The Money Charity response to the Financial Advice Market Review

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

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

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

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

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

Introduction

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

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

Key points

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

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

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

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

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

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

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

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

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

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

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

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

Providing non-regulated advisors with a clear and expanded remit

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

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

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

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

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

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

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

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

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

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

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

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

Providing clarity for debt advisors

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

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

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

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

Q1. Do people with protected characteristics under the Equalities Act 2010, or any consumers in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

51. We do not have a view on this.

Q11: Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q22: Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement? + Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

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

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

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

Q24: Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner? Q25: Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

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

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

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

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

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

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

Q29: To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice? + Q30: Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address? + Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

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

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

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

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

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

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

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions? Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models? Q38: What do you consider to be the main consumer considerations relating to automated advice?

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

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

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

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

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

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

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

Q40: What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

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

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

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

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

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