Adviser Charging and Scope of Service

Qualitative research to investigate consumer understanding of adviser disclosure documents

Prepared by
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Authors & acknowledgements

This document reports the findings of a research project carried out for the Financial Conduct Authority (FCA) in May by NMG Consulting.

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Any errors in the report are the responsibility of the authors.

Table of contents

List of Figures

Glossary

The report contains a number of industry terms. Definitions are as follows:

Term	Meaning
Survey participants	
Participants	This means the individuals who took part in this research.
Advised consumers	Participants who have an existing relationship with a financial adviser. This was defined by a question asked during the screening process about how an individual most frequently purchased investment products.
Financial sophistication	Participants were assessed at screening questionnaire stage to be more or less financially sophisticated. This is based on their own perceptions of their level of financial sophistication derived from a number of attitudinal questions.
Other terms used in this report	
Adviser	Provides regulated advice to consumers including both Independent Financial Advisers and Restricted Advisers.
Consumer	Means the potential audience who may buy advice – outside of the participants of the study.

Fact-finding meeting	The meeting a consumer has with an adviser during which they share full details of their financial needs, objectives and complete a risk profiling exercise. Following this, the adviser should have the information needed to prepare their initial advice.
Independent advice	Advice where the adviser will look at all retail investment product types, all providers, all fund managers – to find the appropriate investment solution for their customer.
Initial advice	Usually the advice that results from a second, or subsequent, fact-finding meeting between a client and an adviser – typically this is the recommendation of where to invest.
Initial meeting	Normally means the first meeting a consumer has with an adviser – this is usually a light consultation or a 'discovery' meeting rather than a full fact-finding discussion.
Initial payment	An initial payment is typically the amount of money a client would pay upfront for financial advice. This can be based on a variety of models including set fees, percentages of the amount to be invested or hourly rates based on the work involved.
Off-setting of costs	This is a nuance on the pricing structure where advisers charge an early payment for their review and recommendation work to cover their costs in case the consumer does not implement their advice or where the client takes the advice but transacts directly with the provider of the product. This payment is taken off the final adviser charge if the client proceeds with the recommendation.
On-going advice	This usually means on-going service – so the monitoring activities an adviser may undertake such as producing fund valuations and meeting with the client for an annual review of their circumstances.
On-going payment	An on-going payment is an amount of money that the client agrees to pay the adviser on a regular basis (e.g. annually or monthly) for an on-going service. The adviser must agree with the client the level of service (e.g. annual health checks, portfolio reviews, newsletters etc.) that they receive for this payment.
Pricing structure	This is the model by which the adviser is charging for their advice – this is normally a percentage of investments, a fixed fee or an hourly rate. Some firms operate a number of models.
Retail Investment Products	This term encompasses a broad range of investment products on which retail consumers might typically receive advice. Examples may include unit trusts, investment bonds, personal pensions, structured investment products and investment trusts amongst others.
Restricted advice	A personal recommendation to a retail client in relation to a retail investment product which is not independent advice
Scope of service	The independent or restricted nature of a firm's advice offering.

Abbreviations

The report contains the following abbreviations:

Abbreviation	Meaning
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
KFD	Key Facts Document
RDR	Retail Distribution Review

Reporting conventions

The report makes use of three types of illustration to support the findings:

Verbatim comments
These are respondent quotations, based on interview recordings with only minor editing. They are labelled with the age bracket of the individual, their level of investable assets, whether they are more or less financially sophisticated and their purchase behaviour regarding investments.

The respondent quotations demonstrate their own views and perceptions and may not always be factually correct.

Counts
The number of participants giving a particular response is shown in some report sections. Counts are provided to indicate the spread and balance of different behaviours or views among people who participated in the research. **The counts do not constitute quantitative data or imply any statistical robustness**.

Case studies
More detail has been given about the views and circumstances of some participants to illustrate findings.

1. Summary

1.1 Context

The Retail Distribution Review (RDR) came into effect on 31 December 2012 bringing with it a number of important changes to the way in which advice is provided in respect of Retail Investment Products. These include:

- A total ban on commission payments from providers to advisers for advice given on Retail Investment Products
- The introduction of customer agreed remuneration so that an adviser's remuneration is agreed between the adviser and the client in the form of an Adviser Charge
- A broader definition of the scope of products on which an adviser must be able to advise if they wish to operate as an Independent Financial Adviser (IFA) and the introduction of a new definition of Restricted Advice

Other aspects of the RDR include changes to the rules governing professional qualifications but are outside the scope of this research.

1.2 Relationship to the FCA's supervisory work

The FCA is undertaking a thematic review to assess firms' approaches to meeting the RDR's requirements, in respect of disclosing adviser charging and disclosing and delivering their scope of service.

Firms are required to provide an initial disclosure document outlining their adviser charges and their scope of service. These disclosure documents are intended to help consumers to understand the different services being provided and to recognise the cost and value of advice. This means they should be clear. Ultimately, these documents should promote competition by putting customers into a more informed position when choosing a financial adviser.

As part of its thematic review the FCA wished to conduct consumer research to assess whether the initial disclosure documentation that advisory firms use to disclose their generic charges and services are meeting these aims. We appreciate that these documents may be accompanied by verbal disclosure from advisers and will be followed up with client specific disclosure documents. However, one of the main purposes of these documents is to put consumers in a more informed position prior to meeting with an adviser and to assist with the process of selecting an adviser. Therefore, the FCA wanted to test how effective the initial disclosure documents are in isolation.

1.3 Objectives and methodology

The specific business objectives which the research was designed to address are:

- To provide the FCA with insight into how much consumers understand from the documentation provided to them and how it could be improved
- To enable the FCA to identify good practice and highlight poor practice
- To help the FCA understand what drives consumer behaviour in particular respect to the use of firms' documentation on charges and scope of service
- To enable the FCA to better understand consumer needs and their financial decision making (in relation to the documentation)

The research is intended to help advisory firms increase the standards of information provided to customers and presentation via external communication of the results and recommendations.

1.4 Summary of key findings

This report is split into two core parts:

- The first part of the report (Chapters 2 – 4) should be looked upon as a detailed review of the ways disclosure documents currently share critical information such as costs and scope of service. This detailed review leads to a number of implications for adviser firms producing these documents. Being aware of the areas that consumers struggle to understand, and keeping in mind some of the design principles that consumers want to see in action in the documents, will enable advisory firms to produce more understandable literature for their future clients.

- The second part of the report (Chapters 5 – 8) is dedicated to the wider behavioural context that these documents play within. Understanding these elements helps give some context to the common areas that consumers struggle with and will be useful for advisory firms in thinking about their own practices regarding disclosure documents, such as when to send them and the sort of responses that are likely.

1.4.1 Implications for adviser documentation

We believe that disclosure documents could play a stronger role in establishing trust in a new advice relationship. Current disclosure documents do not always support consumer decision making when selecting an adviser.

There are a number of common issues with the disclosure documents tested in the research that cause misunderstanding, confusion or frustration. Addressing these would help consumers to know more about the costs of advice. The majority of advisers provide the disclosure documents during a meeting and talk them through with the client[1]). This does not support consumer decision making on selecting an adviser or deciding whether to work with them. Verbal disclosure from the adviser is the key route to understanding scope of service and the costs associated with advice process for the participants in this study. Participants view these documents as a summary of a conversation that should be filed away 'in case something goes wrong in the future'.

The current format of the documents and their presentation in a meeting does little to change participants' perceptions of how financial advice works. This cycle of adviser use of documents and consumer expectation of how documents will be used is created and amplified through consumer and adviser behaviours. Participants don't want to engage with these documents – partly because they are financial documents and so are treated like other financial documents. And secondly because there is an expectation that the adviser will talk through all of the detail in these documents, there is no impetus to really engage with them.

[1] NMG poll of 131 advisers – the most frequently used method of delivering the initial disclosure document is in a meeting (74% of advisers provide it in a meeting and either talk through it in detail, or highlight the key points)

The documents themselves further inhibit full engagement through a number of 'disruptive moments' such as use of industry specific language, charging structures that are difficult to quickly apply to individuals' circumstances and in several cases poor layout and design.

Because the documents are difficult to read and engage with, many of the participants in this study simply default the responsibility of all disclosure to the adviser, placing the onus on the adviser to ensure understanding.

A successful document will encourage consumers to take an active role in understanding the advice processes and costs.

We define a successful document as one that promotes understanding of an adviser's services and fees. Documents that encourage consumers to take an active role in digesting the impact of these elements on their own situation, rather than fostering a total reliance on an adviser to be responsible for all elements of understanding, could be deemed the most successful of all.

Different elements of disclosure (e.g. costs of advice, level of service provided) are addressed in different ways by the documents. Participants in this study identified a number of ways that these could be improved.

Applying charges is especially problematic for participants – using pound examples helps.

Understanding how much advice will cost ahead of meeting with an adviser is difficult for participants. This is driven by two key factors. Firstly there is an expectation that the adviser will 'tell me' – driven by the past experience of a commission based world where consumers had minimal involvement in setting costs. Secondly, there are difficulties based around applying the costs from pricing structures based on percentages or hourly fees, or selecting which cost might be the one an individual pays from a menu of fixed fees.

Calculations from percentages are relatively difficult with several participants unable to make the necessary calculations or estimating these incorrectly, often missing a decimal place leading them to believe that the costs of the advice are either vastly more expensive than they are, or much cheaper. Hourly rates, though an understandable format for pricing, do not in themselves give any indication of how long it might take to arrange a solution for a consumer. With fixed fee models, the difficulty is often not about the price, but in knowing which service may be needed, and thus the price associated with that service.

Pricing structure	**Suggested improvements based on participant feedback**
Percentage based	*Very clearly laid out pound examples – at useful price points – to ensure that people are equipped with a 'benchmark' for the costs of advice*
Hourly rates	*Ensuring that 'typical costs for an investment customer' or 'typical costs for a pension customer' are shown. Highlighting very clearly that a personalised quote will be provided before the customer is liable for any charges, highlighting that there will be a 'cap' on charges to ensure people feel protected against the fear of 'writing a blank cheque'*
Fixed fees	*Absolute clarity of which fixed fee service is suitable for an individual's needs*

Using pound examples helped participants in this study significantly. Participants were not seeking a personalised quote from these documents, but an approximation so they know broadly what to expect. All the documents tested contained pound examples, but the usefulness of these was often undermined by poor layout (meaning the examples were often missed), and inappropriate amounts of investable assets used to illustrate the costs.

Participants suggested having a tiered set of pound examples that could be used for them – starting with £50,000 and then going upwards (or based on an advisory firm's target market). This would be a useful measure for firms to apply in their documents as the examples were often cited as the quickest route to forming a broad picture of the costs of advice.

The timing of advice charges is another issue. Many documents do not contain enough clearly linked information on the timings of payments for both initial and on-going services. Many participants assume that advice charges are due at set up of a new product – but often only because there is a reference to paying via an investment in the payment options. This belief reaffirms participant's assumption that advice is only charged for through commission i.e. you only pay for advice once (and if) you buy a product. This is a key issue for advisers describing advice services in a fee based world, where the aim is to disentangle advice costs from the need to purchase.

Providing a generic timeline of the customer relationship, with payment points noted against the various stages of this would be an extremely simple way for consumers to understand what they pay for when they are liable to pay.

Scope of service is often easier to understand than charges, but restricted advice and the nature of restrictions need more context.

Many of the documents tested did not adequately describe the initial advice process. Within the current pattern of using these documents (i.e. during a first meeting), this is not an issue as people will already be in the initial advice process at the point they receive these documents. However, as participants would like to see these <u>before</u> an initial meeting, the process for initial advice needs to be more clearly explained if consumers are to feel that there is value in the service and the work that goes into delivering this. Some of the firms that showcased initial advice operated an off-setting pricing structure (e.g. when a firm charges a fee for initial recommendation work that is payable whether advice is taken or not, firms may off-set the cost of this fee against a later implementation fee). When off-setting is part of the advice firm's pricing structure, the early stages of the advice process must be clearly explained to ensure that people can see the 'work' involved and so feel confident that the fee is justified.

Outlining the process for initial advice helps to mitigate some of the surprise over the cost of advice that people who have never invested before feel on first seeing the charges.

On-going service was perceived to be more clearly expressed – the elements of this process were often more understandable and participants could see a clear need for them. When participants understand the service levels available, they feel empowered to talk about these with their adviser, often to help decide what level of on-going service might be suitable for them.

Restricted advice is a new term for the participants in this study who, for the main, are unaware of the RDR and what this has necessitated for advisers. The definitions used in the documents tested failed to communicate the nature of the restriction that a firm was operating. Partly this is driven from the assumption participants make that advisers are independent, but it is also due to the lack of knowledge of what restricted means in an advice context. These assumptions were not dispelled by the descriptions in the documents, which were generally poorly explained.

Providing a simpler, generic restricted disclosure along with the firm-specific disclosure of a restriction allows people to understand more about the nature of restricted advice. This needs to be accompanied by later verbal disclosures to ensure understanding.

The role of design and layout is critical in ensuring people have an opportunity to engage fully with these documents.

In addition to the more content based needs, participants in the research outlined a number of design principles they wanted advisory firms to bear in mind while designing these documents. These can be summarised as follows.

- Ensure that information is linked together to allow people to assess it in context. For example avoid separating the services and the charges into different sections. When information is separate, there is more work for the consumer in reconciling the various points of information.

- Ensure that a good sized font is always used. This increases the ability for people to read the document and ensures the document doesn't look like 'terms and conditions'.

- Avoid using paragraphs to share complicated information – tables and diagrams are preferable. This is particularly the case when it comes to difficult to process information such as costs.

- Use bolding of text, colour and highlighting to draw out key information. People want to skim-read these documents so provide ways for that to be a useful activity, e.g. ensure costs for a service stand out in a separate text box so that even if nothing else is focussed on in a document, people will see this element.

- Ensure the layout is consistent – when layout changes, people have to shift their pattern of reading to accommodate this which makes the documents harder to read.

- Use white space carefully – avoid cramming the information into the space available, particularly where this means changing the layout, font size or the margins of the pages to accommodate additional points.

- Try to keep the document to four pages – when documents become longer than this, they start to look like hard work (even if they are not), and so receive less attention from consumers. However, do not sacrifice font size or layout needs just to meet this desire.

1.4.2 The behavioural context

Consumers currently view these documents to be of relatively low importance in the process of finding and working with an adviser. This impacts participants' willingness to engage with the documents in their current format. However, better designed documents will increase the likelihood of these being read and can aid building a trusted relationship.

The disclosure documents tested were positioned by participants within their current cultural framework. Viewing the documents through the beliefs that the participants have about the world of advice ascribes various expectations and assumptions to the documents before they are read. These beliefs are about the way you find an adviser (e.g. always through recommendation), the way you pay an adviser (e.g. through commission and when you buy), and the role of verbal disclosure (i.e. verbal disclosure comes first). These filters mean the documents are perceived to have a relatively low value in the decision making processes around advice.

These documents are often viewed 'like other financial documents'. They are seen to be terms and conditions, and so should be kept, but only in case something goes wrong. These documents are then placed into the pre-conceived format of the advice process meaning that participants in this study generally did not expect to receive them in advance of a meeting with an adviser. As such they are presumed to constitute a summary of a conversation about the most important points. In other words, they do not need to be read as in theory the core information within these will already have been discussed.

With this in mind, participants often felt that these documents have little bearing on their decisions to work with an adviser – the process of which is dominated by the need for a trusted relationship currently best found through recommendation and referral.

Consumers still want to meet advisers – documents aid understanding, but relationship is critical.

Most participants felt that even if they saw documents earlier in the advice process this would not deter them from meeting with an adviser. The role of relationship is fundamental to the advice process which relies on trust in the expertise of another. Referral and recommendation are seen to be the key path to establishing this link. Documentation, however clear and transparent, will be secondary to this for the foreseeable future.

Documents will not detract from establishing a relationship, but can certainly help in building a sustainable and open relationship.

Consumers want these documents before a meeting, to help build trust in a new advice relationship, but a number of 'improvements' to the documents are needed to make this a useful exercise.

Participants feel the documents could do more to aid a new advice relationship. A transparent document that outlines the services available and the costs of these clearly, would be a useful starting point to establishing an advice relationship which the consumer enters with a higher level of knowledge about the process, services and costs. All of these elements, if clearly communicated, are fundamental to building trust in a relationship and offer opportunity to advisers to build sustainable relationships built on true understanding. This can only be positive for both the adviser and the client.

When participants understand the costs and the services from the documents, they believe that they would feel more confident, more informed or more in control. Knowing more about the process helps consumers feel trust in the decisions that then result from it.

Most of the documents tested do contain elements that help understanding, but the majority of these features are undermined by a number of elements that consequently erode this. Participants suggested a number of improvements to the documents that are contained within this report.

If the documents can clearly explain the services and the costs, this offers time-saving opportunities for advisers as the 'educational' element of the first meetings will be reduced. Understanding is not something that can only be delivered via documentation, but there is certainly scope for consumers to have access to more usable information ahead of discussions with the adviser.

Helping consumers to understand the advice process, scope and costs will result in a more engaged dialogue between advisers and consumers on the application of that service to their own unique needs.

2. Identification and understanding of charges

This Chapter explores the way participants identify and interpret the disclosure of charging structures in the documents tested.

2.1 Summary

The ability to understand the charges and the ways that they apply to individual participants is variable. The majority of participants found it difficult to apply charging scenarios to their own situations and this ability was complicated by a number of elements within the documents tested. Clearly some documents work better than others and this was evidenced in the average number of correct answers each document received in the knowledge quiz [2] with the extremes of these ranging from 7.8 out of ten (the highest scoring document) through to 4.4 out of ten (the lowest scoring document). Nearly all of the documents tested had the most incorrect answers given for questions that asked people either how much it would cost them to invest a certain amount of money, or for questions that asked them what fees might apply to them if they wanted to take out an investment with a particular company.

When participants started to read the disclosure documents, they wanted to feel that they could understand when they would be liable for costs and approximately what those costs might be. Interestingly, they weren't seeking detailed information on the exact costs that they might incur, only to have an idea of the amount before a meeting with an adviser. The documents tested rarely made this an easy task for participants to estimate prior to a hypothetical meeting with an adviser.

2.2 Identifying charges appears straightforward on the surface

Nearly all the participants in this study felt that they could easily identify the charges associated with advice in the documents. However, some consumers overlooked elements of the charging structures within the documents tested with the result that they had a mistaken view of the charges that would apply. These difficulties were also apparent in the knowledge quiz results where the answers to questions around which charges an individual might be liable for provoked the lowest scoring question for four out of eight firms. The common mistakes participants make are explored below:

2.2.1 Viewing costs for only one part of the advice process

Only seeing the costs of advice for one part of the process – either initial or on-going costs. In many cases people missed one or the other. This is most often due to differences in the layout of the costs associated with each stage. For example, one of the documents tested that was more successful in ensuring both initial and on-going costs were seen had outlined costs as below. The font was in a different colour from surrounding text and bolded to ensure that the consumer was clearly directed to this information.

[2] During the interviews, knowledge tests were administered to validate the responses individuals were giving about how confident they were of the knowledge they had gained from reading the documents. See the Technical Report

1. Initial Charges

3% on the first £100,000 of your investment, and then 1.5% on any amount over that

2. On-going Charges

0.5% per annum

3. Example Costs

To set up a new investment of £50,000 would cost: £1,500 (3% of £50,000).

To set up a new investment of £200,000 would cost: £4,500 (3% of first £100,000 = £3,000 PLUS 1.5% of the remaining £100,000 = £1,500).

One year of on-going service on the £200,000 would cost: £1,000

The amount of the annual ongoing charge may increase as the fund grows

Figure 1: Good example of highlighting both initial and on-going charges apply

In the second example below, a number of design issues impact an individual's ability to capture all of the information on costs. The two extracts below are from one firm's documentation – they had two separate documents – firstly a Key Facts Document, and secondly a 'Services' booklet.

The first box shows the first disclosure of charges under 'Your payment options'. This piece of information was in the Key Facts Document – a largely narrative based presentation of information about the company's services. Most people did not see this first disclosure of the initial charges because it was near the top of a full page of dense paragraphs, on the fourth page of information that had been presented that way. It is safe to assume that most participants were skim reading by the time they got to this piece of information and simply missed it. Further, there was no disclosure of the on-going charges alongside this information.

In the second box, we see where most participants absorbed their information about the costs of advice from this firm. A table of costs in the second document quickly drew participants' attention and this was praised. But the detail on initial costs was again often missed because the focus of the layout within the table looks to be on-going advice costs rather than both initial and on-going advice costs. The minor design issues such as use of bolding, the merging of cells in the initial advice cost examples, the switching of the £ vs. % format mean that people overlook the information in the top half of the table and focus on the bottom half.

Your payment options
Our advice charge is based on the amount that you invest on our recommended financial solution. The charges are based on the following:

- Up to £100,000 – 3%
- £100,001 or more – 1.5%

Shown in first document

Investment:

	Service A		Service B	
Initial advice – lump sum = %	3% of your investment with a minimum cost for advice of £1500			
Initial advice – lump sum = £	For an investment of £100,000 you will be charged £3000			
Ongoing annual	**%**	**£**	**%**	**£**
	1% of funds	For fund of £100,000 you will be charged a fee of £1000 a year	**0.5% of funds**	For a fund of £100,000 you will be charged a fee of £500 a year

Shown in second document

Figure 2: Poor example of disclosing advice costs in different ways in different documents

2.2.2 Reading minimum costs as base cost for advice

Minimum costs are sometimes read as the base price for the advice costs – this is especially apparent in on-going service and where there are multiple levels of service available. In the example shown below, most participants chose the service level that was £1, "because it's the cheapest". In this instance, it is the headline price that is being read, rather than the true price which is revealed below.(the funds under management charge)

Service Level	**Gold Service**	**Silver Service**	**Bronze Service**	**Transaction Only**
Minimum Cost	£3,500 per annum	£1,250 per annum	£1 per annum	N/A
Charge Applied	All subject to a 0.75% of funds under management charge			

Figure 3: Poor example of illustrating minimum costs vs. full costs

2.2.3 Selective viewing of one type of charging structure

Selective viewing of only one type of charging structure when multiple charging structures are offered e.g. where there is the choice between a fixed fee and an hourly rate. Again, participants see one element (usually the first presented) and focus on this as the charging structure. Some will go into more detail and assume that the cheapest option is the one that they would choose.

2.2.4 Misidentifying other charges as the advice charge

For example, where platform, fund or product charges are also included, people mistakenly identify these as the costs of advice. Again this is often seen where the presentation of other costs is clearer e.g. tabulated, bolded or called out in some format in comparison to the advice charges which may seem to have less focus due to design and layout issues.

This mistaken identification is important as it signals the service as being available at a cost that is usually lower than the true cost. This creates a barrier for advisers to overcome in meetings, which could be addressed earlier in the process.

2.3 Charging structures appear easy to calculate, but the experience is very different

On the surface, all the charging structures seen in the research appear simple to understand. However, when participants try to calculate the costs on their own, it is quickly seen that, to the contrary, all charging structures are difficult to apply. Pricing structures are complex in this industry and people find it difficult to estimate the costs of advice. Within each pricing structure there were a number of elements that caused problems for people in applying the charges:

2.3.1 Fixed fees

The key elements that caused difficulties in understanding here are linked to individuals' ability to identify what is appropriate for them in the fixed fee structure. For example in one firm's documents the fixed fees were related to different product areas – e.g. Pensions, Investments, Insurances. Where people were looking to the adviser to recommend the solution to them, this structure made it hard to consider what costs might or might not apply to their circumstances. Another variant on this is where fixed fees are just one element of a pricing structure which leaves participants wondering if they should take the fixed fee route or the alternative pricing structure offered (e.g. "would it be better value for me to choose the hourly rates?"). In the example below, we show a way of presenting fixed fees in conjunction with another charging structure. The fixed fee services are presented against the type of financial need you might have which makes it easier for people to decide which route they may need. Further, the example highlights the existence of an alternative charging structure, a note that the adviser will help them decide which route is most appropriate, and some very top level costs based on the other charging structure.

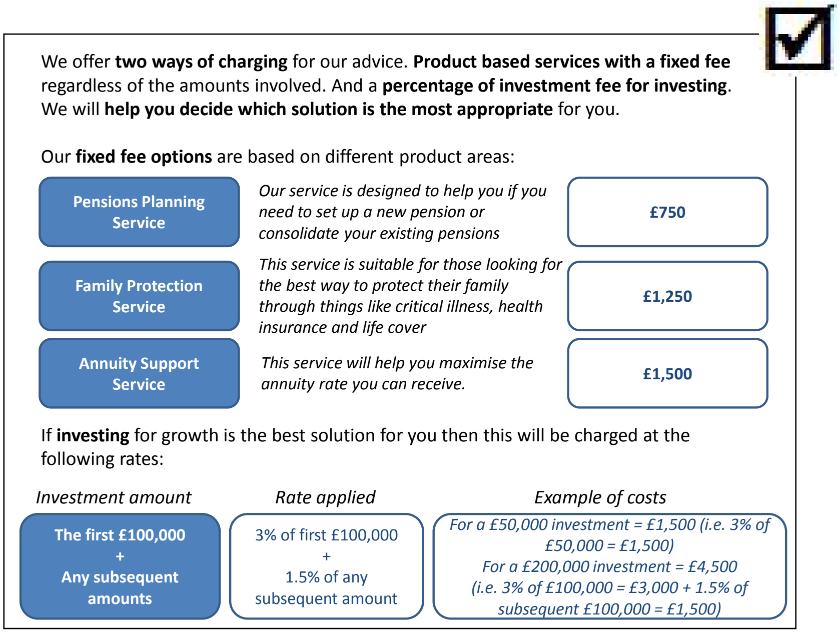

Figure 4: Applying participant feedback to disclose fixed fee and other charging routes

2.3.2 Percentage of investment

Many participants have difficulties in calculating a percentage, either feeling incapable of doing the necessary maths or attempting this but making mistakes, e.g. calculating 10% instead of 1%. This was often further complicated by limited direction within the documents in understanding which charges apply and when. For example, with tiered charges – If I have £200,000 is it the first £100,000 at 3% and the remaining £100,000 at 1.5% or because I have £200,000 is it all at 1.5%? Blended charges prove particularly difficult for people to apply. In the example below, we show one way to present this information based on participant feedback. The table format, along with the worked calculations for the larger sum of investments, shows the way in which these tiered charging structures can be usefully presented.

What will we do for the initial fee	The basis for our costs	Example costs
▪ All of our initial meetings ▪ Fact finding process ▪ Risk profiling ▪ Strategic advice ▪ Arranging and implementing your financial solution	We use a tiered charging structure based on a percentage of your investments: The first £100,000 = 3% of funds Any additional amounts over £100,000 = 1.5% of funds	For example: If you invested **£50,000** then the fee would be **3% of £50,000 = £ 1,500.** If you invested **£200,000** then the fee would be: First £100,000 would incur a fee of 3% and the remaining £100,000 would incur a fee of 1.5% so the total would be: **3% of £100,000 = £3,000** **+** **1.5% of £100,000 = £1,500** = **Total fee of £4,500**

Figure 5: Applying participant feedback to disclosing tiered percentage charges

2.3.3 Hourly rates

The difficulty here is about 'how long will it take, and who does how much work?' There are a number of elements that can make this feel like 'a blank cheque' for participants and there is a critical need for agreement over the level of work needed not to be exceeded. This agreement will usually be reached before any work is undertaken, normally during an initial meeting. However, when these documents are received in advance of that meeting this can cause concern for potential clients. In the examples below we highlight the importance of the pound examples in the disclosure of hourly rates based pricing structures. Basing these pound examples on the average cost to an advisory firm's clients helps individuals feel they have a picture of the broad costs of advice. In the example, this is provided with a useful explanation of the roles that different individuals undertake. By providing more detail in consumer friendly language, people are better able to understand the work that goes into the advice process.

Hourly rates

Administrator – *will be responsible for sending out of paperwork, ensuring responses are needed and initial communications with any financial companies you invest with.*	£25 per hour
Research planner – *usually responsible for entering your details into our system and conducting the initial searches based on your criteria.*	£75 per hour
Adviser – *responsible for constructing the investment solution that you need, conducts all fact-finding processes and will be your first point of contact for questions.*	£150 per hour

We will always present you with a personalised quote before undertaking any work that might be charged for.

We have put together some examples below to show what our average costs are

Figure 6: Applying participant feedback to disclosure of hourly rates

Our average charge to a new client based on a £50,000 investment is:

<table>
<tr><td>Administrator</td><td>5 hours at £25 per hour</td><td>£125</td><td rowspan="3">Average cost for a new £50,000 investment
£1,025</td></tr>
<tr><td>Research Planner</td><td>4 hours at £75 per hour</td><td>£300</td></tr>
<tr><td>Adviser</td><td>4 hours at £150 per hour</td><td>£600</td></tr>
</table>

Our average charge to a new client based on a £100,000 investment is:

<table>
<tr><td>Administrator</td><td>7 hours at £25 per hour</td><td>£175</td><td rowspan="3">Average cost for a new £100,000 investment :
£1,975</td></tr>
<tr><td>Research Planner</td><td>8 hours at £75 per hour</td><td>£600</td></tr>
<tr><td>Adviser</td><td>8 hours at £150 per hour</td><td>£1,200</td></tr>
</table>

Figure 7: Applying participant feedback to show hourly rate cost examples

The clear outcome of this is that participants inherently prefer simpler pricing structures because this makes it easier for them to calculate the cost of the advice. In promoting transparency and clarity regarding costs, there is an argument that advisers can create a more sustainable relationship based on openness, as both parties will know the boundaries of the cost before any work is undertaken.

2.4 A number of additional pricing elements cause further difficulties

Some of the firms included in the research used additional pricing elements within their charging structures. These often added to the difficulties that participants had in identifying the costs of advice. As these pricing elements are not linked to one pricing structure, this has been reviewed separately.

- **Off-setting of costs** – The initial commitment fee cost is often mistaken for a fixed fee. It is most successfully communicated where it is shown as a separate 'item' in an advice calculation. Explanations of the off-setting of costs that rely on written paragraphs often confuse individuals as they are trying to track both the process and the amounts. In the first example below, we show a poor example of disclosing the existence of a commitment fee. This is hindered by the layout used which is small font in double columns, along with a written paragraph that participants struggled to read and apply.

Our firm is committed to ensuring the best possible solutions for your financial needs. We have four fully chartered advisers and we work with a team of six paraplanners and two assistants. This process allows us to reach the very best product for you. The work we undertake is chargeable on an hourly basis as follows:

Adviser:	£150ph
Paraplanner:	£75ph
Assistant:	£25ph

We will agree a total cost with you before implementing any recommendations we make.

We also charge a recommendation reporting fee of £650. This fee can be off-set against the total cost of advice that you receive from us. For example, if your total cost for advice is £3,000, we will deduct the £650 already paid to us for the recommendation report meaning you then pay the remainder.

This fee is payable regardless of whether you go onto implement the advice or not and is used to cover the time it takes us to research the appropriate solutions for you.

Figure 8: Poor example of off-setting of costs

In the next example based on participant feedback, the process for off-setting is highlighted in two ways, firstly through a bolded list of the types of fees an individual might pay, and secondarily through a listed example that highlights the way that the cost might be off-set against later advice received.

Our typical charges for advice:

1. **An engagement fee** – this is the fee that we charge for all of our initial work. This covers the cost of producing a full recommendation for your financial need. Once you have paid this fee, you will receive the full advice and recommendation report.
2. **An implementation fee** – if you decide that you want us to implement the advice we have given you, we will charge you the implementation fee. ***We will deduct the cost of the engagement fee*** from this work as you will have already paid this.
3. **An on-going fee** – if you decide to take up our on-going advice service, this is the fee that you will be charged once a year to access the service.

Let's look at an example of this in practice.

Mrs Jones had £100,000 to invest. She asked us to prepare a recommendation for her on how to invest this, which she then went on to implement. This is how we charged for this:

Total cost of receiving advice and setting up the investment:	£3,000
Engagement fee paid when the recommendation report was delivered:	£650 - PAID
Remaining balance due at implementation:	£2,350 - OWED

Figure 9: Good example of off-setting costs disclosure (note: full charging structure not shown)

- **Different levels of on-going service costs** – these are difficult to understand where the signposting for the service level appropriate to individual participants is not absolutely clear. In the example below there are a number of issues at play that make it hard for people to judge which on-going service route they should select. Firstly, the names of the on-going service levels provide difficulties for people in knowing which is the better option, secondly the differentiation between the service levels is minimal (effectively constituting an additional meeting each year), and finally there is no signposting as to which service level an individual might need.

We offer two options for on-going service:

Magnify – charged at 0.5% per annum
Service includes:
- Access to an adviser
- Annual meeting
- Annual statements and performance reports
- Access to online valuation tool

Focus – charged at 0.75% per annum
Service includes:
- Access to an adviser
- Bi-annual meetings
- Bi-annual statements and performance reports
- Access to online valuation tool
- Newsletter

Figure 10: Poor example of on-going service costs

In the next example, we can see a re-working of the service levels to present a reason to select one or the other. The layout has been re-worked to present the services side by side to make comparison between the two a little easier, and finally the elements of the differing service levels have been adjusted to illustrate the greater touch-points available in the more expensive level of on-going service.

We offer **two levels of on-going service** for you to choose from:

*If you want **a light touch service**, with low-level contact from your adviser you should select our:*

MAGNIFY SERVICE – 0.5% per annum

Includes:
- Annual statement and performance report
- Annual meeting
- Online access for portfolio valuations
- Access to your adviser should you need us in the meantime

*If you'd prefer **a more involved service**, with more contact with your adviser you should select our:*

FOCUS SERVICE – 0.75% per annum

Includes:
- Bi-annual statements and performance reports
- Bi-annual meetings
- Online access for portfolio valuations
- Newsletters and seminars
- Access to your adviser should you need us in the meantime

Figure 11: Good example of on-going service signposting (note: This is an extract of a document. In addition to this, further information about the nature of the meetings and what they include would need to be provided)

2.5 Calculating advice costs on regular contribution investing is particularly challenging

Calculating the costs of advice in a regular contribution product is especially difficult for people to understand. The first barrier to understanding this process is related to the language used. "Regular premium" is not something that participants instantly understand. Monthly contribution is better understood. Detailed calculations using relevant examples need to be shown to ensure that the cost is fully understood. Secondly the issue is exaggerated by participants not knowing exactly what solution is relevant to them at the time of looking at these documents. Regular contribution investing is not something that participants felt they would spontaneously be seeking as a solution because they tend to think of more product based needs e.g. I need to invest, I need a pension etc. Because regular contribution investing is a layer of information beyond simply investing, many participants skim read these sections and therefore miss the details on regular premium investing.

Participants found one example of explaining regular contribution payments more user-friendly than others. In the re-purposed example below, it is possible to see a number of design elements that contribute to this. The box is highlighted in colour which serves to make it stand out on the page. The language has been adapted using a more consumer-led set of words. And finally, the calculations that lead to regular premium payments have been outlined.

<u>How paying for advice with a monthly payment (e.g. in a pension or life policy) works</u>

We normally take our advice charge from the first year of monthly payments you make to your product. We have put together an example to show how this works:

Total cost of your advice *to set up the product is:* ***£750***
Payment is taken over a 12 month period*, so we divide the total advice cost by 12.*

The monthly advice charge is*:* *£750 ÷ 12 =* ***£62.50***

Each month you pay your premium *for the product of:* ***£300***
Each month ***we take £62.50 of that £300*** *and invest the remainder.*
So each month for the first year, your payments are split as follows:

£237.50 is invested	**£62.50 pays the adviser charge**

Figure 2: Applying participant feedback to regular premium payments

2.6 Use of pound examples aids understanding

The pound examples in each document were often the most useful element for people who are skimming through the documents. These simple expressions provide a quick 'yardstick' for people to use when trying to understand the costs for advice. However, there are things that can undermine this. Firstly, the layout of a document where it is often easy to miss the examples. Secondly, the relevancy of the example shown – this is of particular importance to new investors who often have lower sums readily available for investing than the examples shown.

> *"All the examples are useful – that's why I'd like to see more. It's the simplest way to understand things. I'd like to see more on different product types."*
>
> *(Older, £251,000 - £2million, less financially sophisticated, not purchased in 2 years)*

2.7 Timelines for payment would increase knowledge about the process

Several of the documents tested used very simple expressions of time to suggest when payment for advice would be due e.g. at set up; per annum. However, for participants these expressions are not always clear (driven from a lack of knowledge about the post RDR world / investing more generally). Many people when asked when they would pay simply assumed payment would be due at product purchase. Often, this assumption was correct but was not clearly stated in the documents. Where information was contained on this, it was more often in the payment options with one option listed being ‘payment from the investment’ – leading to the assumption that the participant could not pay before they had set up something with the adviser. This is more problematic where this is combined with off-setting or early commitment charges.

On-going service presented a challenging case for people. Per annum tells people that it is a charge for a year of work, but it does not tell them when it is due. One document tested clearly explained the process behind this being a monthly deduction from the investment. However, the majority simply stated ‘per annum’ – which can lead to the mistaken assumption that the client pays at the beginning of the year rather than at the end.

Several participants suggested a simple timeline illustration with the payment points noted on it. This would aid understanding both of the advice process, but also of the times when they become liable for costs.

> *“Most of these fees are paid upfront, some are paid during the lifetime, some will want you to pay everything before they do anything. I understood this to be a lump sum charge paid at the beginning of when you get the advice. If it is a monthly plan they will charge you a percentage of that monthly amount.* ***It is not entirely clear from this document, but I assume that you would pay for the advice.****”*
>
> *(Older, £500,000 - £2million, more financially sophisticated, recently purchased)*

This example illustrates how different elements of information can be aligned to ensure that the information is communicated at the same time. Here the timeline of the advice process is linked to some topline information about the costs of advice. This still needs further support through examples to make it truly understandable, for instance, examples of the fees must be given in cash terms. Highlighting of the fee elements once they become applicable draws attention to their existence.

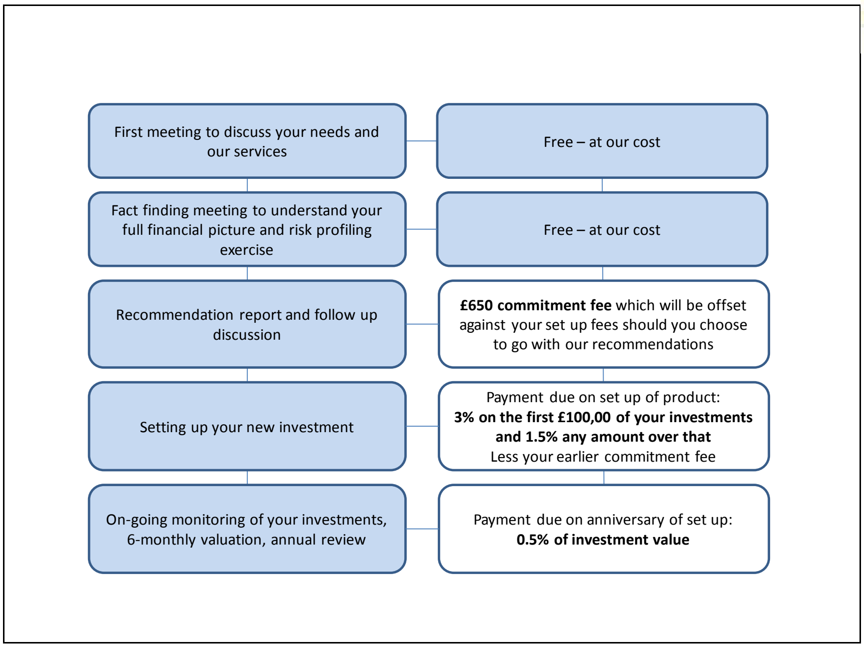

Figure 13: Applying participant feedback to link information between service and cost

3. Identification and understanding of service

This chapter explores the elements that contribute to (mis)understanding of the service offering from an adviser

3.1 Summary

Understanding the service provided by an adviser is a relatively complex process. There are a number of components that participants need to work through in order to understand exactly what the service is about from independent or restricted, initial to ongoing and then the impact of differing levels of on-going service. Some of the documents tested contained elements that helped with this process. But for many participants there are still fundamental questions over important elements e.g. restricted or independent offering, whether on-going service is optional and how to choose what level of service they might need.

3.2 Restricted advice is a new concept for consumers

As many participants are unaware of the RDR, the level of understanding around restricted advice is low. Many simply assume independence as the model being offered. Most of the documents tested did not explain restricted advice in a way that people understood. All participants had to be supported with the verbal disclosure description NMG designed for testing.

When people did see the restricted advice definition – most often when a tick box style presentation is used, this led to two assumptions. Either they flagged it as something they would need to follow up with the adviser, or they made an assumption that this is possibly a 'single-tie' style offering.

> *"I'd want something completely independent [advice]. You do need to think long term, but I don't know enough about it to make an informed decision."*
>
> *(Young, £10,000 - £50,000, less financially sophisticated, never purchased)*
>
> *"I would have thought that restricted means they are only allowed to sell you things from their company as opposed to restricted meaning that they are restricted to only Pensions, or ISAs or shares?"*
>
> *(Young, £10,000 - £50,000, less financially sophisticated, recently purchased)*

Participants were asked whether a list that outlined all of the products/ providers that a firm was able to consult on would aid understanding and for a few more sophisticated individuals this would. However, for the majority of participants asked, the list itself would be difficult to understand with the key issues being about brand recognition in a largely intermediated market and/ or not knowing which products were missing due to lack of knowledge about the market in its entirety.

Because the nature of a restriction can be very broad and unique to a particular company, participants in this study wanted to see more definition over whether the restriction was by product area, providers used, or a combination.

The template tick box style of presenting independent vs. restricted nature can work well as a shortcut for people to understand what services are on offer, providing the layout is clear. Further in this example, greying out of the text on 'no advice' enables the reader to instantly move past it should they not be interested in the services available in the whole market.

In the following example, a firm that can only advise on pensions has expanded the restricted definition to include a generic explanation of what restricted advice means followed by details of how this applies to their firm. This includes an educational statement followed by confirmation of the firm's individual restrictions immediately.

What Services are available?

☒ **Independent Advice.** We will advise, make a recommendation and arrange any suitable products for you after we have assessed your needs. Our recommendation will be based on a comprehensive and fair analysis of the market.

☑ **Restricted Advice**. We will advise and make a recommendation for you after we have assessed your needs. **Restricted advice** means that the adviser will only consider recommending investments from a limited range of products and/or providers. Different advisers are restricted in different ways. Our firm is restricted as we only offer advice on pensions. You may ask us for list of the products we offer.

☒ **No advice.** You will not receive advice or a recommendation from us. We may ask some questions to narrow down the selection of products that we will provide details on. You will then need to make your own choice about how to proceed. Once you have made tour choice, we will arrange the selected product on your behalf.

Figure 14: Applying participant feedback to disclosing independent or restricted

3.3 Different offerings for different product areas complicates matters

When an adviser is whole of market in one product area and restricted in another – or can offer both models – this creates additional confusion when reading the documents. Focusing on one offering is the most common result with assumptions about the first advice model seen transferred to other areas. This may lead to an inaccurate conclusion over the type of advice being offered.

One of the documents tested used the tick box structure, along with large font (14 point), lots of white space and clearly differentiated headings to successfully communicate this.

Several participants raised the idea of separate documents for separate product areas; however the majority do not want to receive multiple documents.

3.4 Understanding initial advice

Half of the eight firms' documents tested were praised by participants for a careful explanation of the process that a consumer would go through. However, because these documents tended to be longer than the others tested (18, 13, 7 and 7 pages) there are barriers to reading these in detail. The documents that explained initial advice well provide an outline of the stages of the advice process. Two of these used written paragraphs with clear headings to do this. One used a diagram showing the advice cycle from initial advice through to on-going service. The final document used a table to present the components of initial advice in one row, and on-going in another. This was further complemented by the charges being aligned in the columns next to each row.

Below is an example that illustrates the type of practices that aided people in understanding the advice process and the costs linked with this. This is an example of using layout to aid understanding of the advice process and the fact that work is undertaken at an earlier stage (there are further elements of difficulty in disclosing tiered charging structures that have been discussed earlier in this report). To be fully compliant, this example would also need to clearly call out the examples of costs in cash terms and provide further details about the nature of the meetings.

What will we do for the <u>initial fee</u>	The basis for our costs	What our costs are	
▪ All of our initial meetings ▪ Fact finding process ▪ Risk profiling ▪ Strategic advice ▪ Arranging and implementing your financial solution	We use a tiered charging structure based on a percentage of your investments.	**The first £100,000:** **The second £100,000:** **Anything over £200,000:**	**3%** **1.5%** **1%**
What will we do for the <u>on-going fee</u>	**The basis for our costs**	**What our costs are**	
▪ Timely reviews and regular meetings ▪ Access to your adviser ▪ Annual statements and bi-annual performance report ▪ Access to online portal ▪ Quarterly newsletters	We use a tiered charging structure based on a percentage of your investments under management with us	**The first £100,000:** **The second £100,000:** **Anything over £200,000:**	**1%** **0.75%** **0.5%**

Figure 154: Applying participant feedback to link information

This level of detail is of particular importance to new investors who only have second hand knowledge about the advice process. However, for all of those in the study, where initial advice was clearly explained the initial surprise over the (high) cost of advice was somewhat reduced.

One document tested did not mention initial advice at all and in this case people often raised questions over what charges would apply to them if they were moving their investments to this adviser.

The remaining documents made passing reference to the initial advice process. In these cases, there appears to be a reliance on the assumptions that participants make about the process. As most of the participants in this research already had an idea in their mind over what happens when you take advice this did not hinder understanding. But in several cases it made the costs of initial advice seem very high, particularly when there is greater description of the on-going service available via that adviser firm. Defining the value of initial advice is adversely impacted by a low level description of initial advice services.

Simple pictorial diagrams and tables can be used to great effect in explaining the elements of initial advice, without adversely impacting the readability of a document. The example below shows a simple illustration of the advice process which participants felt would help them understand more about what happens and when before meeting with an adviser.

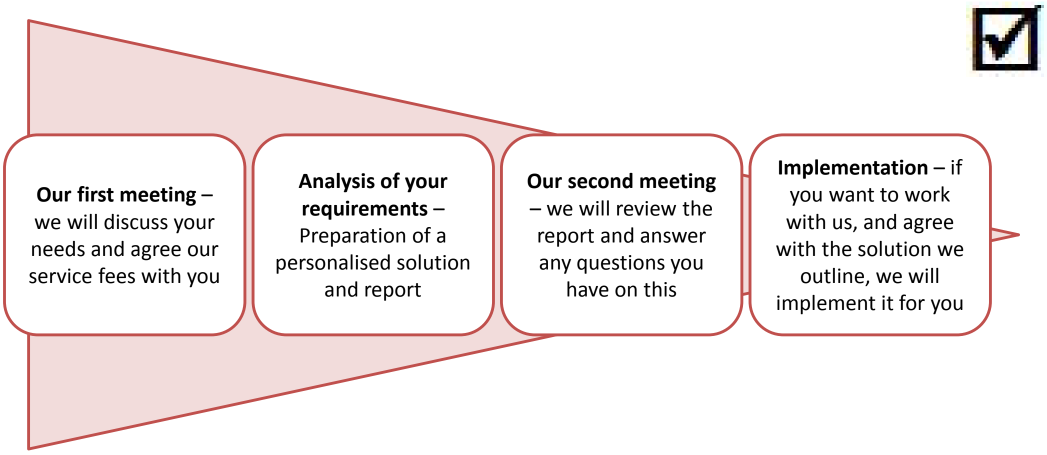

Figure 165: Applying participant feedback to illustrations of the advice process

3.5 On-going service is often more clearly explained

Most of the documents tested had an understandable explanation of the on-going advice service available because the adviser firms had clearly defined propositions for an on-going service. In addition participants saw the value in an on-going service as they recognised that investments are a long term product which will need monitoring.

Interestingly this led to a greater focus on the value of the services provided – some participants started to think about how the service offered could be adapted to suit their needs (particularly in the documents that had options available for on-going service). A core part of this is an assessment of the cost of each level of service – where people could see the differences in prices between service levels and the additional elements available in the higher cost one, they were able to make a judgement over which level they believe would be appropriate for them.

> *"He [the adviser] is going to have to convince me I needed to pay £100 more for the same service. I don't think I need [additional item]. I think I'd want that one and then if he's trying to sell me the [more expensive one] I'd want to know why."*
>
> *(Older, £51,000 - £250,000, less financially sophisticated, recently purchased)*

3.6 A number of elements can disrupt the on-going service descriptions

There are three factors that can cause minor 'moments of disruption' to this process for participants:

1. Unfamiliar service level names – this is not a major issue in comparison to understanding costs, but there was some request from participants to see more instantly recognisable names so they would know 'at a glance' what service levels were available – e.g. gold, silver, bronze or basic and advanced.

2. Service levels and associated charges linked to levels of investable assets – in these instances people started to ask questions like 'so if I didn't want the additional meeting each year, could I go on the lower priced option?' This can be a positive impact as it is promoting an open discussion with the adviser over the need for a service.

3. Impact of poor layout – in one extreme example several participants missed the existence of on-going service due to it being in small font, in column formatting and on the bottom right hand side of the page.

While these are not major issues in themselves, they are again part of a cumulative effect that makes the documents harder to digest.

In this example the firm has mirrored a format people are used to using in shopping for other categories – e.g. mobile phone tariffs or broadband / TV providers. As such, participants find information presented in a side by side comparison format relatively easy to track given their experiences elsewhere. Once again the use of highlighting against the costs draws the eye to the costs of advice.

Service Provided	**Gold**	**Silver**	**Bronze**
Continued Adviser Support	✓	✓	✓
Annual Review Meetings	✓	✓	✓
Annual Review summary report	✓	✓	✓
6 Monthly Review Meetings	✓	✓	
Quarterly Review Meetings	✓		
Review Meetings will include:			
Updating your Risk Profile	✓	✓	✓
Understanding tax implications	✓	✓	✓
Updates on your products and valuations	✓	✓	✓
Access to your Online Portal	✓		
Estate Planning and IHT review	✓		
Income/Expenditure Review and forecasting	✓		
Cost based on total Value of investments	**1%**	**0.75%**	**0.5%**
Example of fees based on an investment of £100,000	**£1,000**	**£750**	**£500**

Figure 176: Applying participant feedback to comparing services

3.7 On-going service is rarely seen to be optional

Knowing that on-going advice is a choice is important for participants in identifying the value of a service. Where service is perceived to be mandatory, the perception of value is reduced e.g. 'I have to pay for the service, rather than I am choosing to pay for the service'. In several documents tested there was little evidence for participants that on-going service was optional. Several participants did not expect to set up an investment and not get an on-going service. But only two of the documents tested clearly stated that on-going service was a choice. In others there were indications that this might be a choice because there was also an option for one-off advice or transactional advice.

> *"Yes, but that brings me back to the question. Is it compulsory? I don't know whether it is."*
>
> *(Older, £251,000 - £2million, less financially sophisticated, not purchased in 2 years)*
>
> *"As far as I'm aware you pay it as part of the overall deal so there is no opting out."*
>
> *(Older, £251,000 - £500,000, less financially sophisticated, recently purchased)*

When people were aware that they had a choice over whether to pay for an on-going service, more financially sophisticated individuals started to raise further questions about the scope of this service and how this would work both with their current portfolio and if they wanted to add something new to an investment that was already under management with the adviser. These types of questions are probably best addressed in person and would be flagged by these individuals to follow up when meeting with the adviser.

In the example below we highlight a quick way to illustrate the fact that on-going service is optional. Using the tick box style and a simple description allowed participants to quickly recognise that the on-going service was an option open to them, if they choose.

If you choose to receive advice from us, this can be in the following ways :

☑ **One off advice.** Our initial advice will be appropriate for you based on your requirements and circumstances at that time. We will not ensure that any initial advice is still suitable for you at a later date unless you specifically ask us to do so; you can ask us to do this at any time.

☑ **Ongoing services.** In addition to our initial services, you could ask us to undertake further services on an ongoing basis. Details of any ongoing services we offer are detailed later within this document.

Figure 18: Good example of disclosing on-going service is optional

4. Impact of language, design and layout

This Chapter focuses on the impacts of design and layout on participant understanding.

4.1 Summary

These documents could play a stronger role in establishing trust within advice relationships. Documents which are clear, easy to read and look interesting help improve understanding. Ease of engagement with the documents is often hindered by a number of barriers common to all the disclosure documents tested. In this light, the role of design and layout is critical. The illustration below highlights one of the most impactful examples of the role of poor design and layout. In this example, several participants were convinced that they had received the incorrect documents as the covering page led them to believe that there were no fees for investing, as participants simply missed the note to see the separate document for investment costs.

What will the payment be for services?
Investments
Charges are shown in separate document
Insurance
A Fee
No Fee, if a product is purchased. Commission will be paid to us on the sale from the product provider

Figure 19: Poor example of layout

4.2 Industry language is not consumer language

When consumers start to look at the documents, there are a number of further barriers to engaging with the information. Most notable of these is the prevalence of industry language throughout. Some of these are terms that are taken for granted in the industry and used throughout the financial advice world so it is not surprising that these definitions are evident in the documents. One of the firm's documents tested provided a glossary of terms used in the documents and while this helps the most engaged individuals, it still fell short for the majority as the desire to read longer documents is minimal (see later sections for the behavioural context).

Barriers with these words can be overcome, but as most documents contain multiple uses of difficult words the cumulative effect of 'jarring' definitions makes these harder to read.

The most common uses of 'misunderstood' industry language are highlighted below to illustrate the extent to which consumers are unfamiliar with the common terms that the financial advice industry uses:

- **Service**: Because consumers are seeking a financial solution at the time of reading these documents, they tend to view service to mean product category e.g. I am thinking about retirement, do I need a pension or to invest, rather than this being a definition of the whole of market / restricted nature of an adviser service model.

- **Initial**: The difficulty with this word is often in disentangling an initial meeting from a fact-find meeting, and what initial advice means in this context. It is often unclear whether initial advice is the output from the initial meeting or the financial solution the adviser will be recommending for the client.

- **Transactional**: This is simply not how participants would talk about this kind of engagement, preferring to use phrases like 'one-off' or 'as needed'.

- **Restricted**: Because people assume independence, restricted disclosures are difficult for consumers to understand. The role of verbal disclosure in supporting this is critical given the broad nature of restrictions possible in the market place. Rather than reinforcing 'this is what we can't do', these disclosures would be better focussed on ensuring people understand what it is that an adviser can do.

Industry specific words such as 'paraplanner', 'asset allocation model', 'platform' and 'regular premium' all build on these issues. Though these are understandable in the industry they are 'jargon' to consumers.

4.3 Out of context language creates more 'disruptive moments'

These elements are further complicated by the use of words that feel odd in the context of financial services. Most notably 'holistic', 'partner' and 'objectives' were interpreted as suitable for discussing an individual's life – not the financial advice they were about to take. These are relatively minor issues in comparison to the use of industry specific language.

> *"What does holistic advice mean? Paraplanner? I thought holistic was to do with candles."*
>
> *(Retired, £51,000 - £250,000, more financially sophisticated, not purchased in 2 years)*

4.4 Impact on the reader can be negative

The outcome of all of these 'moments of disruption' to the reader is twofold:

- Firstly there is a mistaken assumption by the reader that they have understood the main points of the document.

- Secondly that when this assumption of understanding does not stand up to scrutiny there can be a negative response from the reader and a sense that the documents, instead of disclosing, are trying to hide something from the participant.

"I could understand it after I had read it again. I don't think it was in the clearest of ways. Some of the terminologies and wordings I thought I'd have to get a dictionary! When some people write things and it is full of big words because they think it's the thing to do; there is a bit of that in there…If I was trying to find out how much all of this was going to cost me, I couldn't do it.

(Retired, £500,000 - £2million, more financially sophisticated, not purchased in two years)

"It's not that obvious. This looks really basic, but it's not. There should be more bullet points in it and it should be clearer."

(Younger, £10,000 - £50,000, more financially sophisticated, never purchased)

4.5 Design and layout matters

There are two key elements to this that will aid increased understanding for consumers:

- Increased readability – for participants this is about a combination of three factors.
    - Documents that don't assume any industry knowledge and use consumer facing language are much more accessible than others.
    - Ensuring that the tone of voice is warm, friendly, approachable makes reading the documents more engaging. Several of the documents tested used this approach and received positive comments from participants in the way it presented the company.
    - Finally, the documents need to be sign-posted. Whether this is via very clear and bold headers, distinctive labelling or a contents page – consumers need ways to navigate these documents and allow them to short-cut in the ways that they want to.

- Providing 'focus points' through the document – this is much more about the presentation of information throughout the documents. From very simple 'standard design issues' such as font size, consistent layout, use of colour etc. through to the more specific uses of tables and diagrams to illustrate key points. When core information is presented in this way, consumers' natural inclination to skim read the document is accommodated, ensuring that key information is still communicated.

Documents that fulfil on these needs ensure that consumers know what to expect, have a positive feeling toward the adviser firm and have more opportunity to understand the costs of advice.

4.6 Characteristics that aid understanding and help build trust

Nearly all the documents tested included at least one characteristic that made it easier for participants to understand the information within them. These design and information elements can be taken together as a 'wish list' for consumer facing material.

- Establish the reputation of the business

- Some of the more successful documents briefly introduced the company. This ensured that participants felt that the business was established and trustworthy.

"In the second document, it did outline a little bit about this company and I thought it was factual rather than marketing."

(Younger, £10,000 - £50,000, more financially sophisticated, never purchased)

- A clear outline of the advice process – different stages and what to expect in each by providing insight into the components of the advice process, participants find it easier to 'see' the cost – as more work is clearly apparent

"I liked the diagram, you can read it – one, two, three. It's highlighted as well."

(Retired, £51,000 - £250,000, less financially sophisticated, recently purchased)

- The costs of advice (initial and on-going) clearly linked to the level of service received
    - A further build on the outline of the advice process

"It lets you know what services you get; it's not presuming just because you've got some money to invest you're a financial whiz kid. It tells you how many meetings you will have, and the process you go through is clear. They're telling you exactly what you will be charged, giving you different options, much better than just saying we will charge you 1%, it tells you the services you get."

(Older, £51,000 - £250,000, less financially sophisticated, not purchased for two years)

- Greater differentiation between sections of the document
    - Documents that contained clearly differentiated sections (e.g. About us, Our costs, Our services etc.) were more successful in promoting understanding as participants can more easily compartmentalize the information

"It would be better if you can only read what you are interested in."

(Older, £51,000 - £100,000, more financially sophisticated)

- Use headers / contents pages to allow consumer to more easily navigate the document
    - Signposting ways through the documents allow participants to shortcut longer documents and focus only on the relevant areas to them

"So long as it's logical. It's when you have to hop across various documents that it's more difficult."

(Older, £51,000 - £100,000, more financially sophisticated)

- Pound examples – at relevant price points
    - As seen, pound examples are much more useful to consumers in understanding the cost of advice. Ensuring that these are at a level they can apply to their own situation is important

"It sets out examples which are important, but they could be bolder to separate them from the facts. Maybe in their own box in italics. Possibly a larger font size."

(Older, £500,000 - £2million, less financially sophisticated, not purchased in 2 years)

- Use of diagrams to explain advice process / service and charges
    - Anything that provides a visual of the information being presented is much more user-friendly. Diagrams outlining the process, the elements of different on-going service packages, the costs associated with stages of service all provided much more accessible information to consumers

"Tables are very useful and preferable to me."

(Older, £251,000 - £500,000, less financially sophisticated, recently purchased)

- Use of colour, bolding, bullet points and tables to call out key information
    - Highlighting important information enables focus within the documents

"I would have bullet points and probably not double pages…I would put more colours in there and make the headers slightly different. At the moment it runs into one continuous…whereas if it was in a blue section and a red section and it would separate it a bit more."

(Older, £10,000 - £50,000, less financially sophisticated, recently purchased)

4.7 Characteristics that hamper understanding and diminish trust

There are a number of elements that hinder understanding within a document. Aside from the more technical points outlined earlier in this report, the impact of design and layout can be a contributory factor. In general participants felt that documents that had more than one of these characteristics could not operate as a stand-alone document, they need adviser support to make sense of the information

- Short documents that include little or no information on services given
    - Though on the surface much easier to read than the longer documents, these ones often tested worse for promoting understanding for participants

"If I had money to invest, I would read it. But I don't think it gives you a lot of information, very very vague and I would read it and think I'm not bothering with it. It's so thin [2 pages], not much information at all."

(Older, £51,000 - £250,000, less financially sophisticated, not purchased for two years)

- Multiple payment structures and costs for these disclosed within paragraphs of text
    - Using paragraphs to 'describe costs' and the differences between ways to pay is difficult for people to work through and pull out the relevant information

"They seem to be contradicting themselves with fees throughout; you read something and you're not being charged and further on you are being charged. I would prefer it to be in a table so you could look at it and select whichever one you wanted. It bombards you with information, too many figures."

(Older, £10,000 - £50,000, more financially sophisticated, never purchased)

- Little differentiation between sections of the documents

"I glazed over because there is a whole page of black and white text and if it was in highlighted boxes or a chart or a graph it would be something else for you to look at."

(Older, £10,000 - £50,000, more financially sophisticated, never purchased).

- Inconsistent layout
    - E.g. paragraphs on one page, three columns on the next – anything that 'disturbs a pattern of reading' makes a document harder work

"Page one is very nice. Open, short, clear and then it gets into close typesetting."

(Older, £500,000 - £2million, more financially sophisticated, recently purchased)

- Small font
    - Leading it to be viewed as 'small print'

"You always get suspicious when the type is small. It's more reassuring to have a larger one."

(Older, £500,000 - £2million, less financially sophisticated, not purchased in 2 years)

- Irrelevant pound examples
    - E.g. 'if I had 1 million pounds….'

"Moderator: How useful was that example?
Participant: Not at all to me. I don't have three pensions."

(Retired, £51,000 - £250,000, more financially sophisticated, not purchased in 2 years)

5. The consumer framework for reading the documents

This Chapter explores the assumptions and filters that participants apply before documents are read.

5.1 Summary

The disclosure documents do not operate in a vacuum and are assessed through the filters and constructs that participants bring to them. They are anticipated by participants to communicate certain elements of information – namely those that validate and support the world that participants expect to exist. This is important to understand as these filters and assumptions materially impact the way in which these documents are read.

There are several factors operating that mean documents are initially of secondary importance to participants. Because of the assumptions people make, the documents tend to be skim read, and used to validate what participants think they already know about advice, advisers and the costs of advice.

5.2 Finding an adviser

This section explores the factors that people believe are essential in finding an adviser today.

5.2.1 Recommendation is crucial

The first element that influences the way these documents are viewed is the anticipated path to market. Participants expect and indeed rely (almost exclusively) on a recommendation to find a financial adviser. This validation of an adviser's skill set is fundamental to how the documents are viewed. If trust is already established through a recommendation, it is the personality match between the adviser and potential client that influences a customer's decision to engage an advisor. Participants want to be able to trust the person that they hope to work with and who they believe has already provided good service to a trusted other. In this light, the documents serve as further validation of an already established relationship rather than being a building block for assessing who the adviser is, what they do and whether it represents value for money.

> *"If you're seeing an adviser for the first time, you're treading on thin ice because you don't know the credibility; introductions or recommendations are very good in these situations."*
>
> *(Older, £251,000 - £500,000, less financially sophisticated, not purchased an investment in 2 years)*
>
> *"In my business I've been used to talking on a one-to-one basis initially with clients, so I think that's quite important. There's a lot of rapport built personally, particularly with financial products."*
>
> *(Retired, £251,000 - £2million, more financially sophisticated, not purchased in 2 years)*

"It depends how the meeting goes. You build up a rapport and if you really believe them, that helps."

(Young, £10,000 - £50,000, less financially sophisticated, never purchased)

5.2.2 The solution is more important than the process

When individuals approach an adviser it is typically because they have a financial need. Addressing this is of paramount concern for the individual, whether it is about organising pensions, investments or insurances. These needs mean that they want to know what the adviser is going to do for them – what the solution is for their current situation. Again, the documents are not a personalised summary of what will solve their issues, rather they are a statement of service and charges, which is a useful 'filing' piece rather than the basis for a decision on whether or not to use the adviser.

"She always tells us, but I have never thought whether or not her charges were competitive."

(Young, £10,000 - £50,000, less financially sophisticated, recently purchased)

"I don't think I would do that [calculate the costs of advice before meeting an adviser] because if you're investing your money, you are putting time on how much it is going to cost you because you don't want them [advisers] to cut short on doing the best with your money'

(Older, £51,000 - £250,000, more financially sophisticated, recently purchased)

5.2.3 All advisers are "independent"

There is almost no understanding of the difference between independent and restricted advice. Most people believe that all advisers, with the exception of those employed by banks, are independent. There is a belief that while advisers may be 'independent' they probably have a number of favourites who they are most likely to recommend. Alongside this, restricted is understood to equate to the pre-RDR concept of tied (i.e. a single provider) and there is no understanding of the continuum of advice options that exists between a very narrow restricted arrangement (equivalent to a pre-RDR single tie) and independent financial advice.

"In the first one [independent advice firm document], it's finding the best in the market. And with the second one [restricted advice firm document], it's selling their own [products]"

(Older, £51,000 - £100,000, more financially sophisticated)

"[I think this restricted one is independent because] it says 'the diagram below shows the range of companies we work with'. They list 30 companies. They can draw from a range of companies as opposed

to an appointed representative or an agent of [brand] etc. I don't see how that ties in?"

(Older, £10,000 - £50,000, less financially sophisticated, never purchased)

When participants apply this assumption to the documents it means that critical points around the scope of service between independent and restricted models are often missed. Instead, scope of service is understood to form part of the conversation a consumer would have with an adviser. As a result, even when participants see that a firm is labelled as restricted, very few actually try to 'decode' what this means and so quickly move past this and continue with the assumption that the adviser is independent. Verbal disclosure is critical at this point in time in expressing the nature of a restricted service. As the changes driven by the RDR progress and the experiences in the new world start to outweigh those of the old world consumers are likely to become more educated on this point. Ensuring documents are fit for purpose now, will future proof the relationships that are being established today. Greater focus on providing a more detailed explanation of the service offered and the nature of any restriction – as opposed to focusing on the word itself – would go some way to improving understanding.

5.3 Paying an adviser

This section explores the beliefs that people hold about paying for advice.

5.3.1 Commission still exists

The participants in this study had a relatively limited experience of the post RDR world of advice fees. As such the influence of commission is still evident. Even where fees are explicitly stated, the documents themselves do little to change assumptions about its presence. Participants believe that commission is the basis on which the world of cost of advice operates, so many participants assumed that advisers would still be receiving commission 'behind closed doors'. This belief further devalues charging disclosure as it remains an area where people feel they have limited ability to intervene. As consumer awareness increases this may improve.

"The payment is at the end – that's the real cracker. What do they make out of it? Have they got any gain in selling us this – it's always hidden somewhere?"

(Older, £251,000 - £2 million, more financially sophisticated, recently purchased)

"I'm suspicious of anyone saying they are independent. Very wary that they will pick that [product] because they get the biggest kick back."

(Older, £251,000 - £500,000, less financially sophisticated)

"I think because they can't call it commission, it's going to be dressed up as a fee. I'd be thinking they're getting a commission out of whatever the product is."

(Older, £251,000 - £500,000, less financially sophisticated, recently purchased)

5.3.2 You pay when you buy

Paying for advice is assumed to happen only once the consumer has taken a product. This assumption is of most importance for firms that operate with fixed fees or commitment fees for work undertaken for initial advice and where a fee will be payable irrespective of whether the consumer purchases a product. In these documents there must be absolute clarity over the timing of payments as without this, people simply assume the payment will be taken only if they act on the advice.

"I've never paid an hourly rate. It's all come out of the product."

(Older, £51,000 - £100,000 , more financially sophisticated)

5.4 Paperwork from an adviser

This section explores the role that paperwork from an adviser is assumed to take.

5.4.1 Verbal disclosure first, paperwork second

Many of the participants spoken to (both those who have had advice experiences and those who have never taken advice) assumed that paperwork comes once have they spoken to an adviser – whether this is the initial meeting, or the first fact-find meeting. On this basis, paperwork is assumed to be a summary of a conversation that has already taken place. This means that elements in the documents that people did not understand were assumed to have already been discussed. In one example document that participants found particularly challenging to understand, participants felt the adviser would have explained the charges and services to them and so they would, in a real engagement with the document, have been better equipped to understand.

"Talk through the key elements that will be the most important or relevant. This [test document] is the written format of what I have told you."

(Young, £10,000 - £50,000, less financially sophisticated, never purchased)

"At an initial meeting those questions would come out and so the rigour I would apply to it with real money behind it is "oh by the way, what is my on-going commitment here, is it inflation proof, does it move with the investments?"

(Older, £251,000 - £500,000, more financially sophisticated, recently purchased)

All of these points suggest that it is the interaction with an adviser that is the critical decision point for many. Without strong and clear verbal disclosure, these documents perpetuate many of the beliefs that people hold about the advice process. Second, it means that the documents appear to work as a support for a conversation. However, many participants in this study expressed a desire to see documents ahead of meeting with an adviser. While this happens in some cases, it doesn't in many others. The participants in this study thought that in receiving the documents ahead of time, they would be in a better position to understand the service they were buying.

Participants in this research highlighted time and time again that a relationship was fundamental to the process of buying advice, but these documents were felt to offer an opportunity for advisers and consumers to meet on a more equal footing, i.e. allowing consumers the opportunity to have prior knowledge on the services and costs of an adviser before meeting with them. If consumers are to make more informed decisions about the advice services they purchase, there are a number of elements that the documents need to address to ensure that sending them in advance of a meeting with an adviser is a useful process for both advisers and their potential clients.

"I think he did mention it [information regarding charges] but I was used to paying anyway…It was written down. He did give it to me to look at. I'm not one of those people that looks at all the small print."

(Retired, £251,000 - £2million, more financially sophisticated, not purchased in 2 years)

6. Barriers to engaging with adviser documents

This chapter explores the various behavioural barriers to engaging fully with the disclosure documents.

6.1 Summary

There are a number of small but significant moments of ‘disruption’ to understanding the documents. However, it is the cumulative effect of all of these moments that can cause misunderstanding, misinterpretation and sometimes a failure to engage completely. This may lead to over-confidence on the part of the consumer who may mistakenly believe that they are aware of the costs and scope of service, or to a negative response towards the adviser firm who they feel may be trying to over-complicate matters.

6.2 These are financial documents, and will be treated as such

Participants perceive these to be financial documents and anticipate treating them like other financial documents they receive. These documents are assumed (before reading) to be boring, difficult, complex and hard to read. This leads to three key ways of dealing with the documents on receipt of them.

- The vast majority of participants thought they would skim read and then file away the documents somewhere safely. This is in case “something goes wrong” and they need to actively engage with the documents at a later date.
- A smaller audience believe they would read these documents in detail and then file them away. Interestingly, this audience tended to be made up of those who had never taken advice before (driven by lack of knowledge) and those who had larger sums of investable assets (driven by experience).
- The final and smallest audience were those who actively admitted that they would not read these, but would keep them – again in case something goes wrong.

“I would have a general scan through it. The fees have got to be clear. This all looks kind of wordy.”

(Older, £10,000 - £50,000, less financially sophisticated, never purchased)

“First page is most important. I’d probably keep it and store it.”

(Younger, £10,000 - £50,000, more financially sophisticated, recently purchased)

The fact that these documents are seen as a fall back means it is essential to ensure that they are understandable. If it is understood that people are more likely to look at these in detail once something has ‘gone wrong’ the need for clarity in disclosure is even more critical to negate bad feeling. It is not always possible to radically change consumer behaviours – as such the documents should try to communicate their information in a way that fits the consumer requirements.

6.3 There is a tension between desire to read and opportunity to understand

People do not want to read long documents (some of those tested were over 10 pages). But shorter documents often miss critical information leading to a reliance on the anticipated verbal disclosure. In short, these documents often answer questions that people do not know they need to ask. For example, as consumers believe that all advisers operate on a quasi-independent basis, information about 'restricted' is not understood and so is flicked past or ignored. On the other side of this, some participants who saw that a particular firm had disclosed its restricted status simply didn't believe it as on the next page of the key facts document, a long list of fund managers was included leading them back to the belief that it was independent. In other documents tested, where the percentage of funds invested was used as the pricing structure for advice, many consumers assumed this to be the commission rate.

As some consumers have a pre-conceived idea about the advice process, the longer documents that generally provide better information on key areas are not likely to be read. There is a basic contradiction here in that once participants understood the nuances of the advice market, they wanted more information, but in a much shorter document. This is important as it means that people are missing an opportunity to understand more about their future engagements with an adviser and instead are relying on the adviser to educate them and provide a solution. This means that more time must be spent in initial meetings to explain the premise of the advice service offered, the way that charging is applied before the personal solution can be approached. If the documents were able to present this information in a clear and understandable way, without being overly long, many consumers would feel better equipped going into meetings with advisers.

> *"I lost a bit of interest, after the second page, it's quite in-depth…."*
>
> *(Younger, £10,000 - £50,000, more financially sophisticated, recently purchased)*
>
> *"I wasn't going to share this, but I actually fell asleep while I was reading it."*
>
> *(Older, £251,000 - £500,000, more financially sophisticated)*

6.4 Documents appear to be 'Terms and Conditions'

Building on the previous two points – as documents are seen to be financial documents and because many of them appear to be overly long, most participants believe that these are terms and conditions of business. This is often exacerbated by a number of critical design points such as small font, industry language and poor layout.

The belief that these are 'terms and conditions' reinforces the view that they are 'fall back' documents – something that needs to be given in case anything goes wrong. Here there is an interesting differentiation between the types of reason for this and the levels of financial sophistication consumers believe they have.

- The majority view, most often found among those who are less financially sophisticated, is that these documents are designed to safeguard the adviser – to show that they have made the consumer aware of everything, regardless of whether they can understand it.

"They're literally covering their backs to say 'we did tell you about all of this, so you can't claim against us'."

(Older, £251,000 - £500,000, less financially sophisticated, not purchased for two years)

- A smaller set of individuals, most often those who are more financially sophisticated, often see the disclosure documents as a written summary that outlines everything so that both the consumer and the adviser are aware of the commitment they are making together.

"At first it may be confusing, but on a subsequent reading you realise that there are all these laws in place and they have to make sure they cross every t and dot every i. They're protecting you and themselves."

(Older, £10,000 - £50,000, less financially sophisticated, recently purchased)

However, on both these points of view, the desire to read is low. This leads to certain short-cutting practices such as skim-reading, reading the front page only, looking at headers or bolded sections but not the document in its entirety. This skim reading approach assumes a level of trust in the adviser to call out the critical pieces of information both verbally and in the documents. It also leads to parts of the document being missed entirely – and it is in these cases that the design of the documents can certainly improve engagement with the key points.

6.5 A checklist of questions to aid consumer understanding

There is some argument that a set of simple questions, which consumers should feel they know the answer to before agreeing to work with an adviser, would increase understanding significantly. Because the documents tested often answered questions that participants didn't know they needed to know the answers to, these questions would provide a 'starter for ten' in understanding the advice world as it applies to individual consumers. In short, these questions would need to address:

- Whether the adviser is providing advice based on all the products in the market, or is the adviser restricted in anyway?
- What type of investment service / mortgage service / pension service / etc. does the adviser offer?
- When you first approach an adviser for help, what are the stages of the process that the adviser will take you through to get to a personalised solution?
- When do costs start to be incurred?
- What is the approximate cost of setting up a new investment?
- What kind of on-going or monitoring services does the adviser offer?
- How is the on-going service paid for?
- What is the approximate cost for the on-going service?

7. Impact on behaviour

This Chapter explores the ways in which the documents, in an improved format, would impact consumer behaviour.

7.1 Summary

If the documents can be improved to provide more useable information for consumers, then participants would want to receive them earlier in the advice process – the documents could be used as a basis for validating trust in a new advice relationship. For participants, the process of finding an adviser is still very much about referral and recommendation. Documents, even in an improved format are not seen to disrupt this process, only to enhance it.

7.2 Participants outline the ideal process for these documents.

Step 1: Adviser is recommended by a trusted 'other'
This provides the initial level of trust that participants feel is vital to 'talking about my money' with somebody. It also validates the experience of the adviser in question through the proof of result with another client. There is some expectation among younger participants that they might test this recommendation against an online resource – 'like CheckATrade, but for advisers'.

Step 2: Consumer contacts adviser to arrange appointment
At this point, participants would like advisers to promise delivery of the disclosure documents and to recommend that they are read before meeting with an adviser. This instruction essentially provides an authority voice which increases the need (if not the desire) for consumers to read the documents once they arrive.

Step 3: Consumer is allowed a week to review the documents
As seen, reading these documents feels like 'work'. Participants would want to ensure that they have time to do this in and around the rest of their daily lives. During this time, the participants would ideally read through the documents and flag any areas that they felt they wanted to follow up on in a face-to-face conversation with the adviser. In seeing them earlier in the process, participants feel that they would have some familiarity with the language used in the documents as well as a general ideal of the level of costs, service and process involved.

Step 4: Face-to-face appointment with the adviser
This is the key decision point for the consumer. Understanding if they can work with the individual adviser is the critical factor given they have already established performance and base-level of trust from recommendation and built on that through open and honest documentation. If they feel rapport with the adviser, then they are more likely to stay with that adviser.

> *"There are two aspects to this, one is to be able to read it thoroughly perhaps once or twice so that you are up to speed with terminology and then to have it explained to you by the adviser. To me it's always good too. Most people don't understand the terminology, so to have this upfront and then have someone go through the questions with*

you for clarification before they start offering their service. Then there is no misunderstanding. You get the chance to read it, you speak to someone at a first meeting, they ask if you are happy to go ahead, then you can ask the questions. There are so many charges."

(Older, £251,000 - £500,000, less financially sophisticated, recently purchased)

The ideal process for participants places more responsibility on the adviser to share documents earlier in the process – but also for the documents themselves to be reworked to provide a strong starting point for a relationship.

7.3 Improved versions of the documents earlier would be a positive change

This presents some difficulties for the documents tested. All participants in the study felt that in seeing and reviewing (even if that review was on a very basic skim-reading level) the documents helped them feel more confident, in control and knowledgeable about the costs of advice – even if those assumptions were based on mistaken understandings. If a mistaken understanding can lead to this level of confidence, then a document that can provide a true understanding should be highly valued.

The ability of these documents to enhance the participant's sense of power in the advice relationship validates further the element of trust building inherent in seeing a document earlier in the advice process. However, it also further substantiates the opportunity for consumers to build an incorrect picture in their mind which advisers will need to challenge and re-build through the meetings with consumers.

"Sometimes their language isn't your language. If you've read it before, you know what they're talking about…you can have the basics clear."

(Older, £51,000 - £250,000, more financially sophisticated)

"I think if I had the background facts beforehand, when the financial adviser came in, I would be listening more about the products and not worrying about the background stuff."

(Older, £10,000 - £50,000, less financially sophisticated, recently purchased)

If documents can lay out the scope of service and the costs of advice in a more understandable way, then there is great potential for these to enhance the relationship at early and renewal stages.

"Honesty is key, the more honest they [financial advisers] can be, the better."

(Older, £10,000 - £50,000, more financially sophisticated, recently purchased)

7.4 Most participants want to see the documents and meet the adviser before they make a decision

Very few of the participants in this research study thought that they would make a significant change to their behaviour when it came to seeking financial advice. For the majority the key decision point on whether to work with an adviser or not would be based on the actual meeting with that adviser rather than anything else.

"I wouldn't think 'Oh, I don't like their leaflet on charges, I'm going to go with someone else'."

(Young, £10,000 - £50,000, less financially sophisticated, recently purchased)

"Hopefully I'll be able to tell by meeting them. The documents are to check that he's told me everything. I wouldn't make my mind up by reading 3 documents from 3 companies."

(Older, £500,000 - £2million, less financially sophisticated, not purchased in 2 years)

A smaller set of individuals felt that seeing these documents earlier would give them greater opportunity to negotiate with the adviser – if they are feeling more in control and more informed, this gives them the confidence to challenge on cost. We believe that the real audience that would do this is smaller than those who stated they would in the research due to the current behavioural norms present in the research audience (i.e. negotiating is often not a practice people feel comfortable with). Some of the documents tested contained language that hinted at the possibility of this – 'we will agree a fee with you' – being the best example of this.

"Negotiating, unlikely in a large firm, in a small firm maybe. Also if you have a large sum there might be some leeway."

(Younger, £101,000 - £250,000, more financially sophisticated, not purchased for two years)

"It'd help the consumer. It puts you in a bit more control and able to negotiate. We trust people way too much. You don't realise that they've put through 4% until it's too late."

(Younger, £10,000 - £50,000, more financially sophisticated, recently purchased)

A few participants felt that seeing these documents earlier would enable them to shop around more – for the majority though the comparison between documents is too complex to consider them a real tool in that process.

*"Initially I would think ****, that's a lot of money, why don't I do this myself. Then having read it through it might make me shop around to compare a few."*

(Older, £51,000 - £250,000, more financially sophisticated, not purchased for two years)

"[on using documents to compare costs]. Not without sitting down and really studying it. I wouldn't do that if I was paying for an adviser. I wouldn't really be able to compare – I suppose I've never had to do it. I haven't got millions to worry about."

(Retired, £51,000 - £250,000, less financially sophisticated, recently purchased)

7.5 Younger participants are more inclined to shop around

Those that were more likely to shop around were often the younger participants. This is for three key reasons:

- Firstly this desire to shop around was driven by a sense that it is something 'they ought to do' rather than being something they want to do.

- Secondly they are familiar with shopping around for other products, including financial, often using online comparison tools to support this. And it is elements of this process, for example verifying a friend's recommendation through an online review site that has a greater influence in the act of shopping around than the documents received from an adviser's firm.

- Thirdly because there is no industry standard or guidelines for how much financial advice costs, the pricing in the documents can be a surprise to them. On seeing this for the first time, there is a need to verify that this is the 'price' and comparing this with at least one other firm is a sensible way to do this. Documents may aid this, but it is more likely to be something they find online or through their networks.

  "Yes, but I would be asking them the question – how do you compare with others? I would want them to show me in their glossy, these are their fees and how they compare to the industry standard. Also what the industry average is."

  (Older, £10,000 - £50,000, more financially sophisticated, never purchased)

  "I would do my own research and see what sort of fees other companies would charge. I would look on the internet or the Sunday Times best buy section. I might look at a Martin Lewis type thing to see what tables I could find. A cost comparison would be good; you don't want to pay 3.5% and then find out the industry norm is 2%."

  (Younger, £10,000 - £50,000, more financially sophisticated, never purchased)

Shopping around for an adviser is a relatively new behaviour. Currently, price is rarely a factor in decision making and where the price seems high, this still needs to be balanced against a number of competing factors in the participants' decision making process e.g. do I like the adviser, can I trust them, what sort of growth am I expecting?

With these elements in mind the documents do little to 'damage' a relationship, but could certainly enhance one.

8. Conclusions

This Chapter looks at the overall outcome of these findings

8.1 Summary

Participants want to see more information earlier in the process, but lack the desire and skills to read the documents in their current format. There are a number of ‘disruptive moments’ through these documents, the cumulative effect of which makes them hard to understand and difficult to apply in the consumers’ individual worlds. Whether these are driven by industry language, complicated pricing structures, poor document layout or new levels of advice service, the overall understanding of participants who saw these documents in the study was surprisingly low.

> *“The financial industry needs to rebuild trust and this type of document the way it communicates charges, the openness, helps with that.”*
>
> *(Older, £251,000 - £500,000, less financially sophisticated, recently purchased)*

8.2 Relationships will continue to be the dominant route to advice for the foreseeable future

The role of recommendation and referral is undeniably critical for this market. Consumers need to feel that they can trust an adviser who is dealing with significant sums of their money, and potentially their future lifestyle. Recommendations from a trusted other ensure a level of trust in the expertise of the adviser.

8.3 Changing consumer behaviour represents a significant challenge given two key contradictions

Firstly, the desire from consumers to see more information earlier in the advice process versus their reluctance to read financial documentation. Secondly, the desire for more information balanced against the desire for shorter documents. These contradictory needs represent a challenge for advice firms in providing the right information in the right format.

8.4 Current disclosure documentation does little to aid consumers’ desire for more information

Behavioural context aside, the current format of the documents is challenging for consumers. From the participants’ perspective the documents were often felt to be impenetrable – being badly laid out, reliant on previous knowledge about advice and containing complicated charging structures. Very few participants in this study wanted to actively engage with these documents leading to at best a sense of apathy toward the documents and at worst, a mistaken view of the world of advice.

8.5 Verbal disclosure is currently the key way that consumers gain understanding

Most participants in this study were happy with the role of verbal disclosure. However, if this is looked at in the broader sense of the market, this reliance does little to help consumers in making informed choices based on a more complete understanding of the service they are receiving and the associated costs.

8.6 Improved documents would be an important first step in increasing informed choice

We do not believe that improved documentation will lead to an overnight change in consumer behaviour, but it is an important first step. This is a positive change to make as it creates the framework for a more open relationship with the adviser.

8.7 Key principles for improving documentation

This report contains a number of key principles that advice firms should follow when creating these documents:

- Improving the design, layout and language used to describe the advice services as per the good examples shown in the report
- Sending the disclosure documentation to clients in advance of their first meeting with an adviser
- Clearly stating that this is an important document that should be read before the meeting
- Providing a checklist of what a potential client ought to know prior to committing to work with an adviser