

Financial Services Consumer Panel

Purchasing financial products through direct channels

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Foreward

This research was commissioned by the Financial Services Consumer Panel to inform its understanding of the issues consumers face when buying through direct channels. The report has been prepared by NOP Financial, the agency that undertook the research. The content of the report should not be taken as representing the Consumer Panel's point of view.

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1.0 INTRODUCTION

Financial products can be purchased in a variety of ways these days. Consumers have the choice of approaching the intended product provider through a number of channels: face to face, by post, by telephone or over the Internet. By purchasing a product through a direct channel consumers are choosing to exclude the face to face option in favour of one, or a combination of the other three methods. The term direct can also mean having dealings solely with the provider without using an intermediary. For the purposes of this research the term 'direct' is to signify the channel that respondents chose to approach their provider. During the course of the research it happened that those choosing to use this method of arrangement also approached the company directly, without the use of an intermediary – however this was not a specification at the outset of the study.

Where consumers are choosing to deal through direct channels there exists a grey area around the issue of advice and whether the consumer is truly aware of the product that they have purchased. By studying the process that the consumer went through in detail the study aims to probe the purchasers' understanding of whether they think they are and whether they actually are receiving advice through 'direct sales'.

The study also aims to assess the consumers' understanding of the products they have purchased and how their information needs have been met.

The FSA commissioned NOP Financial to conduct a study to explore how well consumers knew their products and to follow the purchase process that they took when buying their product.

2.0 RESEARCH METHODOLOGY

A total of 50 depth interviews were carried out amongst direct purchasers. The interviews were split between five product areas as follows:

Mortgage	10
Personal Pension Plan	10
Equity ISA	10
Whole of Life	10
Internet savings account	10

The five product types were chosen to give a range of complexity in order to highlight the differing degrees of product understanding and needs for advice.

Each interview lasted between 45 minutes and one hour. The sample was drawn from the NOP Financial FRS database. All respondents were also screened at recruitment stage to ensure that they had purchased direct, by post, phone or the Internet. The interviews were held across a regional spread of the North, Midlands and South.

The FRS explained

The FRS (Financial Research Survey) is an extensive monitor based on 60,000 in-home interviews every year, across Great Britain and contains a wealth of information across all major personal finance markets including: demographics, product holdings, brand and channel of arrangement used. The FRS database allows us to select sample based on specific criteria, in this case: products held and channel of arrangement.

The sample demographics are below. It is worth noting that during project design representation was not an issue addressed.

	%	Mortgage		Personal Pension		Equity ISA		Whole of Life		Internet Savings Account	
		FRS	Actual	FRS	Actual	FRS	Actual	FRS	Actual	FRS	Actual
SEX	M	55	10	56	80	68	60	52	30	61	40
	F	45	90	44	20	31	40	48	70	39	60
AGE	<25	1	0	2	10	2	0	1	0	23	0
	25-34	29	50	22	10	17	10	15	10	16	20
	35-44	36	40	27	30	23	40	17	0	13	20
	45-54	25	10	24	30	27	20	19	20	45	50
	55-64	8	0	13	20	15	20	20	40	4	10
	65+	1	0	12	0	16	10	28	30	0	0
S.E.G.	AB	37	70	32	30	56	60	21	10	68	60
	C1	35	10	33	30	31	40	29	20	25	20
	C2	18	20	18	40	9	0	19	40	5	20
	DE	10	0	17	0	5	0	31	30	2	0

3.0 SUMMARY OF FINDINGS

Purchasing a financial product direct is seen to be an experience that offers clear benefits across all of the five product areas. These tend to be logistical advantages like the ability to conduct research into product offerings at leisure without the time constraints regarding branch or office opening hours. There is also no need to arrange appointments and physically take documentation to company premises.

Many respondents were generally pro-direct purchasing of a range of financial and other products. The most reticent relating to direct channels were the Whole of Life purchasers, whereas more proactive groups were those who bought pensions, Internet savings accounts and some of the ISA respondents.

The research found that there is some correlation between the financial sophistication or confidence of the respondents and their motivations for purchasing direct. For many of the proactive and financially confident respondents the direct route provided them with the opportunity to engage further with the market and allow themselves more control over their financial affairs. At the other end of the spectrum those who were less confident use the direct channel as a means of avoidance of the market, merely reacting to it rather than being actively involved.

Across all product areas many respondents were of the opinion that purchasing directly from the provider allowed the consumer to by-pass an intermediary during the purchase process. This was seen as an advantage for more than one reason: by avoiding the intermediary the consumer is likely to benefit through either a reduction in charges (ISAs, Pensions, Whole of Life), a reduction in interest rates (mortgages) or an increase in interest rates (savings accounts). The consumer is seen to be better off financially by going direct. In addition the general lack of trust in intermediaries, or advisors results in some respondents welcoming their absence in the direct purchasing process.

Respondents from particular product areas (pension, Internet savings account, some ISAs) could articulate what they thought financial advice was. There was however a polarisation of expression between what the ideal form of financial advice should be and the cynical view (some through experience) of financial advice being a means of sales. Those who could not articulate what they thought about financial advice were the least sophisticated respondents who thought that advice was not at all relevant to their financial lives. There need not have been a bad experience in the respondents' financial past to precipitate a negative point of view regarding advice however there were instances of previous negative experience.

Even though respondents were broadly aware of what advice was, or what they thought it was, when asked whether they thought that they had received advice during this purchase there was some confusion. Many seemed to blur the definitions of *advice* and of *information*. Rather than seeking *advice* from an advisor, due to the desire of most to avoid this or perceived lack of need to do this for their particular product, many sought *information* about the different products from other sources. Amongst the sources used to answer any queries that the consumers had were: directly from the potential providers (usually by telephone), newspapers, financial magazines, the Internet. Friends, family or colleagues were sometimes used in a 'sounding board' capacity for more general queries. The information was deemed broadly adequate, apart from some Whole of Life purchasers.

Broadly speaking consumers were happy with the financial product that they had purchased direct. In certain cases some respondents acknowledged the fact that it would be difficult to know if they had made the correct choice at such an early stage in the product's life, especially amongst the pension and ISA holders, however there was a feeling of confidence amongst many of these respondents. Mortgage holders were more likely to be happy with their purchase as many saw themselves in a strong position when choosing the product. All but one respondent had had at least one mortgage previously and this group felt generally confident in their ability to buy the product best suited to their needs. The savers were happy with their product due mainly to the favourable rate offered and Whole

of Life respondents, being generally unsophisticated were satisfied that their product would meet the expectations they had of it.

When making the final decision on which provider to choose brand is important for several reasons. Familiarity with the brand suggests a reputability to the consumer; this was particularly noticeable amongst pension and Whole of Life buyers and to a lesser extent ISA holders. For internet savers the brand itself was not as important as the parent company behind the Internet brand, which lent a feeling of confidence to the venture. Mortgage buyers seem to be the least affected by brand, some borrowing from companies unknown to them, although this product is different in that the initial movement of capital is in the opposite direction to the others.

4.0 ATTITUDES TOWARDS FINANCIAL SERVICES

Across the five different product areas there were a variety of respondents. It is possible to categorise them according to two questions asked in the discussion guide relating to their attitude towards risk when thinking about investments and financial matters and the level of experience that they possess regarding savings and investments. By examining how each product area differs in its make-up of respondents, their actions and motivations may be attributed, in part, to their financial background.

Respondents were asked to categorise themselves in to one of each of the following categories:

Risk:

Secure investor - Will accept little or no risk

- Will not accept any risk to the original money which is invested but accepts that the growth will usually be low, sometimes less than inflation.

Cautious investor - Will accept only low risk

- Want to achieve returns which are above inflation over the medium to long term with a high level of security on the initial investment.

Balanced investor – Will accept medium risk

- Want the potential for fairly high growth over the medium to long term but accepts that the value of the initial investment could fall especially in the short term.

Adventurous investor – Will accept high risk

- Is attracted to the potential for very high growth but is also prepared to accept a significant risk of loss because the investments can go down as well as up.

Financial Experience:

- I have been making regular investments for 5 or more years now and have a wide range of savings and investment products in my portfolio
- I have started saving in the last 5 years but have built up a range of savings and investment products in this time

- I have only started making investments and savings in the last year or two
- I am just beginning to look at savings and investment products but have not yet invested
- I don't really have any money to save or invest
- None of these

4.1 *Internet savings account*

In this product area just over a half of respondents described themselves as cautious investors and the remainder thought themselves to be balanced investors. Most had been saving either for the last five years or more or had started within the last five years. Their level of product holdings was moderate.

4.2 *Whole of Life*

This set of respondents were more conservative in their outlook than the savers with most calling themselves secure investors and the rest cautious. Many simply had nothing to save or invest and some seemed to see their life provision as a necessity but one that, financially, they could do without. Their level of other product holdings was minimal; some did not hold a current account.

4.3 *Pension*

There was a mixture of responses amongst the pension purchasers, classifying themselves as either secure, cautious or balanced. Not all had been saving for more than five years but a number had and a couple had recently only just begun to save or invest. It would seem that, as this group is financially aware and keen to carry out their own research into their pension provision they could be described as financially confident. There were a number with many other financial product holdings and it was the younger respondents who had fewer other products and less capital to be investing.

4.4 *Equity ISA*

This collection of respondents seems to be the most disparate group amongst the sample. Their responses covered each area of risk, with most considering themselves to be balanced investors. Most had been saving and investing for the last 5 years, some for longer and, again there was a mixture of levels of product holdings. This is indicative of the nature of this group and the way that they are split between financially very aware members and those who are not as aware.

4.5 *Mortgage*

There was a concentration of responses regarding risk in the mid range with one respondent claiming to be secure and one adventurous. More consumers have been saving for five or more years than any other time scale but the responses range from five years to one who does not have enough to be saving or investing. However generally there were quite high holdings of other financial products amongst these respondents.

5.0 ATTITUDES TOWARDS BUYING DIRECT

There are a number of reasons why consumers choose to buy products, financial and otherwise, directly. Some of these reasons are common to all respondent types whilst others are more specific to one or more.

On the surface there are common motivations that include: the convenience of being able to carry out the purchase in the consumers' own environment (home or work), the relative ease that this brings with it and the speed that this channel lends to the process.

Other motivations mentioned across the respondent types included the apparent simplicity of the product and therefore the notion that the respondent could easily transact directly with the provider, the absence of an intermediary being seen as a way of striking a cheaper deal due to the absence or reduction of commission or charges.

But the absence of a middleman also made some respondents feel more comfortable. They did not have to subject themselves to what some termed 'the hard sell', nor did they have to open themselves up to the risk of being mis-sold to. The latter seeming to be top of mind in some respondents in the wake of relatively recent publicity regarding the mis-selling of certain financial products, particularly pensions and endowments. For some it was of a question of *"I'm in control"* whilst for others worry was a motivator:

"There's still so many horror stories in the media".

5.1 *Internet savings account*

There was a feeling amongst some purchasers of the Internet account that opening the account over the Internet was something that was no different to the

things that they often were already doing over the Internet – these were the type of people who had telephone or Internet banking facilities and had been using the Internet for between 1 1/2 and 5 or more years. For these respondents the Internet seems to be just a way of doing things that they are comfortable with, especially regarding the simplicity of the product.

“I don’t see ‘over the Internet’ as different to anything else.” (Internet Savings Account)

The Internet channel also enabled respondents to have more control over their funds. This was particularly relating to the fact that visits to the local Building Society or Bank were no longer required. In addition this particular channel was seen as advantageous over the telephone as the account information was visible on screen and transactions could be entered by the account holder.

“You’ve not got to think, ‘Oh, I’ve got to pick the kids up from school, and then I’ve got to get to the bank. That’s gone now.”

The attraction of a higher interest rate for Internet account accounts also contributed to respondents choosing this channel, a few had previously held direct accounts [postal or telephone] with other providers but switched to gain a higher rate on their savings.

5.2 Whole of Life

These respondents felt that direct purchasing of Whole of Life assurance gave them more time to peruse information independently of advisors thereby avoiding the pressure of being sold to, some even thought that this was the only way of purchasing Whole of Life. By arranging the product this way they also felt that they could spend more time over the application form. Other criteria mentioned relating to the channel were that there was no medical required and that this was the only way by which to purchase. Most purchased the product through the post as a direct response to an advertisement that they had seen in either the press or a piece of direct mail.

“You don’t have to be embarrassed.”

5.3 Personal Pension Plan

There seemed to be two main driving factors behind the decision to go direct for a pension amongst this group of respondents. As a generally financially confident group they found that by purchasing their pension directly they could spend the time and attention over their decision that they thought should be afforded to a pension purchase. The fact that they could absorb the information they received at their leisure combined with the opportunity to avoid a pensions adviser was appealing.

“It just suits me. I don’t really want to go in and listen to someone who’s trying to flog me something...I don’t want to be pressured into it.”

“He [previous face to face adviser] just completely mucked up my impression of going to see someone...He was a typical finance person...who starts talking in his own language and you don’t know what he is talking about. All he wants at the end of the day is a sale.”

There was a strong preference to carry out their own research, often quite extensive and all except for one member of this group had the confidence in their own ability to make the right choice, sometimes with a final confirmation from family, friends or colleagues. One respondent was driven away from the face to face channel after encountering a pushy sales approach and preferred to purchase this product over the phone.

5.4 Equity ISA

As a more varied collection of respondents their motivations for purchasing direct were more diverse. Some chose to purchase direct as they were approached by the provider of their existing PEP and they transferred their payments to an ISA, in this sense the direct purchase was almost an impulse buy. A few also thought that the management fees/commissions would be lower if they went direct. At the other end of the financially sophisticated spectrum there were those who saw an advantage in being able to shuffle around or monitor their funds on-line to make the most of their investments.

The important point to note when looking at the ISA group is that there is a mixed view of the product. Whereas some thought that an Equity ISA was a relatively simple product and were correct in thinking this i.e. they knew what product they had actually bought and were capable of talking about it; others thought it was a simple product but only *thought* that they knew what they had purchased when indeed some displayed degrees of confusion. There was some recognition that buying an Equity ISA direct was a complicated process due to the plethora of variants but sometimes this was ignored due to time constraints e.g. end of the tax year.

“All we wanted to know was that it was tax-free.”

“It took me weeks to understand what an ISA actually was – in the end it was just panic, I had to get them anyway.”

“It was very difficult to choose...unless you want something specific”

“If you are confident and reasonably knowledgeable I don’t see a problem with people doing this kind of thing direct.”

5.5 Mortgage

It would seem that the principal motivation for many of the mortgage purchasers was the actual product and more particularly the price. As all except one of this set of consumers had had a mortgage previously and were generally speaking confident in their actions. Many were looking to get the best deal, especially

those who were purchasing from a company different to their previous provider. A common source of information regarding this choice was taken from league tables published in the press.

“In the newspaper it just said Newcastle Direct and it had this rate on it and we just phoned the number. They seemed able to deal with us over the telephone. It seemed easy to do really.”

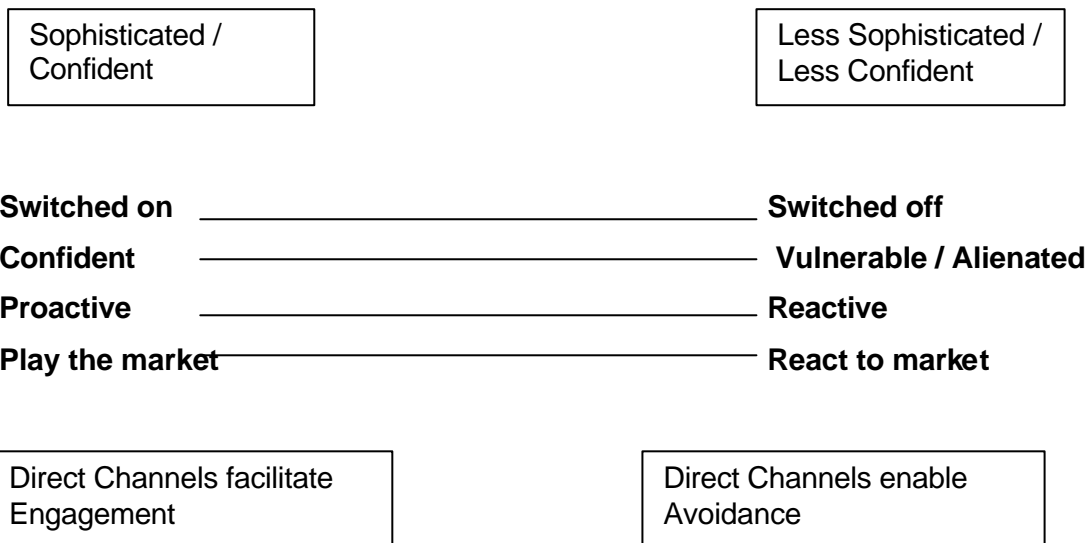
The direct brands were often seen to be the cheapest within each mortgage ‘type’ and contacted directly by the respondent as a result of this. Although they all contacted the provider directly this was sometimes not necessarily a conscious choice to ‘go direct’ but a decision based more upon getting the most advantageous package available to suit each individual’s specific circumstances. For the small number purchasing from their existing supplier there appeared to be little need for them conduct the business face to face as all of their details were already with the company.

“We didn’t see the point in going into the branch of the Royal Bank because we had dealt with them before.”

“Basically we just transferred it because we didn’t want to go through the filling in of all the forms again.”

5.5 Product complexity and purchasing direct

Taking into account some of the findings above there appears to be variation in the motivations for buying direct. Depending upon a consumers level of financial sophistication, their confidence in the ability to carry out their own research, their resource limitations and their willingness to allow themselves to be guided in the decision-making process a consumer may choose to go direct for a number of reasons. Financial sophistication indicates the consumer’s degree of financial knowledge, experience and apparent ability to engage with the financial market place.



The diagram above relates to respondents from all product areas, some more than others leaning towards one extreme. It highlights some of the attitudinal modes of behaviour that govern the decision to choose to purchase directly. If we accept that there are certain benefits that are common to direct channels such as convenience, speed etc. this diagram informs us in more depth why respondents go direct.

There is a strong feeling amongst each type of respondent that by choosing to purchase via a direct channel they can avoid the pressures of a face to face meeting and the potential to either be mis-sold to or merely to be sold to for those who feel more vulnerable.

For example in the case of the Whole of Life purchasers the willingness to avoid face to face engagement as well as the fact that many purchases were made as a reaction to advertising (newspaper or direct mail) results in the use of a direct channel. At the same time amongst the ISA and Pensions purchasers there is often the view that they will pay lower charges by going direct, that they will be more in control of their product and the purchase process by going direct. This gives the feeling that they are engaging with the market and using it in a positive way to their benefit and is a demonstration, in many cases of their confidence in financial matters.

5.6 Channel by Channel

Part of the in depth interview asked respondents to describe what they saw as the advantages and disadvantages of each of the four delivery channels; face to face, telephone, post and Internet.

5.7 Face to Face

There was some acknowledgement of the benefits of a face to face meeting when purchasing a financial product, but these were cited as a response to a direct question, positive comments relating to this channel were rarely proffered spontaneously.

Face to face is seen as a better way of establishing some kind of rapport with the provider and this is ideal when handholding or an element of reassurance is required by the consumer or in some cases when dealing with a more complicated product or larger sums of money.

“It’s large amounts of money isn’t it...you need to be able to trust the person you are dealing with.” (Internet Savings Account)

“If it was really really complex, or I found it complex, I’d want to talk to somebody face to face.” (Pension)

There was also the feeling that it is easier than some other channels, namely the Internet (in certain cases relating to e-mail) and post to receive an immediate response to a query. Indeed this was seen as positive particularly in the case of a complaint being made where there was seen to be a greater sense of redress and accountability dealing face to face.

“They feel more accountable to you. Particularly if they know your name.”

“If you are having difficulties with something to have it on paper gives you something to wave at someone if you need to, if there is a problem.”

Amongst the less confident an advantage could be help with completing paperwork. However a face to face meeting can still be intimidating for some respondents who do not wish to appear to have misunderstood a product, nor do they wish to buy a product that they do not want or need. Other negatives relating to face to face meetings included the *inability* of staff to answer questions asked of them.

“Face to face you can ask questions but the girl behind the counter isn’t going to know and isn’t allowed to advice you.” (ISA)

5.8 Telephone

One of the main benefits seen in the telephone was the ability to contact the provider outside of office hours at the respondent’s leisure. This was seen as important to respondents who were not prepared to contact their provider over the telephone during working hours due to the private nature of their call, it was felt that there are certain financial dealings that many did not want their colleagues to be able to overhear. In addition to the privacy issue some thought that by choosing to contact their company in the evenings the experience was faster than having to wait in a branch or office and again was from the convenience of their own surroundings.

“It’s the convenience. If you want the information, all you have to do is pick up the phone and you are talking to someone straightaway, rather than having to search through things or pick details up from the bank or whatever” (Pension).

Whilst the telephone was seen as a good means of contact in terms of maintaining an element of human contact it was also seen positively as some felt that it was a

less confrontational means of communication, yet offering the same ability to ask specific questions if needed.

“I would rather be able to make my own choice on the phone than someone come round and talk to you as you will probably buy something you don’t want”.

(Pension)

“You don’t have to look for the information, you just ask and the right answer arrives.” (Mortgage)

However, as with face to face there was some scepticism as to the capabilities of some staff to actually answer questions raised and some respondents thought that call centre staff were often incompetent. This feeling tended to be reinforced as respondents spoke of being a part of a process rather than a ‘real’ interaction; if the call recipient did not know the particular query there tended to be a breakdown in communication. This kind of experience lead to call centre fatigue, a problem which manifests itself in a number of ways. There was also widespread negative reaction to the use of automated call steering systems, although some respondents were becoming more accepting of these, especially if they actually worked, and whilst there was the mention that the telephone maintains human contact, some still thought that they were treated as a mere number.

“Press that button, do that button – it’s a nightmare”. (Internet savings account)

“I can’t stand being left with loads of menu options on the telephone and then feeling as though I’ve been neglected.” (Mortgage)

As above the feeling of being passed around from person to person is particularly irritating for respondents, specifically as they found that they would have to explain their query a number of times to each new representative thereby nullifying any speed advantages of using the telephone. This problem also manifested itself more generally with the telephone, as many respondents would prefer to have a single named contact over the phone to prevent unnecessary repetition.

“The only thing about the telephone is that unless you’ve made a note of who’ve you’ve spoken to and what you’ve said, you haven’t got any record of it”
(Pension).

“You can get all flustered with papers in one hand and the phone in the other”
(Whole of Life).

It was complaints like this that also lead some to mention that they usually have to pay for the phone call and that the kind of delays above added to the cost of calls.

5.9 Post

Even if many respondents were using the telephone or the Internet to purchase their financial products, almost all had to use the post at some time to return application forms or to sign certain documentation. Many respondents used the post as a means of information gathering as providers sent literature out to them. This was seen as a particular advantage of this channel as it allowed respondents to peruse their information at their own leisure in a completely non-pressurised environment.

“I like to see things in black and white” (Whole of Life).

“We’d rather have the written word, then we can sit at home and we can spend hours going over it” (Pension)

“It was easiest for me. I could do it in my own time, in the evenings. Because when you’re at work, you can’t phone up then so easily.” (Pension)

There was the feeling that this channel was the least susceptible to technological failure. However many thought that it was a time consuming process and some would only see the post when absolutely necessary. There were some doubts over the reliability of the postal system and the uncertainty of whether the cheque or

application form had actually been received. This doubt could be alleviated through the option of registered post however this would require a visit to the post office and the need for some kind of face to face encounter. The negative connotations associated with this visit were seen to be counter-productive to using the postal channel. Post was seen as a satisfactory channel by those who were not concerned by the lack of certainty involved. Some also felt that as well as the lack of a guarantee that the paperwork would reach the intended recipient the postal system is a distant and faceless way of doing things.

Particular products that were felt to be suited to the post were high interest savings accounts. This type of product was seen as a low maintenance account that required little day to day management and was not particularly time critical. Most of the Whole of Life respondents purchased through the post.

5.10 Internet

The Internet shares many of the attributes of the telephone for those respondents who were using it. As with the telephone they could access the Internet any time they wanted to, again from the comfort and convenience of their own environment.

“I didn’t have the inconvenience of trying to find somewhere to park in Sheffield!”
(Internet savings account).

“You can do it when you get home. I could go on the Internet at 2 o’clock in the morning, when I come in”. (Internet savings account).

This element of this channel serves to relieve some of the pressure often associated with financial services, especially face to face meetings.

“From a personal point of view, it’s better to take it out over the Internet because you can read, you can analyse. You’ve not got the usual direct sell ... and you think can I believe this?” (Internet savings account)

“You’ve got the option of looking at it when you want to look at it. There is no hard sell.” (Pension)

The Internet was often felt to be a quicker and easier way of contacting financial institutions. Some felt that if they were to purchase over the Internet they might receive a preferential deal due to reduction in provider overheads. During the decision making process the Internet is seen as a more direct and immediate source of information, again instantly available from the home or office. The more sophisticated amongst respondents also found the capabilities of the Internet to be empowering, enabling them to choose a more tailored product specific to their needs, often using search engines to facilitate this.

Although there were clear benefits to using the Internet identified by respondents there were also many disadvantages linked to the web. Whilst most using the internet welcomed the range of information, so easily accessible they also acknowledged that sometimes the range and breadth of information available could be intimidating and overwhelming. In these cases the apparent speed of the Internet was somewhat diluted as there was simply so much information to process. This was seen by some as unavoidable whilst some also thought that this may change with time. Other hindrances included operational problems, either respondent capability to operate or navigate effectively or instances of provider websites being inaccessible. Sometimes respondents found some sites to be slow, again somewhat negating the positive speed aspect of the net. The issue of security was also mentioned, some feeling that financial services over the Internet was still relatively new and that ‘hackers’ may be able to access their financial details, there was some reference to recent well-publicised incidences of breaches of Internet security.

“People are scared of putting details in. You just never know what is going to happen. At the moment, I don’t think there is any control on the Internet. They say it’s secure, but if hackers can get into government systems, what’s to stop them getting into something like that” (Pension).

“I understand other people can get hold of your details. There are people out there who are very clever with technology” (Whole of Life).

5.11 The ‘Direct’ Market

There is a feeling that buying direct is an emerging market. Almost all respondents (fewer Whole of Life and mortgage purchasers) hold a wide range of others products that were arranged via a direct channel as well as preferring to ‘go direct’ for many non-financial products like: train tickets, holidays, books, clothes and computer software and hardware (Internet). There appears to be a cultural shift appearing in the direct market. Whereas at one time to purchase a financial, or other, product was seen as a faceless and intimidating experience there seems to be a move towards a different way of thinking; buying direct, for many is empowering giving them a more bespoke and immediate experience.

6.0 DECISION MAKING AND PURCHASE PROCESS

For the different product areas there was a variance in the degree of complexity that the decision-making and purchase process involved depending to some extent upon the complexity of the product in question. There were however distinct stages to the process for all products and respondents were asked to recall in detail the discrete steps that constituted the arrival at their final choice of specific product and provider.

6.1 *Initial Interest in the Product*

6.2 *Internet savings account*

For some respondents this was their first move towards financial services on the Internet. The product is a simple one and this fact contributed to respondent's willingness to try the Internet in this instance. For many the Internet seemed to be the logical channel for such a simple product proposition and this, taken in conjunction with the fact that by using the Internet for the account savers received a higher interest rate, prompted many to investigate, having heard about the account by word of mouth and advertising. Internet account respondents were not arranging their first savings account. Their motivations were based on the fact that through widespread advertising and a higher than average interest rate savers prepared to save on-line were at a distinct advantage.

"It was advertised so much".

"It was the obvious way to do it as I spend a lot of time on the Internet anyway"

The account was seen to be easy to access and therefore easy to move funds around between accounts. The ability to monitor the account on line was seen as an advantage and a way of obtaining up to date account information.

Regarding the initial contact, all customers except two were made aware of their Internet savings account through advertisements (mainly newspapers but also television advertisements), and they then proceeded to visit the providers' Website themselves. The remaining two respondents received recommendations from family / colleague, and then went on to visit the Website.

6.3 Whole of Life

Interest in this product initially came from a different area. Whole of Life purchasers tended to be a more reactive group of people, interest being aroused due to external influences like: increasing anxiety regarding funeral expenses (many referred to the product as a funeral fund), life stage influences, key life events like a death in the family or a health scare.

"I thought "well I don't have any money, and if I am dead tomorrow, who is going to bury me? My family will have to rally around or something like that – I have to do something".

"I come from a family where it is not done to die and not have enough to pay for your funeral".

It was impulses like these that switched respondents on to the notion of purchasing Whole of Life but it was not this alone. Not only were respondents reacting to events that were occurring in their lives they were reacting too to advertising that seems to have been noticed due to their mind set at the time. Most were off the page purchases, with others reacting to TV, radio and direct mail advertising.

"It (newspaper advertisement) was written in a way that made you think about it and be able to discuss it".

In terms of initial contact, seven of the ten respondents contacted the provider first as a result of seeing an advertisement in the newspapers, TV or radio. The remaining three responded directly to a mailshot.

6.4 Pensions

There seemed to be a higher level of awareness of need amongst the pension respondents. Their initial interest in some cases came from a feeling of self-obligation and the concern that they had inadequate provision. A pension was seen as something that they just had to have.

“I did not want to try and survive on a basic pension”.

“It was clear I needed to do something”.

For some their motivations came from a change in lifestage or employment, whereas they may have had a number of company schemes they now saw a need to provide for themselves. Other driving factors to trigger the initial interest were that it was a tax efficient means of investing, especially for the self-employed.

“Earlier on in life I did not have enough money to save for a pension as I had the mortgage and I was bringing the children up”.

“I had to do it due to the tax advantages, and if I was going to have a pension then I had to invest as much as I could, and obviously having a personal pension was the best way to do this”.

It should be noted that all were aware of the product and the need to have some kind of provision for retirement.

In terms of initial contact, there was much evidence to suggest that respondents were very active in making the initial contact, and in conducting prior research. Around half this group used the press for information (with one using “Money

Management” magazine), and then telephoned or wrote to the relevant companies themselves. A few also consulted colleagues, friends and family before writing or phoning the companies. Only one responded to a mailshot sent from the provider.

6.5 *Equity ISAs*

There was a range of initial drivers for this group of respondents. A number of respondents felt a familiarity with the product due to the fact that they had had TESSAs and PEPs previously, they seemed to be aware of what the product could offer them and some thought they were essentially the same product but with a different name. Others claimed to be responding to media ‘hype’ and the large volume of advertising (it should be noted that the period of fieldwork straddled the end / beginning of the tax year). The tax efficient nature of the product also provided interest for most and those who were more financially aware and read financial pages of the press talked about press endorsements. Others were keen to purchase a product where they could tie away their capital for a set term and receive tax efficient savings, whilst being able to experiment with stocks and shares.

There was a greater mix amongst equity ISA holders as to how the initial contact was carried out. Many respondents approached companies themselves after seeing advertisements and features in the press (six telephoned, one used the internet and one wrote to the companies). Only one respondent telephoned companies “cold” without carrying out prior research. Another was sent literature in the post via work, to which she responded.

6.6 *Mortgages*

The reasons for respondents’ initial interest in their new mortgages were almost exclusively product related. For some the attraction of the relatively new flexible mortgages triggered a desire to switch product whilst others were nearing the end

of their fixed or capped rate period and were seeking a better, or renewed deal. There were other considerations to take into account including calculating whether the respondent would be financially better off to pay any tie in penalties before switching; often respondents may have waited until the penalty had reduced to a sufficient level before thinking about a new product. For only one respondent was this their first mortgage.

In terms of the initial contact, a couple of respondents simply contacted their existing supplier, either because they were moving house, or their fixed rate term had come to an end. Likewise, one respondent was contacted by their existing provider because the fixed term was coming to an end. Only one other respondent was approached by the provider, in the form of direct mail, and she then telephoned the company. Most respondents, however, used the newspapers (with one respondent using an Investment book) to compare mortgages, and then used the telephone, or internet to find out more.

6.7 *The First Step - Information*

6.8 *Internet savings account*

It was felt that there was a limited need to source a great deal of information for this product.

“There wasn’t a lot to look into once you saw what it was ... that it was instant access”.

Most respondents, having either read about the product or found out about it by word of mouth went directly to the website and browsed for ease of use and account information.

“You get a feel for a company when you visit the Websites whether it’s quality or poor quality”.

There were many references to billboard, television and newspaper advertising and it was felt that there was a lot of media noise surrounding the launch of the product.

6.9 *Whole of Life*

As mentioned above, this group tended to be the most reactive and also in the main lacking, to varying degrees, confidence in financial matters. To an extent this lack of confidence influenced their first step in that very little effort was made to source information about the product. The first step tended to be a straight reply to the advertising stimulus.

“You just did it all in one and put it in the box ... it was so simple and easy to do”.

It would seem that there was a lack of confidence to ask for any other information personally and that this group of respondents would rather take the information they could glean from the advertising and respond directly to it. For some this was an unfamiliar product area and there still remained the fear of the hard sell and, again a lack of certainty in that some respondents did not know what questions to ask about the product. These respondents knew that they needed to have a product like this and some would consult family or friends, but mainly relied on the company name and the endorsements in the newspapers.

6.10 Pensions

In direct contrast to the previous group those purchasing a Personal Pension Plan tended to want to immerse themselves in information. They generally did this by approaching several, predominantly well known companies, usually by telephone, to request literature on their product offerings. Once they had received the often extensive literature they would spend a great deal of time assessing each against the other. They would also discuss their findings with family and friends to enable them to reach a decision.

“I selected much more carefully with the pension, and it took a lot of time to think about it”.

This group seemed fairly receptive to TV and radio advertising but must be thought of differently to Whole of Life purchasers in that they actively sought to gain as much information about the product offerings before thinking about the next stage. There was also a search for information from magazines like Which? and What Investment, whilst some carried out their own research over the Internet (ft.com). The information gathering process for pension purchasers was often an extensive and iterative process; this was not a decision that they were going to rush into or make uninformed.

6.11 *Equity ISAs*

As stated above the Equity ISA purchasers that we spoke to were a varied group with regard to financial sophistication and knowledge. This affected the way that they approached the purchase of their product. For the less confident or sophisticated respondents the experience was a more reactive one. Many mentioned the vast array of different types of ISAs on the market and some admitted to finding the choice slightly confusing when looking at literature or advertising. For some the first step was a reaction to an advert that they had seen in a newspaper or other medium. The more sophisticated respondent in this group looked into the product offerings in more depth and consulted the financial broadsheets, company reports and the Internet as a first step.

“Some things you don’t need to be quick – especially with long-term investments”.

6.12 *Mortgage*

The degree of information looked for by mortgage purchasers varied. A number were satisfied that they could source information from their existing provider regarding new types of mortgages that they were offering or new deals that were possible; so they approached their current provider directly for this information. For those changing provider, more information was sought. Typically they would consult one of the financial supplements or What Mortgage? and look at a league table relating to the type of mortgage they were looking for. After this initial stage an approach would be made, usually over the telephone for more information regarding the providers’ range of mortgage offerings. Some also visited a website of the company they were interested in. It would seem that the decision to purchase a mortgage is heavily weighted towards financial gain and any savings possible; it was in this context then that information sourced from various providers would be compared and research undertaken.

6.13 Need for advice?

6.14 Internet savings account

This product was deemed to be so simple that no advice was needed merely endorsement from the media: *“It’s only a savings account.”*

“It was pretty much a no-frills operation when it started”.

“I thought it was very well explained and it is not a particularly difficult product”.

There was some need for reassurance due to its Internet status that the company was bona fide but all respondents were aware that the account was backed by the Prudential.

6.15 Whole of Life

Again, as this product was perceived to be relatively simple, with clear benefits and seen as a necessity there was little perceived need for advice.

“It was straightforward and it was going to give me what I wanted at the end of the day”.

Information was sought by some regarding how they would actually make their premium payments and whether or not they would be eligible for the product.

6.16 Pension

This group of confident respondents did not think that they needed advice regarding their pensions. In fact most were specifically against the idea of receiving advice for this product. This seems to be due to a combination of confidence in their own ability to make the correct decisions for their own

particular circumstances and a deep reluctance to rely on pensions advice due to their distrust of advisors.

“I am not particularly keen on representatives as they can make everything sound feasible for their company and I do not like this”.

“I felt I could handle it myself and make my own decisions”.

“Basically all I was doing was putting money into a fund. I suppose advice might have been useful then, but I’m not sure I would have taken it”.

It is important to note that most of this group were already knowledgeable about pensions in general and had the confidence to conduct their own extensive research in favour of receiving 3rd party advice.

“I didn’t want some salesman telling me what I should have and what I shouldn’t have. I knew what I wanted. So I’d rather do my own research and put in the amount I want to put in without being swayed by somebody else.”

6.17 Equity ISA

As with the pension purchasers there was a distinct mistrust of advice as such and this was replaced by a strong reliance on media endorsements rather than seeking advice per se.

“I can’t imagine a scenario where I would need to take financial advice”.

“I can’t stand IFAs”.

The need for advice however seems to be a mixture of a perceived lack of need amongst some and a genuine lack of need for advice amongst the more confident.

“All we wanted to know was that it was tax-free”.

Some respondents thought that the product they had was a simple one, when indeed they clearly had not understood exactly what it was they had purchased. Likewise some others found the product offerings so vast and complicated that they refused to recognise that they might have required advice of some kind. Those who were confident enough to conduct their own research also thought that they could manage without advice.

6.18 *Mortgage*

Almost all of the mortgage purchasers had had a mortgage previously. Motives for purchasing a new mortgage were, in the main, product related. There was no great need for advice as respondents had decided which particular type of mortgage they were interested in purchasing through their own research. The decision making process was led primarily by product features within a certain mortgage type. A number of respondents had decided, for instance, that when they were purchasing their new mortgage they did not want another endowment mortgage and that they would rather have a repayment mortgage. This decision tended to be a personal one where they relied upon their own past experience and their own research. Others decided that a flexible mortgage would be the best for them and they acted upon this. There was very little consultation with a third party; some respondents think that they may have received inadequate advice in the past, particularly those who acknowledged that when they first bought a mortgage they knew very little about the product.

6.19 *Choosing the product*

6.20 *Internet savings Account*

For this product there was no real alternative as this was seen as the first of its type on the financial market:

“At the time, we were only really aware of Egg”.

6.21 Whole of Life

The decision to purchase the particular product in these instances usually relied on advertising being spotted at the right time. There was very little shopping around for this group of respondents. It seems that as long as the chosen provider was a well known, reputable company (usually one that they had heard of previously) the respondents were happy to purchase from them. There were certain other criteria that were taken into account like eligibility criteria and an affordable premium giving the right level of cover.

“I never would have done it if it were £40-£50 per month. I would have looked at other options. It was cheap and cheerful ... and there were no big catches”.

6.22 Pension

As stated above pension purchasers carried out extensive product research through examining company literature that they had requested, some Internet research and looking at various financial publications. These purchasers felt able to make informed decisions on a number of product criteria. The pension that they chose needed to be flexible for many, especially those who were self-employed and had an irregular income.

“I didn’t want to be tied into 10 years”.

The payments were to be affordable – a decision that they preferred to make for themselves rather than be sold something by a third party that might not be realistically within their budget. The companies that they chose to buy from could all be called well known and some mentioned that they were specifically looking for low charges. For some the decision making process was finalised by a consultation with a family member, or in one case a family member who asked his IFA’s opinion.

6.23 Equity ISA

Once again there was a general low level of awareness of product specifics here amongst many. As with the pensions people the correct level of manageable payments was a considering factor when deciding. Similarly for many the fact that the provider was well known was seen as important. Other factors that influenced the decision making process were: strong endorsements offered in the media

“I put it there because the papers said it was a good place to squirrel money”;

any anticipated projections of future value (although it was acknowledged that often these were given less importance as many were similar and most also understood that the nature of stocks and shares meant that their investment could go up and down), and for the more sophisticated the appropriate spread of funds.

“I wanted something that was relatively safe and indexed over a period of time ... It seemed as good as any other managed fund and seemed a safe bet to start off”.

Amongst respondents a number admitted that due to influences like timing they had bought an ISA with perhaps not as much knowledge as they would have liked to have had, and the decision was seen as ‘pot luck’ in some cases.

“I do feel I know enough to have invested in it, the only reason I did it was because the deadline was coming so I had to understand it”.

6.24 Mortgage

This set of financial buyers seemed to be very confident about getting exactly what they were looking for. As their motivations for looking for a new mortgage were almost exclusively product related (fixed term ending, wish to change mortgage type) so were their decisions to purchase each particular mortgage.

“We’ve both been stung by endowments previously.”

Decisions were based upon a number of factors: whether the mortgage was flexible; whether the fixed rate term was the right length; whether there were tie ins that would prevent the consumer from switching to a better mortgage in the future or whether it was financially worthwhile to pay any penalties and switch to a product that would give the borrowers savings or allow them to pay off the mortgage sooner than initially intended.

“We didn’t have to move the mortgage...it wasn’t worth it because of the fees we had to pay.”

6.25 Brand Choice

6.26 Internet savings Account

As stated above, EGG was seen to be one of the first brands offering such a service and some saw it as the only available choice.

“The rate is important above all else, the fact it was on the Internet was just to me a bonus”.

At the time of its launch the account was heavily advertised and received a great deal of media coverage and endorsement, making it a top of mind brand for those who read the financial press.

“Egg had a massive advertising campaign – it captured your attention – what is Egg? What are they on about? It made you look into it.”

The backing of the Prudential was seen by many to be crucial to entrusting savings with an as yet unknown Internet bank. It was this that seems to have set apart EGG from other competitors like First E which was seen as a more risky venture due to the comparatively little known about the company.

“The (Prudential) name gave me confidence that they weren’t “Fly by night””.

“I don’t feel I will get ripped off by Prudential”.

6.27 Whole of Life

This seems to have been a case of the supplier targeting the right consumer at the right time. By being a well known brand for this type of product, and offering what

the respondents were looking for, often a manageable level of premiums for a sufficient level of cover, as stated previously there was little shopping around for better deals in this market so the familiarity of the brand was key to most respondents.

6.28 Pension

With a product such as a pension great importance was placed upon the reputation of the supplier. In some cases this knowledge was gained through existing relationships with some brands – in other cases the firm was merely familiar or well known:

“We were happy with other products we received from the company before”.

“I knew I wanted to go for a Virgin one and I knew their number from the adverts ... I think with Virgin, people ... take comfort from the name and they think it is going to be alright... It’s a good service and you think that will be reflected in the other services they provide”.

“You seemed to get a good return and they (Equitable Life) are an established company”.

Product features were again important here, in particular lower charges and desirable payment terms like being able to vary amounts paid in and the frequency of payment. Quality of service also came into the choice of supplier as one respondent chose his provider as they were the first to send him his application pack, the thinking being that if they were efficient enough to do that he could look forward to future good service from them.

6.29 Equity ISA

An established, well-known name was again an important factor in deciding which brand to purchase an ISA from. Awareness of different brands was achieved through advertising in the press and through direct mail:

“I liked the look of the woman on television ... I’m not dealing with any fly by night company” (Scottish Widows)

“Some of those I hadn’t really heard of so I didn’t go for those, they weren’t companies that rang any bells with me so that was important because I felt I didn’t really know enough about ISAs”.

Where respondents had held PEPs previously with a supplier some were targeted by these companies and offered an ISA to continue paying into. Some recommendation by friends or family was taken when choosing a new brand and the more sophisticated looked at the investment track record of the company or sought out the right combination or selection of funds for their personal objectives.

6.30 Mortgage

Previous knowledge of the supplier in this market was not as important as in others. Some respondents had never heard of the brand that they eventually decided to borrow from. The actual product and the deal that consumers were able strike with the provider were often more important than the brand itself.

“Sainsbury’s was one of the few organisations that were doing it [flexible mortgage] at that time.”

If a respondent was looking for a flexible mortgage they would also look, within each supplier offering, at the ins and outs of the arrangement regarding aspects like penalties, other product tie-ins. In certain cases brand itself came into the choice at some stage; Virgin was seen by the respondent whose first mortgage this was to have appeal to the younger person, with clear literature. This was an

added benefit to the fact that they offered a flexible mortgage in the form of the Virgin One account.

Rate was a major decision-maker when choosing a provider as was service received. This was either from an existing supplier, who, if they had been giving a good service to their customer could expect in some cases to be approached again. Where service was with a new brand this was often relating to the telephone service or certain perks that were offered like paying legal fees. A number of respondents stayed with the same product provider that they held their existing mortgage with for various reasons: laziness, convenience, relationship or cost of moving.

“...it would have cost us to move the mortgage somewhere else and for the cost of what we might have saved, we just thought it was worth staying with them.”

6.31 Final Step – the application process

6.32 Internet savings Account

On the whole the application process was seen as relatively straightforward.

“It was a doddle. I was asked a few questions and I submitted a password and got a letter of confirmation two days later ... it was up and running within a week”.

“I thought it was absolutely excellent”.

Some who had opened their account shortly after the product was launched encountered some problems accessing the website although these were mainly operational difficulties sometimes on the part of the respondent and sometimes due to the site being inaccessible due to technical problems. This was not seen as a major drawback and seems to have been expected amongst those who were familiar with the Internet, with sentiments expressed such as: *“whether they were having teething problems or whatever”*. Although the account opening procedures were seen to be self explanatory on screen there was some dissatisfaction that the whole process could not be completed on line requiring the consumer to send a paper copy of the form back through the post to EGG.

6.33 Whole of Life

This was seen generally as a simple procedure which involved either completing a coupon straight out of a newspaper or item of direct mail or telephoning a call centre to be sent out an application form.

“It was painless. The information came; it was very straightforward before you filled out all the direct debit forms and it was clear and concise and we felt it would be useful”.

This would be completed and returned. There was no objection to using the postal system amongst this set of consumers.

6.34 Pension

Again this was deemed to be a simple act of requesting application form and returning it.

“Everything was so easy ... all I did was fill in a few forms”.

For these consumers the time consuming part of the purchase process was the information gathering and perusal. There may have been in certain cases a final consultation with family or friends as a form of sanity check before sending the application form back to the provider.

6.35 Equity ISA

Similarly this was an easy process conducted over the phone or Internet and post. There was again some unhappiness that the entire process could not be completed over the net.

6.36 Mortgage

Once again a simple process. It was thought of as convenient that over the phone through answering questions you would receive a completed application form through the post ready to sign.

“It was really easy because we weren’t changing lenders. They explained to us what their current rate was and everything was done, it was so straightforward.”

For some this was a distinct advantage although it was also said that you could guarantee that there would be no mistakes if you actually filled it in yourself. The service received over the phone was particularly lauded by some and seen as important for a major purchase like a mortgage.

“She seemed very interested in having us as a customer and was very helpful.”

As the process of buying a house or renewing a mortgage can be longer than purchasing one of the other financial products, there was some confusion over whether the purchase process involved problems, as when they did it was often seen as the fault of a third party and not the lender itself. The main cause of delay or complaint for those respondents who had a problem was directed towards solicitors, sometimes those appointed by the lender itself. However consumers on the whole acknowledged that this was no fault of their lender, preferring to blame the party responsible.

7.0 ADVICE OR INFORMATION?

The main point to note in this section is that although respondents could articulate what they thought 'advice' meant, they very rarely actually sought advice for the products that they were asked about asking. There was limited experience in the past of financial advice and some of these experiences were negative, thereby tainting the respondents' view of advice itself.

Information needs, how the respondent met them and how the provider helped to meet these needs were some of the ways that respondents thought they had received advice.

7.1 *Attitudes towards Financial Advice*

Generally speaking attitudes towards financial advice were very poor. This negativity stems primarily from people's attitudes towards the advisors themselves and their motivations for giving the advice. There was little perceived differentiation between tied advice and IFAs. Some respondents mentioned how they had received advice from an independent advisor from a particular company. The common theme expressed by many respondents was that advisors were looking after their own interests in the pursuit of commission, some believing that this would be done even to the detriment of the advisee.

"He just completely mucked up my impression of going to see someone...He was a typical finance person...who starts talking in his own language and you don't know what he is talking about. All he wants is a sale at the end of the day."

(Pension)

"I personally see financial advice as an opportunity for companies to sell as much as they can to you...I think it should be what it says; financial advice, helping you." *(Pension)*

There was some perceived need for advice amongst respondents. Many mentioned the vast array of possible products and suppliers to choose from and how difficult this decision often is. In particular those purchasing the more complicated products (pensions and Equity ISAs) were astounded by the available choice. Due to the lack of trust in advisors and the subsequent absence of strong guidance in these matters there was also a feeling of resentment towards the lack of financial advice. Product complexity can indeed be alienating and this could lead to resentment not only of financial advice but also of engagement with financial services. This may precipitate avoidance and acceptance of product ignorance as many look for an excuse not to investigate financial products themselves, nor rely on advice.

“One is a bit circumspect about the advice you’re getting – they have to make a living...mis selling makes you a bit wary.” (Internet Savings Account)

On the whole newspapers were welcomed for their authoritative stance on matters financial. Amongst those consulted most often were: Money Mail, Daily Telegraph and Saturday Telegraph finance pages, Sunday Times Money, Guardian Jobs and Money and The Financial Times.

There was also admission of a strong reliance on a network of informal ‘advisors’. These were usually friends, family or colleagues (some of whom actually were financial advisors). The use of newspapers for respondents’ own research and the verification or back-up supplied by their own network of advice seems to have replaced, for many, the more traditional financial advisor.

“Until they’ve got a system where you can be sure you get the best impartial advice...we’ll ignore it...I don’t trust it.”

7.2 What is understood by 'Financial Advice'?

In terms of what respondents understood by the term “financial advice”, some found it difficult to actually articulate their understanding, both amongst those who had taken and had not taken advice. Four main definition types of understanding emerged: the “cynical” perception; the “ideal” perception; the “it’s-for-someone-else” perception; and the “actual” perception.

Some defined “financial advice” in extremely negative and cynical terms, viewing it as a money-making exercise (e.g. “*overpriced*”, “*vested interest in selling*”, “*led by commission basis*”, “*biased*”), and this group comprised both those with experience (of both tied agents and IFAs) and no experience of advice. Those who expressed their understanding of financial advice in ideal terms (“*it should be*”, “*I’d like it to be*”, “*with any luck*”) was again not correlated with experience of advice. These definitions were antithetical to the “cynical” perceptions, with references to “*honest*”, “*simple*”, “*unbiased*” and “*helping you*”. Those with the “it’s not for me” perceptions had never used financial advice, were the least sophisticated and found it most difficult to express their understanding. Finally, the “actual” perceptions were voiced by those who had taken advice and were confident to “tell it like it is” on a more neutral level (e.g. “*something that offers you the best possible information about a range of services, and what your needs are*”), with the absence of cynicism / and or idealism. It is recognised, however, that these interpretations of financial advice were not necessarily any more correct than the others, since “financial advice” may in effect incorporate any of the four main views expressed.

Furthermore, it should be noted that although many respondents thought they had sought advice relating to their product, upon further reflection it was apparent that this advice normally comprised of a specific query or finding general information. In other words, many were unable to differentiate between obtaining advice and information.

7.3 Information needs and advice

7.4 Internet savings account

Overall there were little needs here as respondents found that information was in relative abundance regarding the account. Due to the simple nature of the product there were not too many questions that needed to be asked. Many queries that respondents said they had were answered in the press and advertising that they saw for the account.

Some questions raised included:

- Is the company backing the account established?
- What is the interest rate?
- How do I operate it?
- How can I access my money?
- Is my current account secure?
- How long will I have to wait for the account to be opened?
- How long does a transaction take to clear?

The Internet savings account website was seen to be informative and easy to navigate, providing respondents with some of the answers they needed. Also the welcome pack was noted for being written in Plain English and fully explained the security information and helpline facility. Overall the information provided by the internet savings account provider was seen to be good.

In terms of what they understood by financial advice, most were able to articulate their understanding, although differing attitudes were clearly apparent. There was a clear cynicism amongst some Internet savings account holders as to what it actually was:

“It tends to mean a cold call at 10 o’clock on a Sunday morning”.

“Independent Financial Advisor means what we used to call insurance salesman”

“My biggest concern has always been the vested interest in selling”.

Some who had used IFAs expressed financial advice in terms of what it “*should*” be: “*simple and plain*”, “*honest, clear, simple and direct*”, whilst others with experiences of IFAs and advisors gave “actual” views:

“Financial advice is assessing your situation and trying to match that to what’s out there in terms of product”.

“Tailoring of a package to an individual’s particular circumstances. A direct response to what you tell the advisor”.

7.5 Whole of Life

Although this was a simple product we have seen that the consumers we spoke to were not very financially confident and often had very few other financial products.

Some questions that they had asked:

- How much do I need to pay?
- How often?
- For how long?
- Can I change the amount I pay over time?
- Will I be tied into one contract?
- What are the penalties if I miss the payments?
- How much is the lump sum on death?
- Is the final payment fixed and guaranteed?
- Is the company established?
- Do I need a medical?
- How can the money be accessed once I’m gone?

- Can I get a cash back bonus?

There was seen to be a fairly poor level of communication offered in this product area in terms of a lack of information, however although there were a number of queries raised during the interview, these were rarely asked of the providers themselves. The consumers that we spoke to tended to rely on company credibility, an established name and product features like 'no medical required' rather than communication from the company. There was limited recall of any information or documentation received.

As previously mentioned, this group was relatively unsophisticated, and had little experience of financial advice, some seeing their bank as their only source of financial advice. Consequently, it was very difficult for most of this group to express their understanding of financial advice, with many assuming an "it's not for me" stance:

"It's for people who've got capital and they want to know what to do with that capital to make the best out of it for themselves".

"Giving you product information"

"It depends on where it is coming from. With any luck it is independent ... and it is looking at your circumstances and making recommendations about what might be appropriate".

7.6 Pension

This set of respondents, as mentioned above, were confident in their ability to choose the right product for themselves.

"I had really made my mind up anyway."

Through detailed research many seem to have been able to answer any questions that they may have had regarding their products. There was a large volume of

documentation received after they had contacted the potential providers, furnishing respondents with the opportunity to discover their own answers and if need be to contact the provider direct with any questions.

“Basically all I was doing was putting money into a fund. I suppose advice might have been useful then but I’m not sure I would have taken it.”

“I felt confident at the time...They had answered all my questions and I didn’t feel stupid for asking them. Also the [written] information came fairly quickly and it was in plain English.”

The pension group, although able to articulate their understanding of “financial advice”, were likely to give cynical views, such as “led by commission basis”, both among those who had and had not used IFAs or tied advisors:

“I personally see financial advice as an opportunity for companies to sell as much as they can to you”

Others saw financial advice as something not appropriate to their circumstances:

“you would only need financial advice if you were in difficulties or if you had money to invest and were not sure where to put it”.

7.7 Equity ISA

The apparent lack of understanding of their product amongst some consumers in this category prompted several questions that clearly needed to be answered. Some of the more specific queries relate to those respondents who were more aware of the product specifics.

- How long do I need to tie my money up for?
- How much do I need to pay/ How often?
- How risky is the fund?

- Where is my money being invested?
- Can I transfer to another fund if I want to?

The quality of information received was seen to be generally variable. Due to the mixed product awareness in this sector dependent as it was on personal knowledge, there were clear areas of confusion identified. Particularly whether or not consumers were tied into the product for a certain time, or obliged to hold the product for a fixed term.

For how long did you expect to invest for?

“For six and half years...set”

The documentation was deemed to be too complicated to many and although all knew that they had a stocks and shares ISA many still equated the product as a transferred PEP.

On the whole, this group found it difficult to articulate their understanding of financial advice. The main views that were expressed were the *“it’s not for me”* perception and the cynical views: *“I don’t trust it”, “it’s biased to suit the salesperson”*.

7.8 Mortgages

Information needs for mortgage purchasers were based around the features of each product offering. Instances of shopping around seem to be highest amongst this collection of consumers, corresponding with this, information needs tended to be relating to how the respondent could receive the best deal possible.

Questions included:

- How flexible is the mortgage?
- Do I pay a penalty if I want to switch during the fixed term?
- Do I have to buy any associated products when I purchase the mortgage?
- Can I pay off more than the minimum each month?

“About the flexibility of the mortgage and confirming for our own sake that the product we were buying was the product we were thinking that we were buying.”

As mentioned above there was a relatively high level of satisfaction amongst this set of purchasers regarding the service that they received from their suppliers. There was no perceived need for advice here as they were so confident, most had had at least one mortgage before.

“Completely confident. The information I didn’t get I got afterwards through the phone.”

The information that they were receiving really formed part of the decision making process when choosing which provider to go with. In general this group seemed to be satisfied with the quality of information that they received.

“It was quite easy to read, but there was enough to get to grips with...it was clear and I was impressed with the fact that I grasped it fairly quickly.”

7.9 Product Comprehension

In the attempt to ascertain to what extent consumers understood the product that they had purchased, they were asked to describe their product and this was then to be later compared to a key features document that the respondent was to have to hand. This process proved problematic due to several factors: respondents had no documentation to hand at all, the key features document was absent, they had difficulty either recalling or articulating what they saw to be the key features of their product. As a result of this it became difficult to judge accurately how well and to what extent consumers knew what they had purchased. In addition to this, the suitability of a product for an individual depends on many other variables such as financial situation and other product holdings.

In general it would seem that most respondents were confident that they knew enough about their purchase. For some of the simpler products, like an Internet

savings account most respondents described their account as a 24-hour, easy access Internet savings account and almost all mentioned the high interest rate.

For the Whole of Life respondents there were many mentions of the product being a 'funeral fund' to provide for expenses when they pass away. There was some concern over burdening their surviving spouse or family with the expense of a funeral. In general it would seem that these respondents knew the product they had purchased would pay out upon the death of the insured life. However when asked for how long they intended to keep the product the youngest respondent in this category anticipated keeping the policy into her retirement or possibly beyond. This one instance would suggest that there was an element of confusion for this respondent.

As stated previously the set of pension respondents appeared to be confident in their ability to conduct their own research into their product purchase and to eventually select the right pension for themselves. The depth that these respondents entered into when describing their pensions varied a little. Some mentioned the flexibility of their choice explaining how payments could be varied as could frequency of paying, whilst low charges were mentioned by some. The choice of funds to invest in was also mentioned. It would seem to be acceptable to recognise that this group of respondents seemed to be aware of their products' features.

It is within the group of ISA respondents where there appears to be some confusion regarding what they think they have purchased. A number of ISA purchasers were sophisticated financially and were able to articulate details about their product. Some things mentioned included the spread of funds and the degree of risk involved, the number of units or shares in any one particular company and whether there will be income or growth or a combination. The difficulties arose in particular in those respondents who were under the impression that they had transferred their PEP, or sometimes PEPs, into an ISA. The confusion around this matter is amongst those who make regular payments into their ISA and seems to have arisen as a result of their existing provider

contacting them and suggesting that they maintain the same level of payments but into an ISA rather than a PEP. As there is no mention of any action taken by the consumer to transfer the product, which would have been required, it seems reasonable to assume that no actual transfer had taken place. However the fact remains that these respondents are still aware that they have an Equity ISA, it is merely their perception of *how* they purchased this that is in question.

Mortgage purchasers in this sample were confident that they knew exactly which type of mortgage they were looking for. There was a range of different mortgage types within this sample. There were several instances of respondents previously holding an endowment mortgage. Those who had an endowment in the past had kept it and were using it either as a capital repayment vehicle for their current endowment mortgage or as a stand-alone product. In the case of the latter, those with flexible mortgages intended to use their endowments upon maturity to pay off lump sums from their flexible mortgage thereby reducing the term of repayment. Some respondents referred to the term of their mortgage, not as the number of years they intended to borrow for but the time scale remaining on their fixed rate term.

Some who had purchased from their existing provider were of the opinion that they had not purchased a new mortgage but had merely renegotiated a new deal relating to a fixed rate. As with the ISA purchasers above they were aware of the product that they held but were less aware of the fact that they had purchased a new mortgage.

Appendix

Case Studies

Whole of Life

Mr G, aged 72 and a retired lorry driver first heard about this particular policy through a television advertisement. He contacted the provider by telephone and then returned the necessary forms through the post. He and his wife have a joint income in the region of £7,500 per annum. They do not feel that they are interested in financial matters as they have no money to save or invest and all of their savings have gone. He purchased this product just before he had a heart by pass operation. He had been thinking that when his parents died he had to pay for their funeral and he did not want to pass this burden onto his wife.

“Just if we could keep it up there’d be money at the end of it, if anything happened like.”

He saw the advert and thought that this product was the right one for him as there was no medical required and the premiums were affordable (£10 per week), although he does say:

“I didn’t expect to last this long.”

Life insurance is something that he had thought about before, indeed he had previously held a policy but this had lapsed, as he could not afford to keep up with the payments. Currently he pays by direct debit whereas before the premiums were collected each week. Their insurance rep who used to call told them their policy had lapsed and he stopped calling. Mr G thought that there was nothing he could do about this.

Going direct this time gave him peace of mind having had a negative face to face experience in the past.

“It [going direct] put our minds at rest.”

He did not consider or approach any other providers for this product after seeing the advert on television. The reputation of the company and the fact that they were well established was enough to satisfy him as well as going direct.

Internet Savings Account

Mr K who works in I.T. is married with two sons at university. He operates his current account over the Internet and has previously held a telephone based direct savings account. He is a relatively balanced person financially, who likes to keep control of his finances. He uses his Internet savings account as a rainy day fund and to pay money to his two sons whilst they are at university.

He first heard about the product reading the newspapers and then visited the provider's Internet site. The high rate of interest was particularly attractive to him. In general he prefers to conduct financial matters directly rather than through a salesman. He feels that this gives him more control over the situation and he is able to research matters at his own convenience.

"From a personal point of view it's better to take it out over the Internet because you can read, you can analyse. You've not got the usual direct sell."

He found the application process to be relatively straightforward and thought that it was better than when he opened his telephone only savings account a few years ago as he could actually see all of his details on the screen. Although he operates his current account over the net this was the first time he had purchased a financial product on-line.

"Once you get past the 'this is a different way of doing it' it's a lot easier."

He especially liked the way that his name and address were guaranteed to spelt correctly as he was inputting the data himself.

He does think that if you had no Internet experience you may be nervous about putting thousands of pounds into an Internet savings account but as confidence grows he is sure that it will become easier.

Mr K enjoys the way in which he can transfer money into his current account each month and then pay his sons at university. He has confidence in the capabilities and efficiency of the internet savings account as if he was unable to access the account for even a couple of days at a particular time of the month he could cause problems for himself.

A savings account is suited to the Internet but, for him, so are other products like mortgages. However if he was a first time buyer he would be wary of purchasing a mortgage over the Internet as you really need to know what you want.

There was no need for advice as the product was deemed straightforward and there was a lot of press coverage at the time.

"I knew what I was getting."

It would have been beneficial if he had been told exactly how long a transaction took to clear, as this is something that was a feature of his previous telephone savings account.

Equity ISA

Mrs H is a primary school teacher, married with two daughters at university. She regards herself as very interested in financial affairs and says,

"I like my money to work for me."

She intently reads the financial pages of the broadsheets and keeps control of her finances putting all of her details onto a computer. She thinks that the newspapers carry a persona of public accountability and have the brand credence of being broadsheets. She prefers this method of information gathering to the Internet due to the volume of information that you need to trawl through on line.

She has had PEPs for over ten years and she thinks that the ISA is an ideal way to save. If she had not saved into an ISA she would have placed the money in a post office postal account.

The considerations that were important for her when purchasing the product were that the provider and product were recommended in the financial papers and that the company track record was satisfactory. Projection of future value was less important to her.

Having researched using the newspapers she telephoned for initial information and applied through the postal channel. She had no concerns about going direct as she felt confident enough, much of this confidence gleaned from the press, that she was doing the right thing.

She feels that whilst she is comfortable purchasing an ISA directly she would not purchase a pension through a direct channel as this is deemed slightly more important to her.

"A pension is so important. It has such a bearing on your standard of living."

For the more complex financial products she thinks that she may seek advice from her company financial advisor.

When choosing the product she only approached one company having researched the market and made her choice.

She believes that the next financial product she will purchase will be another ISA. She anticipates that she will again consult the newspapers and then buy direct over the telephone.

Personal Pension Plan

Mr A is 43, a full time engineer and about to be married. Financial matters for him are somewhat of a hobby. He would consider himself to be a balanced investor although he does have some high risk products. He is keen to research his finances choosing the press and specialist financial magazines.

He was made redundant about four years ago and had his company pension premiums returned; so he invested in a PPP.

He began researching the pensions market in the press and through specialist financial magazines. Product features were important to him when thinking about purchasing a pension. After research he found that the product he chose was

“One of the lowest charging companies, plus they’re flexible, you can stop and start – and vary your contributions up or down.”

“After reading so many good reports I chose them.”

By going direct on this occasion he was able to avoid encountering a salesman and the pressure involved in such a meeting:

“I can choose what I want to have...I can think about it and do a bit of research on it. Then if I find a fund that I fancy I’ll invest in it when I’m ready to do it.”

Having received information from the company after writing to them, and conducting his own research he applied through the post. As well as product features and recommendation the brand was also very important to him. He knew that the provider had a good track record and that they were also a reputable company with favourable reports in the press and magazines that he read.

Regarding purchasing financial products directly he does think that some financial products like mortgages require face to face contact especially if it is the first time you are purchasing such a thing.

Mortgage

Mrs H works part time, is married and has three children. She thinks that as a family they veer towards safety when it comes to their finances. She is in control of the day to day running of their financial affairs. She consults the Saturday broadsheets for financial information although she has used a financial advisor on the past. This is an experience that she would not be keen to repeat due to the pushy nature of the salesman at that time.

When choosing a financial product she will seek advice from friends and family and send off for information from the provider, enabling her to absorb the material and make an informed decision.

She chose to switch mortgage as her previous fixed rate term had ended and the penalty to switch was reducing every year. When the penalty had reached an affordable level she began to look in the press for other mortgages. Having seen the type of mortgage she wanted at the top of a league table in a newspaper she telephoned the company and requested more information. The rate available was also seen as very attractive.

She sees the direct channel as an easier way of conducting financial affairs.

“In the newspaper it just said xxxxx and it had this rate on it. We just phoned the number and they seemed able to deal with us over the telephone...It just seemed to be the easiest way of doing it.”

The main advantages are that when shopping around for a new purchase there was no need to visit a number of establishments to collect information – this could all be done over the phone. However it is worth noting that she chose the product features (fixed rate but no tie in) and rate before she chose the channel.

“Because it was sort of direct and they had this competitive rate and we decided that’s the product we want – we just kind of went with it.”

Regarding the direct channel she was pleased with the way that the provider sent a written confirmation following on from any telephone conversation, this built her confidence in the company, whom she was not aware of previously.

There was a problem encountered regarding the search on the house. The Building Society's solicitor and her solicitor organised a search resulting in her being charged twice. The matter was resolved however and the Building Society returned the money.