THE NEW RULES OF ENGAGEMENT

THE FUTURE OF MEMBER FINANCIAL ADVICE
The change within the pensions and employee benefits market is arguably at unprecedented levels. The move from DB to DC, RDR, auto enrolment, pensions freedoms and lifetime ISA’s have all laid the groundwork for a very different landscape moving forward. Potentially offering the next wave of change is the impact of technology, no-more so that than through robo, AI or digital advice solutions.

We have already seen an adjustment in hiring needs within the market, whilst reports such as RBS shedding 550 jobs to be replaced by automated investment advice capabilities suggests the possibility of a significant ‘disrupter’ to the industry - both to the employment trends and also the nature of the services being provided to the market.

What is apparent is that there is a gap in the market that needs to be addressed, through automated solutions or otherwise.

For those with less than £50,000 to invest, it is well known that there is a lack of accessible advisory services, and that a significant advice gap has now emerged.

The Financial Advice Market Review (FAMR) has made its views known on a number of areas regarding this market arena - not least that new technology could play a major part in driving down costs, and outlining their support for technology’s ability to address this need within the financial advice market.

So, in an arena where financial planning has historically been built on relationships and an understanding of clients’ wants and needs – what does the future hold?

And, with the FAMR report now complete, what are the issues that the market experts are now debating?

To try and address some of these questions, we brought together a number of representatives to provide perspectives drawn from the consulting, asset management, life assurance and regulatory sectors to consider the current and future blend between the human and technological sides of financial advice. The discussions focused upon the challenges facing the robo-advice market at this time and how this market might evolve.
CONTRIBUTORS

Chair: Roger Mattingly, UK Managing Director, Pan Trustees
• Alan Ritchie, Head of Workforce Solutions, Standard Life
• Andrew Firth, CEO & Founder, Wealth Wizards
• James Verner, Commercial Director, Hymans Robertson
• Margaret Snowdon OBE, Chair of PASA and Non-Exec Director of The Pensions Regulator
• Philip Brown, Head of Policy, LV
• Rob Hudson, Head of Digital, Aberdeen Asset Management
• Roy McLoughlin, Partner, Master Adviser
• Sam Seaton, Commercial Director, MoneyHub
• Simon Dodds, Senior Consultant, Eames Consulting Group
Financial Adviser numbers are falling and according to a 2016 survey undertaken on behalf of The Association of Professional Financial Advisers, 69% had turned away potential clients in the last 12 months – the most common reason being affordability.

While there is no doubt that the Financial Advice Market Review (FAMR) looks to address the increasing need to support individuals with their financial future – discussing the issues around affordability, accessibility and liability - the general feeling of the representatives round the table was the recommendations were almost akin to a ‘note to self’ and too long term.

The advice gap is now, not in two or three years’ time.

“It’s going to take forever. We have around 20,000 IFAs left and there is no young blood coming through. The ones that are left are understandably cherry picking their business carefully which means there isn’t really anything available for that 22 year old who really needs some advice.”

Since the advent of the Retail Distribution Review (RDR) we have seen a shift in the market that has led to the creation of a financial advice gap, or as some might put it, a gulf.
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The use of cost effective, technology based ‘guidance’ could potentially be seen as desirable. From the provider point of view, aligning with the workplace would also provide benefits.

“The advantage of engaging with people in the workplace is that you have some data points that you can validate.”

“You know their salary, you know when they have had an increase, you know what sort of role they are in and you know what their pension pot is.”

However, there is a tension between what individuals want – and what they need. The psychological aspect of wants versus needs is interesting. “People don’t want their money to fall in value, they want to know what they are going to get when they reach their goal.” However, the issue is whether the solutions are positioned to provide what consumers demand – or what they really need – with a shared view that currently, there remains a slight disconnect.

What should be the focus, of course, is good member outcomes. But much of that depends on spending patterns. Consequently, technological tools really need to embrace not just the assets and income of individuals but also factor in the likely contours of expenditure as they go through life. The question is therefore – what bits of technology actually go towards filling this financial advice gap and do we need more algorithmic ‘bells and whistles’ in terms of future financial planning? Or is it something more straightforward – a guided architecture suitable for the mass market – and how will that blend with the human element?

There is a need for a clear distinction between guidance and advice.

One delegate outlined how they had used an online gamification journey to help people understand what their choices were. “We had over 22,500 users in a year so it’s clear to us that people will interact if you make it easy – and if you can somehow make the accumulation phase feel more short term.”

Another delegate shared an interesting issue he had experienced around auto enrolment where the HR department of a firm had asked him to help run a
communications session to deal with a lot of the questions employees were posing. "These were one-to-one sessions where employees were coming in with questions they had - partly from looking at the website, and partly from their parents or other family members. If people are actually engaging and asking those questions then it means that they have an interest in the subject. But I think you have to be careful with some aspects of robo-advice because it can’t give all the answers that you could get by simply talking to an adviser."

"Sometimes, it can be really basic such as explaining how tax relief works. You can go to a website but with a 22 year old it’s much easier with a real person and a whiteboard and talking it through. I often get questions such as ‘Where should I invest my money’ or ‘what happens if I move job’. If robo-advice takes over in the way that some people are suggesting then what will fill that knowledge gap?"

The other key concern with robo-advice is that how do you really know what has been absorbed from that advice, and what risk factors does this raise – particularly without clearer definition of advice versus guidance.

Some of the views suggested that there is perhaps a happy medium between robo guidance and human advice? LV’s Retirement Wizard tool takes people on a journey that is predominantly online. However, prior to the point that any transaction is conducted there is a conversation with an adviser to make sure that the person has understood that any data entered drives the outcomes.

But, could such a hybrid approach to advice sometimes become a roadblock?

"We talk about getting people engaged,” said one delegate. "But as someone looking for information, you may have taken some steps in trying to find some answers and are then told – ‘now you have to go and speak to your financial adviser’ – and then people are disengaged all over again. Guidance has enormous potential but we are fearful of the difference between the two and while the FAMR has taken some steps in acknowledging that that there may be a place for guidance, it doesn’t go far enough."
As one delegate put it: “When I take my car to be serviced, I have no interest in what they do or how they do it – I just want it done. But I also know people who do want to know the ins and outs. It is the same in the financial advice arena. You will have the 22 year old who just isn’t interested and they aren’t going to change – but you will also have the 22 year old who wants to choose their own funds because they are interested.”

We need different strategies for looking after both types of consumer.

If we look at segmentation we need to look at not only age but also advice focussed around life stages so that appropriate advice can be delivered against those particular events. Technology based platforms such as ‘Retirement Wizard’ is specifically targeted at the 55 + age group and the language used is also targeted at that group. There are certainly steps to work in this manner, but the question remains whether segmentation within the robo-advice industry is diverse enough.

One of the biggest problems with the financial advice sector remains its use of language, a view shared from every angle. “It is often impenetrable to the general public,” said one delegate. “Real consumers don’t understand it. If you take a range of providers’ literature and look at some of the words used – and the context – then it’s easy to see the problem. We know, for example, that people don’t like percentages but every provider uses them.”

“We just haven’t thought about the end user enough.”

“And we are now going down a blind alley as the industry is redefining language without actually talking to people – we’re just changing standard terms for new standard terms – it’s crazy.”
Typically that means getting people to think about issues that they naturally want to shy away from. As one delegate put it: “Words like retirement and pensions often give people the view that this is something about the end – about being close to death - and so there is an innate desire to back away from that.”

If we think about engagement in terms of an emotional commitment leading to a change in behaviour, we need to try and find ways to make people feel more comfortable about planning for their later life. One delegate likened it to buying a house. “It’s a really awful and stressful experience – but we still put ourselves through it because we are engaged by the end result.”

What auto enrolment has done in some ways is simply feed inertia. Many people do not realise that unless they put more money into the pot, they will simply not have enough money to fund retirement. Getting people to volunteer to save is a real issue.”

“That’s why I am quite excited about robo-advice” commented one of the delegates.

“Younger people are used to technology and so if you make the process inherently more interesting then you may find that people can be nudged in the right direction.”

So what are the drivers that would make people have that desire? One delegate felt that fear could be a strong motivator. “We are not good at showing people what life will be like if they don’t plan. They don’t understand retirement. They look at their parents who may have two holidays a year, they have a car and a house and they think that they can just follow suit. There does need to be a reality check.”

Is it about making everything feel more short term? The over 55 demographic is now beginning to access pension pots and so the take up of advice is much
higher. But engaging younger generations is more difficult.

Other delegates had a more modest ambition in terms of engagement. "If someone interacts with you once a year, that’s probably enough if you are giving them advice. If you can get the level of engagement you need in order to tell someone what they need to do then that is far less than you need than if you are going through a process where they are going to make all the decisions.”

"As long as we can get the data we need, then we can actually tell someone what to do – rather than show them a range of options. And there are some people who do just want to be told what to do. Historically that might have been ‘The Man from the Pru’ or an adviser at a local branch, a family friend or the IFA who used to come and see you but doesn’t anymore because he or she is too busy seeing wealthier people.”

There was agreement that it would be great to help people along the financial planning journey by using a series of nudges and probably the best example is auto enrolment. Nudges timed with salary rises encouraging people to increase contributions for example, could be effective. Technology led solutions could be well placed to harness this concept of nudges and encourage more engagement.

However, the delegates all felt that the regulators need to help with the concept. “The FCA is fearful about being held responsible for something that may go wrong later. They can be so worried about people being opted into something they don’t need and sometimes I feel that they haven’t looked at the difference between that and actually helping people get to where they need to be.”
Providers can offer certain segments of guidance - retirement planning for example – but as auto enrolment and pensions freedoms have highlighted, there is currently the need for a greater level of support. As things stand, one avenue to seek support has been through the workplace, and with some commentators suggesting that employers should receive tax relief to help fund financial advice.

Could we see another change in the market that might actually attract advisers back into the sector?

Some figures in the industry have also suggested that we could see a return to flat level commission structures so that every provider pays the same amount for the same type of product which would fund a discrete piece of work in the workplace.

However some delegates felt that the word commission had become tainted and favoured everyone being given, say, a £1000 voucher, funded by the Government. However, as one delegate pointed out, the Government has a conflict between growth and savings. “The problem is that the FCA gets very precious about everything having to have a cast iron guarantee behind it so that no one is really encouraged to make their own decisions about anything,” said one delegate.

Recent news reports have focussed on the fact that half the people eligible to access their pension pot have...
actually taken the whole amount and while that may be good for the Government and the economy, is it necessarily good for those individuals? In some cases the answer will obviously be yes – particularly if the pot was a small one. But there have been reports of half a million pound pots being totally withdrawn.

One of the main issues is that IFAs are no longer really getting involved in pensions advice. As one delegate pointed out: “If someone approaches an IFA with a pension pot of £50k, most would just not get involved. It’s about risk and reward. Given that there are only 20,000 IFAs, why would an adviser take that business when they could be advising someone with a £200k pension pot who may also need some inheritance tax planning, some estate advice and an annual review?”

There is also a lack of appetite amongst IFAs around the whole DB to DC transfer issue. The Government were very keen for people to have the option but one of the key issues was that IFAs needed a special licence to dispense the advice and only 3000 have it.

“The other problem is that you sort of know that the advice will be don’t transfer,” said one of the delegates, “when you know that most people will want to transfer. Often it is linked to mortgage debt – they think – if I transfer now I can pay my mortgage off more quickly – and then they run out of money later on. So in effect they are paying a fee for killjoy advice.”
China is a good example where the WeChat app had been further developed to link up with bank accounts so that payments can be made – and a ‘nudge’ can be given at the end of the month to ask whether the individual wants to transfer any money to their savings account.

Perhaps the financial advice sector could take some lessons from the FitBit craze. Vitality, is a great example of a brand that has managed to get data out of people by rewarding them for staying fit. There are rewards for the number of steps taken that is recorded through a wearable device – but the key is that the consumer does not have to input anything!

However, there was consensus around the table that in order for technology to be able to provide advice or guidance, there has to be accurate data around income, expenditure, their spouse’s income and expenditure, lifestyle and how much that lifestyle is costing. As one delegate said: “Can we envisage a time where there would be one segment of customer who would say - ‘ok – I don’t want to make all these decisions – I will give you access to all my data – I want to have an income of 2.5k a month when I retire and I want you to tell me how I can make that and part of that process will be me having a conversation with a qualified financial adviser once a year to ensure that I understand.’ Technology could really help shift that up a gear.”

Clearly access to bank accounts that would give most of the data that was needed would be the ideal and the Treasury is already behind a drive to deliver a new open API standard in UK banking. That may sound radical but people already use PayPal and Apple Pay – the younger generation won’t have a problem with it – it is simply the norm.

There was agreement that the kit to capture the data could be built but that there needed to be a distribution network. Experian, for example, captures 500 data points on spending patterns. If the data could be collected then interventions could be made based on what was known about an individual. “The problem is that we are only operating with about a tenth of the data and we need to get to the point where the client allows us direct access rather than having to input it themselves. When working with employers, for example, we get a certain set of data points but if they could consent to all their pensions information coming in that would be great – it's just that the passport doesn’t exist yet.”

What’s really needed is the ability to pull everything together as evidence suggests that half the population don’t even know what they are entitled to from a state pension point of view. The Dutch model is a great example of where it is compulsory to share your pension information and everything gets amalgamated into one system. While the FCA are exploring the concept of the pensions dashboard to move in this direction, some of the delegates felt that, with the realities of the UK market as it currently stands, it is likely to be voluntary and therefore patchy at best.
CONCLUSION

Whilst the FAMR report has rubber stamped its approval of robo-advice solutions and provided some recommendations as a next course of action; the market itself continues to drive forward in its own right, with a number of wider issues to address in order to meet demand and provide satisfactory solutions.

Engagement and market segmentation are seen as key to ensuring effective solutions.

The embryonic nature of this market means we are still only scratching the surface here. However, what we could see if this is done effectively, and with the right developments in technology and data usage, is that technology led services could potentially provide a step change in the ability to reach and engage different types of consumers regarding retirement and savings. **We are only at the early days in development of the robo-advice market**, but if we look at how data may help develop these solutions, and look at wider areas where technology and ‘apps’ have been embraced by the masses, then there is potentially a real capability to tackle the member advice gap as it stands.

However, this will link hand-in-hand with a shift in the cultural outlook of the regulatory authorities. For these areas to be a success it is deemed necessary for a shift in perspective from the current state of play that is perhaps seen as too restrictive. However, one could argue that we are beginning to see a slight change in this regard, most notably through the proposed FAMR review of ‘advice’ and ‘guidance’ concepts – a step in the right direction perhaps.

As for the death of the IFA, the general consensus was that these solutions should be complementary to the IFA’s services, and indeed potentially offer an opportunity to that market. At this time, and depending on the depth of advice or indeed ‘guidance’ the individual requires, the ability to access an advisor if required will be necessary. **Whilst technology will see some change in this market and an adjustment in hiring requirements**, it is deemed unlikely that we will see the complete replacement of an industry (IFA) sector by automated solutions.

Overall there was a great feeling of positivity towards the concept of digital-advice solutions, not only to address the pressing financial-advice gap, but also in the potential to contribute more widely to the industry through raising engagement and awareness, and perhaps taking a fresh approach that could reinvigorate the industry.
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