

**THE SIMPLYBIZ GROUPS COVERING NOTE IN RESPONSE TO THE
FAMR "CALL FOR INPUT"**

We have pleasure in submitting this covering note as part of the formal response from the SimplyBiz Group Ltd (SimplyBiz), to the "Call for Input" in respect of the Financial Advice Market Review (FAMR).

About SimplyBiz

SimplyBiz provides compliance and business support services to over 2,500 directly regulated IFA firms throughout the UK, incorporating around 6,000 individual advisers. As such, we represent a significant proportion of FCA regulated firms and the financial advice sector as a whole. In addition through our not-for-profit New Model Business Academy (NMBA), we provide information, education and training support to in excess of 9,000 individuals who are not users of our commercial support services.

In formulating our response, we have conducted an extensive communication programme over several months with the firms served by SimplyBiz and the NMBA, including but not limited to, regular circulation of papers, publications and general commentaries on the FAMR and related issues. We have also held 135 group meetings across the country, where almost 4,000 advisers have had the opportunity to provide input. In addition, our Chairman, Ken Davy, has personally met with the principals of around 200 of the IFA firms we serve to hear their views and separately we have surveyed a further c500 individual advisers. This has resulted in numerous telephone conversations, e-mails and face to face discussions with advisers wishing to express their views, concerns and ideas in respect of the FAMR. In view of our overall reach in the advice market (which is greater than many trade bodies), along with the extensive opportunities for input we have given the firms and individual advisers we serve, we trust you will agree that our response is soundly based and represents the views of a substantial proportion of the IFA sector.

Introduction

We warmly welcome the FAMR and believe it is a timely and critically important step towards revitalising the post RDR "Advice" market, in all its forms, for the benefit of consumers.

In formulating our response we have focussed on the review's five key aims as outlined in the "Call for Input" introduction as set out below.

Importantly and for clarity, please note that in our response, we use the term "advice" in its legal and regulatory context. Where appropriate the terms, "information and guidance", are used to define services which are not regulated advice. We have adopted this methodology because of the important consumer protections and safeguards which accompany regulatory advice. This reflects our concern that blurring the edges between advice, guidance and information will result in serious consumer detriment.

The Review's Five Key Aims

- The extent and causes of the advice gap for those people who do not have significant wealth or income?
- The regulatory or other barriers firms face in giving advice and how to overcome them?
- How to give firms regulatory clarity and create the right environment for them to innovate and grow?
- The opportunities and challenges presented by new and emerging technologies to provide cost effective, efficient and user-friendly advice services.
- How to encourage a healthy demand side for finance advice, including addressing barriers which put consumers off seeking advice?

Key Aims

1. The extent and causes of the advice gap for those people who do not have significant wealth or income?

We agree that there is a significant and serious "advice gap" which is getting worse.

Loss of Advisers –The single most significant cause of the "advice gap" is the reduction in the number of financial advisers since regulation was introduced in the 1986 Financial Services Act. When regulation commenced in April 1988, well over 200,000 financial advisers were registered with FIMBRA, the then regulatory body for advisers. By 2005 the number of advisers had reduced to c75,000 and post the RDR it is now down to c22,000. This is a drop of 90% in the number of advisers available for consumers to access in just 27 years. The "Man from the

Pru" may not have provided the best possible value however, the fact remains that millions of ordinary consumers built up savings and protected their families as a direct result of the "Man from the Pru's" advice and encouragement.

Fear of Fees – The advice gap for the less well-off has been further exacerbated by the RDR which, by removing commission as an option, has forced advisers to concentrate on their better-off clients who are more willing and able to pay fees for financial advice. A survey carried out some 10 years ago by SimplyBiz found that two thirds of IFA clients were C1 or below. In a recent (December 2015) SimplyBiz survey we found that 56% of IFAs now spend less time on their less-well-off clients than pre RDR, whilst post RDR 73% have increased the time they devote to their wealthier clients. The reality is that pre-RDR, advisers subsidised the cost of dealing with less well-off clients through the remuneration they generated from their more wealthy clients. Post RDR this cross subsidy is no longer possible.

Choice of Payment Method - Removing the ability of the client to choose whether to pay for advice by fee, or commission, has therefore reduced the availability of advice for less well-off consumers who are put off by fees. The irony is that probably the most comprehensive study of remuneration ever carried out was in 2002/3 by the highly esteemed consultants, Oliver Wyman and Co. This study found virtually no evidence of commission bias amongst advisers with the exception of, to a limited extent, single premium insurance bonds. The limited bias which they did find apparently stemmed primarily from large institutions, such as banks, negotiating central deals with providers for greatly enhanced rates of commission. At the risk of stating the obvious, the less well-off consumers the FAMR is seeking to help are, by definition, unlikely to be in a position to invest capital in insurance bonds or anywhere else. We therefore have a situation where, the media's misplaced obsession with commission bias, and its subsequent ban, has contributed directly to less well-off consumers having significantly reduced access to advice.

Inertia – The fourth reason for the advice gap is inertia. To save, particularly for a long term objective such as retirement or to protect one's family requires a change in an individual's behaviour and spending priorities. Indeed, by definition it requires the sacrifice of consumption today for a future, often undefined or uncertain benefit, and in the case of life insurance, specifically for the benefit of someone else. As a result it requires a catalyst, such as "The Man from the Pru"

to break through the inertia and encourage the behavioural change required for the consumer, particularly the less well-off, to start saving and/or protect their family. Saving for the future and providing for one's family in the event of tragedy are "socially desirable" and should be encouraged; anecdotally they also lead to greater social responsibility and better citizenship. Without the individual advice and encouragement of an adviser all the evidence is that consumers save later, and save less. Equally, without advice they are also much less likely to protect themselves and their families.

In summary therefore, there is a substantial and growing advice gap which has three main causes:

- a) A shortage of financial advisers as a result of increasing regulation which has seen a 90% fall in the number of advisers since 1988.
- b) Changes to adviser remuneration post RDR has removed the client's freedom to choose to pay for advice through the product via commission rather than directly through a fee. Faced with the prospect of paying fees the less well-off in particular are reluctant to seek advice.
- c) Fewer advisers and the fear of fees result in less likelihood of access to an adviser who would otherwise be the catalyst for the behavioural change needed to encourage the less well-off in particular, to set aside money for their long term needs.

2. The regulatory and other barriers firms may face in giving advice and how to overcome them?

We need greater simplicity, less regulatory intervention and a more stable and less costly regulatory framework.

Regulatory Overload – During 2015 the FCA have issued 42 Consultation Papers, 28 Policy Statements, 7 Discussion Papers, 7 Guidance Consultations, 6 Occasional Papers, 5 Finalised Guidance Notes and 4 Quarterly updates. This is roughly two per week and whilst clearly not all were relevant to financial advisers, equally clearly, there is little chance that the average adviser will have either the time or inclination to read them. What advisers do sense however, is the overall weight of regulation and the overwhelming need for them to cover their backs

when dealing with clients. This means that even when the regulator issues a relaxation or a clarification saying that, for example, suitability letters need not be so extensive, advisers still feel it is essential to cover every possible aspect in a lengthy report. Their concern, with some justification, is that if, in a few years' time, a client complains to the Financial Ombudsman Services (FOS) unless they have ticked every single box and covered every possible point, the FOS will find against them. The current market concerns and perceived inconsistencies between FCA and FOS in relation to Pension Freedoms and insistent clients are a striking example of this problem.

For this to change consumers must take a greater responsibility for the decisions they make and FOS/FCA must be aligned. If the adviser can demonstrate that the client was given and acknowledged a straight forward explanation of the advice and the basic reasons for that advice, FOS should require the client to provide clear evidence to the contrary before upholding a complaint.

The reality is that, IFAs in particular, have an extremely low complaint ratio and an even lower upheld claims record. Indeed, the FOS statistics demonstrate that, in a 30 year plus career, an individual adviser is unlikely to have two claims upheld against them, and the likelihood of a claim exceeding £5,000 is remote. Nonetheless, the fear of a claim and the need to safeguard themselves against both FOS and the FCA itself, is a serious barrier to the availability of advice as it dramatically reduces the time advisers have available to see clients. Regulatory overload, both actual and perceived, means that very few advisers are able to spend more than 30% of their time actually advising clients. The impact of the dramatic reduction in the number of advisers in recent years is therefore exacerbated by the fact that those advisers who remain now have significantly less time available to give advice.

Regulatory Costs – The direct and indirect costs of regulation are barriers to both retaining current advisers and attracting new firms into the advice market. The FSCS and the unlimited liability for advice are dealt with separately below, however, the ever increasing direct cost of regulation is seen by many firms as an unstoppable juggernaut. This is particularly the case for smaller firms who make up the overwhelming majority of the IFAs and whose direct regulatory fees can often exceed 10% of their net income. Regardless of the size of the firm however, all advisers are impacted by the indirect costs involved in providing advice. As highlighted above, complying with the FCAs regulations and protecting

the practice from the perceived impact of FOS' decisions, results in unduly lengthy reports and much unnecessary research. Both factors significantly increase the time taken to provide advice and therefore its cost without doing anything to enhance the quality of advice being given or the service to the consumer.

Funding the FSCS – The FSCS is an essential element of the framework of consumer protections and is rightly, widely supported by the financial community, as it compensates consumers who have suffered losses if a firm has gone out of business. Unfortunately, because the firm that has created the liabilities no longer exists it is not possible for the “Polluter to Pay”. This means that any funding mechanism for compensation is bound to be unfair as the cost falls, not on the polluter, but elsewhere. Nonetheless, the current method is so unfair as to be a grotesque injustice in respect of IFAs. An IFA has no possibility of being aware of a firm that is creating future liabilities, nor influencing it, or preventing it, yet despite this they have to pay 100% of the costs of compensation.

There are basically four parties involved in the advice process, the adviser, the product provider, the client and the regulator. Currently only the adviser pays the costs of compensation, despite having no ability to influence, prevent or even be aware of a potential problem firm. A problem firm being the one creating the liabilities for the FSCS through being careless, reckless or plain dishonest in the advice they give and the business they run.

So, who should bear the cost of the FSCS? Clearly the regulator, despite being the one who most obviously should be aware of a problem firm, is not going to contribute to the FSCS. Equally obviously, clients could pay via a product levy which would only ever represent a tiny portion of their investment. A product levy operated very satisfactorily in general insurance for about 30 years, until changed by the FSA a few years ago. According to press comments, we understand that despite a product levy being by far the fairest method it is unacceptable to the FSCS/FCA. We see no logical reason for this stance however this only leaves product providers, and advisers to pay for the FSCS.

Product providers have, or ought to have, significantly greater market intelligence, both individually and collectively, than anyone other than the regulator. This extends far beyond their normal commercial relationships with advisers, for example: they write the cheques for transfers and receive the

investment monies. They also have access to a wide range of other market information, so they are well able to identify potential “problem firms” at an early stage. We believe it is essential therefore, that product providers become the primary funding source of the FSCS. Indeed, our view is that they should fund the whole, cost as advisers do at the moment. Each provider’s percentage of contribution could, for example, be based on their size, their new business income, their share of products generated by the advice sector or a number of other objective measures. Having said that, we can see an argument for advice firms to make a token contribution and could therefore, support a contribution from the advice sector of up to 20% of the cost of the FSCS, with providers contributing the balance.

Lack of a Long Stop – the lack of a Long Stop is a barrier to the availability of advice. This is primarily because, as outlined above, advisers devote significant amounts of unnecessary time, resources, and effort, into covering their backs in relation to every aspect of their client’s affairs, fearing that if they do not do so they will create a future liability. The lack of a Long Stop also adds to the overall feeling amongst advisers that they are seen as an easy target by regulators, media and public. You will also be aware of the activities of claim chasers who are able to pursue alleged claims against advisers at no risk to themselves, whilst creating significant work and cost for financial services firms. The FAMR Paper refers several times to sub-standard advice however, as highlighted by the FOS statistics, sub-standard advice is not of itself a significant problem for most firms or advisers. The key issue is the small minority of “problem firms” who are careless, reckless, or dishonest and who give bad advice, pocket the proceeds, and close down, leaving the liabilities to fall on the FSCS and be paid for by the rest of the advice sector.

In practice, a Long Stop is unlikely to have a material impact on consumers or advisers, however it will be a very important psychological step in both instances. For clients it will be a further step towards educating them of the need for them to take greater personal responsibility for their actions and for advisers it will be an important element in restoring confidence in the sector and encouraging new entrants.

We note the various options set out in FAMR and believe the simplest Long Stop is a straightforward 15 year period from the provision of the original advice.

In summary, the barriers firms face and how they can be overcome are:

- a) Advice firms are faced with regulatory overload. There is simply too much regulation. The focus of the FCA should be on dramatically simplifying and reducing it, whilst at the same time the consumer should be expected to take some responsibility for their actions in terms of understanding the impact of the advice they have been given. We are not advocating caveat emptor however, if we are to increase the availability of advice the playing field between the adviser and the advised must be more balanced.
- b) The simplification and reduction of regulation would significantly reduce the cost of advice whilst balancing the interests of the adviser and the advised. This would increase both the number of advisers and the time available to provide advice.
- c) Addressing the gross unfairness of the FSCS funding and introducing a 15 year long stop would have a transformational impact on sentiment in the advice sector and play a major part in increasing consumer's access to financial advice.

3. How to give firms the regulatory clarity and create the right environment for them to innovate and grow?

The comments and proposals above will, if acted upon, make a significant contribution to improving regulatory clarity and will therefore help create the right environment for innovation and growth. In particular, reducing and simplifying regulation, changing the FSCS funding model and making consumers more responsible for their actions, will encourage innovation and growth.

4. The opportunities and challenges presented by new and emerging technologies to provide cost effective, efficient and user-friendly advice services.

The Opportunities – Technology is rapidly advancing and offers enormous scope for delivering information and tailored guidance to internet users. We do not however believe that, on its own, technology will be able to provide the much needed advice the Government wants the less well-off to have access to.

The internet does however have the unique ability to provide cost effective, user friendly information and tailored guidance, to the widest possible audience. It can become the gateway to personalised financial advice. As such it has the potential, subject to the important regulatory changes we have set out in this response, to significantly reduce the cost of providing "regulated advice". This is particularly relevant if the Government's objective of giving the less well-off access to good quality advice is to be achieved. For example, if a consumer has provided information via the internet on their personal circumstances it would save significant time and cost if an adviser could rely on this information to provide personalised advice. At the present time this is not permissible and any adviser that did so would be potentially in breach of FCA rules and would also have no possibility of success if a case was to go to FOS.

The Challenges – Information and guidance are not advice. A consumer taking action based on information or guidance, from whatever source forfeits their rights to redress and the consumer and regulatory protections, which sit alongside "regulated advice". We have a major concern that the casual use of the term 'advice' in relation to information or guidance, for example "The Money Advice Service", is potentially misleading users, or potential users, of such services. The casual or careless use of such terms will result in consumer confusion and frustration when they are given information and guidance rather than advice. Indeed, the IFA sector is already experiencing an increasing number of examples of this confusion and frustration amongst consumers. We strongly urge that clear warnings are provided by any service however provided, which is not regulated advice. For example a simple traffic light system could be introduced with GREEN to indicate "regulated advice" with all the applicable consumer and regulatory protections and RED for anything which falls short of "regulated advice". We believe the consumer has a fundamental right to be informed whether he or she has the benefit of their important and hard won consumer protections and potential redress available under regulated advice.

In summary, the new and emerging technologies can dramatically improve the quality and availability of information and guidance for consumers.

- a) Technology presents an excellent opportunity to enhance the quality of information and guidance available and widen access to advice for the less off if advisers can rely on the generic output provided by the user and the technology.

- b) The issue of ensuring the consumer knows what rights they have, or do not have, as the case may be is essential if technology solutions are to be the gateway to the personal advice they need.

5. How to encourage a healthy demand side for financial advice, including addressing barriers which put consumers off seeking advice?

The proposals set out above supported by education will in themselves help to encourage the demand side and reduce the barriers to advice by:

Reducing the cost of advice and simplifying the advice process.

Maximising the use of technology without losing the personal touch.

Increasing the number of advisers and the time they spend with clients.

There are however two further changes which would eliminate the major barrier which discourages less well-off consumers from seeking advice.

Clarity of costs - Much has been written over the years about the need for transparency of product costs. The results all too often, however are countless pages of gobbledegook which as far as the consumer is concerned could be written in a foreign language. What is needed is a simple indicator, such as APR, which applies in the consumer credit market. Such an indicator is available now. It is the Total Expense Ratio (TER) of a product. TER is a guide, not an absolute measure of value, however it is a remarkably helpful and comprehensive guide to the cost of a product and whilst cost is not the only factor to judge a product by, it is an important starting point for consumers.

Adopting TER as the industry standard would make comparisons and the understanding of products dramatically simpler for consumers and eliminate the need for countless pages of what to them is so often meaningless verbiage.

Any consumer requiring the full product details should of course be able to request them as of right. The use of TER would remove a substantial barrier for consumers seeking advice.

Remuneration via the product - We do not advocate a return to commission however we do believe that consumers should have the right to decide how they pay for advice. This choice was removed by the RDR with the result that many

consumers, particularly the less well off, are reluctant to seek advice. This results directly in serious consumer detriment as arguably the less well-off have a greater need of good quality financial advice than the wealthy.

We believe that advisers and product providers should have the ability if they wish, to offer consumers the choice of having the adviser's fee paid via, and over the life of, the product rather than by a direct fee. This change, in conjunction with the introduction of TER, which would clearly reflect the adviser's remuneration costs, would remove barriers which put off consumers from seeking advice and encourage a healthy demand side for financial advice.

Conclusion

We believe the measures set out in this covering note which forms an integral part of our response to the "Call for input" in respect of FAMR will fully meet the Government's objective of improving the availability of advice, particularly those who do not have significant wealth or income.

We commend it to you and would welcome the opportunity to discuss them with you or provide any clarification you may require.

21st December 2015

LIST OF QUESTIONS

- 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?**

Dependent upon the nature of the vulnerability, we believe this to be the case. The FCA Occasional Paper No. 8, published in February 2015 makes a useful contribution to this debate. In particular, those who are ill or living with serious illness, are carers of those with serious illness, have been bereaved or are experiencing unemployment, are likely to be in need of financial advice and may not have the means or the predisposition to seek or be able to access advice. There can also be a misconception that advice is not available to those with certain medical or health conditions. There is a need for greater diversity and inclusion in the provision of advice.

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

Financial advice may be categorised in a number of ways, relating to the level of detail and personalisation. These may be broadly described as

Simplified advice – where the adviser or process owner takes regulatory responsibility for the advice provided, but this is within a specified parameter of ‘suitability’, that is suitable but not necessarily the **most** suitable solution.

Focused advice – where the advice is limited to one or more specified need areas, and it is made clear that other need areas may exist, but have not been addressed at the customer’s request.

Full Regulated Advice – where the adviser makes a detailed personal recommendation covering all need areas to a consumer in their capacity as an investor or potential investor based on their personal circumstances.

Unfortunately with the exception of “Fully Regulated Advice”, the definitions and regulations confuse both consumers and advisers, therefore for simplified advice to work much greater regulatory and practical clarity would be required as well as the unequivocal cooperation of FOS.

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

We believe there is an increasing demand for personal professional financial advice, however consumers are often put off by the cost (perceived or real), and are also not sufficiently aware of the benefits of advice.

Research from Old Mutual shows that those who seek advice and then have regular reviews are significantly better off over the longer term.

- Respondents in retirement who didn’t set a target or receive any financial advice generated an income of £18.1k
- Those respondents in retirement who didn’t set a target but received financial advice at least once generated an income of just under £25k.
- Those clients who set an income target and received financial advice more than once had an income uplift of £9,598 over those with no target or financial advice.

Clearly financial advice is worth paying for as a substantial income uplift is likely to result.

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

We have no evidence relating to the demand for advice from sources other than professional financial advisers.

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

It should be noted that in general consumers do not seek advice without a catalyst/life style event that prompts action, hence the need for more advisers, simpler products and regulations to make easier access to advice available to all.

Not all needs fall within the scope of regulated financial advice. This is aptly described and explained in the Citizens Advice Bureau (CAB) Report “The four advice gaps - exploring the different gaps in provision of and access to free and paid money advice” published in October 2015.

The recent Pensions Freedoms have created an increase in those seeking advice for the first time.

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

It is our view that the FCA Spotlight segmentation model is of use in exploring consumers’ advice needs, but may be in need of updating in relation to the members in each segment. Also the boundaries between the categories are likely

to become less distinct over time, given the additional flexibilities provided by 'pensions freedom'. This again highlights the need for simplification.

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

In general the segments seem appropriate. The initial focus of the review may be best placed on those segments approaching pre-retirement phase within the groups.

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

Consumers at all levels of wealth and income can benefit from advice. In general there must be a perceived need, either protection, savings or decumulation, at retirement or severe debt, before someone will pro-actively seek advice. The less well-off however are much less likely to seek advice particularly post RDR as they are put off by fees. See our covering note for more details.

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

Cost (real or perceived). Advisers are seen as a service for high net worth clients. The less well-off are particularly put off by the prospect of having to pay fees for advice.

Availability / access / number of advisers – all have reduced over the last few years, partly as a result of RDR, and the associated strategic changes that took place within banks and insurers and direct sales forces. This has reduced easy access to advice for most consumers, who now have to seek out an adviser. This requires more effort on their part, and given the national inertia of consumers when addressing important long-term financial needs, manifests itself as part of the reason for not seeking advice.

This issue of inertia also aligns to the psychology of investment decisions and costs, as opposed to the potential benefits from professional advice, when set against an immediate up-front cost of fees.

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

See our response above and in our covering note.

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?

The less well-off are much less likely to seek advice post RDR. Please see our covering note for more detail.

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

It is our view that robo-advice is not 'advice' which, by its very definition needs a human element. The use of technology will however enable access to financial products for a wider selection of consumers.

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

Pre- RDR, the wealthier clients subsidised the provision of advice to those who were less well-off. In the current environment, where fee-based advice is the norm, this option is no longer available, thus many less well-off consumers perceive that advice is now out of their reach because of the upfront cost.

Reducing the cost of providing advice is an imperative, and one that advisers would welcome. The fixed and variable costs of running an advisory business with the high direct and indirect regulatory costs, including the additional and unforeseen levies imposed by the FSCS make reducing the cost of advice difficult. Regulation must be simplified and the funding of the FSCS radically changed if the costs of supplying advice are to be reduced.

Technology will make the process smoother and is likely over the long-term to reduce costs.

Financial advisers have experienced significant change over the last 4-5 years with the introduction of RDR, and the changing / upgrading of business models, which has put additional pressure on margins / profitability.

Simplified regulation and advice processes would enable advice to be delivered at lower cost.

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?

Providing a service that allows the cost of advice to be spread over time via the product, would be a particularly positive development. This function was previously provided by 'commission'; however any new scheme would need to take account of the requirement to be 'transparent' in terms of cost.

This has a significant impact on the market for regular savings and the entry of consumers to the market to enable access to a diversified range of savings products. We believe that adopting Total Expense Ratio (TER) is the key to cost transparency which would be readily understood by every level of customer, however it would be of particular benefit to the less sophisticated consumer.

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

At present, it is mainly wealthier clients that have the capacity and / or willingness to pay for advice. However, this does not need to be the case.

Dependent upon the type of advice that is being offered, the cost could be tailored to the complexity of the consumer's circumstances and the degree of 'suitability' promised by the service providing regulation is simplified to significantly reduce both its direct and indirect costs.

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

There are number of barriers faced by firms in providing advice. These are fully explored in our covering note, and include

- Regulatory overload for basic mainstream savings and investment products
- The general volume of regulatory guidance direction and change
- The increase in general regulatory costs, which this year have spiralled for many advisers in a manner which is neither fair or justifiable
- Funding of the FSCS which has seen a significant increase in levies
- The lack of a long-stop

Psychological barriers for firms, particularly in connection with the future treatment of complaints by FOS are a major issue in this context. The industry is perceived to have been subject to the retrospective application of standards. There is significant caution amongst firms / advisers, as expressed by the debate over insistent clients and approaches to pension transfers under the

new Pensions Freedoms. Given their experience to date, advisers are rightly cynical of FOS and regulation.

The issue of liability for the advice provided by others under the FSCS is a key barrier faced by firms, and the subject of current consultation by the FCA.

The lack of clarity offered by the FCA in relation to the boundaries of each type of advice is a significant issue. This led to a number of potential advice solutions to the 'advice gap' identified in the run-up to RDR being 'pulled' because providers were uncertain as to whether they would be accepted by the FSA (now FCA), and the lack of guidance and reassurance, or indeed certainty, from the regulator.

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

The analysis provided by Citizens Advice in their report "The four advice gaps - exploring the different gaps in provision of and access to free and paid money advice" of October 2015, provides a useful basis for consideration of the 'advice gap'.

The concept of an 'affordable advice gap' consisting of an estimated 5.4 million people who are, in theory, willing to pay for advice, but not at the current level of cost; the 'free advice gap', an estimated 14.5 million people who are not in a position to pay for advice, but for whom it would be of benefit; and the 'awareness gap' of an estimated 10 million people who are not aware that advice is available and how to get it, and thus miss out on the benefits of advice, are of use in illustrating understanding .

The concept covers both those who are unable to afford advice (economically) and those that are able but unwilling to pay for advice via an upfront fee. In part the benefits of advice have not been sufficiently promoted by government / public agencies as well as more generally in the media.

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

We do not believe there is a lack of actual demand; simply that advice has been portrayed as unaffordable. This could be remedied by a change of approach and we hope that the FAMR is an indication that the Government and the FCA are prepared to take a fresh approach to regulation. Specifically we refer you to the proposals set out in our covering note.

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

The majority of the population would benefit from financial advice to a greater or lesser degree. This degree is likely to depend on the complexity of their circumstances, and is not necessarily linked to amount of capital or their on-going income. For various reasons outlined in our covering note too many consumers do not have access to the advice they need. The less well-off in particular suffer from the advice gap.

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

Please see our covering note, however data provided to the FCA and published in the media supports the premise that these gaps are present and significant.

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

It is our view that this review should focus on those who are willing to pay for advice but find the cost prohibitive, and those that are not aware of the availability of advice, but may be in a position to afford it. Reducing the direct

and indirect costs of regulation along with greater use of technology to deliver information and guidance as explained in more detail in our covering note, has the potential to make high quality advice widely available.

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?

Yes, we consider this to be the most immediate need; however the importance of having a basic understanding of investment vehicles, in particular those where pension monies are invested both before and after crystallisation is also of importance.

With time the level of knowledge will grow. Once consumers understand that they have a vested interest in understanding these vehicles, as may be seen in the US (401K accounts), engagement will grow.

The involvement of Government is needed in promoting financial education to all sectors of the population. For those in work, the provision of 'Automatic Enrolment' provides a significant opportunity to engage with consumers through workplace pensions.

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

Whilst these are clearly arbitrary numbers we support the broad principles they imply.

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?

It is our belief that the FCA Handbook could be simplified and made easier to interpret and apply. We support the FCA's efforts to simplify the approach in the areas of capital resources, and customer communications, however there needs to be a determined and coordinated drive by all concerned to simplify regulation in all its aspects.

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?

It is essential that there is a consistent approach from the EU and within the UK in respect of the provision of advice and consumer protection, and that there is a synergy between the two so that advisers do not continue to be overloaded with regulation.

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

We believe that the support of the media, the trade and professional bodies and industry leaders is required to ensure effective delivery and improved consumer understanding.

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

Reviewing approaches to the regulation of advice in other jurisdictions, particularly that have previously adopted similar approaches to pension decumulation may be of benefit in formulating an approach for the UK.

An approach similar to the examples provided in the FCA Discussion Paper 'Smarter consumer communications', originating from Australia, could prove to increase engagement between consumers and the profession.

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

As previously stated, engagement is likely to increase over time, given the necessary self-interest that will develop, initially with pensions, but over the longer term with Government policy to make consumers shoulder greater risk and responsibility for their own actions. Aside from this, there needs to be consumer education, along the lines of 'people like you...' and the behavioural trends akin to those demonstrated through engagement with social media. Behavioural biases may also be linked to generational differences in behaviour and so may need a range of alternative strategies to address.

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

The introduction of a 'safe harbour' would be welcomed however not as a substitute for the necessary overall reduction and simplification of regulation. Where a simplified "safe harbour" approach is adopted it must be absolutely clear that there will be no repercussions retrospectively regarding the advice.

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

In particular we believe that the area of advice in relation to insistent clients and pension transfers would benefit from this treatment, as long as the recognised regulatory process had been followed and suitably documented, thus reflecting that the duty of care applied is appropriate.

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

Firms should be subject to the same High Level Principles (HLP) and duty of care to consumers .

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

Yes. Please see our covering note.

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?

Yes. Please see our covering note.

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

Certain financial products are, by their nature, long-term, however other disciplines, including the legal and medical professions, have limitations. Consumers should have the right to redress where poor advice or administration is determined to have occurred however the psychological impact of a long stop for advisers and to remind consumers of their responsibility to understand what they have bought will be significant.

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

Where issues are identified outside the suggested 15-year period, if felt essential a section of the FSCS fund be ring-fenced over time to address the issue.

- 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?**

This is a rapidly developing area however automated advice must carry the same consumer responsibilities and protections, including redress as any other form of "regulated advice". If it does not the consumer must be made aware that it is information or guidance and that should they act on it they are forfeiting their consumer rights and regulatory protections.

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

No comment.

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

The potential confusion between information, guidance and regulated advice leading to significant consumer detriment.

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

Please see our covering note.

- 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?**

We believe product and regulatory simplification along with improved and readily understandable transparency through TER plus clear demarcation between, information guidance and advice are essential requirements which will deliver good consumer outcomes without distorting the market.

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

Care is required to maintain the adherence to the High Level Principles (HLP) regardless of the method or approach to advice.

Providers of simplified solutions, which are likely to be delivered via technology based platforms, must meet the stated regulatory requirements for that process.

In particular the boundaries between information, guidance and advice must be made abundantly clear to consumers along with their relevant benefits and disadvantages.