The RDR and Consumers

The public's views towards the retail investment advice market

February 2014

Personal Finance Society
Standards | Professionalism | Trust

PFS

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Acknowledgements

This report was produced and analysed by the Personal Finance Society, the UK's largest grouping of financial advisers and related roles. Given the importance of these issues, and the fact that there are always differing views towards the same set of data, we also sought an external perspective to cross-check our own views and conclusions.

So we asked Nick Hurman, a financial services research and strategy consultant with particular specialism in pensions and investment, to examine and analyse the raw survey data independently and in isolation from ourselves.

We have included Nick's views in separate boxes throughout the text, to clearly indicate the difference between his findings and our own. In some cases the boxes might repeat our own views, in other cases he may interpret a different finding that might disagree or take a different angle.

Nick Hurman FCII, Chartered Insurer, is an independent Strategy and Change Management consultant and has worked with commercial and public interest clients such AEGON UK, Hewitt, the Resolution Foundation, the Financial Services Consumer Panel and the Equity Release Council over the last seven years. He has a particular research interest in consumers' engagement with financial services, developed over 25 years' experience in executive roles within the financial services industry. He holds an MBA from City University (now Cass) and is a Fellow of the Chartered Insurance Institute.

Headline findings and methodology

About this report

Background: in December 2013, we conducted an on-line survey of over 2,000 consumers to assess attitudes towards the retail investment and pensions advice market and recent regulatory changes to it. This was the third such survey we carried out. Previous ones were in May 2011 and January 2013.

Independent cross-check: this report was conducted, analysed and drafted by the Personal Finance Society. To cross-check this analysis, we also asked Nick Hurman to independently analyse the raw data and prepare his own commentary which appears in separate boxes throughout this paper.

Key messages

- **Scope of this report:** this report details with retail investment advice that covers investments, pensions and retirement issues. Respondents in the survey were asked specifically on advice in this area.
- **Who seeks retail investment advice:** 66% of the population had not sought professional financial advice on retail investments, pensions or retirement. This echoes last year's survey which said 67% have not done this, and the 2011 result of 61%. These findings that pre-date the RDR introduction question the wisdom that the regulation itself has enlarged an "advice gap".
- **Barriers to financial advice:** of those who have not sought advice, 38% do not have the money to invest, nearly the same as last year; 16% thought they could not afford a professional financial adviser to discuss retail investments or pensions issues, the same as last year. Nearly a quarter said they would rather self-advise using other sources of information, a smaller proportion than last year and 19% said they had never thought about receiving advice, slightly more than last year.
- **Sources of information for the self-advisers:** we found internet sites to be the main source of information, followed by newspapers and magazines.
- **Awareness of regulatory changes:** the survey asked about two principle changes introduced in the RDR. This had declined slightly since last year for both unadvised and advised respondents. 29% of unadvised customers are aware of the professionalism changes down from 32% last year; whereas knowledge of the remuneration requirements has remained steady at 35%.
- **Advisers need to do more to access the unadvised:** clearly the Money Advice Service and the FCA are having a limited impact in accessing unadvised consumers. Therefore, advisers need to do more to reach this market. Given high importance respondents placed in web research, advisers might consider increasing their on-line presence.

- **Trust and confidence in the sector:** nearly half of unadvised and over a third of advised consumers said they do not have trust and confidence in this sector. About two-thirds to three-quarters of consumers think their view has not changed over the last year, and a fifth of unadvised consumers think their opinion has actually worsened. This clearly indicates that there is more work to be done to increase confidence.
- **Likelihood of use advice as a result of the RDR:** 35% of unadvised respondents said they would do this, a slight increase from last year. This is a very positive finding despite the negative press about dwindling adviser numbers and increased cost of advice, and their overall views towards the advice sector.
- **This equates to nearly 5 million new customers:** equating the proportion of unadvised consumers to the wider population, it equates to 4.8 million new customers spending about £3.8bn in adviser charges. If the sector worked harder to win over the trust and confidence of especially those who think they can self advise, this number could increase to nearly 14 million new customers spending over £10bn.

About the survey

This year's on-line survey involved a sample of 2,038 consumers in England, Scotland and Wales conducted by Populus on 4–5 December 2013. The survey was a follow-up to similar ones we conducted in January 2013 (2,010 respondents) and May 2011 (2,055 respondents).

The questionnaire consisted of sixteen questions, of which eleven were tracking from the previous years while seven were entirely new exploring new lines of inquiry into trust and confidence in the advice sector and labelling of advisers. There were also some slight changes to the filtering.

See the Appendix at the end of this paper for full information on the specific questionnaire and filtering. Further details of this survey, and the previous ones, are available upon request.

The policy context: Was the RDR a force for good?

Just over a year ago, on 31 December 2012, a set of changes to retail investment adviser regulation took effect, signalling the end of the Retail Distribution Review (RDR). Most of the reforms fell into three main categories: labelling of service, namely the criteria by which financial advisers can describe themselves as independent of provider influence; remuneration including a ban on commission received for transacting certain products; and professionalism, the minimum qualification necessary to be a financial adviser and requirements to maintain that knowledge.

The consultation and implementation process since 2007 has seen much debate over whether the RDR was a force for good in improving public trust and confidence in this sector. Consumer groups themselves largely welcomed the process and the reforms. Both Which? and the Financial Services Consumer Panel who had long expressed concerns about the quality of financial advice in the UK, commission bias and successive mis-selling scandals, welcomed the regulator's initiative to finally improve the market.[1] They supported most of the proposals including those related to professional standards. However, other market participants including some financial advisers themselves questioned the proportionality of the reforms, arguing they might be a step too far and drive advisers out of the market.

As this debate reached a head in mid-2011, just as firms were about to start preparing for implementation, we sought to assess the views of consumers themselves towards the RDR. Avoiding such policy jargon as the label "Retail Distribution Review" itself, we asked respondents about their views towards two of those three main sets of reforms: professionalism and remuneration, in an attempt to fill a void presented by what was mainly an industry-dominated debate. The survey published in May 2011 revealed reasons for albeit cautious optimism that these changes would actually achieve the objectives.[2] Then in January 2013, just as the RDR came into force, we carried out a similar survey, which also returned some very similar results.[3]

We have now conducted a third survey one year later, to first assess whether this trend is continuing, and second to start looking at general attitudes towards trust and confidence in the advice sector. Like the first two surveys, we focused on professionalism and remuneration, but we also looked at labeling. However, we felt that the latter issue is so complex, and it was not covered in the first two surveys, that we decided to devote a separate report to it which we will publish later this winter. Hopefully this research will help provide a consumer perspective of the FCA's own review of the RDR later in 2014.

The core changes

Professionalism

Under the new rules, retail investment advisers must hold a qualification at Level 4 Diploma in the Qualifications and Credit Framework, equivalent to the first year of a university degree. They will also have to hold a Statement of Professional Standing (SPS) to confirm that they have met ongoing learning requirements and are in good standing with their professional body in relation to their conduct. These changes were mainly in response to concerns expressed especially by consumer groups about adviser conduct and, given product complexity and implications of poor advice, knowledge and overall levels of professionalism.

Adviser remuneration

Commission and its associated bias has long been a bone of contention when it comes to consumer trust in financial advice. The RDR has resulted in an outright ban on commission in this market, in favour of a separate, transparent and hopefully comparable "adviser charge" that separates the cost of advice from the cost of the investment.

1 See for example, FSA takes big step to help consumers – latest Retail Distribution Review changes, Financial Services Consumer Panel press release, 25 June 2009. See also, Financial Services Consumer Panel, Response to FSA CP09/18 Distribution of Retail Investments: Delivering the RDR, 30 October 2009.

2 The Chartered Insurance Institute and Personal Finance Society, Financial Capability: The Money Advice Service and Educating the Public on the RDR, June 2011.

3 The Chartered Insurance Institute and Personal Finance Society, The RDR and Consumers: A Research Report into Consumer Views on the Financial Advice Regulatory Reforms, February 2013.

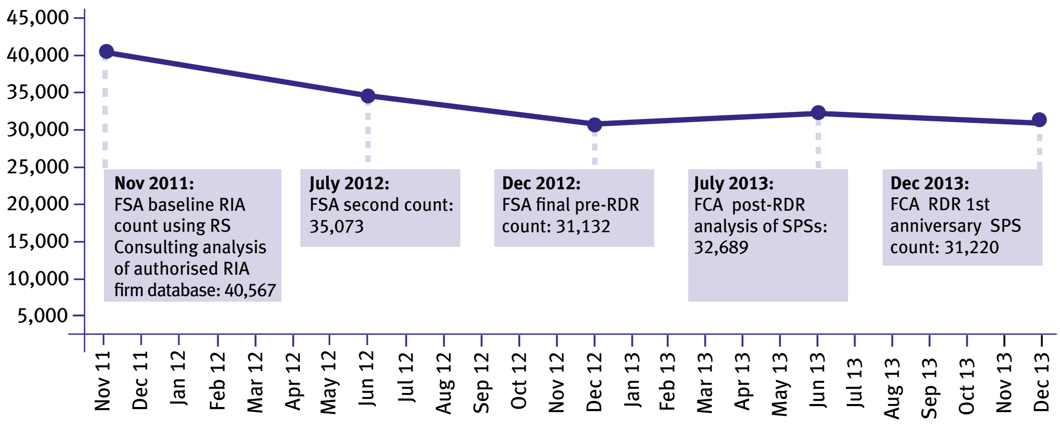
Responses from the market: the vast majority have got on and done it

The vast majority of financial advisers has actually welcomed the RDR changes and has gone on to implement them. In six Personal Finance Society member surveys conducted between 2007 and 2010, strong majorities indicated support for the logic that better qualified adviser delivered better service to customers, and that the RDR would lead to a more professional adviser market.[4] Despite this positive response from the vast majority, a small but vocal minority have argued that the changes would bring about a shortage of professional advisers, and the limited coverage the RDR has received in the mainstream personal finance press has been devoted to this topic.[5]

So how have the adviser numbers actually played out? In November 2011, the FSA finally published the results of a detailed analysis of its firm database and arrived at a reasonably sound figure of about 40,500 retail investment advisers. This corrected any misunderstanding of how many advisers there actually were, and provided the most robust baseline figure from which to derive a "before-after" picture.

They then used this same methodology to produce counts in July and December 2012 prior to RDR implementation. In July 2013, the FCA replaced this with a more robust approach of counting SPS holders, and they did this again in December 2013.

FSA/FCA analysis of Retail Investment Advisers, November 2011–December 2013



While there was a 20% decline in adviser numbers between November 2011 and December 2012, numbers seemed to have settled at about 31,200. It is too early to say whether the adviser count will increase again.

It is similarly too early to say whether the pre-2012 reduction was sufficient to create any real consumer access issues, as some have argued. Such an impact could be distorted or mitigated by the following quite real considerations:

Plans to exit the market anyway

A small proportion was intending to exit the market anyway, due to retirement for example. The FSA themselves reported in 2011 that 5% of advisers planned to retire in the period up to December 2012, compared to less than 1% expecting to do so in the 2011 survey.

4 Personal Finance Society surveys conducted by Ernst & Young. Sample sizes: Oct 2007: 800; Nov 2007: 1,300; Apr 2008: 860; Oct 2008: 800; May 2009: 700; Mar 2010: 1,300.

5 See for example, Middle Britain is being priced out of getting financial advice: the situation could get worse before it gets better as watchdog new rules come into effect, by Danielle Levy, The Independent, Saturday 4 January 2014; I've ditched my adviser – now I use a low-cost broker, by Richard Dyson, The Telegraph, 10 August 2013; One in four savers struggles to get financial advice: large numbers of investors are now 'priced out of advice', by Kyle Caldwell, The Telegraph, 30 October 2013; and Financial advice 'gap' revealed, Express and Star, 30 October 2013.

Advice was previously secondary to main business

Some advisory firms may have offered, or may have been offering, retail investment advice as an activity that was secondary to some other main business activity. They may have decided to stop doing this when the regulator requirements got stiffer.

Providers shedding direct sales forces

A significant proportion may have been tied advisers working for providers such as banks and bancassurers, who left as a result of them shedding their direct advice proposition altogether. Although some of these high-profile closures have been quietly replaced by another proposition, a large reduction in the direct adviser market has occurred. However:

- one of the big issues that the RDR was trying to address was provider bias causing consumer detriment: of salespeople incentivised to sell unsuitable products. So arguably it is not surprising that some major providers have opted to exit this reputational risk source and move towards an entirely intermediated channel; moreover

- anecdotal evidence also suggests that many of these professionals have started their own businesses anyway as independent or specialist restricted advisers.

Ceasing trading due to professionalism requirements

That leaves a proportion of advisers who genuinely did cease trading because they did not meet the higher professional standards.

Adviser remuneration issues

Turning to the issue of adviser remuneration, there has been some speculation that this move to a more up-front charging structure might actually repel rather than attract consumers. In a market where the cost of advice has been less obvious for such a long time, this might be difficult for some, and the adviser charge will vary depending on the nature of the advice given. However, with advice costing about £200–£500 for an initial financial review, and more detailed jobs like advising on a lump sum such an inheritance or an annuity costing upwards of £1,500, consumers need to better understand the value of advice itself for this market to work.

Research by GfK published in August 2013 pointed out that 34% of active market investors who have used a financial adviser in the past five years will "never" consider paid-for investment advice in the future.[6] This suggests that until such an understanding embeds, the improvement in trust from moving to a more transparent charging structure might take some time.

6 RDR: Clients aren't seeing the value of "paid for" advice, GfK Press Release, 5 August 2013.

Previous surveys and new questions

In June 2011 and January 2013, our surveys assessed the public's knowledge of these RDR changes to the retail investment advice market. In both cases, about two-thirds of consumers had never received advice on retail investments, pensions and retirement issues, and we found that sizeable proportions might consider entering this market given the reforms. In the 2012 survey, we found that about 5 million new customers could be introduced to this market as a result of the RDR reforms.

Now that the changes have been implemented, and amidst all this noise about dwindling advisers and rising advice costs, we decided that it was time to undertake a third on-line survey to assess consumer views towards the RDR and these issues about access to the sector and confidence in it.

We have kept many of the questions from the previous surveys to allow tracking across the successive waves, but we have also added new questions to allow further exploration of issues such as access to and trust and confidence in advisers.

We acknowledge that on-line surveys have obvious limitations in their representativeness of the wider population. However, it is not our objective to provide a detailed and definitive view towards the exact sentiments, instead to provide some indication of the public's sentiments in these areas.

Nick Hurman's view:

This is the third wave of the CII/PFS research into consumer awareness of the changes arising from the RDR and how it affects their views of financial advice for pensions and investments. They have kept a 2,000 sample size and reset some of the filtering. This not only increases the overall robustness of the statistics but, crucially, enables more secure analysis of the views of segments of consumers, such as those who haven't ever used an adviser but choose to be 'self-advisers', investing directly themselves.

The public's appetite for investment advice

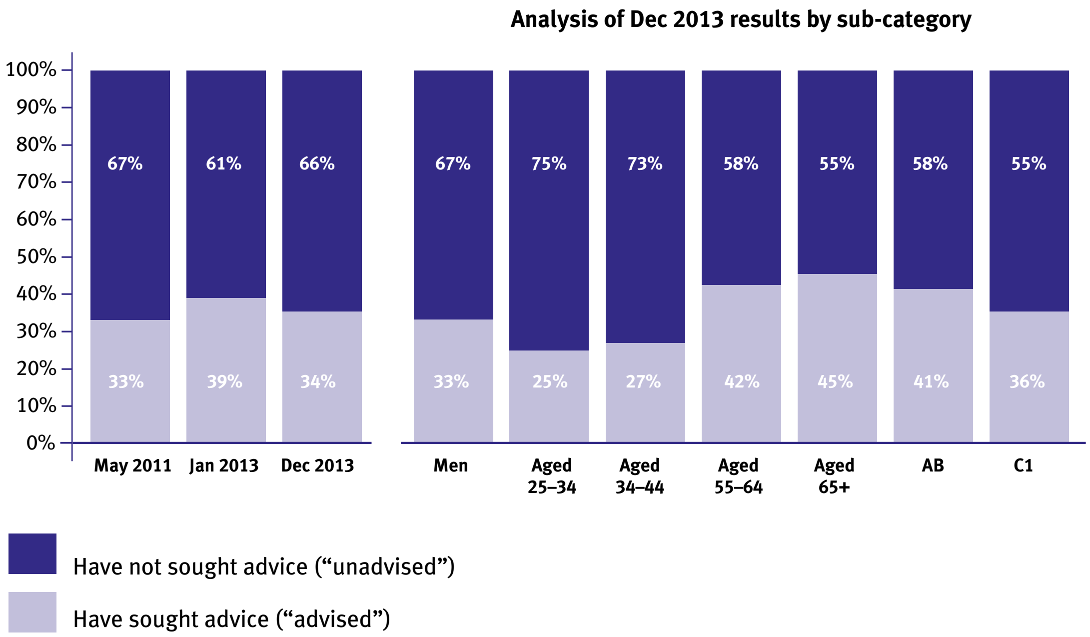
Who seeks advice: A consistent picture

66% of the population had not received financial advice. This almost echoes our 2011 survey which said 67% have not received advice, and the Jan 2013 result of 61%. The FCA estimates this figure to be about 65–70%. The following factors influence advice take-up:

- **Age:** there is a strong linear relationship between receiving financial advice and age. Aged 25–34 are very unlikely to have received advice, whereas those nearing retirement are more likely to have.
- **Gender:** proportionally more men than women receive financial advice (45% versus 34% respectively), and the gap has narrowed slightly since 2011 (9% difference in 2013 compared to 13% difference in 2011).

Respondents who have sought financial advice

"Have you ever sought the services of a professional financial adviser on pensions and investments?" (Base: 2,038)



Nick Hurman's view:

It is a sign of the times that two thirds of respondents say they have never sought out a professional adviser on pensions or investment. This number reduces somewhat for older respondents, but even the 55–64 group who are much more likely to have the means and the need to seek out advice report that over half have not. So why is this?

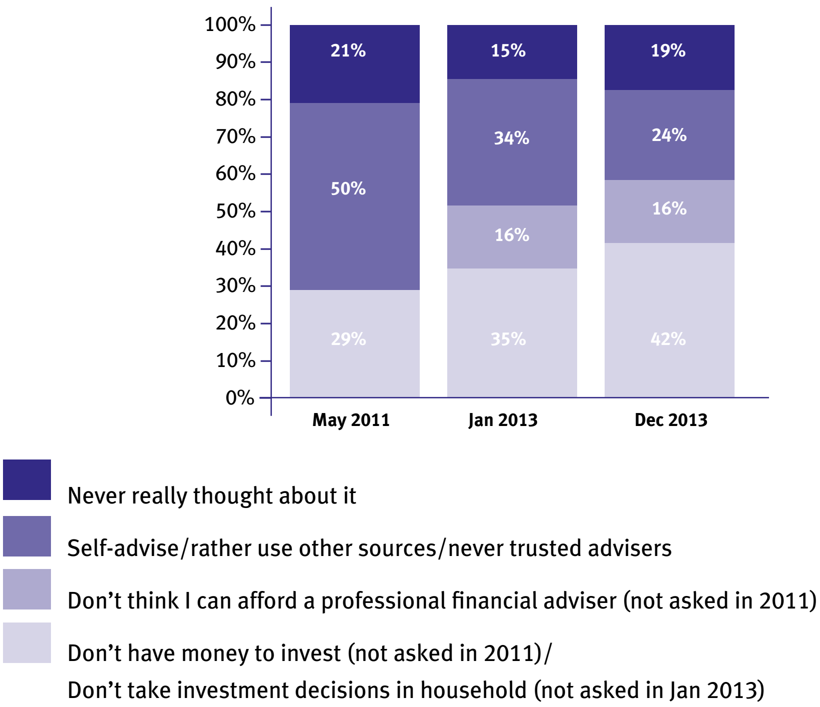
Over a quarter of the adult population think they have interest in investing but don't choose to seek out an adviser. This represents a market almost as large as those who are or have been users in the past. So what keeps these potential users away?

Barriers to financial advice: All those sceptics

- Those respondents who have not sought advice were asked what had prevented them. The question has been changed slightly this time to allow for a more robust analysis.
- 38% do not have the money to invest, almost the same as the 35% who said this last year. 16% thought they could not afford a financial adviser, the same as last year.
- 4% took the new option that they do not take investment decisions in their household.
- We combined the Jan 2013 choices "don't need help investing, I do it myself", "never trusted financial advisers" and "rather use other sources of advice/information" into a single "self-advise using other sources of information". First, they are essentially the same choices. Second, combining them yields a larger sample size resulting in more robust analysis.
- 24% said they "would rather self-advise using other sources of information instead of professional financial advice". Overall it was 10% less than last year.
- We filtered out those who answered that they do not have funds or could not afford advice, as with the 2012 survey. We also filtered out respondents who say they do not take investment decisions in their household, in an effort to create a survey based on those who do.

Reasons why consumers do not take financial advice

"What is the main reason why you have never sought professional financial advice?" (Base: 1,352)



From this, the following analysis can be made:

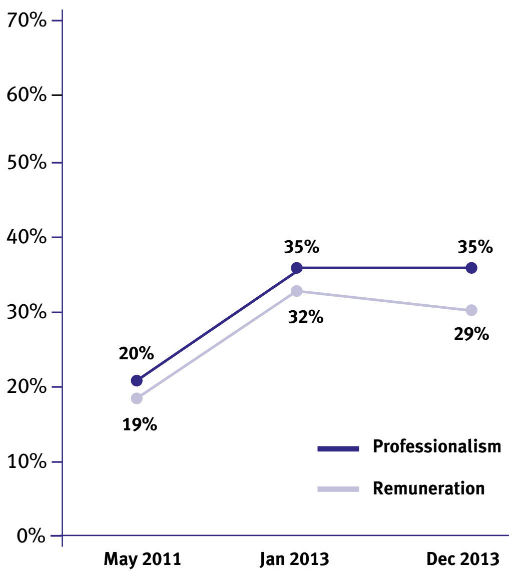
- **Self-advice:** men are more confident in self-advising than women: 30% of men said they would rather do this, whereas only 17% of women responded this way. 16% aged 25–34, compared to 45% aged 65+.
- **Never thought about receiving advice:** younger adults were more likely to say this: 25% compared to only 9% aged 65+. This group also links closely with the group that does not think they can afford advice.

Awareness of the RDR changes: More work is needed

- Awareness of adviser professionalism requirements is virtually the same as last year for both unadvised and advised respondents.
- 29% of unadvised customers are aware of the professionalism changes, almost the same as the 32% last year; similarly knowledge of the remuneration requirements has also remained steady at 35%.
- For advised respondents, knowledge of remuneration has fallen from nearly two-thirds of customers to just over half. Knowledge of professionalism has also declined.
- With one of the aims of the RDR being to improve the public's confidence in financial advice, this lack of awareness of the RDR among those who do not receive financial advice is still worrying.

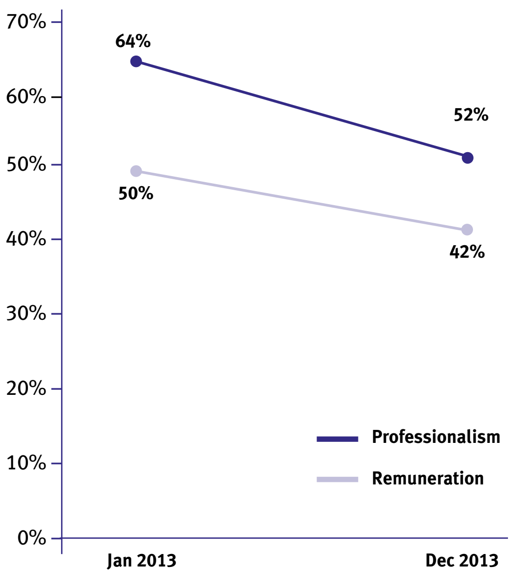
Unadvised respondents' awareness of RDR

Bases: Dec 2013: 571; Jan 2013: 605; 2011: 2,055



Advised respondents' awareness of RDR

Bases: Dec 2013: 787; Jan 2013: 686



Are you aware that, as a result of new regulations, retail investment and pensions financial advisers will have to...

• Hold a more advanced qualification and have to meet enhanced professional standards?
• Establish an upfront agreement about the cost of advice?

Note: 2011 respondents who could not afford advice or do not have money to invest were not filtered out.

From this, the following analysis can be made:

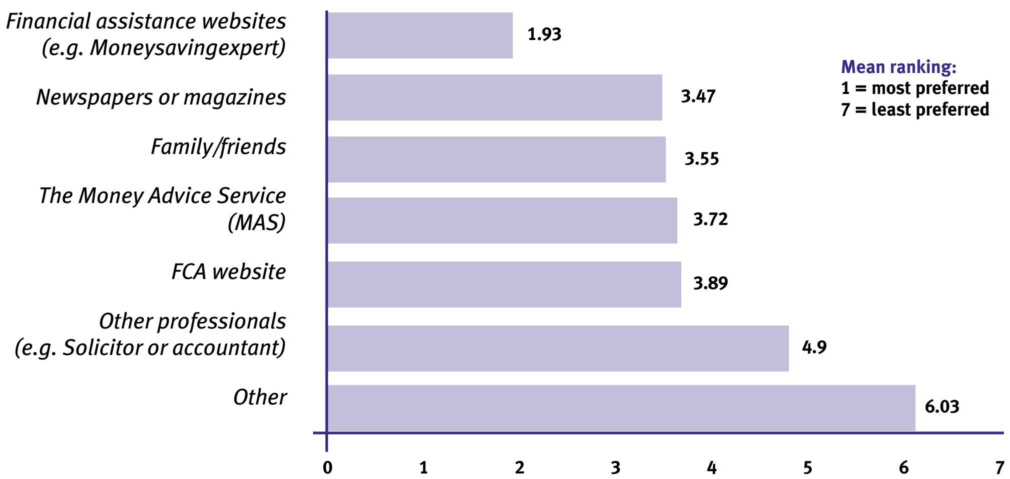
- **Unadvised "Self-advised":** 36% of those unadvised respondents who prefer to self-advise said they were aware of the professionalism changes, almost exactly the same as last year (37%). Similarly, 47% of this group said they knew about adviser charging, again similar to the 48% last year. These consistent findings suggest that their research on investments may have also informed them on RDR developments.
- **Unadvised "Never-thought":** 21% of the unadvised respondents who said they had never thought about advice knew about professionalism changes, and 20% had heard about adviser charging, down from the 29% and 21% respectively last year.
- **More work needed to inform the unadvised:** aimed at those who have never thought about advice who tend to opt for do-it-yourself advice, and for those who are looking for help on what to do with their investments.
- **Advised respondents:** the decline among this group from last year is also important. In fact, the 16% reduction in awareness of professionalism changes is more significant than the 9% reduction for unadvised respondents.

Perceived advice substitutes: The internet is key

- As with last year, we asked the 318 consumers who said they self-advise to rank the sources of information they are most likely to use. This was one of the reasons we created a single "self-advice" choice this year because it has given us a larger base from which to work: 318 respondents this year compared to just 73 in 2012.
- **Financial assistance websites were the top choice:** 46% overall ranked this first choice, and 27% second choice, and it received the leading mean rating by a considerable margin.
- Newspapers and magazines ranked second overall, followed by family and friends.
- **The Money Advice Service was the fourth choice:** it had the next most favourable mean rating.
- **Women:** this was the only respondent sub-group that differed discernibly from the overall result. Our results found that family and friends was their second preferred choice, and a considerable margin ahead of the MAS.

Sources of advice/information other than professional advice

"You said you would rather self-advise on investments and pensions using sources of information other than the professional financial advice sector." Please rank from 1= Most preferred to 7 = Least preferred (Base: 318)



It is not surprising that so many consumers rely so heavily on especially the weekend personal finance press for their advice.[7] It is full of coverage and speculation of investment opportunities, though few readers may fully appreciate the risks involved in relying solely on impersonal information that could be taken to be appropriate for every individual situation.

7 A glance at the personal finance pages following New Year 2014 gives some indication of the range of speculation on investment opportunities for the year. See for example, Make 2014 the year to start investing: we explain three different ways to start investing in shares, including the 'truly lazy' option, by Richard Evans, The Telegraph, Saturday 4 January 2014; "The best ways to make a profit in 2014

Nick Hurman's view:

The clear finding is the role of financial assistance websites in supporting self-investors. All but half (46%) of self-advisers rank this source first and the mean preference is just above 2nd (mean score = 1.93). Other sources are ranked on average equally with mean ranking around 3½ – these include the Money Advice Service (3.47), Friends/family (3.55), Newspapers/magazines (3.56) and the FCA website (3.89). Other professionals are ranked around 5th (4.90) and other sources at the bottom (6.03). Comparison with Wave 2 suggests that the importance of websites to this group may be increasing and they are relying less on family and friends or other professionals.

The combination of the significant group of self-advisers and their primary reliance on websites supports the reported growth of non-advised models in the wake of the RDR changes. Advisers may wish to consider how their offering could respond to this – perhaps deploying investment platforms that allow the investor to research and make amendments to investments either by themselves when they choose to or in co-operation, in some way, with their adviser.

It would be interesting in future waves to explore if there is a similar group amongst the adviser users who also self-advise and the role that their advisers play in their overall financial planning.

RDR impact: Trust, confidence and likelihood of taking advice

Overall public trust and confidence: improvement still awaited?

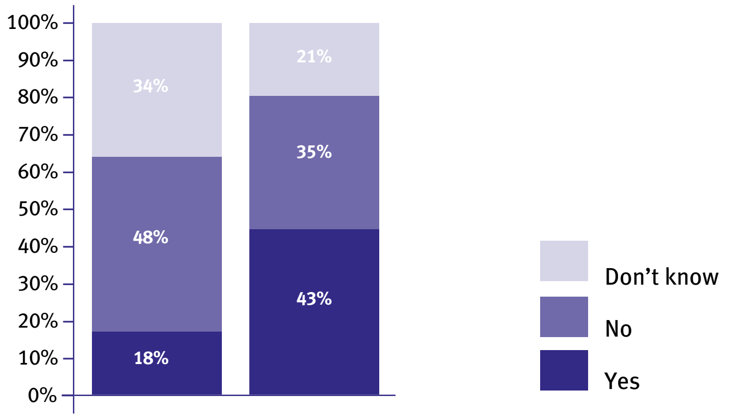
- A new question asked fairly early in the 2013 survey assessing respondents' overall level of trust and confidence in the professional advice sector. The question was a simple yes/no/don't know, and posed fairly early in the survey before the questions about the RDR changes.
- After the questions about the RDR changes, they were then asked whether they had more or less confidence in the sector than a year ago.

Overall:

- **Unadvised:** nearly half of respondents said they do not have confidence in the sector, and a third say they did not know. Only less than a fifth (18%) said yes.
- **Advised:** nearly half of respondents (43%) said they do have confidence in the sector, and a third do not.
- **Change since last year:** in the follow-up question, most (both unadvised and advised respondents) thought their views
had not changed, and a fifth thought their confidence was worse. Only small portions thought it had improved.
- Unadvised respondents are more sceptical of the sector whereas advised ones are less so.

Overall public trust and confidence in the professional financial advice sector

"Would you say you have trust and confidence in the advice sector?" (Bases: Unadvised: 571; Advised: 686)

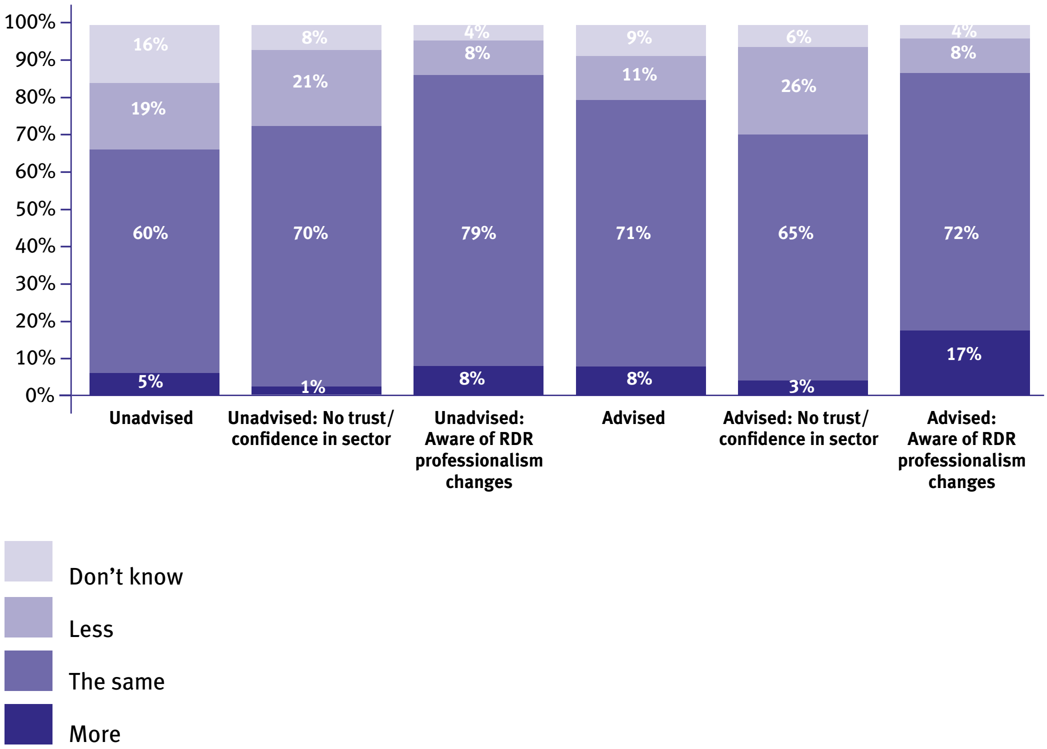


Analysis and implications

We can draw the following analysis from these results:

- When the group that said they did not have trust and confidence was asked whether it had improved, 70% said there was no change in views, a fifth thought it was actually worse, and only 1% thought it was better.
- However, those unadvised customers who were aware of the RDR changes were less pessimistic about the sector. The proportion that thought the market was worse actually halved, the "don't knows" quartered, but most of these view changes had gone to "the same" group which increased by 20%. The proportion that thought their confidence had improved only increased slightly.

"Would you say you have more or less trust and confidence in the professional advice sector compared to a year ago?" (Base: 1,478)



Nick Hurman's view:

Nearly two thirds of respondents say trust and confidence has stayed the same but 3 in 20 (15%) report them going down with only half that number (7%) saying it went up. If we divide respondents between advice users and non-users, the differences are only slight – users being only marginally less negative. This might suggest that overall trust is being driven by broader trends than personal experience of pensions and investments.

Likelihood to use advice as a result of the RDR

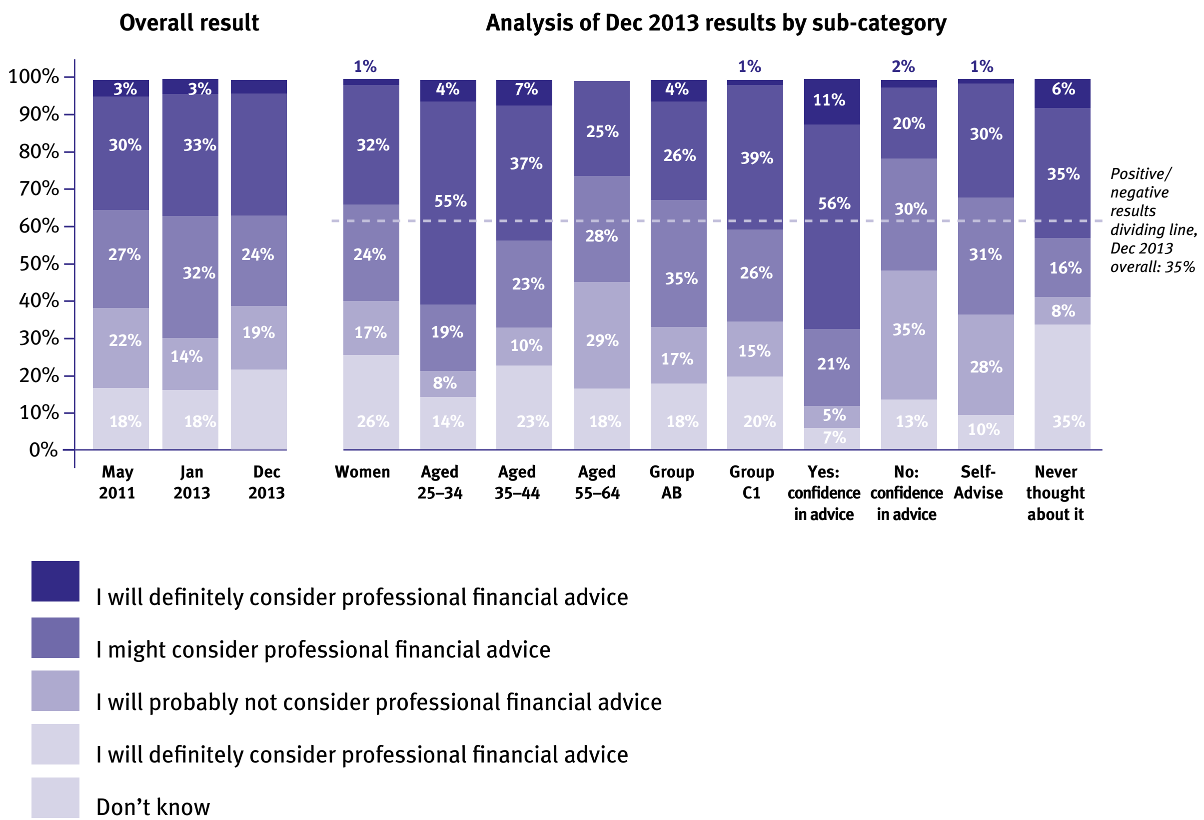
As in the last two surveys, we asked unadvised respondents whether they would consider professional financial advice in the light of the RDR changes.

- The results were largely similar to 2011 and 2012 with a slight increase in those saying they would consider advice. 35% said they might or would definitely consider financial advice, compared to 33% in 2011 and 36% in 2012.

- The group of unadvised respondents most likely to reconsider advice were those who never thought about advice. They are slightly more likely to say definitely/might consider advice, and are much less likely to not reconsider.

Unadvised respondents: likelihood of using advice

"Given these changes, do you think you are likely to consider financial advice in the future?"
(Bases: May 2011: 1,340; Jan 2013: 605; Dec 2013:571)



From this, the following analysis can be made:

- Of those who said that they never really thought about receiving advice are slightly more likely to reconsider receiving it as a result of the RDR. There was obviously a much greater proportion of "don't knows" than overall: 35% of this group said this, compared to 21% overall.

- Those who have already higher levels of trust and confidence in the sector are much more likely to say yes to this question. However, among those who said they have low trust and confidence, only a quarter would reconsider receiving advice.

- The least likely to reconsider advice were the self-advisers. This could either be because they think the DIY is easier and/or cheaper; or their levels of trust and confidence are so low that the RDR changes would not make a difference.

- It has also maintained consistency despite our efforts to ensure that those who cannot afford financial advice are fully stripped out of the respondent group. This suggests a slightly reduced interest since 2011. Nevertheless, this finding now creates a more robust case for communicating the RDR, as we can now say with stronger confidence that the RDR will bring new customers to the market.

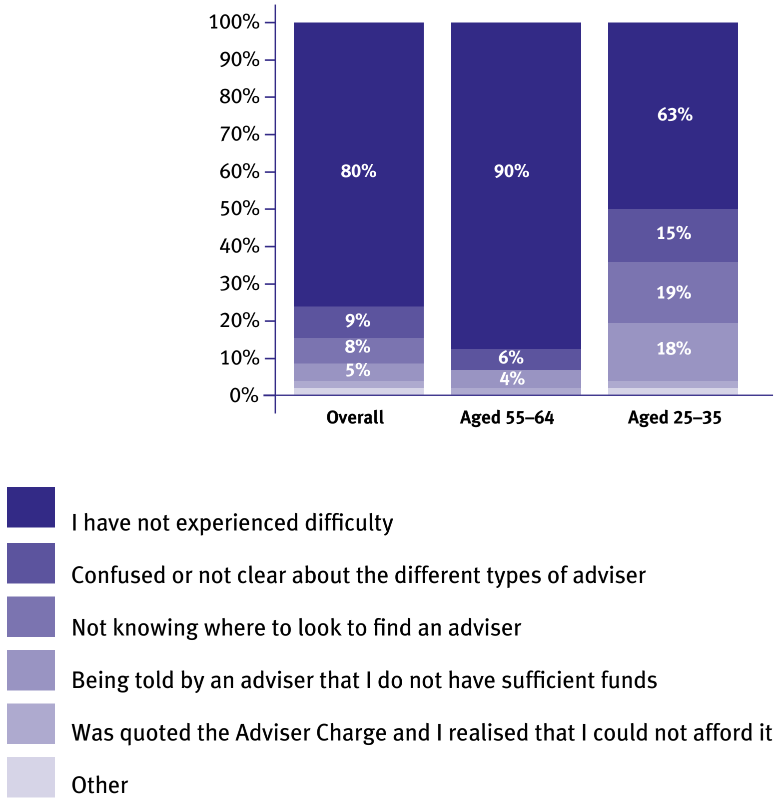
Difficulty finding an adviser

In response to the publicity about consumers receiving difficulty accessing advice in the post-RDR environment, we asked a new question in the survey to advised respondents about difficulty obtaining the services of a professional financial adviser.

- **Overall:** an overwhelming 80% said they had not experienced any difficulty getting retail investment advice. There were differences by age group.
- **Older adults:** even fewer adults aged 55–64 had difficulty in this area, likely because they were already engaged in preparing for retirement and thinking about annuities advice.
- **Younger adults:** for respondents aged 25–35, the breakdown was far less optimistic. Only 63% said they had no difficulty getting advice, whereas 19% said they did not know where to look to find an adviser.
- Although some of these respondents may have been referring to experiences prior to the RDR changes, this counters the claim that customers are having difficulty searching for advice.

Advised respondents: difficulty in finding advice

"Have you ever experienced difficulty obtaining the services of a professional financial adviser for assistance in retail investments or pensions?" (Base: 686 advised respondents)



Sources of information

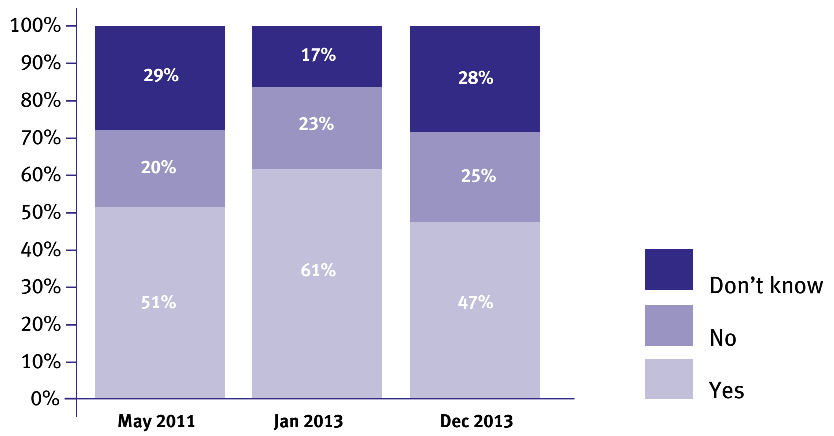
- For those who said they were aware of the RDR, the media was by some margin the most popular source where they first heard about the changes, and this is true for both unadvised and advised respondents.
- Both this question and the earlier one about where self-advised get their information point to the media as the public's primary source of information on their investment issues, along with financial assistance websites such as moneysavingexpert.com.
- Other information sources such as the Money Advice Service or the FCA website have ranked very low, suggesting that actual or potential customers of financial advice do not really use these sources.
- The onus will be on advisory firms to promote the virtues of professional advice to its prospective clients and devise ways to market the changes when prospecting for new customers.

Advised respondents' reactions

- As the previous surveys, advised respondents were asked outright whether they think the regulatory changes described to them in the survey changes would improve their confidence of the professional advice sector.
- 47% of the advised respondents thought the changes would improve their confidence of the professional advice market.
- Although this constitutes an overall drop from 61% last year, most of this change of sentiment went to the "Don't knows". The proportion of respondents who do not think the RDR will improve confidence (25%) is virtually the same as last year.
- Therefore, among those respondents who have decided on a view (ie stripping out the "Don't knows"), the proportion is virtually identical to last year.
- Men and respondents aged 25–34 were more likely to agree that the RDR has improved their confidence.

Advised respondents: trust and confidence as a result of the RDR changes

"Do you think these changes will improve your trust and confidence in the professional financial advice sector?" (Base: 686 advised respondents)



The following implications can be drawn from these various sets of findings:

- The favoured choice for advised consumers is that the RDR will have an overall positive impact on their trust and confidence in the advice sector. Although the proportion thinking this way has declined since last year, saying "yes" is still the most popular choice.

- That said, there is quite a high proportion of "Don't knows", 28% constituting a 65% increase from last year. Given the fact that these respondents have received advice before, and are aware of the RDR changes at least superficially (if nothing else but from the survey questionnaire itself), we suspect that these people are more *undecided* than outright *unaware*.

- This high proportion of undecided customers might be at least partially explained by the fact that most people got their information about the RDR from newspapers and magazines. What little media coverage on the RDR that has appeared this year has been dominated either by the advice gap issue or the concern about value of advice, both of which can be construed as negative outcomes for consumers.

- The fact that the negative coverage has not tipped the balance of public opinion against the RDR is telling enough in and of itself. The most popular choice is still positive; and most of those who are not are undecided because while they are being reminded of the costs of the changes, they can still understand the benefits.

Nick Hurman's view:

The survey then explores whether specific RDR changes are having any direct effect on the views of 'self-advisers' and the 'never thought' groups of potential users. The response suggests that measures within the RDR to improve trust are having different impacts on these groups. A third (35%) of self-advisers say they are aware of the increased levels of qualification and professionalism introduced following the RDR and nearly half (47%) of the introduction of adviser charging. This suggests that awareness of RDR changes is finding its way through to self-investors but may not be having a significant effect on adviser trust – or in counteracting previous or contrary opinions.

Looking at where these groups heard about the changes, over a third (37%) say newspapers/magazines – suggesting the traditional press is still important as a source of more general financial news. A possible inference is that as editorialised sources, they may also have influenced how these groups interpreted the changes. Other potential sources are far less impactful with only 1 in 8 (12%) citing friends and family, 1 in 10 (10%) financial assistance websites and as few as 1 in 20 the FCA website (5%) and the Money Advice Service (4%).

However, given these changes, of those that were aware, whilst a third say that they might (32%) or definitely would (3%) consider financial advice in the future, nearly a half say they probably (24%) or definitely (19%) wouldn't. Around 1 in 5 (19%) don't know. So we might infer that these changes are having some, though by no means a decisive, impact on this group.

Overall findings and implications

Is the RDR on a trajectory to improving public trust and confidence in the advice sector? Once again, the results of our survey suggest that the answer is "yes".

Before going further, we must start with the fair caveat that this is the result of an on-line rather than telephone survey, so we are not pretending to have completely robust findings, but rather to provide a basic picture of the public's sentiments. That said, a sizeable enough proportion of consumers even in older age groups do now use the internet for a range of purposes, besides which many of these findings are tracking and consistent from our previous on-line surveys, so we have reason enough to be confident that these results give us an overall picture of sentiment in this area.

While these results themselves are by no means decisive in that there is still a great deal of uncertainty among consumers about whether these changes will make a difference, who can blame them considering that the limited coverage the RDR has received has in fact been quite pessimistic? It also may be a good sign that those who are not positive are undecided rather than decisively negative.

A step in the right direction

Trust and confidence in the sector

There is clearly room for improvement in overall public trust and confidence in the sector. This year, public trust in the sector is quite low, especially among consumers who have never sought advice. On a more positive note, over a third are still undecided. More positive still, when asked about whether their trust has improved, those who were aware of the RDR professionalism changes were more likely to say their trust was the same as last year, more likely to think their trust had improved, and less likely to say that it had decreased. So while there is clearly much work to be done, the RDR changes are beginning to have a positive effect on people's views towards the sector.

There is an even stronger indication that respondents who have sought advice are more positive about the RDR changes when asked about their views in the light of them. Nearly half of advised respondents thought their trust and confidence in the sector had improved as a result of the RDR changes. As in the last two surveys, this was the favoured option. A large proportion are still undecided, probably mindful of the negative press about dwindling adviser numbers and newly transparent charges, yet they have not come down against.

Likelihood of using advice as a result of the RDR: nearly 5 million potential customers

Perhaps the strongest indicator is the likelihood among unadvised consumers to consider advice as a result of the changes. Over a third (35%) either might or would definitely do this. This is exactly consistent with the previous two surveys, which certainly strengthens the credibility of this finding aside from the obvious limitations stemming from the fact that this is an on-line not telephone survey. It also held despite our efforts to improve the methodology by filtering out customers who might be deterred by issues such as affordability. Among the two main subgroups of unadvised customers, it was the "never thought about it" group that were more likely to reconsider advice than the respondents who would prefer to "self-advise". Younger respondents (especially those aged 25–34) were even more likely to consider this.

As in the previous surveys, we equated this 35% to the actual UK adult population, and can now confidently estimate that at least 4.8 million new customers could be introduced to the advice market as a result of the RDR changes. If each of these customers spent an average of £800 in adviser charges, it would be a potential new market worth over £3.8bn.

This compares with 5.3 million respondents in the 2012 survey. It is fairly consistent with last year's results, the only difference being that it did not strip out those who do not take investment decisions in their household. Had this question been asked in 2012, and the same proportion (1.3 million) took that option, the result would be more comparable to this year.

The potential untapped market: more like 14 million?

We think this new market could be worth far more than just £3.8bn, in actual fact well over £10bn. We are even more confident than last year what this number could be starting from 32.5 million adults who have never received financial advice:

- 17.5 million cited affordability or not having funds to invest as the reason for never receiving advice;
- another 1.3 million said they do not take investment decisions in their household;
- this leaves 13.7 million unadvised households who have the funds to invest, can afford an adviser, and therefore are in a position to receive financial advice. Again, if each spent an average of £800 in adviser charges, that equates to £10.9bn.

Challenges in improving the market

These figures of nearly 14 million customers spending nearly £11bn would be feasible if the sector and its regulator were to put its collective efforts to confront the several challenges highlighted in this report.

Improving awareness of the RDR changes: an important role for advisers

Essential to all of this is improved awareness of the RDR changes. Now that the changes have been implemented, a vital next step towards improving public trust and confidence is awareness of the reforms in the first place. In June 2011 and December 2012, we published the results of consumer surveys to assess the public's knowledge of these RDR changes.

In the 2011 and 2012 surveys, we took the view that the Money Advice Service has an important role to play in this process of educating the unadvised consumers. This year we have slightly altered our view, and now believe that advisers themselves have a key role in reaching out to this market. The reason for this amendment is the high proportion of self-advisers who rely on internet-based resources for their research. It suggests that if advisers were to increase their on-line presence, and perhaps invest in creating resources on line that can provide prospective consumers with some information to help them with their research, with the promise of more if they booked a face-to-face session, this might help. Moreover, if the professional bodies such ourselves as the Personal Finance Society revitalised its on-line emphasis in its Find-an-Adviser resources, this might help.

Educating the public on the value of advice: more than just a few Google searches

A significant part of that awareness must be around the value of advice. While professional advice has always had a cost, it is now more visible in the form of the adviser charge. Increasing transparency and eliminating commission bias has been the right thing to do. And this remains the case despite the reality that consumers might see this as a new cost to avoid.

The findings from this survey suggest that most people see financial advice as some sort of process that could be circumvented with the help of the internet and news media. In a time when advisers sold on the basis of commission and incentives, they may have been right. The more cynical observers may have been forgiven for seeing it merely as a kind of highly personal sales and marketing process. So a strategy to avoid it somehow could hardly be illogical.

However now, with more inherent complexity in the investments, personal pensions and protection markets and as a result more stringent regulatory and professionalism requirements for distributors, financial advice has changed. So must consumers' perceptions of it. The public must begin to see professional financial advice as an essential service that has cost and value, and something that cannot be usurped by a few Google searches or a skim through the weekend personal finance pages. It must get to grips with the value of financial advice in the way it did for other services such as legal advice or any other professional service.

We believe the true benefit of the RDR is yet to come, but the end result should be a financial advice market that is more professional and trustworthy. This will take time. Higher qualified advisers, providing more transparent services and remuneration practices, will bring about much needed improvements to public confidence.

Nick Hurman's conclusions:

There is still a significant part of the market that uses advice or might do so:

- a third of the market say they have sought out a professional adviser on pensions and investments; and
- a further quarter could use an adviser but haven't;
- together this represents just under 6 in 10 (58%) of respondents.

This continues to support the view that there is a large latent demand for advice – the challenge is, as ever, engaging with this potential demand and creating awareness of the benefits of advice in the post-RDR environment.

Advisers are increasingly having to compete against or integrate with self-directed investments and non-advised models:

- a quarter of advice non-users identified themselves as 'self-advisers' in the survey; and
- other research suggests over a half of adviser users are also 'self-advisers';
- together this suggests around a third of the market may be self-advisers.

Perhaps advisers need to be more flexible and look proactively to fit around their clients' needs and experience: leading on the big and/or difficult decisions, reviewing clients' own actions and suggesting options for more straightforward issues and providing platforms and analysis for clients to review and even act on in their own time. This type of model seems to be increasing the norm for the successful web-based intermediaries.

Financial assistance websites are commanding an increasing share of voice in addressing consumers:

- one of the most striking features in the research is primacy of financial websites as sources of information for the self-adviser group and the receding importance of other sources, such as family and friends
- This reflects wider social trends in the usage of, and confidence in, the web both to research, learn about and purchase high value items, and so contributing to
- the growing share of web-based purchases of packaged investment products.

Advisers who have little or no web 'footprint' may find it increasingly difficult to gain and retain the attention of consumers who have an interest in researching and monitoring their investments. They may also find other businesses attracting the attention of existing clients and then offering them their own services.

The changes resulting from RDR are welcomed by many advice users but are having a limited impact on self-advisers' interest or trust in professional advice:

- the changes seem to have played well with the advised market and in this segment resulting in good outcomes for advisers
- but they are not addressing the objections of those who have chosen to invest without advice; either because they prefer the ease and/or lower cost of investing themselves or they don't trust advisers to invest wisely or in their best interests

The open question is "what else might persuade the self-advisers to try advice?" Whilst advisers have previously been greatly aided by personal referrals (the influence of family and friends, for example), the growing importance of financial websites and the wider financial media suggests that this could be the decisive arena of consumer influence. Advisers need to look to and support their professional and trade bodies to influence the debate.

The potential for further positive movements in trust resulting from RDR is now probably receding and the burden of communicating these will rest increasingly on advisers:

- there are hints in the research that RDR is moving from 'change' to 'business as usual' for consumers (and the media) as well as for the industry.

So, advisers may need to devote more effort in setting out the benefits of the post-RDR regime for both new and existing clients alongside the benefits of financial advice in itself to build clients' trust not just in their own advice but the strength of the new regime around increased ethics, professionalism and transparency in charging.

Advisers can be grateful to their professional institute for continuing to track consumers' view on these issues. We look forward with interest to continuing research in this area.

Appendix: Survey questionnaire and filtering

2,038

1 Have you ever sought the services of a professional financial adviser on pensions or investments?

Yes

No 1,352

2 What is the main reason why you have never sought professional financial advice on pensions or investments?

- Never wanted to invest my money, or don't have the money to invest
- **I don't take investment decisions in my household, so I don't really know**
- Definitely know I can't afford a professional financial adviser
- Never really thought about it
- I'd rather use other sources of advice/information instead of professional financial advice

560

220

253

318

3 You said you use other sources of info/advice rather than professional financial advice. What sources do you use for help on making investment/pensions decisions?

- Don't think I need help investing: do it myself
- Family/friends
- Money Advice Service
- FSA website
- Financial assistance websites only (eg Moneysavingexpert)
- Newspapers or magazines only
- Other professionals eg solicitor or accountant
- Other __________

318

4 Would you say you have trust and confidence in the professional financial advice sector?

Yes / No / Don't know

571

5 Are you aware that, as a result of new regulations, retail investment and pensions financial advisers now have to:

- Hold a more advanced qualification and have to meet enhanced professional standards?
- Establish an upfront agreement with the customer about the cost of investment advice (ie. commission on investment advice has been banned)?

Yes to either/both 231

No to both 340

6 Where did you hear about these changes?

- Money Advice Service
- FSA website
- Financial assistance websites (Moneysupermarket.com or similar)
- Newspapers/magazines
- Friends or family
- Other
- Can't remember

231

7 Given these changes, do you think you are likely to consider financial advice in the future?

- I will definitely use professional financial advice
- I might consider professional financial advice
- I will probably not consider professional financial advice
- I will definitely not consider professional financial advice
- Don't know

571

Final questionnaire was undertaken 4–5 December 2013

Key: soft box outline = re-run of Jan 2013 question;

Bold box outline, or option = new question/option; number in box = weighted number of respondents answering that question

686

8 Would you say you have trust and confidence in the professional financial advice sector?

Yes / No / Don't know

686

9 Have you ever experienced any difficulty obtaining the services of a professional financial adviser? So so, what sort of difficulty?

- No difficulty
- Being told by financial adviser(s) that I don't have sufficient funds to warrant financial advice
- Not knowing where to look to find a suitably qualified financial adviser
- Confused or not clear about the different types of advisers
- Was quoted the Adviser Charge and I realised that I could not afford it
- Other: _______

686

10 Are you aware that, as a result of new regulations, retail investment financial advisers now have to:

- Hold a more advanced qualification and have to meet enhanced professional standards?
- Establish an upfront agreement with the customer about the cost of advice (ie. commission has been banned)?
- Other: _______

Yes to either/both 387

No to both 299

11 Where did you hear about these changes?

- My existing financial adviser
- FSA website
- Money Advice Service
- Other financial assistance websites (Unbiased, Find-an-Adviser or similar)
- Newspapers/media
- Friends or family
- Other

387

12 Do you think these changes will improve YOUR confidence you have in professional financial advice?

Yes / No / Don't know

686

220

571

13 Would you say you have more or less confidence in the professional financial advice sector than a year ago?

More / The same / Less / Don't know

1,477

14 Thinking about measures to improve YOUR trust and confidence in the professional advice sector, what other things do you think would work for you?:

- Enhanced regulation of advisers by the Financial Conduct Authority
- A larger selection of qualified advisers
- Advisers with the Chartered Financial Planner title
- Better clarity of the risks involved with investment products
- Better education/information on how to use financial advisers
- Better information on how to find qualified financial advisers
- More transparent pricing for advice

1,477

15/16 [Two questions about labelling of advisers]

1,477

560

17 Demographic questions & end

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About the Personal Finance Society (PFS)

Professionalism in practice

The Personal Finance Society is the UK's leading professional body for the financial advisory industry, with 34,000 members. Its mission is to lead the financial advice community towards higher levels of professionalism, exhibited through ethical and behavioural standards, interpersonal and business skills and technical knowledge, to the ultimate benefit of the profession and the consumer alike.

By working closely with its members the Personal Finance Society represents their interests by shaping the future environment in which advice is provided, helping to engender the confidence of the public in the financial advisory industry and achieve the trust and respect afforded to similar established professions.

Members of the Personal Finance Society also benefit from membership of the wider Chartered Insurance Institute group (CII), a world renowned provider of professional training, qualifications and thought leadership to the financial services industry.

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