the clear distinction from regulated advice.
- With the customer’s agreement, guidance could be provided via an on-going fee charging basis.

In addition to regulated advice and guidance (and the continued use of execution only channels for those people who feel sufficiently confident and informed to take decisions), there should be a broad range of additional support under the heading of education in which government and industry continue to work together to tackle the low levels of financial education and capability which exist in the UK. Government and the wider public agencies (e.g. MAS, TPAS, etc.) have an important responsibility in helping people to manage their money while the private sector has a key role in promoting financial education and capability through schools and other channels.

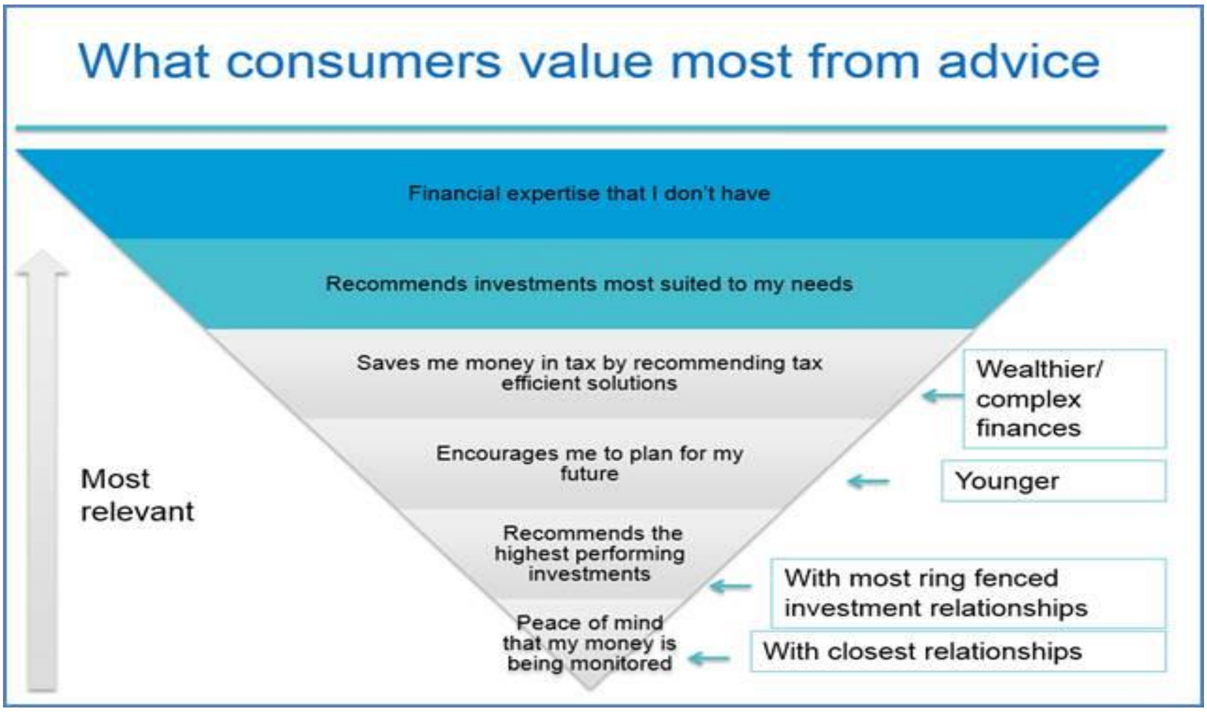
Q3: What comments do you have on consumer demand for professional financial advice?

Our research shows that consumers will seek advice (as in full regulated advice leading to a personal recommendation) for transactions which are of higher value and more complex. (See answers to Q4 & Q5).

This has been further evidenced by increased demand for advice following the introduction of the new pension freedoms, particularly for those with sizeable pots and complex planning issues. In contrast, we see the demand for advice falling in the accumulation life stage due to a combination of factors such as automatic enrolment and the increasing availability of on-line research/buy services.

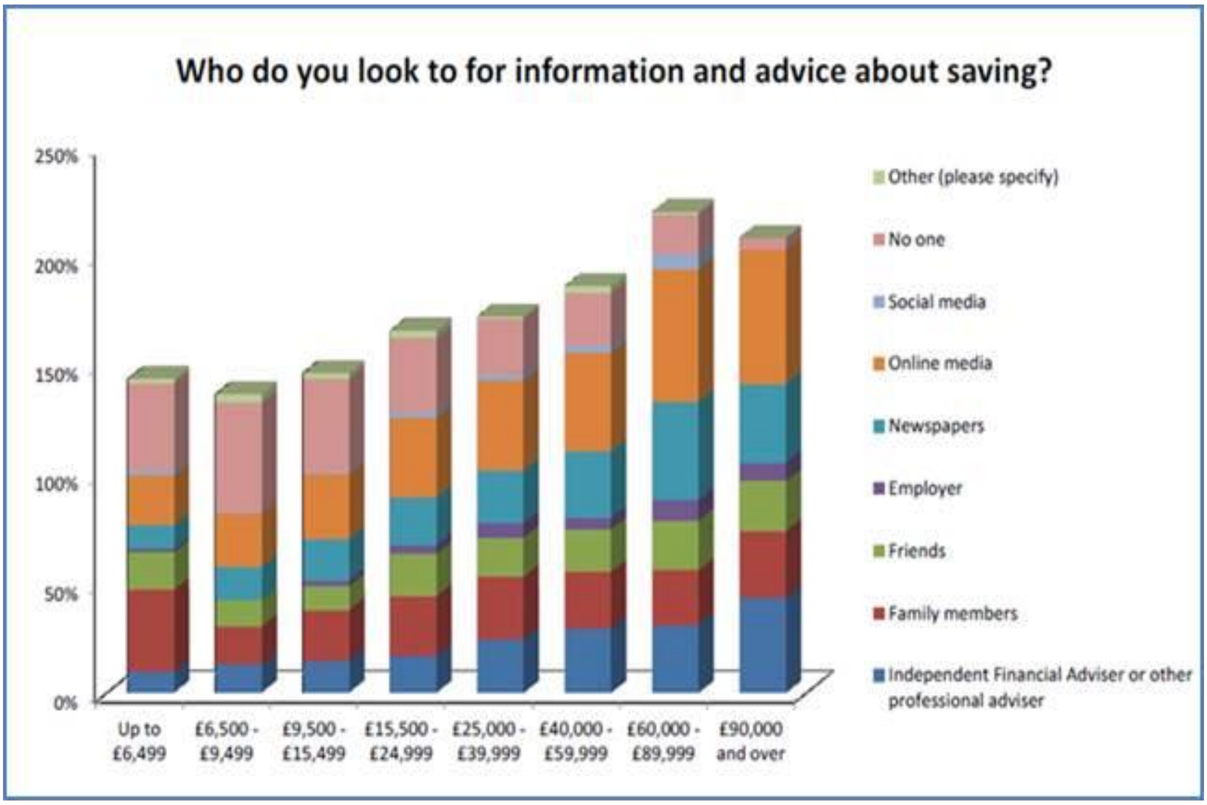
A recent survey of Standard Life’s online customer community (308 respondents) indicated the most common reason for having a financial adviser was their expertise to plan for the future, with customers saying they use a financial adviser to help manage their retirement options.

Furthermore, research we carried out in September 2012 told us that people usually have a set problem in mind when seeking advice. The research also found that financial expertise, investment recommendations and tax advice are valued highly:



Q4: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

Standard Life carried out savings research in November 2013 which showed the different sources of information used by consumers and how usage is directly linked to the level of personal income:



Source: Savings in mind (the Experiment) research. November 2013.

Q5: Do you have any comments or evidence on the financial needs for which consumers may seek advice?

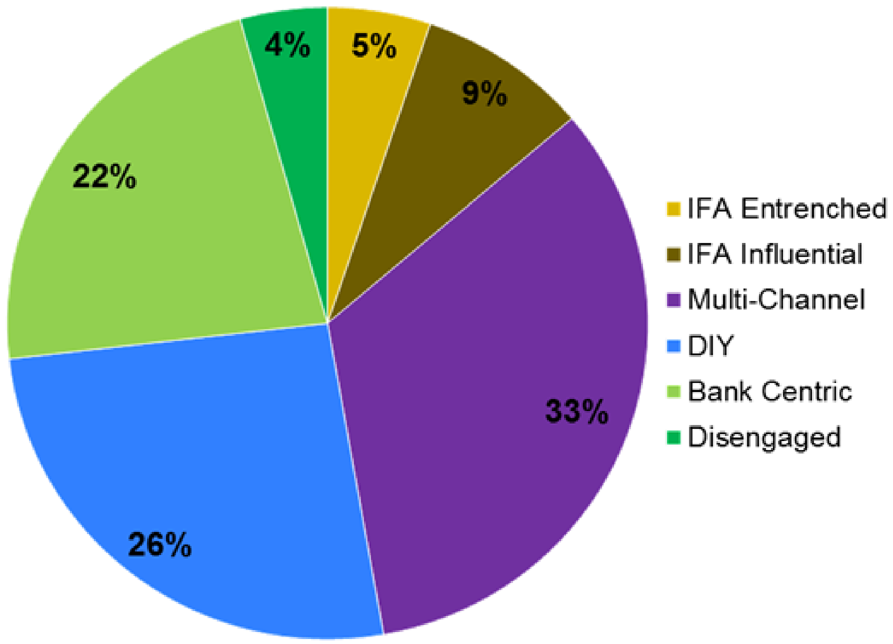
We believe there has been a transition in the demand for regulated advice towards higher value and more complex decisions, usually around maintaining, utilising and passing on wealth. For example:

- Decisions around investment strategy and funds
- Retirement advice (pre-retirement, at retirement or post retirement)
- Pension/asset consolidation, including Defined Benefit/occupational transfers
- Business advice
- Tax planning
- Inter-generational wealth transfer

Conversely, we have detected a decreasing demand for advice for simpler accumulation needs where automatic enrolment now has a greater role (removing the need for decision taking). We also continue to see high levels of engagement where needs are met by simple, recognisable and consistent products (e.g. ISAs).

Q6: Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

Yes, as understanding and addressing the advice gap requires insight into consumer attitudes. An exercise by Standard Life in 2012 with the research agency Nunwood segmented customers by their attitude to advice:



The 26% in the "DIY" segment tended to not want to pay for advice, were quite distrustful of IFAs and were confident in their own ability to make financial decisions.

Q7: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

The focus of this review should be identifying ways of providing more support to people with modest incomes and wealth who fall outside the scope of regulated advice. While the market for regulated advice is working well, the professional qualifications now required by advisers following the Retail Distribution Review have pushed up costs and limited its availability to those with significant income and assets (in reality £150k or more).

In our experience many intermediary firms now concentrate on the more affluent segments of their client base (often the top 20%). Previous attempts to introduce lower cost forms of advice (i.e. 'simplified advice') have floundered as the risk/reward ratio has made it unattractive for advisers and providers.

There is also a capacity issue as the 25,000 financial advisers in the UK can only cover around 6% of the population (based on 125 clients per adviser). It would therefore be unrealistic to expect the population at large to be served solely by professional financial advisers. The withdrawal from the advice market by the High Street banks has also contributed to the advice gap.

What has therefore emerged is a need for 'advice' for consumers with a modest level of assets where full regulated advice is not a viable choice (for either the adviser of the customer), but the customer would benefit from some level of support in taking simple or moderately complex decisions. This is feasible, as there are a limited number of life stages where most people require in-depth advice:

Life stage	**Advice/guidance need**
Starting out	The benefits of starting to save early are well documented and we need to encourage as a many people as possible to save for retirement (consistent with auto-enrolment) and make the right investment choices for the long-term.
Pension transfers	These are potentially complex particularly if the customer has guaranteed benefits.
At retirement	Reaching the age of 55 is now the point at which customers are faced with major decisions on taking cash/income with significant consequences in the later stages of retirement.
In retirement	Managing financial resources throughout retirement and inter-generational wealth transfer.

Q8: Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

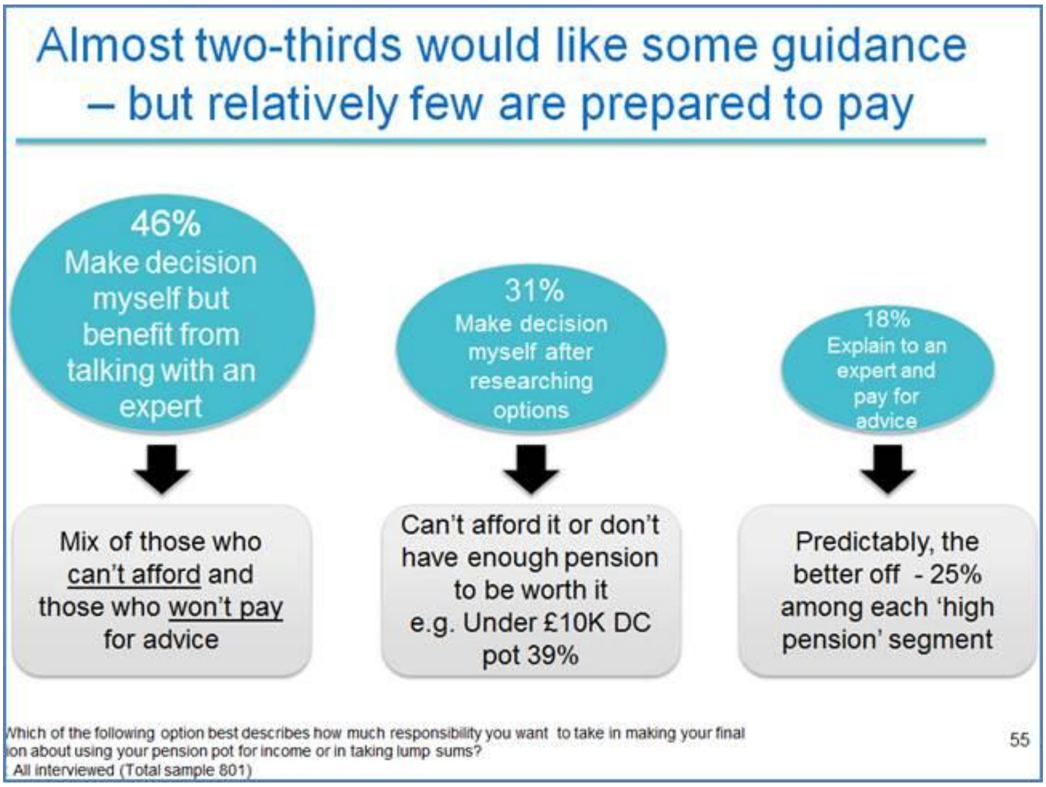
Research undertaken by NMG Consulting (2011) examined when people would consider taking advice and found that 69% would be most likely to seek advice when they had a large amount to invest:

Q9: Do you have any comments or evidence on why consumers do not seek advice?

A lack of willingness to pay charges is the most common reason why customers do not have an adviser. In an online review carried out in November 2015 with the Standard Life customer community, the reasons given for not using an adviser were as follows:

Do any of the following reasons explain why you don't currently use a financial adviser'		
I'm not willing to pay the charges	85	43.8 %
I'd only get advice when I needed to make a big decision abo	72	37.1 %
I wouldn't trust an adviser	61	31.4 %
I don't have enough savings or investments to warrant it	40	20.6 %
Another reason (please tell us what)	32	16.5 %
I can't afford it	28	14.4 %
I don't know where to go for financial advice	18	9.3 %
Total	194	100.0 %

This picture was broadly consistent with customer research we carried out in September 2014, in preparation for the pension freedoms changes. Only a minority of customers wanted to pay for retirement advice but many thought they would benefit from guidance in making decisions:



Source: Research undertaken by Horner Brookbank for Standard Life (Sept 2014)

In our view on the main reasons for people not seeking advice are:

- The means and motivation points mentioned above.
- In the accumulation life stage, for the majority of people the solutions are fairly straightforward – pension and/or ISA.
- Supply has diminished and advice models can be complex and difficult to access.
- A rise in non-advised purchases, given online decision/buy tools (combination of value conscious customers & firms developing non-advice offerings driven by risk/commercial considerations).

- Consumers don't differentiate between advice and information, so many people may think they have received advice, even when they haven't.
- The internet and social media have become an important source of 'advice'.
- Consumers would rather pay for full advice and do it properly when needed, but for many people this service would not be regularly required and for many decisions guidance would be sufficient.

Q10: Do you have any information about the supply of financial advice that we should take into account in our review?

The Retail Distribution Review (RDR) resulted in an increase in the professionalism of advisers. However, it also increased the cost of advice (as mentioned above in answer to Q7) and led adviser firms to focus on higher value customers.

This move 'upstream' is likely to be exacerbated by the Pensions Freedoms as there is a significant private client market which is focussed more on investment planning and advice. The Pension Freedoms have made tax planning much more meaningful and important and customers who were previously serviced in the private client market are beginning to look for more of these types of service. This should increase the market for traditional advisers in the high net worth segment, reducing the supply of advisers covering other sectors of the consumer market.

Q11: Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

As mentioned above, we believe the increased cost of advice (coupled with an unwillingness to pay for it) is one of the biggest reasons for the recent shift away from sales based on professional advice.

Another significant factor is the introduction of automatic enrolment which means people no longer have to take action themselves and can rely on their employer for pension provision. While this has been very positive in terms of increased participation rates, there is a risk that people believe they have secured an adequate retirement outcome when in reality their long-term financial needs are not being adequately covered.

The challenge is for automatic enrolment to be seen as the starting point for increased financial provision – not the end point – and to consider how people can be more effectively engaged during the accumulation stage and, crucially, at retirement.

Q12: Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

Significant technological developments have been and will continue to be made in streamlining the structural parts of an advice process, making it more efficient. For example:

- The rise of platforms facilitating easier tax planning, trading and management of investments across all savings (ISA, pension, other).
- Integration of processes across systems and removal of duplication – for example multiple custodianship and integration between advisers' back office systems, product and investment platforms and the end investment solutions.

<u>Advice</u>

While it is possible to automate parts of the advice process, there are significant behavioural biases among consumers which mean it is unlikely "advice" can be fully delivered via technology. For example, advising a client on their retirement planning may need to take account of various conflicting variables:

- A low appetite for risk with a need for high investment growth over the long term.
- A desire for flexibility of income with a conflicting need for certainty.
- A need for income with a desire to leave a legacy for family.

We therefore see the role of technology as a means of aiding the advice process and potentially reducing the costs, rather than being an end-to-end process which will deliver a specific recommendation.

<u>Guidance</u>

Technology has a significant role to play in making customer guidance more accessible and affordable. Standard Life has considerable experience in delivering digital guidance rather than advice, for example in our digital retirement journey:

www.standardlife.co.uk/accessmypension.

This has been very successful in helping customers take informed decisions about how to use their pension pot, via a scalable, low-cost delivery mechanism. In the six month period following the introduction of the pension freedoms, 6,500 customers settled their benefits online.

We employed a number of principles to develop this including:

- *Personalisation* – information is presented in a personalised way to the user e.g. tax calculations are based on the customer's pensions pot, withdrawal amount and salary.
- *Learning by doing* – encouraging users to interact with key decision factors and explore relevant "what if" scenarios, rather than reading static text.
- *Defaults* – using appropriate defaults in places to lower the barrier to usage and help the customer get started.
- *Information hierarchy* – separating the key information most likely to determine the customer's decision from secondary information less likely to impact.
- *Customer testing* – repeated testing of prototypes to understand how to ensure the key information is communicated appropriately and users are able to progress through the journey.

Standard Life worked closely with a consultancy firm which specialises in 'gamification' methodology to develop our online customer retirement journeys, and we believe there is much more that can be achieved by deploying such techniques more broadly.

Q13: Do you have any comments on how we look at the economics of supplying advice?

The economics of advice should be examined through the lenses of fixed and variable costs, time spend and the capacity of advice service. This will allow consideration of scale and the number of customers that can receive relevant (but perhaps focused) advice can be used to dilute costs and reduce them for customers.

While increased use of digital, telephone and omni-channel propositions can reduce the time spend and cost for an adviser, the development and implementation costs of digital content and services is significant. There is also the issue of ongoing maintenance costs.

Significant scale is needed to make digital propositions commercially viable. Understanding consumer demand for advice services in this form will be essential, as will this being linked in to broader consumer education and financial capability initiatives. We would break down the cost of supplying advice and its underlying components into three distinct aspects:

Time Cost – adviser, para-planner and administration where costs are driven by:

- Complexity of the client needs and the advice areas being considered

- The channel through which advice is delivered (e.g. phone, digitally, face-to-face)
- The expertise, skill of the adviser, para-planner & administration staff.

Overheads - where costs are driven by:

- Technology & Infrastructure
- Digital development and maintenance
- Risk Management
- Physical locations – office space and additional geographic costs
- Literature
- Compliance costs

Risk Premium - where costs are driven by:

- Type of advice – e.g. DB transfers have a higher risk premium
- Value of clients – e.g. the cost of getting it wrong is higher for £1m than £10,000
- Future regulatory position and changes
- Hedging on systemic risks – as we move towards more digital enablement of parts of the advice process we will need to offset the risk relating to tools and support mechanisms used by large numbers of clients

In considering the end-to-end time of the advice process (which then impacts on the capacity and cost of the model) it is important to include the investment of time required to engage the client – i.e. not just on the cost of advice itself but also the overall value. Currently this is provided by many firms, including Standard Life, through an initial consultation that is provided without charge. Engaging the client on the value of advice, not simply the cost, will continue to be a key step of providing advice.

Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

We agree with the fundamental principle of the RDR that advice should have an explicit cost and value. We believe the same to be true of guidance.

Based on current processes and the nature of providing advice we expect this is mainly suited to clients who have over £150,000 of investible assets. Our minimum time cost to provide a new client with face to face advice ranges from £1,000 for straightforward protection advice, up to £4,000 for more complex lifetime planning.

The cost of telephone-based advice is around 20% less due to reduced travel time and costs/increased capacity over the face-to-face model.

For guidance services our costs are in the region of £450 for an initial review where the client is provided with education and support in fulfilling a financial need (but not a personal recommendation). Where we provide ongoing guidance services the costs are in the region of £75 per annum per policy.

Even where we provide the client with a digital journey, the infrequency and comparative complexity of the transaction makes it likely they will want to speak to someone at some point to make sure they understand their options and choices before acting. This has particularly been the case with those approaching retirement since the introduction of Pension Freedoms. Having a knowledgeable, qualified individual to support the client with factual information has a cost that has to be paid for by the client either directly or through any product purchased.

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

Based on current segmentation and advice capability, we cannot economically provide advice to customers with less than £150,000 of investible assets. Providing advice to clients with assets below this level using the current advice models and underlying costs would require a cross subsidy from the fees wealthier clients would be charged for advice.

For guidance services, where providing support involves considerable time to fully explain the client's options and choices, it is difficult to provide support to clients with less than £100,000 in assets (unless we increased the charge to the client or cross-subsidised from other income streams).

While further development of digital services will provide scope for greater capacity we firmly believe our clients will generally want to speak with a qualified person to validate their own understanding. As we said previously, developing and maintaining a digital solution isn't possible without considerable capital and ongoing cost. We would expect to serve a large number of customers through such a service to bring the cost down noticeably.

We believe simplified, focussed and omni-channel advice could be developed in a way that brings the cost in line with more consumers' expectations of value for money. However, these models would require sufficient scale and considerable front end investment in infrastructure and people to deliver. The cost of these models would rely on providing services to a large number of customers and this would in turn lead to consideration of broader financial education, capability and engagement issues to ensure there was sufficient demand.

We suggest the following:

- The creation of a consistent and trusted brand for guidance (possibly with a kite mark or equivalent) would help to increase engagement and therefore be a key part in driving down cost.
- The Government should introduce funding (similar to a Legal Aid) or a credit note for certain customer segments/demographics to help access advice.
- Reduced levy contributions for firms/providers who support financial education programmes in their community (akin to solicitors' 'free will writing' charity offers).

Q16: Do you have any comments on the barriers faced by firms providing advice?

In our view current FCA guidance on key advice areas can create a barrier to firms. Two pertinent examples are as follows:

- The over-arching definition of advice and the lack of clear guidelines to support the development of viable 'simplified advice' models.
- Current guidance in relation to occupational transfers and current methodology for Transfer Value Analysis Systems (TVAS).

Advisers/providers face significant uncertainty in the interpretation of FCA principles-based regulation and are understandably concerned about potential 'hindsight risk'. There has been significant regulatory change through the RDR and the FCA has set new expectations on how firms should be providing advice. This has continued since RDR and is challenging for firms to understand, interpret and incorporate into existing controls, processes or collateral. This has manifested itself in a number of ways:

- It has contributed to 'a fear of failure' and concern over sanctions which stifles innovation in the industry. There is also an increasing PI issue for firms where cover only covers current claims not future liabilities.
- Costs are continually escalating due to the complexity and regularity of regulatory change and oversight requirements.

- Quality of customer communication is compromised due to very heavy disclosure requirements, For example, suitability letters become a ‘disclaimer’ rather than a customer facing document.

Process ‘safe harbours’ should help with this, or indeed if the FCA signed off key processes and firms then simply carried the execution risk not the process design, it might help to break down barriers and foster innovation.

Q17: What do you understand to be an advice gap?

An advice gap is where customers are finding it difficult to access either quality advice or guidance but would benefit from (and may want) a greater degree of support than they are receiving at the moment.

Q18: To what extent does a lack of demand for advice reflect an advice gap?

As evidenced in our response to Q9, there is strong evidence that some consumers don’t want advice for a range of reasons. However, it is also clear that many customers would like to have the benefit of advice but either can’t afford it (as advice is uneconomic relative to assets) or they simply don’t want to pay for it.

Q19: Where do you consider there to be advice gaps?

We see specific financial planning gaps in the following areas:

- Retirement planning/ the age 55 trigger point
- Occupational transfers
- Later life planning e.g. inter-generational wealth transfer

We also see a risk of some complacency around automatic enrolment and a lack of understanding that an automatic enrolment pot is just a starting point (as stated in answer to Q11).

Q20: Do you have any evidence to support the existence of these gaps?

Research published by Cass Business School in January 2013 identified a potential ‘guidance gap’ among those people who would be left without professional financial advice as a result of the Retail Distribution Review. Cass estimated that 43 million of the UK’s adult population would fall into the guidance gap in spite of having £440bn of investible assets:

http://www.cass.city.ac.uk/news-and-events/news/2013/january/fidelity-story-final

From our due diligence on IFA businesses we looked at as potential acquisitions for our 1825 advisory business, firms have typically applied an 80/20 rule post RDR i.e. focus on the 20% of clients with the highest value in terms of assets and revenue and providing a holding or reactive service to the remaining 80%. From our discussions with the bancassurers it is also clear there are significant numbers of dis-intermediated customers from their former scale advisory arms.

Q21: Which advice gaps are most important for the Review to address?

As stated above, we see a need for guidance for those customers where fully regulated advice is not a practical option but there is a need for greater support in taking decisions and managing relatively modest assets.

Q22: Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

We believe the FAMR has the correct focus and should aim for the following outcomes:

- Aim to simplify the regime for accumulation guidance and advice.
- Create processes (safe harbours) in which advisers and providers can operate with a high degree of confidence they will not be subject to retrospective regulation and sanctions.
- Support long-term saving by removing the barriers and disclosure requirements when topping up/doing more of the same.
- Enable advisers and providers to give customers clearer guidance on retirement, the breadth of options available to consumers, and 'safe harbour' retirement solutions outwith an annuity.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Yes, though we would raise the bar to at least £150,000 of investible assets (in our experience the minimum threshold for regulated advice to be economically viable).

Q24: Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

Yes. We would make three specific points:

1. Current FCA guidance is a barrier to firms communicating with their customers effectively. It limits the non-advised services and information firms can provide to customers to prompt them to consider the right issues and make informed decisions in the absence of regulated advice.

Standard Life has previously raised concerns with the FCA in relation to paragraph 3.40 of FG15/1 (Retail Investment Advice). This suggests that highlighting customer circumstances in a message would indicate suitability. However, Standard Life believes that personalised messages are more engaging for customers and more likely to prompt action that is in their interest.

The following are offered as examples of what would be considered to be regulated advice under current FCA rules:

- A mailing to customers pointing out that they are invested in a single asset class fund and should consider more diversification (including a suggested list of alternative funds);
- Pointing out to customers they have never increased their pension payments and suggesting that they consider doing so;
- Communicating with customers who have never changed their specified retirement date to encourage them to consider if it remains appropriate.

In addition, this stance is inconsistent with other guidance given in FG15/1 that filtering options on the basis of customer circumstances would not imply advice. This adds to the difficulties for firms in seeking to apply the FCA guidance in a consistent and clear way for the benefit of customers.

We would recommend a refresh of current FCA guidance to help recognise the usefulness of "calls to action" when trying to encourage customer engagement.

2. Standard Life acknowledges and very much supports the FCA's initial work on smarter communications for consumers and its recent consultation on removing the requirement for some disclosure documents.

The quantity of documentation which must be given to a customer is one area where further improvement could be made. Customers generally don't have the patience to read through pages of what they perceive to be technical or jargon-laden documentation. Social media has created an environment where statements are often limited to 140 characters. The financial services industry must find a more succinct, jargon-free way of engaging with customers and encourage them to access more detailed information about products and services.

The forthcoming introduction of the PRIIPs KID will deliver a short, jargon-free document that contains only essential information, but which can signpost to more detail if a customer wants this.

3. FCA/MAS could helpfully produce a simple 'one-pager' for customers on what to expect when they use guidance services or take financial advice. This would be easy to read and explain why certain steps in the advice/guidance process are important to help and protect the customer. This would help customers understand what info they might have to provide, what info they will receive and why they are given it. Australia's Moneysmart website has a page on "What to look for in financial advice" that does something similar.

Q25: Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

We are encouraged that EU regulation is taking a more joined up approach. For example, MIFID II requirements on management bodies reflect and refer back to the requirements under CRD IV and the Insurance Distribution Directive will do similar.

The challenge is ensuring that EU regulation is applied consistently at a national level when transposed into UK legislation and regulatory rules. It is the implementation of the European legislation, rather than the legislation itself, which needs careful consideration to ensure it is effective and proportionate.

Q26: What can be learned from previous initiatives to improve consumer engagement with financial services?

It is important to understand the reasons why take up of the Pension Wise guidance consultations has been lower than was perhaps anticipated. Standard Life strongly promotes the Pension Wise service and its customers have a reasonable level of awareness of it, but it remains under used. The initial level of take-up is perhaps not surprising given that large numbers of people seeking to access their pension are those with relatively small pots who already have a clearly formed idea of what action they want to take when they contact their provider. Customers who want access to cash lump sums may not view themselves as taking complex retirement decisions that require some form of guidance or support.

More broadly, the FCA has already started to recognise where previous initiatives haven't worked as intended and is now taking steps to address this e.g. the recent consultation on smarter consumer communications and the proposals to remove the requirement to provide certain documents. We welcome this approach and it should continue across all information that firms are required to provide to customers.

Customer testing should be encouraged, to assess whether proposed new information or ways to engage with customers would work in the way intended or would highlight potential unintended consequences.

Educating consumers to understand and to take responsibility for their decisions would be welcomed. Guiding consumers on what to expect from the process of investing or buying a financial services product to help give them the confidence to ask questions and ensure they properly understand it, could improve consumer engagement.

Encouraging firms to develop a new style of writing document/product information that uses plain language and avoids the use of jargon could also be a big step forward.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

Australia has Moneysmart – a website similar to MAS.

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

In general, the needs of consumers cannot be addressed by information alone – a more interventionist approach is required to engage and guide consumers. We see three potential options:

1. **Innovation** – as mentioned above, the industry needs to develop new and innovative ways of engaging with consumers – such as increased use or customer journeys - and should be encouraged to do so. While the issue of scale is important, so is the need to give advisers and providers a stronger degree of regulatory comfort that true innovation will not be unduly penalised by regulators further down the line.

2. **Nudge** – we believe greater use can be made of 'nudge' behavioural techniques to steer people to decisions which are in their best interests. The Behavioural Insights Team within the Cabinet office uses the EAST Framework:

a) Easy - use defaults (e.g. opt-in to auto-enrolment), remove friction from journeys (i.e. remove unnecessary steps); simplify choices (fewer rather than more).
b) Attractive – Salience (make the most important information stand out), loss aversion (focus on potential loss which is disliked more than potential gain), personalise messages to increase relevance, mental accounting (encourage people to think in "pots").
c) Social – highlight social norms and peer comparison (how much you pay compared to your peers).
d) Timely – encourage future actions rather than immediate (e.g. Save more tomorrow), foot-in-door (e.g. encourage small first step which leads onto larger step), prompting at the right time (e.g. encourage pension contribution when receive bonus or pay rise), deadlines (give deadline to complete task)

3. **Education** - there is a major role for improved education and awareness which we believe is often lacking with respect to finance and money matters in general. Specifically, there is a need for education of the next generation in financial matters at school level (e.g. saving, debt, how various financial products work, etc.) as it is generally recognised that savings behaviour begins at early age.

In addition, there is a need for cross-industry/government sponsored education aimed at the current generation of adults so they understand the need for saving and how to manage debt. For example, the '5 a day' campaign is promoted by various government or health bodies to target the population as a whole and is supported by supermarkets and food companies.

Q29: To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice?

We would like to see advice and guidance processes within a safe harbour, or alternatively the regulator signing off process design so firms simply become responsible for the execution of that design. This links to the new 'sandbox' testing process announced recently by the FCA, which enables firms try out innovative solutions which can then be put forward for sign off.

Many accumulation transactions could be covered by a 'safe harbour' on the basis they are relatively simple decisions which invariably lead to a more positive outcome (e.g. increasing pension contributions), although other decisions such as investment choices would require a greater degree of support in helping the customer reach a decision.

Q30: Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

We would like to see safe harbour introduced in the following circumstances:

Guided journeys: Guiding the customer through a decision process which will almost invariably be in their best interests.

Focussed advice: Liability for focussed advice must be less than for full advice or there is no incentive to provide it. A 'safe harbour' could restrict liability to suitability based on the information received as a result of a limited fact find rather than the wider circumstances of the customer. Paragraph 4.12 of FG15/1 notes the wider duty of care to customers even where limited advice is provided. It is difficult to meet this duty unless a full fact find takes place in relation to the customer's circumstances. This is the part of the advice process which is individual to each customer, difficult to automate and therefore represents most of the cost of advice.

Workplace: Communications to scheme members of workplace pension schemes could be granted safe harbour if these could be carved out of paragraph 3.40 of FG15/1. This would allow scheme providers to provide helpful information, guidance and tools without the risk of implied suitability. This would improve the effectiveness of communications and potentially have a positive impact on engagement and decision making. Members of these schemes are protected by scheme governance requirements including those relating to default investment solutions so the risk of consumer detriment is limited.

Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Consumers should be given clear information as to the scope of the service they are being given and the limits of the adviser's liability (see answer to Q2).

Q32: Do you have evidence that absence of a longstop is leading to an advice gap?

There have been a number of recent FOS decisions which relate to products sold more than 30 years ago. This means advisory firms carry a large amount of generally unknown risk in relation to historic product sales. This inhibits consolidation within the market as larger firms do not wish to take on the unquantifiable liabilities of smaller firms. This in turn leads to the market for advice having less scale and efficiency and higher costs than other markets. This, in our view, contributes to the advice gap. However, as stated in our covering submission, this needs to be balanced with maintaining consumer confidence in the industry and giving people reassurance that if things go wrong they have the means of re-dress (even if they never have cause to use it).

Q33: Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

The advice market is now generally comprised of a large number of relatively small scale providers. As stated in our response to Q32, the accrued historic liabilities of advisory firms may inhibit consolidation within the advisory market. This prevents the growth of larger scale providers of advice who are able to offer advice to the mass market at a lower margin.

This is a significant barrier to entry to the market. It would be helpful if the FCA investigated the impact of historic liabilities on the availability and cost of professional indemnity insurance.

Q34: Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

The availability of redress offers benefits for some consumers – most obviously those who are directly compensated for poor advice. It also benefits customers who receive better advice than they otherwise would have because it improves the overall quality of advice given. However, to counteract this, there is a serious loss to consumers who are unable to access advice that they might need or want. Many lower value clients fall into this category, but even clients who can generally get advice may suffer as a result of it. For example, someone for whom switching out of a DB scheme is the correct decision, but whose adviser is unwilling to make the recommendation or facilitate the transfer due to perceived risks.

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

The challenge is balancing the competing needs of consumers. One option could be more time limits on redress, possibly with some longer time limits on certain types of advice to protect the most vulnerable consumers and create a distinction between advisers acting in good faith vs negligence. Another source of help would be increased guidance from the FCA on what is acceptable so that customers don't lose out because advisers are overly cautious.

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

Automation – and so called robo-advice – is often positioned as the answer to providing low cost advice with little or no involvement of an adviser.

Our sense is that automation could be feasible for specific, non-holistic cases e.g. taking income from a specific pension, protection, etc. and, in wider cases, could bring efficiencies to the advice process whilst still leaving the onus on a human adviser to sense-check the case and provide human input. The key challenges are:

- Automating the fact-find - in principle this is a straightforward data collection exercise but would require a substantial amount of information to be entered by the customer (similar to a self-assessment tax return) and many customers will be disinclined to spend the time completing the process. As a consequence the quality of completion is likely to vary substantially.

- Generating an advice recommendation is only part of the challenge. Motivating a customer to implement the advice is a further challenge – this is a key element of an adviser's role. Again, this is very difficult when holistic advice is given, potentially involving multiple providers, but possibly simpler when dealing with narrow advice, say regarding the appropriate contribution level to a particular pension.

As covered under Q12, the use of platforms, removing duplication and integrating across different parts of the advice implementation process will provide efficiencies and we would strongly advocate more work in this area.

Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

As covered in previous answers, we would like to see greater use of 'safe harbour' processes i.e. processes which are pre-approved by the regulator or designed for advisory firms and providers in accordance with specified principles. While the latter could leave firms open to a degree of risk (as to whether their process was aligned to the principles) we believe this hurdle could be dealt with i.e. if a process is *prima facie* compliant, it will not be later found to be non-complaint unless through extenuating circumstances.

Q38: What do you consider to be the main consumer considerations relating to automated advice?

The main issues we envisage for customers will be:

- Price – a charge would need to be levied and we understand customers rarely expect to pay for a purely digital service.
- Complexity of inputs – to give holistic advice requires customers to complete a wide fact-find which some may find challenging or too time consuming.

- Human contact – while customers may be comfortable with online processes and transactions, many like to have the option of speaking to a real person if they get into difficulty or things go wrong.

Q39: What are the main options to address the advice gaps you have identified?

As described in answering this questionnaire, we believe there are various steps which can be taken to address these advice gaps. In summary:

- Greater clarity on the boundary between advice and guidance.
- Support the broad availability of guidance services under safe harbour e.g. processes which have regulatory approval or built according to defined principles.
- Extend safe harbour for simpler and safer 'advice' needs.
- Stronger, clearer, more detailed FCA guidance to remove some of the interpretation and hindsight risk, and therefore give more certainty for firms. FCA process sign offs and clear signposting of what ‘best practice’ looks like.
- Better consumer education, and government funding of some 'advice' costs for certain demographics at key life stages e.g. using credit notes or vouchers with accredited safe harbour 'advice' providers
- More educational intervention at school and college and for key life stages, e.g. retirement courses supported in the U.S. by T Rowe Price.
- FCA levy discount for (a) track record in delivering good customer outcomes and (b) supporting educational initiatives.

Q40: What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

Price capping should be avoided. Encouraging advisers/providers to enter the guidance space will create a market in which competition will push down costs – particularly if the industry can fully utilise digital solutions. Encouraging consolidation in the market would help, but legacy liability concerns are a barrier to this and therefore need to be addressed, but in way which does not undermine consumer confidence and trust in the industry.

Q41: What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

There are two aspects to this. First, advisers/providers need to be clear on what on they can (or cannot) do to be compliant within the regulatory environment and what standards are expected of them in meeting their customers’ requirements. Second, there needs to be a consistent application and enforcement of the rule book so customers with complaints are treated in a fair and consistent way relative to their expectations at the outset.

Consultation Response

Financial Advice Market Review

StepChange Debt Charity response to HM Treasury and Financial Conduct Authority

December 2015

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. www.stepchange.org

Introduction

StepChange Debt Charity is the UK's largest specialist not for profit debt advice and solutions providers. In 2014 we were contacted by almost 600,000 individuals in financial difficulty. We welcome the opportunity to respond to the Financial Advice Market Review (FAMR).

We are responding in parallel to HM Treasury's Public Financial Guidance consultation. That contains evidence and commentary relevant to this review as well. We therefore attach our response to that review in an appendix.

We only have evidence and ideas relating to certain issues within FAMR, so our response only contains answers to selected questions.

Q5: Do you have comments or evidence on the types of financial needs for which consumers may seek advice?

Evidence from our client base shows that the following people are contacting the Charity in greater numbers and are disproportionately likely to seek advice[1]:

- Those on a low-income: 70.4% of clients advised earn less than £20,000 (net) annually.
- Women: in 2014 the proportion of female clients was 57%, up from 54% in 2012.
- Single parents: now represent close to one in five (18.3%) of those advised by the Charity compared to 16.1% in 2012.
- Those living in rented accommodation: almost three-quarters (71.4%) of StepChange Debt Charity clients in 2014 lived in rented accommodation, compared to 61% in 2012.

The problems clients present with are changing rapidly, and the Government and Financial Conduct Authority (FCA) must be aware of this when making its decisions based on this consultation. The last five years have seen significant reduction in the number of people with very high consumer credit debts, but rapid growth in the number of families struggling with arrears on essential bills, such as rent or heating.

The most worrying trend of the last few years has been the huge rise in the number and proportion of clients who have arrears on an essential household bill, including council tax, electricity, gas, mortgage payments, rent and water bills. In 2014, 135,681 (39.8%) of clients advised had arrears on essential household bills, compared to 68,522 (34.9%) in 2012[2].

One important note here, while overall the level of unsecured debt is falling, debt levels are beginning to rise on some products where lending is generally smaller scale. These are catalogues (where the average debt increased by 14% between 2012 and 2014) and home credit (2%). Although the average total debt clients owe on payday loans fell between 2012 and 2014, the average debt owed on each payday loan rose from £552 to £576[3].

The spiral of harm caused in people's lives by problem debt can be stopped when people get independent advice and some respite from ever growing debts and demands for payments that they cannot afford. Our clients have told us how their finances started to stabilise when their creditors agreed to freeze further default interest, charges and debt collection activity against them. One in six of our clients said that their financial situation had stabilised once all of their creditors agreed to freeze further interest, charges and enforcement action. However, no one said their financial situation had stabilised in cases where none of their creditors had agreed to give them this help.

A key reason for people needing debt advice is an unexpected income shock leading to a crisis situation. Income shocks are the primary driver of problem debt. More than 7 in 10 people in problem debt experienced an income shock in the last year. Where people use credit to keep up after an income shock, they are 20 times more likely to end up in severe problem debt than those who don't use credit. In the last 12 months, 14 million people in Britain experienced at least one income shock; 4.5 million people experienced two or more[4].

People who experienced multiple income shocks in a year were three times more likely to fall into severe problem debt than those who experienced a single income shock.

However, often people wait too long between experiencing an income shock and seeking advice. Half of our clients wait a year between realising they are in financial difficulty and seeking help from a debt advice provider. Instead of seeking advice, they are instead often turning to further borrowing, even though this does not objectively seem like a rational decision. Almost three quarters of our clients got loans from their family and friends to keep up with essential costs once they started to struggle. A similarly high proportion used credit cards and overdrafts to keep up with essential costs, while around 1 in 5 used high cost forms of credit such as payday loans, pawnbrokers and home credit providers[5].

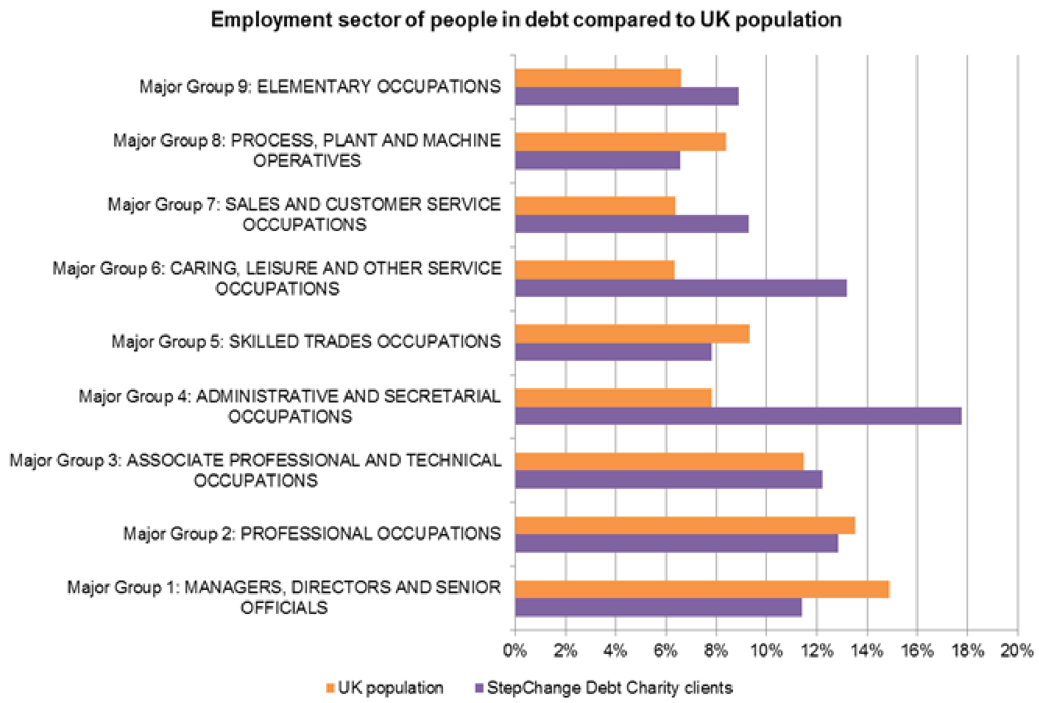
Where people have savings they can use these to help avoid financial difficulties becoming a debt crisis. Our research shows that an average family with £1,000 in accessible cash savings is 44% less likely to fall into problem debt than a family without savings. However, not enough families have savings 22 million adults in Great Britain are not confident they're saving enough to cope with a rainy day[6].

Q6: Is the FCA consumer spotlight segmentation model useful for exploring consumers' advice needs?

We believe the FCA consumer spotlight segmentation model should prove useful for exploring consumers' advice needs.

The following data may augment the FCA's work in understanding demand for debt advice[7].

Problem debt in 2015: who's in debt now and how has it changed since 2013?



The FCA may furthermore consider exploring how its model correlates with that suggested by the Money Advice Service as part of its ‘Indebted Lives’ research.

Q9: Do you have any comments or evidence on why consumers do not seek advice?

People in financial difficulty, including those who are in or at risk of problem debt, face constrained choices, exacerbated by creditor action demanding repayment.

When people are in problem debt dealing with creditors is often seen as more important than seeking advice, even when seeking advice is the rational thing to do. Such a constrained decision can make matters worse in the medium to long term. This explains why fewer people seek advice than would benefit from it, and why a large number of people do not turn to advice until an absolute crisis triggers them to do so. It suggests that policy around guidance and advice on debt needs to be considered alongside strategies for prevention and mitigation of debt (for instance, our ideas around a new “breathing space” protection, and consistent regulatory vigilance on collection and enforcement standards).

Q10: Do you have any information about the supply of financial advice that we should take into account in our review?

According to the Money Advice Service’s (MAS’s) *Financial Capability Strategy* just one in six of the 8.2 million people currently in need of debt advice is seeking help[8]. Our own research suggests 2.6 million people in debt are in severe difficulty.

Free debt advice accounts for an estimated 83.5% of provision (1.169 million advice sessions out of 1.4 million)[9].This reliance on the free sector is likely to increase as the commercial market retreats in response to economic and regulatory pressures.

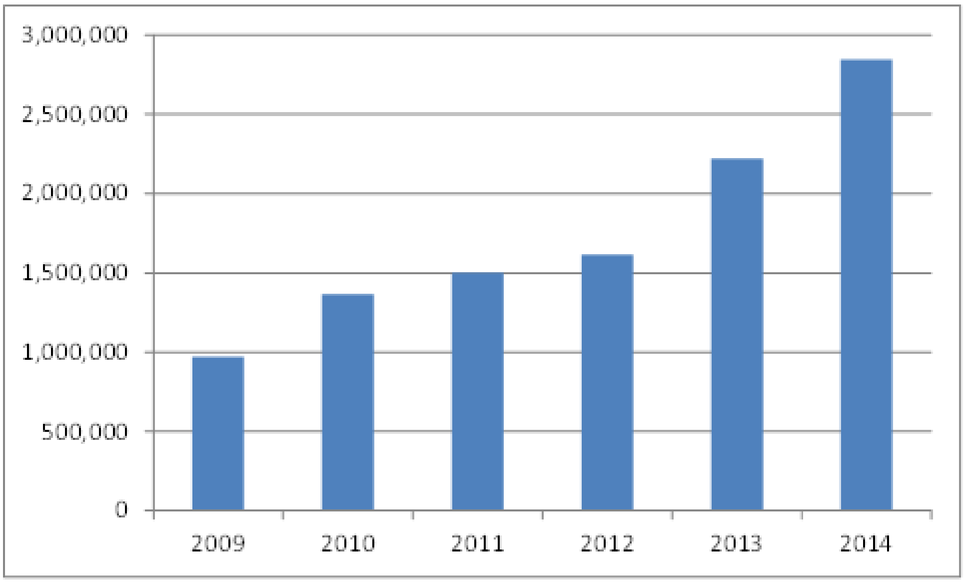
It is important the Government does not make any changes which are likely to diminish current supply. Government should seek to close the debt advice gap by promoting more free debt advice.

Commercial debt management is increasingly challenged, and many larger providers rely on mobile capital from larger overseas groups. Most, if not all, are living off a back book of DMPs; new business is not self-funding. The need to remunerate capital has led to front loaded client fees and aggressive conduct which caused significant detriment. It remains to be seen if there is a model which can meet both economic and regulatory conditions.

Q12: Do you have any comments or evidence about the role of emerging technology in delivering advice?

The free debt advice sector has sought to provide additional information and services online by investing in websites and digital services. This has further increased the number of people we help (the chart below shows the rise in the number of visitors to the StepChange Debt Charity website in recent years).

Online advice



Increasingly free advice providers engage directly with those in financial difficulty via online forums. In 2015 StepChange Debt Charity has responded to almost 1,000 questions in online forums, such as those run by MoneySavingExpert.

Q13: Do you have any comments on how we look at the economics of supplying advice?

The review must not assume all regulated advice is for-profit. We are, of course a charity, so our economic model is different. We receive funding because we are able to demonstrate to funders that there are cost and risk benefits from charity-provided debt advice compared with carrying out the same activities themselves. Creditors are prepared to fund:

- Advice.
- Repayment and non-repayment debt solutions.
- Other activities (publicity and engagement, budgeting, financial education, policy, campaigning and rehabilitation).

Provided:

- We can demonstrate efficiency and productivity improvements over time.
- They can carry out due diligence on quality.
- We work together with other agencies in pursuit of improvements for clients.
- Any surpluses are re-invested in provision of client services.

Q21: Which advice gaps are the most important for the Review to address?

We discuss the gap in debt advice in our response to Q2 in the public financial guidance consultation.

In addition, we believe more needs to be done to address the UK's savings crisis.

Young adults, people on low-moderate incomes, people living in living in rented accommodation and families with young children can find it particularly difficult to save[10].

- Only a third of 16-24 year olds have at least £1,000 saved.
- Only 55% of households earning less than £14,000 a year have at least £1,000 saved.
- Only 41% of households living in rented accommodation have at least £1,000 saved.
- Only 58% of households with dependent children under five have at least £1,000 saved.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

There are dangers in drawing lines in terms of asset and income levels that “qualify” people to be of interest to the review. Income and assets grow and decline over time, especially in response to life events (for example, divorce, illness, job loss) and advice is vital at these points. Three-quarters of StepChange Debt Charity clients are in the bottom 40% of the income range, however 73% of them are in debt because of an unavoidable income shock or change in their circumstances[11].

Our research shows[12]:

- People on low and middle incomes are more likely to experience shocks: 32% of the lowest earning households (£0 - £15k) and 28% of those on low-middle incomes (£15 - £25,000) experienced an income shocks - those on higher incomes were significantly less likely to experience an income shock.

- People with less secure jobs are more likely to experience shocks: 59% of those working a fixed term contract job, 67% of those working a zero hours contract, 53% of those who are self-employed.

- Families with children are more likely to experience income shocks: 37% of those with dependent children at home experience an income shock or change of circumstance in the last year, compared to 25% of those without children.

- Working age adults are more likely to experience income shocks: People aged 25 - 39 were most likely to experience a shock or a change (37%) and 40 - 59 year olds were also disproportionately likely to (33%).

More than 600,000 people who experienced one shock in the last 12 months ended up in severe problem debt and 2.8 million people (31%) ended up in moderate financial difficulty. Just fewer than 1 million people (22%) who experienced two or more income shocks in the last 12 months ended up in severe problem debt and 1.2 million people (28%) ended up in moderate financial difficulty[13].

Four in 10 said their income had dropped by more than £500 a month in the last five years. Around two in 10 saw their income drop by less than £500, some saw their income remain stable, and just 15% have seen their income increase at all in that time[14].

The scale of drop that people had to their income, and the reduction in job security also have an impact on people’s ability to meet their essential costs: 54% of our clients who faced a £500+ drop in earnings no longer have enough money to make ends meet, 45% of clients who faced a drop in earnings of less than £500 a month did not have enough money to meet their essential costs[15].

It is also worth noting that in pensions saving, anyone earning more than £10,000 annually is automatically enrolled, and faces complicated decisions around how much to contribute, and which funds to invest in.

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of examples of this, either in the UK or other jurisdictions?

In 2006, Debt Remedy became the first online tool to provide free, anonymous debt advice and has since helped thousands of people access free debt help. In 2015 we project our website will receive 2.9m visitors, 110,000 of whom will use Debt Remedy (48% of all advice given this year).

The online journey using Debt Remedy involves the client inputting all their information to complete the financial assessment. Debt Remedy uses the same criteria used within the telephone journey to identify the suitability of debt solutions based on the information entered. Clients can save their progress and return.

The client is guided through this data input step by step and many are able to complete their journey totally online. We have a dedicated team of advisors to support clients through the process if they require help or guidance. Digital Support is also available by phone, webchat and email to provide support for clients who may be struggling to complete the online journey unaided. They will help the client to resolve whatever difficulty they may be experiencing and if appropriate, they will complete the process on the client's behalf. By the end of 2015, the Charity expects the Digital Support team to handle c24k calls and c29k web chats.

Clients receiving advice online get the same advice they would via the telephone. On average, it takes a client approximately 25 minutes to complete the online journey and over 70% of clients go through the full process in one session. Online advice provides clients with choice, and an option for those who aren't willing or able to talk about their debts over the phone.

We estimate that the direct cost of giving online advice is approximately one fifth of the cost of doing so over the phone. Both channels are of course supported by marketing. Our online marketing includes search engine optimisation and pay per click.

Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

While face-to-face advice remains vital, free sector reach and cost-effectiveness can be improved. Data from the main non-profit providers shows that telephone advice is four or five times cheaper than face-to-face provision, with online services cheaper still.

Q39: What are the main options to address the advice gaps you have identified?

We discuss ways to address the debt advice gap in our response to the public financial guidance consultation. In summary:

- A significant, sustained, increase in funding, based on a rationalised statutory and voluntary funding mix
- Channel shift where possible
- Public policy change to address the root causes of problem debt and mitigate its impacts
- Collaboration within a diverse charity sector to make services as effective as they can be

Annex – response to public financial guidance consultation

StepChange Debt Charity is the UK's largest specialist not for profit debt advice and solutions providers. In 2014 we were contacted by almost 600,000 individuals in financial difficulty. We welcome the opportunity to respond to this consultation on Public Financial Guidance.

We are responding in parallel to HM Treasury's Financial Advice Market Review. That contains evidence and commentary relevant to this consultation as well. We therefore attach our response to that review in an appendix.

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for public financial guidance or difficulty finding and obtaining that guidance?

Those with protected characteristics are likely to have particular need for public financial guidance. The Government should additionally recognise financial difficulties are a form of vulnerability. The Financial Conduct Authority (FCA) recognised this in its 2015 paper on consumer vulnerability:

"A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care….Consumers in vulnerable circumstances, however, may be significantly less able to represent their own interests, and more likely to suffer harm than the average consumer."[16]

There is a well-evidenced connection between problem debt and poor mental and physical health. The mental health charity MIND, for example, has shown that one in four adults with a mental health problem lives with debt and arrears and that three times as many adults with mental health problems report debt or arrears, compared to those without mental health problems[17].

People in financial difficulty, including those who are in or at risk of problem debt, face constrained choices, exacerbated by creditor action demanding repayment.

When people are in problem debt, dealing with creditors is often seen as more important than seeking advice, even when seeking advice is the rational thing to do. Such a constrained decision can make matters worse in the medium to long term. This explains why fewer people seek advice than would benefit from it, and why a large number of people do not turn to advice until an absolute crisis triggers them to do so. It suggests that policy around guidance and advice on debt needs to be considered alongside strategies for prevention and mitigation of debt (for instance, our ideas around a new "breathing space" protection, and consistent regulatory vigilance on collection and enforcement standards).

Q2. What additional, or alternative, functions and structures could a statutory body put in place to effectively coordinate debt advice provision?

A statutory body must focus on addressing the “advice gap” in debt advice, complementing and supporting the provision of appropriately regulated debt advice and ensure the most effective and efficient use of any levy funding it controls.

Current supply and the debt advice gap

According to the Money Advice Service’s (MAS’s) *Financial Capability Strategy* just one in six of the 8.2 million people currently in need of debt advice is seeking help[18]. Our own research suggests 2.6 million of people in debt are in severe difficulty. A statutory body must be focussed on ensuring that this gap is filled in the most appropriate way[19].

Consumer demand is met is met by a mix of free advice and for-profit advice, with free advice comprising the vast majority of current provision.

Free debt advice accounts for an estimated 83.5% of provision (1.169 million advice sessions out of 1.4 million). This reliance on the free sector will increase if, as is widely expected, the commercial market shrinks in response to economic and regulatory pressures.

It is important the Government does not make any changes which are likely to diminish current supply. Government should seek to close the debt advice gap by promoting more free debt advice. A large proportion of people seeking debt advice will not have much or any spare money at the point of seeking advice. A quarter of people contacting StepChange Debt Charity have a negative budget. They are not able to pay for advice, or they are seen as economically unviable by commercial providers.

Maintaining current funding

Free advice is paid for by a “mixed economy” of statutory and voluntary funding. Funding for free debt advice comes from[1]:

- The MAS debt advice levy: £45 million
- Donations: £74+ million, of which
  - FSC = c£54 million
  - Other = c£20 million

This “mixed economy” is a source of strength:

[1] Estimated figures

- It secures statutory funding to provide an essential public good, ensuring that provision can be directed towards meeting aggregate need, including in response to immediate issues like serving clients impacted by the exit of commercial providers.
- It brings in donations from funders who wish to support particular objectives or organisations. It makes providers directly accountable to funders for balancing efficiency, effectiveness, innovation and reach.

It would be inappropriate to move voluntary donations on to a statutory footing because that would:

- Create a new tax/levy, which would require legislation, extensive design work and consultation and would subsequently require additional collection and distribution infrastructure.
- Have a negative impact on future voluntary donations.
- Mean creditors are less represented, as they will no longer have a direct relationship with front line advice providers.
- Create rigidity in a model that can evolve naturally.

Overall, if free debt advice is a public good, it is best funded by both public funding and voluntary giving. A mixture of both is most likely to strike the right balance of efficiency, effectiveness, innovation, reach and responsiveness to change. Therefore the Government should adopt a principle of not disrupting existing funding streams that work satisfactorily

<u>Increasing statutory funding</u>

Consumer credit lenders pay for the majority of free debt advice. However, they also receive the majority of the benefit from such advice. Research from the Friends Provident Foundation shows creditors recover in excess of £1 billion (or collectively, £1,100 per advised individual) extra, where independent advice is given

However, consumer credit lenders are not the originators of all problem debt and the standards to which they are held in terms of product design and conduct towards people in difficulty are arguably higher than those that apply elsewhere. Annex 1 shows how StepChange Debt Charity's clients owe money to various creditors in many different sectors. The FCA levy is a convenient way of levying creditors who are regulated financial services providers, but it is not fair that financial services creditors foot the whole bill.

In 2014, 135,681 (39.8%) of StepChange Debt Charity clients advised had arrears on essential household bills, compared to 68,522 (34.9%) in 2012. This means an increasing proportion of the costs incurred by the free debt advice sector are related to providing guidance on these arrears[20].

Any model based on the harm caused by problem debt and the benefits generated by free debt advice should attract a significant contribution from government itself. A statutory body could hold the Government accountable for this and furthermore supplement the FCA levy with statutory contributions from others, including utility providers, ensuring a funding mix which is rational, transparent, accountable, fair, and above all sufficient (Annex 2).

<u>Implications for the role and responsibilities of any statutory body</u>

A statutory component of funding requires certain jobs to be done. These include:

- Comprehensive analysis of total provision vs total need.
- Gap analysis, by geography and channel, along with action to ensure that the support is available in the form people need it.
- Funding and distributing multi-year funding on an open and transparent basis
- Accountability for distribution and guaranteeing the value for money of statutory funding.

Other roles and responsibilities of a statutory body might include a function to ensure market and policy developments which could increase the need for debt advice are accompanied by mitigation measures. Government departments and agencies should conduct a debt impact assessment on new policies, and ensure that any debt impact is mitigated. A statutory debt co-ordination body could provide a useful check on the quality and consistency of such assessments. Part of this function may already reside in the Financial Conduct Authority's 'have regard' for access to financial services products and services.

Several of these jobs are currently carried out by the Money Advice Service (MAS). We have worked well with MAS in their role, and would continue to do so if the review concludes that they should continue to carry out the same functions, or an amended version. Equally we would work constructively with any alternative arrangements the Government chooses to put in place.

We have identified two options for who could carry out such functions.

1. A special purpose statutory body to work alongside free debt advice providers: this could be close to the current MAS arrangements, though the consultation might wish to recommend some changes (see Q3 below) e.g. a stronger voice in governance for practitioners and funders.

2. Self-governance based on partnership within the sector itself. The three main debt advice charities (Money Advice Trust, Citizens Advice and StepChange Debt Charity) together provide a well-functioning ecosystem of provision and we are working together to ensure a seamless journey between our services and will be exploring this further with other organisations. This work, which began in early 2015 and is independent of the MAS Debt Advice Steering Group, will continue with this consultation in mind.

The optimum balance might be a body operating under a refreshed statutory remit, with strategic development focused on and driven by practitioners and funders. The key objective is to minimise the number of barriers between consumers and advice as these barriers stop people taking advice by complicating the customer journey. There is no need for the statutory body to be interposed between the source of advice and people in need, e.g. through a role as a “hub”.

A statutory body would be accountable for addressing the advice gap, understanding need and demand and ensuring free advice is available to meet this demand. In executing this role, it could be required to complement voluntary funding. Its coordination role could be primarily ensuring that levy funding is appropriately allocated. There should be a focus on extending the reach of free, not-for-profit debt advice.

The funding body should be aware that it allocates only one element of sector funding, levy funding, and ensures this funding does not lead to duplication, which would risk the withdrawal of voluntary funding from the sector.

The funding body should ensure value for money via appropriate channel decisions. While face-to-face advice remains vital, free sector reach and cost-effectiveness can be improved. Data from the main non-profit providers shows that telephone advice is four or five times cheaper than face-to-face provision, with online services cheaper still.

Another aspect of “rationalising” funding is to improve the efficiency and flexibility with which funding is allocated. All free sector providers should be able to apply for funding on an equal footing. This would make objectives clearer, allow more transparency between funding and expenditure, and foster innovation. There is also scope to use funding in new ways, for instance a debt advice ‘Challenge Fund’, which could encourage innovative new projects and partnership arrangements and improve the effectiveness of the sector in meeting client need. The statutory body could continue to contract for particular services, where need is not otherwise being met.

Q3. What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?

Although a statutory body should have structures in place to agree KPIs are achieved in funded projects, this is not the same as saying the funding body needs to engage in double regulation by creating its own advice standards. Any funding body can rely on the rigorous regulatory standards of the FCA to decide to remove funding from free providers. There is also no need for a statutory body to oversee the outcome of voluntary funding, which already requires recipients to demonstrate value to funders, who are subject to FCA rules.

We refer here to the Financial Conduct Authority's feedback on its CP15/6 consultation (*Consumer Credit – proposed changes to our rules and guidance*).

In response to suggestion 'Money Advice Service advice quality standards should be reflected in the FCA regime.'

"We do not believe this is necessary at this time, as the scrutiny we apply to firms at authorisation exceeds the scrutiny required for a firm to meet the debt advice quality standards."

Q4. What scope is there to rationalise the funding of public financial guidance provision on debt?

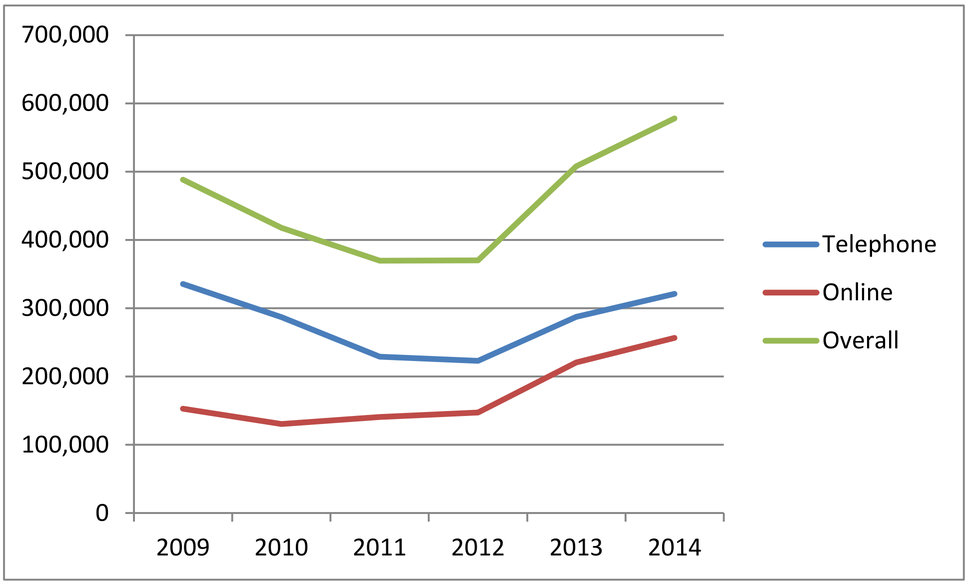
The proposals above (Q2) would achieve transparency and rationality in the funding of public financial guidance provision on debt, in particular by:

- Clarifying the respective roles of statutory and voluntary funding.
- Delivering appropriate governance over the former.
- Ensuring both drive efficiency, effectiveness, innovation and reach.

But "rationalisation" must not mean "reduction". Given the advice gap, a rational level of funding is higher than we see now.

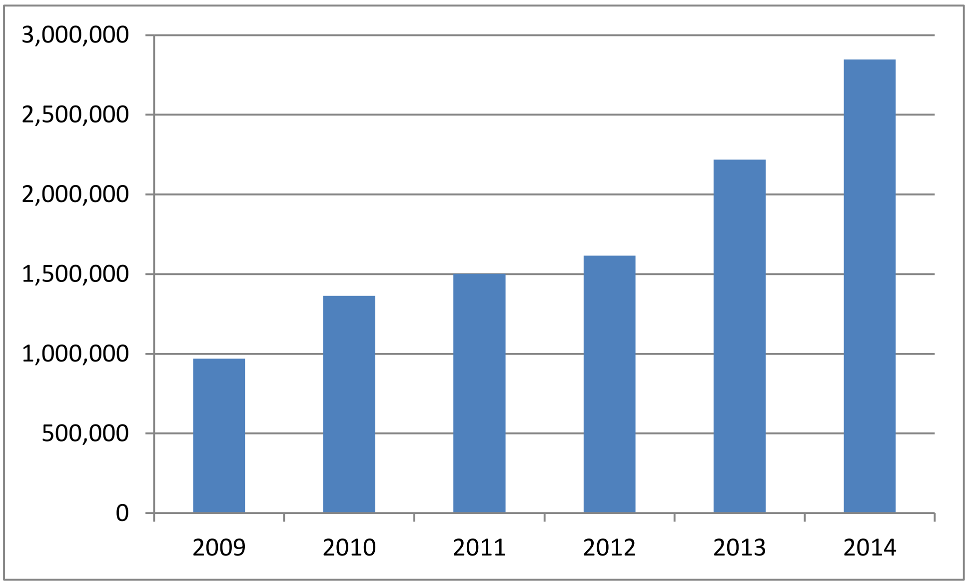
There is a need to ensure sustainable ongoing funding for the free debt advice sector. Currently increasing demand is placing new pressures on free debt advice providers. The number of people approaching the sector for help has increased substantially in the last few years. For example, in 2014 StepChange Debt Charity was contacted by 577,677 people with problem debt in 2014, a 56% increase on 2012 (Figure 1). We are seeing increasing numbers of people with more complex needs, with less ability to repay debts and who are more vulnerable to welfare state changes.

Figure 1: Demand for debt advice[21]



In response the free sector has developed broader services and additional supported solutions, which has increased the cost of serving clients. It has also sought to provide additional information and services online by investing in websites and digital services. This has further increased the number of people we help (Figure 2). At the same time, the sector faces the additional cost of FCA regulation.

Figure 2: Online advice[22]



Q5. What additional, or alternative functions and structures could a statutory body put in place to effectively coordinate public financial guidance on pensions?

No comment.

Q6. How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

A significant number of people reach pensionable age with unsecured debt. The current combination of regulated advice on pensions, investments and retirement options, PensionWise and regulated debt advice does not make it easy for organisations to offer joined up advice for consumers.

Providers must work together to create better services through partnerships and joint initiatives, but policymakers can help by:

- Clarifying the boundary of different forms of regulated advice
- Increasing the confidence of regulated organisations to offer "generic" advice outside these boundaries
- Clarifying the insolvency treatment of pension pots, which has become very confused.

Q7. What scope is there to rationalise the funding of public financial guidance provision on pensions?

No comment.

Q8. Are the statutory objectives underpinning MAS the right ones?

No. MAS's statutory remit pre-dates the move to bring consumer credit and associated services like debt advice into FCA regulation. We believe this change removes the need for MAS, or any alternative statutory body, to have any role relating to the "quality" of debt advice. See answer to Q3 above.

In the context of the current review, we think that MAS's statutory remit relating to debt advice should be thoroughly reviewed with the objective of improving the coherence between the funding it administers, the sectors and activities it seeks to co-ordinate, and its role in policy formulation and meeting overall need.

Q9. What role, if any, should a statutory body have in providing general money guidance?

It is crucial that general money guidance is available so people can acquire the skills, knowledge and confidence to achieve long term financial resilience. Money guidance supports resilience and helps people avoid problem debt when it focuses on:

- Appropriate budgeting.
- Saving.
- Prudent borrowing.

- Seeking advice quickly.
- Acting on advice to resolve a debt situation.

For example, our research shows that an average family with £1,000 in accessible cash savings is 44% less likely to fall into problem debt than a family without savings[23].

We are sympathetic to the Farnish review's conclusion that money guidance matters directed to boosting resilience, avoiding and resolving debt should be aligned with other debt-related activity to give a coherent view across prevention, remediation and rehabilitation. Again, we believe MAS could continue in its current role or that the role could be amended or re-allocated. Here we focus on what should be done, not who should do it.

A statutory body has a triple role in money guidance, whether this is within a wider remit or not.

One, the statutory body can assess gaps in current provision and direct funding to fill these gaps. It may choose to do this by producing its own guidance or funding free, independent guidance offered by others. Part of this will be about providing adequate articulation of the relationship between general money guidance and debt advice.

Two, the statutory body can understand how different families access and use money guidance. Some families need little advice, or only need advice on one aspect of financial capability. Other families need more intensive advice or advice on all the aspects listed above. The statutory body has to understand this spectrum and work with providers to get advice to the right people at the right time.

Three, as with debt advice, there is likely to be additional need for general money guidance, which may increase in future if pressures on family budgets grow. Therefore a statutory body needs to have an eye on bringing extra finance into the sector, primarily through working with voluntary funders and providers but also through maintaining or expanding levy funding. The statutory body must of course ensure the independence of providers receiving funding.

Q10. What role, if any, should a statutory body have in supporting financial capability?

No comment.

Q11. What scope is there to rationalise the funding of public financial guidance provision on money matters and / or financial capability?

We would be concerned if any rationalisation of the funding of public financial guidance provision on money matters resulted in a reduction in the focus on, and funding available to, financial capability work.

MAS has invested heavily in the financial capability strategy, which has involved pulling together research, insight and evidence from across a number of separate fields. The review needs to consider where such an overview role would sit in any alternative structure.

Q12. How do you think that the government could best complement voluntary sector provision of financial guidance?

The public sector is an increasingly important creditor, and a particularly aggressive one in terms of collection practices and lack of forbearance. It is therefore an increasingly large generator of work in the free debt advice sector. Our work on the £8.3bn social cost of problem debt also indicates the significant benefits that accrue directly to public authorities from free debt advice, and to the economy as a whole[24]. There is thus a strong "fairness" argument for public funding (i.e. from general taxation) to support free debt advice. This could take the form of

- Grants.
- Contracts for services – any department executing a policy that might create the risk of problem debt could be required to also fund a mitigation scheme (e.g. by contracting with a free advice provider).
- Proper funding for debt-related statutory services. It costs us £200 to administer a DRO, for which the Insolvency Service pay £10. That is £190 we cannot spend helping more people.

Additionally, one of the most effective ways in which Government can help ensure sufficient funding of debt advice, and boost its efficiency and effectiveness, is via policy action to reduce the incidence of problem debt, reduce its impact where it does strike, and speed recovery from it.

<u>Breathing space</u>

There is no watertight guarantee that debt advice in England, Wales and Northern Ireland will relieve pressure from creditors, which reduces our ability to get people to take action and confront their debt problems.

We estimate that severe problem debt costs the state and society £8.3 billion in external costs; including debt-related physical and mental health problems, lost productivity and jobs, family breakdowns and housing issues[25].

The trigger for severe financial difficulties is often a life event like job loss, reduced hours or illness that causes a drop in income. Almost two thirds of StepChange Debt Charity clients cite this as the main cause of their debt problem.

Household resilience to income shocks is low: thirteen million people do not have the savings to keep up with essential bills for a month if their income dropped by a quarter[26].

People can and do recover from temporary income shocks. But without the right help and support financial difficulties become entrenched and unmanageable. We know that ‘breathing space’ is vital – 60% of clients we surveyed told us that their financial situation stabilised once creditors agreed to freeze further interest, charges and enforcement action. But none of the people who said they did not get this help said their situation had stabilised[27].

The Government could best complement voluntary sector provision of financial guidance by introducing a scheme capable of providing two broad protections similar (but not identical) to the Scottish Debt Arrangement Scheme (DAS). The crucial features are (i) they incentivise people to take advice and stick with a solution; and (ii) the protection persists until debt is resolved.

- An initial ‘breathing space’ period like DAS, but longer than the six weeks DAS provides. Six weeks will generally give people enough time to seek advice. But where people have suffered an income shock their circumstances may not have stabilised enough in six weeks for debt advisers to recommend a long term debt solution. Therefore we suggest a period of breathing space of up to one year – subject to continuing engagement by the individual and review of their circumstances by the debt advice provider.

- Like the DAS scheme, a scheme for England and Wales should continue to freeze interest, charges collection and enforcement action where people are able to repay debts within a reasonable period. This would give people repaying their debts similar protection to that the law currently gives to people who need debt write-off via an insolvency remedy.

<u>Saving</u>

Families need savings. If every household in Great Britain had at least £1,000 saved it would reduce the number in problem debt by 500,000. However, families are facing a savings crisis: 22 million adults in Great Britain are not confident they’re saving enough to cope with a rainy day[28].

Young adults, people on low-moderate incomes, people living in living in rented accommodation and families with young children, can find it particularly difficult to save.

There already exists in the UK an incentive-based scheme for getting people saving: auto-enrolment for pensions with a matching element, where government and employers "match” individual saving contributions.

This scheme could be adapted to help families build up short term precautionary saving, harnessing behavioural incentives to ensure families save the amount they need but also use incentives to encourage them to maintain their savings balance for moments of greatest need.

But more needs to be done. Financial services providers and government need to help families who are not part of the auto-enrolment system, either because they fall below the relevant income thresholds or because they don't have an employer.

We want financial services firms to work with partners to develop and pilot saving accounts better suited for individuals who can only start saving with a low initial deposit and only make intermittent deposits subsequently. They should explore greater use of saving incentives such as prizes which are effective incentives for lower-income families.

Government should seek to build a savings element into the welfare system, via income thresholds and work allowances within tax credits and Universal Credit. It should do more to get children saving to ensure the UK builds a precautionary savings culture in the long term.

Safety nets

Despite low headline unemployment figures, for millions income shocks remain a fact of life, and the primary driver for problem debt - 73% of people in problem debt experienced an income shock in the last year.

14 million people in Britain experienced at least one income shock in the last 12 months, including 4.5 million people who experienced two or more.

People who experienced multiple income shocks in a year were three times more likely to fall into severe problem debt than those who experienced a single income shock[29].

People who fall into severe problem debt after an income shock are likely to see a long term drop in their income and security, making it harder to pay back their debts, and leaving them at greater risk of further shocks to their income.

Action is needed to boost people's personal safety nets.

Key to boosting families' financial resilience is plugging the gap between people's reduced income and their essential costs after they've faced an income shock. People need support at the point they experience a drop in income. This support would help meet their essential costs while they seek to stabilise their finances, and avoid them being driven to make drastic, life changing decisions which could delay their aspirations by years. There are a number of options, such as a greater contributory element to welfare payments, a bolstered system of income protection insurance, and an enhanced provision for low cost loans that are available to a wider demographic of households.

Q13. Do you think that the government could offer a more integrated public financial guidance service to consumers, throughout their lives? How do you think this could be achieved?

The principles we think policy should apply are:

1/**The job to boost Britain's financial capability is incomplete and these parallel reviews need to provide a spring board for the next chapter**. Financial capability remains too low in too many areas, which holds back markets, competition, consumer protection and economic security for individuals and families.

2/**The need for "money guidance" has not gone away, and again the reviews should set out how that agenda is taken forward**. The Thoresen Review set out principles for success, which still read well. They included "free, expert, on your side, not selling".

3/**Technology provides new opportunities and challenges**. People are taking peer to peer advice on social media and online forums. This is plugging some of the advice gap, but without quality control. Regulators should embrace this activity, not seek to squash it, but ensure it does not cause detriment.

4/**Design solutions around people, not product silos**. Legislation tends to artificially divide – insurance, mortgages, debt, and retirement. People just see wants and needs.

Q14. Do you think the government should explore any alternative options for the provision of public financial guidance?

There is no straightforward trade-off between product simplicity and people's need for help and advice with managing their money. Even if all products were radically simplified, people would still need guidance on non-product matters (e.g. budgeting) and advice they can trust when life circumstances means they would benefit from approaching a market they might instinctively prefer to avoid. The Government may wish to consider bringing money guidance ideas closer to the point of sale, so that guidance is signposted, but with a clear separation from the sale itself.

Q15. Are the suggested core services the right ones? Should any core services be added?

No comment.

Q16. Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?

The government should add an additional principle not to interfere in any area of the sector, including funding, that is already working well for consumers.

Q17. Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?

No comment.

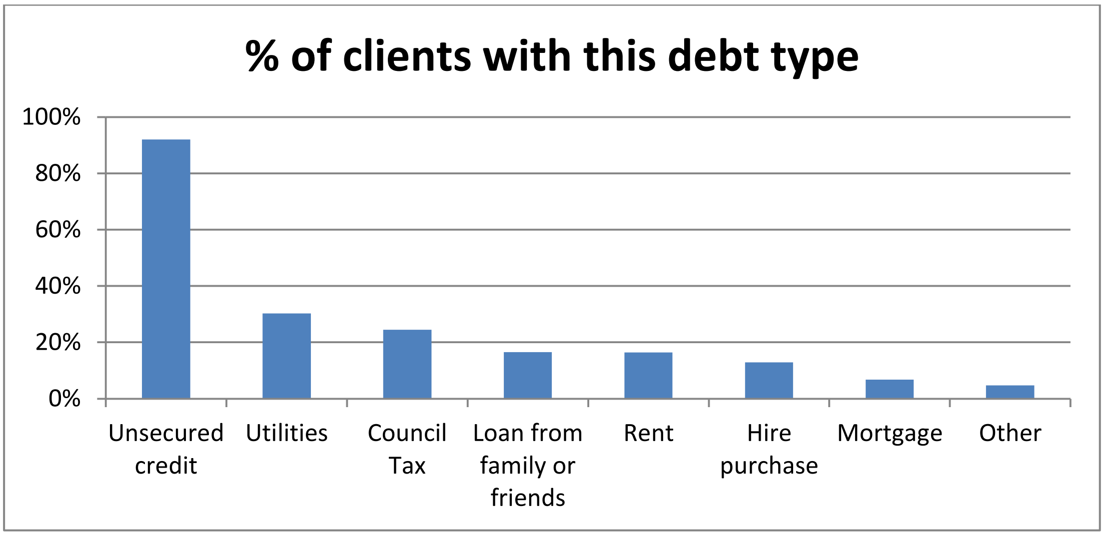
Annex 1 – "Polluter pays": the pattern of our clients, their creditors and their debts

Arguably the costs of free debt advice should take account of who is responsible for allowing, or worse encouraging, people to take on unmanageable debt, and for making debt worse via their collection and enforcement practices. This is the "polluter pays" principle.

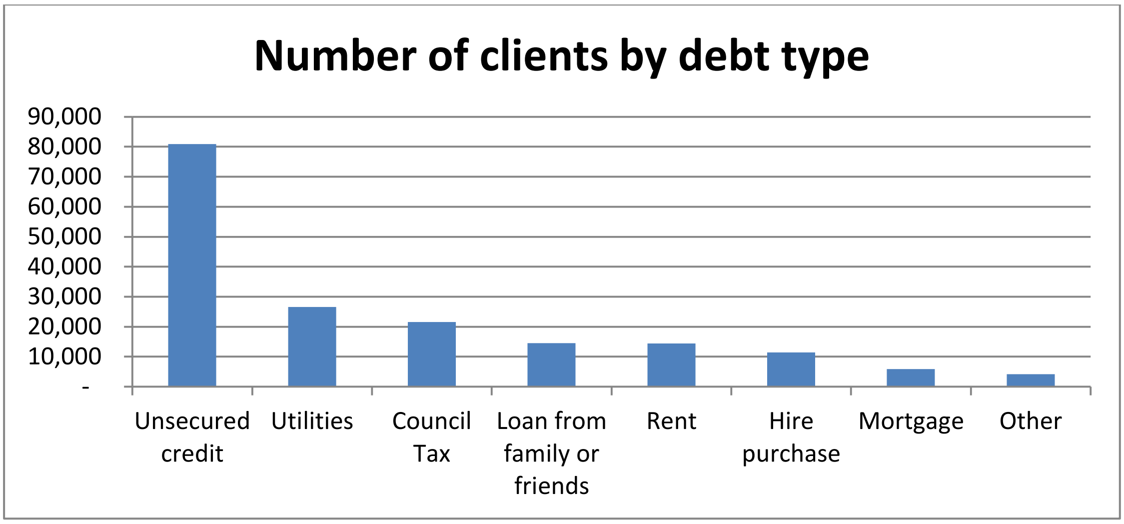
The 'polluter pays' principle is the commonly accepted practice that those who produce pollution should bear the costs of managing it to prevent damage to human health. For instance, in the environmental sector a factory that produces a potentially poisonous substance as a by-product of its activities is usually held responsible for its safe disposal[30].

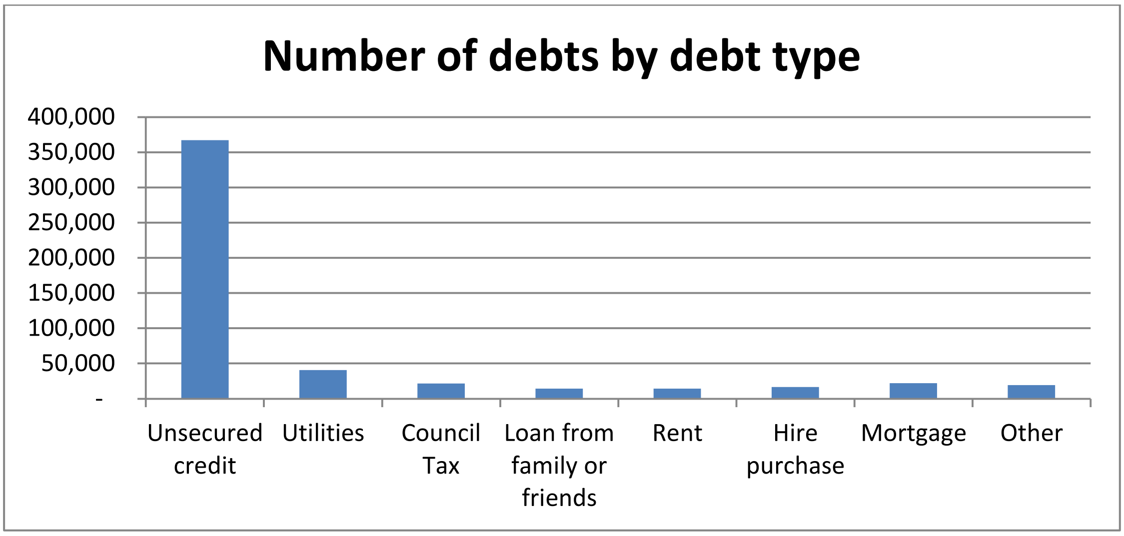
This principle underpins most of the regulation of pollution affecting land, water and air. However, it has long been argued the principle "tracks across" to debt advice, where there is a similarly direct relationship between cause and effect[31].

The Charts below show that numerous sectors and organisations create the need for debt advice, but some of these do not currently contribute to funding this advice[2]. Two "polluting" sectors stand out as "under-contributing". These are the public sector and private landlords.



[2] All data are from our telephone service in the first half of 2015.





The amount of free debt advice activity relating to local authorities can be seen from the “Council Tax” columns in these charts. Additionally, in the first half of 2015, StepChange Debt Charity advised on over 7,000 debts owed to HMRC and DWP by our telephone clients. Each month, we repaid over £1 million to HMRC and DWP on behalf of our clients.

Annex 2 – levy options

(1) Alter the way the current financial services levy works

FCA did not use the arrival of 50,000 consumer credit businesses to increase the levy overall, instead in 2015 it reduced the levy by 2.5%[32]. But with most consumer credit businesses still in interim authorisation, or in the first year of full authorisation, many are not yet subject to the full charge. Once the sector is fully authorised, FCA could consult on criteria for the medium to long term distribution of the levy. Options it might consider include making the levy reflect firms' separate voluntary support for free debt advice, so as to lay the burden slightly more on those who historically decline to contribute in that way.

The levy could be supplemented by revenues from fines on some or all financial services firms, which are currently put towards other public goods.

In principle the levy could be made to work "counter-cyclically" so that lending in boom times pre-funds future debt advice at the opposite end of the cycle. This could smooth demands on levy payers over time, and also allow for longer term funding even than MAS's current 3-year deals.

We would not favour the creation of new levies. Any entirely new levy would need consultation, legislation and design work. Voluntary funding streams, however, can evolve quickly and efficiently. New levies would also create the very real risk of a corresponding reduction in voluntary funding. There are obvious political objections to "new taxes" and you'd need to create objective and transparent governance and representation to accompany such a move.

(2) Additional levies on other sectors

Utilities and telecoms are regulated sectors who are creditors in an increasing proportion of problem debt cases. Sector regulators could be empowered to raise levies for debt advice. Or one could build on the current ability of OFGEM to direct that firms they fine pay the money to particular charitable causes. The big risk with the levy approach (less so with fines) is that this will result in a reduction in voluntary funding from these sectors. It is clear that many firms prefer to contribute voluntarily.

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[1] StepChange Debt Charity, 2015. Statistics Yearbook, 2014.
[2] Ibid.
[3] Ibid.
[4] StepChange Debt Charity, 2015. Navigating the new normal.
[5] Ibid.
[6] StepChange Debt Charity, 2015. Becoming a nation of savers.
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[8] Money Advice Service, 2015. Financial Capability Strategy.

[9] Department for Business, Innovation and Skills, 2013. Credit, debt and financial difficulty in Great Britain, 2012.
[10] StepChange Debt Charity, 2015. Becoming a nation of savers.
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[13] Ibid.
[14] Ibid.
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[16] Financial Conduct Authority, 2015. 'Occasional Paper No. 8: Consumer Vulnerability.'
[17] Mind, 2008. In the red: Debt and mental health
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Strategic Investment Solutions Ltd

Responses to FAMR

Q1 Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

Q2 Do you have any thoughts on how different forms of financial advice could be categorised and described?

Q3 What comments do you have on consumer demand for professional financial advice?

Q4 Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

Q5 Do you have any comments or evidence on the financial needs for which consumers may seek advice?

Q6 Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

Q7 Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

Q8 Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

Q9 Do you have any comments or evidence on why consumers do not seek advice?

There is a lot of evidence to show that clients have no appetite to pay fees.

KPMG REPORT 2010 30 000 CLIENTS INTERVIEWED 45% WOULD NOT PAY A FEE

True Potential Survey December 2015 2000 clients interviewed 35% would not pay a fee.

Key Retirement Scraps Pension Advice December 2015 "Our Core Market £50,000 to £100,000 unwilling to pay for advice."

Maybe FCA should track all of these types of surveys and it might find that there is a Consumer unwillingness to go along with a Commission ban. It seems to me a lot of creditable information/research is discounted as it does not fit with what seemed to be pre-conceived agenda with some aspects of the RDR.

I would suggest you revisit the question, maybe trial a solution involving a commission payment solution and evaluate actual results against Consumer engagement and outcome.

Q10 Do you have any information about the supply of financial advice that we should take into account in our review?

Q11 Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

Q12 Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

Q13 Do you have any comments on how we look at the economics of supplying advice?

Q14 Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Q15 Which consumer segments are economic to serve given the cost of supplying advice?

Q16 Do you have any comments on the barriers faced by firms providing advice?

Q17 What do you understand to be an advice gap?

Q18 To what extent does a lack of demand for advice reflect an advice gap?

Q19 Where do you consider there to be advice gaps?

Q20 Do you have any evidence to support the existence of these gaps?

Q21 Which advice gaps are most important for the Review to address?

Q22 Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Q23 Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Q24 Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

FCA appears to be unnecessarily hesitant and should be challenged on how they deal with basic File Competence.

The lack of a clear acceptable standard in the context of 20,000 firms using;

Know your Customer Fact Finds and Focussed Fact Finds

Attitude to Risk and Capacity for Loss profilers

Suitability Letters for Regulated Products

I would suggest this vital area is revisited and a change of approach considered.

The FCA is creating unnecessary subjectivity and grey areas.

There are Professional Organisations such as PFS and APFA, there are Compliance Service Groups and Networks who could help deliver a standardised approach.

I expect the FCA will be worried about endorsing an approach that might subsequently be deficient and this I would respectively point out where a change in mindset is needed.

If a limited number of authorised/approved base documents and processes are reviewed regularly with the Regulator and necessary amendments made the overall outcome would deliver greater certainty and less subjectivity.

This would help codify standards for Monitoring of cases and help in case of Client complaint.

The FCA own file monitoring would become more efficient because the base documents would be correct.

I accept the application and input by an individual IFA in a small number of cases may be proven wrong but the vast majority of cases would be compliant.

The outcome would result in less expensive subjectivity and Grey Areas for Clients, Regulators, FOS (think of the benefits of greater certainty) PI Insurers and the IFA MARKET.

It has got to be worth a trail, and must be worth exploring to see if any improvements are made.

S166 REPORTS

When you consider the budget of the Regulator and the ever increasing cost, S166 Reports should not be used as a means of Monitoring for small firms.

It is disproportionate to the outcome.

There needs to be a compelling resource argument which in the context of the current position I do not think has been made.

The Regulator should be required to monitor firms and the costs should be paid for out of the overall budget.

I believe this is an example of poor oversight and control and abuse of power by FCA.

Q25 Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

Q26 What can be learned from previous initiatives to improve consumer engagement with financial services?

Q27 Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

Q28 What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

Q29 To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice

Q30 Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

There is a lot of concern in the Market about DB transfers and the impact of Insistent customers. If firms follow the FCA Guidance set out it seems to me to be sensible to include this type of business in the Safe Harbour.

Consumers, Regulators (including FOS) and Professional Indemnity Insurance providers would benefit from an informed carefully set out safe harbour approach.

Otherwise the industry is subject to Retrospective Regulatory decision making, Significant reputational damage of industry, client confidence/Trust

Clients have got to be more responsible.

What would happen if the Stock Market Crashed in 2016, would Insistent clients still be insistent?

Without clear safeguards the Market is danger of falling victim to possible Amoral Client/Claim Management company behaviour.

The easy option is to kick the can down the road, allow those in the market brave enough to transact the business to deal with the unintended consequences of a Government Instigated Pension Freedom right.

This could all end badly without some sure footed confident action from a well resourced competent regulator.

Q31 What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Q32 Do you have evidence that absence of a longstop is leading to an advice gap?

Q33 Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

Q34 Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

Q35 Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

It seems clear to me that the current FSCS structure, in terms of sustainability and longevity of funding, cannot continue as it is in order to ensure the long-term protection of consumers. The FSCS categorisation and grouping of activities and product advice is deficient resulting in negative cross-subsidy – this being where completely un-linked products and/or activity are grouped together as if equal resulting in lower risk advisory firms funding higher risk areas of activity.

For example, long term insurance contracts (life insurance) are grouped with Pension Advice and SIPP Management within the FSCS's 'Life & Pensions' categorisation. This has already resulted in insurance advisory firms having to contribute toward a funding category where most compensation costs have arisen from pension firms.

Another example is whereby unregulated collective investment schemes and other non-mainstream investments are grouped together with mainstream investments when it comes to compensation funding.

The above scenarios are simply outrageous and this directly effects the protection offered to consumers as good advisers become dis-enfranchised and simply leave the industry therefore lowering the funding pool. This cross-funding also encourages and makes it too easy for firms to advise in the higher risk product areas as it easy to exit the market and pass liabilities onto the remaining pool of advisory firms. If that pool was a much smaller one with liabilities allocated to those responsible for their activity this would act to protect customers by making the intermediary firms accountable for their activities. The nature of these high risk activities deserves policing properly.

Not only would this approach support the continued funding of the FSCS long into the future it would also act to minimise the number of firms proposing to carry out activity in the area of unregulated 'non-mainstream investments' and therefore the potential distribution of such products to the public is reduced.

Q36 Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

Q37 What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

Q38 What do you consider to be the main consumer considerations relating to automated advice?

Q39 What are the main options to address the advice gaps you have identified?

Q40 What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

Q41 What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

1. **Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?**

The members of society who are most likely to be discriminated against in relation to their age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, or sexual orientation may be more likely (as a big generalisation) to be amongst the poorer in society. This obviously is not always the case. I believe the current model of operations in financial services mostly discriminates against those who are less wealthy, not by any other way. One area where this may not be the case is in relation to disabled people, who may have more difficulty understanding the complexities of financial advice. I think more work should be undertaken between regulators, professional bodies (then ultimately financial advisers) to offer to work more closely with specialist charities and institutions involved with those with disabilities which would impair their ability to seek out a financial adviser, either directly due to their disability or indirectly due to them not knowing what they are missing.

2. **Do you have any thoughts on how different forms of financial advice could be categorised and described?**

One of the biggest issues missing from how financial advice is categorised is the lack of promotion of the word 'regulated'. A financial adviser (FA) can be anyone, an accountant, a lawyer, the bloke down the pub, or a callous conman – either face to face or online. So many scams and 'hard-luck' stories are put down to miss-selling by a financial adviser, but most regulated FAs would run a mile from these schemes, or pay the regulatory penalty if they didn't. What financial services needs to do, from the regulator, the media and advisors is press the value of Regulated Financial Advice. We have seen cases of the public coming to us with terrible products, sold on UK soil, by firms that are not regulated in the UK and who receive enormous commissions (the largest I have seen was over £150,000 on a £1.7m QROPS). These clients had no idea someone transacting on UK soil would not be regulated by a UK regulator. We all get emotionally attached to advice v guidance and the likes, but meanwhile consumers are getting what they believe to be professional advice from non FCA regulated entities. That is one of the most damaging things that can happen, as they will be expecting 'trusted adviser' advice and will be less aware of how badly they could be hurt. One area where I think the regulator has done well is to clamp down and make clearer its stance and the legislation on UCIS. However, we are now even seeing adverts for these products on tube trains where I don't believe the investor would be aware of what they were buying. I think the efforts would be far better focused on sorting this.

3. **What comments do you have on consumer demand for professional financial advice?**

The demand for advice outstrips the ability of the FA sector to provide it. More and more complex products and legislation and less and less gold-plated risk free employer and state benefits have led to increases in demand. This combined with the demographics of people living so much longer has meant an unprecedented demand amongst those aware of the need for advice. Unfortunately, this has led to the dreadful 'categorisation by value' of consumers, where naturally, businesses (which ultimately FA firms are) have decided the metric to cull their clients as being their financial worth to their firms, nothing else. This means those lower down the wealth chain are not getting the help they need. This is almost as bad as those who have no idea that they need help, as although they sit in ignorant bliss right now, they won't do forever. No matter what other solutions are banded around, (many from those with vested interests) the only satisfactory solution to the problem is more advisers and those to be of a high quality, both technically and ethically.

4. **Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?**

I do feel that there should be a de minimis level put in place, for both advice fees charged and for levels of investments where a simpler process could be allowed, face to face though. The world is currently full of films of a dystopian nature where everything goes wrong due to over reliance on computers and technology. Rightly so in my opinion. To allow and promote robo-advice as a replacement will be a disaster at some stage in the future. History is littered with examples where something just 'can't go wrong', recent financial services examples have been the securitisation of junk debts (which suddenly became AAA rated due to fool proof computer algorithms) and of course the LTCM disaster in the 90's. All of which were proved to be perfectly unbreakable, right up to the moment they broke. I would think that anyone who wants to press for this route should be forced to read Nassim Taleb's turkey analogy, "Consider a turkey that is fed every day, every single feeding will firm up the bird's belief that it is the general rule of life to be fed every day by friendly members of the human race 'looking out for its best interests,'. On the afternoon of the Wednesday before Christmas, something *unexpected* will happen to the turkey. It will incur a revision of belief."

5. **Do you have any comments or evidence on the financial needs for which consumers may seek advice?**

Short term cash savings and short term unsecured loans are the domain of banking and does not need a regulated financial adviser to be involved as generally, that is not cost effective unless part of a bigger picture. The same applies for general insurance products. Debt management is unlikely to be referred through a professional financial adviser ordinarily, as the fees may be deemed inappropriate, so would best be served via CAB, maybe with the adviser community offering to assist at these centres as part of their pro bono efforts. But life assurance, pensions, mortgages and investments should be dealt with by a professional adviser. The regulator should introduce de minimis rules to allow the systems and processes at the lower scale of these areas to be in place, to allow advisers the opportunity to allow quality advice but at affordable prices, as they are not having to lay out so much in compliance and regulatory costs and having to add a risk premium for fear of future reprisals or expenses. The best solution to any of these areas is 'Adviser-Lite', way above any other alternatives.

6. **Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?**

Yes, however the general public need more education on what is a *discretionary* spend and what <u>should</u> be a priority, I get fed up of people saying it's so hard to save when they all have brand new phones / tablets / computer gaming consoles as soon as latest editions are released, visit a Starbucks every day, drive new (leased) cars etc. That is down to a massive lack of education and still goes on this day. Schools should have IFAs teaching weekly sessions to inform the students what needs to be a priority in life and the positive (and negative) effects of compound interest.

7. Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

Education of society should be aimed at all the younger groups in the community. Unfortunately all these groups are subject to the 'Darwinism' of the financial services sector, which mostly does not discriminate on any other grounds other than potential short term profitability – like every other business in the UK, (including those selling 'consumer advice'). So no particular sector other than those who haven't received any help before. Get professional bodies supplying advisers pro bono to teach in schools, but start rewarding those people who get involved, more carrot, less stick!

8. Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

It is important that all levels of wealth are serviced by quality financial advice, just maybe different products and different regulation for different situations. The value of an adviser just explaining to a consumer with no money how bad a payday loan will be for their financial health is worth its weight in gold to that individual and ultimately to society as a whole

9. Do you have any comments or evidence on why consumers do not seek advice?

The main reasons I feel are firstly, a lack of knowledge, people do not know what they do not know. Secondly, there is never any positive press from anyone about the benefits of regulated financial advice. The reputation is still tarnished by the 80's and 90's (no longer warranted as no longer relevant) and also by the term 'financial adviser' being applied to anyone who chirps up with 'advice'. The phrase Regulated Financial Adviser should be promoted to the community and to consumers and the benefits of using, plus the dangers of not using. We need to steer people towards properly regulated advisers for help in so many different areas. Or at the very least towards regulated firms who may have a 'guidance' service in house for some non regulated areas. Thirdly, the market has been devastated over many years and so those advisers remaining are now at capacity and many are taking the lazy option of 'client categorisation' and chopping out large sectors of society, either directly or indirectly by pricing levels. This is basic supply and demand market forces that apply to all businesses and needs to be addresses by increasing the supply of regulated financial advisers, as legislation and product complexity is continually increasing the demand for their services, along with the demographic situation

10. Do you have any information about the supply of financial advice that we should take into account in our review?

Proper regulated quality firms should be rewarded by way of a regulatory dividend of sorts (mentioned before by the regulator) for increasing their numbers in a quality and sustainable way. It is a big risk for any business to take on new staff, and one which is so expensive to enter and so hard to get in to / be allowed to trade should be encouraged. The best model is medium sized regional IFA offices, where they have resources to recruit but have controls in place and a suitable firm culture to ensure all new advisers are brought in to respect their position as trusted advisers, not abuse it (as we have seen in larger organisations such as banks, direct sales etc). Allowing a lower level of regulation for a suite of regulated products, (provided supplied by quality regulated firms) should be encouraged. Also bringing in a 'regulatory sand-box' for certain lower levels or a de-minimis amount e.g. regulation-lite and liability-lite for new pensions clients or new regular contribution ISA clients. **The regulator needs to make it harder to borrow money than to save money.** We have a system (and even worse now a culture) in the UK where someone can gamble or borrow money in minutes (or both!) from a smart phone from anywhere (bar, casino..) but if they wanted to commence a regular savings plan / pension, they are forced into a massively regulated and costly space. That should be turned on its head. Consumers will not look this space out and seek calculators and online tools, they need proper encouragement to spend their money on their future, rather than the current generations of 'have it all now'. The culture has been ingrained by many years of mistakes from the government, the regulators and the sector.

11. Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

Supply and demand is the biggest factor, if we had twice as many regulated financial advisers, and they were allowed to transact certain elements in a fairer, cleaner way, we would have twice as many people getting quality regulated advice instead of a life of crippling debt repayments and eventually being supported by the state with the whole of society ultimately paying.

12. Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

Any system which has no regulated financial advice firm controlling it and interjecting throughout the process is doomed to complete failure and this will lead to even more mistrust in the sector. No computer system can replace a highly qualified, skilled, regulated, competent and caring adviser. Ever.

13. Do you have any comments on how we look at the economics of supplying advice?

Many quality firms like ours will take no risks, and therefore treats all consumers with the same regulatory and compliance overlay. This means many potentially simpler areas of advice still are expensive and onerous to the firm. This is down to a lack of trust from firms in the regulator and the ombudsman, and the ludicrous gap in between those two bodies. Until they both join together and made unequivocal statements that cannot be reversed allowing advice-lite products and services, this will always be the case. Also, items such as FCA - FSCS levies and PII are all percentage based fees, so those elements cost the same to the adviser, irrelevant of the risk. The structure of the FSCS and its inherent unfairness will destroy the advice sector (in its current format).

14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

We do undertake elements of pro-bono work, including 'subsidised' fees for low earners to allow them to get advice. The compliance advisers in the marketplace have always warned us against this as 'not TCF'. We believe that it is completely fair, so continue, but this would scare off many firms. The regular should make it clear their own view on this, not continually allow the rumour mill to decide. As for other revenue streams, completely impossible and the ridiculous confusion over 'inducements' has even meant we have to buy our own coffees, teas, lunch etc when attending CPD, which is of benefit to our clients to attend. Quality firms complete much more CPD than the minimum requirements. The regulator should allow the deep pockets of providers and product manufacturers to supplement the distribution sector, as it is a far more time consuming and difficult arena. Otherwise its simply more corporate profit for the manufacturers and no client benefit at all. Also the confusion adds cost to monitor.

15. Which consumer segments are economic to serve given the cost of supplying advice?

It is all down to those with the ability to pay the advice fees, initial and ongoing. Financial services firms have been encouraged to focus on being a profitable business, which is ok as long as it's **not** the only driver. They are also mistaken in thinking that building a proposition to look like a law firm is a good business model, they are wrong. Lawyers are transactional by nature, have no recurring income or value to their clients and are unprofitable in all but the real high end corporate markets. They also are not 'trusted advisers' but are in fact only called in when a necessity occurs, consumers should not treat financial advice in the same way, which is a long term process that needs to be tweaked and adapted and relies on complete trust and understanding from both parties.

16. Do you have any comments on the barriers faced by firms providing advice?

Barriers that exist and hurt are firstly the negativity around the sector. Financial Advisers are unique in that they are thought badly of as a collective, but consumers with their own FA would tell you how fantastic they are, they see themselves as lucky and not the 'norm' as they have negativity and bad press constantly rammed down their throats. We never get good news stories, we never get positive outcomes. British media has become lazy and uses the higher emotional reactions attributed to bad news rather than tell factual impartial stories. This is compounded due to the regulator never publicly standing up for the advice sector. As adviser firms tend to be at best a 'regional' SME, there is no budget or point in them trying to stand up for the marketplace as a whole. Rather than the nonsense (failed) adverts for MAS, Pension Wise and FSCS, the consumer would be far better served with a program of explaining the benefits of getting quality regulated advice. On TV, radio, press and online. That is something I would imagine less advisers would complain about 'another' levy being raised for. Also, the barriers to entry to being a financial adviser are huge, but that is not the only reason why new entrants don't join. We have entered a dangerous downwards spiral, as the advice gap grows, less and less people know what a proper financial adviser does, so less and less young people think about it as a career. Our firm has unilaterally decided on a program to inform local schools and colleges about the role of a financial adviser and the careers in financial services. This won't solve the problem though; the FCA needs to work with the education authorities and the professional bodies to get quality advisers in front of 16-18 year olds, and then again in front of University students. Finally, the cost of regulation and its related activities is a massive burden. Your estimates are reasonably accurate, I would think most firms sit in the 12-20% of gross income as a cost when you add in fees, licences, back office MI collators, compliance consultants, time spent, case checkers and all the other activities. That is a silly amount, which after all is actually paid for by the client.

17. What do you understand to be an advice gap?

The advice gap has two elements. The first one is the most obvious, the gap between the public wanting advice and not being able to get it, either selected against because of their wealth, or because of their ability to pay a fee. The second is much harder to quantify and arguably much more of a problem. That is the gap where consumers don't even understand they need advice, or even worse, simply don't care they do. These will all become issues for the whole of society and local communities to deal with at some stage in the future. Already too many think it's not worth saving etc as other people don't bother and 'the state won't let you starve'. That is an aspiration failing in the education of society as a whole. Too many now think they have their 'rights' which of course the state cannot afford to provide and feel no responsibility to their communities. This is a massive problem and needs to be rectified at grass roots levels.

18. To what extent does a lack of demand for advice reflect an advice gap?

I think that it is very hard to quantify the lack of demand, for the same points mentioned above. A generational failure to educate schoolchildren has been a missed opportunity, and is still occurring today. A whole generation has been lost to namby-pamby politics and had excuses made for them to compound this issue. (Do consumers understand the real cost of getting the latest mobile phone on contract at every new release? Is that not a loan from the phone providers? Should they not be made to separate the cost of buying the phone from the contract for example? Do they understand the effect of the compound interest lost on buying a fancy coffee every day on the way to the office for £3 or so?)

Because they have a student loan, they have a purpose built excuse to not 'have any spare money', whilst in actual fact, most will spend more on any of a mobile phone contract, a combination TV package, posh coffees or a single console game per month than they do repaying their student loan. (£25,000 earnings is a repayment of just £30 per month, large Starbucks Latte £2.60, IPhone 6 contract on Vodafone for 24 months, £39 per month, PS4 Call of Duty from Game, £43, interest on a £100 Wonga loan for 30 days, £24).

Poor education is responsible for the lack of demand for advice.

19. Where do you consider there to be advice gaps?

Agree with your thoughts on non in deposit / short term savings market. Also I believe no gap in a mostly price sensitive GI marketplace either. Loans I think are also served best by banking but I think that regulations should be in place to delay the access to pay day loans, either cooling off periods, only able to apply within normal working hours 9-5, need for a signature on a document (so postal delay) or some other method. A decision to borrow a few hundred pounds from a modern day licensed loan shark can have massive implications on an individual or a family's ability to save for the future. For the rest of the market place and your examples in the grid used, allow regulated professional advisers to do the job in filling that gap, with suitable regulation and tools, and the right numbers of advisers.

20. Do you have any evidence to support the existence of these gaps?

Although you have excluded the savings gap from this review, it is evidence of the advice gap. Nature abhors a vacuum and the lack of the old financial services 'industry' salesman has led to the space being filled with online casinos, betting shops and pay day loan providers. Any look at the Times Rich List gives us all the evidence we need to say which elements of dealing with money are making the most profit. (As does as a quick glance at premier league football shirt sponsors.) Consumers need to be inspired to visit regulated financial advisers to get them saving, once they see compound interest working in their favour and start working towards a goal – no matter how humble, they will think twice on frittering cash on the things they have defaulted towards today.

21. Which advice gaps are most important for the Review to address?

All gaps need reviewing and all are served with the same solutions, their need be no distinctions. This need not be over complicated, it is one of the reasons the gap has come about, get back to basics.

- More regulated financial advisers
- Less onerous regulation on de-minimis and/or simple products and services
- Better financial education at schools, colleges, universities
- Positive media
- Promotion of 'regulated' financial adviser and the benefits it has

22. Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Yes, I think that is a fair point, but a good financial adviser will also be pointing out that these consumers need to protect their ability to save with appropriate products and solutions. Forcing consumers to save in workplace pensions simply adds to the negativity around the products, as they have no understanding of the benefits of the products, simply the costs. The old 'salesmen' of the direct sales forces may not have had the right qualifications and skills or a proper regulatory environment, some certainly did not have the correct ethics and were in firms of very poor culture, but they did explain the benefits and consequences of products, services and solutions in a way that consumers ended up better protected. If this ability to empathise could be combined with better quality products, working in a firm with a positive TCF culture and a better qualified professional adviser, the gap would be closed. If regulated advisers were given the tools to allow them to properly use their treasured 'trusted adviser' status, like so many are lucky enough hold with our clients, the consumer outcomes would be far more positive for individual sand society as a whole. Order needs to be

- Stop unnecessary debt
- Understand household budgeting (stop unnecessary wastage)
- Protect the situation so it doesn't get worse
- Save
- Invest

A lot starts with education (which advisers can deliver at institutional levels or at individual level)

23. Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Not really, I fell the base should be broader and start with educating everybody. Your thoughts above on suggested limits / levels would obviously help, and allow some margins in the relationship for advisers to enable a form of pro-bono that doesn't financially disadvantage them too much. However if possible a much broader brush should be used.

As there were 26.7 million households recorded in the UK in 2014, whatever you do will need to be categorised, as with only around 22,000 advisers, many of whom would not be interested in helping consumers to becoming their new clients, it would still mean an average of a little over 1200 clients per adviser, unmanageable by a ratio of 3 or 4 times, on a conservative basis, some would say that is closer to 10x maximum numbers with current regulations!

24. Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

A range of products and de-minimis limits that both the regulator and the Ombudsman agree FOREVER can have a simpler requirement. An (adviser driven) decision tree using a focused fact find for specific areas, not needing full expensive holistic planning and complicated (liable for the advisers lifetime) solutions. An educated consumer would also make the whole advice process simpler. The more advisers that become part of trusted regulated firms would mean less compromise with rules and regulations. Helping earmarked quality regional firms attract, authorise, regulate and develop quality new recruits would solve a lot of problems. One and two man bands cannot help, large national firms have a vested interest in their own manufactured products and even now, we still witness them being able to bend the rules and in some cases do what they want, so would return us to the bad old days. I do feel that is where we are heading right now though.

25. Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

A broad brush pan European approach is ridiculous. I have been lucky enough to meet many foreign advisers (in some jurisdictions I use that word reluctantly). They are miles behind the UK regulatory system, and interestingly, all seem to pay a fraction in costs we pay for compliance related expenses. Their cultures, taxation, state benefits and regulations are not comparable to our own; therefore we cannot apply the same rulebook across the EEA/EU. We need to build rules and regulations that fit the UK consumer best and impose that on our EU counterparts, or make it a unilateral regulation. I understand that banking regulations etc are pan-Europe, but our standard retail clients have no bearing on any other jurisdiction and we are massively compromising them if we allow that to happen. It may be that products are regulated to EU standards, but advice needs to be specific and even a UK wide ruling ignores many aspects of the individual. Advice needs to be tailored; we can’t apply rules in Milan, Berlin, Paris and Rome to the UK, let alone the needs of some of the new EU entrants. All very different situations. Imagine you as our regulator looking at one sets of advice across a whole firm’s client bank? A recipe for disaster that you would not allow. Even at high level principles based regulation, the needs of the individuals outweigh anything else.

26. What can be learned from previous initiatives to improve consumer engagement with financial services?

Very little, it makes no difference and just adds to the complication. CAT, Stakeholder were all massive flops as it was known by the quality advisers to be a ‘compromise solution’, usually only slightly cheaper but always giving up other benefits elsewhere. The RU64 rule is one of the most ridiculous rules and added burden that emphasise this point. Removing that today would save millions of lines of pointless typing in suitability reports across the country in one sweep of the FCA’s pen. If anything, previous initiatives in the UK serve as a warning how a regulator should not conduct itself or interfere with the market. The regulator should simply be more helpful and less wishy-washy with process. They should also define simple products (by size of contributions or premiums and by caps on fee earnings). Then they should ‘guarantee’ this will remain in place forever, with no retrospective action (with the suitable caveats and warnings so no client is ever in doubt what they have). I think a new fee agreement signed every two years is acceptable, we already do something similar (but more robust). But how would that help the advice gap, the argument seems to have moved into creating more paperwork very quickly! Annual fee disclosures would do the same and add another level of complexity and paperwork for the adviser firm, something else to trip up on. Also, once more the regulator shows its obsession with cost over value. Some of the other suggestions seem behind RDR requirements. The US and Dutch advisers I have met and discussed financial services with are miles behind us, we should be innovating. The Australian model I felt was not as advanced as is often reported in the UK, the notable difference was their regulatory costs were only 10-20% of the levels we pay. Most advisers in Australia seemed to go for the low hanging fruit of the Australian version of AE (superannuation, introduced in 1992 at 9% contribution minimums), which led to large pension pots being transferred by advisers. That is no different to the UK with advisers categorising their clients and going for all the wealthiest members of society. They charged heavy fees and made huge profits. They did not care about serving the community and advice gaps, not a model we should be chasing.

27. Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

Not many; most are way behind the UK. I only envy their low, low compliance costs, direct and indirect. Can we copy that bit?

28. What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

Introduce media and education campaigns to promote the values of regulated advice. More reporting on good practice and good outcomes, less focus on poor outcomes on billboards on every street corner. Having ‘trusted’ regional firms who are allowed to do different and newer thing <u>in confidence</u> as the regulator understands they have high ethics, a TCF culture and qualifications and skills not to abuse them.

29. To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice

I think safe harbour is a very good idea, not for all firms though, only those who qualify (as mentioned above). Work closely with those firms who are progressive and interested and who will help develop new ways of better serving the needs of the consumer. Introduce de-minimis rules now (with certain parameters), that will make smaller ticket advice more attractive; it will also encourage firms to recruit new advisers with confidence, to fill this gap. Only include firms where a better consumer outcome is more likely initially (for example independent firms, chartered firms, those who are of a lower regulatory risk. **Don’t allow those firms who will be restricted by provider to mass market substandard products that they also manufacture**. Allow the quality choice to be made by an independent professional, not the old ‘company salesman’ that you have allowed to remain still to this day. Quality restricted by product firms should also be allowed this safe harbour, provided they can be seen not to have restricted themselves by provider too. Don't allow this to turn into a free for all for manufacturers to peddle their rubbish wares and turn a tidy profit at the expense of the consumer. Cheapest is not best, cheapest is just cheapest, which may mean (as with many previous attempts – mentioned above), not fit for purpose.

You would also need to regulate the claims management companies, as they waste advisers time and cause bad press in their single minded desire to make themselves profit. These firms thrive as they are allowed to charge commissions of 30-50%. This should be stopped quickly, with a cap on commission, regulation on how they market themselves (are any other cold callers phoning you not claims management companies these days?). You may be confident in doing a deal with the Ombudsman and the Regulator, but if endless ambulance chasers are not culled, the situation will not differ for financial advice firms.

30. Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

Low premium / contribution clients, start out consumers looking to build a relationship and begin to trust an adviser, at an affordable cost. Make sure no debt products are allowed in this category any more (stop the easy 'buyer beware' debt companies crippling regular consumers with extortionate appalling products at the press of a button)

31. What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

De-minimis is a must, both on levels of investments and fees charged. Only award the rights to safe-harbour once a firm can demonstrate it will not abuse it. Have more events like the fantastic 'Positive Compliance' events in place to educate advisers. Make sure the culture of the firms you allow to do this are not those who will abuse it. If it becomes a free for all and restricted by provider firms (including the banks re-entering) then this could set the marketplace back even further.

32. Do you have evidence that absence of a longstop is leading to an advice gap?

100%. Even though much of the issue is one of perception apparently (from your own figures), it still is a hindrance to business expanding and developing and affects their decision making in engaging with new potential clients. "Is it worth the lifetime risk and liability for such a small margin?" is often answered negatively.

Your argument contradicts itself, I would say "if there are so few, why wouldn't you remove it immediately?" not your positioning of "there are so few why remove it?"

Many of your remarks in this review have been about perception of the market, what sort of perception does being the only market in the country without a long stop give? You say longer term products, but lawyers sell longer term products and services too, poor tenancy advice on property purchase, disgraceful management of trust money, incorrect calculations of divorce settlements, all washed away after a few years – not that it would matter with one of the most closed ranks of any profession anyway. Why would self-regulating lawyers get a better deal than heavily regulated financial advisers? Because they always have done and they control this country (and own the claims management firms and their cold callers). Not being treated as equally well as a lawyer or an accountant is giving ammunition to negative press and needs to be addressed. 15 years would be a start and is still a massive compromise. Unlike lawyers and accountants, good financial advisers regularly review their clients, giving far more opportunities to understand the products and services the consumer has paid for. Lawyers and accountants are transactional by nature, are unable to explain anything without the use of complicated jargon and do not give their clients regular reviews to test the competency of their recommendations.

33. Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

Whist I cannot see how any empirical data could ever be collected on such a matter, many, many conversations I have with other advisers, in my role as a practice owner and as chairman of a professional body locally for many years centre around their concerns in this area and the knock on effects (PII, succession planning etc)

34. Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

I would like to say to the consumer groups;

- Redress for long term advice will be no weaker than that offered by comparable self regulating profession, in fact it is much, much higher. And regulated advisers are all monitored by an independent regulator, as opposed to toothless self regulation of lawyers and accountants.
- The barrier to entry is causing less regulated advisers; not getting advice is far more costly than the unlikelihood of finding a bad apple adviser**.**
- Non regulated alternatives will spring up in the gaps and there will be poorer outcomes, with no redress at all.
- Financial advice is as much an evolving art-form across a long timeframe, as it is a science and needs to be judged in that way. Stop applying retrospective knowledge to decisions made in the past. Work with your trusted regulated adviser over a longer period and the likelihood of any outcome being unsuitable is massively reduced. Not everything will be the right thing once it comes out in the wash, nobody can predict the future. Get the risks of anything you do properly explained and ensure you are comfortable, if not, say so and adapt the plan.
- The glass is half full already (maybe even ¾!) when you visit a regulated financial adviser, work with them to achieve the best outcomes.
- Your advice costs will decrease with our compliance costs.

35. Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Yes. Once clients have had 10 annual reviews and had the plan / services explained every year for ten years and are happy with the ongoing situation and understand it and sign every time to say they understand it, no more liability. 10 opportunities, 10 years to wash out markets moves and watch ups and down (if investments). 10 annual opportunities – as opposed to none in most other professions.

36. Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

None, I do not believe a scientific program can ever replace the experience and skills of a quality regulated adviser. It will be without doubt a massive nightmare in the making and who will then pay the redress? That is not to say that some online tools cannot take the strain out of parts of the process, but to leave an uneducated consumer to do themselves Is madness. For example, just regarding ATR online forms, we all know that when the markets are at the tops, clients are far more likely to want to take risks (even though more likely a correction will follow) and when markets are low, clients become far more risk averse (even though more likely some buying opportunities). If you can find a cure to behavioural fiancé issues first, automation has half a chance. If not, it's the next big miss-selling scandal.

37. What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

The restricted by provider firms will invest heavily into this and barriers will not be an issue, as the only barrier ultimately is cost. They will manufacture a product that recoups that cost at the expense of the consumer. An extremely false economy. Only allow elements of automation, under the guidance of a highly trained and regulated adviser. It's why none of us will fly in unmanned planes, even though the technology has been around for ages. The pilot hardly ever touches the controls, but he always knows what's going on and can step in. You need to **add** the barrier of **not** allowing manufacturers to be distributors. No matter how deep their pockets.

38. What do you consider to be the main consumer considerations relating to automated advice?

We previously were at this point with all the decision trees that were introduced by previous regulators, with CAT standards / stakeholder products popping out the end of a simple process. Simply automating that online will have the same, if not worse effect.

This will result in either **no interest** or a **complete disaster**. Don't just amplify the mistakes of before, learn from them!

39. What are the main options to address the advice gaps you have identified?

The only satisfactory outcome for consumers is more quality, regulated financial advisers combined with ability to transact lower value business with confidence that reduced compliance requirements will not be retrospectively judged.

40. What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

The regulator needs to control the situation, not let large providers run amok across consumers as we witnessed with the poor advice from the bank and some of the larger tied (now called restricted by provider) companies. These large firms with vertically integrated models have deeper pockets and accept regulatory fines as part of the business. These never go far enough to rectify the damage they do to individual consumers or larger society as a whole. A selection of trusted firms, well versed in the requirements with an independent culture should be encouraged and rewarded to pioneer programs to encourage those less inclined or able to enter the regulated financial advice arena, both as a consumer and also hopefully some as a career. This will be the closest to perfection we can get to deliver the best consumer outcomes, on individual and on societal levels. Hopefully these new entrants to the market will be younger, higher percentages of females (to address current imbalance) and also from some minority groups, as the public generally is more comfortable, accepting and trusting of people they feel are most like themselves.

41. What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

If we will only accept utopian perfection in a model in an attempt to solve the solution, we must accept that we will fail. If it were that simple, we would already be doing it. It is no use to anyone if consumer groups (often with vested interest) and none of whom are personally affected by these issues, demand we find nirvana with an infallible outcome. What we must do is take steps that move us forward and give those we challenge to do that some comfort and confidence they won't be hung out to dry. We have to understand that, like everything else in the world, it won't be 100%. But the alternative is the downward spiral we are currently on, fewer advisers servicing fewer consumers, who end up getting no advice, because they are not profitable, who then make poorer and poorer decisions and become less and less likely to be advised. Whilst fewer and fewer members of the public understand the role of a qualified, regulated financial adviser as they aren't taught in schools and they don't see one in their homes, so adviser numbers decline further as they don't consider it as a viable career, as they don't even know it exists.

So we need to crack a few eggs (in a controlled environment), with the right firms charged with being honest and fair in their attempts, but being rewarded and lauded as pioneers and backed 100% by all parties in all circumstances where they have kept to their brief. Independent firms working with the regulator on independent projects will turn up the best outcomes in the end, which will then be replicated as they work. Mass solutions to such a diverse group will mean we end up with something that doesn't quite fit anything or anyone and result in another miss-selling scandal.

I hope that the regulator means this Financial Advice Market Review as it is a fantastic idea and something that needs consultation and consideration. I hope that they take on board the thoughts of those in financial services who have the confidence to engage with the regulator and don't judge us by those who still have an issue with trust and see replying to these invitations as 'sticking your head above the parapet'. I hope it wasn't an appeasement exercise, as it took me ages to answer these questions with my honest opinions.

Kevin Forbes FPFS Chartered MCSI

Chartered Wealth Manager

Chartered Financial Adviser

Regional Chairman Hampshire & Dorset Personal Finance Society

The Pensions Advisory Service Volunteer Adviser

Principal IFA Strategic Solutions Chartered Financial Planners

From:
Sent: 21 December 2015 16:56
To: FAMRSecretariat
Subject: Susan Hill Financial Planning

Dear Sir,

I would like to make the following response to aid the FAMR.

Q6. Trust – we need a **kite mark** that customers recognise. The Cii Chartered Financial Planner is one of those, so encouraging a professional organisation to engage in a TV advert could be useful, the majority of customers don't know about the qualifications we have. People look me up on Linked In, they see my background and that gives them confidence, maybe the FCA register could give a bio that helps people see what lies beneath not just the registration number.

Q6 **Segmentation** – it is not economic for me to advice customers with low asset values, they can't afford me and I can't make a profit. For example – I saw a lady aged 60 with a Section 32 buy out, value over £30,000 at £39,000. The value is actually irrelevant, every DB transfer has to be advised, no provider will take it whatever the value. I normally charge a fixed fee of £2,000. I asked her what she would pay and her response was £350, so as a test I gave her advice and recommendations for £350. She wanted the PCLS and the rest into FAD, she hates annuities as a waste of money, she has no other pension income. She took my advice and annuitised, but I had to look at annuities and discount FAD and it took time to give her the right advice as she was resistant, it went through pre-approval (which costs £75) and came back with various compliance comments (in case of a future FCA review) which meant I had to respond before my advice was approved. In all it took 25 hours of work for a net fee of £275, that's £11 a hour. My cleaning lady gets £12.50/hour.

Where does someone with a small pot DB or S32 go for advice? They have to take advice as no provider will take a transfer without advice, and no network will allow any of these schemes without pre-approval. How many small S32 BO are there that people can't access because of the cost of advice? Make it easy for me to prove my advice is correct and safe, maybe the FCA could underwrite the cost of advice with a voucher system or set the cost of advice against taxable income.

Advice Gap – there isn't an advice gap, there is a **charge and value gap**. We could and will find a way of advising anyone who wants advise, most people are put off because they don't know how to find a reliable adviser and because of the cost. No-one has come up with what simplified advice actually looks like, what is the simplified model, the consumer has no idea. Set out what simplified advice will do – it will tell the customer if it can be done easily or it can tell them to take specialist personal advice. It will take a qualified adviser to tell someone if it's simplified or not. Let's have a type of adviser who is able to give simplified advise but knows how and when to refer upwards, make them qualified, pay for it out of the FCA fines. Give people who need specialist advice a voucher to use to pay for an initial specialist advice meeting. Most advisers are capable of showing someone what value means in money terms, and when shown most people understand that they need to pay for it. Then allow the simplified model to work in a different way from specialist advice. A new form of polarisation!!

DB Transfers – The **TVAS report** in its current form is not fit for purpose. The assumptions don't help the advice. The current FCA annuity interest rate is set as 2.3%, yet by submitting an enhanced annuity application or getting a personalised underwritten quote I can often get 4.8% to 5.3% annuity rate for a person with very minor health concerns. Yet I am not able to use this personalised rate, why, it would make a huge difference to the critical yield.

Also the TVAS assumes the whole fund will be in FAD, there is no way of splitting a transfer and doing a part annuitisation and part FAD, why not.

Nor does the TVAS take the LTA into account in either the future scheme pension nor the transfer value, why not, a 55% tax rate could be very significant in the future. I have actual examples should you need to see them.

You need to review the TVAS in its current form, we will have many more of these transfer requests in the future as more people look to transfer out of DB schemes, make sure the TVAS report is fit for purpose. Help me to ensure I can prove the advice is right. If I could build in a personalised annuity rate more people would find taking an annuity a better proposition, an annuity is safeguarded income, so help me to show them the benefit.

The qualifications for DB Transfers should be updated. The last time G60 was examined was October 2006, much has taken place since then. The CII/PFS require an adviser with a pre October 2015 AF3 or G60 to have RO8 to be listed as a pension expert. I suggest the FCA take the same stance, if you have a pre Oct 2015 AF3 or G60 you must have RO8 to be qualified in Pension Transfers, by year end 2016. 5,000 have already passed RO8, I bet very few AF3 or G30 will have taken it, they need to, make sure they do.

Susan L Hill

Susan L Hill BA(Econ) FPFS
Chartered Financial Planner

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21 December 2015

Dear Sirs,

FAMR consultation response

Thank you for requesting input into this important review, the broad direction of which I welcome.

The text below sets out my views on the areas that I feel best placed to comment on – starting with a summary of my background and views.

I have worked in financial services since 1989, (starting as a graduate trainee 'broker consultant', then sales and marketing management roles). This included working for Friends Provident from 1996 to 2008, where my final role was 'SRI Marketing Manager'. I also served on the UKSIF (UK Sustainable Investment and Finance association) board from 2002 to 2009. Almost all of my working career has involved working with financial advisers.

My area of specialism is Sustainable & Responsible Investment (SRI) - the term I use to describe the many and various areas that can also be referred to as socially responsible, ethical, ESG and values based investment.

I now run my own (unregulated) business offering consultancy and support for those in the retail investment market with an interest in this area. This includes offering free generic support to financial advisers via an open and free to use segmented SRI fact finding tool and (sponsored, 'for information only') SRI database 'Fund EcoMarket'.

Suitability

Over the years I have become increasingly concerned that the financial services community serves people who wish to bring their personal values (ie SRI issues) into their investment strategies very poorly.

Current working practices for many advisers are such that people with often deeply held personal values are generally not offered the opportunity to invest in line with those views. As well as this being a missed opportunity for both the adviser and the client this is detrimental to the reputation of our industry.

This is also a potential problem for the many investors who are interested in this area for other reasons.

At a time when issues such as climate change, human rights, employment practices and resource depletion are increasingly impacting corporate strategies (and results) individual investors are typically unaware that these issues can impact investment related risks - and opportunities. They are therefore not able to integrate their views on such matters into their investment strategies.

This omission is out of tune with societal changes and public opinion. It means that unsuitable or inappropriate outcomes will be inevitable for some.

For issues that are fundamental to many people's lives (and futures) to be overlooked also raises concerns about some advisers' ability to be truly 'unbiased' – given that there are now so many potentially suitable investment options available.

Damaging the reputation of our sector

In my view this omission impacts the reputation of our industry.

Financial services is out of line with almost all other major sectors as ‘ethical’ options are typically highly visible and offered without prejudice (eg most supermarket products, cars, energy etc.)

For some people this will contribute to their reluctance to engage with our sector. For others, it will be an opportunity missed as being able to select investments that are forward looking, responsibly managed and focused on longer term societal and environmental trends can highly attractive – linking to both financial and ‘extra financial’ goals.

The fact that this area is seen as an optional niche by many in the retail investment community means that for many people financial services stands out as a bastion of ‘the old guard’ - where personal values and ethical lifestyle choices appear not to be available.

This does little to enhance the reputation of a sector which is working hard to gain public trust.

Other investment markets

Over the last 15 years the institutional investment & corporate pensions markets have seen a significant focus on this area. As a result of some relatively minor regulatory changes (largely disclosure requirements) different strategies have emerged to meet different needs.

Some focus on risk mitigation (ie ESG integration), some on supporting and effecting progress that benefits investors (ie responsible share ownership and stewardship) some on themes (ie sustainability, social issues and/or the environment) and others on values based stock selection or avoidance (eg ethical options).

In most cases these strategies are (or can be made) available to individual investors. However the workings of our industry are such that in practice they are generally not communicated to individual investors.

The result

Sustainable, responsible and ethical investment strategies have a low profile for a number of reasons. Although not the only factor - advisers’ workload and the level of regulatory change has no doubt played a major part. As a result it is clear that without regulatory support the profile of SRI is unlikely to change in the near future.

This is a challenge for our industry given that in spite of growing public interest in environmental, social and ethical issues only around 1.2%* of retail funds are invested in ethical options (IA figures).

This is well below ‘potential interest’ levels indicated by consumer research over a number of years (c30-70% - dependant on various factors) and demonstrates a significant mismatch (or ‘gap’).

(*This figure excludes assets coverer by other ‘responsible ownership’ strategies – however as these are not communicated externally they are unlikely to be understood or valued by investors.)

The risk

For a significant proportion of the financial services sector to overlook issues that are relevant to clients’ aims and objectives is a risk to the sector.

The fact many in our industry overlook (or significantly sideline) sustainable, responsible and ethical investment is a clear and growing risk.

A good example is climate change and the ‘fossil fuel’ investment situation.

As we move into a post COP21 (UN climate change agreement) era and the debate around avoidance of investment in coal, oil and gas companies grows higher profile, advisers and others are taking ever growing risks by failing to discuss this area with their clients.

If this is not discussed, made available, and documented - a failure to ‘know your clients’ and to offer ‘suitable’ options would be easy to prove - particularly given the high profile avoidance campaigns and the investment implications. (eg consider the implications if a person invests in a fund that holds oil companies - that the client dislikes - at a time when their values fall, whilst failing to invest in renewables which at that time happen to do well.)

The short term financial risks for an individual investor may not be straightforward to predict - however the risk to the adviser is clear – and has been for some time. (Mark Carney has been talking about ‘stranded assets’ as a systemic risk for some time now. It is likely that some retail investors will agree.)

In my view it is only a matter of time before this is brought more sharply into focus in a potentially unpleasant fashion for both the advisory and investment distribution community.

Although this is the clearest example I can offer – there are many other examples of issues that people care about that can or may significantly impact shareholder returns. This includes human rights/modern slavery, the transition to more sustainable transport and energy, corporate governance and growing resource scarcity. Other issues that are of real concern for many individual investors (and therefore reputational risk for the industry if ignored) but are less likely to impact shareholder value include concerns relating to armaments, animal testing, tobacco and equal opportunities, for example.)

Recommendations

My view is that as part of FAMR the FCA should make it clear to advisers and distributers that 'suitability' requirements should include a requirement to understand - and if possible meet - clients' 'ethical, social, environmental and faith based' aims and opinions (this is the wording used by the adviser Best Practice ISO 22222) .

Bringing financial services into line with other industries - where ethical or values based choices are clearly available - would now be seen as very 'normal'. The risk associated with encouraging our sector to behave in the same way (ie to enable clients consider such areas) is in my view less of a risk than the risk of the status quo continuing (ie allowing advisers to ignore this area if they wish).

A clearer definition of 'suitability' could also bring other benefits. Individual investors would become more engaged in the investment decision making process. They would also become part of the market led transition towards more sustainable business strategies – which would appeal to many.

My recommendations are therefore as follows:

- The FCA should **recognise that the failure to integrate** '**environmental, social, ethical and faith related issues'** into the advice process **is detrimental** to the reputation of the financial services sector and also potentially to client outcomes
- The FCA should take the view that **a broad interpretation of 'potentially appropriate SRI outcomes' is desirable**. Some will focus on ethical issues but many others will relate to themes, risk mitigation or seeking out opportunities that relate to an investors views or lifestyle. (I set out the range of 'SRI Styles' that now exist for 'regular', regulated, retail, onshore collectives on my database tool www.FundEcoMarket.co.uk).
- The FCA should **direct advisers / distributors to include an understanding of an investor's personal values based aims and objectives within the 'suitability' requirements** - irrespective of the advice model used.
- Advisers and others should be directed to **record their findings in order to protect against future complaints**.

FCA / FAMR Questions

The following responses are intended to reflect the views set out above.

I have only responded to the questions that I have direct experience of.

q1 Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

Yes. There are many such people with specific personal situations who would like to reflect their experiences through their investment strategies. Such people may typically wish to invest in 'best practice' companies with strategies aligned to their own situation. Examples include wanting to support companies with sound employment practices, equal opportunities practices or strategies that are consistent with their faith.

q3 What comments do you have on consumer demand for professional financial advice?

Consumer demand is hampered by low levels of consumer 'trust'. 'Trust' would be enhanced if advisers were encouraged to go beyond financial aims and bring clients' personal aims and values into the fact finding and advice processes.

Advisers should also be encouraged to understand how such issues can/do relate to investment strategies and potentially performance.

This should include focusing on the positive implications of the aligning of investment strategies with societal/legislative trends particularly for longer term investors.

This would be likely to chime with many investors' views (as well as corporate activity) and help build closer client relationships.

q4 Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

Research indicates that many people seek 'financial advice' from non-industry professionals such as friends and family. This should not surprise us as (amongst other factors) these are the people who know us best and understand our likes and dislikes (including our 'values').

This should be seen as a warning flag for the advice industry – and an indicator that we are missing something.

q6 Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

This looks like a useful starting point although it is (necessarily?) a bit vague. The lack of reference to people's personal opinions and values is however a problem.

q8 Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

Less wealthy people are logically less able to afford increasingly expensive advice from industry professionals. Finding a way to reverse this should be a priority. Alternatives therefore need to be found. 'Robo' and blended systems may well be a valuable part of the solution.

q9 Do you have any comments or evidence on why consumers do not seek advice?

An insensitivity to personal values is definitely a factor. There are many people for whom a focus on 'returns at any cost' is unattractive and who would have no idea that alternatives are available.

(nb It may be that some people who come across the term 'ethical investment' may not associated is with their own aims. This term, although common in the retail investment community, is neither universally attractive nor understood – particularly for those interested in environmental opportunities or sustainability.)

q10 Do you have any information about the supply of financial advice that we should take into account in our review?

Affordability of fees must logically be an issue for many and are not avoidable post RDR. Adviser numbers are also down. I fear that these risk driving less wealthy and/or less well informed investors towards potentially inappropriate (often direct offer) solutions. This should be guarded against if we are to avoid future bad publicity.

q11 Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

(Building on q10) The 'barriers to entry' for becoming an adviser (or continuing in business) are high and this is also a challenge. Tiered options may be required – although past efforts have not been entirely successful.

A simplification of processes, rules etc for some may be desirable as attracting, developing and retaining quality advisers in the current market appears difficult. With numbers falling (now apparently 23,000) advisers may become an increasingly scarce resource, which is highly undesirable.

It is important this trend is reversed particularly given increasingly longevity – which makes planning essential.

q12 Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

I think there are real opportunities to address challenges with technology. Increased online tools could help close the advice gap and bring advisers' client viability thresholds down.

sriServices' 'SRI StyleFinder fact finding tool is an example of how advisers can bring 'ethics' into their front end advice processes with online support.

q17 What do you understand to be an advice gap?

In general terms - those individuals who would benefit from advice but are not viable for advisers to service. With reference to SRI – it is those clients who would not seek advice because they believe investments do not suit their personal opinions, values or lifestyle choices.

q19 Where do you consider there to be advice gaps?

Individual investors or potential investors with ethical, social, environmental and/or faith based concerns typically do not have their need met – unless they are lucky enough to find a 'specialist ethical adviser' or one who is otherwise attuned to such matters.

This contributes to many people's disengagement from the sector.

q20 Do you have any evidence to support the existence of these gaps?

Yes, I have been involved with a number over the years.

My most recent example was a phone call from a previously unknown woman who had found my details online. It was the day after Parliament voted to bomb Syria. She was in tears - having been awake all night worrying. She was worried about being involved in financing the killing of innocent children in Syria. She was desperate to make sure she did not invest in armaments companies - but had been told by her adviser that she had no choice!

I rarely speak with 'members of the public' (my work is mainly intended for IFAs) but I was happy to tell her that there are in fact many fund options that would allow her to avoid investment in armaments companies - and that she should speak to an advisers to find such funds.

Financial advisers who are members of the EIA (Ethical Investment Association – part of UKSIF) would be able to offer additional examples.

q21 Which advice gaps are most important for the Review to address?

Finding ways to encourage people to save for their futures is essential.

Building ethics/ personal values etc into the advice process would help make the sector more attractive (providing it is handled correctly without 'over promising').

A key group of individuals would be those with some money to save or invest but without sufficient funds to ensure their comfort in retirement (or if out of work) - without careful planning and advice. (ie Those for whom advice can really make a difference.)

q22 Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Yes

q23 Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Yes but not exclusively

q24 Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

Broadly – the complexity of this market is off putting, anything that helps simplify this would be welcome and help make the area more attractive.

q26 What can be learned from previous initiatives to improve consumer engagement with financial services?

Fines and scandals appear to be sadly high profile and encourage disengagement. More cautiously positive, client centric messaging would represent progress.

q27 Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

A possible route that some favour is the French 90/10 rule whereby 10% of invested money is directed to 'social investment'. My recommended changes / improvements to this would be:

1. Offer a broader option of 'sustainable and responsible investment' rather than 'social investment' (this would allow conventional analysis to continue but still bring benefits for those who selected specific strategies. (sriServices 'SRI Styles' segments are explained here.).
2. Make 10% a 'recommendation' rather than an 'obligation'
3. Make this 'across the board' rather than simply pensions products

q30 Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

Areas where no one can realistically be expected to predict the longer term future value of a product ie life, pensions and investment products (ie not protection).

Also importantly - in line with Pension Freedoms - investors should be encouraged to take reasonable levels of responsibility for their investments and respond to or seek advice reasonably regularly (5 yearly?) .

If we are to believe that these new Freedoms make sense then this logic should be applied elsewhere across the industry.

q31 What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Openness and transparency from the outset.

q32 Do you have evidence that absence of a longstop is leading to an advice gap?

Advisers are anecdotally less inclined to take on clients they are unlikely to maintain a close relationship with as contact will be insufficient to ensure advice is acted upon or reviewed sufficiently regularly.

q37 What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

Ensure all involved are aware that regulatory procedures are identical irrespective of advice method.

q38 What do you consider to be the main consumer considerations relating to automated advice?

Queries such as: Is my money safe? What will it cost? Am I doing the right thing? Can I talk to someone if I need help?

q40 What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

In general - and I appreciate that this is not easy – attempt to stabilise legislation so that firms can invest in systems and training that will not rapidly become obsolete.

Businesses need to be able to plan and must also be able to make a profit and if they are to expand or invest in additional (gap filling) resources. This applies to all businesses large and small.

Finding ways to rebuild 'grass roots' high street style advisers who know and serve their local communities would also be positive.

A strong, clear and well managed regulatory framework (and related areas) is an important part of encouraging growth - but costs must be carefully managed.

q41 What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

Training and qualifications should be relevant to the areas of advice offered.

There should be a greater focus on clear but concise published principles - which are able to be understood by all.

This should include a commitment to understanding clients' personal needs – which includes their personal values and other SRI related aims.

In the hope that his will be of assistance.

Yours faithfully,

Julia Dreblow

Director

sriServices.co.uk

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wr#surwhfw#djdlqvw#wkhp1#
#
Suhvvxuhv#rq#wkh#zhoiduh#exgjhw#duh#olnho|#wr#sodfh#dq#hyhq#juhdwhu#uhvsrqvlelolw|#rq#wkh#
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Prqh|#Dgylfh#Vhuylfh#dqg#rwkhu#wuxvwhg#sduwqhuv#kdyh#dq#lpsruwdqw#uroh#wr#sod|#khuh#wrr1#Lq#rxu#
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Surwhfwlrq#Jds#wrwdoolqj#˝533eloolrq#s1d1#zklfk#lv#wkh#odujhvw#lq#Hxursh#|hw#pdq|#flwl}hqv#
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#
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qhhgvB##
#
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vxfk#dv#djh#dqg#lqfrph1##
#
;1#Gr#|rx#kdyh#dq|#frpphqwv#ru#hylghqfh#rq#wkh#lpsdfw#wkdw#frqvxphu#zhdowk#dqg#lqfrph#kdv#
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#
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vkrzq#frqvxphu#uhoxfwdqfh#wr#sd|#ihhv#iru#dgylfh#dowkrxjk#wkhuh#lv#vrph#olqn#ehwzhhq#zhdowk#
dqg#surshqvlw|#wr#xvh#dgylvhuv1#
#
Lq#wkh#fdvh#ri#sxuh#surwhfwlrq#srolflhv/#wkh#frpplvvlrq#prgho#zrunv#zhoo#lq#whupv#ri#pdnlqj#
dgylfh#pruh#zlgho|#dydlodeoh#iru#wkrvh#zlvklqj#wr#vhhn#lw1###
#
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#
Dowkrxjk#wkh#UGU#kdv#khoshg#wr#ghqwli|#pruh#fohduo|#wkh#frvwv#ri#dgylfh/#wkh#frvwv#lqfxuuhg#
pd|#lqfoxgh#wkh#h{hfxwlrq#ri#dq|#surgxfw#sxufkdvhv#ru#fkdqjhv#pdgh#dv#d#uhvxow#ri#
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#

#

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pdq|/#lq#idfw/#uhiohfw#d#jhqhudo#uhgxfwlrq#lq#wuxvw#lq#pdq|#gliihuhqw#lqvwlwxwlrqv#dv#lqirupdwlrq#
ehfrphv#pruh#zlgho|#dydlodeoh1###

#

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dffrxqw#lq#rxu#uhylhzB#

#

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dqg#wkh#lqwhuqhw#wr#sxufkdvh#jrrgv#dqg#vhuylfhv#kdv#uhyroxwlrqlvhg#pdq|#pdunhwv/#lqfoxglqj#
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#

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sodfhv#d#vwurqj#hpskdvlv#rq#olnho|#ixwxuh#suhihuhqfhv#udwkhu#wkdq#wkh#pdunhw#zklfk#kdv#h{lvwhg#
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#

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ghilqlwlrq#xqohvv#wkh|#duh#dxwkrulvhg#xqghu#FREV#dqg#krog#d#FI;#ru#htxlydohqw#txdolilfdwlrq1#

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#

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#

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qhhgv#duh#xqdeoh#wr#gr#vr1#Uhprylqj#wklv#uhvwulfwlrq#zrxog#hqfrxudjh#pruh#surgxfwv#dqg#
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#

4:1#Zkdw#gr#|rx#xqghuvwdqg#wr#eh#dq#dgylfh#jdsB##

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#

#

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#

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#

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#

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#

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#

Zh#h{shfw#wr#vhh#dq#lqfuhdvh#ryhu#wlph#lq#wkh#djh#suriloh#ri#wkrvh#vhhnlqj#ixoo#dgylfh1#Shqvlrq#dxwr0hqurophqw#surylghv#dq#hdv|#zd|#lqwr#wkh#shqvlrq#pdunhw#exw#zh#zloo#qhhg#wr#hqvxuh#wkdw#dssursuldwh#vxssruw/#zkhwkhu#ixoo#dgylfh#ru#rwkhuzlvh/#lv#dydlodeoh#dv#shrsoh#pdnh#fkrlfhv#dqg#gudz#rq#wkhlu#ixqgv1#Wklv#frxog#phdq#forvhu#lqwhjudwlrq#ri#vhuylfhv#surylghg#e|#Shqvlrqv#Zlvh#dqg#wkrvh#lq#wkh#sulydwh#vhfwru#wr#hqvxuh#wkhvh#duh#gholyhuhg#hiilflhqwo|#dqg#hiihfwlyho|1###

#

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#

Iru#orqj0whup#surwhfwlrq/#zh#kdyh#vkrzq#zkhuh#zh#eholhyh#wkh#vkruwidoo#whqgv#wr#eh#juhdwhvw1#Wklv#phdqv#wkdw#pdq|#idplolhv#kdyh#olwwoh#ru#qr#fryhu#wr#surwhfw#wkhp#vkrxog#wkhuh#eh#wkh#ghdwk#ru#surorqjhg#glvdelolw|#ri#d#euhdgzlqqhu1##

#

#
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#
Rqo|#durxqg#4 (#ri#wkh#XN#z runlqj#srsxodwlrq#kdv#lqvxudqfh/#hlwkhu#wkurxjk#wkhlu#z runsodfh#ru# d#shuvrqdo#srolf|/#wr#surylgh#dq#lqfrp h#li#wkh|#duh#orqj0whup #glvdeohg#dqg#fdqqrw#z run1###
#
Wkhvh#duh#lp sruwdqw#vwdwlvwlfv/#lq#sduwlfxodu#wkh#odwwhu#srlqw#vlqfh#lqfrp h#gulyhv#wkh#surshqvlw|# wr#vdyh#dqg#qrw#doo#edfn#rq#Vwdwh#surylvlrq1#Frqvhtxhqwo|/#z h#z rxog#vxssruw#irfxvlqj#lqlwldo# z run#rq#frqvxp huv#hduqlqj#ehorz #″83/333#z lwk#d#ylhz #wr#p dnlqj#wkhp #p ruh#uhvlolhqw1####
#
571#Duh#wkhuh#dvshfwv#ri#wkh#fxuuhqw#uhjxodwru|#iudp hz run#wkdw#frxog#eh#vlp solilhg#vr#wkdw#lw#lv# ehwwhu#xqghuvwrrg#dqg#dfklhyhv#lwv#remhfwlyhv#lq#d#p ruh#sursruwlrqdwh#p dqqhuB##
#
Z h#kdyh#ghvfulehg#hduolhu#rxu#frqfhuqv#uhjduglqj#wkh#uhjxodwlrq#ri#sxuh#surwhfwlrq#vrfldo#fduh# surgxfwv1##
#
Wkh#xvh#ri#wkh#whup #%jxlgdqfh%#z rxog#eh#xvhixo#wr#frqvxp huv#lq#surylglqj#d#fohduhu#dqg#p ruh# srvlwlyh#ghvfulswlrq#ri#krz #wkh|#fdq#eh#khoshg#wr#p dnh#surwhfwlrq#ex|lqj#ghflvlrqv1####
#
581#Duh#wkhuh#dvshfwv#ri#HX#uhjlvodwlrq#dqg#lwv#lp sohp hqwdwlrq#lq#wkh#XN#wkdw#frxog#srwhqwldoo|# eh#uhylvhg#wr#hqdeoh#wkh#XN#dgylfh#p dunhw#wr#z run#ehwwhuB##
#
Wkh#HX*v#Lqvxudqfh#Glvwulexwlrq#Gluhfwlyh#z klfk#z dv#djuhhg#rq#4#Mxo|#5348#lv#d#p lqlp xp # kdup rqlvlqj#uhjlvodwlrq1#Lw#lv#lp sruwdqw#wkdw#lw#lp sohp hqwdwlrq#lq#wkh#XN#hqvxuhv#wkdw#wkh#irfxv# iru#suh0frqwudfwxdo#lqirup dwlrq#jlyhq#wr#frqvxp huv#lv#rq#txdolw|/#qrw#txdqwlw|1#Wkh#remhfwlyh# vkrxog#eh#wr#surylgh#wkh#frqvxp hu#z lwk#dghtxdwh#lqirup dwlrq#wr#eh#lq#d#srvlwlrq#wr#p dnh#dq# lqirup hg#ghflvlrq1#
#
H{fhvvlyho|#ghwdlohg#glvforvxuh#uhtxluhp hqwv#p d|#lq#uhdolw|#suryh#ghwulp hqwdo#wr#frqvxp hu# surwhfwlrq#dv#wkh|#duh#ohvv#olnho|#wr#eh#uhdg#dqg#xqghuvwrrg1#
#
591#Z kdw#fdq#eh#ohduqhg#iurp #suhylrxv#lqlwldwlyhv#wr#lp suryh#frqvxp hu#hqjdjhp hqw#z lwk# ilqdqfldo#vhuylfhvB##
#
Rxu#frqvxp hu#uhvhdufk#whoov#xv#wkdw#shrsoh#uhvsrqg#wr#vwrulhv#dqg#h{shulhqfhv#udwkhu#wkdq# vwdwlvwlfv1#Wklv#lv#xqghuvwdqgdeoh#vlqfh#d#ghflvlrq#wr#ex|/#lq#sduwlfxodu#d#surwhfwlrq#srolf|/#lv# edvhg#rq#hp rwlrqv1###
#
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#
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#
Eldvhv#duh#olnho|#wr#eh#suhvhqw#uhjdugohvv#ri#wkh#hqylurqp hqw#z khwkhu#idfh0wr0idfh#dgylfh#ru# qrw,1#Wkh#lvvxh#vkrxog#qrw#eh#derxw#idfh0wr#idfh#yhuvxv#rwkhu#p hwkrgv#exw#udwkhu#xvlqj# ehkdylrxudo#vflhqfh#wr#rswlp lvh#rxwfrp hv#uhjdugohvv#ri#fkdqqho1##

#

#
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ADVISING ON PENSION SCHEMES

At the Regional Meeting, we reiterated our recommendation that the network should not advise on a client's selection of their workplace pension scheme. This was met with little resistance at the time, but for completeness we thought we should justify our reasons and share our research with you.

In this article, we'll summarise a collection of views from credible sources and present the risks that we are trying to protect your practice from.

VIEW FROM THE PENSION REGULATOR

Authorisation to provide advice

You can provide investment advice to an employer choosing a pension scheme for automatic enrolment. However, you should only provide investment advice to an individual if you have the appropriate authorisation from the Financial Conduct Authority.

It may not always be clear whether an employer is seeking advice as an employer or an individual, eg if your client is thinking about joining the scheme themselves. You may want to specify in your letter of engagement that any advice you provide to a client is provided in their capacity as an employer – and not as an individual.

If you belong to a professional body they will have a set of ethical standards that you should refer to. You should also check to make sure that any automatic enrolment work that you carry out is covered by your professional indemnity insurance.

Source http://www.thepensionsregulator.gov.uk/choosing-a-pension-scheme.aspx

Although giving advice to an employer regarding their choice of pension scheme and/ or fund is currently unregulated, TPR believes that people without the right skills and knowledge should not be giving advice or expressing an opinion on this and we recommend sticking to fact based communications on this matter.

Source http://www.aat-interactive.org.uk/cpdmp3/2015/AAT%20Breakfast%20Briefing%20presentation%20March%202015.pdf

VIEW FROM THE ICAEW

As you would expect, the ICAEW have been very frank and thorough in outlining their position with regards to advising clients on their pension scheme selection, see here:
http://www.icaew.com/en/members/practice-resources/icaew-practice-support-services/practicewire/news/new-guidance-on-helping-clients-choose-an-auto-enrolment-pension-scheme

VIEW FROM ACCA

ACCA have not been as opinionated as ICAEW with their material and have kept everything more fact-based.

In the 11/2015 edition of Accounting and Business, they summarised their findings so far on page 55, see:
http://www.accaglobal.com/content/dam/ACCA_Global/Members/AB/2015/NovemberDecember/AB-Nov-UK-15.pdf

VIEWS FROM OTHER INSTITUTES

At the time of writing, CIMA and FTA did not have an official position on their members offering advice to employers on pension scheme selection.

IFA do not grant non-members access to their auto enrolment guidance unfortunately.

VIEWS FROM INSURERS

Insurers are immensely nervous of accountants providing employers with advice on pension scheme selection:

Lockton (ACCA's recommended broker)

ACCA recently interviewed their recommended broker, Lockton, to ask for their views on how auto enrolment could affect professional indemnity insurance cover. The full interview is available here:

http://accainpractice.newsweaver.co.uk/accainpractice/rux2pr6qj95?a=1&p=49386713&t=28218202

Whilst Lockton agree that providing the employer auto enrolment advice is not a regulated activity, their answer to one of the questions is quite alarming:

Q: How do insurers view accountants who provide advice to their clients on available pension options?
A: If the accountant is signposting to the government's NEST site only then this is considered as low risk. However, where an accountant advises their client on any scheme outside of the NEST arrangement, insurers are generally treating this as investment advice and this represents a higher risk

Alan Boswell/ Hiscox

If you have insured through our recommended broker, Alan Boswell, the insurance company they use is Hiscox. On page 2, item 3 of their policy is the following paragraph:

> ***What is not covered*** *Matters specific to your business*
>
> *A. We will not make any payment for any claim or loss directly or indirectly due to:*
>
> *3. your operation or administration of any pension or employee benefit scheme or trust fund or the sale or purchase of or dealing in any stocks, shares or securities or the misuse of any information relating to them, or your breach of any legislation or regulation relating to these activities.*

WHAT SHOULD YOU DO?

Undoubtedly, you will read/ hear that advice to employers on scheme selection is not regulated. Last March, the Financial Conduct Authority and the Pensions Regulator issued a joint publication entitled, '[Guide to the Regulation of Workplace Defined Contribution Pensions]' that confirmed just that.

But as you've seen, The Pensions Regulator have since contradicted this, and professional institutes and insurers are advising against accountants being involved. We agree. It's just not worth the risk. There is speculation in the industry press, that the fallout from auto enrolment and the pension freedoms, will be the 'PPI scandal' of the future.

Addressing a clients' needs

We should never pigeon-hole a client's needs, but to take a broad view, clients are likely to come to you in one of the following positions:

EXISTING SCHEME	CHOSEN SCHEME	UNSURE
• Client has an existing workplace pension scheme • An IFA may need to confirm the scheme is compliant with the rules	• Client has already decided which scheme they want • Document that it has been the client's choice by casually referring to it in an email or letter to them for example	• Client doesn't have an existing scheme or have an idea which route they want to take • Put them in touch with an IFA and point them in the direction of NEST

Sarah Robertson also discussed clients' needs in a weekly email in September here.

Resources

The TPR have produced lots of materials to help employers choose their scheme, including this quick guide which you could share with your clients:

http://www.thepensionsregulator.gov.uk/docs/employer-select-pension-automatic-enrolment.pdf

Wren Sterling have also drafted a Marketing Flyer for you to share with your clients. It gives a short overview of the Master Trust, but also a quick comparison of the Master Trust against NEST, The People's Pension and NOW Pensions.

WHAT'S THE RISK?

At the time of writing, the Financial Conduct Authority had issued fines totaling £826,910,767 so far in 2015, see http://www.fca.org.uk/firms/being-regulated/enforcement/fines.

They are clearly a force to be reckoned with!

OUR FINAL WORDS OF ADVICE

- ☐ Whilst we have endeavored to make this summary as accurate as possible, please double-check the position with your institute in case anything has changed or there are circumstances pertinent to you
- ☐ ICAEW's Ethical Code stipulates "*it is necessary for any practitioner to have the necessary skill and experience to help clients in this area*". Clearly this prohibits ICAEW members, but the ICAEW are a very well-respected institute and are often pioneers in the accountancy and tax industry. Consequently even non-members should take note of the view they've taken
- ☐ PI insurers must be informed at renewal that the practice is advising on pension scheme selection
- ☐ If you offer a single pension scheme as part of your auto enrolment 'package', you must make employers aware other schemes are available
- ☐ Particular care must be taken if the business owner themselves are going in the scheme- because you would then be advising the individual which is regulated. This is likely to be more common amongst our client base of small businesses
- ☐ Make sure the extent of your involvement is clearly set out and agreed in your engagement letter. Whatever the extent of your services, all clients affected by the Workplace Pension rules will most certainly need a new engagement letter
- ☐ When speaking with clients, keep everything fact-based

You now have the tools and regulated financial advisor in place to help your clients comply with auto enrolment so please make use of them

TENET

CONNECT SELECT LIME

22 December 2015

FAMR Secretariat
Financial Conduct Authority
215 The North Colonnade
Canary Wharf
London E14 5HS

Dear Sirs

Financial Advice Market Review (FAMR)

1. Introduction

The Financial Conduct Authority ("FCA") has invited responses to the above consultation paper. Tenet Group welcomes the opportunity to provide feedback on these matters on behalf of its personal investment firms.

Tenet Group is the ultimate parent undertaking of three intermediary firms, Tenet Lime Ltd, Tenet Connect Services Ltd and Tenet Connect Ltd. The Tenet Group also operates a number of other companies which provide services to Financial Advisers and mortgage brokers.

This response outlines our thinking about the issues and questions raised in the FCA's October 2015 paper and the Treasury's Public Financial Consultation Paper published alongside it.

If further clarification of any matters in this document is required you should please contact Simon Thomas, Head of Policy, Tenet Group Ltd:

5 Lister Hill
Horsforth
Leeds
LS18 5AZ

Key Messages

We expand on the following points in more detail within the balance of this letter but we felt it important to highlight the key points early in our response.

- The cost of regulation for intermediaries is too high and is a barrier to entry and remaining within the profession: this must be reduced.

- Consumers (and some advisers) are not clear as to the difference between guidance and advice. A sustained campaign of financial education is required and guidance, as a term, should be replaced with information.
- Innovation is stifled by fear of FOS treatment. FOS governance and control needs to be improved and perceived bias in favour on consumers addressed through adherence to civil court precedents and a right of appeal to a civil court.
- Greater clarity needs to be created for a simpler advice process to encourage wider adoption to fill the advice gap outside of the intermediary target market. There is also a need to make FCA rules simpler and clearer for the advisers who are required to implement them.
- The advice gap exists in consumer segments that are not normally the purview of IFA firms. Historically, such cases were supported by an element of cross subsidy from wealthier consumers. A simple, cost effective advice framework should be designed to meet the demand from these consumers.
- Most consumers do not have adequate levels of life and health related assurance. More scope for workplace provision should follow the auto enrolment initiative.

Market Context and Consumer Needs

Tenet Group welcomes the opportunity to contribute to the FAMR and ultimately the improvement of how the market operates to serve consumers and deliver good outcomes for those who engage with it. We agree that post RDR, the access to advice for the mass market has become less available and we explore below some of the reasons for this from our perspective in the market as one of the UK's largest adviser groups.

It is important to note that regulated financial advice is only available through authorised firms and that these are mainly small private businesses. At the heart of each business is a consumer focus where the business owner needs to achieve a balance of the risks and rewards in providing advice. It is the achievement of this balance that has led to the shift in provision of advice in recent years.

The perception that there is an advice gap has largely been brought about by changes to the profile of consumers with access to large sums of money arising from the pensions freedoms introduced earlier in 2015 – many of these consumers have had no or very limited savings/investments in the past and represent a consumer segment not normally serviced by Tenet's investment/pension financial advisers. Experience since April 2015 suggests that this consumer group, often referred to as the "mass market", are confused by the offer of guidance vs. advice and struggle to recognise the value of advice and the fees to be paid. Addressing these challenges must be a key focus for the FAMR.

Whilst there is an important role to be played by financial advisors, this must be developed in the context of achieving the risk and reward balance such that sustainable advisory business models can be established, innovation developed and services/businesses maintained.

For consumers with smaller levels of assets (<£50k) seeking investment or holistic financial planning advice, post RDR presents a challenging environment to obtain independent advise. Direct sales teams have reduced in numbers after the withdrawal of advisers from the major banks and life companies and for those seeking advice on regular savings the advice fee may look disproportionate to the value of the investment being made. Prior to RDR the cost was 'hidden' in the product. Whilst so-called "robo-advice" may offer a solution to this customer segment, this may take time to develop and could lack the element of persuasion necessary for some to establish realistic levels of protection cover and/or make adequate savings provision for their future. We support the well documented research that this "persuasion" or "nudge" is most effectively done by another human.

Our experience is that a key concern or driver in the financial decisions for those within the "mass market" consumer population is how to get a good deal (often seen as the cheapest and not necessarily the most suitable) on insurance (typically buildings and contents, motor, travel and to a lesser extent health cash plans and landlord insurance), protection and mortgages. Their focus is to save more and reduce their debts. These clients' needs for investment advice has historically been limited, but the impact of auto enrolment will lead to greater pension savings, together with existing pension pots, to which they now have much greater freedom to access from 55. The risks of accessing these sums to meet short term goals without reference to longer term needs is very high and we believe that the need to support these consumers with personalised advice is very important. The costs of delivering such advice and the risks attached to it however must be taken into account as part of the FAMR to deliver positive consumer outcomes and sustainable profitable businesses for financial advisors.

Putting FAMR in context, it is important to acknowledge that some areas of the mass market are well served and there is no perceived advice gap, such as the mortgage sector. However, post MMR, the regulatory requirement for advice for all mortgage variations and limited availability or access to execution only services, has had an impact on advisor capacity.

The general insurance and protection market is also well served with non-advised services open to the majority of the mass market who can access the digital marketplace. We are concerned, however, that overall consumers do not have in place the necessary level of long term protection such as life assurance, critical illness cover and income protection, permanent health insurance and short term income protection. This cover needs to be 'sold' and advisers play a valuable role in ensuring consumers consider the amount, type, and duration of cover along with the use of ancillary services such as wills, trusts, and powers of attorney to provide financial and legal protection for consumers and their families. The value of advice in this sector is perhaps understated as price comparison websites (PCWs) and execution only services have, to an extent, commoditised this market.

A challenge to be addressed by the FAMR is the widespread lack of financial capability and the large number of people who are unwilling to pay for advice (55%), and those who cannot afford to pay for advice (49% of households have net financial wealth of less than £5,000)[1]. This is aside from the challenges of finding an adviser to work with as capacity is an increasing challenge.

In July 2013 the FCA's data shows that there were 32,690 retail investment advisers working in the UK. Based on our advisor community and depending upon the service proposition and level of back office support, one adviser can effectively service on

[1] Source Citizens Advice

average 150 - 200 clients each. This equates to 6,538,000 potential clients at the upper end.

Further, Cass Research in 2013 showed that the average adviser expected to earn around £1,500 from each of roughly 150 clients. This research suggested that this was to sustain the £220,000 pa of gross revenue that Cass was told by advisers they required to function as a business. Cass concluded that with fees averaging approximately 1% of assets under advice this means that the average IFA client will need to have around £150,000 in investible assets on average to enable an advisor to recover their costs and charge a fair fee for their work. We believe that this overstates the level of ongoing charges based on our own experience with our appointed representatives who typically charge 0.5% as an on-going service fee. Cass research revealed that around 1.43m people in the UK have investible assets greater than £100,000, and that just over 0.85m have investible assets over £150,000. Post pension freedoms the investible assets could now be considered to include pension assets from DB schemes and thus this population may be considered to have expanded.

Taking into account the modal age advisers is rising; it is not clear whether new CF30 authorisations will at least maintain current numbers even though the demand is expected to be much greater, especially given the needs in specialisms such as pension transfers and long term care. A reason for this in our view, and the underlying driver for adviser's focus on ever higher net worth individuals, has been the rising costs of providing advice as a commercial operation and the associated risk of historic claims. Recommendations arising from the FAMR must include measures to reduce the cost of giving advice. We agree with APFA that this has two dimensions to it:

1. address the problem of liabilities faced by financial advice firms and the costs this involves;
2. reduce the overall costs of regulation borne by firms and ultimately therefore consumers.

Reponses to the questions

Q1: Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular need for financial advice or difficulty finding and obtaining that advice?

Access to advice can be constrained by the experience and competence of an individual, irrespective of characteristic or circumstance. However key matters for consideration are:

1. access to the digital economy;
2. clearly understood distinction between guidance and advice.

It is noted that there are specialist organisations, such as SOLLA (the Society for Later Life Advisers) that supports those advisers providing services to the elderly and in particular in respect to the funding and provision for long term care. Such organisations need to be fully engaged in the FAMR.

Vulnerable consumers are exposed to higher risk – this has led to Tenet developing its own explicit policy on adviser conduct, taking into account the FCA's useful Occasional Paper on the subject.

Those seeking advice on debt management are typically dealt with by specialist firms or charities such as Step Change and do not form part of our advisers' activities. We do however hold limited consumer credit permissions, including Debt counselling, as we consider that debt repayment should be considered before advising on any investment of available capital.

Q2: Do you have any thoughts on how different forms of financial advice could be categorised and described?

It is critical that there is a clear and consistent use of language differentiating advice, (where a personal recommendation is being provided) and (1) guidance leading the consumer to make their own decision or (2) general information.

The abuse of the word "advice" is misleading and feedback from Tenet advisers confirms the general confusion that now exists among consumers seeking to engage with them, particularly in the context of access to pension freedoms and the inter-changeable references to guidance, information and advice.

We propose that there are 3 access points for consumers:

1. information only – generic and education focussed;
2. guidance only – taking some personal data to enable consumer to identify their options from which they can make a choice;
3. advice – this can be split into:
    a. Full advice process (as currently contemplated in COBs);
    b. Financial planning – more of an on-going servicing model for which there is no current regulated activity and FCA supervision;
    c. New "simple" advice with limited focus potentially linked to a limited product/fund range with a limit on adviser liability.

It is not helpful to consumers to have government backed organisations, such as the Pensions *Advisory* Service and the Money *Advice* Service, which neither can nor do provide regulated financial advice, but whose names suggest otherwise. The labelling of these organisations de-professionalises the role of the true financial adviser, fails to promote the qualifications held by such advisers and potentially misleads consumers on the services they are receiving and the responsibilities they retain.

Q3: What comments do you have on consumer demand for professional financial advice?

There has been insufficient support for and promotion of financial advice by the government. The confusing use of language, referred to in our response at Q2 above, contributes to consumer misunderstanding.

In simple terms those with adequate wealth, normally assessed at £75-100K plus, already access financial advice or have the capability of serving their own needs. This consumer segment has an understanding of professional services and the costs of getting advice.

Historically the need to access advice for the wider mass market has been limited to mortgage and protection where the notion of an "adviser fee" has been less understood as procurement fees and commission arrangements prevail.

The introduction of auto-enrolment, demise of private sector defined benefit schemes and pension freedoms has raised the profile of financial products and is attracting a much wider consumer population. Whilst these individuals may have much less experience and understanding and would benefit from advice, their ability and appetite to pay adviser fees is limited. Countless examples have been fed back to us by our advisers where consumers are simply "shopping around" for the cheapest fees to get advice to access pension pots, if indeed they have an expectation of paying fees at all. Some examples have been provided where consumers simply want an adviser to "tick the box" that advice has been given to satisfy provider/trustee requirements.

To the extent that financial education has been introduced into the school curriculum, there remains a large population of the 40+ who do not have the knowledge or potentially the IT skills to access impartial financial information or advice.

Ignoring combined charging structures, our advisors typically charge £150 per hour or 3% for initial advice plus 0.5% for ingoing advice services where these are taken. For a consumer with £50,000 to invest this would result in initial fee of £1500. This is broadly consistent with the research carried out by Cass Research and BNY Mellon[2]. As already highlighted, consumer demand may not be sustained when the cost of advice is fully understood.

Q4: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

Examples of "robo advice" models are emerging but there has been limited take up in the UK to date. The majority of providers who have entered the UK market have developed a "kick out" process so that consumers can talk to an adviser at any stage in the process. In our view this emphasis the need to maintain choice and the important role of human interaction with qualified advisers who can make recommendations based on the hard and soft facts that a consumer will present.

Demand for advice is present and will continue – the challenge is how the advice will be paid for and by whom.

Most intermediary firms, including Tenet, do not have the capital resource to invest in the development of "robo-advice". Whilst these models deliver consistent outcomes, they also introduce the risk of systemic failure on a large scale. At present the absence of regulatory certainty is seen as deterring wide spread investment in this space.

Q5: Do you have any comments or evidence on the types of financial needs for which consumers may seek advice?

The current scope of regulated activities across the mortgage, protection, investment and pension areas are well known. With the growing access to pension pots the need for financial planning, such as cash flow analysis, as funds are drawn down is emerging as an important unregulated area where advice will be more important. This addresses consumer needs rather than product "sales". We believe that where cash flow modelling or so called 'life planning' activity is carried out with a view to

[2] Challenge and Opportunity – The impact of the RDR on the UK's market for financial advice

arranging a regulated product, irrespective of any separation of these services; the FMAR ought to recommend the inclusion of such activity into the regulatory realm.

In the UK there are around 22,000 financial advisers whom on average have 136 active and 92 "reactive" clients suggesting that 3 million people are currently clients of a financial adviser and that another 2 million have sought some advice in the not too distant past. We would expect active clients to have sought holistic planning and investment advice. Consumers seeking mortgage advice are doing so with the housing transaction foremost in their mind. We remain alert to their protection needs but recognise that for many the important benefits of these products generally continue to be "sold" rather than "bought".

Q6: Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

We believe that the model does have value and has been used by Tenet and its advisors as part of the design and review of advice propositions by usefully categorising consumer segments for inclusion or exclusion.

Q7: Do you have any observation on the segments and whether any should be the subject of particular focus in the Review?

We have no comments to make in respect of this question.

Q8: Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

Consumers tend to seek advice for higher value investments or when more complex decisions have to be taken. Our responses above have already addressed the challenges with need for advice and the willingness or ability to pay for it.

Trust is a major factor for those seeking financial advice – whether that it's through local/peer referral or through the brand of a major institution. If a client values and trusts the advice, wealth and income is relative, to one man £30k is a fortune to another it is 'loose change'.

"Asset rich/time poor" is a category (Consumer spotlight calls these the 'Busy Achievers) who typically seek out personal financial advisors.

Where the economic benefit of advice to a consumer is marginal, obtaining value for money is the key motivating factor.

Obviously, the higher the cost of delivery and the price of advice, the greater is the challenge for the adviser to demonstrate value to the consumer. Indeed the FCA has itself spoken to advisers during 2015 on 'self-defeating transactions' where the client benefit does not outweigh the costs.

There is a minimum cost incurred in delivering advice, whatever the individual financial circumstances of the consumer. Whilst hourly rates are being adopted, a majority of Tenet investment firms continue to operate a fee tariff based on a % of assets under advice/management. (See our response to Q3 above)

Advisers do turn away potential clients where the cost of providing the advice would not make it economic for the client or adequate to reflect the risk assumed by the adviser. APFA research conducted by NMG Consulting indicates that in the 12 months to January 2015, over 60% of advisers turned away potential clients, either because it was uneconomical to the client based on their needs (42%) or it was unprofitable to the firm (29%). 60% of these declined enquiries were pension related.

Q9: Do you have any comments or evidence on why consumers do not seek advice?

Simply, consumers with limited financial experience either do not have the means or desire to pay. The historic "commission" culture means that many continue to perceive advice as "free" or they have limited appetite to make an upfront payment.

The ongoing media and political talk of "rip off" financial services has also supported a bias against seeking advice as the sector suffers from a lack of trust attributable to either a small number of independent advisers or, to a much greater extent, the large banks.

As noted above, there is a lack of understanding amongst consumers relating to the benefits of financial advice and how to access it. Guidance organisations such as MAS and Pension Wise should offer better information and referral about paid-for financial advice and provide assistance in selecting an appropriate adviser.

The cost of providing advice for the advisor is not immaterial and this is reflected in the charge made to the consumer. If the cost of advice was less, the cost/benefit threshold would be easier to satisfy for a considerably larger section of the market.

Q10: Do you have any information about the supply of financial advice that we should take into account in our Review?

The cost of entry and remaining in the sector are critical and must form a significant part of the FMAR assessment.

The costs of running an advice firm have also risen since the RDR was implemented[3].

A significant percentage of firms' costs arise directly from regulation, particularly for smaller firms and this is one of their greatest challenges. By way of example, looking at FCA fees and FSCS levies, the average cost to Tenet per adviser has risen from £1054 in 2013 to £3268 in 2015, a 310% increase over 2 years. This does not take account of the hardening professional indemnity insurance position that exists within the market and the costs rising in respect to PII.

There are also significant indirect compliance costs such as regulatory reporting and ensuring compliance with the rules and guidance set out within the FCA Handbook and the changes to it. This has contributed to firms making use of paraplanners to enable advisers to focus on the client relationship, regulatory process and advice and to use other resources to cover research, report writing and other work associated with the preparation and delivery of initial advice and ongoing services. This type of efficiency within the advice process is not without cost that inevitably is passed to the consumer. For example, Tenet paraplanning costs are charged at £60 per hour and

[3] Europe Economics: Retail Distribution Review Post Implementation Review (2014)

in the simplest cases we would anticipate the charge would be £325. (Please see appendix 2 for more information).

Other opportunity and actual costs arise from the need to undertake and record CPD, managing staff, marketing, client file storage, complaints handling (whether or not a complaint proceeds to FOS), responses to FCA information requests and other business issues.

We believe that QCF3 remains the appropriate level of qualification for Mortgage and Protection only advisers. We further would not support a mandatory move to QCF6 for investment advisers as this would further diminish the availability of advice as more advisers elect to exit the market as they did when QCF4 was introduced.

Q11: Do you have any comments or evidence about the recent shift away from sales based on professional advice and the reasons for this shift?

Drivers of change that Tenet has identified may be summarised, briefly, as follows:

1. Regulatory landscape, especially RDR, with focus on service rather than pure product sales driven advice events impacting advisor capacity to take on new clients;
2. Consumer confidence in and access to on-line solutions. Evident particularly in the protection and retail savings markets, rather than more complex investment or pensions transactions (although this is expected to change);
3. Growth in non-advised solutions. Between 2006 and 2012 non-advised sales in the market constituted around 30-35% of sales. Since 2012 this proportion has risen sharply to 67%.[4]
4. Reluctance to pay fees when compared to previous commission arrangements; this trend is likely to have a variety of causes, though the transparency of the costs of advice does help the consumer understand whom they are paying and for what.
5. Increase in regulatory and other costs in the provision of advice coupled with the costs of compensating consumers (through FOS or FSCS levies)

Q12: Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

As noted in our response to Q4, most advisory businesses and their clients value the personalised face-to-face advice that only a human can provide, especially for holistic or 'lifestyle' financial planning where more complex analysis and human interaction and empathy are required. However, automated solutions are emerging that may help advisers to be more productive and help address capacity issues. For example, for seasonal spikes for ISA and pension top-ups where, due to the smaller transaction size, full advice may not be economic.

We will not be looking to develop robo-advice but are looking at opportunities to white-label solutions where they provide a service that complements our current propositions and meet compliance requirements.

Competition and choice are important. By its very nature, technology developments require significant investment and it is anticipated that joint ventures with large

[4] The Financial Adviser Market: In Numbers (APFA) (2014)

product providers is inevitable. The FAMR needs to acknowledge that the lower cost at which such solutions may be delivered may be at the expense of choice across multiple providers/products.

Q13: Do you have any comments on how we look at the economics of supplying advice?

The FCA needs to consider the impact of regulatory costs that fees and levies impose upon a financial advice business, especially when compared to other retail businesses and professional services firms. We believe that the costs of regulation could be more fairly spread amongst the market participants by the use of a product levy on regulated business similar to the Insurance Premium tax.

Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

As an advice network that supports both independent and restricted advice our main source of revenue is from advisor fees and non-investment commission generated from the work of our advisers.

To a limited extent, an additional source of revenue for Tenet is generated through the adviser focussed promotional activity of over 50 product providers directed to our membership in accordance with the FCA's Finalised Guidance FG14/1. The FCA's regulatory requirements in respect to inducements have led to a change in the level of support previously provided by providers to intermediaries. This has increased the cost to intermediaries, particularly in respect of ongoing education and training. We believe that, just as there is confusion between advice and guidance, there has been confusion between inducements and the provision of training. The unintended consequences of these requirements has led to a disruption in the value chain and impacted the sustainability of some business models where the focus was and continues to be on positive customer outcomes. The FMAR needs to review the impact of these requirements in order to maintain a properly functioning market.

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

As noted above, those seeking advice on general insurance, mortgages and protection are not finding it difficult to obtain advice. Those seeking advice on investments or pensions are increasingly falling into two groups: there are those who are willing and able to pay for advice that have sufficient assets or income to make them an economic proposition for advisers. Outwith this group, there are those consumers who may want advice but are either unwilling to pay for it or for whom it is not economic for either the consumer or the adviser given the amount they have available to invest. This latter group consists of consumers with less than £50,000. (This is consistent with a poll carried out by AJ Bell which found 50% of firms found it difficult to advise clients with less than this in their pension because it was uneconomic to do so. There could of course be regional differences and in London this could be even higher).

Q16: Do you have any comments on the barriers faced by firms providing advice?

The principle issues are the liabilities and uncertainties that attach to investment advice: the lack of a 'longstop; the uncertainty and systemic problems with FOS; the increasing and unpredictable nature of FSCS levies; the impact of professional indemnity insurance; and the complexity of the myriad compliance requirements set out in the FCA Handbook.
For investment advice in particular, the cost of getting it wrong are significant and ultimately these costs are borne by clients, pushing the provision of financial advice out of reach of a large number of consumers. The ability to obtain PII will be affected by a firm's claims history and we have experienced what happens when cover cannot be renewed as was the case with Honister Group.

FOS should work more like the small claims court as this would discourage speculative and/or vexatious and unfounded claims. The inability to recover the case fee of £550 where a complaint is not upheld contributes to the sense of imbalance and burden on firms.

Confidence in FOS is undermined by the absence of any requirement upon consumers using the FOS to attest to the accuracy and completeness of their account of events and there is currently no consequence should this be misrepresentative of the truth. Please see case 2 in Appendix 1 to this letter as evidence of the issues that can arise.

Q17: What do you understand to be an advice gap?

An advice gap exists where a consumer has an unmet need for regulated advice and there is no provider/advisor willing to offer this. Whilst some government and charitable organisations can help mitigate the need through the provision of guidance, regulated advice can only be provided by authorised or exempt persons.

Q18: To what extent does a lack of demand for advice reflect an advice gap?

Following the mortgage market review and pension reforms some consumers have been forced/required to engage with advice where they may have done so otherwise.

The lack of demand is not an advice gap in itself, but evidences a lack of understanding about the benefits of advice. This is more a symptom of low levels of financial education and literacy amongst consumers and capacity to pay fees.

Q19: Where do you consider there to be advice gaps?

As noted above, these are principally in the area of low resource consumers who do not form the target market for the large majority of Tenet's appointed representatives.

Q20: Do you have any evidence to support the existence of these gaps?

The growth of non-advised services through platform providers that incorporate regular investment options for modest amounts, such as available through fund supermarket and other dealing platforms, illustrates how this gap is being filled.

Some element of the savings gap will be addressed through auto-enrolment services provided by Tenet ARs but the levels of saving though this medium will be insufficient for the long terms needs of many consumers and advice or other 'nudges' will be required in order to address this.

The advice gap is in those areas of the market where previously some cross subsidy existed prior to RDR. Consumers with more wealth would generate higher commissions which meant that it was affordable for the adviser to deal with the smaller cases too. This was to an extent redistributive but not necessarily equitable.

For low resources consumers, the market should be capable of providing effective low cost, simple advice which requires clarity about the extent to which suitability must be shown and where liability ends.

Q21: Which advice gaps are most important for the Review to address?

An ONS (2014) Wealth and Assets Survey showed that 49% of households have a net financial wealth of less than £5,000. The Bank of England survey[5] shows that 45% of households have under £4,999 held in savings and investments.

It is unlikely that these households could be serviced economically by an adviser or that an advisory model based on a face to face service could be built to do so, unless forming part of a vertically integrated model or part of a direct sales/advice force.

Recent Government policy has placed greater responsibility for managing and planning financial matters on employers through auto-enrolment and the individual. The recent pension reforms have, in particular, provided much greater flexibility and choice regarding retirement income. The need for impartial financial advice is apparent, yet according to Unbiased and Standard Life research[6], just 18% of the UK population receive or have received advice from an independent financial adviser.

Financial education, not just in schools but also adult education will be required to better equip consumers to understand the basics and to meet some of their needs through guided sales models, direct to provider or non-advised intermediated services.

Where advice is required, reducing the cost of advice through lower regulatory costs, will improve supply.

Q22: Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Yes, although we would add that there needs to be a focus too on the need for consumers to have greater exposure to protection products.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth? Those with less than £100,000 assets or incomes under £50,000.

Yes. We agree that the focus of the work should be on consumers with lower levels of wealth, for example those with small to medium pension pots or investible assets (between £30-60k).

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[5] Bank of England, The Financial position of British households, 2013
[6] Unbiased and Standard Life: The Value of Advice Report 2012

Q24: Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

The boundaries between guidance 'simplified' advice and 'full' advice need to be clear and unambiguous for consumer and advisers. The FCA has attempted to clarify the regulatory boundary in FG15/1 but this does not provide the clarity that firms are looking for. Firms need confidence to develop a simpler advice model with clear boundaries on the key areas of suitability and clear time-bound boundaries on liability. For example, a simplified advice process for pension transfers.

It is an important feature of the UK market that the Ombudsman Service exists. It provides confidence to consumers and contributes to an overall improvement of standards. However, the FOS appears to make some decisions which do not necessarily reference the regulatory rules and standards in force at the time the advice was given or sale made. It is a quasi-judicial body in that it has the power to award compensation yet it is not bound by the same evidential standards and judicial precedents as civil courts. Please see appendix 1 for example cases from our own experience where we believe the FOS decisions could be contested under a reformed process.

FOS must follow legal principles similar to the small claims court and there should be an effective right of appeal to the civil courts. The FOS must ensure that it serves the firms who pay for it as equally as the consumers who rely upon it.

Due to the unpredictability of the regulatory fees and FSCS levies imposed on intermediaries it is difficult for firms to make effective business plans. This can have a stifling effect on innovation as it makes raising finance more problematic as even with some assumptions built in, the material variances to fees seen recently could be repeated. This potential could put off banks or investors from providing funds for business development or expansion.

There are further improvements to regulation that could reduce regulatory costs for firms. For example:

- reducing reporting requirements, which take up a considerable amount of a firm's time and resources. It is not clear what function some of this data serves and to what extent the FCA use this to direct their supervisory resources but only that data which is to be used should be collected;
- freezing the regulatory bodies' budgets in real terms for a minimum of three years;
- improving regulatory communication. In particular, the Handbook is not an effective tool for advisers and the FCA should consider the information needs of this population (for example, a new motor vehicle will commonly come with a detailed manual and a driver's guide which provides the key information to operate the vehicle safely but can be quickly read and reviewed); and finally
- reinvest the sums received from regulatory fines back into the sector to build resilience into the compensation schemes and fund supervision costs.

Q25: Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

In our view the UK has largely led in the field of financial services regulation and EU regulation has largely been an unwelcome addition.

MIFID II reintroduces the possibility of further tinkering with the definition of independence as does MCD in the mortgage market. The aspect of call recording in the intermediary market will layer more cost onto the industry and the cost benefit of this to retail financial services provision in the UK is not, in our view, proven. This will act as a further barrier and supervision of smaller businesses will be almost impossible to achieve, driving a further divide and uneven playing field.

Q26: What can be learned from previous initiatives to improve consumer engagement with financial services?

Simply, the limited and short term campaigns to date have had limited impact.

There have been previous initiatives, though not considered to be particularly successful, which attempted to introduce straightforward products at low prices, supported by simplified advice requirements. Stakeholder pensions have largely been superseded by cheaper products, especially now that advice is charged separately, and the market for these is now very narrow but still the rules specifically require these to be considered. CAT standard products were similarly short lived although these may have acted as a catalyst to the industry to produce better more attractive products generally.

Simplified advice initiatives under COBS have not been widely adopted by firms due to the absence of any differentiation on standards and advice liability.

Simpler models could potentially attract a wider range of consumers, but we believe that the development of such services is inhibited by the cost of investing in their development and concerns of how FOS would treat them in case of consumer complaints.

A lot of effort has been put behind auto-enrolment but similar levels of government commitment are required to raise wider consumer engagement. Assuming the Treasury are intent upon keeping the fines levied then perhaps this money could be hypothecated for this or a closely related purpose but leaflets are likely to have little impact. More use of insights from Behavioural Economics is likely to prove the most useful as this looks at how consumers actually behave rather than how policy makers believe that they should.

It is also recognised that further work is required on how to properly engage consumers. For example, how to frame a question to elicit an appropriate response where a consumer may respond positively to a question "Do you want a simple easy to understand product at a low cost" but it is unclear what the comparison to such a product may be and the extent to which a consumer understands that they are personally responsible for the decisions they make.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

We are not in a position to comment on regulation in other jurisdictions.

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

This could be addressed by consumer education but this cannot be limited to education in schools.

The PFS has introduced a programme for advisers to support citizen's advice but there are also many qualified and experienced people in the industry who are not qualified advisers who could, within a "safe harbour", contribute to this effort. There are some excellent consumer finance publications but examples of sensationalist reporting within the mainstream press have an adverse and almost irrecoverable effect upon consumers.

Q29: To what extent might the different types of safe harbour described above help address the advice gap through increased incentive to supply advice?

Firms are not adopting simplified advice models principally because of concerns of how FOS would treat them in case of consumer complaints. This problem would be addressed in part by the creation of a safe harbour, but firms would need to have the confidence that FOS would follow. An independent appeal from the FOS should help restore confidence in receiving a fair hearing.

"Kite marked" products could also assist with this as the safe harbour could be dependent upon their use. Consumers would gain confidence from a near common advice process and become familiar with similar products, becoming more confident in accessing advice where needed.

The FCA's current "simplified advice" model has a number of 'kick-out' points, such as advice on existing investments or where there is short term indebtedness, which by definition limits the scope of where this process can be applied, especially in the 'at retirement' market. The FCA should provide examples and case studies to illustrate how the rules and guidance in FG12/10 and FG15/1 might operate in practice.

Q30: Which areas of the regulatory regime would benefit most from a safe harbour and what liabilities would a safe harbour address?

In the Call for input paper, a 'safe harbour' is defined as a 'regulatory provision which reduces or eliminates uncertainty and potential liability in certain circumstances or if certain conditions are met.'

We have identified the following areas where a "safe harbour" could be introduced for consumers and advisors:

- in respect to certain low risk products; introduced via a 'sandbox' for firms to test new products and/or services without regulatory backlash.
- through a "triage" process whereby consumers with investments for lower amounts could receive initial unregulated guidance or basic advice, without placing or limiting liability on the 'adviser'.
- Introducing limits on the investment amount in respect to certain products;
- where a consumer becomes insistent and instructs the adviser to proceed with implementing the consumer's instruction that is contrary to the advisor's recommendation.

Creating a safe harbour should limit liabilities for firms, whilst creating an access route to consumers who would otherwise be unable or reluctant to access advice because of the cost or fear of complexity. If the limits and scope of the advice were explained and made clear, the consumer should not have recourse in relation to matters outside that scope.

Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Regulatory requirements must include: clear disclosure on what is included (product/value/process), consistent language, government promotion and certainty on consumer responsibility.

Q32: Do you have any evidence that absence of a longstop is leading to an advice gap?

Recruitment of new advisers is challenging to us and reasons often cited are the cost of entry and the uncertainty of personal exposure and risk both during and after an advisers' career. Access to run off cover is very limited in the market and this could limit the ability of an adviser to retire. Many ARs are family run businesses and some of our current advisers have told us that they do not want their children to join their business for these reasons.

Without a longstop advisers are faced with the ongoing cost of securely retaining their records against the possibility of a future complaint or investigation. In reality this could mean than an adviser, who may have become frail and vulnerable themselves, may still be liable for advice given before this time and could find it difficult to achieve a fair outcome in these circumstances. In a worst case scenario a long retired adviser may have to make room in a residential home for the elderly to store his old client files!

Q33: Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

The collapse of the Honister network was, we believe linked to them being unable to obtain the necessary PII cover. A longstop would reduce risk in the market and therefore the appetite to participate in this market by PI insurers. The premium cost would also be lower if the risks are better understood as the cover is on a "claims made" basis rather than on the basis of when the advice was provided. This would help to mitigate the position of the cost of protecting good consumers making reasonable decisions from the additional burden arising from greedy consumers chasing unreasonable returns.

We believe that the closure of the Sesame network proposition will have been influenced by the long term risk of future potential claims arising. Firms looking to exit are being drawn to consolidators and the FCA are investigating the impact of this on consumer outcomes and in particular whether this presents an increased risk of consumers being advised to proceed in a way which may largely be a pre-determined outcome by the firm. Clearly were this to be the case this may work against the interests of many of these consumers.

The lack of a longstop is a particular issue for financial advisers who operate as sole traders or partnerships, as they potentially face unlimited liability long after they have ceased trading and into retirement. As at December 2013, data supplied by the FCA indicates that approximately 16% of financial advisers are operating as sole traders or partnerships. In 2006 (the earliest date for which we have obtained data) the percentage was much higher, at 30%. This fall reflects increasing awareness, and concern, amongst financial advisers about the unlimited liability they face as well as the increasing cost of remaining in business. Even if sole trader firms subsequently become incorporated, they still potentially face unlimited liability in respect of business done in the period prior to incorporation or they may be required to provide personal guarantees, for example where they are appointed representatives with Tenet's networks.

Where a claim is brought after many years there may be a risk of serious injustice to the adviser, as the unreliability of their and consumer's recollection of events increases over time, and any documentary evidence may have been lost or destroyed. Moreover, firms should be entitled to some limit on their need to insure themselves against liability. This position we believe is a material barrier to entry.

We would refer you to APFA's paper on longstop which includes a number of legal precedents and extracts from previous relevant papers from FSA and FOS. We strongly support APFA's position in this regard.

Many financial institutions have withdrawn from the provision of advised services because the cost/benefit analysis does not make it an attractive proposition and this has reduced the supply of advice in the market.

Q34: Do you have any comments about the benefits to consumers of redress for long-term advice?

The benefits to consumers are clear and we have no further comment other than to urge the FAMR to assess the impact on the advisory sector, as explained in our response to Q33 and Q35 below, which has contributed to the creation of the "advice gap".

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

The protection within the current regulatory framework contributes to consumer confidence but has worked against the principle of "caveat emptor". Consumers must bear some responsibility for their own actions, particularly where they act against the advice explicitly given to them.

The costs of providing consumers with access to protections/compensation are borne by the industry. Unlike a product with an explicit guarantee where the cost is built into the pricing structure of the product and is borne by the consumer, the sector costs of FSCS are not explicitly included.

We recommend that the costs of the FSCS levy are restructured such that the costs are more fairly distributed amongst all market participants by introducing a product levy. As systems exist to collect Insurance Premium Tax we believe that this would be a workable and equitable proposal. We do not believe that unregulated products should benefit from the protection of the FSCS, reflecting the higher risk nature of these products. This would reduce the risk to and therefore the cost of maintaining the FSCS.

A balance needs to be delivered between the scope of consumer protection and unlimited liability for firms in order to ensure consumers can still access full advice. The risks associated with unlimited liability and uncertainty of the FOS's approach to the handling of complaints means many firms, including Tenet, have been unwilling to develop more innovative advice models.

We believe that a combination of measures is necessary. We have referenced these elsewhere in our response but in summary:

- Reduction in the costs of regulation by reinvestment of fines into the FSCS and consumer education; Fairer apportionment of the costs of FSCS and FOS between providers, intermediaries and consumers;
- Improved consumer education as better informed consumers are less likely to fall prey to unregulated and criminal activities; and
- Clearer simpler regulation will improve adherence to compliance standards

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

We have no specific comments on this.

Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

We have no comments on this apart from reiterating our view that FG15/1 has not addressed the uncertainties without which innovation would thrive.

In assessing some of the new automated advice models we have identified a risk that the suitability of a recommendation may be unable to take into account the consumer's current arrangements. Replacement' business and the risk of 'shoe horning' creates a challenge to an algorithm and needs to be addressed.

Q38: What do you consider to be the main consumer considerations relating to automated advice?

Cost and ease of access will be key attractors plus the knowledge that human interaction can be delivered at the consumer's request at any time during the process.

The ability for the consumer to recognise the difference between advice and guidance is also critical.

Q39: What are the main options to address the advice gaps you have identified?

As noted previously, the provision of financial advice is a commercial enterprise and firms are free to design services which meet the needs of the consumers with whom they wish to engage on a profitable and sustainable basis.

To address the advice gap we urge the FAMR to commit to reduce the regulatory overheads to the advisor of providing that advice. We have suggested a number of ways throughout this response, including introducing a longstop, sharing the burden of FSCS levies across the value chain, re-investing regulatory fines to part fund the FSCS and to promote consumer education and to introduce an appeal from the FOS and review its recovery of costs.

It is also worth noting that the FOS use an interest rate of 8% which is the statutory rate of interest. The statutory rate of interest is, we believe, used punitively from the date of judgement. It is now very rare for a claimant to be successful in obtaining such a high rate of interest. Further, the consumers delay in bringing their complaint and then receiving an interest based windfall, which could be further increased in the event of delays on the part of FOS in reaching a conclusion, constitutes unjust enrichment. (See also case 3 Appendix 1).

The reduction of costs only deals with part of the problem. A clear framework for a simpler advice process that firms can have confidence in and that provide a safe harbour, together with a set of simpler regulatory rules and guidelines, may allow lower cost models of advice to be developed.

Workplace provision of financial guidance creates a further opportunity but further thought is required as to who could deliver this and the scope of activity within the context of the current regulatory permissions regime. Greater education is required to make consumers aware of the benefits of advice and so equip them to understand whether what they are being offered represents good value for money and meets their financial goals and needs. Guidance organisations such as the CAB, MAS and Pension Wise should offer better information and referral about paid-for financial advice and provide assistance in choosing appropriate advisers e.g. by providing access to a suitable directory of advisers.

Q40: What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

Action must be taken to eliminate unregulated and criminal elements from the market. Whilst firms can assist in providing intelligence on these, the regulator needs to have the capacity and resources to conduct investigations and to take action against the perpetrators.

The FCA has stated on repeated occasions that it is not a "price" regulator and it is proper that this remains the case. Consumers must ultimately determine what services they value and are prepared to pay for. Improvements to disclosure will help consumers understand what services they are receiving and at what cost.

Transparency in charging structures to consumers is important. We have concerns that some vertically integrated distribution models may not be as transparent as others. The FCA should look into whether or not these are mere perception or whether there is a risk of market distortion.

The cost of technology solutions is most likely to be borne by large product providers, asset managers or platforms leading to a return of direct or "tied" or "multi-tied" propositions, impacting choice and competition, in order to deliver cheaper routes to advice.

Q41: What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

A key contribution by providers and institutions is the provision of training and technical support to intermediaries. This ultimately supports good consumer outcomes and the FCA should reconsider whether this actually creates conflicts that cannot be managed. The current regulatory framework has distorted the market place whereby professional bodies and unauthorised service providers can generate profit through the delivery of training at a cost borne by product providers, whereas this is more restricted for advice firms themselves who have to bear a substantially higher proportion of these additional costs.

The FCA is providing examples of good and poor practice. This is noticeable within the Themed Review papers and is useful in bringing to life their requirements in a way in which practitioners can relate to. Workable examples of good and poor practice should be provided as a matter of course to illustrate the impact of any changes that may be introduced.

We also recommend that the FCA consider how it communicates any change to requirements. Recent use of video presentation hosted on the FCA website is helpful but short podcasts would also improve engagement and understanding and therefore engagement with achieving and maintaining the required standards.

We trust that you find these comments constructive and helpful.

Yours faithfully

Simon Thomas

Simon Thomas
Head of Policy
Tenet Group Ltd

Appendix 1

- Split Claim: Tenet received 1 complaint from the customer. The matter was referred to FOS. The complex claim is valued by the customer at £1.15 million. The advice was one piece of advice. The investigating Adjudicator set up two FOS cases for the two trusts then decided to split the larger trust again (to form a total of three cases). The final split was to separate the initial investment from a later fund switch which, which whist introducing a UCIS was clearly dividing one bond into two cases possibly because the £300,000 quantum is well over the FOS £150,000 threshold. The previous adjudicator and Ombudsman made absolutely no mention of dividing the case into two. Part of the advice was related to a UCIS which was not on our panel of approved products and no authority was sought or provided. We did not accept responsibility for it but FOS disagreed. The customer was also advised by her solicitor on the transactions which involved IHT planning. This was dismissed as a factor by FOS. It is our view that a complaint of such complexity, value and size should have gone to Court but FOS disagreed. Ultimately, the customer is now unlikely to accept the FOS awards which she considers are two low and so a period of some 2 years has been lost as a result of FOS and interest has accrued throughout that period.

  FOS Ref: 1612-3410/MM/MO92; FOS Ref: 1216-7596/MM/MO92; FOS Ref: 1458-0513/MM/MO92.

- Statement of truth: A family syndicate who had regularly invested in foreign properties and had travelled widely to view such opportunities. They decided to invest in a UCIS known as the Resina Golf Complex in Spain. No advice was provided and the customers were sent to an agent to proceed with the investment on an execution only basis. The complaint was pursued by three of the group by their new IFA. The father of one of the complainants confirmed to us that no advice was given that that he was prepared to give evidence. We argued that a hearing was necessary and that if FOS could not accommodate that the matter should be dealt with at Court. FOS disagreed but refused a hearing. A provision decision was issued. We obtained a number of witness statements supported by a statement of truth. We argued with FOS that these should be considered by the Ombudsman. A very reluctant agreement was obtained and these were submitted. The matter has since been sat at FOS. Since then, we have learned that upon his father's advice, the complainant was about to withdraw his complaint and that if the matter was dealt with at Court he would not have been able to swear under oath as to the truth of his complaint. He was persuaded by his new IFA, who had considered the provisional decision, that he had all but won and that he would be wise to leave his complaint afoot which he has done.

  FOS Ref: 1499-3075/(PINV)/OS02; FOS Ref: 1499-2699/CB/MO92; FOSRef: 1499-3167/AP/MO91; FOS Ref: 1499-2964/(PINV)/OS02

- Unjust enrichment: In 2008 customers decided to move house as they were experiencing significant problems of a criminal nature with their neighbours; they were very desperate to move house quickly and the existing house could not be sold. Advice was to retain existing house and use buy to let mortgage on it, replacing the old mortgage and increasing the balance to £100,000. The addition monies were used to put down a deposit on a new home along with a new residential mortgage. Both mortgages were interest only for reasons of affordability. The original home was to be let to service the mortgage then sold. The new mortgage would have kept the customers in the same position that they were already in; it was intended to repay the mortgage from surplus pension funds and an endowment. The customers claimed that they were unable to sell their old home which was not the fault of Tenet. The old home fell into negative equity. FOS overcompensated the customers. They awarded the customers the value of the reduced equity in the first home (which was immediately sold on the open market when the complaint concluded), refund the difference between the current balance on the new property and the balance as it would have been if a repayment mortgage had been arranged, meet any shortfall on the sale of the old property, refund all mortgage set up fees (which would have been incurred regardless), and simple interest at 8% and pay compensation of £250.

  FOS Ref: 1448-0246/(HM)/OS02;FOS Ref: 1448-0246/BB/MA16

Appendix 2

TENET

CONNECT SELECT LIME

Our Paraplanning Service Charges

Prices applicable for appointed representatives of TenetConnect and TenetLime

Option	Cost	Paraplanning service provided
1	£325	▪ New Investment (single strategy) up to £100k ▪ Investment/Pension Review – 1 Product (no transfer) ▪ 1 New Protection Contract
2	£525	▪ New Investment (single strategy) £100-£250k ▪ New Investment (dual strategy) up to £100k ▪ Investment Pension Transfer 1 Policy ▪ Annuitise 1 Policy ▪ 1 Contract into Drawdown ▪ Investment/Pension Review - 2-3 Products (no transfer) ▪ 2-3 New Protection Contracts
3	£675	▪ New Investment (single strategy) £250-£500k ▪ New Investment (dual strategy) £150k-£250k ▪ Investment and Pension Transfer 2-3 Policies ▪ Annuitise 2-3 Policies ▪ 2-3 Contracts into Drawdown ▪ Occupational Transfer (Money Purchase) 1 policy ▪ Investment/Pension Review – 4-5 products (no ▪ transfer) ▪ 4-5 New Protection Contracts
4	£825	▪ New Investment (single strategy) £500k-£1m ▪ New Investment (dual strategy) £250k-£500k ▪ Investment/Pension Transfer 4-5 Policies ▪ Annuitise 4-5 Policies ▪ 4-5 Contracts into Drawdown ▪ Occupation Transfer (Defined Benefits) 1

		policy ▪ Occupational Transfer (Money Purchase) 2-3 policies
5	£975	▪ New Investment (dual strategy) £500k-£1m ▪ Investment/Pension Transfer 6-7 Policies ▪ Annuitise 6-7 Policies ▪ 6-7 contracts into Drawdown ▪ Occupational Transfers (Defined Benefit) 2-3 Policies ▪ Occupational Transfers (Money Purchase) 4-5 Policies

Cases not covered by the charging structure above are classed as 'bespoke' and chargeable at £60ph

Business Protection and Estate Planning Specialists

All investment/pension review or transfer cases have "fair fund number" limits. If the number of funds within a contract is substantial, Paraplanning may vary the cost of the case to reflect the work required.

Consultation response

December 2015

Call for Input on the Financial Advice Market Review (FAMR)

The CII welcomes the Government's efforts to make financial advice, in its broadest definition, accessible to all. The current alphabet soup of 'advice' terminology is bewildering to those working in the sector, never mind consumers trying to get their heads around these issues for the first time. Moreover, while the introduction of the Retail Distribution Review (RDR) made 'regulated' financial advice more robust, it is arguably beyond the needs of consumers with less complex requirements.

For the purposes of this consultation response, we are using the term 'advice' to mean any advice, recommendation or guidance given to a retail customer. This definition includes, but is not limited to, regulated advice (as defined in the FCA Handbook), as well as public financial guidance or other services that the customer may, rightly or wrongly, perceive as 'advice.'

If the Government and/or financial institutions are to make advice more accessible – by including, for example, new approaches and technology – they still need to ensure that the advice meets minimum standards, since this will engender public trust and confidence.

Drawing from its long experience as a professional body serving the pensions and long-term savings market, the CII last year proposed a standards model underpinning how pensions guidance could be built. We called this Standards, Training, Accreditation and Revalidation (STAR). It could form a confidence-building foundation from which the market could develop any existing and new 'advice' propositions:

- **Standards:** setting out what's expected of those firms giving advice or guidance, and what those individuals delivering it would be reasonably expected to know and perform;
- **Training:** to impart and verify the required individual knowledge and competence aspects of the standards;
- **Accreditation:** to confirm that the standards have been attained by organisations in their internal processes, and continue to be maintained; and
- **Revalidation:** to ensure that those individuals delivering these services are up to date with the latest developments, such as changes to investment and pensions policy, taxation and the benefits system.

Regardless of which service the adviser is giving, or the channel and label being used; if the advice is perceived as professional by the public, then it must be clear, transparent and, above all, robust with STAR is its foundation.

It is not our intention to try to design prescriptive guidance or advice models, or to express views on the relative merits of each. Instead, we wish to explore and understand how STAR could be applied in different broad scenarios. So we have asked consultancy EY to undertake a detailed analysis of possible guidance and advice scenarios that could stem from this review, and then set out how STAR might be applied. The EY report accompanies this consultation response.

Next Steps: the CII looks forward to working with HMT/FCA and the market to arrive at the right level of standards to support any emerging solutions, and help develop training, accreditation and revalidation solutions as required.

Our overall views of the reforms

The Chartered Insurance Institute (including the Personal Finance Society) welcomes the Government's efforts to make financial advice accessible to all. Whether it is regulated advice, a non-advised model, or 'guidance', the public must be confident that the service is capable of providing needed assistance to a reasonable standard.

With increased flexibility in the market, such as the pension freedoms and new products responding to a smaller welfare state, the need for advice has never been greater. We believe the Financial Advice Market Review offers a once in a generation opportunity to explore and support how advice can be given, and to unleash new thinking on how it could be given to those who need it.

What we mean by 'advice' in this response

We are using the term 'advice' to mean any advice, recommendation or guidance given to a retail customer. This definition is closer to what the public understand from the term, and as such is wider than the more prescriptive 'regulated advice' definition that those within the industry usually mean. Here then, 'advice' includes, but is not limited to, regulated advice (as defined in the FCA Handbook), as well as public financial guidance or other services that consumers may, rightly or wrongly, perceive as 'advice.'

Public trust and confidence must be at the heart of financial advice

The public has every right to be concerned about access to the advice sector, and the CII has done some work to explore the rationale behind this lack of confidence, and contributed to the efforts to improve it. FCA-regulated financial advice, whilst being high quality thanks to the RDR, is still beyond the means and desires of many.[1] Some might have more straightforward, less complex needs; and the range of advice descriptions currently covered by the regulations is bewildering to those familiar with the sector, never mind consumers trying to understand them for the first time.

Another major influence on confidence is the 'crisis of public trust' that exists, especially towards advice from any authoritative source.[2] This has resulted in an unprecedented rise in public scrutiny, and consistently high proportions of customers responding to surveys that they would rather self-advise, search the internet, or resort to the mainstream media, social media, and family and friends with their complex financial decisions. In our view, this potentially perpetuates the problem:[3]

- **Financial advice is inherently personal:** it is linked to the specific circumstances of the customer concerned, so what may have been suitable or useful for someone else may be wholly inappropriate for you.
- **Poor financial advice is not always immediately obvious:** unlike many other retail products and services, the nature of investment instruments means that what someone may have *perceived* as helpful advice at the time may turn out years or even decades later to have been quite the opposite. This makes redundant many of the social networking tools that consumers have come to rely upon in recent years such as word-of-mouth recommendations and user reviews.
- **Products can be deceptive even to people who *think* they are financially savvy:** people often report (and bemoan) the complexity of financial products. But studies repeatedly also reveal that those who *think* they are financially savvy are just as much at risk as those who are not. Even inveterate readers of the finance media may not be aware of the hidden risks in a product's design, or know what to do if their portfolio becomes exposed. In this age of on-tap information, access to professional advice is more important than ever.

[1] See the Chartered Insurance Institute successive surveys on RDR implementation, the latest of which was *The RDR and consumers: the public's views towards the advice market*, Feb 2014, www.cii.co.uk/28904.

[2] See for example, The Chartered Insurance Institute, *What we talk about when we talk about trust: the future of trust in financial services*, Feb 2010. www.cii.co.uk/10116

[3] See for example, CII RDR consumer surveys (see note 1), Nick Hurman, "Listening to consumers: the future of financial distribution and advice," CII *Thinkpiece* no.6 (Aug 2008) www.cii.co.uk/10051; The Chartered Insurance Institute, *What consumers want: the public's views towards guaranteed guidance for retirement*, October 2014, www.cii.uk/32081

If professional advice is so important, the industry needs to find new ways of bringing it to the public – and in a way that engenders confidence. But improving accessibility by 'cutting corners' in safeguards potentially lays consumers open to a whole range of new risks, such as increased or opaque charges, or even outright scams. Regardless of the service offered, or the channel and label, the advice must be clear, transparent and above all robust.

Why are standards important?

We're not going to argue about the different advice models and the implications of regulation on commercial viability. Instead, the focus here is about the specific knowledge and capacity standards that people and organisations offering these services should be expected to meet.

In the context of financial advice, discussions about the 'knowledge and capacity of people and organisations' normally concern regulated investment advisers; and the standards themselves are couched in terms of qualification levels. However, this neglects an important component of the argument: qualifications are the *means* of delivering standards, not the standards themselves. In fact, the debate about standards can only begin by understanding:

- what services are being delivered;
- what knowledge is reasonably expected of the practitioners delivering those services (or involved in their creation); and only then
- how those people and organisations can demonstrate they meet these standards and keep them up to date.

The four-pointed STAR: Standards, Training, Accreditation and Revalidation

Drawing from its experience as a professional body serving the pensions and long-term savings market, the CII last year proposed a model underpinning how pensions guidance could be built. We think this could be applied to the wider issue of the FAMR advice scenarios. Delivering consumer protection that is appropriate to the service delivered can be described in terms of four principles: Standards, Training, Accreditation and Revalidation (STAR):

- **Standards:** setting out what is expected of those firms giving advice or guidance, and what those individuals delivering it would be reasonably expected to know and perform;
- **Training:** to impart and verify the required individual knowledge and competence aspects of the standards;
- **Accreditation:** to confirm that the standards have been attained by organisations in their internal processes, and continue to be maintained; and
- **Revalidation:** to ensure that those individuals delivering these services are up to date with the latest developments, such as changes to investment and pensions policy, taxation and the benefits system.

Why STAR delivers public trust and confidence: BEACON

STAR enables the range of models of advice or guidance to strike a three-way balance between being economically viable for firms in this sector to offer; being attractive and meaningful to customers; and assuring appropriate public protection. STAR could deliver that third element without the need for complex conduct regulation, since it would have the following characteristics (summarised here by the pneumonic BEACON):

- **Building block:** STAR must be part of the foundation of whatever models emerge if this review is going to deliver trust and confidence in the mass market;
- **Embedded:** STAR can become consistent across the different types of organisations, regardless of model. It applies to all those delivering such a service, be they advisory firms, other brokers, providers, guidance delivery bodies, or other parts of the sector or public organisations (alone or in partnership);
- **Accessible:** STAR can be clearly indicated to the public with kite marks or indicators. It would be relatively easy to promote and provide the information about what consumers should look for;

- **Chameleon-like:** rather than being a straitjacket that restricts the various scenarios and situations, STAR can be tailored and targeted. This means it can apply both outside and inside the sector, to public and private organisations alike, and to providers as well as intermediaries;
- **Oversight:** STAR could, in a relatively straightforward process, be overseen and managed by organisations that are independent of the financial services sector and with strong levels of public trust;
- **Now!** STAR would not be difficult to implement and would be seen as 'a quick win'. Many of the mechanisms and materials underpinning STAR could be rooted in resources that already exist, such as the training material created by the CII for Pension Wise, or the CII's material relating to its long-term savings initiative.

Applying STAR to the advice scenarios that could emerge from FAMR

It is not our intention in this submission to propose specific guidance and advice models to address the public's needs, or to express views on the relative merits of each. Instead, we wish to explore and understand how STAR could be applied in different broad scenarios. So we have asked consultancy EY to undertake a detailed analysis of possible guidance and advice scenarios that *could* stem from this review, and then set out how STAR could be applied. EY's findings are attached with this submission.

CII initiative: building trust and confidence in the wider pensions and long-term savings market

In addition to our public policy work responding to and implementing the Government's pensions reforms, the CII has also been engaging with leaders from the major pensions and long-term savings providers. We have formed a steering group to oversee the development of improved and more consistent standards at all levels within these businesses, particularly among customer-facing staff.

Our work has been informed by extensive consumer research and responds to the significant changes the sector has seen over recent years, not least the Government's pension reforms. We are now developing a 'public declaration' to which providers will commit, and this sets out a framework of professional standards that they will need to achieve voluntarily. We plan to launch this with several large providers early in 2016.

We believe this work will help to ensure that the sector develops the skill sets required to support the 'new normal' of the pension and long-term savings landscape.

Our responses to specific questions

Overview

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

Yes. The advice models that FAMR seeks to develop must service all types of consumers, and our previous investigations show that more work needs to be done to consider their needs. In 2009, we published a report (with the thinktank Reform) on the need to actively engage young people aged 18-35.[4] In 2014, a task force we co-chaired with Age UK set out recommendations on the need to work better at reaching out to older consumers.[5] Earlier in 2015, we published a Thinkpiece with Scope about the barriers faced by consumers with disabilities in accessing financial

[4] The Chartered Insurance Institute, *Money's too tight to mention: will the IPOD generation ever trust financial services?* October 2008. www.cii.co.uk/9904

[5] Age UK (with the Chartered Insurance Institute), *Financial resilience in later life*, June 2014 www.ageuk.org.uk/Documents/EN-GB/For-professionals/Consumer-issues/fsc_ageuk_financial_resilience_in_later_life_250614.pdf

products and services.[6] The recent report from the Financial Inclusion Commission points the way ahead as to how inclusiveness needs to be built into the whole process of product design and service delivery.

What do consumers need or want from financial advice

Q2. Do you have any thoughts on how different forms of financial advice could be categorised and described?

No, other than to reiterate there is a need to ensure they are described in a more meaningful way to the general public. Instead, we wish to explore and understand how STAR could be applied in different scenarios.

As explained, we have asked EY to sketch out different scenarios that could stem from the Financial Advice Market Review and consider how STAR could be tailored and delivered to promote public trust and confidence. Beyond regulated retail investment advice that already exists, those scenarios could be described as follows:

- **Technology enabled advice:** a number of different scenarios and permutations are applicable under this heading. Equally, many of the other scenarios highlighted in the report are, to greater or lesser degrees, underpinned by technology enablement. However, for the purposes of our STAR exercise, EY focused on three key themes:
  - **Full automation:** where an individual may be taken through an automated process, entering information where necessary, with the ultimate outcome being a recommendation or advice that is provided by technology. This scenario also includes the situation where an individual subscribes to automated guidance and advice that will be provided and implemented without the need for the customer's repeated explicit consent (i.e. through subscribing to a service, technology alters an individual's investment profile on a regular, ongoing basis without getting consent each time)
  - **Assisted advice:** this is where the digital tools helping consumers to identify the scope of their needs, and to create advice and guidance, are augmented (possibly at the customer's request) by an actual adviser. This could be applied in more complex cases, typically in relation to a specific need (i.e. life insurance or retirement planning) and could be self-service or advised
  - **Guided Advice:** includes remote advice delivered over the phone or video. This also includes omni-channel advice where the consumer's direct interaction with a practitioner becomes part of the process, or where an adviser becomes ultimately responsible for signing off the service provided.
- **Focused advice:** anyone wanting to operate in such a way could choose to focus on a very specific part of a customer's needs, in much the same way as a mortgage adviser does currently in a bank or building society. The scope of the assessment and advice on offer is very limited and would follow a pre-determined process.
- **Public financial guidance:** this topic of the parallel HM Treasury consultation could be delivered through public bodies such as The Pensions Advisory Service or Citizens Advice, and involve a hand-off of complex cases to focused advisers.
- **Assisted non-advised:** a scenario which focuses on helping consumers make better, more informed decisions about their financial needs, without providing any specific advice or recommendations. Although it is out of scope of regulated advice requirements (under both MiFID and Regulated Activities Order definitions) because it does not provide advice or recommendations, it can still be *perceived* as advice by the public. The Assisted Non Advised scenario provides consumers with accurate, relevant and timely information, and helps them navigate the often complex process involved in understanding their financial needs and the way(s) of fulfilling them. We think this is, potentially, an area for consumer detriment if the right safeguards are not put into place.

[6] Teresa Perchard, "How can people with disabilities get a better deal from the insurance market?" CII *Thinkpiece* 115 (April 2015). www.cii.co.uk/35446

Q3. What comments do you have on consumer demand for professional financial advice?

Q4. Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

In 2011, 2013 and 2014, we surveyed consumers on the extent to which they receive financial advice.[7] Across all three years, we asked respondents who said they self-advise to rank the sources of information they are most likely to use. We found that financial assistance websites were the top choice: 46% overall ranked this first, and 27% put it second. It received the leading mean rating by a considerable margin. The Money Advice Service (MAS) was the second preferred choice and had the next most favourable mean rating, but this was because it ranked high as third or fourth choice. Newspapers and magazines ranked third overall, sharing a place with family and friends, but scored very high as second or third choices. Women put family and friends as their second preferred choice, and at a considerable margin ahead of the MAS. One key point is the importance of future, as opposed to current, demand based on higher public trust.

Q5. Do you have any comments or evidence on the types of financial needs for which consumers may seek advice?

Advice in different forms could be available to consumers across the financial spectrum, and depending on the stage they are at in taking decisions. People with fairly straightforward needs require assistance on general product or service purchases, or a type of 'helpful and independent friend' service to verify the merits of decisions they are about to take.

As the needs become more complex, people require a more in-depth and personalised assistance - one that has an element of judgment included about certain aspects (e.g. investment attitudes). Our recent research into the pension freedoms indicates that decisions like these might involve the customer going through multiple stages in their thought process. These are: initial fact-finding, engagement, and final decision, and each stage has specific information, guidance and advice needs.

	Initial fact-finding stage	Engagement stage
Needs:	Much earlier engagement by Government including a very simple 'Introduction to your pension options' highlighting the key principles to help frame personal circumstances. Use simple graphics (e.g. flowcharts) to aid understanding of the process and eliminate irrelevant information	Relevant information, answers to specific questions
Expectations:	Ideally led from an impartial (official) source, in simple language, concise and focused on what's important	*Qualified* advice or guidance, relevant to personal situation
Desired Benefits:	Being safeguarded from falling prey to non-impartial providers and/or overlooking better options through lack of knowledge	The ability to weigh the advantages and risks of different options
Desired outcome:	To be 'armed with information' to look into the detail of their own personal situation AND approach less impartial organisations e.g. providers	Being able to make an informed decision; awareness of the key risks involved

By the final decision stage, we think there is little or no need for further information, so there is little evidence that consumers will take further advice at the sort of mass market wealth levels we analysed in respect of the pension freedoms. The large majority of consumers will communicate their decision to their existing and chosen provider.

Q6. Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

Yes. A segmentation model would result in a more precise analysis of consumer demand. However, perhaps a focus on consumer behaviour rather than products would be more appropriate. Discussions with the FCA suggest this might need to be developed as the regulator has historically taken a product-orientated approach to its work.

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[7] The Chartered Insurance Institute, *The RDR and consumers: the public's views towards the advice market*, 12 February 201 www.cii.co.uk/28904; *The RDR and consumers: a research report into consumer views on the financial advice regulatory reforms*, 18 Feb 2013 www.cii.co.uk/24504; and *The Money Advice Service, financial capability, and the Retail Distribution Review*, 1 June 2011 www.cii.co.uk/9990

Q7. Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

No, the segments provided in the FAMR consultation organised around life stages are quite useful. The key to engagement in the future will be linking interventions to consumers at a point relevant to them, in particular life stages (starting out, young family, mature family, etc) or life events (first job, first child, retirement, etc).

Q8. Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

While there will be a price element to demand for advice, it is clear that those on low incomes will need (and possibly want) a variety of services at key stages in their lives.

Q9. Do you have any comments or evidence on why consumers do not seek advice?

Yes, our research suggests significant demand-led factors have an impact upon consumers' approach to advice: inertia; over-confidence in their own abilities/those of their friends/family; lack of trust in the sector; belief that they do not have enough savings to warrant advice.

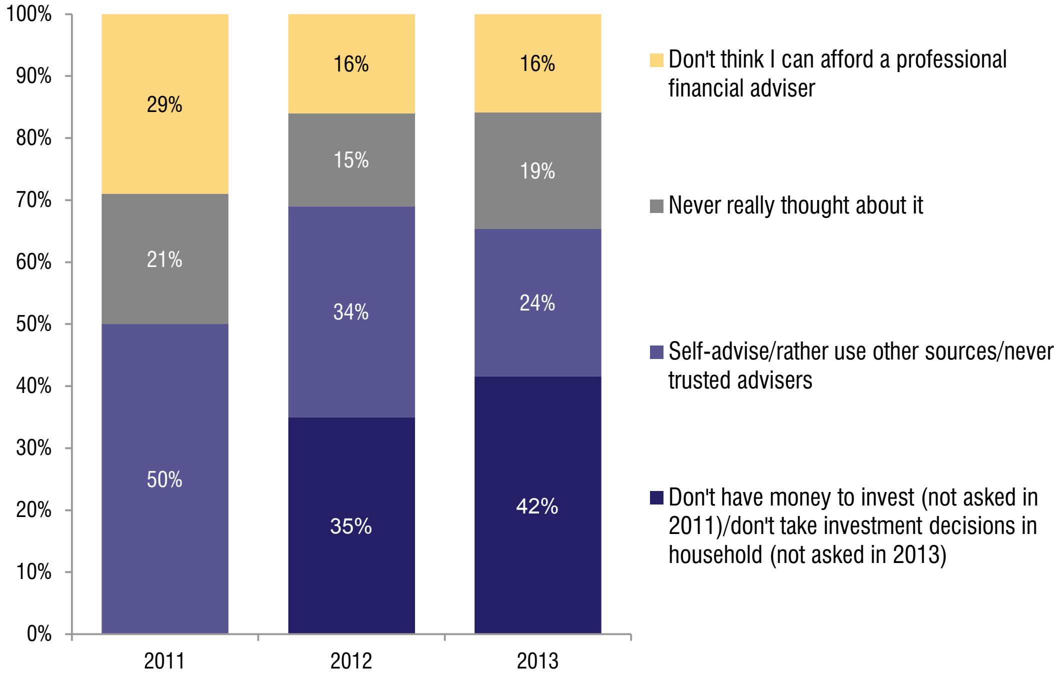
Research we carried out in 2011-2014 indicates a significant unmet demand by consumers who tend to self-advise or use other sources such as friends and family.[8] We found that of those who have not sought professional financial advice:

- 38% do not have the money to invest in 2014, almost the same as the 35% who said this in 2012.
- 4% took the new option that they do not take investment decisions in their household.
- 24% said they "would rather self-advise using other sources of information instead of professional financial advice". We deliberately combined the 2012 choices "don't need help investing, I do it myself", "never trusted financial advisers" and "rather use other sources of advice/information" into a single "self advise using other sources of information" because they are essentially the same choice, and it allows for a more robust data set. Overall it was 10% less than last year.
- 16% thought they could not afford a financial adviser, and this was consistent across every year of the research.
- Note: as with the 2013 survey, we filtered out those who answered that they do not have funds, or do not take investment decisions. They were not asked subsequent questions about awareness, willingness to take advice, trust and confidence, etc.
- Gender and age factors: self-advice: men are more confident in self-advising than women, though are not necessarily more competent: 30% of men said they would rather do this, whereas only 17% of women responded this way. 16% of those aged 25-34, compared to 45% aged 65+ "Never thought about receiving advice": younger adults were more likely to say this: 25% compared to only 9% aged 65+.

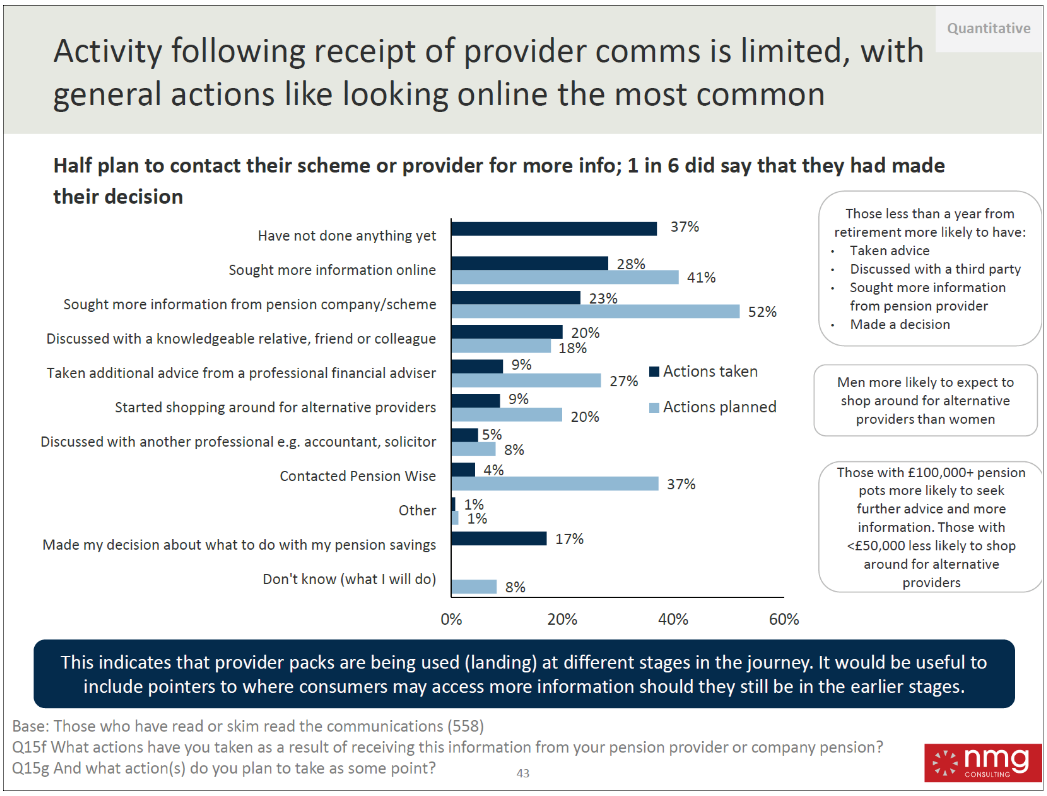
[8] See Note 7 above.

Reasons why consumers do not take financial advice

What is the main reason why you have never sought professional financial advice? (Base: 1,352)



More recent research we have conducted into the pension freedoms reveals a similar propensity towards finding information from a range of sources, with the media and financial information websites figuring strongly.[9]



[9] CII, follow up research into the pension freedoms undertaken in Sep 2015. Full details to be published in January 2016.

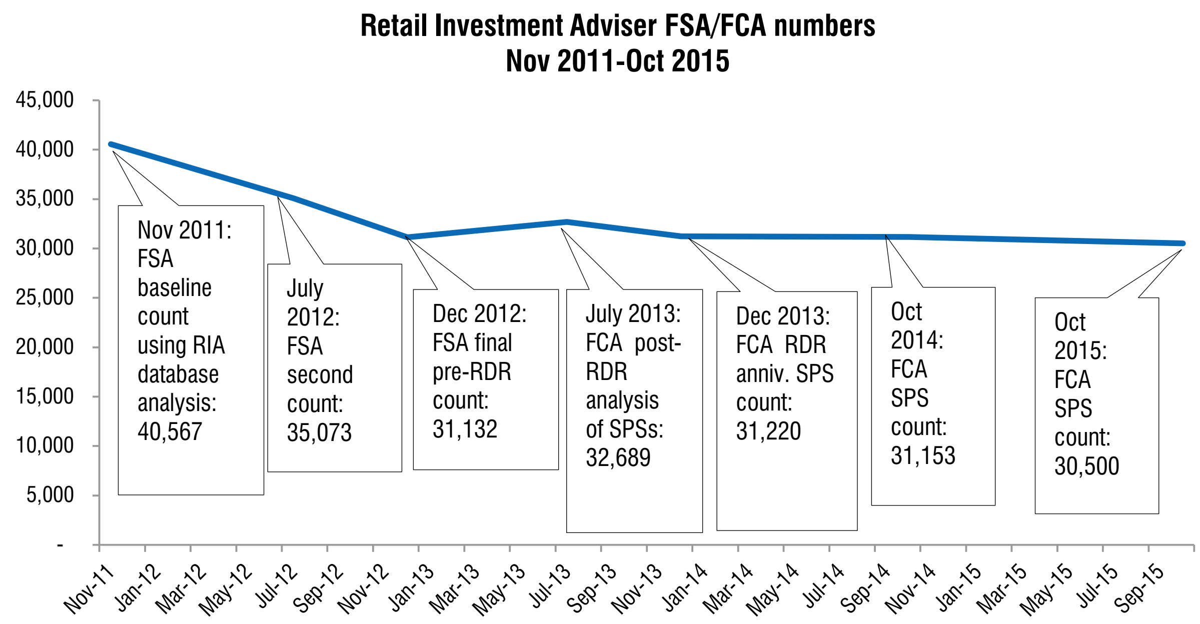
Where are the advice gaps?

Taking into account the findings of several pieces of research conducted over the past few years by organisations including the FCA, Citizens Advice and ourselves, we concur that there are both demand and supply elements affecting the access to and delivery of financial advice. We go into more detail about this below.

Q10. Do you have any information about the supply of financial advice that we should take into account in our review?

Our own view on the supply of advisers is based on the statistics of Statements of Professional Standing (SPSs) held by retail investment advisers (RIAs, of which about two-thirds are CII members). Since the introduction of that regime, and also detailed prior research for the FSA, this is by far the most robust indicator of adviser numbers.

We wish to point out that the 24,000 number quoted on p.15 of the FAMR call for input refers to the Association of Professional Financial Advisers data that only includes financial adviser staff *working in financial adviser firms*. Therefore, it ignores authorised RIAs in banks/building societies, wealth managers/stockbrokers, and discretionary investment managers.[10]



Based on the actual FSA/SPS numbers, RIAs have declined from an estimate of about 40,600 in November 2011 prior to the RDR introduction to 30,500 in October 2015. Although the overall drop across the period is significant (nearly 25%), the rate of decline arrested in December 2012 to a very gradual decrease of 2% overall between 2012-2015.

While it is still too early to say whether that pre-2012 reduction was sufficient to create any real consumer access issues (as some have argued), this two-phased process could well be explained by the following considerations:

1. **Plans to exit the market anyway**: a small proportion was intending to exit the market anyway, due to retirement for example. The FSA reported in 2011 that 5% of advisers planned to retire in the period up to December 2012, compared to less than 1% expecting to do so in their previous survey.

2. **Advice was previously secondary to main business**: some firms may have offered retail investment advice secondary to some other main business activity, and then decided to stop doing this ahead of the stiffer regulatory requirements. Arguably reducing this group was probably in the public's best interests anyway: successive FSA thematic

[10] The Association of Professional Financial Advisers' report The Financial Adviser Market in Numbers (edition 3.0), April 2015.

investigations into advice in various sub-sectors consistently highlighted problems with the advice given by such practitioners on the periphery of their main activity.

3. **Providers shedding direct sales forces**: a significant proportion may have been tied advisers working for providers such as banks and bancassurers, who left as a result of the providers eliminating their direct advice proposition altogether. Although some of these high-profile closures have been quietly replaced by another proposition, a large reduction in the direct adviser market has occurred. However:
   - one of the big issues that the RDR was trying to address was provider bias causing consumer detriment: of salespeople incentivised to sell unsuitable products. So arguably it is not surprising that some major providers have opted to exit this reputational risk source and move towards an entirely intermediated channel; moreover
   - anecdotal evidence suggests that many of these professionals have started their own businesses anyway, as independent or specialist restricted advisers.
4. **Ceasing trading due to professionalism requirements:** that leaves a proportion of advisers who genuinely did cease trading because they did not wish to meet the higher professional standards.

Finally, and this should surely be the fundamental position of any organisation involved or related to this sector: what is really in the public's best interests? More advisers with little or no consumer protection safeguards, some of which would probably have left the market anyway? Or 25% fewer advisers, but all with sufficient safeguards in place? Our view as a public interest body is the latter. As the real issue here is demand-led, please see our response to Q.13.

Q11. Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

See previous answers. The RDR has created a trend towards advice rather than a sales-led market.

Q12. Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

We think financial technology could play a major role, and could drive down the costs for consumers. However, the technology must be subject to certain standards, training, accreditation and revalidation and we can go into more detail on how this could work. Clearly, technology will play an increasingly important role in both the lowering of cost and the increasing accessibility of advice. EY looked specifically at this area, including internet only as well as omni-channel services. We think technological innovation must take account of public trust to protect against, for example, consumers being hit with exorbitant charges or being guided towards more expensive services that they may not have paid for if they'd used other channels.

Q13. Do you have any comments on how we look at the economics of supplying advice?

We concur that some advisers have set minimum thresholds of investable assets, in a bid to target wealthier individuals and improve their profitability. However, we think this is a symptom of low mass market demand. We explained above that negative public confidence in the advice market combined with a low public understanding of the value of advice results in a low mass market demand. In those conditions, there is also no incentive to create new lower-cost solutions to serve that market. So instead, advisers focus and prioritise their business to serve the much more lucrative affluent market. If mass market demand were to increase, advisers would be incentivised to innovate to serve them, leading to a fall in charge levels and asset thresholds.

Q14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

This is a business model question best answered by firms themselves.

Q15. Which consumer segments are economic to serve given the cost of supplying advice?

In the current market conditions, more affluent customers with high investment levels are the most economic for advisers to target.

Q16. Do you have any comments on the barriers faced by firms providing advice?

This is a supply question best answered by firms themselves.

Q17. What do you understand to be an advice gap?

There are potentially a number of different factors influencing the low take-up of financial advice by the mass market. Whereas the label 'advice gap' is often used, we believe the factors here are more complex, and could actually be described as an education and awareness gap, and a savings gap. These gaps may apply individually or collectively to consumers at different stages of life, depending on a wide range of different factors. The key issue is around encouraging people to save more often and to understand the responsibilities and implications placed upon them.

As Europe Economics has identified in its report for the FCA on the post-RDR impact, the individuals falling into the advice gap can be placed into three groups:

- **The Unserved (the 'economic gap'):** those with financial assets to invest who are engaged with the market, and willing to pay fees for regulated advisers, but unable to find an adviser willing to serve them. The unserved may be regarded as individuals who are direct victims of the demand-led problems described in our response to Q.13 above. Although they have the assets and willingness to take up advice, no financial advisers are available for them.

According to a Towers Watson report, an advice gap does not exist among the unserved because the industry has enough active financial advisers to cover consumer demand. Based on numbers quoted in the report, there are approximately 30,000 advisers while the total number of consumers would amount to a need of about 25,000 advisers. However, the post-RDR environment has witnessed advisers increasing the minimum threshold of investable assets in a bid to target wealthier individuals and improve their business model. Although there may be enough advisers to serve any consumer with assets (and the willingness to pay the true cost of financial advice), the increased difficulty among those with less investible assets could lead to a consumer perception that they are left unserved.

- **The Unengaged (the 'education gap'):** those with financial assets to invest, but not engaged in the investment markets. The unengaged can be regarded as individuals who have fallen within an education gap. Inertia means that the individuals within this group do not invest and this is most likely to be overcome through education in the importance of investment and the different available channels for advice.

There is evidence, supported by the FCA Practitioner Panel, that the exit by many bank-based advisers following the implementation of the RDR meant there were less mid-market advisers that provided mass market access to advice. For this reason, the number of investors with £50,000–£100,000 has declined. There is certainly an opportunity here to develop propositions which this segment of the market desires.

- **The Unwilling (the 'confidence and trust gap'):** those with financial assets to invest and who are engaged with the market, but regard the fees of full regulated advice as too expensive or too high for the quality of service that they expect. Individuals such as these either pay for a cheaper alternative or prefer self-directed investments. The unwilling can be regarded as individuals who have fallen within the confidence and trust gap.

Adviser remuneration issues: a GfK survey showed that 34% (340,000 clients) of active investors who have taken advice from an independent financial adviser in the past five years have said they would "never consider paid-for advice". This marks a decrease of confidence among investors in the advice regime. Since the costs for financial advice have become more transparent following the RDR, consumers have decided not to take full regulated advice but instead to find cheaper alternatives or go directly to the product provider. Gross sales of financial products via financial advisers, wealth managers, and stockbrokers have declined from 50% of total sales in Q1 of 2010 to 36% in Q2 of 2014. In contrast, the gross value of direct sales increased from 35% in Q1 of 2010 to 55% in Q2 2014. This trend suggests that, as more investors have lost confidence in financial advisers, they have sought self-directed investment as an alternative that can provide better outcomes for its cost.

Separate research by Citizens Advice in October 2015, in addition to research conducted by the Financial Services Consumer Panel in March 2012, suggests that there may be at least five gaps in the advice market. They are classified as follows:

- **The Affordable Advice Gap:** this gap affects consumers who are willing to pay for advice but not at current prices.
- **The Free Advice Gap:** this gap affects people who want advice but are unable to pay for it.
- **The Awareness and Referral Gap:** this gap affects people who are not aware that advice exists, or where to get that advice.
- **The Preventative Advice Gap:** consumers affected are those who would benefit from having money advice as a preventative measure. It is the result of the failure of public financial guidance to respond to the challenges that people face during phases for their lives.
- **The Engagement / Persuasion Gap:** this gap affects people who need to be actively engaged and persuaded that getting money advice is a good use of their time and that there are experts who can better assist them with handling their money.

The analysis of the different groups does not explain 'what' the solutions should be. The three groups do not neatly fall into their own respective demographic segment, but instead pervade across a number of segments. The difficulty with resolving the advice gap is that each demographic segment has its own particular needs and responds to distribution channels differently. It is for this reason that there isn't a 'one size fits all' solution.

We have also done our own research on this subject, with the last survey in 2014, which is consistent with these findings. This suggests that adviser charging is not the main deterrent for people with the money to invest, but rather:

- Inertia;
- Apathy and lack of confidence in the adviser market, probably fuelled by media coverage of the mis-selling scandals; and
- Lack of understanding of not just their own knowledge but also of their limitations, and those of their so-called 'trusted' advice substitutes such as friends/family and the internet.

Q18. To what extent does a lack of demand for advice reflect an advice gap?

The above analysis of the different groups that constitute the advice gap would help address 'how' the scenarios should operate to resolve the advice gap. To reduce the unserved, the existing adequate supply of financial advisers should be maintained and supplemented with alternative mechanisms to cater for the needs of different consumers. This should be coupled with increased education, awareness and improvement of consumer perception. To reduce the unengaged, more education should be openly accessible to the public and initiatives should focus on spreading awareness of the different available channels to acquire financial advice. To reduce the unwilling to pay, initiatives should focus on reinforcing consumer confidence and trust in the current advice regime and reassuring the market that the advice would give a pay-off that is worth the fees charged.

Q19. Where do you consider there to be advice gaps?

There needs to be an intermediate provision between public financial guidance and full financial advice. There is currently very limited provision to help consumers with specific aspects of their finances, such as what decumulation option to proceed with. There is no middle ground between public financial guidance that cannot make specific product or service recommendations, and regulated financial advice that must investigate all aspects of the customer's circumstances.

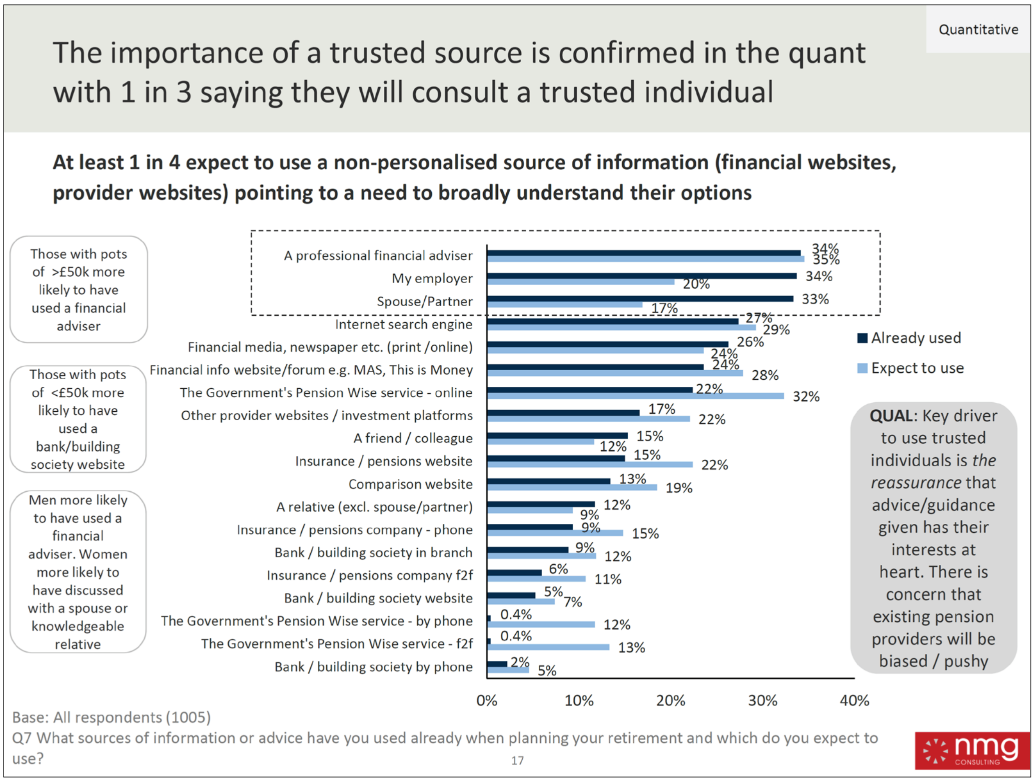
Q20. Do you have any evidence to support the existence of these gaps?

Our research suggests that significant demand-led factors have an impact upon consumers' approach to advice: inertia, over-confidence in their own abilities/those of their friends/family, lack of trust in the sector, a belief that they do not have enough savings to warrant advice.

Research we carried out in 2011-2014 indicates a significant unmet demand by consumers who tend to self-advise or use other sources such as friends and family. We found that of those who have not sought professional financial advice:

- 38% do not have the money to invest, almost the same as the 35% who said this in 2012.
- 4% took the new option that they do not take investment decisions in their household.
- 24% said they “would rather self-advise using other sources of information instead of professional financial advice”. We deliberately combined the 2012 choices “don’t need help investing, I do it myself”, “never trusted financial advisers” and “rather use other sources of advice/information” into a single “self advise using other sources of information” because they are essentially the same choice, and it allows for a more robust data set. Overall it was 10% less than last year.
- 16% thought they could not afford a financial adviser, and this was consistent across years.
- Note: as with the 2013 survey, we filtered out those who answered that they do not have funds, or do not take investment decisions. They were not asked subsequent questions about awareness, willingness to take advice, trust and confidence, etc.
- Gender and age factors: self-advice: men are more confident in self-advising than women, though are not necessarily more competent: 30% of men said they would rather do this, whereas only 17% of women responded this way. 16% of aged 25-34, compared to 45% aged 65+. “Never thought about receiving advice”: younger adults were more likely to say this: 25% compared to only 9% aged 65+.

Our more recent research, into the pension freedoms, reveals a similar propensity towards finding information from a range of sources, with the media and financial information websites figuring strongly.



Slide from CII 2015 pension freedoms research

Q21. Which advice gaps are most important for the Review to address?

See our response to Q1.

Q22. Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Yes, we concur that these are the areas where the public’s interests are best served. However, we also think this scope should be extended to protection insurance and equity release mortgages.

Q23. Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

It is not for the CII to comment on these thresholds. However, we do think there is a danger of focusing on 'wealth' groups and neglecting the behaviour of certain specific groups. The FCA's segmentation analysis was quite sophisticated in that it moved beyond consumer inertia thinking and understood that certain types of consumers adopt certain approaches based on their interests and specific circumstances.

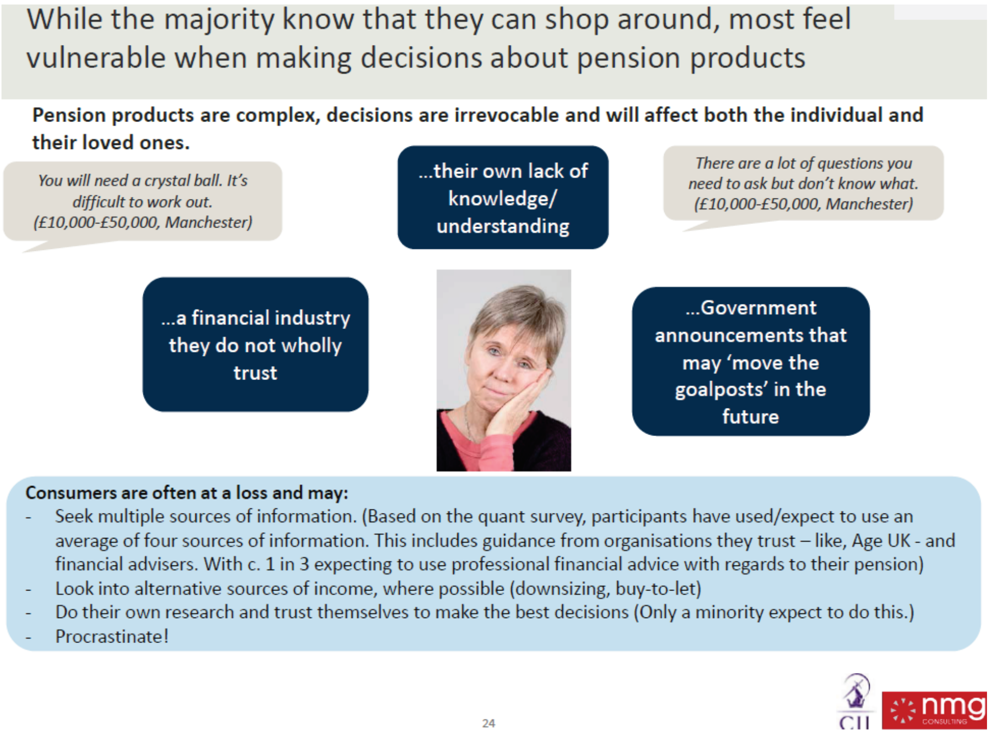
What options are there to close the advice gap?

Q24. Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

The current regulatory framework is appropriate for full financial advice on retail investment products following the Retail Distribution Review. We do not believe these should be amended. However, provisions should be created for additional, simpler advice models that would meet the needs of all types of consumers, while at the same time meeting minimum standards of training and competence. As an appendix to this consultation response, we have developed some proposals suited to possible new models.

Q26. What can be learned from previous initiatives to improve consumer engagement with financial services?

There is strong historical evidence suggesting that much of consumer inertia or limited action is down to either a lack of information or mistrust, or both. In our research into the pension freedoms in 2014, we found a considerable degree of confusion and anxiety about what consumers could do next.



Q29. To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice?

While it is not our position to comment on how safe harbour could or could not work in practice, our view is that any solution must have the consumer's best interests at its heart, and be underpinned by standards, training, accreditation and revalidation. The attached report by EY suggests how this could be applied.

Q31. What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Such is the current uncertainty within the market place, with regards to liability and the potential for future recourse, that some parties are reticent about offering simple solutions to those with simple needs. This is due to a belief that the modest fees that can realistically be charged do not outweigh the potential future costs, driven through recourse. There is considerable scope for reform here, and the attached EY report sets out how safeguards such as STAR could be put in place to support consumer protection.

Q36. Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

While we cannot comment on the ability of firms to give automated advice, or how to deliver this in an economic manner, we believe that STAR should be applied to ensure the best outcome.

Q37. What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

One barrier could be consumer concerns or even scepticism towards technology-led solutions. We think STAR could be applied to this and the attached report details how this could look.

Q38. What do you consider to be the main consumer considerations relating to automated advice?

We recognise a number of risks arising from financial technology solutions, which must all be addressed:

- **The service has to be clearly understood:** by the customer and not prone to any misinterpretations. Therefore the service has to be directed at the right type of customer.
- **Data security:** the details about the customer's financial circumstances and subject to data protection law.
- **Robustness of the algorithms underpinning the technology:** the recommendations given must be financially sound and be in the customer's best interests. Whatever the level of human intervention that the technology entails, there has to be an element of judgment involved in recommending specific courses of action to the customer. Whether the algorithms are able to make specific recommendation to specific customers, or whether they use comparison techniques based on similar customers, the principles behind them must be sound from a financial perspective.
- **Liability of recommendations given:** how can it be ensured that the technology provides the correct advice, and who takes responsibility for any liability? Is it the software provider of any solution, the firm offering the product, or is it the person who writes the algorithm?
- **Transparency of pricing and information:** customers need to be confident that the prices of products and services transacted over this channel are competitive with those purchased through other means. Costs, prices and charges must be clearly transparent and itemised so as to be comparable across channels. The customer should clearly see that the product's 'robo-advice price' is similar to the 'non-advised price', and if not, why not.

In order for this scenario to work, there will need to be a number of key principles established;

- relevant and personalised: any advice must take into account the consumer's specific personal circumstances
- clearly defined scope (e.g. consideration of debt, long-term care, etc.) and purpose (e.g. helping customers understand what the implications of their decisions might be)
- roles and responsibilities are clearly defined and understood
- in a Guided advice model, the customer accepts responsibility regarding the suitability of their choices.

We believe that automated advice could be one way to allow consumers to receive some sort of assistance. However, those providing such a service must meet STAR principles, and we have analysed how this could be delivered.

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