Financial advice market review (FAMR)

A PFS research report

Response to the H M Treasury/FCA 'Call for input'

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The Personal Finance Society

The Personal Finance Society is the largest professional body for the financial advisory profession in the UK, with 36,312 members of which 4,953 are Chartered Financial Planners (as at December 2015). We promote the highest standards of professionalism for technical knowledge, client service, culture and ethical practice across the entire financial advice community for the ultimate benefit of the public, engendering confidence and trust in our profession.

Our mission is to serve the public by guiding the financial advice community towards higher levels of professionalism. This is exhibited through ethical and behavioural standards, interpersonal and business skills and technical knowledge. We support our members with achieving this goal through a wide programme of activities, including advocacy, good practice guidance, continued professional development (CPD) events, publications and related tools.

The Personal Finance Society is part of the CII Group and therefore we share the CII mission and Royal Charter to secure and justify public confidence and trust in our members and the sector more broadly.

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2 Executive summary

We welcome and endorse the stated aspiration of the Financial Advice Market Review to explore how the market could work better for all consumer demographics, not just those with relative wealth.

The introduction of Government reforms providing pension freedoms has introduced and highlighted the need for advice and therefore a requirement to increase access. There is rarely a one size fits all solution and we therefore endorse a multi-integrated approach to maximise the number of consumers able to find the form of advice that they want, on a need they have, and at a price they are prepared to pay. We believe that everyone involved in the industry has a collective responsibility to make this happen.

We are therefore not convinced that the public interest will be well served by simply introducing more non-advised and non-regulated offerings which offer limited standards and consumer protection. Non-regulated solutions are also likely to introduce greater confusion and aid the increasing trend of 'scammers' which we are extremely concerned about and feel must be tackled as a feature of this review.

Financial Technology (FinTec) has a logical and evolutionary role to play in all solutions, but the much publicised emergence of so called 'Robo-advice' must be approached with some degree of caution. Technology of varying kinds have been embedded within the advice process for decades, but a degree of human interaction from accredited, trained and professionally qualified specialists will remain critical to ensure the avoidance of formulaic, future mis-selling or mis-buying.

We see an ongoing role for 'free guidance' if it results in consumers being directed to the most suitable means of delivery. It would seem logical, however, to bring all of the services under one centrally-managed public information service to eliminate duplication and ensure consistency.

We acknowledge and raise concern that some will call for an expansion of industry funded 'free guidance' services for the mass market and continue to limit the highest level of consumer support and protection via fully regulated professional advice. Non-advised solutions will undoubtedly play a role in bridging the gap, but like guidance, offers little consumer protection and therefore the opportunity must be explored to introduce a process or level(s) of regulated advice simplification.

The advice sector continues to raise concerns about rising levies and FSCS funding which urgently needs to be addressed to reduce the unfair impact on advised consumers. Putting additional cost on top to fund the expansion of ‘free services’ compounds the issue and is neither transparent nor fair given that the cost has to be passed on, making advice appear disproportionately expensive.

We therefore believe that there is an increasing case for greater clarity of costs which are being indirectly borne by the consumer of regulated services regarding the funding of regulatory, FSCS and ‘free’ information services. The introduction of a savings and investment premium tax (SIPT), similar to Insurance Premium Tax (IPT) might be a fairer and more transparent way forward, and would help alleviate the financial pressure on regulated firms and their clients.

Consumer choice between full regulated advice and non-regulated solutions offers insufficient choice and no middle ground. Consequently, the question of whether to introduce a lower cost, ‘simplified’ regulated advice option that affords standards and appropriate protection, or allowing non-regulated solutions to move nearer to regulated advice offering limited safeguards, will understandably polarise thinking. Either way, a fresh perspective is required to meet the core objectives of FAMR and support more consumers in their financial planning decisions.

Whilst RDR did much to improve transparency of advice ‘cost’ the move to fee only based advice works well for some consumers whilst disenfranchising others, especially those who believe their needs are straightforward. Solutions must be explored to offer alternative payment mechanisms, which could, for example, include the use of transparent fee recovery from investment/savings and the introduction of a Total Expense Ratio (TER) principal.

The current regulatory framework, either real or perceived, inhibits simplification given the liability associated with regulated advice. This has influenced a significant withdrawal from the market and acted as a brake on new entrants. The past lack of appetite to reform regulation has seen few firms take up ‘simplified advice’, despite it being introduced three years ago under the Retail Distribution Review (RDR), leaving consumers to fend for themselves, use unprotected, non-regulated services, or worse left to the mercy of scammers. It is essential that more is done to protect the public from such activities and in particular against the increasing level of fraudsters who masquerade as legitimate advice firms and deviously offer what appears to be an attractive, non-bureaucratic, consumer-friendly advice service from inception.

There will understandably be some concerns over any suggestion to reform regulatory process, lift restrictions or appear to reduce elements of consumer protection. However, some of those views are steeped in the past and do not reflect the evidence of past industry reforms and present market activity. Whilst we additionally acknowledge that some will question whether or not large institutions can be trusted, to exclude them is increasingly denying the public access to appropriate services and leaving the more vulnerable to fend for themselves. The greater risk is that this will only see them embroiled in unregulated and unprotected alternatives, ultimately increasing their chances of becoming victims of fraud.

Along with our colleagues at the Chartered Insurance Institute, we believe that the FAMR offers a once in a generation opportunity to explore how advice can be provided in its broadest sense and to introduce new thinking on ways it could be made readily accessible to all who need it. Any efforts to streamline, simplify and improve the market must be done from a consumer perspective and in a way that builds confidence. They must not be allowed to re-invigorate the very problems the RDR and Thoresen Review were meant to solve, or create loopholes for the unscrupulous to exploit.

> “We believe that FAMR offers a unique opportunity to address the current advice-gap, facilitate the introduction of a new level of consumer-centric simplified and lower cost advice, together with simplification of terminology and language.”

We believe that FAMR offers a unique opportunity to address the current advice-gap, facilitate the introduction of a new level of consumer-centric simplified and lower cost advice, together with simplification of terminology and language. It is essential that we secure the public’s confidence and trust as an integral part of the continuing development of a more vibrant financial services sector.

We look forward to the outcome of FAMR in the hope that it will go on to be seen as a major step towards enabling consumers to take advantage of information, guidance and professional advice through better access, confidence and understanding.

4 Response to the H M Treasury/FCA

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

Yes. FCA Occasional paper No 8 (February 2015) makes a useful contribution to this debate. However, we would broaden the definition to include any consumer who cannot, or perceives they cannot, currently afford regulated advice which includes a personal recommendation based on the best course of action open to them as potentially vulnerable.

We do not believe that the public interest will be well served by targeting this consumer segment with more non-advised offerings alone (which will only introduce greater confusion, less choice and encourage greater opportunity for 'scammers'). However, the increased use of financial technology could offer part of the solution, but will need an appropriate level of intervention from qualified/accredited advisers, otherwise this has the clear potential for formulaic, future miss-selling.

In addition to the above, older consumers and those with mental capacity issues clearly have a particular need for financial advice in respect of both increased complexity of issues and the challenge of cash flow management over longer time periods, brought about as a result of the Pensions Freedoms and the funding of social care following the 'postponement' of the 'care cap' to April 2020. We are particularly concerned that this group and their need for advice are addressed.

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

A new advice framework

As an industry we have created regulatory/industry centric definitions for obvious reasons, but the spoken word is more intuitively interpreted as 'advice' by the consumer, irrespective of delivery point or mechanism. The creation, therefore, of a consumer centric advice framework (Figure 1 below), offering varying levels of advice service related to need is critical in tackling the advice gap. We must stop using industry centric terminology or definitions to satisfy or help with our own understanding and differences between regulated and non-regulated activities, given that they are rarely understood by the public.

Genuine 'unregulated' or non-advised activity (other than self-serve) is simply not understood by the public and the inclusion of opaque commission structures (which still persist) is misaligned with the principles of greater transparency and fair charging operated by the regulated advice profession. Worse, the public are increasingly vulnerable to fraudsters and investment scams which often look both legitimate and regulated.

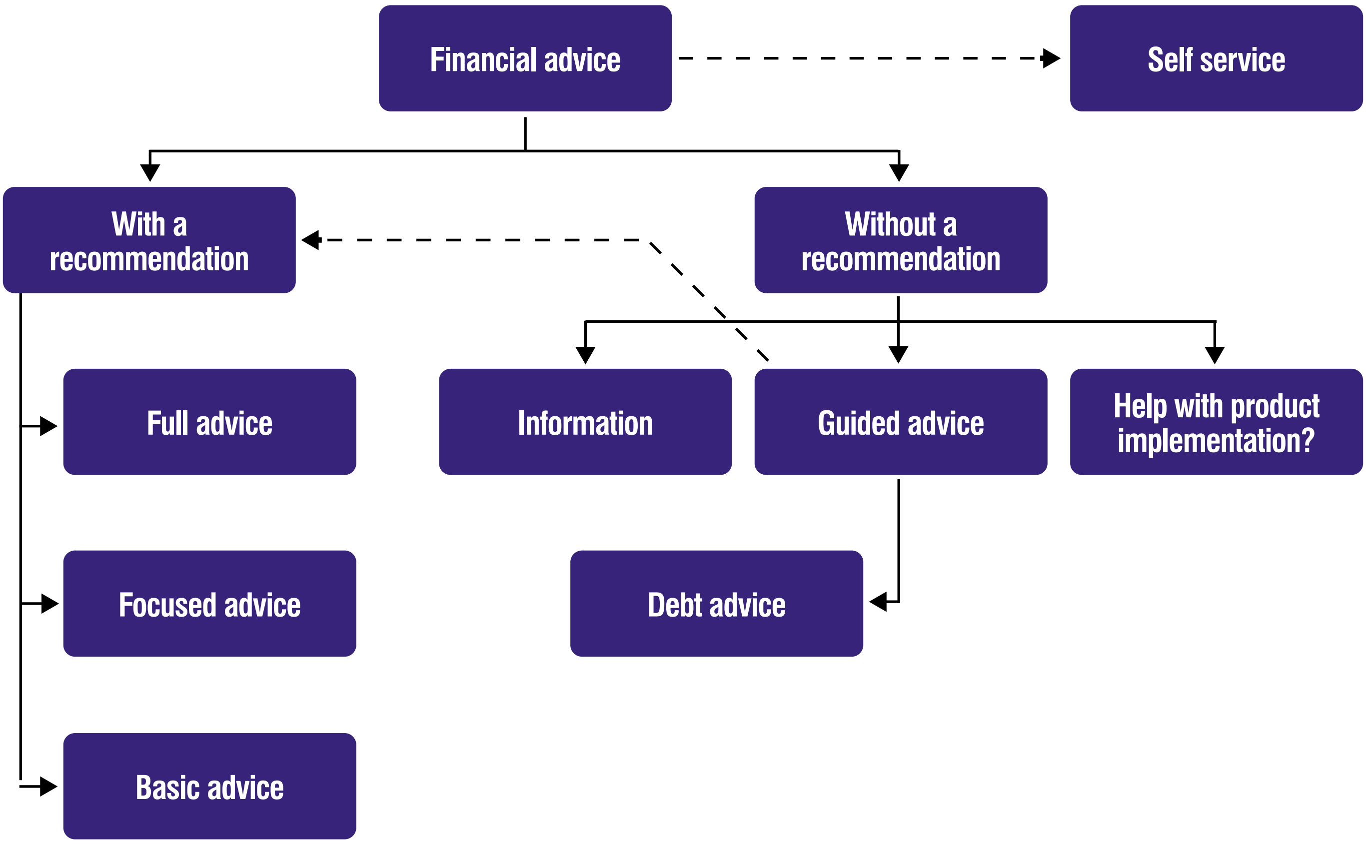

Figure 1 – Consumer Centric Advice Framework

The opportunity also exists to end the debate between 'advice' and 'guidance' by accepting that from the consumer perspective, 'advice is advice' and the only meaningful distinction is whether the advice comes with or without a recommendation as to a course of action. In this context, we see the role of 'guidance' as part of a process that ends with consumers being guided to the most suitable means of delivery, not an end in itself.

Simplification of adviser labels

Beyond this, there is a need to simplify adviser labels consistent with consumer perception and logic. For example, we believe that there should be just two types of base level adviser: Company Financial Adviser (CFA) and Independent Financial Adviser (IFA), varied only by higher levels of professional qualification in each category, such as Chartered and Certified Financial Planner (Figure 2) – irrespective of an adviser's title, the key to greater consumer understanding is not a range of advice labels but a clear and understandable explanation around what service is offered, the nature of any restrictions, when it will be delivered and how much it will cost.

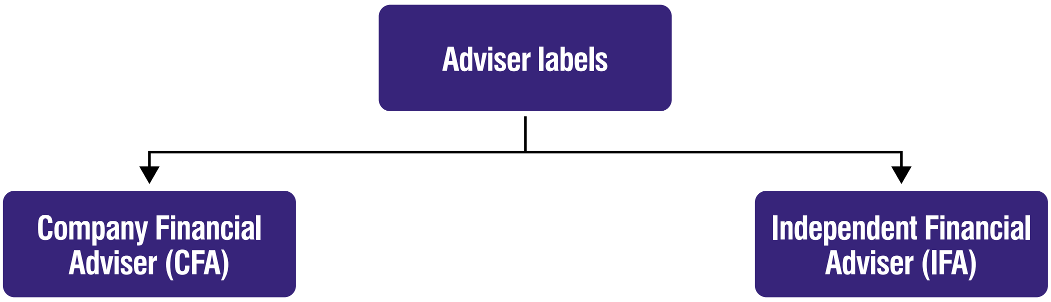

Figure 2 – Clarity in respect of Adviser labels

The above IFA labels would ultimately need to reflect any introduction and subsequent application of the European-wide standard for 'independent advice' to be introduced via MiFid II, but we believe the nature of the UK market is such that many forms of restricted or simplified advice would meet this requirement.

That said, the current labels of Independent, Restricted, Basic and Simplified add little real value for the public and indeed in the extreme, the difference between an independent and restricted adviser can be hard to identify. Other than independent, labels are not incorporated within working titles. Any differences in the service delivered should be communicated via a clear explanation of service rather than the attachment of (often) meaningless labels.

A revised guidance landscape

In respect of 'guided advice' (currently known as generic guidance), current low take up rates suggest there is a need for greater public awareness and access, and this need could be met by permitting a greater range of firms able to offer this service.

Expanding guidance offers potential for Advisers to offer a guided advice service similar to Pension Wise and to the same standards. Consideration should be given to funding such a service via a voucher scheme funded from regulatory fines, as originally proposed by the Personal Finance Society before the 2014 budget announcement.

We acknowledge that there will be doubts as to whether or not industry in the broadest sense can be trusted to learn from past mistakes and presents a hurdle in the way of progress. However, it seems appropriate to consider the role that providers and other large institutions could play. For many consumers, their first point of contact will be the pension provider and to be referred to a third party (e.g. Pension Wise) with whom the consumer has no relationship can be deemed counter-intuitive and frustrating by many consumers. We understand for some this suggestion may be a step too far, but if 'guidance' is also placed within a robust standards framework, then other outlets may be able to offer a solution with the scale to meet need.

We note the widened remit for Pension Wise in respect of the Secondary Annuity Market (H M Treasury, DWP 'Creating a Secondary Annuity Market: response to call for evidence' December 2015) but further expansion of Government financial advice services doesn't seem a sustainable or broad enough solution in achieving the FAMR objectives and we encourage Government to seek industry solutions rather than taxing the industry to expand guidance through narrow and limited delivery outlets.

Any expansion in the number and nature of 'guided advice' should be accompanied by the creation and application of clear generic guidance principles to be applied to all under the Chartered Insurance Institute's STAR principle and framework.

It would seem appropriate that the MAS debt work, its consumer facing services and TPAS pension guidance should be incorporated into the longer established Citizens Advice operation, although the branding of Pension Wise should be retained. A new 'MoneyWise' branded service should be established to offer comparable 'guided advice' to the under 50's at all critical life-stages, again delivered by Citizens Advice.

Effective hand-off from 'guided advice' to established delivery services and regulated advice needs to be robust and truly unbiased so the public can have absolute confidence in it. As such, hand-offs to professional advisers should be done by an accredited and monitored directory such as the one launched by the Personal Finance Society in 2015 which already has over 80% of advisers within it and also displays the annual renewal date of their respective Statements of Professional Standing (SPS). More than one directory could be adopted, but it is essential to use one which is logically in place rather than charge industry to build and maintain new ones. The role of MAS in this respect is highly questionable and unnecessary for a future, non commercial and verified advisory directory.

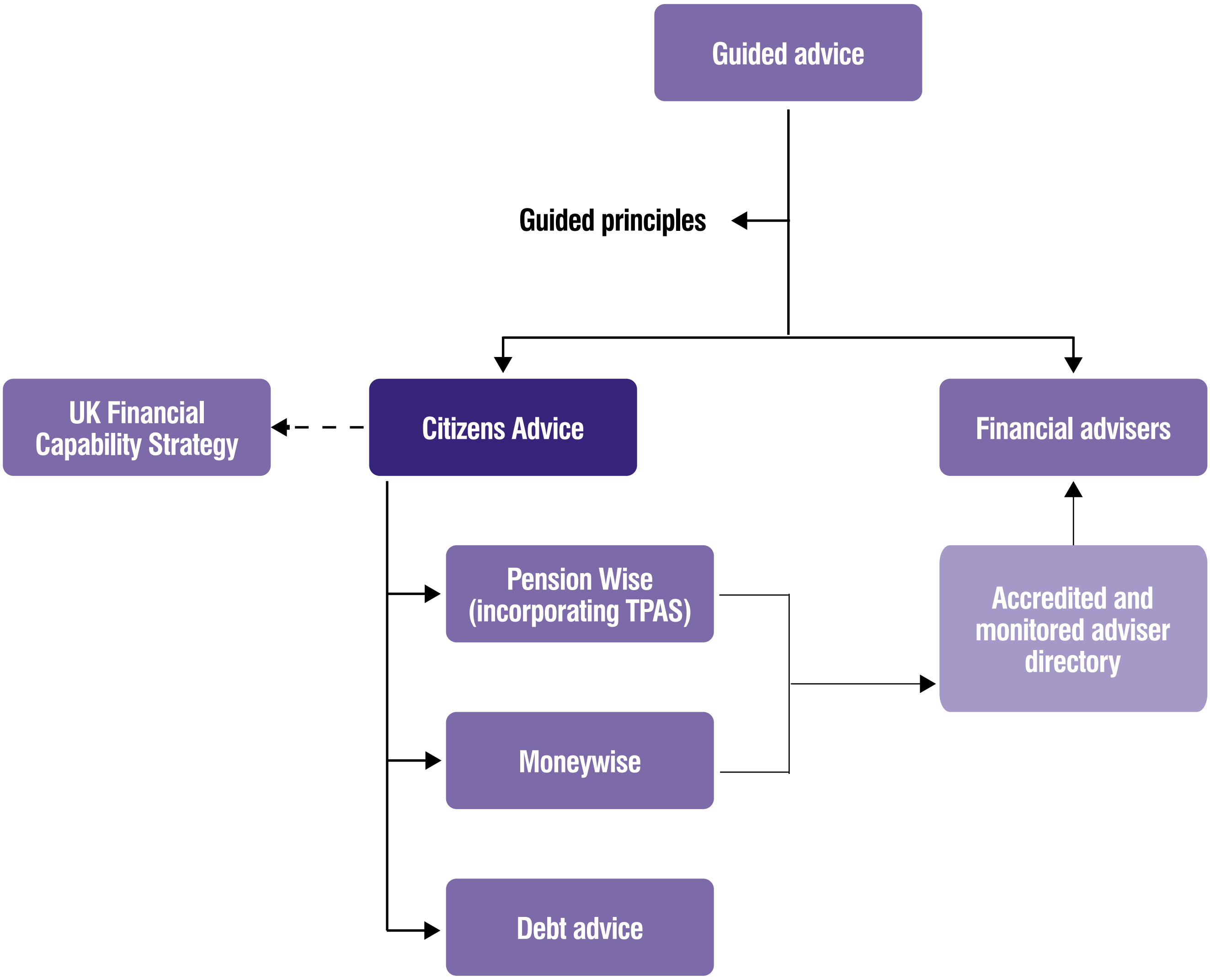

Figure 3 – Revised 'Guided Advice' landscape

8 Response to the H M Treasury/FCA continued

A logical advice process

In addition to being a part of improved access, an additional advantage of enabling independent financial advisers to provide ‘guided advice’ is that they are often best placed to identify further client need in respect of either ‘focused’ or ‘full advice’. We need to acknowledge, however, there is a clear gap between consumer ‘need’ and ‘demand’ and that if it is in the public interest to encourage consumer engagement with professional financial advisers then demand needs to be encouraged in a number of ways, including:

1. Regulated Retirement Advice for All

Prior to the introduction of Pension Freedoms, The Personal Finance Society proposed direct to The Treasury and Regulator in February 2014 a National Retirement Advice Service that included the availability of a voucher scheme to fund initial guidance by way of a retirement options report. For this to be effective, we proposed acknowledgement and regulatory endorsement of a 5 step advice process as detailed below (Figure 4).

In the case of pension guidance, Steps 1–3 would result in the production of a Retirement Options Report, detailing the options available to the individual retiree, the advantages and disadvantages of each and the level(s) of and critically the shape of retirement income available. Production of this lends itself to degrees of automation, market examples of which already exist. The consumer could then decide to stop at this point, or progress to either a ‘focused retirement review’ including personalised recommendation (with/without transaction) or a more comprehensive ‘full advice review’ if the fact find process (Step 2) has clearly indicated this to be in the best interests of the consumer.

2. Clarity around the cost of advice

Steps 1–3 could be delivered for a fixed fee, as evidence exists that uncertainty around the cost of advice at the point of initial engagement has a negative impact on demand.

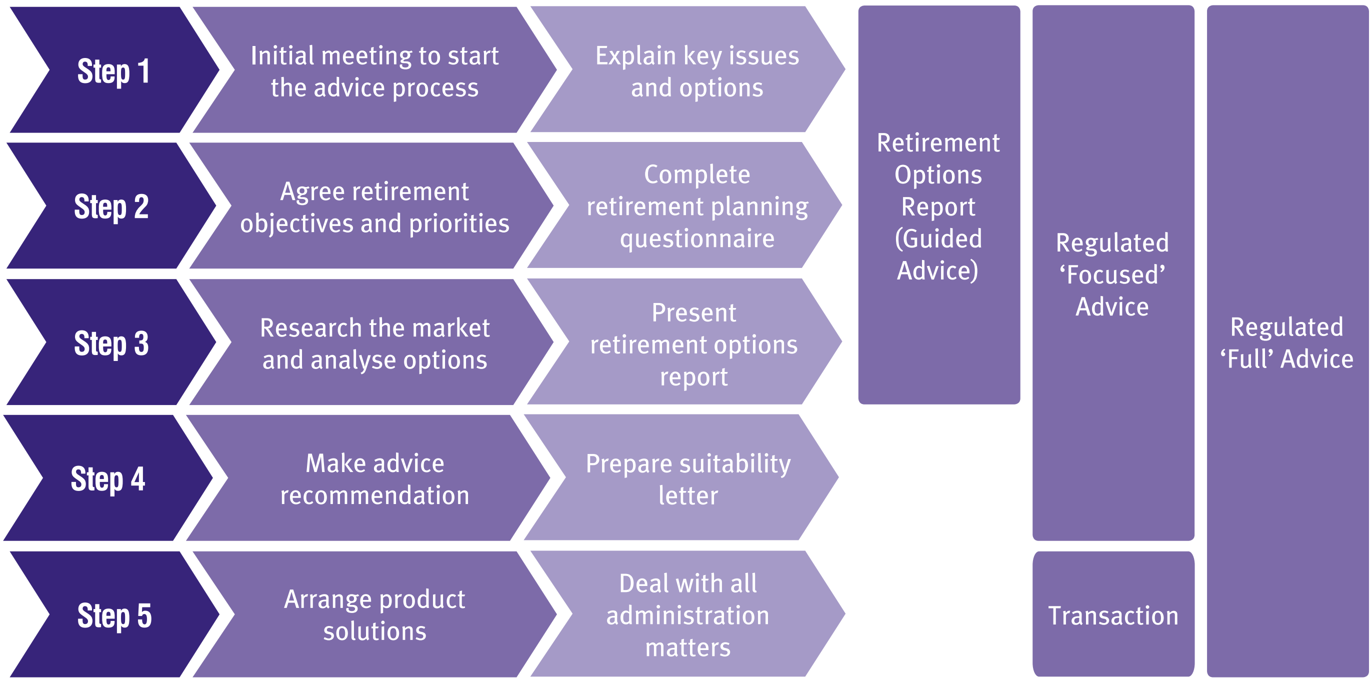

Figure 4 – Five stage advice process

Bringing it all together

As previously stated, we think it is in the public interest for all solutions to sit within a professional standards framework (STAR – standards for training, accreditation and validation) that the public deserve and can rely upon, alongside tiered levels of regulation and minimum levels of appropriate public protection. Furthermore, cost and regulatory treatment must be aligned to work in favour of consumers seeking focused or entry level advice.

For people with straightforward needs, who might see the payment of a fee as a barrier to engagement, it is important to explore alternative structures – otherwise the options remain regulated or non-regulated.

We believe that it is possible to collect the cost of simple 'basic' advice from transparent annual charges within an essential 'vanilla' product range, either under the principle of 'client agreed remuneration' or collected within a product annual management charge.

This can be done without reintroducing the flaws of commission in the past by applying the following standards:

- **Product design** – Ensuring the relationship between charging methodology and product is simple and straightforward to avoid consumer confusion
- **Process design** – Related processes to be built around transparency and openness
- **Communication** – Consumer fully informed of applicable charges and remuneration received for product sale/advice.

Such products could be sold via the intermediated market or direct from product providers and help close the advice gap created in part by the retreat from full regulated advice by the product providers, banks and building societies.

To avoid it being seen as a political U-Turn and a return to the old broken commission model, products in this category would be subject to a standardised charging regime incorporated within the annual management charge (AMC).

'Focused' advice could additionally include the option of a fixed fee. The transaction should be separately priced to remove the link between advice and product and in itself go some way towards changing some consumer's negative view of regulated financial advice.

Advice label	Advice service	Personal rec	Adviser qualification	Scope for robo-advice	Payment	STAR	Long stop	PII	FSCS
Full advice	Full financial planning including a personal recommendation based on whole of market concept – providing maximum consumer protection	Yes	QCF Level 4	Limited due to scope of advice	Fee based (advice stages 1–3 subsidised by voucher system)	Yes	15 years	Yes	Yes
Focused advice	Advice focused on a specific need area of investment, retirement, savings, protection or mortgage and insurance. Fact find/needs analysis only gathers information that is material to the specific issues discussed	Yes	QCF Level 4	Yes – supported by human intervention	Fee based including the availability of a fixed fee (stage 1–3 subsidised by voucher system)	Yes	5 years	Yes	Yes
Basic advice [1]	Simple needs based service for savings and investment	Yes	QCF Level 4	Yes – supported by human intervention	Client Agreed Remuneration (advice stages 1–3 subsidised by voucher system)	Yes	2 years	Yes	Yes
Guided advice	An information service designed to place the consumer in an informed position. Typically this would involve detailing options in respect of a single issue (e.g. a retirement income report) but not involve a personal recommendation	No	QCF Level 2/3	Yes – with or without human intervention	Free at the point of need via Pension Wise, Moneywise or Product Provider Nominal cost if delivered via financial advisers (advice stages 1–3 subsidised by voucher system)	Yes	No	No	No

Figure 5 – Post FAMR proportionate based alignment of advice type, regulation and consumer protection

1 Involving essential, simple, 'vanilla' product set (e.g. ISA, regular savings, regular pension)

Q3: What comments do you have on consumer demand for professional financial advice?

Interest in financial advice, as opposed to being motivated to seek out and pay for advice, are two very different things. Research tends to point to the most powerful trigger for paying for advice is recognition by a consumer as to the limits of their knowledge on a particular financial issue. This is a key reason why facilitating ease of contact in respect of entry level advice is fundamentally important, as qualified advisers are best placed to explain the complexities of financial issues.

Other triggers for professional financial advice can be found in life events, such as buying a home, having children, funding school fees, etc.

Linked to the above is the distinction between 'need' and 'demand'. The need for professional financial advice is significant but demand is less evident. That said, increased transparency as a result of the Retail Distribution Review (RDR) has been better received by the public than many predicted and demand for professional advice has increased year on year since implementation.

There is also a general misunderstanding amongst the public about how different one adviser will be from another – this is most pronounced by those who have yet to engage with a financial adviser. There are different ways of giving financial advice and charging for it and, therefore, it is important consumers understand this and for consumers to shop around so they can find someone who offers the sort of service they want and need.

As a profession we need to do more to explain the value of advice in terms that the average consumer will understand, the available routes towards dealing with this and the value in monetary terms of doing so.

Factors that continue to underpin the gap between 'need' and 'demand' from a broader cross section of consumer segments, acting as a barrier to seeking advice include:

- Perception of value of advice
- Affordability (in the face of consumer debt and the cost of regulation)
- Cost (especially for those who haven't used a financial adviser before)
- Trust
- Continued use of complex and industry specific language
- Confusing advice labels
- Ineffective signposting to advice from third parties
- Lack of relevant consumer education
- Ongoing information asymmetrics
- The current regulatory framework which inhibits a variation of advice service, whilst at the same time not allowing any variation of treatment or risk for varying a service to meet more straightforward advice needs
- Product complexity
- Over-bureaucratic advice processes
- Access to advice.

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

Yes. Regardless of current levels of take up, Pension Wise and providers are able to demonstrate a level of demand for ‘advice’.

As previously stated, our view is that the spoken word is more often than not interpreted as ‘advice’ by the consumer, irrespective of delivery point or mechanism. Forcing consumers down specific delivery points however, regardless of cost, is likely to suppress demand which is one reason why we suggest an increase in generic guidance availability and better alignment of cost and regulatory treatment in favour of consumers seeking focused or entry level advice.

The recent press commentary (Money Marketing 16 Deceber 2015) in respect of Key Retirement Solutions’ closing its advice arm illustrates that demand based on payment of an upfront fee is a barrier, with the firm stating that despite many of their low or no risk clients actively looking at drawdown the “economics of transacting for such clients do not work”. Significant need is evident but not translating into demand due to cost, confusion and general negative perception.

Some level of demand is being reported from automated ‘advice’ providers, for example, Nutmeg who were reported in New Model Adviser (28 August 2015) to be planning to offer financial advice ‘in response to client demand’. It is interesting and unsurprising to us that their business model is now to be supported with accessible human advice going forward.

Regardless of demand, the need for advice is clear given its ability to provide consumers with the much needed answer to the key question most end up asking – “so what do you think I should do then?”

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

Yes. Such needs are numerous and varied, many of which are generated by either periods of crisis (e.g. debt, the provision of social care, etc) or key lifestyle triggers (e.g. buying a house, starting a family, saving for children’s education, inheriting wealth, retirement, etc). Whilst some of these needs are predictable, events tend to trigger their identification.

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

Yes, but the advice gap is complex and the use of this segmentation model is limited by the reality that for many consumers their perceptions, the type of service and specific need(s) at any given time are more important that placing them within specific segmentation models (such as all encompassing demographic groups or broad-based descriptives such as those within Consumer Spotlight).

For example, a simpler form of needs based segmentation could be:

- Services for those who want to do things themselves (primarily information based)
- Services for those who need a bit of help or who want to test their understanding (primarily guidance based)
- Services for those who want things done for them and are prepared to pay
- Services for the vulnerable and those that have an urgent need.

An alternative might focus on current levels of engagement, such as that suggested by Europe Economics within its RDR Post Implementation Review 16 December 2015:

- **The unserved** – consumers who cannot afford advice as currently priced by the market
- **The unengaged** – consumers who cannot easily access advice (typically served by the bank channel before RDR)
- **The unwilling** – consumers who do not engage with advice due to a view that it is too expensive/delivers insufficient value.

Segmentation based on attitude and perceived/actual need pervade across demographic segments and are more consumer centric than segments based on a group descriptive such as, for example, 'busy achievers'.

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

See above.

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

Yes. It is logical that people link need for advice to wealth and income. However, sufficient broad-based evidence exists to demonstrate that financial advice would be hugely beneficial for almost every adult but it is the type of advice and level of service that is more relevant.

Again the distinction needs to be made between 'demand' and recognised 'need'.

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

Yes. There is no single or predominant reason why there is a misalignment between consumer need for, and the seeking of, advice – rather it is the combination of a number of demand and supply factors in play at any given time.

That said, it's important we recognise the embedded negative perceptions derived from past miss-selling scandals as well as the role of the consumer lobbyist, claims management companies and regulatory messages designed to influence behaviour, all of which have historically focused on the misdemeanours of a small minority of the advice community and wider industry. Currently less than 0.25% of upheld complaints dealt with by FOS are attributed to regulated financial advisers.

Whilst any effective solution to reverse the advice gap will need to be multi-faceted (given the various contributory factors), its ultimate success will largely be dependent upon the extent to which it reflects and meets the varying and perceived needs of consumers as well as those predominant within the advice profession. The development of any sustainable solutions should start from the premise that they support professional standards and consumer protection, as well as being cognisant of acknowledged consumer needs and behaviour.

Barriers to consumers seeking advice

Complex and industry specific language – lack of 'jargon fee' approach	Consumer (mis)perception of cost v value	Lack of relevant financial education and knowledge
Lack of trust	Affordability for less affluent consumer segments – (a function of consumer debt & cost of regulation)	Information asymmetrics
Over regulation including confusing advice labels/ product complexity	Ineffective signposting to advice from third parties	Access issues

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Advice Gap/Savings Gap/Protection Gap/Capacity Crunch

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Barriers to firms providing advice

Lack of clarity re-regulatory treatment of future outcomes	Lack of regulatory clarity (major impact on innovation and technology investment)	Over-bureaucratic advice processes
Barriers between guidance and advice	Business costs	Profitability challenge

Figure 6 – Barriers to advice

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

Yes. Back in the early 1980s approximately 300,000 people sold financial products (almost wholly on a commission-only basis), the majority of whom worked as employees of life companies. Since then we have seen a wholesale exit from the market, predominantly to remove regulatory risk and cost from their balance sheets. More recently, following RDR we have seen advisers working for the Banks and Building Societies reduce from circa 8,658 (2011) to 3,182 (October 2014) (source FCA) although some have re-emerged as retail investment advisers. Again, this has been the result of unsustainable regulatory risk and cost. In total, based on FSA/FCA published data, we have seen a drop in overall adviser numbers from circa 40,000 (2011) to 31,000 (October 2014) at a time when the need for advice has never been greater.

What is needed now is access to professional advice that consumers trust, delivered by individuals and organisations who understand them, can meet their goals and at a price for initial engagement that isn't a disincentive for the majority.

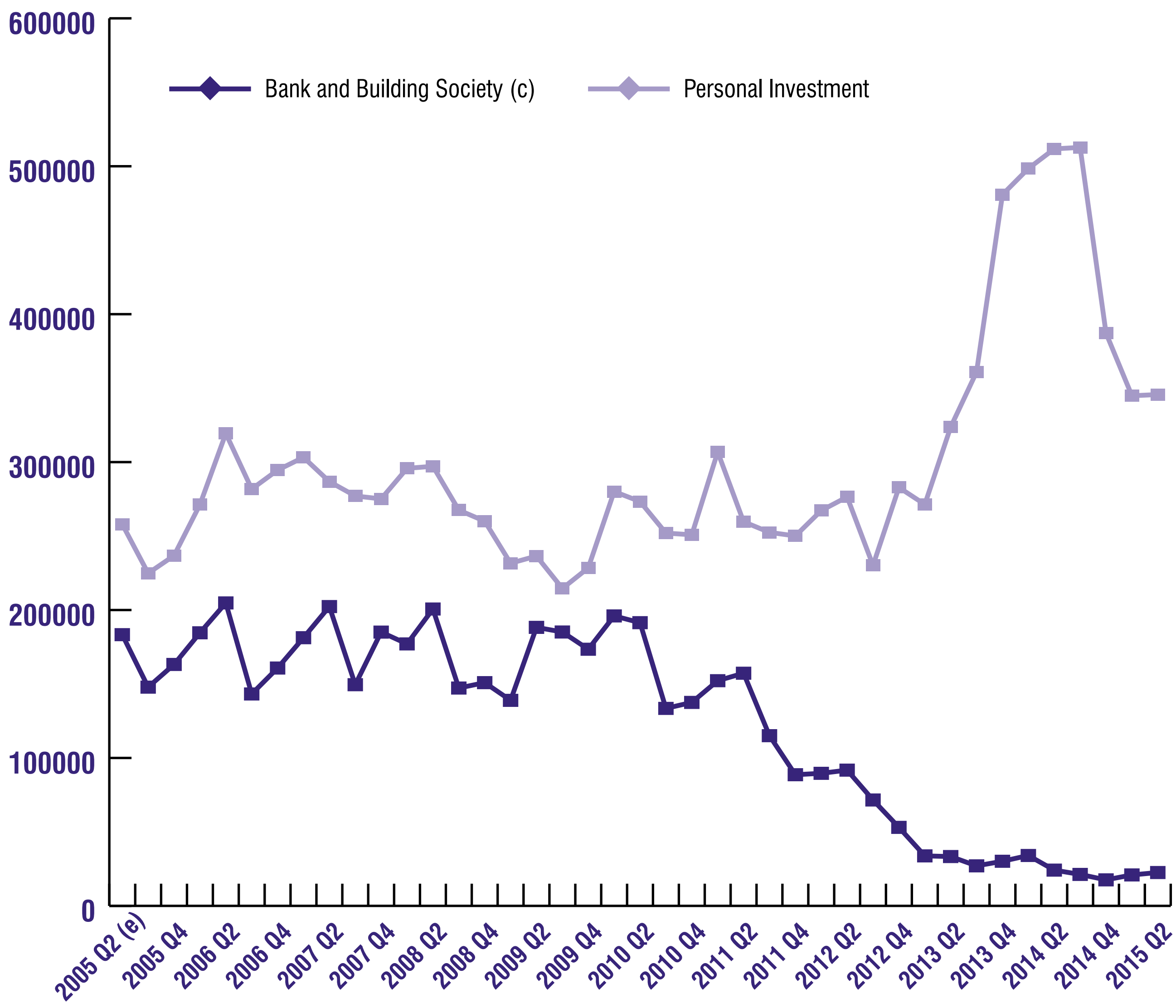

Figure 7 – Impact of decline in Bank and Building Society sales

Source: FCA Quarterly PSD RI data December 2015

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

Yes. Professional advice doesn't always need to lead to the sale of a product in generating a fee for a service. The advice model has shifted post RDR towards ongoing advice and fees and away from the need to transact new products that generate revenue.

Also, we are logically seeing a flight to quality in the sense that financial advisers have become more selective in who they deal with from a value perspective, but as much as from the consumers perspective as their own.

Removal of commission has taken away a key driver for product sales which in itself is not a bad outcome, but consumers with limited wealth or hard working people who want to do well for themselves would not instinctively expect to pay for advice – rather they need advice to be empowered to make a decision over which product or investment vehicle to purchase, including forms of assisted purchase.

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

Yes. Emerging technologies offer an opportunity for cost effective, efficient and user-friendly advice to be provided to the mass market. Currently, regulatory uncertainty is suppressing supply and deterring market participants from fully embracing this opportunity.

This said, we do not believe Robo-advice is, on its own, a 'silver bullet': Technology of varying kinds has been embedded within the advice process for decades and a degree of human interaction from knowledgeable and professionally qualified individuals will remain critical to the avoidance of formulaic, process driven future mis-selling and mis-buying.

We note with interest that in May 2015 the US Financial Regulator issued warnings to investors and advisers alike to beware the limitations of automatic investment tools, specifically economic assumptions, framed questions and depersonalised recommendations that do not properly take into account changing circumstances or investment time horizons.

'Robo-advice' in the USA has been growing rapidly but it is important to recognise the difference in regulatory treatment and ongoing liability for the supplier. We have engaged and secured input from USA regulators FINRA and CFPB – as long as regulatory standards are met, the consumer is expected to accept responsibility for making an informed decision and the outcome of that decision.

We note the Joint Committee of the European Supervisory Authorities Discussion Paper 'on automation in financial advice' (JC 2015 80 dated 4 December 2015) identifies a number of potential risks to consumers, including a lack of ability to process information, risks relating to flaws in the functioning of tools and risks related to their widespread use.

Human interaction is, and will remain, fundamentally important – without it there will be a significant loss for the consumer in not having his/her emotional and psychological temperament understood and reflected in the way advice is dispensed and outcomes generated.

Robo-advice has a place, but on its own it is not an adequate solution to the advice gap, especially against a backdrop of new pension freedoms and the scale of savings crisis in the UK. More fundamental structural change to the market as suggested within this submission is, we believe, needed. Furthermore, low cost advice doesn't necessarily mean Robo-advice as the cost of non-automated advice can be reduced if regulatory bureaucracy is similarly curtailed.

Q13: Do you have any comments on how we look at the economics of supplying advice?

Yes. We need to start off looking at the range of advice services offered, simplify them, make their boundaries clear and distinct and ensure the cost of regulation and consumer protection are proportionate to the risks involved.

In terms of the cost of regulation the Financial Services Compensation Scheme (FSCS) is the biggest issue as its uncapped and unpredictable nature means it is impossible for firms to plan within the P&L processes.

Alternative means of funding need to be explored, such as a pre-funded system or a model based on the risks taken by individual firms. A risk-based levy would also encourage advisers to think more about the long term consequences of their business models to the ultimate benefit of consumers. We cannot keep taxing the industry to provide a form of Financial National Health Service. The introduction of a savings and investment premium tax (SIPT), similar to Insurance Premium Tax (IPT) might be a fairer and more transparent way forward, and would help alleviate the financial pressure on regulated firms and their clients.

Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Yes. We have highlighted the potential for a new framework for advice (Figure 5) that aligns the cost and type of service with consumer needs and expectations, but also a more appropriate regulatory expectation, cost and liability.

In addition, it is possible that 'basic advice' be introduced to better support the mass market via an essential 'vanilla' product set (e.g. ISA, Personal Pension, basic savings product) where the cost of advice is paid from a standardised charge within the product or AMC. As previously suggested, this is possible without reintroducing commission and the potential for product bias associated with it, if the model is designed and rooted in absolute transparency and disclosure. In this respect, we think that adopting Total Expense Ratio (TER) is an important attribute to cost transparency.

See answer to Q2 – 'Bring it all together'

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

Based on the current (ever increasing) cost and inherent risks associated with supplying regulated advice within the existing advice framework, the mass market has in effect been disenfranchised. A framework for advice needs to be introduced which results in the cost of supplying different levels of advice being more aligned to the needs and affordability of all consumer segments.

Q16: Do you have any comments on the barriers faced by firms providing advice?

We refer to our answer to question 9.

Plans to expand Project Innovate by implementing a regulatory sandbox are welcomed as they should reduce the time (and cost) of getting innovative ideas to market, provide greater access to finance and enable products to be tested and introduced and allow the FCA to work with innovators to ensure consumer safeguards are built into new products and services. This said, in the continued absence of certainty in respect of future treatment of consumer outcomes, its usefulness is undermined and a key barrier faced by firms providing advice – lack of clarity re-regulatory treatment of future outcomes – remains.

Plans to introduce pensions' dashboards are overdue and we would urge the Government to publish an implementation timetable as soon as possible and linked to the introduction of the new State Pension. Such an initiative should cut significant cost from the advice process, given that much of the cost is to be found in establishing client need.

Q17: What do you understand to be an advice gap?

Whether referred to as a needs, savings, capacity or advice gap, consumers do not have sufficient access to personalised financial advice. We agreed that a good starting point for a fair definition is 'any situation where consumers cannot get the form of advice that they want based on a need they have, and at a price they are prepared to pay'. We would add to this 'any situation where the consumer doesn't appreciate fully the benefits of advice where advice would most likely make a positive difference to their financial wellbeing either now or at some point in the future'.

The 'advice gap' also directly related to 'the savings gap' and 'the protection gap', as well as a 'capacity gap (or crunch)' reflecting the historically reduced numbers of advisers currently available to service the mass market.

The advice gap is complex. As such, we also think there is some value in looking at the advice gap as a multi-faceted phenomenon, as suggested by Citizens Advice in the October 2015 paper 'The Four Advice Gaps' and the Europe Economic whose post RDR report for the FCA identified three groups that make up the advice gap:

- The Unserved (economic gap) – those with financial assets to invest, engaged with the market and willing to pay fees but unable to find advisers willing to serve them
- The Unengaged (education gap) – those with financial assets but not engaged with the advice market because of inertia
- The Unwilling (confidence/trust gap) – those with financial assets to invest, engaged with the market but regard the fees for full regulated advice as too high for the quality of service they expect.

Q18: To what extent does a lack of demand for advice reflect an advice gap?

Need is significant, but demand is not aligned and has been negatively impacted upon by a variety of issues summarised in our answers to questions 3, 9 and 17. Furthermore, the consumer response to pension freedoms is a clear indication that demand that exists isn't always clear.

What is clear is that there needs to be greater intermediate provision of advice between information and full financial advice that can make specific product or service recommendations without having to investigate all aspects of the customer's circumstances.

Trust and confidence has been impacted by past mis-selling scandals much of which is confined to the past and a communication strategy offering balanced information and promotion needs to be implemented to reinforce the probability that for the majority advice would give a pay-off that would be worth the fees charged. Even past miss-selling scandals only focused on a particular failure (sometimes without evidence of consumer detriment) without offering proportionality or balance – as a consequence, every activity and product falls under suspicion. This negative only reporting culture does not serve the public's best interest, discourages engagement and distorts the decision making process.

Q19: Where do you consider there to be advice gaps?

The advice gap is complex. We would focus on the different levels of advice that need to be introduced to bridge the void between information/guidance and full financial advice. The distinction between consumers identifying the need for information and help in implementing or transacting a product is clear. Guidance services can only provide a limited service for those who genuinely only need information or simply want validation of facts in support of a course of action.

Other than the established service of Citizens Advice (which should incorporate the services of MAS and TPAS) the solution to increasing access to advice and services must be provided by industry developments. The majority of consumers who identify a specific need for advice usually want help to implement a solution once empowered to make an informed decision.

Q20: Do you have any evidence to support the existence of these gaps?

There have been a number of surveys and studies attempting to quantify variously defined advice gaps (for example, The Four Advice Gaps, Citizens Advice, October 2015) and whilst the size and definition of these gaps is open for debate, such evidence points inextricably towards it being substantial in size.

Research from the CII carried out between 2011–2014 suggests a significant unmet demand by consumers who have tended to self-advice or use other sources such as family and friends.

Over recent years we have seen a significant lack of any positive promotion of financial services and a significant rise in regulatory reporting that has done little to encourage consumer engagement and increased the advice gap.

At the same time the significant withdrawal from advice services from insurers, banks and building societies over the past decades as well as the inevitable movement up the value chain by regulated advisers post RDR is clear evidence to support an advice gap.

Q21: Which advice gaps are the most important for the Review to address?

We would argue that various gaps (advice, capacity, protection) are all interlinked in one way or another and it is therefore difficult to exclude any from meaningful solutions to the issues the Review seeks to address. The advice models that FAMR seeks to develop must serve all types of consumers.

Q22: Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

No – of course from a public interest perspective these are immediate and topical consumer needs, but they should not be dealt with in isolation from the wider needs of the public – of equal importance is general savings and of even greater importance is the need to address the protection gap. These are all interlinked and require a co-ordinated response and any effective solutions to meet FAMR should be able to be equally applied across financial advice more broadly.

A basic tenet of good financial planning is that it shouldn't be automatically restricted to one or a small number of issues. For example, a focus on taking an income in retirement should involve consideration of death benefits, IHT planning, tax and the provision and funding of social care to name three.

We suggest using an established hierarchy of needs as a guiding principle, for example EPRISM (emergency fund, protection, retirement, investment, savings, mortgage).

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

No – a fully integrated strategy is required to treat all consumers fairly, so initial work should not be restricted to specific segments, not least because you cannot dictate what levels of service each segment should receive, requires or elect to employ.

Q24: Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

The COB rule book is now so extensive that it is unreasonable to expect firms to interpret and keep abreast of amendments. It is not so much that the principles of the rules are difficult to interpret, it is that negative regulatory messages designed to drive behaviours, too often creates uncertainty about correct interpretation leading to the risk of over engineering and frustration (as evidenced by ever growing suitability/reasons why letters).

The basic tenets of treating customers fairly have been lost within an ever increasing focus on process and governance. Some regulatory fines for example have been issued where a firm couldn't demonstrate that clients hadn't been disadvantaged.

What is needed is greater support and clarity for the advice market from the FCA to help the majority more positively benchmark standards and expectations in-line with the Personal Finance Society's 'good practice' hub and ongoing CPD programme. The Personal Finance Society has been working with the FCA over the past year to deliver good practice and this approach could be extended more broadly.

We refer to **http://www.thepfs.org/knowledge/good-practice/hub/**

Q25: Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better?

European advice and regulatory standards are different to the UK and whilst it is important to align and evolve with MiFid, there does appear to be scope to improve our own financial advice framework.

Q26: What can be learned from previous initiatives to improve consumer engagement with financial services?

Change needs to be driven from the consumer perspective, not an industry or regulatory one.

There has been little balanced or needs based engagement with the public which would be a potential step in the right direction – constant warnings and negative promotion of a minority of failings has distorted perception and inevitably impacted public confidence and trust. Balanced promotion doesn't mean replacing negatives with positives.

Previous 'simple product' initiatives (CAT mark and Stakeholder) were not as successful as they might have been due primarily to lack of meaningful engagement with key stakeholders, lack of meaningful engagement with product manufacturers and inadequate promotion. In addition, 'Stakeholder' products failed to gain traction due to an inappropriate charge cap rendering them unprofitable and the belief that industry could simply be bullied to comply served only the needs of policy makers at that time – such lessons should be learned.

Much learning from previous initiatives was captured within Professor James Devlin's report to H M Treasury – '*Literature Review of the Lessons Learned from Previous Simple Products Initiative*' (February 2011). In particular we would draw your attention to the following suggestions within the report:

- That transparency of rewards for financial advisers is needed – this has been delivered as a result of the subsequent RDR
- That any fee cap must be set at a level that enables providers to make a reasonable profit – firms should be allowed to charge transparent fair value fees without a cap
- That many consumers did not know what CAT standards were and therefore did not know whether the product they had bought met these standards or not – Government funded marketing initiatives based on the type of advice would work better
- That any 'basic advice' should be clearly distinguishable from other forms of advice – see Figure 5.

> More thought should be given to branding, logos and other presentational matters associated with any future initiative, to ensure that brand values are clearly articulated, the associated benefits are appreciated and the products appear relevant and suitable for those in the main target market.
>
> **Professor James Devlin**

In respect of Pension Freedoms, the CII research in 2014 found a considerable degree of confusion and anxiety about what consumers could do next. The relatively low take up of Pension Wise is interesting when placed against research indicating the first point of contact suggested by consumers following a 'guidance' session is their product provider.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

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

Consideration should be given to the concept of implementing appropriate levels of consumer protection in respect of specific need, type of advice and process/product so as not to limit access. Specifically, the Government could offer to underwrite any loss incurred by customers through a safe harbour product in a similar way to the government backed FSCS and included in an appropriate tax similar to IPT.

Following input from USA regulators FINRA and CFPA, it is evident that we share a common approach to serve the needs of our public and ensure appropriate levels of regulatory standards; supervision and consumer protection is in place, consumers take responsibility for making decisions.

The UK professional advice sector works well for wealthier consumers as a result of the higher standards put in place by our regulator, but seems to have gone beyond the point of supporting different demographics or consumers with more straight forward needs.

Both the UK and USA could learn from each other and a blend of both could better support and meet all consumer needs. We should not underestimate the significant progress made in the UK but need to consider balance of what better protects and serves the public – we should ask them what they want and what they expect, and for what cost?

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

The starting point in any attempt to address behavioural biases that limit consumer engagement with self serve or automated advice is in the long term financial education and in the shorter term, readily accessible targeted information, specifically in respect of the extent to which financial advice of all types can benefit the consumer and in terms that they can measure and understand.

For example, to address the consistent issue of consumers not seeking out the Open Market Option when looking to effect an annuity, it is no use drawing their attention to shopping around within a 'wake up' pack – consistent public messaging and clear signposting is needed to change behaviours. It is for this reason that we suggest one public information service for guidance to ensure consistency and increased awareness.

Clearly consumers have different levels of knowledge, experience and confidence but advice is more often than not associated with the spoken word, so we also need to recognise that for the mass market some form of human validation will be needed.

Q29: To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice?

The introduction of a 'safe harbour' is welcomed, but not as a substitute for the necessary overall simplification and proportionality of regulation.

The current cost of delivering advice and related unlimited liability is clearly impacting on all models of regulated advice as well as restricting the innovation of low cost entry solutions. This unsustainable regulatory burden is neither balanced, nor in the best interests of either the public or the industry that serves them.

Unlimited liability was introduced when large insurer sales forces were selling large volumes of 25 year endowments and whole of life policies. Two decades of regulatory reform has long changed the landscape and time therefore to re-apply the law of limitation.

Although the term 'safe harbour' will mean different things to different people, it is simply recognition of the need to appropriately apply regulation relative to the level of risk and the cost of an advice service (see Figure 5). TPAS, MAS and Citizens Advice for example are all operated within a safe harbour because they are deemed to be free and deliver 'guidance' or 'information' only. Unregulated non-advised processes are also deemed to be operating within a safe harbour from regulation as long as they do not stray into the territory of personal recommendations and therefore the domain of regulated advice. The lack of appetite to reform regulation has driven the wrong behaviours for too long, contracting access, discouraging new entrants and encouraging consumers into 'unprotected' services to avoid the cost associated with regulated services.

It is understandable that there will be some concern over any suggestions to reform regulatory process, lift restrictions or reduce consumer protection. However, some of these views and concerns are steeped in the past and do not reflect the evidence of past industry reforms and the activity of the present. To do nothing is increasingly denying the public access to appropriate services and leaving far more vulnerable to fend for themselves, seek unregulated and unprotected alternatives, or become victims of fraud.

Q30: Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

Safe harbour can be viewed through two lenses – safe harbour products and safe harbour processes.

Safe harbour products would be those deemed to be the most simple or 'vanilla', likely catering for the consumer with relatively simple financial needs. We believe there is a market for such products that can play a part in helping to close the advice gap when part of a 'basic advice' regime, but that market is dependent upon improved consumer engagement as outlined in our answer to question 26.

Safe harbour processes would be those that preclude or significantly limit potential recourse if the distributor can demonstrate they have followed a pre-determined and pre-approved set of processes before selling a specific policy and dispensing a certain piece of advice (for example, in Figure 5 we suggest a Long Stop of 2 years against a Basic Advice regime). Doing the right thing to a required standard from outset should be an implicit expectation, but carrying unlimited or even varying degrees of uncertainty can, and does, have a profound and negative commercial impact.

We welcome recent commentary that the Government and FCA are looking to clarify the extent to which advisers are protected in providing advice to insistent clients and subsequent facilitation where the advice is ignored – clarification that the proposed requirement for advice in respect of the secondary annuity market makes even more urgent. We see this as a major and growing risk for the advice profession and respectfully suggest a factsheet clarifying process is meaningless without similar written clarification from both the FCA and FOS in respect of future treatment of inevitable poor consumer outcomes that will no doubt manifest themselves over time.

Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

We would like to see all solutions sit within a professional standards framework (STAR) with tiered levels of regulation and protection, as follows:

Full Advice – fee based, full financial planning including a personal recommendation – providing maximum consumer protection by PII, Standards Training Accreditation Reaccreditation (STAR) and a 15-year time limit and the FSCS

Focused Advice – fee based, focused advice on a specific need area of investment, retirement, savings, protection or mortgage and insurance – including a personal recommendation, protected by PII, STAR and 5-year time limit and FSCS

Basic Advice – Client Agreed Remuneration, a personal recommendation and a simple needs based service for savings and investment – protected by PII, STAR and a 24-month guarantee

Guidance Advice – information services – protected by STAR.

We would like to see levels of advice described in clear and simple terms that could be universally and intuitively understood within the UK market in much the same way that, for example, the AA star system for hotels is (5 star hotels are implicitly understood by the majority to cater for a full range of needs, provide extensive services and are relatively expensive whilst 2 or 3 star hotels are basic and meet less refined needs and smaller budgets).

In terms of safe harbour 'vanilla' products, consumer protection would be afforded via clarity of offering, clarity and transparency of charges and appropriate standards and proportionate consumer protection (see Figure 5).

This said, currently the ultimate safe harbour remains non advised propositions which have been indirectly encouraged as a result of the level of current regulatory costs and liabilities and we would point out again that they afford no level of consumer protection, which can never be a good consumer outcome.

Q32: Do you have evidence that absence of a longstop is leading to an advice gap?

The current absence of any longstop is clearly a major contributing factor to the advice gap.

Currently the provision of financial advice is one of very few services not subject to a statute of limitations or 'longstop'. Firms are often subject to recourse, based on advice that was correct at the point of provision. Whilst we appreciate that the provision of advice is not a one-off transactional interaction and that best practice would be to continue to monitor the advice given, being subject to recourse in perpetuity, often after many decades have passed is wholly disproportionate.

It is evident that larger institutions exited and have avoided re-entering the advice sector because of the lack of any capped liability so this has clearly been a strong influence in them not offering regulated advice. Large institutions in particular show that the financial provision of unlimited liability within their accounts make regulated activities hugely undesirable for most shareholders.

Q33: Do you have evidence that the absence of a longstop has led to a competition problem in the advice market, e.g. is this leading to barriers to entry and exit for advisory firms?

See answer to Q32

It is worth adding that whilst the advice sector carries unlimited liability, the FSCS operates the law of limitation in respect of firms that are no longer trading.

Q34: Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

We suggest this question is akin to looking through the wrong end of a telescope. Firstly, whatever direct and indirect benefits have been derived, reference to upheld FOS claims against regulated advisers indicate clearly that direct benefits have applied to a tiny percentage of advice given. Furthermore, there is little evidence of either FOS or FSCS upheld complaints involving advisers exceeding 10 years based on past adviser behaviours (let alone 15 years).

This should be contrasted with the number of consumers that have been denied the benefits and protection of regulated advice as firms have exited the market in the past few decades.

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Whatever the alternative approach, it must result in far fewer consumers being forced down a funnel towards non-advised proposition or worse, 'scams'. We believe this is best achieved via varying the level and nature of advice services, all offering the protection of professional standards and proportionate future redress aligned to the nature of service bought.

In respect of professional standards, we refer to the CII's response to H M Treasury consultation paper on Freedom and Choice in Pensions. In it the CII outlined its view that public confidence was key to success and that the only way to generate such confidence was by ensuring that all delivering guidance should be obliged to follow an integrated set of Standards, Training, Accreditation and Revalidation (STAR). We endorse this view and its extension to FAMR and all forms of resulting guidance and advice.

In respect of standards, a minimum set should be put in place to eradicate, or mitigate to the fullest extent, any risks that any advice scenarios pose to the consumer or, equally important, the provisioning organisation. Such standards could include:

- Quality
- Knowledge and competency
- Ease of use and accessibility
- High level design
- Delivery standards
- Technology standards
- Security standards.

Full details in respect of STAR can be found within the FAMR consultation response from the CII.

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

Whilst we cannot comment in any detail on the ability of specific firms able to give automated advice, there are a number of hurdles in the way of such firms, including the extent to which regulatory requirements translate well to the automated advice market – e.g. suitability requirements in COBS and whether these requirements can be satisfied by text generated from an algorithm.

That said and aligned to our view that some form of human interaction will be needed, having financial advisers check advice before execution could provide the basis for initial safeguards.

Looking at cost in the round, some level of automation would seem well aligned to more simplified forms of advice (with proportionate protection) and access to 'vanilla' type products which together could deliver a degree of overall consistency at relatively low cost.

Again, we suggest that STAR should be applied to automated advice in the same way as all other forms of advice.

Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

- Absolute clarity from the regulator as to what is and isn't allowed
- The abolition of the distinction between 'guidance' and 'advice'
- Absolute clarity in respect of the boundaries between different forms of 'advice'
- Absolute clarity in respect of future liability for recommendation given – standards need to be in place but as long as the type of service, cost and acceptance of responsibility is transparent, the service should not have to operate in fear that it may at some future point be treated as full advice and therefore liable to enforcement and compensation.

Q38: What do you consider to be the main consumer considerations relating to automated advice?

FinTec will inevitably play an ever greater role in the advice process, with such streamlined solutions complementing rather than threatening traditional forms of regulated advice. That said, we would offer a word of caution: even though they potentially increase public access to advice and take costs out of existing forms of advice, you cannot automate critical systems without running the risk of creating another formulaic mis-selling scandal. They also provide a very attractive proposition for scammers to imitate.

As such, we recognise a number of consumer risks arising from FinTec based automated advice solutions that will need to be addressed, including:

- The service must be clearly understood by the consumer and not prone to any misinterpretations – it must be directed at the right type of consumer with appropriate needs and preferences
- The service must prevent as far as possible consumers making unsuitable decisions as a result of a lack of information or opportunity to seek clarification
- Clarity in respect of future liability – the software provider? The provider of the tool? The person who writes the algorithm?
- The risk of unsuitable decisions due to the limitations or assumptions with a tool
- Assumptions and methodology used needs to be understood by consumers or there is a risk that advice may be misinterpreted or unsuitable
- The risk of inaccurate data input without a human sense checking it
- The risk of biases within the tools used
- The risk of confusion as to who/what is providing the advice because of any fragmentation of the advice process (i.e. parts of the process being performed by different tools)
- The use of personal data not envisaged by the consumer
- Consumer detriment resulting from the automated financial advice tool being 'hacked' and/or the underlying algorithm manipulated
- Consumer detriment resulting from automated advice tool scams
- The risk of unsuitable decisions due to the speed of process
- The risk of inertia and a lack of motivation to act on advice where such advice tools do not facilitate an end-to-end process
- Litigation and reputational risk due to faulty automation.

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

1. Consumer education, linked to
2. A comprehensive Financial Capability Strategy for the UK
3. Consumer centric terminology and services that better reflect consumer logic and behaviour
4. The removal of artificial industry terms such as 'guidance' and 'advice', 'restricted' and 'whole of market'
5. Replacement by a range of 'advice' models with or without a personal recommendation, where the distinction between each is clear and inclusive of the description of the service and its cost rather than its label
6. Proportionate regulation/consumer protection/reduced adviser costs of regulation
7. The controlled development of automated digital advice that addresses the main consumer issues as outlined in our answer to Question 38
8. A single professional standards framework (STAR) to which all forms of 'advice' apply, with tiered levels of regulation and minimum levels of public protection
9. Clarity in respect of the risks and liabilities inherent within automated digital advice and the application of STAR to them
10. Comprehensive Government funded promotion of the above.

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

The Government and regulator must work with the intermediary sector, financial institutions, consumer bodies and charities to ensure that the different needs of consumers of financial services are at the beginning, centre and end of any solutions.

Underpinning a competitive market must be greater levels of consumer understanding and in this respect the development of an integrated UK Financial Capability Strategy is key.

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

Crucially, the notion of outcomes must embrace the idea of broader engagement – it can't just be about preventing detriment. For example, the review needs to address at the most fundamental level and at the very beginning, which of the following is the better outcome?

1. Ten million people accessing advice and making decent provision for their lives and in 5,000 cases something goes wrong, or...
2. Some 20 million people accessing advice and making decent provision but 20,000 cases go wrong.

The answer must be 2 or put another way, the review should focus on good outcomes for an increasing number of consumers, not ideal outcomes for (almost) all.

In terms of practical steps to take, we repeat we would like to see all advice solutions sit within one overarching professional standards framework (STAR) with tiered and proportionate levels of regulation and protection. It is essential that more is done to protect the public from being funnelled into non advised and/or 'unregulated' activities or towards an increasing number of fraudsters, who look like legitimate advice firms and offer an attractive, non-bureaucratic consumer friendly services at inception – without such steps the consequences for some individuals can be, and in all likelihood will be, devastating.

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