Summary
- Since the pension freedoms, the low numbers of people taking financial advice have become more of a concern.
- The government and FCA have conducted a review of the market to look at how to boost take up by addressing affordability and accessibility.
- A possible solution is 'robo-advice', which uses new technology to provide automated advice at an affordable price.
- However, this does not seem to be favoured by consumers and so an alternative option may be a hybrid of human and digital interaction.

Man and machine

The pension freedoms have propelled the issue of low take up of advice into the spotlight and new technology seems to be the solution. Natalie Tuck examines whether 'robo-advice' really can bridge the advice gap or if it's all just science fiction

A year on from the pension freedoms and the dust is beginning to settle. Recent figures from the Association of British Insurers note that the rush to encash pension pots is subsiding. The issue of low take up of advice, however, still remains.

It has been an issue for many years but the pension freedoms pushed it back into the limelight, with so much freedom even those with minimal pots could benefit from a little advice.

The latest set of data from the Financial Conduct Authority reports that between July and September 2015, 58 per cent of customers going into drawdown used a financial adviser and just 37 per cent purchasing an annuity used an adviser. The data showed that the smaller the pot, the less likely a person is to use an adviser.

Figures for the government's own guidance service are worse, with just 17 per cent of customers stating they used the service. However, it should be noted that providers are only required to record whether a consumer said they used Pension Wise when consumers are not using a regulated adviser.

The industry and government are rightly concerned, and have taken the action of a Financial Markets Advice Review (FMAR) – a joint review by the Treasury and Financial Conduct Authority – into the current state of the financial advice market.

As many in the industry expected, the FMAR found that the reason the uptake of advice is so low is due to affordability and accessibility. In addition, it found advisers themselves are concerned about future liability, which prevents them from giving advice today.

Intelligent Pensions marketing director Andrew Pennie agrees with the findings but deeper than that, he thinks "people don't value it enough". He says people's expectations of how much it costs are "unrealistic" because they don't understand the costs of professional indemnity insurance, the regulators and the general overhead of running a business.

However, he also thinks the regulator has not done a great job in promoting financial advice: "I think the regulator needs to step up in that regard and do more. I don't think there's a huge industry voice either."

Robo-advice

Regardless of the reasons, affordability and accessibility, especially for those with smaller pots, are the barriers that need to be broken. The answer to the problem appears to be 'robo-advice' or 'scalable solutions' as referred to by the Pensions Policy Institute and 'automated advice tools' by the FCA.

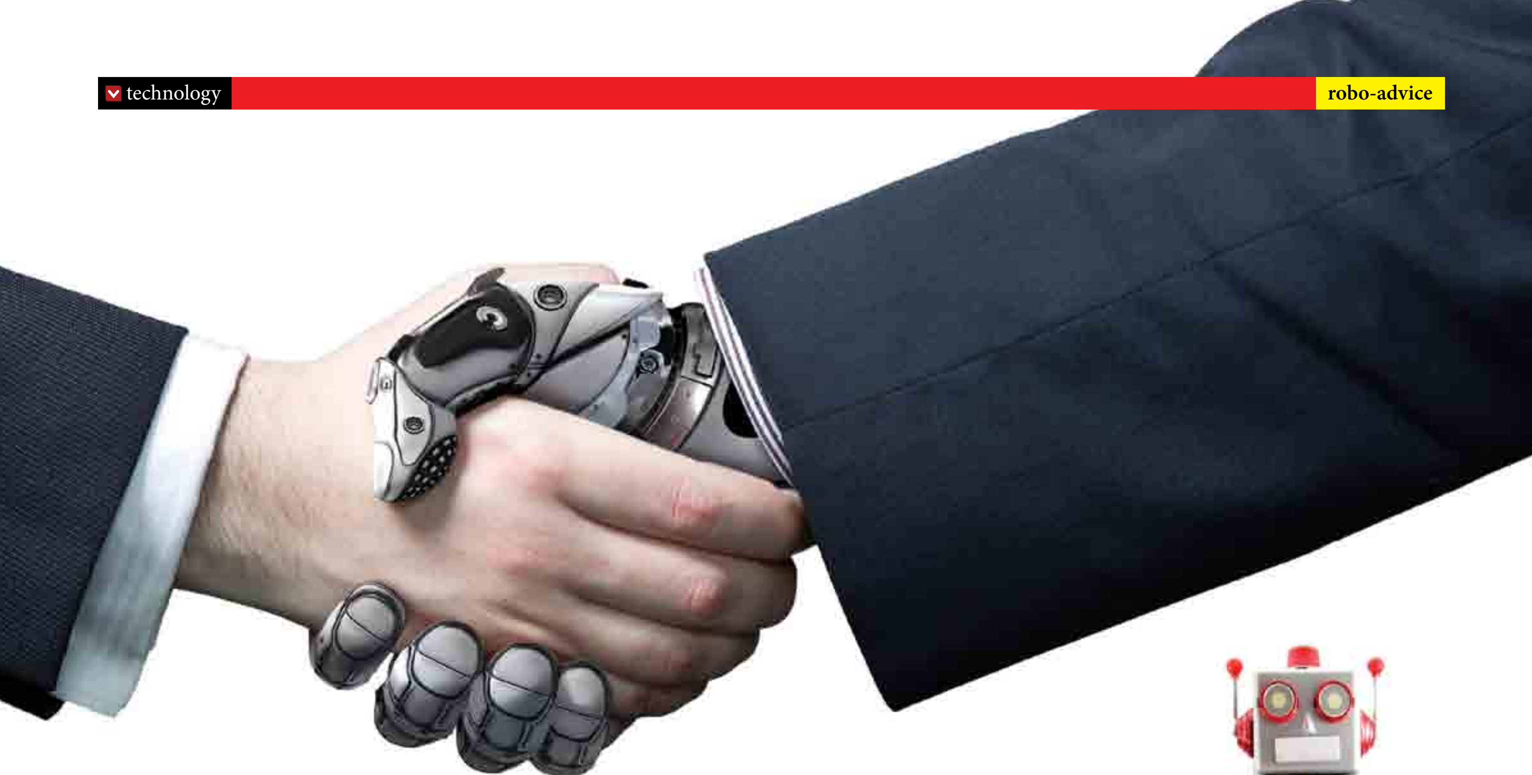
The FAMR notes that is has a "key role to play in reducing the cost of advice and developing new ways to engage customers". As a result, the review recommends the FCA and industry should continue to work together to develop new products. In particular, it suggest the FCA should build on its Innovation Hub, and set up a team to support firms in bringing new technology-based models to the market.

Robo-advice, for now, looks like the frontrunner. Recently, it was announced LV= has partnered with The People's Pension to bring 'robo-advice' to the market for the small cost of £49. The service, which usually costs £199, has been brought down for members of The People's Pension through the partnership.

Of course, the downside to 'robo-advice' is stark; it's a robot, not a person. Former Pensions Minister Steve Webb notes that people do not just want a "one off hit" but instead a "relationship".

"I'm not against robo-advice and we harness technology where we can and use technology to enable advisers to do more modelling etc. It's part of the world we're living in but it's not quite the silver bullet. It can do the more straightforward things more systematically and take a bit of the cost out."

Based on recent research, Webb is right. A survey of over 2,000 pension



scheme members by Ipsos Mori found just 14 per cent of savers would be likely to use 'robo-advice', whereas 44 per cent said personal interaction with a specialist would be their choice.

Price Bailey partner Tom Freeman, who commissioned the research, is not surprised. He says that at the moment 'robo-advice' remains "embryonic".

"New technologies will always take time to become embedded as the norm and 'robo-advice', in my view is no different. I think it will take a number of years before this becomes the solution of choice for many members as they continue to take comfort from what they know."

As he points out, with a lack of knowledge and a need for education, why would a member seek advice from a computer programme if they struggle to understand the questions that are being asked of them?

A hybrid-solution?

The FMAR said it wants to "support the development" of mass market automated device models that have the potential to "bridge the advice gap". It notes fully automated advice but also the use of a hybrid model, where human interaction is brought into the process.

This is something championed by Pennie, as it is the route taken by Intelligent Pensions. The service costs £150 and provides 'human' advice over the internet. The initial process uses 'robo-advice' to help filter the right people through, as he says some people do not need financial advice.

"We've got our own in-house modelling system, which we use to do the fact find, the modelling and build the reports for the client at the end of the day. It's driving everything down because we've invested in that technology and are able to benefit from that. It has to be online because as soon as you have somebody who has to get in a car and drive for two hours, you automatically increase the costs," he explains.

Alternatively, Pennie would like to see robo-advice be used as a "stepping stone" to taking full financial advice. He notes that with 'robo-advice', consumers may not understand what they have been told and don't have anyone to challenge there assumptions.

Instead of the government, for example, ploughing money into building their own 'robo-platform', he thinks they should look at what's already out there and see how they can "maximise their usage and output". In particular, he thinks it could have real potential for pension providers.

"If you can get 'robo-guidance', people putting in information about themselves and what they have and what they're trying to achieve, you can then start to really tailor the communications far more effectively."

In the short-term future a hybrid solution may end the argument of man versus machine by integrating the digital world with the comfort of a fellow human. However, perhaps in the future, long-term savers may sit down with a 'Workie'- style pensions robot, so intelligent and advanced, there will be no need for human financial advisers. Surely that really is science fiction?

Written by Natalie Tuck