Consultation Response

HM Treasury: Financial Advice Market Review

December 2015 Ref. No. 3715

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About this consultation

The Financial Advice Market Review was set up to examine how financial advice could work better for consumers, particularly those without significant wealth. It aims to ensure the regulatory and legislative environment allows and encourages firms to innovate and grow their business models to include affordable and accessible financial advice, and to consider ways to encourage people to seek financial advice, addressing unnecessary barriers that currently deter them.

Key points and recommendations

- Age UK research shows very little reliance on professional advice among older age groups. However, this does not mean that there is no need for advice of various types, and we expect need to grow as a result of the 'freedom and choice' reforms.
- Advice gaps are particularly evident in: planning for long-term care costs; drawing a pension; interaction of pensions with debt and benefits; on-going management of retirement savings; mortgage lending in retirement, and how to repay an unpaid interest-only mortgage; advice on dealing with legacy issues; support with day to day money management, particularly for people in later old age.
- We recommend keeping two simple labels such as 'advice' and 'guidance', subject to consumer testing. However, we would be concerned about drawing the regulatory barrier more tightly in a way that reduces consumer rights to redress.
- Where possible, the need for advice should be minimised, for example by developing 'default' options on drawing a pension.
- Pricing structures that make it difficult to be sure how much advice is going to cost are a major barrier to engagement. FCA's innovation hub should support the industry to develop set-price models of advice, making full use of automated technology. If automated advice systems are developed, there must be appropriate backup from a trained adviser, by telephone or face to face, and special support for those not online.
- FCA should consider whether the fact finding process is a disincentive to take advice, and whether the process could be stream-lined through a standard fact find, which the consumer is supported by guidance to develop. Some form of 'know your customer' process might still be necessary, to establish aims and objectives, but we hope that this would simplify the process.
- A 'pensions dashboard' could play a crucial part in both improved consumer engagement and any stream-lined fact finding process, and the Government must prioritise and pay an active part in its development.
- Employers potentially have an important role to play and should be incentivised to provide access to guidance and/or regulated advice.
- Professional advice will need to work together with free, impartial public financial guidance, supported by moves to improve financial capability in the general population. We would like to see a 'white labelled' automated system developed for use by appropriately trained money guidance 'coaches'. However, this should be developed and tested with a range of people to see what works in practice.
- Consumer engagement is always likely to be a challenge and triggers for action are essential. We would like to see a joined-up information, guidance and advice journey to help people prepare for later life, starting with a mid-life career review, moving on to at-retirement pensions guidance, and with a guidance session in later life.
- We do not support proposals for a longstop time limit to liability for advice.
- Whatever the outcome of this consultation, we urge the Government to allow adequate time for consultation and consumer testing on the detail of on any proposals.

Introduction

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. We believe in a world where everyone can love later life and we work every day to achieve this. We help more than 5 million people every year, providing support, companionship and advice for older people who need it most. This response is written from the perspective of advice needs in later life.

Age UK agrees that there is an advice gap, but the overall need is much broader than that usually covered by professional advice. Our own experience as a provider of information, guidance and (non-regulated) advice is that support is often needed at the front end – translating jargon, helping people understand and sort out what they already have, and spotting the gaps – before they get anywhere near a recommendation for action. And equally, a lot of support might be needed with managing a transaction.

We see a spectrum of need, ranging from support with day-to-day money management, through to planning ahead for a future need, and ending with advice in a crisis – bereavement, debt, or simply when it is no longer possible to put off a decision (for example when drawing a pension). These advice needs are messy, often overlap, and are difficult to carve up into neat categories. For example, someone with a lump sum on retirement may well be faced with a decision on whether to use it to pay off a mortgage, save it in cash against a future need, or re-invest it for income.

The existing provision of advice and guidance is highly diverse, ranging from information, guidance, financial planning, support with undertaking a transaction, through to advocacy and casework. Again, these may be difficult to carve up into categories; and there may be gaps in one area but not another. For example, someone seeking advice on whether to use their pension to repay an unpaid mortgage may need Pension Wise guidance on their pension options, debt advice on the mortgage, and regulated advice on whether they should actually dispose of their pension (as selling a regulated product is within the regulatory boundary). Therefore, this response must be read in conjunction with our response to the consultation on Public Financial Guidance.

There is a tension between increasing access and reducing protection, and the arguments are finally balanced and highly technical. Whatever the outcome of this consultation, we urge the Government to allow adequate time for consultation and consumer testing on the detail of any proposals.

Filling the advice gap

When thinking about how to fill the advice gap, we recommend that the Government first considers whether there are areas where default or standard solutions can be offered, rather than individual (and expensive) advice. Automatic enrolment into pensions, for example, has done more to boost pension saving in the last few years than any amount of advice and exhortation. We would like to see similar default or standard solutions created at retirement.

We would also support greater use of automated solutions, such as computer programmes allowing tailoring and filtering of information and options to meet individual needs, provided that there is appropriate backup from a trained adviser, either by telephone or face to face. We believe such automated solutions could both allow people who are confident to self-serve, and also support the provision of high quality guidance (telephone or face-to-face), backed up by regulated advice if necessary. This begs the question of who should be permitted to do this, and what protection the consumer would have.

The automated system, and any supporting telephone or advice service, must be impartial. We accept that providers with whom the client has an existing relationship are more likely to be trusted and approached, and have an extremely important role to play in providing information and supporting individuals with transactions involving existing products. However, we would have concerns on competition grounds about a product provider issuing guidance on purchasing products it sells itself. Such situations should always be referred on to an independent source for recommendation from a range of providers, and where appropriate advice. The annuity open market option and pensions guidance have demonstrated that it is very difficult to get consumers to shop around, and helpful information from a provider (or even advice to shop around) may have the unintended consequence of actually encouraging consumers to purchase from them, however poor their products.

We would welcome the development of a standard automated programme by an independent agency that could be used by non-regulated bodies, including non-profit advice agencies such as Age UK. This should be supported by individual guidance and an impartial adviser directory, such as that developed by MAS. To provide some safeguards and deter fraudsters, some form of licencing or contractual agreement could be required to use the programme, or the ‘designated provider of guidance’ regime could be extended beyond pensions.

We would also like to see simplification and rationalisation of the fact-finding process. We understand that the current process, where every adviser goes through their own full fact-find, arises partly from compliance fears, but we strongly believe that the data belongs to the individual, not to the adviser, and they should be encouraged to own the process rather than being treated as part of a proprietary client bank, set up on adviser's own platform, for which the client may even be charged a fee. We would like to see the FCA work with the industry to develop standardised fact-finds – as has already happened, organically, in the development of a standard impaired life questionnaire in the annuity market. The adviser would still need to go through a 'know-your-customer' process to establish 'softer' facts such as aims and objectives, but it might be possible to streamline the process of data collection – particularly if a 'Pensions dashboard' is in place. We regard the Pensions Dashboard as a vital tool in this process, and urge the Government to prioritise and play an active role in its development. The non-profit sector could also play pay a useful role in helping clients with data collection for the fact find, although additional funding might be required to support agencies involved in this process.

Finally, there is clear market failure in the provision of advice. We do not accept the mantra that 'any advice is better than none': it may well be worse if it leads someone to take a very poor decision that is difficult or impossible to unwind or that results in substantial losses. Public policy now depends increasingly (as with the pension 'freedom and choice' reforms) on individuals making sensible decisions. Individuals should be entitled to expect impartial advice from a well-trained adviser. Unless there is full access for all to affordable regulated advice, a source of impartial, expert, and free guidance from a body with no commercial interest remains essential and Age UK supports a continued levy on industry to pay for it.

There may also be areas of regulated advice where there are no regulated advisers willing to provide a service at a price which individuals can afford – for example on whether or not to surrender an insurance policy to pay off debts, or whether or not to transfer a small defined benefit pension. In these cases, Government may need to look at a special regime to allow non-profit advisers to assist.

To improve consumer engagement, we would like to see a joined-up information, guidance and advice journey to help people prepare for later life, starting with a mid-life career review at about age 50, moving on to at-retirement pensions guidance, and followed by a guidance session in later life.

This is because if people have ready access to advice across all aspects of their financial lives – particularly the difficult areas – they are far more likely to engage. Receiving advice from well-known, trusted and competent sources needs to become an accepted part of the culture for people from all social and economic backgrounds.

2. Responses to questions

What do consumers need and want from financial advice?

Equality and diversity

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?***

   Yes. As age is a protected characteristic, the specific advice needs of older people are covered throughout this response (see our response to question 5) but some of these advice gaps may be compounded by other equality issues. For example, women's median pension wealth at age 55-64 is £99,100 compared to £174,100 for men[i]: they are therefore more likely to have difficulty accessing affordable regulated advice.

   These difficulties are also compounded by digital exclusion. Virtually all (99 per cent) of young adults have recently used the internet, but this falls to 71 per cent of those aged 65 to 74 and just 33 per cent of those aged 75 and over[ii]. If automated systems are developed, there must be alternative means of access for those online.

   An advice gap particularly affecting older people reflects the structure of the advice market. Because of the long tradition of remuneration on sales in most retail financial markets, until the move to fees following the RDR, there has been a tendency to concentrate on 'up-front' sales transactions, rather than advice on how to manage or sell existing products. Some older people may have an on-going relationship with an investment manager or financial adviser but our research (see Question 3) suggests these are in the minority. Therefore, while promoting savings is important, this should not be a major focus of FAMR.

The demand for advice

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

   The greater the number of sub-categories of advice, the greater the risk of consumer confusion. We therefore recommend keeping two simple labels such as 'guidance' and 'advice'. Consumers are likely to regard all personal interactions with a professional as 'advice' in any case, so it will be necessary to explain the implications of the regulatory status and any restrictions in scope to individuals at the time they need to know, rather than relying solely on a label.

   We would be open to the development of an alternative term to 'advice' such as 'regulated advice', however any new terminology should be tested with consumers and the incentive effects on industry should also be considered. For example, it would be worrying if relabeling 'advice' as a 'personal recommendation' had the effect of drawing the regulatory barrier more tightly in a way that reduces consumer rights to redress.

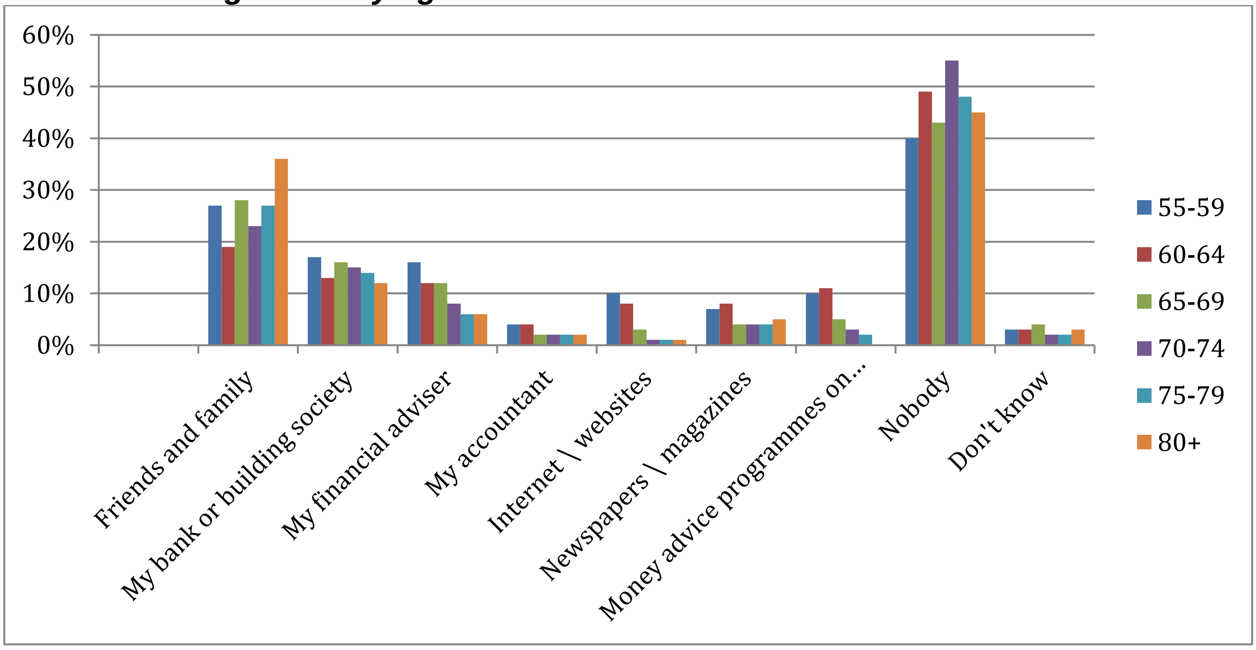
3. ***What comments do you have on consumer demand for professional financial advice?***

Age UK research shows very little reliance on professional advice among older age groups. However, as shown in our responses to questions 4 and 5, this does not mean that there is no need for advice of various types, and we expect need to grow as a result of the 'freedom and choice' pension reforms.

In February 2014 Age UK commissioned TNS to carry out polling among older people aged 50+. In line with many other surveys, across the whole sample reliance on friends and family was highest, at 25 per cent, then banks or building societies at 14 per cent, and financial advisers at 10 per cent. By far the largest category was 'nobody', at 46 per cent.

Breaking it down by gender, men were more likely to rely on 'nobody', and women were more likely to rely on 'friends and family'. Breaking it down by age (see Chart 1 below), there was little marked change except that use of financial advisers fell by age, and so did internet use, while from age 80+ reliance on friends and family grew.

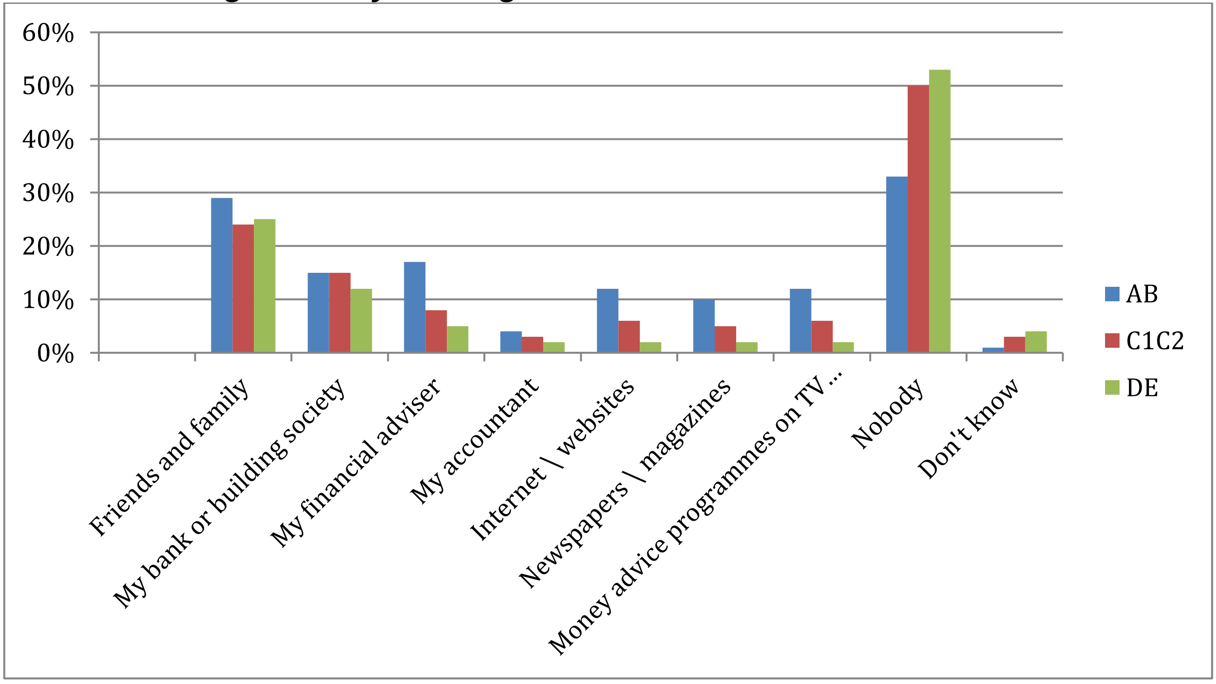
Chart 1: Who do you rely on for advice about money?
Adults in GB aged 50+ by age



Source: Financial Services Commission Omnibus, polling by TNS for Age UK, February 2014.

As might be expected, Chart 2 shows that reliance on financial advisers, the internet and other sources of information is higher among the AB group, while they were less likely to cite 'nobody'.

Chart 2: Who do you rely on for advice about money?
Adults in GB aged 50+ by social grade



Source: Financial Services Commission Omnibus, polling by TNS for Age UK, February 2014.

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

Age UK receives continuous feedback about financial issues of importance to older people through the advice activities of local Age UKs, calls to the national Information and Advice (I&A) line and hits on our web site. In addition we receive communications from the general public that highlight certain issues, and we run engagement events to focus on selected issues in detail.

We recently conducted a survey of local Age UKs' financial guidance/capability activities. From the network of around 165 Age UKs there were 88 responses and, of these, half were currently delivering what they regarded as a financial capability service. The most frequent topics covered by these services were scam awareness and remedies, budgeting and managing personal finances, and shopping around for cheaper consumer deals[iii].

Of the enquiries received from members of the public, the most frequent topics were: benefit checks, understanding financial statements, jargon and terminology, Powers of Attorney, scam awareness and remedies, switching service providers and planning ahead for care home fees.

Many practical day-to-day financial topics appear on the full list of enquiries including, for example, 'considering equity release', 'negotiating repayments', 'calculations around part time work', 'setting up direct debits', 'understanding creditor powers'.[iv]

Financial information and guidance via Age UK's national advice line

This pattern of concrete, practical enquiries related to day-to-day life and plans for the future is repeated in the data from Age UK's national advice line, and financial issues are one of the main areas of enquiry. I&A calls are divided into Level 1 and Level 2, with Level 2 providing more in-depth discussion and (non-regulated) advice.

In 2014-15, the most frequent topics at Level 1 were benefits, finding help at home and housing. At Level 2 the most frequent topics were benefits, residential care and non-residential care.[v]

In 2014-15, there were 271,741 I&A enquiries, of which 16,535 were advanced to Level 2. In addition, Age UK had 3.1 million unique visitors to the I&A pages on its website. In total, Age UK's I&A services reached 5.8 million people in 2014-15. Reflecting the needs of enquirers, the top 10 Information Guides produced by Age UK included many financial topics.

Top 10 Information Guides

Individual orders		**Bulk orders**	
More Money in Your Pocket	14,618	Staying Steady	157,270
Care at Home	9,942	Winter Wrapped Up	133,853
Pension Credit	9,003	More Money in Your Pocket	51,006
Adapting Your Home	6,473	Healthy Eating	46,943
Attendance Allowance	6,204	Caring for someone with Dementia	40,932
Powers of Attorney	3,951	Healthy Living	40,084
Advice for Carers	3,888	Bereavement	37,356
Wills and Estate Planning	2,837	Advice for Carers	36,961
Save Energy, Pay less	2,835	Powers of Attorney	36,361
Winter Wrapped Up	2,640	When someone dies	34,840

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

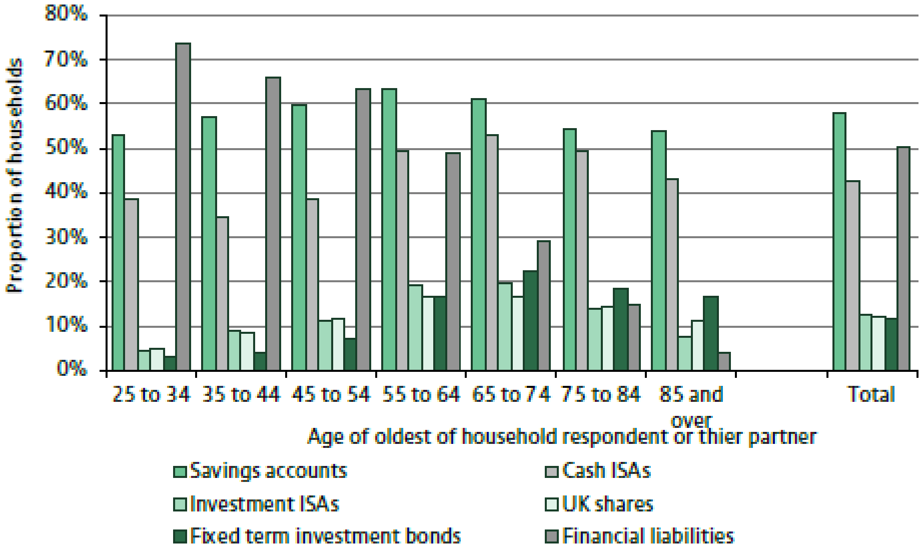
Until recent years, in terms of managing their financial wealth, older people's professional advice needs may have been relatively simple. Most people's wealth was held in defined benefit pensions or cash and most mortgages were paid off by retirement. All this is changing, with a growing need for on-going 'wealth' management, tax advice, cash management advice, care fees planning and mortgage repayment advice.

These needs are not currently fully reflected in the box on page 10 of the consultation. It should include paying for long-term care and also transactional support with issues such as selling investments or repaying an interest-only mortgage. Both of these are at the most complex end of the spectrum.

The current picture

As the chart below shows, apart from their pension, in 2010-12 households with older people aged 55+ held most of their wealth in cash savings, but a minority still have financial liabilities into their 80s.

Chart 3: Financial assets and debt by age



Notes: Weighted sample of all households interviewed in 2010–12.

Source: The Evolution of Wealth in Great Britain, 2006-08 to 2010-12, Institute for Fiscal Studies, 2015

The need for retirement planning will increase

According to Pensions Policy Institute research[vi], out of those people aged between 50 and State Pension Age in 2014 with defined contribution pension savings:

- Around 891,700 are likely to have more than £51,300 and should therefore be able to find advisers willing to take them on
- Around 3 million will have less than £6,300 and may be more likely to draw their savings in cash
- Around 1.78 million will have between £6,300 and £51,300, of whom PPI regards 694,000 as being at 'high risk' given their level of dependence on DC savings and lack of defined benefit pensions to fall back on.

We could therefore regard between 694,000 and 1.78 million people aged 50-64 as being in a potential retirement income advice gap. For example:

> *I have been trying to get some financial advice including three small pensions I have and what I can do with them. I have tried the pension advice site and it was not helpful. I've been told I need a financial/ pensions adviser but am worried and can't really afford much. I need impartial advice - all these 'link on this link on that' - I need someone to sit down and help me sort it out.* Evidence from Age UK advice line

Unless someone buys a lifetime annuity, or spends the whole amount immediately, on-going advice will be needed throughout retirement. Although, out of the 39,901 income drawdown plans sold in 2014, 81 per cent were independently advised, while 10 per cent were sold with restricted advice and only 9 per cent were non-advised, this is likely to change. [vii] It is essential that all consumers using income drawdown have access to advice or guidance throughout later life.

This needs to include tax advice, given that how the income is drawn could have significant tax implications.

The need for better cash management

One side-effect of the 'freedom and choice' reforms in pensions is likely to be an increase in the amount of pension savings cashed in and held in cash. However, recent research suggests that the majority of older people's surplus is held in low-interest current accounts, suggesting that many could benefit from support to maximise their income[viii].

The need for care fees planning

Financial planning for care is increasingly important because of the delay in the implementation of a cap on care costs until 2020, together with the reduction in the percentage of older people receiving state funding (9.2 per cent in 2013/14, down from 15.3 per cent in 2005/06[ix]). The total number of so-called 'self-funders' is difficult to estimate but there are approximately 173,900 people in residential or nursing care, and an unknown number paying for their own domiciliary care[x]. Each year, 35,000 people who enter care draw on their housing wealth to do so, which is likely to require specialist financial and legal advice[xi].

Yet, in recent research[xii], only 9 per cent of over-45s said they would use an IFA. While people are likely to use a variety of sources, the most popular port of call is likely to be the local authority, social worker or council with 49 per cent of people staying they would speak to them. This is followed by the Citizens Advice Bureau (42 per cent), GP/Doctor (28 per cent), the internet (24 per cent) and their family (24 per cent). Only 2 per cent would consult their bank. However, 51 per cent said they would find a referral to an IFA useful.

The supply of specialist advice for older people is also limited. For example, SOLLA (the Society of Later Life Advisers) was expecting just 1,000 members in 2015/16.[xiii]

Advice on repaying an interest-only mortgage

People approaching or in retirement with an interest-only mortgage have particular needs for advice. According to the FCA[xiv], over the next 30 years:

- 2.6 million interest only mortgages will be due for repayment and while nine out of ten (90 per cent, 2.34 million people) have a strategy to repay their mortgage, 10 per cent do not – equivalent to 260,000 people.
- Some borrowers are underestimating the problem as around a third (37 per cent) believe they may not have enough money to pay off the loan, yet estimates produced for the FCA suggest that the figure is closer to half (48 per cent).

- Borrowers who are able to give a figure believe their shortfall will be, on average £22,100. However estimates produced for the FCA are that around half these shortfalls are expected to be over £50,000.

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

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

The segmentation is not granular enough to be useful in relation to people approaching or in later life. For this reason, it is difficult to use it to prioritise specific areas, although we think given the major implications of 'freedom and choice' in pensions, retired groups will clearly be important. We recommend that it is supplemented by other segmentation models, for example those recently developed by the Centre for Ageing Better[xv], the categories we give in our response to Question 5 above and the categories given in Citizens Advice recent report on advice gaps[xvi].

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

Our research (see Question 2) suggests that people in higher socio-economic groups are more likely to seek advice, presumably because of greater wealth and income. However, analysis of the Bank of England NMG Consulting survey by age shows that older people have much lower incomes and higher wealth relative to younger people, as one would expect. In the 2014 survey, 69 per cent had incomes below £14,000. Therefore, they are more likely to need to draw from their capital to pay advice fees, and advice fees may seem particularly high when framed in the context of lower incomes.

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

We agree that all the factors listed are likely to be barriers to seeking advice. In addition, we note that:

- Older people may be more likely to be affected by lack of trust arising from mis-selling problems in the past

> *'I won't trust a financial adviser – we went to the bank once and they dearly wanted to invest our money, but we decided not to and if we had listened to the adviser we would have lost a fortune'* Male aged 75+
>
> *'I think the biggest problem is that we don't trust others to look after our money because of everything that has happened in the past. I would love it if there was a group of honest and trustworthy people to look after my funds – I don't want to make a fortune, but just want a steady improvement'* Male aged 75+[xvii]

- Lack of fixed-price fee options is likely to deter people on a budget.
- Professional advice is not very visible. Most IFAs do not have a strong brand; major banks and providers do, but they are increasingly not accessible on the high street

as they close branches and local offices. ‘Find an adviser’ websites such as that offered by the Money Advice Service are very important, but people may need encouragement and assistance to engage, and other alternatives are needed for people who are digitally excluded.

- Cultural barriers. For some people, there is likely to be a perception that financial advice is ‘not for people like me’. Advice firms having a diverse workforce that truly reflects the make-up of contemporary society is particularly important if this is to change.

Where are the advice gaps?

10. ***Do you have any information about the supply of financial advice that we should take into account in our review?***
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?***
12. ***Do you have any comments or evidence about the role of new and emerging technology in delivering advice?***
13. ***Do you have any comments on how we look at the economics of supplying advice?***
14. ***Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?***
15. ***Which consumer segments are economic to serve given the cost of supplying advice?***
16. ***Do you have any comments on the barriers faced by firms providing advice?***

We are not in a position to answer these questions. However, we supported the move away from commission-based selling because it was clear that it was incentivising poor practice, which in turn reduced trust and consumer engagement. Nor did it reflect the reality that many people may need support with managing their money without necessarily needing to buy a product. We question though whether the current model of highly individualised, expensive, advice is appropriate for the vast majority of the population, and we would welcome greater innovation in technological infrastructure to support cheaper models of delivery.

17. ***What do you understand to be an advice gap?***
18. ***To what extent does a lack of demand for advice reflect an advice gap?***

We agree with the definition used by the Review. We particularly welcome the focus on the advice gap, rather than the savings gap. The role of advice is not necessarily to promote saving, although in many cases that will be the effect, and an excessive focus on accumulating savings can be a distraction from the need – particularly in retirement – to manage existing savings better. Indeed there is evidence that some older people underspend[xviii], because of the uncertainty of longevity and care needs, but possibly also because of cultural conditioning to save:

'Most of us were brought up to save for a rainy day – now it's starting to drizzle – most of us have been careful and saved and it's difficult to break the habit.'[xix]

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

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

In relation to people approaching and in retirement, we observe the following advice gaps:

- Planning for long-term care costs, as set out in our response to Question 5 – it is disappointing that this is not covered in the framework on page 20.
- Drawing a pension – there are clear affordability gaps here, as set out in our response to Question 5.
- Interaction of pensions with debt and benefits, which professional financial advisers are unlikely to deal with. There are particular problems with debt, as a debt advice agency is unlikely to have FCA authorisation to advise on sale of a pension as well, as shown in these examples from the Age UK advice line. Some clarification/confirmation from FCA about whether there is a way that CONC-regulated debt advisers can do more for pensions clients would help.

  I have a small pension from work and have been offered a lump sum instead of keeping the pension. I was made bankrupt 5 years ago and I need to know if any lump sum would be confiscated

  I am an unemployed 60 year old man with some health problems. With this in mind I was thinking of early retirement. I have a final salary pension scheme and have received some online figures for early retirement which seem attractive and that I may like to pursue. However, my pension provider insists I see a Financial Adviser before taking this any further. I now feel I am in a Catch 22 situation as I just cannot afford the fees of a Financial Adviser as I am on Jobseekers Allowance which does not leave much at the end of the week! What would you advise?

- On-going management of retirement savings – we pick this out as a separate category because unless someone buys a 'packaged' product such as an annuity they may need an on-going relationship with a financial adviser, which is likely to be expensive.
- Selling a secondary annuity – if this becomes possible, as currently proposed for 2017, we think anybody considering it will need holistic financial advice, including on benefits and debt.
- How to repay an unpaid interest-only mortgage – financial advisers are highly unlikely to want to advise on what can be a messy situation, crossing several

different forms of FCA permission. For example, some people might benefit from converting their mortgage into a lifetime mortgage, but a standard mortgage broker is unlikely to have permission to advise on lifetime mortgages. People may also need housing advice – for example to consider alternative housing options.

- Advice on dealing with legacy issues. Many older people are faced with managing a portfolio of different products from companies that how now merged and, even if they had previously used an adviser, they are very likely to have been 'orphaned' over the years. Helping people to sort out what they already have is highly time-consuming and unlikely to be attractive to a professional adviser unless the value is substantial.
- Support with day to day money management, particularly for people in later old age.

In addition, there are a number of 'systems' issues that create advice gaps for older people. The main one is the likelihood of digital exclusion, which makes it very difficult to use comparison websites or online adviser directories.

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

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, but we would also like to see a additional focus on planning for care costs. In addition, there are some very specific areas of difficulty beyond and within these categories that FCA should consider, notably advice on repaying an interest-only mortgage, and the interaction of pensions and debt.

What options are there to close the advice gap?

The regulation of advice

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)?***

Yes, in principle, but in practice a monetary limit may be a rather crude metric. For example, only 7 per cent of people aged 65+ have an income above £50,000[xx]; conversely, older people in retirement may have more than £100,000 in investible assets but be unable to get advice for other reasons (for example because it involves dealing with complex legacy issues).

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?***

We recommend that FCA considers how a standardised fact-find could be introduced, supported by non-profit guidance.

We also suggest that FCA looks at whether there is any way to incentivise advisers to work across permissions, for example through referrals to other specialists.

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?***

We are not in a position to answer these questions. However, we note that the system of separate permissions for different activities can create barriers to holistic advice. We understand and support the need for special permissions for some activities, for example equity release, but suggest exploring whether the categories could be broadened, e.g. an overall 'later life' permission.

We would also support moves to facilitate the provision of non-profit advice for areas where professional advisers are not prepared to assist – for example, in provision of advice around pension transfers for low-value clients, or allowing CONC-regulated debt advisers to do more for pensions clients.

Previous initiatives to improve consumer engagement

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

The simple products initiatives referred to in the consultation were valuable not so much in terms of consumer engagement, as in their effect on the market. For example, the charge cap on stakeholder pensions had a significant effect in signalling that higher charges were no longer acceptable, and although advisers 'struck' at selling stakeholder pensions it is noticeable that they are now prepared to sell pensions with much lower charges. In this respect, the CAT standard and stakeholder initiatives had more in common with the 'default' approach of auto-enrolment than with engagement initiatives.

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

The Australian and Dutch examples cited seem to be following the UK model, suggesting support for bans on commissions. The fiduciary model in the US also replicates the UK model of requiring advisers to act in the best interests of their clients. However, we would be interested to learn from the US experience with technological innovation, and from the Financial System Inquiry[xxi] in Australia which has recently recommended greater use of 'default' options to reduce the need for expensive advice.

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

We would strongly support moves to improve engagement through a 'pensions dashboard' or other such tool. Other steps forward would be radical simplification of some of the language around finance, as NEST has developed for decumulation. And, as stated throughout this response, we believe that default products have a role in some circumstances, particularly at retirement.

Finally, we note that in the past employers have played a valuable role through 'Save As You Earn' accounts. One fruitful step might be to consider how employers might be encouraged to offer such accounts, without necessarily linking them to share purchase and without compromising participation in workplace pensions. Many major employers also provide access to financial advice (usually in relation to pensions) and the Government should consider how other employers could be incentivised to do so.

The Financial Capability Strategy also has an important role to play in supporting consumers to feel confident in financial markets.

Limiting certain liabilities

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

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

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

We would support more detailed guidance by the FCA on what is good practice, and welcome initiatives such as the FCA innovation hub. In addition, if a standard 'factfind' is developed, some form of guidance may be needed on the situations in which advisers can rely on it. However, by definition a 'safe harbour' is likely to apply only in relation to simpler products, and if products are simple we suggest that non-advised purchases are more likely.

We are extremely concerned by suggestions that advisers should not be liable for the advice they give, as there is such asymmetry of information in the financial services marketplace. Quite apart from the issue of principle, consumers would need to understand when liability is limited, which would involve time consuming and burdensome disclosures that could further reduce desire to engage with the industry. It is also likely to stifle innovation and wrap the industry in red tape, as firms seek to squeeze their business into a regulator-approved model. In the past this has led to problems, for example some firms have misused the 'execution-only' classification in an attempt to avoid liability[xxii].

The longstop review

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

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

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

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

We do not support a longstop time limit on liability. While we have no evidence that it is leading to an advice gap, there is clear evidence that it would lead to consumer detriment – the FCA noted in 2008[xxiii] that 2,000 cases a year would be time-barred. We believe that, at a time when consumer reluctance to engage with financial services is a matter of concern, introducing a longstop would be severely damaging to consumer confidence. We note that the possibility of variable longstops is raised in this paper, but consider that these would be difficult to implement and would distort the marketplace – for example, a 25-year longstop for mortgages would reduce the already slim incentive for lenders to extend an unpaid interest-only mortgage beyond the original term. We suggest that Professional Indemnity insurance should already take account of the likely end-date of the liability.

We can see the appeal of a no-fault compensation fund, but this would mean that all firms bear the cost of poor practice by others, and so would be unlikely to reduce regulatory costs overall. It might also reduce the incentive to take care when advising on long-term issues.

Automated advice

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?***

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

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

Age UK is supportive of the development of automated advice options, provided that:

- The automated solution meets acceptable standards, with a clear audit trail for the advice and redress available in case of errors.
- There is backup in the form of impartial telephone or face-to-face advice from an appropriately trained adviser who can ‘coach’ the individual through the system
- Advice and selling must be separate. If the advice does lead to a need to buy a product, there should be a ‘Chinese wall’ between the advice process and the selling of the provider’s own products – a good range of providers’ products must be offered, or a warm referral to an independent adviser on an approved list, such as the MAS directory.
- It is completely clear at outset whether the system is offering regulated advice or just information. Where it is just information, there should be some form of benchmarking or kitemarking to guard against poor standards or bias. Where such a system is clearly misleading, the FCA should be able to take action against the firm.

- Charges are transparent at the outset, and charges to download material and data are fair and reasonable and made clear at all points throughout the process.

However, an automated system does not in itself lead to greater engagement, nor will it meet the needs of the many older people who are not themselves online. We think it is important that telephone or face to face guidance services are in place to support such people and take them through an approved automated system.

Considering the options to bridge the gaps

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

We recommend that:

- Where possible, the need for advice should be minimised, for example by developing 'default' options on drawing a pension
- The FCA's innovation hub supports the industry to develop fixed-price models of advice, making full use of automated technology.
- The FCA considers whether the fact finding process is a disincentive to take advice, and whether the process could be stream-lined through a standard fact find.
- Employers potentially have an important role to play and should be incentivised and encouraged to provide access to advice (the 'benefits in kind' tax exemption for pensions advice is very modest).
- These steps are unlikely to make professional advice fully accessible to the whole market. Professional advice will need to work together with free, impartial public financial guidance, supported by moves to improve financial capability in the general population. We recommend that a 'white labelled' automated advice system is developed for use by appropriately trained money guidance 'coaches'. Pro bono advice schemes are also available and could potentially be expanded.
- Triggers for action are also needed. We would like to see the concept of 'health checks' at different ages extended to financial services, and in particular we would like to see a mid-life career and a mid-retirement review.

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 would not support increasing access to advice at the cost of anti-competitive practice. As far as possible, advice should be separated from selling. While product providers have an important role to play in providing information, if a consumer decides as part of the information process that they need to buy a product, they should be referred to an independent transaction service offering a choice of providers' products.

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

This will depend on the changes proposed. We urge the Government to allow adequate time for consultation and consumer testing of any changes proposed as a result of FAMR.

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[i] *Wealth and Assets survey 2010-12,* Table 6.10, ONS.
[ii] http://www.ons.gov.uk/ons/rel/rdit2/internet-users/2015/stb-ia-2015.html
[iii]Interim feedback from local partners re Financial Capability Survey and next steps (internal Age UK document, October 2015), p 3.
[iv] Interim feedback from local partners re Financial Capability Survey and next steps (internal Age UK document, October 2015), p 3.
[v] Age UK, *Service Delivery End of Year Report 2014/15*
[vi] *How complex are the decisions that pension savers need to make at retirement? ,* Pensions Policy Institute, 2014
[vii] *The Future Book; unravelling workplace pensions,* Pensions Policy Institute, 2015.
[viii] *Understanding retirement journeys: reality vs. expectations,* International Longevity Centre UK, 2015
[ix] *The Health and Care of Older People,* Age UK, 2015
[x] *Laing and Buisson Care of Older People Market Report 2014*
[xi] Care Bill 2013 Impact assessment
[xii] *Care Report 2015,* Partnership, 2015
[xiii] *SOLLA on track to make later life fastest growing market, http://societyoflaterlifeadvisers.co.uk/media/*
[xiv] *Interest-only mortgages review,* Financial Conduct Authority, 2013
[xv] *Later life in 2015: an analysis of the views and experiences of people aged 50 and over,* Centre for Ageing Better, 2015
[xvi] *The Four Advice Gaps,* Citizens Advice, October 2015
[xvii] *Making the Money Last,* Age Concern, 2007
[xviii] *Understanding retirement journeys: reality vs. expectations,* International Longevity Centre UK, 2015
[xix] *Beyond Financial Inclusion, Annex 2,* Age Concern, 2008
[xx] *NMG Consulting Survey for Bank of England, 2014*
[xxi] Final report of the Financial System Inquiry, available at http://fsi.gov.au/publications/final-report/
[xxii] See for example http://www.financial-ombudsman.org.uk/publications/technical_notes/execution-only.htm
[xxiii] *Retail Distribution Review Feedback Statement 08/06,* Financial Conduct Authority, 2008