Informed decision-making

An evaluation of the advice gap

Kathryn Petrie

Social Market Foundation

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EXECUTIVE SUMMARY:

Since the publication of the Financial Advice Market Review in March 2016, progress has been slow on a number of its recommendations. FAMR had the potential to revolutionise the advice market and tackle the advice gap but our research suggests its recommendations are unlikely to make a significant difference to the number of people obtaining advice. There is concern that political attention, including that of the Treasury Select Committee, may move away from the financial advice market as other topics receive increasing consideration. The Financial Conduct Authority's (FCA) 2017/18 Business Plan shows advice is still a focus for the FCA, although this attention appears to be increasingly related to the provision of automated advice and on the retirement income decision-making process. Bringing renewed attention to the financial advice market and the advice gap is essential to ensure that the traction FAMR has created is not lost and that the advice gap is reduced.

Consumer attitudes towards advice:

- There has been no significant change in the proportion of consumers willing to pay for advice since 2012. Our consumer polling results show that this remains at 24%.
- There is no convincing evidence to suggest that the use of paid for financial advice has increased since FAMR. Our research shows that 28% of consumers have used financial advice at some point in their life.
- The main barriers to obtaining paid-for financial advice include the cost, availability and quality of free advice, as well as a lack of trust towards financial advisers.
- Regarding the cost of advice, we find very substantial disparities between what consumers are prepared to pay for advice and the sums asked by the industry. This suggests that consumers do not value advice at current prices.

Market participants:

- In 2016 the number of advisers within the market rose, however the number of firms offering advice continued to fall. Aviva relaunched its advice proposition in November 2016, but largely as a result of changes within the retirement sphere rather than as a result of FAMR - its service is currently aimed purely at those looking to make retirement income decisions.
- A number of large providers have or are looking to adopt automated advice propositions.
- The first robo-adviser comparison site launched in early 2017, which could signify a growth in the demand and supply of automated advice. In 2016, 64 per cent of advice providers declared that they would be increasing their use of technology over the next twelve months.
- There is a lack of consensus amongst those within the market on the definition of the advice gap, which could hamper the ability for the market to find its own solution to the advice gap.

Conclusions on FAMR:

- There has been a lack of action within the market since the publication of FAMR. With large reductions in cost needed to radically reduce the advice gap it is unlikely that FAMR has gone far enough.
- FAMR and the FCA business plan for 2017/18 puts significant weight on automation as a factor that will reduce the advice gap. However, our research shows consumers are resistant to the idea of using automated systems to manage their finances.

Policy recommendations:

- Change the charging structure of advice: consumers should be allowed to choose between paying up front and having the cost of advice spread over the life of the product purchased.
- The market should look to develop a "personal financial dashboard" that will allow financial advice to be broader and more accessible, and potentially make the benefits of advice more visible.

- Providers should be encouraged to offer more financial advice that relates less to product-based decisions and more about "whole of life" financial planning. The demonstrable added value from this form of advice could help to narrow the gap between the price consumers are willing to pay and the price being charged.
- The FCA and HMT should regularly engage with providers of advice throughout the FAMR implementation process, this should include a variety of advisers from firms of different sizes and with differing propositions. This will ensure that the advice gap is tackled effectively and that providers of advice are promoted to openly discuss the challenges they face in helping to reduce the gap so to ensure that the momentum for change is not lost.

SECTION 1: INTRODUCTION AND RATIONALE

In March 2016, HM Treasury and the FCA published the conclusions of the Financial Advice Market Review. In the introduction to the final report, the co-chairs suggested that "the package of measures we have set out has the potential to promote a real improvement in the affordability and accessibility of advice and guidance to people at all stages of their lives." The FCA was right to shine a light on the advice gap through the FAMR and to take steps to remedy it, and this report seeks to put forward constructive ideas for how the agenda could be pursued from here.

Despite that ambition, and the wide suite of recommendations made by the Review, there is no mention of FAMR or the recommendations within the FCA's new Mission Statement. The FCA Business Plan for 2017/18 is more promising with several mentions of FAMR and a number of the recommendations, however, evidence from the FAMR progress report shows that progress relating to a number of recommendations is limited. Although many are incremental rather than radical in nature unfortunately the attention of many observers, such as the Treasury Select Committee, has shifted to other issues. Ultimately, it is unclear whether the conditions for improving the affordability and accessibility of advice and guidance have been met, or are likely to be met in the near future.

In the context of the FCA's Mission Statement and Business Plan and the new Ministerial team at HM Treasury, there is an opportunity to bring renewed attention to the advice gaps that the Review was set up to tackle and re-assess the prospects for closing them. Throughout this report, we define the "advice gap" as a scenario whereby an individual is willing to pay for advice but they do not obtain it.

There is a growing need for consumers to obtain good financial advice. The UK has low levels of financial literacy, which combined with increasing product complexity shows the importance of accessing advice and guidance when making financial decisions. Rising lifespans and a reduction of state provision in many spheres mean we are becoming increasingly reliant on private savings and investments to support our long-term financial goals. Ensuring that people make decisions that lead to the best outcomes is vital

to individuals' wellbeing and financial resilience at all stages of life, and also a public policy goal.

THE FINANCIAL ADVICE MARKET REVIEW UPDATE:

The Financial Advice Market Review (FAMR) focuses specifically on how best to improve outcomes for consumers in the financial advice market. The Review contained 28 recommendations[1] with a large number of these focused on improving accessibility and the affordability of advice; see appendix A for full list of the recommendations. The creation of a Financial Advice Working Group was a recommendation from the review, and the formation of the group occurred shortly after publication.

Affordability of advice:

The FCA and HMT have made steady progress on a number of the nine recommendations that relate to the affordability of advice.

The FCA have created the Advice Unit, completed an additional three recommendations and launched consultations in line with four other recommendations. During the first round of applications for the Advice Unit, nine firms were successful with their applications, eight of which want to bring automated financial advice to the market at scale[2] – the unit opened for a second round of applications in January 2017. Some hope that automated advice could be the key to driving down costs and improving the accessibility of advice.[3]

The consultation aimed at amending the definition of financial advice prompted substantial external commentary. The Review suggests that by redefining advice there will be an increase in the offering of detailed guidance by advisers. FAMR stated that advisers shy away from offering detailed guidance in fear of crossing the boundary into regulatory advice, in theory by creating a defining line there will be a clearer divide and enable providers to be confident in offering guidance. Increasing the availability of detailed guidance allows more consumers to seek assistance when looking to make decisions without paid for advice. However, responses to the consultation were not as optimistic. Whilst many were in support of

redefining advice, they were less positive regarding the benefits this will have on the provision of guidance. The Association of Professional Financial Advisers (APFA) believes the change does not go far enough for advisers to offer simplified advice services.[4] The consultation closed in February 2017 and concluded that regulated firms will only be offering advice in situations where they offer personal recommendations.[5]

The final recommendation relates to the Markets in Financial Instruments Directive (MiFID), detailed implementation measures are due to be published by mid-2017.[6]

Accessibility of advice:

The Financial Advice Working Group have published their report, the report stated that there is no evidence to suggest that changing the terms will improve consumer understanding and there is no clear support for alternatives.[7] A number of recommendations relating to accessibility have been completed in early 2017, including the recommendation relating to the clarifying the rules around adviser charging and the ability to spread these costs over a short period. Both MAS and FAWG have worked on the Rules of Thumb and have created an employer factsheet. The aim of the factsheet is to help employers understand how they can support employees financial health in the workplace.

There is steady progress relating to the Pension Dashboard Project- a team of experts from different sectors are working together with the ABI to build and develop the dashboard. The aim is to allow consumers or advisers to obtain all of an individual's pension information, this would significantly reduce the cost of fact-finding exercises within the retirement space. The consultation on the pre-retirement advice tax break launched in 2016, with the conclusions published early this year. In February 2017, the Treasury announced that consumers would be eligible to withdraw £500 from their pension pot on three occasions, within separate tax years, in the run up to retirement, this policy is now active.[8] The allowance includes automated or face-to-face advice. There are concerns that this is not an adequate amount, as it does not cover the cost of advice related to pensions or retirement

due to their complicated nature; regardless of market commentary, the government was unwilling to increase the amount post consultation. The FAMR update report suggests that all other recommendations are 'on track'.

Additional recommendations:

The final nine recommendations do not relate to affordability or accessibility; they focus on liabilities and the implementation of the recommendations. The Financial Ombudsman owns four of the recommendations, which are unrelated to the issues we are looking to address within this report. The FCA will take ownership of an additional two recommendations, with the remaining recommendations focused on implementation.

It is hard to assess whether those tasked with implementation of the recommendations are making significant progress. Given the indicative timelines within the report, progress does appear to be slow and the lack of updates from involved parties may hamper the willingness of advisers to engage. With a number of consultations open and many to follow, we will only truly know the size of change following the reporting of their conclusions.

THIS RESEARCH

This report seeks to bring the FAMR to the forefront of discussion and assess whether it will impact the advice market substantially. We will look in detail at the demographics of those within the advice gap. We know that cost is a barrier to advice but we do not know how small changes in price will influence demand. In order to increase the demand for advice we must be clear on the barriers, particularly how these vary for different groups of consumers. By understanding more about the demographics of those we are trying to influence it will allow us to focus policy and ensure that FAMR can achieve its stated aims.

Questions we look to address are:

- Has / will FAMR influence the availability and affordability of advice?
- How have consumers and providers of advice reacted to FAMR?
- How much are consumers willing to pay?
- What are the barriers to advice?
- What is the role of automation in the future?

Section 2 explores the current landscape of the advice market; Section 3 reports on the findings from our consumer polling which seeks to understand more about the demographics of those within the advice gap and the barriers to obtaining advice. Section 4 seeks to understand the opinions of providers of advice through conversations with a number of market participants. Section 5 sets out areas for further consideration and our policy recommendations.

Survey design:

The survey used within this report was conducted online between the January 31st and February 3rd 2017 by Opinium; it was completed by 2,025 UK adults and is nationally representative.

SECTION 2: THE CURRENT ADVICE MARKET

WHAT IS THE ADVICE GAP?

We have defined the advice gap as encompassing individuals who are willing to pay for advice but do not obtain it. This definition covers more individuals than the "affordable advice gap" defined by Citizen Advice, which encompasses those who are willing to pay for advice but not at current prices. It is estimated that 5.4 million[9] people fall into the affordable advice gap and therefore a large number fall into the advice gap as we define it. A larger advice gap includes those who are unable to pay for advice, those who are unaware of advice and those who would benefit from preventative advice.

Historically, AXA have carried out consumer research focusing on household financial matters, known as the Big Money Index. The last publication of this report was in Q4 2012, it reported that 24 per cent[10] of individuals would be happy to pay for financial advice; this is down two points on Q4 2011.[11]

WHY DO WE HAVE AN ADVICE GAP?

There is evidence to suggest that previous regulatory change in the form of the Retail Distribution Review (RDR) is partly accountable for the reductions in the number of advisers serving the market. It is to be noted that those that remained post RDR appeared to be more professional and there was a reduction in product bias.[12] There has been an increased focus on clients with high levels of financial wealth post the removal of commission.[13] In 2011, there were approximately 26,000 advisers; this is higher than the level seen currently, with adviser numbers just below 25,000[14] For firms with revenues of less than £1million in 2015/16 the absolute costs of regulation have risen compared to previous years. Although, costs as a proportion of total regulated revenues have decreased from 12% in 2014/15 and 2013/14 to 11% in 2015/16.[15]

Figure 1: The number of financial advisers working at advice firms and the number of firms within the market

Source: APFA The Financial Adviser Market: In Numbers (2017).

The average cost of receiving advice appears to have been relatively unchanged between 2012 and 2014[16]; however, the average cost increased in 2015, particularly in relation to retirement planning.[17] This reflects the more challenging decision process on how to provide a retirement income following the introduction of freedom and choice in pensions. More than half (65%) of those purchasing drawdown products at retirement do so with the aid of financial advice.[18] The added complexity is likely to have increased the numbers obtaining financial advice at retirement but many will be making decisions without the aid of advice, which could lead to serious financial consequences in the long term. The average hourly fee for an adviser is £150, which is substantially higher than the value many consumers are willing to pay.[19]

There are barriers to consumers seeking advice; including, but not limited to, the cost of advice, a lack of knowledge, a lack of trust and a lack of access due to location or an unwillingness to share data online.[20]

MARKET REACTIONS:

Supply of advice:

In order for FAMR to be successful in changing the current landscape of the advice market firms must implement change. Automation is being heralded as a key aspect in allowing advice to become more affordable and accessible. There are a number of automated advisers within the market and the advice unit initiative has been welcome by firms who have shown a willingness to engage. The unit will be extended and work with firms in the mortgage, general insurance and debt sectors and will not be restricted to those offering regulated advice but also guidance.[21]

We are likely to see more automated advice offerings come onto the market as firms and consumers become more willing to embrace new technology. The LV model for automated advice could become a more familiar proposition in the market as automation grows. We have recently seen the launch of the first robo-adviser comparison site, which highlights the increased availability and demand for this form of proposition.

We have seen a number of providers re-enter the market in the last two years, including Santander and Aviva but we cannot suggest that this was because of changes recommended within FAMR. Overall the supply of advice remains in a similar position to how the market was operating prior to FAMR, there is no evidence to suggest that the advice gap is being reduced. Section 3 of this paper will look to explore consumer attitudes and behaviours in more detail.

Demand for advice:

There is currently no evidence to suggest that FAMR has made an impact on the number of consumers obtaining paid for financial advice. Our research has shown that 28% of consumers had previously used paid-for financial advice. This is slightly lower than previous polling carried out by Opinium in 2013. Their research asked a very similar question, and their results showed that 29% of consumers had previously sought advice. Suggesting that there has been no radical change in the number of consumers using financial advice since 2013.

It is assumed that one of the main barriers to consumer demand for advice is the high costs. We are yet to see evidence that costs within the market have reduced and therefore we would expect there to be very little change in the demand for advice. In order to help combat this barrier, FAMR recommended that consumers be able to withdraw money from their pension to pay for advice. Although still early days research suggests that, the take up of this initiative has been limited thus far,[22] and there may be a role for providers and the industry in increasing awareness amongst pension savers to ensure they can maximise the benefits associated with this change.

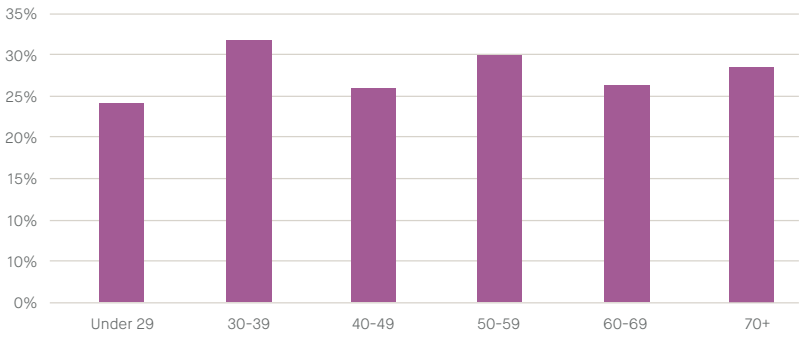
Many of the FAMR recommendations involve ongoing consultations or implementation dates in the future. It is important that we continue to monitor the number of consumers obtaining advice, the type of advice and the demographics of these consumers. A full review of FAMR is due in 2019 and ensuring that the correct measures of success are used is vital in understanding whether or not FAMR has achieved its aims.

SECTION 3: CONSUMER ATTITUDES TOWARDS ADVICE

To understand the prevalence of the financial advice gap we need to identify those who are on the edges of advice. In order for FAMR and any regulatory change that follows to have an impact on the demand for advice, we need to recognise the barriers to advice and the demographics of those within the advice gap.

WHO USES ADVICE?

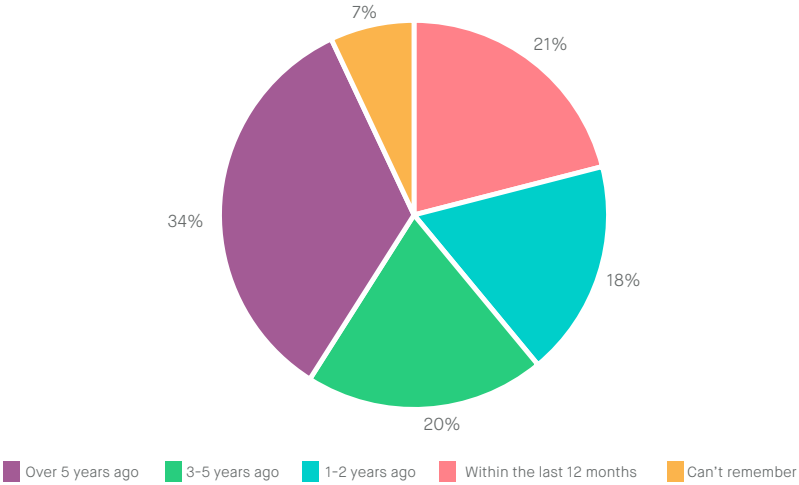
Figure 2: Proportion of individuals who have paid for financial advice at any point in their life by age



Source: SMF analysis of Opinium Survey. Base: All respondents.

Figure 2 shows who has paid for financial advice by age; it does not show how this demand splits in terms of product types. The highest usage of financial advice is for those aged 30 to 39, this demand is likely to encompass the usage of a mortgage broker during the home buying process.

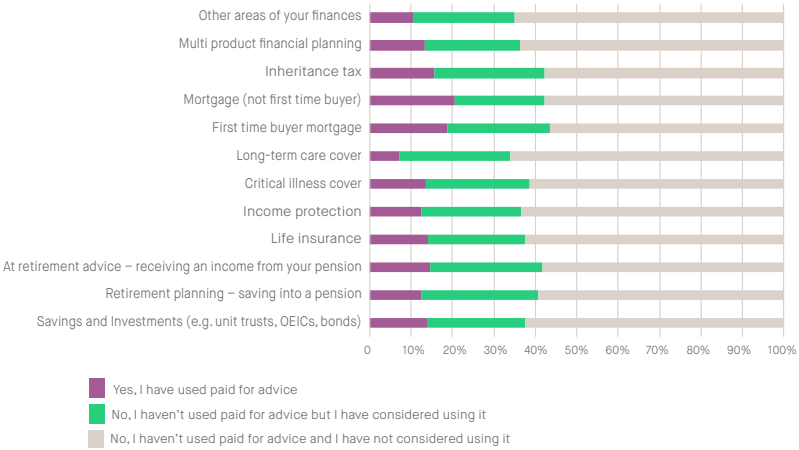
Figure 3: Time since the individual last accessed paid for financial advice



Source: SMF analysis of Opinium Survey. Base: have used paid for financial advice.

A large majority of respondents last used paid for financial advice over five years ago although a significant proportion used advice within the last 12 months. Those who accessed advice within the last 12 months may have done so as a result of the changes put forwarded by FAMR.

Figure 4: Paid for advice demand by product



Source: SMF analysis of Opinium Survey. Base: have owned the product.

We can see that individuals are most likely to take or consider paid for advice relating to mortgages, inheritance tax and retirement income decisions. The complex nature and potentially a lack of general understanding related to these is likely to increase the need for financial advice, or in some circumstances, there could be a requirement that the individual take financial advice, as can be seen within the pension transfer market.

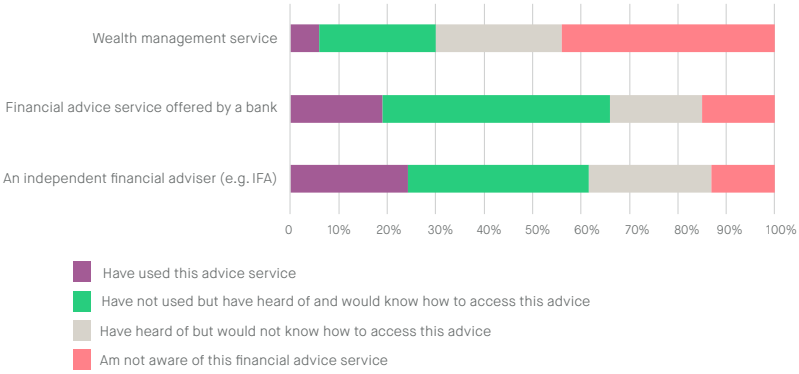
Summary of usage:

- Highest usage of financial advice is for those aged 30-39.
- Most common products purchased with the aid of financial advice are mortgages, inheritance tax and those relating to retirement income.

AWARENESS OF ADVICE:

A large proportion of those in the graph above have never used or considered financial advice. Those considering the purchase of financial products cannot demand advice if they are unaware of how to obtain it, 38 per cent of people were unaware or would not know how to access advice from an independent financial adviser (IFA). This compares to 34 per cent for paid for in branch financial advice from a bank. Advice can be more affordable and accessible, but without addressing issues relating to awareness and understanding of advice services we are unlikely to see a substantial increase in demand for advice.

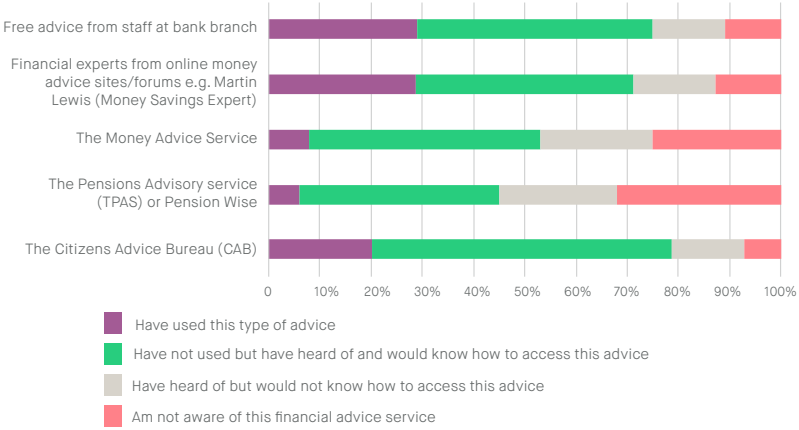
Figure 5: Awareness of paid for financial advice



Source: SMF analysis of Opinium Survey. Base: have owned the product.

When looking at free guidance, only 21 per cent of individuals were not aware or did not know how to access the Citizen's Advice Bureau (CAB).

Figure 6: Awareness of free financial advice/ guidance



Source: SMF analysis of Opinium Survey. Base: all respondents.

Whilst the availability of guidance has its strengths, for some individuals the level of guidance may be insufficient to address their financial needs. This signifies the need to understand the decisions made by individuals who consider but do not take advice, who are known as being on the edges of paid for financial advice. Individuals who are not willing to pay for advice at current levels may substitute paid-for advice for free advice/ guidance but this can only happen if individuals are aware of such services. For individuals who have never used financial advice, 52 per cent would not know how to access or are not aware of the Money Advice Service; this figure reduces to 24 per cent in relation to Citizens Advice Bureau. Consumers who do not use advice or guidance in any form and therefore make decisions themselves are increasing their risk of achieving undesirable outcomes which could have serious consequences for their long-term financial health.

Summary of awareness:

- Banks have the highest level of awareness amongst paid for financial advice channels and consumers are also often aware of free advice in banks. Awareness is likely to be a barrier of advice.
- Awareness is high for free financial guidance services.

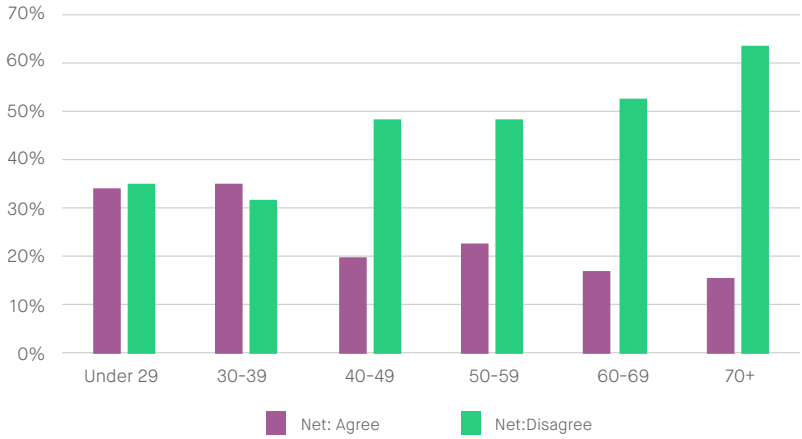
WILLINGNESS TO PAY:

Our research shows that 24 per cent of individuals would be happy to pay for financial advice; this is consistent with the research carried out by AXA in 2012, showing that there has been little/no change in consumers' willingness to pay for advice over the last four years.

A number of individual characteristics will influence an individual's willingness to pay for financial advice is shown in figures 7 to 9. Those aged 20 to 39 are happier to pay for financial advice compared to the other age groups; this is also true of those with a household income of between £30,000 to £40,000 and more than £50,000. Those aged 30 to 39 are the only age group where a larger proportion would agree that they are happy to pay for financial advice than disagree. This shows the willingness of

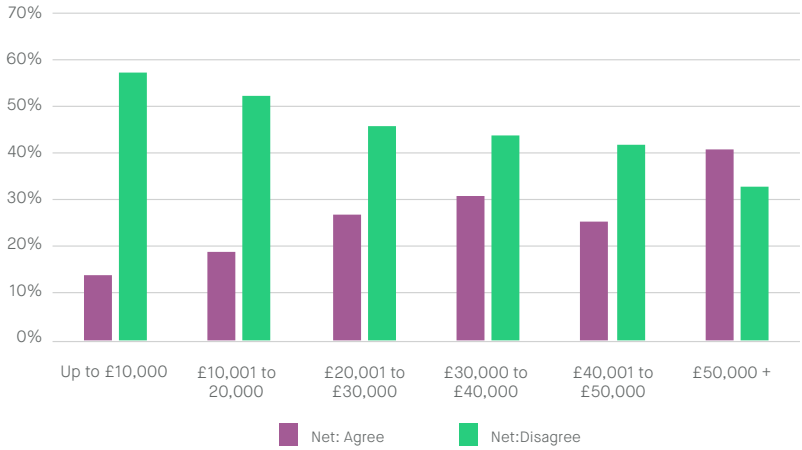
younger consumers to take advice on their financial matters and the value they place on help. Whether traditional face-to-face advisers are willing to serve these individuals is another matter.

Figure 7: Percentage 'Happy' to pay for advice by age



Source: SMF analysis of Opinium Survey. Base: all respondents.

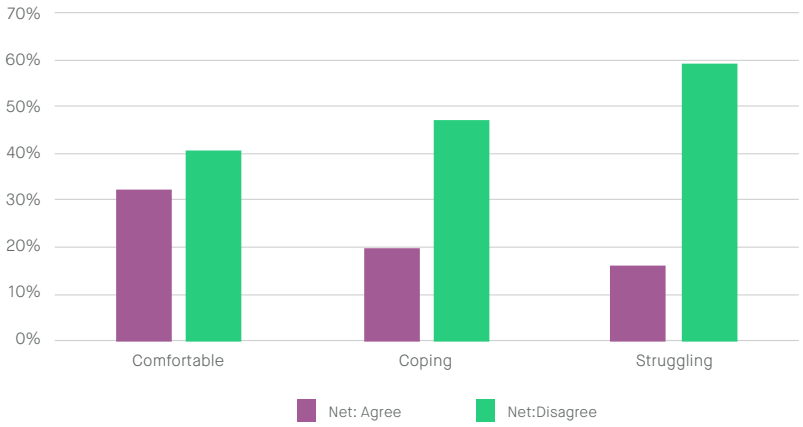
Figure 8: Percentage 'happy' to pay for advice by annual household income



Source: SMF analysis of Opinium Survey. Base: all respondents

Financial confidence does not appear to be a major influence on the demand for paid for financial advice. We would expect consumers with lower levels of financial confidence to have low levels of financial capability and therefore should be more likely to demand paid for financial advice. Our results show that individuals with high levels of financial confidence are the most willing to pay for financial advice. The most financially confident individuals have a household income above £30,000, which is likely to be contributing to the pattern seen within the financial confidence data. Another factor that is worth considering is the relationship between financial confidence and financial awareness /literacy levels. Those with lower levels of financial literacy are less likely to have precautionary savings and are more likely to misjudge the risks associated with the purchase of financial products. A number of issues will affect how they value the importance of advice related to their financial situation and whether this is something that they genuinely need.

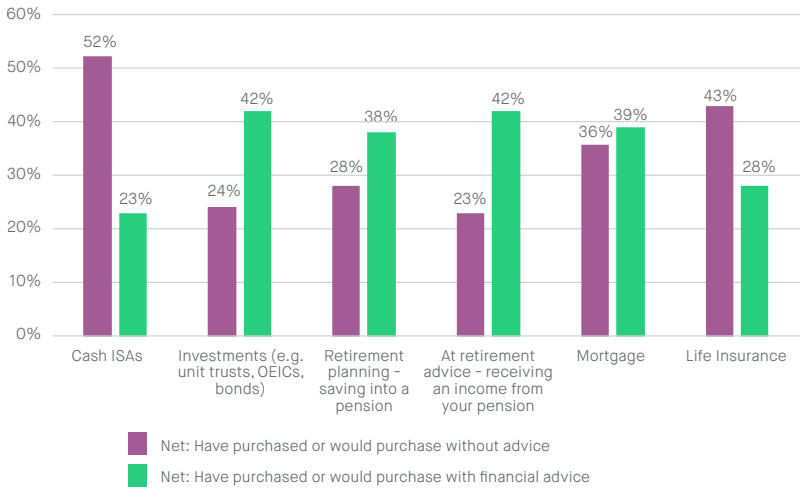
Figure 9: Percentage 'happy' to pay for financial advice by financial status



Source: SMF analysis of Opinium Survey. Base: all respondents.

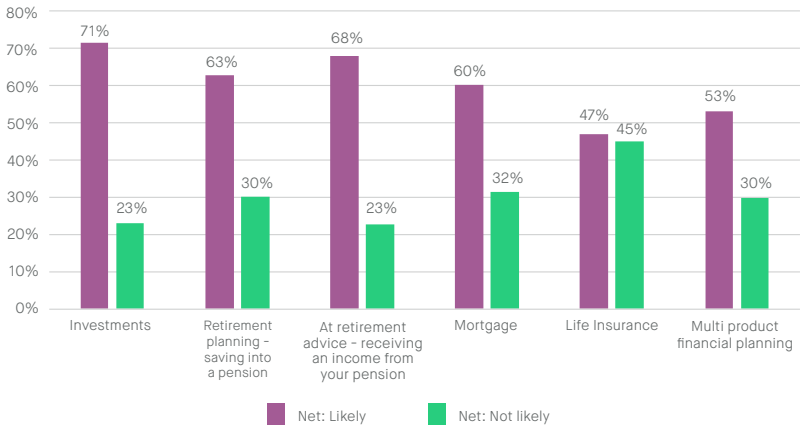
The clearest trend relates to an individual's financial status. Those who report themselves to be struggling are the least likely to be willing to pay for financial advice. Financial status is an indicator of disposable income; those who are struggling are less able to save during their lifetime and less likely to have the available funds to pay for advice.

Figure 10: Willingness to pay for financial advice by product



Source: SMF analysis of Opinium Survey. Base: all respondents.

Figure 11: Willingness to pay for financial advice by product given that they are happy to pay for advice



Source: SMF analysis of Opinium Survey. Base: happy to pay for financial advice

Figure 11 focuses purely on those who are happy to pay for financial advice, per product figures change when we focus on specific age groups. The proportion of individuals happy to pay for multi-product financial planning is 53 per cent. This increases to 63 per cent when focusing on those aged 30 to 39. For at retirement advice the proportion happy to pay is 68 per cent. This increases to 77 per cent for those aged 50 to 59. The introduction of pension freedoms has added complexities to the decision around retirement incomes, therefore increasing the demand for all forms of advice. This reflects the importance of life stages in understanding demand for advice, where life events can cause negative and positive income shocks.[23]

Summary of willingness to pay:

- 24 per cent of individuals are willing to pay for financial advice. This is highest amongst those aged under 39.
- Financial status has the greatest correlation with willingness to pay, with those who are struggling the least likely.
- Investment and at retirement decisions are the areas that consumers are most happy to pay for advice.

THE ADVICE GAP:

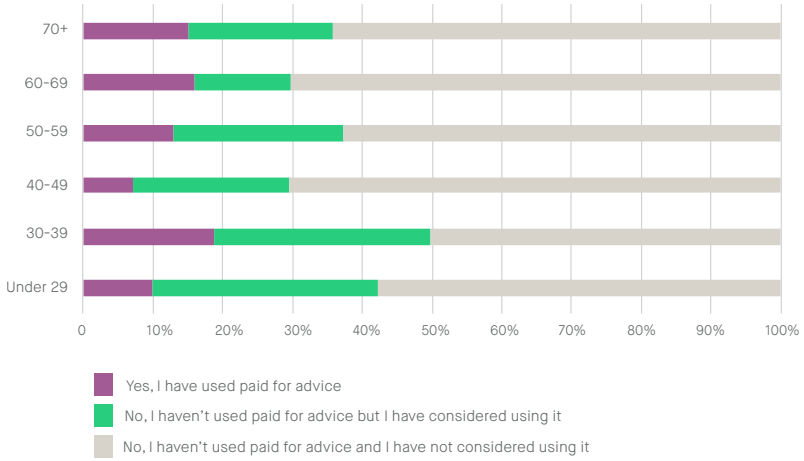
We have revealed the characteristics of those using paid for financial advice and those who are in theory willing to pay for advice, but we are yet to identify those who fall into the "advice gap". We are not limiting the advice gap to those who are unwilling to pay because of prices; we are interested in all barriers that influence the demand for advice amongst those who are willing to pay.

Below we can see the demographics of those who have purchased a savings and investment product, looking in detail at those who have used and those who considered but did not use paid for financial advice.

There does not appear to be any correlation between age and use of paid for financial advice related to savings and investments. There is great variation between the age groups, suggesting that the age of a consumer does not affect their need or demand for financial advice. Age is reflective of the life

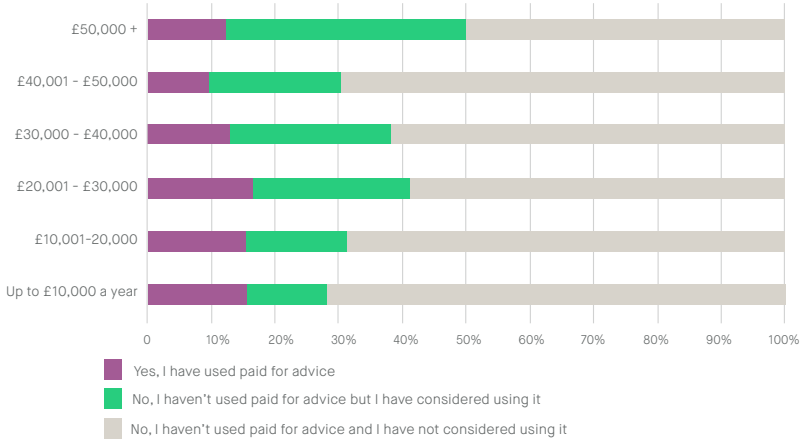
events experienced and the amount of savings accumulated but this graph alone does not suggest that age is influential on demand for advice.

Figure 12: Use of paid for financial advice for savings and investment products by age



Source: SMF analysis of Opinium Survey. Base: have owned a savings or investment product.

Figure 13: Use of paid for financial advice for savings and investment products by annual household income



Source: SMF analysis of Opinium Survey. Base: have owned a savings or investment product.

Again, there is a lack of clear evidence that annual household income is related to the use of paid for financial advice. The household income may indicate your ability to save and therefore your need for advice. Those with annual household incomes above £50,000 are most likely (38%) to fall into the advice gap. A quarter of those on middle income (£20,000-£40,000) are likely to be within the advice gap.

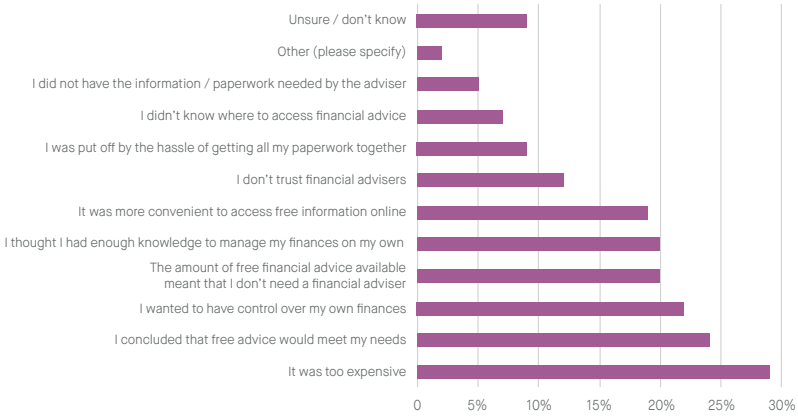
Summary of advice gap:

- Younger individuals are most likely to consider but not use financial advice and therefore fall into our advice gap.
- Those with incomes over £50,000 are most likely to consider but not use financial advice. This is also a significant problem for those on middle incomes.
- A quarter of those who are 'struggling' are within the advice gap.

BARRIERS TO ADVICE:

We have been able to identify those who fall into our definition of the advice gap - that is, they consider advice but do not take it. To ensure FAMR achieves its aims we must address the barriers to advice to ensure we understand why individuals who consider advice do not take it.

Figure 14: Reasons for not taking advice after considering it

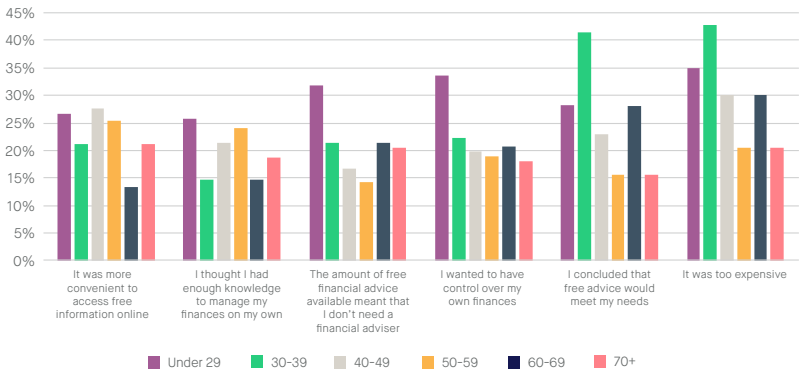


Source: SMF analysis of Opinium Survey. Base: have considered, but never used any financial advice.

The three most common reasons for not obtaining paid for financial advice are "it was too expensive", "I concluded that free advice would meet my needs" and "I wanted to have control over my own finances". Reassuringly, only 7 per cent of individuals cited not knowing where to access financial advice as a barrier, although we should be aiming to get this figure much lower.

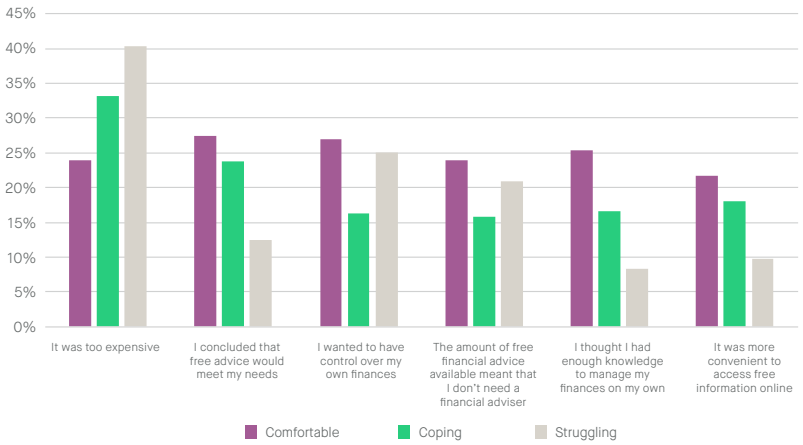
Nevertheless, practicalities matter as well: five per cent of individuals mention that they did not have the correct information/ paperwork needed by advisers. Given the technology available to us, it is a cause for concern that advisers still need vast amount of paperwork to assess their client's financial positions. Technology continues to develop and we must continue to look at ways technology can be applied throughout personal financial management and not just at the point of usage.

Figure 15: Proportion of responses per barrier and age of respondent



Source: SMF analysis of Opinium Survey. Base: have considered, but never used any financial advice.

Figure 16: Proportion of responses per barrier and financial status of respondent



Source: SMF analysis of Opinium Survey. Base: have considered, but never used any financial advice

The barrier to advice varies significantly by the financial status of the individual. Of those who have considered advice but not used it, and who consider themselves to be struggling financially, 40 per cent stated the cost of advice as a barrier compared to only 24 per cent for those who are financially comfortable. Among individuals who consider themselves 'comfortable', the most common reasons cited are regarding the quality of free information and wanting control over their own finances. Those that are struggling may have less appetite for financial advice based upon their financial need and priorities; however, this is very much dependent upon their life stage. Individuals that are coping are also discouraged from obtaining advice due to the cost; a small proportion of these individuals wanted control over their own finances, which could be a consequence of their financial confidence and the types of products purchased.

Summary of barriers to advice:

- The cost of advice is the main barrier.
- Barriers related to the convenience and accessibility are significant in size.
- Financial status has an impact on the importance of the barrier to advice, with those who are struggling most likely to be prevented from taking advice due to cost.

THE PERCEIVED VALUE OF ADVICE:

Of those who obtained paid for financial advice 62 percent agreed that their financial adviser/ broker offered them good value for money, whilst 27 per cent neither agreed not disagreed with the statement. The cost of advice is preventing consumers from taking advice but we are unaware of how the price would need to change in order for there to be an increase in demand. We asked individuals how much they would be willing to pay for financial advice related to three specific products scenarios.

Whilst previous research has focused on the cost per hour of advice, this does not predict the amount a consumer is willing to pay. On average, it costs £150 per hour to receive financial advice. Consumers may be willing to pay a proportion of this value but unless they can accurately predict how many hours it will take to advise them on this issue we still do not know how much they are willing to pay for advice. By using three costed examples, we can understand how consumers' willingness to pay differs from the market price.

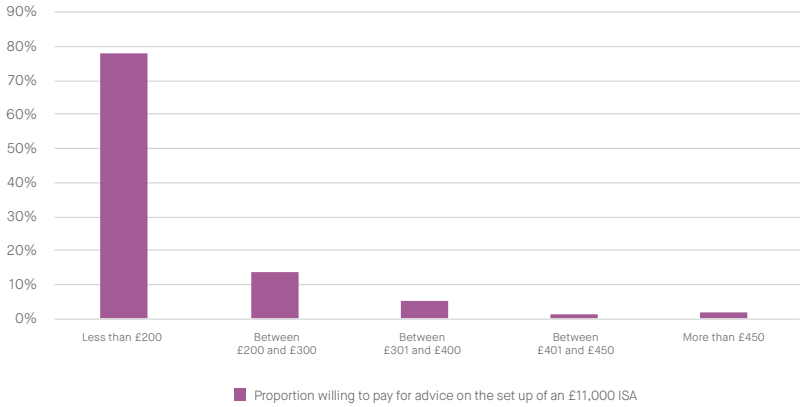
Table 1: Comparison of willingness to pay values

Product	Mean *Including all individuals*	Mean *Excluding those who are unwilling to pay*	Actual cost (£)
Financial advice on the setup of an £11,000 investment ISA	£60	£145	£450
Financial advice on an £80 a month pension contribution	£65	£197	£500
Financial advice on turning a £100,000 pension pot into a retirement income	£239	£456	£2,000

Source: SMF analysis of Opinium Survey. Base: All respondents

The first product relates to financial advice on the setup of an £11,000 investment ISA. According to Unbiased the typical cost of advice on this product is £450. The mean value respondents were willing to pay (excluding those who stated £0) was £145; this is only 32 per cent of the current cost. More than 50 per cent of respondents were not willing to pay at all for advice and only 2 per cent of all respondents were willing to pay more than £401. By reducing the cost of advice to within the £200 and £400 price point could increase demand, 19 per cent of those who are willing to pay for advice would be willing to pay within this price band.

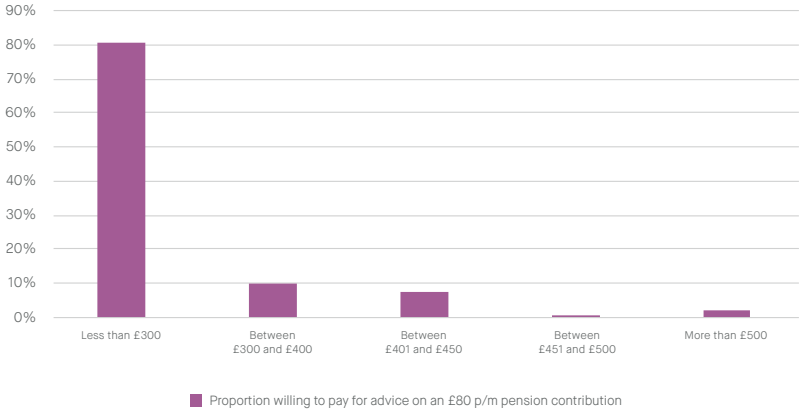
Figure 17: Proportion willing to pay for advice on the set up of an £11,000 ISA



Source: SMF analysis of Opinium Survey. Base: Those willing to pay for advice on this product

The second product within our research results to financial advice on an £80 a month pension contribution; according to Unbiased the typical cost of this advice is £500. The mean value respondents were willing to pay (excluding those who stated £0) was £197; this is 39 per cent of current cost. A large proportion (67 per cent) were unwilling to pay for advice related to this product. In addition, only 1 per cent of individuals were willing to pay more than £451, which captures those willing to pay the current price. A significant reduction in price would need to occur to increase the demand for advice on this product, 81 per cent of those who were willing to pay would pay more than £0 but less than £300.

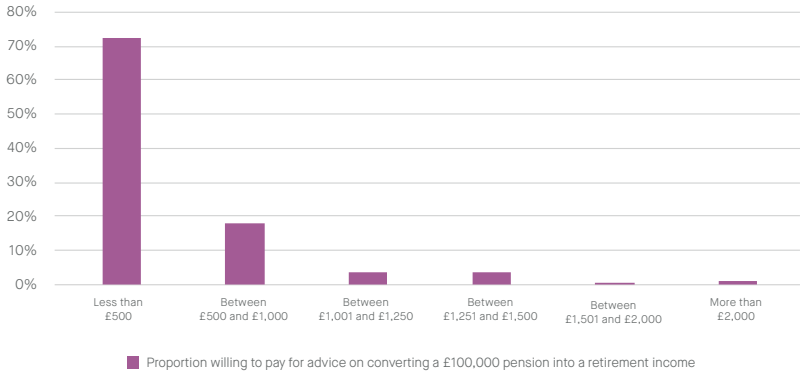
Figure 18: Proportion willing to pay for advice on an £80 p/m pension contribution



Source: SMF analysis of Opinium Survey. Base: Those willing to pay for advice on this product

The final product relates to turning a £100,000 pension pot into a retirement income; according to Unbiased the typical cost of this advice is £2,000. The mean value respondents were willing to pay (excluding those who stated £0) was £456; this is 23 per cent of current cost. This is the only one of our examples where less than 50 per cent (48 per cent) were unwilling to pay for advice; this is likely to reflect the difficult nature of this decision process. However, the mean value is significantly lower than the current typical market value. In terms of gains that could be realised if there was a reduction in cost, 8 per cent of respondents were willing to pay between £1,000 and £2,000.

Figure 19: Proportion willing to pay for advice on converting a £100,000 pension into a retirement income



Source: SMF analysis of Opinium Survey. Base: Those willing to pay for advice on this product

AUTOMATION:

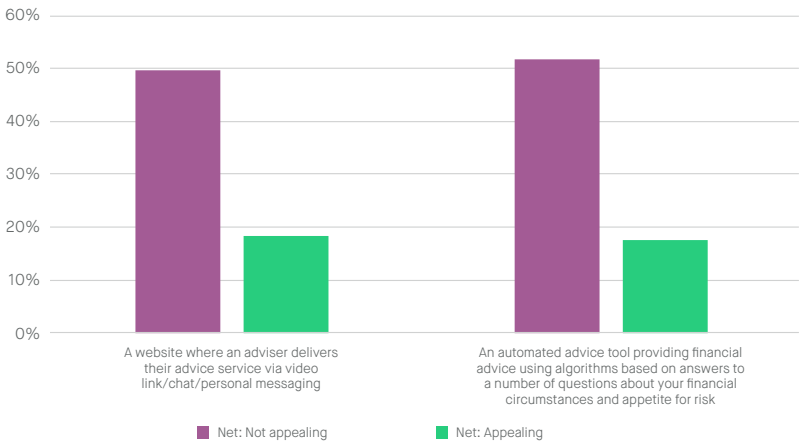
The FCA has signalled that automation of financial advice could be the solution to the advice gap. Automation should make it easier and cheaper to supply advice therefore addressing the issues that motivated the establishment of FAMR. Given the low values regarding respondents' willingness to pay, automation will need to go a long way in reducing costs for it to have a significant impact on the overall demand for advice. Automation can also increase the convenience of paid for financial advice for those who supply and demand advice, it could remove the need for either party to travel or reduce the need for masses of paperwork associated with current factfind processes.

Automation could potentially drive down costs of providing advice but we will only see the increase in demand if consumers are willing to use automated services. Consumers may be more or less reluctant to trust an automated solution with their complex and important financial decisions.

For automation to deliver increased accessibility, particularly for those at the lower end of the income distribution, take up needs to be high. The graph below shows that a low percentage of individuals find automated advice models appealing. Individuals with the highest incomes are most likely to look favourably upon automated advice although they are not the consumers with the most to gain.

The first scenario tested in the survey was a hybrid model: it combines technology and the benefits of face-to-face advice. This model reduces the need for advisers and consumers to meet face-to-face and consequently reduces costs; however, it also ensures the quality of a face-to-face meeting remains. Whilst many in the market see the hybrid approach as a long-term solution to the advice gap, only 18 per cent of respondents find it appealing.

Figure 20: Attitudes towards automated advice models



Source: SMF analysis of Opinium Survey. Base: All respondents

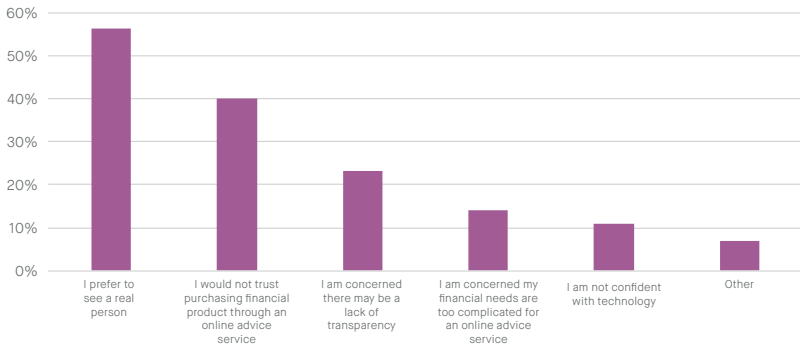
The fully automated advice model is unappealing to 52 per cent of individuals. On a scale of one to five, 31 per cent of respondents ranked themselves as a three; these individuals are indifferent to this form of advice.

BARRIERS TO AUTOMATED ADVICE:

We must look at the barriers to obtaining automated advice in order to ensure that these innovations maximise their potential to reduce the advice gap.

The most cited reason for finding automated advice unappealing was that individuals prefer to see a real person. The hybrid method of advice could lessen this barrier but this will only work if society fully understand how the hybrid method works. The second barrier was a lack of trust; this was a barrier to face-to-face advice, it appears to be a consistent theme when looking at the advice market, and will continue to fuel the advice gap regardless of changes in cost and accessibility. It takes a while for trust in technology to be developed and potentially longer than average when focusing on financial matters. Positive marketing and strong regulation could go some way in addressing these issues although time is likely to be a significant component in the reduction of this barrier.

Figure 21: Barriers to automated advice



Source: SMF analysis of Opinium Survey. Base: Did not find automated advice appealing

SECTION 4: PROVIDER DEVELOPMENTS

We spoke to five market participants in order to gain outsider prospective on the advice market. Three of these were automated advice providers (Nutmeg, True Potential and Habito), one was face-to-face (Aviva) and the final participant was a third party with potential to become involved (Experian).

We are interested in understanding how providers who approach the market through different channels see the advice gap and how they view the recommendations that have come from FAMR.

NUTMEG:

Proposition:

Nutmeg are an online investment management firm whose advice proposition relates solely to investments, their products include pensions and ISAs. The Nutmeg target market is "everybody and anybody"; their average client is younger than of the traditional adviser, but not as young as you might expect, with the typical client aged 40.

Whilst Nutmeg's advice proposition is online, they do offer guidance over the phone. They have a strong customer team that offers guidance and information relating to questions as simple as how ISAs and pensions work.

Market thoughts:

They believe there is a "huge role for guidance, and that's where FAMR is particularly useful". Consumers with lower levels of financial confidence could be less willing to engage fully with automated advice, a reduction in the confidence gap could be realised by offering guidance that is more detailed. This is part of the solution in ensuring that consumers have trust in the services offered by online advisers.

Nutmeg believe that some positive recommendations have come out of FAMR, particularly in relation to the redefining of advice and guidance and the creation of rules of thumb. They would welcome a more open dialogue between the FCA and providers on the progress of FAMR implementation. Whist they welcome initiatives such as the advice unit they believe more should be done to allow firms to innovate as this is where real change can be made in relation to the affordability and accessibility of advice. Nutmeg believe that automation is a key factor in reducing the advice gap.

Overall Nutmeg are "excited to see how FAMR plays out and what it means for Nutmeg".

TRUE POTENTIAL:

Proposition:

True Potential have a business model that means they work with advisers in three ways. They have their own advice offering, they offer adviser services and they allow advisers to sell their products. Their products include ISAs and pensions and the minimum value needed to open an account is £50; this low entry point removes some of the barriers to savings and advice. The firm also has a non-advised, direct to consumer offering called True Potential Investor.

Market thoughts:

True Potential believe the advice gap "can be traced back to 2013 with the introduction of RDR". Stating that advisers are no longer incentivised to go and find new clients, "greater emphasis was placed on service existing clients and now businesses are built around that". They believe the main regulatory challenges relate to simplification, long and complex risk warnings and a jargon that people simply do not understand. True Potential would welcome product simplification, this would go some way in reducing the advice gap simply by reducing the number of consumers who should access advice, however the likelihood of this in practise is low. Creating a "language that clients understand and that regulators will accept is a daily challenge", we know that trust is a barrier to obtaining advice and complex language likely to exacerbate this, particularly for those on the edges of advice.

True Potential believe that the markets ability to close or reduce the advice gap is restricted due to the cost of regulation. Regulatory costs can reduce adviser firms' ability to offer advice at a lower price point, highlighted by the fact that 35% of True Potentials Wealth Management wage bill is for compliance and case checking staff. These costs are significant but the evidence is not strong enough for a recommendation relating to reduced regulation. In order to ensure that advice can be offered at a lower cost and that advisers can serve more clients True Potential believe the market needs to look for ways to streamline the process and technology can play a fundamental part in this.

Their attitude towards FAMR is mixed, they were one of the first firms to engage with and use the Advice Unit and they are supportive of the pension's dashboard. They are also in support of initiatives relating to streamlined advice, guidance services without a personal recommendation and improvements to suitability reports. However, they wish "to see things moving more quickly" as the timeframes are a source of frustration given the need for change.

HABITO:

Proposition:

Habito is the first digital mortgage broker, it is an AI chat bot that provides "regulated mortgage advice". What would previously have taken 90 minutes with a mortgage adviser now takes 5 to 10 minutes. Their sourcing algorithm finds the customer the optimal mortgage in real time and whenever it is economically rational to switch providers, they will let you know. This guarantees that they will "keep you in an optimal position for the rest of the time you have a mortgage" which is an innovative approach to advice, particularly within the mortgage market.

The typical Habito consumer is "38, male, with a mortgage size and income level that is 20 to 25% above the national average, 40% re-mortgage and 60% home mover." This is not that far away from the average client of standard mortgage brokers. The automated process includes options where you can access live chat or schedule a call. However, only 2 to 3%

of consumers decide to use the call facilities, which shows the confidence consumers have in the automated product.

Market thoughts:

As Habito operate within the mortgage market, their definition of the advice gap is different to that of the other providers involved within this project. They believe "there is an advice gap within mortgages, not based on availability or cost but on quality" with "160 different fees associated with mortgages" it can be hard for consumers to understand when they are getting a good deal.

They see automation as key in addressing the advice gap in all markets. Using face-to-face advice models requires the adviser to know or uncover vast amounts of information relating to the numerous products on the market; however, the computer is "really good at this". Another benefit of automated advice is the increased ease of accessibility "people want to do this at work; they don't want to waste their fun time". Habito see "people leave the online chat to go to a meeting", this removes the inconvenience associated with the typical process of obtaining financial advice.

Habito have strong opinions on the future of the advice market, particularly in relation to digital identity and product based silos, which could be fundamental in reducing the advice gap. In order for technology to improve digital identity there is a need for providers to become involved in the conversation, Habito cannot "come up with a magic way to income verify" if it will not be accepted by the mortgage providers, there needs to be a common data standard. Habito believe that "thinking about you finances in isolated verticals or silos doesn't make any sense" supporting the need for increased financial advice that is not product based and is more holistic in nature.

AVIVA:

Proposition:

Aviva launched its face-to-face advice proposition in November 2016; currently it operates specifically within the at retirement space but has plans to offer advice relating to pension planning for all ages before the end

of the year. After pensions freedoms they "had a lot of customers ringing up to discuss what this means for them" this promoted them to offer their own advice proposition. Their customers are aged 55+ and on average have "£50,000 to £60,000 or more in their pension pot".

Market thoughts:

Aviva define the advice gap as "consumers who at some point in their life would want to take advice, but don't for various reasons" including cost and lack of trust. Aviva understands the importance of cost and accessibility and ensure that their product is "cost effective and very accessible to people". Whilst they know that trust can be a barrier to seeking advice they believe that their brand and strong reputation means this is not a direct issue for them.

They see the recommendations from FAMR as "wide ranging and a positive step"; anything that "helps empower consumers to make their own decisions about their finances" is a welcome opportunity. Redefining advice and guidance should "ensure that only those that need advice receive it". Aviva want to be able to offer more guidance and the Pensions Dashboard initiative could, for example, allow the opportunity to do so without stepping into formal advice.

Overall, they hope that FAMR will "provide the right outcome for consumers by increasing the accessibility of guidance and advice to consumers". They have been "actively engaged" with FCA and HMT consultations.

EXPERIAN:

Proposition:

Whilst Experian do not offer advice they are in a unique position within the market, they are working on the pension dashboard project and can help increase the use of data and technology within the regulated advice sector.

Market thoughts:

Intermediaries are "moving up stream because of RDR and regulatory pressure" and this is contributing to the advice gap. Experian defines the advice gap by splitting consumers by two characteristics. The first group of individuals have low levels of assets and often live in the private renting sector; "they have not taken paid for advice previously and as a result have no benchmark". Due to their low levels of assets, they are price conscious and could be unwilling to pay given the current cost of advice. The second group of individuals within the advice gap are people who have used paid for advice previously but now find themselves unwilling to pay current prices. The number of banks reducing or withdrawing their advice offerings affects these individuals most.

Experian believes that one central issue within the supply side of the advice market is the lack of a clear dividing line between information, guidance and advice. Defining these was a recommendation from FAMR and it is essential in ensuring innovation occurs. According to Experian, "it does not matter specifically how HMT define advice and guidance, so long as providers can clearly see the difference".

Experian welcomes the "regulatory sentiment towards innovation" that has come from FAMR, particularly with the development of the FCA sandbox and advice unit. An open dialogue between the FCA and businesses is and should continue to be a stepping-stone towards greater innovation and collaboration within the market. The FCA can play a vital role in ensuring that new entrants have the confidence to innovate and disrupt the market norm.

In conclusion, Experian believes FAMR has come out with the right recommendations but that progress has been "slower than expected". As a side issue, they believe that increased engagement with financial matters is how we ensure that individuals take more ownership of their financial health both now and in the future, which should in turn increase the demand of those who need advice.

BROAD MESSAGES:

It is clear from talking to providers of advice that there are numerous definitions of the advice gap and therefore business decisions taken to address this may not affect the advice gap as we see it. All of the providers we spoke to believed that automation is likely to play a key role going forward but this can encompass a variety of processes at different stages of the advice journey. Providers welcomed the FCA initiatives relating to technology and innovation but some declared a wish for more open dialogue.

There are a number of new providers in the market, including Aviva, but the motivation behind this is likely to be as result of changes within the retirement landscape rather than as a direct result of FAMR.

Overall, there appears to be support amongst providers for the recommendations from FAMR but we are only beginning to see changes in the advice offerings.

SECTION 5: POLICY CONSIDERATIONS

Drawing on insights from our polling, interviews with providers and lessons from other markets, this section describes some potential areas for policy development, including the cost of advice, automation and whole financial planning.

Just as the reasons why consumers may not access advice varies significantly, there are many different definitions of the advice gap among providers. Providers interpret the gap differently and innovate to reduce this in very varied ways. The lack of a clear consensus on the advice gap and the individuals within it is going to influence the ability of the market to rectify or eliminate this issue. From talking to providers, we get the sense that they believe FAMR is addressing the correct issues but that greater clarity of purpose would help achieve this goal.

GUIDANCE

Providers mentioned that understanding where the line between guidance and advice falls is one of the most important recommendations to come from FAMR. Providers want to be able to offer more guidance but are currently dissuaded from doing so due for the fear of stepping into regulated advice. The Treasury have redefined advice and this has created a clearer divide between the two areas. This change will come into effect as of January 2018. Financial guidance will empower consumers to make their own decisions and both Nutmeg and Aviva supported this initiative during our interviews.

COST:

Cost encompasses more than just the price a consumer is willing to pay for advice: it includes charging structures and the costs borne by providers. The cost of obtaining advice is a significant barrier to demand: many consumers are not willing to pay current prices and our research shows that the vast majority want to pay a significant proportion less than the current market

rates. FAMR puts forward recommendations to increase the affordability of advice but alone these do not appear enough to see the substantial cost reductions needed to bring financial advice to the mass market. One cause of the advice gap is the departure of banks from the advice market - our consumer research suggested that consumers are most likely to know how to access advice from a bank and addressing the reasons for their reduced or limited offerings should be a key part of policy.

Firms offering advice face significant costs associated with regulatory compliance; this includes, but is not limited to, the production of suitability reports, case checking staff and compliance teams. Hearing from providers of advice that regulatory costs affect their ability to address the advice gap is a cause for concern, but alone is not enough to suggest a reduction in regulation or quality controls. For providers that offer products and advice regulation reduces their ability to cross subsidise and whilst this promotes price transparency and fairer competition, it is likely to affect the supply of affordable advice. We can conclude that the cost of regulation is high and does affect providers' abilities to offer advice at lower cost but it is not the sole reason for the advice gap.

Adviser commission was prohibited after the RDR. The motivation behind this was to increase price transparency and ensure fairer outcomes for consumers. Many providers believe that this is one of the causes of the advice gap affecting both supply and demand. It is common for providers to charge an ongoing fee, which is a percentage of the amount invested as an alternative to commission.[24] A reduction in the number of advisers, particularly those within bank branches, has meant that those who remain often serve only the higher end and ongoing fees are a way to guarantee income.

High upfront costs are a barrier to demand. Potential changes to payment arrangements should be explored. Payments that are fully transparent but allow consumers to smooth costs over an agreed period should be considered, this could help reduce the advice gap. Under a changed charging structure, the advice fees could be paid upfront or become wrapped within product charges, the ban on commission would be remain in place. The provider of advice would always have to offer the client the ability to pay

upfront, either hourly or through facilitated payments, as is current practice, but if the client wished they could choose a product based repayment plan. There are issues around potential conflict of interest, as a product would need to be purchased for this type of payment system to work, however these issues are already apparent. Facilitated payments are the main type of adviser payment, accounting for more than 80% of initial charges.[25]

AUTOMATION AND TECHNOLOGY:

The creation of the advice unit within the FCA shows clear signs that the regulator welcomes the growth of automated advice. By working with providers the FCA is able to ensure that any developments are consistent with existing regulatory frameworks and ensure that consumer outcomes are not negatively impacted. There are a number of uses for automation within the advice sector. In 2016, 64 per cent of advice providers declared that they would be increasing their use of technology over the next twelve months to improve efficiency and reduce costs.[26] The same study investigated the barriers to providing automated advice: 72 per cent of advisers stated that consumer preferences for personal interaction was a 'very important' or 'important' barrier. Whilst automated advice may drive down costs, this will only reduce the advice gap if there is adequate demand.

There a number of positives associated with automated advice; however, there are potential disadvantages. There needs to be a guarantee that consumers of automated advice are receiving good outcomes and the same levels of protection as face-to-face users. The Financial Services Consumer Panel is concerned about the lack of transparency and consistency in relation to online investment services.[27] Their most recent report calls on the FCA to enforce its rules and ensure that automated advice offerings are not failing consumers; they suggest creating a working group that looks to create a more consumer friendly language within the sector, which we know, can act as barrier to advice. FAMR can go some of the way in tackling this issue, through its terms relating to the definition of advice and guidance that went through rigorous consumer testing, we would like to see the scope of this increased to cover a larger variety of terms that can prevent access.

Automation within the advice market often provokes thoughts about robo-advisers and algorithm-based advice models but this is not all that automation can bring. Automation has the ability to affect multiple sections of the value chain. There is potential for data to reduce the time associated with serving clients, data can allow the time take to fact-find prior to advising a client to be reduced. Our research showed that paperwork issues were a barrier to advice; developments in technology can remove this barrier. Using automated solutions within the advice journey but holding onto the human element at the point of use could be a productive way for the market to evolve. Our research has shown that mass-market consumers are not ready to put robo-advisers in control of their complex financial decisions.

For providers and consumers to make the most out of automation we need changes to be made in relation to the way in which consumers access and manage their own data. We are in the development phases for two initiatives that use data on personal finances with Open Banking and the Pension Dashboard. Both of these initiatives should allow individuals to view their data but neither of these steps fully address the advice gap. The creation of a personal financial dashboard that allow individuals to access all of their financial data has the potential to revolutionise the way people manage their finances and reduce the costs associated with advice. A number of advisers that we spoke to supported this idea. Allowing people to view their complete financial picture in one place is likely to increase their engagement with financial issues, particularly those related to financial ambitions of the future. Engagement that leads to positive financial outcomes for consumers is likely to promote a need for advice.

PRODUCTS

Our provider discussions and past SMF research shows how important it is for individuals – whether young or old – to have a broad view on their financial situation and how to achieve their future goals. For instance, younger people's financial ambitions combine a number of goals to build up short-term savings as well as longer-term goals, such as to own a home or save for retirement. Older people, meanwhile, are likely to have a much wider range of assets and sources of income as well as considerations such as retirement income, social care costs and inheritances for their children and grandchildren.[28]

In contrast, the majority of advice relates solely to single product lines. We recognise that consumers have increasingly complex financial situations and are often working towards more than one financial goal. By using product based advice models, consumers may be focusing too specifically on one area of their finances and not maximising their overall financial wealth. As we see the need for individuals to focus on a number of goals simultaneously continue to grow there could be an increased demand for financial planning advice compared to advice that is product specific. The creation of the personal financial dashboard would help facilitate this advice model and reduce the cost of providing this advice. However, without regulatory intervention the commercial imperatives do not appear to be there to make this happen.

Another factor that shows the need for more holistic financial planning is the changing labour market. With growing self-employment and more individuals working past retirement age, there is an increasing need for individuals to assess their complete financial picture when making decisions during all life stages. Consumer preferences and biases often lead to irrational behaviours, an example of this is the "credit card debt puzzle"- this is where consumers hold liquid savings that gain very little interest whilst still holding high interest credit card debt. The increased usage of financial planning tools and the creation of the previously mentioned personal financial dashboard could help combat some of these personal biases, particularly when combined with low cost and high quality financial advice.

There are additional steps that policy makers could take in order to reduce the impact of the advice gap. Currently savings and investment products are often complicated in their nature and therefore many require the need for financial advice to be obtained prior to purchase. Simplification of products, such as pensions, could reduce the need for financial advice and consequently reduce the advice gap. A more radical solution to the advice gap would be to increase the scope of automatic enrolment; it would no longer be a pension savings policy but apply to a number of financial services products, including general savings and protection policies. Removing the decision away from the consumer reduces the need to obtain advice on which products they should hold and in the case of savings the amount they should be contributing.

ENGAGEMENT:

It is good to see the FCA engaging more with firms, particularly through initiatives such as the Advice Unit. Whilst these initiatives create a channel through which providers and the FCA can discuss regulatory challenges associated with innovation, some providers still believe that dialogue between the two groups is limited. The creation of a channel where providers can have an open discussion with the FCA would be a welcome step. Within these sessions, providers would be able to discuss a number of ideas and receive immediate feedback on the regulatory challenges these could have.

There is a need for the FCA, HMT and the Financial Ombudsmen Service to engage with the industry as a whole. Some engagement opportunities have been limited in scope and do not often reflect the wide variety of businesses that offer advice. HMT and the FCA should continue to engage with the industry throughout the implementation of FAMR to ensure that traction is not lost. Advisers should discuss openly with the FCA their thoughts on the FAMR recommendations and whether there is evidence to suggest that the advice gap is being reduced.

APPENDIX A

FAMR RECOMMENDATIONS:

Affordability

- Advice boundary; *consult on amending the definition of regulated advice so that regulated advice is based on personal recommendation.*
- Regulatory responsibilities associated with guidance; *consult on new guidance to support firms offering services that help consumers make their own decisions without a personal recommendation.*
- Streamlined advice; *develop a framework that gives firms the confidence to provide streamlined advice, including a series of illustrative case studies.*
- Qualifications; *consult on adjusting the time limits for employees to obtain the appropriate qualifications.*
- Cross-subsidisation; *consult on guidance on cross-subsidisation rules in relation to the interpretation of 'long-term' and the flexibility allowed.*
- Portable fact finds; *provide clarity on the standard types of information required as part of the fact find process. Also setting out key considerations for verifying their party fact finders.*
- Advice unit; *create an advice unit to help firms develop their automated advice models.*
- Smarter communications and suitability reports; *bring improvements to the suitability report, reducing their length where appropriate.*
- MiFID II compliance.

Accessibility

- Employer concerns about regulatory liability; *develop and promote a factsheet to set out what help employers and trustees can provide on financial matters without being subject to regulation.*

- Develop a guide to the top 10 ways to support employees' financial health.
- Taxation exemptions for employer-arranged financial advice; *explore ways to improve the existing exemptions.*
- Pre-retirement advice tax break; *explore options that allow consumer's access to small parts of their pension to redeem against the cost of advice.*
- Adviser charging; *ensure firms and advisers are aware of current flexibilities within the rules on adviser charging.*
- Pension dashboard; *challenge the industry to develop a pension dashboard, which will be available to consumers in 2019.*
- Terminology; *publish a shortlist of words that can be used to describe advice and guidance.*
- Designing rules of thumb and nudges.
- Ongoing review and promotion of rules of thumb and nudges; *assign to an appropriate body.*

Liabilities and consumer redress

- FCSC funding; *exploring the opportunities for risk-based levies.*
- PII market; *consider whether to review the availability of PII for smaller advice firms.*
- Ombudsman best practise roundtables; *roundtables to discuss historic sales and suitability requirements.*
- Ombudsman uphold rates; *publish additional data on uphold rates.*
- Financial ombudsman service website; *consider whether to establish a website area for advisers.*
- Expand the ombudsman Independent Assessor report; *expanded service to include more in-depth analysis of cases where there could be areas for process improvement.*
- Longstop review; *FCA should not introduce a longstop limitation period for referring complaints to the FOS.*

Implementation

- Create a Financial Advice Working Group.
- Develop market indicators.
- Report jointly to the Economic Secretary and FCA Board 12 months after publication with a full view of outcomes in 2019.

ENDNOTES

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Informed decision-making

An evaluation of the advice gap

The Financial Advice Market Review (FAMR) had the potential to revolutionise the advice market. The significant emphasis that was put on the affordability and accessibility of advice signalled that the Financial Conduct Authority was going to tackle the advice gap. Unfortunately progress has been slow and momentum is being lost, both within the market and politically.

This report looks in detail at the demographics of those who would be willing to pay for advice but do not obtain it, we define this group of individuals as within the advice gap. In order to fully address the advice gap we identify the barriers to obtaining paid for advice. Through the use of consumer polling this research identifies a number of challenges for the advice market including the high costs of advice and the lack of trust that consumers feel towards advisers. We look to understand the rise of automated advice through talking to providers and we investigate the willingness of consumers to engage with this form of advice. We find that currently consumers are reluctant to rely on fully automated advice, therefore we must not only look to automation as the solution to the advice gap.

The report concludes with a set of policy recommendations that should be implemented alongside the ongoing FAMR work to ensure the advice gap is tackled fully.

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