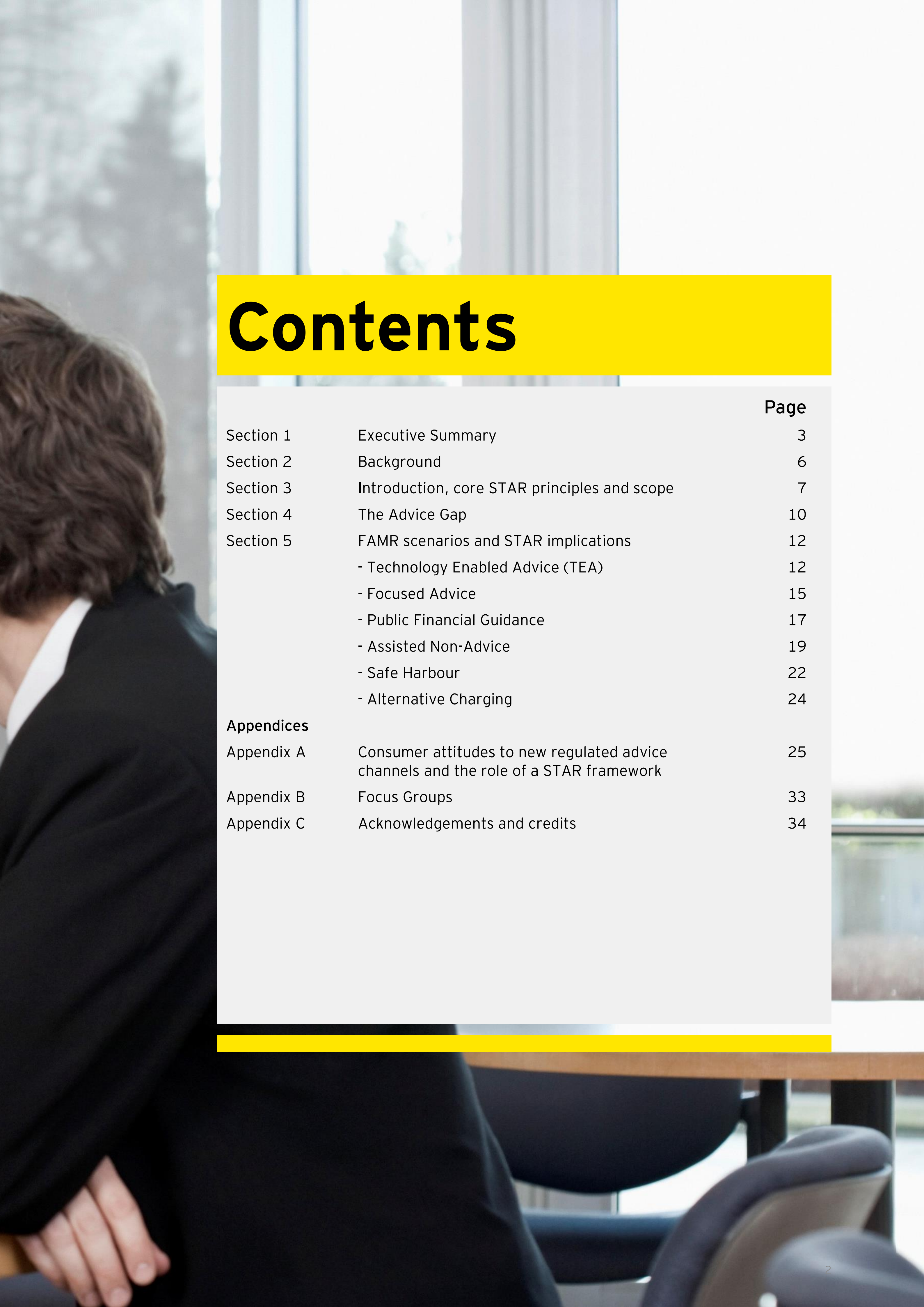
Protecting consumers post-FAMR

Managing the risks emerging from new advice models

December 2015

Building a better working world



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Executive Summary

As part of the Chartered Insurance Institute's (CII) response to the Financial Advice Market Review (FAMR), EY were engaged to depict a number of scenarios that might help close the so called 'advice gap'. We also assessed how the CII's framework of Standards, Training, Accreditation and Revalidation (STAR) might be used to provide consumer protection, governance and industry oversight to the scenarios. In doing so, we highlight merits and risks, to identify the relevant components of STAR that provide the necessary level of consumer protection and industry oversight.

The scenarios depicted are:-

- Technology enabled advice and guidance
- Focused advice
- Public financial guidance
- Assisted non-advice
- 'Safe Harbour' products and services
- Alternative charging

Clearly, these scenarios are not mutually exclusive, but for the purposes of this report they have been assessed individually, and both EY and the CII recognise that this is not an exhaustive list of new scenarios that might emerge from FAMR. Nonetheless, the scenarios depicted are broad enough to cover a wide range of potential outcomes and serve to highlight new risks that might emerge for consumers, product providers, advisers, technology firms and other industry stakeholders

STAR's primary aim is to protect the consumer, ensuring that any product or service is fit, proper and adequate and that whatever underpins it is clear, transparent and robust. In essence, it acts as a safety net for the consumer irrespective of the service, channel or label.

FAMR will ultimately identify new approaches designed to enable a broader population to seek and receive financial 'advice' in it broadest sense. Nonetheless, any proliferation of new approaches exposes the consumer to new risks, which need to be managed and wherever possible mitigated.

In helping to reach our conclusions, we assessed the historical response of consumers to new regulated advice and guidance channels around the globe, and how a STAR-like framework has been used to help build consumer confidence and trust.

We tested our thinking using a number of focus groups, attended by a wide range of industry stakeholders including IFAs, product providers, consumer groups and technology firms (see Appendix for detail). Their feedback and insights were extremely valuable and have been included in the main body of this report.

Key Findings

The FAMR consultation process seeks to address the so called ‘advice gap’. Our analysis suggests that this may be over simplifying a more complex market issue that includes:-

- a savings gap
- an education gap
- an awareness gap
- a confidence and trust gap

Moreover, customers are likely to move across the different gaps at different points in their lifetime, based on a variety of factors.

We conclude that each of the scenarios could – unless sufficient safeguards are in place – give rise to a number of risks to consumers and the broader public interest. The nature of these risks varies by scenario, but include (for example); consumers misunderstanding the nature of the service being provided; consumers being given advice which does not take account of relevant circumstances; consumers making decisions without being fully aware of the risks; consumers being subject to excessive and/or opaque charges; and consumers being handed over to unsuitable third parties.

Our analysis of the launch of successful new channels around the globe demonstrates that they have all been underpinned by a STAR-like framework of controls and oversight. It is reasonable that any new approaches introduced post-FAMR should be underpinned by a STAR (or STAR-like) framework to provide appropriate consumer protection, and ultimately help ensure the long term success of any new channel.

In considering the application of STAR to the six scenarios, each has a combination of:

1. **Core STAR principles:** which represent best practice and are applicable no matter which scenario is selected. These include knowledge, competency, accreditation and consistency. The core standards should form the backbone of any scenario implemented, supplemented by specific standards applicable to the scenario in question.
2. **Scenario-specific STAR principles:** which are required for each specific scenario. For example, Technology Enabled Advice presents particular challenges in terms of the design of algorithms and pathways, webchat and chat room operation, and confirmation that consumers are engaging with vital downloadable information

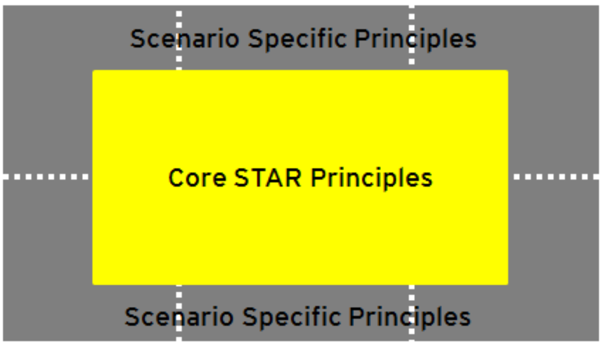


Figure 1: The application of STAR principles to the six scenarios

Our findings suggest that a combination of factors will ultimately help address the 'advice gap' and go some way to reducing the risks to consumers and product providers;

1. **Encouragement** – education and awareness, either from existing commercial sector routes, public sector organisations, employers, schools, colleges or affinity groups such as clubs, organisations, religious groups etc.
2. **Information provision** – from existing commercial sector, public bodies, from new entrants (potentially trusted brands)
3. **Guidance or basic advice** - where needs are complex or can't be fulfilled in any of the above.
4. Referral to a **full advice** process

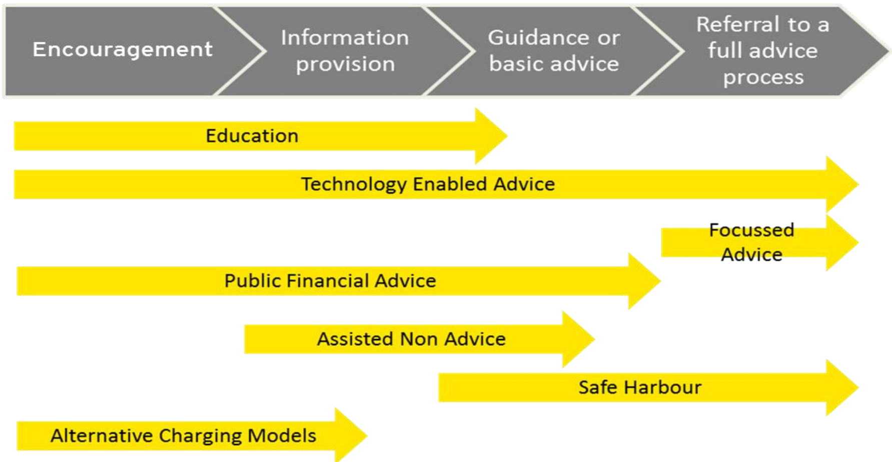


Figure 2: The combinations of scenarios that will address the 'advice gap'.

Ultimately, no single scenario fully addresses the 'advice gap'. Nonetheless, we expect one or more of the scenarios depicted in this report to form part of the way forward, necessitating a more formal approach to mitigating the new risks that emerge.

Broader consumer engagement and participation in the market is essential to encourage people to save more, particularly in preparation for retirement as we approach a so called 'demographic time bomb'. Arguably, it is vital to the long term economic success of the UK.

FAMR is undoubtedly a step in the right direction and will hopefully bring much needed innovation that will make the market more accessible, but to fully address the 'advice gap' we anticipate further 'carrot and stick' intervention, potentially including an element of compulsion.

Background

On 3rd August 2015, HM Treasury and the Financial Conduct Authority (FCA) announced the Financial Advice Market Review (FAMR). The review will address the so called 'advice gap', looking at how financial advice could work better for consumers. The FAMR sets out five specific areas of focus:

- The extent and causes of the advice gap for those people who do not have significant wealth or income
- The regulatory or other barriers firms may face in giving advice and how to overcome them
- How to give firms regulatory clarity, creating the right environment in which they can innovate and grow
- The opportunities and challenges presented by new and emerging technologies to provide cost-effective, efficient and user-friendly advice services
- How to foster demand for financial advice, including addressing barriers which put consumers off seeking financial advice

The scope of the review, as set out in the FCA's terms of reference is to "consider the current regulatory and legal framework governing the provision of financial advice and guidance to consumers and its effectiveness in ensuring that all consumers have access to the information, advice and guidance necessary to empower them to make effective decisions about their finances"

The review will also consider the interplay between the current regulatory framework, and the roles that the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS) play with regard to redress.

As part of their response to the consultation, the Chartered Insurance Institute (CII) has engaged EY (Ernst & Young LLP) to produce an independent report depicting;

1. Potential scenarios that may emerge in response to FAMR
2. The potential for the CII's Standards, Training, Accreditation and Revalidation (STAR) framework to help manage any additional risks that emerge, in particular with regard to consumer protection

Introduction, core STAR principles and scope

This report depicts a number of scenarios that may emerge in response to FAMR, and goes on to assess how the CII's STAR framework might then apply to those scenarios. The report highlights potential merits and risks for each scenario, in order to identify the suitable STAR elements which should be considered to provide effective consumer protection and industry oversight.

Overview of STAR

In June 2014, the CII responded to HM Treasury's consultation paper on Freedom and Choice in Pensions. In its response, the CII outlined its view that public confidence in any outcome from the consultation was imperative if it were to be deemed a success. The CII argued that to foster confidence, it is necessary to ensure that all those delivering Guidance should be obliged to follow an integrated set of Standards, Training, Accreditation and Revalidation (STAR).

The primary aim of STAR is to protect the consumer - whatever advice, guidance or information they are given - ensuring that the service they receive is fit, proper and adequate and that whatever underpins it is clear, transparent and above all robust. In essence it acts as a safety net for the consumer, providing a level or protection, no matter what the service, channel or label.

Striking the right balance for STAR is critical: too lenient and it risks jeopardising quality and consumer protection; too onerous might result in cost and compliance burdens, thereby dampening supply.

Standards

A set of minimum standards should be put in place to eradicate, or mitigate to the fullest extent, any risks that any of the scenarios pose, either to the consumer or to the organisation providing them.

As such the standards may cover a broad spectrum, including;

- quality
- knowledge and competence
- ease of use and accessibility
- high-level design
- delivery standards
- technology standards
- security standards

Training

Ensuring that suppliers are competent and have sufficient suitable knowledge and expertise to deliver any information, guidance or advice and/or design any processes or tools involved in the scenario. This applies to all parties involved in the processes, including anybody giving guidance/advice, involved in administration processes, or involved in technology design and build.

Accreditation

Those entrusted to meet the standards, need to have an accreditation process and continuous monitoring to assess the ongoing quality of delivery.

Revalidation

The ongoing assessment and validation of the standards, training and accreditation(s) to ensure processes remain appropriate and relevant, and that knowledge and competency is maintained.

This could be undertaken through periodic revalidation of both the organisation offering the service and those individuals providing the service or overseeing its delivery.

Core STAR principles

For each scenario depicted in Section 5, we highlight scenario-specific STAR principles. These are in addition to a set of core principles outlined below that apply to all scenarios.

STAR Principle	High level description
Licencing/Accreditation	Organisations wanting to provide a service should be licensed or accredited to ensure consumers are able to identify a valid service or a potential fraudster
Process Design	Covers a complete lifecycle with the consumer, applicable to the scope which has been agreed with them
	Processes are clear and simple to use – in particular the 'end point' indicating where the advice process stops
	Sufficiently componentised so that a consumer can see/choose 'break points'
	Help customers identify the information needed to make full, informed decisions
	Consistent across any given delivery mechanism
	Delivers the desired outcome
Quality	Impartial, technically correct, current, clear, and relevant to the customer's personal circumstances
Communication	Methods of communication appropriate for the customer
	Communication is clear and easy to understand
Consistency	Clear methods of ensuring that the guidance is delivered to consistent levels
	Ensure advice provided is correct and has been helpful to the customer
	Process in place to monitor competence standards for those involved in the guidance process
Appropriate information gathering	Process clearly stated, and information easily accessible by the customer
	Relevant information needed to understand the customer's financial position
Record keeping	Robust processes in place to ensure the effective record keeping of the guidance provided to individual customers and the data gathered
Audit trail	Robust, demonstrable audit trail to ensure accurate record of how an outcome was reached
Staff competency	Clear roles and responsibilities
	Staff trained, and regularly monitored and assessed as remaining competent
SLA's and KPI's	Clear and transparent SLA's and KPI's surrounding the service and published performance
Initial engagement with customer	Understand the circumstances which have led the customer to make contact
	Ensure the customer understands the process, its purpose, and what they can and cannot expect
Gather relevant information (in addition to any pre-engagement preparation)	Establish with the customer their key financial concerns
	Gather as much relevant information as is appropriate so that the customer is more readily able to identify and discuss their financial needs and to agree what actions may need to be taken
Identify and agree priorities and options	Identify and agree what the customer's priorities and options are, so the customer can make informed decisions about what steps they need or want to take to progress
	Support customers taking action by themselves
	Identify, as appropriate, a suitable referral
Identify ways of how to meet the customer's needs and allow them to consider the possible solutions	Identify ways of addressing needs identified earlier on in the process
	Explain the key features, advantages, and disadvantages of the options open to the customer
	Check the customer's understanding of what has been explained to them

Scope

Scope

The CII will submit a separate, formal response to the FAMR consultation process.

This report is not intended to constitute an exhaustive list of the potential scenarios which may emerge from FAMR, nor an exhaustive list of the merits or risks of each scenario.

The scope of FAMR is broad and the initial FAMR evidence gathering will request examples of problems in obtaining advice in the following markets:

- investments, savings, pensions, and retirement income products (including annuities)
- mortgages (including Help to Buy and equity release) and consumer credit
- general insurance

This report intentionally focuses on investments, savings, pensions, and retirement income products in depicting the scenarios and associated STAR principles. Where applicable it highlights if the scenario has appliCitAility to the other areas being considered under the review.

This report assesses both the supply side (the delivery mechanism), and the 'call to action' (what is likely to make a consumer use the scenario when assessing the scenarios and STAR principles). However, as no specific consumer testing has been done on the scenarios, it is not possible to accurately predict the 'call to action' element and therefore the analysis is based solely upon research of consumer trends and attitudes.

This report uses the CII's consultation response - HM Treasury: Freedom and Choice in Pensions – 11th June 2014 as a basis for its STAR principles. Accordingly, where STAR principles are consistent from that report to this one, we have reproduced them verbatim.

The Advice Gap

The FAMR consultation seeks to address the so called 'advice gap'. What constitutes this 'advice gap' is not easy to define – indeed, many would argue there is limited latent demand for advice and that the real 'gap' is more akin to a 'savings gap'.

In 2014 a report for the FCA by Towers Watson asserted that an advice gap does not appear to exist among the 'unserved' – there being plenty of financial advisers to meet current demand. Indeed, the report suggests that a significant latent capacity exists in the adviser market if measured purely by adviser numbers.

Research conducted by the Financial Services Consumer Panel (FSCP) in 2012 and further supplemented with research by Citizens Advice (CitA) in 2015 identifies 5 distinct 'advice gaps';

- **The Affordable Advice Gap** – affects consumers who are willing to pay for advice but not at current prices
- **The Free Advice Gap** - affects people who want advice but are unable to pay for it
- **The Awareness and Referral Gap -** affects people who are not aware that advice exists, or where to get that advice
- **The Preventative Advice Gap** – those who would benefit from having financial advice as a preventative measure. It is the result of the failure of 'money advice' to respond to the challenges that people face during different phases of their lives. These challenges may be of a non-financial nature
- **The Engagement / Persuasion Gap** – affects people who need to be actively engaged with and persuaded that using financial advice is good use of their time and that there are people out there who can better assist them with handling their money

In their RDR Post-Implementation Review for the FCA in 2014, Europe Economics also questioned whether 'gaps' exist in the market but did identify 3 consumer segments as follows;

1. **The Unserved –** a relatively small group with assets to invest and seeking advice but unable to find an adviser willing to advise them, albeit there are sufficient advisers to cater for them. At the time of the report this was not deemed to be a major industry issue.
2. **The Unengaged** (also known as an 'education gap') - those with assets to invest but who are not engaged with the market – primarily due to inertia.
3. **The Unwilling (a 'confidence and trust gap') -** those with assets to invest and who are engaged with the market but regard the fees of full regulated advice as too

The report suggests different solutions to address the 3 consumer segments:

- To help the unserved, the current financial adviser market could be supplemented with alternative mechanisms to cater towards the needs of different consumer, coupled with increased education, awareness and improvement of consumer perception
- To help the unengaged, more education should be openly accessible to the public and initiatives should focus on spreading awareness of the different available channels to acquire financial advice
- To help the unwilling to pay, initiatives should focus on reinforcing consumer confidence and trust in the current advice market

The CitA/FSCP reports and the FCA research are fairly consistent as the diagram below indicates:-

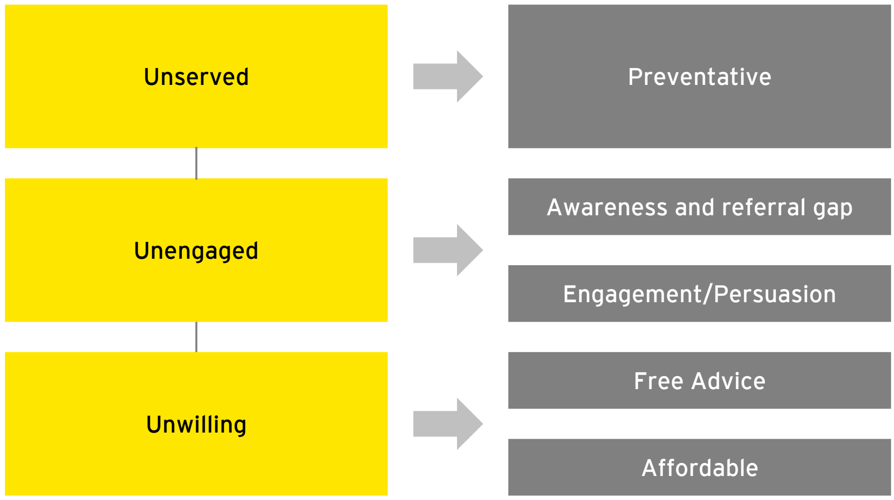


Figure 3: The 3 consumer segments in relation to the 'advice gaps'.

Finally, customer research undertaken by EY found that different demographic segments have very different outlooks and priorities when it comes to their own financial wellbeing and financial prioritisation, as is demonstrated in **Fig.4** below.

This suggests that the 'gaps' in the market may be for products and services that meet specific life stage needs that the current 'one size fits all' approach to regulated advice is failing to cater for.

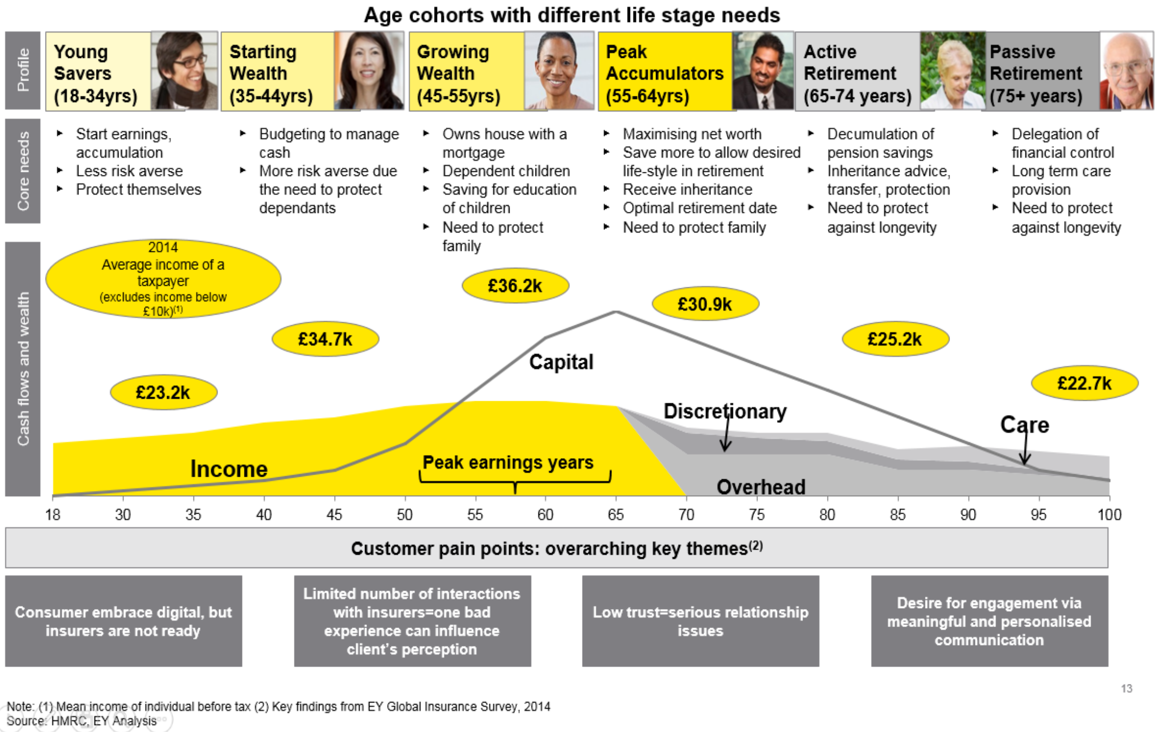


Figure 4: The life stages and how they align with the gaps in the market.

FAMR scenarios and STAR implications

In this section we depict a number of scenarios that might emerge from the FAMR consultation, analyse the possible implications of each scenario and set out relevant STAR principles to control and / or mitigate any risks that emerge.

In practice, the scenarios are not mutually exclusive (technology-enablement is likely to form part of each for instance), but for the purposes of this report we have analysed them each as distinct from one another.

In assessing the STAR implications we have relied heavily on historical experiences of launching new channels as set out in Appendix A, which provides useful contextual analysis.

Technology Enabled Advice (TEA)

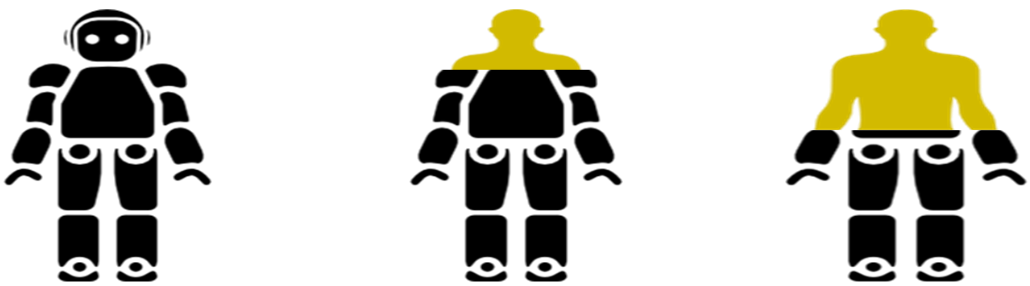
For the purposes of this report, we focus on three key themes;

1. **Full Automation:** an automated process that results in a personal recommendation – equivalent to the process followed by a financial adviser. It might include services such as ongoing portfolio rebalancing and/or discretionary fund management
2. **Assisted advice:** provision of technology-enabled tools to help customers identify scope, and create advice and guidance, typically in relation to a specific need i.e. life insurance or retirement planning. This can be either self-service or advised
3. **Guided Advice:** This might be a so called 'omni-channel' process whereby a customer flips between channels depending on the level of complexity at any given point in the advice/guidance process. Might involve online, telephony and videoconferencing all of which may have technology-enabled processes embedded

Further detail on the differences in the characteristics of the TEA scenarios can be found in Fig. 5.

How do you take your 'TEA'?

"Black tea" | "Builder's tea" | "Chai"



Full automation

- Automated computer algorithms offering D2C experience without Financial Adviser interaction:
  - Convenient
  - Easy to use
  - Low cost
  - Accessible to many
  - Consistent and repeatable outputs

Advisor-assisted

- Automation with financial advisor support – 'digital advisor'
- Adviser is available for more complicated cases and to review output and outcomes for consistency
- Level of automation dependant on customer needs

Guided Advice

- Technology facilitated tools assist adviser in assessment of customer needs and outcome modelling
- Advice process led by adviser, assisted by technology
  - Cognitive shortcuts
  - Enhanced productivity
- Omni channel capabilities
- Reduce time with adviser and thus cost to provide tailored advice
- May also include educational tools for preparation of the client

Figure 5 – Technology Enabled Advice scenario characteristics

TEA enables different delivery and commercial models (see p.31 of Appendix A for examples in the US and elsewhere), with a range of associated benefits, including;

- Scalable engagement and financial education
  - Consistent quality of information / education delivered
  - Lower risk of omission of key documents and / or elements of the advice process
  - Improved client financial literacy and awareness, bringing greater confidence, trust and engagement
- Simplified and consistent client experience
  - Customer journey is instant, continuous and at the customer's speed
  - Designed on simplicity, speed and intuitive workflows
  - Consistent approach
- Potential for lower pricing
  - Lower human involvement
  - Potentially lower risk
  - Increased transparency of the process and fees
- Built-in regulatory compliance
- Empowered customers are more likely to be engaged
  - The customer journey is transformed, so that there are more checkpoints to ensure that advice remains appropriate in both accumulation and de-cumulation
  - An end to end process allows customers to understand where they are on their financial journey, and can be broken down into manageable 'chunks'

TEA has its challenges too:-

- Security will be a key factor
- Risk algorithms need to be regularly monitored to avoid a proliferation of systemic risk
- Where does liability lie? Software provider, product provider, algorithm writers?
- Where the customer journey is 'shared' between TEA and an adviser, how to ensure consistency of recommendations?

Critical success factors

TEA needs to underpinned by a number of key principles;

- any advice must take into account the customer's specific personal circumstances (equivalent to face-to-face advice)
- clearly defined scope (e.g. consideration of debt, long-term care, etc.) and purpose (e.g. helping customers understand what the implications of their decisions might be)
- roles and responsibilities are clearly defined and understood
- ease of accessibility and simplicity of use
- sufficiently secure to protect customer information, without spoiling the user experience
- customer accepts greater responsibility for their actions and choices
- a robust gating process that recognises points in the process where the customer might need alternative support and guidance
- Customer outcomes are equivalent irrespective of the channel they use, requiring ongoing revalidation and comparison

TEA may offer a lower cost advice solution (albeit unproven at this stage) and it may well become a more popular channel over time, but it is not clear how significant it will be in addressing the 'advice gap'. TEA is already prevalent in the general insurance market and increasingly being used to make the mortgage market more efficient and accessible to customers, but very much as a 'substitute channel' rather than directly growing those markets.

Application of STAR

In considering how the STAR framework applies to this scenario, we have identified the applicable elements as follows, all of which are essential to ensure public trust and confidence. For more detail on the basis of these views, especially why we think the different elements improve consumer confidence, see our analysis in Appendix A, page 32:

Standards		How this improves customer confidence
In addition to the core standards outlined in Appendix A, the following specific standards should apply to this scenario;		
Security	• any technology used will need suitable security to protect customer information (e.g. log on and passwords protection)	• customer confidence generated through security features
Technology	• burden of cost of technology should not fall on the customer (e.g. licence fees) • system processes should be clear, transparent and fully auditable • system processes should be easy to update, to keep in line with new products, rules etc. • all roles and responsibilities within the technology framework should be clearly defined • the technology should be thoroughly tested to ensure positive customer outcomes • algorithms used to underpin TEA should be transparent and auditable • algorithms used to underpin TEA should be easily updatable	• high levels of technological standards foster confidence • technological and algorithmic testing ensures good customer outcomes • high spec. front ends engender customer interaction and understanding

Training	How this improves customer confidence
Suitable levels of training and knowledge needed to underpin competence of anyone involved in the delivery of this scenario. These include; • the development and implementation of any algorithm or segmentation model, used to underpin the advice section • the advice and guidance given to the customer • awareness of the limitations imposed by this scenario • customer and personal security • the delivery channel chosen by the customer, including ○ use of any tools and/or technology ○ appropriate communication mechanism and styles A range of training solutions may be suitable for delivering and verifying the knowledge and understanding behaviour; • qualifications (overseen by a governing body) • additional training materials	• any advice or guidance provided is to an appropriate standard • the advice or guidance stays within the boundaries that are expected by the customer

Accreditation & Revalidation	How this improves customer confidence
It will be important for any organisation / individual involved in its delivery to be accredited / licenced in order for customers to be able to identify accredited providers It will be necessary to monitor and assess the ongoing quality of delivery against the standards through; • monitoring compliance • maintaining the technical competence of those delivering the service • review outcomes to ensure scenario is delivering good customer outcomes • measure performance, i.e. developing critical success factors and key performance indicators • enforcement, (i.e. the ability to remove the status of organisations whose service falls below the required standards) • The capability to 'course correct' advice based on changes in circumstance will also be required in any automated model	• providers knowledge is up-to-date, relevant and undergoing continuous testing and revalidation • tools delivering poor customer outcomes will not be allowed to remain in business, limiting the chances of the customer choosing a bad supplier

Focused Advice

Focused advice involves providing advice that addresses a specific client need, such as a mortgage. The scope of the assessment and advice is limited and follows a predetermined process. Investment products recommended may well be 'vanilla', associated with non-complex investment strategies.

Advisers might specialise, limiting the breadth of advice offered. Alternatively, the 'focus' could be pre-agreed, or pre-qualified with the customer. The fact-finds and/or needs assessment focuses on information deemed material to the specific issue at hand. The advice process requires clarity on the risks being taken, with customer and adviser acknowledging that the recommendation largely ignores other needs that might need to be addressed. There are already examples of focused advice being successfully implemented in the market; mortgage advice, equity release, health insurance, etc.

Its use in the wealth market is currently limited, primarily due to fear of regulatory reprisal, but if these fears could be addressed under FAMR, then focused advice does offer the potential to address the needs of savers and less sophisticated investors and to that extent could help close the 'advice gap'. It may well appeal to banks and product providers if they can be comfortable with the regulatory exposure.

The major supply-side issue of focused advice is that it relies on the customer knowing where their need lies before seeking advice, and without holistic financial planning and advice, there is an increased risk of an incorrect or unsuitable decision being made. Without much greater regulatory clarity (which may emerge from FAMR), it is unlikely to get much greater traction in the face-to-face market, but could be implemented as a TEA solution where it is easier to demonstrate the customer has identified their own need.

A number of key principles need to be established;

- relevant and personalised: any advice must take into account the customers specific personal circumstances, albeit specific to the focussed area being assessed
- clearly defined scope (e.g. consideration of debt, long-term care, etc.) and purpose (e.g. helping customers understand what the implications of their decisions might be)
- roles and responsibilities are clearly defined and understood
- the customer accepts the potential limitations of focused advice and potential implications on their overall financial wellbeing and responsibility regarding the suitability of their choices
- as per TEA, a robust gating process could mitigate risk significantly.

As focused advice ostensibly relies on the customer having a good understanding of their needs before they seek advice, in the absence of significant supply-side 'push' it is unlikely to have any significant impact on the 'advice gap'.

Application of STAR

In considering how the STAR framework applied to focused advice, we have identified the applicable elements as follows, all of which are essential to ensure public trust and confidence:

Standards		How this improves customer confidence
In addition to the core standards outlined in Appendix A, the following specific standards should apply to this scenario		• easily understood • clarity of offering
Advice Limitations	• Identification of advice 'focus'	
Customer Acceptance	• A clear, transparent process for the customer accepting the boundaries of any advice and limitations / implications	

Training	How this improves customer confidence
Suitable levels of training and knowledge will need to underpin anyone involved in the delivery of this scenario. The scope and breadth of training and knowledge required will alter depending if an advisor chooses to specialist or if they are holistic, but offer a focussed service as well Areas of applicable training and knowledge include • the advice and guidance given to the customer • awareness of the limitations • customer and personal security • appropriate communication mechanism and styles A range of training solutions may be suitable for delivering and verifying the knowledge and understanding behaviour. This could include; • qualifications (overseen by a governing body) • additional training materials	• training facilitates good quality advice / guidance • advice or guidance stays within the boundaries that are expected by the customer • knowledge of the financial system and financial products outside of the area of specific advice assist in ensuring focused advice is not given in inappropriate situations

Accreditation & Revalidation	How this improves customer confidence
It will be necessary to monitor and assess the ongoing quality of delivery against the standards through: • monitoring compliance • maintaining the technical competence of those delivering the service • maintaining the processes and rules in any technology and continually testing outcomes to ensure good performance, i.e. developing critical success factors and key performance indicators • enforcement, i.e. ability or powers to remove the status of organisations whose service is found to fall below the required standards	• those dispensing advice have experiences and expertise that are up to date, relevant and subject to continuous testing and revalidation • those delivering poor customer outcomes will not be allowed to remain in business, thereby limiting the chances of the customer choosing a bad supplier

Public Financial Guidance

For the purposes of this report, Public Financial Guidance is defined as;

1) An extension of existing 'public body' services, such as Citizens Advice (CitA) or The Pensions Advisory Service (TPAS), offering a greater breadth of financial 'advice', possibly with hand offs to approved organisations for more complex matters
2) For those customers who are never likely to be commercially viable, the government may have to intervene (in a similar manner to 'Flood Re'), and provide a service to this segment

Based on our own analysis of Pension Wise (set out in more detail in Appendix A, p.25), EY think that organisations such as TPAS could be equipped to provide a limited focused advice offering, confined to basic, 'vanilla' products and investments, and through a standardised process. Given its limited scope it is only likely to work in conjunction with a series of 'hand offs' to other (suitably approved) organisations able to give more sophisticated help, including regulated advice if necessary. This entails a risk that the solution becomes little more than a 'knowledge hub'.

This may give rise to a conflict of interest, as customers are 'handed off' (particularly between public and private sector), but with appropriate controls and monitoring this should be manageable. Standards should be set out at an appropriate level to ensure the integrity of the service.

For customers who are unlikely to be attractive to the private sector, the government could create a service that offered financial advice and guidance, over and above that provided by CitA, MAS and TPAS today. Alternatively, it could introduce funding for the private sector to offer a service – akin to legal aid. Clearly this would require new controls and oversight to ensure customers receive the appropriate quality of assistance and to avoid abuse of the system by the private sector.

Possibly more so than the other scenarios given the customer segment, the risk of 'scamming' is high. It is therefore essential that any such services can be easily identifiable, either through some form of affiliation / accreditation, or by a register, for example on the HMRC, FCA or Treasury websites.

Clearly, if regulated advice is offered through public bodies, the quality of training, qualifications and standards involved will need equivalency with the existing commercial sector financial advice standards and training, and the government would ned to underwrite the conduct risk liability. It may well be that a liability underpin from the government would be sufficient to attract private sector investment and support.

In order for this scenario to work, there will need to be a number of key principles established;

- relevant and personalised: any advice must take into account the customers specific personal circumstances
- clearly defined scope (e.g. consideration of debt, long-term care, etc.) and purpose (e.g. helping customers understand what the implications of their decisions might be)
- roles and responsibilities are clearly defined and understood
- Any handoffs must be impartial, transparent and clearly defined
- Staff knowledge and competency and institutional processes must be suitable to the level of advice and/or guidance being offered.

CitA, TPAS and MAS have already seen an increase in customer demand, largely driven by Pensions Freedom. As such, an extension in the boundaries of these types of services, associated with similar publicity is likely to result in further increased uptake. Our analysis suggests that whilst there is no reason why this model could not be applicable to the other financial markets being considered under FAMR.

Application of STAR

In considering how the STAR framework applied to this scenario, we have identified the applicable elements as follows, all of which are essential to ensure public trust and confidence. This draws from our own analysis (see Appendix A, p.26) and that conducted by the CII last year as part of its submission to the Government's pension reforms

Standards		How this improves customer confidence
In addition to the core standards outlined in Appendix A, the following specific standards should apply to this scenario		• organisations that customers are handed off to are of suitable quality and expertise
Quality	Handoffs to third parties are transparent, impartial and clearly defined	

Training	How this improves customer confidence
Suitable levels of training and knowledge will need to underpin anyone involved in the delivery of this scenario. Areas of applicable training and knowledge include; • the advice and guidance likely to be given to the customer • awareness of the limitations imposed by this scenario • appropriate communication mechanism and styles A range of training solutions may be suitable for delivering and verifying the knowledge and understanding behaviour. This could include; • qualifications (overseen by a governing body) • additional training materials	• advice or guidance provided is to an appropriate standard, subject to training • the advice or guidance stays within the boundaries expected by the customer • the service is personalized and communicated in a style and manner applicable to customer

Accreditation & Revalidation	How this improves customer confidence
It will be necessary to monitor and assess the ongoing quality of delivery against the standards through: • monitoring compliance • maintaining the technical competence of those delivering the service • measuring performance, i.e. developing critical success factors and key performance indicators; • enforcement	• the process is up to date and relevant • the technical (i.e. product, regulation etc.) knowledge of the person deliver the service is up to date and relevant • the customer can understand the performance of the service relative to other equivalent services and make informed decision on who to use • anyone delivering poor or non-compliant service will not be allowed to remain in business

Assisted Non-Advice

Assisted non-advice helps customers make better, more informed decisions about their financial needs, without providing any regulated advice or recommendations. Assisted non-advice provides customers with accurate, relevant and timely information, to assist them in navigating the often complex process involved in understanding their financial needs and how to go about fulfilling them. This appears to be backed up by our analysis of different parallel advice and distribution propositions such as KiwiSaver in New Zealand and Auto Enrolment in this country (see Appendix A).

It focuses on responding to information and guidance requirements across a potentially broad spectrum. It covers everything from questions around "what is ….?", to "how do I ….?" through to helping people gather the necessary information they may need when applying for a product and even completing applications and paperwork.   It could even be a process to help people understand why they may actually need proper formal advice.

We think that the desired outcome from the provision of assisted non-advice can best be defined as "customers making their decisions in the knowledge and appreciation of the key facts related to their choices".   The focus is on ensuring that customers are better informed than they would be otherwise, and accept that decisions taken by customers are unlikely to be based on the full facts.

In order for this scenario to work, there needs to be a number of key principles established;

- relevant and personalised: what may appear to an individual as useful general information, might in fact be quite unhelpful to them in their circumstances, even if it might seem superficially relevant
- Easy to identify approved / regulated services
- impartial: the guidance must manage all potential conflicts of interest
- clearly defined scope (e.g. consideration of debt, long-term care, etc.) and purpose (e.g. helping customers understand what the implications of their decisions might be)
- clear distinction between guidance and the execution of the customer's decisions
- facilitates referrals to other services as appropriate
- makes clear to customers what is being offered, its limitations, and what protection there is in the event of customer detriment
- customer accepts responsibility regarding the suitability of their choices

The service is likely to be similar to that which CitA offers – providing information and guidance, grounded in impartiality, without providing any form of advice or recommendation.

This scenario is most likely to be delivered in a 'face to face' manner or via a technology-enabled route. The 'face to face' delivery medium is likely to be underpinned by some form of technology, such as process management and decision trees in order to ensure that information and guidance is provided in a standardised, compliant manner.

Helpful Friend

Assisted non-advice offers the potential for 'helpful friend' offerings, which introduce the concept of giving people a basic, common sense 'sounding board' service which they can use to get a second opinion from a suitably knowledgeable source. Its aim is not necessarily to focus on providing people with financial advice or to solely identify their needs in the best way. The aim is to offer a service to customers that may prevent them from taking decisions or actions that would have a negative effect on their finances and financial planning.

A 'helpful friend', built around principles of community and peer review, could serve to reduce the number of bad decisions taken. A second or third pair of eyes, often more experience and educated than the customer could serve to act as a sounding board and / or 'check point' before a decision is taken.

As an example, this scenario could apply to people who are looking to release money from their pension, but who haven't taken any formal advice. The helpful friend scenario could simply provide them with basic information on whether they face tax implications. It could suggest alternative options to consider, so that they make a rounded and informed decision.

Taking a broader perspective, the service could apply to more general financial matters, for example people considering a payday loan or someone who receives an unsolicited email, offering the chance to make quick money investing in a scheme, or helping someone move money from foreign countries. In this instance the intention of the service isn't necessarily to prevent someone from doing something or to give them definitive final answers; it may be as simple as recommending the individual spends more time, energy and scepticism before pursuing a given action. A combination of enhanced time and research may be sufficient to prevent someone losing significant sums of money.

The primary outcome from this scenario is to prevent people making the wrong decisions, which for many people will be just as important, if not more so, than providing information and advice around new products or services. However, it could also serve to rebuild trust in the financial services industry.

As part of both scenarios, broader client needs may be identified which the scenario itself is not capable of fulfilling. This could be overcome by giving the customer information about the appropriate next steps to take, and potential types of organisations to contact. Indeed, it could be a referral to another organisation or service which would be able to help the customer. In the instance of the referral, the customer would know they are being referred to an approved / accredited service.

The assisted non-advice scenario could be delivered by 'government' bodies such as CitA, TPAS or MAS, or it could be through public forums / groups, for example Martin Lewis or MoneyMagpie, or maybe even trusted brands who want to give good customer service, for example John Lewis or Tesco.

On the question of impartiality, we recognise that conflicts of interest arise from a number of sources. Standards should be set out at an appropriate level to ensure that the integrity of the service is maintained.

Security will need to be carefully considered in this scenario, particularly the 'helpful friend' and more so if it is delivered by a non-governmental body – the risk of fraud is high from 'scamming' and 'well intentioned fools' (those who do not have criminal intentions, but are not sufficiently knowledgeable and could lead customers to the wrong outcome). Additionally, customers themselves should have some form of 'policing' to ensure that they don't share potentially sensitive information in public forums without fully realising the consequences.

As per the TEA scenario, any technology used should be easy and simple to use to make it as accessible as possible.

assisted non-advice scenario provides little in the way of a call to action, other than making it easier for customers to access. The helpful friend, especially if linked to well-known forums / groups / brands could see a quicker initial uptake, but it is likely that a separate awareness or publicity mechanism will be needed alongside to really make it successful.

Our analysis suggests that this scenario would work equally well across all Financial Services markets identified under the FAMR consultation.

In considering how the STAR framework applied to this scenario, we have identified the applicable elements as follows, all of which are essential to ensure public trust and confidence:

Standards		How this improves customer confidence
In addition to the core standards outlined in Appendix A, the following specific standards should apply to this scenario;		• information is securely stored and protected • moderation of any chat room type feature ensures customers do not accidentally post anything that may prove detrimental to themselves • easy and simple technological solutions avoids customer misunderstanding • clear and transparent rules protect the consumer interest • testing of technological solutions helps ensure good customer outcomes
Security	• any technology used will need suitable security to protect consumer information • any chat room type facility will need to have clear rules of engagement, determining what can / can't be posted and will need to be moderated to ensure unsuitable information is removed	
Communication / Technology	• methods of communication are relevant to the channel of delivery. It should also be compliant with certain standards relevant to that channel i.e. Web chat is likely to be more colloquial, but still needs to ensure it operates within certain boundaries • any technology used should be simple and easy to use • any technology used should not have an end cost to the consumer • any process or rules contained within the system should be clear, transparent and auditable • any process or rules contained within the system should be quick and easy to update • all roles and responsibilities within the technology should be clearly defined • the technology should be thoroughly tested to ensure accurate outcomes for the consumer	
Quality	• handoffs to third parties are transparent, impartial and clearly defined	

Training	How this improves customer confidence

Suitable levels of training and knowledge will need to underpin anyone involved in the delivery of this scenario. These include;
• the advice and guidance likely to be given to the consumer
• awareness of the limitations imposed by this scenario
• consumer and personal security
• the delivery channel chosen by the consumer, including
    ○ use of any tools and / or technology
    ○ appropriate communication mechanism and styles
 	
A range of training solutions may be suitable for delivering and verifying the knowledge and understanding behaviour. This could include;
• qualifications (overseen by a governing body)
• additional training materials
	• guidance provided is to an appropriate standard
	• guidance stays within the boundaries expected by the consumer
	• consumer feels the service is personalised and is communicated with in a style and mechanism which is applicable to them

Accreditation & Revalidation	How this improves customer confidence
In this scenario in particular it will be important for any organisation or individual involved in the delivery of this scenario to be accredited or licenced in order for consumers to be able to identify fit and proper services from fraudsters, scammers, misplaced well intentions, or cynical commercial models. It will be necessary to monitor and assess the ongoing quality of delivery against the standards through; • monitoring compliance • maintaining the technical competence of those delivering the service, e.g. ensuring knowledge remains current • maintaining the processes and rules in any technology and continually testing outcomes to ensure it is correct and purposeful • measuring performance • enforcement	• those dispensing advice have experience and expertise that are up to date, relevant and undergoing continuous testing and revalidation • those delivering poor customer outcomes will not be allowed to remain in business, thereby limiting the chances of the consumer choosing a bad supplier

Safe Harbour

Safe harbour can be viewed through two lenses:

- safe harbour products. Likely be simple or 'vanilla', catering to those individuals with the simplest financial needs.
- safe harbour processes. Processes or procedures that preclude or significantly limit potential recourse

In reality, a combination of the two would likely be required in order to ensure that customer's interests were best served, - simple products carrying with them a standardised approach. As long as the distributor can demonstrate they have followed due process then a safe harbour would exist, precluding or significantly limiting future recourse.

Safe harbour legislation exists in both the US and Australia: in the former it means employers cannot be sued if they follow certain steps when arranging employees' pension investments that later go awry; in the latter it outlines the steps financial planners can take to ensure they meet a statutory obligation to act in the clients' best interests.

Going one step further than products and processes, the government could offer to underwrite any loss incurred by customers through a safe harbour product; in a similar way to the Financial Services Compensation Scheme (FSCS). This could sit in tandem with the 'safe harbour' initiative whereby the purchase of certain products would be covered by the government compensation scheme.

Such is the current uncertainty within the market place, with regards to liability and the potential for future recourse, that some parties are reticent from offering simple solutions to those with simple needs; in the belief that the modest fees that can realistically be charged do not outweigh potential future costs, driven through recourse. If the FCA were to work with the industry to develop a number of simple and easily understandable safe harbour products, then this undersupply of advice for those without significant wealth might be addressed more fully.

The current regulatory regime is very much one of "caveat venditor", whereby the seller can be subject to recourse, even though the advice they gave at the time of dispensing was the best possible offering given the market and customer circumstances at the point of transaction, and it is a change in circumstance (either the customer's or the market's) subsequent to that point that has resulted in bad outcomes. The introduction of safe harbour would serve to preclude such occurrences, under certain circumstances, if the provider could demonstrate they had followed the accepted protocol.

While it may appear that the majority of the benefits of safe harbour will be reaped by the supplier, safe harbours also help protect customers currently going without advice, who may currently be vulnerable to scammers or unregulated investments.

The introduction of a regulatory carve-out for certain types of products or processes could herald a return to a regime in which a significant volume of standardised products are 'sold' rather than 'advised', without proper consideration being given to their suitability. Introducing safe harbours would need to guard against this eventuality. David Severn, former FSA head of retail policy, has drawn comparisons between safe harbour and the government's promotion of pension transfers, noting that when pension transfers went awry the government soon blamed the regulator for not acting soon enough to resolve the problems.

Questions also arise over whether the introduction of safe harbour would actually serve to combat one of the core drivers of the current advice gap – that of the lack of customer engagement and awareness as to their financial needs and position. Safe harbour does not serve to engage the significant proportion of the population currently disenfranchised by the status quo. There is the potential that its only significant outcome might be to produce less good outcomes for those already engaged, as their right to recourse over the purchase of certain products is reduced.

It will be important that the customer fully understands the nature of any Safe Harbour, and therefore any 'restrictions' it may impose on them at a later point, before making any commitment. Therefore clear and transparent communication of the relevant boundaries of safe harbour will be imperative.

Application of STAR

In considering how the STAR framework applied to this scenario, we have identified the applicable elements as follows, all of which are essential to ensure public trust and confidence:

Standards		How this improves customer confidence
In addition to the core standards outlined in Appendix A, the following specific standards should apply to this scenario;		
Product Design	• regulation and authorisation over which sorts of products are deemed suitable for the safe harbour regime • products subject to the safe harbour must be suitably simple and 'vanilla' that the possibility of bad customer outcomes are minimised • authorised products must be suitably 'vanilla' in order to ensure consumer 'understandability'	• nature of products means customers can easily understand potential costs and benefits • good communication ensures customer engagement and understanding • government underwriting provides potential access to recourse
Communication	• customers must be made fully aware of the implications of entering into a safe harbour product, in a way that is easily understandable and without the possibility of confusion arising	
Stress testing	• if government is to underwrite products/ processes, a level of stress testing, similar to banking may be required to provide solvency assurance	
Levy commitments	• if government chose to underwrite products / processes through a levy, standards must exists as to which market players will contribute towards said levy, and what their rate of contribution must be • any levy should not be detrimental to investors choosing to follow a traditional method of advice (i.e. through increased charging)	

Training	How this improves customer confidence
Training, as with all the scenarios, will play a crucial role in the successful implementation of a safe harbour regime, either for products and / or processes. Training is crucial in ensuring that the agreed upon processes and steps required to guarantee that safe harbour is valid are indeed followed. For example, in instances where a set of pre-determined processes must be followed in order to ensure the validity of the safe harbour, sufficient training must be offered and undertaken to guarantee that the advisor will follow said processes in the correct manner.	• the advice or guidance stays within the boundaries that are expected by the consumer • consumers feel the service is personalised and communicated in a style and mechanism applicable to them

Accreditation & Revalidation	How this improves customer confidence
Given the vanilla nature of safe harbour products, there is the potential for the accreditation requirements of an individual involved in the dispensation of said products to be less onerous than in other scenarios. Such is the prescribed nature of safe harbour that very little judgement is required, thereby reducing the need for senior advisors or highly trained / skilled individuals to participate in the process. It could therefore be appropriate for those individuals involved in the dispensation of safe harbour advice to have attained Level 3 qualifications. As with all the suggested models, appropriate levels of revalidation, at regular intervals must be implemented in order to ensure that individuals continually perform to a high standard, resulting in good customer outcomes All products and processes subject to the safe harbour must be properly accredited and sign posted – thereby removing the possibility for confusion to arise among any stakeholder group. It is also advisable for external assurance to be undertaken on a population of sold products in order to ensure that the appropriate course of action has been taken	• those dispensing advice have experience and expertise that are up to date, relevant and undergoing continuous testing and revalidation • the consumer has a safety net of knowing that those delivering poor customer outcomes will not be allowed to remain in business, thereby limiting the chances of the consumer choosing a bad supplier • external assurance of outcomes ensures continued customer welfare • monitoring the suitability of safe harbor products enables early identification of potential customer suffering

Alternative Charging

Alternative charging has been suggested as a potential solution to lowering the price barrier for advice on financial matters – thereby helping close the 'advice gap'. Indeed, some have suggested a return to commission or 'commission-like' charging.

We believe that alternative charging structures could help new customers gain access to 'advice', either through lower costs, or through affordable 'payment plan' style approaches. As long as they are clearly labelled, and transparent enough for customers to understand, such scenarios do not represent a return to commission based structures, which we believe would be a retrograde step.

The current regulatory regime is highly flexible with respect to charging and we believe can accommodate most sensible approaches so we have not articulated any new STAR implications.

Appendix A

Consumer attitudes to new regulated advice channels and the role of the STAR framework

In this section we look to assess consumer reaction to a number of new regulated 'advice' channels introduced around the globe (in particular those customer segments that may not traditionally have sought financial advice), and identify how a STAR-like framework has helped build trust and confidence with the consumer.

Whilst a proportion of consumers have access to 'traditional' financial advice, and use it, the vast majority do not. This is due to a number of different factors including:-

- Education
- Awareness
- Disposable income

Demand is also supressed by consumer perceptions of the industry, cynicism of industry drivers, confidence and trust, or a simple lack of confidence/experience in buying professional services. Personal economic pressures across a broad spectrum of the population caused by the global economic downturn has further fuelled a reluctance to save appropriately.

CII research shows, in an age of media scrutiny and scandal, consumers are instinctively sceptical about most large organisations; trust in financial services providers has been affected more than most. Consumer trust in the life and pensions market is relatively low, and lags behind other professional services, such as accountants and lawyers.

The insights gained have been incorporated into the FAMR scenarios and STAR implications depicted earlier in this report.

Pension Wise

General background

From April 2015, pensioners in the UK are now no longer obliged to purchase an annuity with their retirement funds, and from the age of 55 may access their pension 'pots' however they want.

The government acknowledge that the reforms will serve to increase the complexity and range of options open to the public, and launched a service which "offered free and impartial face-to-face guidance on their choices at the point of retirement". They named the service Pension Wise.

FCA Standards

- Ensure that the guidance is impartial, consistent, of good quality and engaging across the range of delivery channels
- Create consumer trust and confidence in the designated guidance providers and content of the guidance so that consumers actively use the service
- Ensure that the framework works for both contract-based and trust-based pension schemes
- Deliver helpful guidance for consumers and considers their retirement options and refers them to specialist advice where appropriate

Guidance Session Standards

- Inform the consumers of the scope, purpose and limitations of the session
- Standards require that the guidance session must inform the consumers about the pension entitlement and other personal and financial information that the designated guidance provider may request from them during the session
- Request information from the consumer about their accumulated pension pots
- Request information about the consumer's financial and personal circumstances that is relevant to their retirement options
- Alert the consumer to other sources of information and advice as appropriate and at relevant points during the session
- Identify for the consumer and provide them with information about:
    - The options relevant to the consumer;
    - To the extent that they are relevant to the consumer's options;
    - The potential tax implications or debt obligations
- Set out the next steps for the consumer
- Provide consumers with a record of their guidance sessions

Individuals Delivering Guidance Standards

- Individuals delivering the guidance must have the skills, knowledge and expertise necessary for the discharge of the responsibilities, including good interpersonal skills (including listening skills and verbal communication skills); and
    - Have knowledge that includes the following:
        - The different type of pension schemes;
        - The impact of fees and charges for both accumulation and Decumulation pension products;
        - The options available to consumers when accessing their pension savings;
        - The factors relevant to the selection of options when accessing pension savings, including the impact of guarantees, special features, restrictions or conditions, protected rights, and exit charges;
        - The tax treatment of pensions and income generally;
        - The circumstances when a consumer may require further specialist help, for example long-term care needs, sustainability of income in retirement and life expectancy; and
    - Other issues that are relevant to consumers considering their retirement options, for example long-term care needs, sustainability of income in retirement and life expectancy; and
    - The conduct that a designated guidance provider may engage in

Figure a: Pension Wise has a well defined set of standards

The Pension Wise service:

- Provides an overview of the individual's options
- Assesses the pro and cons of each option
- Informs the individual of the relevant factors that should be considered
- Provides a summary of pension options and how they relate to the individual's circumstances

Pension Wise needs a broad scope to ensure that all the challenges that an individual can face when planning can be properly addressed. Further, it aims to 'engage the disengaged', getting them thinking about their retirement options well in advance of their actual point of retirement.

How has Pension Wise been received?

To date the Pension Wise website has received c.1.5 million unique hits, with 20,000 individuals booking appointments with Pension Wise;

- 90% of people who have used Pension Wise have said they are "satisfied with the service received"

This should be put in the context of low levels of financial literacy when it comes to pension products;

- Just half of respondents with a DC pension had a 'quite good' or 'very good' understanding of what an annuity is
- Just 20% of respondents with a DC pension understood what an enhanced annuity is
- Furthermore, when asked how to reduce their tax burden when withdrawing cash, only half gave the correct answer of withdrawing in small lumps over number of years whilst 10% wrongly said to withdraw in one lump sum.

How a STAR framework has helped build trust and confidence

Pension Wise has been underpinned by the STAR framework since its inception.

Standards

Pension Wise was designed with three sets of standards in mind that have helped guide the FCA and individuals delivering the advice. These include the standards that a session with Pension Wise should (and should not) achieve. As table 3 shows, the standards in place seek to ensure that all parties know what the outcomes of a face to face meeting should be and what each party needs to bring to achieve them.

The FCA standards require guidance to be impartial and of good quality in order to ensure that customers can trust and have confidence in the adviser – thereby encouraging use of the facility. The sessions themselves must draw the customers attention to the limitations of the guidance on offer, and ensure that the customer is referred onto full specialist advice where required.

By managing expectations from the start, the standards allow the customer journey to be a smooth and simple one as stakeholders are aware of their roles and responsibilities, thereby ensuring a satisfactory outcome.

Training

In order to ensure that the high standards set for Pension Wise are met each and every time, a rigorous training regime has been developed for advisers. The standards clearly state that 'individuals delivering the guidance must have the skills, knowledge and expertise necessary for the discharge of the responsibilities, including good interpersonal skills (including listening skills and verbal communication skills).'[7]

The advisers require appropriate qualifications in order to ensure that they meet the standards prescribed to them.

Accreditation and Revalidation

Individuals involved in delivering Pension Wise services are subject to accreditation and ongoing revalidation processes in order to ensure all aspects of the Pension Wise service remain relevant and up to date.

Accreditation is also dealt with by ensuring that consumers have the ability to make a complaint if they are dissatisfied with any part of the guidance they receive. Complaints can be made via the website, or by telephone and are investigated through a robust complaints handling function.

This builds trust in the process as consumers believe that any complaints will be handled in a timely manner and that action is taken if the complaint is found to be legitimate.

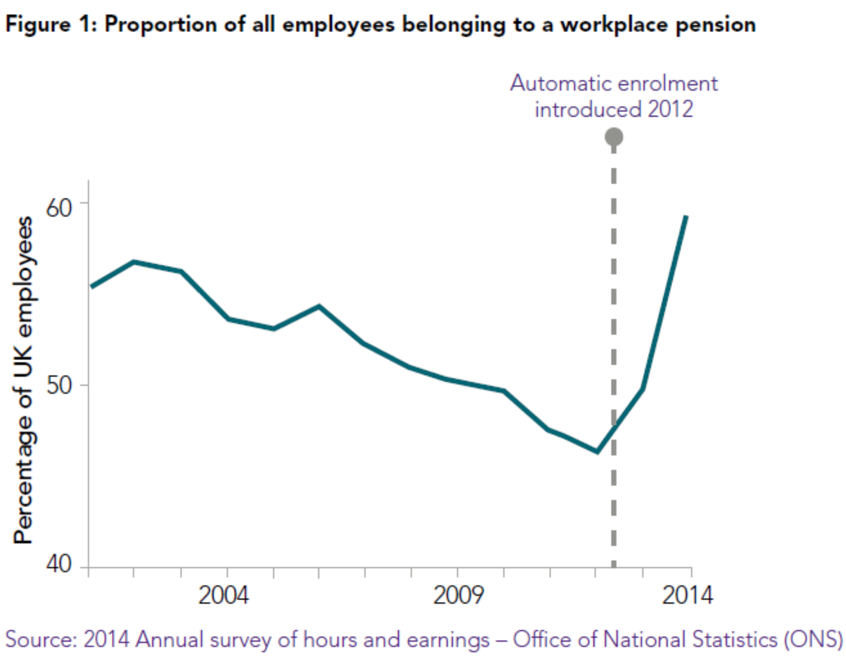
Automatic Enrolment

General background

Under the Pensions Act 2008, the vast majority of employers are now obliged to enter eligible employees into a pension scheme, and contribute towards their retirement fund. The objective behind workplace pension reform is to ensure the current and future working population save enough for their retirement. In recent years, a combination of increased life expectancy, and a failure of a significant proportions of the population to adequately save for their retirements prompted fears that the financial burden that would fall upon the state would be too great.

How has automatic enrolment been received?

AE has led to 5.2 million additional employees joining a pension scheme (as at March 2015). 59% of all employees are now members of a pension scheme, as compared to 47% in 2012. This would suggest AE is achieving its objectives.



[Source: The Pensions Regualtor, Automatic Enrolment: Commentary and Analysis April 2014 - March 2015]

A recent online YouGov survey of 5,000 UK adult employees has shown that:

- 60% of large company employees will rely on workplace pensions in retirement as a key retirement income.
- 66% of these large company employees are saving adequately as compared to 53% from two years prior
- 52% of medium sized company employees are saving adequately for retirement, an increase of 6% from prior year.

These figures show automatic enrolment has had a substantive impact on employees' prospects in providing for their retirement. 39% of employees are now optimistic about their long-term future, as compared to 36% in 2014.

Source: Scottish Widows, "Workplace Pensions Report"

How a STAR framework has helped build trust and confidence

Whilst AE has not specifically used the STAR framework, the regulatory regime in place demonstrates a high degree of alignment to the STAR framework.

Regulation of AE is guided by five principles:

1. Proportionality: any enforcement action is consistent with the risk and harm of the breach
2. Accountability: the regulator will allow themselves to be judged for their actions and held to account by maintaining a complaints procedure whereby employers and others can make representations against their decisions
3. Consistency: the regulator will use a similar approach to similar cases, but reserve the right to use discretion when exercising judgement if they deem it necessary
4. Transparency: the regulator will be open about their approach, provide the employer with relevant information concerning investigations, complaints, reviews, enforcement and appeal processes
5. Targeting: the regulator will only focus on the most serious risks and breaches by having controls in place which monitor and determine non-compliant activity that merits priority

Standards

AE has been governed by standards since its inception, ranging from the original Government procurement for services through to the ongoing delivery of AE services by the chosen outsource providers.

To be classified as compliant, an employer has to offer a qualifying pension scheme, which in itself is governed by a robust set of standards.

The provision of Auto Enrolment is underpinned by standards such as;

- Record keeping
- Audit trails
- Service standards
- Communication standards

AE has been underpinned by a comprehensive education and awareness programme, for both the employer and the employee, through mediums such as television advertising, and employer driven education. All aspects of education and awareness have been underpinned by appropriate standards.

The employer also has the responsibility to enrol employees in the scheme and to keep a record of employees who are members, as well as more detailed items such as contribution rates.

If employees ask for financial advice, employers should not give financial advice but instead refer them to the approved mechanisms for advice and information. The Pensions regulator has a responsibility to ensure that employers are acting in line with the regulation.

Standards on investment risk are also important in order to maintain the perception that AE is a safe vehicle for investment and any investments must comply with standards according to investors risk attitudes as well as more general investment standards.

Training

All staff involved in the provision of AE administration services are expected to be training to a suitable level of knowledge and competency. This also includes any staff working for the employer involved in AE of staff and / or record keeping.

Any person who is responsible for dealing with AE related queries is similarly expected to have been trained to a suitable level of knowledge and competence.

Accreditation and Revalidation

Providers supporting AE must be appropriately qualified as per the regulatory requirements, primarily being the definition of a 'qualifying scheme'. Systems must be in place to monitor and revalidate whether the appropriate standards are met, with training being continually updated and provided, that the employer is meeting its commitments, and performance is continually measured.

Under the supporting legislation, there are significant penalties for employers who are found to be non-compliant.

Kiwi Saver

General background

KiwiSaver was established under the banner of the KiwiSaver Act 2006 in New Zealand, becoming law in July 2007. The objective of KiwiSaver is to encourage long-term saving to provide for retirement, as well as encourage asset accumulation. The government-sponsored initiative aims to improve the well-being of the working population and their financial independence.

Similar to AE, KiwiSaver automatically enrols new employees. Existing employees, the self-employed, and the unemployed, can enrol into KiwiSaver by directly contracting with the provider.

KiwiSaver members are able to contribute to the KiwiSaver scheme which best suites their risk-profile (conservative, balanced, growth). However if members have not chosen a risk-profile, a default choice will be selected for them. The contributions made into the scheme will be locked in until the age of eligibility for New Zealand superannuation (presently 65) or five years after the first contribution, with the latter occurring event being applicable.

If employees ask for financial advice, employers should not give financial advice but instead refer them to the Commission for Financial Literacy and Retirement Income's Sorted website or direct them to see an independent advisor. The employer also has the responsibility to keep a record of employees who are KiwiSaver members. The information they must record are the contribution rate, the amounts deducted, opt-out requests, compulsory and voluntary employer contributions, etc.

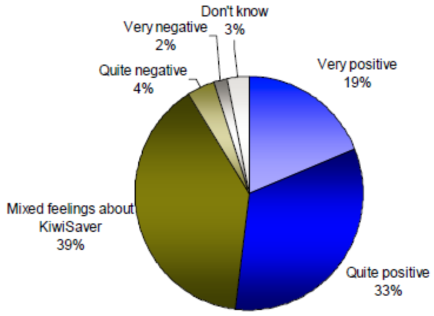
The Inland Revenue may impose penalties on employers if they do not abide by the requirements of KiwiSaver. Where an employer makes an error such as failing to deduct KiwiSaver contributions, the Inland Revenue will issue a reminder. If they continue to breach their duties, a notice warning is issued, that a penalty will be levied if the breach continues into the future. Failure to enrol new employees and make employer contributions will also attract penalties.

How has KiwiSaver been received?

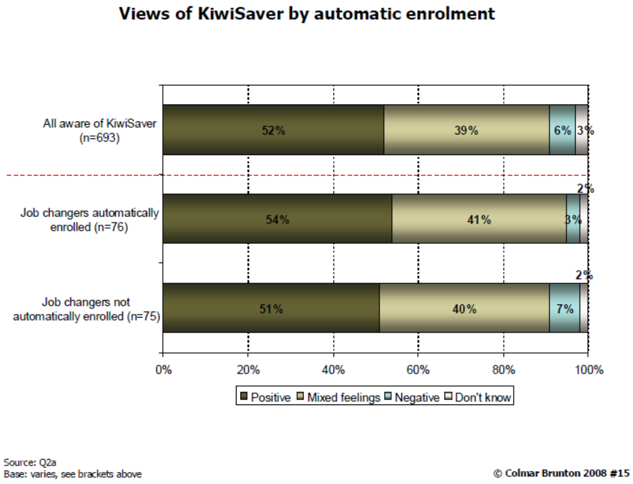
A year after KiwiSaver was first implemented a research report was published by Colmar Brunton for the Inland Revenue which showed 15% of their representative sample had joined KiwiSaver. Though this figure represents only a small portion of the public, 37% of non-members who were aware of KiwiSaver had rated the likelihood of them joining KiwiSaver within the coming year as 'greater than 6 out of 10'. 18% of respondents felt the likelihood of them joining was over 90%.

These figures show that consumer demand attributed to a new channel should not be judged solely on the number of participants within their first year of implementation. Instead the potential growth of its participants over the coming years may be a better indicator, as well as how the new channel is perceived.

Overall reaction to KiwiSaver



Source: Q2a
Base: Respondents who had heard about KiwiSaver (n=693)



How STAR framework may improve trust and confidence?

In a similar way to AE, whilst Kiwi Saver does not specifically follow the STAR framework, the regime that was implemented has a number of equivalent elements. As with AE, there is very little direct evidence of the STAR-like framework having a positive impact on consumer attitudes, but again it is possible to hypothesise the elements which have had a positive impact.

Standards

The pension schemes associated with KiwiSaver are subject to a set of consistent standards so as to ensure the schemes which are chosen for the different risk-profiles are suited to the consumer.

KiwiSaver also has a robust audit trail with record keeping mechanisms. Under the Securities Regulations Act 2009, issuers are required to disclose their investment returns for the past five years in prospectuses. Attributed to this regulation is the duty to keep a record. However, the regulation does not prescribe a standardised basis for their calculation.

Standards on investment risk are also important in order to maintain the perception that KiwiSaver is a safe vehicle for investment. The standard on investment risk is controlled by giving the trustees enough resources to adequately supervise KiwiSaver managers and their investments, as well as keeping KiwiSaver managers aware of their responsibilities. Trustees are required to have adequate supervision policies, procedures and controls; with KiwiSaver managers also having legal duties as to the appropriate investment management policies, procedures and controls.

Training

Appropriate levels of knowledge and training occur so staff are able to resolve issues in a timely and empathetic manner. Similarly, the staff are trained to deliver excellent customer service (via telephone or in person) when helping members take advantage of the flexible features (such as withdrawing funds to assist the purchase of their first home).

Accreditation and Revalidation

Providers supporting KiwiSaver are appropriately qualified to New Zealand's regulatory requirements.

Systems are in place to monitor and revalidate whether the above standards are met, with training continually updated and provided, so that the service commitments of incentives and flexible features are maintained with excellent customer service. Performance is continually measured.

Under KiwiSaver (Periodic Disclosure) Regulations 2013, issuers of non-restricted KiwiSaver schemes must prepare quarterly disclosure statements for each KiwiSaver fund so that transparency is not only enforced, but regulators can also revalidate whether investment returns and fees are compliant.

Technology-enabled models

The market has seen the launch of a number of technology-enabled investment businesses around the world. They can be put into four models:

Online financial services

Example firms: Nutmeg, LearnVest, UBS, and Citi Private Bank.

Features common among online financial services firm include the provision of online financial advice and online investment portfolio-structure performance monitoring tools.

For example, Nutmeg offers non-advised discretionary fund management online with a minimum investment of £1,000 – enabling their money management services to be accessible to the mass affluent market.

Algorithm-based investments

Example firms: FutureAdvisor, Jemstep, and SigFig.

Features common among algorithm-based investments firms include the provision of automated portfolio-structuring and automated investments and operations based on several criteria.

For example, FutureAdvisor uses algorithmic monitoring to manage consumer accounts according to their risk-profile, identifying tax-saving opportunities and managing accounts. FutureAdvisor is what many in the industry regard as robo-advice.

Social investing/ Trade mimicking

Example firms: ZuluTrade, eToro, Collective2, Covestor.

Features common among social investing / trade mimicking firms include providing automated and mirrored-investments based on other traders and networks between traders / investors.

For instance, ZuluTrade is a peer-to-peer investment firm that allows traders to share their knowledge with the public and enables consumers to follow the strategies of traders they like. ZuluTrade has an automated system which executes trades in line with the trader being followed. For every trade, ZuluTrade receives compensation from the brokers connected to their network and shares some of the compensation with the signal providers that helped execute the trade.

New market segment targeting

Example firms: Wealthfront, SmartAsset, and Kapitall.

Features common among new market segment targeting is the provision of dedicated offers for low-end segment and business-models based on simplicity.

For instance, Wealthfront focuses on the low-end of the millennial generation (especially those in proximity to Silicon Valley). They target the low-end segment of investors by adopting index-tracking with ETFs. They do not charge for the first $10,000 within their management, and charge only 0.25% as an annual fee for amounts over.

How has technology-enabled models been received?

Technology-enabled models have generally received a positive reaction from the market. This can be evidenced from the sudden and fast asset accumulation of robo-advisors;

At the end of 2014, it was estimated that the global assets under management of robo-advisors were $14 billion and forecasted to reach $255 billion globally within five years.

FutureAdvisor had accumulated $13 million of assets under management in 2013, a figure that grew to $300 million by the end of 2014.

How a STAR framework may improve trust and confidence?

Standards

When it comes to technology-enabled models, cybersecurity is a primary focus for standards. Scammers and fraudsters roam the digital world and consumers still do not feel confident transferring real value across online social networks.

Standards in cyber protection are generally in place across the market in the form of Secure Socket Layer (SSL) encryption technology that prevents consumer information being intercepted by individuals other than the intended recipient. Additional safeguards such as firewalls, authentication systems and access control mechanisms are also generally a standard to deter unauthorized access.

There should be standards on technology to ensure the technology-enabled models are providing accurate outcomes. For instance, algorithms which underpin technology should make investments as according to correct risk-profile of the consumer. Although standards involving technology and algorithms should be encouraged, any standards in this area cannot be too rigorous for otherwise it would deter innovation. However, standards should minimally require a basic understanding of financial products and consumer behaviour when developing and improving their technology. In the interests of cultivating innovation, it may be better to look towards the industry as opposed to regulators to establish these standards.

Standards on transparency should also be encouraged so that their process and cost structures are transparent to the public.

Training

Since many of the technologies which underpin technology-enabled models are driven by algorithms, adequate training should be provided for those involved in the development and implementation stages. For instance, adequate training should be provided on an understanding of how to appropriately measure a person's risk-profile and the products that would best fulfil their needs.

Accreditation and Revalidation

Given the threat from scammers and fraudsters alike, it is important that any technology-enabled firm be accredited or licensed in some way so that consumers can distinguish fit and proper services from fraudsters. The products which these firms manage on behalf of the consumer should be properly licensed and there should be a mechanism which monitors and asses the ongoing quality of these products.

Systems should be in place to monitor and revalidate whether the above standards are met, training provided on an ongoing basis, transparency is maintained, and security measures are held up to date so that consumers trust the technology-enabled model. The standards of quality that underpin the demand for this type of model should also be monitored and revalidated on an ongoing basis so that consumers continue to feel confident engaging with technology-enabled models.

Appendix B
Focus Groups

As part of our research and analysis of the different scenarios depicted, we ran a number of focus groups. The focus groups contained a mix of industry, distribution public sector, and technology organisations, as well as other interested groups.

Feedback from the focus groups has been incorporated into the main body of this report. Whilst not every member of the group agreed with all elements of our analysis, a common consensus was reached, specifically on the need for a robust STAR framework for all scenarios.

Attendees of the focus groups are as follows;

Attendee Organisation	Representative	Role /Title
Admin Re. (Swiss Re.)	Charles Cade	Senior Manager
Almus Wealth Management Ltd.	Chris Holmes	Director and Charted Financial Planner
Axa Wealth Ltd.	Andy Purvis	Director of Business Risk
Capita	Stuart Welsman	Business Development and Innovation Director
Citizens Advice bureau	Joe Lane	Policy Researcher
DSW Management and Training Consultants	Simon Funge	Sales and Marketing Director
FundsNetwork (Fidelity)	Jon Everill	Head of Advisory Services
Hargreaves Lansdown	Tom McPhail	Head of Pensions Research
HSBC	Scott Bennett	Senior Wealth Development Manager (UK)
International Financial Data Services (IFDS)	Jonathan May	UK Head of Sales
iRess	Chris Pitt	Head of Market Analysis and Planning
Lloyds Banking Group	Tim Rees	Bancassurance Account Director
Matrix Capital	Robin Melley	Chartered Financial Planner
Mendix	David Bailey	Account Executive
Nationwide	Steven Tait	Senior Product Manager
Pegasystems	Tony Tarquini	Director of Insurance (EMEA)
Prudential	Robert Hickson	UK Intermediary Sales Director
Prudential	Russell Warwick	Distribution Change Director
Prudential	Timothy Fassam	Head of Public Affairs
SEIC	Kevin Russell	Senior Manager
SEIC	Darren Bayley	Wealth Platform Proposition
Sesame Bankhall Group	Catherine Mellor	Proposition Manager
Tata Consulting Services	Stuart Lamb	Digital Enterprise Consultant
The Compliance Consortium	Colin Wilcox	Director of Advisory Services
Threesixty Services LLP	Russell Facer	Compliance Director
Turris	Brian Steeples	Managing Director

We thank all those who agreed to contribute, for both their time and their invaluable insight and experience.

Appendix C
Acknowledgements and credits

The following sources have been used in the production of this report:

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Financial Advice Market Review – Call for input

Response from the Consumer Finance Association

The Consumer Finance Association (CFA) is the principal trade association representing the interests of major online and store-based short and medium-term lending businesses operating in the UK. The CFA is pleased to have the opportunity to respond to the Financial Advice Market Review (FAMR) call for input.

The Financial Advice Market Review (FAMR) is an opportunity to look at the whole of the market for financial advice in its many formats. Focusing on discrete elements of the market for financial advice market risks leaving large numbers of consumers without access to basic information, guidance or advice to help them make important financial decisions.

Communicating with consumers

The terminology used to describe different types of advice can be confusing. The CFA believes that simpler language will help consumers' understanding and, as a result, make consumers more likely to use the information and advice available to them. The information, guidance and advice available could be described as:

> **Information** – ensuring consumers have clear information to help them make informed decisions.
>
> **Help/guidance** – guided decision making using online tools and case studies illustrating what people in similar situations might do or have done
>
> **Advice** – taking account of an individual's circumstances and making personalised recommendations

It is important that the Review considers the needs of all customer needs, from basic information through to comprehensive advice. Information is perhaps the most important element of the entire advice market. Without the necessary information, all customers can struggle to make decisions that are right for them. Consideration also needs to be given to the distinctions between information and advice and the reasons why all consumers may not seek or need advice.

A strong foundation of accurate, unbiased information, provided in a way that consumers can understand, is necessary to help consumers make decisions and to identify when they need more help or advice. This should be provided through financial guidance that is funded by the public purse. The CFA is responding to the HM Treasury consultation on this matter. But this key element of the financial advice landscape should not be ignored by the Financial Advice Market Review.

Use of technology

There is a significant role for technology, particularly in providing information and guidance to consumers. For example by providing tools to guide people through decision making and prompting consumers to check their understanding of financial products.

Advice gaps can be considered very broadly to include gaps in the information available to consumers. In fact there are gaps at every level, from information through to comprehensive advice. In the particular case of credit products there are advice gaps around:

- How to tell whether a lender is legitimate; and
- The ability to compare different types of credit product to identify which product would meet the customer's needs best.

To address at least one of these advice gaps, the CFA and members are developing proposals for a price comparison website for high-cost short-term credit to help ensure consumers have the information they need to be able to shop around.

The call for input suggests a lack of understanding about the information and support that is available to consumers currently. For example it is not correct to say that support and advice is provided through price comparison websites. The order in which results are displayed is often dictated by commercial arrangements between the credit provider and the price comparison website. Indeed some of the results may actually be advertisements for specific products, which are often displayed more prominently than other results. The information provided about products may also be dictated by those commercial arrangements. As such, a significant proportion of the information provided by price comparison websites may be for marketing purposes, rather than essential information about specific products.

The Review needs to address all advice gaps. Looking at an element of advice, or one part of the advice market, in isolation risks addressing only a subset of issues, which can lead to unintended consequences for the rest of the advice market. There are benefits to looking at the advice market holistically. For example, lack of basic information can mean that consumers do not realise that they could benefit from more detailed advice.

The CFA believes that the Financial Advice Market Review provides an opportunity to address the financial information and advice needs of all consumers. It would be disappointing if this opportunity was missed and the focus restricted to parts of the market, or specific groups of consumers, only.

Consumer Finance Association
December 2015

For further information contact:
Helen McCarthy, Head of Policy
www.cfa-uk.co.uk

Equity Release Council response to the call for input on the Financial Advice Market Review

Summary

- The Equity Release Council is the industry body for the equity release sector. Built on the legacy of SHIP, The Council represents over 400 members; namely, providers, qualified financial advisers, solicitors, surveyors, intermediaries and other industry professionals – each committed to The Council's Statement of Principles that aims to ensure consumer protections and safeguards. In addition, the Equity Release Council works to boost consumer knowledge and increase awareness of equity release as a solution to financial challenges facing people over the age of 55 across the UK.

- The Council welcomes the opportunity to respond to the call for input on the Financial Advice Market Review. The Council's response will focus on the importance of access to appropriate expert advice that allows people to make an informed decision about their retirement income. In particular, with the development of more complex retirement products and increased choice about how pension pots are used in later life, we urge the Government to ensure that people are able to access guidance on a broad range of later-life issues, including housing equity, and that they are referred to specialist advice where appropriate.

Response to consultation questions

- ***Question 3:*** *What comments do you have on consumer demand for professional financial advice?*

It is not clear that consumers understand the difference between advice and guidance, and in what circumstances they may be appropriate. This can impact negatively on demand for professional financial advice. The cost of accessing professional advice is also another potential barrier.

This situation would be helped by continued efforts to raise awareness of what financial advice is and its value to consumers at a variety of points in their life, supported by the Government. We also welcome that the review will explore what more can be done to make sure that consumers can access affordable advice through amending the regulatory environment.

- ***Question 5:*** *Do you have any comments or evidence on the types of financial needs for which consumers may seek advice*?
- ***Question 8***: Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

People often do not relate their current wealth to what it might look like once they have been retired for 10 years or more. In addition to this, two people with the same level of wealth may perceive its worth differently, depending on their current lifestyle and how much money is needed to maintain it. To improve access to financial advice, it needs to become something which is viewed as accessible and relevant for everyone, with people having the ability to pick the level of advice appropriate to their needs.

- ***Question 9:*** Do you have any comments or evidence on why consumers do not seek advice?

The Council's key concern for this review is to ensure that people have access to the advice they need to make adequate provisions for their retirement and later life. Given the complexity of a number of retirement products, and the fact that people approaching retirement are not always in a good position to understand the impact of their current decisions on their later life, people should have access to expert advice where they need it, whether on providing an income in retirement or understanding how to pay for care.

People taking out an equity release policy are already required to receive regulated financial advice before they can access such products, and we are supportive of this continued requirement. The pension freedoms have led to the development of more complex products and increased choice about how pension pots are taken as retirement income.

Planning for later life includes consideration of a range of issues, including pension planning, investments, tax planning and inheritance tax planning, ensuring a surviving spouse will be provided for, planning to fund long-term residential or nursing care, if required, making a Will/setting up a Lasting Power of Attorney, etc. It would be difficult to expect any one adviser to cover this full range of issues. However, equity release is an important part of the mix of issues and products which a consumer might want to consider – so all advisers providing advice to those planning for later life should be aware of equity release and be able to refer a consumer to an appropriate expert.

Related to this, The Council would like to see an increase in the number of people receiving advice before making decisions about how to pay for care in later life. For example, at the moment people taking out Deferred Payments Arrangements to pay for residential care are only encouraged, rather than required, to get regulated advice.

Overall, very few people funding their own care get regulated financial advice – access to such advice helps ensure that people are aware of the full range of products which can potentially help them to pay for care. If more people can access such advice, it would help them to decide how best to pay for care, including how they can balance making the best use of assets such as housing wealth with other considerations such as leaving an inheritance for their children or grandchildren.

Given the postponement of the cap on care costs until 2020, and the continuing pressure on local authority social care budgets, advice on how to pay for care is more important than ever. If people are able to plan their care properly, it can reduce the need to rely on local authority care later in life. Research published by the Local Government Information Unit in 2013 indicated that 24% of self-funders use up their assets prematurely and end up using state funding – this has an estimated cost to local government in England of £425m.

There also needs to be consideration of how regulated advice interacts with Pension Wise. The Work and Pensions Committee, in its recent report on Pension Wise, said that "Pension Wise guidance is currently too narrow for too many consumers. Decisions about retirement income products are not best made in isolation from information on property wealth, benefit entitlements, tax implications, care costs or debts. We recommend the Government work with the FCA and guidance providers to develop a more holistic Pension Wise service that offers more personalised support". We would go further and call on the Government to ensure the service also signposts people to a comprehensive range of service that considers all circumstances. While we welcome this recommendation, the Pension Wise service is not intended to and will not be able to replace the role of regulated advice. Therefore, should such issues be raised in a Pension Wise session in the future, there is a need to ensure that people are able to access further advice on those issues should they need it; the range of issues for which people might be signposted to advice should be broader than it is at the moment, including housing equity.

The low-take up of Pension Wise is a concern; it undermines the objective of encouraging people to ask the right questions about complex retirement products. A recent report published by the Defined Contribution Investment Forum in 2015 attributed this to complexity and increased choice around how pension pots are taken as retirement income. In addition to developing a more holistic Pension Wise service, we recommend the Government make a more concerted effort to promote guidance through its marketing programme, and encourage people to take financial advice.

Advice use to be something which was more widely available, albeit at a lower level, for example through home service insurance agents. Advice now tends to be perceived as an expensive, sales driven exercise with no guidance on the circumstances when advice should be sought. We would urge the Government and FCA to work together to ensure the continued promotion of advice at different stages of a person's retirement.

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

As we have noted, it is very difficult for one adviser to provide advice on all the issues which people need to consider for retirement – e.g. savings, retirement income, equity release, and other issues. There is the potential for the development of 'hubs' to reduce the cost of passing individuals from one specialist to another. Organisations such as AquilyHeywood have looked at the impact of technology on advice and found that 38% of UK consumers' interactions with pensions in the last 12 months were digital, as were 41% with life insurance. There will likely to be further development and innovation in this area in the next few years – this will need to consider how to provide advice to the consumer over an extended period of time, perhaps as they move from work to a phased retirement to later life, needing advice on a range of different products and income choices.

- ***Question 19**: Where do you consider there to be advice gaps?*

The Financial Advice Market Review should be an opportunity to ensure that people nearing retirement are able to access independent financial advice which allows them to consider the full range of relevant issues – including retirement funding, paying for care, home adaptations and leaving money to children and grandchildren.

As noted above, the Work and Pensions Select Committee has recommended that Pension Wise provide guidance on a wider range of issues. However, the role of Pension Wise is not to make specific recommendations, but to help people to ask the right questions. This means that it needs to signpost people to regulated financial advice where this is necessary.

The guidance provided should help people to make informed choices, helping them to take into account issues such as investment risks, and making a realistic estimate of how long they are likely to live – issues which most people will struggle with. For example, many people at the beginning of their retirement underestimate their life expectancy, leaving a risk that they will run out of money before they die.

Once people are signposted to regulated financial advice, advisers should then be encouraged to take a broader approach to providing advice on retirement income planning and paying for care. Considerations should be given to all circumstances, including how to utilise housing wealth to pay for care.

- ***Question 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?*

We agree that taking an income in retirement is an important area to focus on. However, this needs to be considered alongside other issues impacting on retirement and later life, including paying for care and leaving an inheritance. Financial advice will not achieve its aims if it only considers these issues in isolation from the broader circumstances, including the potential for using housing equity to supplement retirement income and fund care in later life.

- ***Question 23:** Do you agree we should focus our initial work on consumers with some money* *but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?*

It would be useful to have some further clarity on what is meant by consumers "with some money but without significant wealth". As an example, many older people who are not considered wealthy in cash terms will have significant levels of equity in their house – the financial advice system should help people to understand their options to tap into their wealth if this is appropriate for their circumstances.

- ***Question 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 are some points we would like to raise about the regulatory framework for equity release specifically. Some commentators persist in referring to equity release in pejorative terms and we would argue this could largely be attributed to inadequate information on equity release products, on standards, and on high levels of consumer satisfaction. Individual cases may attract press attention which is in reality quite disproportionate to the overwhelming number of consumers who are entirely satisfied with the products which they have taken out. The fact that the numbers of complaints referred to the Financial Ombudsman Service in relation to equity release remain very low is testament to this.

The fact also remains that lifetime mortgages were included in the regulatory regime from its start in 2004 – and the sector has no reason to believe that it has caused the regulator undue concern over the past 11 years. The Council would therefore encourage the FCA to ensure that its own public statements and comments do not give the impression that the regulator regards equity release products as "higher risk" or its consumers "vulnerable." In terms of encouraging the growth of the sector, this would be a "quick win" for the regulator.

It is also worth mentioning the differing positioning of permissions not only within the mortgage framework itself but across the financial services spectrum. For example lifetime mortgages and home reversions are firmly placed in the mortgage framework albeit two differing permission levels under MCOB where it could be argued that the advice required is more akin to financial planning advice in the later life, investments and pension world given all of the influencing factors that need to be taken into account. This doesn't necessarily question the level set but the appropriate framework aligned.

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

Any advice on redress for long-term advice would need to recognise that if advice given at one point was appropriate within the rules of the time, it could not be retrospectively benchmarked against any rules which were subsequently introduced.

In terms of equity release in particular, there have been occasions where arrangements have been made with a customer or customers, acting on their best interest at that time, but where family members have subsequently complained and their complaints are based on their understanding or expectation of the financial systems and regime in place at the current time. In some circumstances plan holders have decided not to involve family at the time of inception. Any system of redress would need to take this into account and ensure that there are not adverse consequences for advisers who acted entirely properly on behalf of their own clients based on the rules and practices current at that time.

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

The Council fully supports the current requirement that all sales of equity release products should be advised. There should not be any diminution in the standards of advice required, or the level of professional competence required of those authorised to give advice. As noted above planning for later life includes consideration of a range of issues, and it would be difficult to expect any one adviser to cover this full range of issues. However, equity release is an important part of the mix of issues and products which a consumer might want to consider – so all advisers providing advice to those planning for later life should be aware of equity release and be able to refer a consumer to an appropriate expert. Indeed, in the case of long term care advice, financial advisers are required by the FCA to identify where a need exists and should they be unqualified to provide advice, refer the consumer to advisers with appropriate expertise.

It is worth noting that the different funding models which have traditionally supported mainstream and lifetime mortgage lending have led to different groups of providers dominating in each sector. A mainstream lender wishing to enter into the lifetime sector, or vice-versa, will need the approval of its prudential supervisors. The PRA's current approach to UK implementation of Solvency II may restrict the amounts annuity providers can invest in funding lifetime mortgages. Access to a broader range of funding sources could help boost competition in the market. The Council recommends that the FCA engages with the PRA to consider how equity release is currently funded, the extent to which current prudential requirements create barriers for firms, and whether a broader approach could be taken which would enable alternative sources of funding to be accessed.

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Date: 22 December 2015

Dear Sir/Madam

RE: The Investment Association response to FAMR call for input

ABOUT THE INVESTMENT ASSOCIATION

The Investment Association represents UK investment managers. We have over 200 members who manage more than £5 trillion for clients around the world. Our aim is to make investment better for clients so they achieve their financial goals, better for companies so they get the capital they need to grow, and better for the economy so that everyone prospers. We cover every link in the investment chain:

- We work with investors, helping them to understand the industry and the options available to them.

- We know investing can seem daunting, so we work hard to make it clear and accessible.

- We work with investment managers, promoting high standards and the need to put clients first. Our work includes helping members to manage money efficiently and communicate effectively.

- We work with the companies we invest in, helping them to achieve better long-term results and, ultimately, greater returns for investors and the economy.

- We work with regulators and governments around the world. We've built close, trusting relationships with these bodies and play an active role in shaping the rules that govern the industry.

The Investment Association's purpose is to ensure that investment managers are in the best possible position to help people build resilience to financial adversity, achieve their financial objectives and maintain a decent standard of living as they get older. It is also to help investment managers maximise their contribution to economic growth through the efficient allocation of capital.

General Comments

The Investment Association recognises the importance of the current debate on how to encourage and support ordinary savers looking to put money aside for their future wellbeing. Although the two immediate drivers are the post-Retail Distribution Review environment and the introduction this year of the 'Pension Freedoms', it is clear that the debate has a much wider and longer history. Indeed, there have been repeated attempts to re-engineer both the demand and supply side of the UK long-term savings and pensions market over the past 15 years. On the supply side, we have seen the introduction of stakeholder products, CAT standards, Sandler products and, most recently, new BIS Kitemark products (Sergeant Review). To date, these supply-side initiatives have had far less impact on behaviour than the dramatic demand-side intervention that is automatic enrolment into workplace pensions.

As we consider the question specifically of financial advice, we believe that it is essential to draw on the lessons of these previous interventions in the long-term savings and pensions markets. First, it is very difficult to separate the question of how to support saving from the question of why people do not save more, to which the answers have no straightforward solution. Second, behavioural economics may provide answers where traditional assumptions based on classical economics have failed. Third, the role of trusted third parties, such as employers, could be built on further. Finally, while simple products may have a role, there is little evidence of this in the past. Furthermore, in investment markets, there is little consensus to answer the question of what is 'simple': a simple product might be one that delivers a simple outcome (eg. not losing money) with a sophisticated approach to ensuring this is the case; equally, it might be a simple investment process that provides diversified access across a range of markets, subject to investment risk.

There is also a broader point about the nature of the UK savings market that is perhaps not sufficiently captured in the Call for Input: the rise of the property market as a store of wealth and the potential for significant diversion of savings away from diversified long-term investment and pensions into residential property. In this regard, we find recent ONS data particularly striking: notably that just 41% of those questioned considered employer pensions as the safest way to save for retirement versus 28% identifying property; and 44% considering property as the most likely way to make the most of their money against 25% opting for an employer scheme.[1] Some of this may be cyclical in nature, with respect to both recent housing and investment market history. However, it should be taken seriously in the context of any initiative aiming to build greater confidence in traditional savings and investment channels.

Yours faithfully

Florian van Megen
RETAIL MARKETS SPECIALIST

[1] ONS, *Early indicator estimates from the Wealth and Assets Survey, Wave 5, July 2014 to June 2015*, November 2015.

Appendix

<u>IA Response and Recommendations</u>

Our response to the call for input takes the form of a series of recommendations for Government, regulators and industry. They focus on the need for **catalysts** in the savings and pensions market; **clarity** of definitions, language and responsibilities; and **accessibility** of information and advice to savers.

In our view, there is no silver bullet. The changes we propose are incremental and designed to sit alongside successful initiatives to date. We remain very strong supporters of automatic enrolment and the use of default arrangements. However, there is also a need for engagement, particularly given the implications of Freedom and Choice. In this regard, we believe that there is scope to build a different culture that neither requires high levels of financial education nor a dependence upon regulated advice, which while a valuable service, will continue to be beyond the means, and perhaps ambitions, of many.

Catalysts

An overarching savings action plan in which Government, regulators and all parts of financial services, including asset managers, will play a role. This would have three core components:

- *Accessible ways to help people to understand their saving targets should be to reach and maintain an envisaged life style*. The general success of the 'five a day' campaign for fruit and vegetables is often cited in the long-term investment and savings debate. A heuristic - or rule of thumb - is not a substitute for proper advice or support. However, it can provide a simple, easy-to-remember and. Such heuristics can be just as useful in raising awareness as in actually ensuring the change of behaviour takes place. For example, trying to set a rule of thumb for savings rates, such as 'save half your age' (30 = 15%, 40 = 20%). Clearly, there will be affordability issues and individual circumstances differ. However, the goal of a programme such as this has to be to formulate engaging not didactic messages, in coordination with more innovative engagement and delivery processes as described elsewhere in this response.

- *An innovative agenda to encourage saving.* At a societal level, we may have to rethink conventional assumptions and drivers. Both behavioural insights and advancing technology create the scope for radical change in this area, for example, apps that link saving to spending patterns where a visit to a supermarket or retailer might prompt action based on offers or allocation of change. Furthermore, the experience both of automatic enrolment and the failure of mass take up of simple products reinforces the message that context matters. The relationship between providers and saver can be transformed by an intermediary such as an employer, not just an adviser in the traditional retail or pensions market. There may be more scope in areas such as workplace savings where initiatives such as 'Save More Tomorrow' could help to transform behaviour both for pensions and other forms of saving.

- *Awareness campaigns for the necessity of saving and explaining the purpose of investing*. A combination of approaches, including government campaigns and activities in schools and colleges, can help to raise awareness. While international evidence suggests that expectations of what financial education can achieve should be realistic, there are alternatives to formal education that can ensure the communication of a broader message. Again, using the workplace differently is one method that has been successful both in the UK and overseas.

Clarity

- *Simplicity of language in long-term savings and investment products*. Product providers have to be able to deliver jargon-free products, with clear objectives and risk warnings. Regulators and industry could work together to consider how to simplify communication to the extent permitted by existing regulation (eg. European product-level disclosure rules). Both the Investment Association and the Association of British Insurers currently have projects under way to product industry-standard glossaries to help consumers.

- *A definition of regulated advice that is accessible and inclusive.* Advice plays an important role in bringing savers and products together. However, the industry and regulators speak one language on advice, while consumers and agencies supporting them speak another: Money Advice Service or The Pensions Advice Service offer individuals a valuable service which is understood to be advice. This divide must be bridged. A clearer definition of advice will allow the development both of technology based solutions that may make the advice process more accessible, and of support processes that are not regulated advice. This will incentivise more service and product providers to develop digital solutions for the under-saved and under-invested.

Accessibility

- *An ability to purchase a product without onerous and potentially disincentivising compliance processes*. A widely shared observation about the long-term savings and investment market is that it is easier to access consumer goods via credit on the high street than to walk into a bank or building society and open a savings account or access an investment product. We strongly endorse initiatives, such as the TISA Digital Passport, designed to simplify AML checks that exist both in physical and online application procedures. We also encourage Government and regulators to consider how compliance processes without regulated advice can be streamlined. Again, we note that even a basic savings product can require an appointment on the high street.

- *Provision of simple products and standard solutions that are easily accessible for people*. We remain cautious about attempts to introduce simple products in isolation, given previous experience. However, with the right broader context, we recognise the potential of having an investment product that can be widely sold as a straightforward way to gain access to capital markets. As we note in our introductory comments, a central concern remains whether simple means a 'CAT'-type product or a product with a sophisticated objective, such as positive returns regardless of market cycles. We believe that there ought to be room for both. However, it ought to be a broad success measure of savings policy that investment risk is taken and understood in order to offer savers the best chance to achieve diversified sources of return over their savings lifetimes.

<u>Questions from the call for input covered in 3 themes:</u>

Consumer needs and the advice gap (Covering questions 5, 7, 17, 18, 19, 21, 22 & 27)

As rightly stated in the call for input, different consumers have different needs for advice. This leads to the question whether help is accessible for various needs. Some just want help with saving for retirement. Others might have to deal with credit card debt and ambitions to improve their living situation by for example buying property.

The Investment Association is of the view that the focus of this consultation should be on consumer segments as identified by the FCA 6 - 8. As research has shown, those with less than £100,000 investible assets or incomes under £50,000 are least well equipped for dealing with the consequences of less public support during later life and more responsibility during the accumulation period (despite the auto enrolment system). These are the people who have the fewest resources for a secure financial future but because of that are most vulnerable and therefore need to be empowered to deal with this challenge. Because of a potentially low capability to save, they will have difficulty accessing fully fletched while economical professional advice. Generally, The Investment Association is of the view that any proposals put forward following this consultation should focus on serving the majority of the population and not the few.

Ultimately, the challenge is that professional high quality advice is a service that comes at a price. The resolution of the perceived problem of commission bias and the removal of manufacturer control over platform and adviser payments following the introduction of RDR has crystallised the need for advisers to segment their services according to economically-viable clients. Since it is clear what the costs of establishing the suitability of individual clients are, evidence suggests that the advice market has (possibly more than before) focused on clients with higher levels of savings. This doesn't mean however, that all client needs require the same level of attention by a professional adviser. Rather, it underlines the need to reach a position of greater clarity on the boundaries of regulated advice in order to encourage the emergence of alternative models that can help people reach their saving objectives more easily.

People who need assistance to take the right financial decisions and can't access it for any reason suffer from the 'advice gap'. This covers a diverse group of savers, and is therefore challenging:

- Those who cannot access professional advice economically.
- Those unconvinced by the relevance or quality of existing services and therefore not making use of them.
- Those who are not aware that they would be better off financially if they had support.

With respect to the third group, strictly speaking, a lack of demand for advice does not reflect an advice gap. However, this goes to the core of the problem; many people with limited income and savings are not sufficiently aware of the need to take action and make sure that they are prepared for retirement age. This is an awareness/educational gap but needs addressing with the same if not higher urgency than the advice gap.

Additionally, the advice gap raises the question of the distinction between products and services such as advice. In this regard, there may be scope for greater development and use of product sets that embed advice in the form of strategy or asset allocation, which goes to the heart of the debate about 'simple' investment products.

The diversity of needs and behaviours reinforces our view that there is no silver bullet to tackle the challenge of the advice gap. It underscores the need to look at a combination of approaches, focused on enablers (catalysts) as well as greater clarity and accessibility in the product and services markets.

As a first step, there needs to be an overarching savings plan put in place that brings Government, industry and regulators together to collaborate. The asset management industry, while heavily intermediated in terms of delivery to savers, is a key part of this process. From a capital markets perspective, we are currently developing a Productivity Plan to engage with corporate Britain as part of the process of generating better growth, and better ultimate returns for investors. From a savings perspective, we are exploring better tools and metrics, such as savings rate targets, that can assist savers to understand the decisions they face over their lifetimes in looking to access those returns.

These tools and metrics should ideally not be based on classical economic approaches to incentives and behaviour. Instead, they could include approaches such as heuristics, which could provide rule of thumb savings reference points. Heuristics do not solve the problem in and of themselves, but can be part of a signposting toolkit that is as important for raising awareness in an engaging fashion as it is for changing behaviour over the long term. The Financial services industry and academic research has also shown how a variety of other techniques can be used successfully online, such as encouraging people to imagine their older self, either as a physical likeness or through ideas about basic lifestyle choices (eat out once a month; go on holiday twice a year etc.).

Alongside these enablers, there are significant issues over accessibility. Below, we further explore the question of the role of regulated advice versus guidance and/or other support services. But one other key issue is accessibility in terms of the language and terminology that the industry itself uses. Some of the material is, of course, determined by regulatory requirements and there is a separate assessment that needs to take place with respect to the overall length and content of some communications. However, the Investment Association, along with other industry bodies such as the Association of British Insurers (ABI), recognises the value of 'plain English' campaigns. We are currently developing a glossary of investment terms that we hope may provide industry standards for consistency as well as accessibility. We are in close contact with the ABI as it develops its own thinking around the question of simplifying and clarifying pensions terminology.

Different forms of advice (covering questions 2, 28, 38 & 40)

With the ongoing shift in responsibility from government to the individual to take care of their own savings for retirement, it is clear that the number of people needing help will continue to rise in the future. This is unlikely to be help that is given only once. Individuals need support in planning over their life time, in the run up to retirement, and probably, during retirement.

This help / advice can or has to be delivered in a number of ways, and certainly for those in workplace pensions, strong governance and oversight mechanisms are being put in place which also provide the framework for investment decisions (default arrangements) and contribution levels. In this respect, automatic enrolment, accompanied for many by automatic investment, and possibly some form of automatic escalation of contributions, is a valuable tool. It should not be overlooked that many in workplace pension schemes see the default arrangement as a form of advice.

It has to be taken into account, however, that not everyone is aware that support for dealing with financial matters and financial planning would be beneficial for them. And even if it is recognised that advice should be sought, not all individuals take action and take it.

As we outlined in the previous section, this has various explanations. The perceived – or actual - complexity of the matter can be discouraging. Sharing personal financial circumstances can be intimidating. Formal advice can be burdensome to access and is not always / immediately rewarding. Furthermore, different individual situations such as family status, level of income, level of savings, education and knowledge and experience trigger different demands for advice. Irrespective of the level of wealth, the degree of complexity of advice doesn't necessarily have to be different. Low income households with considerable levels of debt may, from their perspective, have a greater need for sophisticated advice then individuals in the highly affluent segments. The actual advice must of course be different.

What is advice?

Financial advice can be categorised in many ways. From a consumer perspective, advice is arguably a simple concept: it should help the individual solve their questions and reach financial ambitions and security across their lifetime, particularly for later life. Different needs can be satisfied via different interactions. Investors can consume advice from literature (including digital offerings), friends, acquaintances and family, online engagement, phone calls and face to face interactions with professionals or any combination of some or all of these.

The key question therefore is how a regulatory and policy regime can provide a framework that can cater to these diverse needs. In particular, there is the question of whether full fact find and suitability requirements should apply to all forms of professional advice, or whether there is scope to separate a detailed financial planning service from potentially ad hoc savings needs, such as speaking to an adviser about an ISA.

This links to a fundamental issue, which is that savers do not perceive advice as the regulated activity that a regulator, financial adviser or industry participant understands it to be. Savers are offered a variety of services called advice – such as the Money Advice Service or The Pensions Advisory Service – that are in the strictest legal sense guidance and never provide personal recommendations. Many others have made this point: it is not a clear basis for moving forward.

There needs to be a new way to conceptualise different kinds of advice. In the eyes of professional advisers, their services are provided in order to help their customers with a very broad range of savings and investment questions as raised above. However, for regulatory reasons, they have to focus major resource on establishing the needs and personal situations of clients in order to make personal recommendations that are suitable. At the same time, for product manufacturers, including fund managers, advice is one of the key links between their products and end investors and therefore a critical conduit. However, it should not be the only way in which those that seek support for their savings decisions, can access it.

Impact of technology

The access debate is also being revolutionised by technological change. The way people access and consume information has changed a lot over the past decade and accelerated further in the last 3- 5 years. The combination of the ability to access vast resources via the internet and a widespread distrust of services offered by the professionals from the financial industry offers both a challenge and a major opportunity as people look to take their own decisions, often in discussion with peers.

The internet has also improved accessibility to execution only services. And although these do not deliver holistic solutions like proper financial advice can, some people clearly feel they have taken care of their financial planning in this way. The big advantage of non-advised transactions over the advice process is the smaller amount of time and resources invested by the individual. Feedback about the quality of decisions taken will only emerge in the medium to long-term future.

However, the execution only route also draws attention to a key set of ambiguities in a middle ground between true execution only and fully regulated advice services. While the FCA has sought to clarify the distinctions, there is still concern in the investment industry about the status – and associated liabilities – of offering guidance and support services that are clearly more than an execution instruction in the strictest sense, but much less than a personal recommendation based on fact find and suitability check. Ensuring appropriateness tests are proportionate and enable rather than inhibit access to the market and product innovation will be essential.

In our view, innovation involving the use of technology will help to develop a new generation of 'advice' services. It is unlikely that sophisticated financial planning and personal recommendations will be widely deliverable without human interaction. Nonetheless, parts of the advice process can be improved by the use of technology and data, particularly if a lighter touch / simplified advice model can develop for product-specific needs. As in all parts of the financial services industry, there are a number of initiatives already underway in this area.

Seamless and swift (online) access to savings and investment products for the consumer will improve the non face-to-face experience of customers. Why can credit be purchased within a few minutes but saving products cannot? As we outline in the final section below, there needs to be a shift in the way that regulators conceptualise regulated advice versus other forms of support. This framework could be built around a number of key messages, including:

- The availability online of a one-stop-shop environment with a high (comfort) level of cyber security should be able to improve investor demand for simple and quick solutions.

- High levels of professionalism from intermediaries and manufacturers when human contact is necessary for savers.

- Including mandatory messages that debt, mortgage and other priority objectives ought to be considered before investing into risk assets.

- Encouraging potential investors to diversify.

Regulatory environment (questions 24, 26, 35 and 41):

Many in the industry appear puzzled over the exact purpose of having advice defined differently in the RAO and in MiFID. In any case anecdotal statements from distributors, outside therefore of our core membership, suggest that suitability assessments require around a single person day of time in all. This prices the full advice service out of the reach of many. Our comments on this subject focus on three key points:

- Advice vs Execution only and the 'middle ground'. If full advice involves tailoring solutions and product choice specifically to each individual client, it is clear that there is considerable potential for models that classify individual clients to pre-defined categories of products or models – commonly each of those categories has a characteristic risk rating but other relevant factors could be used. While this is not without challenges, it offers a significant way in to broader market access, given the points above about the potential role of technology. We understand that the RAO does not provide firms with the regulatory clarity they need to classify clients. Some firms are actively ensuring they remain execution only whilst providing as many signposts and suggestions or role models as possible – "why are [certain type] funds popular etc." This bifurcates the industry into full advice and execution only and leaves no proper regulated area of assistance or guidance.

- Ongoing advice and support. The discussion of the full advice boundary needs also to consider ongoing care and assistance. In long-term commitments such as those that are designed to address the need for late-life provision, advice and assistance is not merely needed at the point of first investment. Ensuring advisers and distributors have an incentive to continue to assist clients is important, but one solution for the asset management industry is to consider outcome-focussed or lifestyling funds where asset allocation is altered as individuals approach key life events (and a changed risk appetite) and is then later directed at income provision. This reflection leads on to the third point.

- Need for a new paradigm? It is possible the FAMR is identifying that the current paradigm of regulating prescribed activities when carried out in relation to prescribed investments (i.e. advising on suitable funds) is no longer fit for purpose. The reality is that people are looking (or ought to be looking) at making the right decisions about their later life provision. That this involves investment decisions is arguably incidental to the manner in which the outcome is achieved. It may perhaps be time to address this in regulation and to create a regime that is explicitly designed to assist with later life provision as the outcome. If some aspects of these services were to be caught as regulated MiFID advice, then some would have to be subjected to suitability. In any event, however, services outside MiFID would be subject to proportionate regulation at lower cost with an informed acceptance that full advice could not be offered. At present, the gap between execution only and full advice seems to be too wide.

Importance of good disclosure and product design.

Consumers have to be protected when entering capital markets. Therefore education and plain language in documentation has to be combined with a high level of comprehensive and meaningful but accessible disclosure (coming in with MiFID and PRIIPs). Savers have to be aware of risk taking requirements as well as long term benefits of investing.

The Investment Association and its members take their role in helping customers to achieve their financial objectives very seriously and are constantly reviewing and improving their products and services to achieve the best outcome for their clients. The current level of product regulation is already high and suitably designed to safeguard retail customers' interest. This will still be the case with advice processes adapted to this new landscape of personal financial responsibility and of participation in the volatile financial markets.

LSG response to the Financial Advice Market Review (FAMR)

The Leaders' Summit Group (LSG) welcomes the opportunity to comment on the paper *Financial Advice Market review (FAMR): Call for input* published jointly by the Financial Conduct Authority and HM Revenue & Customs on 12 October 2015, a copy of which is available from this link.

This response has been prepared by The Leaders' Summit Group (LSG), a group facilitated by the Personal Finance Society that consists of senior representatives of leading advisory businesses and banks, as well as senior distribution executives from a number of large life, pensions and wealth providers.

OVERVIEW

The LSG recognises the important role that financial advice plays in assisting the general public to make decisions that contribute to both their financial health and wellbeing. The providers and distributors of financial service products have an obligation to assist and enable their customers to make good choices and to prevent them from making decisions or purchasing products that may be detrimental to their long term financial outcomes.

The LSG similarly recognises that a so called 'advice gap' exists, which is most acute among that proportion of the population without significant wealth or income. The current market may not be perfect for those with a moderate or high wealth or income, but when customers within this bracket seek advice, they can normally obtain effective solutions at a price that reflects good value.

Those below this threshold, which we deem to be in the region of £100,000 of investable wealth or £50,000 of income, can find it difficult to access effective solutions or may be put off by the length and complexity of the current advice process, and/or the cost of that service. With this in mind, the LSG's response focuses on the needs of those with less than £100,000 of investible assets or £50,000 of income ('those without significant wealth') – which we believe is consistent with the aims and objectives of the FAMR.

The LSG believe that the so called 'advice gap' has been caused by a combination of:

1) Aspects of the current advice market that deter advisers from engaging with a broader range of customers;

2) A shortage of 'simple' services, solutions and products that make it easier for customers to engage with the market.

This response focuses primarily on (2) but the LSG believes that there is significant latent potential within the current adviser community where adviser appetite and the cost of advice are negatively impacted by:

- **Fear of 'retro-remediation'** from the FCA. There is concern amongst advisers and providers over the conduct risks associated with providing advice, in particular the potential build-up of future liabilities. This suppresses appetite and stifles innovation and entrepreneurial risk taking
- **Mismatch between FCA and FOS.** Inextricably linked to the above, there is an additional fear that there is a mismatch between the FCA and FOS interpretation of what constitutes acceptable conduct, in particular the burden of proof. 'Insistent clients' are a good example of this.
- **Professional indemnity** Insurers are wary of the same uncertainties in the market, which drive up the cost of cover and implicitly narrow the range of clients that advisers areprepared to represent and the range services they offer.
- **Capital adequacy.** The LSG recognises the need for a capital buffer in the industry, but in the absence of a range of lower risk range of services, solutions and products (see 2 above), the relatively high level of capital adequacy that will required by the regulator will suppress the supply of advice.

DEMAND-SIDE BARRIERS TO A BROADER ADVICE MARKET

The LSG has prepared a response to the areas of the review we believe to be most pertinent to the members we represent. These are:

1. Limited liability solutions or products
2. Flexible approach to qualifications
3. Alternative and additional funding of advice
4. Macro Marketing developments
    - Financial education and literacy
    - Emerging technology

1. Limited Liability – 'Safe Harbour'

We believe that the most significant and substantial advice gap is among the demographic that is deemed to be without significant wealth. These are individuals without complex financial needs, a large proportion of whom can be effectively serviced through the provision of off-the-shelf solutions. It would therefore be appropriate for financial advice firms to be able to offer relatively straightforward products and solutions, free from intricacies or complexities to individuals seeking simple solutions. So called 'safe harbour' products, offering regulatory certainty to providers and advisers with regard to potential liability, if predetermined conditions are met, offer a solution.

Such is the current uncertainty within the market, with regard to liability, that manufacturers are reluctant to develop simple products, the provision of which would yield limited income, because they fear the potential of damage that could be done through future recourse. If the FCA were to work with the industry to develop a number of simple and easily understandable safe harbour products, then it should be possible to reduce this undersupply of advice for those without significant wealth.The introduction of safe harbour productsis not the only solution to the current advice gap. We propose two further measures:

- **The introduction of 'life staging posts'** acting as significant review periods of a customer's financial life and wellbeing which would help to improve the quality of decisions taken by all parties. Life staging posts would serve to optimise the outcomes of customers and would also help to address the issue of perpetual liability on behalf of industry players. Staging posts such as home purchase, retirement and death could act as defined events when the previous advice to an individual or family could be reviewed and achieved outcomes assessed. If there were positive outcomes and the customer were satisfied, future liability for past events would be waived or at the very least limited. From this point on, a new strategy would be developed for the future, which would be designed around the needs and wants of the customer. The adviser should then be subject to recourse if that advice proved to be inappropriate, up to and including the next defined staging post.

- **A workable 'long stop'.** Currently the provision of financial advice is one of very few services not subject to a statute of limitations or 'long stop'. Firms are often subject to recourse, based on advice that was correct at the point of provision. The LSG appreciates that the provision of advice is not a one-off transactional interaction, and that best practice would be to continue to monitor the advice given and its outcomes in the face of the ever changing circumstances of the individual and of the wider economic and social context. However, we believe that being subject to recourse in perpetuity, often after many decades have passed, is disproportionate. We would therefore support the introduction of a fifteen year statute of limitations on the provision of certain advice and products. Alternatively, a long stop should be introduced, under which there would be a time bar on historical complaints made by consumers to the Financial Ombudsman Service (FOS).

2. Qualifications that reflect the service provided

The Retail Distribution Review (RDR) introduced new rules for investment advisers and platforms, including higher minimum levels of adviser qualifications. For a large number of products this has been a welcome move that has seen the quality of advice improve.

The LSG believe that ‘safe harbour’ products, whose introduction we support, can be provided by those with a Level 3 qualification such as the Certificate in Financial Planning (CFP), without jeopardising the needs or outcomes of customers. Such would be the prescriptive nature as to the appropriate provision of these safe harbour products, coupled with their inherent ‘vanilla’ nature, that level of judgement and uncertainty involved would be such that the requirement of a Level 4 (or above) qualification would be excessive. Alternatively, the service could be carried out by Level 3 staff with oversight and sign-off by Level 4 or higher (as is common in many professional service firms).

Indeed, the lower level qualification (and service) could be seen as an extension of the path to becoming a fully qualified adviser.

3. Alternative and additional funding of advice

A significant cause of the current advice gap among those without significant wealth is that the provision of advice to this demographic is currently not economically viable. The FCA/ HMRC paper notes that revenues derived from providing financial advice needs to meet the cost of supplying that advice. The current breakeven price at which advice can be provided is currently too high for those without significant wealth. This has not been helped by the higher standards financial advisers must attain following RDR.

In order to rectify this failure in the current market, creative solutions must be sought. The need for a solution is further highlighted by the 2013 Bank of England survey included in the FAMR paper, which shows that at least 75% of the population have below £100,000 of investible assets.

With a provision for full and total disclosure, the LSG believes that a built in time charge remuneration structure may well have a role to play in the generation of a market place in which all those in need of it. It could facilitate good value good quality financial advice, delivering long term outcomes that would be to the betterment of the customer.

4. Macro Marketing developments

- **Financial education and literacy.** Another significant barrier is the general low level of education and financial literacy. We welcome the fact that that financial education is now an integral part of the national curriculum, however more must be done. A point needs to be reached at which society regards financial literacy as a basic ‘life skill’. Empowering individuals to take ownership of their financial wellbeing would result in their taking better decisions being taken and their achieving improved outcomes.

- **Emerging technology.** Emerging technologies offer an opportunity to provide cost effective, efficient and user-friendly adviceto the mass market. Regulatory uncertainty is suppressing supply, deterring market participants from fully embracing this opportunity. Clarity is required in order to assure firms that the very significant capital investment, which is needed to bring technology-enabled propositions to market, will not be in vain. Clarification is required from the FCA as to what propositions will be deemed appropriate and the likely regulatory regime under which they will fall.

FAMR Call for Input – Questions.

From John Moss, BA(Hons) PhD APFS

IFA – Morgans Ltd trading as the Medical Partnership

Personal response

I have submitted a response on line but your system would not accept the charts I wanted to include. Therefore a copy of my response which includes these charts is below. I have also attached a copy of my recently completed research which is directly relevant to this consultation.

Moss J. (2015) *Personal Financial Planning Advice: Barriers to Access,* University of Birmingham. http://etheses.bham.ac.uk/6016/

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?

We need clear labels and descriptions of the different types of financial advice available in the market place. Consumers often do not appreciate that certain types of adviser are able to provide advice on a variety of different topics. Because of the different tiers of regulation under which advisers operate (COB, ICOB and MCOB) some advisers will offer advice on products covered under all these regimes whereas others will not. Often the mortgage man, pensions lady or insurance person (typical consumer labels) could all advise on the full range of regulated services offered by financial advisers. However, consumers do not make this link which suggests there is a lack of understanding of what advisers actually do. This is confused by the fact that different advisers are not necessarily qualified to give advice on all areas of regulated financial advice (the definition of which I include mortgage and protection advice as well as investment and pensions) and other advisers who are qualified may choose not to offer advice on all these matters.

We need clear explanations of what different advisers do that are available to consumers and importantly independent information (and evidence) of how these services can add value for consumers.

Q3

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

My own research [Moss J. (2015) *Personal Financial Planning Advice: Barriers to Access,* University of Birmingham. http://etheses.bham.ac.uk/6016/ - a copy of which I will send with this response] highlights a variety of reasons why consumers increasing need to take financial advice. However it does not quantify this demand as this was beyond the scope of the project.

Q4

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

The qualitative element of my research (see above) was conducted on a sample of working age consumers from income quartiles 2 and 3. The characteristics of this sample are broadly similar to the user groups Thoresen identified as potentially vulnerable because of their lack of access to financial advice. This part of my research involved semi-structured interviews with participants from these income quartiles which highlighted the barriers these people had encountered. There were a variety of reasons why some had not taken advice relating to particular areas of their financial planning. These included; not being aware of the potential risk, not appreciating the gravity of the potential risks, a belief they would cope, perceived cost of advice and last but not least, a lack of understanding how a financial adviser can help. On this final point, many consumers perceive regulated financial advice as a product channel rather than a holistic service that can highlight potential risks as well as providing solutions to address these risks. This in itself creates a barrier to advice as whilst the 'product channel' aspect is perceived by the majority as the 'subjective norm' then consumers will not seek pro-active advice to plan their finances they will only seek it when they believe they need to arrange a product. What is required is a trigger to advice – the MAS Health-check appears the obvious choice but unfortunately seems to have failed to date. It needs to become the norm for consumers to undergo a financial health-check. This is something the industry, the regulator and MAS need to focus on. It is what individual advisers should be doing with clients (and no doubt many are) but by that stage the consumer has engaged. It those that don't engage that need to prompted.

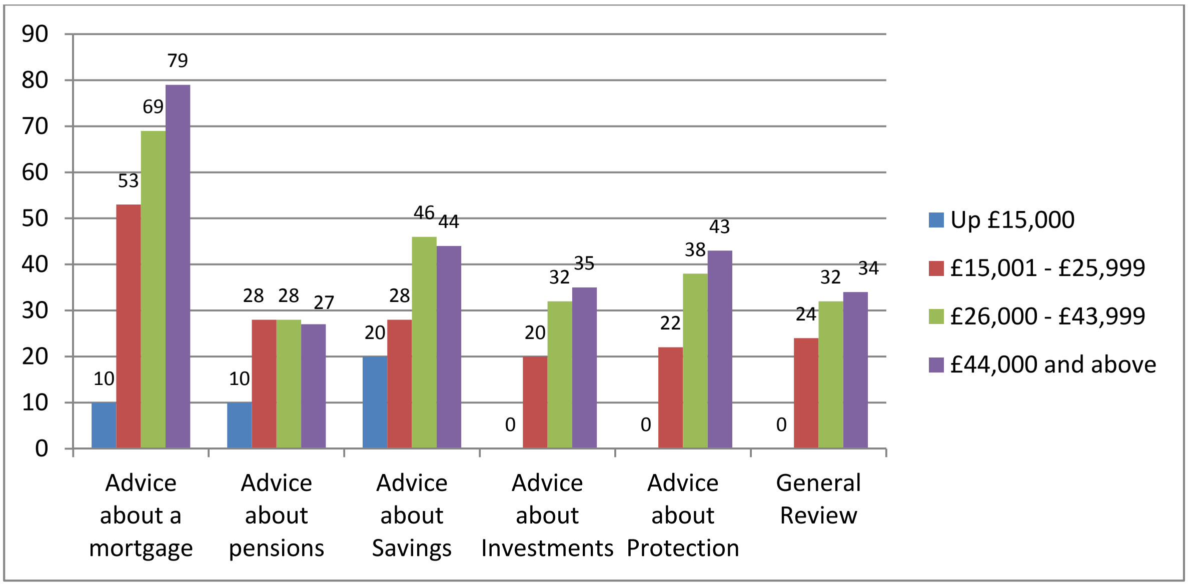
I have an issue with your table (p.10) illustrating the complexity of different financial issues. In particular the perceived simplicity of 'protecting against misfortune' compared to other issues. Although you suggest that only 11% of respondents expected to need advice regarding protection insurance this is at odds with the ABI statistics that suggest 75% of pension, protection and long term insurance products (66% via IFAs) are sold with advice and 61% of protection products via IFAs.

You say (p.21)… "*focus initially on advice in relation to investing saving into a pension and taking an income at retirement*" I disagree, protection is the keystone to financial planning.

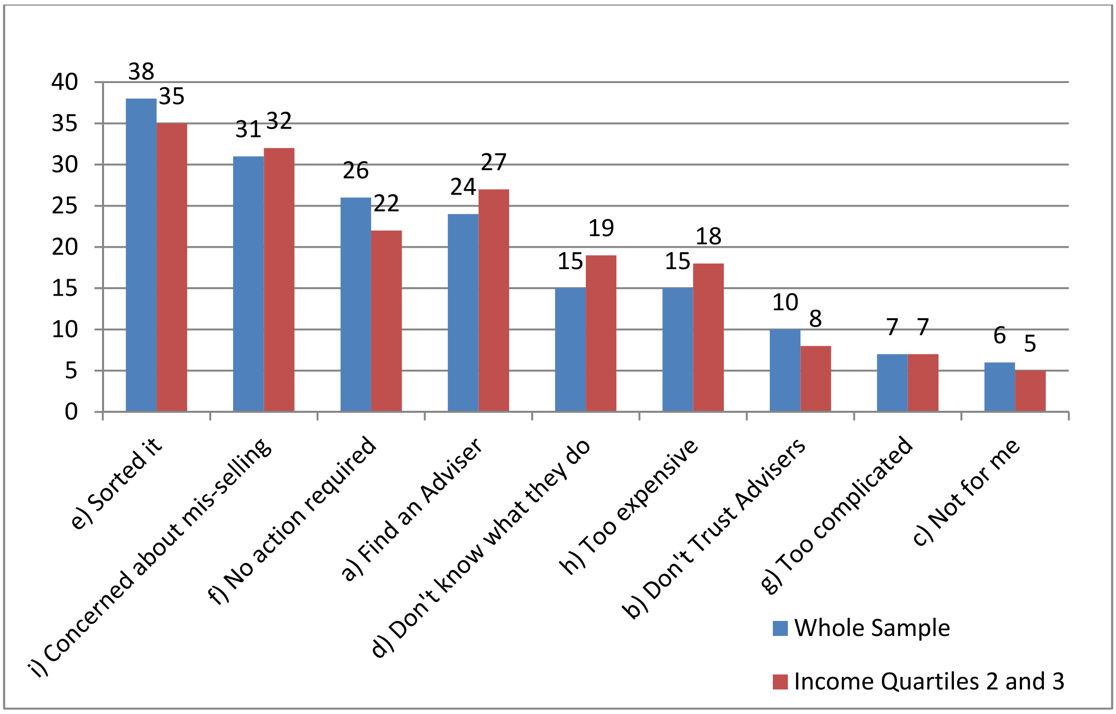
Q5

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

The quantitative element of my research shows the different reasons why participants took advice. However, this is not a representative sample of the population.



Use of advice by percentage of income quartile. (n=201)



Reasons for NOT taking advice (n=201).

Further explanation of these graphs is provided in the accompanying thesis.

Q6

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

Yes, clearly different groups have different needs at different stages of the life cycle but a better understanding of what advice is and how it can help is the key issue. Perhaps there is a need to market advice services to different groups in different ways. If consumers perceive regulated financial advice as something for people who have money to invest then those with no money to invest will see no need for it. When in reality these may be just the people that need advice to highlight the risks to which they are exposed in the event of illness or premature death.

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?

Please see Q5. My data seems to suggest a relationship between income and use of advice across most areas. Although again I stress this is not a representative sample however I believe it is a reasonable assumption that this relationship exists.

Q9

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

Yes, please see earlier comments.

Q10

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

Q11

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

Since the 1990s we have seen the demise of the door step services and subsequently the direct sales forces. Although these were sales orientated and the products were not always the most suitable with high charges and mediocre performance, the existence of these sales channels meant that people saved (often small amounts) on a regular basis. This is something that has been lost and we need to find another model that will replace it. Whether it is possible replicate services of this type on-line is questionable.
Regarding the changes since RDR, advisers seem to have adapted to the new environment and much less cross subsidy exists than in the past. Although this is good for advisers and

consumers that are able to afford to engage it does mean that more lower income individuals are being excluded.

Q12

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

No

Q13

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

There has been much debate at about the cost and effectiveness of services such as MAS and Pensionwise. It has been suggested that a voucher system allowing consumers a set amount of time with a regulated adviser may be more cost effective and result in higher levels of engagement. Although I can see the rationale behind this argument I am concerned that not all parts of the financial services industry would enter in to this type of arrangement in the spirit that it would be intended. Evidence suggests (Nottingham Trust index) that consumers have high levels of trust in individual advisers but not in the industry more generally. Furthermore, the industry has a history of adapting what appear to be ideas with the consumers interests at heart into what have become yet another mis-selling scandal.

Perhaps there is some space to look at social enterprise models where concepts such as the voucher system could be tested.

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 had and still have for certain tiers of advice a commission system that funded the cost of advice. This worked well for many but was abused by a few. The problem is that there is a conflict of interest between the profit motive of the providers and the interests of the consumer. Perhaps there are ways this model could be adapted to minimise previous abuses.

Q15

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

The first four segments are likely to be the least attractive from an economic perspective. For the others if we assume they want face to face advice it depends on where and when they want it.

Q16

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

Long stop has been much discussed and would help firms to at least have a time limit on potential liabilities.

Q17

What do you understand to be an advice gap?

My understanding of what is meant by the advice gap is that certain segments of the population are less likely to be able to access financial advice. There is no doubt a gap that exists where low income/wealth consumers do not necessarily receive the advice they need. This may sometimes be for products that are not a profitable proposition for regulated advisers. However, there are a number of sources of generic advice available that could help these consumers to understand what they need to do. The issue arises that these sources of advice cannot then act as a product channel. In the early drafts of the RDR consultation there was talk of General Advisers and Professional Planners but this was later dropped. Perhaps there is a case to introduce an advice tier where advisers can advise on and sell mortgages, protection and simple (cost capped) investment and pension products.

Q18

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

A lack of income and investable assets is clearly a factor for many consumers. We need to create an interest in people planning their finances so they can take steps towards a more secure financial future. This needs to be a service free at point of delivery. MAS working correctly can generate demand.

Q19

Where do you consider there to be advice gaps?

Lower income and wealth and low financial capability groups would benefit from advice but delivering this economically is the problem.

Q20

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

See earlier.

Q21

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

Those that currently do not appreciate what advice can offer need to be engaged.

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?

No, protection is the keystone of financial planning. I re-iterate my comment at Q4. I have an issue with your table (p.10) illustrating the complexity of different financial issues. In particular the perceived simplicity of ‘protecting against misfortune’ compared to other issues. Although you suggest that only 11% of respondents expected to need advice regarding protection insurance this is at odds with the ABI statistics that suggest 75% of pension, protection and long term insurance products (66% via IFAs) are sold with advice and 61% of protection products via IFAs.

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)?

This seems to have analogies with Martin Wheatley’s comments to the Treasury Select Committee. When asked about the ‘advice gap’ he said:

“… People who have portfolios that are below — I don’t know what the threshold level is — maybe £50,000 or £100,000 are not getting the same sort of service that they were getting, so that is a concern”

The ONS Wealth and Assets Survey (2012) states that 10.7% of the population have investable assets of £100,000 or more. So if your criteria are as broad as *“… those with less than £100,000 investible assets or incomes under £50,000”*- then I think we are talking about the majority of the population.

You need to lower this criteria, it might be relevant to London but not to the rest of us that work in the real world.

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?

Consumers find the different regulatory tiers and resulting types of adviser confusing. If we can make a financial health-check the norm it will act as a trigger to advice. If we can find a way of making a simplified advice tier work and it dovetailing with a generic service then it would help.

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?

It is clear that we need a way of triggering consumers to take advice and then engage with product providers. Alternatively we need to take an auto-enrolment approach where consumers are automatically enrolled in to schemes that provide life assurance, income protection, saving.

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?

In recent years we have seen the growth of telephone and on-line services in the general insurance sector (and a variety of other industries). We need to understand the issues that these have presented to consumers and use this knowledge to help shape any propositions in the regulated advice sector.

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

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?

I asked my interviewees how important they though it was that advice should be overseen by some form of independent regulator. The consensus was that this was important. It seemed to compensate for the lack of trust in the industry as a whole. This is illustrated by the table below.

Interviewee Pseudonym	Trust adviser	Trust industry	Importance of regulation
Kazim	No	Yes	Yes
Jim	N/A	Yes	Yes
Bryan	Sceptical	No	Very important
Tom	Yes	No	Yes
Elaina	Yes	No	Yes trusts state
Frank	No problems with Bank	Sceptical	Yes
Suzie	N/A	Yes	Yes
Kathy	Yes	Yes with reservations	Yes
Sarah	Yes with reservations	Sceptical	Yes
Emily	Yes	Unsure	Yes
Mavis	Yes	Sceptical	Yes
Heather	Yes	Yes with reservations	Yes
June	Yes	No	Very important
Eric	Yes	Yes with reservations	Yes
Marta	Yes	Yes	Yes

Ronnie	Yes	Yes	Yes
Alan	Yes	Yes	Very important
George	Yes	Sceptical	Yes
Ernie	Yes initially, sceptical later	No	Yes
Peter	Yes	Yes	Yes
David	Mixed experiences	No	Yes

Interviewees views on Trust

Q35

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

A system of auto-enrolment for protection and savings.

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?

No comment

Q38

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

No comment

Q39

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

Better consumer knowledge
Better understanding of what advisers do and how they can help. If we can change the perception that advice is a product channel then this will go a long way to encouraging consumers to take advice. Of course the problem with this is whether consumers would pay for this service so either a voucher system or MAS will need to be an integral part of this.
Triggers that prompt consumers to take a health-check and take action are needed.

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?

This is paramount. We need to ensure that any changes are watertight so they are not exploited and we again see trust in financial services destroyed.

The Money Charity response to the Financial Advice Market Review

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

Introduction

1. The Money Charity welcomes the Financial Advice Market Review. With the scale of change to the market set out in the review, it is clear that regulatory action is necessary to ensure that everyone, regardless of their financial circumstances has access to financial advice that suits them.

2. We believe that the terminology used to describe various forms of financial advice ought to be based not on the preferences of the financial industry but by the common sense terms that are best understood by the public. If we wish people to take up and engage with advice, we must use the words that make the most sense and are the most engaging to individuals. This is why throughout this consultation we refer to advice, from the regulated kind through generic money advice (often referred to as guidance) to consumer's use of price comparison websites as *'advice'*.

Key points

3. Though the FCA segmentation used later in the consultation adds a welcome granularity to analysis, it is also **useful to see the population in three groups**:
   - **a.** A section of the population without the savings or income to make it commercially viable for IFAs to offer advice.
   - **b.** A middle market of people with some money who are priced out of current regulated provision or who would not receive significant added value from it.
   - **c.** Wealthier consumers who are well served by the existing regulated advice market.

4. The review states that people's need for financial advice starts with *'saving for short term needs'.* The entire review looks at advice through the prism of investment advice. In reality, **need begins with much more basic financial challenges such as budgeting**. In order to attract people in all groups, but 'group **a'** in particular, financial advice needs to speak to these everyday needs and treat people's finances more holistically than simply discussing where best to make an investment. Currently alternative, online and Not for Profit (NFP) providers are meeting these needs better than IFAs will ever have an economic incentive to do. A focus of the FAMR should be ensuring that this group has the non-regulated advice from alternative providers it needs.

5. We agree that there is a second group of consumers (group **b**), whom the review should also focus on – a middle market of people for whom regulated financial advice would be useful and would provide greater security, but who are effectively priced out due to the size of their investments. **We support some of the remedies set out in the FAMR** to limit liabilities of regulated advisors to reduce costs of supply and meet the middle market, but the answer to the advice gap cannot come entirely from the regulated financial advice industry.

6. **It is not only price preventing the group with some wealth from seeking regulated advice**. For many consumers, an IFA simply does not offer them a huge

amount of value that their own research, alternative sources of advice and shopping around cannot.

7. The FAMR's focus on consumers *'with some money but without significant wealth'* does identify a real gap for one group who are not being adequately served by financial advice, and we support focussing on this area, but we argue that **this gap cannot be met only by making it cheaper for regulated advisers to provide services** to this market. So as well as group **a**, group **b** also benefits from alternative providers being encouraged and allowed to go further with their advice offering.

8. In reality NFPs, price comparison sites and websites such as MoneySavingExpert have filled the gaps left behind by regulated advisers. Though it does come with problems such as a lack of redress, this is a positive change that is part of a wider societal shift. No amount of deregulation to lower the cost of regulated advice will reverse this situation. **People have become used to doing their own research and self-directing their money management**.

9. Instead **the focus should be on positively defining what these organisations can do.** Currently, in each market (credit, mortgages, savings….) organisations are told what they cannot do. The extent of this varies from market to market, so organisations find it very difficult to know what they are able to say to consumers.

10. **These organisations are the future of financial advice** for all but those with large investments to make, so what they are allowed to do must be defined positively, and the parameters should be in one place, not hidden in regulation market to market.

11. The Money Charity calls for an approach that tackles the middle market advice gap **from the bottom** (low savings, relatively simple financial needs), **as well as the top** (with savings and complex financial decisions) with:

    a. Rules that allow regulated advisors to offer a form of advice at a cost that is appealing to some the middle market.
    b. **But also** a single, easy to understand set of rules that lays out not only what alternative providers of advice cannot do, but gives them a positively defined role (whilst making clear that this sits outside the regulated perimeter).

12. Through this approach, the aims of the FAMR could more easily go well beyond those with *'some money'* and produce an advice market capable of meeting the needs of everyone.

Providing non-regulated advisors with a clear and expanded remit

13. Whatever regulatory changes are made, many people will not see the value in paying for advice, and many more simply won't have the savings to make such a decision viable. For this majority, alternative advisors to IFAs are the only option, and if the government means what it says about plugging advice gaps, it must look harder at

ways to clearly define and empower these advice options: NFPs, financial websites, and industry funded bodies.

14. Unfortunately, the questions set out in the FAMR are not focused on this question, so we justify the point here.

15. The current rules governing what a non-regulated financial advice provider can and cannot say are not written down in a single place. If a youth worker (financial educator, counsellor, blogger…) wants to give advice to an individual or group she must look in the CONC for what she cannot say on debt issues and have a working understanding of the COBS if she wanted to advise on investments. For example, if she wanted to help an individual with setting a budget, she must be very careful of discussing any debts an individual might have.

16. This poses two dangers for this kind of alternative provider and those they serve:
    a. That they simply ignore all regulation, placing themselves in legal risk and those they advise in possibly detrimental situations.
    b. They see the complicated and inconsistent regulation and choose not to offer advice, denying consumers the actionable recommendations they need.

17. Even if she did understand all the different regulations, because the rules vary in strictness from product to product, each with regulations that tell her what she cannot say about a particular kind of financial product, she would find her ability to provide consistent and helpful advice undermined.

18. A good example of this is the interaction between savings and budgeting and debt.
    a. If she were working on a monthly budget for somebody without debt, she would be able to say: "*with what you have told me, it would be a good idea to stick to this budget so that you could save £50 a month"*
    b. If she were advising a person with credit card debt, the CONC would tell her she could not go through exactly the same budgeting process and say: "*with what you have told me, it would be a good idea to stick to this budget so that you could increase your repayments by £50 a month"*

19. The Money Charity has found itself in situations where regulatory uncertainty has discouraged us from offering financial capability work, notably having to decline to apply for funding from a utility company. Because part of the work related to budgeting advice, and because the vast majority of people have debts of some kind, we felt that we could not deliver the work without being regulated.

20. Another inconsistency comes with pensions advice. As a charity, we had always been under the impression that COBS allowed us to say, for instance: *"from what we have told us, an annuity, flexible drawdown… seems like the best choice for you".* However, with the pensions guidance guarantee and the creation of Pension Wise, providers of guidance sessions have not been allowed to go this far, only offering pros and cons of competing options, so it is difficult to know where we stand.

21. These kind of uncertainties and inconsistencies exist between different products. Given that these kind of advice providers usually offer holistic money advice, these varying rules on what they cannot say about any given product undermine their ability to provide consistent and useful advice.

22. In order for these providers to be able to offer the advice consumers need, they should be able to look at a single, simple piece of regulation that tells them what they can say about different products, not just what they cannot.

23. We recognise that regulators cannot say *"so long as you do not recommend a specific branded product and make it clear that you are not offering regulated advice, you can recommend a course of action or type of product"* across the board due to differing risks of consumer detriment that accompany different products. But with research and risk analysis, the FCA ought to be working towards regulation that brings us as close to that as possible.

Providing clarity for debt advisors

24. In addition to these groups there is a large gap of consumers who would benefit from debt advice who are not seeking it. StepChange estimates that half those who seek advice with them have delayed doing so for more than a year[1]. This group cuts across income and wealth segments and requires regulatory and statutory action:

25. Rules for alternative providers should allow interventions on debt issues. These would not include DMPs, but would allow providers to give advice at an early stage that could prevent crisis.

26. The Statutory Body that provides public financial guidance should offer holistic money advice, not simply debt advice. People with debt problems at an early stage will often want help with less complex issues such as budgeting. If they're able to find this, they are much more likely to reach advice that will improve their financial position and stave off crisis at an early stage.

27. The Money Charity supports StepChange's *'Breathing Space'* campaign[2]. Extending statutory protections to those with temporary financial difficulties will give consumers much greater certainty when they seek debt advice. Currently consumers do not know whether they will be eligible for a DMP when they engage an advisor, and this uncertainty presents many from doing so. With a *'Breathing Space'* offer, a consumer in difficulty could be offered relief with much greater certainty, and organisations like StepChange could offer help at a much earlier stage.

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?

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[1] http://www.stepchange.org/Portals/0/documents/media/PersonalStatsYearbook2013.pdf
[2] http://www.stepchange.org/Mediacentre/Pressreleases/protectpeopleindebt.aspx

28. All consumers can find themselves in vulnerable circumstances and many find it difficult to obtain advice that meets their needs.

29. With the online shift of generic advice and the greater number of people making their own financial decisions with the aid of information available online, there is a danger of leaving behind older, disabled and less tech-savvy segments in particular.

30. In reviews of the financial advice market, The Treasury should always attempt to ensure that advice, regulated or generic is available on platforms that are accessible to all groups, particularly those who are excluded from the proliferation of online information and advice.

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

31. The FAMR states that *'we do not focus solely on services that would meet the regulatory definition of advice but instead use the word advice to capture a wide range of provision of services offering support to consumers'*. It also claims to have set out the *'terms that have been developed to describe advice within the regulatory landscape'.* However, the table that sets out these terms in the Appendix only refers to various forms of regulatory advice.

32. In order to capture the '*wide range of provision*' upon which people are now increasingly making financial decisions, clear regulation and support ought to be available not just for the regulated advice sector, but for a range alternative providers such as NFPs, blogs and the financial services industry. We recognise that these advice services are different from regulated advice and will not be able to recommend a specific product, but the distinctions in terminology should not be defined by the differences in the industry, but by the understanding of consumers.

Q3. What comments do you have on consumer demand for professional financial advice? + Q4. Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

33. High net worth individuals remain well served by financial advice. With significant wealth to invest, the £50-£250 per hour rates charged are generally considered a price worth paying for the specialist knowledge and safeguards it provides. Where investments are above £50,000, the majority of individuals still opt for an IFA.

34. We argue that the precipitous drop in the proportion of investment purchased through an adviser has come in the middle market and can be explained by the following trends:
    - **a.** IFAs charging up-front fees, rather than commission, since the RDR has made the cost of advice clearer to consumers.
    - **b.** Rates of return from investments have been low since 2008 so large fees are difficult to justify with smaller investments.

c. The proliferation of online guidance and advice from sites such as moneysavingexpert has allowed people to make financial decisions independently of advice.

With these conditions, unless a consumer is very risk averse, they often do not see the point in getting advice.

35. Though the FAMR acknowledges new forms of advice, the purpose of the consultation paper overall seems to be an attempt to reverse this trend, either by allowing lower cost, lower redress advice or finding how the industry can appeal to new segments of the population. There is some value to providing low cost advice, particularly if technology were to significantly lower the price, but the shift towards consumers going it alone with their own research is not something that we can or should reverse.

36. The soaring rise in the use of price comparison websites and online information represents a generational shift in the way that people learn about money. From the decline in travel agencies and car dealerships we can see that this trend is not confined to financial advice. If people have more information at their fingertips and the means to manage their own money through technology, they will.

37. Instead of focussing on expanding the reach of traditional regulated advice, we should be recognising and supporting this new sector, providing simple and clear guidance that tells providers what they can do, not simply what they are precluded from doing. Even though consumers are turning away from regulated advice, they still would benefit from advice which gives them a conclusion or a recommended course of action (short of a specific product). Guidance needs to be clarified in a single place for these alternative sources of advice so that they are able to provide this.

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

38. The scale of needs outlined in the FAMR begins with '*saving for short term needs'*, and ends with providing income in retirement. While the scale does arrange the needs in order of complexity, it misses out a whole array of needs which sit below saving for short term needs in terms of complexity.

39. When looking for advice (in the widest sense of the word), individuals start with much more basic money skills than saving for short term needs. People begin with advice on how to make ends meet, how to borrow and how to save money. In order to attract more people to financial advice, you need services that appeal to their actual financial concerns as they develop through their lives.

40. New online provision of advice meets these basic needs in a way that was almost impossible to imagine 20 or 30 years ago. With just a click or a Google, people can find out about different forms of credit or download apps that allow them to budget.

Consumers have become accustomed to researching for solutions to their financial needs such that it has become less natural to pay for face-to-face advice.

41. As you start out in your adult life, these will be the first kinds of advice you look for. And people are finding answers online through their own research. As you begin to grapple with more complicated financial decisions such as paying bills, buying insurance and borrowing for a car or house, it is very unlikely that you will switch immediately from a mode of operation that relies on your own research to one where an adviser makes decisions.

42. For this reason, unless advisers provide a service which speaks to peoples most basic financial needs in a holistic manner, people will begin their financial lives using their own research and stick with that habit as they move up the scale of complexity. Unless existing advice providers can compete in that market and meet those needs, advice consumption will likely continue to trend towards non-traditional, self-directed advice and away from the financial advice sector.

43. This strengthens further the case for properly regulating and expanding the scope of what these alternative providers can do.

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

44. The Money Charity welcomes the use of the FCA's consumer segmentation. It was well researched when first conceived and allows helpful granularity of analysis for the FAMR.

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

45. As the UK's financial capability charity, we believe that everyone can benefit from help with their finances. The FAMR chooses to focus particularly on those who small and medium sized savings. Certainly this group are one that are underserved (at least by the traditional IFA community), but there are many other segments that could benefit.

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

46. Figures used in MAS' recent 'Barriers and Building Blocks'[3] research shows that people of all levels of income benefit significantly from greater financial capability. If financial advice in all its forms can help to foster this, it is a good thing, and something that is demanded by most, if not all, consumers.

[3] http://comfy.moneyadviceservice.org.uk//system/comfy/cms/files/files/000/000/264/original/Barriers_and_Building_Blocks_Presentation.pdf

47. Though all consumers will have some demand for financial advice, differing types of advice suit consumers of different levels of income and wealth. The FCA should ensure that all consumers' demand is met appropriately.

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

48. There are different reasons why different segments of consumers do not seek regulated advice, though many of these people will be accessing services that meet their needs though non-traditional platforms. These platforms, mainly online, are part of a larger societal shift towards people making decisions based on their own research.

49. Price is a factor that prevents middle income, middle-wealth consumers from seeking regulated financial advisers. Without large pots to invest, the £150 per hour average cost of advice means that it is not a worthwhile product. In addition to this, the post-RDR regime where fees are presented up-front has made the costs clearer to consumers.

50. Though the RDR has gone some way to reverse this, there is still distrust amongst consumers of financial advisers.

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

51. We do not have a view on this.

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?

52. The shift away from professional advice has taken places for the reasons outlined in the answer to Q3 and Q9.

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

53. Technology can and has changed the way that advice is delivered. For regulated advice, robo-advice has the potential to dramatically reduce costs, meaning that those with medium sized savings have access to advice similar to that which would they would previously have avoided due to cost.

54. But the more significant change that has taken place with technology is the revolution of freely available online information and advice. These providers are the primary way most consumers learn about financial products, and should be treated by regulators as at least as important as IFAs. Along with NFPs and educators, they should have their own guidance that defines what they can do in money advice, not what they cannot do in different markets.

Q13: Do you have any comments on how we look at the economics of supplying advice? + Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models? + Q15: Which consumer segments are economic to serve given the cost of supplying advice? + Q16: Do you have any comments on the barriers faced by firms providing advice?

55. Risk, regulation, cost and declining demand are the main barriers to firms providing advice. Changing regulation to reduce risk and cost for firms will remove some of these barriers and make supplying advice to some consumers with medium sized investments profitable. However, the trend towards self-directed money management is a trend that will likely continue.

56. Alternative suppliers of advice also face regulatory barriers to advice. As stated in the introduction, they are regulated differently in each market, and find it very difficult to know what they are able to recommend in some contexts. For instance, an NFP running a financial workshop work with an individual on a budget that will save £100 a month, but cannot recommend that they budget to pay down their credit card debt by £100 a month.

57. Regulatory clarity, defining positively for alternative providers what they can do would allow these organisations to provide useful information and advice to far more people and not to avoid the conversations that consumers most want to have.

58. Given that no amount of regulatory change is going to remove the barriers that IFAs have to providing to those with little or no savings or to consumers who have become accustomed to managing their own investments, the role of these alternative providers would not just allow consumers with some wealth access to advice, but reach those lower down the income and wealth spectrum as well.

Q17: What do you understand to be an advice gap? + Q18: To what extent does a lack of demand for advice reflect an advice gap? + Q19: Where do you consider there to be advice gaps? + Q20: Do you have any evidence to support the existence of these gaps? + Q21: Which advice gaps are most important for the Review to address?

59. An advice gap exists wherever suppliers of advice (from websites and charities to regulated advisers) cannot or are not providing the kinds of advice that people need. This might be the middle market the FAMR focusses on who the IFA community find it too costly to offer advice too, but it could also be people with debt looking to manage the situation finding that free services and websites are unable to give them a prescriptive course of action.

60. Certainly with the *'advice gap'* faced by the middle market, price is a significant factor. But in addition to this consumer behaviour has changed and far more information is available from more sources than even a decade ago. To some

degree, the *'gap'* is simply people making a positive decision to manage their own money.

61. The Money Charity believes that, while the focus on pensions saving for those in the middle is a laudable aim, FAMR along with the PFG, should aim to create a system of financial advice that has something positive to offer to everyone at every level of wealth or income, and whatever stage of life they're in.

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? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

62. The advice available around providing for yourself in retirement does have gaps, both in the accumulation and decumulation phase, so this is **an** appropriate focus for the FAMR, but as stated previously, there should also be an expanded role for alternative providers who can reach a much broader market and address a more holistic array of financial needs.

63. The danger of focussing on *'consumers with some money but without significant wealth'* is that it leads to the conclusion that allowing IFAs to provide lighter regulated services at lower cost is the answer. This is the group amongst whom there will be consumers who will benefit from this, but many will still opt for self-directed investment and those will smaller savings will still not be helped.

64. We call for an approach that **both** allows IFAs to offer competitive products, but also recognises the need to positively regulate and support the alternative sources of advice that can meet the needs of a wider range of savers.

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? 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?

65. The key area of advice that needs regulatory simplification so that it can be better understood and achieves its objectives is the regulation of non-regulated and generic advisers.

66. As stated previously in this response, these groups are regulated differently in each market. This means that a financial education provider or a website like MoneySavingExpert finds it very difficult to give advice or guidance that comes to a conclusion in many markets. Without being allowed to sell a specific product, these groups should be allowed to say things like:

"this is not regulated advice, and you take it at your own risk, but from what you have told us you should look at a fixed rate mortgage / budget to pay off your credit cards / consider an annuity…."

67. Simplification and clarification in this market is just as important as regulatory changes for regulated advisers and ought to be a greater focus in the FAMR.

Q26: What can be learned from previous initiatives to improve consumer engagement with financial services? + Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn? + Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

68. The Money Charity does not have a view on these questions.

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?

69. Conceptually, The Money Charity welcomes the idea of a safe harbour for firms to offer regulated advice at lower cost to some investors.

70. However there are two dangers to introducing these kind of limited redress:
    a. Unless it is adequately communicated, consumers may take this advice believing that it gives them the same protections against mis-selling as other products as are available with more expensive advice.
    b. Once regulators remove or significantly limit redress, the unique selling point of regulated advice is partially removed. If it cannot offer full redress, why would consumers opt for an IFA over their own research or advice from an NFP?

Q32: Do you have evidence that absence of a longstop is leading to an advice gap? Q33: Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms? Q34: Do you have any comments about the benefits to consumers of the availability of redress for long-term advice? Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

71. Given the long lasting nature of many savings products, particularly pension products, we believe that a longstop, while de-risking the market for firms and reducing cost to consumers, is a step too far as redress ought to be available for at least the lifetime of a product.

72. Given the availability of information elsewhere, and the opportunity for redress being one of the remaining reasons why consumers would demand regulated advice,

inserting a longstop may be a double edged sword, undermining demand for regulated advice as well as reducing its cost.

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?

73. If there is a future for growth in regulated advice for the middle market, it is with automated advice. As people have become more used to interactive websites when searching for financial products that suit them, the majority of the market that would not go and seek face to face advice, might engage with this type of product.

74. In order for it to happen, these products need to be given regulation that allows them to be offered at lower cost than traditional regulated advice.

75. If traditional regulated advice is given longstops and safe harbours to reduce the cost and risk of supplying advice, consumers attracted by the lower prices will find it difficult to understand the difference between the new product and traditional advice. This leaves open the possibility of considerable consumer detriment. By contrast automated-advice delivered online clearly represents a different kind of product that consumers will more easily understand as something that does not bring with it all the full protections.

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

76. As we have discussed previously in our response, the option focussed on in this response of reducing the cost of supply for regulated advisers is only a partial answer to one of several advice gaps. Some consumers with medium sized savings will be enticed by the cheaper products, but this will not fundamentally address the gaps that exist.

77. Instead, the role of new providers has to be recognised, encouraged and clearly regulated. Websites, NFPs and the financial industry should know what they are allowed to say to customers, and be regulated consistently across markets.

78. With this change, not only the medium wealth savers who currently suffer an advice gap, but those much further down the wealth and income scale who find it difficult to get firm answers on what they should do financially due to regulation would have access to the advice to fit their needs.

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?

79. We do not have a response to this question.

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

80. With both our recommendation to allow regulated advisers to offer advice with safe harbours and to allow alternative providers to go further in giving consumers advice with recommended actions, there is some risk of consumer detriment.

81. There is ultimately a trade-off between there being fewer people getting advice with full protection and safeguards and a greater number getting it with greater exposure to risk. There will probably never be a perfect answer and consumer detriment will only become apparent once rules have been in place for some time.

82. For this reason we recommend that HMT reviews the effects of any regulatory changes it makes after 12 months and again after 5 years.

The Pensions Regulator

Ed Smith
FAMR Secretariat

22 December 2015

Dear Ed,

This is the Pensions Regulator's response to the Call for Input on the Financial Advice Market Review published on 12 October 2015.

The Pensions Regulator is the UK regulator of work-based pension schemes. We work with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them. Our regulated community covers more than 16.8 million members and £1.4 trillion in assets under management.

There are three areas we wish to highlight in our response, which cut across a number of different consultation questions:

- Gaps in the regulation of advice
- Concerns expressed by our regulated community about providing information / guidance, and the potential implications for their fiduciary duty
- Differences in the treatment of trustees of small occupational pension schemes and small personal / stakeholder pension schemes

Gaps in the regulation of advice

We have identified two main gaps in the regulation of advice that could potentially have an adverse impact on our regulated community. We consider it important for both of these gaps to be addressed in the Review.

1) Advice to employers

Advice to employers in respect of occupational or (group) personal pensions is not regulated. This means, for example, that an adviser recommending that an employer set up a particular master trust or Group Personal Pension (GPP) for their employees for the purposes of automatic enrolment would not have to comply with any FCA rules on advice.

This is a concern as it means that employers could be putting in place arrangements that are not appropriate for their employees. In addition, the advice they get may not necessarily be delivered by suitably qualified advisers.

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We believe there is more than one solution here. We think it may be sensible for advice to employers to be regulated in respect of setting up an occupational or personal pension scheme for their employees. This may involve making disclosure and suitability requirements that mirror the requirements already in place for retail clients. In particular, it will be important to consider the needs of smaller employers, as they are unlikely to have the knowledge and experience that would normally be assumed for professional clients. However, advice comes with a cost – and we are conscious that increasing the burden on small employers may make it less likely that they will comply with automatic enrolment legislation. To reduce burden on employers, an alternative approach might be for the scheme / product to be licensed and the employer simply left to choose a licensed scheme / product. We are pursuing the issue of the regulatory regime around master trusts separately (with DWP), so any product or scheme licensing or regulatory regime would need to dovetail with that for any schemes under our remit.

2) <u>Advice to members of occupational pension schemes</u>

In most cases advice to members on their occupational pension schemes is not regulated. The exception is advice given on the transfer or conversion of safeguarded to flexible benefits. However, advice on – for instance – which investment option to choose in a DC occupational scheme, or on transfers between two DC occupational schemes, is not regulated. This may put members of DC occupational schemes at a disadvantage compared with members of group personal pensions.

There is therefore an opportunity to increase protection for Occupational Pension Scheme (OPS) members and provide parity with members of GPPs by regulating advice on personal recommendations about what to do with their benefits. However, we think any regulations should carve out guidance. information and communications produced by the trustees or employer, where these is not already covered by FCA regulations.

<u>Concerns expressed by our regulated community about providing information / guidance</u>

The feedback we are getting from trustees and employers is that they are reluctant to give or pay for any form of non-regulated advice, guidance or even information to members or employees (other than the legal requirements). This is particularly the case in regard to decumulation options available to their members following the introduction of pension freedoms. Trustees, in particular, are concerned that they might be subject to legal or regulatory action, perhaps years afterwards.

Their concerns fall into two areas:

1) The implication for trustees' fiduciary duties
2) Whether trustees / employers are inadvertently stepping into FCA-regulated territory

<u>Implications for trustees' fiduciary duties</u>

Trustees are concerned that, when providing information or signposting to members, their fiduciary duty means that they have an obligation to ensure that the specific option(s) communicated about are in the member's best interest.

They are also concerned that this might mean that they would be responsible for decisions made by a scheme member that led to detriment. We understand this view is shared by some of their legal advisers.

Whether the provision of general information or signposting in the normal course of running a scheme would have implications for trustees' fiduciary duties (beyond the need for trustees to do proper due diligence), is an argument that has not been tested in court. Therefore, the legal position remains unclear.

Whether trustees / employers are inadvertently stepping into FCA-regulated territory

Trustees and employers are concerned that providing information to members / employees could fall into the space of regulated advice. Trustees are also concerned that "signposting" to specific solutions could constitute an FCA-regulated activity (regulated advice, financial promotions, or arranging deals under Article 25 of the Regulated Activities Order).

The FCA has issued guidance about clarifying the boundaries of regulated advice. However, should advice on occupational pension schemes become a regulated activity (as we have suggested), it becomes more likely that trustees might inadvertently undertake FCA-regulated activities. This risk could, potentially, be mitigated with further guidance on where any new boundaries lie.

The situation is slightly more complicated where trustees or employers "signpost" people to a third party solution. If the signpost is to anything other than their in-scheme options, we consider there is potential – depending on circumstances – for this to constitute a regulated activity. However, the rules around this are extremely complex and the case law is not definitive.

These concerns currently act as a barrier to individuals receiving advice, information or guidance that they need in order to make good decisions. We would encourage the legal and regulatory position to be clarified, with options considered to support trustees / employers who would like to provide assistance (other than access to regulated advice) for their scheme members.

One option could be a 'safe harbour', for instance requiring members to provide trustees with a full discharge of responsibility at the point a decumulation decision is made. Alternatively, or in addition, a statute of limitation (consistent with the long stop that the FCA is considering for advisers) could be introduced to limit the period that a member has to challenge trustees about a) the options offered or promoted by the scheme and b) the (non-regulated) advice, information or guidance provided or signposted to by the trustee or employer.

Differences in the treatment of trustees of small occupational pension schemes and small personal / stakeholder pension schemes

There is a current discrepancy in the treatment of occupational pension scheme trustees when compared with trustees of personal and stakeholder pensions.

The Pensions Regulator

Trustees of occupational schemes – regardless of scheme size – are treated as professional clients (other than in certain specific cases relating to disclosure), which means that they don't benefit from the full range of protections offered to retail clients. There is also a difference in the treatment of OPS trustees and trustees of a personal or stakeholder pension, as trustees of small[1] personal or stakeholder pensions are classified as retail clients.

The reason behind this different treatment is not clear to us and it may be sensible for trustees of small occupational schemes to be treated as retail clients. Although the definition of a 'small occupational scheme' would require further thought, we suggest that the same definition as for personal pensions might be a good starting point.

We hope that this response will prove useful.

Yours sincerely

Lesley Titcomb

Lesley Titcomb
Chief Executive

[1] a scheme which has, or has had in the past 2 years, a) fewer than 50 members **and** b) assets under management of less than £10 million.

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Financial Conduct Authority
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15 December 2015

Dear Sirs

FAMR Call for input – Response letter

We, the undersigned, are all member firms of the Berkshire IFA Group and wish to make our response to the Financial Advice Market Review as recently requested.

The Berkshire IFA Group was established in 1992 as a voluntary self-help and learning group to assist members who are directly authorised by the Financial Conduct Authority. The intention of the group, who meet formally once a month at Maidenhead Golf club, is to assist members by giving a forum to discussions about industry topics and specifically compliance matters, whilst also providing two industry speakers each month to assist with meeting ongoing CPD requirements, and to promote professional standards of advice.

We have in the past received speakers from both the PIA (Richard Cockcroft) and FSA (Linda Woodall), as well as representatives of the IFA community (Roddy Kahn and Garry Heath).

Please would you be good enough to treat this letter as being from each authorised member as listed below rather than as one response from our Group as a whole, and we should also like to add that one or two members have responded in their individual capacity rather than on behalf of their authorised company.

Yours faithfully

Tony Ross DipPFS Certs Cii (MP & ER)

Partner

Addendum

May we start by making comment regarding the make-up of the advice panel for the FAMR. As far as we can tell, only one member is actively involved in advising clients on an ongoing basis, which given the aims of the review, seems outrageous and something that urgently needs to be addressed.

1. **The extent and causes of the advice gap for those people who do not have significant wealth or income.**

As essentially we are all small firms, it is very difficult to provide any real documented evidence relating to the increase in the advice gap that has undoubtedly occurred since RDR. In some senses for this particular group of consumers this was already happening, as more consumers have joined employer pensions schemes (group stakeholder and now auto-enrolment) through their employers, who may previously have been IFA individual clients for their retirement planning.

- We agree that for general insurance, banking and deposits, credit products and even the lowest levels of savings, consumers have not generally sought advice from advisers and this is likely to remain the case in the future. However, historically IFAs have been the main source of advice for retirement planning, but less so in the future. This has helped to cause the problem now occurring with pension freedoms, as many clients seek to access their pensions, but have no adviser relationship to support them. As from a consumer point of view RDR increased all associated costs of advice (and restricted consumer choice as to how to pay for advice), this resulted in closure of advice channels and the loss of a great many IFAs (either at the date of RDR or earlier knowing that it was coming and unwilling/unable to comply with exam requirements and other issues). Other advice channels were lost to the consumer as a result of increased regulation and the conversion to fees rather than commissions.

We have all been faced with turning away potentially new clients with relatively small pension pots as they were unwilling to pay the level of fee that we feel we need to charge to cover full compliance with FCA rules (especially for insistent clients) and the potential future liabilities that all business could entail. Previously these clients may well have had a relationship with an IFA and would probably have been offered ongoing advice, including at retirement.

- Whilst there may well be potential clients who have a lack of trust in advisers (according to your Mintel survey), this is not an issue for those clients who use an IFA, as this has been the major (and at very many firms the only) method in which IFAs obtain their new clients, through existing client referrals. Clearly therefore there is trust between IFAs and their existing clients, as without this client referrals would not happen. A great many small IFAs so not advertise their services whatsoever, relying only on client referrals for expansion. The 'lack' of trust referred to as a reason why clients will not approach IFAs is largely based on the continued negative press that the industry receives (with little or no positive press coverage), but really is a damning confirmation of the complete failure of regulation to stop scams and frauds from taking place, despite the seeming billions spent of this.

- Small IFAs are reluctant to assist certain types of client as Interpretation of regulation is unclear creating known unknowns. It could be argued that the cost of over-regulation has added to the advice gap, as advisers cannot operate cheaply under current requirements. It is also the case, despite what the FCA say, that Small IFAS are running scared of FOS. The effect of this is to over document for protection against FOS, with the consumer having to pay for this, or in perhaps more cases, being rejected as a new client on a cost basis.

- Pre-RDR, a great many advisers used larger commission business cases to subsidise smaller unprofitable business, which has subsequently become impossible. This has had an effect on the advice gap, and also to a large extent, on 'pro-bono' work, which has increased the advice gap. Now that most pay fees, which tend to be lower than commission payments, advisers do not have the spare financial capacity to offer lower paid clients advice for next to nothing. And although many advisers offer pro bono advice to some clients who can't afford advice such clients tend to be the ones who seek Claims Management Companies when opportunities arise.

- Perhaps the biggest reason however for the increase in the advice gap has been the removal of commission from advice, as the consumer had been willing to seek advice on the basis that there was not initially a direct cost to them personally, but now the middle wealth/ mass affluent no longer think advice is worth paying for when the result of the advice is 10 + years ahead. It is this lack of ability to see value short term that has put off consumers seeking advice, as pre-RDR, even though they undoubtedly knew that they were paying for the advice, they were not having to pay out of their own bank accounts here and now. Also, the compliance costs of taking on a new client are so high that unless the client's future fees can cover that cost, the adviser makes a loss on that client.

- It also appears true to say that consumers are having difficulty in understanding what constitutes 'free guidance' and what is advice. Feedback seems to suggest that consumers do not understand these mixed messages.

2). The regulatory or other barriers firms may face in giving advice and how to overcome them.

- Costs – The biggest barrier faced by firms is the cost of regulation; the fact that large parts of it are totally unknown in advance; and that these costs in no way relate specifically to what the firms actually do (i.e. FSCS levies). Costs for seemingly unexplained reasons go up by much more that the rate of inflation annually, whereas firms find it difficult to increase fees to consumers accordingly.

- Regulatory rules are complex, shifting and require a great deal of effort to be understood, even by advisers of many years standing. Far too much time is spent generating suitability reports, which cover every possibility in order to be compliant and which the majority of clients do not read, often fear, certainly only file. That same information is then included in the product information and documentation – again far too lengthy, drowning the essential points in legalese and compliance statements which are intended to inform the consumer, but in fact confuse them. Simpler rules and regulation are needed along with simpler products.

- FOS – Acting somewhat like an ambulance chasing Claims Management company, by rejecting actual complaints and then ruling on something that was not actually complained about. It is also alleged that FOS apply current rules to historic complaints.

- Claims management firms marketing alarming headlines, but mostly submitting speculative claims not based on any actual facts, with no penalty or restrictions for doing so. This appears to create an open-ended liability for advice firms, and which result in the adviser's insurers excluding insurance cover at the next review.

- FSCS levies - Exiting firms reduce the pool from which these and other levies may be requested. This in turn creates higher costs for the remaining advisers. Taken to its logical conclusion it must follow that as costs increase ever more advisers, most of whom are nearing retirement age, will wind up their businesses until there are no personal adviser businesses remaining. Younger advisers can see that the business of running a financial service firm is fraught with difficulty and uncertainty and are reluctant to take the financial risk of joining a business or setting up a new one. The funding of the FSCS needs a fundamental rethink.

- Clients don't know the value of advice or what sort of advice they are looking for. There is surely a strong case for making financial planning mandatory at schools for 15 year olds upwards.

- The 'Long Stop' – The lack of a time scale for bringing a complaint is a major disincentive for advice firms. Your report suggests that only 64 cases have been upheld by FOS where a 15 year period has elapsed since the advice was given. As we know, that may well be 76 advisers now living in poverty in retirement through being financially wiped out.

3). How to give firms the regulatory clarity and create the right environment for them to innovate and grow

- All new products to be screened and approved by the FCA – meaning that if the product subsequently failed through fraud, the adviser would not be liable for claims made for losses incurred.

- A new regulator to be set up to regulate the provision of professional advice only – perhaps called the 'Professional Advice Regulator'. All other firms would remain regulated by the FCA or the PRA. This would bring together under one roof all the better qualified advisory firms, with one rulebook specifically for professional advice. Currently advice firms are amalgamated with Investment, Life Assurance, Pension companies and banks and the bad news sticks to the wrong sector.

- The introduction of low risk products and specify who/ which type of client the products may be sold to as overseen by independent due diligence provider. And perhaps drop the concept that of products being low/medium/high risk. The idea that anyone can quantify the risk associated with any investment is flawed and misleading. In particular, it misleads the consumer into thinking that someone, somewhere, typically the adviser, has measured the risk of a product. Risk as a relative measure may be used, but again, the consumer tends to confuse the concept of risk as a relative measure with risk as an absolute

value. Instead, the measure of risk to the client's financial well-being should be measured against the strategy promoted and recommended by the adviser, not on the basis of a product being deemed suitable or otherwise.

- Better guidance on insistent client versus best interest rules. Currently the rules put the adviser on an un-even playing field. One adviser confirms inappropriate advice, another may have a different motivation and end up with a claims management issue. In fact consider a rule that an insistent client who signs a disclaimer cannot therefore approach FOS at a later date. The relationship between the adviser and the consumer must be stated and clear at the outset. The adviser provides advice concerning a single product for a specific need and/or advice that encapsulates a range of products comprehensively. Advice is only an opinion to which the consumer is free to adopt or reject. Insistent clients have a right to determine how to spend their money, even if the adviser does not agree. However, the blame for a subsequent change of heart should not be laid at the door of the adviser and their insurance companies.

- Meaningful due diligence is extremely difficult at small adviser form levels – introduce some system to assist firms in this area. Perhaps make this the responsibility of the regulator when approving products.

- Reintroduce the 'Long Stop' for future liabilities.

- Fund the FSCS through product levies, which is how it should have been set up originally.

4). The opportunities and challenges presented by new and emerging technologies to provide cost effective, efficient and user friendly advice services.

- Robo user friendly advice opportunity is vast, as is the cost. An older generation may struggle. The above points without protection of a 'Sand Box' for 18 months, are likely to overshadow development

5). How to encourage a healthy demand for financial advice, including addressing barriers which put consumers off seeking advice

- Promote proper client focused labelling of what is guidance, but not advice, and what is advice – consumers remained confused.

- Proper promotion of independent advice – the benefits of using an independent financial adviser. Fragmented trade bodies appear unable to do this effectively. Planning should be considered in the same light as an MOT for the car. Only once a year, nothing might need to be done, and if it does, then up to the client as consumer to decide whether to proceed or not.

- Financial education in schools.

- Publicity for the benefit of advice and the good news associated with planning. Media education that independent advisers offer a different service to those offered by banks in the advice sector.

- Simplify the products and the regulation that covers them. The constant obsession by governments to introduce new rules for pensions and ISAs mean that the consumer does not acquire a working knowledge of these two main means of saving. The rules for both must be reduced, must be fair so that genuine errors – especially in relation to pensions - are not penalised severely. It might also be a chance for the FCA to examine proposals for new products before they are marketed. Back in 1997 "Which" recommended that the focus of regulatory attention should be on the product rather than the advice. This advice was ignored by the government of the day, which preferred to place the onus for failed investments on the shoulders of the adviser. However, it is the product that makes the money, and not the adviser. So back to basics: what about an insurance policy by all product advisers to ensure that the consumer is protected in the event that the product failed? Consumers would then be able to choose products that were insured and perhaps choose to avoid the uninsured ones, which would be treated as "relatively high risk".

- Promote transparency of the product apply a guide like T.E.R.

- Reduce the paperwork needed for basic advice

- Inform FOS that there is such a thing as Limited Advice

- Consider reintroducing choices of remuneration including commission payments on all business. Whilst it is unlikely that clients now on a fee basis would switch back, it may encourage those less well affluent to seek advice, knowing that there is not likely to be an immediate up-front cost to them. Why not simply have fixed commission rates that apply to all institutions and insurance companies. If the consumer pays fees to the adviser the commission can be rebated.

Berkshire IFA Group members

Christopher Culley	Culley Financial Services Ltd	Newbury
John Ashworth	The Safe Insurance agency	Maidenhead
Lachhman Banwait	Amar Financial Services	Hayes
Gary Brooks	Jarvis Watson	Reading
Anton Cross	The Devereux Partnership	Windsor
Ian Davis	Hynes Davis Limited	Newbury
Helen Fraser	Orchard House (IFAs) Ltd	Marlow
Elaine Given	Orchard House (IFAs) Ltd	Marlow
Carl Hope	Douglas Hope Financial	Newbury
Kevin Hopwood	Hopwood Ash Financial	Newbury
Hugh Hornby	The Devereux Partnership	Holyport
Paul Howard	Box Financial Planning	Theale
Hugh Morton	Morton Financial Services Ltd	Whitchurch
Linda Hulls	Cameron Trinity	Charlton
Geoff Mason	Geoff Mason Associates	Didcot
Charles McCarron	Carlin Insurance Services	Guildford
Andrew Nicholls	Beaufort Asset Management	Reading
Peter Chesworth	Ethikos LLP	Reading
Baldev Sihota	Guardian Financial Planners	Slough
Dawn Slater	Dawn Slater Wealth Management	Newbury
David Stephenson	Wise Investments	Reading
Andrew Watt	Watt Money	Maidenhead
Mark Wilkin	Alexander Rowan LLP	Reading

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

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Our Ref: JM/JB/4.17.2 December 22nd 2015

Dear Sir or Madam,

FINANCIAL ADVICE MARKET REVIEW: CALL FOR INPUT

We welcome the opportunity to respond to the above call for input.

INTRODUCTION TO THE SOCIETY OF PENSION PROFESSIONALS

SPP is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPP's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPP is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPP's Members, including the overwhelming majority of the 500 largest UK pension funds. SPP's growing membership collectively employs some 15,000 people providing pension-related advice and services.

This call for input has been considered by SPP's Financial Services Regulation Sub-Committee, which comprise representatives of actuaries and consultants, insurance companies and pension lawyers.

RESPONSES TO QUESTIONS

Question 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?

We are not aware of any concerns relating specifically to these people.

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

The call for input correctly identifies that there is often a mis-match between the support which is given to a consumer, whether advice or guidance, and the perception of the consumer of that support.

Particularly when the outcome is not what the consumer hoped for, there will often be a perception that advice has been given, even if every effort was made to explain that this was not the case.

This problem will potentially become more acute with the growth of automated advice. This is a potentially very useful means of meeting a growing need for advice, but, however well-constructed, will not constitute tailored advice.

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www.the-spp.co.uk

Question 3: What comments do you have on consumer demand for professional financial advice?

A key concern is that in the pensions field less affluent consumers are being offered increasing choice in their retirement provision, but there is (and has been since the 1990s) a contracting supply of advice available to them.

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

We do not have any evidence, but we suggest that an additional significant source of advice is the views of friends or relatives.

The call for input otherwise accurately reflects the spectrum of advice other than from professional financial advisers.

Question 5: Do you have any comments or evidence on the types of financial needs, for which consumers may seek advice?

We consider that the call for input accurately summarises the position.

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

Yes.

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

Given the increased range of choice available to people near to or in retirement, which will further increase with the introduction of the secondary annuity market, we suggest that both the "retired on a budget" and "retired with resources" categories will need attention.

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

We consider that the call for input accurately summarises the position.

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

All the factors quoted can, in our view, be relevant to a decision not to seek advice.

Lack of trust is often the reason why consumers turn to family or friends for advice or guidance.

Question 10: Do you have any information about the supply of financial advice, which we should take into account in our review?

In addition to the factors quoted in the call for input, we suggest the following as being relevant to the supply of financial advice:-

- The risk that the Financial Ombudsman Service, by virtue of its "fair and reasonable" approach, will find against an adviser even if the adviser has conformed to FCA requirements.
- The cost of professional indemnity insurance arising from the perception of pensions (particularly transfers and switches) as a high risk area since the SIB pension review.
- The absence of a time bar on pursuing complaints against advisers, which has added to professional indemnity costs.
- The impact of the Retail Distribution Review on the economics of giving advice.

Question 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?

We have nothing to add to our answer to question 10.

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

We have already commented on the automated advice as a potentially useful new means of facilitating decision making, subject to consumers understanding its limitations.

Question13: Do you have any comments on how we look at the economics of supplying advice?

We have no comments.

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

We have no comments.

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

In the pensions field the provision of regulated advice is usually only economic for more affluent consumers.

In other cases, the need is generally for robust guidance, which does not become confused with advice.

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

All of the factors quoted in the call for input are relevant.

In the pensions field there is additional legal complexity arising from differences between DWP and FCA requirements and the complex regime of interim protections arising from frequent changes to pension taxation relief.

Question 17: What do you understand to be an advice gap?

We agree with the definition in the call for input as a starting point.

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

We believe that in the pensions field there is a significant degree of reluctance among consumers to take advice on the overall consequences of choices under the new pension freedoms, if the immediate effect of a choice is to give greater access to cash in the short term.

Question 19: Where do you consider there to be advice gaps?

The first bullet point on page 20 of the call for input appropriately summarises the current pensions advice gap.

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

There already appears to be acceptance that the gap referred to in paragraph 19 exists.

Question 21: Which advice gaps are most important for the review to address?

In the pensions context we suggest that the gap, referred to under question 19, is the most important.

Question 22: 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.

Question 23: Do you agree that 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 focus.

In terms of thresholds, we suggest that pension funds greater than £30,000 and incomes in excess of the zero tax band be considered.

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

It is significant that, despite recent tightening of the regulatory environment, it is still significantly easier to facilitate people getting into debt than it is to support them in long term saving decisions.

The need to seek to cover every potential mishap in the advice process significantly lengthens and complicates suitability letters, particularly when considering the defence of future complaints. This is in turn a disincentive to those considering taking advice.

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

We have not identified any aspects of EU legislation, which could realistically be implemented significantly differently in the UK.

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

We consider that the analysis on page 24 of the call for input accurately summarises the lessons to be learned from previous initiatives to improve consumer engagement.

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

We have no relevant experience upon which to base comments.

Question 28: What steps can be taken to address behavioural biases, which limit consumer engagement without face-to-face advice?

We do not dispute that in some cases consumer engagement requires face-to-face advice, but initial evidence from Pension Wise use seems to suggest that there is a reasonable level of willingness to engage on-line without face-to-face contact.

In the longer run better financial education ought to enable more engagement without face-to-face advice.

Question 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

Firstly, we would comment that there is ample evidence to support fears in the industry that retrospective action might be taken if standards change in the future or if there are unexpected developments in the market. For example, the personal pension mis-selling review and the switching review, both of which are referred to in the call for input, together with the FSAVC review.

A key need in developing any safe harbour is to ensure that the approach of the Financial Ombudsman Service does not effectively nullify it.

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

We suggest that a key aim should be to define for each area of product sale the key features to be disclosed to consumers. If those key features, for example risks and fees, have been disclosed clearly and fairly, the safe harbour should be intact.

For a safe harbour to function properly there must be an element of assumption of responsibility by the consumer for their decisions.

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

We have no further comments.

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

We have examples of SPP member firms who will not enter the retail advice market because of the lack of any longstop and safe harbour.

Question 33: Do you have any 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?

We have no systematic evidence, but our commentators are clear that the absence of a longstop is a significant factor in the advice gap, whereby there is a decline in number of advisers and a rise in average age among remaining advisers.

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

We have no comments.

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

We consider that the call for input sets out a suitable range of options for consideration.

Question 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?

We have nothing to add to our earlier comments.

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

We suggest that one key need is to ensure that users of automated advice properly understand and accept its limitations.

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

As we have previously commented an important consideration is that automated advice does not provide tailored recommendations.

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

We suggest that simplification of the advice process is one of the necessary elements to address the advice gap, together with a period of stability in the product. Stability might assist firms in developing approaches to filling the advice gap. Constant change in both the delivery processes (e.g. Retail Distribution Review) and the product (e.g. pension freedoms and the reductions in the Lifetime Allowance and Annual Allowance) means that resources are being focused on dealing with regulatory change.

Question 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?

We have no further comments.

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

We have no further comments.

Yours sincerely

John Mortimer
Secretary