FCA DP23-5 (Advice Guidance Boundary Review: proposals for closing the advice gap)

Response from:

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A) Introduction and Summary

We welcome recognition of the problem and applaud the sometimes radical options offered to deal with it. But these are constrained both by the breadth of the problem and the existing framework, typified by three issues:

- the way the financial services industry artificially interprets 'guidance' and 'advice';
- the enormous variation in 'solutions' depending on age, ability, financial circumstances, and personal preferences regarding saving versus spending; and
- that the 'right' financial plan for each individual is not just analytical but also very personal - depending on individual preferences.

It's time for a different approach. The current financial advice model naturally reflects the commercial interests of the financial advice community. It has not been developed with the needs of ordinary people uppermost. We want to move responsibility to the consumer while giving them the tools to exercise that responsibility, focussing on transparent information. This will allow a great improvement in effectiveness and also a great reduction in cost.

Fundamental to our proposal is to switch emphasis from 'teaching' to 'learning' and to recognise the need for different approaches to money management dependent on individual circumstances of age, ability, and personal circumstances.

Our proposals particularly address this requirement from the first part of the Foreword to the policy paper, by the Economic Secretary to the Treasury:

> *The financial services sector should be enabled to meet consumers where they are and provide support in a way that reflects their varied circumstances. Advances in digital capability also offer the prospect of supporting many more consumers with their decisions.*
>
> *We want to see a continuum of help, guidance and advice being offered to support consumers, without the current cliff edge inherent in the current regulatory framework*

Recommendations

1. That Government should explicitly adopt a target of enabling the whole population to be able to manage their money (putting consumers' interests first).
2. That this target should not be qualified by requirements to protect the interests of providers. A better financially educated and enabled population should mean that people are able to seek out less expensive solutions to their financial issues.
3. That the main vehicle for meeting this target should be online learning mechanisms, initially an expansion and redirection of the MoneyHelper franchise to align with the principles exemplified by HonestMoneyNow. (see Annex 1)
4. That this initiative be integrated with the initiatives currently being undertaken by government under the 'education' umbrella, so that what emerges is a genuine 'cradle to grave' learning process independent of commercial interests. (see Annex 2)
5. That the subject should be described as 'money management'
6. That the initiative be overseen by a cross departmental committee covering an understanding of finance, learning, systems, and human psychology.
7. That the focus of regulation be switched from control of advice to strengthening of understanding, executed as consumer tools become available.

B) <u>Answers to selected questions</u>

Q1*: In your view, do any of the proposals outlined in this paper adversely affect different groups of consumers and why?*

No, in principle. But ill-judged implementation could do so (e.g. for the computer-illiterate). Also, unless you put consumer interests before the providers, there remains the risk that providers will interpret the requirements to suit them and not consumers.

Q2*: Is there a role for the 3 proposals (further clarifying the boundary, targeted support, and simplified advice) outlined in this paper? Could these work alongside existing forms of support? When responding, please include how the proposals would (or would not) work alongside each other.*

In theory all three proposals could be progressed. But practicalities suggest that resources are concentrated on the most productive – in our view 'targeted support'.

***Q3**: Are there any other proposals that we should consider to help close the advice gap and how can we support the provision of more guidance? Please outline your proposal in as much detail as possible.*

See separate essay, Annex 1.

***Q6**: Do you support the concept of targeted support and do you support developing a regulatory framework to deliver it? If not, why not? Are there any key features (in addition to those discussed below) that you believe targeted support should include?*

We strongly favour targeted support. We believe it should include a core of centrally provided guidance (like a greatly expanded MoneyHelper) as further defined in Annex 1.

***Q7**: What types of firms do you think would be well placed to provide targeted support?*

No immediate comment. We should learn during a protracted iterative development phase.

***Q8**: Do you think there should be restrictions on the types of firms allowed to provide targeted support, and why?*

If the targeted support requirements are the right ones, restrictions should not be needed. Again, we should learn during the iterative development phase.

***Q9**: Do you agree that the scenarios outlined are appropriate for a new targeted support regime? Please suggest any other specific scenarios where targeted support might be appropriate and could benefit consumers.*

Appropriateness depends on the mechanism of support. All the noted scenarios potentially qualify.

***Q10**: Do you agree with the high-level minimum requirements for a proposed new standard for targeted support? Please explain your answer.*

Yes. Specifically, 4.18/4.19. For clarification refer Annex 1.

***Q12**: Which of the 3 options for types of suggestions would be most impactful under targeted support, and why? Are there any other options we should consider?*

We find the options chosen for the example unhelpful. Advice should not be delivered in the form of product recommendations but as savings/spending plans. Money management is not (primarily) about product choices; it is about meeting consumers' needs. In contrast all three proposals feel like opportunities to sell products instead of providing meaningful information about buying them, e.g. comparison of costs between different providers.

***Q14**: Do you agree that targeted support should not necessarily be subject to explicit charges? If so, how should firms be remunerated, and why?*

We are somewhat uncomfortable with this. We believe that an overriding principle of transparency should apply.

***Q16**: Do you agree that there should be no limit on product and investment range or monetary value limits (beyond those applying to the Review as a whole and in the retail distribution space more generally) applied to targeted support? If you disagree, what should the limits on product and investment range and monetary value be and why?*

Agree.

***Q17**: Are there any other limitations which should be imposed on targeted support? Please explain your answer.*

No, but refer to Annex 1 for a different context.

***Q21**: Do you think the scenarios outlined for consumers considering investing a lump sum or reviewing an existing investment are appropriate for a new simplified advice regime? Please suggest any other scenarios where simplified advice might be appropriate and could benefit consumers.*

Appropriateness of any advice depends on the level of consumer protection and the rules around the regime. We suggest that simplified advice as a separate category will disappear as targeted advice takes hold.

***Q23**: Do you agree that pensions decumulation should be out of scope for simplified advice, and why?*

Pensions decumulation is a specialised advice sector. It could therefore be either in or out provided it had its own rules. We accept that the best uses of development resources now would be to leave it out.

***Q24**: Do you consider that a cap of £85,000 is the correct investment limit for simplified advice? If not, please suggest an alternative limit, and explain why this would be more appropriate.*

There's no right or wrong answer to this. We suggest £100,000 would be more appropriate.

***Q25**: Do you consider that simplified advice should allow firms to provide repeated instances of transactional advice to a customer but exclude ongoing and periodic review services? Please state the reasons for your answer.*

We can't see the reason for excluding continuing review services, but accept – again – that it's best to husband scarce development resources.

***Q30**: We welcome views on whether stakeholders believe the scope of FSCS protection should include the 3 proposals in this paper, or whether FSCS protection might be more appropriate for some proposals or products than others, and why.*

The fact that the question has to be asked is not a good sign. Compensation for product failure should be standard irrespective of the way it has been advised. Claims against advisers should be standard irrespective of the particular advisory regime that applied.

***Q35**: Are there any considerations concerning the investment advice boundary for non-authorised persons you wish to raise?*

The situation as it is should be clearly explained to consumers. It is not. MoneyHelper, for example, doesn't use the word 'authorised' and manages to avoid any simple statement such as 'here is a list of all regulated financial advisers'.

C) Annex 1: Alternative proposal

We want to move responsibility to the consumer while giving them the tools to exercise that responsibility – in other words restore the concept of caveat emptor by ensuring sufficient transparent disclosure. This will allow a great improvement in effectiveness and also a great reduction in cost.

We have a proposal for setting out on this path within the current framework. It will require co-operation between traditionally separate functions. We note that the Education Committee recently announced an inquiry into 'strengthening financial education' to which UKSA has responded.

Our proposal is to use modern systems to develop online learning paths for consumers of all ages and abilities. Each path would comprise a series of steps where the connection between steps depends on both the user's test answers and the user's personal data. The result would be a route through the money management jungle that suits their age, abilities, temperament, and life strategies. Also it would:-

- build on system capabilities that already exist;
- support a continuing switch in emphasis from restriction by regulation to enhancement by personal choice; and
- encourage rather than prevent help from friends and associates.

This could be thought of as centralising robot advice while respecting the need for human contact. It would:

- eliminate expensive duplication of development among thousands of separate adviser firms;
- provide a core of authorised advice;
- deliver a database of individuals need for, and use of, advice;
- simplify the exercise of the regulatory function by matching each consumer's learning path to the advice given; and
- mobilise the wealth of experience available from those no longer involved commercially.

We draw attention to two existing initiatives: HonestMoneyNow and MoneyHelper. These are the building blocks for this new approach.

HonestMoneyNow

HonestMoneyNow is a website originating in the work of one retiree who wished to help his ignorant but intelligent friends, and other people like them. It took just three months of one person's time, cost virtually nothing, and has since been adopted by UKSA. The big difference from MoneyHelper is that it does more than answer your questions – it teaches what questions to ask.

But it only provides a learning path for one particular constituency. What is needed is the same principle applied to the whole population – i.e. with multiple learning paths.

MoneyHelper

By Act of Parliament in 2018 there is one single money advice body – the 'Money and Pensions Service' or 'MaPS'. MaPS offers online guidance under its MoneyHelper brand and is sponsored by the Department for Work and Pensions (also 'engaging with HM Treasury on policy matters')

The MoneyHelper website is thoughtful, reliable, and well-intentioned but is hamstrung by the advice/guidance distinction and the need to avoid conflict with other constituencies – the regulator, the pensions department, industry interests, and the Treasury that enjoys the taxes on the profits of those industries. Perhaps as a consequence, the website is structured as a series of answers to questions. So you have to know what questions to ask; it's not a *learning* process and it is noticeably less helpful when it strays into the territory of 'other constituencies'.

We recommend that the MoneyHelper project be used as the basis for development of the new website; and that the initiative be overseen by a cross departmental committee covering an understanding of finance, learning, systems and human psychology.

D) <u>Annex 2: UKSA submission to the Education Committee</u>

UKSA responded to the Education Committee inquiry into strengthening financial education. The main points are:-

- Syllabus and objectives should be informed by the needs of adult life
- The importance of starting with personal money management at the youngest ages
- Identifying the needs of adults
- Meeting adult needs: a plurality of approaches
- Unpaid, non-conflicted, volunteers with appropriate experience are, we believe, an unused resource that could contribute to a solution, including input to syllabus

But we also make another, general, point in the submission to the Education Committee: -

> We believe that one of the most important problems in adult financial capability and empowerment is "Who to trust?". Our view is that the financial sector profits massively from consumer ignorance of financial matters. We believe that the huge power and influence of the financial sector across our whole society is both a consequence and a driver of poor financial capability generally.

So in the context of DP23/5, we do not think that tinkering with the advice/guidance boundary will do much to tackle the fundamental problem of this conflict of interest. Really meaningful transparency on expenses and their impact is something consumers desperately need, and this is the last thing the financial sector would willingly provide. More discussion is provided in our submission to the Education Committee.

E) Annex 3: About UKSA

We are a not-for-profit organisation with 12,000 members founded in 1992 and led solely by volunteers. From the start, UKSA members' concerns included matters of public interest and the impact of corporate behaviour, as well as encouraging individual shareholders, where possible, to engage with the companies in which they invested. Over time, our active volunteers became more aware of the extent to which there was a deep conflict of interest between savers and investors generally, and the retail finance industry. An important supporter of UKSA was the late Lord Paul Myners, who urged us to maintain total independence from the finance sector, in order to be able to speak out on matters of public interest. We have since become committed to the principle of individual responsibility for personal money management as exemplified by our 'Savers Take Control' campaign.

Our active volunteers are frequently retired, with a keen interest in contributing time, knowledge and experience in the interest of their children, grandchildren and subsequent generations.

F) Links/Sources

- Education committee inquiry into strengthening financial education: Announcement. Inquiry
- DP23/5: FCA Advice Guidance Boundary Review – proposals for closing the advice gap: Announcement. Policy Paper
- HonestMoneyNow
- UK Shareholders' Association (UKSA)

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