Response from threesixty Services LLP to Financial Advice Market Review – call for input

Background

We provide consultancy services to 740 directly authorised firms representing in excess of 7,000 advisers. These are made up primarily of personal investment firms that offer financial planning and investment advice to retail clients with the remainder offering discretionary management services, again mainly to retail clients.

We provide ongoing guidance and support to all client firms, which includes keeping them up to date on regulatory developments which are likely to be of relevance to their business.

Responses to questions posed in the Call for Input

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?

Vulnerable clients may face barriers in receiving financial advice, depending on the type of vulnerability applying to the individual client. We believe that due to the complex nature of certain types of vulnerability, many of which interact with one another, it is difficult to prescribe one solution to resolve all issues. We have prioritised awareness and education amongst advisers to encourage them to think and adapt to different circumstances. We believe that there is a need to think very broadly about the problems faced and the different solutions required. For example:

1. Research shows that there is a clear link between poverty, unemployment, mental health, and numeracy/literacy problems. These people typically have issues around debt and legal problems, and will have difficulty getting access to and understanding information online, and potentially travelling distances to office locations. The current trend, for example with Citizens Advice, to put more information online and close down physical offices in deprived areas, is not the right solution for this demographic who need face-to-face help where possible.
2. Auto-enrolment, a cap on pension charges, and an increase in ISA allowances means it's never been simpler to decide which pension or ISA to invest in, leaving fund selection as the most significant choice to be made. The emergence of online tools to help with this will improve matters considerably, and should work as it is targeted at those with good levels of IT literacy and access to the internet. Advice here can be obtained sensibly online or by telephone, in addition to face-to-face. Vulnerability is easier to work with here.
3. Consumers in older age are faced with an increased level of risk by virtue of the new pension freedoms and choice rules which introduce an added degree of choice and responsibility for managing money in retirement, and the opportunity for more scams. We strongly advocate the banning of all cold calls for financial products (not just mortgages), and for the extension of the financial marketing regulations to anything described as an 'investment'. In addition we believe that the predicted increase in consumers requiring advice who will have dementia at some point is a concern. We are encouraged to see some efficiencies have been gained in applying for Powers of Attorney (POA) online, cutting out some excessive costs, and we have seen evidence that legal fees for this have dropped considerably since then, but it appears that this is an issue of such significance that more could be done. Of additional concern is the changes to POA which mean that professionals (financial advisers, solicitors, accountants) may need to work more collaboratively, as this doesn't always happen. Typically only wealthy clients will have retained access to these professionals, we need to consider the implications on less wealthy consumers if the predicted numbers are unable to manage their money, in an environment where they are more responsible for actively managing it (i.e. fewer use annuities). We also believe it is important to consider the implications around family

members and/or Attorneys increasingly becoming involved in financial decisions and the potential for them to reverse previous financial decisions made by the donor.

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

We believe the current definitions of advice – independent and restricted - do not adequately convey the information of importance to the consumer, whilst acknowledging that no solution is perfect. Our belief is that the conflicts of interest inherent in the industry, where 'advice' of any nature is given on a seemingly impartial basis, but the adviser (in the broadest sense of the word) or adviser's business is rewarded, remunerated or incentivised by the recommendation of a product or service, is the most important information to convey to a consumer. Consumer understanding of independence is more closely linked to the expectation that advice will be impartial and unbiased, not whether the adviser is qualified to advise on a VCT or ETF, which can be dealt with more easily as a separate part of status disclosure. The growth of vertically integrated business models, where an adviser may recommend a product or fund which the business or group of businesses generate revenue from, should be clearly disclosed. At present a number of vertically integrated firms do not disclose this fully and some describe themselves as independent. We propose a return to regulatory status disclosure with an essence closer to original definitions of tied, multi-tied and independent but different and clearer language. Specifically we recommend greater disclosure of the links between these groups of businesses where they extract revenue.

We believe that there should continue to be an 'information and education' function delivered by the likes of Citizens Advice, TPAS etc. which is outside the definition of regulated advice. We believe that this should be extended to firms wishing to offer an 'analysis' service where a factual statement or valuation of a client's circumstances can be provided alongside a comparison with another (reasonable for comparison purposes) product, market average or benchmark to allow consumers to understand better their current position and decide whether to take further advice, switch or simply contribute more to their existing product. This would require more information than most non-advised companies are currently obtaining, and should not be considered regulated advice which would keep costs low, but would lead to better outcomes as consumers would be better equipped when reacting to direct marketing and switch offers.

We believe that increasingly people will obtain 'advice' from the financial media, and do not see a value in trying to distinguish regulated advice from this informal type of advice. We believe the media provide an important function and do not wish to curtail opinion, however there is the likelihood that the financial press will strike more commercial deals to generate revenue from product and fund sales in future. Where this is the case this should be considered in the same way as the definitions of advice above.

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

As stated in Q1, generally, advice represents less value to savers where it is paid for on an ongoing basis because of the drag on performance in a low return environment. Given the similarities between product charges, one off transactional advice should be adequate for those long term savers investing within the annual pension and ISA allowances. Investment returns are relatively low and paying an adviser 0.75%-1% (typical fees) ongoing makes less financial sense where there are no complex needs and few changes in circumstances from year to year. We agree with the comments around advice being required and being valuable for more complex needs, and where there is a higher risk/consequence of getting it wrong, for example, at retirement.

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

There is very little to assist any consumer in comparing one adviser to another, and the online databases of advisers simply list an adviser as an expert in every field they select. No validation is undertaken of any of these databases beyond very basic checks. Also fee charges (e.g. hourly charges) do not correlate to competence, as the market for advisers is too small, with little competition and few advisers charge by the hour.

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

We would add to the box that the 'intensity' of advice e.g. frequency and length of meetings, complexity of advice and irreversibility of decisions made are now located at the point of retirement (acknowledging this may be phased) and this is where regular meetings (annual) are required.

Where an adviser is retained well in advance of retirement date there is less need for an annual face-to-face meeting but these often take place to account manage the client and justify cost i.e. more for the advisers benefit than addressing any direct financial need.

The box doesn't address estate planning i.e. after death and arguably long term care could be a separate link beyond normal income in retirement.

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

These are very focused on pre-retirement categories, there needs to be as much focus at and in retirement and in old age e.g. those in care.

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

Advice approaching, and at, retirement is the main area of risk in our opinion, and the main part of the market advisers provide advice to, which shows demand. Auto-enrolment and similar top down initiatives focussing on low cost, low risk products rather than advice should be the priority for addressing financial needs 5 years plus out from retirement.

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

Research by Macquarie Bank in Australia showed that the tipping point for advice is when someone's level of capital for investment hit the same amount as their annual salary. We believe this is a good rule of thumb as UK advisers have validated this anecdotally.

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

In addition we believe that there is a tacit assumption that advisers do not want to deal with them as they are not sufficiently wealthy. As a result they discount themselves from advice, regardless of its cost (which isn't understood). This is borne out in consumer research and corroborated by advisers who are incentivised by dealing with wealthier clients, especially given they typically charge a percentage of that wealth for their services.

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

As in Q9 we believe an increasing number of consumers are disqualifying themselves from advice on the assumption that it is for the very wealthy, and at the same time have more information available to them via the internet. Non advised businesses typically have significant marketing spend and expertise, advisory businesses have virtually none, so the messages reaching consumers will almost certainly come from direct, non-advised businesses.

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 per Q11 – greater marketing from non-advised businesses, less desire from advisers to attract new business given most work to an average of 150 clients per adviser now with the client paying an ongoing fee. There is limited appetite for new business from the adviser market post RDR.

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

Financial services technology remains extremely poor compared to other sectors, and whilst advances appear to be being made now there is still too much 'friction' (paperwork, delays, requests for cheques etc.) when undertaking simple tasks like opening an ISA. Transparency has achieved little as it has not made products or services more comparable.

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

The scale of a business is inversely proportionate to their costs. The larger an advisory business, the greater the regulatory scrutiny, which means more staff, fines, etc. The average advisory firm is just over 2 advisers per firm. It is possible that a firm this size will never have a regulatory visit, beyond telephone interviews on thematic issues. Larger firms are visited every three years and s166 reviews have become regarded as a norm. As a result it is impossible to 'scale up' and the only firms who do are those who are seeking to gain profits from another part of the value chain e.g. fund management. As a result it is unlikely that any firm will achieve significant scale with the focus on the delivery of advice for its own sake.

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 do not believe that cross-subsidising lower value clients by overcharging wealthier clients is ethical or sustainable, although we acknowledge this still occurs as most advisers do not monitor individual client profitability closely. Large firms who are active acquirers generate much of their profits from fund management, and whilst the rules require them to demonstrate a profit on the advisory business it is possible to treat some of those costs post acquisition as a deal and acquisition cost for balance sheet purposes, and they will use fund management profits to create the capital for further acquisitions. How this works and if this form of cross subsidy should be stopped or encouraged is worth more consideration as it is pivotal to the pricing of advice, and the decision whether to enter the advice market, for providers and institutions.

Within our own client bank of firms (around 740 firms and 7000 advisers), revenues from insurance and mortgage products i.e. outside pensions and investments constitutes under 5% of total revenue.

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

We have reviewed a number of studies on the cost of advice. The cost for ongoing advice is around £1500 for a small firm undertaking one meeting per annum with minimal investment work. The initial cost for advice is more variable but ranges from £1500 to £2500 (for typical firms). A number of firms still waive this initial charge to charge more for ongoing services. A client with a long time until retirement can be very profitable on a lower sum of money as they are relatively low maintenance and will pay a fee for a long time. Client's at retirement will cost more for a period but typically have greater wealth and propensity to pay. Our assumption is £150,000 under advice upwards is a good rule of thumb.

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

We would add two further points linked to the points already made:

Difficulty recruiting new staff – it is difficult for firms to find well qualified and skilled advisers, paraplanners and even administrators in a contracting market and they do not have the resources to train them adequately. In particular, very few firms based on our recent survey have the ability to take on inexperienced new entrants to the industry as advisers because of the costly supervisory requirements and the previous route to competence – training through a bank or life company salesforce – has all but closed. Most current advisers were initially trained by a life office or bank.

Difficulty borrowing capital to grow – those firms looking to acquire clients to grow the business are constrained by capital adequacy provisions which treat any money borrowed to make an acquisition as a debit on their balance sheet but not allow any goodwill purchased with it as a credit. This may be the right position but it favours large institutions with existing funds and stops smaller businesses from borrowing to grow.

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

We believe the priority is the savings gap, not the advice gap and proper design of products should reduce the need for advice. We are unsure if there is clear evidence that there is mass consumer demand for professional advice, in contrast to free advice, but we broadly agree with your definition.

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

We do not view a lack of demand as an advice gap. We view this as a consumer demand for a solution which does not require advice, or where advice is unrealistically priced e.g. free.

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

'Retired on a budget' and 'retired with resources looking to take an income in retirement'. Current advice models are challenging for both categories of wealth as a fee of 1% (for example) could constitute 25% of a person's total income which clearly doesn't work. There is a need to be able to safely obtain advice as a one off event, and also to accept that many advisers won't be around to continue to manage a client's money into old age.

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

Every piece of research show almost all advisers are charging ad valorem and ongoing for advice and charges average around 0.75% going up to over 1%. We know investment returns are low and safe withdrawal rates are around 4%. An annuity was in theory a one off advice event with no requirement for advice on the product ongoing, this is not the same for drawdown where ongoing reviews (and hence charges) are required. Advice is available here, it just doesn't work for many in a low return environment.

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

As in Q21. The main area of risk and concern at present is retirement for those requiring an income.

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 for accumulation but we believe some work should be done for income in retirement for those with higher levels of wealth, as the effect of charges and consequences of getting it wrong could be far higher with little time to correct it.

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?

Some more prescriptive governance around products would have a significant effect. For example, greater controls and consistency over what can be invested in within a SIPP.

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?

Previous initiatives e.g. stakeholder, placed too much responsibility for successful promotion and engagement in the hands of product and fund manufacturers who have diverse and conflicting interests when promoting their own products and cross-selling. Messaging and implementation needs to be controlled centrally.

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

We understand the Australian super funds successfully utilised trade unions representing professions to promote the solutions. They were trusted by professionals, had the ability to communicate with them and their contact went beyond their employers so moving jobs was not an issue. With auto-enrolment successfully in flight and fund selection the next key decision point for those in accumulation, a trade or professional body could play a role by promoting a default solution with educational materials which resonate with a particular sector.

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

Creating a 'default option' has worked well for auto-enrolment, this could be done for other areas where consumers need to 'opt out' rather than not make a decision. It would also force the industry to raise the bar when demonstrating its superior value to the default option.

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

There may be an increased desire from large firms to provide automated, algorithm based advice online at scale if FCA were to approve the process and offer some form of safe harbour.

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

As per Q29, this would focus on online algorithm based investment advice (or 'Robo Advice') for savers and investors.

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

It would not include any dilution of consumer protection, so if any protection is given to the firm then the FSCS would have to pick up the liability arising from any upheld complaint. The issue this brings is whether it is fair and reasonable for advisers to pay for this if FCA have approved the process.

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

None whatsoever, we do not believe it is a significant issue.

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?

None whatsoever, we do not believe it is a significant issue.

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

We believe it should remain as it is possible a valid claim could come in after 15 years, and there is no evidence to suggest it has been abused or causes any significant number of claims or burden on FSCS. Equally our advice from PI insurers is that it would have no effect on PI costs.

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

None whatsoever, we do not believe it is a significant issue.

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?

Examples currently relate to the selection of DFM run model portfolios based on risk profiling and basic questions on capacity for loss. We think this should be encouraged and if the cost of this continues to drop the risk of detriment is significantly outweighed by the positive impact on increased savings, especially for long term investors where volatility is less of an issue.

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

Investment in as much prescriptive guidance as possible on specific examples reviewed will create a tipping point where less reliance on regulatory advice will be required.

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

Cost and ease of transferring away (some solutions may require encashment and this is rarely disclosed). Too linear - failure to show other options and their risks, which the clients may feel are more suitable. Clarity of end result – some of the information is on screen but not always in the reports which are the only things saved. Consumers using it for shorter term investments – exit costs and volatility a higher risk.

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

Create greater comparability between advice firms and their charges, including the requirement to offer a one off advice fee (disclosing a fixed fee or stated hourly charge) rather than ongoing which would be optional. This will stimulate the need for new clients.

Ensure product, fund and advice fees are all disclosed from firm to firm in a standardised way, to allow them to be compared.

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?

Standardise literature and don't leave discretion in the hands of the industry. This will make them compete on price, performance and product features.

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

Narrow down range of product choices for advisers which can be controlled through products e.g. accepted investment list for SIPP.

Put resources in place to monitor advice of some smaller firms as well, in return for a reform of FCSC funding.

Introduction

1.0 I was very pleased to see the call for input as part of the "FAMR". My original intention
was to just read it for interest as I used to work directly in a part of the financial advice arena. However, having read it, I feel a response may be of use.
To put things into context: My experience covers two main types of Firms providing advice: "IFA's and "Brokers". The public are blissfully unaware that the rules that exist post the retail distribution review (RDR) have really polarized these two types of firm types in regard to:

a) How they operate and
b) The Services and/or Products they provide to clients

1.1 The two firm types arose over the last 20 years from different historical backgrounds.
There were financial advisors ("IFA's" and "tied agents") that came from more of an overall financial planning and product base and then there were financial Investment Advisors that concentrated purely on services for investing and came from a stockbroking base ("Brokers" or to be precise "private client stockbrokers"). This is important because this background has heavily influenced how these two firm types operate today, what rules they have to follow and why this area of Finance has become too complex.
1.2 More recently (last 10 years), the broker community has evolved and now encompasses
Execution-only firms, Private Banks and Investment firms (that typically offer all the services of execution, advice and discretionary management and may well concentrate on one or more of these services). The broad term covering these three communities is "Wealth Management Firms" albeit that some larger players from the IFA/financial planning route have begun to join this grouping.
1.3 More recently still (last 5 years) there have been acquisitions by Wealth firms of "IFA's" which have created hybrids that cover both financial planning and "full" broking/investment services.
1.4 I mention all the above because it illustrates major differences in the total community defined as financial advisors and is such that the chance of the public at large understanding this landscape is very slim.

2.0 <u>The fallacy of independent advice.</u>

2.1 Prior to RDR we had advice terms such as independent and tied. Independent meant the usual dictionary definition i.e. the advisors advice was not "tied" to a particular firms product set and the common term to explain this was "whole of market". Tied meant what it said i.e. the advisor was tied to one or more product providers. Although RDR's main aim was to remove trail commission, it also changed the above definitions such that the public (and probably the press, parliament etc etc) have no idea that "independent " nowadays relates to a specific product set called Retail Investment Products (RIP's) see attached Appendix 1.
2.2 In part this RIP list relates to the definition given in FAMR pg 39 for Independent Advice but that definition is lightweight.
2.3 If a firm covers <u>all</u> the products in the RIP list then it is allowed to class itself or should I say its advisers advice, as independent. Otherwise it is referred to as giving restricted

advice and must ensure the "restricted" terminology is emphasised up front to clients. Given that most clients have no idea how the definitions were changed by RDR (and therefore still believe "independent" means what the dictionary says), it is not a great start to have to inform clients that the advisor is restricted (before they even give any advice!)

2.4 To link the above to the earlier history, "brokers" (or wealth managers) are rarely operating with independent advice (as per the FCA post RDR definition) not because they are not independent (as per the dictionary) but simply because their history has dictated that they are not generally covering Life and Pensions Products (which are both part of the RIP product list).

2.5 IFA's on the other hand comprise both independent and restricted firms based on the RIP products their firm sells and primarily only offer packaged answers ("funds") to clients for any investment solutions. As it happens therefore a historical route IFA firm could be independent (according to the RDR definition) but never sell, or even have a regulatory requirement to mention a direct equity or bond for the clients investment needs. This is because direct equities and bonds are not part of the RIP product list.

2.6 Overall, the public would have no real idea whether they should use an independent or a restricted firm for advice based on all the above.

2.7 The European rule-making process has often been blamed for making our financial regulation landscape even more complex. However, in regards to the above introductory remarks, MiFiD 11 will still allow tied advisors to receive trail commission and "independence" remains as we used to define it. So it seems to be within the UK's grasp to revisit most of these complexities because the UK's front-running of EU legislation has not been copied (from RDR to MiFiD 11).

3.0. Differences in Advisory Firms

3.1 One final aspect in regard to setting the scene relates to other distinct differences between "IFA's" and "Brokers". Their current communities of firms (which is around 15,000 for IFA's but only may be 350 for Brokers) could be defined slightly differently but irrespective of what they are called, these differences also impact how the communities are managed, tracked, understood etc by Regulators.

3.2 Here are some examples of differences:

Firms arising from IFA route	Firms from "Broking"
MiFiDI exempt	Fully MiFiDI compliant
Minimal capital requirements (defined by FCA rules)	Capital as per CRD
No daily requirement to report products bought/sold	Mandatory daily transaction reporting
FCA rule to hold professional indemnity insurance	Since MiFiDI no requirement to hold professional indemnity insurance
Cover Life Insurance and Pensions work, and possibly "full" Financial planning	Transactions arise from investment services and encompass buying/selling investments (equities, bonds, Inv Tsts, UCITS, ETF's etc some structured products) in line with client needs, or via Ex/O services which facilitate clients making their own

investment decisions.

Must follow all “market” rules

With regards to the compensation scheme (FSCS), both lumped together in the advisory class for all their advice offerings.

4. Answers to some of the questions raised in FAMR

Q1. Consumers in vulnerable circumstances created by aspects such as illness, inability to communicate etc are definitely at as disadvantage. It is hoped that if they were to have financial planning needs or just need investment expertise, they have someone who can assist them. Where the consumer has had a relationship with a firm and then becomes vulnerable (perhaps due to an accident or age-related illness) there is a responsibility on their firm to treat them differently and appropriately. FCA have stressed this aspect of vulnerability but a) firms need to be reminded of it and b) there should perhaps be some form of helpline set up to which vulnerable client situations can be reported.

Q2. For the two communities of firms I have referred to in sections 1, 2 and 3 above we must re-visit the various product and services offerings and for the benefit of consumers simplify the landscape and get back to words like independent in regards to advice services meaning what everyone thinks it means.

Q3. There is no doubt the marketplace at large “lost” a number of clients/potential clients when a) RDR banned trail for all advisory services and b) forced a number of advisors to stop practising because grandfathering of past professional capabilities was outlawed.

Also, not only was some demand lost but more importantly there are many consumers who do not appreciate the need for advice. If more was done to broadcast this need, (specifically for example in regard to the needs of personal pension provision) there may well not be enough firms across the country to satisfy this need.

Many say it is too late (or do not wish to consider) the fact that if consumers see a specific cost for advice since they are unable in many cases to judge the value of that advice, they are then reluctant to pay for it.

So could we re-visit our total ban on “trail” and maybe line up MiFiD11 on this? If not, we must find better ways to “cover” the cost of advice <u>with full transparency</u> as part of the product/service offerings.

I believe also there may be a link here with the cost of VAT in relation to advice services.

Fees are generally variable but commissions at a transaction level are not (this being brokerage commission or product commission as opposed to “trail” commission). So some fees appear even more expensive due to an additional 20% VAT levy. Perhaps this needs re-visiting?

Q4. My only comment on this relates to the use of various words. I presume “advice” in the question covers terms such as generic advice or just factual information. Also in para 3 line 9 of the section prior to Q4 “personal recommendation” is mentioned. I wonder if this is just a recommendation which is personal or is it the defined regulatory term?

So for this question overall, due to the complex world of both UK regulation and on top of that EU regulation, instead of just assisting consumers in gaining advice on financial matters, we can end up having to be extremely specific as to what aspects of advice we are referring to in particular situations.

Much has also been made recently regarding simple or simpler (and perhaps focused) advice. This is a positive move forward, particularly by FCA, but sadly another reason why there is a lack of advice offerings relates to the regulator a few years ago stating that all advice had to carry the same regulatory burden/overhead, so firms decided not to venture into offering "reduced" solutions.

Also, there has been confusion regarding the boundary between guidance and advice. So it would help consumers if there was a straightforward presentation of the varying levels of information provision and associated responsibilities from basic facts through to full blown managed advisory status. Most consumers reading the definitions on page 39 would be lost (and simple advice and guidance are not even there).

Q5. Firstly, I was not sure what "potential risks" were really set out in the box on pg 10. If, for example "saving" for short term needs encompasses the use of credit cards (since this is how many people effectively use them) then this is not always a less complex situation. Many consumers in the UK have been brought up believing that having goods now and paying later in effect classes as saving because saving (in its truest sense), i.e.waiting for the goods, and then paying when you have most of the money is just not attractive.

Q6, Q7.

As far as I know, this model has never been used to any great extent by the advice firms/industry to explore consumers' needs therefore it is difficult to comment on its usefulness and appropriateness.

There are over 4M consumers that use "Brokers (Compeer statistics)". There must be a similar statistic for "IFA" usage (but I am not aware of the actual number). Perhaps these could then be matched across the 10 categories on pg 11 before one decides how useful the model may be.

Inherited "wealth" occurs more these days in line with home ownership and often demands financial help (or even full blown advice). This needs to be covered in conjunction with the model.

Q8. If a consumer owns a house is it included in the lower table on pg 12?

Inherited wealth, as stated above, and then the link to home ownership needs considering.

Low interest rates have definitely impacted consumer behaviours in regards to the return(s) they can get from money. "Bank" returns are psychologically unattractive (low!) so consumers seek higher returns from "investment" opportunities often despite the relativity of their financial demands to their saving values. This is understandable but again illustrates the need for awareness education as opposed to basic financial/mathematical education.
Government can do more in "talking" to consumers via the mediums of television and newspapers without referring to it as advertising but helping to illustrate both risks and planning for their long-term futures. The compensation scheme FSCS advertised their services on TV but did this money spend really bring results? Did it make a sufficient number of consumers more aware?

Put simply: if a consumer's demands exceed their income then they will have issues to address. If future income flows are not going to be the saviour that covers their "now" needs then those issues may be severe. Balancing "spend for living" against spend which includes some savings for the future is not something the majority of UK consumers either think about or plan for when young. If we genuinely want to change this it needs an approach which has clearly never produced positive outcomes previously across the UK in getting a larger percentage of the majority to re-think their lifetime financial situations.

Q9. The percentages near the end of the "lack of knowledge" bullet on pg 13 I believe emphasises what I said at the close of my reply to Q 8.

Regulation in its broadest sense has not helped these percentages. My introduction alone illustrates how complex the landscape is and I only covered a specific part of it in relation to IFA's and Brokers.

Marketing and Advertising of financial services are also highly regulated activities which are no doubt designed to try and stop any firms taking advantage of a set of consumers but often border on pedantic aspects which then kill off any useful educational message. So the industry needs to re-think how to educate consumers on planning for their future financial needs rather than always linking this specifically to a financial education issue from early years of schooling. There may still be an education issue but we must also begin to tackle awareness of lifetime financial planning.

At a high level we could blame RDR (loss of trail, loss of advisors, far too complex probably due to 6 years in the making etc etc) for affecting the seeking of advice. However, what we must try to avoid in the future is generic mantras which allow us as a society to drive change which has severe unintended consequences.

You cannot see everything in regards to downsides but whereas the mantra of "it cannot be right that financial advisors receive income from trail" may have been "true", stopping it in the way we did after so long in the making has certainly introduced issues.

We also need courage if we are to question some of our practices or even consider reversing them. One last aspect to mention here is that "we" currently do not have control over what legislation is placed on/around financial advice. The EU's more recent use of Regulations (verses Directives) means that we end up as just one of 28 countries "fighting" our corner. The key point here is that our advice landscape is very specific in its history and day to day operation and links to the "lack of savings" culture across the UK. This is probably only replicated in Ireland as far as EU "neighbours" are concerned. In fact large parts of Europe have a savings culture but more importantly a bank based model of advisory services. One set of rules is never likely to suit these fundamental differences. <u>The single market has merit for cross-border institutional financial activity but must be questioned at the level of each countries retail financial requirements and specifically consumer advice needs.</u>

Q 10/11/12. Many of the comments in my introduction relate to these questions.

A few additional points: There is certainly more un-advised ("execution only") activity in the broker community (Compeer statistics show this is not just for lower wealthy individuals) but I am not aware of a similar shift in the "IFA" world?

However, I have noticed a number of IFA's websites which contain words such as "we can obtain payment of fees via the product provider" and "fees for advice are VAT free". Whether these are illustrative of a move towards "commission" being paid without direct cost i.e. trail commissions via another name, I am not sure? Also, I have no doubt the IFA's that operate this way do it with full transparency but it just illustrates how consumers are likely to use advice when they believe they are not directly paying for it (via a specific additional sum of money).

With regard to new emerging technology, there have, in the last five years, been regulatory barriers (some real, some perceived) which have held back developments. FCA have tried to overcome this. However, where firms decide in the interests of time and money to create front-ends to add to their "old" systems, some have experienced technical issues with these. Also, completely brand new technological solutions must still be sound from a regulatory standpoint so cannot necessarily be produced quickly or rushed. Nutmeg have trail-blazed discretionary services for “investors” with smaller sums of money but may well find current rules regarding on-going suitability checks to be difficult to comply with at each individual client level. For the sake of the investors let’s hope this is not the case.

There are also rules which do not appear to help the move to up-to-date paperless solutions. Examples are:

- The FCA rule requiring a suitability “report” for packaged products
- The need to “check” that reports and valuations (of portfolios) get read
- The up-coming law (part of MiFiR) which forces quarterly valuations. Whereas this may seem good for consumers, it certainly falls into the mantra category, namely “How can one argue against such transparency” But the key point in all this and many other such situations is to consider different client views. If a client is “happy” with two valuation reports per year why can a law from the European parliament which has not been voted on in the UK parliament, have the power to force four? This is not a Brexit point: merely a reasonable question of the facts!

With so many rules to follow when supplying advice services, it is not uncommon for a firm to find that they may not be fully up-to-date on every rule. Separately, and positively, FCA have introduced a concept “allowing” firms to try new approaches during an initial period in which they are unlikely to be censured if they have something not quite right. Could the FCA perhaps extend this and consider being a little more lenient on firms that may have missed a particular rule if there is no client detriment? Most advice firms are in business to do well for their clients and are not trying intentionally to break any of the many thousands of rules that may apply to their firm.

I have not up to now referred in detail to the compensation scheme FSCS and how this may impact firms advice offerings. This scheme needs reviewing and I refer to this later.

Q13. Important to point out that if “retail investment products” pg 15 last paragraph is the same as FCA’s “Retail Investment Products” it by no means covers all investment types used by consumers in relation to advisory services.

Capital and Insurance requirements on firms (as outlined in 3.2) are not the same.

Compensation via FSCS is an unknown cost which can impact a firms resources with a 30-day demand for payment. Trying to plan and then operate a business with such an unknown cost looming can be daunting. In fact, if a potential new firm told FCA they could have a cost in the future which they must try to pay within 30 days of knowing what the cost is, FCA would probably demand more information before allowing them to operate. However, that is exactly the current case with regards to the FSCS scheme.

Q14. At the very least Product Providers should be contributing to the advice category in the FSCS compensation scheme.

Today’s scheme calculates firms contributions via “eligible income” from advice activities. So if a Product Provider produces products but these are largely “sold” via separate advisory firms, only the advisor firms contribute to FSCS??

Perhaps the Asset Management Community should be paying some form of Product Levy (may be similar to listing costs on equities?). Also there could be consideration of a small charge as and when Products (particularly for funds) are bought and sold. (Along the lines of the PTM Levy on securities). Monies received from both of the above could help fund educational activities, compensation etc.

Q15. This depends greatly on the nature of the advice services and each firms model used to provide such services. Compeer's statistics may be able to provide useful data on this for the "Broker" community of wealth managers.

Q16. I have referred previously to I.T. changes, particularly in our heavily rule-based financial marketplace, acting as a barrier (reply to 10/11/12). I have also already referred (Q13 reply) to the FSCS "threats" of uncapped fines on 30 days payment terms. (I know that the payments can be spread (introduced primarily for IFA's) but this has not stopped firms finding such monetary demands damaging)

Additionally, the Government action of taking monies from "naughty" Bank misdemeanours to use for worthy causes may be laudable but sadly impacted all financial firms. This money used to be used by the Regulator to offset the next years FCA fees and was not an insignificant percentage for advisory firms. No firm felt able to question the Governments initial action of "taking bank fines" for "Help for Heroes".

We have seen (in relation to the Keydata case) the stark issue of product providers not contributing to compensation pots based on the "eligible income" calculation. Also the separate issue of not using "redress" prior to hitting firms with fines so that firms had to pay fines and then hope for a future credit if they were still in business.

Q17/18. My only comment here relates to line 1 on pg 19. This refers to "….advice that we want…." Many of us as consumers (of which I am one) are unaware of situations where advice would help. This I have stated earlier as not strictly a financial education issue but one of financial awareness. Pensions legislation with all its changes over the last say 10 years is a case in point.

If as consumers we were more aware, I do not know if there are enough firms to then satisfy all advice needs across the UK. But lets start pushing the awareness!

Q22. Yes

Q23. Very difficult! "Some money" is always very relative to circumstances. If the average pension pot in the UK is between £25K and £30K, is this "some money"?

From a pure investment standpoint, FCA rules on suitability have tended to create thresholds which although varying across firms (based on firms business models etc) are such that a minimum 100K is perhaps used as a "best" yardstick for a diversified portfolio. Then 50K – 100K may be catered for via product solutions. This leaves the market very thin for consumers with 0 to 50K.

As mentioned previously, inherited wealth (particularly from property) needs separate focus.

Q24. I have referred quite a lot to such things as: definitions (advice itself, independence), compensation, up-coming requirements for more valuations which totally ignore consumers views on the matter etc.

Q25. Yes, as a start, veto "Regulations" and only entertain "Directives" for Retail Financial affairs.

Those in the EU who want "more Europe" have gone overboard with such things e.g. MiFiD becoming MiFiD/MiFiR.

Q26. Take great care when "removing" advisors based on what looks like sound reasoning i.e. the perceived need to have specific exams without grandfathering.

Take greater care when banning anything. There are always likely to be unintended consequences (eg trail commission, which ironically happens to not be banned on discretionary services in the UK today?)

Never allow extended years before making changes, so introduce change in smaller chunks. (Six years or so for RDR when in fact total transparency of all "fees" could have been introduced initially, perhaps after one year, would have allowed the whole marketplace time to review the impacts).

Q27. Possibly, but as we see across the EU, be very wary if their consumers, practices, cultures to financial behaviour are different to ours in the UK.

Q28. Was not sure what the question was really driving at?

Q29/30/31. Unfortunately the first sentence on pg 27 is incorrect. Our compensation scheme can come and bite at any time with unlimited penalties against firms that have followed all rules and guidance. So FSCS must be reviewed and I believe at the very least that all product transactions should be reported (to FCA) and product providers should pay product levies.

I would love to see some safer harbours but will EU legislation allow safe harbours from a UK consumer standpoint?

Q32-34. Just to say be aware that not all firms providing advice have to have P.I. insurance (see 3.2).

Q35. Yes: FSCS to be revised!

Also, perhaps Government to only "take" Bank fines and not other firms fines which could reduce firms annual fees to FCA.

Q38. Regulation continues not to help but inconsistent internet speeds across the UK are also a barrier.

Q40. Try to get all advisory firms operating under largely similar rules.

Q41. Irrespective of the issues mentioned previously in regard to little or no grandfathering of the newer advice qualifications, I believe the current Qualifications with associated Annual Certificates (from approved bodies) make for a very solid and professional part of the financial community. We must not go backward on this.

So rather than continue to a) keep bashing banks and b) suggesting "no trust" in financial firms, stress that the advisory sections of finance are professional and highly regulated and try to get more young people to join this profession. Then we will probably have enough advisors when we all as consumers realize what we need advice on.

Dr Timothy May
(Consumer)

22nd December 2015

FAMR Secretariat
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
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Dear Sirs

TISA response to Financial Advice Market Review Call for Input

TISA is pleased to present a set of evidence-based recommendations for helping the mass market to manage their money better and deliver outcomes that meet their financial goals. The Financial Advice Market Review is a significant opportunity to permit and encourage financial services firms to greatly increase peoples' access to much needed financial help.

Our proposals have been developed with input from TISA member experts plus the TISA Savings and Investments Policy project ("TSIP"), an unprecedented pan industry group of 50 leading financial services and consumer groups dedicated to developing policy proposals that enhance financial security for low and middle income families. These recommendations build on earlier proposals published by TSIP in March 2015.

TISA's key recommendations are:-

- Increase people's financial capability across all age groups
- Clarify the difference between guidance and advice so that people are clear on the difference between guidance/help and advice/recommendation
- Define a Kitemarked guidance framework that can be adopted by financial services firms, Government backed organisations and the third sector
- Acknowledge housing as a savings option being adopted by people
- Permit human guidance support within the guidance framework
- Focus on outcomes
- Create a standard, portable fact find and financial plan
- Increase peoples' access to and demand for Kitemarked guidance

TISA, Dakota House, 25 Falcon Court, Preston Farm Business Park, STOCKTON-ON-TEES, TS18 3TX
Web: www.tisa.uk.com

We believe that these recommendations will complement financial advice and deliver a valuable service to the low and middle income households that most need help managing their money to build financial security and wellbeing.

Yours sincerely

David Dalton-Brown
TISA Director General

Tony Stenning
Chair of TISA Savings and Investments Policy project
and Managing Director at BlackRock

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FINANCIAL ADVICE MARKET REVIEW

RESPONSE BY TISA to HMT AND FCA CONSULTATION

21 DECEMBER 2015

Promoting Financial Wellbeing for the UK

Contents

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Promoting Financial Wellbeing for the UK

1. Executive Summary

TISA is pleased to present a set of evidence-based recommendations for introducing a Kitemarked guidance framework aimed at addressing the mass market need for support in managing their financial affairs. There is confusion in the minds of people with regards what constitutes "advice" and "guidance". Ultimately, these people need help and we recommend that the FCA clarify the distinction between guidance and advice and work with the financial services industry to create a guidance framework that supports low and middle income households in enhancing their short, medium and long-term financial wellbeing.

These recommendations build upon the proposals developed in March 2015 by the TISA Savings and Investments Policy project (TSIP), an unprecedented pan-industry group of 50 leading financial services representing insurers, fund managers, building societies, banks, platforms, administrators, financial advisers, professional services, trade associations and consumer bodies united in considering and developing policy measures that should be taken to re-establish a savings culture in the UK. TSIP has spent the past two years researching and developing policy proposals that will enhance savings levels and provide financial security for low and middle income families.

Our research identifies low levels of financial security and wellbeing as a result of borrowing rather than saving, failing to budget or plan financial matters and not putting aside enough to create adequate retirement pots. This is at a time when the need for people to take greater personal responsibility has steadily increased, making the Financial Advice Market Review (FAMR) a particularly important initiative in seeking to address key issues that are affecting the financial health of both households and the nation.

We also strongly recommend that FAMR take into account the impact of low levels of financial capability and the direct impact this has on inadequate engagement by people with their financial affairs. Improved financial education for all age groups is key to establishing better financial planning and savings levels that will deliver financial security. Our proposals also include repeating our call for a Savings Minister so that we have a single individual within Government who is responsible for re-energising household savings and acts as a champion for financial education, guidance and advice.

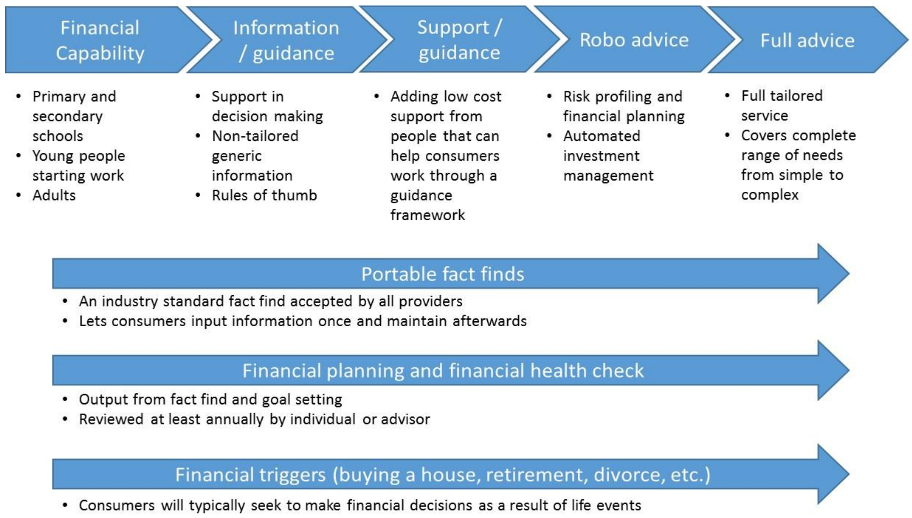
Evidence Based Approach

TSIP released a comprehensive research paper in April 2014[1], followed by a set of policy proposals in March 2015[2]. One of the key themes in the TSIP work has been the role and design of financial guidance. Work has continued on refining and adding to those proposals, with particular focus on low and middle income earners as the segments of society that most need our support.

In addition to building upon the TSIP work, TISA's recommendations also incorporate research and expertise from TISA members, including the Distribution Policy Council.

Our core proposal is to create a Kitemarked guidance framework that can be offered by financial services, Government backed bodies and the third sector. The guidance framework would help people to construct a financial plan and make informed decisions about debt, protection, savings and retirement. The framework is targeted at people that do not avail of advice, particularly low and middle income households.

Kitemarked Guidance Framework within context of people's financial needs



[1] TSIP – Our Financial Future
[2] TSIP – Saving Our Financial Future

TISA key recommendations are:

Increase financial capability

- 40%[3] of adults are not in control of their finances leading to high levels of debt, low levels of saving and financial insecurity through their working life and retirement
- 12[4] million people are not saving enough for retirement, with two thirds of people not knowing how much they need to save for retirement or if the amount they are contributing is sufficient
- Increasing financial capability is critical to re-engaging people with their personal finances and providing them with an understanding of the importance and benefits of personal financial management

Clarify the difference between guidance and advice so that people are clear on the difference between guidance/help and advice/recommendation

- Provide clear definitions of guidance and advice, ideally with clear water between them
- Guidance to be a form of restricted regulated support, focusing on specific financial needs including debt management, everyday savings, retirement accumulation and retirement de-accumulation that will help people make informed choices
- Guidance outcomes to cover a restricted set of regulated products
- Reduce peoples' confusion by revisiting the branding of Government backed bodies that provide guidance but include advice within their title (MAS and TPAS)

Define a Kitemarked guidance framework that can be adopted by financial services firms, Government backed organisations and the third sector

- Create a Kitemark that can be applied to a guidance framework that underpins scope, terminology, decision trees and outcomes
- Create a framework that is designed to support low and middle income financial guidance needs

[3] MAS - 2015
[4] MAS - 2015

- Allow the framework to be adopted by financial services firms, independent information providers, Government backed organisations and the third sector so that people have a consistent experience regardless of where they seek guidance
- Permit "Rules of Thumb" to be included in the framework to provide people with benchmarks against which they can consider their own circumstances
- Limit the scope of guidance to non-complex, regulated products, including protection, cash, collectives that include bonds and equities plus tax efficient vehicles such as ISAs and pensions
- Incorporate some default options for short, medium and long-term saving objectives that encourage people to use a range of asset types including cash, UK bonds and UK equities

Acknowledge housing as a savings option being adopted by people

- Over 25% of people are considering using (and/or treating) their home as a savings vehicle to provide an income in retirement
- Limited planning, if any, underpins how their house will deliver on providing this income
- Housing should be included within the guidance framework so that people are encouraged to consider the practical aspects of using their home as a means of income in retirement

Permit human guidance support within the guidance framework

- It is assumed that guidance for the mass market will primarily be offered online, however people still want human support when making complex decisions
- Expert human support should be permitted to accompany people through the guidance framework, helping people to understand key concepts and the options available to them, whilst remaining within the rules for guidance

Focus on outcomes

- Align the framework scope with guidance journeys that address the needs that people are seeking to address, e.g. debt, rainy day savings, retirement savings, etc.
- Provide people with guidance on outcomes that will meet their needs

Create a standard, portable fact find and financial plan

- Develop a standardised fact find that can be adopted as part of the guidance framework
- Promote acceptance of this standard amongst organisations offering the guidance framework and advisers to create a portable fact find
- Encourage all people using the fact find to develop a financial plan
- Implement measures to encourage people to review their financial plan on a regular basis

Increase peoples' access to and demand for Kitemarked guidance

- Facilitate the adoption of the Kitemarked guidance framework by financial services to increase access to help for low and middle income households
- Encourage financial service firms not offering guidance to signpost people to Government backed organisations that offer the guidance framework
- Use people needs such as the desire to save for a house deposit as a trigger point to encourage greater engagement with their broader financial planning
- Run an awareness campaign for the Kitemarked guidance framework, coordinating with financial services, Government backed organisations and the third sector

We have also responded on "robo advice" to share research on views given that this is a topic being much debated across the industry. We have not offered any specific recommendations regarding robo advice but can see the potential for this to provide a lower cost managed investment service alongside a comprehensive, personalised advice service.

1. Context

The UK has experienced considerable change in both the amount and the way that people save over the past 20 years. The challenges that we face in encouraging greater engagement of people with regards their financial affairs are not limited to regulation around advice, or the effects of the RDR but go much deeper to our new cultural norms and a shift in responsibility for personal financial security to individuals.

In 2013, TISA set up a new and ambitious initiative called the Savings and Investments Policy project ("TSIP") tasked with developing pan-industry proposals that will help to address the savings issues, with a focus on low and middle income households. The project is supported by 50 leading organisations and includes building societies, banks, life companies, asset managers, advisers, professional service firms, all the key trade bodies and importantly, consumer groups including MAS, TPAS and Age UK. This group has developed a range of proposals[5] covering education, guidance, digital engagement, pension reform and Government organisation. TSIP also works with the broader TISA membership of 160 firms who contribute thought leadership through Policy Councils and Technical Committees and the combined expertise has been captured within this response.

When TSIP was launched, the first activity undertaken was a detailed assessment of people's financial circumstances,[6] including trends spanning back up to 50 years. This report helped drive strategic focus and the development of evidence based proposals. Whilst the report is now a couple of years old, the key findings remain highly relevant and have been used to help evaluate the challenges facing people in the context of financial advice. Relevant key findings from the report include:

- One third of UK households have no savings at all
- 66% of low and middle income families have £1,500 or less in savings (roughly equivalent to 1 month's salary)
- One fifth of households are living "hand to mouth" with limited ability to save
- Saving has been replaced by credit to fund consumption
- 80% of wealth is held in pensions and property
- The top 20% of households own 62% of UK's private wealth with the bottom 20% owning just 1%

[5] TSIP - Saving Our Financial Future Policy Recommendations, March 2015
[6] TSIP – Our Financial Future, March 2014

- Active membership of employer pension schemes was 34% (in 2011 - this has now risen to c45% as a result of auto-enrolment but with very low contribution rates)
- Those aged 55 and over are the wealthiest age group and are also the last generation (in the private sector) to enjoy defined benefit scheme pensions
- Responsibility for financial security in retirement has shifted to the individual
- There is a tipping point in 2035 when the generation retiring will be worse off than earlier cohorts

Building on the original TSIP proposals in March 2015 regarding increasing public access to generic guidance, we are viewing the financial advice challenge from the perspective of how to develop a solution that meets the needs of the mass market, who typically have limited savings and for whom a guidance solution may be a good alternative to advice.

The context within which solutions aimed at helping increasing peoples' access to and use of guidance and advice must be directly related to their actual circumstances and attitudes to savings.

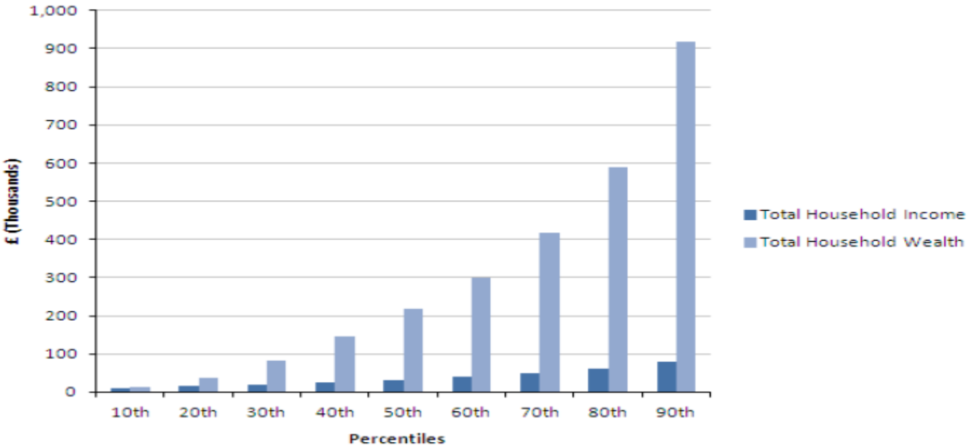
Whilst this is a very complex area and requires significant analysis, we have sought to present our case using some examples set out below. We recognise that there is much benefit in customer segmentation such as the FCA's Consumer Spotlight and seek to enhance that perspective with research on savings and wealth.

Household wealth

Families at the lower end of the income range have significantly less assets than richer households who have the means to purchase more expensive properties, household goods and still have the capacity to save. The TSIP research[7] indicates a tipping point of £17,000 of income, below which households are living day by day financially and above which the ability to save becomes more viable. Indeed, the lowest income decile are spending 110%[8] of disposable income on non-mortgage/rent items, with the second and third deciles spending 100% and 95% respectively.

[7] TSIP – Our Financial Future – March 2014
[8] TSIP – Our Financial Future – March 2014, source FSA

Distribution of total household wealth and income[9]



Lower and middle income families have 3 primary sources of wealth, namely physical goods, equity in property and retirement savings. Their non-pension savings wealth tends to be modest and lower down the income range is more likely to be debt savings for many households. This implies that help in managing available income and minimising credit costs is a higher priority than advice on financial matters other than pensions. Equally, these families may want or need to place a greater emphasis on protection to deal with unexpected events rather than relying upon savings.

Total wealth and components as deciles[10]

Weighted	Property wealth £m (net)	Financial wealth £m (net)	Physical wealth £m (net)	Private pension wealth £m (net)	Total wealth £m	Private pension to non-private pension wealth (%)
1st	-4,912	-9,746	17,631	2,282	5,256	77
2nd	3,083	-232	45,756	12,129	60,736	25
3rd	32,219	4,508	68,617	53,530	158,875	51
4th	121,615	16,244	75,614	97,197	310,670	46
5th	219,238	28,244	88,984	142,902	479,347	42
6th	314,469	51,172	101,665	207,328	674,634	44
7th	390,210	85,323	113,078	328,386	916,998	56
8th	493,537	126,100	131,398	520,869	1,271,903	69
9th	640,922	214,146	152,186	881,046	1,888,300	87
10th	1,164,419	569,364	216,862	2,539,944	4,490,588	130

Source: Wealth and Assets Survey, Office for National Statistics

[9] ONS – Wealth and Income 2010-2012
[10] ONS – Wealth and Assets survey 2008-2010

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A low level of financial sophistication related to the management of household wealth reveals a strong preference for cash, especially for those with low and middle incomes. This is resulting in higher levels of cash than may be appropriate for people' financial objectives.

Two thirds of the population have a savings account, and ISAs are also popular with almost half the households having one in 2010. This compares with other investment options that may be suited for medium to longer-term savings such as bonds and equities.

This would suggest that although low and middle income households do not typically have non-pension savings exceeding £50,000, they still need some simple investment guidance that provides a greater alignment between the asset class of choice and their savings goals.

Proportion of households with formal financial products[11]

Great Britain, Percentages

	2006/08	2008/10
All Current accounts[1]	92.3	96.4
Current accounts in credit	84.8	89.6
Savings accounts	61.8	67.4
ISAs[2]	42.5	49.4
National Savings certificates and bonds[3]	23.8	27.4
UK shares	14.9	15.4
Insurance products[4]	10.5	10.4
Fixed term bonds	8.3	11.8
Employee shares and share options	7.3	7.9
Unit/Investment trusts	5.9	6.4
Overseas shares	1.8	2.1
UK bonds/gilts	1.1	1.1
Overseas bonds/gilts	0.1	0.2
Any formal financial asset[1]	**96.1**	**98.1**

Demographics also provide another perspective on peoples' wealth. Younger households tend to be accumulating wealth, mid-life/approaching retirement households are the most prosperous and older households are reducing their assets to pay for later life. Within each of the age groups, there are a wide range of wealth brackets.

[11] ONS – Wealth Survey 2008-2010

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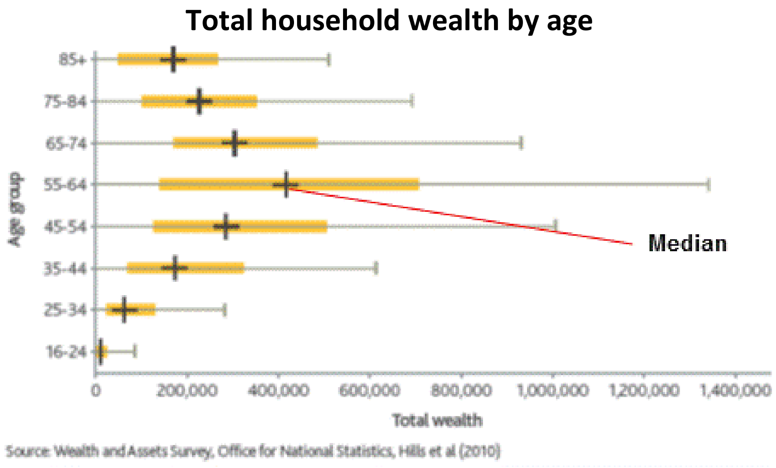


Individual responsibility for retirement

The State pension has fluctuated considerably over the past 40 years, albeit less so for lower earners, for whom the single-tier pension will provide up to £155.65 per week from April 2016. This is a return to a level that is slightly higher than pensioners used to receive 30 years ago and will help to relieve some of the pressure to make additional savings to fund a more comfortable retirement.

There is general consensus that the DWP proposed replacement levels of retirement income are sensible and we have adopted them here. This implies that people on low and middle incomes need to supplement their State pension with private funding. For many households this was historically achieved through employer pension schemes that provided high levels of security on the amount that would be paid, plus the employer managed the assets on their behalf.

Gross Salary	DWP replacement rate	Retirement income	Supplement to State pension	Private pension savings required[12]
£15,000	70%	£10,500	£2,406	£48,000
£20,000	70%	£14,000	£5,906	£118,000
£25,000	67%	£16,750	£8,656	£173,000
£30,000	67%	£20,100	£12,006	£240,000

[12] Assumes 5% annuity rate

Such defined benefit schemes have progressively been replaced with defined contribution schemes in all but the public sector over the past 20 years with the effect that the individual is now responsible for ensuring sufficient contributions are paid into the pension fund, managing how the money is invested and then managing how to draw an income from the fund at retirement.

MAS research indicates that 12 million people have not and are not making sufficient provision for their retirement. Furthermore, TSIP research[13] found that 2/3rd of people did not know how big a pension fund they would need for retirement. This research also showed that whilst 35% felt they knew enough about pensions to make decisions, when we explored this further in consumer labs, even confident people had less knowledge than they thought. Most people were also uncomfortable with investments types they were unfamiliar with and this included asset classes such as bonds and blue chip equities which are typically a core investment for long-term pension savings.

Whilst auto-enrolment is a step in the right direction, much more needs to be done to support people in managing one of the most important financial outcomes of their lifetime.

Impact of auto-enrolement on guidance and advice

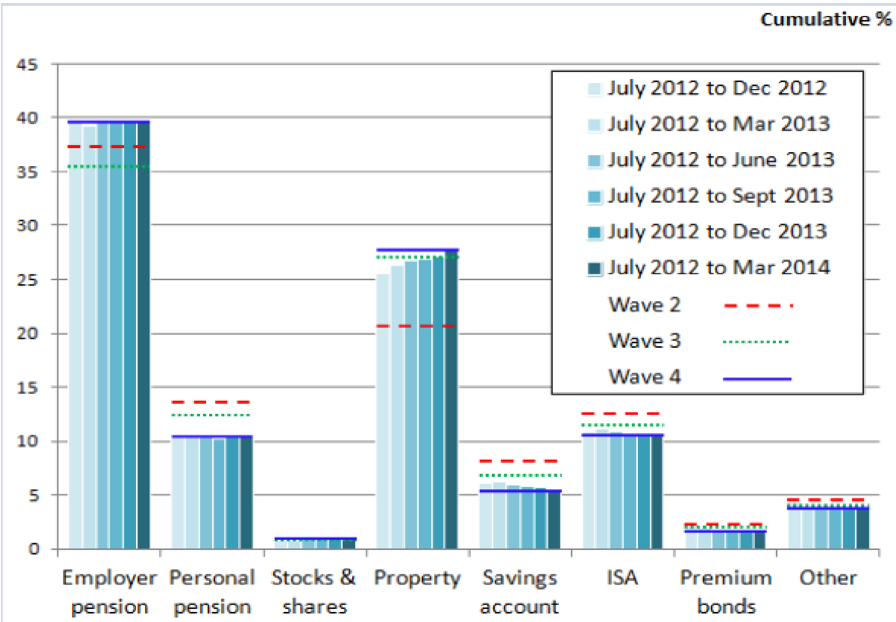
Auto-enrolment is expected to help the nation start saving again en mass. Whilst in the early stages of saving, many people are selecting the default pension investment options, future years could prompt an increasing number of individuals with growing pension funds to want to take a more active role in managing this important asset. A rule of thumb often adopted is that people take more active interest when they have a year's salary in savings. This could mean that consumer demand could begin to accelerate rapidly from current levels for pension related advice over the next 10 years. Thinking ahead, we should be putting in place measures that will address this future need and avoid having to make further changes to the regulations and guidance/advice solutions that the Government and industry will shortly start to build and deliver.

[13] TISA – Strengthening the Incentive to Save – Appendix D, September 2015

Saving through the home

According to the ONS, a growing number of people, currently over 25%, think that property is the safest way to save for retirement. In a separate survey by BlackRock[14], 25% of millennials expressed an intention to use the wealth tied up in their home as an asset to draw income from at retirement. The evidence therefore points towards a growing number of people that consider their home as being an asset that they will use to enhance their retirement income. For many people closer to retirement and who have failed to save enough into their pension, this could become a key part of their retirement income solution.

Safest way to save for retirement[15]



Whilst we are not advocating this as a solution given the risk of placing a high proportion of savings into a single asset class, we are pragmatic in recognising and responding to the fact that for some people their home will become a significant part of their future income. Indeed, for lower income families, there may be limited scope to afford both the cost of purchasing a house and contributing to a pension sufficiently to meet future income needs.

[14] BlackRock – Investor Pulse – November 2015
[15] ONS – Early indicator estimates from the Wealth and Assets survey – June 2015

A key challenge in planning for retirement for these people is the lack of realistic expectations in terms of how their home is going to achieve their desired outcome. Unlike planning for a pension, there are no publicly available tools for projecting the value of a property in the future, estimating costs of down-sizing or pointing out the social and familial impacts of moving to another part of the country. Blind luck appears to be the planning mechanism being adopted by most people.

It therefore seems sensible that this cultural and (often) practical approach to using a home as a means of saving for and providing a retirement income should be included within the scope of financial guidance and advice in the future.

The 2035 tipping point

It should also be noted that the reduced generosity of employers contributing into pension schemes and the impacts of increasing house prices, means that the two largest components of wealth today will be significantly reduced for younger generations.

TSIP sees the period around 2035 as being a point when generations going into retirement will be worse off than the current baby boomers, impacted directly by the switch from DB to DC schemes. However, as a cohort this generation (currently 45-55) still have value building up in high levels of home ownership[16] but this is also being eroded as a form of wealth by generations that follow them who are finding it increasingly difficult to get onto the housing ladder, spending more of their lifetime incomes on rent.

The situation deteriorates further for those generations who have been brought up with university fees, whereby half the population now attends university and the average debt associated with university is £45,000.

One redeeming aspect for the younger generations is that they have longer to save for retirement but this is offset by the challenges of paying off a student loan, saving for a large house deposit and also trying to begin a savings habit for retirement.

[16] TSIP – Our Financial Future – 65% for 45 years olds and 75% for 55 year olds

Lack of financial education

We are failing to provide a basic financial education for UK citizens which is the foundation from which people can understand both the need and the benefits of saving. Recent research by MAS[17] includes:

- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 20% could not read a bank statement
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

Financial education was put onto the secondary school curriculum in 2014, but this only covers 45% of schools and there is no budget to train the teachers who will be delivering the syllabus. This does not take into consideration that research also points to relationships between young people and money becoming fixed as early as 7 years old, implying that we are not doing enough early in the education cycle to have a real impact on future generations attitudes to money.

We recognise that financial education is not part of the FAMR consultation, but we believe that to create the demand for financial advice to a large degree begins with education of all age groups.

Removal of mechanisms that helped people save

Public access to financial advice and support has been eroded over a number of years as an unintended consequence of changes to regulation designed to help people.

An example of this is the demise of door to door life insurance salesmen. Whilst the method of distribution, charges and suitability of products may not meet the desired standards today, millions of people had regular contact with someone from financial services that encouraged them to save regularly, explaining the benefits and promoting a great consideration of financial planning. The result was that many of those individuals now have savings that are enhancing their financial security.

[17] MAS – The Financial Capability Strategy for the UK – October 2015

Recent research by BlackRock[18] (see table below) would imply that individuals with less money have a lower propensity to seek advice from a professional, with many of them having never used the services of an adviser. Even one third of individuals with large savings have never sought advice.

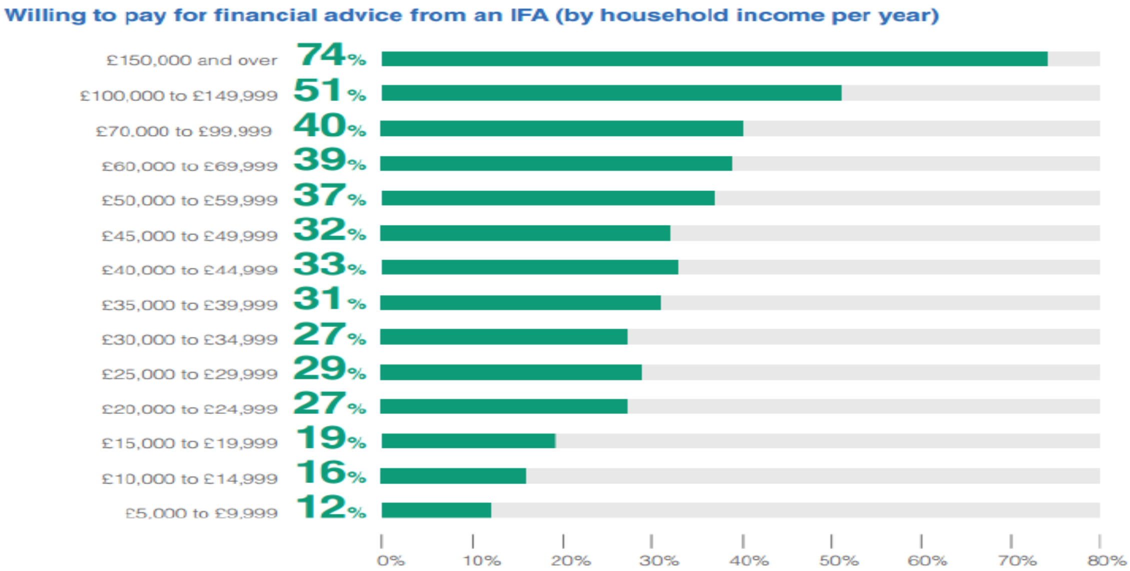
UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

The effects of increasing the costs of advice resulting from the introduction of the RDR and the impacts this has had on people is still being assessed and opinions vary in terms of the extent of that change. However, it is reasonable to conclude that with a growing population of "orphan clients" and the economics of advice businesses, that less people have access to cost effective advice than in the past.

It is also unsurprising that in recent research[19] by Iress (see chart below) looking at the willingness to pay for advice (as opposed to actual usage) those with higher levels of savings had a greater propensity to pay for the service. This also makes sense in relative terms as the costs are proportionately lower.

What this does conceal is the fact that low levels of savings for lower income families will have greater importance than the same level of savings for a higher income family.

[18] BlackRock – Investor Pulse – November 2015
[19] Iress – Data, disruption and the digital consumer – April 2015



We can compare this with findings from BlackRock's[20] research where similar questions were asked about the use of advice according to income (see table below).

Household income (before tax)	Base	Yes, use now	No, although I have in the past	No, never used
Up to £20,000 p/a	1244	10%	23%	67%
£20,001 - £30,000 p/a	827	13%	30%	57%
£30,001 - £40,000 p/a	650	19%	34%	47%
£40,001 - £50,000 p/a	477	19%	33%	48%
£50,001+ p/a	802	31%	36%	33%

Making it easier to save – a Digital ID

Once a person has decided to save money and open a new account or product, they are faced with complicated and time consuming processes that require them to validate who they are and where they have sourced their funds from. Currently this requires information

[20] BlackRock – Investor Pulse – November 2015

Promoting Financial Wellbeing for the UK

such a certified copy of a passport, two copies of documents sent to their address (such as utility or credit card statements) plus proof that they are not money laundering and in some instances a £1 cheque.

This is a very cumbersome process for both the consumer and the service / product provider and we believe that this is putting off people that might otherwise be saving.

To address this, TISA have established the Digital ID project, looking at how a digital solution can be found that lets people identify themselves and pass both AML and KYC checks electronically. The project has participation from a number of leading financial services firms plus the Cabinet Office. Consumer testing of a Digital ID is due to be completed in December 2015 and a white paper produced by the Government Digital Service in January 2016. This will help to inform the Digital ID project team in their work to define a set of open architecture standards that could be adopted by the industry.

The scope of this work is currently limited to opening an account and transferring assets from an existing to a new provider, however there are a much wider range of applications that could be developed in the future such as unclaimed assets and applications that can help households manage their finances.

Summary of conclusions based on research evidence:

- Financial capability is poor amongst a broad cross section of society and addressing this will be a key factor in increasing the demand for guidance and advice
- Solutions for providing financial education, especially to low and middle income families, will need to cover all age groups
- Housing and pensions constitute almost 90% of the UK household's wealth
- The bottom 20% of households by income have limited ability to save and would benefit from general money and debt management support
- The next 30% by household income have non-pension savings of between £4k and £28k and although they may have complex financial circumstances, will benefit from relatively simple savings solutions
- The 20% above them have between £50k and £85k and will require more sophisticated solutions that provide greater savings diversity
- There is a propensity to save in cash rather than assets that may better suit medium and longer-term financial goals

- There is an increasing cultural shift to viewing the home as an asset that will help to provide an income in retirement, but little support for people to help understand the practical implications of this approach
- Wealth is unevenly distributed amongst the rich and also those aged 60 to 70
- We face a tipping point around 2035 when generations going into retirement will be worse off than their predecessors unless we can address the lack of savings now
- The challenge of saving for retirement has become the responsibility of individuals, plus they need to save much more to compensate for lower employer contributions
- Younger generations face the biggest challenge in trying to save in general, for retirement and a house deposit whilst facing high house prices and less generous employer pensions
- Lower levels of long-term savings will reduce capital investment and slow UK GDP

2. Recommendations

TISA's recommendations have been developed through a combination of working with members that are leading financial services providers and the work being delivered through TSIP. This provides a response that benefits from a wide cross section of pan-industry and consumer groups having provided input to the design of solutions.

TSIP already developed policy recommendations[21] in March of 2015, which were publicly supported by 40 of the TSIP members and included proposals on financial guidance. We have built upon those proposals here plus incorporated the work undertaken within the TISA Distribution Policy Council.

We remain focused on good consumer outcomes and our response to the Financial Advice Markets Review targets the mass retail market as we believe this is the audience that will benefit most from regulatory reform. We would encourage this segment to avail of advice but recognise that the research indicates that there is currently limited appetite for services, hence our focus on provided generic guidance to support them in managing their financial affairs.

To the extent possible, we have sought to make our response evidence based so that our proposals reflect solutions based peoples' behaviour and demand.

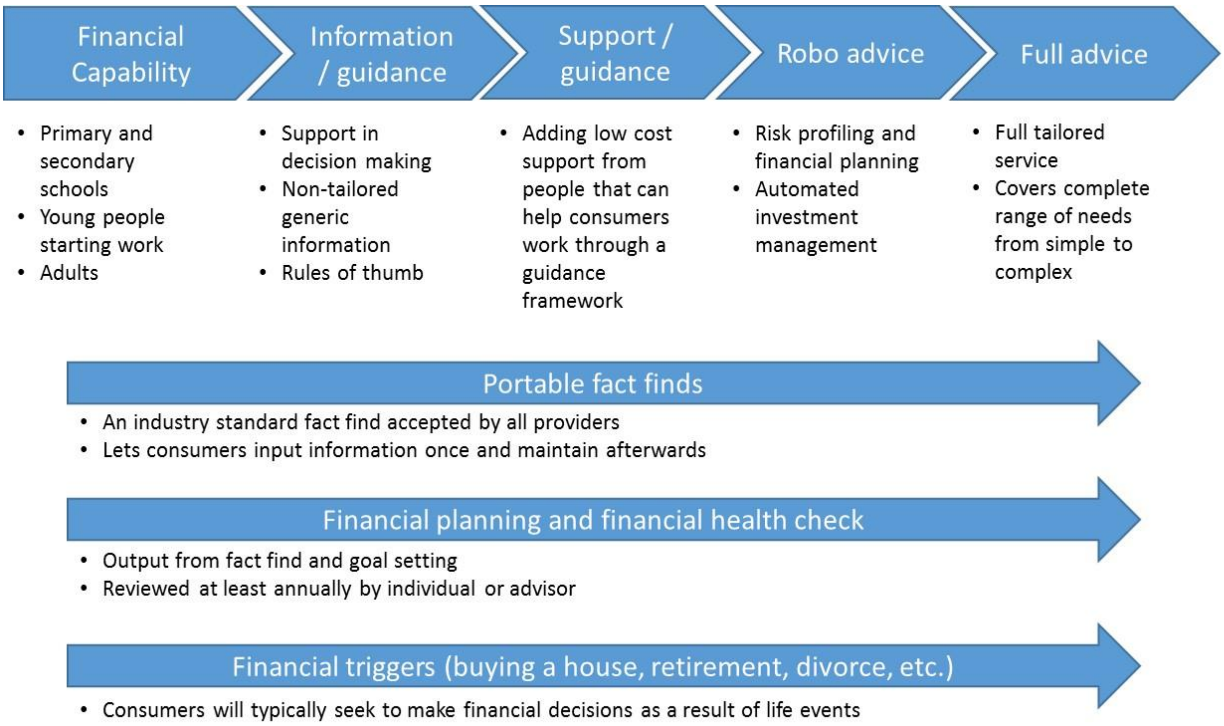
The big challenge for Government, the FCA, providers and advisers is the creation of proposals that address such a complex range of issues. It is clear that categorisation of consumer segments is extremely hard when seeking to cover such a diverse set of individual needs that takes into account attitudes to money, propensity to seek assistance, personal circumstances, income, wealth, where you live, health, age, employer, how much you might inherit, etc.

Given that developing a solution to solve all these complexities is not practical, we need to take a more pragmatic approach to the basic problem of helping people to enhance their financial resilience and security. There is much that can be done to achieve this objective

[21] TSIP – Saving our Financial Future – March 2015

and we will be considering this through the lens of a generic guidance solution for the mass market.

We have set out below a high level model that presents a guidance framework within the context of a range of financial support including education, advice and financial planning.



Increase Financial Capability

The example evidence provided in the Context above points towards a nation of people that would benefit greatly from raising their level of financial capability. Whilst not within the scope of this review, this is one of the most significant areas in terms of increasing the engagement of individuals with their own financial affairs and must be a part of the overall solution.

Families on the lowest incomes are generally less concerned with getting financial advice and more concerned with making their incomes stretch to meet day to day needs. This group typically have the highest levels of relative debt and face additional costs such as higher charges on loans and paying monthly on home and car insurance. Even the Government charge an extra 10% for people buying road tax six monthly instead of annually. This group would benefit greatly from help in managing their incomes, spending and cost of credit effectively. Putting some basic measures in place could reduce their costs over time and place them in a position to start saving a modest nest egg, including facilitating contributions into auto-enrolment.

For the population as a whole, increasing the level of financial capability education across all age groups will help people to understand the basics of managing their money, the benefits of saving and the importance of long-term goals such as laying down the foundations for retirement as early as possible. We should place equal importance on managing money as we do the other core subjects of the syllabus, especially as financial capability is likely to be one of the universal skills such as reading, writing and arithmetic that we will all use regularly during our lifetimes.

Progress is being made with regards financial capability but there is much more that needs to be done.

There is also a strong link between financial capability, guidance and advice. Ideally, all three areas would adopt a common language and terminology so what people learn through financial capability education is recognisable when dealing with money, savings and advice.

Clarify the difference between guidance and advice so that people are clear on the difference between guidance (help) and advice (recommendation)

There has been robust and consistent feedback from our members that there needs to be clarity around what is guidance versus advice, ideally with clear water between the two. People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation but is designed to help consumers make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Part of the confusion has been created by complex rules and the application of different standards whereby information provided by a third party such as MAS is treated as guidance, but the same information offered by a product provider becomes advice.

In setting rules around guidance versus advice, we suggest that the Treasury and FCA also consider the wider European dimension, for instance MiFID already defines guidelines and further work is currently underway across the commission that will affect future definitions.

There needs to be greater consideration of the peoples' perspective. The FAMR review is an opportunity to address:

- Being very clear about the difference between guidance and advice
- Reducing the number of categories of advice as this is confusing for people
- Guidance to be a form of restricted regulated support, focusing on specific financial needs including debt management, everyday savings, retirement accumulation and retirement de-accumulation, that will help people make informed choice
- Guidance outcomes to cover a restricted set of regulated products
- Branding of Government backed services that such as MAS and TPAS that include "Advice" within their title but actually offer guidance (this could be reviewed as part of the Public Financial Guidance consultation)

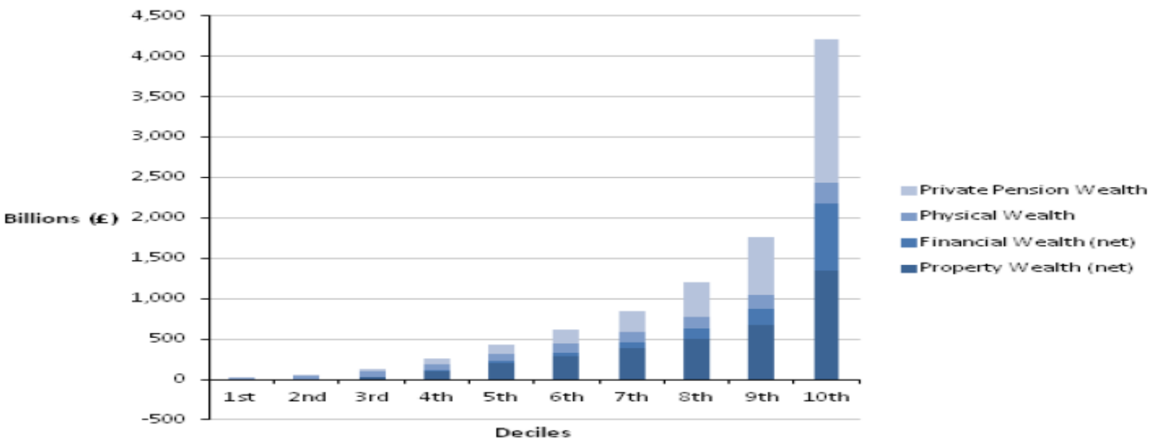
Define a Kitemarked guidance framework that can be adopted by financial services firms, independent information providers, Government backed organisations and the third sector

As a basic starting point, we recommend that there is a Kitemarked guidance framework that provides information for people on how to manage their money and options they should consider in terms of achieving their short, medium and long-term financial goals.

The objective is to develop a guidance framework that can support households in meeting their basic financial management and would be of most value to low and middle income households. We have set out below an example of scope that could be considered as catering to the needs of this audience.

A key aspect of defining the scope of a guidance framework will be the extent of guidance that it will be designed to provide. In part, the types of service will determine how many people could benefit from the framework. Using the ONS data (below) as a benchmark, debt/financial management could benefit at least 20% of households, setting a limit on guidance for non-pension savings up to £50,000 could help 60% of households and setting a limit of up to £100,000 on pension assets could help 40% of households. These limits are up for debate.

Wealth in Great Britain by decile[22]



Total wealth and components as deciles[23]

Weighted	Property wealth £m (net)	Financial wealth £m (net)	Physical wealth £m (net)	Private pension wealth £m (net)	Total wealth £m	Private pension to non-private pension wealth (%)
1st	-4,912	-9,746	17,631	2,282	5,256	77
2nd	3,083	-232	45,756	12,129	60,736	25
3rd	32,219	4,508	68,617	53,530	158,875	51
4th	121,615	16,244	75,614	97,197	310,670	46
5th	219,238	28,244	88,984	142,902	479,347	42
6th	314,469	51,172	101,665	207,328	674,634	44
7th	390,210	85,323	113,078	328,386	916,998	56
8th	493,537	126,100	131,398	520,869	1,271,903	69
9th	640,922	214,146	152,186	881,046	1,888,300	87
10th	1,164,419	569,364	216,862	2,539,944	4,490,588	130

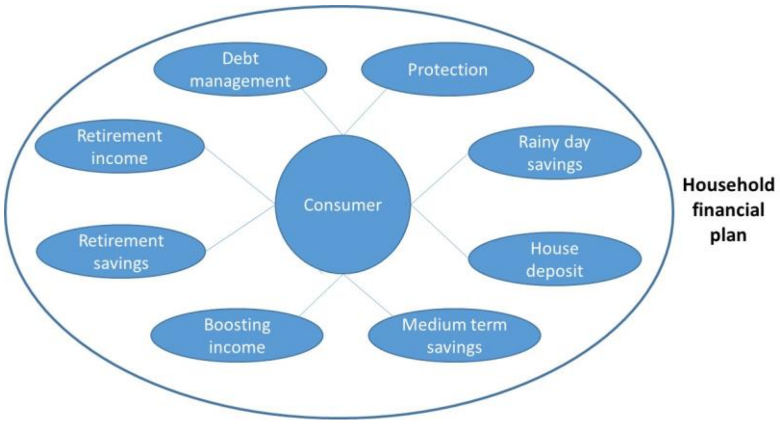
Source: Wealth and Assets Survey, Office for National Statistics

The framework would be regulated to provide consumer protection and be restricted to regulated, non-complex products and tax vehicles. As well as protection options, this would enable the guidance to cover a range of savings and income needs and incorporate information on tax efficient vehicles such as ISAs and pensions. We propose that guidance cover cash, UK bonds and UK equities so that people are informed about options on asset types for short and long-term savings and investments objectives. As well as core cash option, such as deposit accounts and cash ISAs, guidance would also inform people about

[22] ONS – Wealth in Great Britain 2010/2012 – June 2015
[23] ONS – Wealth and Assets survey 2008-2010

mutual funds, insurance bonds, vehicles such as ETF's as these products provide investment diversity for people who wish to invest in bonds or equities.

Potential high level scope of a Kitemarked guidance framework



In dealing with medium and long-term savings, this would imply that the framework would need to be able to deal with an element of information on different asset classes including cash, bonds and equities.

To prevent replication of some aspects of guidance, the framework could point people towards appropriate services such as TPAS and Pension Wise.

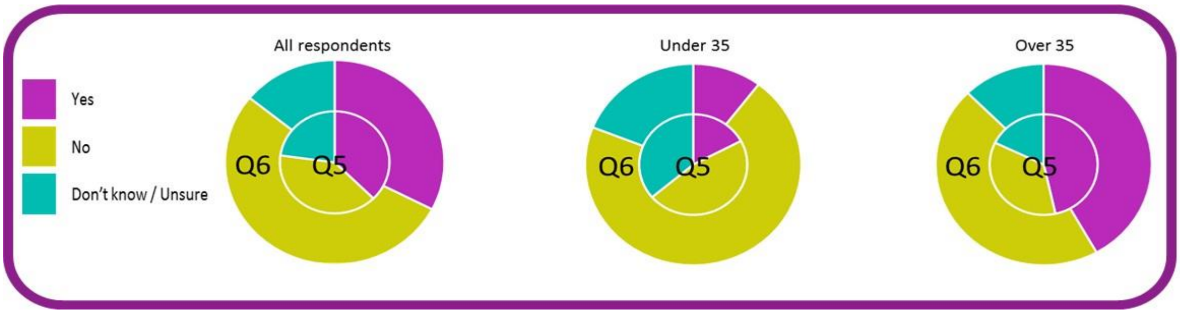
The information should be generic guidance, potentially adopting simple decision trees that help people match their individual needs with generic options. This would most likely be delivered online as this offers a more flexible means of taking people through a discovery and options journey. This framework would be offered by Government backed bodies, financial services providers, independent information providers and third sector organisations.

The framework would be Kitemarked to ensure that specific standards are adhered to and provide a consistent experience regardless of who was offering the guidance framework. Part of the Kitemark standards would be measures to ensure that there was no bias towards any financial services firm or their products. We have discussed this with both TSIP and TISA members and there is broad support for such measures as this ensures the best consumer outcome.

TSIP proposed in March 2015 that an industry body be formed to work with the FCA to create this Kitemarked guidance framework and we re-iterate that recommendation here.

We also propose that the guidance framework incorporate some generic "Rules of Thumb". It is often the case that people do not have suitable reference points from which to make decisions and would greatly benefit from benchmarks or "Rules of Thumb". By way of example, recent research undertaken by the Wisdom Council for TSIP on pension savings illustrated that only one third of respondents knew how much they should be saving to meet their retirement income objectives.

Do you know how much to save to achieve your target retirement income?[24]



We therefore propose that a suite of "Rules of Thumb" would include some basic financial planning tips such as:

- "Build a rainy day fund of between 1 and 3 months' wages to protect against unexpected events"
- "Saving £3 a day will create nest egg over £1,000 within a year"
- "The earlier you start saving for retirement, the longer your money has time to grow"
- "People on £20,000 per year should aim to have at least £14,000 per year in retirement, including the State pension" – (this is using DWP targets)
- "People like you typically save XXXX" – (enabling some basic segmentation)

We also believe there is merit in considering having some default outcomes that can be aligned with savings objectives. Looking at auto-enrolment as a precedent, default options are presented to people to encourage them into funds that include equities and bonds

[24] Wisdom Council on behalf of TSIP – September 2015

rather than just cash which is their natural comfort zone. We propose that the guidance framework provide a similar approach whereby people with longer-term savings objectives and who do not require immediate access to those savings, are encouraged to consider alternatives to cash and are presented with some default options. This would include asset classes such as UK bonds and UK equities wrapped within collective investment vehicles.

Acknowledge housing as a savings option being adopted by people

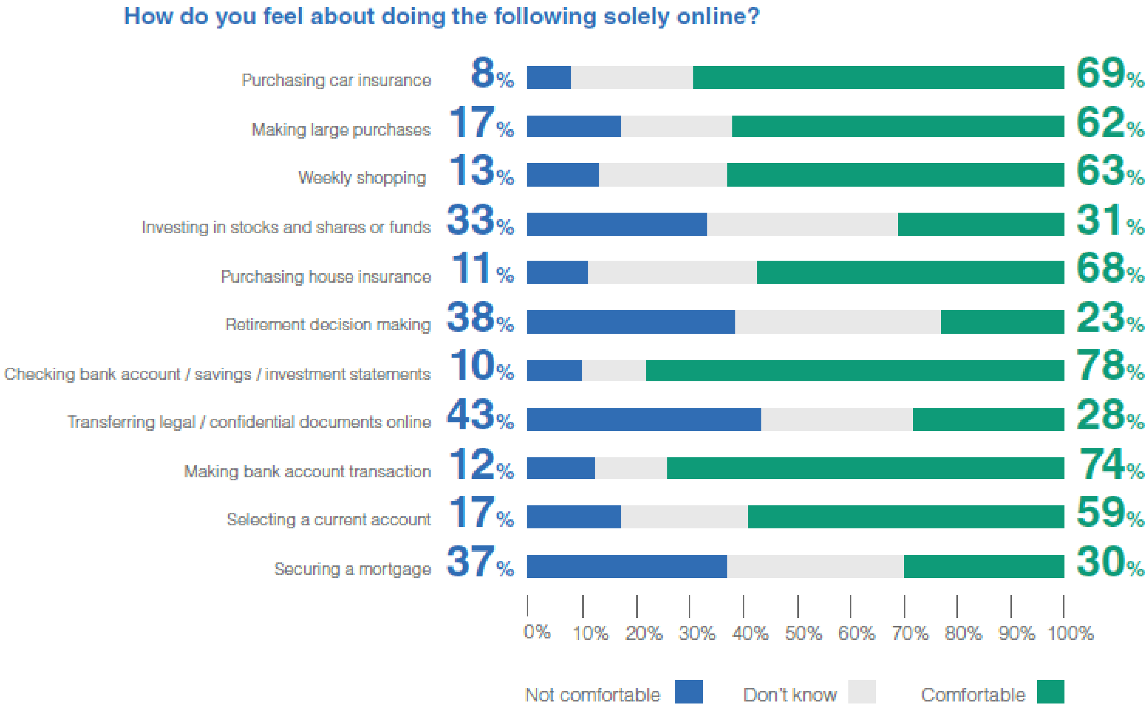
When defining the scope and options framework for Kitemarked guidance, we believe there is an opportunity for the Treasury and FCA to acknowledge and align people's appetite to include housing as part of their retirement planning within the guidance offered. As demonstrated in the section on Context, over one in four expect to use their home as a savings vehicle to provide an income in retirement. Our concern is that individuals are not basing their desired outcomes on a set of assumptions that will help them to assess if they will achieve their objective and what other impacts this might have. We suggest that the Kitemarked framework include references for those who are planning on using their home as a savings vehicle (either out of choice or necessity), setting out the likely costs of a future sale, the potential impacts on social and familial networks and / or the sorts of flexibilities and impacts that equity release products can typically offer.

Although we are not including full advice within the scope our response, we think that there should be consideration of housing within an individual's overall financial plan so that the savings process and assumptions reflect the whole range of options being pursued by the people.

Permit human guidance support within the guidance framework

There appears to be a working assumption that creating greater access to financial guidance will be delivered online. Indeed, recent research by Iress[25] confirms a society that is adopting online solutions for meeting an increasing range of their domestic needs. There are high levels of online usage for activities that are more familiar such as banking and the purchase of home and car insurance. Banks are closing branches as more people use online facilities and ATMs to meet their daily banking needs. Brokers have been replaced by comparison websites that find better premiums on basic insurance products.

[25] Iress – Data, disruption and the digital consumer – April 2015



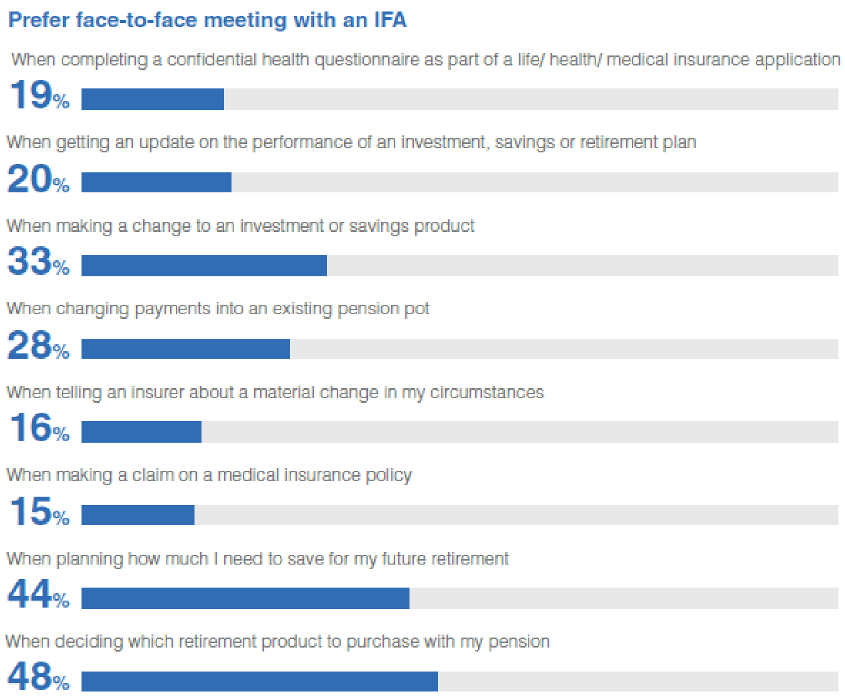
There is good reason to believe that online provision of guidance can extend people use of using this medium to manage their financial affairs. MAS attracted 22 million online contacts in 2014/15, including 8.4 million new users which is a four-fold increase from 2012/13 and a 90% increase year on year. TPAS experienced 1.4 million online contacts related to pension guidance.

However, the opportunity to receive help from a person will remain a key element of guidance for some time yet to come. In part this reflects the fact that people still prefer to have an expert guide them through important transactions, or ones where they feel less comfortable. This also recognises that some of the population has not (and probably will not) adopt online solutions as a mechanism for accessing guidance.

The Iress[26] research also provides insight into financial transactions that people felt more confident undertaking with an adviser. To some degree this is the mirror of the propensity for online services, for instance 44% and 48% would prefer a person to help them reach a decision on matters related to retirement versus 23% who were comfortable doing this online. 33% were happy to use the internet to invest in stocks and shares with the same

[26] Iress – Data, disruption and the digital consumer – April 2015

percentage seeking this support from an adviser. Whilst the data does not take into account lots of other factors such as income, age and wealth, we believe that this research is a good proxy for other research findings repeated elsewhere.



This implies that we still need a guidance solution that has experienced individuals helping people navigate a guidance framework, whilst remaining strictly within the boundaries of guidance, as opposed to advice. Indeed, TPAS and Pension Wise are examples of services that already successfully provide these services today.

This is a further reason why the difference between guidance and advice needs to be very clear to people as the introduction of human support has often been misinterpreted as advice in the past.

There is a clearly a cost implication of providing people to support people in navigating the guidance framework and this could be met in a number of ways including directing people who want this service to organisations that already provide this for free, creating new free at point of delivery services or developing paid for at point of delivery services.

Focus on outcomes

Another key area that needs to be tackled in defining a Kitemarked guidance framework are the consumer outcomes. People will expect that at the end of the guidance journey there will be generic solutions and/or options such as paying off a credit card, saving for a rainy day fund in cash, opening or increasing contributions into a pension, considering non-cash options for longer-term savings, etc.

Guidance will need to be able to cover a range of journeys according to the people's needs. This will also mean that the consumer journey may entail a more detailed fact find and exploration of risk appetite so that generic guidance can be provided on the basis of their needs and financial objectives.

The benefits of tax advantaged savings such as ISAs and pensions should be covered. We also propose that the guidance framework help people to understand the options around different asset types, including the relative risks and rewards of bonds and equities, plus the benefits of getting expert support for investing in such assets.

A good outcome for people will be the ability to confirm their saving or income objective and understand the sort of option that would meet that need, bearing in mind the risks that may be associated with that option.

The guidance framework will stop short of helping people decide which of the many product providers offer solutions that meet their needs, however the Treasury and FCA may want to consider suitable independent parties that people can be sign posted to that will help identify and compare options.

Given that this is guidance, the consumer will have no recourse to the provider of the guidance framework. We are keen to maintain robust consumer protection from making poor financial decisions and the design of the guidance framework must ensure that appropriate measures are built into the framework to deliver this outcome.

Create a standard, portable fact find and financial plan

We propose that the FCA develop a standardised fact find that can be adopted as part of the guidance framework. This will help people to collect relevant data on their current debts and savings, assess their appetite for risk, establish savings goals and income targets and provide a plan that can be reviewed on a regular basis.

We strongly support the idea that everyone in the UK should have a financial plan and that this should be reviewed at least once a year or when a household has a significant change in circumstances.

By combining a fact find and financial plan together, people would have an easy to use facility that helps them meet their financial goals.

In developing a standardised fact find, this would facilitate the ability for people to share their financial information with other third parties, including financial advisers, without the need to re-input all the information again.

Ideally, mechanisms will also be created that provide an automated prompt either semi-annually or annually for people to review their financial plan and progress towards their objectives.

Increase peoples' access to Kitemarked guidance

The development of a generic Kitemarked guidance framework that can be adopted by the financial services industry will greatly enhance access and awareness of the availability and importance of such a service. We have already seen expressions of interest from a range of banks, building societies, life companies and asset manager who would offer such a service. This could significantly enhance access to a much wider population than is currently reached through bodies such as MAS, TPAS and Pensions Wise.

In earlier work by TSIP on this subject, we identified a number of organisations that would seek to host a guidance framework themselves, plus an extended set of firms that would signpost people to Government backed organisations.

Increasing demand – Triggers

People typically experience a range of triggers that encourage them to engage with their financial situation. This can include the desire to save for a house deposit, build a rainy day fund, save for a large expense item, divorce, etc. These are all opportunities to engage people across a wider spectrum of their finances than just the trigger itself.

Increasing demand - Awareness campaign

Changes any rules around guidance and advice will need to be actively communicated to people, ensuring that the subsequent experience across financial services, Government backed bodies and third sector organisations reflect the principles being promoted.

This requires a co-ordinated awareness campaign. Given the scale of this challenge, it would seem sensible to take the opportunity to incorporate messaging on both the importance of financial capability and the new rules on guidance and advice that are being put in place to enhance the financial resilience and security of people.

We propose that a co-ordinated campaign supported by Government, financial services, Government backed organisations and third sector parties providing guidance is launched soon after changes are made to the way the financial guidance can be delivered.

Create a Savings Minister

In March 2015[27], TSIP called for the creation of a Savings Minister which we re-iterate again here. The challenge of re-establishing a savings culture is not a short-term task, it is a project that will require a sustained commitment over a long period so that new habits and social norms become embedded. This project will require a champion in Government, but at present the various elements of the savings agenda are split across departments and this needs consolidation to provide a co-ordinated vision.

The remit of the Saving Minister would extend to both retirement and non-retirement savings and its taxation. The Minister would also be a champion for the development and implementation of a mass market guidance framework as well as supporting efforts to enhance financial capability.

We also anticipated that the Minister would champion the concept of “Invest in Britain”, a campaign that would help people to understand the direct link between their individual savings and the benefits that this brings to the nation.

[27] TSIP – Saving Our Financial Future – March 2015

4. Robo Advice

Overview

Whilst full advice is outside of the scope of our response, we believe that "robo advice" presents an opportunity to provide the mass market and mass affluent with a solution that in effect is a low cost discretionary management service. The private banking and wealth management industry has progressively been moving towards discretionary services that are based on model portfolios aligned to risk profiles for investment and income objectives so many aspects of robo advice are not new, rather that it is now being aimed at a lower savings threshold.

Whilst not making particular recommendations regarding robo advice, we think that this a development that could provide a valuable link between the Kitemarked guidance framework and full advice. We would therefore like to share our research on robo advice to add to the debate.

Robo advice – a potential solution for mass market / mass affluent investors whose needs go beyond the guidance framework

There is a strong hypothesis being promoted in the industry that automating the advice process and delivering it digitally to customers has the potential to address a number of the issues raised in the Review.

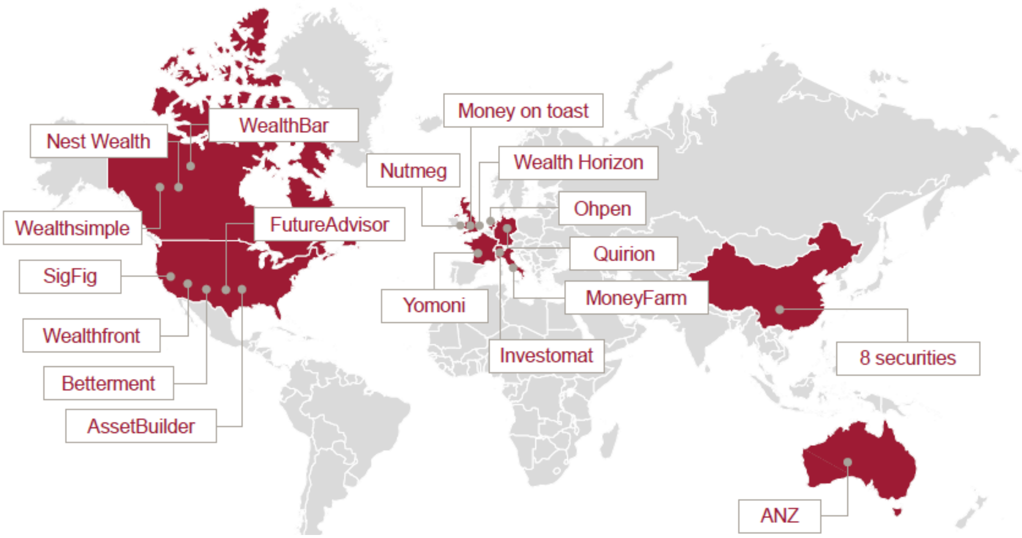
This is clearly a solution that fits in the advice space and associated regulatory environment and which could provide a good solution for people who have larger pension and non-pension wealth.

There is evidence from other international markets that automated advice services are attracting increasing numbers of investors, offering investment solutions that are promoted as better value than traditional mainstream products.

We have collated the following evidence from the latest research available, drawing heavily from both those firms active with these services in the US market and those who are investing in UK equivalents.

There is no single definition of 'robo advice', the term is used to cover a range of services but the most common features are online risk tolerance questionnaire, investment portfolio recommendations and auto rebalancing of portfolios. Additional services such as tax wrapper/ product selection and financial planning tools may also be available.

There are a good range of existing examples of firms offering robo advice services across the globe[28]. Some firms now have over 6 years track record and many new propositions are coming to market, some built on the technology and infrastructure of existing players (Fidelity/Betterment), some built on new proprietary models.



The capability and technology exists to provide these services and the growth in their use in the US market has been strong. The first movers have generally been innovative start-up firms (Betterment, Wealthfront) but more recent market entrants have been established market participants (Charles Schwab, Vanguard).

Established market participants claim they can bring the following benefits to clients[29]:

- More accessible, engaging services, delivered digitally like many other mainstream financial services (e.g. everyday banking)
- Cheaper underlying investment instruments than mainstream mutual funds (Unit Trusts, OEIC's)

[28] Source Vanguard, Rise of the Machines October 2015
[29] Source company websites

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- Asset allocation better matched to investors goals and risk assessment
- More efficient rebalancing of portfolios following market moves, automated process
- More educated investors, reducing 'bad habits' of inexperienced investors e.g. selling in market downturns

Betterment

Based on a $100,000 portfolio, with a 70% stock allocation, after Betterment's fees.	
Passive investing	+1.25%
Better Diversification	+1.40%
Automated Rebalancing	+0.40%
Better Behaviour	+1.25%
Total Additional Returns	+4.3%

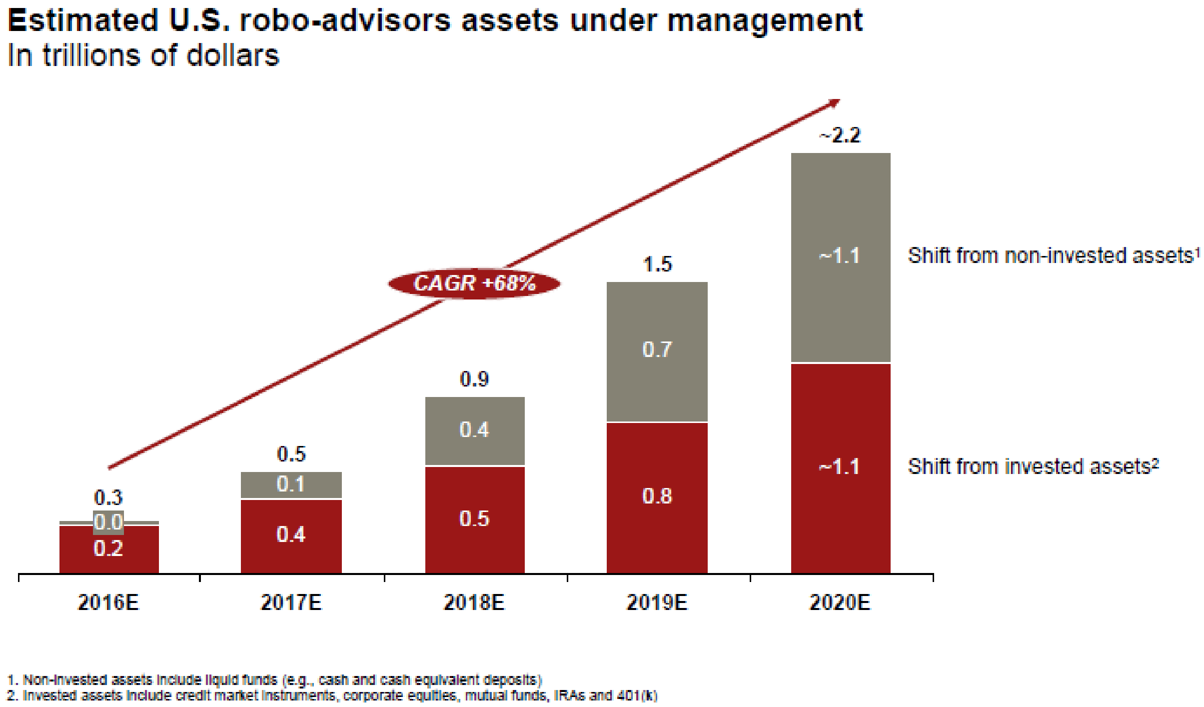
Wealthfront

Based on a $100,000 portfolio, after Wealthfront's fees.	
Index Funds Over Mutual Funds	+2.1%
Tax-Loss Harvesting	+1.0%
Optimal Allocation	+0.5%
Automatic Rebalancing	+0.4%
Tax-Aware Allocation	+0.6%
Estimated Additional Return	+4.6%

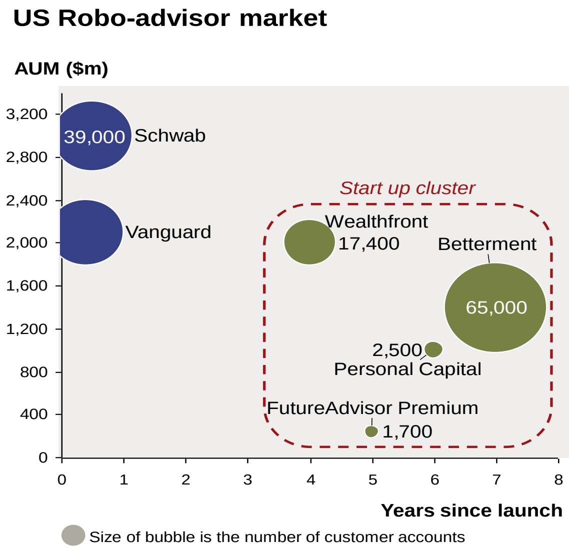
Source: Betterment.com; Wealthfront.com.
These tables are for illustrative purposes only, and are not intended to predict future performance.

It is estimated by the Aite Group that by the end of 2015 around $60bn will be invested via robo advice offerings in the US market. This still represents only 3% of total investable assets but the growth in recent years has been very strong. Projecting growth rates[30] from customer profiling and research shows that an increasing share of the market will be adopting this strategy.

[30] AT Kearney Hype vs Reality: The coming waves of Robo adoption June 2015



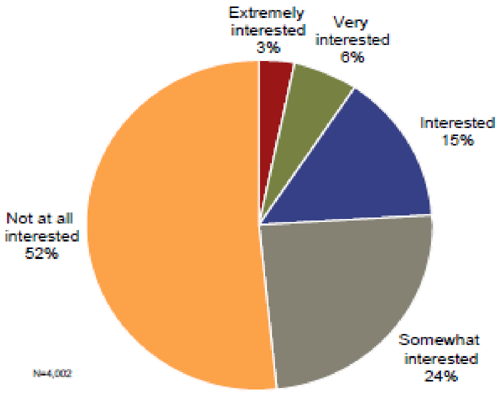
Whilst, thus far, the UK market participants are relatively small, a similar pattern featured in the growth of the US market, when a number of established market participants with extensive customer reach launched services that have accelerated investor adoption markedly.



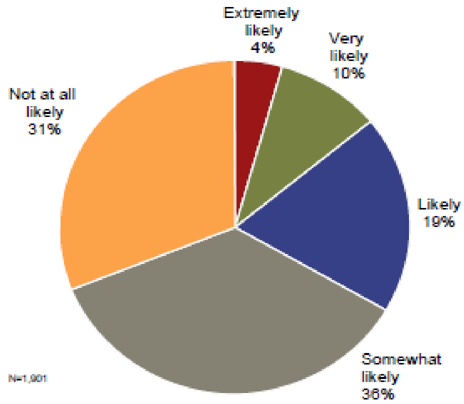
The proposition looks likely to continue its growth in market share and be adopted by more firms as an attractive facility to offer its investors.

In building these propositions US firms have investigated what type of demand there is likely to be. Whilst these findings cannot be translated directly into UK outcomes, early UK customer research is reflecting similar findings, so the generic trends we believe are material and relevant.

Interest in robo-advisory services
% who selected each level of interest in robo-advisory services among banked consumers



Likelihood to use robo-advisory services to manage household taxable investable assets
% who selected each option among banked consumers whose households own taxable investable assets and are at least somewhat interested in robo-advisory services



Note: Taxable household investable assets include liquid funds and taxable invested funds in brokerage/investment accounts, but exclude funds in non-taxable accounts (e.g., IRAs) and other retirement plans (e.g., 401(k)s)
Question: How interested are you in using (or continue to use) automated investment advisory services, also known as "robo-advisors," to manage and invest part or all of your household financial assets?; Over the next 12 months, how likely is your household to use (or continue to use) automated investment advisory services, also known as "robo-advisors," to manage and invest part or all of your taxable household investable assets (include liquid funds and investments in brokerage accounts, but exclude funds in IRAs and other retirement plans)?

A study was undertaken by AT Kearney[31], comprising a nationally representative sample of 4,000 US households that held a regular Current or Savings Bank Account. The research showed that just under half of customers were at least somewhat interested in the robo advice services and of those two thirds were at least somewhat likely to use them

Robo advice is not a proposition that will appeal to all people and this research highlighted that existing confident self-investors were likely to be the first adopters, as they realise the efficiency of the lower costs and digital delivery. As the propositions mature and become

[31] Source AT Kearney 2015 Robo Advice Services Study

more proven the adopter base is likely to broaden, pulling in all kinds of advised customers and some first time investors.

Source AT Kearney 2015 Robo Advice Services Study

Early adopters	Second wave adopters
▪ Younger consumers (50% under 35 years old) ▪ Highly employed (74% employed full or part time) ▪ Sophisticated and risk-taking investors (e.g., high penetration of investment accounts, 20% self-described as risk takers)	▪ Slightly older than early adopters ▪ Highly employed (71% employed full or part time) ▪ Less sophisticated investors (44% novice investors) and more cautions investors

Another key finding was that adopters are unlikely to place all their current investments in the proposition (early adopters likely to place 40% of their investments in robo advice service, second wave a more cautious 19%) and that the monies are likely to come from other liquid savings (e.g. moving money from deposit based savings accounts) firstly and then a mix of existing investments and new money.

The ranking of importance of proposition features by investors was pricing (low cost and transparency), investment expertise, simplicity (easy to use) and relationship services.

The study established that there was increasing investor appetite for the service and that as the services mature the appeal will broaden from experienced investors to a wider audience but that the expectation was that the service would deliver easy to use, personally tailored investment solutions at a lower cost than existing market norms.

5. Responses to Consultation Questions

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

No response.

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

TISA would like to see a clear articulation of what is guidance versus advice, ideally with clear water between the two definitions. People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation and is instead designed to help people make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Part of the confusion has been created by complex rules and the application of different standards whereby information provided by a third party such as MAS is treated as guidance, but the same information provided by a product provider becomes advice.

In setting rules around guidance versus advice, we suggest that the Treasury and FCA also consider the wider European dimension, for instance MiFID already defines guidelines and further work is currently underway across the commission that will affect future definitions.

We support a Kitemarked guidance framework that can be adopted by financial services firms as well as independent information organisations, Government backed bodies and the third sector. We would also like the guidance definition to accommodate human support so that people are not limited to online guidance and can benefit from a person helping them to navigate the information available within the guidance framework.

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

The demand for advice is driven by a very wide range of issues. We have identified a number of these factors more generally in our response and have summarised some of the bigger issues here.

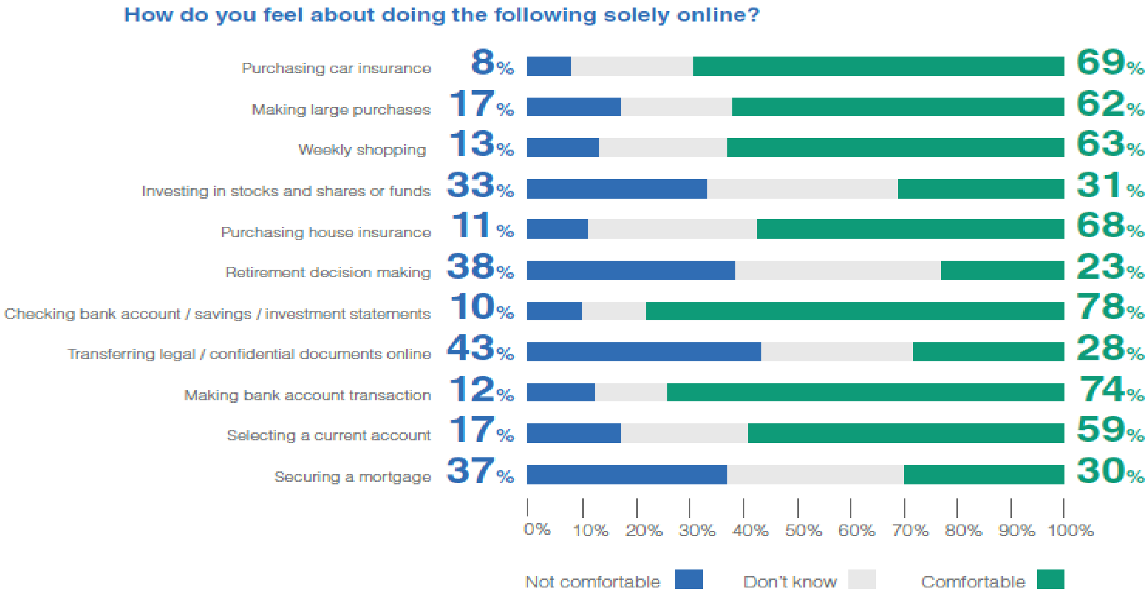
- The lack of financial education amongst the population as a whole has created a society where people are missing a basic understanding of the importance of financial planning and the key skills to manage their money. The research cited within our response clearly demonstrates this issue. This is one of the key triggers that would encourage greater consumer engagement with money matters
- This can also be seen in the propensity for people to hold cash rather than diversify into asset types that better meet their financial objectives, plus their appetite to see housing as a means to provide for their retirement. Both of these approaches reduces the need to seek professional advice as people tend to make their own decisions about cash and housing
- We hear much about trust, which in itself is hard to quantify what this means as well as hard to measure. What is clear is that the media, the regulator and the Government typically present a negative image about financial services and there is a lack of balance in communicating the positive contribution the industry makes to society. It is not evident how the industry can ever engender trust in consumers if this level of negative commentary continues. This also puts people off seeking advice as the perception is that they will be ripped off
- People have not yet woken up to the fact that responsibility has shifted from the state and employers to the individual. People would be much more likely to seek advice (or guidance) if they understood that their financial security sits predominantly with them
- There is still a strong demand for advice, especially in areas that are deemed complex (such as pensions) but the evidence shows that only people with higher levels of income and wealth tend to use advice services, which we think has a strong correlation to cost. This is why alternatives to a comprehensive advice service is critical to meets the needs of the lower and middle income population.

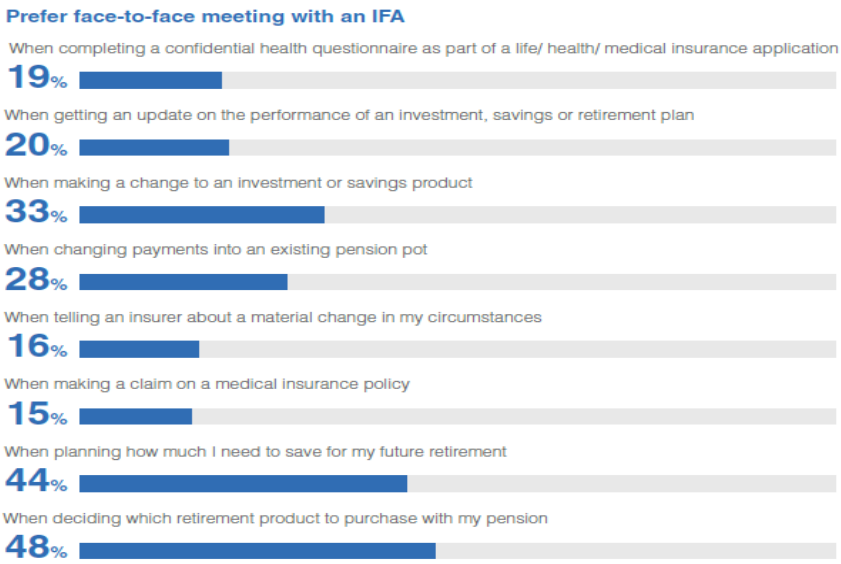
4. Do you have any comments or evidence on the level of demand for advice from sources other than professional financial adviser?

No response.

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

Recent research by Iress[32] provides insights into the ways that people are using online solutions versus advice to help them in making decisions about their financial affairs. This also provides evidence of the sort of matters that people seek advice on, which is unsurprisingly areas of greater complexity.





32 Iress – Data, disruption and the digital consumer – April 2015

However, we strongly advocate encouraging everyone to have a financial plan that sets out their life-long goals to provide a much greater focus on a household's financial affairs and become a catalyst for better management of their money and financial security.

Having a life-long plan will help millions of households to consider their various short, medium and long-term goals as well as how they might be achieved. One of the biggest reasons for financial apathy is the lack of focus and having some clear targets. Encouraging households to both set up a plan and revisit this in a regular basis (say annually or semi-annually) will provide a mechanism for actively managing their money. Not only will the plan help them to action immediate goals, it will help households to consider and plan for events that they are likely to encounter in later life.

Having a financial plan will also encourage to have better record keeping of their various savings and investments as this will be required to track how they are doing.

We believe that having a financial plan is one of the foundation blocks to people seeking guidance and advice and being much more proactive in managing their financial future.

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

Yes. The Consumer Spotlight model is a helpful tool in providing greater granularity to the categories of people, their profile, wealth, income and their potential needs.

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

Yes. TISA would encourage FAMR to focus on households that have more limited means and for whom a Kitemarked guidance framework accessible from multiple organisations would have a big impact. This would include but not limited to Hard Pressed, Striving and Supporting, Living for Now and Retired on a Budget.

In addition to the Consumer Spotlight categories, we would suggest that all households on low to middle incomes and with non-pension savings of less than £50k should be given high priority when seeking solutions that will help this population manage their finances better. This represents c70% of the population according to Treasury and FCA FAMR consultation.

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

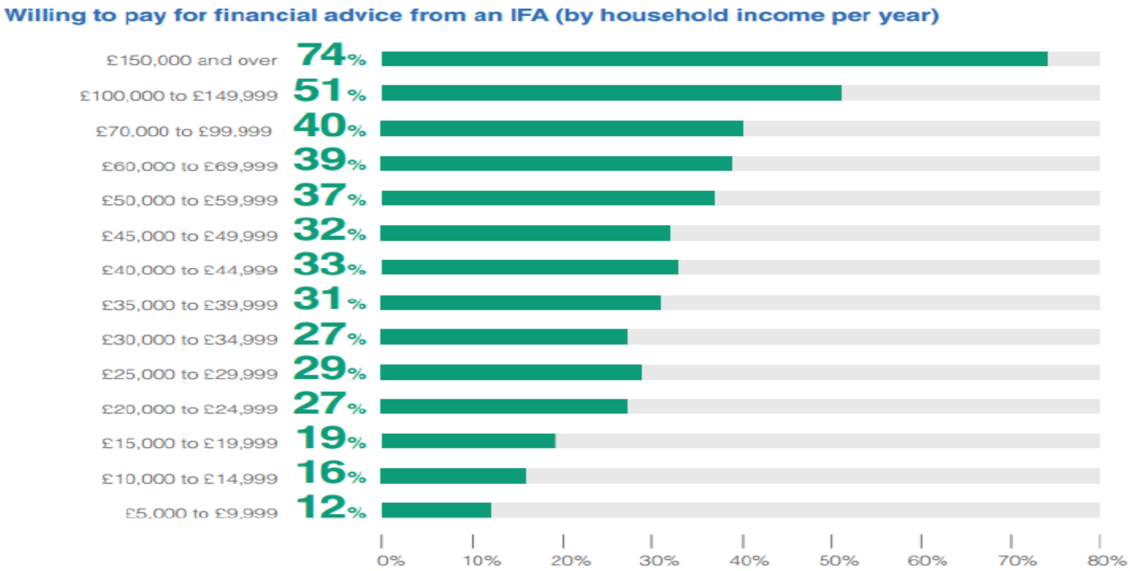
Recent research by BlackRock[33] (see table below) would imply that individuals with less money have a lower propensity to seek advice from a professional, with many of them having never used the services of an adviser. One third of individuals with large savings have never sought advice.

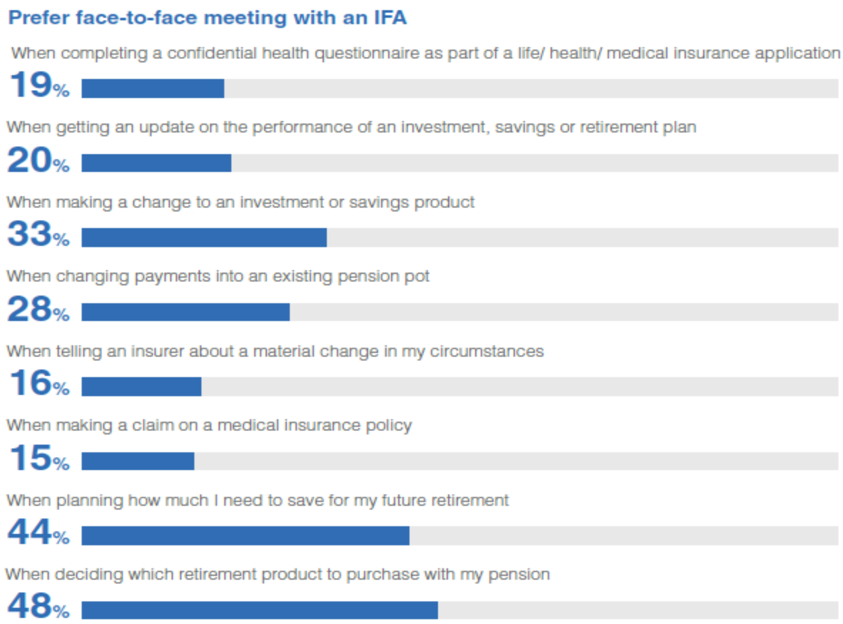
UK - Estimate of the total value of household's wealth and assets. Do use an adviser?

	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

The effects of increasing the costs of advice resulting from the introduction of the RDR and the impacts this has had on people is still being assessed and opinions vary in terms of the extent of that change. However, it is reasonable to conclude that with a growing population of "orphan clients" and the economics of advice businesses, that less people have access to cost effective advice than in the past.

[33] BlackRock – Investor Pulse – November 2015





It is also unsurprising that in recent research[34] by Iress (see charts above) looking at the willingness to pay for advice those with higher levels of savings had a greater propensity to pay for the service. This also makes sense in relative terms as the costs are proportionately lower. The research also provides findings on the sorts of transactions where people prefer

[34] Iress – Data, disruption and the digital consumer – April 2015

face-to-face advice. Unsurprisingly, this tends to be for more complex, important decisions rather than matters which can be dealt with online or without expert support.

Advice use in the UK by income and wealth. Do you currently use the services of a professional financial advisor? A financial advisor could include an advisor at your bank, insurance company, a broker or an independent advisor?				
	Use financial advice	Don't currently use financial advice but have done in the past	Never used financial advice	Combined non-advised
Proportion of overall sample	17%	30%	53%	83%
Median average personal income (£)	27,754	22,534	15,978	18,064
Median average personal savings and investments (£)	53,333	24,063	6,831	10,144

The BlackRock research (table above) also covers the use of advice according to income bands and savings. This re-enforces the case that households with lower incomes and less savings make less frequent use of financial advice.

If we assume that a reasonable proportion of this group see themselves as benefitting from financial advice but perceive that costs of advice are too high, this would further encourage us to create a guidance framework to meet that need.

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

See response to question 3 above.

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

Promoting Financial Wellbeing for the UK

TISA believes that the focus of the FAMR on advice should to be balanced with the need for also addressing how we can enhance the financial guidance currently available to people as well as increasing access.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
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£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

Recent research from BlackRock[35] indicates that almost 80% of people with between £20k and £50k of savings have either never used advice or have stopped using advice. This increases to 93% not using advice for those with £10k or less in savings. These groups made greater use of advice – 37% and 26% in 2014 respectively versus 18% and 6% prior to 2014 (see table above). The same research also found that:-

- Only 15% of those with a personal income of less than £50k currently use an advisor and this proportion decreases the less people earn
- Those who are no longer using advice come from all income levels. As many with incomes greater than £50k (34%) have dropped out of the advice market as those with incomes of less than £50k (30%).
- The primary reason given by those on lower incomes not continuing to use advice is because advice was used for a one off. Advice usage tends to be for a specific need, rather than creating a long-term advice relationship.
- However, the main reason for those who are earning £50k+ and no longer using advice is cost. 31% say it is too expensive. This is coupled with more than a quarter of these individuals believing they can do a better job themselves.

[35] BlackRock – Investor Pulse – November 2015

Not only does this indicate that there is a demand that is no longer met, we also need to take into consideration the population that would benefit from better management of their finances. Extracts of MAS research points towards 40% of adults not being in control of their finances, 50% of people with families have no life cover and 12 million people who are not saving enough for retirement.

Clearly there is a broad based need for support with managing financial matters, especially amongst the low and middle income families. To give a sense of scale, at least 20% of households would benefit from help with debt management, 60% are households with non-pension savings of £50k or less and 40% of households who have pension pots of less than £100k.

Hence, TISA is strongly recommending developing a broad scoped, Kitemarked guidance framework, made available through Government bodies, financial services and the third 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?

No response.

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

We believe that "robo advice" presents an opportunity to provide the mass market and mass affluent with a solution that in effect is a low cost discretionary management service. The private banking and wealth management industry has progressively been moving towards discretionary services that are based on model portfolios aligned to risk profiles for investment and income objectives so many aspects of robo advice are not new, rather that it is now being aimed at a lower savings threshold.

We think that this is a development that sits alongside full advice as an option for accessing portfolio management at a lower cost. We would therefore like to share research on robo advice to add to the debate.

There is a strong hypothesis being promoted in the industry that automating the advice process and delivering it digitally to customers has the potential to address a number of the issues raised in the Review.

This is clearly a solution that fits in the advice space and associated regulatory environment and which could provide a good solution for people who have larger pension and non-pension wealth.

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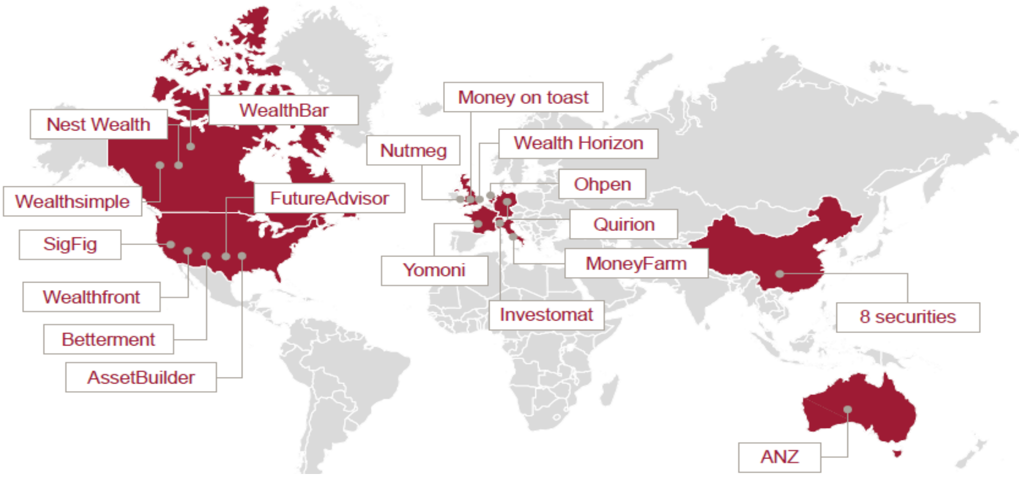
[36] Source Vanguard, Rise of the Machines October 2015



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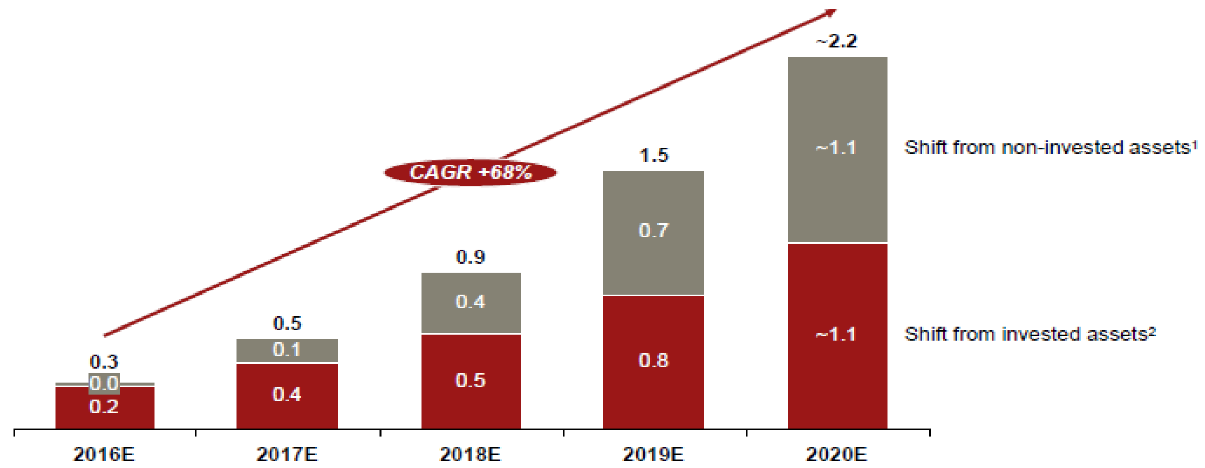
It is estimated that by the end of 2015 around $15bn will be invested via robo advice offerings in the US market. This still represents only 3% of total investable assets but the growth in recent years has been very strong. Projecting growth rates[38] from customer profiling and research shows an increasing share of the market will adopt this strategy.

Estimated U.S. robo-advisors assets under management
In trillions of dollars



1. Non-invested assets include liquid funds (e.g., cash and cash equivalent deposits)
2. Invested assets include credit market instruments, corporate equities, mutual funds, IRAs and 401(k)

38 AT Kearney Hype vs Reality: The coming waves of Robo adoption June 2015

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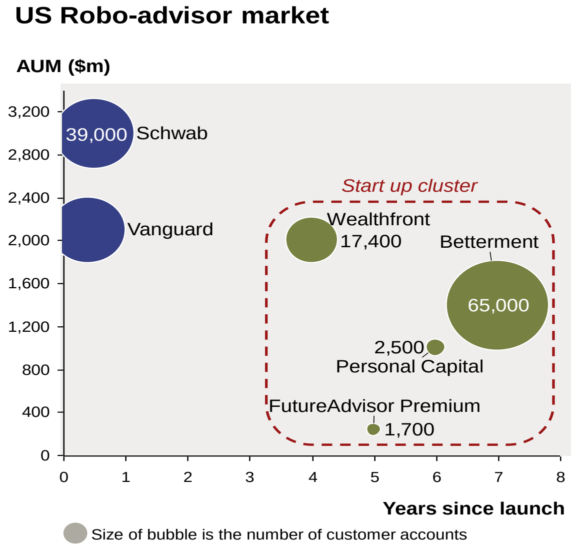

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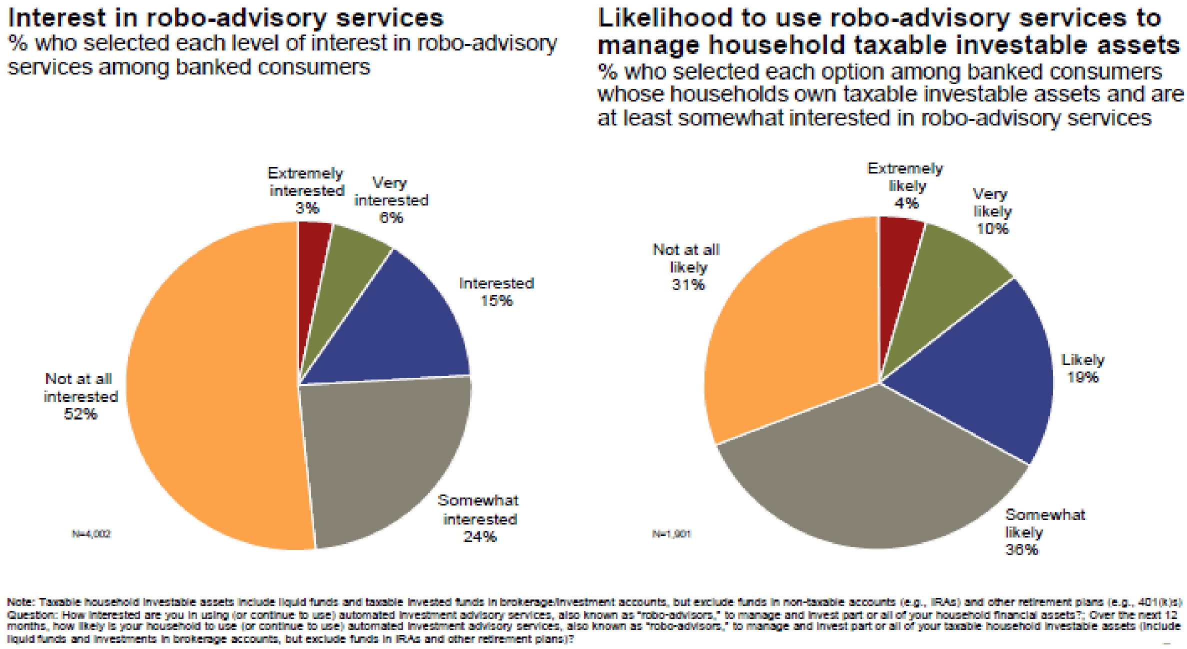

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The study established that there was increasing investor appetite for the service and that as the services mature the appeal will broaden from experienced investors to a wider audience but that the expectation was that the service would deliver easy to use, personally tailored investment solutions at a lower cost than existing market norms.

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

No response.

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?

No response.

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

No response.

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

Financial services firms are currently both unable and unwilling to provide basic financial information / guidance to people as this can currently be deemed as advice. This is despite the fact that non-financial services companies are permitted to offer such guidance.

We commend the services that MAS and others already provide regarding financial guidance and believe that making this guidance more broadly available throughout financial services could greatly enhance people's awareness of such services, access and engagement with financial matters.

TSIP recommended in March 2015[40] that financial guidance is made more accessible to the public and that the FCA should work with the industry to agree a set of guidance principles. We have extended that proposal here by describing a Kitemarked guidance framework in our recommendations.

Key barriers include the way that the interpretation of advice can be defined on a case by case basis and that the industry cannot use terms such as "people like you" or rule of thumb principles around savings objectives.

We are therefore calling for a clear definition of a regulated guidance framework that will enable financial services firms to provide the breadth of guidance proposed in our recommendations.

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

We think that the advice gap is made up of two separate components:

- The set of people that want advice but for various reasons do not engage with an advisor (e.g. cost)
- The set of people that would benefit from advice but fail to understand the need to manage their financial affairs

TISA believes that the focus of the FAMR on advice should to be balanced with the need for also addressing how we can enhance the financial guidance currently available to people as well as increasing access.

Recent research from BlackRock[41] indicates that almost 80% of people with between £20k and £50k of savings have either never used advice or have stopped using advice. This increases to 93% not using advice for those with £10k or less in savings. These groups made greater use of advice – 37% and 26% in 2014 respectively versus 18% and 6% prior to 2014 (see table below).

Not only does this indicate that there is a demand that is no longer met, we also need to take into consideration the population that would benefit from better management of their finances. Extracts of MAS research points towards 40% of adults not being in control of

[40] TSIP – Saving Our Financial Future – March 2015
[41] BlackRock – Investor Pulse – November 2015

their finances, 50% of people with families have no life cover and 12 million people who are not saving enough for retirement.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		**No, although I have in the past**		**No, never used**		**Net: No**	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

Clearly there is a broad based need for support with managing financial matters, especially amongst the low and middle income families. To give a sense of scale, at least 20% of households would benefit from help with debt management, 60% are households with non-pension savings of £50k or less and 40% of households who have pension pots of less than £100k.

Hence, TISA is strongly recommending developing a broad scoped, Kitemarked guidance framework, made available through Government bodies, financial services firms and the third sector.

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

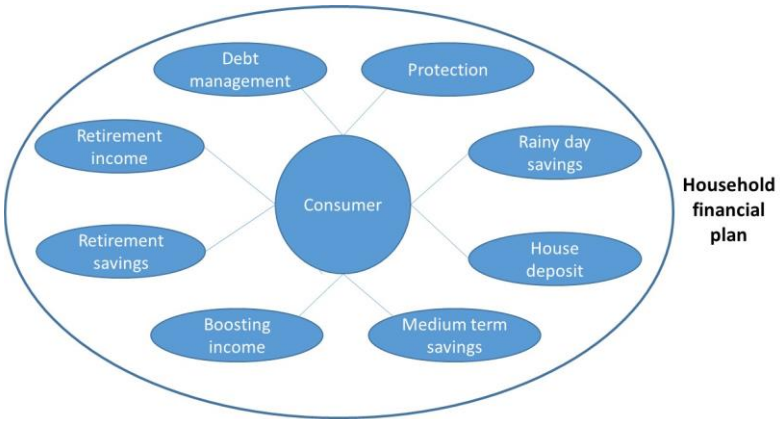
See response to question 17 above.

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

Our view is that the advice gap is primarily low and middle income families with limited financial means that either recognise a need for support in making financial decisions plus those that may not have understood the benefits of better money management. We are advocating a Kitemarked guidance framework to assist this population in making better, informed financial decisions.

We think that the scope of the guidance framework needs to be focused enough to be relevant for that audience, yet broad enough to meet the needs of a household with limited means. Our proposed framework (for discussion) would cover debt management, a range of savings goals, plus enhancing income both before and at retirement. These actions should be encompassed within a financial plan that is maintained and reviewed on a regular basis.

Potential high level scope of a Kitemarked guidance framework



The framework would be regulated to provide consumer protection and be restricted to regulated, non-complex products and tax vehicles. As well as protection options, this would enable the guidance to cover a range of savings and income needs and incorporate information on tax efficient vehicles such as ISAs and pensions. This is increasingly important as people use a range of savings vehicles for their retirement provision. We propose that guidance cover cash, bonds and equities so that people are informed about options on asset types for short and long-term savings and investments objectives. As well as core cash option, such as deposit accounts and cash ISAs, guidance would also inform people about mutual funds, insurance bonds, vehicles such as ETF's as these products provide investment diversity for people who wish to invest in bonds or equities.

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

There are considerable bodies of evidence that show people are failing to do enough to manage their affairs in a way that will provide them with financial security and wellbeing, which often results in additional burdens on the State.

Recent research by MAS[42] includes:

- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

TSIP's research[43] includes:

- One third of UK households have no savings at all
- 66% of low and middle income families have £1,500 or less in savings (roughly equivalent to 1 month's salary)
- Saving has been replaced by credit to fund consumption
- Active membership of employer pension schemes was 34% (in 2011 - this has now risen to c45% as a result of auto-enrolment but with very low contribution rates)
- Responsibility for financial security in retirement has shifted to the individual but they have not responded by taking action to make adequate contributions to their retirement savings
- There is a tipping point in 2035 when the generation retiring will be worse off than earlier cohorts

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

See response to question 19.

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?

[42] MAS – The Financial Capability Strategy for the UK – October 2015
[43] TSIP – Our Financial Future - 2014

Yes, plus that this should also be extended out to include guidance along the lines of the recommendations we have made to develop a Kitemarked guidance framework for the population of people that will not have access to affordable advice.

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

Yes.

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?

There has been robust and consistent feedback from our members that there needs to be clarity around what is guidance versus advice, ideally with clear water between the two.

People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation but is designed to help consumers make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Please also see response to question 16 above.

We also strongly advocate the need to have an awareness campaign that clarifies the difference between guidance and advice and want people can expect from each service. In its simplest form:

- Guidance is the provision of information that describes typical generic financial needs and helps the consumer to make an informed choice. The outcomes of guidance will only consider UK regulated products. There are no recommendations and no recourse to the provider of the information. Kitemarking and regulation will ensure that quality and consistency of information meets prescribed standards
- Advice provides a tailored solution for people and typically comes with a recommendation. Advice can cover the whole spectrum of financial products, including non-UK options. Advice is regulated and the consumer has recourse to the provider of the recommendation / advice

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?

TISA believes that the EU regulatory process does not engage sufficiently with directly affected businesses in the UK. This is because the legislative and regulatory process does not directly involve firms and the mechanisms that do exist to provide representation need to be made more robust. The result is that when Directives are passed, affected firms have often not contributed sufficiently to the legislative process.

This is particularly relevant to the provision of financial advice. For example, in the case of MiFID II, the Directive makes changes in three areas, which directly impact the provision of advice, all of which add to cost and complexity. For the purposes of this response we have not opined on whether there are consumer benefits which outweigh those costs, but point out the costs.

The three areas are:

1. **Telephone recording of calls which may lead to advice being given.** The relevant Articles require that records be kept for 5 years. Because most calls to a business giving advice may result in advice being given, firms will be bound, from prudence and regulatory fear, to record all calls with customers, whether or not they lead to advice, and keep them for 5 years, not 6 months or a year. In reality firms may be required to keep recordings of calls indefinitely to prove they were innocent as there have already been cases of fines being imposed where this had not happened. This will lead to higher costs for the provision of advice.
2. **A requirement on firms to ensure that they test the Appropriateness of investment products prior to customer purchase.** The scope of this test has been widened under MiFID II to include products, such as investment trusts and ETFs, to which this test was not previously required. TISA is leading an industry working group to develop a Best Practice Guide for firms in this area. Designing a test that is meaningful must apply not only to online business but also to call centre and post business. The tests will require more interaction with customers, even for D2C business than at present and this will raise the cost of doing business.
3. **New requirements around Product Governance imposing new obligations on firms giving advice.** The Directive imposes new requirements on product manufacturers (typically fund managers) to ensure that products are sold appropriately by distributors, (that is, typically, advice giving firms). TISA is also leading an industry working group to determine the implications of the Directive and develop a Best Practice Guide for affected firms. In particular, the Directive will require distributors

to share with product manufacturers, information about target markets (customers) and how products are used by distributor customers. And because they deal with over a hundred such firms, will have to design and build systems to do such reporting in a consistent manner. This will be a significant IT cost on distributor firms, which will be bound to raise the cost of advice such firms give.

The industry as a whole only became aware of the implications of the Directive when the FCA consulted, in a Discussion Paper in May 2015, on some key parts of the Directive. But this is too late to change the Directive. We conclude that the current EU regulatory process is too remote from affected firms. Although the FCA has attempted to keep the industry abreast of EU proposals as they develop, this has tended to be at too high a level. We recommend that the Government seek to improve the EU regulatory development process to ensure that the Commission produces earlier and fuller detailed discussion papers and consultation papers that actively seek input directly from affected firms.

There are Directives in train, such as the Insurance Distribution Directive, that will affect distributors of non-investment insurance business, and hence the cost of advice, which we believe the review should take into account.

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

We are failing to provide a basic financial education for UK citizens which is the foundation from which people can understand both the need and the benefits of saving. Recent research by MAS[44] includes:

- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 20% could not read a bank statement
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

Financial education was put onto the secondary school curriculum in 2014, but this only covers 45% of schools and there is no budget to train the teachers who will be delivering the syllabus. This does not take into consideration that research also points to relationships between young people and money becoming fixed as early as 7 years old, implying that we

[44] MAS – The Financial Capability Strategy for the UK – October 2015

are not doing enough early in the education cycle to have a real impact on future generations attitudes to money.

We recognise that financial education is not part of the FAMR consultation, but we believe that to create the demand for financial advice to a large degree begins with education of all age groups.

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

We would like to respond to this question within the context of how people might be presented with investment options that have been approved by the Government / regulator as part of the proposed Kitemarked guidance framework. This also ties up with the precedent in the UK whereby employees signing up to auto-enrolment are offered default savings options deemed to be appropriate for their savings objectives.

The US wanted to encourage individuals saving into Individual Retirement Accounts to focus on outcome-oriented investing, recognising that people needed help in allocating their savings across asset classes with the purpose of achieving better outcomes. This was achieved by defining a suite of asset allocation products as being "safe harbour" i.e. there was no recourse for people who chose this option. This was delivered through the US Pension Protect Act of 2006 ("PPA")[45]. In many ways this is similar to the concept of the default funds within auto-enrolment.

TISA would like the FCA to consider adopting such an approach for a wider set of longer-term investment objectives so that people can be offered some regulated default options, within a regulated guidance framework. This would help overcome the challenge of people who are unfamiliar with the range of options resorting to cash (or indeed property) as the only forms of saving that they understand, even where this exposes them to poor returns (and recently negative returns) and the risk of holding a single asset.

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

No response.

[45] Pension Protection Act, Pub. L. No. 109-280, 120 Stat. 780 (2006).

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?

Providing the equivalent of safe harbor to a limited range of regulated products within our proposed Kitemarked guidance framework offers a pragmatic solution to help people select options that suit their savings and investment objectives.
Given most people's lack of financial knowledge, we believe that providing a limited range of default options that help move people towards asset classes that are better suited to their savings objectives will result in better outcomes overall.

According to Datastream research undertaken in 2014, the real annual returns on cash, bonds and equities over the last 30 years was 3.05%, 5.18% and 5.23% respectively.

TISA have also provided below data from Barclays comparing the same asset classes over different and longer time periods. This demonstrates that whilst cash is not supposed to lose you money (which it can do after inflation), investing in other options will often be a better outcome for medium and long-term savings.

UK real asset class returns (% per annum)[46]

	10 years	20 years	50 years	115 years
Equities (shares)	4.1	4.6	5.7	5.0
Government bonds (Gilts)	3.7	5.1	2.9	1.3
Cash	-0.7	1.1	1.5	0.8

See also response to question 27 above.

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

We already have an aspect of safe harbor operating in the UK in the guise of auto-enrolment defaults which include more complex asset classes such as bonds and equities to

[46] Barclays Capital Equity Gilt Study 2015

reflect the long-term nature of the investment. These default options would seem to engender confidence amongst the people that have selected this option as being the right thing to do because it has been approved by a third party with appropriate specialist knowledge. Equally, without this option being a default investment, it is likely that unless receiving advice, these same people would make poor investment choices.

We believe that these principles could be extended out to other areas of people's financial needs whereby there would also be default options for instance with rainy day savings. Theses defaults would be part of the Kitemarked guidance framework and, like the auto-enrolment default, would carry no liability for the organisation providing the information that resulted in a person adopting the default option.

This would enable the Kitemarked guidance framework to provide a range of simple default options to meet some basic financial needs to low income, low wealth households.

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

TISA are proposing that the FCA work with the financial services industry to define a Kitemarked guidance framework. This will establish the range of financial needs that people face and the customer journeys that they will take. The framework would be designed to help low and middle income households make informed decisions on specific savings objectives, with reference to full advice where complexity of their situation deemed considering advice a better option.

This would likely include guidance outcomes such as saving for a rainy day fund, being a cash reserve that is available to meet unexpected events such as a broken boiler or redundancy. A default option for this could be a cash ISA, with the consumer then being responsible for finding a preferred product provider. Another example may be a person seeking to put savings aside for the longer-term having already built up a rainy day fund. The default option here might be a stocks and shares ISA with information on Gilts and Blue Chip collectives or ETFs. The person would then need to select a provider that offered these products.

The consumer's interests would be protected by a regulated guidance framework that provided information on regulated products using formulas agreed with the FCA.

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

No response.

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?

No response.

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

No response.

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

See response to question 31 above.

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?

See response to question 12 above.

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

The Virtual Regulatory Sandbox concept announced by the FCA in mid-December 2015 has the potential for the industry to work with regulators to create agreed open standards and develop AI and advice models, overcoming perceived digital barriers. This would help the evolution of automated models to provide guidance and advice to consumers.

This would provide an environment that enables firms to test their solutions virtually without entering the real market. A number of large firms already have similar solutions for testing technologies but these operate separately from each other and with data utilised only from the owners of these facilities. The virtual sandbox could be, for example, a cloud-based solution set up and equipped in collaboration between the industry, possibly on agreed open standards, which businesses then could customise for their products or services, run tests with public data sets or data provided by other firms through the virtual sandbox, and then invite firms or even consumers to try their new solution. In this environment, there is no risk of consumer detriment, risk to market integrity or financial stability while testing. A virtual sandbox could be used by all innovators regardless of whether they are authorised or not. It could be most useful for small start-ups who cannot build their own sandboxes. Technology companies seeking to engage with incumbents may also benefit, being accepted into a virtual sandbox may encourage more incumbents to engage with the new solution. This environment could also allow collaboration between a number of businesses and other interested parties (e.g. academia) to develop innovative solutions quicker and in a more informed way. TISA and the industry is well placed to set up a useful virtual testing environment itself. However, FCA would need to be involved, to facilitate collaboration between interested parties and provide support when the virtual sandbox is being developed. Outputs could be made available to FCA enabling access to the results of the virtual sandboxing activity.

The Umbrella Sandbox is less attractive to industry, due to the time it will take to set up and a regulated authority or company has to run it. It is worth noting that the appointed representative regime is not available for all regulated activities, so not all innovative businesses would be able to use the sandbox umbrella. For example, this regime does not apply to insurance underwriting and managing investments. These firms would need to use the restricted authorisation option described in Chapter 3 of the FAMR consultation paper to participate in the sandbox.

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

The sandbox testing and similar testing development work that TISA has undertaken with its Digital Identity project could help to identify these issues in greater detail.

However, the main consumer consideration is accessibility and ease of access to the automation and an understanding of whether what is being provided is information, general guidance or authorised advice, as referred to elsewhere in this response.

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

Already covered in responses to earlier questions.

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?

No response.

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

See response to question 31 above.

6. About TISA and TSIP

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investments world, extending our standing as trusted adviser over a much greater remit.

TISA has a successful track record in working cooperatively with Government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services industry, incorporating cross-sector policy, industry and technical expertise. Whilst we maintain a solid partnership with Government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

About TSIP

The TISA Savings & Investments Policy project (TSIP) is an unprecedented coalition of 50 leading organisations and includes building societies, banks, life companies, asset managers, advisers, professional service firms, all the key trade bodies and importantly, consumer groups including MAS, TPAS and Age UK. TSIP established by TISA in 2013 to develop policy recommendations that will re-establish a savings culture in the UK, with a focus on low and middle income households.

This group has developed a range of proposals[47] covering education, guidance, digital engagement, pension reform and Government organisation. TSIP also works with the broader TISA membership of 160 firms who contribute thought leadership through Policy Councils and Technical Committees and the combined expertise has been captured within this response.

[47] TSIP - Saving Our Financial Future Policy Recommendations, March 2015

Towry Limited FAMR Response

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

Historically, there has been little consistency in the nomenclature applied to advice or planning services. Many of the terms that have become commonplace across the industry have been marketing led – and in some cases do not accurately reflect the service that a client can expect to receive.

We favour simplicity and clear boundaries within clearly segmented categorisation:

- Education and Guidance – information and context required to establish relative merits of a given course of action.
- Product Advice – advice specifically leading to a transaction.
- Financial Planning – advice that is holistic and covers a broad range of strategically aligned items.

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

Effective education (across all age groups) and a widespread awareness around the benefits that professional advice can bring into people's lives remain sub-optimal in the UK. The relative merit of different channels and/or transmission mechanisms remains unsubstantiated while significant information asymmetries remain within the system.

Our experience within Towry has been that clients strongly value the link between planning services and investment management.

In addition, we have seen an increased demand for broadly based planning services in the wake of Pension Reform. In particular, clients have been expressing a greater interest in estate planning given that this discussion is perceived as inextricably linked to the assessment of pension options at or around retirement and implications for later life.

Government reform and increased policy movement towards self-provision are strong drivers for professional financial advice.

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

We recognise that clients are positively adopting technology and this has the potential to be a disrupter for 'low-value' business models over time. Although we have observed an increase in the desire to 'self-select' among more sophisticated and financially literate individuals within the Towry client bank, this has not been widespread as yet.

Our 2015 client satisfaction survey confirms a strong link between client retention and high value applied to the merits of face-to-face financial planning advice

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

We agree with the 'common financial issues' that are outlined in that FAMR Call for Input paper.

Additional points would include:

- Inter-generational wealth transfer
- Construction of a financial plan that aligns the transactional/event driven activity listed into a coherent and prioritised plan of action

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

Yes. The segmentation model is a helpful starting point in making some clear distinctions. Equally, there may be certain limitations in its application as consumers may exhibit aspirational or defensive behavioural characteristics/bias that apply to a cross-section of segments rather than a defined categorisation.

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

Please see our response to Q6.

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

Firstly, we would point out that there is not always a linear relationship between the <u>demand</u> for advice and the <u>need</u> for advice. Generalisation via wealth segment runs this risk of overlooking this important distinction.

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

We agree with the points laid out in the FAMR Call for Input paper.

In addition we would add:

- Over-reliance on employer (an expectation that paternalistic relationship between employer and employee will result in optimal financial outcome at retirement).
- Incorrect assumptions (although related to the category of 'overconfidence' some clients will apply rules of thumb or planning assumptions that are unrealistic or subjectively biased)
- Influence of 'trusted sources' (applying general commentary from trusted 'brands' and 'commentators' to specific circumstances that are inherently misaligned).

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

There is a structural limitation on the supply of high quality face-to-face advice capacity in the UK. This is a combination of the overall demographics applying to incumbent advisers, the fragmented nature of firms across the sector limiting possibilities for graduates and new entrants (previously supplied through direct sales forces and life companies) and the cost of regulation reducing the supply of fresh capital to aid expansion/innovation beyond the largest firms.

These competing dynamics have the potential to further exacerbate supply side economics and increase barriers to entry, potentially having a knock on effect to the direct/indirect costs of innovation.

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?

Although we recognise the positive impact that technology can bring (both as a disruptive force to 'low-value' propositions and through the introduction of new service channels), we expect the demand for high quality professional advice to increase for the reasons set out in Q10.

Firms that are fundamentally transactional in their construct are likely to experience the greatest competition around margin compression and substitution relative to technology based models.

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

We believe that technology and telephone based models (transactional, comparison, worksite and nascent 'robo' models) can add considerable value across the potential distribution landscape.

It appears self-evident that clarity within the regulatory framework (arguably via the codification of regulatory expectation) and alignment of definition/understanding with FOS will be required to harness the full potential of innovation whilst effectively aligning with good client outcomes. Further, given the systemic risks that technology models can possess, professional indemnity insurers should be an interested and engaged party to any collective dialogue.

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

The economics of providing advice need to be considered in their totality. In addition to the cost of service and client acquisition – there are a number of other costs that firms need to bear. These include regulatory fees, FSCS levy, governance, PII cover and overall compliance including T&C schemes.

We would request that 'fully-loaded' costs are considered as part of the FAMR, otherwise structural inequalities/ inefficiencies (which are widely known and subject to ongoing dialogue between regulator and industry) may go unaddressed. This in turn may render many of the objectives implied within the mandate of FAMR obsolete.

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 different means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

We think that simple and transparent remuneration (where the client fully understands the inherent value exchange) is effective. For mass market models where technology is deployed within the advice/transactional journey, industry adopted standards around limitation bands (an agreed range where the customer agreed remuneration process can be simplified) will help firms build robust a economic model and apply a level playing field where firms can complete on value and service.

Should the prime determinate be cost, the sustainability of enough market participants to create a healthy and functional market may be in question. Further, the impact of models that enter and fail because they cannot raise sufficient working capital to reach critical mass (mission critical for firms in this space) will be highly disruptive.

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

Within a segmentation exercise carried out in 2015 by Towry we established that clients with less than £50k were uneconomic to service. Those with £50k-£125k were economically serviced through a telephone based channel. Face-to-face services are priced on hourly rates relating to the scope and complexity of work required, while investment services carry a minimum entry level of £125k.

Q 16 Do you have any questions on the barriers faced by firms providing advice?

We recognise that effective regulation and a framework that protects/promotes good client outcomes is positive for all participants. Further, it is integral to the basis of advice being regarded as an effective and universally respected profession.

It is recognised that 'barriers' to entry can have certain benefits – however, we believe that the basis of indirect costs (as outlined in Q13) can be better defined and equitably apportioned.

Our observations largely echo those of the industry as a whole:

- The need for regulatory costs to be more predictable and reflective of the risks/business model within the firm.
- The basis of FSCS levy to be more equitably applied across the supply chain – especially where causation is based on product failure.
- Working with PI insurers to ensure that they remain committed to the sector and provide a scope of coverage that this consistent with firms regulatory commitments.
- Potential conflict between regulatory expectations (as set out via RDR) and European initiatives such as MIFID II.

In addition, we would point towards information asymmetries/inefficiencies. The ability to deliver advice at more competitive costs is reliant on availability of quality data (consistent with 'know your client' suitability requirements). This is not always available in a timely manner from product providers. Improved data quality will also accelerate the application and innovation within technology space.

Q17 What do you understand by the advice gap?

In general terms, while there is a widespread availability of products that can be transacted online or through other channels at fairly modest execution cost, it should be noted that access to expertise that can align personal needs, priorities and means into a coherent plan of action, and motivation to act on this plan, is limited.

It is important to remember that there is an advice gap, based on fixed costs associated with target market and incremental costs outlined in Q16. There is <u>not</u> a transaction gap.

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

It is difficult to gauge the true level of demand given that there are very few business models actively marketing and prospecting in this space, although workplace marketing will have a degree of penetration.

However, given the policy direction of self provision and personal home ownership coupled with longevity trends, it is a reasonable assumption to assume that the need currently outstrips demand.

Q19 Where do you consider there to be advice gaps?

Primarily around education and awareness (including financial literacy) to promote a better understanding of the financial system as a whole.

Further, better supporting the consumer in understanding the relationship between quality of coverage/outcome and cost would address an area of potential information asymmetry.

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

No response.

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

In addition to the 'At Retirement Market, we would propose three other priorities – all of which have a clear social benefit:

- Debt management and progression out of debt overhang
- Protection of dependents against death/disability (especially to cover debt)
- Supplement state provision for retirement through personal savings (does not have to be pension funding)

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

Yes – albeit in the context of our response to Q21.

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?

We agree with the initial categorisation.

We would suggest clients with <£100k of net assets and those who fall into the threshold of basic rate tax.

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?

In addition to the points laid out in Q15 – we would highlight the following:

- Although the conduct risk framework is helpful in protecting customer outcomes, codification of rules around simplified/limited advice would greatly assist in locking down effective business models and building internal risk mitigation and quality assurance around it.
- The various components of the wider regulatory framework are logical (COBS, FSCS, FOS). However, the execution is not joined up and on occasion appears to have competing priorities. Clarity around costs, accountability and liability (long-stop) would assist in promoting sustainable business models.

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 would strongly endorse any initiative that promoted clarity and consistency in the specifics of regulatory thinking. The industry has responded to a 'gold-standard' of regulatory evolution over the past six years, but standards and effective market participation can only be maintained by joined up thinking and precision inherent in the implementation, rather than preparing on the principles with details to follow).

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

We would endorse the following initiatives as having a high possibility of promoting professionalism and protecting customer outcomes:

- Introduction of Fiduciary Standards (arguably an effective starting point to the lowering of regulatory cost)
- Reviewing how the suitability process can be simplified around basic products (when being used for defined priority advice needs) – which will assist in driving adoption rates via user experience contained within technology models:
    - Simple term based life assurance
    - Limited contribution stakeholder pensions or simple top up advice (beyond current 'basic advice' process)
    - Default option ISAs

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

We would draw attention to the Australian experience of compulsory annuitisation. Politically or policy motivated comments can influence public opinion when certain products/strategies have a credible part to play in an overall planning strategy over the longer term (i.e. longevity insurance). When products are declared profoundly 'out of fashion' this can obfuscate an effective advice process.

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

We would endorse a number of steps in improving the customer journey:

- Make core KYC data more freely available (through carefully regulated sharing of data) to make the initial client boarding more user friendly
- Simplify suitability criteria based upon:
    - Product
    - Need
    - Contribution ceiling
    - Default fund
    - Agreed review/reporting cycle
- Codified rules to align best practice around scenario projections (such as approved cash-flow projection scenarios) and risk profiling

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

We support the basis of safe harbour as a helpful way to develop and incubate new services.

The possible facilitation of safe harbour environment should not however create a regulatory arbitrage or penalise those businesses that have invested heavily in their risk controls and quality assurance. An example of this could be reputational risk borne by wider market participants should a safe harboured model fail.

A practical implementation of safe harbour for systemic technology based business model may be to offer a pre-approval around systems and process along with COBS assessment of client journey – subject to some agreed hygiene factors around service scope, firm level management information and SLAs.

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

To ensure that this does not distort competition across the wealth management space, safe harbours should be tightly aligned to the advice gap as noted in our response to Q21-23.

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

Refer to our response to Q29.

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

The lack of predictability around future liabilities (and its dislocation from the legal principles that align to the Statute of Limitations) can often cause difficulties in securing quality PII cover and/or inward capital injections to fund growth/expansion. This in turn drives up fixed and variable costs. As a consequence, most firms must segment in favour of higher value clients to drive profit growth, therefore exacerbating the 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?

In addition to Q32 we would make the following points:

- High quality firms that can raise and sustain inward finance find themselves at a competitive advantage.
- Firms that cannot raise capital or change ownership due to past (prospective) liabilities have no means to facilitate a controlled and orderly transition/exit. This may result in poor client outcomes should a forced transfer of client ownership occur to a firm misaligned with selling firm's business model.
- Those firms who cannot find an exit route will ultimately run off into administration and the costs will shift to remaining industry participants in the form of increased FSCS levy.
- Overtime, the quality of PII cover may diminish (cost or quality) which may force firms into a run off (orderly or disorderly).

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

The majority of clients are now in a regular review cycle as most advisers have adopted a quasi financial planning model. As a result, their outcomes are more vigilantly monitored with less potential for unplanned outcomes.

Further, for the reasons stated in Q32-34 consumers would benefit most from a sustainable business that was able to manage its cost base (direct and indirect) such that it could attract new shareholders/capital and invest in infrastructure and staff.

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

We would note a number of possible options, including:

- Improve basis of funding for FSCS better reflecting constituent parts of the supply chain and potential for future risk/detriment through equitable apportionment according to risks in business models. Currently, the lack of predictability and potentially open-ended commitment of levy is not helpful – especially to those firms who are already investing heavily to manage their systems and processes in an optimal fashion.
- Clearer guidance to the sector (resulting in better decisions and consequently reduced regulatory costs) by facilitating stronger links between the FCA, FOS, FSCS and industry. This will reduce the cost implications of fragmented thinking.
- Align liability longstop to principles aligned to Statute of Limitations for those clients who have signed up to a regular service agreement.

Q36 Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost?

There are a number of online transactional models that can execute at modest cost.

Most firms offering an advice overlay remain fairly cumbersome with many manual work-arounds.

Our perception is that firms seeking to build out in this area have three key challenges:

- Making the client boarding experience sufficiently insightful and expedient to maximise 'journey completion'
- The time taken to collect the data required for suitability assessment
- Making the advice journey as robust (given the number of outcomes/possibilities) as the transactional execution

Q37 What steps could be taken to address any barrier to digital innovation and aid the development of automated advice models?

Please refer to our responses to questions Q28 and Q29

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

We would consider the following as primary considerations:

- Trust (ability to speak with skilled advisers should they need support engaging with technology)
- Ability to source advice and insight – not just transaction execution
- Ongoing dialogue/service
- Online valuation/data aggregation

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

In addition to the points made earlier in our response, we would highlight the following:

- Create an agreed suite of simplified advice journeys that can be adopted by the industry – with a Kite-mark accreditation for quality (subject to regular renewal) which can benefit from lighter touch regulation/suitability requirements.
- To ensure that clients have choice and flexibility – we would suggest that simplified online models offer links to educational websites (including Money Advice Service). Further, an accredited model should have multiple opt-out points to ensure that an effective balance between advice and transaction (relative priorities at points within the financial planning journey).
- Launch a more structured public awareness campaign that focuses on key staging posts in financial lifecycle – and communicate this via DWP and HMRC correspondence.

Q40 What steps should be taken 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?

We would highlight three points that have been covered elsewhere in our response:

- Facilitate a more functional and joined up regulatory framework that can ensure sustainability and true competitive forces within the advice space. Integral in this should be a more formal process of dialogue and collaboration.
- The accreditation point covered in Q39 should be limited to 'non-toxic' models limited to lower wealth bands. To extend this flexibility to higher value consumers would create a regulatory arbitrage and distort competitive forces.
- Any regulatory dividend, be that safe harbour or equivalent, should be contingent on the quality of governance, systems and controls within the context of a clearly defined corporate risk appetite present in an organisation.

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

This point has been covered in points above.

Financial Advice Market Review (FAMR) call for input

Response from True Potential LLP

December 2015

Introduction

The UK government and the Financial Conduct Authority (FCA) are rightly concerned that access to financial advice has become more difficult and increasingly expensive for consumers across the UK.

With greater freedoms than ever over the way we spend our money in retirement, access to professional advice has never been more important.

The Advice Gap is staring the industry, policymakers and the regulator in the face, but it has not emerged overnight. Industry voices, including True Potential's, warned of the Advice Gap some years ago. In the first edition of ***Tackling the Saving Gap*** in 2013 - the quarterly research we undertake to identify market problems before they develop into crises – we said it was one of three core problems that have created the Savings Gap.

True Potential represents close to 20 per cent of the adviser market in the UK. Almost 2.5 million clients have accounts with True Potential and we have polled more than 16,000 consumers to understand their behaviour, identify trends and inform our solutions. The data we have gathered from these sources, as well as our own experience as a large provider, has informed our comments and evidence.

We have set out in detail below what we believe to be the main drivers of the Advice Gap, however in summary we consider that the FAMR must address four underlying causes:

1. **The size of the adviser market;**
2. **Costs and fees associated with providing advice;**
3. **The way advisers are paid; and**
4. **Ongoing advice charges.**

As ever, we look forward to playing our part in solving the savings and advice problems the UK faces.

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?

We are not aware of any.

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

Firstly, True Potential considers that there is a clear distinction between 'guidance' and 'advice', though we accept that this distinction may not exist as clearly in the clients' mind. It is important however that this review distinguishes between the two.

We consider financial guidance to include assessing a client's circumstances and informing him/her of available options and resources. In our view this only becomes advice when a recommendation is offered relating to a course of action involving a payment that may include, but is not limited to, the purchase of a product or making a transfer.

It is also our view that advice is what is desperately required to close the Savings and Advice Gaps, not more guidance services, which some consumers may mistake for advisory services.

In terms of the delivery of advice, we see three categories:

- **Face-to-face**: involving a client and an adviser;

- **Robo-advice**: technology makes recommendations based on client inputs. We think that the term 'robo-advice' is actually misleading. We are not aware of any such technology in the UK and it would require sophisticated artificial intelligence to truly be considered 'robo-advice'. There are however examples of direct to consumer technology, such as our own True Potential Investor that can guide clients through stages towards the outcome they desire; and

- **Hybrid**: a combination of a face-to-face relationship and technology. The client may purchase and invest using technology that makes recommendations but an adviser is available to assist as needed.

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

Those who are approaching retirement now have more freedom and choice than ever. This is a good thing and has already revolutionised the way we think about retirement in the UK. The over 55s now find themselves with money to invest. Going hand in hand with freedom and choice, is the need for advice. Not guidance, but proper advice from someone who understands their client's goals, circumstances and history.

True Potential is committed to identifying the causes of the Savings Gap (one of these causes is the Advice Gap) and proposing simple solutions that work. Our commitment involves us monitoring trends and data by surveying more than **2,000 UK adults every three months**. This is a vast undertaking and ensures that our evidence is rooted in up to date research. Approximately half of those we have polled would choose a professional financial adviser instead of other sources of advice and guidance.

It is safe to assume that approximately a third of the population – over 21 million people – would benefit from financial advice and in view of recent changes to pensions, this is even more crucial now. And we know from our research that approximately half of all UK adults would seek professional advice from a financial adviser (versus a free service or online).

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

There is clearly a demand for quality online advice and consumers are increasingly comfortable managing their financial affairs digitally. Through our consumer research we have attempted to understand where consumers would go to seek financial advice. The responses show that a financial adviser remains the most popular resource, closely followed by online services.

Where would you go to receive financial advice?	
A financial adviser	**48%**
A bank/building society	**25%**
A friend or family member	**12%**
Citizens Advice Bureau	**8%**
Money Advice Service	**5%**
Other	**2%**

True Potential's own digital services, enabling consumers to make investments, have proved to be popular. There have been 26,267 downloads of our True Potential Investor app since we launched the service in 2013.

True Potential has more than 2.3 million client records and alongside our consumer research, this gives us unrivalled insight into real consumer attitudes and behaviour.

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

In our experience consumers seek professional financial advice when their investment is perceived by them to involve a significant sum or to carry more risk. Equally, large transfers or purchases such as a mortgage are a catalyst to seek advice. Pensions in particular create a need to seek advice and as the former pensions minister said recently, "as soon as you go into a tier of detail below the headline, you've lost everybody." A simpler product that could compete with pensions could actually remove much of the need to seek advice.

An increasingly common reason to seek financial advice is the fragmented nature of consumers' legacy products, in circumstances where they may have built up several small pots of money or workplace pensions over a number of years.

Our core belief is that to generate a culture of saving, consumers need a goal that motivates them to continue putting money aside.

Consumers' savings goals are particularly interesting and must be considered when looking at the reasons why more people may not be seeking advice currently.
We asked 2,000 adults about the reasons they are saving. The results show that half of respondents are saving for no specific reason or for a holiday. Only 17% have stated that they are currently saving for their retirement.

Given the cost of advice, which can be hundreds and even thousands of pounds, we believe it is highly unlikely that people would pay for advice for non-specific or leisure savings goals.

We believe that the underlying issue here is that UK consumers are not used to the idea of a **long-term savings goal**, which diminishes the perceived need for advice. This mind-set is what fuels the Savings Gap.

For what reason are you currently saving?	
A rainy day	30%
A holiday	20%
Retirement	17%
Home improvements	8%
Buying a house outright	6%
A car	6%
Mortgage	4%
A wedding	4%
My children's education fees	3%
Starting a family	2%

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

The FCA Consumer Spotlight segmentation model may be useful to segment consumers for some projects, however for the purposes of this review, we believe that segmenting consumers in this way may lead to missed opportunities to make corrections elsewhere in the market.

Our view is that there are some underlying issues that the FAMR should consider that affect all consumers. Therefore, we do not think that the segmentation model should form the basis of this review and could actually cause more complications. Instead, we would prefer to see simple solutions that work for all groups, which is what is needed.

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

We believe that consumers will move through these groups throughout their life and it is therefore important that financial advice works for all groups. To that end, we favour solutions that improve the market for all, not just for one group or another.

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

We have clear evidence that the cost of advice is what puts people off most from seeking financial advice, therefore the policy of charging for advice disproportionately affects those with lower incomes. We can infer that advice is less attractive following the introduction of charges to people on low incomes or with low amounts to invest.

Our experience as one of the largest advice firms in the UK is that advisers want to help all consumers irrespective of their wealth and provide free advice as part of the service. The Retail Distribution Review (RDR) means this is no longer possible and it is the consumer who suffers. By law, advisers now need to state the cost of their services, which has the perverse effect of putting potential clients off from accessing professional advice. Hence the Advice Gap grows larger.

We have strong evidence from our 20 per cent of the adviser market that advisers will work with clients of all incomes to provide a product that suits the consumer's goals. It is simply not the case that advisers inherently want to work with wealthier clients alone but RDR has created a set of circumstances that fuels this, and this will get worse.

Paying for advice is an alien concept and it is hard to think of other sales processes when one must pay for the advice that may lead to the purchase as well as the purchase itself.

Clients don't want to pay for advice but they are prepared to pay for action to be taken, such as an adviser to recommend a product and arrange for it to be purchased. That is what clients are prepared to do, irrespective of wealth.

Our consumer data, carried out since RDR was introduced, shows that those higher up the income scale are more likely to have sought financial advice.

Have you ever sought financial advice?						
	Not in employment	Manual worker	Skilled manual worker	Non-manual work	Middle management	Senior management
Yes	36%	32%	38%	38%	56%	58%
No	64%	68%	62%	62%	44%	42%

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

We have asked consumers specifically this question, and **cost** is the most common answer.

Why have you not sought professional financial advice?	
I don't want to pay for advice	**35%**
I am confident enough to invest on my own	**31%**
I'm happy with the free resources available to me for such as the Money Advice Service	**21%**
I've used one/some in the past and wasn't satisfied with their advice	**5%**
I don't know where to find an adviser	**4%**

Other	**4%**

It is a fact that in the UK, consumers are not accustomed to paying for advice, having instead been used to a commissions based system. Figures from Unbiased.co.uk show that on average, clients pay advisers an **hourly charge of £150** and **£500 for an initial financial review**.

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

Demand outstrips supply to an enormous extent and this drives up the price. In 1990 there were approximately **200,000** financial services sales advisers in the UK. Now there are fewer than **23,000**.

This compares to around 150,000 legal professionals and 330,000 accountants.

It is safe to assume that approximately a third of the population – over 21 million people – would benefit from financial advice and in view of recent changes to pensions, this is even more crucial now. There is therefore one adviser available for every 1,000 potential clients.

We believe it is rare, if not impossible, that advisers 'look after' more than 100 clients, by which we mean providing each client with one or two 'servicing' visit a year. This of course does not include looking for new business with more clients or conduct business with existing ones.

Too few advisers, too many potential customers, with a growing need to save more, and finally a payment system that encourages financial advisers not to look for new clients easily explains the emergence of the Advice Gap.

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?

We must remember where most of the current policies and clients came from originally, which was through the sale of a product, or a product where the advisers also gave advice. Statistics show that the majority of the underlying assets (or at least the volume of those assets) have existed for many years. This is because the advent of the 'IFA' allowed advisers to simply switch these assets around, as they had multiple 'agencies' with a (limited) number of product providers.

There where hardly any **IFAs** in 1990, but by the early 2000s this had become the dominant distribution model. Previous to being an IFA the adviser represented either a life company or bank. We believe what has emerged is the result of a dominant IFA channel, with relatively little 'new' money coming into the savings market. They were paid the same to switch between providers as they were to find new (cash) sales, and over time put forth that they could get a better deal for their clients because they now had freedom of choice across the market.

The upside of this was that providers limited (to an extent) the amount of commission they would pay. The downside was that they paid more to large networks, including marketing payments. However, the underlying cost to the client (which is the important thing) was the same, and the ongoing cost of owning those products was also the same and limited to around (for unit trusts) 3% up front and 0.5% ongoing.

So the result was a market that had stopped aggressively looking for more products to sell, and instead was transitioning into one that maintained that IFAs were a cheaper form of life than wealth managers, but had the same sort of skills.

Our view was that RDR misjudged the market, and the FSA argued that as they were not "price regulators", they could not use the easy option of simply reducing and capping commission (for example a cap of 0% for a switch would have incentivised that adviser to look for new money), and instead embarked on five years of painful and risky legislation. The result was perverse in that it transferred the price of advice and product to the adviser. These were the same advisers that were already quite old, and had already found a way of earning money as recurring income, that dumbed down the need to sell more. Now those advisers were told that they could "charge what they want" (an FSA statement in the press) as long as the client agreed and it was justified.

As a direct result of this the cost of advice has now almost doubled, as advisers regularly charge 1% or more of the assets being held, on an annual basis, deducted and paid monthly. If FAMR fails to address this, it will have been frankly a waste of time and a missed opportunity having for the second time, ignored industry statistics.

RDR has made it possible for IFAs to stop looking for new clients and earn a decent living simply from servicing their existing 100 or fewer clients. Analysis of the top 100 adviser firms shows that recurring fees can account for 90% of adviser income. (*New Model Adviser, The 90% Club, November 2015*).

The Advice Gap is almost entirely down to the way we have regulated over the last 15 years, RDR just made it worse. Anyone in business now has adapted to RDR, **so this is not a plea to get rid of it**, but a plea to think like a normal UK consumer – you do not go into a tailor and pay for advice, whether or not you buy a suit, which would be absurd. About as absurd as paying for advice on an ISA actually.

Make products simpler, so the consumer can understand them and make it easier to get out of the complicated products that many make a living out of by keeping them complicated, or translating them into English. All specialists require complications to exist and all specialists cost money.

The solution is to simplify.

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

In recent months, so-called 'robo-advice' has been put forward as a possible solution. Algorithm-based advice is not a new concept and is widely used in the United States. In the UK, direct to consumer technology is more common. Technology has a vital role to play, yet our research shows that clients still place a high value on a personalised service and a relationship with someone who knows them and their financial history.

'Robo-advice' based on sophisticated technology using artificial intelligence will emerge, but on its own it is not an adequate solution to the Advice Gap against a backdrop of new pension freedoms and the scale of the savings crisis in the UK. People need professional advice that they can trust now, from someone who understands them and their goals.

At True Potential, we believe in a hybrid model, where clients have a relationship with an adviser, as well as technology that puts them in control. Our own impulseSave® technology that allows micro-payments into investments is a perfect example of this model. True Potential advisers help their clients to form an investment strategy that meets their circumstances and goals. Should the performance of their investments fall behind, clients can see this on their personalised client site and can close the gap at the touch of a button.

This service brings together professional advice and award-winning technology to offer clients a revolutionary way to manage their money, with their financial adviser just a call or click away.

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

Regulation and compliance push costs up for successful businesses and make it harder to supply advice economically, especially while it is possible to make a good income by servicing an existing set of clients.

Financial Services has not benefited from the Government's wish to reduce the burden of red tape and costs on business, in fact the opposite has been true.

At True Potential Wealth Management, 35% of the wage bill is paid to compliance and case checking staff and we have seen our fees and costs soar.

The Association of Professional Financial Advisers (APFA) also says that on average, smaller firms are spending 12% of their income on regulation, meaning the sector spent an estimated £460m on regulation alone in 2013.

The table below shows how our group fees have increased over a 12-month period.

TOTAL TPLLP GROUP FEES

	Financial Conduct Authority Fee	Financial Ombudsman Service Levy	Financial Services Compensation Scheme Levy	Money Advice Service Levy	Pension Guidance Service Levy	Total
	FCA	FOS	FSCS	MAS	PGSL	
2014/15	£50,757	£3,413	£340,089	£3,097	£0	**£397,356**
2015/16	£103,778	£5,270	£792,781	£5,537	£4,763	**£912,129**
Increase	**104%**	**54%**	**133%**	**79%**	**100%**	**130%**

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?

Again, we point to the way RDR has made it possible for IFAs to develop a business model that does not require them to seek new clients, but instead to manage a pool of 100 or fewer clients.

The banning of trail fees, capped at 0.5% signalled the birth of widespread ongoing advice fees. To comply with the rules, the adviser must stop payments into a plan paying the commission trail fees, meaning a switch is required. In most cases this is easy to do, whilst putting the client's assets into a better, lower charging product. However, a lower charging product, plus an ongoing advice fee doesn't necessarily mean a lower total annual charge for the client.

It could mean that the client has been sold some index tracking funds on a cheap but unprofitable platform. A charge of 80bps versus a previous 185bps for a managed fund inside a pension, makes the funds look cheap after the switch.
However, if the adviser now charges 1% for ongoing advice, versus the 0.5% he got via commissions, then the client is not much better off in terms of price, but could have a worse performing product.

The adviser now earns twice as much a year in addition to any initial fee charged for the switch, despite the same amount of servicing. Under the FCA's current rules, this would be viewed as a good sale because the client is better off when comparing product versus product in isolation. The adviser can claim to be looking after their client but the cost overall is higher.

The effect of this on the adviser market has been huge. It now makes sense for advisers to charge less up front, but then to charge more ongoing. The effect of this means they have a diminishing need to seek new clients and the result is the Advice Gap.

True Potential's own records show that over the last 12 months, our top 100 wealth managers have **increased their earnings by 7%, whilst their sales of new funds has dropped 44%.** Their earnings consist of **54% recurring income, up from 35%** over the same period a year earlier.

Meanwhile as Professional Adviser reported on 1 December 2015, "the total number of advised sales in retail investment and pure protection for 2015 is forecast to reach about 1.4 million, almost

20% lower than the 1.73 million recorded last year.” They were reporting on figures provided by the FCA.

Advised sales to existing and new clients are in decline while business models based on recurring fees (servicing existing clients) are on the increase.

The result is more money for far fewer new sales and little need to find new clients.

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

We have polled hundreds of advisers across the UK and asked them this question.

Almost 50% of advisers believe that post-RDR, clients with minimum investible assets of £50,000 are the most economically viable to service.

We believe that this is an unacceptable situation. By reducing the volume of regulation, costs and micro-analysis of clients’ funds, advisers will have the ability to advise more clients without necessarily needing to take on more employees and driving their costs up.

The end goal must be an increase in sales and reduced prices to the consumer, while also supporting the Government’s strategic objective to reduce red tape.

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

True Potential represents one in every five financial advisers and we asked them to list the barriers they face.

Without doubt, regulation is the greatest barrier and while some regulation is inevitable and necessary, the current balance is clearly not correct.

What is the main barrier you face?	
Regulation and compliance	**57%**
RDR and its consequences	**32%**

Other (eg. Public apathy)	**6%**
No barriers	**5%**

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

Our interpretation of an advice gap is about supply and demand.

It is clear that the number of advisers has steadily declined in recent years at the very time that the need for advice has increased. Pension freedoms have given over 55s enormous financial power and responsibility – which we welcome. But the reduced number of advisers is of great concern and could have disastrous consequences over the coming years.

Our assessment is that approximately a third of the population – over 21 million people – requires financial advice.
There are now fewer than 23,000 advisers, meaning that there is one adviser available for every 1,000 potential clients. This compares to around 150,000 legal professionals and 330,000 accountants.

That is what we understand to be the Advice Gap.

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

We do not believe that there is a lack of demand for financial advice per se. There is however a low appetite to save and invest and an even lower appetite to pay for advice.

This is the result of many years of low cost credit that helped to finance consumer purchases, made worse by rock bottom interest rates which acted as a disincentive to save.

It is also a product of overly complicated products and services, and there is no better example that the pension. This product has become discredited due to constant changes and poor annuity rates dating back many years, creating a lack of enthusiasm to save for the long-term.

Another factor is that in the UK, there has to date been little or no personal finance education. Adults are simply not in the habit of saving and lack clear goals. As we have seen from our own research, the most common reason given for saving is 'for a rainy day' and a quarter of adults admit to saving nothing for their retirement.

Given this wider context, it is understandable that three quarters of adults in the UK do not seek advice. However, our research shows that when adults do engage with an adviser, they value regular contact.

So we believe that the greater concern is a lack of appetite to save and invest and one natural consequence is low demand for advice. The solution is to create a culture of saving and to make advice more affordable and accessible for all.

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

The Advice Gap is largest among those planning for retirement and with smaller pots.

In terms of age groups, the largest proportion of people without an adviser are aged 45-54 – the very group of people who should be planning how to use their pension fund most efficiently and in a way that enables them to meet their goals.

We also believe that savers with relatively small pots of money to invest are at risk of falling into the Advice Gap.

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

Our data shows that a staggering 85% of people on the cusp of pension freedoms are not accessing professional financial advice.

With regards to the size of clients' investible assets, our advisers tell us that, post RDR, those with less than £50,000 are not deemed to be economically viable to serve.

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

Much of the focus of the debate appears to centre on those with relatively small pots. We agree that there is a gap here, but there are others besides.

As our data shows, the group most at risk is the 85% of 45-54s who are heading towards pension freedoms with no financial advice. This group may not fall into the 'small pots' category but there is certainly an advice gap. We would like the FAMR to consider the Advice Gap as a whole instead of focusing on smaller gaps.

In the end we all believe that generations coming through will find a different way to save, the way they (and we) have found different ways to insure our cars, buy our holidays etc.

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?

This is a sensible starting point, given the scale of pension freedoms. The reality is that people in the UK are not saving enough for their own retirements and that needs to change. Automatic Enrolment (AE) will help to address this but the contributions levels are too low and increases have been deferred, as the Chancellor announced in the Autumn Statement. Policymakers must ensure a culture of complacency does not emerge, where employees believe their retirement is being taken care of completely through AE.

Nor should savers rely on the state pensions forever. An ageing population makes this unsustainable and the truth is that savers will increasingly be required to fund a greater proportion their own retirement.

The Advice Gap is not remote from the Savings Gap, it is a cause of it.

The gap has been caused partly because advisers are able to make good incomes from recurring fees and have no incentive to seek new clients. This is a direct outcome from RDR and needs to be addressed urgently.

All advisers work to an income. If you increase the cost per sale, you decrease the volume of sales, and vice versa. Advisers have the capacity to sell services to many more people and close the Advice Gap.

So the FAMR must examine why those approaching retirement are not seeking advice and what can be done to encourage more people to make better provision for their retirement with the support of professional advice when they need it.

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)?

Our advisers tell us that these are the clients that they feel unable to service as a consequence of RDR and clearly the cost of advice is what lies behind this.

Using a £100,000 investible assets example, the FAMR must consider what happens to this investment under the current regulations and whether the consumer is in fact worse off.

In most cases today, the £100,000 will be invested onto a platform. Instead of the client paying £3,000 for advice, in addition to the £100,000 investment, the amount paid to the adviser is deducted from the investment, before going into the pension. The client still writes a cheque for £100,000 to the provider, who then deducts the £3,000 meaning only £97,000 gets the tax and savings benefits versus the £100,000 before.

The provider is not permitted to invest £100,000 and then pay £3,000 to the adviser, who must be paid by the client, not the product. This is of course clear consumer detriment and was pointed out as a primary negative feature prior to RDR being adopted.

Responsibility for what a client paid for advice (which in their mind included getting the product as well), has been handed from the product providers (with a commercial reason to keep commissions down), to 22,500 different adviser models, none of which are in competition with each other. The cost to the consumer has gone up, by a very large margin.

Fixing the system by removing this in-built consumer detriment would improve outcomes for all consumers, regardless of their wealth.

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?

Advisers tell us that pensions regulation is the area where simplification is needed urgently. Advisers want pension freedoms to work and they want to advise clients properly. But they are concerned about future liabilities especially in cases of insistent clients. The Work and Pensions Select Committee included our recommendation for clearer FCA guidance on this matter in its review of pension freedoms.

As we said in our special ***Pension Freedoms: Breaking the Cycle*** report in July, the flagship pension freedoms policy could operate even more successfully with some minor changes.

The Government is looking into charges levied by providers on consumers wishing to switch. This arises particularly where a client is not being offered their full range of freedoms from their current provider, so they need to switch to one that will. As well as incurring a fee from the provider they are leaving, clients must also pay for advice, which can be costly due to the evidence gathering that is required.

A cap on pension Annual Management Charges (AMC) would significantly reduce the burden on advisers to prove that the client is moving to a better pension. All auto enrolment schemes are already capped at 0.75 per cent AMC. Most other DC schemes carry an AMC well above 1 per cent. By extending the cap to every flexi-access income drawdown pension, advisers would be assured that transferring clients will be at least no worse off in their new scheme, therefore doing away with the need for costly and time-consuming evidence gathering.

Exit fees charged by pension providers must be outlawed. This is a restriction in an age of freedom that only benefits the same large providers who are failing to offer their customers a fair deal. Getting rid of these charges would mean that savers are not penalised for wishing to take advantage of their freedoms. If a pension provider cannot or will not provide flexi-access drawdown competitively to their client, they should not be able to put financial penalties in the way when the client decides to move.

Which regulations should be simplified?	
Pension Freedoms	32%
Compliance	26%
RDR	18%
Simplification needed across all areas	18%
Other	6%

Compliance is the second most common area that advisers wish to see simplified. At True Potential Wealth Management, 35% of the wage bill is paid to compliance and case checking staff. On average, True Potential processes 900 GABRIEL returns annually for DA firms and True Potential Wealth Management.

Processing one GABRIEL report requires approximately two hours of True Potential's time, with all necessary data at hand. This compares to more than two days of time for individual firms.

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 not aware of any existing EU legislative issues. We are however concerned that MiFID 2 has the potential to increase regulation and red tape, working against what we hope will be some of the positive outcomes of the FAMR.

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

The main lesson to be learned is to keep things simple. ISAs continue to be hugely popular, because they are simple. The Government is showing that it can be innovative with ISAs, such as the Help to Buy ISA so simplicity is at the heart of consumer engagement.

We understand the FCA will be looking at whether clients are getting value for money from ongoing advice fees. Our plea is that this does not result in advisers having to prove they are seeing clients in return for this payment. For large organisations that would involve an enormous amount of work and cost to try and prove the unprovable.

Instead, the FCA could simply follow through on existing rules and ensure that IFAs are paid by clients directly.

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

The United States has a difference model to the UK and it seems to work better, in our experience. Advisers in the USA have far greater freedom from regulation but the penalties for giving bad advice are also greater.

We support the FCA's aims of improving the standards and quality of advice and we support action where advisers fall below the minimum standards expected. We would like to see greater freedoms and trust placed in advisers who behave appropriately and support their clients.

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

The FCA should actively encourage innovation and support companies that are producing technology solution for precisely this reason.

True Potential's own digital services, empower clients to take control of their finances. There have been 26,267 app downloads since we launched our client sites in 2009. So far this year, 1,189,963 clients logged in to their True Potential account to actively manage their account.

Because we know technology and understand consumer behaviour, we can deliver what clients want and need. impulseSave® is a world-first system that supports clients wishing to make small top-ups to their ISAs, GIAs and Pensions. Earlier this year, we enhanced impulseSave® with a new 'Max My ISA' and 'Max My Pension' option, meaning savers can invest any remaining allowance with just one click. This was hugely popular in March/April as clients rushed to get their ISA contributions in by the tax deadline.

The FCA challenged the name ‘impulseSave®’, arguing that clients were making investments not savings into their Individual **Savings** Account (ISA). Unfortunately, this is an example of where the emphasis of the regulator is misplaced and it simply prevents firms such as True Potential developing solutions that are in line with consumer behaviour and that could help to close the Savings Gap.

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?

True Potential supports greater clarity and certainty from the FCA for advisers, as most simply want to provide an outstanding service to their clients. We are interested in a safe harbour for advisers and particularly in respect of restricted advice. True Potential’s view is that the overwhelming majority of consumers need **free restricted advice**, where a suitable product is recommended to help them meet their goals. Only a very small minority of people need true independent advice.

Safe harbour for restricted advisers especially in respect of liabilities connected to pension freedoms would increase the incentive to supply advice to more clients.

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

We believe restricted advisers, representing product providers, would benefit most from a safe harbour. Without this, there is little upside to being restricted and a restricted adviser incurs the same liabilities and costs as an IFA.

The absence of a safe harbour means the result may be that they sell a much more restricted range of products, which may not be in the client’s best interest.

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

Much clearer regulation of the **product** would lead to better client outcomes and protection. We believe this is entirely compatible with giving restricted advisers a safe harbour if the focus of regulation was on the product.

Product providers should be encouraged to state more clearly what the objective is for the client's investment, not simply the aims.

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

The evidence we have is that the number of large firms offering advice is reducing and those that remain in the market struggle to remain profitable and to grow. As firms grow, the absence of a longstop becomes a greater issue as the potential for claims increases, especially where advice and products with long histories have been sold, such as pensions.

The emergence of more and more micro firms selling advice with business models based on recurring fees exacerbates the Advice Gap. This it is unsurprising given the potential risks faced by larger firms due to the absence of a longstop.

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?

True Potential's view is that a longstop may encourage more firms to enter the advice market which would be good for competition and good for the consumer.

The amount of risk carried by larger firms is a barrier to exit since buying such a firm involves taking on the additional risk. A longstop would help to manage these risks and give greater confidence to new entrants in to the market.

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

We do believe that consumers have a right to expect redress for long-term advice but the question should be about the length of time and what is a reasonable period.

In our view, a reasonable period of time would be up to 10 years to make a claim. Any longer than this is unjustified and has a negative effect in the market. It simply creates another disincentive to supply 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?

There is some confusion and false perceptions in the market currently that centres on the issue of independent advice.

It is possible to ensure that all IFAs offer truly independent advice. The way to do this is via the client understanding that the IFA works for them, and has no help at all from any product provider.

So any payment must be made by cheque direct to the IFA firm, in the name of the IFA firm. There can be no payments at all from the provider to an IFA. This would give consumers greater clarity and assurances, leading ultimately to better 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?

We believe that True Potential meets the current definition of a firm that provides low cost automated advice. True Potential Investor is a direct to consumer platform that is free to use and low cost. impulseSave® is also free to use for clients wishing to make top up payments of £1 or more to their investments.

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

We would like to see better definitions from the FCA into what is considered to be ‘guidance’ and what is ‘advice’ as well as clearly stating what the long-term liabilities are.

The FCA should ensure that it is supporting service providers who come forward with solutions that consumers want and that facilitate greater savings.

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

Consumers simply want good advice at low cost. Technology makes this possible at a larger scale but the technology will not come forward without greater support from the FCA. Providers want clarity and simplicity in order to offer consumers low cost, quality advice and technology.

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

The first step is to acknowledge that there are simply not enough advisers to ensure that the majority of UK consumers can get face-to-face help.

From there, True Potential's recommendations are:

- Amend the regulations regarding payments;
- Be radical and change the way product transfers are regulated;
- Reduce dramatically charges such as FSCS, which is simply a levy paid by the competent and honest firms;
- Reduce FCA fees.

Restricted advisers should sell a **product**, or a series of products tied to one source, whilst IFAs should sell **advice**. The restricted adviser will be paid out of the product, and the client will be aware of that. Meanwhile the client will pay the IFA directly and ongoing advice fees will drop to the levels we saw prior to RDR.

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?

It is for these reasons that we argue that the FAMR should consider the Advice Gap in its entirety and seek to improve the market for all consumers, not simply a small number of groups based on a segmentation model, which could distort the market.

We recommend the following steps to address the big picture:

- Be bold;
- Look again at RDR and correct the unintended consequences;
- Regulate **all firms equally** irrespective of their size, with standards that all must adhere to;
- The focus of regulation should be on the product not the adviser.

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

True Potential believes that the regulatory emphasis should be on the product because this is what does the work.

Regulating advisers should mean that the same rules apply to all adviser firms, not just the large and successful ones.

In respect of IFAs, if a retainer is agreed, then it must be paid by direct debit, not by a deduction from the provider who is supposed to have no connection to the independent adviser.

HM Treasury and FCA

Financial Advice Market Review

Call for Input

Response from The Open University Business School's True Potential Centre for the Public Understanding of Finance

(True Potential PUFin)

December 2015

True Potential PUFin is an independent research centre based at The Open University. It is a pioneering centre of excellence for research and teaching related to personal finance capability. It brings together academics with expertise in fields such as regulation, taxation, consumer attitudes, motivations and behaviours, and social marketing. True Potential PUFin is generously supported by True Potential LLP.

This consultation response was produced by Professor Sharon Collard, Professor Mark Fenton-O'Creevy and Will Brambley. The views expressed by True Potential PUFin are those of the academics involved and do not necessarily reflect the views of True Potential LLP. For further information visit our website: www.open.ac.uk/business-school-research/pufin/

We welcome this opportunity to input to the Financial Advice Market Review, particularly as there is no academic representation on the Expert Advisory Panel.

In its current form, financial advice provided by firms is mainly a sales distribution channel (for products such as mortgages and investments); or it takes the form of financial planning and wealth management services for a relatively small proportion of better-off consumers. While it is common for firms to provide information and tools such as calculators on their websites, few if any currently offer personalised money guidance (i.e. personal finance help and support that is not deemed to be regulated financial advice).[1] The non-profit sector is currently the main provider of money guidance, and this is the subject of a separate (but we consider linked) consultation by HM Treasury.[2]

While the Call for Input asserts that FAMR aims to consider financial advice in broad terms, it mainly focuses on regulated financial advice in its current form, which is costly for firms to deliver. To truly make financial advice provided by firms a viable option for more consumers, either this cost has to be met from the public purse (which is not politically feasible) or else other forms of financial advice have to be developed that are free or low-cost for consumers, offer adequate consumer protection and are cheap for firms to deliver. The latter is not currently an attractive proposition for many firms, and FAMR is centred on closing this particular 'advice gap' (especially in relation to product purchase) rather than considering, say, *other* types of financial advice that firms might provide. By taking this approach, we believe there is a real risk that opportunities will be lost to explore innovation by existing firms or new entrants in the space between financial advice and Public Financial Guidance.

When it comes to making financial advice (in whatever form) available to more consumers through automated or other low-cost solutions, the behavioural literature is clear about the success factors: it has to be free (or low cost) to use, be simple and easy, not require a significant time commitment, give a clear "do this" prescription, be available online, and either happen by default or at least be prominently available.

11 We exclude here fee-charging debt management firms which are presumably outside FAMR's scope.
[2] HM Treasury (2015). *Public Financial Guidance: Consultation*. London: HM Treasury.

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?

The elderly can be a particularly vulnerable group because of increased incidence of both cognitive decline and loneliness. These are both markers which indicate increased likelihood of falling victim to financial scams. This problem may be amplified by the new pension freedoms. The Care Act 2014 introduces new responsibilities on local authorities for adult safeguarding from abuse (including financial abuse) and this is encouraging multi-agency working. However, this does not have a primary focus on financial services.

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

There is compelling evidence that consumers struggle to read, understand and process information that is produced by the financial services industry. In a recent Discussion Paper, the FCA reports that some firms "*acknowledged that consumers' ability to make informed decisions is often impeded by ...information overload and excessive use of financial jargon and legal language that stops consumers engaging with information*".[3]

Financial advice is perhaps one of the best examples where the language used by the industry is simply not understood in the same way by consumers. And, to be absolutely clear, this is not an issue of consumer financial capability. It is highly unlikely that the average consumer knows the difference between 'advice' and 'guidance' in the way it is understood by the industry. Indeed, the industry may be hard-pressed to explain the difference in clear and simple terms.

It is therefore crucial that any re-categorization and description of financial advice (and guidance) is clear and straightforward, using language and terms that make sense to consumers. One option might be to distinguish between 'financial advice with a personal recommendation' and 'financial advice that does not give you a personal recommendation'. But a more radical approach may well be needed, which means going back to the drawing board, rather than trying to amend existing industry parlance.

Consumer communications in financial services was a topic that we kept returning to at our Annual Conference 'Consumers and the New Pension Landscape', held in November 2015.[4] There was a view that getting consumer communications right was a shared responsibility between regulators, industry and consumer organizations. There is work underway to improve consumer communications in financial services, such as the FCA's Smarter Consumer Communications and the ABI's Pension Language Steering Group, which we hope will go some way to addressing this endemic and long-standing problem.

[3] FCA (2015) *Discussion Paper: Smarter Consumer Communications*. DP15/05

[4] The conference presentations and panel discussions are available to view on You Tube: http://tinyurl.com/nzjw5s8

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

It is crucial to distinguish between consumer demand for financial advice and the fact that consumers may well benefit from some form of financial advice in order to make better decisions and achieve better outcomes. The latter is an extremely pressing issue, in particular in relation to DIY investment on platforms.

The European investment platform market continues to grow strongly, from €740 billion in assets under investment in 2011 to €1,270 billion in 2013, much of this unadvised.[5] There is evidence that most members of the public are reluctant to pay for financial advice, resulting in a substantial 'advice gap' – something that was mentioned prominently as a major risk and an opportunity at the June 2015 meeting of the International Organization of Security Commission Organisations. There is a large body of evidence that shows, without appropriate support, retail investors (i.e. ordinary consumers) often make disadvantageous investment decisions. For example, over 20 years of data on investors' behaviour in 401K self-invested pension schemes in the USA shows a strong and persistent underperformance of investor returns compared with the average returns of the assets they invest in. This discrepancy is explained by a systematic (and emotion fuelled) tendency to buy at the top of the market and sell at the bottom.[6] This behaviour adds to market volatility and potential instability and may systematically influence asset managers to be short-term with negative influence on economic innovation and growth.

It is possible, therefore, that most or all retail investors may benefit from help to make investment decisions – for their good and the common economic good. Given the cost of regulated financial advice, and investor reluctance to pay for it, this may not be a feasible option – put simply, it may not be possible to make personalised advice from an expert both cheap and profitable. The question is then whether there are alternative, cheaper ways of helping investors that still produce better outcomes for them.

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

It is difficult to answer this question without understanding what HM Treasury and the FCA mean by 'advice'. Presumably, financial advisers are the primary source of regulated financial advice. In terms of money guidance (i.e. help that is not deemed to be regulated financial advice), the sources available to consumers include the Which? Helpline and the Money Advice Service guidance services. These and other providers should have evidence about levels of use and unmet demand about their services (e.g. unanswered calls).

There may well be demand among consumers for other types of help, such as automated guidance services delivered by firms. It will only be possible to quantify demand in any meaningful way once such services exist in greater number. Asking consumers what they want (when they are not likely to know) is unlikely to be helpful.

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[5] Platforum (2014). *European Platforms and Open Architecture 2014: A travellers Guide to this Galaxy*.
[6] Dalbar, I., (2012). *Quantitative analysis of investor behaviour*. Dalbar Inc, Research and Comunications Division: Boston, MA; Davies, G.B. (2013). *Overcoming the cost of being human: or the pursuit of anxiety adjusted returns*. Barclays Bank Wealth and Investment Management White Paper. www.investmentphilosophy.com/uploads/cms/overcoming-the-cost-of-being-human2.pdf

Qualitative research we carried out in 2014 with consumers who had recently bought or considered buying a pension or investment identified three groups in terms of the sources of help they used and the approaches they took to making an investment decision.[7] These are described below. The research showed that context is important: people are not necessarily one type of investor or another, they may move along the continuum depending on the particular circumstances around an investment decision.

Delegators: Delegators delegate the selection and decision-making to someone else, typically a professional adviser. They may do some of their own research, but probably not a lot. They monitor and review their investments perhaps once or twice a year, and the adviser is involved in this process as well. They identify with the personal importance of investing and they take responsibility and ownership for it, but they are doing it because it leads to a particular outcome, not because they have any great interest or get any particular enjoyment from investment – in psychology, they are what's called extrinsically motivated.

Affirmation Seekers: Like Delegators, Affirmation Seekers are extrinsically motivated. But unlike Delegators, they tend to do their own research and they are generally more engaged and proactive. Even so, they make their final choice of investment in collaboration with someone else – a professional adviser perhaps, or a trusted friend or relative. This is because they want affirmation or reassurance that they're doing the right thing, either because it's a fairly complex situation e.g. linked to divorce or a trust fund, because it's a large sum of money or because they're considering higher-risk investments.

DIY Investors: The big difference with DIY Investors is that they tend to invest because they are interested or because they enjoy it – in other words, they are intrinsically motivated. Their motivation can be quite specific, for example people with a passion for property or who are interested in the stock market. So they do their own research, they are likely to triangulate information from a number of sources, and they come to their own decision – and then they actively monitor what's happening and make changes. Unlike people who buy an investment from a financial adviser, DIY investors of course have no redress for poor investment decisions they may make. There is also no guarantee that DIY investors have the knowledge and expertise to make sound investment decisions.

Another possible category of DIY Investor was not captured in our research: consumers who make investment decisions without any advice or help, not because they are interested or enjoy it, but because they have to make a decision and feel they have no alternative, for example if they cannot afford financial advice or do not trust financial advisers.

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

Many more consumers would benefit from advice or help with personal finance matters than currently seek it – this is a crucial distinction that FAMR should take into account. We note that the common financial issues outlined in the Call for Input are largely product focused. Other financial issues that may be relevant include dealing with tax issues and tax planning; inheritance planning; power of attorney; funding long-term care.

[7] Collard, S. (2015). *Towards a Common Understanding of Risk*. True Potential PUFin White Paper. http://tinyurl.com/nk8exyc

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

The Financial Advice Market Review and concurrent HM Treasury review of Public Financial Guidance cover issues related to a broad spectrum of 'advice', from regulated financial advice at one end, through generic money guidance, to the simple provision of information at the other.

Our concern is that the FCA Consumer Spotlight segmentation is used to explore financial advice needs, while the MAS segmentation model may be used to explore aspects of consumer need for Public Financial Guidance. In our view, it would be helpful to use either one model or the other, to ensure a consistent approach to providing help to consumers across the 'advice' spectrum.

We believe it is important for any segmentation analysis to explore the totality of consumers' advice needs, not simply to look at financial advice related to the sale of financial services. Otherwise it risks ignoring potentially important gaps in provision. Such analysis may highlight issues related to the review of Public Financial Guidance, so information sharing and cross-fertilization between the two reviews is important.

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

It is not always easy to see the difference between segments because they are described in different ways. For example, it is not clear from the information provided in the Call for Input how Busy Achievers differ from Affluent and Ambitious.

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

In our view, consumer income and wealth is just as likely to impact on the supply of financial advice as the demand. In other words, at the current time financial advisers concentrate their services on wealthier consumers who are willing and able to pay for advice. Among consumers with modest income or wealth, their interaction with financial advice is very likely to be limited to product purchase, even though they may have just as much or even more to gain from help to manage their personal finances as someone better off.

Alongside the HM Treasury consultation on Public Financial Guidance, and in keeping with its stated aim to take a broad view of financial advice, FAMR should consider what help existing firms and new entrants might be able to offer lower-income consumers to manage their personal finances.

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

Low consumer trust in financial services (and long-term financial services in particular)[8] is an important factor. Consumers also struggle to engage with the amount of information and the complexity of language involved in financial advice (and financial services more

[8] See, for example, the Which? Consumer Insight Tracker http://consumerinsight.which.co.uk/

generally). Again, to be clear, this is not primarily an issue of consumer financial capability. These problems are in no small part rooted in firms' concerns about regulatory compliance. They are relevant for consumers who make financial decisions (and especially investment decisions) without financial advice, but equally to consumers who completely shy away from financial decisions (such as investing) because they do not feel confident or able to engage with a complex market like this.

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

As part of our Centre's research programme on risk profiling and investment decision-making, we held an Expert Workshop in June 2015 with consumer and industry representatives.[8] Regulation was felt by some participants to be a major barrier to the supply of other types of financial advice, such as automated help to take out an investment. The same issue was raised at our Annual Conference in November 2015, on the topic of 'Consumers and the New Pension Landscape.[9]

The FCA's Project Innovate and Regulatory Sandbox are potentially exciting ways to address regulatory barriers to firms providing advice and help to consumers. They can only have impact, however, if there is a real possibility of changes to FCA policy in the event that innovation in financial advice is found to be beneficial for consumers. Alongside Project Innovate and the Regulatory Sandbox, we would welcome a proactive approach by the FCA here, to test and research the effects of its own policy.

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?

No.

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

As part of our Centre's research programme on risk profiling and investment decision-making, we held an Expert Workshop in June 2015 with consumer and industry representatives.[10] The Expert Workshop felt that, while firms and advisers make growing use of technology, its potential to help consumers navigate their personal investment journey has yet to be fully realised.

At the heart of the Expert Workshop's discussions on technology-enabled solutions was the concept of intelligent interaction, whereby the personal data input by a consumer is used to shape their investment journey in a way that makes sense to them, and creates a strong image of what it might look like using data visualisation techniques. Intelligent interaction could, for example, help consumers set an investment goal; explore the different trade-offs they might make; visualise what different investment outcomes might look like, and how

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[9] The conference presentations and panel discussions are available to view on You Tube: http://tinyurl.com/nzjw5s8

[10] Collard, S., Brambley, W. and Lowe, J. (2015) *Beyond risk profiling: Achieving better investment outcomes for consumers and industry*. True Potential PUFin White Paper. http://tinyurl.com/nfy5edu

they might feel about those outcomes. To work for consumers, intelligent interaction has to stay faithful to the principle of ‘start simply and make it easy’, while also building in additional information and guidance for those who want it – reflecting the idea of personal investing as a learning journey.

While intelligent interaction is already used in these ways by some firms, the Expert Workshop saw greater scope to incorporate things like video case studies to provide real-life examples of personal investment journeys and make the ‘scarily unfamiliar’ more familiar; and interactive simulations of different investment outcomes to see how consumers might respond to the ups and downs of investing.

As the aggregation of personal finance data becomes more common, the concept of people having a personalised ‘money profile’ that brings together all their financial information (including their investments) also becomes plausible. Link this to machine learning and artificial intelligence, and opportunities open up to create intelligent ‘goal trackers’ that could, for example, send automatic alerts when someone’s spending patterns threaten to derail their personal investment goals.

The Expert Workshop also viewed intelligent interaction as the means to build in to the decision-making process a ‘safety gate’, to ensure that consumers ‘do not pass go’ if the data they input indicate that personal investing is not a sensible option for them.

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

The provision of automated tools to support consumer decision-making has the potential to significantly improve investor outcomes but currently falls into a grey area between financial advice and guidance. We consider there is scope for the FCA to allow some relaxation of regulation to encourage more exploration and experimentation in this area, for example within a regulatory sandpit, while ensuring effective consumer protection.

As the Call for Input acknowledges, the cost of research and development can be large, whereas ongoing costs can be relatively small. Given that free markets tend to under-provide in these circumstances, there may be an argument for public money to be used to develop mass market solutions to meet consumers advice and guidance needs.

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?

No.

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

Depending on the type of advice, any consumer segment. Reinforcing our earlier comments, we urge HM Treasury and the FCA to think beyond financial advice in its current form, to alternative forms of advice and alternative ways these can be provided to consumers by firms. While it is certainly not economic for firms to provide full regulated financial advice in its current form to consumers with modest income and wealth, there may be other forms of financial advice that firms can provide that are economical.

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

The sale of personal investments in the UK is polarised. At one end of the spectrum, regulated financial advisers offer full financial advice with personal recommendations to relatively wealthy consumers (typically with six-digit wealth) who are willing and able to pay for this specialist service. At the other end, consumers with relatively modest sums of money, who cannot afford or do not want to pay for advice, face buying investments on an execution-only basis, with no personal recommendation from a professional adviser, and free to choose whether or not to use the information and guidance provided by firms and other bodies.

To date, there has been little development in the middle ground between full regulated advice and execution-only sales. Simplified ways of recommending retail investments to people with modest wealth have so far not got off the ground, although recent new offerings by firms suggest this may be changing.

As part of our Centre's research programme on risk profiling and investment decision-making, we held an Expert Workshop in June 2015 with consumer and industry representatives.[11] There was a general view in the Expert Workshop that, while firms do offer technology-enabled services to help people choose retail investments that stop short of making a personal recommendation, greater innovation has been hampered by firms' concerns about over-stepping the regulatory boundary.

In principle, there is nothing in the regulatory regime to prevent firms and advisers offering personal recommendations through an automated advice process. In practice, the challenge for firms is how to deliver these services on a commercial basis given the costs involved in any form of regulated advice, particularly when the target audience is consumers with modest amounts of wealth and fairly straightforward investment needs, who may not be prepared to pay much (if anything) for a completely online service. Several (but not all) workshop participants felt that it may be impractical to bring some of these ideas to fruition without a relaxation of regulation.

As indicated in the Call for Input, legal liability is currently a significant barrier to the development of cheaper forms of financial advice. Getting a reasonable balance between the legal liability borne by firms and consumer protection should be a key focus of FAMR, especially given the aspiration to bring more consumers with modest income and wealth into the market for financial advice.

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

An 'advice gap' might refer to:

- Situations where people want help with their personal finances but cannot access it easily at a reasonable cost;

[11] True Potential PUFin White Paper: *Beyond risk profiling: Achieving better investment outcomes for consumers and industry*, October 2015. http://tinyurl.com/nfy5edu

- Situations where people could potentially benefit from help with their personal finances but do not or cannot access it;
- Situations where help is available but there is concern about its quality and/or effectiveness.

To understand where there are 'advice gaps', it is important to consider the totality of consumers' advice needs, not simply to look at financial advice related to the sale of financial services. Otherwise it risks ignoring potentially important gaps in provision – and potential solutions in the form of financial advice, Public Financial Guidance, or firm-provided financial guidance. For this reason, information sharing and cross-fertilization between FAMR and HM Treasury's Public Financial Guidance consultation is important.

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

A lack of demand for regulated financial advice in its current form is only a small part of the advice gap. As described in our response to earlier questions, there is evidence of significant unmet need for help with finances that current financial advice does not cover but other forms of advice (e.g. automated advice) could. Moreover, there are reasons for a lack of consumer demand (such as low trust and industry complexity) that are unrelated to consumer need for help.

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

It is difficult to ascertain what advice gaps exist and in what circumstances consumers who do not currently receive advice would benefit from it. However, the evidence suggests that many more consumers would benefit from help with their personal finances than currently seek it. As we noted in response to Q3, we are particularly concerned about the growth in DIY investment on platforms, where large numbers of consumers are making investment decisions with no financial advice at all.

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

Our recent work shows there is compelling evidence for closing advice gaps in four target areas:

1. To address the under-provision of savings for retirement
2. To address the lack of short-term savings
3. To address common investment mistakes
4. To address the detriment caused by problem debt.[12]

For FAMR, the focus is likely to be the first three of these four areas, which centre on saving and investing; while problem debt and debt advice are the subject of HM Treasury's consultation on Public Financial Guidance. But we emphasise again the importance of considering the totality of advice gaps that consumers may experience, rather than looking at the issue solely from the perspective of products or providers. In order for consumers to be in a position to save and invest, they need to have sound personal finances.

[12] Brambley, W. and Collard, S. (2015). *Saving us from ourselves – how can we make the UK more financially resilient?* True Potential PUFin Green Paper.

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

As we set out in our response to Q20, there is compelling evidence for closing advice gaps in four target areas:

1. To address the under-provision of savings for retirement
2. To address the lack of short-term savings
3. To address common investment mistakes
4. To address the detriment caused by problem debt.

For FAMR, the focus is likely to be the first three of these four areas, which centre on saving and investing; while problem debt and debt advice are the subject of HM Treasury's consultation on Public Financial Guidance. But we emphasise again the importance of considering the totality of advice gaps that consumers may experience, rather than looking at the issue solely from the perspective of products or providers. In order for consumers to be in a position to save and invest, they need to have sound personal finances.

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?

Given the financial risks to consumers in relation to longer-term saving and investing, and the opportunities and challenges created by Freedom and Choice, this seems sensible.

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)?

There seems to be general agreement that this is a significant 'advice gap' and, indeed, the majority of taxpayers in the UK have personal incomes less than £50,000.[13] This means that the focus of FAMR will (rightly) be on a significant section of the UK population.

There seems to be less evidence about the types of help that may benefit consumers in managing their personal finances, a gap that empirical research should be used to fill.

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?

In principle, there is nothing in the regulatory regime to prevent firms and advisers offering automated advice, including personal recommendations through an automated advice process. In practice, the challenge for firms is how to deliver these services on a commercial basis given the costs involved in any form of regulated advice, particularly when the target audience is consumers with modest amounts of wealth and fairly straightforward investment needs, who may not be prepared to pay much (if anything) for a completely online service.

As indicated in the Call for Input, legal liability is currently a significant barrier to the development of cheaper forms of financial advice (that may or may not include a personal recommendation). Getting a reasonable balance between the legal liability borne by firms

[13] Source: HMRC Survey of Personal Incomes 2012-13, updated January 2015.

and consumer protection should be a key focus of FAMR, especially given the aspiration to bring more consumers with modest income and wealth into the market for financial advice.

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?

Legal liability and regulatory requirements for different types of financial advice (such as automated advice). Innovation in financial advice (in a broad sense) is constrained by regulation designed for full regulated face-to-face financial advice.

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

'Consumer engagement' is a commonly used but almost meaningless term. In order to 'improve consumer engagement' it is crucial to have a clear idea of what we want consumers to engage with and why, and the desired outcome. It is also important to understand why people behave in the ways they do. Interventions based on an imaginary 'rational consumer' are almost certainly doomed.

Previous initiatives have tended to (1) assume a significant untapped demand among consumers for greater engagement (which often fails to materialize) and/or (2) to ignore the reasons why people do not engage (or do not engage in the ways that policymakers expect). For example, repeated efforts to encourage low-income borrowers to switch from using high-cost short-term credit to borrowing from a credit union have failed to appreciate the reasons why people value high-cost credit, even though it is extremely costly.

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

No comment.

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

There is consistent evidence that UK consumers across the board are generally poor at planning ahead and choosing financial products. While levels of personal financial capability provide part of the explanation, we should not under-estimate the extent to which people are not particularly motivated or interested to engage with financial decisions; the time and effort that is involved; low consumer trust; and market complexity.

Our work suggests a real need to shift the focus from consumer information and disclosure (which has had little or no impact in improving consumer outcomes in financial services), to consumer habits, attitudes and emotions.[14] Lessons may also be learned from the field of health behaviours such as smoking cessation and reductions in alcohol harm. Here there have emerged interesting applications of social marketing.

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[14] See for example Collard, S. (2015). *Towards a Common Understanding of Risk*. True Potential PUFin White Paper. http://tinyurl.com/nk8exyc

If ‘consumer engagement’ in financial advice or financial decision-making is considered crucial to achieving a reasonable outcome, then based on the evidence it seems likely that more effective use of incentives will be required, or else financial advice (in a broad sense) should be made a default.

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

If simpler forms of financial advice or automated tools are to be developed by firms that are free of charge, this would require a different regulatory approach. If firms are not interested to produce these types of help, it could instead be provided under the remit of Personal Financial Guidance.

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

No comment.

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

See our response to Q29.

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

We do not have evidence that absence of a longstop is leading to an advice gap. Firm experimentation in this respect may be insufficient, but the potential may be increased by tying this to effective research and evaluation processes.

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?

No.

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

No.

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

No.

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?

No.

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

The provision of automated tools to support consumer decision-making has the potential to significantly improve investor outcomes but currently falls into a grey area between financial advice and guidance. We consider there is scope for the FCA to allow some relaxation of regulation to encourage more exploration and experimentation in this area, and similarly in relation to digital innovation.

The FCA's Project Innovate and Regulatory Sandbox are potentially exciting ways to address regulatory barriers to firms providing advice and help to consumers. They can only have impact, however, if there is a real possibility of changes to FCA policy in the event that innovation in financial advice is found to be beneficial for consumers. Alongside Project Innovate and the Regulatory Sandbox, we would welcome a proactive approach by the FCA here, to test and research the effects of its own policy.

As the Call for Input acknowledges, the cost of research and development for new, innovative solutions can be large, whereas ongoing costs can be relatively small. Given that free markets tend to under-provide in these circumstances, there may be an argument for public money to be used to develop innovative mass market solutions to meet consumers advice and guidance needs.

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

Automated advice could provide much-needed help to consumers to make financial decisions. To be used in the mass market, it should be simple and easy to use, online, require relatively little time commitment, and be prominently available or a default rather than expecting consumers to look for it. Ideally, it should be free (see, for example, the big drop in readers of online newspapers who introduce paywalls). And finally, it needs to give a "do this" recommendation, as anything less will not lead to people taking action.

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

One option is to publically fund financial advice to be free-at-the-point-of-use, like a GP. This is not likely to be politically feasible. Therefore the other main option is to make financial advice (in a broad sense) simple and easy to use, ideally free of charge or at least low cost, probably through automated advice.

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?

While ex-post competition analysis is useful to see what impact changes have had, the market is currently distorted by the regulatory barriers to providing anything but full, regulated financial advice, and it is not delivering good consumer outcomes. The market needs to be distorted, or at least disrupted for the situation to improve.

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

In relation to full, regulated financial advice, this could be ensured by enshrining the notion of fiduciary duty in the adviser-client relationship and the establishment of related professional standards.

When it comes to other forms of financial advice (such as simplified or automated advice), safeguards should ensure that incentives are aligned (i.e. firms are not able to use online tools that recommend their own products or other products they benefit from selling). Other than that, the primary focus should be to encourage different forms of financial advice for the mass market.

UKSIF
UK Sustainable Investment and Finance Association

22nd December 2015

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

Dear Sir/Madam,

We are responding to the recent HM Treasury and FCA call for input on the Financial Advice Market Review (FAMR).

About UKSIF and the Ethical Investment Association

UKSIF is the membership network for sustainable and responsible financial services in the UK. We promote and support sustainable and responsible investment (SRI) and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF has around 240 members and affiliates including financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more info about UKSIF, please visit www.uksif.org.

In writing this response we have engaged with the Ethical Investment Association (EIA) steering group and its members. The EIA is a separate chapter of UKSIF for financial advisers which has regular meetings and around £1bn asset under management. It was started by financial advisers in 1998 with the goal of developing green and ethical investment in the UK and to share ideas about incorporating green and ethical investment into the financial advice process. Its aims are to encourage dialogue with Government and Regulators, to increase public access to financial advice on green and ethical investment and to raise standards for financial advice on green and ethical investment. For more information about the EIA please visit www.ethicalinvestment.org.uk.

In this response we refer to SRI and values based investment. We define SRI as the integration of environmental, social and governance factors in investment decisions. Globally the UK is the second biggest SRI market and the biggest within Europe and assets under management stands at around £1.9tn.[1] Values based investment is defined as investment which allows consumers to reflect their own beliefs and ethics in the way they invest their money. The UK market currently stands at around £15bn assets under management.[2]

[1] Eurosif, *European SRI Study 2014*, available at http://www.eurosif.org/wp-content/uploads/2014/09/Eurosif-SRI-Study-20142.pdf
[2] EIRIS statistics available at http://www.eiris.org/media/statistics/

UKSIF
UK Sustainable Investment and Finance Association

Answers to your 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?

Consumers with protected characteristics under the Equalities Act may have values they wish to be reflected in their investments. It may be harder to find appropriate advice which enables them to reflect their values in their investments for reasons set out in our answers to questions 3, 10, 20 and 21.

It is worth noting that only around 5-10% of active financial advisers are female. We have anecdotal evidence that the exams required to become an approved person and the CPD requirements are hugely geared towards men and do not reflect needs of women and ethnic minorities. This only serves to inhibit diversity in the range of financial advisers in the UK and the financial advice that is given.

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

The difference between unregulated financial guidance and regulated financial advice is clear and it is important that this distinction is understood by policy makers, financial advisers and consumers. This is also the case for the distinction between independent financial advisers and financial advisers (both of whom being regulated). It is essential the correct language is used: The average reading age in the UK is 9.

General information about products and services will not usually be regarded as advice. It is often referred to as a non-advice service and regarded as guidance. Where the consumer receives a recommendation for an investment product this is regarded as advice and comes in two categories. An independent financial adviser, or IFA, will make an unbiased recommendation based on the entire universe of retail products that match a particular consumer's needs. A restricted adviser will only make recommendations for certain products and as such may not use the term 'independent' to describe the advice they offer. In both cases the adviser is required to state whether they offer independent or restricted advice, although the restricted adviser will be required to state the nature of the restriction.

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

In April the *Pension Freedoms* came into force which allowed members of DC pensions schemes a range of options to access their pension pots from the age of 55. This has created a huge opportunity for the financial advice market to provide expertise to individuals looking to navigate to the right options for their particular circumstances. Equally, it created a range of risks to consumers including from scams, tax implications and longevity risks. Auto-enrolment has meant that many more people are likely to have investments from a much younger age and their needs, including their own personal values, should be taken into account in guidance and advice. Allowing individuals to invest in-line with their values will be one step towards increasing trust in the sector. The combination of these factors will drive demand for professional financial advice.

It may also be worth noting anecdotal evidence we have received that the lack of commission resulting from the retail distribution review (RDR) remains an unresolved issue. It must be at the centre of consideration for demand in this review. Since RDR the quality of advice has increased, which is a welcome development, however the quantity has declined which has been one factor that has lead towards an advice gap.

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?

The financial needs for which consumers will seek advice are wide ranging. This may include advice on mortgage products, generally from a mortgage adviser, and options in retirement stemming for the new pension freedoms for which individuals may seek guidance (e.g. from Pension Wise) or full advice (from a financial adviser).

There will be some consumers with financial needs who do not seek advice because they are unaware it exists or because they are not sufficiently engaged in their own financial affairs. For these individuals, many of whom will be young, much more should be done through financial education and guidance to discourage consumers from falling into debt and to explain raise awareness of their options. It is estimated that by 2020 UK households will hold up to £350 billion of unsecured debt. Debts for 15-24 year olds grew by 200% between 2006-2012. This is ten times faster than the average debts of the wider population.[3] This group has complex financial needs that are not being met and for which they are not seeking advice. More financial education is essential to help reduce the amount of personal debt in the UK.

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?

It is our view that the FCA Consumer Spotlight segmentation model is useful but it remains too one-dimensional. A focus on age and money alone is too simplistic an approach. Research commissioned for UKSIF's Good Money Week 2015 shows evidence for the existence of what you term a 'social investor'[4] showing a clear positive correlation between positive values and age.[5] There should be recognition of this within the segmentation model which would also help further cement values based investment as a legitimate approach.

[3] Citizens Advice, *Unsecured and Insecure?,* 2015, available at https://prezi.com/oqlbimt__2sn/unsecured-and-insecure/

[4] FCA, *Call for Input: Regulatory Barriers to Social Investments*, December 2015

[5] Standard Life Investments, YouGov poll, 2015

The review should focus on young people – who must be encouraged to save more – and the 'soon-to-retire' segments. The pension freedoms have meant millions of people are now able to access their pension pots and use their money as is most appropriate for their circumstances. This has resulted both in a surge in demand for advice but also scams and fraud which has resulted in around £9 million[6] being illegally stolen from savers since the freedoms were introduced. These consumers are most at risk and the FCA should examine what steps are appropriate to ensure these risks are properly addressed; major scandals resulting from scams or fraud will weaken both trust in the sector and demand for advice.

It may also be the case that many individuals in the higher end of the segmentation model may not have bought their assets. In many cases assets may have been inherited or been given to individuals by employers (LTIPs, pensions etc.). There may be older and more affluent consumers who are not as well-advised or 'savvy' as the segmentation model suggests and it may also be too simplistic in this respect.

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

There are a variety of reasons some consumers do not seek advice, many of which are covered in our answer to Question 20. One underlying reason may be the apparent disconnect between demand for advice and a reflection of values in investment: Demand for advice will be boosted if people feel they can reflect their values in their investments. It is also worth noting that by integrating ESG factors into investment decisions, SRI strategies are able to mitigate risks to help avoid potential scandals that will inevitably erode confidence in the financial services sector. The Law Commission explicitly recognised the inherent value of SRI in its report on fiduciary duties.[7] It stated clearly that trustees of pension schemes *should* take into account all financially material factors including ESG when making investment decisions and recommended this should be embedded in the Investment Regulations.

Some people may not take advice specifically on SRI because they believe it is already being

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

Consumer knowledge and industry fees will remain the main challenges to the provision of financial advice. Many consumers are unaware of the benefits of financial advice or that it exists. We refer to this awareness and referral gap in Q20. For these people (of which there are around 10 million currently in the UK) far more needs to be done to advertise the benefits of financial advice generally and to direct them in the first instance to Pension Wise, TPAS and MAS. Fees will continue to represent an obstacle for some consumers. Some may be willing to pay for financial advice but not at current prices or it may be the case that the financial adviser is not willing to advise the client due to it being uneconomical.

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[6] This is Money article, October 2015, available at http://www.thisismoney.co.uk/money/pensionfree/article-3279904/As-government-warns-savers-pension-freedoms-scams-s-fend-conmen-prey-pot.html

[7] Law Commission, *Fiduciary Duties of Investment Intermediaries*, 2014 available at http://www.lawcom.gov.uk/wp-content/uploads/2015/03/lc350_fiduciary_duties.pdf

SRI and values-based investment markets will grow over the next five years. Despite this, according to a recent report[8] 31% of financial advisers that responded to the study felt they did not know enough about RI to enable them to offer it clients. A further 66% felt there was not enough information designed to give financial advisers a better understanding. Demand is being driven by clients but 38% of advisers said they had either never discussed responsible investment with clients or considered offering it as part of a portfolio. This is a growing market and the supply of SRI investment advice needs to be examined. This is partly being addressed by the industry itself, but work needs to be done by the FCA to make more information available to advisers.

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?

We welcome new technology such as robo advice for three key reasons:

- It is a means to enable people who are otherwise unable to receive advice; robo advice has a role to play in plugging the advice gap.
- Financial advisers will benefit from emerging technology like robo advice and they should utilise and incorporate it into their business models to increase demand for their services.
- Provided the right rules and mechanisms are in place it can help to facilitate more SRI and investment in-line with consumer values. This will result in people saving more and earlier.

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

Based on both anecdotal evidence and a recent survey by the Association of Professional Financial Advisers (APFA), regulatory costs have been identified as a major factor in increasing costs and for certain consumer segments making the supply of advice uneconomical. It estimates that total costs associated with the FCA, FOS, FSCS, MAS and Pension Wise was £460 million in 2013. It also cites a 10% increase in the FCA's annual levy as a contributing factor, and estimates that costs relating to regulation comprise 12% of a firm's overall costs. These costs are passed onto the consumer, increasing charges and increasing the affordable advice gap. The FCA should look at the burden of regulation, both on firms and consumers, and examine its role in sustaining the advice gap.

In this context it would be important to consider how much advisers of various types should earn. Our view is that anyone giving guidance or advice is in a responsible position and should be remunerated accordingly. The premium for advisers should be material to reflect the necessary higher level of knowledge. Setting a lower bound for pay for the various roles, adding costs (including an element to reflect the existence of long-term liabilities), and solving for fees charged will show the minimum fees necessary for various services. Our suspicion is that the results of this exercise will be to confirm a minimum cost for the various types of advice consistent with the existence of the various advice gaps outlined in our answer to questions 17-20.

In your conclusion to this project it might be helpful if you were to comment on what level of remuneration underlies the models you use in your analysis.

[8] Alquity, *Barometer 2015*, available at http://www.alquity.com/?p=6329

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?

We have anecdotal evidence that the main cost of advice comes from avoiding liabilities. FOS has not been helpful in this respect and the cost of 'getting it wrong' remains significant. The lack of a long stop means less is done in terms of innovation while more focus is put on avoiding liabilities.

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?

Following the announcement of the FAMR consultation, Citizens Advice published a report[9] which examined four advice gaps (affordable advice, free advice, awareness and referral and preventative advice) and over the summer Alquity published a report which examined the potential for an SRI advice gap. We believe these are key gaps in the UK financial advice market and the FCA should consider how best to address them.

- **The affordable advice gap –** most consumers are unable to pay for advice and a minority can but are not prepared to pay current prices. The research suggests that 5.4 million extra consumers would consider paying for advice if it cost less. (CA)
- The free advice gap - people want advice but are unable to pay for it. Currently there are around 14.5 million people in this group. It includes 5.3 million people who have needed free advice in the last two years but haven't taken it and 735,000 people who have tried to take free advice but couldn't due to lack of supply. (CA)
- The awareness and referral gap - people are either unaware that advice exists or unaware where to get it. Up to 10m people who think they would benefit from free advice are not aware of public guidance. It includes 3.3 million people who need free advice but failed to get it because they were unaware it existed or where to get it and 3.4 million people who have raised a financial issue with a trusted professional at some point but were not given help or were not told where to find it. (CA)
- The preventative advice gap people would benefit from having financial advice as a preventative measure. Up to 23 million people have been in this gap at least once in their life. Around 39% people who have expected a baby would have taken money advice if it was offered. 1.2 million people who have taken paid for or free advice in the last two years have not had the non-financial causes of those problems addressed. (CA)
- **The responsible investment advice gap** – people who want to invest responsible but are unable to do so because of their adviser. Alquity analysed the potential for there being a

[9] Citizens Advice, *The Four Advice Gaps*, 2015 available at https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-four-advice-gaps/

responsible investment gap in the UK. Its report[10] found that despite the belief of most financial advisers that RI could deliver just as high a return as traditional forms of investment, almost two thirds of respondents said decisions to include RI in their portfolios were driven by clients and 82% believed the RI market would grow over the next 5 years. There is a concerning disconnect between the ability of financial advisers to provide information on RI and RI in portfolios and a growing market that is being driven by responsible retail investors. (Alquity)

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

The awareness and referral gap is something the Government should be very concerned about. There is little point operating the Money Advice Service if the majority of people it exists to serve are unaware of it. Nonetheless, the affordable advice gap is the most important area for this review to examine. Good quality paid-for advice is essential to improving financial outcomes for many households but this is becoming increasingly less affordable. According to Citizens Advice around 49% of UK households have net financial wealth below £5,000. There will also be consumers who require free advice or guidance to assess their options before paying for advice.

Despite the importance of the free advice gap one area the FCA may wish to examine is the SRI investment advice gap. The findings in the Alquity report are backed up by research[11] commissioned during Good Money Week 2015. For example the research found that that 51% of 18-24 year olds wanted their investments to minimise damage to the environment. The figure for 25-34 and 35-44 year olds on the same issue is 47% and 49% respectively. Separately, the Governor of the Bank of England spoke about climate change risk in September[12] and specifically risks arising from “stranded assets”,[13] something which will become even more prominent following the global agreement at the recent COP21 climate negotiations. The wish to reflect values in investments should not be ignored and the reasons for some financial advisers’ lack of knowledge of SRI should be reviewed and addressed. While benefitting society and the environment may be motivations for investors, we agree with Alquity that more needs to be done to explain why SRI strategies that target well-run companies that minimise negative impacts on people and the planet is first and foremost good business.

We also hear anecdotal evidence that SRI is excluded from FCA requirements for exams for authorised persons and that there is very little in CPD. It also increases PII costs which only serves to make SRI uneconomical for some advisers to offer.

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 agree on the areas the FCA should focus on initially. We have said more work needs to be done to encourage consumers to save more and earlier, and to address the new risks associated with the

[10] Alquity, *Barometer 2015*, available at http://www.alquity.com/?p=6329
[11] Standard Life Investments, YouGov poll, 2015
[12] Mark Carney speech at Lloyd’s of London, September 2015 available at http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx
[13] Carbon Tracker, *Unburnable carbon 2013: Wasted capital and stranded assets*, available at http://www.carbontracker.org/report/wasted-capital-and-stranded-assets

pension freedoms. Auto-enrolment means that for many people saving into a pension will be their first investment. According to the Government there are ten million workers in the eligible target group[14] for auto-enrolment. Of these, there are expected to be nine million workers newly saving or saving more by 2020.[15] The Pensions Advisory Service, Pension Wise and the Money Advice Service will have a significant role to play to encourage people to save into their pension early and not to opt out. Currently opt out rates are low, which is promising, but when auto-enrolment is extended to small and micro-businesses Pension Wise, The Pensions Advisory Service and the Money Advice Service will need to play a far more active role to ensure as many consumer as possible are saving.

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)?

The upper limit of these thresholds is appropriate although we believe the bottom end of the scale should be those without any money. As we have said in our answer to Question 20 makes it clear that the advice gaps are far more significant for individuals with low assets.

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?

Only 34% of financial advisers believe enough information is available to them on SRI. This is telling. We believe a guidance note which explicitly recognises SRI and values based investment would be helpful in publicising it as a legitimate strategy. We believe the FCA handbook should be simplified and more focus given to SRI and values based investing.

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?

The continental European financial advice market is different from the UK's and best practice may be hard to transpose. European advisers tend to operate within large financial institutions like banks and insurance firms and often the comparison between markets is less obvious than it appears. Despite this there are similarities in terms of demographics and advice needs, particularly in northern Europe. The UK is largely ahead of other European nations e.g. level Q4 for AP, the RDR ban on commission and TCF.

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?

We would point towards the French 90/10 rule on social investment which has certainly served to raise the profile of social investment in France. We would recommend taking steps to encourage 10% investment elsewhere rather than requiring it, and it would make sense to offer it under a

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[14] DWP defines the eligible target group is as workers who are aged between 22 and State Pension age, earning over £10,000 and either (i) not currently saving in a pension scheme; or (ii) saving in a pension scheme where the employer contributions are less than 3% of the worker's salary, and is not a defined benefit scheme.

[15] DWP, *Workplace pensions: Update of analysis on Automatic Enrolment*, September 2015, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf

broader *SRI* umbrella, rather than specifically social investment (and clearly not limit this to financial institutions).

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

We believe the Government has a role to play. In particular it should advertise the various options available to consumers based on the consumer segmentation model, but with a particular focus on those will low wealth and assets. These are the consumers who are most likely to be unaware of available financial guidance and advice (including robo advice) and therefore the prime target audience of any advertising campaign.

The Government could decide to fund this, possibly via the recently announced apprenticeship levy and through student loans. We have already stated our belief that consumers must be encouraged to save more and earlier and this could be achieved by linking saving for retirement with policies relating to a consumer's first job.

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?

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

The FCA's finalised guidance on retail investment advice notes that 'a well-functioning retail investment market needs different delivery mechanisms to be fully effective for a broad range of potential investors'. We agree fully with this statement. Simplified models of advice at lower-cost reflecting simpler needs is one way to address the affordable advice gap and it is welcome the FCA has recognised this.

There remains at least one significant obstacle to simplified advice permeating the market. We have heard anecdotal evidence that FOS shows such consumer bias that it inhibits innovation and is to the detriment of the sector. Clearly consumer complaints must be taken seriously but this should be done in a fair and proportionate manner. The current system means many firms are unwilling to provide simplified advice due to uncertainties surrounding liabilities and how they will be treated by FOS.

A safe-harbour should be introduced in relation to simplified advice. Clear conditions and boundaries relating to the types of simplified advice that are permissible would be extremely helpful in giving much needed certainty to the sector and would represent one step towards plugging the advice gap.

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?

Based on anecdotal evidence the lack of a longstop may increase the responsible investment and affordable advice gaps. The ongoing nature of liabilities relating to financial advice has increased costs and proven a deterrent to innovation and includes the following:

- Ongoing liability may put off some advisers from offering values-based or ESG investment recommendations due to their perceived complexity, increasing the responsible investment advice gap.
- The benefits of advising smaller clients do not outweigh the risks associated with ongoing liability. The business model becomes uneconomical which increases the affordable advice gap.
- The risk premium attached to charges for financial advice means a significant proportion of consumers are unprepared to pay for full advice which increases the affordable advice gap.

There has been some recent evidence[16] that the introduction of a longstop would have little if any practical effect relating to advisers' liability. Notwithstanding this, even more important than the potential amount of cases affected is the perception of an industry with unlimited liability. It is seen as a significant risk by advisers and a major obstacle in attracting new financial advisers to the sector. We would reiterate the impact of SRI strategies taking into account all financially material factors including ESG in helping to mitigate many of the risks that can potentially lead to these liabilities.

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

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?

Different markets generate different demand, however the Japanese experience of robo advice has been so far positive. According to recent reports[17] the majority of elderly Japanese people want to be cared for by robo advisers rather than human advisers. Reasons suggested for this include competence of automated advice being on par with human advisers while not making clients feel patronised.

Trends in the UK – in particular the habits of the next generation of investors – are more certain. It is astonishing the UK financial services sector remains as one of very few industries yet to fully realise the potential of technology. We have already stated our belief that robo advice utilised properly can offer huge opportunities for firms and encourage people to save more and earlier. The full benefits of technology working alongside human advisers will not be properly understood until the sector has properly developed. Currently one of the most high profile robo advisers is offered by LV= which

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[16] Money Marketing, *Long-stop would have barred just nine complaints last year*, December 2015 http://www.moneymarketing.co.uk/long-stop-would-have-barred-just-nine-complaints-last-year/

[17] Evening Standard, *Clients want humans, but with exceptional IT*, 9 December 2015

offers 'fully regulated' advice from Cora which includes a risk profile, suitability checks and a personal recommendation.[18]

We believe the robo advice sector will grow and be a significant step in the right direction in plugging the affordable advice gap and potentially the responsible investment gap too. However, we would question the ability of robo advisers to serve values based investors. As one financial adviser told us, currently many mainstream advisers struggle with advice on mainstream ethical funds – it remains unclear how robo advice would handle a client interested in impact investing. Values based investing should be available to all consumers with capital to invest; it should not be the preserve of those able to afford full advice.

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

We have already stated our views on how to address the advice gaps listed above. To sum up we think more work is necessary in the following areas:

- The FCA should examine the option for a longstop and in particular the indirect effect a lack of protection for advisers has on the sustainability of the sector and its impact on the promotion and uptake of SRI and values based options in investment.
- Examine the role of the Financial Ombudsman Service, including the extent to which it is too pro-consumer and the effect this has on the ability of advisers to promote and offer SRI or values based investments.
- Robo advice should be further encouraged to help plug the affordable advice gap.
- Explicit recognition of SRI and values based investment as legitimate strategies that can produce just as good returns as traditional investments and help mitigate risks to portfolios. It would be helpful for the FCA to publish a guidance note to explicitly recognise this.
- Advertising from the Government may be necessary to ensure consumers are aware of their available options with regard to financial advice.

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?

Ultimately we believe the sector would be well served by taking concrete steps towards understanding the needs of consumers, based on wealth, age, personal values and SRI aims.

[18] FT.com, *Rise of the robo adviser as UK pensioners are given cheaper counsel*, 9 November 2015 https://next.ft.com/content/a8598908-8316-11e5-8e80-1574112844fd

We trust the above information is clear, but if you require clarification on any of the points raised please do not hesitate to contact us.

Yours sincerely,

Simon Howard
Chief Executive
UK Sustainable Investment and Finance Association (UKSIF)

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11 December 2015

Dear Sir

Financial Advice Market Review: call for input

The UK Platform Group (UKPG) would like to record its support for the Financial Advice Market Review (FAMR). The 35 members of the UKPG, who collectively administer around £500bn of assets on behalf of five million UK individuals, will be submitting individual firm responses to the call for input. However, we would like to put on record a collective response regarding the review.

We believe that there is more that can be done – by all involved, including firms, regulators, legislators and customers – to encourage and support UK customers' participation in long-term savings. We also believe that the provision of financial advice is essential in enabling this participation.

All stakeholders should encourage individuals and families to save and invest for their future needs. We believe that individual responsibility with regard to financial matters is paramount. By enabling engagement between individuals and financial markets (specifically, the provision of financial advice), we are more likely to achieve important outcomes such as financial independence, less reliance on the State, increased understanding of the need for savings and investment, and increased funding for UK companies.

The UK platform industry will continue to do its utmost to improve conditions around the supply of financial advice. Wherever possible, we will make products and build solutions that are understandable and engaging; deliver services that are good value and result in optimal outcomes; make it easier and quicker for financial advice to be delivered and acted upon; hold ourselves to the highest standards of professionalism and integrity; and put the customer first.

We are keen to supply a wide variety of solutions to meet all customer needs and to avoid a polarised situation where the only options available are individually-tailored financial advice or execution-only services. The need to fill the advice gap, created in part by a lack of simplified advice solutions, is critical – we urge you to do all you can to clarify the regulatory obligations around advice so that firms can feel confident in developing and offering the services that consumers need.

We believe the focus of regulators has become too much orientated towards consumer protection and that this important objective needs to be balanced by a remit for consumer engagement. This focus on consumer protection has resulted in a regulatory framework that relies on ever-increasing disclosure, risk warnings, appropriateness tests and suitability requirements which, while important, make our industry difficult and complex to engage with. We believe that encouraging the supply of, and demand for, financial advice should be a central tenet of the FCA's statutory objectives and would welcome your consideration of this enhancement.

We recognise that the administration and management of money is a role crucial to society. We look forward to outcomes from the FAMR that significantly increase and improve the part financial advice has to play and that enable providers to make such advice accessible to all. UKPG members will play a critical role in any implementation plans due to the infrastructure and services we provide to UK investors and advisers. We are therefore very happy to engage further as the consultation process develops. We wholeheartedly support the FAMR and thank you for initiating it.

Yours faithfully

For and on behalf of the UK Platform Group

UKPG members:

7IM
Aegon
A J Bell
Alliance Trust
Ascentric
Avalon
Aviva
Axa Wealth
Barclays
Charles Stanley
Close
Cofunds
Equiniti
Fidelity
Financial Express
HSBC
Interactive Investor
James Brearley
James Hay
Novia
Nucleus
Nutmeg
Old Mutual Wealth
Parmenion
Praemium
Raymond James
Share Centre
Standard Life
Succession Group
TD Direct
Tilney BestInvest
Towry
Transact
Wealthtime
Zurich

Financial Advice Markets Review Call for Input Response from Unum

21 December 2015

About Unum

Unum is one of the UK's leading providers of financial protection with more than 40 years' experience. Unum helps employers protect their workers by providing access to financial protection, safeguarding employees from the consequences of serious illness, injury or death.

At the end of 2014, Unum protected almost 1.4 million people in the UK and paid claims of £313 million - representing in excess of £6 million a week in benefits to our customers - providing security and peace of mind to individuals and their families.

Unum Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Summary of our response

- All working age people face an important advice gap that prevents them from preparing for negative life events and getting life insurance and protection cover. This advice gap is particularly concerning for people on low and middle incomes working for smaller and medium sized enterprises (SMEs). It is exacerbated by low levels of financial capability for protection products. Tackling this should be an urgent focus for the Review.
- Improving access to protection advice and products would not only improve the financial resilience of those on low and middle incomes but also support wider Treasury objectives.
- The supply of protection advice could be increased by simplifying and clarifying the regulation of advice and through a tax break for SMEs that purchase protection for all staff. A tax break would be far more effective in increasing the supply of advice than a levy on advice and would also encourage greater financial resilience.
- Demand for protection advice could be increased by developing a simple protection statement that enables people to understand the chance of being too ill to work and the level of support they would receive from the state and their employer if they became unable to work long term.

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)?

Financial capability is particularly low for protection products. Working age people across all consumer segments identified by the Call for Input face a critical advice gap about how to prepare for negative life events and "get life insurance and protection cover". All working age people face this advice gap though those on low and middle incomes working in SMEs are the least likely to access advice and protection. This is an important advice gap that the Review should tackle as a priority.

The Money Advice Service (MAS) Financial Capability UK Survey this year found that "preparing for and managing life events" was the financial problem people most struggle to deal with – their financial capability scores were much lower for managing life events than managing money day to day or dealing with financial difficulties.

The MAS survey also found that financial capability for managing life events varied much more by income than other aspects of financial capability. Those on lower incomes were much less likely to understand the risks related to negative life events, how to prepare for them and how to access protection.

Those working in SMEs are also less likely to access protection advice and products. Financial protection advice is primarily provided through the workplace by brokers with the support of employers, typically with a view to providing group protection products. While this route is very effective, people working in SMEs can find it hard to access advice this way as their employers are less likely to provide group protection products. Unum estimates less than 2.5 per cent of people working for organisations with 10-49 employees have group income protection for instance compared to 11 per cent in firms with more than 2,000 employees[1].

There is further evidence which supports the finding that there is a serious advice gap in life insurance and protection. For example, research by Demos found people greatly underestimated the risk of facing unemployment due to disability[2]. Almost a fifth of people thought there was a 1 in a 1000 chance they would become too ill to work when in fact about 1 in 10 British workers claim some form of state benefit in their life as a result of an accident or severe ill-health, and at any one time 1 in 20 workers are out of work through disability. Worryingly, people also overestimated the support they would receive from their employers with over half believing they would receive their full salary for three to six months. In fact, employers are legally only obliged to pay Statutory Sick pay at £88.45 for 28 weeks.

[1] This is based on internal Unum research using March 2014 ONS population figures and Unum's Group Income Protection market data.
[2] Demos (2014) *Opting up: how to increase financial resilience*. Available from http://www.demos.co.uk/files/476_1413_OptingUp_Web_2_.pdf?1397123976

This lack of understanding about risk and protection is in turn reflected in how unprepared people are to deal with a drop in income caused by ill health or injury. Work by CESI found 10.8m households, more than 60 per cent of working families, would see their income fall by more than one third if the main earner had to stop work due to ill health[3]. Too few households have insurance or savings which could serve as a safety net; MAS found almost half of working age couples or families did not have life cover and 60-70 per cent of households with an annual income of £35,000 or less did not have savings equal to even one months' household income.

Tackling the protection advice gap would mitigate what Demos called "the possibility of catastrophic financial shocks resulting from accident or ill-health" facing tens of millions of working age people.

It would also support wider Treasury priorities by helping people with health problems to stay in work thereby benefitting taxpayers and boosting productivity. Group income protection products for example include early intervention back to work support that greatly reduces the number of people falling out of work and the length of long term sickness absence[4]. Furthermore, those people who are unable to work are less likely to claim welfare and continue paying tax on their insured income - a double benefit for taxpayers.

Lastly, it would also complement the Review's focus on retirement as protection products can be vital in securing a stable income for households where one of the main earners suffers a serious illness or dies during their working life.

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

Increasing the supply of advice

Two steps could improve the supply of advice on protection products:

- simplification and clarification of the regulation of advice
- a tax break for SMEs that provide group income protection for all staff.

Those supplying advice on protection, primarily brokers, cite the complexity of regulation as the biggest barrier they face in closing advice gaps. We recommend the FCA and Treasury work with the industry to explore how regulation could be simplified and clarified for those looking to increase the supply of protection advice.

To improve access to advice, the Call suggests exploring a new mechanism for "sharing the costs of advice with employers, or subsidising the cost through some form of levy on the industry". We very much welcome the Review's recognition of the role employers and the workplace can have in improving people's financial decision making – the success of autoenrolment in pensions illustrates the positive impact workplace advice can have. However, we do not believe a levy would be effective in improving how people prepare for negative life events.

[3] CESI (2014) *Welfare Reform for the 21st Century*. Available from http://tinyurl.com/abicesi
[4] CEBR (2015) *The benefits to business and the economy of early intervention and rehabilitation*. Available from http://landing.unum.co.uk/early-intervention

Instead, Unum has called for a tax break for SMEs that provide group income protection for all staff. This tax break would not only stimulate greater supply of advice, it would also encourage more SMEs to protect staff on low and middle incomes. Brokers provide the bulk of protection advice and the strongest incentive for them to provide advice is the chance of a sale. A levy would at best subsidise the cost of providing advice but would not make employers more likely to protect their workforce.

Increasing the demand for protection advice

As noted above, research shows people greatly underestimate the risk of becoming too ill to work and overestimate the support they would receive from the state and their employer. As a result, the demand for protection advice is too low.

Helping people understand the risks they face and the level of protection they have from the state and their employer is therefore key to increasing demand for protection advice. We recommend developing a way for working people to clearly and simply check their combined level of protection from the state and their employer. For example, through a protection statement that explains someone's chance of being off work sick for 12, 28 and 52 weeks and what their public and private income would be at each stage. This could be included in people's P60, given at key milestones in their life or career or accessed online alongside signposts to advice about how to improve their financial resilience.

Further information

For further information, please contact:

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18th December 2016

Dear Sirs

<u>WMA's[1] response to Financial Advice Market Review – Call for input</u>

We have chosen not to respond to the detailed questions in the above document. We attach a paper which outlines a service offering which we believe, if implemented, could provide a solution to close the advice gap.

Please do not hesitate to contact us if you would like to clarify any aspects of our paper.

Yours faithfully

Ian Cornwall

Ian Cornwall
Head of Regulation

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[1]The Wealth Management Association (WMA) is a trade association representing 186 Wealth Management firms and Associate Members. With formal contracted client relationships our firms deal in stocks and shares and other financial instruments for individuals, trusts and charities and offer a range of services across a spectrum spanning execution only through to full discretionary services.

Our member firms act for over 4 million private investors and carry out around 20 million transactions a year in the marketplace. Our members also manage in excess of £670 billion of wealth in the UK, Ireland, Channel Islands and Isle of Man, operate across more than 580 sites and employ approximately 32 000 staff.

Our aim is to ensure that any changes including operational, regulatory, tax and other business matters across Europe and the rest of the world are appropriate and proportionate for our wealth management community and, most importantly, their clients.

A service offering to close the advice gap

We set out below a proposal for a service offering designed to close the advice gap.
Benefits arising from the proposal include:-

- The provision of a cost effective service to certain individuals currently caught in the advice gap;
- A reduction in the risk of miss-selling;
- The removal of regulatory uncertainty;
- Clients are invested in financial instruments designed to meet their needs with defined quality thresholds;
- A service offering, which can cover assets held in tax wrappers such as pensions and ISAs;
- Greater innovation and competition directed towards the delivery of the service offerings and amongst providers of financial instruments.

Whilst we recognise further engagement with all stakeholders will be required, it should be possible to create a new low cost, simple easy to use service to serve many of those parts of the population currently within the advice gap who are seeking a limited longer term investment service. The service offering has to meet higher thresholds than those applicable for execution-only investing but a less onerous test – including the 'suitability requirement' – than that required for "advice with personal recommendation". At the moment, people only have a binary decision, advice or self-decision, and there is a clear need for an offering between those two extremes.

Introduction

A significant proportion of individuals within the advice gap have long term savings held in cash which should be invested in 'sensible' financial instruments carrying a higher risk than cash that will provide a greater return than cash over the longer term. These individuals are seeking a mechanism to ensure that their wealth is invested in 'sensible' financial instruments.
Most regulated firms are unable to provide a service to such investors as the suitability obligations are complex and carry potentially significant regulatory exposure that are both costly and time consuming for the regulated firm and client. Our approach would not result in a firm providing regulated advice to an individual, but by following a standardised process, the firm would guide individuals towards financial instruments specifically designed for them. The components of the service provision would be followed by all firms offering the service; the market would ensure innovation around that core. The obligation on regulated firms would to be to ensure they have correctly followed the standardised process; this would be the issue FOS would address in the event of a complaint.
The challenge will be to ensure that the process is simple and not over engineered. In particular, the focus needs to be on identifying the key messages that individuals need to be aware of at each stage of the process and not bombarding them with pages of regulatory material seeking to cover every eventuality. Two key factors that will address the closing of the advice gap is that individuals are comfortable in engaging with regulated firms and that the process leading to an investment is straightforward.

Specification of the service

The documentation describing the key messages that individuals need to be aware of to understand the nature of the service would be common to all firms. Issues to be covered could include:-

- Assumptions underpinning the service – for example, the individual has sufficient cash to meet unexpected emergencies and any known future expenditure;
- Risk factors – most product documentation currently list every conceivable risk factor; we need to consider what should be the key messages. Individuals need to understand that their capital is at risk and that performance is not guaranteed. We believe that risk messages need to be appropriately contextualised and that individuals need to be aware that there is a link between risk and return;
- The investment is for the long term – at least 5 to 7 years;
- What is not covered by the service – which would flag to the individual issues that may require them to consider seeking regulated advice as it is currently defined. For example, it does not provide a financial check-up (financial planning) or cover issues relating to pension provision.

<u>Information to be obtained from clients</u>

The information that would need to be obtained from clients would be limited, directed in part to ensure they understand the service offering. For example, confirmation that the client understands the time horizon and risks associated with 'capital at risk' financial instruments. The concept is that there would be predetermined information to be gathered, which would result in an outcome which would match the information to financial instruments, which would meet the requirements of the client based on their information.
In addition, questions should also be asked to identify issues not within the scope of the service but which may indicate that the client should seek regulated advice. For example, questions regarding an individual's pension provision. Such an approach using trigger questions would not necessarily result in an exhaustive list of all issues but it would provide 'a reasonable signpost' to individuals that they should consider seeking regulated advice in respect of certain issues.

<u>Financial instruments</u>

Further work would need to be undertaken to determine the criteria that would need to apply to determine 'sensible' financial instruments.

<u>Consumer protection</u>

Firms offering the service would, amongst other things, have to follow the 'Principles for Business' but the suitability obligations would not apply.

<u>Delivery of the investment process</u>

Regulated firms would have to ensure they follow the key components of the service offering but the market would decide how the process is delivered. Certain firms may choose to offer it only online with or without contact centre support, whereas others may offer a face to face meeting. A defined service offering will enable technology to be developed which enhances the delivery of the service.
Whilst we believe that individuals should be aware of the basis of the service offering, the key point from the individual's perspective is they may not necessarily be investing in the best financial instrument(s) but they will not be investing in a bad financial instrument(s).
Charges will vary depending on the delivery mechanism. For example, face to face meetings are generally more expensive than online services. The cost of delivering the service will need to be clearly disclosed to the client.

Periodic reviews

We do not envisage that periodic reviews would be incorporated into the service offering but firms could contractually engage with clients to undertake periodic reviews, the cost of which should be fully disclosed to the client.

From:
Sent: 22 December 2015 14:02
To: FAMRSecretariat
Cc: David Cassidy
Subject: Wealth at Work Limited

Dear Sirs,

FINANCIAL ADVICE MARKET REVIEW – CALL FOR INPUT

Wealth at Work Limited is a leading provider of financial education in the workplace. Serving many of the UK's biggest companies, we provide a service which helps employees to understand how to maximise the value of their benefits by delivering financial education tailored to the needs of individual companies and of different employee groups within those companies. This can then be supported by online guidance and an advice service which allows, for example, the linking of company share schemes to pensions and ISAs, retirement income planning for retirees and specialist support and guidance for senior executives. . We have studied the Call for Input into the Financial Advice Market Review dated October 2015 and welcome this opportunity to add our views on one or two issues of particular relevance to us that you have raised in the Review. We are not generally involved in deposit taking or lending or general insurance and do not comment on issues that relate to those or any other markets where we do not operate. We speak solely from the perspective of a financial adviser and asset manager who operates almost exclusively in areas of the retail market for investment and securities services where the need for good advice and consumer-focused services is most apparent. We are therefore in general sympathy with the objectives of the Review.

We have since our inception in 2004 (and for many years previous to that as a different business) operated under a model where we assess the investment needs and objectives of our clients, advise them on an investment strategy on the basis of that assessment and then, if and only if they decide to engage us to invest for them in accordance with the strategy, charge them a clearly-disclosed up-front fee for that advice. We then manage their investment on a discretionary basis for annual management fees and charges that are also agreed in advance. The service includes a regular reassessment with the client of the client's needs and objectives as they change and develop. We believe that, because of the techniques that we adopt and the focus that we bring to our target market, we are able to offer discretionary discrete portfolio management services at a far lower level of investment than is customary. We also run a financial education service with full-time lecturers engaged by enlightened employers offering investment seminars in the workplace to teach and inform retail investors about the need for forward investment planning and the opportunities that a rational investment strategy may offer. Through this education service, and through our experience of managing the investment needs of our retail clients, we are acutely aware of the general lack of understanding amongst retail investors of the sensible investment options that they may have and of how vulnerable they are. We are therefore fully supportive of your continuing emphasis on the need to promote high quality financial education, guidance and individual advice, even in an on-line age, in a market place that is changing rapidly.

We are also acutely aware, however, that very significant numbers of potential retail investors do not have reasonable access to the investment advice and services that they need because of the costs and direct or indirect regulatory constraints that apply to firms such as ourselves. The Review makes favourable mention in a number of places, for example, of the need to move towards remotely given, desk-based advice in order to improve efficiency and save cost (thus making regulated advice potentially more widely available). We warmly support that view and believe that the objective can be achieved, for all but complex investment strategies, without significant sacrifice to the quality of that advice. The major issue that arises in this context, however, and that is touched upon in Chapter 4 of the Review on page 24 (but not dealt with in any great detail), is the issue of suitability. It does not matter, in the end, if unimpeachable investment strategies can be devised and communicated online for a range of straightforward investment needs, if the adviser cannot get to first base in giving the advice or exercising his discretion because he cannot demonstrate that the advice is suitable without first arranging a face-to-face meeting with the client concerned in order to assess suitability. Many compliance officers in this field are currently of the view that no discretionary manager or provider of personal recommendations can comply with the requirements of the regulatory system without such a face-to-face meeting having taken place. If you intend to allow and encourage the development of on-line regulated advice, it is essential that you clarify expressly the circumstances in which, and the purposes for which, the requirement to assess suitability (which, as you rightly point out, is a MiFID requirement) can be successfully carried out on line or on paper.

We believe there is also a need to clarify the confusion which currently exists between education, guidance and advice. This is not helped by the names given to some Government agencies such as The Citizens Advice Bureau and Money Advice Service which fulfil an important role in providing education and guidance but which stop short of providing advice in the sense it is normally interpreted in the financial services industry to mean individual advice that is suitable for the needs of an individual investor.

Nowhere is the current difficulty in gaining access to good investment advisory and management services more apparent than when observing how retail investors deal with the fruits of their own labours. We identified many years ago that, for the majority of retail investors, the workplace is the major single source of new wealth that will give them the opportunity to invest. The opportunity arises not only through company pension and superannuation schemes in their various guises but also through company share schemes, vested and unvested, phantom schemes, share dividends, rights issues and other corporate actions, salary bonus schemes and other cash increments and commissions, redundancy and other severance payments and, most particularly, capital amounts that become available from whatever source upon retirement. The most sophisticated employees may have no difficulty in dealing with these issues. For the vast majority of employees, however, there is an evident need for help in dealing with the money or the securities that they acquire and most will instinctively turn to their employer to seek that help. Whilst there are various exemptions available to employers and trustees of occupational schemes in relation to communications about pension schemes and share schemes, they are by no means comprehensive and many employers and trustees in any case feel inhibited if they do not have the expertise available in-house, or perhaps the management time, to deal with these issues. The amounts available to individual employees on any particular occasion may objectively be generally modest but cumulatively over time they may well represent a very significant proportion of an employee's accumulated wealth. In many cases the amounts accumulated at retirement can equal or exceed the value of a person's residential property which is usually regarded as their single biggest asset.

A logical solution would be for an employer and/or trustee to appoint an authorised person as adviser to give directly to employees the assistance that they need. Generally, however, employers and trustees feel that they have too little regulatory protection from potential vicarious liability for any losses alleged to be caused by the advisers themselves. Equally, potential investment advisers in this field believe that they have too little regulatory protection, particularly where the employer or trustee may have a legitimate need for advice and assistance to be available to all and where this may conflict with the investment adviser's regulatory duties.

The result is that there is a huge gap in the workplace in the advice that is available to employees in relation to the wealth that is generated by that workplace. We see these issues every day. We are a major provider of workplace investment seminars, particularly focusing on employees who need to consider their retirement plans. We currently provide these services for a large number of the UK's FTSE 350 companies and we have presented over 800 such seminars this year alone.

We should therefore like to discuss some of these issues with you. In particular, we should like to discuss the practicalities of finding a prudent way to assess suitability remotely, in appropriate circumstances. Most importantly, we should like to discuss the need to make changes to the regulatory system that would encourage and support employers and trustees of occupational schemes in offering the provision of financial education, guidance and individual advice on investment planning to meet the demand generated by the wealth and assets acquired by employees through their work. We believe that this single change has the potential to turn the tide in the provision of high quality regulated advice and investment services to the largest single group of potential retail investors.

If you have any queries about any of the points raised in this letter, please do not hesitate to send us an email or ring our CEO and we shall be happy to clarify or give further detail.

Yours faithfully

Mark Hutchinson
Director

WEALTH at work

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Which?, 2 Marylebone Road, London, NW1 4DF
Date: 21 December 2015
Response by: Which?

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Financial Advice Market Review - Which? response to the Call for Input

About Which?

Which? is the largest consumer organisation in the UK with more than 1.2 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers and funded solely by our commercial ventures. We receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

Summary

Which? welcomes the opportunity to respond to the Financial Advice Market Review's Call for Input. We are supportive of the review's aim to make financial advice work better for consumers, particularly as people face increasingly complex choices and need the right help to make good financial decisions. Where an advice gap exists, and consumers are not able to access the help and support they need, it is important that solutions are identified that focus on meeting this consumer need without weakening consumer protections and thereby creating alternative possible detriment.

In our recent research[1], which focused on the segment of people with £10,000 – £50,000 to invest, eight in 10 said that they were aware of independent financial advisers (IFAs) and knew at least broadly what they do, but the majority had not used them. When asked about specific products they had taken out, only a third (32%) of people who had taken out an investment product reported that an IFA influenced their decision. This was higher for those who had taken out a private pension in the last five years, but was still under half (44%), and of those who had used an IFA, the majority reported that it was face-to-face.

This response outlines Which?'s evidence for the causes of the advice gap, and comments on potential solutions that we would like the Financial Conduct Authority (FCA) and HM Treasury to consider in the course of developing recommendations for improving the financial advice market for consumers, as well as proposals that have been put forward by others.

[1] Populus on behalf of Which?, interviewed 1000 UK adults online who reported they had between £10 and £50k available to invest, between 27th and 29th November 2015. Data were weighted to be demographically representative of the UK population.

The causes of the advice gap

There are significant demand-side barriers that mean consumers do not access financial advice. These include a lack of trust, a lack of appreciation of the benefit that financial advice can bring, and a lack of willingness to pay the cost of traditional advice.

Many consumers do not trust providers of financial advice. When asked about reasons for or against using an IFA for different types of financial advice, our research suggests that, for some, a lack of trust in IFAs is a barrier to getting advice. 39% of people aged over 50, with £10,000 – £50,000 to invest, said they would not trust an IFA to act in their best interests when giving advice on taking money out of a pension when they are approaching/are in retirement. 34% of respondents said they would not trust an IFA to act in their best interests when giving advice on a specific investment product, and 33% said they would not trust an IFA when giving holistic advice.

While trust is clearly a significant issue, our research also found that 71% of respondents had not even considered using an IFA for holistic advice, 69% had not considered it for advice on saving into a pension, 68% had not considered it for advice on what do with their pension savings when approaching/in retirement, and 67% had not considered using an IFA for advice on a specific investment.

When asked about reasons for or against using an IFA in different scenarios, over half of respondents said they thought IFAs are too expensive. The gap between what consumers are willing to pay for advice, and the cost of traditional advice channels, is undoubtedly a significant barrier to people accessing financial advice. Our study found that the target segment of people who had £10,000 - £50,000 to invest would be on average prepared to pay about £258 for IFA advice on how to invest an inheritance of £60,000. Last month, Which? published the average costs of financial advice in a range of scenarios, based on a survey on 206 IFAs in August 2015. The average cost for investing a £60,000 inheritance was £1,452. The highest estimate we received was £3,000, and lowest was £300.

There is also a lack of information and transparency about the costs of financial advice. In a recent Which? study of 500 IFAs, we found that more than two thirds (349) did not publish their fees and charges online, giving customers no advance indication of what they could be charged. 115 of the 500 websites we looked at purported to show their fees, but 76% of these did not give enough detail to give a real indication of what a consumer would pay and just 2% of the sites we looked at published genuinely useful information for clients including a clear breakdown of charges. Even when we asked IFAs directly, 12% refused to give any information on their costs over the phone. This lack of transparency increases the challenges consumers face when trying to assess the benefits of receiving financial advice. IFAs are currently required to give prices to clients only before an agreement is reached, and this usually happens at the introductory meeting. All IFAs should be required to disclose charging structures on their websites so customers know up-front what services are likely to cost and can shop around before committing to meet advisers face-to-face.

Expense and trust are not the only demand-side barriers to accessing independent financial advice though. In our research, when asked about reasons for and against using an IFA, nearly 6 in 10 (58%) of respondents said that a barrier to going to an IFA for advice on a specific investment was that they felt confident to make their own decisions. In addition, around half of people said they would be put off going to an IFA because they could get financial advice of similar usefulness for free elsewhere. This suggests that consumers' ability and willingness to self-advise could be a reason for not seeking professional, paid-for financial advice.

For many consumers, the benefit of paid-for financial advice is not clear, particularly when compared to what can be achieved using free resources. This may in some cases be misplaced confidence, based on a lack of appreciation of the complexity of particular financial matters, and/or the benefits that financial advice can bring. There is a case for considering what more could be done to increase consumers' understanding of the specific benefits of paid-for advice over and above free sources.

The supply-side barriers to consumers accessing financial advice also need to be considered. Direct regulation and the risk of liability naturally increase the cost of providing advice. However, from the evidence we have seen, we consider these costs are likely to account for only a small proportion of the large gap between the typical prices for traditional advice channels and mainstream consumers' willingness to pay.

Since the Retail Distribution Review, the number of advisors in banks and building societies has fallen by more than half[2], which may be in part due to increased qualification requirements for advisors placing upward pressure on costs. As a result of banks scaling down their provision of regulated advice, there are now more non-advised sales, and this is therefore an area that merits consideration as part of the review.

Potential solutions to address the advice gap

1. Liability restrictions

The Call for Input identified concerns about liability as a contributor to the high cost of advice, and proposed two possible options for reducing liability that would affect consumers' rights to redress: longstops and safe harbours.

We have been unable to identify any evidence for the proportion of advice costs that reflects the liability. There is no evidence to suggest that proposals to reduce liability would result in cost savings that would sufficiently reduce the costs of providing traditional financial advice to significantly address the advice gap, given the very large gap between current prices and consumers' willingness to pay.

Which? strongly opposes the introduction of longstops, which significantly weaken consumer protection. They risk disenfranchising consumers of many financial products from redress almost by default. This would apply to products such as investments with long maturity, or other products where the use of them may not alert a consumer to the fact they are unsuitable. Longstops could also reduce consumers' trust in purchasing financial products, and there is scarce evidence that longstops would have significant net benefits to society through increasing investment or innovation.

Which? also opposes safe harbours. Providers simply complying with prescribed 'tick box' rules cannot in general provide adequate protection for consumers that the outcome is suitable advice.

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[2] http://www.apfa.net/documents/publications/APFA-report-the-advice-market-post-RDR-June-2014.pdf

However, as the FCA considers barriers to innovation and new models of advice (see next section), there might be a role for additional FCA guidance to clarify how it will apply ex post regulation to particular types of new product. For example, guidance on how the FCA would be likely to determine the suitability requirement for particular types of new advice product could be beneficial to innovation by reducing regulatory uncertainty. However, any use of such 'softer' ex ante regulation would need to be justified in terms of the benefits outweighing risks, and would need to be properly tested.

The Call for Inputs also indicates that changes to Professional Indemnity (PI) insurance and/or a compensation fund for old claims could address the industry's concerns about the effects of their liability for mis-selling. To the extent that a cause of the industry's concerns is the functioning of the PI insurance market, then these concerns should be addressed by specific remedies directed at the functioning of the PI insurance market. They should not involve, for example, longstops which do not directly address the cause of the problem, but do reduce consumers' rights. On a compensation fund, we would have concerns to the extent it shifted the burden of liability from those providers who mis-sold to all providers and thus their clients.

2. New models of advice provision

Given the gap between the costs of providing traditional financial advice and consumers' willingness to pay, it is clear that we need a transformation in the cost base of advice, and therefore new models of delivering advice are likely to need to play a key role.

Innovative technological models of advice can potentially reduce costs by reducing, or even eliminating, the time a highly qualified advisor needs to spend serving the customer, as well as reducing the overheads required and allowing for greater scaling of services than traditional face-to-face models.

A range of existing offerings go beyond free advice by providing a recommendation about what the consumer should do, based either on their risk appetite and goals, or their entire financial circumstances. The market for online financial advice appears to be more established in the US, but there are several examples of lower-cost, online providers already existing in the UK, such as Nutmeg, Money on Toast and LV='s Clearer Online Retirement Advice service.

Some of these offer personalised advice, others non-personalised advice, and the majority of providers only offer advice about investments and allocate a pre-set portfolio. A summary is in the table below.

Types of advice	Scope of advice	Channels	Charging structure
Some providers offering personalised advice, which considers a consumer's appetite for risk, their investment objectives, and their current financial situation.	The majority of providers only offer advice about investments. Investments mostly restricted to particular pre-set portfolios	Primarily online, but most have some form of free phone support available.	Most charge by a % of assets under management, which decreases for higher net worth clients. This is a combination of Annual Management Charges (to the firm

Some providers offering discretionary fund management, which considers a consumer's capacity for risk and their investment objectives, but not their wider situation.	At least one offers holistic financial advice.		handling the investment) and fund charges (to the fund into which the money is invested). Some upfront charges (generally where reports are produced).

The cost of these services is low: there is often no set-up fee, and costs are between 0.5% and 1.6% of funds invested. For a £60,000 investment, a recommendation and investment would come to an average of around £586 (excluding fund charges). This is significantly lower than the average cost for investing a £60,000 with an IFA, which based on Which?'s findings in November 2015 is £1,452, also excluding fund charges[3].

Where these have minimum limits for investments they are also low in comparison to traditional advice (generally £1,000 as a lump sum, or £100 a month); Which? found recently that 42% of advisors require minimum assets of £15,000 or more, with 35% setting a threshold of £50,000+.

Currently, the prices of these services, while much lower than traditional advice, is still higher than the cost that our research, and other polling, suggests would be willing to pay. Of course, how consumers actually respond in the market may be different from what they tell pollsters they will do, particularly as the available research has asked consumers to specify a fixed sum of money that they would be willing to pay. It may be that consumers are willing to pay more in total if that cost is spread over time, for example through a % charge on funds. Additionally, these are relatively new services, the sector is developing and gaining scale, and these prices may reduce in future.

New models of advice and new providers not only substantially reduce the costs of advice to levels closer to those that people are willing to pay, they bring the potential for addressing other demand side barriers and stimulating new demand. The review should therefore aim to encourage competition and innovation, to the extent that it can be done without reducing important consumer protections.

There is a potential risk that existing regulation and regulatory uncertainty can act as an unnecessary barrier to firms developing new models. Providers have cited regulatory concerns specific to new models, including a lack of clarity over how suitability requirements may be applied to new automated advice models. We have not undertaken analysis of the basis for such concerns, but we recognise the potential need for existing approaches to regulation to be updated in the light of product innovation, even if simply to reduce unnecessary regulatory uncertainty. The FCA should identify any regulatory barriers to new product development in this area and take necessary steps to reduce them while maintaining protection for consumers. This may include clarifying how regulation applies to new models or testing new

[3] Some online providers bundle fund charges and platform charges, meaning that these are not always like-for-like comparisons. However, as the IFA costs do not include fund charges, the effect of this is to make these online models appear a little more expensive in comparison to IFAs than they actually are.

regulatory approaches that continue to provide adequate protection for consumers. In some cases the FCA's 'regulatory sandbox' may offer a useful tool to do this.

However, the extent to which consumers accept new models of advice will affect its potential to reduce the advice gap. Our research found that the majority of people with £10,000 – £50,000 to invest said that they would prefer to receive advice from an IFA face-to-face, *if all options cost the same*, and in terms of online advice, they were more likely to prefer an online form which is then analysed by an IFA, rather than simply an algorithm. Indeed, 58% of people said they would not want a computer programme to give a recommendation.

With face-to-face advice, people were more likely to think that it would give them a comprehensive and in-depth understanding of their financial circumstances and aims, the adviser would be competent and their personal information would be secure. It is fair to conclude, therefore, that developers of new models of advice have significant acceptance barriers to overcome with many consumers. However, large minorities of people do positively associate online offerings with competent advice and gaining a comprehensive and in-depth understanding of their financial needs and secure information. As in other sectors, until people gain experience with new online products we will not know the real extent of their acceptability. The cheaper prices of such products are likely to attract many, currently unserved, consumers to try them in real life.

3. Regulation of non-advised sales

With the dramatic reduction in the number of advisors in banks and building societies following the RDR, non-advised sales now account for two thirds of retail investment sales (up from 40% in 2011/12)[4]. Furthermore, recognising that many people will continue to prefer to self-advise using the increasing volume of free private sector sources of information and guidance, it is critical that the review considers how consumers can be supported and protected in this environment, and in particular what steps could be taken to help ensure consumers themselves have properly considered the suitability of the product they are choosing.

At present, non-advised sales do not require the firm to assess the product's suitability for a consumer's circumstances. In some situations, e.g. for complex products, there are requirements to understand the appropriateness of the product for the consumer, which requires the firm to assess the consumer's ability to understand the product.

However some consumers may expect their bank, with whom they may have had a relationship for considerable time, to understand their needs, and to only recommend suitable products. Which? research found that 62% of people agree that, when buying a financial product or service from a bank, the bank has a responsibility to assess whether the product or service is suitable for them. 63% of people also agree, at least to some extent, that their bank will have considered their financial and non-financial circumstances, as far as they know them, when offering them a financial product in the context of meeting a member of staff to discuss the product. There is therefore a clear risk that consumers wrongly believe that banks have assessed that a certain product is suitable for them.

[4] http://www.fca.org.uk/static/documents/famr-cfi.pdf

This situation leaves customers even more vulnerable to purchasing products without fully investigating or understanding the risks, particularly if they expect providers to only promote products to them that meet their needs. Given the large number of non-advised sales, the opportunity to help large numbers of consumers through the design of the non-advised sales process needs to be considered.

One possible approach would be to introduce a requirement similar to the FCA's 'second line of defence' in pensions decumulation, for certain other products (the type of product this would apply to would be dependent on an assessment of the risks to consumers and a cost/benefit analysis).

Sellers of the relevant products would be required to ask a set of questions pertinent to the product, for example, if consumers have had access to appropriate advice, guidance or information, and very basic questions about their relevant circumstances. Depending on answers, sellers would provide specified warnings of relevant risks to encourage the consumer to consider the suitability of the product himself/herself, and if appropriate provide a recommendation to seek advice.

This would not constitute regulated advice (the sale would still be 'non-advised'), but it would aim to give customers a better understanding of the potential risks of their decision, and help ensure consumers understand that the provider is not checking the product's suitability, so they need to do this themselves. It could enable consumers to identify at least obvious reasons why a product may not be suitable for them and it could encourage them to seek advice where that would be appropriate.

To work, providers would need to commit to doing this in a meaningful way, rather than viewing it as an additional burden, and ideally they would engage and agree with their customers collectively a fair and effective approach. Lessons may be learned from the implementation of the pensions second line of defence, and further details would need to be carefully considered before it was taken forward.

Given providers' apparent uncertainty about offering guidance that could be misconstrued as advice, this proposal could also have the benefit of better enabling, indeed requiring, providers to give relevant guidance that more closely approaches the advice/guidance boundary, and feel comfortable to do so.

4. Other areas for consideration

The regulatory cost of providing advice includes the cost of funding the FSCS, and FSCS payouts related to advice on unregulated products are cited as part of the reason for high FSCS levy costs. There has been discussion of excluding unregulated products from the FSCS.

Unregulated products should only be sold to sophisticated, experienced or high net worth investors. In many cases an 'appropriateness test' will apply. We would be concerned if a non-sophisticated consumer, who was not correctly warned by an adviser about the appropriateness of an unregulated product, was prevented from accessing FSCS compensation.

Further costs incurred by providers relate to the gathering of consumers' data, and chasing paperwork in order to provide suitable advice. The development of a "financial dashboard" could automatically integrate consumers' financial information across a wide array of products and providers. Not only would this reduce the hassle and costs for advisors needing to gather this information, a dashboard could significantly improve consumers' awareness of their financial situation, helping them plan for their future financial needs, for example providing a powerful nudge towards saving more in retirement. A comprehensive pensions and savings dashboard would enable people to see all of their pensions and savings in one place, and should be prioritised. It would need to be developed by, or in partnership with, the private sector, but the Government should lead, convene and enable its development.

Finally, the increasing availability of private and public provision of free guidance and information may have contributed to fewer consumers choosing to take advice, while also reducing the impact of the advice gap. The private provision of free information and guidance appears to have been more successful than the public sector in reaching consumers, but both alternatives better enable consumers to self-advise. Any strategy to address demand-side factors preventing people from accessing advice must therefore recognise that many people may continue to prefer to self-advise using the increasing volume of free sources of information and guidance. Publicly-funded guidance should focus on the gaps in private provision, and not seek to replicate mass market advice provision.

Conclusion

Successful strategies to address the advice gap must address the significant demand-side barriers that prevent consumers from accessing financial advice. While much has been made of the regulatory and liability costs that providers of advice face, the extent of the gap between the costs of providing traditional financial advice and consumers' willingness to pay, means that any proposals to reduce those regulatory costs are unlikely to have a significant impact on reducing the advice gap.

Rather than considering longstops or safe harbours, the FCA should prioritise innovation and new models that may reduce the industry cost base, including identifying and addressing any unnecessary regulatory barriers through Project Innovate and the regulatory sandbox.

Richard Piggin, Campaign Manager, Which?, 2 Marylebone Road, London NW1 4DF

Financial Advice Market Review - Call for input

Response from William Burrows

Introduction

Before I give my specific response to your questions it may be helpful if I give my personal overview of the key issues relating to advice on retirement income options. This will enable you to understand what I mean when I talk about the importance of understanding the customer journey.

In particular you might be interested in my views on two aspects of this customer journey:

- ✓ How the end to end advice process can be made more customer friendly without compromising on the important issues of suitability
- ✓ The importance of establishing retirement objectives and mapping these objectives to relevant options

My experience

There are five periods of my involvement with the retirement market that are directly relevant to this response:

- ✓ 1994 to 1999 – co founder of Annuity Direct
  - o First national annuity / drawdown broker
- ✓ 1999 to 2000 – Marketing director for Prudential Annuities
  - o Valuable insights into the dynamics (or lack of) in an insurance company
- ✓ 2000 to 2010 – William Burrows Annuities and Aspen Annuities
  - o Advising individual and corporate clients on all aspects of annuity and drawdown
- ✓ 2010 to 2013 - Better Retirement
  - o Attempt to grow the boutique William Burrows model to the mass market
- ✓ 2013 to 2014 – Annuity Line (non-advised annuities)
  - o Experience of non-advised annuity broking
- ✓ 2014 t0 2015 – Key Retirement
  - o I helped design a mass market advice proposition that provided every customer with a free retirement option report. Key Retirement is longer offering an advice proposition but I still think the process they designed can be used to provide specialist advice on retirement options to the mass market.

To be clear – I was authorised to advise clients until December 2012 and since RDR I have held consultancy roles and have not advised clients.

If anyone is interested I have written extensively on annuities and drawdown and my latest publications can be found at http://www.williamburrows.com/publications.

I would encourage you to read; 'You and Your Pension Pot' as well as the 'The Retirement Advice Survival Guide'. For convenience, I attach copies of these guides.

Customers

I segment clients in the 'at retirement market' as follows:

	Mass Market	Mass Affluent	HNW
	(Smaller funds)	(Middle Britain)	(Higher new worth)
Fund Size	< £ 50,000	£ 50,000 to £ 250,000	> £ 250,000
Cash	Cash lump sum may be more attractive than income	Cash lump sum to supplement income	Cash sums less important
Income requirements	Maximum income (level)	Sustainable (increasing over time)	Flexible
Certainty	High priority	Certainty may be important	Some certainty required
Flexibility	Limited	Some flexibility helpful	Maximum flexibility
Risk	Not normally in position to take risk	May take some risk	Higher risk threshold
Death benefits	Not usually important (income more important)	Option to leave lump sums / pensions to beneficiary is important	

In addition to this simple segmentation it is necessary to consider where these clients originate from:

- ✓ Some will be members of schemes where there is an in-house adviser or access to advice
- ✓ Some will have their own advisers
- ✓ Some will not have an active adviser

It is reasonable to assume that scheme members and those who have an active adviser are well served. However, those without an active adviser are by definition not well served and may fall into the so called advice gap.

My experience has mainly been with advising middle Britain clients who do not have an active adviser. But for the record, I have advised clients from all backgrounds form pro bono work for Citizens Advice Bureau (one of the most difficult cases I can remember) to a high net worth clients.

My definition of the Middle Britain and those that may fall in to the advice gap:

Those with funds too big to automatically take in cash (more than £ 30,000)
Funds not big enough to benefit from sophisticated retirement / investment advice (less than £ 250,000)

Although the average pension fund may be around £ 30,000, many people have multiple policies.

Financial advice

It might be helpful to recap on the FCA definition of advice

Advice	MiFID investment advice involves the provision of **personal recommendations** to a customer, either upon the customer's request or on the firm's initiative, in respect of one or more transactions relating to MiFID financial instruments
Personal recommendation	A personal recommendation is defined in our Handbook glossary and follows the MiFID definition. It comprises three main elements: ✓ there must be a recommendation that is made to a person in their capacity as an investor or potential investor, or in their capacity as an agent for an investor or personal investor ✓ the recommendation must be presented as suitable for the person to whom it is made or based on the investor's circumstances, and ✓ the recommendation must relate to taking certain steps in respect of a particular investment
Suitability	Where a personal recommendation is being given, the person making the recommendation is obliged to ensure, and be able to demonstrate, that the personal recommendation is suitable for the customer, taking account of their personal and financial circumstances. To do this, a firm must obtain from a customer information necessary to understand the essential facts about them and have a reasonable basis for believing that the recommendation: ✓ Meets their investment objectives. ✓ Is such that they can financially bear any related investment risk consistent with their investment objectives. ✓ Is such that they have the necessary experience and knowledge to understand the risks involved.

I think this definition of advice and suitability suggests a client relationship and advice process akin to other types of professional advice e.g. doctor / patient or solicitor /client.

I characterise this as a linear process. For instance; doctor "I have chest pains", and the doctor performs an investigation and prescribes a course of action. Or "I would like to establish a trust fund for my family" to which the solicitor explains the different types of trust and recommends the most suitable. In most cases the professional is able to identify the best solution.

In my opinion, giving advice about retirement income options is more fluid than many other forms of advice. By this I mean there is probably more "on the one the hand this and the other hand that".

The adviser is not necessarily saying that in their expect option the most suitable solution is an annuity or drawdown. It is a process of helping a client make an informed decision as there is not necessarily a right or wrong answer become the eventual outcome will affected by some many different factors.

I refer to this an Iterative process. Put another way, I used to describe clients as being like windscreen wipers; one day they favour an annuity, the next day drawdown.

I only mention this because if there is mismatch between the way the regulator defines advice and the advice process, and the the process needed to ensure that clients are properly engaged and the best outcome achieved, this may help explain why an advice gap is emerging. Put simply, clients may not want to engage with the advice process as it currently stands because they don't necessarily want to be told what to do, they would prefer to be helped in making their own decision.

I am not sure if I have explained this very well and perhaps some more work needs to be done to understand how the regulatory environment can be better aligned with the type of advice process that most clients would expect to experience.

The advice process

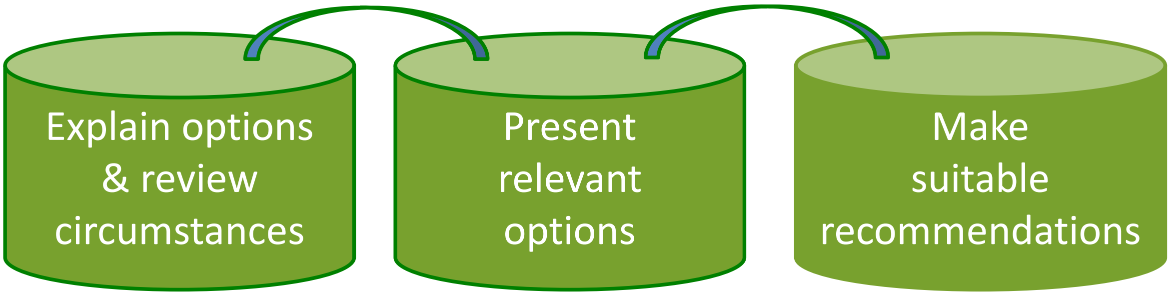
I have written about my understanding of the advice process. Please see Retirement Advice Survival Guide - http://www.williamburrows.com/library/SurvivalGuide.pdf.

This process is outlined in the following graphic:

Source: William Burrows – The Retirement Advice Survival Guide

This process can be truncated into three steps:

The three pillars of advice



Key questions – 3 golden rules

- ✓ What are the Income requirements? – now & future
- ✓ What is client's risk profile and attitude to risk?
- ✓ How much flexibility is needed?
- ✓ What is client's preference for death benefits?

- ✓ Is there sufficient secure income in the event any future income falls in value?
- ✓ Client understands risks and has capacity to take risk?
- ✓ Have all the relevant options been considered and evaluated?

The so-called 'golden rules' are my own checklist (alongside the regulatory requirements) if a client is considering anything other than a guaranteed solution.

If you hear me talk about the customer journey in terms of:

- ✓ Toe in the water – explain the options
- ✓ Up to your waist – show me the numbers
- ✓ In the deep end – help me decide

Retirement objectives

I maintain there are four primary objectives when considering retirement income options

- ✓ Income (and cash) requirements (how much and when)
- ✓ Need for income certainty and or flexibility
- ✓ The amount of investment risk taken
- ✓ What happens on death

These objectives are not mutually exclusive and in practice there is a complex trade-off between different objectives.

The process of determining these objectives involves and in-depth discussion between an experienced adviser and client. This is much more than a simple record of assets and liabilities because it involves take a longer term view of a number factors.

Many clients find it very difficult to properly articulate their retirement objectives because:

- ✓ They focus on short term needs rather than longer terms goals
- ✓ They are unfamiliar with many of the important issues which might impact on them
- ✓ They do not understand the various risks that they should take into account:
  - Risk of living longer than expected and running out of income
  - The risk of inflation
  - The risk of locking into poor returns / the risk of losing money on the stock market
  - The risk of taking too much income in earlier return and therefore not having enough in later return

In my experience, before individuals can properly articulate their retirement objectives they need a certain amount of educating, promoting or nudging. It is only natural to be guarded and reserved at first and only to open up and discuss sensitive information once a relationship or trust has been established.

If I had a £1 for every client who said to me "I know exactly what I want", only to change their minds a few weeks later once I had explained the key issues, I wouldn't be writing this response.

Identifying relevant options and making the advice recommendation

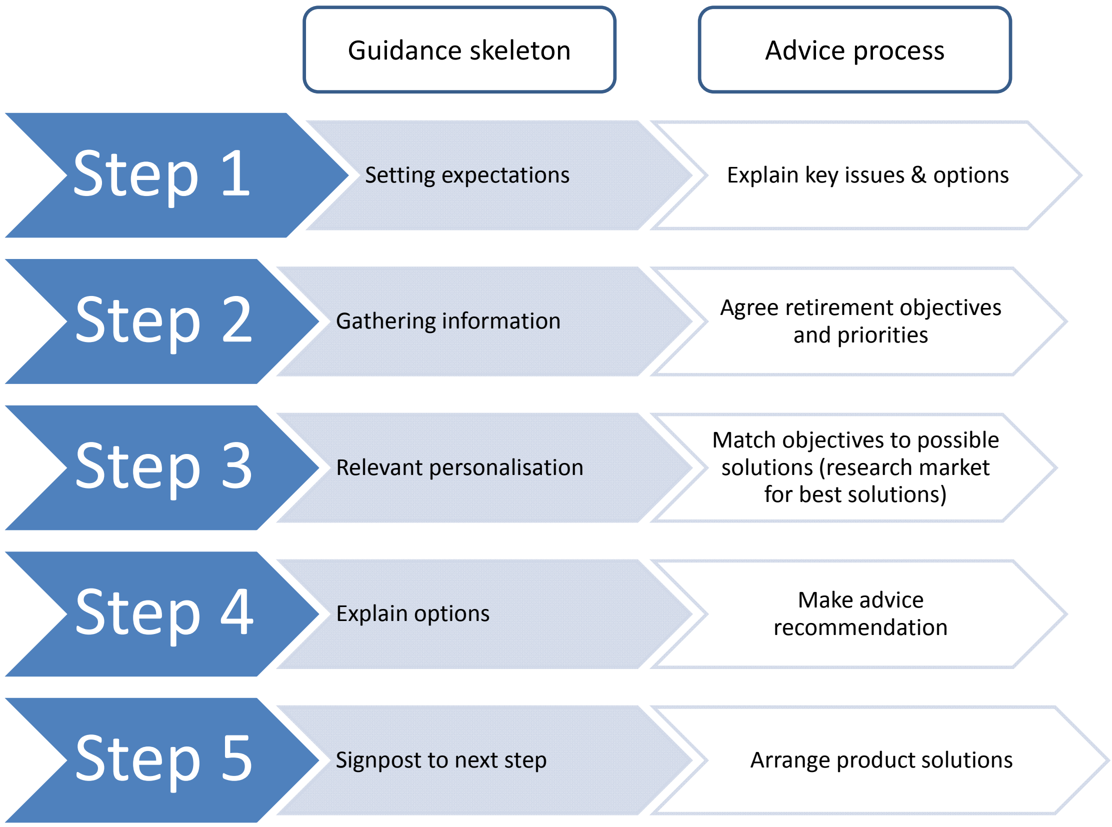
In order to recommend a solution that is suitable for individual circumstances, it is necessary to identify which solution, or combination of solutions, meets the stated retirement objectives.

I believe it is possible to map the objectives to relevant solutions, and from these relevant solutions the final recommendation can made.

Think of this a 'short list'. I believe it is good practice to draw up a list of relevant options before the final decision is made.

Relevant Options

I was invited to attend an FCA work shop on guidance in 2014 and in the second session the FCA presented what it called their guidance skeleton. I appreciate that things have moved on from then but I was struck with similarity with my advice process:



It seemed to me that the flow of information and discussion followed the advice process (although in much less detail until steps 4 and 5) when advice is given and solutions arranged.

I think the concept of relevant options is important and relevant especially as if used properly during the advice process it can help remove advice or product biases because individuals will be aware of all the relevant options that may be suitable for them.

I have done my own work in looking at how objectives can be mapped to relevant options. The following graphics provide some examples:

Income requirements

✓	Maximum income that can be maintained for life
✓	Income for life with potential for income growth
✓	Inflation proofed income for life - (RPI annuity)
✓	Income guaranteed for fixed term – flexibility thereafter
✓	Regular income payments – flexible but not guaranteed
✓	Take tax free cash and income in chunks – phased retirement

Income for life

✓	Yes – Very important
✗	No – rather have flexibility
✓	Some – part income for life

Certainty / flexibility

✗	Not important – Prefer certainty
✓	Yes – Flexibility needed
✓	Both – certainty & flexibility

Attitude to risk (and capacity for loss)

✗	Risk adverse / no capacity for loss - Guarantees only / no growth potential
✓	Low to medium risk / limited C for L
✓	Medium - high risk / significant C for L

Death benefits

✓	Continued income
✓	Lump sum payments
✓	Both – income & lump sums

Guaranteed income

Income requirements

✓	Maximum income that can be maintained for life
✓	Inflation proofed income

Income for life

✓	Yes – Very important

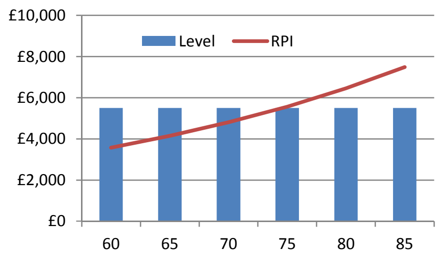
Certainty / flexibility

✗	No flexibility – Prefer certainty

Attitude to risk & capacity for loss

✗	Risk adverse – Guarantees only (no growth potential)

Income profile



Conventional / enhanced annuity

Death benefits

✓	Continued income
✓	Lump sum payments

Flexible (drawdown) income

Income requirements

✓	Regular income payments – flexible but not guaranteed

Income for life

✗	No – rather have flexibility

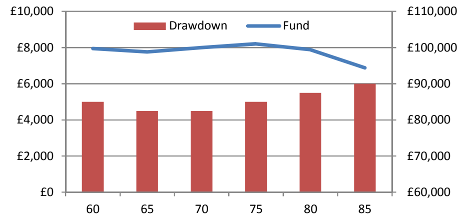
Certainty / flexibility

✓	Yes – Flexibility needed

Attitude to risk & capacity for loss

✓	Medium-high risk / significant C for L

Income / fund profile



Drawdown

Death benefits

✓	Continued income
✓	Lump sum payments

Guaranteed + flexible income

Income requirements

✓	Maximum income that can be maintained for life
✓	Regular income payments – flexible but not guaranteed

Income for life

✓	Some – part income for life

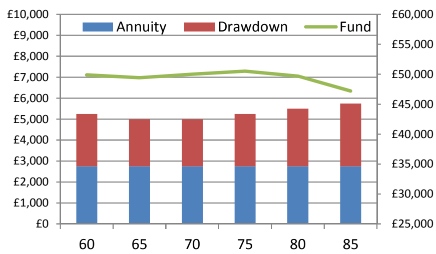
Certainty / flexibility

✓	Both – certainty & flexibility

Attitude to risk & capacity for loss

✓	Low to medium risk / limited C for L

Income / fund profile



Annuity / drawdown combination

Death benefits

✓	Continued income
✓	Lump sum payments

I am not suggesting that this approach can be used to automate advice, but I am suggesting that it is possible to construct a logical decision making progress which matches an individual longer term objectives to possible solutions.

Retirement options report

In my experience, not only is it important to identify the relevant options, it is important to present these options in a way that makes it easy for the client to understand and to compare and contrast the different options.

One way to present these options is by producing a retirement options report.

- ✓ The report does not provide advice – only examples of the different options
- ✓ The individual illustrations take all the relevant information into account e.g. age, health and fund values
- ✓ The examples are explained in easy to understand language
- ✓ The report is unbiased and does not attempt to lead a client down a particular path
- ✓ The report explains all of the relevant risks.

This report can then be used as the basis for making the final advice recommendation.

Adviser skills

In order to help clients articulate and set out their retirement objectives and then to match these objectives to relevant solutions, advisers need to have a number of skills.

I have put together an adviser presentation called 'the skills of the trade'. These skills include:

'Skills of the trade'

	Foresight	✓ Life expectancy ✓ Annuity and interest rates ✓ Market trends
	Relationship skills	✓ Establish rapport ✓ Help clients articulate their objectives ✓ Understand what makes clients tick
	Risk management	✓ The risk dilemma and paradox ✓ Attitude to risk and capacity for loss ✓ Managing risk
	Comprehensive product knowledge	✓ Annuities – including investment linked ✓ Fixed term income plans and drawdown ✓ Investment products e.g. bonds & ISA
	Technical expertise	✓ Rules for retirement options e.g. UFPLS ✓ Death benefits ✓ Critical yield & mortality drag
	Understand tax	✓ Income tax e.g. marginal rate of tax ✓ Money purchase annual allowance ✓ Tax efficient income strategies

I will be pleased to provide the slides for this presentation.

Advisers who are competent with these skills are equipped to provide answers to some the important retirement planning issues such as:

- ✓ How much risk should an individual take with their pension?
  - o Too little risk and they might be locked into low returns – too much risk and they may run out of income
- ✓ Is there an optimum to purchase an annuity?
  - o There is a school thought that it may be better to purchase an annuity in the late 60's early 70's
- ✓ Is it best to take income from savings or a pension?
  - o The new death benefits provide important estate planning opportunities
- ✓ What is the recommend amount of drawdown income – e.g. 4% of the fund
- ✓ What is the best way to minimise the sequence of returns risk in drawdown
- ✓ What is the most tax efficient way of taking income?

Holistic advice or focused advices

A potential criticism to my understanding of the advice process and focus on matching retirement objectives to relevant options is that the advice is too narrowly focused and risks not taking into consideration other areas of a client's financial circumstances.

In my experience, many clients want their adviser to focus on the particular financial issues they approached the adviser about in the first place. That is many clients want expert advice on their retirement income options and do not want to be drawn in discussing other areas such as their other investments or inheritance plans.

However as the relationship with the adviser progresses the client might want the scope of the advice to be widened.

This begs the question; 'how can an adviser give focused advice without compromising on the need to take other aspects of the client's financial circumstances into account'?

One way in which this can be done is by using checklists. For instance it should be possible to give advice on a specific issue such as retirement income without considering the client's holistic financial circumstances if it can be established that the advice on retirement income options does not negatively impact on other areas. A checklist could be used confirm that there are no issues that could impact on the focused advice.

For instance, a checklist could ensure the following issues had been discussed:

- ✓ There is no impact on other financial benefits
- ✓ There are no guaranteed annuities or special terms
- ✓ There is no obvious impact on taxation matters
- ✓ There is no impact on the client's overall risk profile

If the checklist identified an area of concern, the focused advice could not be given without resolving the issues identified.

I have not developed this concept very far but checklists are used extensively in other industries such as health and aviation to reduce the risk of errors.

Summary

I hope this analysis is helpful and in summary, the key points I would like to make are:

- ✓ I think the retirement options advice process can be described as ‘logical decision making process’
- ✓ I think there a customer segment that sits between those with a small amount of financial assets and those with significant assets which I describe as ‘mass affluent’
- ✓ These clients need help in order to make the right decisions but they do not necessarily identify with, or are attracted to the advice proposition as it is currently presented
- ✓ Those clients who do not have an active adviser may wish to access advice one step at a time, rather than commit up front to a process they don’t understand
- ✓ In order to make a suitable product recommendation, it is necessary to identify the client’s retirement objectives
- ✓ In order for client’s to articulate their retirement objectives they need a certain level of understanding and education
- ✓ It is possible to map these retirement objectives to relevant options
- ✓ There is a need for a generic ‘retirement options report’ which compares the income and future projections of all the relevant options
- ✓ Advisers need to have a number of specific and specialist skills in order to be able to deliver advice that produces the best outcomes
- ✓ Although it is desirable to provide holistic advice, many clients wish to have focused advised
- ✓ The risks that focused advice misses out on important issues that holistic advice would pick up, can be managed by using checklists

Answers to specific 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?

No comment

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

Yes – I think there is a strong case for a clearly defined category of "Retirement income advice".

This would recognise the advice process for retirement income options is different to other types of advice.

I think one advantage of this new category would be that the FCA could provide clear guidance on what can be expected at each stage of the process. For example:

- ✓ Step 1 - Toe in the water – information that is for help and guidance not advice
- ✓ Step 2 - Show me the numbers – agreement on what constitutes a generic retirement options report
- ✓ Step 3 - Help me decide – the existing rules on suitability

If the regulatory process made it clear exactly what firms could do to facilitate steps one and two without crossing the line into advice, I believe more clients would be encouraged to engage with the process and only when consumers move into step three that advisers become liable for their advice and fees are agreed.

One of the barriers to advice, in my view, is that some advisers are reluctant to start steps one and two because of the fear that they will be liable for any action taken by the consumer even though it can be argued that no advice has actually been given.

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

I believe that the one of the reasons for the lack of demand is that consumers do not identify with the current advice proposition. Not only does it appear complex and expensive, it is not appear to meet their needs.

Unfortunately, some non-advice propositions do seem attractive because more closely resemble the buying experience in other walks of their lives.

If advice was easier to access, and the process was more like the experience they get in other walks in life, I believe the demand will increase significantly.

In my experience, there is a big demand for help and information but this not translate into advice because of the current barriers to advice.

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

I am not sure if this is the right place to say that many people think they are getting advice from firms offering no-advice services.

The consumer thinks of advice in a very general sense. ‘Advice’ it is a word that we use every day, and the dictionary defines as advice as: ‘Guidance or recommendations concerning prudent future action typically given by someone regarded as knowledgeable or authoritative’

Using this broad definition advice can be given by almost anybody who has some knowledge.

More has to be done to explain the difference and risks between general help and guidance and regulated financial advice.

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

I believe that customers need advice on their retirement options for reasons given in my introduction.

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

No comment

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

See my comments on the segmentation of clients at retirement

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

It is obvious that the more wealth a consumer has, the more obvious the need for advice. However this does not mean that consumers will modest amounts of wealth do not also require advice.

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

I suggest that consumers do seek advice, but in their minds advice is more akin to help and information.

One of the barriers to financial advice is the cost.

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

No comment

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?

I believe that RDR has created an unfair playing field between advice and non-advice.

The non-advice process is very easy to access, is free at the outset and customer friendly.

However I believe that advice can result in poor outcomes. I agree that no-advice allows consumers to shop around for the best deal but they do very little to ensure that consumers are purchasing the right financial product in the first place.

I believe that commission for non-advised sales should be removed.

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

Yes – I do not believe it is possible to automate the advice process but there is clearly a role for technology in the education process and in comparing the options.

If you accept my three steps; there is a clear role for technology in steps one and two.

Technology can deliver a retirement options report that compares the relevant options but does not provide advice.

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

Yes – I have done some work on this. The following slide is out of date because it was done for a pre RDR project but it shows how the cost of providing advice can be determined by examining the costs of each stage of the process.

This approach does not really deal with the overheads such as regulatory and PI costs:

Initial Discussion → Agree Objectives → Presenting Options → Recommend → Arranging Annuity/DD

	Task / objective	Comments	Time / hours		Rate	Cost	
			low	high		low	high
1	Initial contact	Can be phone / post or email	½	1	£ 125[1]	£ 62	£ 125
2	Fact find / setting objectives	Best done by adviser	½	1½	£ 250[2]	£ 125	£ 375
3	Identifying / presenting option	Includes getting quotes & report	1½	2½	£ 125	£ 188	£ 313
4	Make decision	Adviser	1	2	£ 250	£ 250	£ 500
5	Annuity admin	Using options	1	2	£ 125	£ 188	£ 250
	Total					£ 750	£1,563

- Example - £ 100,000 , client in poor health and wanting advice on alternative options

[1] Admin [2] Adviser

As I mentioned this slide is out of date – I agree with unbiased - https://www.unbiased.co.uk/cost-of-financial-advice-guide

At retirement	Converting a £30,000 pension fund into a lump sum and annuity	£825
	Converting a £100,000 pension fund into a lump sum and annuity	£1,750
	At retirement advice on £100,000 pension pot (client requires full advice)	£2,000
	At retirement advice on £100,000 pension pot (client knows what they wish to do)	£1,000
	At retirement advice on £200,000 pension pot (client requires full advice)	£2,500
	At retirement advice on £200,000 pension pot (client knows what they wish to do)	£1,100
	Set up of a drawdown scheme on a £300,000 pension pot	£3,500
	At retirement advice where the client has a £200,000 SIPP, some DB income, £100,000 of investments and a £250,000 investment property, incorporating estate planning	£5,000

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?

I believe that in order to maintain the purity of advice the cost of advice must be paid for as part of the solution i.e. fee taken from the pension pot.

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

I believe that it should be economic to provide advice to most consumer segments if the advice process is tailored to that specific segment.

However the existing advice propositions seem to suggest that it is economical to advice clients where the expected fee is below a certain amount.

My guess is that most advisers need to earn a minimum of £ 750 per client.

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

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

My understanding is that the advice gap is where those people who would get significantly better outcomes by taking advice find themselves alienated from the advice process.

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?

My area of expertise is at retirement

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

My only evidence was that when I was advising clients, prior to 2013, it was becoming increasingly difficult to get people to engage with advice because many seemed persuaded to take the no-advice route.

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

My area of expertise is at retirement

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

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?

I have covered this in my introduction. It should be easier to provide focused advice

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?

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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?

No comment

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

No comment

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

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?

I believe that is possible to deliver automated advice when there is a linear advice process. However advice at retirement is more of an iterative process which cannot be automated

By iterative I mean that many clients go round in loops, re-evaluating their objectives and priorities as well as changing their opinions as to the best solution.

This complex decision making process can only be facilitated by an experienced and qualified person.

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

No comment

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

- ✓ How are clients helped to articulate their objectives? Often they are not able to do this without help
- ✓ How are the risks explained
- ✓ How are the Interpersonal skills substituted – an adviser will recognise when a client does not understand something or is clearly going down the wrong path
- ✓ How will it be possible to decide which options are relevant

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

- ✓ Concentrate on focused advice
- ✓ Abolish commissions on non-advised sales – create a level playing field
- ✓ Encourage advisers to make their advice propositions more customer friendly and cost efficient
- ✓ Help advisers get the ‘skills of the trade’

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?

Abolish the distinction between no-advice (commission) and advice (fees).

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

From:
Sent: 21 December 2015 10:56
To: FAMRSecretariat
Cc: Jason Chapman
Subject: Willis Owen Limited

Importance: High

Good morning,

Below are the responses to the questions from the Financial Advice Market Review, Call for input paper. I did try to enter these online but your link was unavailable. I have not answered every question, only those I feel I can add value.

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?

A1 – the only comment here would be the accessibility of advice that represented a particular religious group, i.e. the Muslim community and Shari'a authorised investments and advice. Given that "middle England" has difficulty obtaining advice I would suspect these groups are far harder hit – However, would these same groups have complex needs? The requirement to provide both simplistic but credible guidance with straightforward products is far greater in these groups

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

A2 – Clearly our own industry has problems with both the titles of "advice" and there true meaning – how could we expect the consumer to understand them? We have an industry that seemingly thrives on complexity, perhaps to hide behind the true meaning or costs of "things". This fundamental part of our approach to Financial Planning, regardless of who instigates, needs to change. The titles we give tell the novice what we are about, and should lead to the right solution being sought. In the FMAR paper we have used Professional Advice, yet again a title that appears nowhere in the line-up of solutions available – and fairly recently we have launched further titles with Pensions Guidance, which confuses the consumer as to what they are getting. Professional Financial Advice should be a given when advice is requested – the choice then has to be the type of advice – however, the key here is to allow consumers to choose how far they wish to go, without lots of labels. The next requirement is to have "No Advice" i.e. an "Execution Only Model" and again the key here is to allow the consumer to explore different styles of "Non Advice". I would suggest the medical profession and the way medicine and advice is delivered is not a bad example –

1. ***Full requirement for advice delivered either by a generalist or specialist – (Doctor surgery, Hospital etc.)***
2. ***Some telephony guidance given but the option to pull out to general advice or specialist advice at given points – (NHS 111, Doctor call back)***
3. ***Self-diagnoses, Website guidance (NHS choices, chat rooms etc.)***

Clearly there is not a commercial impact on the above, there are not different elements of the health industry competing for your business, however there are some key attributes we can take away, 3 elements of access – the titles are almost immaterial, and perhaps that is where the problem lays, we are trying to answer the wrong question, the right one is what do consumers need? And then put a title on it.

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

A3 – Consumers will seek professional advice through;

1. ***Lack of knowledge (but they are intelligent enough to understand this and seek solutions)***
2. ***Fear of outcome or an experience of a poor outcome***
3. ***Time poor***

Complex financial planning needs are less likely in affluent middle England – so building a distribution solution that only deals with 5% of the UK is doomed to failure. Most consumers require (mostly) simple solutions and on the most part could be dealt with by option 2 or 3, (given the right tools) above (Q2). The advice industry would push for all consumers to have "advice" in some shape, the XO sector would push to

have more consumers go through the "self –Select" route. Neither are right, as consumers need to make choices about how much responsibility they take, not the industry. If the "choices" are too complex no action will be taken, as is the case today. We must also remember that many consumers do not know they have a problem, or believe the problem will go away in time, the preverbal "Head in the sand" group – many years ago these individuals would have their heads turned by an adviser, (I appreciate there was a question regarding quality, but we have all moved on from there) we must remember that the provision of financial wellbeing cannot be left to just a commuter, and we may need to build commercially sensible solutions to engage consumers in their homes and workplace.

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

A4 – clearly from the NMG report many consumers are addressing needs either by research on line or by comparison sights – however this is not answering the question above. Seeking product solutions for a particular need is not advice seeking, joining products up to gain a better retirement plan or reduce a tac burden may need advice – advice sought through website interaction is non-existent in the UK – Money on Toast, Nutmeg and Wealth Wizards are not "on-line advice solutions" they are digital processes that require an IFA in the background giving advice, why? Because advice is personal to that individual and cannot be automated. What can be automated is an outcome, i.e. I want 100,000 pounds when I retire and I am a medium risk consumer, what do I need to do? The same as I have a runny nose, headache and cough, what do I need to do? Many other research papers have also suggested (Platforum 2013) that consumers seek financial advice far more from friends and family than that of advisers, as they don't trust advisers!

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

A5 – this is the wrong question – consumers may seek advice for anything they wish too, we should be able to facilitate that through multiply channels, out job, as outlined with my NHS analogy is to determine whether a F2F or Telephone or in fact a web journey will suffice.

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

A6 – as a broad review yes useful, however this has been done many times and we still have the same problem

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

A7 – no comments

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

A8 – no comments other than those above

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

A9 – The list contained in the FMAR is a reasonable starting point for this, my only comments would be that consumers inability to recognise financial wellbeing is the greatest threat to engagement. Advice, XO, robo or full will not accomplish very much if we cannot get consumers to engage.

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

A10 – no comments

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?

A11 – I don't believe there is a <u>recent</u> shift away from the provision of advice in the UK by advisers. 25 years ago the adviser population stood well above these numbers, probably into the 100k mark, however over time the cost, both regulatory and commercial have driven the cost of providing advice up – if you then apply a limitless time frame (regardless of whether you believe that FOS and the regulatory environment have had hindsight reviews) to this, by way of liability of advice, why would you run a large advisory force today? The commercial realities don't add up. We must also remember the consumers who now have a risk based product purchased from advisers who are not available now run the added risk of these products not achieving their intended aims. I don't think you need more evidence of both a lack of advisors or the reasons why they have been declining. Also, let's remember what it takes to be a successful advisor today;

1. ***Qualification level to degree standard***
2. ***Entrepreneur who can build and maintain business***
3. ***Marketer***

4. ***Compliance specialist and good with detail, (conflict with 2)***
5. ***Financially secure, i.e. running the business with unknown future costs or liabilities***
6. ***Adept at change management***
7. ***Inter-personal skills well above professional level (i.e., better than an accountant, solicitor or doctor)***

Where do you recruit these people from? Well one possible source is the training ground for advisers, the Product manufacturers (Prudential) who train advisers to a high level, which is clearly not the case today.

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

A12 – There is an important role for Fintech in FS today, in both simplified journeys and delivery of simple solutions – however for the purposes of holistic personal financial wellbeing I don't believe todays tech can accomplish without human intervention. Nothing is forever, and the industry must embrace consumer journeys, as well as progress and develop new initiatives, we cannot wait for the perfect moment.

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

A13 – The starting place must be a understanding that we are a different industry than that of 20yrs ago – if we could have a clean untarnished piece of paper would/could we start with a adviser force owned by a provider that pays for the provision of solutions by the product? Would that be so bad? If consumers were engaged because they did not need to pay for advice through payment of fees, would we engage more? We clearly need evidence of this, however large numbers of advisers that have the skills noted in Q11 are hard to find, train and monitor. We should not consider every route to financial wellbeing as needing advice, Fintech should play a part in providing simplified journeys and solutions, its dev costs are high, however implementation and delivery costs are far lower and could fill the gap between advisers and product solution for some.

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?

A14 – as above

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

A15 – no further comments

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

A16 – no further comments

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

A17 – The advice gap is document in many papers, depending on your point of view – I think this is one element, the knowledge gap and lack of understanding of the consequences of no action are as, if not more, important

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

A18 – Many thousands of consumers have no need for advice or indeed guidance, they do need information and debt counselling – again broadly the vast majority can access certain levels of information/guidance depending on the product solution they are interested in, i.e. car insurance is well supported – it is when you are not sure, or have no knowledge of, the required solution where advice or decision trees are required.

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

A19 – affluent Middle England, 35-45-55, existing risk product, ability to save, reasonable and affordable debt, mortgage, growing family – reasonably educated, permanent employment – no income profile or asset profile.

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

A20 – no more evidence than 22k advisors trying to serve the complex needs of many, but only dealing with those HNW who can afford advice

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

A21 – from the consumers perspective they are all important

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?

A22 – No, we should solve the problem of "what is advice and how is it delivered" in the UK before focusing on product outcomes – advice is a product, which does not always lead to a product solution.

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)?

A23 – No – resolve the delivery, then concentrate on the market.

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?

A24 – Yes, it is far too complex when running an existing firm, let alone launching a new one – ALL products should pass a regulatory kite mark before being marketed in the UK – this will stop the poor practices of some providers. However, the key here is not over complicating the process for consumers whilst trying to police the industry – what has happened over many years of regulation is the complexity and size of the documents has added confusion and cost to the consumer it seeks to serve. A consumer then makes no decision at all…

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?

A25 – no comment (although MiFiD2 could restrict even further access to consumers who could make their own financial decisions)

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

A26 – no comment

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

A27 – I do not believe any other nations have got this cracked – the US robo initiatives do not give advice, they are a product solution to an identified need. We could do well to understand that language when considering solutions in the UK

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

A28 – Better engagement tools and upfront analysis on consumers, (not risk based questionnaires!) to better understand consumer drivers – most sites today are a "buy" solution, poor understanding of consumers are driven by fear of "advice" regulations

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

A29 – No comment

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

A30 – no comment

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

A31 No comment

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

A32 – I not have evidence – however, would any business start-up today consider a unlimited cost, unlimited timescale, with little PI options a good thing?

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?

A33 – no evidence of this, some commercially sensitive evidence of MA activity affected by Longstop I would share.

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

A34 – Longstop needs to be addressed within the context of the advice being given, retirement advice for instance. However, I would like to see more evidence from the FOS and the FCA on hindsight reviews and liability reviews post 20/30years as I am not convinced that there is an issue here.

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

A35 – structural advice, i.e. Wrappers, Tax Planning should be covered by PI until they are used/un-invested – other types of advice should carry a minimum of 5years and renewed at the 5 year point – if not the advice is not covered.

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?

A36 – as stated above I do not believe anyone is offering automated advice in the UK or otherwise

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

A37 – stop calling them automated advice models – embrace the US position – automated product solutions, consumer lead. Those who require advice are either automated input and output, the analysis completed by advisors, telephony support or F2F. All online solutions require the business to be able to refer consumer to advice if their needs are considered too complex.

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

A38 – ease of use, simplistic product solutions, ease of review.

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

A39 –

1. *Full advice delivered by qualified advisers (IFA or otherwise) Fees*
2. *Full advice delivered by QC3 qualified advisers paid from Providers*
3. *Digital Advice or self-select delivered by on-line solutions, providing safety net of adviser if required by consumer. Consumer analysis tools, risk and models, (US robo)*
4. *XO business model with no ability to provide above, only product selection*

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?

A40 – by providing the consumer with choice you should be able to manage competition – if the above puts the consumer at the heart of all they do, that should manage great consumer outcomes – you manage against that criteria

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

A41 – depending on the final rules will depend on the monitoring process – advise at customer level, i.e. personal and reflective should happen to today – automation, done correctly, is arguably easier to monitor.

I am of course happy to engage or expand on my views

Regards

Jason

Jason Chapman
Managing Director

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FAMR submission

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FAMR Call for input - Response form

Published: 12/10/2015 Last Modified: 03/12/2015

We are asking for comments on this Call for input by 22 December 2015.

Please use the form below or alternatively, please send comments in writing to:

FAMR Secretariat

Financial Conduct Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Email: FAMRSecretariat@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

Note: You can take a printout of your response before clicking the 'Submit to FCA' button at the end of the form, but this will only print the visible text on screen, and you may have given longer answers. After submitting your response, the form will clear, but when we acknowledge receipt of your response by email, we can return to you a copy of your full submission as received. Check this box if you would like to have a copy of your submission returned:

Submission Details

Name: Nick McBreen

Position: Independent Financial Adviser

Company:Worldwide Financial Planning Ltd

Address: Heron House , Newham Quay, Truro, Cornwall

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In what capacity are you responding?

as an individual

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?

Anybody seeking financial advice will by definition have particular needs relating to their own personal and unique situation and circumstances. Where a consumer has particular issues concerning health; mental capacity or age merely adds to the problem and it is essential that these individual *consumers get appropriate advice in conjunction with other professionals who may be working with them—for example guardians or health workers or solicitors or accountants.*

As to the question of difficulty finding and obtaining the right advice, I fail to see how anybody in the UK cannot access information that will help them along the path to getting advice—whether or not that information is gathered via word of mouth, professional introductions or the mass of information available online.

How "vulnerable" consumers pay for the advice they need is in many cases the stumbling block and this is an area that needs to be addressed and some sort of funding made available from the public purse to facilitate this.

Q2

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

Since the implementation of the Retail Distribution Review in 2012/2013 the financial advice business has been segmented into independent and restricted advice. In principle this made eminent sense and the objective of making advice clear and transparent as to its nature was a sensible one. Along with this came the requirement that independent advice should be delivered on a fee based arrangement whilst the restricted model could carry on as before with commission wrapped up in the product and the consumer not explicitly paying for the advice out of their post-tax income or accumulated capital. Unfortunately these distinctions are still not clear in the market place and I believe consumers have yet to get this distinction clear in their minds and fully engage with it

The fact that we have an advice gap is in my opinion clear evidence of a dislocation between availability of advice and consumer who need it.

Q3

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

The demand for professional financial advice –rather than for commoditised transactional product sakes—is in my view no different than it was pre RDR, but as in the answer to Q2 above, the gap between demand for and need for advice and actually getting it remains a big challenge.

The use of the word professional here is a key factor. Since 2012/2013 and the introduction of minimum Level 4 qualifications as the norm, financial advice should be now viewed by consumers in the same light as other professional advisers. Alas I have seen no evidence to suggest that this is happening yet constant change in the areas of taxation, investment markets and pension planning in particular is increasing the need for consumers to seek out and engage with suitably experienced, qualified professionals to help them assimilate all these changes and incorporate it within their own personal financial plan—assuming of course that they have one!

Q4

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

This is nothing new and remains a real sticking point in the drive to raise the professional profile of financial advice. It has always been the case that many people have opinions on a wide range of issues—financial planning being one of them—and have been more than happy to air their views over the dinner table or at the workplace. Whilst this may have some minimal value in raising financial planning in the conversation the ultimate benefit from taking action is not a given! An increasing trend I have noticed recently is the frequency of journalists who put together articles that are tantamount to advice—and poor advice at that.

Mobile communications in the 21st century have greatly benefited consumers in all aspects of their daily lives. In an increasingly digitised world, access to information online is for the most part freely available everywhere and at any time and consumers are therefore empowered to gather masses of information and become better informed. However, my belief is that just because consumers can amass information does not per se mean that they then take steps with their financial planning arrangements and/or seek out help and advice to guide them.

Q5

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

The needs of consumers have remained fundamentally unchanged over the last 25 years in my experience. The need for financial planning is as compelling as ever covering protection; retirement; investment; savings and mortgages. Each of these need areas can be split up further into numerous sub categories but the overall guidelines remain constant and needs have not changed.

Q6

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

Anything that the regulator..and the FS business from the advice side—does to clarify and understand how consumers think and behave and respond in the context of financial advice can only be a positive, helping to understand the dynamic that exists and how the bridge from needs to getting advice can be crossed effectively and in a mutually beneficial way.

Q7

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

The ten segments are useful on a very basic level—to identify differing life-stage, financial and personal situations typically existing amongst consumers. As with any label or classification the criteria being applied can only operate on a relatively superficial level and can only add value as a rough guide or indicator—a starting point from which to explore further into the individual circumstances of any consumer.

Q8

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

All consumers—whether affluent or not-have financial planning needs but whether or not they seek advice on how to address these does not necessarily follow. The criteria that have to applied to all consumers are:

- *Do they have needs and do they understand them?*
- *Do they have the financial resources to address some or all of them?*
- *Are they capable of making financial decisions.*

Many labels are bandied about when referring to consumers e.g HNW or high net worth; empty nesters; middle England and many others. This I suggest has arisen from an over reliance on obvious indicators of people's wealth and financial situation and assumptions based upon this thought process can turn out to be very wrong. The fact that a consumer lives in a big house or drives a brand new luxury car or takes exotic holidays does not mean that they can actually afford these things and are not drowning in debt.

My experience over many years is that there are myriad reasons why people do not seek out and engage with financial advice and the level of financial resources they have is not the primary determinant.

Q9

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

In my opinion based upon my professional experience I believe the reasons are:

- Reluctance to face facts
- Failure to understand their needs
- Lack of any financial plan
- Inability to prioritise
- Conflicting information
- Misconceptions
- Confusion and lack of understanding of financial advice
- Time pressures
- Peer group lethargy
- Procrastination
- Perceived lack of financial resources
- Fear of opening up to a third party
- Concerns over confidentiality issues

Q10

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

The current model available is still not fully engaged with the public.

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?

The implementation of RDR should have made the transition away from transactional sales based interaction with clients towards a real fee based advice service..this is still a work in progress

Q12

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

The potential impact of robo-advice is an unknown quantity—but current use of technology is an invaluable part of the advice process and will continue to facilitate communication

Q13

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

The regulator would do well to really understand the economics of firms providing fee based advice and get a handle on the real costs therein.

On the customer side—more attention needs to be given to helping the public understand the value of advice and not just the cost

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?

Historic cost structures are rapidly becoming obsolete –for example setting an hourly rate for advice is constantly under pressure as the regulatory constraints and costs continue to rise

Q15

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

If all IFAs applied a segmentation approach to “new businsess” then they will all end up targeting a small proportion of the population, this will lead to further loss of adviser numbers and in turn increase the advice gap.

Q16

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

Time and cost constraints involved to go through the mandatory steps of a client journey are rapidly increasing.

Q17

What do you understand to be an advice gap?

The difference between those people who need advice and those people who actually get it. The reasons why this exists includes lack of motivation, lack of understanding; procrastination;adverse publicity; perceived lack of financial resources and failure of the regulator and the FS profession to position the value of advice against cost

Q18

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

There is plenty of potential demand—see answer to Q17

Q19

Where do you consider there to be advice gaps?

Right across the socio-economic spectrum

Q20

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

I don't have the time or resources to do this

Q21

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

Protection needs; savings and retirement provision

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?

See answer to Q21

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)?

I see no valid reason to limit the scope

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?

Current regulatory framework is complex, constantly changing and challenging to keep up with in terms of developments and updates—as well as actually running a business

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?

MIFID ll will throw a lot of curve balls into the mix

Q26

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

The only way to improve consumer engagement is for the regulator to work closely with those people who actually advise consumers and create information flows that are relevant, helpful and include a call to action

Q27

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

Don’t know

Q28

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

The regulator would do well to review the accepted knowledge out there on behavioural finance and why consumers behave as they do when dealing with their financial arrangements and planning

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

Don’t understand this

Q30

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

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?

The lack of a longstop acts as a significant deterrent for advisers when considering taking on new business risk

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?

No comment

Q34

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

There still appears to be an inconsistency over what advice can and/or should be subject to redress many years after the event.

Q35

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

The whole advice process in terms of “consumer protection” is unbalanced in favour of the consumer and the underlying principle of “ caveat emptor” has fallen by the wayside

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?

Automated advice is a myth or fantasy. Algorithms cannot and do not have conversations and it is the conversations between consumers and advisers that is the bedrock of advice.

Q37

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

See Q36 answer

Q38

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

Google and other search engines are now perceived by consumers as providing all the answers. This is an enormous misapprehension—gathering knowledge from the web does not constitute advice or planning.

Q39

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

Regulator to work more collaboratively with FS professionals to raise awareness of the value of advice and the need for it.

Focus attention on value not just Price

Rebuild trust between FS professionals and consumers

Recognise the consumer lack of knowledge and understanding and consider how to raise levels

Work closely with FS professionals and providers to heighten engagement

Promote the benefits of face-to-face advice

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?

No comment

Q41

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

Financial Advice Market Review: HM Treasury/FCA Consultation – a response from Zurich Insurance Group

December 2015

About Zurich Insurance Group

- Zurich Insurance Group is a leading global insurer, providing life insurance and general insurance products and services to retail and corporate customers in more than 170 countries. Zurich's UK Life business is a leading provider of pensions, investment policies and protection products, available through financial intermediaries. UK Life also provides pensions and protection policies for the corporate market available through employee benefit consultants. The UK General Insurance division supplies personal, commercial and local authority insurance through a number of distribution channels.

Executive Summary

- We welcome the opportunity to respond to the joint HM Treasury and Financial Conduct Authority consultation on the Financial Advice Market Review. We believe that the advice gap needs to be urgently addressed and that solutions need to be sought. The outcome of this review is therefore critical to ongoing progress in this area.

- We have found that many customers do not know they need advice until it is too late, by which time the material and psychological damage done by not having the right level of provision can be immense. As one person interviewed in a piece of research for the Department for Work and Pensions(DWO)[1] put it, experiencing a steep drop in income meant:

[1] 'Framework for the analysis of future pension incomes' (September 2013). https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254321/framework-analysis-future-pensio-incomes.pdf

"I feel 25 per cent as good as when I was working…. A good income gives you confidence, it gives you courage, it inspires you and it gives you impetus to go out and do things that you wouldn't do if you didn't have that money."

It is vital that the industry recognises that the advice gap stretches beyond that of savings and investment. The lack of protection purchased across the UK also has an impact on people's lives and ultimately the support they need from society.

- It is therefore important to ensure that advice for both retirement and savings, as well as for protection are considered within the scope of this review. Accounting for the protection gap as well as the savings gap is essential for two reasons:
    - People who lose out on income because of disability cannot fall back on alternatives to insurance in the same way that people who are healthy can make up for not saving by working longer.
    - The DWP research shows that a significant amount of under-saving comes from career breaks from not working, so it is difficult to address the advice gap fully without also addressing the protection gap.

- We have outlined some practical steps that legislators and regulators could take to reduce the advice gap in our response and they are summarised below:
    - The boundary between advice and non-advice needs to be simpler, by having one definition instead of two slightly different definitions in UK and EU regulations. A legislative change could be made to bring the UK definition in the Financial and Markets Act in line with the definition in the Markets in Financial Instruments Directive (MiFID).
    - Introducing a fairer system of liability, in line with the campaign we have been running with APFA, would attract more investment into the advice sector, increasing the provision of advice. We also support the ABI's concept of a 'complaints sandbox' which will be outlined further in its individual response to this review.
    - The need for limiting advisers' liability has also been highlighted following the introduction of pension freedoms and the challenges raised by insistent clients. Whilst the concerns are different for limited liability it further demonstrates the degree of concern there is across the advice market and future liabilities.

- The FCA could also produce more detailed commentary on good practice around the governance arrangements for creating defaults that deliver reasonable, if not optimal, outcomes for customers that do not wish to have advice.
  - The FCA could introduce an intermediate qualification for advisers so that customers can receive a range of advice commensurate with their level of need; within an agreed set of parameters. This would be analogous to a client-facing para-legal in a solicitor's firm.
  - In order to raise the level of importance given to addressing the advice gap, the FCA should review and assess the effect of regulation on customers' access to advice. Having measurable targets showing how it is improving regulation to help narrow the savings and protection gaps is important.

- Finally, the Government recognises in other industries the need to have apprenticeship schemes to introduce and develop skills. There is no equivalent in our industry to fill the skills gap. Recognising that, following the pension freedoms and the inclusion of compulsory advice for specific planning opportunities, this is an area that we feel must be strengthened.

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?

1.1 At Zurich we have a deliberately broad definition of vulnerable customers, or more accurately, customers whose circumstances mean that they may be vulnerable. This has at its heart the FCA definition of "customers who due to their personal circumstances are especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care". Some customers fall into this definition at point of sale, while for others it may be many years into the relationship before they become vulnerable.

1.2 The extent to which any individual needs financial advice (both initial and ongoing) will depend on a variety of factors such as the complexity of the product and how big a part of the customer's overall financial planning it plays. Typically what makes a customer vulnerable is not normally what drives their financial need, but it can certainly be a factor in tailoring how advice is delivered. So, for example, a UK resident whose first language is not English doesn't need life assurance because they struggle with English - they need it because they have a family to protect. However how the advice is given (in this case either with the help of a translator or having key documentation available in other languages) is crucially linked to the circumstances that make the customer vulnerable.

1.3 Zurich has embedded consideration of vulnerable customers into both its proposition development process and its ongoing servicing of customers' plans. Through working with charities such as the Alzheimer's Society we endeavour to understand the problems faced by vulnerable customers when dealing with financial services companies, and how we can best overcome them. Our customer-facing policy servicing teams (outsourced to a third party) have dementia awareness and vulnerable customer training and we have recently amended our identification and verification process to make it more dementia-friendly.

1.4 A major barrier to a certain group of vulnerable customers being able to access advice is that of affordability; this would include low income households who are not able to afford adviser fees, or customers who do not appreciate or understand the value of sound financial advice and are unwilling to pay. It also includes those who are unable to access advisers who have experience of dealing with their particular needs. As Zurich has no advice capability we are not in a position to materially affect this barrier, but we are looking at other ways in which we can help those of our customers who are struggling financially. For example we are looking to allow customers who have missed a couple of payments a period of time to 'catch-up', and we have also recently introduced free access to a third party counselling service to our new protection customers.

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

2.1 Different ways of describing and categorising advice have serious limitations, because consumers are not sufficiently engaged in the advice market to learn what are often slightly artificial distinctions – for example, when the policy of polarisation between independent and tied advice was in place, research showed that most consumers were not clear about what these terms meant, even though they were frequently discussed and explained in the consumer press.

2.2 A more meaningful approach would be for firms and regulators to have an ongoing dialogue, informed by rigorous research, which shows what consumers understand about particular services in terms of their rights and responsibilities, and for this dialogue to be recorded in a way that informs decisions about liability in future.

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

3.1 Consumer research repeatedly shows that many consumers do not feel completely confident about their financial plans, and that they would like help, provided they can be convinced about:

- the relevance of the advice to their outlook on life and financial planning;
- the quality of the advice; and
- the impartiality of the advice.

3.2 Often consumers will not say 'I need financial advice' but they will focus on more specific questions such as 'I don't understand my company pension' or 'I need to know how much I should be saving'. These different factors mean that people often have complex and changing feelings about advice. Often, people's attitude to advice is akin to a life cycle:

- When faced with a new subject, individuals often express a desire for in-depth, face-to-face advice, especially when their employer does not offer the tools they need, or family members and friends do not have the expertise to help them.

- However, when they realise the cost of face-to-face advice, they often try to self-serve. This decision is often reinforced by the lack of a strong 'advice brand' in the market. Self-serving may involve gleaning as much free information from the internet, the media and existing providers as possible. It may also take the form of using assets such as the family home as a substitute for less familiar investments.

- The decision to self-serve is most likely to come under pressure when customers have a big, complex decision to make – such as taking out a mortgage, investing a large amount of money or when making decisions about their retirement. This is likely to push them towards paying for advice, especially when a friend or family member can recommend a specific adviser. The fact that most mortgage and investment purchases come through advisers suggests that the reassurance that comes through dealing with an adviser face-to-face is still vital for significant, one-off decisions.

- Once professional advice is sought, customers may continue to use an adviser – even using the adviser to transact non-advised business because the adviser can offer a higher, more personalised level of service. In contrast, other customers gradually grow in confidence as they become more familiar with the products they are recommended, and they may choose to go back to self-service once their confidence in the decisions they are making is sufficiently high. However, they may still seek reassurance when facing large decisions.

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

4.1 In the retirement market it has been our experience that most customers want to discuss their options with us, their provider, so they can make a decision for themselves. Most have an idea of what they want from their own research. There seems to be a real resistance to seek advice, because of the cost, but in some cases also due to the inconvenience of seeking advice and the fact that it is a barrier to accessing retirement income quickly. In addition, the availability of the tax-free cash lump-sum offered through the pension freedoms, allows customers to make a simple decision now (withdraw the lump-sum) and postpone the difficult decision (set up a regular income backed by an appropriate product) until later. In our experience only a very small number of those we direct to seek further advice actually do so. In terms of the total retirement calls we would estimate that around 20% of the overall requests come directly from financial advisers, suggesting that those who are willing to pay for advice are doing so up-front and the adviser is then requesting the paperwork.

4.2 Zurich's UK Life business went live on a number of aggregators in December 2014 for life insurance and critical illness cover and we have seen a spike in use over the course of the year. As advisers are choosing to be more selective with who their clients are and the advice gap is widening, people are becoming more comfortable with self-servicing and researching appropriate cover online. Unfortunately this may often be based on price, rather than on an assessment of the range and quality of the cover available. Nonetheless, the online process can be easier; it allows you to do it when you want to; and avoids having to go through personal health questions with an adviser. It is likely that people are being influenced to buy protection products through life-affirming events on television shows and social media. (Sales of life insurance from a well-known online life insurance company peaked dramatically in March when Madonna fell from the stage at the BRIT awards).

4.3 A leading aggregator Zurich works with enables customers buying life cover to opt for telephone advice through 'Lifesearch' at key stages of the buying process. Data from the aggregator shows that it wrote £13m of business in the last 12 months, of which £3m was business which was referred on to Lifesearch. This demonstrates that around 23% of those who went online to buy life insurance through a major comparison site decided during the process that they would like to speak to an advisor. The remaining 77% appear to be comfortable with using a price comparison site to buy life cover. However, it is not clear as to whether those customers sought advice first, before buying online. We do not have evidence to prove either way as we do not ask customers if they have previously had access to advice.

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

5.1 Our customer research to date shows that there are moments in peoples' lives where the need for financial advice comes more to the fore. These include buying a house, starting a family, inheriting money, having a large sum of money/investment to make or approaching retirement.

5.2 We typically find that most customers have a limited understanding of how the financial advice process works and/or experience of it.

5.3 When asked how they would satisfy an advice need, most people state that they would seek face-to-face advice over any other channel because people it is largely a trust decision.

5.4 Interestingly, however, when the cost of advice is introduced, many choose to self-serve rather than consider a cheaper alternative

5.5 Zurich conducted a project at the beginning of 2015 to explore peoples' attitudes to information, guidance and advice[2]. The research found that:

- When it comes to making decisions about accessing pension pots at retirement, three in five consumers are likely to seek information, guidance or advice, with just one in five unlikely to do so.
- Most consumers (84%) will want to do some research themselves, looking online or in the press, with two in three (68%) likely to check their understanding of key facts with their bank or pension provider.
- They make a clear distinction between free, generic advice (Pension Wise) and paid-for advice, which will be tailored and specific.
- Over two in five (44%) think it is at least quite likely they will use the services of a financial adviser, most likely using them as a sounding board to test their ideas before making a final decision (39%). One in four (26%) are likely to pay a financial adviser to recommend what is best, with just under one in five (18%) likely to pay an adviser to do the research for them.
- The areas where seeking help from a financial adviser will most be considered are:

    - to help understand what options they have for generating an income at retirement (45%)
    - to understand the tax implications of their options and decisions (44%)
    - to choose funds to invest retirement savings in (39%)
    - to gain a full, personal overview to help them reach their financial goals (39%).

- 70% prefer to receive advice face to face, compared with just 6% specifying a preference for telephone advice.

[2] Zurich Customer Research 2015

- Most feel that face-to-face better allows for their questions to be answered, for the adviser to fully assess their needs and in turn for the consumer to assess the adviser; face-to-face advice is more trusted.

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

6.1 At Zurich we have developed our own six segment model, with attitude to advice being a major factor. Three of the six segments we have identified as:

- those who choose to completely delegate to a face-to-face advisor (11%);
- those who would take face-to-face advice when a larger, more complex need arises (15%); and
- those who are happy to self-serve (31%).

6.2 This segmentation has been effectively used in designing our response to the pension freedoms and other regulatory changes. It has also helped us to design propositions to suit our customers as it helps bring different groups of customers to life, helping us to understand their needs and adopt a more customer centric perspective. This includes informing the design and suitability of our communications.

6.3 Many of the factors we considered within our own segmentation align with the FCA Consumer Spotlight segmentation - which is, however, more granular. It also takes into consideration other factors such as personal circumstances and life events (bereavement, job loss and financial capability). We therefore have found this thinking helpful in the development and shaping of customer personas.[3]

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

7.1 We need to find ways to service people who are less confident about financial matters and cannot afford advice (Retired on a budget, Living for now, Striving and Supporting, Hard Pressed). Of equal importance, however, are those who are confident in their own beliefs and abilities but in reality may not sufficiently

[3] SINUS Segmentation

understand what they're doing well enough and so may make mistakes or be susceptible to scams (Affluent and Ambitious, Busy Achievers). Debt management is also a very key area to support here.

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

8.1 Whilst our segmentation model does not directly use consumer wealth, there is an almost certainly a correlation between those who take face-to-face advice and wealth. This will reflect the fact that they can afford to pay for it, but also that they have more complex investments. Our current in-house view is that most people would benefit from advice at key life-stages but, for the reasons outlined in questions 3 and 9, do not tend to seek it.

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

9.1 Often consumers do not seek advice because:

- They are not aware of the need for advice – (for example, a recent survey by Zurich showed that only 4% of customers who were over 55 and in defined contribution schemes had contacted Pension Wise, even though 59% of those who did approach Pension Wise said it was 'very' or 'somewhat' useful)
- They have misgivings over the impartiality or quality of the advice
- They do not want to pay a tangible cost for an intangible benefit

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

10.1 The number of financial advisers has declined since the Retail Distribution Review (RDR), and the decline has been sharpest in the bank and building society sector. This is part of a long term trend, where the number of financial advisers in smaller firms has declined at a much slower rate than the number of advisers in banks and life assurance sales forces. Overall, the number of advisers available to customers has declined by more than three quarters over 25 years. Without fresh talent entering into financial services, the general availability of advice will continue to come under pressure and impact the advice gap. More needs to be done to help and support advisers expand the availability of advice within their firm, such as through apprenticeship schemes.

	IFAs	Company Representatives	Total
1991	22,428	192,856	215,284

	Financial Advisers	Bank/Building Society	'Other'	Total
2011	26,339	8658	5569	40,566
2014 (Oct)	21,496	3182	6475	31,153

Sources: London Economics, APFA, Money Marketing

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?

11.1 To some extent, it has always been the case that some customers who transact business through advisers are not looking for full financial advice. For example, in a survey published as far back as July 2000 by London Economics, over 30% of customers who bought products through advisers said they were just using an adviser to arrange the transaction. As the cost of advice has become more transparent in the wake of the RDR, it makes sense that more of these sales have been labelled correctly as non-advised.

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

12.1 It is the case that technology has been developed that can run a fact-find process to produce similar results to advisers. However, we think it is unlikely that technology will develop that simply administers fact finds, because successful advisers do far more than administer a fact find. They also listen to customers' aims in life and relate these to a meaningful financial plan. As a result, we anticipate that the most successful use of technology will also help customers turn their aims into financial plans, and gathering evidence designed to produce a recommendation about regulated financial products is likely to only be a small part of that process.

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

13.1 Before the RDR, reports by Oliver Wyman and Charles River Associates analysed the economics of supplying advice, in terms of the amount of time it took to make a recommendation, and the proportion of costs spent on an adviser, relative to support services needed to deliver a compliant recommendation. Although the economics of advice have changed with RDR, for face-to-face advice this is still a valid approach.

13.2 In particular, both reports showed that the cost of advice was rising significantly compared to earnings inflation in the UK, and while some of this increase was down to rises in the salaries of advisers, the majority of the increase was due to non-salary costs such as supervision, training and initial expenses. The Oliver Wyman research showed that non-salary costs rose in the following way between 1990 and 2000:

	1990	1995	2000
Non-salary costs as a percentage of salary costs	35%	43%	58%

13.3 The Charles River Research in 2009 had a different approach to calculating non-salary costs, so its results may not be directly comparable, but it found that the non-salary costs for network IFAs, national IFAs and small IFAs as a percentage of salary costs were 120%, 110% and 80% respectively.

13.4 In terms of technology, the key elements in the economics of supplying advice are:

- the investment needed to produce an advice program;
- the marketing effort needed to persuade customers to use the program, and where fees are payable, to pay for it; and
- the potential liabilities associated with producing a program that gives poor advice, especially given that this poor advice may create liabilities based on systemic mis-selling, and the associated costs of managing those liabilities.

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?

14.1 As far as regulated advice is concerned, the RDR has made it impossible for firms to rely on cross-subsidies between advice and other services.

14.2 As far as more generic advice is concerned, it is still very difficult to finance guidance through cross-subsidies, because there has to be a clear gap between generic advice and transactions around buying a product, in order to show that advice has not been given on the basis of an implied recommendation.

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

15.1 The more assets a customer segment is likely to have, the easier it is to supply the advice, as the fee for advice will be a smaller proportion of the overall transaction and associated costs. For example, it is easier to charge an advice fee on an investment or a mortgage of £500,000 than on an investment or loan of £10,000, because of the extent to which an advice fee could be offset by benefits that advisers could bring to customers by helping them to choose a highly suitable solution.

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

16.1 Three key barriers are:

1. Uncertainty around the boundary between advice and non-advice. It is not helpful that there are two advice boundaries – one in UK legislation around expressing an opinion about a regulated product and one in EU legislation around making a personal recommendation. It leaves firms that want to offer help and guidance to customers without crossing the line into regulated advice having to analyse two sets of requirements when designing and monitoring their advice process, which makes running such services unnecessarily difficult.

2. Lack of certainty over liabilities, especially as standards can be interpreted differently over time. There is a danger that services that give help and guidance, for example over explaining to customers what products and rights they have, may in future be interpreted as crossing the line into full advice, and therefore attracting a much greater duty of care.
3. Length of liabilities. The fact that advice firms have to carry liabilities over an unlimited time frame means that it is far more difficult to attract investment in providing advice than would normally be the case, and pushes up the cost of professional liability insurance. A sensible limit to liability would increase investment in the advice sector, and consequently increase access to advice for customers. This is discussed in further detail in our responses to questions 24 and 32.

16.2 We would encourage the FCA and HMT to find a way to overcome these barriers to advice.

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

17.1 In our view, there are essentially three groups who suffer from an advice gap:

1. The first are those who would like advice and are prepared to pay for it, but are unable to find it. There are not many recognisable financial advice 'brands' which means that there is a low recognition of advice (for example, there is no 'Tripadvisor' equivalent for financial advice).
2. The second group are those who would like financial advice, but for some reason they either won't or can't pay for it. They find the decisions complicated and overwhelming and need advice, but perhaps are not able to afford it. There is a danger that, particularly with those seeking mortgage advice, the very act of searching online can have a detrimental impact on their credit history, triggering banks to think that the customer does not have access to credit.
3. The third group is the largest group and comprises those whose financial needs are such that an advisor is unlikely to take them on as a customer because, for example, they have a small pension pot, or a (comparatively) small amount to invest. RDR has professionalised the market and made advisors reconsider the clients they wish to serve. Advisors are increasingly moving away from the servicing of these 'middle income' customers, and focussing their efforts on a

smaller, perhaps wealthier set of clients, who they can better serve and where there is better value for money when considering fees. They are more discerning about who they advise and will actively decline prospective clients or not engage existing, less wealthy clients in new propositions. It is this 'middle England' group that suffers the most from the increasing advice gap. Their options are to take the decisions themselves, via online research, and then to go online, or to pay for it if they can afford it.

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

18.1 As discussed above in questions 3, 4, 5 and 9, there are a number of reasons people are not seeking advice, whether this be affordability or lack of trust in advisers or that they do not see the value in advice. This lack of demand amongst the mass market has meant that people are less aware of the need to save and the risks associated with a loss of income, are indebted, and are not saving enough for retirement, or protecting themselves and their families. Whatever the reasons for not seeking advice, it is this that has enabled the gap to widen exponentially.

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

19.1 It is likely to be 'middle England' that is facing the advice gap. They are perhaps indebted, are likely to need help with decision-making and will have a range of needs, from mortgage, protection and savings advice. There is certainly a protection gap in that families will need some form of protection such as life cover, income protection or critical illness insurance and many are opting for only one of the three, which will not cover their needs in the event of loss of earnings through long term sickness, or mortgage cover in the event of death.

19.2 Lenders are not able to provide adequate services on the ground, and banks are withdrawing due to disproportionate costs. This has opened up a gap for debt advice. While the Money Advice Service has been able to help in some regard, there is still an advice gap for those who are indebted.

19.3 We would consider that some advice gaps also exist in the General Insurance market. These involve general issues around financial literacy and a lack of understanding of language used in insurance. We do, however, concede that this is probably out of the scope of this review.

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

20.1 On the face of it, there are relatively few gaps, because advice is available to those who are willing to pay for it.

20.2 However, the existence of gaps in the amount of savings and protection that consumers say they need and the actual amount they are saving is measurable and significant. It suggests very strongly that there is a lack of advice reaching customers about what they need to do to avoid significant regrets about their financial and psychological well-being in future.

20.3 In 2013, the DWP set out a picture of the UK's preparedness for retirement[4]. It found that 11.9 million people were undersaving for retirement. Of these one million were heading for a retirement income 50% below the level considered reasonable by the Turner Commission, and 5.1 million were heading for an income between 50% and 80% of the target. Without auto-enrolment and the new State Pension, there would be around 1 million more undersavers, so the overall total would be around 13 million.

20.4 The DWP research also showed that of the 12.2 million people facing inadequate incomes post-reform, around 40 per cent work for fewer than 35 years during their working life. This is due to a mixture of unemployment and sickness. The research suggested that if people in their 50s spent as much time in work as people in their 40s, that the number of undersavers in the population would reduce by more than 300,000 people.

20.5 The DWP also highlighted that it is not just the level of absolute income that is important in retirement, but the size of the fall in income between work and retirement. The DWP research quoted one pensioner who had experienced a steep fall in income, who said:

[4] 'Framework for the analysis of future pension incomes' (September 2013).
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254321/framework-analysis-future-pensio-incomes.pdf

"I feel 25 per cent as good as when I was working…. A good income gives you confidence, it gives you courage, it inspires you and it gives you impetus to go out and do things that you wouldn't do if you didn't have that money."

20.6 Overall, the DWP research identifies two big gaps:

1. The need for advice that makes people aware of the importance of greater protection against a loss of income from sickness, which is one of the major contributory factors to inadequate incomes in old age.
2. The need for advice about saving more for retirement than the minimum required by auto enrolment.

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

21.1 As outlined in questions 17 and 19 above, it is the' middle England' group advice gap which we would feel is the most important to address, for retirement, savings and protection as discussed in responses to previous and following questions.

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?

22.1 We would agree that the FCA/HMT should focus on advice in terms of long-term savings, but we would also advise that the scope is widened to include **protection**. While the regulatory structure for protection advice is not suffering from the same challenges as the investment industry, there is a clear consumer need for protection, but also a lack of demand, given that people greatly underestimate the risk of being too ill to work and overestimate the support they would receive from the State and from their employer.

22.2 The DWP research from 2013 that we mentioned in question 20 showed that 40 per cent of the 12.2 million people facing inadequate incomes in retirement do so because of time spent out of work because of a mixture of unemployment and sickness. The research suggested that if people in their 50s spent as much time in work as people in their 40s, that the number of undersavers in the population would reduce by more than 300,000 people. This demonstrates that the protection gap and the savings gap are closely connected, and underlines the importance of viewing the two together.

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)?

23.1 Yes, we would agree with this focus. We would like to see the outcomes of the review addressing the provision of advice to the middle tier level, creating a more just market for the future of advice in the UK.

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?

24.1 A proper system that measures and rewards regulation that helps to close the advice gap is also essential. Currently, regulators are rewarded for preventing bad activity in financial services, but are not rewarded for encouraging healthy activity. If the regulator was measured against the impact it had made on the size of the advice, savings and protection gaps alongside its consumer protection objectives, the regulator would have a genuine incentive to maintain a proportionate level of regulation.

24.2 The boundary between advice and non-advice could be made simpler, by having one definition instead of two slightly different definitions in UK and EU regulations. A legislative change could be made to bring the UK definition in the Financial and Markets Act in line with the definition in MiFID.

24.3 A fairer system of liability could be introduced. We explored several possible models for this in a report that we produced with the Association of Professional Financial Advisers (APFA) in 2012.[5] These models were:

1. A straight 15 year cap on liability.

[5] 'Fair Liability 4 Advice – driving a strong and vibrant financial advice profession', September 2012 http://www.apfa.net/documents/publications/aifa-fair-liability-4-advice-report-september-2012.pdf

2. Differing limits depending on the nature of investment: a limit of 10 years for a short-term investment (0-5 years); a limit of 15 years for a medium-term investment (5-15 years); a limit of 20 years for a long-term investment (15 years+)
3. Customer agreed liability - where the client and adviser 'sign off' advice given up to a particular point e.g. when a customer reaches retirement the adviser could ask the customer if they were happy with the investment advice given in the accumulation phase of their retirement plans; if the investment is made with a particular goal in mind (school / university fees), the review could take place once the goal has passed. The liability will therefore be removed from this advice. The adviser may well go on to provide the necessary guidance regarding the decumulation phase for which the adviser will have ongoing liability.
4. Extended recourse - any advice is subject to a 15 year limit, but long-term investments should be subject to periodical review where the limit is extended from the point of the review. Hence, customers are encouraged to take responsibility for ensuring their investments are meeting their expectations.

24.4 The FCA could also produce more detailed commentary on good practice around the governance arrangements for creating defaults that deliver reasonable, if not optimal, outcomes for customers who do not wish to have advice. For example, if customers are moved to default funds that avoid the extremes of low growth on very low risk investments, and high volatility on higher risk investments when they begin to draw down pension savings, they are likely to avoid the two extremes of seeing short-term savings wiped out by market fluctuations, and longer-term savings being seriously eroded by inflation. A mature and positive dialogue between industry and regulators around the best way to protect consumers while designing these defaults would help customers and allow providers to manage liabilities more effectively.

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?

25.1 In general, EU conduct of business legislation on financial advice and guidance is set at a lower level than UK legislation.

25.2 The key difference is the appropriateness test, which requires firms to conduct a test of knowledge and experience on customers, to ensure that they are in a position to make a decision for themselves on non-advised sales. There are two key risks associated with the appropriateness test that must be managed carefully:

1. The appropriateness test could, over time, turn into a suitability test, as each wave of regulation adds new topics for firms to question customers about. This could eventually take the option of buying a product without financial advice away from customers altogether.
2. The appropriateness test, with its focus on customer competence to make decisions for themselves with their own money, may come across to customers as being patronising. If prescriptive elements of the appropriateness test leave customers feeling that they have not been treated with the respect they deserve, they may avoid contact with financial services firms altogether in favour of unregulated investments such as property investment.

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

26.1 Previous initiatives have tended to be used to deflect criticism about the advice gap. For example, when auto-enrolment was being introduced, many politicians of all persuasions referred to the establishment of the Money Advice Service as the solution to concerns about an advice gap in the pensions saving market. This led to unrealistically high expectations of the Money Advice Service, and meant that issues around the advice gap that existed in other areas of public policy were not addressed.

26.2 A better approach would be to set up a clear system of objectives and incentives around tackling the advice gap across the public policy space, including the regulators, rather than putting all the burden of expectation on one new advice or guidance provider.

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

27.1 The system of 'safe harbours' in the US provides some useful lessons. For example, in the US, employers have a safe harbour from litigation for automated pension fund advice, provided the advice programme has met the following criteria:

- It is based on generally accepted investment theories;
- It takes into account asset classes and historic investment returns;
- It considers relevant participant information;
- It operates in a manner that is not biased towards investments offered by the service provider;
- It takes into account all investment options offered under the plan; and
- It has been signed off by an independent, unbiased adviser.

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

28.1 Some behavioural biases can be addressed by looking for decisions that can be made on the customer's behalf, and constructing a system of defaults that is designed to produce a decent outcome, even if it is impossible to design the optimal outcome for each customer.

28.2 However, firms must have a strong system of governance around these defaults that is properly recognised by regulators and the Financial Ombudsman Service. This is because firms need to guard against complaints that the default decision was not optimal, especially when these complaints were made with hindsight.

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?

29.1 Evidence from the US suggests that safe harbours can increase the provision of advice. In 2012, research by the CIPD showed that in the UK 17% of employers offered access to financial education in the workplace, whereas in the US, where a safe harbour for financial advice exists, 53% of employers offered financial education in the workplace.

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

30.1 Employers' responsibilities – it should be absolutely clear that if employers outsource the provision of advice and guidance to regulated firms, responsibility for advice should rest with the regulated firm, and not the employer, unless the employer is colluding in fraudulent activity.

30.2 There should be a more limited safe harbour for firms that provide automated advice and guidance, to the extent that they should be absolutely confident that steps they take to ensure high standards of governance and risk management should count in their favour if, in future, customers complain about sub-optimal outcomes.

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

31.1 The steps that could be taken are:

- Applying safe harbours to organisations that could be a target for compensation, even though they are not directly involved in giving advice, such as employers who facilitate advice through an authorised firm
- Linking safe harbours to strong systems of governance and risk management

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

32.1 Encouraging advisers to deliver advice whilst letting consumers implement the planning for themselves could bring down the cost of some advice. However, understanding how an adviser's ongoing liability can be catered for without ongoing fees requires greater investigation.

32.2 In 2012 Zurich and APFA launched the "Fair Liability 4 Advice" campaign calling for the introduction of a 15-year longstop for the advice profession. The models we looked at are described in our response to question 24 above.

32.3 The long standing issue of fair liability for advisers is often seen as one where anything that benefits advisers will have an adverse effect on customers, and vice versa. In fact, consumers have as much to gain from a sensible approach to fair liability as any other group.

32.4 If we can achieve a fair level of liability for advisers it will undoubtedly make it more attractive for new advice firms to come into the industry, and at the same time make it more appealing for investors to invest in growing and developing firms.

32.5 More investment into the industry will also mean more high-quality, professional advisers in the market which will, in turn, increase consumers' access to advice and help consumers get the advice they need to help them take control of their financial futures.

32.6 The uncertainty around the liability issue acts as a detriment to investment, restricting growth in the sector and resulting in less capacity for advice. We do not think this is good for the profession or for consumers.

- Open-ended liability encourages more IFA exits – and acts as a burden on small businesses
- There is an overarching need to build consumer confidence in the advice profession
- A robust advice sector will help to increase consumer access to advice.

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?

33.1 The uncertainty caused by open-ended liabilities prevents advisory firms from becoming tradable assets and hinders firms' ability to attract new sources of capital. Research from the AIFA/Zurich Fair Liability 4 Advice report (September 2012)[6] found that more than two in five advisers (42%) feel that open-ended liability is a significant issue when considering selling their business or acquiring another business.

33.2 The carrying of indefinite liabilities undermines the sustainability of predominantly small businesses. The reality is that unlimited liability is proving a strong barrier to investment that would allow the profession to prosper. Introducing a fair limit could encourage future investment, which includes developing the next generation of financial advisers.

[6] Ibid

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

34.1 Consumers will be reassured by a programme of redress. It should not be seen as a safeguard against poor decisions when compared in the cold light of day many years later. Making advice available to many encourages consumers to save for their futures and assists with their understanding of financial matters.

34.2 If there is more certainty about liability there will be more investment in the advice sector, which in turn leads to greater availability of advice for consumers.

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

35.1 We need to consider the existing market and the future new market as distinctive and as representing different risks. We need to find an answer on the liability issue for advisers and to find a way of capping this for the existing market. For the new market, we would need to look at what we would do on the liability issue if we could start again, and whether we could create a market where there would be no liability, especially for simple products. If products were simplistic enough, people could understand what their liability is. The middle England market is potentially this new market, where we could think about liability in a different way. This new market could be one in which big brands seeking economies of scale step in to serve the mass market where smaller IFAs are reluctant to.

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?

36.1 The two biggest barriers are the unwillingness of consumers to engage with programs that may not see the world from their point of view, and the cost of advice liabilities. As highlighted in our answer to question 27, the US system of safe harbours has addressed the liability issue to some extent.

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

37.1 The key action is to create an ongoing dialogue between regulators and firms, where firms begin to feel that strong risk management systems will help them manage and reduce liability.

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

38.1 Research and experience shows that customers want advice from 'someone like me' – the main consideration in giving automated advice is demonstrating to customers that this element of empathy has not been lost in an automated process.

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

39.1 In our view, there are four key elements that this review needs to address to be able to start to close the advice gaps referred to and to help create innovation in the market:

1. Liability – a solution needs to be found to limit the liability for entrants into this space.
2. Qualifications and standards you would expect an adviser to have in order to give advice need to be reviewed for differing needs.
3. Remuneration – most customers turn away from advice when faced with the cost of fees. Some form of product-based remuneration, perhaps building on the commission that is still allowed on basic advice, would make a significant difference in terms of persuading customers to go to an adviser.
4. Professional indemnity – there is a need to support proposals or innovation in this space, given that PI cover is rising.

39.2 If the FCA has a clear objective and a tangible, measurable target to encourage people to take advice and to seek to close the advice gap, which is as strong as its consumer protection objective, it would help to keep the pace and focus in this endeavour. It would also mean that the Treasury select committee would be able to hold the FCA to account on this additional objective and to these targets.

39.3 An option is technology and improvements in the customer centricity of robo-advice, as we have discussed above, but also in the encouragement of a new classification of adviser, post RDR, with a lower level of qualifications who can provide advice to the mass market at a lower price (provided there is greater limiting of liabilities which will in turn help reduce costs). At retirement, people want more than just advice they can receive online, they are looking for face-to-face advice (this could be delivered through web chat enhancements). Different customers with different needs, different appetites for risk and varying levels of wealth will require different approaches. This variation in demand in itself can serve to make the market more affordable. The concept of a new generation of younger, more affordable advisers, could create a career path for advisers, where they serve the mass market, middle England, at the start of their career, and then progress with wider qualifications to a fully-fledged adviser.

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?

40.1 This can be achieved through giving the regulators a balanced system of targets around customer protection, competition and reducing the advice gap. It is not impossible to have a regulatory system that delivers high levels of customer protection, high levels of competition and high levels of access to services, since all three objectives have a common aim to improve outcomes for consumers.

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

41.1 Consumers should expect the same standard of advice and professionalism from different levels of advice, but should anticipate that the outcome or outputs may be different. The cost of advice could be reduced if the scope of advice is reduced and not intended to cover all of a client's circumstances and having to identify gaps in the planning when the client is seeking advice in one particular area– not compromising on its quality or appropriateness. People will have differing and more, or less complex needs in terms of investments and size of pension pots and while they should always expect quality, there needs to be availability of varying levels of advice, backed by different qualifications, to suit those needs.