Protecting consumers post-FAMR

Managing the risks emerging from new advice models

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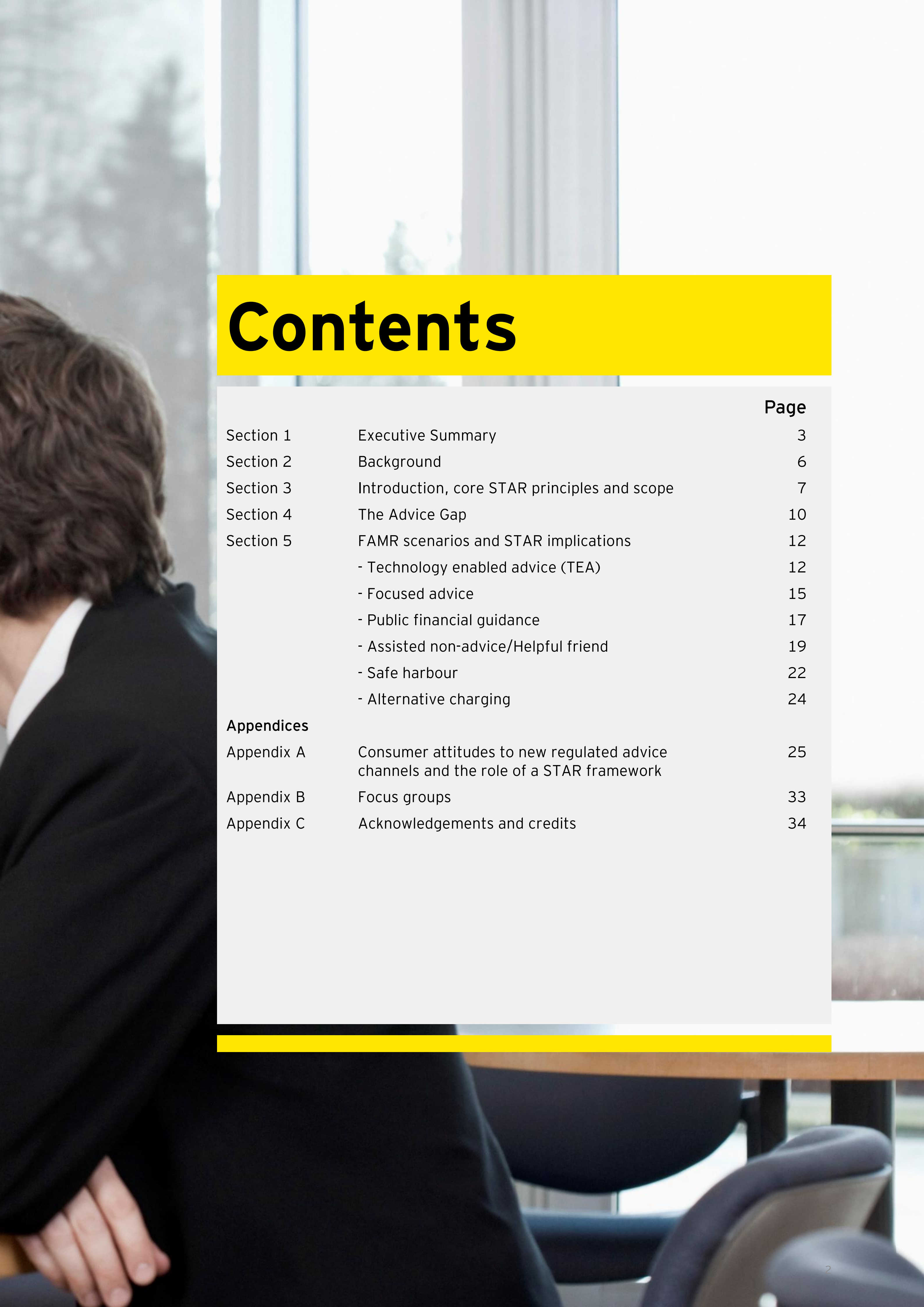

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Executive Summary

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

The scenarios depicted are:-

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

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

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

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

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

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

Key Findings

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

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

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

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

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

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

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

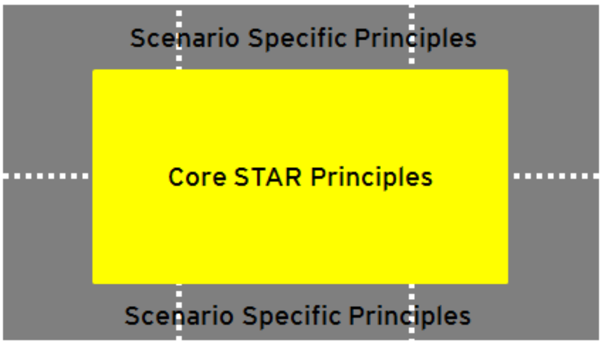


Figure 1: The application of STAR principles to the six scenarios

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

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

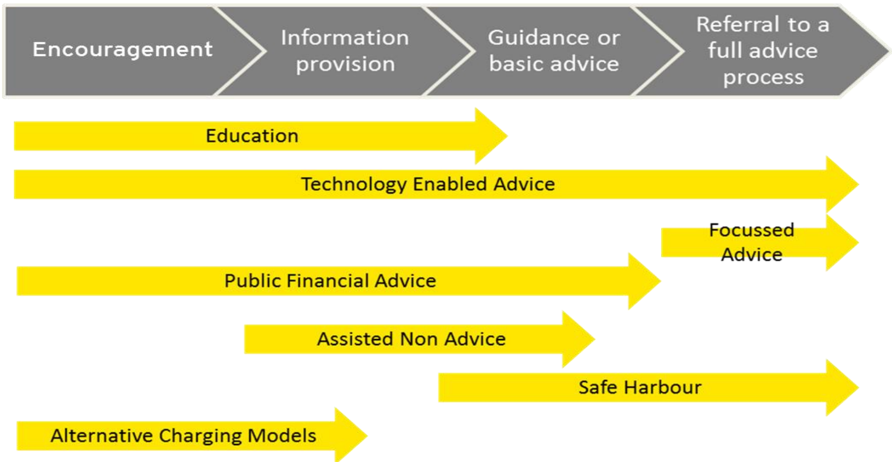


Figure 2: The combinations of scenarios that will address the 'advice gap'.

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

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

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

Background

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

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

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

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

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

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

Introduction, core STAR principles and scope

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

Overview of STAR

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

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

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

Standards

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

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

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

Training

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

Accreditation

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

Revalidation

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

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

Core STAR principles

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

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

Scope

Scope

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

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

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

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

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

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

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

The Advice Gap

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

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

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

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

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

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

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

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

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

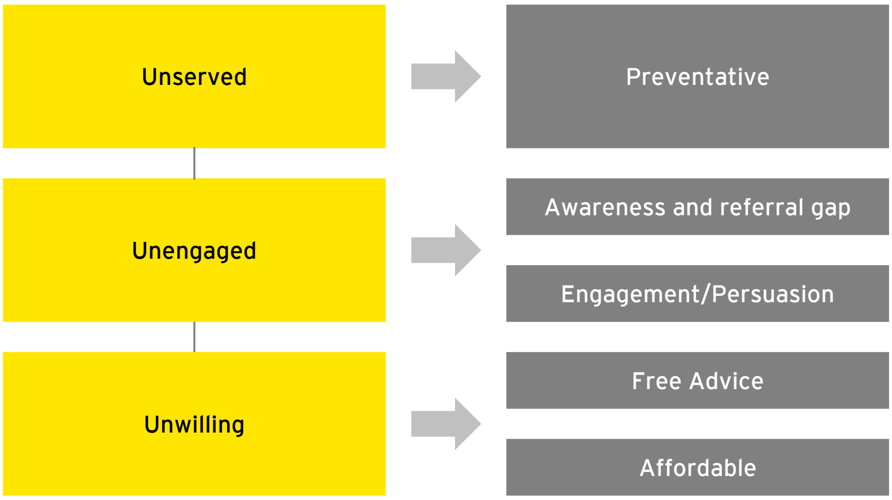


Figure 3: The 3 consumer segments in relation to the 'advice gaps'.

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

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

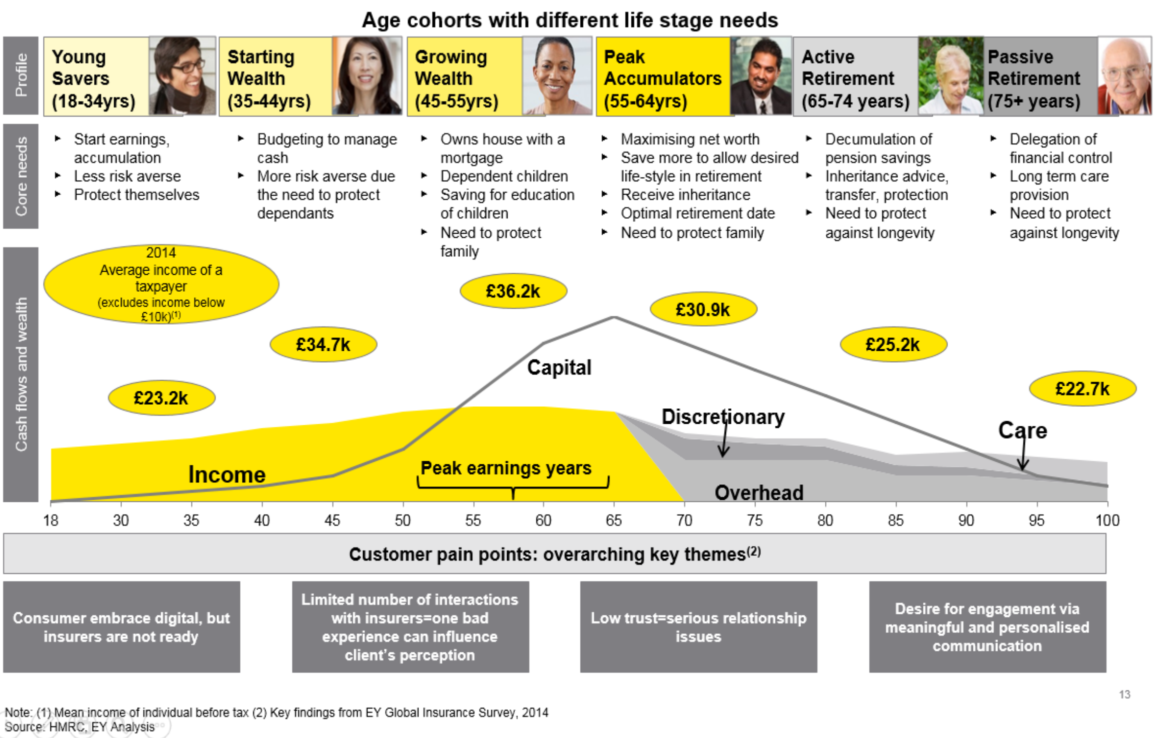


Figure 4: The life stages and how they align with the gaps in the market.

FAMR scenarios and STAR implications

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

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

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

Technology Enabled Advice (TEA)

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

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

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

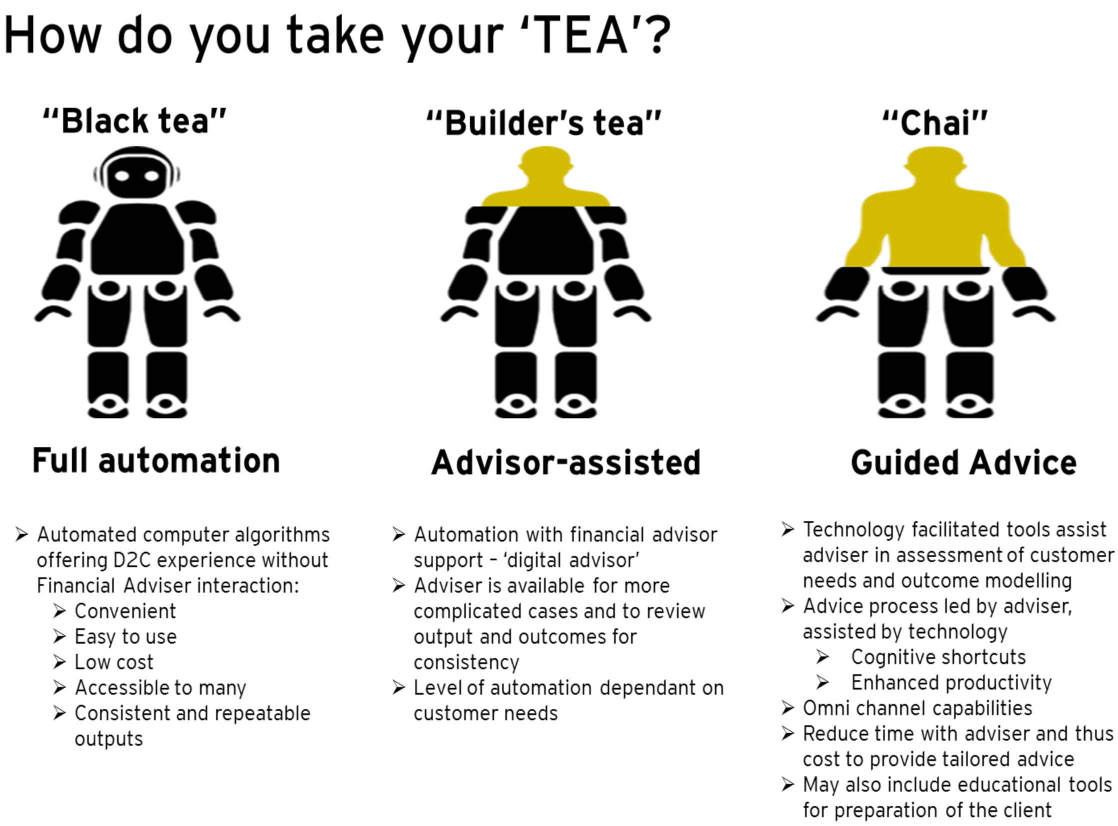


Figure 5 – Technology Enabled Advice scenario characteristics

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

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

TEA has its challenges too:-

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

Critical success factors

TEA needs to be underpinned by a number of key principles;

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

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

Application of STAR

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

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

Training	How this improves customer confidence

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

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

Focused Advice

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

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

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

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

A number of key principles need to be established;

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

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

Application of STAR

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

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

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

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

Public Financial Guidance

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

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

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

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

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

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

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

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

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

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

Application of STAR

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

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

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

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

Assisted Non-Advice

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

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

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

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

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

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

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

Helpful Friend

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Training	How this improves customer confidence

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

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

Safe Harbour

Safe harbour can be viewed through two lenses:

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

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

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

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

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

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

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

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

Questions also arise over whether the introduction of safe harbour would actually serve to combat one of the core drivers of the current advice gap – that of the lack of customer engagement and awareness as to their financial needs and position. There is the potential that its only significant outcome might be to produce less good outcomes for those already engaged, as their right to recourse over the purchase of certain products is reduced.

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

Application of STAR

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

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

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

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

Alternative Charging

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

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

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

Appendix A

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

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

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

- Education
- Awareness
- Disposable income

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

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

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

Pension Wise

General background

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

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

FCA Standards

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

Guidance Session Standards

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

Individuals Delivering Guidance Standards

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

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

The Pension Wise service:

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

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

How has Pension Wise been received?

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

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

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

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

How a STAR framework has helped build trust and confidence

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

Standards

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

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

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

Training

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

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

Accreditation and Revalidation

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

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

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

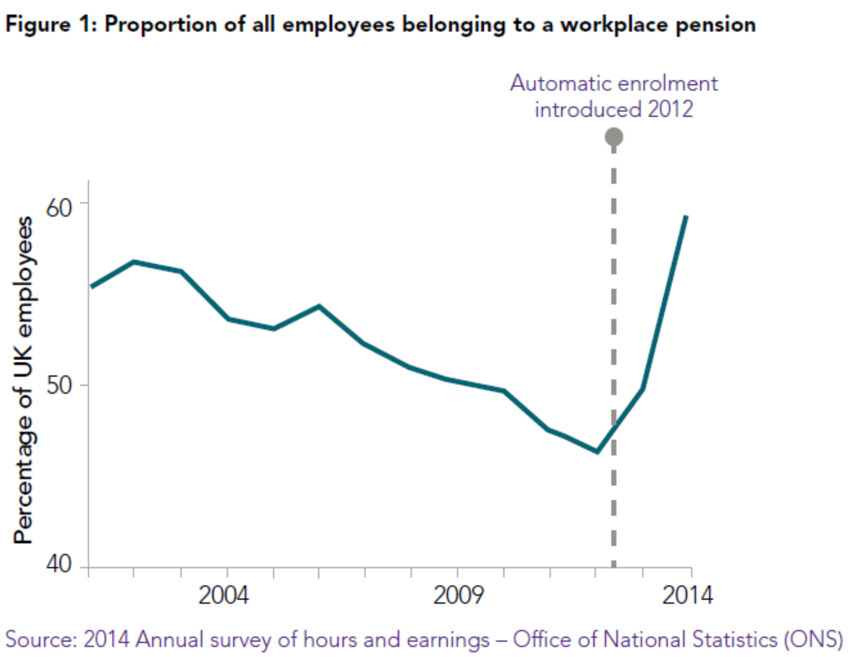
Automatic Enrolment

General background

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

How has automatic enrolment been received?

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



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

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

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

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

Source: Scottish Widows, "Workplace Pensions Report"

How a STAR framework has helped build trust and confidence

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

Regulation of AE is guided by five principles:

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

Standards

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

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

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

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

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

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

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

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

Training

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

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

Accreditation and Revalidation

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

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

Kiwi Saver

General background

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

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

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

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

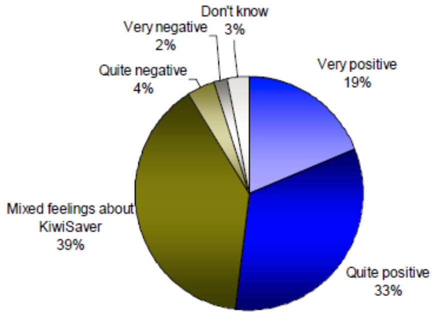
The Inland Revenue may impose penalties on employers if they do not abide by the requirements of KiwiSaver. Where an employer makes an error such as failing to deduct KiwiSaver contributions, the Inland Revenue will issue a reminder. If they continue to breach their duties, a notice warning is issued,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

How has KiwiSaver been received?

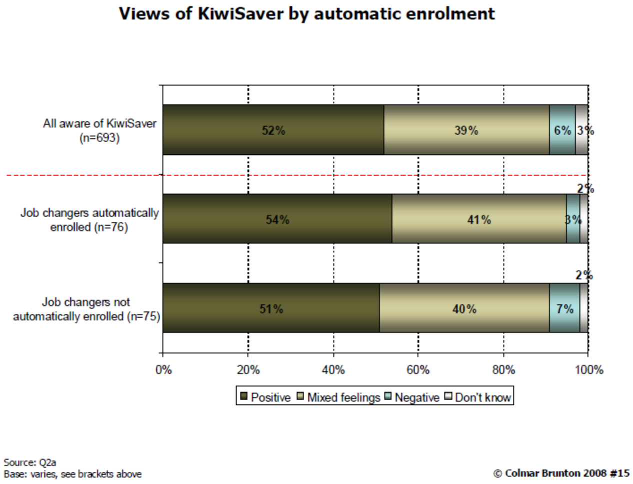
A year after KiwiSaver was first implemented a research report was published by Colmar Brunton for the Inland Revenue which showed 15% of their representative sample had joined KiwiSaver. Though this figure represents only a small portion of the public, 37% of non-members who were aware of KiwiSaver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

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

Overall reaction to KiwiSaver



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



How STAR framework may improve trust and confidence?

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

Standards

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

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

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

Training

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

Accreditation and Revalidation

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

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

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

Technology-enabled models

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

Online financial services

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

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

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

Algorithm-based investments

Example firms: FutureAdvisor, Jemstep, and SigFig.

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

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

Social investing/ Trade mimicking

Example firms: ZuluTrade, eToro, Collective2, Covestor.

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

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

New market segment targeting

Example firms: Wealthfront, SmartAsset, and Kapitall.

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

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

How has technology-enabled models been received?

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

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

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

How a STAR framework may improve trust and confidence?

Standards

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

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

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

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

Training

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

Accreditation and Revalidation

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

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

Appendix B
Focus Groups

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

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

Attendees of the focus groups are as follows;

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

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Appendix C
Acknowledgements and credits

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

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