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# Please Advise Me

Advice Gap in the UK Working Party

Presented by

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# Advice Gap in the UK Working Party

**Remit:** The working party was launched in 2021 to consider:

- Consider the emergence of an advice gap following the Retail Distribution Review (RDR)
- Consider the consequences of this gap
- Develop proposals to mitigate the advice gap and improve access to financial advice.

**Current Working Party members:**

- Chris Barnard (Chair)
- Burcin Arkut
- Robin Duffy
- Xinbin Xu





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# Background and introduction

# The Current Situation

The IFoA Stated in 2021 that “financial advice is not easily accessible and affordable to many consumers” and recommended “focus on improving the availability of high-quality, easily accessible guidance and information to better support people in making complex decisions about managing financial risks”<sup>1</sup>



Improving access to advice should be positive for the Life and Pensions industry. According to research, consumers in the UK who took professional financial advice between 2001 and 2006 enjoyed an average increase in their assets of nearly £48,000 (~20%) after ten years, compared to those who took no advice.<sup>2</sup>



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<sup>1</sup> IFoA (2021) The Great Risk Transfer: Campaign recommendations

<sup>2</sup> Unbiased (2022) The value of financial advice: how much is it actually worth?

# Why should the IFoA get more involved?

Key goal: Develop proposals to mitigate the advice gap and improve access to financial advice



IFoA: Designer of financial products and interest in improving confidence in financial services



IFoA: Promote financial engagement and inclusion; public interest initiative



IFoA: Financial profession with touch points across industry; our voice counts



**The IFoA should have a strong voice in promoting access to financial advice, guidance and support and promoting initiatives to mitigate negative consequences of the advice gap**



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# Is mitigating the advice gap really a good thing?

Belief in the effectiveness of “rational consumption” of financial services lacks empirical support

Persistence of biases in financial decision making

For many consumers, financial guidance increases confidence in financial planning

Too much asymmetry of information between firms and consumers

Regulation through consumer duty is a good start but may not improve access to guidance

Consumers generally do not serve as their own doctors and lawyers...

...and likewise should not serve as their own financial expert advisers

**Improvements in access to financial advice, guidance and support should motivate better outcomes for consumers**





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# How we propose to mitigate the advice gap (and its consequences)

# 1. Clarify the Advice / Guidance Boundary

- Provide firms with more certainty
- Firms can then do more under the existing framework
- The IFoA and FCA supports this
- E.g. the FCA states that “firms should not be reticent to provide such support simply because they are being overly cautious about coming closer to the personal recommendation boundary”
- According to the IFoA this “would need to be accompanied by a significant awareness campaign, to ensure that firms will feel confident to offer wider guidance options”





## 2. Flexible Remuneration Models

- Make the fee less central to the advice conversation
  - Not just available to more affluent customers
  - reduce the risk of having to pay for advice even if – for whatever reason – a contract is not concluded
- Allow customers the option of paying for advice via product charging
- Would need to be considered under a strong consumer duty umbrella: “allowing advice charges to be included within product or platform fees reduces transparency to consumers, and it is important that the total cost of products and services are adequately disclosed to consumers in any new fee models”<sup>1</sup>



### 3. Targeted Support

- Bridges the gap between information or guidance and regulated financial advice using limited personal information about customer and their circumstances to provide support and help consumers to make an informed decision
- This may be a more cost-effective way of offering advice to those who otherwise would not be able to access it. It would be less comprehensive than full advice, with a correspondingly lower cost
- Could also unlock access to the currently underserved mass-market and promote financial inclusion
- Consumers would need to understand this new type of support and that the product offered is for ‘people in your circumstances’, rather than an individually personalised recommendation



## 4. Utilise Consumer Duty

- In our view, consumer duty must remain at the core of how any specific product is chosen, presented and suggested to consumers
- Consumer Duty is the base that should ensure that consumers receive the support they need, the appropriate product type and investment choices to meet their needs, and including value for money and with good customer outcomes
- Should gradually improve customers' level of trust in advisers and the advice that they receive





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# Implications of our proposals

# Multiple benefits, for consumers and the industry

Expanding the reach of advice at lower cost may promote financial inclusion for the lower-income and wealth segment of the population. They are more inclined to engage with the financial services sector and less prone to buying products that don't suit their needs

On average, people may make more informed choices and only invest in products that are suitable and meet their needs with good customer outcomes

Customers will be more empowered to save, invest & protect

**No magic bullet to solve all issues raised!!**





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# Next steps



# Increase IFoA voice and presence in this arena



Establish a permanent Advice Gap practice area or panel



Be a supporting voice, sounding board and trusted partner with suitable organisations that are active in this area



Sub-areas to focus on retirement planning and financial education



Sub-area to focus on improving women's access to financial advice<sup>1</sup>



<sup>1</sup> IFoA research indicates that women are less likely to understand their pension savings, the charges they are paying in their defined contribution pension or access advice

**Thanks for listening!**





# Working Party Bios

- Chris Barnard is a senior actuary with Allianz SE in Munich, Germany with over 30 years' experience in the insurance industry. Chris has worked in the product development, pensions, finance and business steering areas, with a current focus on customer value and regulatory initiatives. Chris has held several overseas appointed actuary roles and is a member of the IFoA Life Research Committee.
- Robin Duffy is an experienced actuary, working for Gen Re in London. He has over 10 years of experience working in life reinsurance. Robin's areas of expertise are in pricing and research, and he has an interest in how the need for life insurance varies by market segment and how different segments might access life insurance products.
- Burcin Arcut has held various actuarial roles across the UK and in Europe for more than 25 years. He has worked with governments and regulators to help shape public policy across the insurance industry. Burcin is the Deputy Chair of the Life Board of the IFoA.
- Xinbin Xu is an aspiring actuary, eager to help and learn more in insurance industry. Xinbin had an actuarial internship in HK and now studying in Cass Business School. In this working party, Xinbin focus on technologies-driven solutions given his specific experience in software industry as a product specialist.



# Questions

# Comments

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