Filling the gap

Summary
- Financial advisers have increasingly moved to online services due to Covid-19's social distancing.
- There is a capacity crunch, both with the number of advisers available and the number of people willing/able to access advice.
- Reputational issues, a lack of awareness, cost and confidence in their own decision-making abilities can be attributed to the low take-up of financial advice.
- The FCA's investment pathways will be of use to those approaching retirement that do not take advice, but are not a substitute for financial advice.
- Increased use of technology and hybrid models between guidance and holistic financial advice will shape the future of the sector.

As the financial advice industry settles into the sector's changes caused by the Covid upheaval, Laura Blows discovers how the pandemic has further highlighted the 'advice gap' and the developments required to ensure greater access to advice

Over four million UK adults accessed financial advice in the past 12 months, states the FCA's *Evaluation of the impact of the Retail Distribution Review [RDR] and the Financial Advice Market Review* report – an increase from the 3.1 million who did so in 2017.

This rise is not surprising, given the volatile financial circumstances generated by the Covid-19 pandemic over the past year.

"At the start of the pandemic last March, call volumes leapt by a third as people concerned about their financial position sought advice," OpenMoney advice team lead, Will Lenehan, says. "They levelled off over the second half of last year but so far in 2021, we have seen a 100 per cent increase in calls with our advisers as customers look to implement new savings strategies in the new year."

Yet the Personal Finance Society sees more of a mixed bag for its members. Almost 40 per cent of financial advisers reported a decrease in the number of new clients trying to engage their services since the beginning of the coronavirus pandemic, a survey of 128 Personal Finance Society members conducted in October finds, compared to three out of 10 who had seen an increase in the number of new clients wanting their help following the outbreak of coronavirus.

For those that were accessing advice, they – and their advisers – quickly had to get used to a new mode of communication in 2020.

"Advice has traditionally been a very face-to-face business, a holistic process talking to consumers about their needs and wants. So that has been a challenge for advisers, both with lockdown and not being in the office," former ABI senior policy adviser, Matt Burrell, says.

However, Aegon pensions director, Steven Cameron, notes that advisers quickly adapted to servicing clients through video calls, and "their cost-effectiveness means this will probably carry on post-pandemic".

While they may be receiving advice in a different way now from when the FCA's report gathered its data pre-pandemic, the association's report finds that 56 per cent of consumers reported being satisfied with the advice they had received (up from 48 per cent in 2017).

"Pension and tax rules can be complex and scammers can prey on the unwary. Events such as the pandemic are a reminder that the world can be volatile and professional advisers help prepare people for the uncertain future, including putting in place important documents such as Powers of Attorney and wills," Just Group group communications director, Stephen Lowe, says.

Capacity crunch

But not all people wanting to access the benefits of advice are able to do so.

According to the FCA's review, there are over 5,000 advice firms and 27,000 regulated professionals advising on retail investments and pensions.

However, 60 per cent of advisers

surveyed in Octopus Investments' recent *Bridging the Gap* report say they had turned away prospective new clients in the past 12 months.

It also found that 37 per cent of advisers are servicing 'somewhat more' clients than five years ago, and 11 per cent 'much more', with 28 per cent saying the same amount.

Of the 18 per cent who are servicing 'somewhat fewer' clients and 7 per cent 'much fewer', the main reason was the amount of admin involved not allowing time for new clients (48 per cent of respondents), with 38 per cent saying they were focusing on their higher-value clients.

So the pandemic may well have had advisers' hands full with existing clients.

"Advice firms are geared towards giving ongoing advice to clients, so they are prioritising the stable, ongoing relationships with annual reviews and advice for their existing client base," Charted Insurance Institute director of policy and public affairs, Matthew Connell, says, "especially in a situation where making new relationships over Zoom etc is more of a challenge than maintaining existing relationships."

The sector is already operating at full capacity, he adds; it is fully occupied serving its existing client base. "This should not be criticised but should be celebrated that people are being very well served by the adviser community."

"However, there is an issue around capacity," Connell concedes, as "the size of the adviser market is roughly the same since 2012 when RDR was introduced and had already slightly shrunk just before the implementation of RDR, so capacity is an issue. There are a cohort of retirees with much more complicated needs but the number of advisers not really different from before pension freedoms."

The average adviser has worked in the profession for just over 26 years, with a third having done so for more than 30 years, "so, it's hardly surprising that many are looking to retire in the next few years", the Octopus survey finds.

Twenty-nine per cent of advisers surveyed said they plan to retire before 2025, with a further 33 per cent expecting to retire before 2030.

New recruits seem unlikely to fill the gap in time.

"It takes a long time to train someone to be an effective adviser as there is not just the technical side but also being able to relate to clients and put them at ease," Connell explains.

The Octopus survey finds that only 22 per cent of university students surveyed had considered a career in financial advice. Forty-five per cent of those who had not considered it said they were not interested in a career in financial services.

As well as being a barrier to entering the industry, the poor reputation of financial services, with negative press coverage such as in the wake of the British Steel Pension Scheme or with contingent charging (which has recently been stopped however), may also be putting people off from accessing financial advice.

"When asked what first comes to mind when hearing the term 'financial advice', 'expensive', 'untrustworthy' and 'scam' were among the most frequent responses, Lenehan says of OpenMoney's *UK Advice Gap 2020* research, "with negative perceptions outweighing the positive, despite the fact that the vast majority of those who had taken financial advice in the past had had a good experience".

Consumer sentiment

Recent survey findings from Pimfa, the trade association for the wealth management and financial advice industry, show 90 per cent of consumers have never taken paid-for financial advice and 79 per cent of those who had not taken advice had no intention of doing so in the future.

While it attributes some of this to a lack of awareness of the benefits or need for advice, (arguably over-) confidence is another reason, with 62 per cent of consumers believing they did not need help managing their money.

These findings are backed up by the FCA's research, which finds that the most common reason given for not seeking full regulated advice was that people do not think they need it (67 per cent of consumers).

"However, we have found that people are the least confident about making retirement and investment decisions, so there is a disjoin with people thinking they do not need advice and when approaching retirement needing advice more than ever," Cameron says.

Quite often people assume they will not benefit from advice based on the savings they have, as they think their options are limited and they've done some initial reading online, Standard Life retirement advice specialist, John Tait, explains.

"They can also assume that advice is really expensive and that it is not worthwhile based on their retirement savings."

However, the issue is more complex than just cost, as even use of the free, impartial and independent Pension Wise guidance service remains far lower than it should be, Lowe states.

Indeed, OpenMoney's research finds 20.9 million UK adults who would potentially benefit from advice are unaware of free advice services or unable to access them, an increase of 1.1 million over the last year.

Investment pathways

For those not wanting/able to take advice, this month sees the launch of the FCA's investment pathways framework – four different plans designed to help customers reach one of four distinct retirement objectives.

Commenting at the time of their launch, LV= savings and retirement director, David Stevens, said: "Investment pathways are a sensible option for pension savers approaching retirement with straightforward needs and particularly, for example, where the customer doesn't have access to an advice service. The FCA investment pathways framework provides pragmatic and sensible simplifications to help customers understand their options and make their choices with both more clarity and less risk."

The FCA wants to encourage people without advisers to make an active decision rather than defaulting into cash or an unsuitable or high-charging fund, Lowe states.

"They are designed to be a backstop when other interventions have failed. Advisers will need to consider the availability of investment pathways when making recommendations and may find them suitable in a modest number of very straightforward cases. But they are a blunt tool and we don't see pathways competing against advisers who can tailor plans much more effectively," he says.

By simplifying pension decisions down to a limited number of routes, many people could miss out on an alternative solution which may be a better option for them. "Investment pathways just add another layer of confusion for many people and are a poor substitute for regulated financial advice," Lenehan warns.

Poor substitute or not, 33 per cent of advisers think they will reduce adviser demand, Aegon finds. However, 44 per cent of advisers believe investment pathways will have no effect on demand, and 11 per cent believe they will actually increase demand.

Future technology

There is certainly scope for a middle ground between the investment pathways and 'full' advice.

This month Pimfa called for fundamental reform of, and wider consumer access to, professional financial and investment advice, with suggestions including the creation of new lower cost advice services to provide effective financial advice to a wider market and provision of a regulatory framework to support such a simplified advice service.

In November 2020, the ABI also called for a fundamental rethink of the regulatory environment to facilitate new forms of advice and guidance so it is fit for purpose for the next 15 years. It recommended changes to shift the advice and guidance boundary and to enable customers to get advice that it is simpler and more affordable, or guidance that offers more help.

"At the moment you have either got 'full-fat' advice on an ongoing advice basis or just guidance," Burrell explains. "We would like to see something fill the gap in between a premium service and nothing; what we can do to cater to these consumers that would currently never be in advisers' remit."

The average adviser customer has over £150,000 of assets under advice, the FCA report states, with the 90 per cent of the market dominated by holistic advice.

Yet polling commissioned by the ABI found four times as many people wanted one-off financial advice (46 per cent) instead of the traditional model of ongoing fees (12 per cent).

The advice industry does offer a range of services, the FCA report acknowledges, from automated or robo-advice, to one-off specific advice, to ongoing face-to-face holistic advice, "but there is significant clustering around a few service types".

"Advice firms appear to face little competitive pressure to innovate and offer new, more affordable services, or to try to attract less wealthy consumers. Competition does not appear to be operating effectively in the interests of consumers," it adds.

The traditional adviser firm, building relationships through face-to-face and ongoing advice, is not likely to attract cost-sensitive 'Middle Britain' consumers with modest pensions, Lowe agrees. However, he expects automated advice and streamlined advice services to help with this over time as people become more comfortable using the technology.

The upcoming pensions dashboards, along with open banking "will change the game", Burrell predicts, as they will reduce the time taken on the 'admin' side, "allowing advisers to focus on the interpersonal parts that actually add value for the client".

Advisers are also expecting technology to play a greater role in their future work. Octopus research finds 76 per cent of advisers believe a hybrid model will be the future, with 74 per cent also saying that accessing financial advice online will become a key channel for younger clients to seek financial advice.

Covid impact

The move to online services as a result of the pandemic may help advisers adapt to the potential changes ahead.

"As time has gone on, advisers are still comfortable talking about finances over video calls," Connell says, "so there is more awareness that they can develop new relationships in this way, even with social distancing and lockdown."

In August 2020, *The Financial Reporter* reported on research from FundsNetwork that 55 per cent of advisers predict an increase in demand for financial advice within the next five years, as clients seek support in navigating challenges and economic uncertainty in the wake of Covid-19.

Skipton Building Society's January 2021 research backs this, finding that over 37 per cent of British adults wished they had sought financial advice in 2020 and almost 48 per cent say they are more likely to seek financial advice due to the pandemic.

"Technology is helping to extend the reach of financial advice into the 'Middle Britain' customer base so that greater numbers can benefit," Lowe says. "It is likely that the pandemic will increase people's use of – and confidence in – online solutions that give them a huge amount of control at modest cost."

Written by Laura Blows