Association of British Insurers

Financial Advice Market Review (FAMR)
ABI response to the Call for Input

22 December 2015

About the Association of British Insurers

The Association of British Insurers (ABI) is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.8trillion.

Executive Summary

Advice is an essential feature of any healthy, functioning market and should ensure that consumers are supported in making informed and confident decisions, to achieve the outcome they want from the products and options they choose.[1] Where consumers have support to make informed choices, they are more likely to end up in a stronger, more resilient and secure financial position.

Whilst those who can afford it are generally well served by the current fee charging advice market, we believe there is evidence, detailed in this response, that not all consumers are currently able to access the advice they want or need. As highlighted in the Call for Input, this is particularly the case for those with some assets to invest, but who may not have significant wealth or income. This is a particular issue in relation to support when investing, saving into a pension and taking an income in retirement, in the new retirement market.

We also believe that improvements to advice provision could benefit consumers who are underestimating the impact that ill health and injury could have on their income, as well as those underestimating their longevity, and potential need for long-term care. Solutions should therefore support consumers considering their protection and social care needs too.

To ensure that consumers can access the benefit and value of advice, the solutions resulting from FAMR should help make fee charging forms of advice more affordable and attractive. We also consider that there is a need to expand access to information and guidance for those who do not, or cannot, take this route, but who need additional support to help them achieve the right outcome. Reflecting this, we believe that a packaged approach, focussing on a range of solutions, is needed.

[1] We refer to advice in its broadest sense, including information, guidance and fee charging advice in the same way as the Call for Input. Where we are referring to a specific type of advice we will clearly make a distinction.

The ABI's proposed package, which we build upon in the full response, is as follows:

Making advice easier to access

- Enable the output of a guaranteed guidance session to include production of a portable pension fact find that can be used with a fee charging advice provider.
- Review the tax regime for employers offering advice and support to employees.
- Review and reduce the categorisations and definitions used to describe advice, with the aim to make them more consumer friendly.

Making advice easier to provide

- Help advice providers better understand potential future liabilities by developing a 'complaints sandbox'. Many complaints relating to current sales, will not be received until many years later, so a hypothetical test case environment in which FOS can adjudicate and publish findings on potential future complaints now would benefit firms *and* consumers.
- Support, guide and ensure consistent application of regulatory standards for development of 'robo-advice' propositions, including continued support through Project Innovate.

Improving access to information

- Review and re-clarify the boundary of regulated advice against previous FCA guidance and forthcoming Markets in Financial Instruments Directive (MiFID) II requirements, to enable better support, potentially including guidance for customers that cannot, or will not, pay for fee charging advice.
- Continue to work together to drive forward the development of a pensions dashboard, with the objective of a single view of assets and entitlements.

Enhancing guidance landscape

- Integrate Pension Wise and The Pension Advisory Service (TPAS), with one central point of contact, with signposting towards guidance at age 50.
- Review how public bodies can leverage opportunities to signpost and nudge people towards accessing advice at critical junctures in a person's life.

We believe that implementation of the above proposals would help to improve consumer awareness and demand for advice, whilst supporting better availability of advice at a reduced cost. Further, customers that cannot pay will be better supported by provision of better information and availability of guidance.

To ensure that progress is made in delivering improvements across the advice landscape, we believe that the Government should come forward with clear, achievable milestones and implementation dates. These should be aligned with other initiatives including the Consultation on Public Financial Guidance and FCA activity, including its Consultation Paper 15/30.

(1) Overview

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

1.1. The advice requirements and needs of vulnerable consumers should be fully accounted for as part of this Review. If, as suggested in question 22, the Review focuses specifically on investing, saving into a pension and taking an income at retirement, it should consider the vulnerabilities which consumers looking for support in these markets may have.

1.2. In the retirement income market, this could include age related physical or psychological health conditions, or people who are bereaved, which requires distinct, tailored and flexible approaches to advice. This means considering both the content and the channel by which advice is delivered. For example, face to face or telephone based advice may be more suitable than digital channels for these consumers.

1.3. An appropriate approach to advice for vulnerable consumers is also important due to the risk of exposure to scams and fraudulent activity. By improving accessibility to advice, we could help protect vulnerable consumers from potential targeting by investment scams and pensions liberation.

(2) What do consumers need and want from financial advice?

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

2.1. We agree that unclear and inconsistent terminology, definitions and the language associated with financial advice can be confusing and off-putting to consumers. It can also potentially contribute to poor decision making as a result of confusing one form of advice for another. As such, we recommend that the categories and definitions associated with advice are reviewed and simplified. We outline our recommendation for this in more detail in answer to question 39.

2.2. In February 2015, we commissioned Ideas42, a behavioural design and consulting firm, to undertake an assessment of the behavioural perspectives associated with retirement planning in the run up to Pension Freedom and Choice. The findings suggest that many consumers appear to interpret the term advice liberally, covering a range from full regulated advice from an Independent Financial Adviser (IFA), to recommendations from unregulated commentators or on online forums. This means consumers may not be getting the optimal levels of advice they need, in addition to not properly considering protection and redress factors when taking a decision. This could leave them open to scams or making investments which are unsuitable.[2]

2.3. The categorisation and description of advice, in reference to regulated advice, is complicated further by sub-types which include simplified, focussed, limited and basic advice. It is unlikely that the majority of consumers will appreciate from the label alone what differentiates these sub-types, although advisers are required to notify their clients what sub-type of advice they are giving. Despite this, it is unclear how helpful this explanation will be to customers, and whether the differentiation is sufficiently understood.

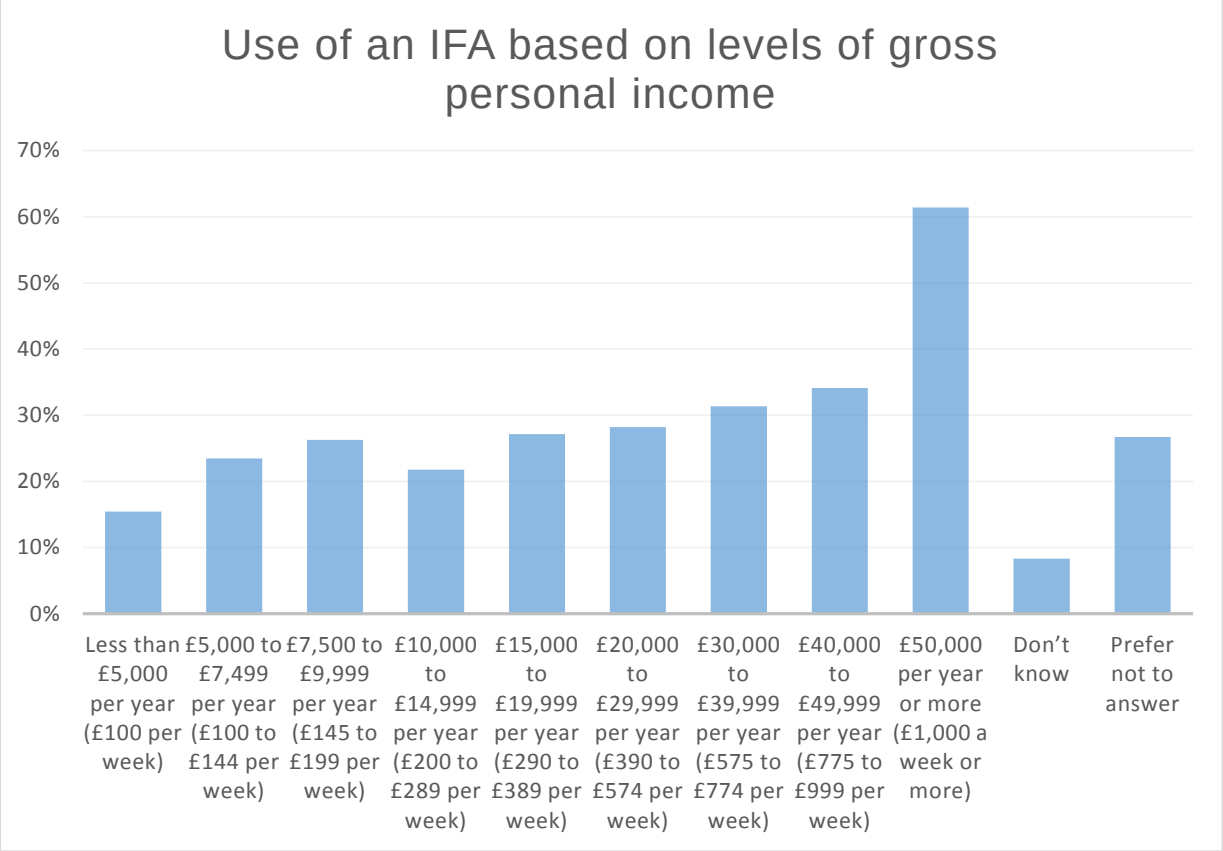
2.4. We have broader concerns about the language and terminology used to describe pensions and retirement income products. This is why we are undertaking work with a variety of stakeholders and our members to establish simpler, standardised language to help customers make the most of the Pension Freedom and Choice reforms. Where there may be overlap between this work and any initiatives to re-categorise advice, we would welcome support for consistency in approaches to ensure that people are exposed to the same, consumer friendly language and terminology.[3]

3. What comments do you have on consumer demand for professional financial advice?

3.1. We generally agree with the Call for Input that the complexity of a financial decision and the levels of investment, or value of an asset involved, will be the key drivers for consumer demand for forms of fee charging financial advice.

[2] ABI/Ideas42 (February 2015) 'Freedom and Choice in Pensions: A Behavioural Perspective', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Pensions/Freedom%20and%20Choice%20in%20Pensions%20A%20behavioural%20perspective.pdf

[3] ABI (June 2015) 'ABI Sets out Action Plan to help Customers get most from Pension Freedoms', https://www.abi.org.uk/News/News-releases/2015/06/ABI-sets-out-action-plan-to-help-customers-get-most-from-pension-freedoms



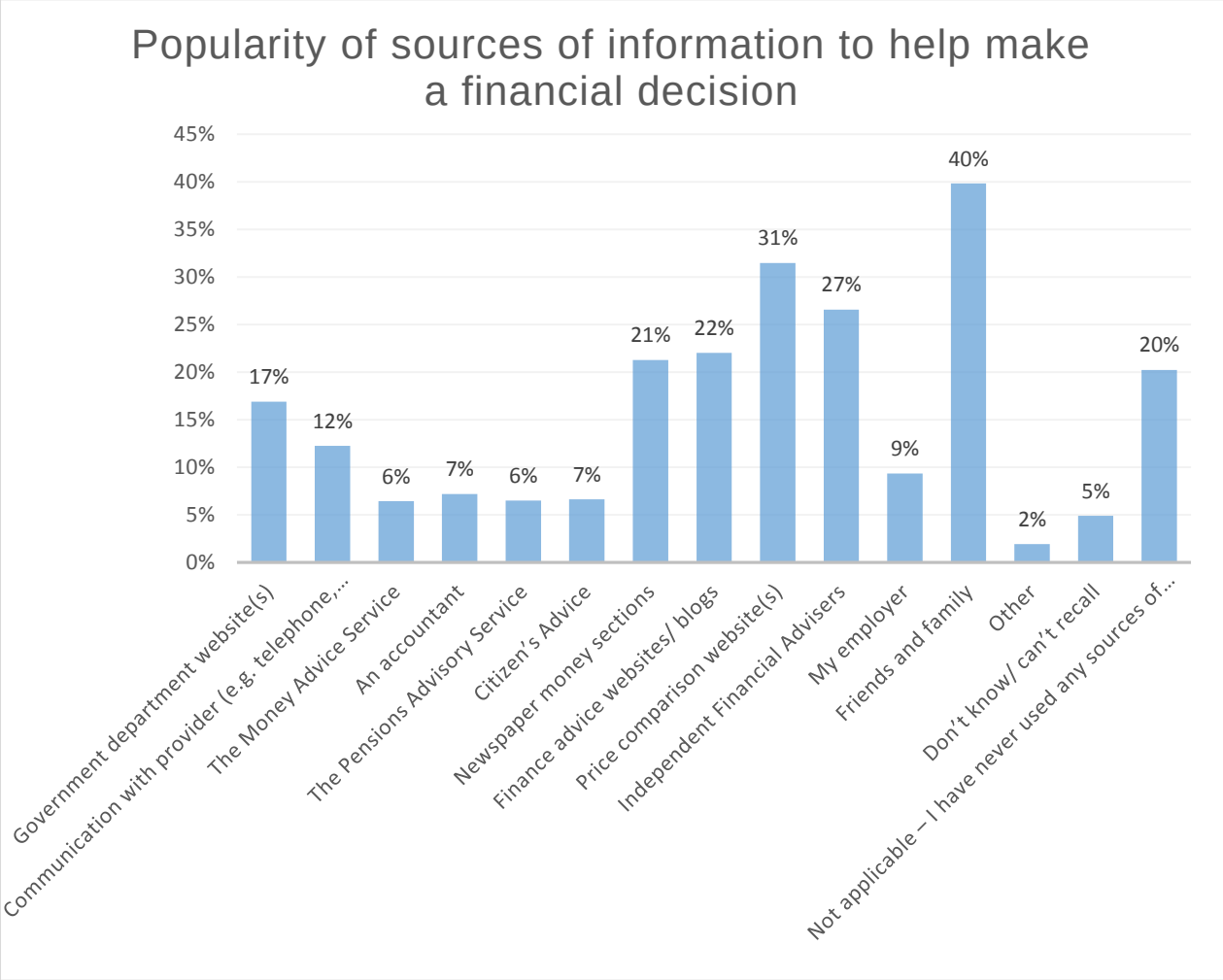
3.2. A YouGov survey undertaken in May 2014 helps paint a picture of the correlation between wealth profile and use of an IFA. The above chart shows levels of IFA use against levels of gross personal income, with those with higher gross personal income more likely to have used an IFA to help them make a financial decision.[4]

3.3. Demand for fee charging financial advice may also be driven by legislative or regulatory requirements to take advice. Two good examples include a mortgage transaction, which has to be completed on an advised basis, with certain narrow caveats allowing execution only, and the requirement to take advice for transfer or conversion of a pension where a safeguarded benefit exists and is valued over £30,000.

[4] ABI/YouGov Survey Data - total sample size was 2586 adults. Fieldwork was undertaken between 19 - 28 May 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults aged 18+. The question asked: '*From which, if any, of the following have you ever obtained any type of information, guidance or advice to help you make financial decisions?"*.
NB: This chart shows a percentage of respondents have used an IFA despite recording £5,000 or less gross personal income per week. This is likely because the question specifies "…*have you ever*…" meaning they may have accessed an IFA previously when their gross personal income was different.

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

4.1. Evidence suggests that consumers tend to approach a range of sources for advice when it comes to taking financial decisions, beyond that offered by an IFA. A YouGov survey undertaken in November 2014 asked respondents what sources of information they had ever used to help make financial decisions. The results shown below highlight friends and family, price comparison websites, IFAs and media sources as being the most popular. 20% of respondents, the sixth highest response rate, said that they have never used any sources of information to help them make financial decisions. This is a concern echoed in the Financial Capability Strategy for the UK which highlights some 8 million people being in difficulty with debt, but only 1 in 6 seeking help.[5]



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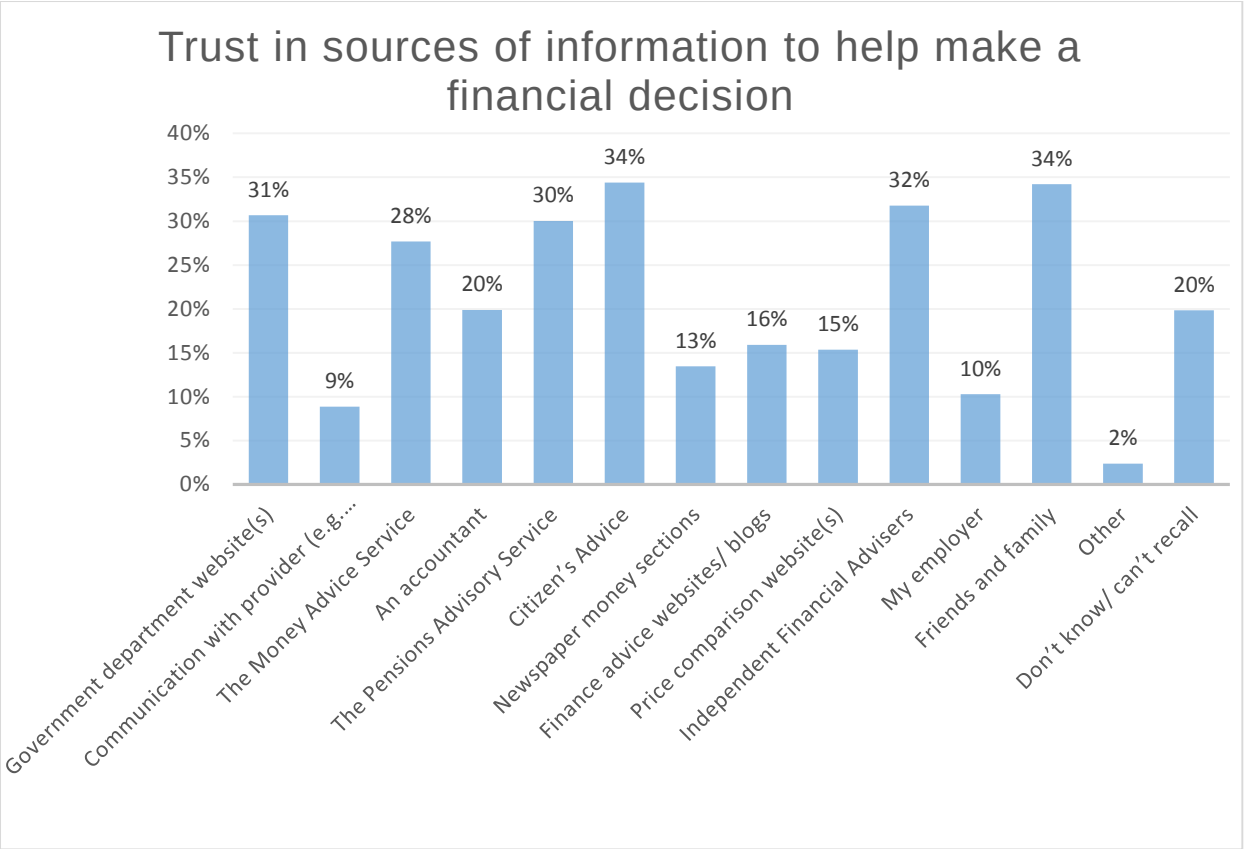
[5] Financial Capability Strategy for the UK (October 2015) 'UK Financial Capability Strategy', http://www.fincap.org.uk/

[6] ABI/YouGov survey data - total sample size was 2507 adults. Fieldwork was undertaken between 10 - 24 November 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults aged 18+. Question: '*Which, if any, of the following have you EVER used as a source of information to help make financial decisions? (Please select all that apply)*'

4.2. Alongside instances of ever using a source of information, we also collected responses to the question of which of these sources would they trust information from when using it to make a financial decision. The results, outlined below, are interesting in that the sources of information which have the highest trust levels are not reflective of the sources which respondents have necessarily used. Notably, government department websites, The Money Advice Service (MAS), an accountant, TPAS, and Citizens Advice all have the highest trust levels, yet the survey results suggest they have been less popularly used as sources of information than some of those sources with lower trust levels.



[7]

4.3. It is also clear that many consumers look to financial services firms for advice. The experience of Pension Freedom and Choice, for example, has shown that providers are a common first stop when consumers are considering what to do with their pension pot. This is reflected in the first month of the reforms where providers received over a million calls, 80% higher than the average month in 2014, and in the first week received over 10,000 written and email requests per day, more than double the average.[8]

[7] ABI/YouGov survey data - total sample size was 2507 adults. Fieldwork was undertaken between 10 - 24 November 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults aged 18+. Question: '*Which, if any, of the following sources would you trust information from when using it to make financial decisions? (Please select all that apply)*'

[8] ABI (April 2015) 'Insurers dealing with unprecedented customer demand following introduction of the pension reforms', https://www.abi.org.uk/News/News-releases/2015/06/Insurers-dealing-with-unprecedented-customer-demand-following-introduction-of-the-pension-reforms & ABI (April 2015) 'Pension providers meeting surge in consumer enquiries following introduction of pension reforms', https://www.abi.org.uk/News/News-releases/2015/04/Pension-providers-meeting-surge-in-consumer-enquiries-following-introduction-of-the-pension-reforms

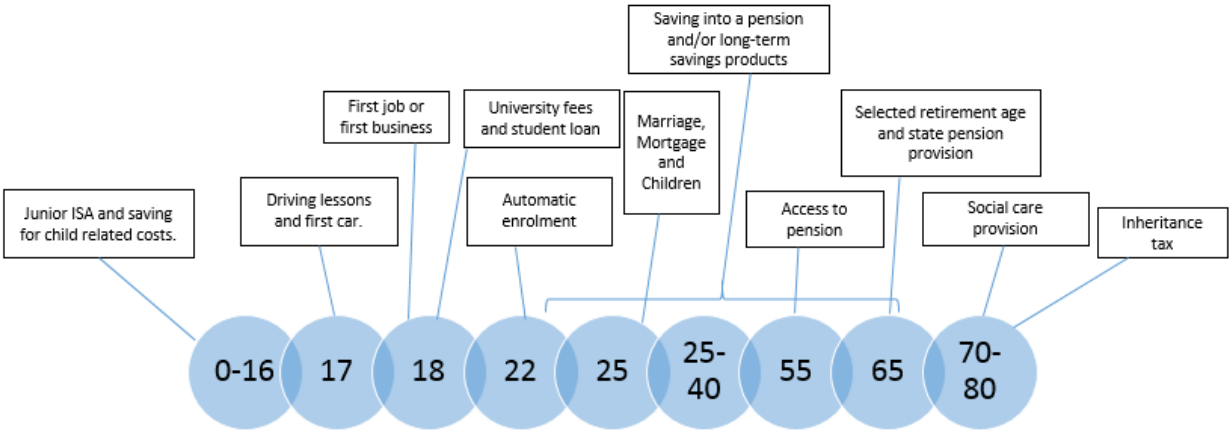
4.4. To support consumers, firms offer a range of information to consumers, including through online platforms and tools, on the telephone, and in the form of communications required by regulation, for example, wake-up packs, Key Information Documents and Key Facts Documents, illustrations and projections, and other forms of disclosure. For examples of the variety of online tools that providers offer, please see annex 2 of the ABI's Retirement 2050 report.[9]

4.5. The key role of public financial guidance providers including MAS, TPAS, and Citizens Advice, as well as a range of other front line providers, must also be considered. The role of public financial guidance providers is being considered in a separate consultation to which the ABI will also be responding. Our response to that consultation should be read alongside this response, and reflect the need for these important initiatives to be joined up, consistent and taken forward together.

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

5.1. Financial need, its complexity, the age of the consumer, financial sophistication and broader circumstances are the key determinants for what type, or types of advice, a consumer will look for.

5.2. In terms of specific circumstances, the timeline below outlines some of the potential points across a person's life when they may be faced by a personal event which entails the need to consider, or actively take a decision, related to their finances. Of course we appreciate that individuals' lives are varied and people face a range of different circumstances. This representation is intended to be illustrative only.



[9] ABI (February 2015) 'Retirement 2050, Identifying the challenges of a changing world', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Pensions/Retirement%202050%20Identifying%20the%20challenges%20of%20a%20changing%20world.pdf

5.3. Whilst the box on page 10 of the Call for Input highlighting complexity of certain financial decisions is instructive and broadly correct, we would point out that this appears to assume a set level of financial capability. Some consumers with lower levels of financial capability may find decisions at the lower end of the complex scale challenging, whilst those with higher levels of financial capability may find decisions at the higher end easier.

5.4. In addition, this box seems to attribute more risk to saving into a pension or making a medium to long-term investment than taking out an unsecured loan or financing a house purchase. We are not convinced that this assessment of risk appears proportionate, if that is the intent of the table, considering the average UK individual pension pot is worth £43,300, yet the average house price is £186,350.[10]

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

6.1. We believe that there is a risk of placing too much emphasis on the FCA Consumer Spotlight segmentation model, for the purposes of this Review if it is to focus on long-term savings and retirement income products. This is because, as is noted in the Call for Input, the model is informed largely by survey data collected in 2013. This is a year before Pension Freedom and Choice was announced and only just shortly after the start of automatic enrolment. The model may not therefore adequately reflect current consumer segments, and the new range of options and challenges they face. The FCA Spotlight website itself explains that it is limited because: '…*the model is necessarily broad in scope, so may not provide all the detail on consumers we need for a particular issue. This is where additional work may be required within a specified market*.'[11]

6.2. Whilst we appreciate the need for some form of strategic framework for the Review to base its assessment on, we would also caution that the segmentation should not be too rigid. Rather it should provide a flexible and useful point of reference to ensure it is focussed where issues are found to be prevalent.

6.3. Ultimately, consumer segments are made up of individuals who are complex, having wide ranging characteristics, circumstances and preferences. Indeed, the behavioural biases that we identify in answer to question 8 could affect individuals in all of these segments. As such, we would urge the Review too avoid being too high level in its assessment, in case it loses sight of the human element.

[10] ABI (September 2015) 'UK Insurance and Long-Term Savings – Key Facts 2015', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf & Land Registry (October 2015) 'Land Registry – House Price Index', https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479076/October_2015_HPI.pdf

[11] http://www.fca-consumer-spotlight.org.uk/consumer-spotlight#na, 'what are the limitations of the model?'

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

7.1. We explore in more detail where we believe there are specific advice gaps, and what sort of consumers will have difficulty accessing advice, and why, in response to questions 19 to 21. We also identify a range of demand side barriers, which may prevent or influence a consumer not to access advice in answer to question 9.

7.2. The table below brings together the FCA consumer segments, as described in the Call for Input, and aligns them with the barriers we have identified, to demonstrate where we believe focus could be drawn. We have also included where behavioural biases could potentially be present.

FCA consumer segment	Barriers
Starting out	Cost of fee charging advice
Living for now	Cost of fee charging advice, financial capability, the present bias, avoidance and denial
Hard pressed	Cost of fee charging advice, financial capability, avoidance and denial
Striving and supporting	Cost of fee charging advice, financial capability
Stretched but resourceful	Hassle factors
Busy achievers	Hassle factors, overconfidence in ability to manage own money
Affluent and ambitious	Overconfidence in ability to manage own money
Mature and savvy	Overconfidence in ability to manage own money
Retired on a budget	Cost of fee charging advice, reaction to Freedom and Choice
Retired with Resources	Overconfidence in ability to manage own money, reaction to Freedom and Choice

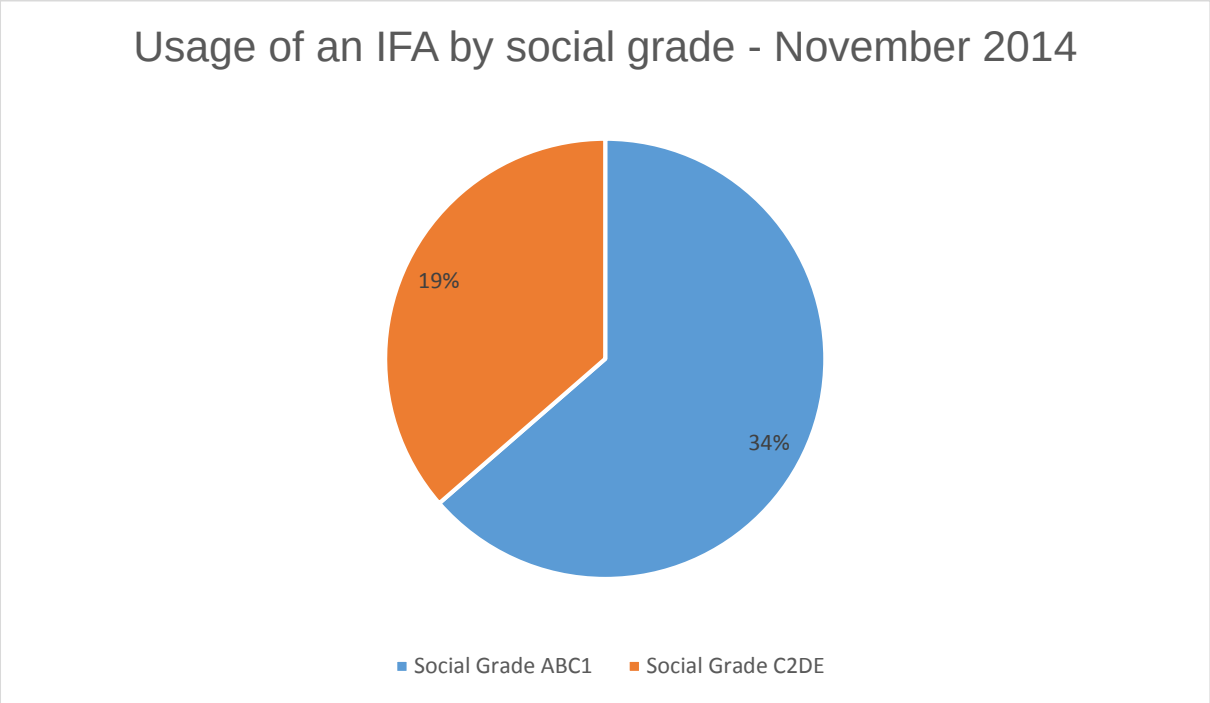
7.3. We again issue caution against over using the Consumer Spotlight approach, given its high level assessment. But, based on our analysis, the segments which suggest the need for most focus are starting out, living for now, hard pressed, striving and supporting, and retired on a budget.

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

8.1. We agree that a consumer's income and wealth profile is a key factor in determining demand for advice and what type of advice they seek. Consumers with higher incomes, more wealth and assets are more likely to want, and be able to access, regulated forms of advice which charge a fee.

8.2. We have included a chart in answer to question 3 which demonstrates that IFA use tends to be higher amongst those with larger gross personal incomes.

8.3. YouGov survey data collected in November 2014 shows that of those who said they had used an IFA, 34% came from the ABC1 social grade, whilst 19% came from the C2DE social grade.



[12]

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

9.1. We agree with the reasons cited in the Call for Input as to why consumers do not seek advice. Specifically, we believe the key reasons are the following:

9.2. **Cost of fee charging advice**

Many consumers with lower wealth and income profiles, less to invest, and smaller and middle sized pension pots are either deterred from, or unable to afford the cost of accessing fee charging regulated advice. Recent research by Money.co.uk showed that consumers would only be willing to pay on average £253 for financial advice, with 60% only wanting to pay £200 or less.[13]

[12] ABI/YouGov survey data - total sample size was 2507 adults. Fieldwork was undertaken between 10 - 24 November 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults aged 18+. Question: '*Which, if any, of the following sources would you trust information from when using it to make financial decisions? (Please select all that apply)*'

[13] Money.co.uk (August 2015) 'Half of those making Pension Freedom Withdrawals will not pay for Advice', http://www.money.co.uk/press/half-of-those-making-pension-freedom-withdrawals-will-not-pay-for-advice.htm

Citizens Advice has published research which shows that only 2% of respondents with a £61,000 pension pot would be willing to pay more than £1,000 for fee charging advice, and 16% would be willing to pay between £200 and £999. However, this research also shows that 47% would be willing to pay a fee for advice, suggesting there is clearly appetite for lower cost fee charging advice.[14]

Whilst there are some options for regulated advice available which would fit with these cost expectations, the rump of the current fee charging advice market is still geared toward serving those willing to pay a fee up to and beyond £1,000, or those with high income, more wealth and larger pension pots.

9.3. Low appreciation for the long-term value of financial advice

As well as the cost itself, many consumers will focus on the upfront cost and overlook the longer-term value advice can add. This can be linked to 'present bias' – the tendency to focus on the now more than investing for the future. Consumers may not seek advice now because of the upfront costs and effort involved in making an appointment with an IFA, despite the potential future rewards of doing so. The effort associated with the process may even play into people's decisions not to use Pension Wise.

This is a problem because evidence suggests that an upfront investment in fee charging financial advice pays off in the longer run. Research undertaken by Unbiased.co.uk and MetLife in September 2015, reports significant growth in a pension pot for a median fee of £580 for retirement advice relating to a £200 a month contribution to a pension. They suggest that taking advice starting at age 25 can add an extra £34,300 to a pension pot, and at age 35 an extra £25,730, excluding tax relief and interest.[15] Research commissioned by Old Mutual also suggests that those who see a financial adviser pre-retirement at least once, and who have set a target for their retirement income, saw an increase in their average retirement income to £26,000 compared to those who did not with £17,500.[16]

[14] Citizens Advice (October 2015) 'The Affordable Advice Gap: How Affordable and Clear Pricing can help more Consumers Access paid-for Financial Advice', https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-affordable-advice-gap-how-affordable-and-clear-pricing-can-help-more-consumers-access-paid-for-financial-advice/

[15] Unbiased.co.uk (September 2015) 'New Data shows the Benefits of Financial Advice can Outweigh the cost by nearly 6,000%', https://business.unbiased.co.uk/press-releases/new-data-shows-the-benefits-of-financial-advice-can-outweigh-the-cost-by-nearly-6-000--7-9-2015

[16] Old Mutual Wealth (July 2014) 'Retirement Income Uncovered – Lifting the lid on Retirement Income in the UK Today', https://www.oldmutualwealth.co.uk/globalassets/documents/retirement1/retirement-report_low-res.pdf

9.4. Financial capability

Levels of financial capability in the UK are generally low, meaning consumers can be disengaged from financial decision making and the choices associated with it, including the choice to access advice. The recent Financial Capability Strategy for the UK report highlights that 14% of people do not agree that it is important to track income and expenditure, 22% cannot read a bank statement, and 28% prefer not to discuss money openly with anyone.[17]

9.5. Reaction to Freedom and Choice

In the context of retirement income, many consumers would have been planning what to do with their pension pot some time in advance of 6 April and been confident in the decision they had chosen. Over the longer-term, this dynamic is likely to shift, as more people approach and reach age 55. A further dynamic to consider is that the expansion of choice post-reform may have also caused inertia, with the added complexity overwhelming consumers. It is worth reflecting on the fact that in the first 3 months of the reforms, the amount of cash withdrawn represented less than 1% of all pension funds held by over 55s.[18]

9.6. Other behavioural biases

These are important to help understand why consumers may not seek advice. The Ideas42 report commissioned by the ABI into behavioural insights associated with Pension Freedom and Choice highlights a range of behavioural biases which could drive consumers away from accessing advice.[19] These include.

9.6.1. A lack of engagement

Consumers are often completely disengaged from the retirement planning process and tend to turn their attention toward it close to retirement age, making last minute decisions. This can include failing to allot enough time to assess the wide range of information available, act on recommendations from a Pension Wise session, or find and appoint an IFA.

9.6.2. Avoidance and denial

Consumers often avoid difficult or challenging tasks, especially if they feel ill-equipped to deal with them. This thought process can apply to retirement planning, especially where there are a significant number of unknown and unpredictable elements, such as longevity.

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[17] Financial Capability Strategy for the UK (October 2015) 'UK Financial Capability Strategy', http://www.fincap.org.uk/

[18] ABI (October 2015) '6 Stats for 6 Months: The ABI on the first 6 months of the Pension Freedoms', https://www.abi.org.uk/News/News-releases/2015/10/6-stats-for-6-months-The-ABI-on-the-first-6-months-of-the-pension-freedoms

[19] ABI/Ideas42 (February 2015) 'Freedom and Choice in Pensions: A Behavioural Perspective', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Pensions/Freedom%20and%20Choice%20in%20Pensions%20A%20behavioural%20perspective.pdf

9.6.3. **Overconfidence in ability to manage money wisely**

Consumers can be overconfident in their ability to manage their finances which can lead to poor decision making, and potentially overlooking advice they have received.

9.6.4. **Availability bias**

People tend to believe that an event is more likely because it is more easily recalled. In the case of advice, this could mean consumers are less likely to follow or trust advice because of, for example, coverage of mis-selling stories.

9.6.5. **Hassle factors**

These are often seemingly small hurdles, such as the requirement to fill out a form, which prevents a consumer from doing something that would ultimately be beneficial for them. The retirement planning process contains numerous hassle factors, including the effort involved in reading the wide range of information available, and making and attending a Pension Wise or IFA appointment.

9.6.6. **Choice and information overload**

The wide range of choice in the new retirement market and the sources of information available to consumers can put them off of engaging in the retirement planning process.

9.6.7. **Ambiguity aversion**

This is the tendency for consumers to want to avoid ambiguity. This can play a role in the retirement income search process, where customers will avoid sources of information where its intention, impartiality, and legitimacy is ambiguous, even if these sources of information are helpful.

(3) Where are the advice gaps?

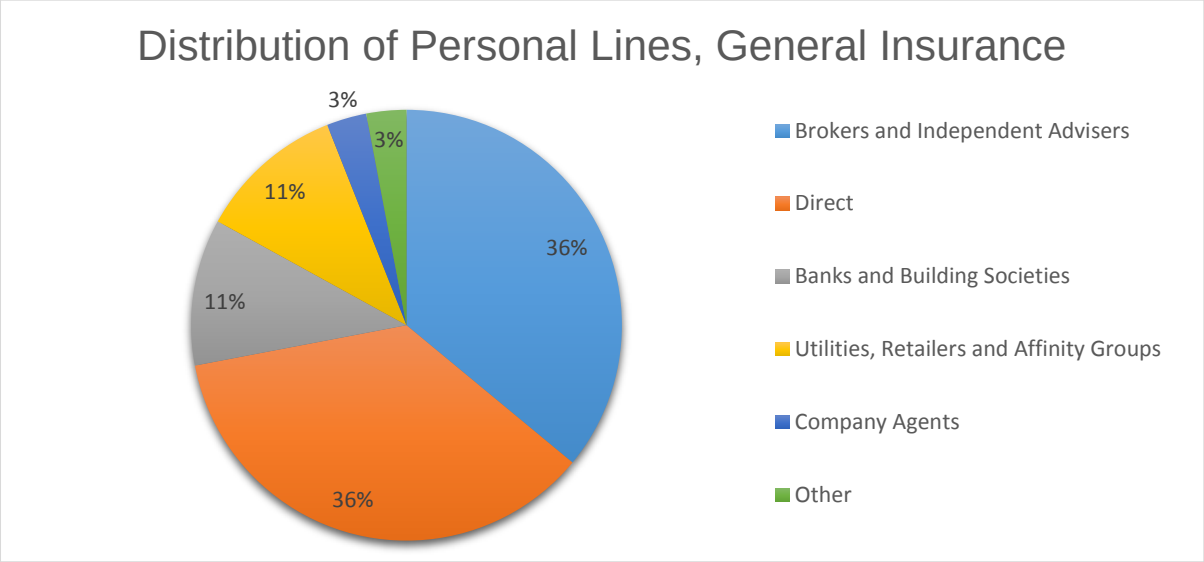
10. Do you have any information about the supply of financial advice that we should take into account in our review?

10.1. We agree with the Call for Input that trends in recent years have shown a shift from sale and distribution of financial products from advised to non-advised routes. We provide our assessment of why this has happened in answer to question 11.

10.2. For the markets in which ABI members operate, we felt it would be useful to provide an outline of how products are distributed.

10.3. General insurance

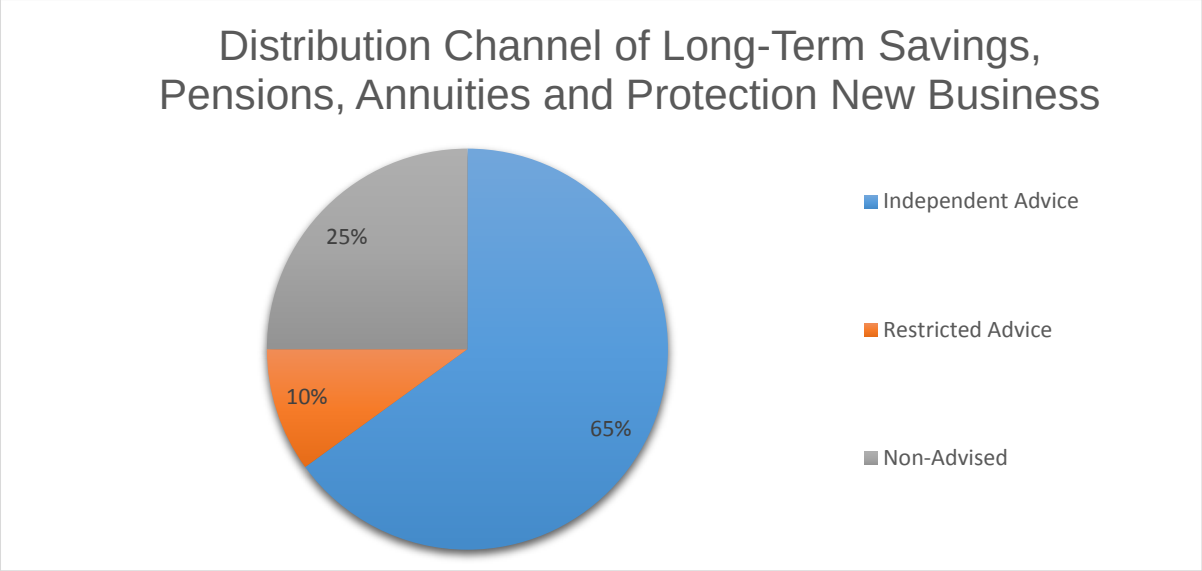
The chart below outlines distribution methods for general insurance lines.



[20]

10.4. Long-term savings

The overall statistics for distribution of all long-term savings, pensions, annuities and protection new business are set out in the chart below. This includes savings for retirement, investments and bonds, as well as life, critical illness, and income protection products.

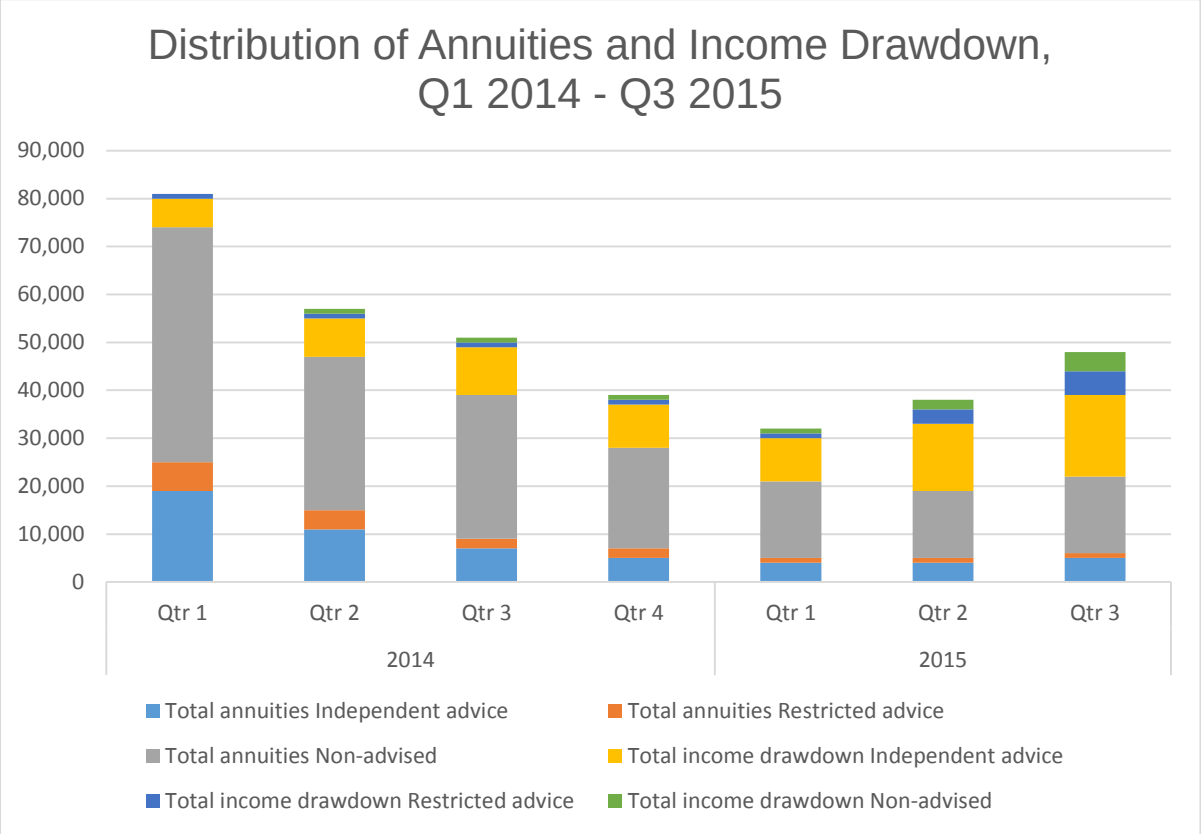


[21]

[20] ABI (September 2015) 'UK Insurance and Long-Term Savings – Key Facts 2015' https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf
[21] ABI (September 2015) 'UK Insurance and Long-Term Savings – Key Facts 2015' https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf

10.5. **Retirement income products**

The chart below shows distribution of annuities and drawdown products between Q1 2014 and Q2 2015 on an independent advice, restricted advice, and non-advised basis. These statistics do not include cash withdrawals.

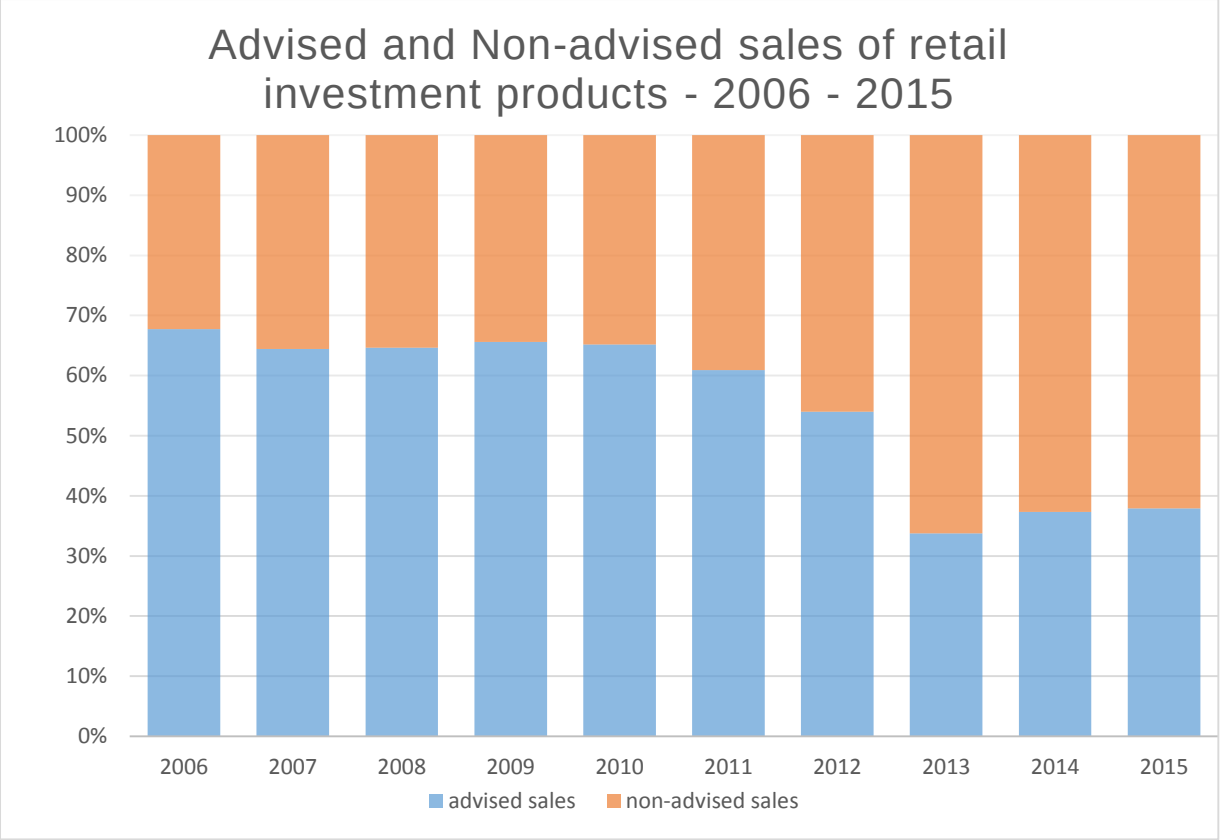


[22]

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

11.1. The number of products sold on a non-advised basis has shown a significant increase over recent years, as the below chart demonstrates.

[22] ABI Statistics



[23]

11.2. There are two key explanations for this shift; the impact of the Retail Distribution Review (RDR) and introduction of upfront fee charging for advice; and increased consumer comfort and confidence in using execution only routes to interact with and purchase goods and services, especially online.

11.3. The shift from commission based to fee charging advice triggered many IFAs to assess their client bases and shift the focus of their business models toward more commercially viable clients. The post-implementation RDR research by Towers Watson highlighted anecdotal concerns about adviser capacity for consumer segments described as '*striving and supporting'*, '*starting out*', and '*hard pressed*'.[24] The research listed the reasons for this reduction, in terms of these specific segments, as including: '*advisers focussing on customer segments that are most likely to be able to afford such an offering, or where the benefits of taking advice are most cost-effective.*'[25]

[23] FCA (December 2015) 'Annual PSD RI Data, Table 4.2, Number of Advised and Non-Advised Sales by FCA Firm Type', https://www.fca.org.uk/firms/systems-reporting/product-sales-data/interpreting-the-data, Note – 2015 figures are H1 only.
[24] FCA/Towers Watson (December 2014) 'Advice Gap Analysis: Report to FCA', https://www.fca.org.uk/static/documents/research/advice-gap-analysis-report.pdf
[25] FCA/Towers Watson (December 2014) 'Advice Gap Analysis: Report to FCA', https://www.fca.org.uk/static/documents/research/advice-gap-analysis-report.pdf

11.4. This dynamic is also noted in the post-implementation RDR research carried out by Europe Economics. They note that '*the ban on commission has led many firms to consider the fundamentals of their business models and make key changes, e.g. segmenting their customers, with some focusing on services to those with higher levels of investible assets.*' Although overall they conclude that they believe most advisers would still take on clients.[26]

11.5. It also needs to be considered that consumers who have shifted to non-advised routes may have in the past received advice with a charge, or may for example be receiving advice on other financial decisions and therefore feel a degree of comfort in taking a non-advised route.

11.6. Secondly, this trend may be a result of increased consumer comfort in using direct approaches to buying and accessing financial products and services, especially online. We focus on this in answer to question 12.

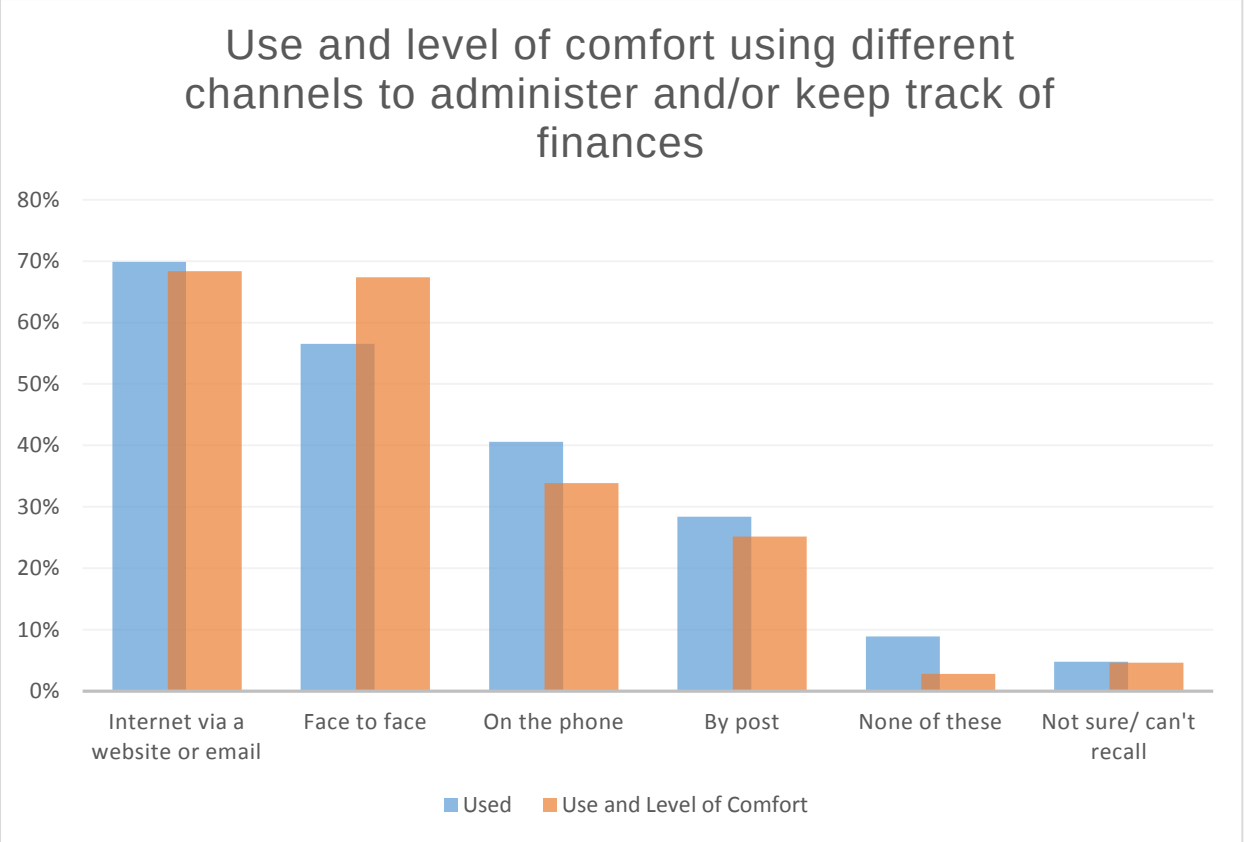
12. Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

12.1. The shift towards increased use of non-advised routes can in part be attributed to consumer comfort using new and emerging technology which delivers advice.

12.2. As the chart we used in answer to question 4 shows, many consumers are comfortable utilising price comparison websites, government department websites, and finance websites and blogs as a source of information to help them make a financial decision.[27] As the chart below also shows, many are using, and are comfortable using, online channels to administer and/or track their finances.

[26] Europe Economics (December 2014) 'Retail Distribution Review Post Implementation Review', http://www.fca.org.uk/static/documents/research/rdr-post-implementation-review-europe-economics.pdf

[27] ABI/YouGov survey data - total sample size was 2507 adults. Fieldwork was undertaken between 10 - 24 November 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults aged 18+. Question: '*Which, if any, of the following have you EVER used as a source of information to help make financial decisions?*'



[28]

12.3. Recently, we have also seen significant interest in, and potential for, online advice services, including those described as 'robo-advice' or 'automated', to offer lower cost alternatives to face-to-face or over the telephone advice only services.

12.4. There are firms that have already brought their online advice propositions to market, offering lower cost services to help customers as they navigate Pension Freedom and Choice. There is clearly a significant opportunity in this market and we focus on this in answer to questions 36-38.

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

14. 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?

15. Which consumer segments are economic to serve given the cost of supplying advice?

[28] ABI/YouGov survey data - total sample size was 2586 adults. Fieldwork was undertaken between 19th - 28th May 2014. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Question: '*Which, if any, of the following methods have you EVER used to administer and/ or keep track of your finances?*'

15.1. IFAs, advisory firms and other firms who offer advice services, do so because there are commercial drivers and margins that make delivering these services profitable. As reflected upon in the previous answer, one of the impacts of RDR was advisers reviewing the clients they served, or may have looked to serve, and shifting focus toward customers who could outright afford the cost of advice.

15.2. In terms of which segments are economic to serve, recent research from Citizens Advice on attitudes to the cost of advice is informative. The research highlights that 80% of advisers listed on the MAS retirement adviser directory would take on a client with a £61,000 sized pot.[29]

15.3. Yet, as we highlight in response to question 16, paradoxically, significant numbers in the mass market are unwilling to pay for advice or unable to, meaning that whilst it could be economic to serve them, they may not be able to, or want to, pay for advice with a fee. We believe there are some options to reduce the cost of providing advice, which we detail in our response to question 39.

16. Do you have any comments on the barriers faced by firms providing advice?

16.1. We generally agree with the barriers listed in the Call for Input. If the focus of the Review is to be on investments, pensions and the retirement income market, these barriers will need to be looked at with consideration to the Pension and Freedom Choice reforms. The most significant barriers are:

16.2. **Liability in the new retirement market**

The rapid legislative and regulatory change we have seen since Budget 2014 has brought about a new environment, where many market developments remain unproven and conditions are yet to stabilise. Consumers face an increased range of complex options, and thus the risk that they may be ill-prepared to take economic decisions affecting their retirement is higher. As a result, firms face a challenge in offering consumers advice for the long term without running the risk of unknowingly exceeding their own risk appetites.

Liability in this market is therefore a critical barrier. It has been highlighted most clearly by the experience of frustrated consumers required to take advice by law, yet being unable in some circumstances to find advisers to assist them, due to concerns about potential future judgements by the FCA and FOS. This is reflected in a recent Aviva Adviser Barometer survey which found high levels of enthusiasm for the opportunities presented by Freedom and Choice, contrasted with 47% reporting concern about professional indemnity costs.[30]

[29] Citizens Advice (October 2015), 'The Affordable Advice Gap: How Affordable and Clear Pricing can help more Consumers Access paid-for Financial Advice'
[30] http://www.aviva.com/media/news/item/uk-advisers-rank-their-top-financial-priorities-for-the-new-government-17494/?cmp=eml-group-17494-html

16.3. **The regulatory boundaries for advice deter firms from offering additional support**

Whilst we welcomed the intention of the FCA's work on Retail Investment Advice, the boundaries set out in the Final Guidance are proving to be deterrents to firms who want to do more to help their customers. We believe that the boundaries are clear, but are not set in the right place to reflect the changes in consumer behaviour that have occurred under Freedom and Choice.

Specifically, we believe that some relatively common sense responses to consumer interactions and queries are withheld by providers because they fear they could stray unintentionally into regulated advice.

Examples include conversations about potential risks, such as considerations about the impact of tax or means tested benefits, potentially influencing a consumer's decision not to do something, and therefore being construed as advice. Another situation where help could be considered advice, is providing assistance to a beneficiary with their options after a customer dies.

In terms of the communication of information, whilst the Retail Investment Advice Final Guidance specifies that giving information and nothing more does not involve giving regulated advice, it is dependent on the circumstances and the context in which it is given.[31] This presents great difficulty when customers are looking for support with a choice, but where their circumstances and context may make the choice relatively obvious to the information provider, and would therefore deter provision of information which could help the customer.

This is a problem as providers want to do more to help consumers who often have simple queries, but cannot help because they risk, or perceive that they risk, being considered to have given regulated advice by the consumer. Some support services have been withdrawn as a result of these concerns.

16.4. **The cost of offering advice services and consumer unwillingness to pay for advice**

The provision of financial advice carries numerous costs. These tend to be linked to time spent, both by qualified advisers and non-adviser staff, on the activity of providing advice, as well as costs associated with administrative compliance, record keeping, overheads, and training for qualifications.

The costs of regulation as a consideration to offering regulated advice is important, as the 51% of respondents who listed concerns about regulatory fees and levies for the Aviva Adviser Barometer demonstrates.[32]

[31] FCA (January 2015) 'FG15/1: Retail Investment Advice: Clarifying the Boundaries and Exploring the Barriers to Market Development', http://www.fca.org.uk/static/documents/finalised-guidance/fg15-01.pdf
[32] Aviva (June 2015) 'UK: Advisers rank their top financial priorities for the new government', http://www.aviva.com/media/news/item/uk-advisers-rank-their-top-financial-priorities-for-the-new-government-17494/?cmp=eml-group-17494-html

In addition, consumer inability or unwillingness to pay for advice creates a barrier to firms offering it. Ultimately, firms may decide not to offer an advice service because there is a significant amount of evidence which suggests that the mass market may want advice, but are not able, or willing, to pay an amount for it which would make it viable. Citizens Advice survey results highlight that 55% of respondents would be unwilling to pay for advice, and based on Office of National Statistics data, 49% of households have financial wealth levels which would suggest that they could not afford to pay for advice.[33]

17. What do you understand to be an advice gap?

17.1. We agree with the definition of an advice gap as outlined in the Call for Input.

18. To what extent does a lack of demand for advice reflect an advice gap?

18.1. The lack of demand for advice reflects an unwillingness to use and engage with the advice that is currently available, suggesting that there are perceptions, beyond cost, that deter consumers from accessing advice. Ascertaining how we can make advice more engaging and challenging perceptions that regulated advice does not offer value for money will therefore be critical.

18.2. Part of the problem which we have highlighted is financial capability. Despite low levels of financial capability large numbers of consumers are purchasing financial services products through execution only channels. We should not dismiss those consumers who are taking this route and need to properly assess whether they are taking this route because they are happy doing so, or because they lack the financial capability to engage with advice which is currently available, or face other barriers.

18.3. We should, however, accept that there will be consumers who do not by choice wish to access advice, on any basis, and under any circumstances. Consumers who are comfortable with purchasing products on this basis without cause to utilise advice, and are not blocked in some way from accessing advice, should be respected for the personal decisions they make.

19. Where do you consider there to be advice gaps?

19.1. ABI membership spans the general insurance and long-term savings markets. We have assessed whether there are advice gaps for general insurance, long-term savings, retirement income products, protection and social care products.

[33] Citizens Advice (October 2015) 'The Four Advice Gaps – An Analysis of the Unmet Consumer Needs around Financial Advice and Public Financial Guidance', https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/Fouradvicegaps.pdf

19.2. We believe that there are advice gaps with regards the needs of those without significant wealth or income, but with some money, and specifically in relation to long-term savings, including support when investing and saving into a pension, and taking an income in retirement.

19.3. We also believe that improvements to advice provision could have additional benefits to consumers who are underestimating the impact that ill health and injury could have on their income, as well as those underestimating their longevity, and potential need for long-term care. As such, the Review should consider solutions which will support consumers considering their protection and social care needs as well.

19.4. For general insurance, we have not found any evidence of a significant advice gap, or barriers to provision of advice in this market. For the majority of retail general insurance decisions there does not appear to be high consumer demand for financial advice provision.

19.5. For more complex general insurance needs, consumers can go to an intermediary. At the small and medium sized enterprise and commercial level, brokers and financial advisers provide advice on general insurance needs and we do not believe there is an advice gap for this market.

20. Do you have any evidence to support the existence of these gaps?

20.1. **Long-term savings**

The number of people who are not saving anything for retirement, and those who are not confident that they will be getting the retirement they want from the savings they have, indicate that advice is not currently effective enough in supporting long-term saving.

Whilst we appreciate that the Call for Input suggests that it does not wish to consider the savings gap, we believe that the savings gap itself is a glaring symptom of a broader long-term savings advice gap.

Research undertaken by the ABI in 2012 suggested that only 46% of people were making enough provision for their retirement, and ONS statistics suggest that the percentage of people 'very confident' or 'fairly confident' their income in retirement will provide the standard of living they hope for is 52%, rising from 41% between July 2010 and June 2015.[34]

[34] ONS (November 2015), 'Early indicator estimates from the Wealth and Assets Survey, Wave 5, July 2014 to June 2015' http://www.ons.gov.uk/ons/dcp171766_422909.pdf (preliminary stats)
https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/Migrated/Pensions/Time%20to%20Act.ashx

Polling by the ABI commissioned in August 2015 showed that 62% said they have saved into a private, personal, workplace or other type of pension. However, 31% of these said they are actively saving, with the other 31% not saving at the moment. Even more worryingly, 36% said that they have not saved into a pension at all.[35]

In addition, we believe that there could be a gap when it comes to consumers interested in non-default, more complex long-term savings and pension options, and for those who are self-employed for example and would not have access to workplace pensions and support from employers.

We would also note that government policy, in the form of automatic enrolment, does not occur with advice. Whilst contribution rates are due to rise to 8% in 2018, we believe that this will not be sufficient to provide a suitable replacement rate for the majority in retirement. This means that there is a major challenge in how we can increase contributions through automatic enrolment without increasing the number of people opting out.

Solutions in this area will need to be focussed on enhancing guidance and information to encourage a savings culture.

20.2. Retirement income

We believe that there is strong evidence for the existence of an advice gap for consumers in this market, with significant demand for expert support not being catered for by the fee charging advice market.

Recent research by Citizens Advice has shown that 53% of those they surveyed wanted expert help when assessing their pension options, and 51% wanted advice on a product, which would involve accessing a regulated form of advice.[36] Yet, for the majority of these consumers, fee charging advice will be out of reach, or not meet with the expectations they have around how much it should cost, or what they would be willing to pay.

[35] ABI Omnibus Survey, August 2015, Table 7

[36] Citizens Advice (October 2015) 'The Affordable Advice Gap: How Affordable and Clear pricing can help more Consumers Access Paid-for Financial Advice', https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-affordable-advice-gap-how-affordable-and-clear-pricing-can-help-more-consumers-access-paid-for-financial-advice/

The research demonstrates that 80% of IFAs on the MAS retirement advisory directory would be willing to take on clients with pots of a value of £61,000. However, the average individual pension pot is £43,300.[37] In addition, Citizens Advice highlight that the average cost to get a flexible income from a £61,000 sized pot would equate to £1,490, which is the net monthly salary of a median earner in the UK. This means for a significant number of people, fee charging advice is not currently an option they can consider.

However, it is clear that not all of these consumers will need or want fee charging advice. This means that the solutions in this area must be focussed on delivering lower cost forms of fee charging advice for those who want and need it, and enhanced guidance and information for those who do not want to take fee charging advice.

20.2.1. **Protection**

We have concerns about public awareness when it comes to the value of protection products. In the same way that many people underestimate what they need to save for the retirement they want, research similarly shows people greatly underestimate the risk of being too ill to work and overestimate the support they would receive from the state and their employer. This is compounded by concerns across the board centred on low levels of financial capability.

Research carried out by the Centre for Economic and Social Inclusion, commissioned by the ABI, has found that 10.6 million households, more than 60% of working families, would see their income fall by more than one third if the main earner had to stop work due to ill health, with 40% seeing their income fall by more than half. Around 250,000 people leave employment each year due to ill health, around 1% of the workforce, 60% of these are the main household earner. A survey by the MAS found that 60-70% of households with an annual income of £35,000 or less did not have savings equal to one months' household income and almost half of working age couples or families do not have life cover.

[37] Citizens Advice (October 2015) 'The Affordable Advice Gap: How Affordable and Clear pricing can help more Consumers Access Paid-for Financial Advice', https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-affordable-advice-gap-how-affordable-and-clear-pricing-can-help-more-consumers-access-paid-for-financial-advice/ & ABI (September 2015) 'UK Insurance and Long-Term Savings – Key Facts 2015', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf

Protection insurance products offer individuals a crucial safety net against these risks, and insurers consistently pay the overwhelming majority of claims. In 2014, 97.7% of Protection insurance claims were paid out in 2014. A total of £1.4 Billion was paid in term life insurance claims, with the average paid out for each claim at £60,900. Those who claimed on Critical Illness insurance policy received an average of £67,000. These payments make a substantial difference to families in extremely difficult circumstances.

Wider society has a substantial interest in the take up of financial protection. Take up of Income Protection delivers a significant fiscal benefit to the exchequer in the form of reduced expenditure on benefits, increased tax revenue, and improved productivity.

Another point to note is that Individual Income Protection (IIP) needs to be sold through intermediaries due to the interaction with benefits. The introduction of Universal Credit will exacerbate this need as it will lead to people losing more of their benefit entitlement in the event of a claim. This will make assessing the value of IIP, particularly to middle income families, more complex.

As such, we see that there is a critical need to consider how improvements to consumer access to advice can help the significant number of households who are not currently prepared for the financial difficulties that can arise as a result of a death, serious illness or injury. Improving access to other forms of guided sales processes is also a crucial part of this process. This must be supplemented by a broad effort from a range of stakeholders to improve public knowledge about the protection gap and the availability of Protection insurance products. We have been working with MAS on this issue and we will take this forward in the New Year.

20.3. Social care

As with protection, there are fundamental issues with individuals' understanding and awareness of the need to plan and pay for long term care costs. Arguably this is exacerbated with regards to social care, the triple threat of increased customer inertia, underestimations of longevity and under-saving for retirement (excluding potential care costs) demonstrating the need for considerable improvements to the provision of advice. Coupled with the fact that individuals grossly overestimate what the state provides in terms of social care support and underestimate how much care costs, there is a real opportunity with this Review to find some effective solutions.

The insurance industry has an important role to play in the care debate and has been positively contributing to it over the past few years. But, industry can only play its role effectively if individuals are aware of the fact that they may have future care needs and understand how much these needs are likely to cost. According to a consumer survey we conducted this summer, when asked how much it costs for someone to live in a care home and receive nursing care, 86% of people thought that it would not cost more than £30,000 a year.[38] According to Laing & Buisson, the cost of care with nursing in a home is on average £37,500 a year.[39]

We therefore see a need to take into account the promotion of awareness and access to advice, in particular improving routes to advice, to ensure that people are better prepared for longer-term care needs.

21. Which advice gaps are most important for the Review to address?

21.1. We would support the Review focussing on all of the areas where we have identified advice gaps, as outlined in our response to question 20.

22. 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?

22.1. We support the Review's proposal to focus initial work on investing, saving into a pension and taking an income in retirement.

22.2. We also believe that improvements to advice provision could have additional benefits to consumers who are underestimating the impact that ill health and injury could have on their income, as well as those underestimating their longevity, and potential need for long-term care, as stated in answer to question 20.

23. Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

23.1. We support the Review's proposal to focus on those without significant wealth or income, but with some money. In relation to retirement income, we believe the focus should be for pension pots of up to £100,000, as those with pots above this amount should be able to pay for advice.

[38] Populus surveyed 2,101 UK adults online on behalf of the ABI from 28th to 31st August 2015. Results were weighted and are representative of the UK population aged 18+.
[39] Laing & Buisson (2013/14) 'Care of Older People: UK Market Report 2013/14', http://www.payingforcare.org/care-home-fees

(4) What options are there to close the advice gap?

24. 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?

24.1. The regulatory framework should be reviewed with a view to simplifying the categorisations and definitions used to describe advice. In addition, the advice boundary should be reviewed, with consideration of the requirements of MiFID, to enable more open and constructive engagement with customers.

24.2. We set out a proposed solutions on these subjects answer in question 39.

25. 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?

26. What can be learned from previous initiatives to improve consumer engagement with financial services?

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

27.1. The key piece of EU legislation that impacts the UK domestic advice market is the MiFID, and the forthcoming MiFID II which is currently scheduled to take effect from January 2017. MiFID II will define the standards that are required when providing independent advice, will set an inducements regime for firms giving independent advice and portfolio management and will establish new requirements for due diligence, suitability and appropriateness.

27.2. MiFID II does not automatically apply to pensions and insurance based investment products. However, when implementing MiFID the FCA applied the regime to these products. If the same approach is adopted for MiFID II, a key impact will be the limitation of what can be achieved in terms of regulatory change in these areas. MiFID II includes introduction of an appropriateness test for non-advised sales of complex products and changes to suitability reports, including ensuring that all recommendations are personalised.

27.3. The Review must also consider the Insurance Distribution Directive (IDD), which will replace the Insurance Mediation Directive. IDD, in effect, contains much of the same provision as MiFID II including that relevant to advice, but with the key difference that it includes insurance based investments, although not pensions, and does not have to be implemented until 2018.

27.4. We believe that there may be benefits in reviewing whether or not the FCA should apply MiFID II based requirements to pensions. This would leave some scope to Review the regulatory approach as a result of the feedback received through responses to FAMR, without the conflict of simultaneously consulting on implementation of MiFID II based requirements. As IDD will be applied to insurance based investments from 2018, a similar approach could be used for pensions, after the FAMR recommendations have been identified.

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

28.1. We have listed a range of behavioural biases which can effect consumer decision making in the retirement income market in answer to question 9. It is essential the range of these biases, which may deter consumers from accessing advice, are considered as part of the Review.

28.2. The FCA is already behaviourally trialling wake up packs and Pension Wise has taken into account user research as part of the continued evolution of its service. These are positive steps and we would urge the government and FCA to proactively identify other opportunities to leverage its behavioural insight resources into areas where it can help improve the communication of advice, or nudge people toward accessing it at the optimum time. We expand on this in answer to question 39.

28.3. The research commissioned by the ABI, and undertaken by Ideas42, sets out a range of recommendations which could be applicable to improving engagement with advice in the retirement income space.[40] These include.

28.4. **Encouragement of employer involvement**

Employers can help provide a trusted and independent prompt to employees to engage with retirement planning early on. This could involve signposting employees toward guidance and advice, or providing their own behaviourally trialled communication and workshops for those approaching retirement.

[40] ABI/Ideas42 (February 2015) 'Freedom and Choice in Pensions: A Behavioural Perspective', https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Pensions/Freedom%20and%20Choice%20in%20Pensions%20A%20behavioural%20perspective.pdf

28.5. **Early communication from providers and Pension Wise**

28.6. Providers could communicate prior to the wake up pack to ease people into the retirement planning process. Inclusion of a checklist for example would help encourage customers to begin planning early on and could signpost to independent information or tools and guidance. Similarly, Pension Wise could be utilising behaviourally informed communications with consumers approaching 50 to signpost them to the service.

28.7. **Reduce ambiguity around sources of advice**

28.8. We would like to see the range of sources which provide advice being clear about their intentions, and what they do and do not provide. Regulated advisers and Pension Wise already do this by meeting regulatory standards and being clear about the type of advice they are offering. Ambiguity about the source of advice can be a deterrent to accessing it, so the less there is the better.

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

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

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

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

33. 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?

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

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

35.1. As our answer to question 16 explains, a deterrent for advisers to operate more actively in the retirement income market is linked to concerns about liability as a result of the new and unproven nature of the market following the reforms.

35.2. However, whilst we welcome the inclusion of the safe harbour and longstop measures for discussion in this Call for Input, we are not convinced that a safe harbour style approach to managing or limiting liability will be beneficial for consumers.

35.3. We do, however, believe that the FOS and FCA can do more in this area to reduce concern about liability and we have outlined a proposal for a 'complaints sandbox' in answer to question 39.

36. 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?

36.1. We have already seen some examples of innovative automated forms of advice being brought to market in the retirement income space, proving that this approach is both workable and can deliver regulated advice at a lower cost to consumers.

36.2. We believe that there is considerable scope for the development and deployment of automated approaches to advice, delivering cost efficiencies through a customer driven fact find, employing algorithms to assess consumer needs, circumstances and attitudes to risk, before providing recommendations, and even the capability to transact through an online portal. Emerging systems currently have a degree of human interaction available, with telephony support for example, including available QCF level 4 advisers to support consumers through their online journeys.

36.3. Automated approaches will not be suitable for all consumers, but supporting the infrastructure to deploy these approaches is essential for the increasing numbers of consumers who are more comfortable using digital, rather than traditional advice channels.

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

37.1. There have already been some automated approaches brought to market. This suggests that the regulatory framework allows for the development of such approaches, but that firms risk appetites, or commercial assessment considering the significant upfront cost of investing in automated advice, dissuade them from developing propositions. As with any product or service, not every advice provider will necessarily want to enter the market and they will have individual and commercial reasons for taking this decision.

37.2. As we are in the relatively early stages of the emergence of automated advice models in the UK, and the market is therefore somewhat untested, we do not feel that any specific regulatory change is necessary at this point. It will be important that the FCA monitors the development of this market, to ensure that all propositions that reach consumers have been developed and implemented to an appropriate standard.

37.3. Whilst we do not identify specific regulatory barriers to automated advice beyond uncertainty, we would note that the overall volume of regulation, and the speed with which regulatory rules react to innovation, can tend to absorb firms resources at the expense of innovation, and can complicate the development of new propositions.

37.4. We therefore welcome the FCA's Project Innovate initiative and more recently the announcement of proposals to develop a regulatory sandbox. We support this sandbox approach as a key testing ground for firms who wish to innovate and explore the development of automated advice, as well as to receive guidance and support from the regulator.

38. What do you consider to be the main consumer considerations relating to automated advice?

38.1. As with any emerging distribution model or product, the need to be conscious of consumer needs and risks should be paramount. With automated advice models, consumer considerations lie on both the demand and supply sides. From the supplier point of view, there could be a failure in design to the technology itself leading to a poor outcome. From the demand side, consumers using automated advice could, for whatever reason, input incorrect information and therefore receive advice based on incorrect details. However, with strong governance procedures and safeguards, we believe that consumer interests can be safeguarded.

39. What are the main options to address the advice gaps you have identified?

39.1. We do not believe that there is only one solution to the current gaps in the provision of advice. As such, we recommend a suite of solutions aimed at making advice easier to access, easier to provide, improving access to information, and enhancing guidance.

39.2. ***Making advice easier to access***

39.3. **Enable the output of a guaranteed guidance session to include production of a portable pension fact find that can be used with a fee charging advice provider**.

Pension Wise is already required by FCA rules to collect detailed information from people when undertaking a Pension Wise session (see appendix one for details).

A significant amount of this information is consistent with that required during an IFA fact find process. We see significant scope for the agreement of a standardised format for a portable pension fact find document which can be completed as part of the guaranteed guidance session, agreed and signed off by the customer, and provided to them to take away to assist with their retirement planning.

This document could help reduce the amount of time spent by an advice provider on the fact find, one of the most time intensive parts of the process, therefore opening up opportunities for efficiency gains. It also has the benefit to the customer of having all of their information in one place, meaning they do not have to repeat all of the fact find process multiple times. Even if they subsequently choose to take an execution only route, this could aid them in shopping around and in making a more informed decision.

Robust governance structures would need to be put in place to ensure that consistent and accurate collection of information was undertaken and presented. In addition, an agreement on the distribution of liability for the information collected would need to be sought, with guaranteed guidance providers being liable for undertaking the correct processes, and the consumer accepting liability for providing the right information. We believe that additional FCA rules would be required to ensure that all parties involved would have confidence to engage with the portable fact find.

39.4. **Review the tax regime for employers offering advice and support to employees.**

In the pension and retirement income space there is a key role for employers who do much to help encourage saving, not least through automatic enrolment, but also through provision of internal and external advice to their employees. Any measures that involve employers doing more should be focussed on providing incentivisation, rather than compulsion, and removing current barriers.

The recent Confederation of British Industry (CBI) pension survey shows some appetite amongst businesses for doing more to support and engage employees at both the accumulation and decumulation phases of their Defined Contribution pensions. Maximising employee engagement with pensions is the highest ranked business priority, and in answer to a separate question, nearly half of respondents are looking at additional propositions, including guidance, and 15% are encouraging employees to contribute more to their schemes.[41]

However, employers are currently concerned about both the cost associated with providing advice, or additional engagement, and liability, when issuing advice to employees. We believe that reviewing and re-clarifying the advice boundary will help to provide employers with a clearer understanding of what they can and can't do in terms of advice provision.

[41] CBI (October 2015) 'A View from the Top', http://news.cbi.org.uk/cbi-prod/assets/File/pdf/CBI-Mercer%20pensions%20survey%20October%202015.pdf

In terms of cost, current HMRC guidance outlines that for information or advice provided generally, for example a presentation open to all employees, no tax charge is generated. However, for one to one pensions advice provided by an external adviser, a tax charge is incurred when it costs over £150. Exemptions include if it is under £150, similar advice offered to all employees, focussed on just pensions, or if it is to meet the obligation to provide independent advice for those who want to transfer from a Defined Benefit to a Defined Contribution scheme.[42]

We would urge further exploration of whether the rules on tax charges for one-to-one advice on pensions could be reviewed to see if there is scope to provide more of an incentive for employers to bring in external advisers at a lower cost.[43] We would also support the exploration of this for advisers who could offer advice on a range of other financial issues that employees may face, including consideration of advice for needs such as protection and social care.

In addition, many employers currently offer benefits such as loans and vouchers for a range of goods and services, including payment of travel associated with their employment, loans for bikes, and for deposits on rental accommodation. The Government could explore whether there is scope to design and incentivise tax efficient loans or vouchers as an employee benefit aimed at paying the cost of fee charging financial advice.

It should be explored whether employers can play a more active role in signposting employees at age 50 toward accessing guidance, without overburdening businesses.

As we noted in response to question 20, the role of the employer is linked closely to the continued implementation of automatic enrolment. There is a major challenge in how we can increase contributions through automatic enrolment without increasing the number of people opting out. Any enhanced role of the workplace in advice provision should be built to reflect and help overcome this challenge.

We also recommend that government and industry work together to develop a means for employees to clearly and simply check their combined level of protection from the state and their employer. For example, a protection statement that explains someone's chance of being off work sick for 28 weeks and what their combined income would be each month and the chance of being off work sick for 12 months and their income. This could be included in people's P60 or accessed online and help people better understand their potential needs should they be unable to work.

[42] HMRC 'EIM21802 – Particular Benefits: Pension Provision: Pensions Advice Provided by an Employer: Exemption from Charge', http://www.hmrc.gov.uk/manuals/eimanual/eim21802.htm
[43] HMRC (December 2015) 'Income Tax: Statutory Exemption for Trivial Benefits in Kind', https://www.gov.uk/government/publications/income-tax-exemption-for-trivial-benefits-in-kind/income-tax-statutory-exemption-for-trivial-benefits-in-kind#who-is-likely-to-be-affected

39.5. **Review and reduce the categorisations and definitions used to describe advice, with the aim to make them more consumer friendly.**

As it stands, there are numerous descriptions, categorisations and definitions used for advice, and various different terms associated with it, some of which are enshrined in regulation, and some of which are not. They are overly complex and confusing to both consumers and to firms. We support their review, both looking at the underlying regulatory sources, including the FCA Handbook and the Regulated Activities Order, to make them more consumer friendly.

We believe simplification will help consumers clearly understand what they are receiving, and make it easier for firms to develop new advice propositions. We would support and be happy to participate in a taskforce to review these categories.

39.6. ***Making advice easier to provide***

39.7. **Help advice providers better understand potential future liabilities by developing a 'complaints sandbox'. Many complaints relating to current sales, will not be received until many years later, so a hypothetical test case environment in which FOS can adjudicate and publish findings on potential future complaints now would benefit firms and consumers.**

Longer-term liability is a deterrent for some advisers to taking on clients who want to make a retirement income decision. As such, we support the modelling of hypothetical future complaint scenarios, investigations, and judgments, supported by the FOS, FCA and the financial services sector.

This would be completely based on current regulatory standards and forecasts, non-binding on future complaints and judgements, but provide a publically available guide as to how the regulator and ombudsman would approach a hypothetical complaint now. This could help to counter accusations of retrospection in the future, as well as help provide some comfort for advisers concerned about the treatment of unknown future liabilities.

For example, a virtual complaint could be generated around specific retirement income advice given to an individual now, based on various modelled conditions ten or more years into the future. The advice could be stress tested against scenarios including impact of economic conditions on the product, or introduction of new legislation, to test whether the complaint is legitimate or not. The findings of the hypothetical complaint could then be published, similar to current practise for live FOS complaints findings.

39.8. **Support, guide and ensure consistent application of regulatory standards for development of 'robo-advice' propositions, including continued support through Project Innovate.**

We consider that robo-advice propositions are likely to play a key role in the supply of advice. The FCA's Project Innovate has already supported providers developing robo-advice solutions. In November, the FCA announced that it intends to review options for and develop and launch a regulatory sandbox. In its report, it noted as a case study, how the sandbox approach could potentially apply to a firm looking to test a new automated advice proposition, in a safe space. We support the FCA's work and the aim of encouraging firms to utilise this environment where they are interested in testing the feasibility of a proposition.

In addition, in our response to FCA Consultation Paper 15/30 we argue that the sandbox could also be a useful tool for firms looking to test the effectiveness of innovative retirement communications. We hope that once the sandbox is operational it will become an effective testing ground for smarter retirement communications.

39.9. ***Improving access to information***

39.10. **Review and re-clarify the boundary of regulated advice against previous FCA guidance and forthcoming MiFID II requirements, to enable better support for customers that cannot, or will not, pay for fee charging advice.**

Firms and advisers, both in the contract and trust environment, are too often concerned about the risk of crossing, or having been perceived to have crossed, the boundary between unregulated and regulated advice. This reduces the scope for firms to offer support to customers and reduces the relevance a consumer can expect from the information they provide.

As such, we believe that the FCA's Finalised Guidance on Retail Investment Advice (FG15/1) should be reviewed to assess whether the boundary is in the right place and particularly whether any narrowing of information should be considered as advice without a personal recommendation.

Connected to this, the Review should include the development of 'universal truths' or 'rules of thumb' as an agreed guide for providers to delineate generic information and messaging which will be suitable for the vast majority of consumers. This could include common sense information such as dealing with debt and considering the sustainability of their pension pots.

This approach should allow providers to have a constructive and helpful conversation with customers without fear of straying into regulated advice.

In addition, when considering the advice boundary, it should be explored whether there is a space for an additional category of non-advised services, offering guidance and personalised information outside of the advice and personal recommendation definitions.

Reviewing the advice boundary could also help drive employers who want to help their employees to do more. As we note above, employers are currently concerned that they could cross the advice boundary and open themselves up to unintended risk. Extending what can be done with information could help provide useful clarity and comfort to employers on what information they can provide to their employees.

39.11. **Continue to work together to drive forward the development of a pensions dashboard with the objective of a single view of pension assets and entitlements.**

The development of a pensions dashboard will be a crucial tool in helping people better engage with their pensions. Far too many people are unaware of the savings they have accrued and the dashboard will help bring information about all of their pensions together in one place. This will help ensure that people are aware of what they have, what they need to save to provide for the retirement they want. It could also help them in providing the basis of their circumstances in a more efficient way when it comes to engaging with Pension Wise, IFAs, and public financial guidance providers when exploring their retirement options.

Work has begun to develop a framework for a pension dashboard solution and we would urge government to continue to offer its backing, to help bring all relevant parties together and also ensure it can incorporate state pension provision. In practice, there are likely to be multiple competing dashboards and this underlines the role of the public sector: to help oversee the whole system; to determine what credentials are required to operate a dashboard; and, if there are gaps in provision, to offer a central dashboard through a public financial guidance service.

39.12. ***Enhancing guidance***

39.13. **Integrate Pension Wise and The Pension Advisory Service (TPAS), with one central point of contact, with signposting towards guidance at age 50.**

In response to the Treasury Public Financial Guidance Consultation, we argue that there is scope for a more integrated approach to provision of guidance for pensions and retirement income.

This would be achieved by seeking closer integration of Pension Wise and TPAS, with TPAS acting as the first point of contact, signposted to by government at age 50, for a telephone based conversation about pre-retirement finances. In our report with KPMG, we envisaged a triage mechanism at first contact. This can be supplemented by the Pension Wise website, use of which has been encouraging to date.

TPAS should be the logical first port of call as it can deal with queries from all consumers with a pension, regardless of whether they have Defined Contribution, Defined Benefit or the State Pension. TPAS would then be able to triage consumers to Pension Wise, or other services as appropriate, including an IFA.

We are keen to work with the Government and public financial guidance providers to test how this could work in practice in order that such a signposting communication from government can be best targeted.

The Treasury should also give consideration to running of the Pension Wise website, and how the existing tools offered by the MAS can be incorporated into the Pension Wise process.

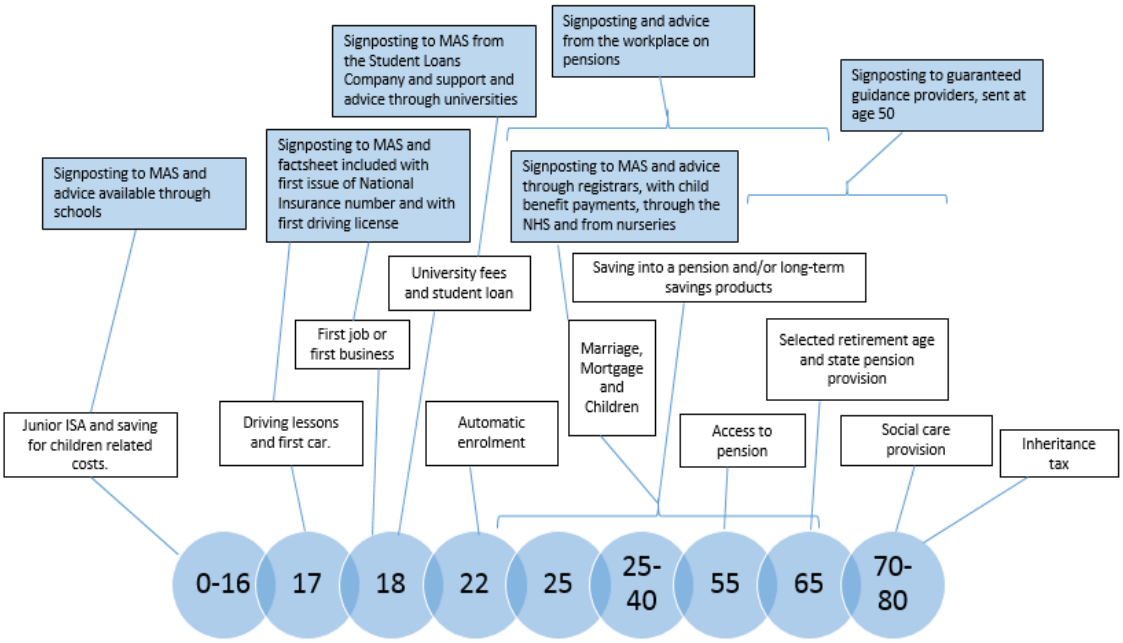
39.14. **Review how public bodies can leverage opportunities to signpost and nudge people towards accessing advice at critical junctures in a person's life.**

Public bodies can play a role in signposting and nudging people toward guidance and advice at the key pinch points in the average person's life where a big financial decision or challenge will likely face them. By increasing consumer familiarity with guidance and advice services as early as possible, and nudging them toward it, we can help improve financial capability and outcomes later on in life.

There are already some instances of this signposting approach happening, for example with social care needs. Phase one of the Care Act 2014, which came into force in April 2015, provides a useful platform from which to improve access to advice. Under their new statutory duty, local authorities now have an obligation to signpost individuals requiring care to IFAs. The Best Practice Guidance developed by the Society of Later Life Advisers, in coordination with the adviser community, consumer groups and our members is useful in assisting local authorities in their triaging of individuals. But, based on anecdotal evidence, the effectiveness of this is inconsistent and varies from local authority to local authority.

There is clearly a role for all of us to play in raising awareness of the availability and value of advice. Government, public financial guidance providers, the public sector and businesses need to work together to ensure that people are aware advice is there for them when they will most likely need it.

Some examples of how a range of government and public bodies could potentially achieve this are included in the diagram below.



The use of behavioural insights in any approach to signposting will be important. The government has a significant amount of experience and resource in utilising behaviourally trialled methods, materials and communications. It should explore the potential for deploying this at critical junctures, such as those identified above, to help signpost and nudge people toward accessing guidance and advice services, such as the MAS and guaranteed guidance providers.

40. 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?

40.1. There is a risk that the proposals and actions from this Review could impact and distort competition in the advice market, as well as the specific product markets on which its focus is drawn.

40.2. The most effective way to prevent any distortive competitive advantage or disadvantage is to ensure that the Competition Markets Authority and FCA play a central role in assessing the Reviews recommendations, from as early a stage as possible. This should ensure that any potential competition issues are identified and resolved.

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

41.1. The Review must seek a careful balance between removing supply side barriers to firms who wish to do more to help consumers, whilst ensuring that standards of

consumer protection remain appropriate. In identifying the measures that we have outlined, we believe that levels of consumer protection can be kept intact.

Appendix One – Information collected for a Pension Wise session

- *Relevant information from the consumer about their accumulated pension pots includes information about:*

    - *the sum of money that will be available to exercise options in retirement*
    - *whether any guarantees apply*
    - *any benefits, exit fees and ongoing charges*
    - *any other relevant special features, restrictions, or conditions that apply, such as (for with-profits funds) any market value reduction conditions in place, and*
    - *any other information relevant to the exercise of the consumer's options.*

- *Relevant information about the consumer's financial and personal circumstances includes the following.*

    - *Financial information*
        - *spouse /partner's pension pots or benefits and other income*
        - *current and future sources of income*
        - *capital expectations*
        - *tax status*
        - *entitlement to state benefits (current and future)*
        - *home owner or renting*
        - *debt position*

    - *Personal circumstances*
        - *dependants*

- *spouse/partner*
- *state of health*
- *potential long-term care needs*
- *the consumer's plan and objectives for retirement, to identify retirement income needs*[44]

[44] FCA (April 2015) 'Standards for Designated Guidance Providers Instrument 2015', https://www.handbook.fca.org.uk/instrument/2015/FCA_2015_9.pdf