FINANCIAL ADVICE MARKET REVIEW

RESPONSE BY TISA to HMT AND FCA CONSULTATION

21 DECEMBER 2015

Promoting Financial Wellbeing for the UK

Contents

1. Executive Summary 3

1. Context 8

2. Recommendations 21

4. Robo Advice 34

5. Responses to Consultation Questions 40

6. About TISA and TSIP 68

Author
Charles McCready
TSIP Programme Director
charles.mccready@tisa.uk.com

Promoting Financial Wellbeing for the UK

1. Executive Summary

TISA is pleased to present a set of evidence-based recommendations for introducing a Kitemarked guidance framework aimed at addressing the mass market need for support in managing their financial affairs. There is confusion in the minds of people with regards what constitutes “advice” and “guidance”. Ultimately, these people need help and we recommend that the FCA clarify the distinction between guidance and advice and work with the financial services industry to create a guidance framework that supports low and middle income households in enhancing their short, medium and long-term financial wellbeing.

These recommendations build upon the proposals developed in March 2015 by the TISA Savings and Investments Policy project (TSIP), an unprecedented pan-industry group of 50 leading financial services representing insurers, fund managers, building societies, banks, platforms, administrators, financial advisers, professional services, trade associations and consumer bodies united in considering and developing policy measures that should be taken to re-establish a savings culture in the UK. TSIP has spent the past two years researching and developing policy proposals that will enhance savings levels and provide financial security for low and middle income families.

Our research identifies low levels of financial security and wellbeing as a result of borrowing rather than saving, failing to budget or plan financial matters and not putting aside enough to create adequate retirement pots. This is at a time when the need for people to take greater personal responsibility has steadily increased, making the Financial Advice Market Review (FAMR) a particularly important initiative in seeking to address key issues that are affecting the financial health of both households and the nation.

We also strongly recommend that FAMR take into account the impact of low levels of financial capability and the direct impact this has on inadequate engagement by people with their financial affairs. Improved financial education for all age groups is key to establishing better financial planning and savings levels that will deliver financial security. Our proposals also include repeating our call for a Savings Minister so that we have a single individual within Government who is responsible for re-energising household savings and acts as a champion for financial education, guidance and advice.

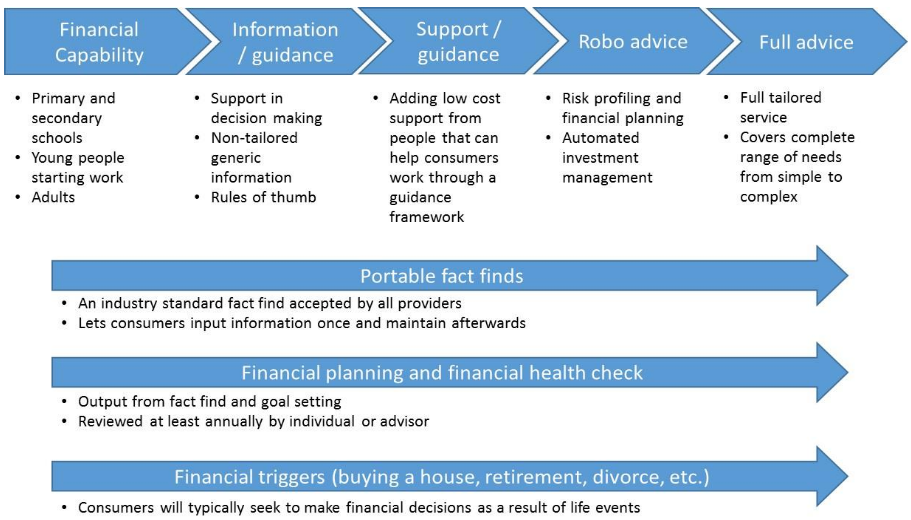
Evidence Based Approach

TSIP released a comprehensive research paper in April 2014[1], followed by a set of policy proposals in March 2015[2]. One of the key themes in the TSIP work has been the role and design of financial guidance. Work has continued on refining and adding to those proposals, with particular focus on low and middle income earners as the segments of society that most need our support.

In addition to building upon the TSIP work, TISA's recommendations also incorporate research and expertise from TISA members, including the Distribution Policy Council.

Our core proposal is to create a Kitemarked guidance framework that can be offered by financial services, Government backed bodies and the third sector. The guidance framework would help people to construct a financial plan and make informed decisions about debt, protection, savings and retirement. The framework is targeted at people that do not avail of advice, particularly low and middle income households.

Kitemarked Guidance Framework within context of people's financial needs



[1] TSIP – Our Financial Future
[2] TSIP – Saving Our Financial Future

TISA key recommendations are:

Increase financial capability

- 40%[3] of adults are not in control of their finances leading to high levels of debt, low levels of saving and financial insecurity through their working life and retirement
- 12[4] million people are not saving enough for retirement, with two thirds of people not knowing how much they need to save for retirement or if the amount they are contributing is sufficient
- Increasing financial capability is critical to re-engaging people with their personal finances and providing them with an understanding of the importance and benefits of personal financial management

Clarify the difference between guidance and advice so that people are clear on the difference between guidance/help and advice/recommendation

- Provide clear definitions of guidance and advice, ideally with clear water between them
- Guidance to be a form of restricted regulated support, focusing on specific financial needs including debt management, everyday savings, retirement accumulation and retirement de-accumulation that will help people make informed choices
- Guidance outcomes to cover a restricted set of regulated products
- Reduce peoples' confusion by revisiting the branding of Government backed bodies that provide guidance but include advice within their title (MAS and TPAS)

Define a Kitemarked guidance framework that can be adopted by financial services firms, Government backed organisations and the third sector

- Create a Kitemark that can be applied to a guidance framework that underpins scope, terminology, decision trees and outcomes
- Create a framework that is designed to support low and middle income financial guidance needs

[3] MAS - 2015
[4] MAS - 2015

- Allow the framework to be adopted by financial services firms, independent information providers, Government backed organisations and the third sector so that people have a consistent experience regardless of where they seek guidance
- Permit "Rules of Thumb" to be included in the framework to provide people with benchmarks against which they can consider their own circumstances
- Limit the scope of guidance to non-complex, regulated products, including protection, cash, collectives that include bonds and equities plus tax efficient vehicles such as ISAs and pensions
- Incorporate some default options for short, medium and long-term saving objectives that encourage people to use a range of asset types including cash, UK bonds and UK equities

Acknowledge housing as a savings option being adopted by people

- Over 25% of people are considering using (and/or treating) their home as a savings vehicle to provide an income in retirement
- Limited planning, if any, underpins how their house will deliver on providing this income
- Housing should be included within the guidance framework so that people are encouraged to consider the practical aspects of using their home as a means of income in retirement

Permit human guidance support within the guidance framework

- It is assumed that guidance for the mass market will primarily be offered online, however people still want human support when making complex decisions
- Expert human support should be permitted to accompany people through the guidance framework, helping people to understand key concepts and the options available to them, whilst remaining within the rules for guidance

Focus on outcomes

- Align the framework scope with guidance journeys that address the needs that people are seeking to address, e.g. debt, rainy day savings, retirement savings, etc.
- Provide people with guidance on outcomes that will meet their needs

Create a standard, portable fact find and financial plan

- Develop a standardised fact find that can be adopted as part of the guidance framework
- Promote acceptance of this standard amongst organisations offering the guidance framework and advisers to create a portable fact find
- Encourage all people using the fact find to develop a financial plan
- Implement measures to encourage people to review their financial plan on a regular basis

Increase peoples' access to and demand for Kitemarked guidance

- Facilitate the adoption of the Kitemarked guidance framework by financial services to increase access to help for low and middle income households
- Encourage financial service firms not offering guidance to signpost people to Government backed organisations that offer the guidance framework
- Use people needs such as the desire to save for a house deposit as a trigger point to encourage greater engagement with their broader financial planning
- Run an awareness campaign for the Kitemarked guidance framework, coordinating with financial services, Government backed organisations and the third sector

We have also responded on "robo advice" to share research on views given that this is a topic being much debated across the industry. We have not offered any specific recommendations regarding robo advice but can see the potential for this to provide a lower cost managed investment service alongside a comprehensive, personalised advice service.

1. Context

The UK has experienced considerable change in both the amount and the way that people save over the past 20 years. The challenges that we face in encouraging greater engagement of people with regards their financial affairs are not limited to regulation around advice, or the effects of the RDR but go much deeper to our new cultural norms and a shift in responsibility for personal financial security to individuals.

In 2013, TISA set up a new and ambitious initiative called the Savings and Investments Policy project ("TSIP") tasked with developing pan-industry proposals that will help to address the savings issues, with a focus on low and middle income households. The project is supported by 50 leading organisations and includes building societies, banks, life companies, asset managers, advisers, professional service firms, all the key trade bodies and importantly, consumer groups including MAS, TPAS and Age UK. This group has developed a range of proposals[5] covering education, guidance, digital engagement, pension reform and Government organisation. TSIP also works with the broader TISA membership of 160 firms who contribute thought leadership through Policy Councils and Technical Committees and the combined expertise has been captured within this response.

When TSIP was launched, the first activity undertaken was a detailed assessment of people's financial circumstances,[6] including trends spanning back up to 50 years. This report helped drive strategic focus and the development of evidence based proposals. Whilst the report is now a couple of years old, the key findings remain highly relevant and have been used to help evaluate the challenges facing people in the context of financial advice. Relevant key findings from the report include:

- One third of UK households have no savings at all
- 66% of low and middle income families have £1,500 or less in savings (roughly equivalent to 1 month's salary)
- One fifth of households are living "hand to mouth" with limited ability to save
- Saving has been replaced by credit to fund consumption
- 80% of wealth is held in pensions and property
- The top 20% of households own 62% of UK's private wealth with the bottom 20% owning just 1%

[5] TSIP - Saving Our Financial Future Policy Recommendations, March 2015
[6] TSIP – Our Financial Future, March 2014

- Active membership of employer pension schemes was 34% (in 2011 - this has now risen to c45% as a result of auto-enrolment but with very low contribution rates)
- Those aged 55 and over are the wealthiest age group and are also the last generation (in the private sector) to enjoy defined benefit scheme pensions
- Responsibility for financial security in retirement has shifted to the individual
- There is a tipping point in 2035 when the generation retiring will be worse off than earlier cohorts

Building on the original TSIP proposals in March 2015 regarding increasing public access to generic guidance, we are viewing the financial advice challenge from the perspective of how to develop a solution that meets the needs of the mass market, who typically have limited savings and for whom a guidance solution may be a good alternative to advice.

The context within which solutions aimed at helping increasing peoples' access to and use of guidance and advice must be directly related to their actual circumstances and attitudes to savings.

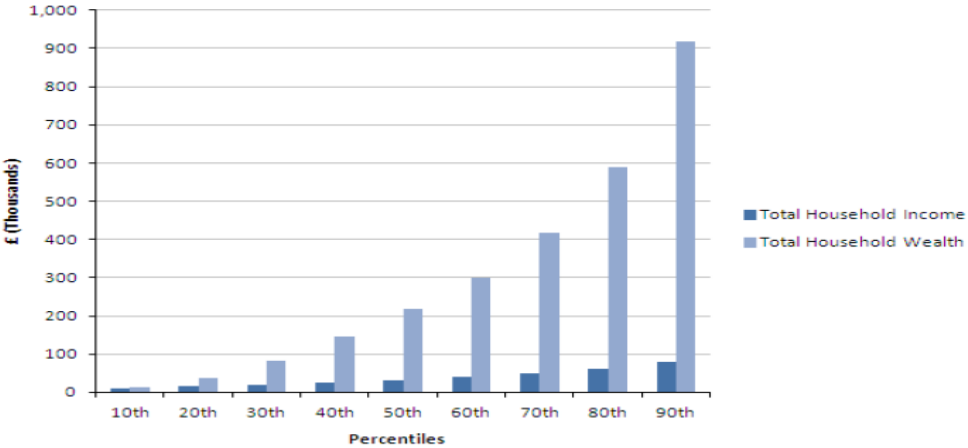
Whilst this is a very complex area and requires significant analysis, we have sought to present our case using some examples set out below. We recognise that there is much benefit in customer segmentation such as the FCA's Consumer Spotlight and seek to enhance that perspective with research on savings and wealth.

Household wealth

Families at the lower end of the income range have significantly less assets than richer households who have the means to purchase more expensive properties, household goods and still have the capacity to save. The TSIP research[7] indicates a tipping point of £17,000 of income, below which households are living day by day financially and above which the ability to save becomes more viable. Indeed, the lowest income decile are spending 110%[8] of disposable income on non-mortgage/rent items, with the second and third deciles spending 100% and 95% respectively.

[7] TSIP – Our Financial Future – March 2014
[8] TSIP – Our Financial Future – March 2014, source FSA

Distribution of total household wealth and income[9]



Lower and middle income families have 3 primary sources of wealth, namely physical goods, equity in property and retirement savings. Their non-pension savings wealth tends to be modest and lower down the income range is more likely to be debt savings for many households. This implies that help in managing available income and minimising credit costs is a higher priority than advice on financial matters other than pensions. Equally, these families may want or need to place a greater emphasis on protection to deal with unexpected events rather than relying upon savings.

Total wealth and components as deciles[10]

Weighted	Property wealth £m (net)	Financial wealth £m (net)	Physical wealth £m (net)	Private pension wealth £m (net)	Total wealth £m	Private pension to non-private pension wealth (%)
1st	-4,912	-9,746	17,631	2,282	5,256	77
2nd	3,083	-232	45,756	12,129	60,736	25
3rd	32,219	4,508	68,617	53,530	158,875	51
4th	121,615	16,244	75,614	97,197	310,670	46
5th	219,238	28,244	88,984	142,902	479,347	42
6th	314,469	51,172	101,665	207,328	674,634	44
7th	390,210	85,323	113,078	328,386	916,998	56
8th	493,537	126,100	131,398	520,869	1,271,903	69
9th	640,922	214,146	152,186	881,046	1,888,300	87
10th	1,164,419	569,364	216,862	2,539,944	4,490,588	130

Source: Wealth and Assets Survey, Office for National Statistics

[9] ONS – Wealth and Income 2010-2012
[10] ONS – Wealth and Assets survey 2008-2010

Promoting Financial Wellbeing for the UK

A low level of financial sophistication related to the management of household wealth reveals a strong preference for cash, especially for those with low and middle incomes. This is resulting in higher levels of cash than may be appropriate for people' financial objectives.

Two thirds of the population have a savings account, and ISAs are also popular with almost half the households having one in 2010. This compares with other investment options that may be suited for medium to longer-term savings such as bonds and equities.

This would suggest that although low and middle income households do not typically have non-pension savings exceeding £50,000, they still need some simple investment guidance that provides a greater alignment between the asset class of choice and their savings goals.

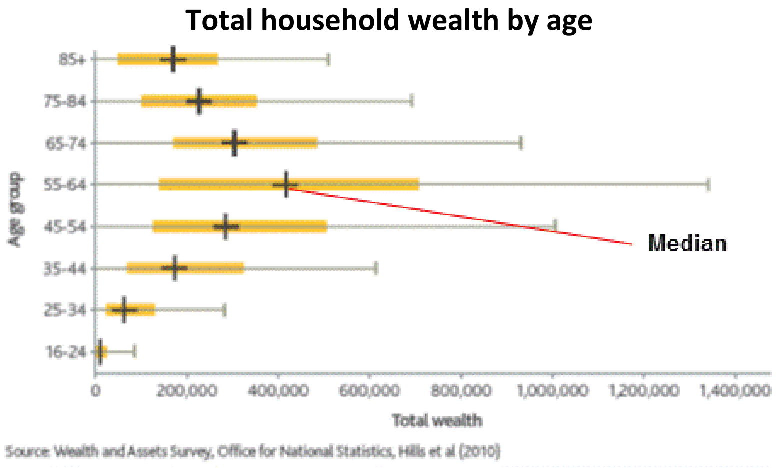
Proportion of households with formal financial products[11]

Great Britain, Percentages

	2006/08	2008/10
All Current accounts[1]	92.3	96.4
Current accounts in credit	84.8	89.6
Savings accounts	61.8	67.4
ISAs[2]	42.5	49.4
National Savings certificates and bonds[3]	23.8	27.4
UK shares	14.9	15.4
Insurance products[4]	10.5	10.4
Fixed term bonds	8.3	11.8
Employee shares and share options	7.3	7.9
Unit/Investment trusts	5.9	6.4
Overseas shares	1.8	2.1
UK bonds/gilts	1.1	1.1
Overseas bonds/gilts	0.1	0.2
Any formal financial asset[1]	**96.1**	**98.1**

Demographics also provide another perspective on peoples' wealth. Younger households tend to be accumulating wealth, mid-life/approaching retirement households are the most prosperous and older households are reducing their assets to pay for later life. Within each of the age groups, there are a wide range of wealth brackets.

[11] ONS – Wealth Survey 2008-2010



Individual responsibility for retirement

The State pension has fluctuated considerably over the past 40 years, albeit less so for lower earners, for whom the single-tier pension will provide up to £155.65 per week from April 2016. This is a return to a level that is slightly higher than pensioners used to receive 30 years ago and will help to relieve some of the pressure to make additional savings to fund a more comfortable retirement.

There is general consensus that the DWP proposed replacement levels of retirement income are sensible and we have adopted them here. This implies that people on low and middle incomes need to supplement their State pension with private funding. For many households this was historically achieved through employer pension schemes that provided high levels of security on the amount that would be paid, plus the employer managed the assets on their behalf.

Gross Salary	DWP replacement rate	Retirement income	Supplement to State pension	Private pension savings required[12]
£15,000	70%	£10,500	£2,406	£48,000
£20,000	70%	£14,000	£5,906	£118,000
£25,000	67%	£16,750	£8,656	£173,000
£30,000	67%	£20,100	£12,006	£240,000

[12] Assumes 5% annuity rate

Such defined benefit schemes have progressively been replaced with defined contribution schemes in all but the public sector over the past 20 years with the effect that the individual is now responsible for ensuring sufficient contributions are paid into the pension fund, managing how the money is invested and then managing how to draw an income from the fund at retirement.

MAS research indicates that 12 million people have not and are not making sufficient provision for their retirement. Furthermore, TSIP research[13] found that 2/3rd of people did not know how big a pension fund they would need for retirement. This research also showed that whilst 35% felt they knew enough about pensions to make decisions, when we explored this further in consumer labs, even confident people had less knowledge than they thought. Most people were also uncomfortable with investments types they were unfamiliar with and this included asset classes such as bonds and blue chip equities which are typically a core investment for long-term pension savings.

Whilst auto-enrolment is a step in the right direction, much more needs to be done to support people in managing one of the most important financial outcomes of their lifetime.

Impact of auto-enrolement on guidance and advice

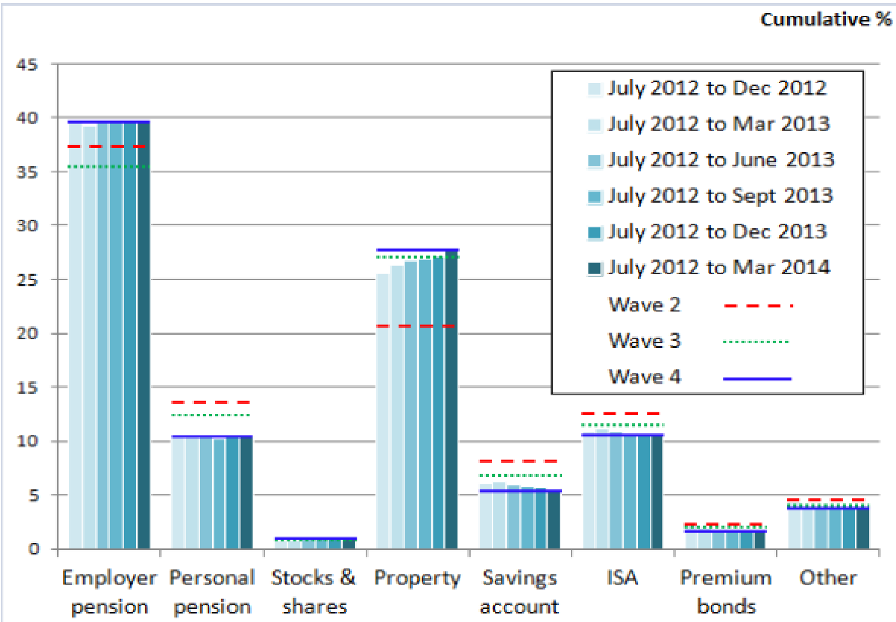
Auto-enrolment is expected to help the nation start saving again en mass. Whilst in the early stages of saving, many people are selecting the default pension investment options, future years could prompt an increasing number of individuals with growing pension funds to want to take a more active role in managing this important asset. A rule of thumb often adopted is that people take more active interest when they have a year's salary in savings. This could mean that consumer demand could begin to accelerate rapidly from current levels for pension related advice over the next 10 years. Thinking ahead, we should be putting in place measures that will address this future need and avoid having to make further changes to the regulations and guidance/advice solutions that the Government and industry will shortly start to build and deliver.

[13] TISA – Strengthening the Incentive to Save – Appendix D, September 2015

Saving through the home

According to the ONS, a growing number of people, currently over 25%, think that property is the safest way to save for retirement. In a separate survey by BlackRock[14], 25% of millennials expressed an intention to use the wealth tied up in their home as an asset to draw income from at retirement. The evidence therefore points towards a growing number of people that consider their home as being an asset that they will use to enhance their retirement income. For many people closer to retirement and who have failed to save enough into their pension, this could become a key part of their retirement income solution.

Safest way to save for retirement[15]



Whilst we are not advocating this as a solution given the risk of placing a high proportion of savings into a single asset class, we are pragmatic in recognising and responding to the fact that for some people their home will become a significant part of their future income. Indeed, for lower income families, there may be limited scope to afford both the cost of purchasing a house and contributing to a pension sufficiently to meet future income needs.

[14] BlackRock – Investor Pulse – November 2015
[15] ONS – Early indicator estimates from the Wealth and Assets survey – June 2015

A key challenge in planning for retirement for these people is the lack of realistic expectations in terms of how their home is going to achieve their desired outcome. Unlike planning for a pension, there are no publicly available tools for projecting the value of a property in the future, estimating costs of down-sizing or pointing out the social and familial impacts of moving to another part of the country. Blind luck appears to be the planning mechanism being adopted by most people.

It therefore seems sensible that this cultural and (often) practical approach to using a home as a means of saving for and providing a retirement income should be included within the scope of financial guidance and advice in the future.

The 2035 tipping point

It should also be noted that the reduced generosity of employers contributing into pension schemes and the impacts of increasing house prices, means that the two largest components of wealth today will be significantly reduced for younger generations.

TSIP sees the period around 2035 as being a point when generations going into retirement will be worse off than the current baby boomers, impacted directly by the switch from DB to DC schemes. However, as a cohort this generation (currently 45-55) still have value building up in high levels of home ownership[16] but this is also being eroded as a form of wealth by generations that follow them who are finding it increasingly difficult to get onto the housing ladder, spending more of their lifetime incomes on rent.

The situation deteriorates further for those generations who have been brought up with university fees, whereby half the population now attends university and the average debt associated with university is £45,000.

One redeeming aspect for the younger generations is that they have longer to save for retirement but this is offset by the challenges of paying off a student loan, saving for a large house deposit and also trying to begin a savings habit for retirement.

[16] TSIP – Our Financial Future – 65% for 45 years olds and 75% for 55 year olds

Lack of financial education

We are failing to provide a basic financial education for UK citizens which is the foundation from which people can understand both the need and the benefits of saving. Recent research by MAS[17] includes:

- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 20% could not read a bank statement
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

Financial education was put onto the secondary school curriculum in 2014, but this only covers 45% of schools and there is no budget to train the teachers who will be delivering the syllabus. This does not take into consideration that research also points to relationships between young people and money becoming fixed as early as 7 years old, implying that we are not doing enough early in the education cycle to have a real impact on future generations attitudes to money.

We recognise that financial education is not part of the FAMR consultation, but we believe that to create the demand for financial advice to a large degree begins with education of all age groups.

Removal of mechanisms that helped people save

Public access to financial advice and support has been eroded over a number of years as an unintended consequence of changes to regulation designed to help people.

An example of this is the demise of door to door life insurance salesmen. Whilst the method of distribution, charges and suitability of products may not meet the desired standards today, millions of people had regular contact with someone from financial services that encouraged them to save regularly, explaining the benefits and promoting a great consideration of financial planning. The result was that many of those individuals now have savings that are enhancing their financial security.

[17] MAS – The Financial Capability Strategy for the UK – October 2015

Recent research by BlackRock[18] (see table below) would imply that individuals with less money have a lower propensity to seek advice from a professional, with many of them having never used the services of an adviser. Even one third of individuals with large savings have never sought advice.

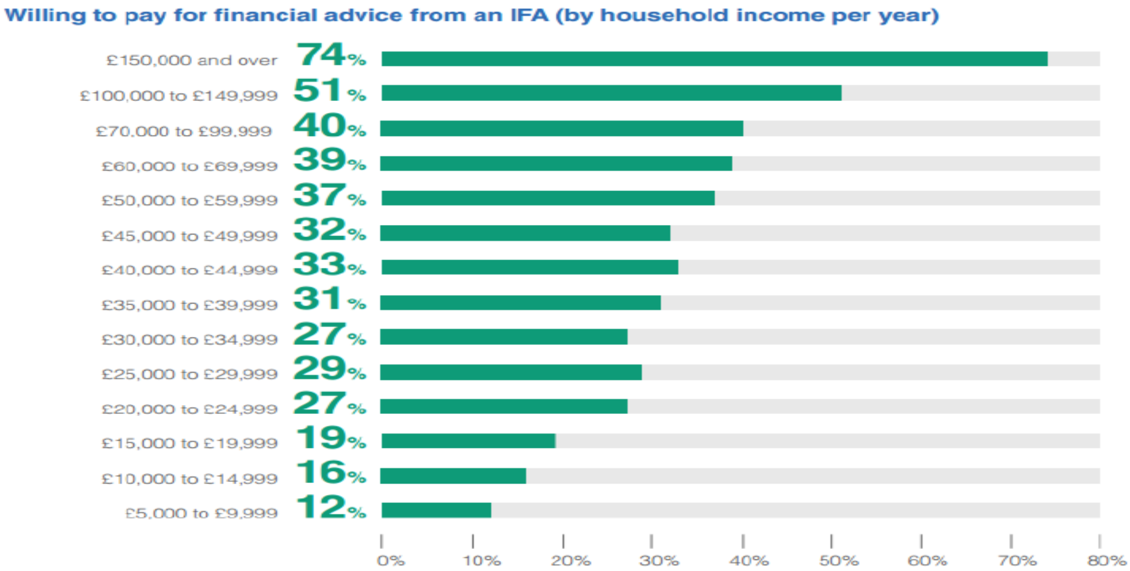
UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

The effects of increasing the costs of advice resulting from the introduction of the RDR and the impacts this has had on people is still being assessed and opinions vary in terms of the extent of that change. However, it is reasonable to conclude that with a growing population of "orphan clients" and the economics of advice businesses, that less people have access to cost effective advice than in the past.

It is also unsurprising that in recent research[19] by Iress (see chart below) looking at the willingness to pay for advice (as opposed to actual usage) those with higher levels of savings had a greater propensity to pay for the service. This also makes sense in relative terms as the costs are proportionately lower.

What this does conceal is the fact that low levels of savings for lower income families will have greater importance than the same level of savings for a higher income family.

[18] BlackRock – Investor Pulse – November 2015
[19] Iress – Data, disruption and the digital consumer – April 2015



We can compare this with findings from BlackRock's[20] research where similar questions were asked about the use of advice according to income (see table below).

Household income (before tax)	Base	Yes, use now	No, although I have in the past	No, never used
Up to £20,000 p/a	1244	10%	23%	67%
£20,001 - £30,000 p/a	827	13%	30%	57%
£30,001 - £40,000 p/a	650	19%	34%	47%
£40,001 - £50,000 p/a	477	19%	33%	48%
£50,001+ p/a	802	31%	36%	33%

Making it easier to save – a Digital ID

Once a person has decided to save money and open a new account or product, they are faced with complicated and time consuming processes that require them to validate who they are and where they have sourced their funds from. Currently this requires information

[20] BlackRock – Investor Pulse – November 2015

such a certified copy of a passport, two copies of documents sent to their address (such as utility or credit card statements) plus proof that they are not money laundering and in some instances a £1 cheque.

This is a very cumbersome process for both the consumer and the service / product provider and we believe that this is putting off people that might otherwise be saving.

To address this, TISA have established the Digital ID project, looking at how a digital solution can be found that lets people identify themselves and pass both AML and KYC checks electronically. The project has participation from a number of leading financial services firms plus the Cabinet Office. Consumer testing of a Digital ID is due to be completed in December 2015 and a white paper produced by the Government Digital Service in January 2016. This will help to inform the Digital ID project team in their work to define a set of open architecture standards that could be adopted by the industry.

The scope of this work is currently limited to opening an account and transferring assets from an existing to a new provider, however there are a much wider range of applications that could be developed in the future such as unclaimed assets and applications that can help households manage their finances.

Summary of conclusions based on research evidence:

- Financial capability is poor amongst a broad cross section of society and addressing this will be a key factor in increasing the demand for guidance and advice
- Solutions for providing financial education, especially to low and middle income families, will need to cover all age groups
- Housing and pensions constitute almost 90% of the UK household's wealth
- The bottom 20% of households by income have limited ability to save and would benefit from general money and debt management support
- The next 30% by household income have non-pension savings of between £4k and £28k and although they may have complex financial circumstances, will benefit from relatively simple savings solutions
- The 20% above them have between £50k and £85k and will require more sophisticated solutions that provide greater savings diversity
- There is a propensity to save in cash rather than assets that may better suit medium and longer-term financial goals

- There is an increasing cultural shift to viewing the home as an asset that will help to provide an income in retirement, but little support for people to help understand the practical implications of this approach
- Wealth is unevenly distributed amongst the rich and also those aged 60 to 70
- We face a tipping point around 2035 when generations going into retirement will be worse off than their predecessors unless we can address the lack of savings now
- The challenge of saving for retirement has become the responsibility of individuals, plus they need to save much more to compensate for lower employer contributions
- Younger generations face the biggest challenge in trying to save in general, for retirement and a house deposit whilst facing high house prices and less generous employer pensions
- Lower levels of long-term savings will reduce capital investment and slow UK GDP

2. Recommendations

TISA's recommendations have been developed through a combination of working with members that are leading financial services providers and the work being delivered through TSIP. This provides a response that benefits from a wide cross section of pan-industry and consumer groups having provided input to the design of solutions.

TSIP already developed policy recommendations[21] in March of 2015, which were publicly supported by 40 of the TSIP members and included proposals on financial guidance. We have built upon those proposals here plus incorporated the work undertaken within the TISA Distribution Policy Council.

We remain focused on good consumer outcomes and our response to the Financial Advice Markets Review targets the mass retail market as we believe this is the audience that will benefit most from regulatory reform. We would encourage this segment to avail of advice but recognise that the research indicates that there is currently limited appetite for services, hence our focus on provided generic guidance to support them in managing their financial affairs.

To the extent possible, we have sought to make our response evidence based so that our proposals reflect solutions based peoples' behaviour and demand.

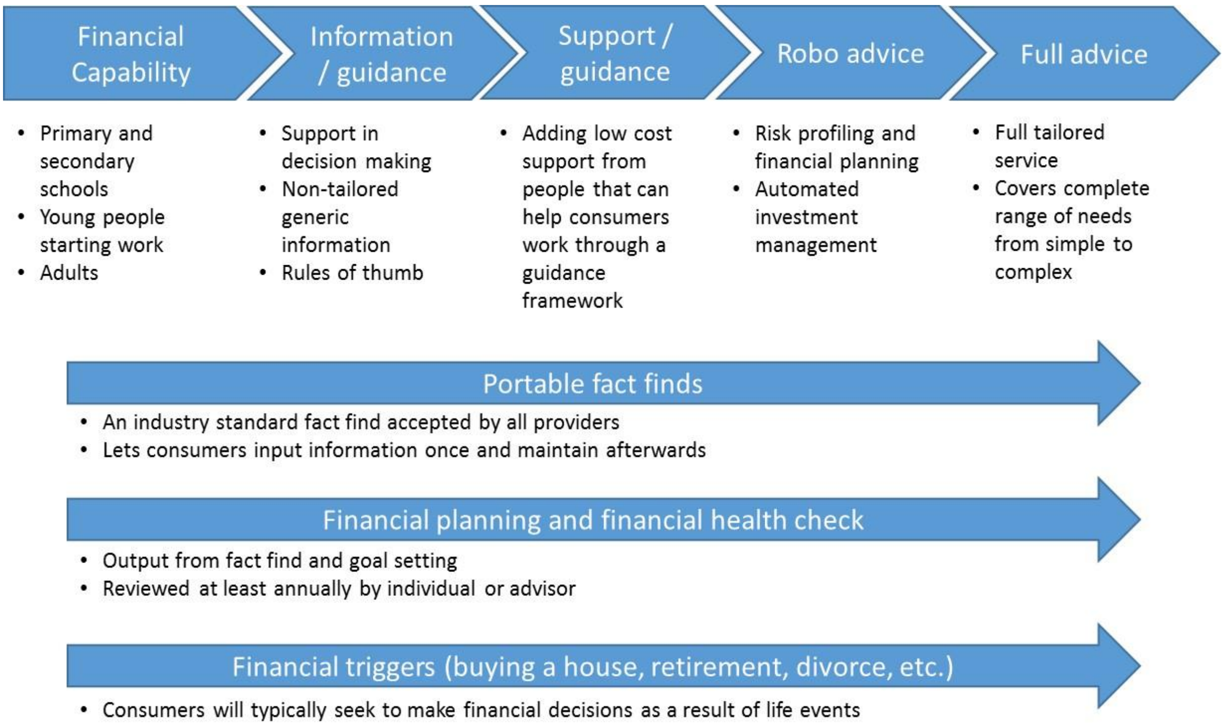
The big challenge for Government, the FCA, providers and advisers is the creation of proposals that address such a complex range of issues. It is clear that categorisation of consumer segments is extremely hard when seeking to cover such a diverse set of individual needs that takes into account attitudes to money, propensity to seek assistance, personal circumstances, income, wealth, where you live, health, age, employer, how much you might inherit, etc.

Given that developing a solution to solve all these complexities is not practical, we need to take a more pragmatic approach to the basic problem of helping people to enhance their financial resilience and security. There is much that can be done to achieve this objective

[21] TSIP – Saving our Financial Future – March 2015

and we will be considering this through the lens of a generic guidance solution for the mass market.

We have set out below a high level model that presents a guidance framework within the context of a range of financial support including education, advice and financial planning.



Increase Financial Capability

The example evidence provided in the Context above points towards a nation of people that would benefit greatly from raising their level of financial capability. Whilst not within the scope of this review, this is one of the most significant areas in terms of increasing the engagement of individuals with their own financial affairs and must be a part of the overall solution.

Families on the lowest incomes are generally less concerned with getting financial advice and more concerned with making their incomes stretch to meet day to day needs. This group typically have the highest levels of relative debt and face additional costs such as higher charges on loans and paying monthly on home and car insurance. Even the Government charge an extra 10% for people buying road tax six monthly instead of annually. This group would benefit greatly from help in managing their incomes, spending and cost of credit effectively. Putting some basic measures in place could reduce their costs over time and place them in a position to start saving a modest nest egg, including facilitating contributions into auto-enrolment.

For the population as a whole, increasing the level of financial capability education across all age groups will help people to understand the basics of managing their money, the benefits of saving and the importance of long-term goals such as laying down the foundations for retirement as early as possible. We should place equal importance on managing money as we do the other core subjects of the syllabus, especially as financial capability is likely to be one of the universal skills such as reading, writing and arithmetic that we will all use regularly during our lifetimes.

Progress is being made with regards financial capability but there is much more that needs to be done.

There is also a strong link between financial capability, guidance and advice. Ideally, all three areas would adopt a common language and terminology so what people learn through financial capability education is recognisable when dealing with money, savings and advice.

Clarify the difference between guidance and advice so that people are clear on the difference between guidance (help) and advice (recommendation)

There has been robust and consistent feedback from our members that there needs to be clarity around what is guidance versus advice, ideally with clear water between the two. People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation but is designed to help consumers make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Part of the confusion has been created by complex rules and the application of different standards whereby information provided by a third party such as MAS is treated as guidance, but the same information offered by a product provider becomes advice.

In setting rules around guidance versus advice, we suggest that the Treasury and FCA also consider the wider European dimension, for instance MiFID already defines guidelines and further work is currently underway across the commission that will affect future definitions.

There needs to be greater consideration of the peoples' perspective. The FAMR review is an opportunity to address:

- Being very clear about the difference between guidance and advice
- Reducing the number of categories of advice as this is confusing for people
- Guidance to be a form of restricted regulated support, focusing on specific financial needs including debt management, everyday savings, retirement accumulation and retirement de-accumulation, that will help people make informed choice
- Guidance outcomes to cover a restricted set of regulated products
- Branding of Government backed services that such as MAS and TPAS that include "Advice" within their title but actually offer guidance (this could be reviewed as part of the Public Financial Guidance consultation)

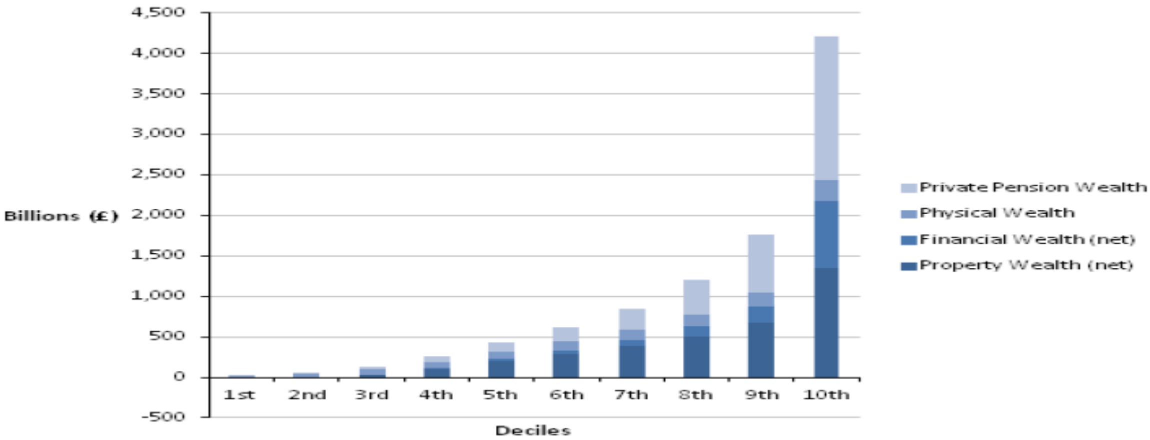
Define a Kitemarked guidance framework that can be adopted by financial services firms, independent information providers, Government backed organisations and the third sector

As a basic starting point, we recommend that there is a Kitemarked guidance framework that provides information for people on how to manage their money and options they should consider in terms of achieving their short, medium and long-term financial goals.

The objective is to develop a guidance framework that can support households in meeting their basic financial management and would be of most value to low and middle income households. We have set out below an example of scope that could be considered as catering to the needs of this audience.

A key aspect of defining the scope of a guidance framework will be the extent of guidance that it will be designed to provide. In part, the types of service will determine how many people could benefit from the framework. Using the ONS data (below) as a benchmark, debt/financial management could benefit at least 20% of households, setting a limit on guidance for non-pension savings up to £50,000 could help 60% of households and setting a limit of up to £100,000 on pension assets could help 40% of households. These limits are up for debate.

Wealth in Great Britain by decile[22]



Total wealth and components as deciles[23]

Weighted	Property wealth £m (net)	Financial wealth £m (net)	Physical wealth £m (net)	Private pension wealth £m (net)	Total wealth £m	Private pension to non-private pension wealth (%)
1st	-4,912	-9,746	17,631	2,282	5,256	77
2nd	3,083	-232	45,756	12,129	60,736	25
3rd	32,219	4,508	68,617	53,530	158,875	51
4th	121,615	16,244	75,614	97,197	310,670	46
5th	219,238	28,244	88,984	142,902	479,347	42
6th	314,469	51,172	101,665	207,328	674,634	44
7th	390,210	85,323	113,078	328,386	916,998	56
8th	493,537	126,100	131,398	520,869	1,271,903	69
9th	640,922	214,146	152,186	881,046	1,888,300	87
10th	1,164,419	569,364	216,862	2,539,944	4,490,588	130

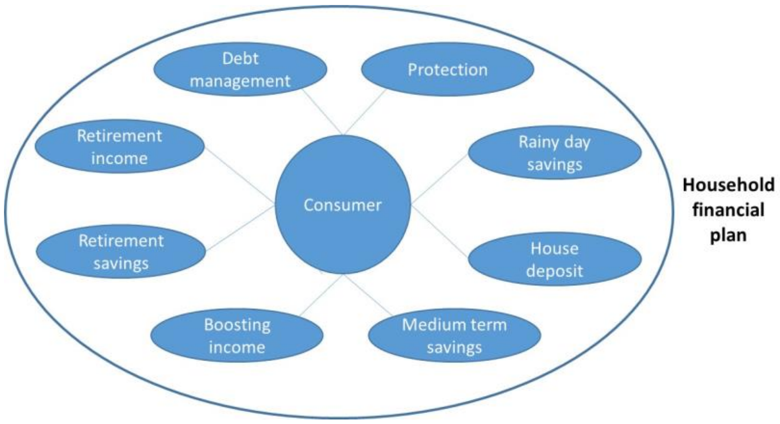
Source: Wealth and Assets Survey, Office for National Statistics

The framework would be regulated to provide consumer protection and be restricted to regulated, non-complex products and tax vehicles. As well as protection options, this would enable the guidance to cover a range of savings and income needs and incorporate information on tax efficient vehicles such as ISAs and pensions. We propose that guidance cover cash, UK bonds and UK equities so that people are informed about options on asset types for short and long-term savings and investments objectives. As well as core cash option, such as deposit accounts and cash ISAs, guidance would also inform people about

[22] ONS – Wealth in Great Britain 2010/2012 – June 2015
[23] ONS – Wealth and Assets survey 2008-2010

mutual funds, insurance bonds, vehicles such as ETF's as these products provide investment diversity for people who wish to invest in bonds or equities.

Potential high level scope of a Kitemarked guidance framework



In dealing with medium and long-term savings, this would imply that the framework would need to be able to deal with an element of information on different asset classes including cash, bonds and equities.

To prevent replication of some aspects of guidance, the framework could point people towards appropriate services such as TPAS and Pension Wise.

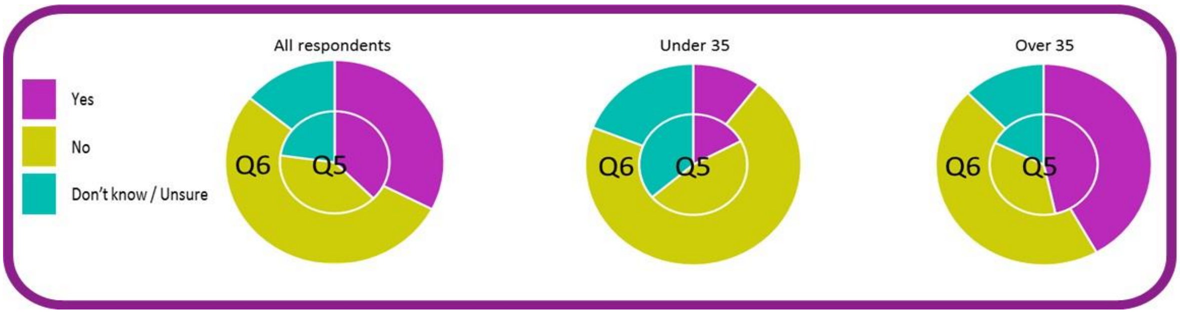
The information should be generic guidance, potentially adopting simple decision trees that help people match their individual needs with generic options. This would most likely be delivered online as this offers a more flexible means of taking people through a discovery and options journey. This framework would be offered by Government backed bodies, financial services providers, independent information providers and third sector organisations.

The framework would be Kitemarked to ensure that specific standards are adhered to and provide a consistent experience regardless of who was offering the guidance framework. Part of the Kitemark standards would be measures to ensure that there was no bias towards any financial services firm or their products. We have discussed this with both TSIP and TISA members and there is broad support for such measures as this ensures the best consumer outcome.

TSIP proposed in March 2015 that an industry body be formed to work with the FCA to create this Kitemarked guidance framework and we re-iterate that recommendation here.

We also propose that the guidance framework incorporate some generic "Rules of Thumb". It is often the case that people do not have suitable reference points from which to make decisions and would greatly benefit from benchmarks or "Rules of Thumb". By way of example, recent research undertaken by the Wisdom Council for TSIP on pension savings illustrated that only one third of respondents knew how much they should be saving to meet their retirement income objectives.

Do you know how much to save to achieve your target retirement income?[24]



We therefore propose that a suite of "Rules of Thumb" would include some basic financial planning tips such as:

- "Build a rainy day fund of between 1 and 3 months' wages to protect against unexpected events"
- "Saving £3 a day will create nest egg over £1,000 within a year"
- "The earlier you start saving for retirement, the longer your money has time to grow"
- "People on £20,000 per year should aim to have at least £14,000 per year in retirement, including the State pension" – (this is using DWP targets)
- "People like you typically save XXXX" – (enabling some basic segmentation)

We also believe there is merit in considering having some default outcomes that can be aligned with savings objectives. Looking at auto-enrolment as a precedent, default options are presented to people to encourage them into funds that include equities and bonds

[24] Wisdom Council on behalf of TSIP – September 2015

rather than just cash which is their natural comfort zone. We propose that the guidance framework provide a similar approach whereby people with longer-term savings objectives and who do not require immediate access to those savings, are encouraged to consider alternatives to cash and are presented with some default options. This would include asset classes such as UK bonds and UK equities wrapped within collective investment vehicles.

Acknowledge housing as a savings option being adopted by people

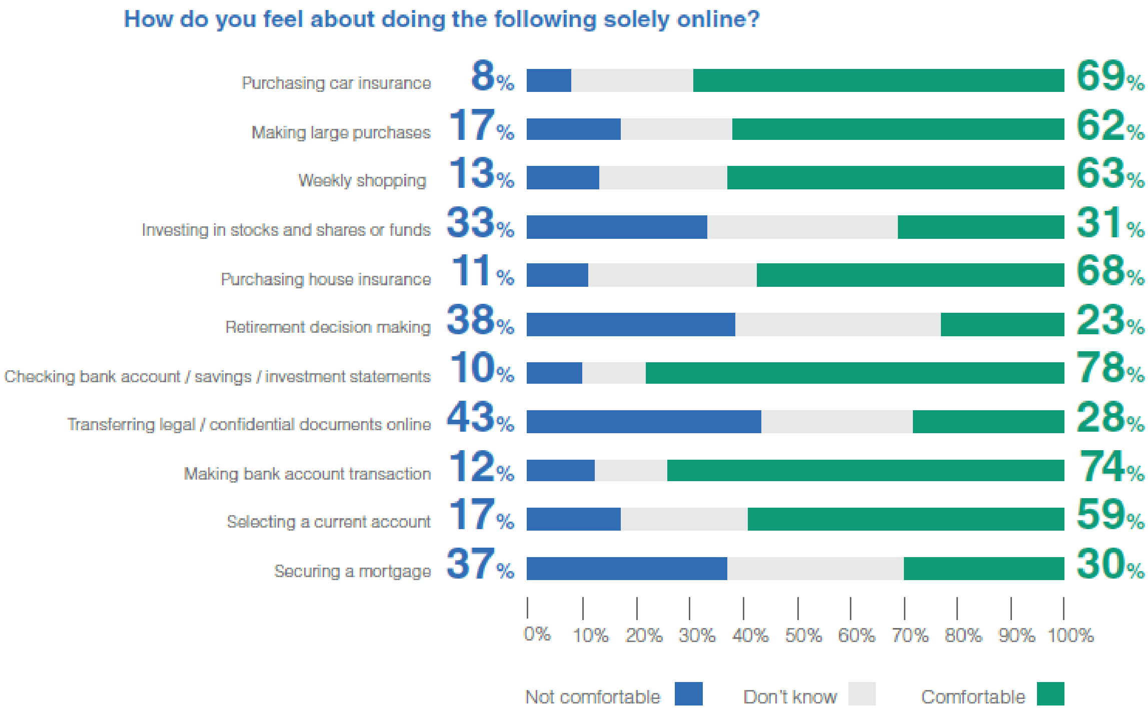
When defining the scope and options framework for Kitemarked guidance, we believe there is an opportunity for the Treasury and FCA to acknowledge and align people's appetite to include housing as part of their retirement planning within the guidance offered. As demonstrated in the section on Context, over one in four expect to use their home as a savings vehicle to provide an income in retirement. Our concern is that individuals are not basing their desired outcomes on a set of assumptions that will help them to assess if they will achieve their objective and what other impacts this might have. We suggest that the Kitemarked framework include references for those who are planning on using their home as a savings vehicle (either out of choice or necessity), setting out the likely costs of a future sale, the potential impacts on social and familial networks and / or the sorts of flexibilities and impacts that equity release products can typically offer.

Although we are not including full advice within the scope our response, we think that there should be consideration of housing within an individual's overall financial plan so that the savings process and assumptions reflect the whole range of options being pursued by the people.

Permit human guidance support within the guidance framework

There appears to be a working assumption that creating greater access to financial guidance will be delivered online. Indeed, recent research by Iress[25] confirms a society that is adopting online solutions for meeting an increasing range of their domestic needs. There are high levels of online usage for activities that are more familiar such as banking and the purchase of home and car insurance. Banks are closing branches as more people use online facilities and ATMs to meet their daily banking needs. Brokers have been replaced by comparison websites that find better premiums on basic insurance products.

[25] Iress – Data, disruption and the digital consumer – April 2015



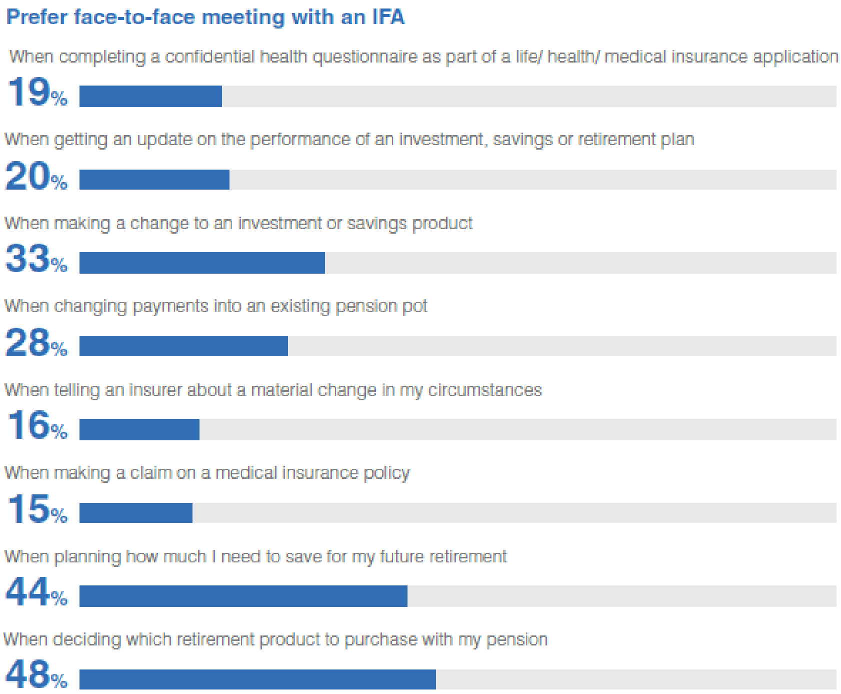
There is good reason to believe that online provision of guidance can extend people use of using this medium to manage their financial affairs. MAS attracted 22 million online contacts in 2014/15, including 8.4 million new users which is a four-fold increase from 2012/13 and a 90% increase year on year. TPAS experienced 1.4 million online contacts related to pension guidance.

However, the opportunity to receive help from a person will remain a key element of guidance for some time yet to come. In part this reflects the fact that people still prefer to have an expert guide them through important transactions, or ones where they feel less comfortable. This also recognises that some of the population has not (and probably will not) adopt online solutions as a mechanism for accessing guidance.

The Iress[26] research also provides insight into financial transactions that people felt more confident undertaking with an adviser. To some degree this is the mirror of the propensity for online services, for instance 44% and 48% would prefer a person to help them reach a decision on matters related to retirement versus 23% who were comfortable doing this online. 33% were happy to use the internet to invest in stocks and shares with the same

[26] Iress – Data, disruption and the digital consumer – April 2015

percentage seeking this support from an adviser. Whilst the data does not take into account lots of other factors such as income, age and wealth, we believe that this research is a good proxy for other research findings repeated elsewhere.



This implies that we still need a guidance solution that has experienced individuals helping people navigate a guidance framework, whilst remaining strictly within the boundaries of guidance, as opposed to advice. Indeed, TPAS and Pension Wise are examples of services that already successfully provide these services today.

This is a further reason why the difference between guidance and advice needs to be very clear to people as the introduction of human support has often been misinterpreted as advice in the past.

There is a clearly a cost implication of providing people to support people in navigating the guidance framework and this could be met in a number of ways including directing people who want this service to organisations that already provide this for free, creating new free at point of delivery services or developing paid for at point of delivery services.

Focus on outcomes

Another key area that needs to be tackled in defining a Kitemarked guidance framework are the consumer outcomes. People will expect that at the end of the guidance journey there will be generic solutions and/or options such as paying off a credit card, saving for a rainy day fund in cash, opening or increasing contributions into a pension, considering non-cash options for longer-term savings, etc.

Guidance will need to be able to cover a range of journeys according to the people's needs. This will also mean that the consumer journey may entail a more detailed fact find and exploration of risk appetite so that generic guidance can be provided on the basis of their needs and financial objectives.

The benefits of tax advantaged savings such as ISAs and pensions should be covered. We also propose that the guidance framework help people to understand the options around different asset types, including the relative risks and rewards of bonds and equities, plus the benefits of getting expert support for investing in such assets.

A good outcome for people will be the ability to confirm their saving or income objective and understand the sort of option that would meet that need, bearing in mind the risks that may be associated with that option.

The guidance framework will stop short of helping people decide which of the many product providers offer solutions that meet their needs, however the Treasury and FCA may want to consider suitable independent parties that people can be sign posted to that will help identify and compare options.

Given that this is guidance, the consumer will have no recourse to the provider of the guidance framework. We are keen to maintain robust consumer protection from making poor financial decisions and the design of the guidance framework must ensure that appropriate measures are built into the framework to deliver this outcome.

Create a standard, portable fact find and financial plan

We propose that the FCA develop a standardised fact find that can be adopted as part of the guidance framework. This will help people to collect relevant data on their current debts and savings, assess their appetite for risk, establish savings goals and income targets and provide a plan that can be reviewed on a regular basis.

We strongly support the idea that everyone in the UK should have a financial plan and that this should be reviewed at least once a year or when a household has a significant change in circumstances.

By combining a fact find and financial plan together, people would have an easy to use facility that helps them meet their financial goals.

In developing a standardised fact find, this would facilitate the ability for people to share their financial information with other third parties, including financial advisers, without the need to re-input all the information again.

Ideally, mechanisms will also be created that provide an automated prompt either semi-annually or annually for people to review their financial plan and progress towards their objectives.

Increase peoples' access to Kitemarked guidance

The development of a generic Kitemarked guidance framework that can be adopted by the financial services industry will greatly enhance access and awareness of the availability and importance of such a service. We have already seen expressions of interest from a range of banks, building societies, life companies and asset manager who would offer such a service. This could significantly enhance access to a much wider population than is currently reached through bodies such as MAS, TPAS and Pensions Wise.

In earlier work by TSIP on this subject, we identified a number of organisations that would seek to host a guidance framework themselves, plus an extended set of firms that would signpost people to Government backed organisations.

Increasing demand – Triggers

People typically experience a range of triggers that encourage them to engage with their financial situation. This can include the desire to save for a house deposit, build a rainy day fund, save for a large expense item, divorce, etc. These are all opportunities to engage people across a wider spectrum of their finances than just the trigger itself.

Increasing demand - Awareness campaign

Changes any rules around guidance and advice will need to be actively communicated to people, ensuring that the subsequent experience across financial services, Government backed bodies and third sector organisations reflect the principles being promoted.

This requires a co-ordinated awareness campaign. Given the scale of this challenge, it would seem sensible to take the opportunity to incorporate messaging on both the importance of financial capability and the new rules on guidance and advice that are being put in place to enhance the financial resilience and security of people.

We propose that a co-ordinated campaign supported by Government, financial services, Government backed organisations and third sector parties providing guidance is launched soon after changes are made to the way the financial guidance can be delivered.

Create a Savings Minister

In March 2015[27], TSIP called for the creation of a Savings Minister which we re-iterate again here. The challenge of re-establishing a savings culture is not a short-term task, it is a project that will require a sustained commitment over a long period so that new habits and social norms become embedded. This project will require a champion in Government, but at present the various elements of the savings agenda are split across departments and this needs consolidation to provide a co-ordinated vision.

The remit of the Saving Minister would extend to both retirement and non-retirement savings and its taxation. The Minister would also be a champion for the development and implementation of a mass market guidance framework as well as supporting efforts to enhance financial capability.

We also anticipated that the Minister would champion the concept of “Invest in Britain”, a campaign that would help people to understand the direct link between their individual savings and the benefits that this brings to the nation.

[27] TSIP – Saving Our Financial Future – March 2015

4. Robo Advice

Overview

Whilst full advice is outside of the scope of our response, we believe that "robo advice" presents an opportunity to provide the mass market and mass affluent with a solution that in effect is a low cost discretionary management service. The private banking and wealth management industry has progressively been moving towards discretionary services that are based on model portfolios aligned to risk profiles for investment and income objectives so many aspects of robo advice are not new, rather that it is now being aimed at a lower savings threshold.

Whilst not making particular recommendations regarding robo advice, we think that this a development that could provide a valuable link between the Kitemarked guidance framework and full advice. We would therefore like to share our research on robo advice to add to the debate.

Robo advice – a potential solution for mass market / mass affluent investors whose needs go beyond the guidance framework

There is a strong hypothesis being promoted in the industry that automating the advice process and delivering it digitally to customers has the potential to address a number of the issues raised in the Review.

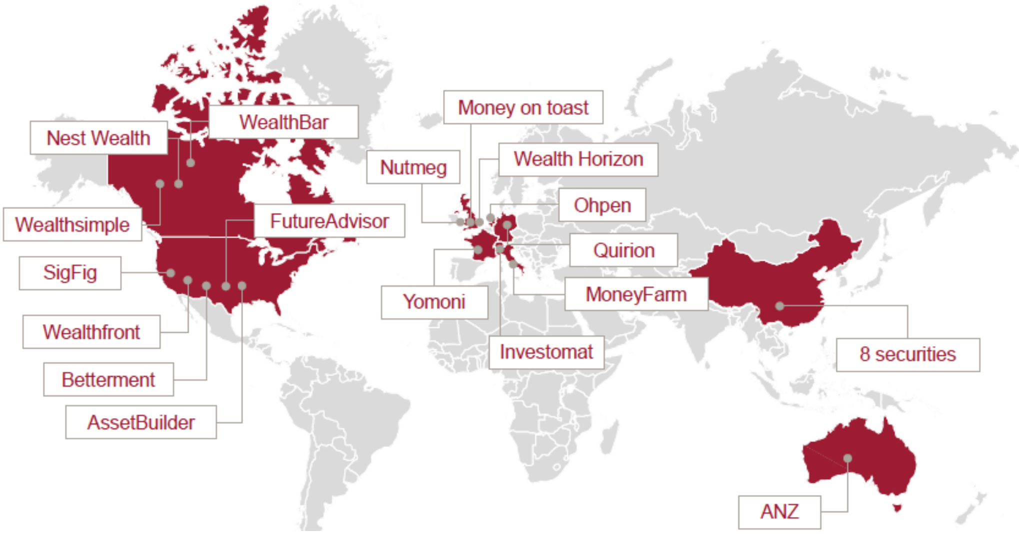
This is clearly a solution that fits in the advice space and associated regulatory environment and which could provide a good solution for people who have larger pension and non-pension wealth.

There is evidence from other international markets that automated advice services are attracting increasing numbers of investors, offering investment solutions that are promoted as better value than traditional mainstream products.

We have collated the following evidence from the latest research available, drawing heavily from both those firms active with these services in the US market and those who are investing in UK equivalents.

There is no single definition of 'robo advice', the term is used to cover a range of services but the most common features are online risk tolerance questionnaire, investment portfolio recommendations and auto rebalancing of portfolios. Additional services such as tax wrapper/ product selection and financial planning tools may also be available.

There are a good range of existing examples of firms offering robo advice services across the globe[28]. Some firms now have over 6 years track record and many new propositions are coming to market, some built on the technology and infrastructure of existing players (Fidelity/Betterment), some built on new proprietary models.



The capability and technology exists to provide these services and the growth in their use in the US market has been strong. The first movers have generally been innovative start-up firms (Betterment, Wealthfront) but more recent market entrants have been established market participants (Charles Schwab, Vanguard).

Established market participants claim they can bring the following benefits to clients[29]:

- More accessible, engaging services, delivered digitally like many other mainstream financial services (e.g. everyday banking)
- Cheaper underlying investment instruments than mainstream mutual funds (Unit Trusts, OEIC's)

[28] Source Vanguard, Rise of the Machines October 2015
[29] Source company websites

- Asset allocation better matched to investors goals and risk assessment
- More efficient rebalancing of portfolios following market moves, automated process
- More educated investors, reducing 'bad habits' of inexperienced investors e.g. selling in market downturns

Betterment

Based on a $100,000 portfolio, with a 70% stock allocation, after Betterment's fees.	
Passive investing	+1.25%
Better Diversification	+1.40%
Automated Rebalancing	+0.40%
Better Behaviour	+1.25%
Total Additional Returns	+4.3%

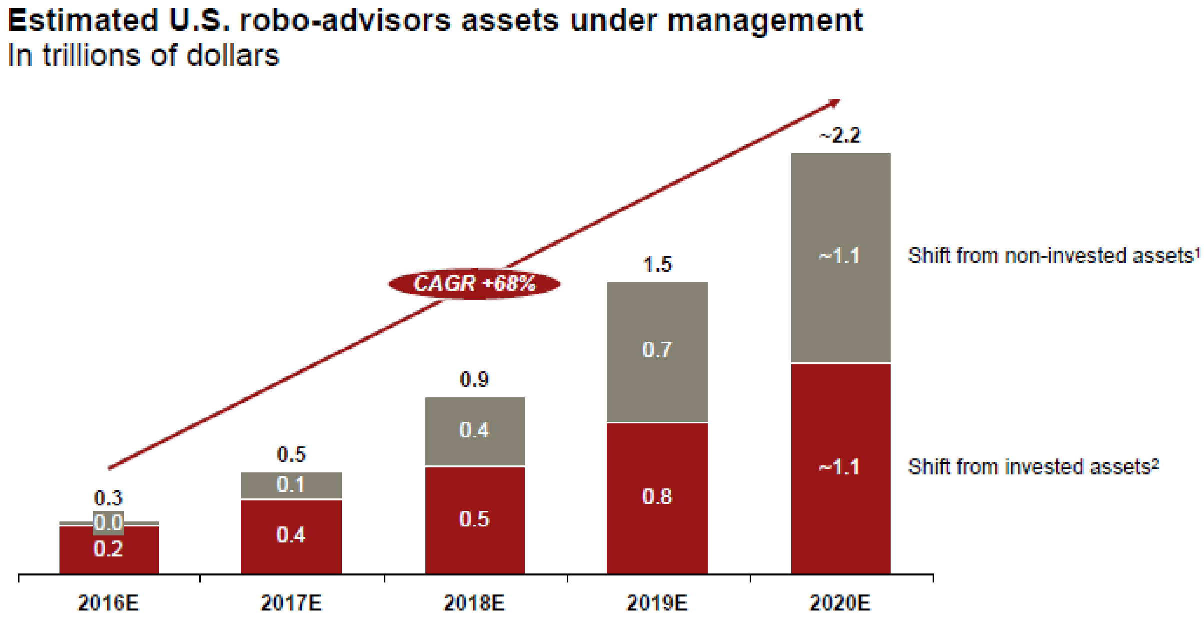
Wealthfront

Based on a $100,000 portfolio, after Wealthfront's fees.	
Index Funds Over Mutual Funds	+2.1%
Tax-Loss Harvesting	+1.0%
Optimal Allocation	+0.5%
Automatic Rebalancing	+0.4%
Tax-Aware Allocation	+0.6%
Estimated Additional Return	+4.6%

Source: Betterment.com; Wealthfront.com.
These tables are for illustrative purposes only, and are not intended to predict future performance.

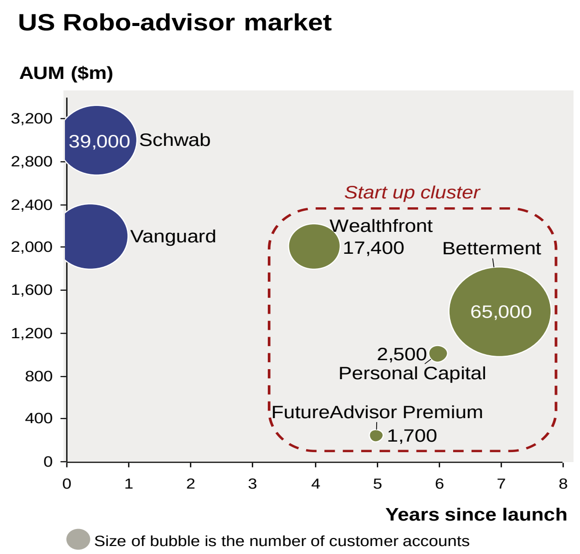
It is estimated by the Aite Group that by the end of 2015 around $60bn will be invested via robo advice offerings in the US market. This still represents only 3% of total investable assets but the growth in recent years has been very strong. Projecting growth rates[30] from customer profiling and research shows that an increasing share of the market will be adopting this strategy.

[30] AT Kearney Hype vs Reality: The coming waves of Robo adoption June 2015



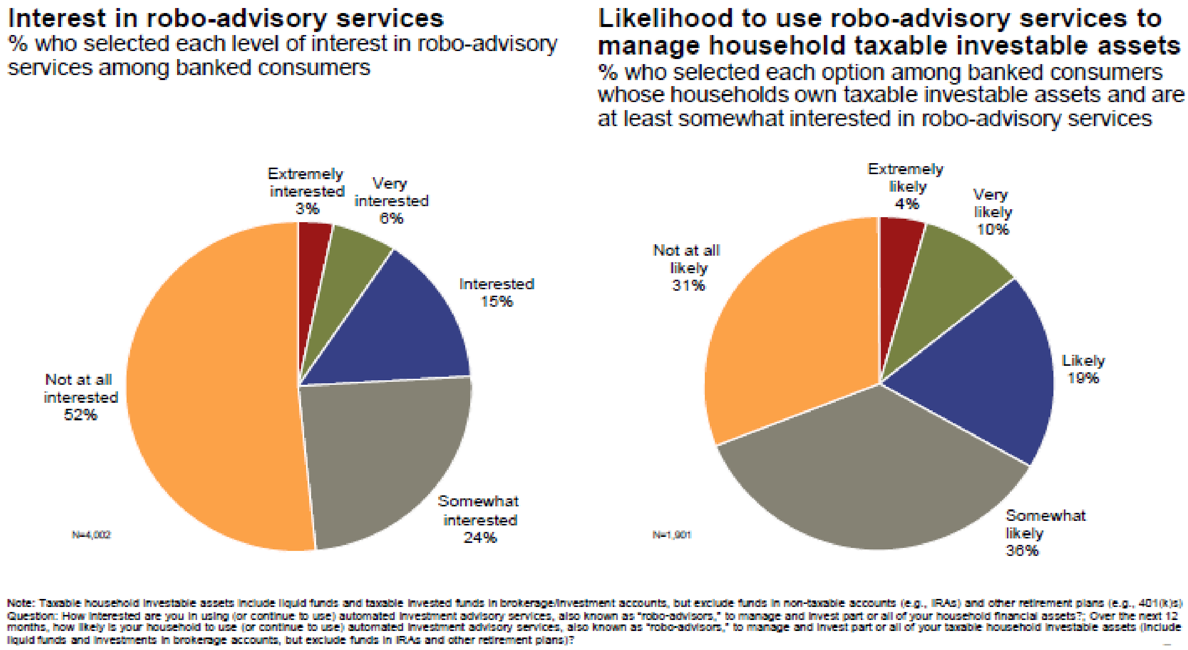
1. Non-invested assets include liquid funds (e.g., cash and cash equivalent deposits)
2. Invested assets include credit market instruments, corporate equities, mutual funds, IRAs and 401(k)

Whilst, thus far, the UK market participants are relatively small, a similar pattern featured in the growth of the US market, when a number of established market participants with extensive customer reach launched services that have accelerated investor adoption markedly.



The proposition looks likely to continue its growth in market share and be adopted by more firms as an attractive facility to offer its investors.

In building these propositions US firms have investigated what type of demand there is likely to be. Whilst these findings cannot be translated directly into UK outcomes, early UK customer research is reflecting similar findings, so the generic trends we believe are material and relevant.



A study was undertaken by AT Kearney[31], comprising a nationally representative sample of 4,000 US households that held a regular Current or Savings Bank Account. The research showed that just under half of customers were at least somewhat interested in the robo advice services and of those two thirds were at least somewhat likely to use them

Robo advice is not a proposition that will appeal to all people and this research highlighted that existing confident self-investors were likely to be the first adopters, as they realise the efficiency of the lower costs and digital delivery. As the propositions mature and become

[31] Source AT Kearney 2015 Robo Advice Services Study

more proven the adopter base is likely to broaden, pulling in all kinds of advised customers and some first time investors.

Source AT Kearney 2015 Robo Advice Services Study

Early adopters	Second wave adopters
▪ Younger consumers (50% under 35 years old) ▪ Highly employed (74% employed full or part time) ▪ Sophisticated and risk-taking investors (e.g., high penetration of investment accounts, 20% self-described as risk takers)	▪ Slightly older than early adopters ▪ Highly employed (71% employed full or part time) ▪ Less sophisticated investors (44% novice investors) and more cautions investors

Another key finding was that adopters are unlikely to place all their current investments in the proposition (early adopters likely to place 40% of their investments in robo advice service, second wave a more cautious 19%) and that the monies are likely to come from other liquid savings (e.g. moving money from deposit based savings accounts) firstly and then a mix of existing investments and new money.

The ranking of importance of proposition features by investors was pricing (low cost and transparency), investment expertise, simplicity (easy to use) and relationship services.

The study established that there was increasing investor appetite for the service and that as the services mature the appeal will broaden from experienced investors to a wider audience but that the expectation was that the service would deliver easy to use, personally tailored investment solutions at a lower cost than existing market norms.

5. Responses to Consultation Questions

1. Do people with protected characteristics under the Equalities Act 2010, or any consumer in vulnerable circumstances, have particular needs for financial advice or difficulty finding and obtaining that advice?

No response.

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

TISA would like to see a clear articulation of what is guidance versus advice, ideally with clear water between the two definitions. People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation and is instead designed to help people make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Part of the confusion has been created by complex rules and the application of different standards whereby information provided by a third party such as MAS is treated as guidance, but the same information provided by a product provider becomes advice.

In setting rules around guidance versus advice, we suggest that the Treasury and FCA also consider the wider European dimension, for instance MiFID already defines guidelines and further work is currently underway across the commission that will affect future definitions.

We support a Kitemarked guidance framework that can be adopted by financial services firms as well as independent information organisations, Government backed bodies and the third sector. We would also like the guidance definition to accommodate human support so that people are not limited to online guidance and can benefit from a person helping them to navigate the information available within the guidance framework.

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

The demand for advice is driven by a very wide range of issues. We have identified a number of these factors more generally in our response and have summarised some of the bigger issues here.

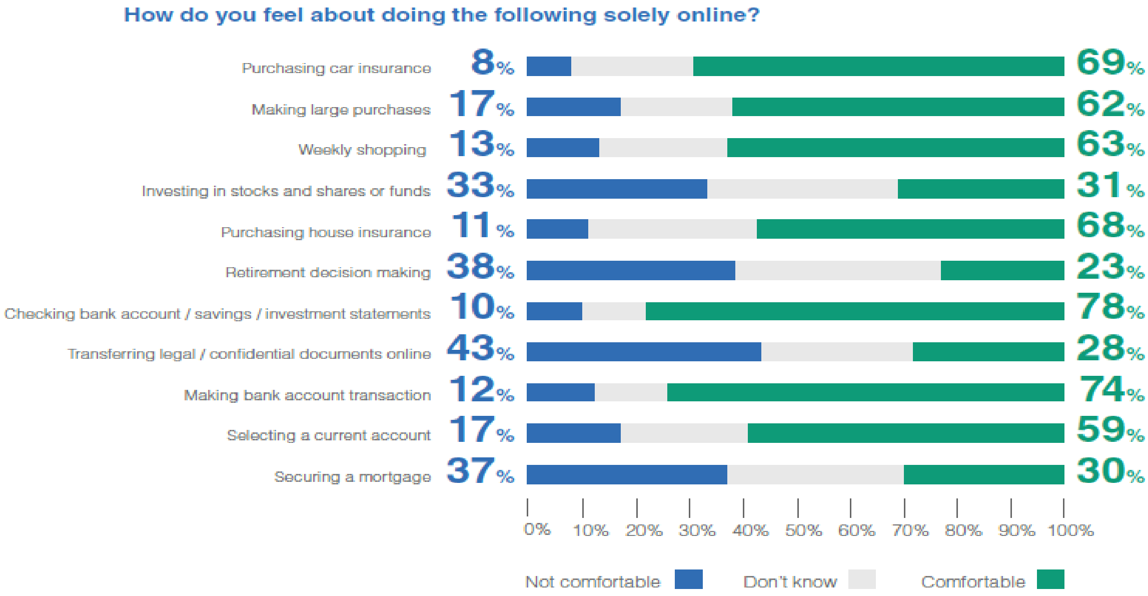
- The lack of financial education amongst the population as a whole has created a society where people are missing a basic understanding of the importance of financial planning and the key skills to manage their money. The research cited within our response clearly demonstrates this issue. This is one of the key triggers that would encourage greater consumer engagement with money matters
- This can also be seen in the propensity for people to hold cash rather than diversify into asset types that better meet their financial objectives, plus their appetite to see housing as a means to provide for their retirement. Both of these approaches reduces the need to seek professional advice as people tend to make their own decisions about cash and housing
- We hear much about trust, which in itself is hard to quantify what this means as well as hard to measure. What is clear is that the media, the regulator and the Government typically present a negative image about financial services and there is a lack of balance in communicating the positive contribution the industry makes to society. It is not evident how the industry can ever engender trust in consumers if this level of negative commentary continues. This also puts people off seeking advice as the perception is that they will be ripped off
- People have not yet woken up to the fact that responsibility has shifted from the state and employers to the individual. People would be much more likely to seek advice (or guidance) if they understood that their financial security sits predominantly with them
- There is still a strong demand for advice, especially in areas that are deemed complex (such as pensions) but the evidence shows that only people with higher levels of income and wealth tend to use advice services, which we think has a strong correlation to cost. This is why alternatives to a comprehensive advice service is critical to meets the needs of the lower and middle income population.

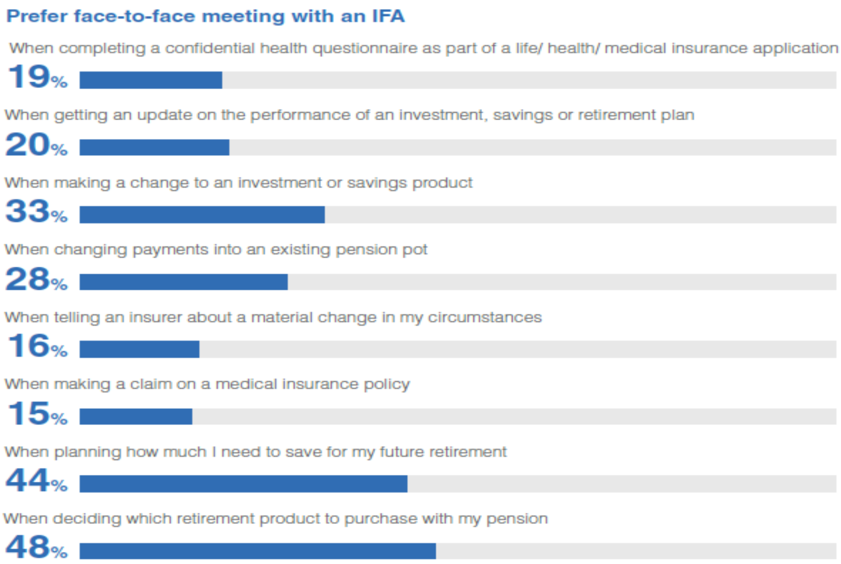
4. Do you have any comments or evidence on the level of demand for advice from sources other than professional financial adviser?

No response.

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

Recent research by Iress[32] provides insights into the ways that people are using online solutions versus advice to help them in making decisions about their financial affairs. This also provides evidence of the sort of matters that people seek advice on, which is unsurprisingly areas of greater complexity.





[32] Iress – Data, disruption and the digital consumer – April 2015

However, we strongly advocate encouraging everyone to have a financial plan that sets out their life-long goals to provide a much greater focus on a household's financial affairs and become a catalyst for better management of their money and financial security.

Having a life-long plan will help millions of households to consider their various short, medium and long-term goals as well as how they might be achieved. One of the biggest reasons for financial apathy is the lack of focus and having some clear targets. Encouraging households to both set up a plan and revisit this in a regular basis (say annually or semi-annually) will provide a mechanism for actively managing their money. Not only will the plan help them to action immediate goals, it will help households to consider and plan for events that they are likely to encounter in later life.

Having a financial plan will also encourage to have better record keeping of their various savings and investments as this will be required to track how they are doing.

We believe that having a financial plan is one of the foundation blocks to people seeking guidance and advice and being much more proactive in managing their financial future.

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

Yes. The Consumer Spotlight model is a helpful tool in providing greater granularity to the categories of people, their profile, wealth, income and their potential needs.

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

Yes. TISA would encourage FAMR to focus on households that have more limited means and for whom a Kitemarked guidance framework accessible from multiple organisations would have a big impact. This would include but not limited to Hard Pressed, Striving and Supporting, Living for Now and Retired on a Budget.

In addition to the Consumer Spotlight categories, we would suggest that all households on low to middle incomes and with non-pension savings of less than £50k should be given high priority when seeking solutions that will help this population manage their finances better. This represents c70% of the population according to Treasury and FCA FAMR consultation.

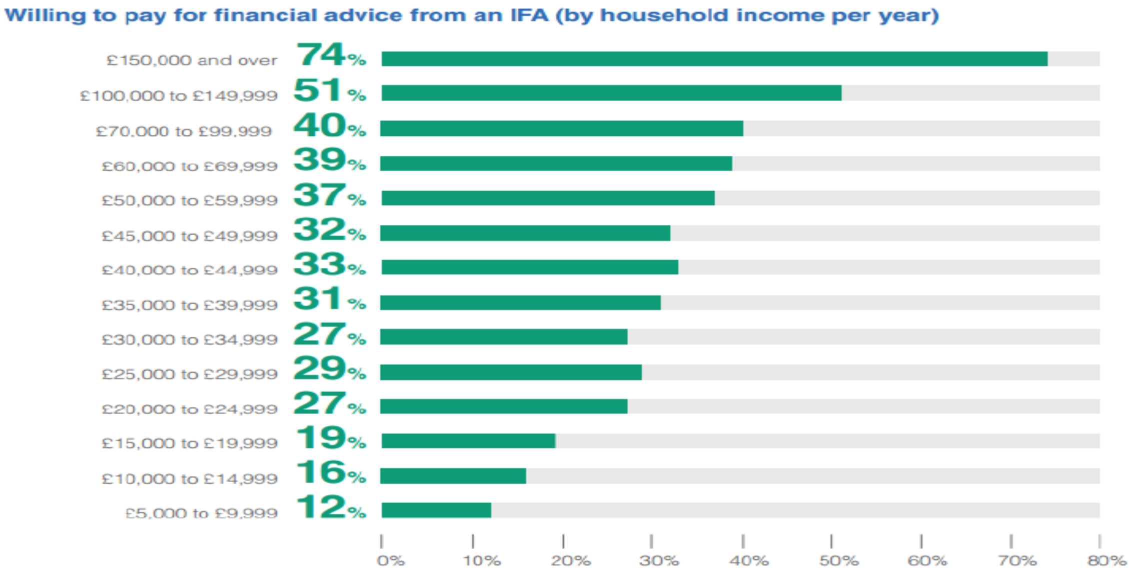
8. Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

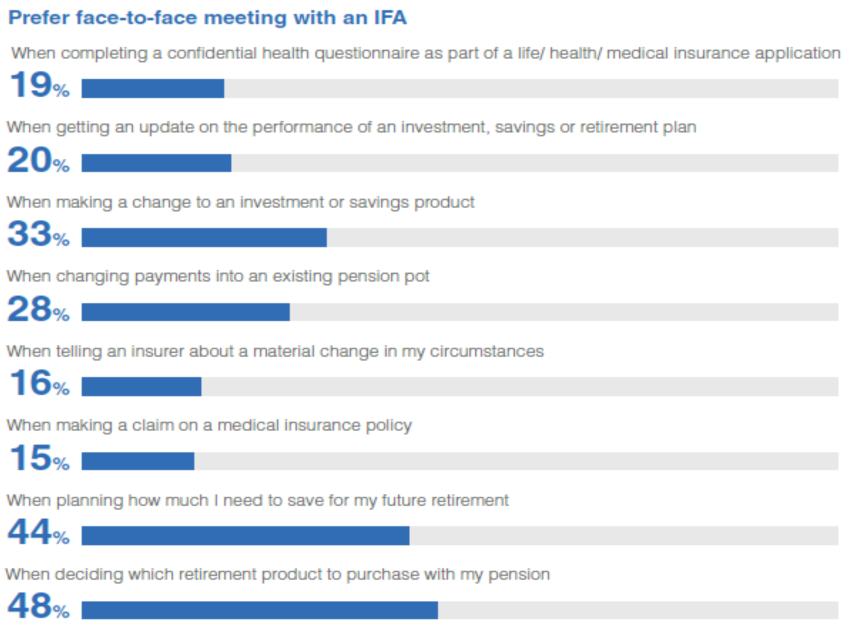
Recent research by BlackRock[33] (see table below) would imply that individuals with less money have a lower propensity to seek advice from a professional, with many of them having never used the services of an adviser. One third of individuals with large savings have never sought advice.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

The effects of increasing the costs of advice resulting from the introduction of the RDR and the impacts this has had on people is still being assessed and opinions vary in terms of the extent of that change. However, it is reasonable to conclude that with a growing population of "orphan clients" and the economics of advice businesses, that less people have access to cost effective advice than in the past.

[33] BlackRock – Investor Pulse – November 2015





It is also unsurprising that in recent research[34] by Iress (see charts above) looking at the willingness to pay for advice those with higher levels of savings had a greater propensity to pay for the service. This also makes sense in relative terms as the costs are proportionately lower. The research also provides findings on the sorts of transactions where people prefer

[34] Iress – Data, disruption and the digital consumer – April 2015

face-to-face advice. Unsurprisingly, this tends to be for more complex, important decisions rather than matters which can be dealt with online or without expert support.

Advice use in the UK by income and wealth. Do you currently use the services of a professional financial advisor? A financial advisor could include an advisor at your bank, insurance company, a broker or an independent advisor?				
	Use financial advice	Don't currently use financial advice but have done in the past	Never used financial advice	Combined non-advised
Proportion of overall sample	17%	30%	53%	83%
Median average personal income (£)	27,754	22,534	15,978	18,064
Median average personal savings and investments (£)	53,333	24,063	6,831	10,144

The BlackRock research (table above) also covers the use of advice according to income bands and savings. This re-enforces the case that households with lower incomes and less savings make less frequent use of financial advice.

If we assume that a reasonable proportion of this group see themselves as benefitting from financial advice but perceive that costs of advice are too high, this would further encourage us to create a guidance framework to meet that need.

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

See response to question 3 above.

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

TISA believes that the focus of the FAMR on advice should to be balanced with the need for also addressing how we can enhance the financial guidance currently available to people as well as increasing access.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

Recent research from BlackRock[35] indicates that almost 80% of people with between £20k and £50k of savings have either never used advice or have stopped using advice. This increases to 93% not using advice for those with £10k or less in savings. These groups made greater use of advice – 37% and 26% in 2014 respectively versus 18% and 6% prior to 2014 (see table above). The same research also found that:-

- Only 15% of those with a personal income of less than £50k currently use an advisor and this proportion decreases the less people earn
- Those who are no longer using advice come from all income levels. As many with incomes greater than £50k (34%) have dropped out of the advice market as those with incomes of less than £50k (30%).
- The primary reason given by those on lower incomes not continuing to use advice is because advice was used for a one off. Advice usage tends to be for a specific need, rather than creating a long-term advice relationship.
- However, the main reason for those who are earning £50k+ and no longer using advice is cost. 31% say it is too expensive. This is coupled with more than a quarter of these individuals believing they can do a better job themselves.

[35] BlackRock – Investor Pulse – November 2015

Not only does this indicate that there is a demand that is no longer met, we also need to take into consideration the population that would benefit from better management of their finances. Extracts of MAS research points towards 40% of adults not being in control of their finances, 50% of people with families have no life cover and 12 million people who are not saving enough for retirement.

Clearly there is a broad based need for support with managing financial matters, especially amongst the low and middle income families. To give a sense of scale, at least 20% of households would benefit from help with debt management, 60% are households with non-pension savings of £50k or less and 40% of households who have pension pots of less than £100k.

Hence, TISA is strongly recommending developing a broad scoped, Kitemarked guidance framework, made available through Government bodies, financial services and the third sector.

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?

No response.

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

We believe that “robo advice” presents an opportunity to provide the mass market and mass affluent with a solution that in effect is a low cost discretionary management service. The private banking and wealth management industry has progressively been moving towards discretionary services that are based on model portfolios aligned to risk profiles for investment and income objectives so many aspects of robo advice are not new, rather that it is now being aimed at a lower savings threshold.

We think that this is a development that sits alongside full advice as an option for accessing portfolio management at a lower cost. We would therefore like to share research on robo advice to add to the debate.

There is a strong hypothesis being promoted in the industry that automating the advice process and delivering it digitally to customers has the potential to address a number of the issues raised in the Review.

This is clearly a solution that fits in the advice space and associated regulatory environment and which could provide a good solution for people who have larger pension and non-pension wealth.

There is evidence from other international markets that automated advice services are attracting increasing numbers of investors, offering investment solutions that are promoted as better value than traditional mainstream products.

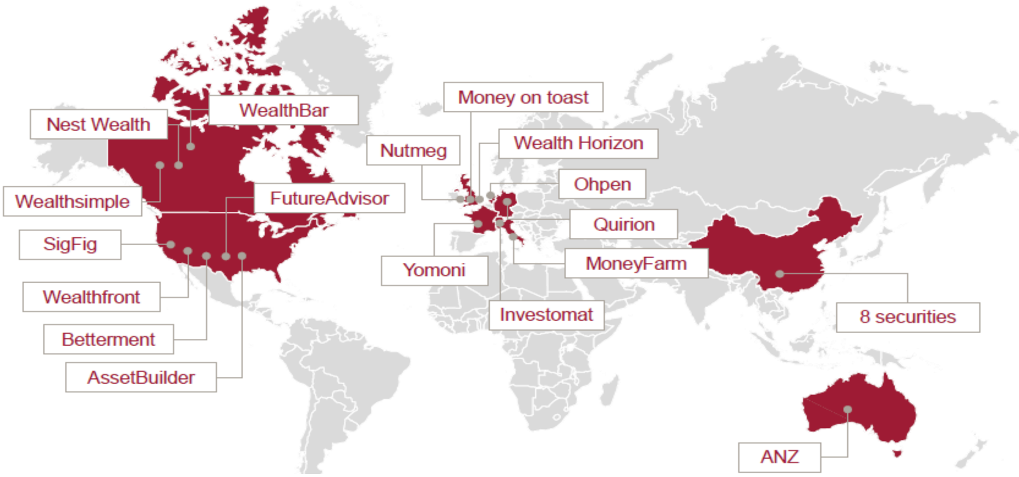
We have collated the following evidence from the latest research available, drawing heavily from both those firms active with these services in the US market and those who are investing in UK equivalents.

There is no single definition of 'robo advice', the term is used to cover a range of services but the most common features are online risk tolerance questionnaire, investment portfolio recommendations and auto rebalancing of portfolios. Additional services such as tax wrapper/ product selection and financial planning tools may also be available.

There are a good range of existing examples of firms offering robo advice services across the globe[36]. Some firms now have over 6 years track record and many new propositions are coming to market, some built on the technology and infrastructure of existing players (Fidelity/Betterment), some built on new proprietary models.

The capability and technology exists to provide these services and the growth in their use in the US market has been strong. The first movers have generally been innovative start-up firms (Betterment, Wealthfront) but more recent market entrants have been established market participants (Charles Schwab, Vanguard).

[36] Source Vanguard, Rise of the Machines October 2015



Established market participants claim they can bring the following benefits to clients[37]:

- More accessible, engaging services, delivered digitally like many other mainstream financial services (e.g. everyday banking)
- Cheaper underlying investment instruments than mainstream mutual funds (Unit Trusts, OEIC's)
- Asset allocation better matched to investors goals and risk assessment
- More efficient rebalancing of portfolios following market moves, automated process
- More educated investors, reducing 'bad habits' of inexperienced investors e.g. selling in market downturns

[37] Source company websites

Betterment

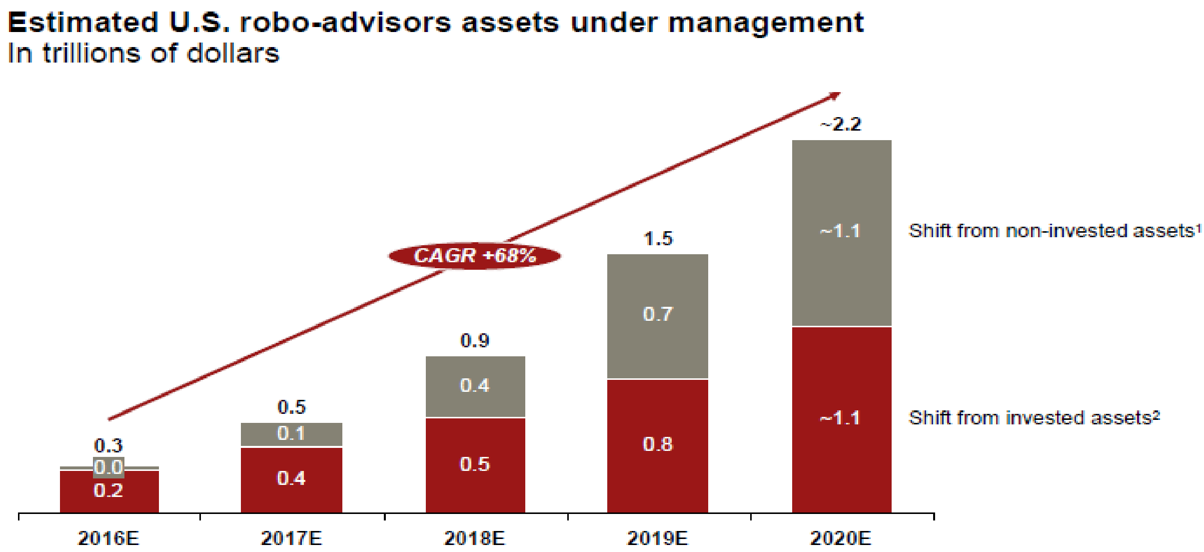
Based on a $100,000 portfolio, with a 70% stock allocation, after Betterment's fees.	
Passive investing	+1.25%
Better Diversification	+1.40%
Automated Rebalancing	+0.40%
Better Behaviour	+1.25%
Total Additional Returns	+4.3%

Wealthfront

Based on a $100,000 portfolio, after Wealthfront's fees.	
Index Funds Over Mutual Funds	+2.1%
Tax-Loss Harvesting	+1.0%
Optimal Allocation	+0.5%
Automatic Rebalancing	+0.4%
Tax-Aware Allocation	+0.6%
Estimated Additional Return	+4.6%

Source: Betterment.com; Wealthfront.com.
These tables are for illustrative purposes only, and are not intended to predict future performance.

It is estimated that by the end of 2015 around $15bn will be invested via robo advice offerings in the US market. This still represents only 3% of total investable assets but the growth in recent years has been very strong. Projecting growth rates[38] from customer profiling and research shows an increasing share of the market will adopt this strategy.

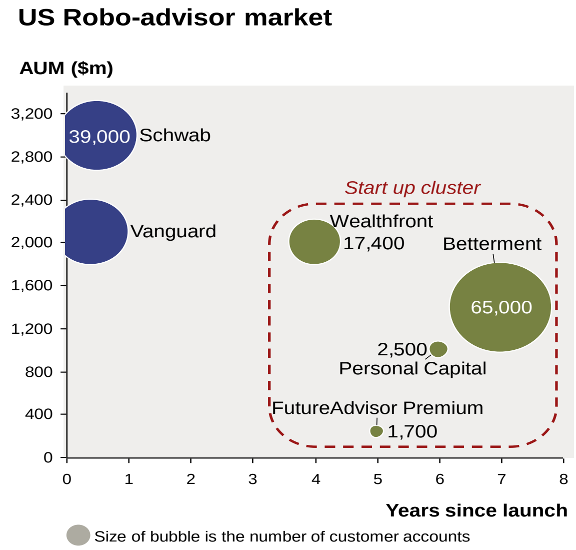


1. Non-invested assets include liquid funds (e.g., cash and cash equivalent deposits)
2. Invested assets include credit market instruments, corporate equities, mutual funds, IRAs and 401(k)

[38] AT Kearney Hype vs Reality: The coming waves of Robo adoption June 2015

Promoting Financial Wellbeing for the UK

Whilst thus far the UK market participants are relatively small, a similar pattern featured in the growth of the US market, when a number of established market participants with extensive customer reach launched services that have accelerated investor adoption markedly.

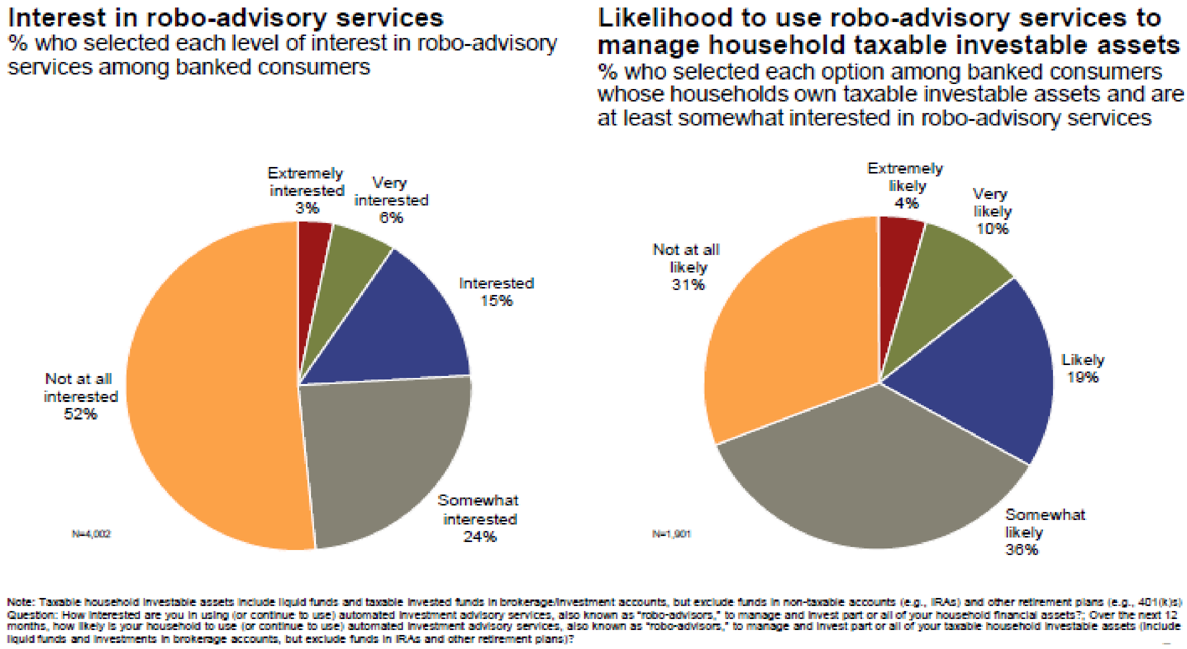


The proposition looks likely to continue its growth in market share and be adopted by more firms as an attractive facility to offer its investors.

In building these propositions US firms have investigated what type of demand there is likely to be. Whilst these findings cannot be translated directly into UK outcomes, early UK customer research is reflecting similar findings, so the generic trends we believe are material and relevant.

A study was undertaken by AT Kearney[39], comprising a nationally representative sample of 4,000 US households that held a regular Current or Savings Bank Account. The research showed that just under half of customers were at least somewhat interested in the robo advice services and of those two thirds were at least somewhat likely to use them

39 Source AT Kearney 2015 Robo Advice Services Study



Robo advice is not a proposition that will appeal to all people and this research highlighted that existing confident self-investors were likely to be the first adopters, as they realise the efficiency of the lower costs and digital delivery. As the propositions mature and become more proven the adopter base is likely to broaden, pulling in all kinds of advised customers and some first time investors.

Source AT Kearney 2015 Robo Advice Services Study

Early adopters	Second wave adopters
▪ Younger consumers (50% under 35 years old) ▪ Highly employed (74% employed full or part time) ▪ Sophisticated and risk-taking investors (e.g., high penetration of investment accounts, 20% self-described as risk takers)	▪ Slightly older than early adopters ▪ Highly employed (71% employed full or part time) ▪ Less sophisticated investors (44% novice investors) and more cautions investors

Another key finding was that adopters are unlikely to place all their current investments in the proposition (early adopters likely to place 40% of their investments in robo advice service, second wave a more cautious 19%) and that the monies are likely to come from other liquid savings (e.g. moving money from deposit based savings accounts) firstly and then a mix of existing investments and new money.

The ranking of importance of proposition features by investors was pricing (low cost and transparency), investment expertise, simplicity (easy to use) and relationship services.

The study established that there was increasing investor appetite for the service and that as the services mature the appeal will broaden from experienced investors to a wider audience but that the expectation was that the service would deliver easy to use, personally tailored investment solutions at a lower cost than existing market norms.

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

No response.

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?

No response.

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

No response.

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

Financial services firms are currently both unable and unwilling to provide basic financial information / guidance to people as this can currently be deemed as advice. This is despite the fact that non-financial services companies are permitted to offer such guidance.

We commend the services that MAS and others already provide regarding financial guidance and believe that making this guidance more broadly available throughout financial services could greatly enhance people's awareness of such services, access and engagement with financial matters.

TSIP recommended in March 2015[40] that financial guidance is made more accessible to the public and that the FCA should work with the industry to agree a set of guidance principles. We have extended that proposal here by describing a Kitemarked guidance framework in our recommendations.

Key barriers include the way that the interpretation of advice can be defined on a case by case basis and that the industry cannot use terms such as “people like you” or rule of thumb principles around savings objectives.

We are therefore calling for a clear definition of a regulated guidance framework that will enable financial services firms to provide the breadth of guidance proposed in our recommendations.

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

We think that the advice gap is made up of two separate components:

- The set of people that want advice but for various reasons do not engage with an advisor (e.g. cost)
- The set of people that would benefit from advice but fail to understand the need to manage their financial affairs

TISA believes that the focus of the FAMR on advice should to be balanced with the need for also addressing how we can enhance the financial guidance currently available to people as well as increasing access.

Recent research from BlackRock[41] indicates that almost 80% of people with between £20k and £50k of savings have either never used advice or have stopped using advice. This increases to 93% not using advice for those with £10k or less in savings. These groups made greater use of advice – 37% and 26% in 2014 respectively versus 18% and 6% prior to 2014 (see table below).

Not only does this indicate that there is a demand that is no longer met, we also need to take into consideration the population that would benefit from better management of their finances. Extracts of MAS research points towards 40% of adults not being in control of

[40] TSIP – Saving Our Financial Future – March 2015
[41] BlackRock – Investor Pulse – November 2015

Promoting Financial Wellbeing for the UK

their finances, 50% of people with families have no life cover and 12 million people who are not saving enough for retirement.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

Clearly there is a broad based need for support with managing financial matters, especially amongst the low and middle income families. To give a sense of scale, at least 20% of households would benefit from help with debt management, 60% are households with non-pension savings of £50k or less and 40% of households who have pension pots of less than £100k.

Hence, TISA is strongly recommending developing a broad scoped, Kitemarked guidance framework, made available through Government bodies, financial services firms and the third sector.

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

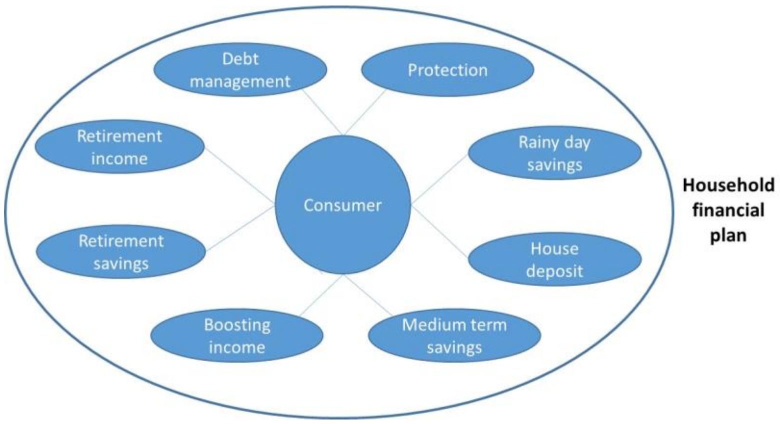
See response to question 17 above.

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

Our view is that the advice gap is primarily low and middle income families with limited financial means that either recognise a need for support in making financial decisions plus those that may not have understood the benefits of better money management. We are advocating a Kitemarked guidance framework to assist this population in making better, informed financial decisions.

We think that the scope of the guidance framework needs to be focused enough to be relevant for that audience, yet broad enough to meet the needs of a household with limited means. Our proposed framework (for discussion) would cover debt management, a range of savings goals, plus enhancing income both before and at retirement. These actions should be encompassed within a financial plan that is maintained and reviewed on a regular basis.

Potential high level scope of a Kitemarked guidance framework



The framework would be regulated to provide consumer protection and be restricted to regulated, non-complex products and tax vehicles. As well as protection options, this would enable the guidance to cover a range of savings and income needs and incorporate information on tax efficient vehicles such as ISAs and pensions. This is increasingly important as people use a range of savings vehicles for their retirement provision. We propose that guidance cover cash, bonds and equities so that people are informed about options on asset types for short and long-term savings and investments objectives. As well as core cash option, such as deposit accounts and cash ISAs, guidance would also inform people about mutual funds, insurance bonds, vehicles such as ETF's as these products provide investment diversity for people who wish to invest in bonds or equities.

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

There are considerable bodies of evidence that show people are failing to do enough to manage their affairs in a way that will provide them with financial security and wellbeing, which often results in additional burdens on the State.

Recent research by MAS[42] includes:
- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

TSIP's research[43] includes:

- One third of UK households have no savings at all
- 66% of low and middle income families have £1,500 or less in savings (roughly equivalent to 1 month's salary)
- Saving has been replaced by credit to fund consumption
- Active membership of employer pension schemes was 34% (in 2011 - this has now risen to c45% as a result of auto-enrolment but with very low contribution rates)
- Responsibility for financial security in retirement has shifted to the individual but they have not responded by taking action to make adequate contributions to their retirement savings
- There is a tipping point in 2035 when the generation retiring will be worse off than earlier cohorts

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

See response to question 19.

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?

[42] MAS – The Financial Capability Strategy for the UK – October 2015
[43] TSIP – Our Financial Future - 2014

Yes, plus that this should also be extended out to include guidance along the lines of the recommendations we have made to develop a Kitemarked guidance framework for the population of people that will not have access to affordable advice.

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

Yes.

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?

There has been robust and consistent feedback from our members that there needs to be clarity around what is guidance versus advice, ideally with clear water between the two.

People have limited appreciation of the difference between guidance and advice and there needs to be much greater clarity that guidance is information that is generic and comes with no recommendation but is designed to help consumers make an informed choice. Advice is a recommendation that is tailored to the needs of a specific individual.

Please also see response to question 16 above.

We also strongly advocate the need to have an awareness campaign that clarifies the difference between guidance and advice and want people can expect from each service. In its simplest form:

- Guidance is the provision of information that describes typical generic financial needs and helps the consumer to make an informed choice. The outcomes of guidance will only consider UK regulated products. There are no recommendations and no recourse to the provider of the information. Kitemarking and regulation will ensure that quality and consistency of information meets prescribed standards
- Advice provides a tailored solution for people and typically comes with a recommendation. Advice can cover the whole spectrum of financial products, including non-UK options. Advice is regulated and the consumer has recourse to the provider of the recommendation / advice

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?

TISA believes that the EU regulatory process does not engage sufficiently with directly affected businesses in the UK. This is because the legislative and regulatory process does not directly involve firms and the mechanisms that do exist to provide representation need to be made more robust. The result is that when Directives are passed, affected firms have often not contributed sufficiently to the legislative process.

This is particularly relevant to the provision of financial advice. For example, in the case of MiFID II, the Directive makes changes in three areas, which directly impact the provision of advice, all of which add to cost and complexity. For the purposes of this response we have not opined on whether there are consumer benefits which outweigh those costs, but point out the costs.

The three areas are:

1. **Telephone recording of calls which may lead to advice being given.** The relevant Articles require that records be kept for 5 years. Because most calls to a business giving advice may result in advice being given, firms will be bound, from prudence and regulatory fear, to record all calls with customers, whether or not they lead to advice, and keep them for 5 years, not 6 months or a year. In reality firms may be required to keep recordings of calls indefinitely to prove they were innocent as there have already been cases of fines being imposed where this had not happened. This will lead to higher costs for the provision of advice.
2. **A requirement on firms to ensure that they test the Appropriateness of investment products prior to customer purchase.** The scope of this test has been widened under MiFID II to include products, such as investment trusts and ETFs, to which this test was not previously required. TISA is leading an industry working group to develop a Best Practice Guide for firms in this area. Designing a test that is meaningful must apply not only to online business but also to call centre and post business. The tests will require more interaction with customers, even for D2C business than at present and this will raise the cost of doing business.
3. **New requirements around Product Governance imposing new obligations on firms giving advice.** The Directive imposes new requirements on product manufacturers (typically fund managers) to ensure that products are sold appropriately by distributors, (that is, typically, advice giving firms). TISA is also leading an industry working group to determine the implications of the Directive and develop a Best Practice Guide for affected firms. In particular, the Directive will require distributors

to share with product manufacturers, information about target markets (customers) and how products are used by distributor customers. And because they deal with over a hundred such firms, will have to design and build systems to do such reporting in a consistent manner. This will be a significant IT cost on distributor firms, which will be bound to raise the cost of advice such firms give.

The industry as a whole only became aware of the implications of the Directive when the FCA consulted, in a Discussion Paper in May 2015, on some key parts of the Directive. But this is too late to change the Directive. We conclude that the current EU regulatory process is too remote from affected firms. Although the FCA has attempted to keep the industry abreast of EU proposals as they develop, this has tended to be at too high a level. We recommend that the Government seek to improve the EU regulatory development process to ensure that the Commission produces earlier and fuller detailed discussion papers and consultation papers that actively seek input directly from affected firms.

There are Directives in train, such as the Insurance Distribution Directive, that will affect distributors of non-investment insurance business, and hence the cost of advice, which we believe the review should take into account.

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

We are failing to provide a basic financial education for UK citizens which is the foundation from which people can understand both the need and the benefits of saving. Recent research by MAS[44] includes:

- 40% of adults are not in control of their finances
- 25% are using high interest rate credit facilities when other options are available
- 20% could not read a bank statement
- 50% of adults focus on immediate rather than future needs
- Only 50% of people with families have life cover
- 12 million people are not saving enough for retirement

Financial education was put onto the secondary school curriculum in 2014, but this only covers 45% of schools and there is no budget to train the teachers who will be delivering the syllabus. This does not take into consideration that research also points to relationships between young people and money becoming fixed as early as 7 years old, implying that we

[44] MAS – The Financial Capability Strategy for the UK – October 2015

are not doing enough early in the education cycle to have a real impact on future generations attitudes to money.

We recognise that financial education is not part of the FAMR consultation, but we believe that to create the demand for financial advice to a large degree begins with education of all age groups.

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

We would like to respond to this question within the context of how people might be presented with investment options that have been approved by the Government / regulator as part of the proposed Kitemarked guidance framework. This also ties up with the precedent in the UK whereby employees signing up to auto-enrolment are offered default savings options deemed to be appropriate for their savings objectives.

The US wanted to encourage individuals saving into Individual Retirement Accounts to focus on outcome-oriented investing, recognising that people needed help in allocating their savings across asset classes with the purpose of achieving better outcomes. This was achieved by defining a suite of asset allocation products as being "safe harbour" i.e. there was no recourse for people who chose this option. This was delivered through the US Pension Protect Act of 2006 ("PPA")[45]. In many ways this is similar to the concept of the default funds within auto-enrolment.

TISA would like the FCA to consider adopting such an approach for a wider set of longer-term investment objectives so that people can be offered some regulated default options, within a regulated guidance framework. This would help overcome the challenge of people who are unfamiliar with the range of options resorting to cash (or indeed property) as the only forms of saving that they understand, even where this exposes them to poor returns (and recently negative returns) and the risk of holding a single asset.

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

No response.

[45] Pension Protection Act, Pub. L. No. 109-280, 120 Stat. 780 (2006).

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?

Providing the equivalent of safe harbor to a limited range of regulated products within our proposed Kitemarked guidance framework offers a pragmatic solution to help people select options that suit their savings and investment objectives.
Given most people's lack of financial knowledge, we believe that providing a limited range of default options that help move people towards asset classes that are better suited to their savings objectives will result in better outcomes overall.

According to Datastream research undertaken in 2014, the real annual returns on cash, bonds and equities over the last 30 years was 3.05%, 5.18% and 5.23% respectively.

TISA have also provided below data from Barclays comparing the same asset classes over different and longer time periods. This demonstrates that whilst cash is not supposed to lose you money (which it can do after inflation), investing in other options will often be a better outcome for medium and long-term savings.

UK real asset class returns (% per annum)[46]

	10 years	20 years	50 years	115 years
Equities (shares)	4.1	4.6	5.7	5.0
Government bonds (Gilts)	3.7	5.1	2.9	1.3
Cash	-0.7	1.1	1.5	0.8

See also response to question 27 above.

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

We already have an aspect of safe harbor operating in the UK in the guise of auto-enrolment defaults which include more complex asset classes such as bonds and equities to

[46] Barclays Capital Equity Gilt Study 2015

reflect the long-term nature of the investment. These default options would seem to engender confidence amongst the people that have selected this option as being the right thing to do because it has been approved by a third party with appropriate specialist knowledge. Equally, without this option being a default investment, it is likely that unless receiving advice, these same people would make poor investment choices.

We believe that these principles could be extended out to other areas of people's financial needs whereby there would also be default options for instance with rainy day savings. Theses defaults would be part of the Kitemarked guidance framework and, like the auto-enrolment default, would carry no liability for the organisation providing the information that resulted in a person adopting the default option.

This would enable the Kitemarked guidance framework to provide a range of simple default options to meet some basic financial needs to low income, low wealth households.

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

TISA are proposing that the FCA work with the financial services industry to define a Kitemarked guidance framework. This will establish the range of financial needs that people face and the customer journeys that they will take. The framework would be designed to help low and middle income households make informed decisions on specific savings objectives, with reference to full advice where complexity of their situation deemed considering advice a better option.

This would likely include guidance outcomes such as saving for a rainy day fund, being a cash reserve that is available to meet unexpected events such as a broken boiler or redundancy. A default option for this could be a cash ISA, with the consumer then being responsible for finding a preferred product provider. Another example may be a person seeking to put savings aside for the longer-term having already built up a rainy day fund. The default option here might be a stocks and shares ISA with information on Gilts and Blue Chip collectives or ETFs. The person would then need to select a provider that offered these products.

The consumer's interests would be protected by a regulated guidance framework that provided information on regulated products using formulas agreed with the FCA.

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

No response.

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?

No response.

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

No response.

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

See response to question 31 above.

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?

See response to question 12 above.

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

The Virtual Regulatory Sandbox concept announced by the FCA in mid-December 2015 has the potential for the industry to work with regulators to create agreed open standards and develop AI and advice models, overcoming perceived digital barriers. This would help the evolution of automated models to provide guidance and advice to consumers.

This would provide an environment that enables firms to test their solutions virtually without entering the real market. A number of large firms already have similar solutions for testing technologies but these operate separately from each other and with data utilised only from the owners of these facilities. The virtual sandbox could be, for example, a cloud-based solution set up and equipped in collaboration between the industry, possibly on agreed open standards, which businesses then could customise for their products or services, run tests with public data sets or data provided by other firms through the virtual sandbox, and then invite firms or even consumers to try their new solution. In this environment, there is no risk of consumer detriment, risk to market integrity or financial stability while testing. A virtual sandbox could be used by all innovators regardless of whether they are authorised or not. It could be most useful for small start-ups who cannot build their own sandboxes. Technology companies seeking to engage with incumbents may also benefit, being accepted into a virtual sandbox may encourage more incumbents to engage with the new solution. This environment could also allow collaboration between a number of businesses and other interested parties (e.g. academia) to develop innovative solutions quicker and in a more informed way. TISA and the industry is well placed to set up a useful virtual testing environment itself. However, FCA would need to be involved, to facilitate collaboration between interested parties and provide support when the virtual sandbox is being developed. Outputs could be made available to FCA enabling access to the results of the virtual sandboxing activity.

The Umbrella Sandbox is less attractive to industry, due to the time it will take to set up and a regulated authority or company has to run it. It is worth noting that the appointed representative regime is not available for all regulated activities, so not all innovative businesses would be able to use the sandbox umbrella. For example, this regime does not apply to insurance underwriting and managing investments. These firms would need to use the restricted authorisation option described in Chapter 3 of the FAMR consultation paper to participate in the sandbox.

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

The sandbox testing and similar testing development work that TISA has undertaken with its Digital Identity project could help to identify these issues in greater detail.

However, the main consumer consideration is accessibility and ease of access to the automation and an understanding of whether what is being provided is information, general guidance or authorised advice, as referred to elsewhere in this response.

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

Already covered in responses to earlier questions.

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?

No response.

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

See response to question 31 above.

6. About TISA and TSIP

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investments world, extending our standing as trusted adviser over a much greater remit.

TISA has a successful track record in working cooperatively with Government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services industry, incorporating cross-sector policy, industry and technical expertise. Whilst we maintain a solid partnership with Government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

About TSIP

The TISA Savings & Investments Policy project (TSIP) is an unprecedented coalition of 50 leading organisations and includes building societies, banks, life companies, asset managers, advisers, professional service firms, all the key trade bodies and importantly, consumer groups including MAS, TPAS and Age UK. TSIP established by TISA in 2013 to develop policy recommendations that will re-establish a savings culture in the UK, with a focus on low and middle income households.

This group has developed a range of proposals[47] covering education, guidance, digital engagement, pension reform and Government organisation. TSIP also works with the broader TISA membership of 160 firms who contribute thought leadership through Policy Councils and Technical Committees and the combined expertise has been captured within this response.

[47] TSIP - Saving Our Financial Future Policy Recommendations, March 2015