

Retail Distribution Policy
Strategy & Competition
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

10 June 2019

Dear Sir/Madam,

Call for input on Evaluation of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR)

Please see below comments from the Smaller Business Practitioner Panel in response to the call for input on the RDR and FAMR review:

1. Is there any other evidence we should consider in our review of the RDR and FAMR outcomes and indicators in Annex 1 and Annex 3?

As well as the evidence considered it is important to consider for context the changes to Financial Ombudsman Service (FOS), Financial Services Compensation Scheme (FSCS) and the Professional Indemnity Insurance (PII) market compared to pre FAMR and pre RDR.

It would also be helpful to understand if consumer perceptions of charges for advice accurately reflect the actual cost of advice, and if not whether this affects consumer behaviour.

2. How do different groups of consumers access appropriate advice and guidance? Does this vary by financial need or consumer group?

Access to advice and guidance varies across a variety of variables, including differences between high and lower net worth customers and different age cohorts. In addition, preferences for access will vary for the same customer at different times depending on their circumstances. It is therefore important that a variety of advice channels remain viable in order to serve this range of customer needs effectively.

3. Are there any barriers to consumers accessing advice or guidance that meets their needs or to firms providing them?

Considering access to advice, there is a continuing trend for advice firms to become more selective about the clients they take on, reducing the supply of advice to consumers. The costs and resources required to gather evidence to provide a full financial advice service are substantial, and for any simplified solutions to be attractive to firms they would have to be very clear that less comprehensive information-gathering would not leave them open to retrospective regulation and enforcement.

4. Do consumers have the right information to compare advice and guidance services and to shop around? How easy is it for them to compare services?

There is a need for consumers to be able to identify in advance the overall totality of advice charges and indicative product charges so they can see the overall total initial and ongoing costs. Initiatives which may help in this area include the MiFID II disclosure changes may help and the Money Advice Service (MAS) Retirement Adviser Directory which has been encouraging consumers to request fee quotes from advisers they approach via the Directory.

5. What barriers exist to making advice or guidance services more affordable?

Barriers to providing more affordable advice include:

- Increasing costs associated with the delivery of advice services in relation to:
 - PI premiums
 - FSCS levy
 - FOS award increase
- Time commitment on regulatory matters. There is an opportunity here for the FCA to address how it can regulate particularly smaller firms more efficiently.

A particular barrier to cost effective advice and guidance is the volume of disclosure documentation which must be provided, or which firms perceive they must provide, in order to meet regulatory requirements. This does not serve the customer well, and in fact can be counter-productive in making it harder for them to understand the implications of their choices than if only the key information were supplied.

6. Do advice and guidance services offer sufficient quality and choice to meet the needs of different consumer groups? Are any consumer groups underserved?

Broadly firms do offer sufficient quality and choice. There are exceptions to this, particularly in the lower-net worth segments which are less cost effective to service, and the DB transfer market where consumers are now badly underserved, due to the complexity of the advice process required.

7. Do consumers have confidence and trust in advice and guidance services and do these services address their needs?

There are differences in levels of trust depending on the products and sectors involved. Previously miss-selling scandals have left some customers less willing to take advice, and this is particularly the case with complex products such as pensions. There is a role for employers and workplace pension providers to address this issue.

8. Do consumers who take advice or use guidance services get better outcomes than those who do not? If so, how, and if not, why not?

There has been consistent evidence that those that take advice achieve better financial outcomes. Research from ILC-UK in 2017¹ found that, broadly speaking:

¹<https://ilcuk.org.uk/wp-content/uploads/2018/10/ILC-UK-The-Value-of-Financial-Advice.pdf>

- The 'affluent but advised' accumulated on average £12,363 (or 17%) more in liquid financial assets than the affluent and non-advised group, and £30,882 (or 16%) more in pension wealth (total £43,245)
- The 'just getting by but advised' accumulated on average £14,036 (or 39%) more in liquid financial assets than the just getting by but non-advised group, and £25,859 (or 21%) more in pension wealth (total £39,895)
- The 'affluent but advised' group earn £880 (or 16%) more per year in pension income than the equivalent non-advised group
- The 'just getting by but advised' group earn £713 (or 19%) more per year in pension income than the equivalent non-advised group
- The 'affluent but advised' group were 6.7% more likely to save and 9.7% more likely to invest in the equity market than the equivalent non-advised group
- The 'just getting by but advised' group were 9.7% more likely to save and 10.8% more likely to invest in the equity market than the equivalent non-advised group.

11. What aspects of advice and guidance services do consumers value and why? Does it vary by consumer group or financial need?

and

12. What emphasis do consumers place on the cost of advice and guidance, against other elements of value for money?

The needs of customers vary according to a range of criteria, including age, income, occupation and life stage. Many will value access to face-to-face advice at different stages, whereas at other times they will value the speed and convenience of online solutions. It is therefore important to take into account the totality of the proposition from advice and guidance services as well as the cost in order to evaluate whether they are providing value.

13. Are there any barriers to effective competition between firms offering advice or guidance?

Yes, there are barriers to effective competition. When receiving initial enquiries advice services do not offer an indicative costing of initial and ongoing fees and also initial and ongoing product charges, thus preventing consumers from making reasonable comparisons of overall costs between advice services.

14. Are the rules and guidance around advice and guidance working well?

As discussed in the answer to question 5, the rules around disclosure are not working well either for firms or consumers. The FCA should work on clarifying (along with the Financial Ombudsman Service) what is really required in the way of pre and post-sale information. Firms are understandably keen to provide information which covers all eventualities and this leads to an 'overpapering' of customers, even if in reality the actual rules are less onerous. A review of the disclosure rules themselves would also be welcome.

17. Did FAMR or the RDR result in unintended consequences that have caused consumer harm?

We believe the RDR resulted in a real reduction in the delivery of advice to consumers, particularly those in lower net worth segments with complex needs, such as pension transfers.

20. What changes to the market might be needed to encourage consumer interaction with, and good outcomes from, advice and guidance services in the future?

A regulatory system which supports clearer information from advisers and guidance providers will be key to a market which works well in future.

In the context of guidance services the FAMR expert panel started to develop rules of thumb and nudges for pensions, investments, protection and savings and debt. It is important that this valuable work continues to be supported and resourced. MAS had continued the work but focused on savings and debt and in future the new Money and Pensions Service (MAPS) needs to extend the work back onto pensions, investments and protection.

23. What opportunities and barriers are there for developing advice and guidance services in the future?

and

24. What emerging risks to consumers do you see in the market?

A constriction on the supply of advice resulting from regulation which restricts any particular advice models would be a risk to consumers receiving the support and information they need. Clarity of rules on the advice and guidance boundary which gives firms the confidence to develop new models of interaction without concern about retrospective regulation will help them serve the market more effectively than is currently the case.

We would be happy to discuss any of these comments further.

Yours faithfully,

[signed]

Craig Errington
Chair, FCA Smaller Business Practitioner Panel