

Consumer Panel Position Paper

Advice

1 Introduction

- 1.1 Most, if not all consumers will need financial ‘advice’ at some points in their lives, perhaps to help with financing university education, marriage, divorce, planning for children’s upbringing, retirement planning, buying a property, moving/returning from abroad, changing career and decumulation at retirement. The nature and extent of the advice needed will vary depending on the individual’s circumstances and their financial capability. What consumers need therefore is access to a range of services that provide, within clearly defined parameters, information, guidance or specific recommendations. While a great many valuable services are on offer at the moment, we believe that there is a gap - the so-called ‘advice gap’ - between consumer need and market supply that needs to be addressed.
- 1.2 In the run up to the implementation of the Retail Distribution Review this ‘advice gap’ is likely to be exacerbated by the expected migration of independent financial advisers to either wealthier consumers, or out of the market altogether, and by the fact that many firms (including banks) currently offering advice will leave the advice market altogether. This may leave some consumers, particularly those under the mistaken impression that the advice they had been receiving until then was ‘free’, unable or reluctant to get independent advice. It also creates a major opportunity for members of the profession to promote the valuable services they offer to a market where there is already an established need.

2 Executive summary

- 2.1 We fully support the regulatory requirements being put in place as a result of the RDR, which will deliver significant and valuable benefits for consumers by abolishing commission bias, raising levels of professionalism and providing greater transparency about costs, fees and charges.
- 2.2 NVQ Level 4 (as required by the RDR) is a minimum professional qualification for investment advisers and there is no argument for it being reduced in any circumstances. Ultimately we see Level 6 and Chartered Financial Planner Status as an entirely appropriate level of professional standing for a financial adviser.
- 2.3 There is a place in the market for a range of regulated advice services, including advice focused on particular needs, such as savings products, and what has come to be known as simplified advice.

- 2.4 In principle we welcome the development of automated advice processes where the process itself – effectively operating at the equivalent of Level 4 or above - would be regulated. Consumers’ right of access to the Financial Ombudsman Services when using such a process is non-negotiable.
- 2.5 We support and are actively involved in initiatives to develop products that deliver straightforward outcomes for consumers and that meet consumer needs for protection, saving and investment. We expect such products to be suitable for sale through an automated simplified advice service, as well as through other advised and non advised routes.
- 2.6 Unregulated advice, which can mean information and guidance as well as generic advice, is a valuable tool for consumers. We are encouraging bodies such as the Money Advice Service to push regulatory boundaries to deliver a more effective service for consumers.

3. Background

Retail Distribution Review

- 3.1 The Panel has long supported the RDR and been involved in all stages of the FSA’s journey to the 2012 deadline for implementation. We have argued consistently to abolish commission and bias in product, provider and sales process. We have also argued that Level 4 – the equivalent of First Year university – is not too arduous and is well below the expected professional qualification of an accountant or lawyer. Indeed, we have in many documents expressed the view that Level 4 should only be a starting point and have welcomed, for example, the work by the CII which promotes Level 6 and Chartered Financial Planner status as a good place for advisers to be in.
- 3.2 We opposed moves to ‘grandfather’ advisers into the new regulatory framework or to relax RDR specifications. Any adviser who has been in the business for some time should be able to pass an exam or meet the requirements of Level 4. If they can’t do this, we would question their capability. Independent endorsement of skills and knowledge is important for building the trust and confidence of clients and potential clients.
- 3.3 We recognise the need for the FSA to differentiate clearly between the different types of regulated advice that will be available post-RDR. Quite rightly the regulator is providing assistance and guidance for firms about what exactly is meant by “independent” and “restricted” advice in the new financial services landscape¹. We were pleased to see the FSA also responding to demand for greater clarity around ‘simplified advice’ in the

¹ GC12/3: independent and restricted advice at www.fsa.gov.uk/pages/library/policy/guidance_consultations/index/shtml

form of guidance² and around a number of other issues by publishing answers to the top ten questions raised at the RDR roadshows³.

- 3.4 Consumer research consistently demonstrates (as did our own TCF update research⁴) that consumers use the term “advice” in a number of ways which will also encompass help, information, guidance and regulated advice. Indeed, as a reflection of this, Money Advice Service has put “Advice” in its title even though it is not providing regulated advice. Ensuring consumers fully understand the nature of regulated advice and the important distinction between ‘independent’ and ‘restricted’ advice is a difficult but not insurmountable challenge for both the FSA and for firms.

The advice gap

- 3.5 The Panel has acknowledged that the move of many Independent Financial Advisers to service High Net Worth Clients (HNWIs) or the departure of some IFAs (though not as many as heralded) is likely to leave some consumers, many of whom will have thought advice to be free and who will be faced with the prospect of fees, without access. Further contraction is taking place as some banks leave the advice market altogether. Some consumers may be prepared to pay for advice, if they are convinced of its value, but for others the cost of advice may seem too high, particularly when the perceived benefits are hard to quantify. This is, we have always argued, an opportunity for the adviser community to market itself and its value/benefits more assertively. Some may well do this.
- 3.6 We do also have concerns about inconsistent adviser quality. While some may argue that there is a clear and distinct split between advice and sales, we have always argued that advice is driven by activity, whether by commission or fees, and that much advice leads to sales and that some sales do encompass helpful information and guidance, which consumers see as advice.
- 3.7 We have also been concerned that consumers may increasingly be offered ‘execution only’ services. While for many this will be absolutely right, for some it could lead to poor choices, and poor outcomes. The banks may readily step in as a natural access point to this market, but given their past behaviours, we have not been convinced of this as a solution so far.

Advice and product models

- 3.8 The Panel has spent a great deal of time and effort over recent years trying to assess different advice and product models. We were most

² FG12/10: simplified advice at www.fsa.gov.uk/pages/library/policy/final_guides/index.shtml

³ FG12/05 at www.fsa.gov.uk/pages/library/final_guides

⁴ Consumer perceptions of fairness within financial services, Opinion Leader, June 2010 at www.fsc.org.uk

interested in the Aegon research⁵ and have had discussions and advice model presentations from many of the big banks, life assurance companies and others.

- 3.9 Many of these have developed Simplified Advice models, akin to decision trees, where the questions, suitability, risk, solutions and so on are built in to the system, along with safeguards to ensure that once a consumer displayed interest in more complex investment products or a need for more sophisticated advice, that person would be handed over to a professional adviser. Often the firm's – and our – view is that the system itself could be regulated. This would be dependent on the person operating the system and interfacing with the client playing no additional part, and giving no advice. Remuneration would have to be neutral and in no way related to the product outcome (if any). In these circumstances the operator would not need to be Level 4 qualified. Consumers would still, of course, have access to the Financial Ombudsman Service if needed.
- 3.10 Despite the efforts of firms and engagement by the FSA, including through its published guidance on simplified advice, there appears to be an impasse in the development of automated simplified advice models. There could be real benefits for consumers if this impasse were to be overcome. While a simplified advice model may not solve the savings/investment gap, it might give consumers a cost effective and trusted route, that otherwise would not be available, particularly if it is allied to straightforward outcome products.
- 3.11 Another area of Panel support has been the need for portable fact finds which can be used by consumers when they access different types of advisers. We think this should be relatively easy and would cut down on both costs and time.
- 3.12 Allied to the simplified advice model is, of course, the question of what can be sold/advised through such a distribution channel. We are participating in initiatives led by others around the development of simpler products for protection, savings and investment, but our stance is rather different. Our focus is what these products deliver, not how they are designed. We want to see products with a straightforward outcome, rather than a simple structure and last year we commissioned research⁶ to inform our thinking. We are satisfied that while these straightforward outcome products might be quite complex in make up, as long as they deliver, are relatively low risk and 'do what they said on the tin' they could be advised/sold via this route. The nature of the product should also mean that consumers would be less likely to need recourse to the Financial Ombudsman Service, thus addressing a key industry concern about liability cost.

⁵ At www.aegon.co.uk/About-Aegon/industry-insights/shaping-our-industry/research/opinion-leader-research/index.htm

⁶ Defining straightforward outcome products, Nick Hurman, August 2011, at www.fs-cp.org.uk

- 3.13 The Panel has also long argued that focused advice could be marketed much more assertively and that it would fill a need for good advice at a particular lifestyle event or requirement. We think basic advice might be extended and perhaps linked to straightforward outcome products. But it is not the role of the Panel to progress particular models on behalf of the industry... rather to influence regulator and industry to address consumer needs where we think appropriate and where we can identify an opportunity.
- 3.14 We have always been supportive of MAS and are keeping a watching brief on its progress. Although we have some early concerns, we would like it to push regulatory boundaries so that it can go beyond merely signposting, which unless links to other parties are quick and effective is likely to frustrate rather than answer consumer needs. So we will continue to encourage MAS to deliver more for consumers in this area than it has felt able to do to date.

4. Conclusion

- 4.1 We think there is still some way to go before we see a financial services market that offers the kind of broad range of products and services that consumers need and that meet consumer expectations, but significant progress has already been made.
- 4.2 The Panel has been actively involved in trying to stimulate the development of ideas around a range of advice services and products that can be relied on to deliver what they promise. We have hosted roundtables, met with the regulator, industry and consumer groups and commissioned and published research on straightforward outcome products and simplified advice as ways of driving the debate forward. We will continue to contribute to current and future initiatives, such as the work of the industry-led Gleneagles groups and HMT's steering group, headed by Carol Sergeant, to develop 'simple' products.
- 4.3 We would like to see a flourishing financial services market with consumers playing a more active role and we think that this is achievable in the long-term. But consumers will want to be sure that the products and services on offer, whether to meet protection, mortgage, savings or investment needs, represent value for money and that advisers are acting in their, the clients', best interests.