Policy briefing

October 2015

HMT/FCA Financial Advice Market Review Call for Input

On 12 October, HM Treasury and the Financial Conduct Authority published a joint call for input on the Financial Advice Market Review (FAMR). The Review aims to look at how financial advice could work better for consumers and considers where advice gaps exist, the barriers to accessing advice and the barriers to providing advice. It also puts forward proposals for closing gaps. The report is published at: www.fca.org.uk/your-fca/documents/famr-cfi

Key suggestions include:

- **Improving consumer access:** for example through technological innovations and provision in accessible locations
- **Improving consumer awareness of the value of advice:** demonstrating the value through awareness campaigns
- **Improving consumer trust:** aligning company and consumer interests

Alongside FAMR, the Treasury opened **a consultation** into the public provision of free-to-client, impartial financial guidance and structuring them to give consumers the information they need to make financial decisions.

Meanwhile on 19 October the Work & Pensions Select Committee published a report of its inquiry into pension freedoms advice and guidance, including a recommendation "to clarify the distinction between advice and guidance".

Next Steps:

The consultations close on 22 December, with a view to publishing recommendations by the 2016 Budget.

Overview

On 12 October, HM Treasury and the Financial Conduct Authority published a joint call for input on the **Financial Advice Market Review (FAMR)**. The review had been launched back in August by Harriett Baldwin MP, Economic Secretary to the Treasury. FAMR aims to look at how financial advice could work better for consumers, and considers the following:

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

The Review will look to balance reducing costs and uncertainty for firms and continuing to provide adequate consumer protection. Any recommendations will need to be workable under EU law. The findings of the Review will be use to support any request to change EU law to make the UK advice market function better.

The work of the Treasury and FCA will be supported by an expert advisory panel comprising of industry and consumer voices. This is to be chaired by Nick Prettejohn, Chairman of Scottish Widows. The full panel is listed at Appendix A.

Background

The publication of the consultation follows a joint statement issued by the Treasury and FCA in August announcing that they will be undertaking "**a major new review looking at how financial advice could work better for consumers**".

The subject of advice and guidance in retail financial services has seen significant regulatory and policy activity over the past decade, with most notably:[1]

- the Retail Distribution Review of retail investment products that ended in 2012, and
- the debate about unregulated financial guidance such as national free-at-point-of-use services including the Money Advice Service and more recently Pension Wise.

Alongside the FAMR call for input, the Treasury opened a consultation on unregulated guidance should be structured to give consumers the information they need to make financial decisions.

FAMR scope

It is made clear from the outset that the focus goes beyond "services that would meet the regulatory definition of advice" but rather a wide range of provision of services offering support to consumers.

The following issues are identified and put forward for discussion:

- increasing complexity in financial services products and how they are described;
- increasing choice of products, product features and distribution methods;
- increasing levels of debt in some consumer segments;
- the impact of technology on how people engage with financial services products and services;
- increased flexibility in how people are able to draw money from pension schemes at retirement; and
- changes to demographics, an ageing population and the need to consider issues such as long-term care.

The Review aims to consider:

- the extent and causes of the **advice gap**;
- the **regulatory or other barriers firms may face**;
- how to provide **regulatory clarity** and **to foster innovation and growth**;
- the opportunities and challenges presented by new and emerging technologies; and
- how to **encourage a healthy demand side for financial advice**, including **addressing barriers** which put consumers off seeking advice.

Related news: Work & Pensions Select Committee on Pension Freedoms Advice/Guidance

The House of Commons Work & Pensions Committee reported on its inquiry into pension freedoms advice and guidance. Among its various findings on Pension Wise and other aspects of the reforms, it also included a recommendation related to FAMR: "to clarify the distinction between advice and guidance, the definitions of safeguarded benefits, and protections in providing advice to insistent clients."
www.publications.parliament.uk/pa/cm201516/cmselect/cmworpen/371/371.pdf

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[1] See for example CII Briefing, **HM Treasury and the FCA launch the Financial Advice Market Review**, 4 Sep 2015, www.cii.co.uk/37617

Key concerns identified

Barriers to consumer engagement

The review recognises that not everyone wants or requires professional advice, especially for relatively straightforward products like home or car insurance. However, where advice would be useful many people still choose not to access it. The call for input identifies seven factors that prevent members of the public from seeking advice.

- **Price:** Some consumers believe the price for advice, particularly for professional, face-to-face advice, to be too high. In part this is exacerbated by the difficulty of judging the value of advice because the benefits are usually deferred over time and more intangible than for purchases of non-financial products.
- **Lack of trust:** Public trust in financial services market remains an issue following previous scandals.
- **Lack of knowledge:** Consumers might not recognise the need for advice or be aware of it. They also may not understand how to obtain it. In addition, consumers may lack confidence about the process
- **Disengagement:** Consumers who are disengaged with financial services generally are unlikely to engage with the process of seeking advice and others may feel they need financial advice but never be prompted sufficiently to seek it.
- **Overconfidence:** Some consumers might believe they are as competent as a professional adviser even though they could benefit from using one.
- **Access to face-to-face advice:** Depending on their location, some consumers may not have easy access to advisers.
- **Access to the internet:** Where advice is available via the internet, a lack of ability to use such channels and tools may prevent some consumers from getting advice in this way.
- **'Robophobia':** Consumers of 'robo-advice' may also have concerns about sharing sensitive personal data online.
- **Advice not necessary:** Consumers may make a rational and reasonable decision that they do not need advice and are capable of making a decision themselves.

What is an "advice gap"?

Before proceeding to narrow the FAMR scope, the paper defines the "advice gap" for the purposes of the review (which might differ from that of other market commentators), so that it has supply- and demand-side elements:

- **supply side:** customers are unable to get the form of advice they want on a need they have at the price they are prepared to pay; or
- **demand side:** customer demand is low because the long-term benefits of advice may not be fully appreciated.

Which markets have "advice gaps"?

Having defined an advice gap, the FAMR paper proceeded to set out its preliminary view on the wide scope of the review to leave just retail investment/retirement products.

- **Short-term savings and deposit accounts:** "given the availability of high street bank and building society branches and phone and internet access to savings accounts, we think there is less chance of an advice gap existing in the deposit market."
- **Retail general insurance:** most "is sold direct by providers or via online comparison platforms and brokers. There seems to be little demand for additional sources of advice."
- **Credit products through bank and building societies:** "we do not believe there is a significant advice gap with the important exception of advice when debts become unmanageable. Access to advice in these cases is crucial and the separate public financial guidance consultation will consider this area."
- **Mortgages and secured debt:** "property is the principal way of accumulating and holding assets for a large majority of UK consumers, thus appropriate access to mortgage advice is important. Under the FCA mortgage regime the

great majority of consumers now receive advice, so we do not consider there to be an advice gap in this sector" and this is also being covered by a separate call for inputs on competition in the mortgage sector."[2]

- **Wealthier consumer groups and those with complex needs**: "are more likely to seek and to be able to afford professional advice."

The review then settles on people who have some existing savings but not significant wealth are less well served at present. Retirement income is one area where there is an obvious need in the light of the pension reforms, and where some people may be facing a complex financial decision without being able to access appropriate professional advice or without recognising the benefit of seeking such advice.

Barriers to offering advice

The paper looks to explore the economics of offering advice and sets out a number of barriers that could be preventing firms from providing a service to consumers. It also recognises that firms have left the market in recent years and that many who continue to operate focus on wealthier clients rather than the mass market.

- Establishing reputation and trust
- Finding consumers
- Regulatory clarity
- Business costs
- The regulatory cost of providing advice
- Lack of profitability
- Liability where failure leads to consumer loss

Suggested policy interventions

The Treasury and FCA set out six broad areas for consideration for addressing the advice gap – though the debate is not confined to these. The key interventions are:

- **Improving access** Options put forward include: encouraging workplace advice, encouraging advice in accessible locations like libraries or post offices, supporting the development of online advice and sharing the costs of advice with employers, or subsidising the cost through some form of levy on the industry.
- **Improving trust** Trust is a theme running through the call for input. It is suggested that improving the alignment of industry interests with those of consumers may help address concerns of those who lack trust.
- **Increasing awareness of the value of advice** The Review may consider whether the Government could work with industry and employers to enhance awareness through signposting or public information campaigns.

Other suggestions include:

- **Reducing the cost of providing advice for firms** The Review will consider where direct and indirect regulatory costs are highest and where they can be reduced without leading to increased detriment for consumers. There may be certain types of advice or product that could be sold on the basis of more limited regulatory requirements.
- **Reducing risks and uncertainty for firms** The potential risk for firms of having to pay redress when providing advice that causes consumer loss is likely to be a major concern for the industry. One recommendation from the Review might be to look at whether there are product or advice types where potential liability can be reduced in certain instances or where consumers can reasonably take more responsibility for their investment decisions.

[2] On this review, see CII Briefing, **FCA call for evidence on mortgage sector competition**, 8 Oct 2015, www.cii.co.uk/38340

- **Promoting innovation and competition** The Review is interested in thoughts on the role new technologies can play in meeting customers' advice needs and how regulation can support technology-advice solutions. It considers the economics of automated advice; consumer attitudes towards automated advice; and risks faced by consumers.

Action and next steps

The call for input closes on 22 December. Feedback will be considered by the Treasury and FCA, who will then publish recommendations ahead of the next year's Budget. The CII will produce further membership briefings as the Review progresses. http://www.fca.org.uk/your-fca/documents/famr-cfi

HM Treasury public financial guidance consultation

In addition, HM Treasury has published a consultation on how the public provision of free-to-client, impartial financial guidance should be structured to give consumers the information they need to make financial decisions. The consultation also closes on 22 December, and looks at:

- how much demand there is for the public provision of debt, pensions and general money guidance;
- how the provision of public financial guidance should be structured and funded; and
- how the Government can make the provision of public financial guidance more effective for consumers.

www.gov.uk/government/consultations/consultation-public-financial-guidance

The CII view

The CII welcomes the Government's attempt to tackle the concern about making financial advice accessible to all. The current alphabet soup of advice models is bewildering to those working in the sector, never mind consumers trying to get their heads around these issues for the first time. Any efforts to streamline this from a consumer perspective must be consistent with building greater public trust and confidence.

But if access to professional financial "advice", as the public perceive it, is to be brought into the hands of the many, it must be with a guarantee of quality and protection. We think that means it should be underpinned by appropriate Standards for Training, Accreditation and Revalidation (STAR).

- **Standards:** setting out what is expected of those firms giving advice or guidance, and what those individuals delivering it would be reasonably expected to know and perform;
- **Training:** to impart and verify the required individual knowledge and competence aspects of the standards;
- **Accreditation:** to confirm that the standards have been attained by organisations in their internal processes, and continue to be maintained on an ongoing basis; and
- **Revalidation:** to ensure that those individuals delivering these services are current with the latest developments such as changes to investment and pensions policy, taxation and the benefits system.

Regardless of what service they are giving, through what channel, and under what label; if they are to be perceived as professional by the public, then they must be robust. CII Chief Executive Dr Alexander Scott said: "Just because a service is not "advice" in the regulatory sense, it does not mean that mass market consumers cannot be given the services and standards they deserve. Regardless of which organisations deliver this service (whether it is advisory firms, providers, other brokers, or parts of the sector alone or in partnership), STAR must be at their centre of whatever models emerge if this review is going to deliver trust and confidence in that mass market."

CII Group Policy & Public Affairs
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Appendix A

FAMR expert advisory panel

Nick Prettejohn – Panel chair	Scottish Widows, Chairman
Andy Briggs	Aviva, Chief Executive
Gill Cardy	Consultant
Richard Freeman	Intrinsic, Chief Executive
Ian Gorham	Hargreaves Landsdown, Chief Executive
Gillian Guy	Citizens Advice, Chief Executive
Nick Hungerford	Nutmeg, Chief Executive
Robin Keyte	FCA smaller business practitioner panel member
Sue Lewis	Financial Services Consumer Panel, Chair
Nicky McCabe	Fidelity, Head of Investment Trusts
Alex Neill	Which?, Director of Campaigns and Communications
Jackie Noakes	Legal & General, MD of Mature Savings
Richard Rowney	LV=, MD of Life and Pensions
Chris Rhodes	Nationwide, Retail Director
Ashok Vaswani	Barclays, Retail and Business Banking Chief Executive
Tom Wright	Age UK, Chief Executive

Appendix B

List of call for input questions

1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?
2. Do you have any thoughts on how different forms of financial advice could be categorised and described?
3. What comments do you have on consumer demand for professional financial advice?
4. Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?
5. Do you have any comments or evidence on the financial needs for which consumers may seek advice?
6. Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?
7. Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?
8. Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?
9. Do you have any comments or evidence on why consumers do not seek advice?
10. Do you have any information about the supply of financial advice that we should take into account in our review?
11. Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?
12. Do you have any comments or evidence about the role of new and emerging technology in delivering advice?
13. Do you have any comments on how we look at the economics of supplying advice?
14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?
15. Which consumer segments are economic to serve given the cost of supplying advice?
16. Do you have any comments on the barriers faced by firms providing advice?
17. What do you understand to be an advice gap?
18. To what extent does a lack of demand for advice reflect an advice gap?
19. Where do you consider there to be advice gaps?
20. Do you have any evidence to support the existence of these gaps?
21. Which advice gaps are most important for the Review to address?
22. Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?
23. Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?
24. Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

25. Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?
26. What can be learned from previous initiatives to improve consumer engagement with financial services?
27. Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?
28. What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?
29. To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice
30. Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?
31. What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?
32. Do you have evidence that absence of a longstop is leading to an advice gap?
33. Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?
34. Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?
35. Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?
36. Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?
37. What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?
38. What do you consider to be the main consumer considerations relating to automated advice?
39. What are the main options to address the advice gaps you have identified?
40. What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?
41. What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?