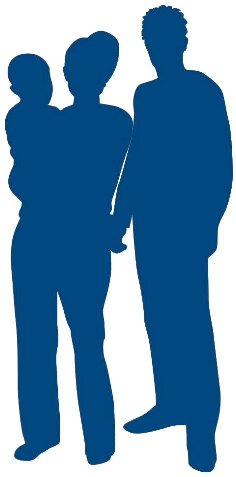
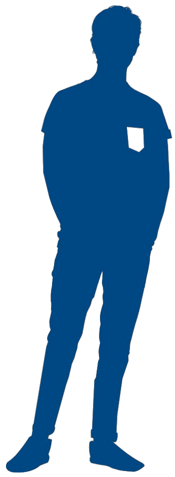
The Four Advice Gaps

An analysis of the unmet consumer needs around financial advice and public financial guidance





citizens advice

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Executive summary

Successive governments have attempted to improve financial capability, rates of saving among households and attitudes towards retirement planning. Those changes have become increasingly important to families' financial security as people are given more freedom and choice about how to manage their money.

The last government launched the Money Advice Service (MAS) and introduced tighter regulation of the financial advice sector through the Retail Distribution Review (RDR). These reforms aimed to make free money guidance more accessible and improve the quality and transparency of paid for financial advice.

The impact of those changes is now under review through the Financial Advice Market Review (FAMR) and the Government's consultation on public financial guidance. There are concerns that the provision of free money advice is not as effective as it could be and that the greater regulation of financial advisers has made it more expensive to access advice. That perceived price increase has led to what the government and others have termed an 'advice gap', affecting people who want to pay for money advice but can't afford to.

The breadth of the government reviews - looking at both paid for and free advice - as well as our research and experience, suggests a more nuanced reading of the shortcomings of the money advice sector is necessary. There is not a single advice gap, affecting those who want advice but can't afford it. There are a series of *gaps* which lead to a range of people missing out on the benefits of money advice and the security that it affords.

Using that broader definition, we have identified four advice gaps. They illustrate the complexity of the advice landscape and some consumers will fall into multiple gaps. Therefore, they should not be added together to produce one overall gap:

Figure 1: The four advice gaps

- **The affordable advice gap** affects consumers who are willing to pay for advice but not at current prices. Our research suggests that up to 5.4 million extra people would consider paying for advice if it cost less.

- **The free advice gap** affects people who want advice but are unable to pay for it. Up to 14.5 million people who think they would benefit from free advice haven't taken any in the past two years. The free advice gap includes:
    - 5.3 million people who have needed free advice in the past two years but haven't taken it.
    - 735,000 people who have tried to access free advice in the past two years but couldn't due to lack of supply.

- **The awareness and referral gap** affects people who are not aware that advice exists, or where to get that advice. As many as 10 million people who think they would benefit from free advice are not aware of public financial guidance. The awareness and referral gap includes:
    - 3.3 million people say they need free money advice but failed to get it because they didn't know it existed or where to get it
    - 3.4 million people have raised a financial issue with a trusted professional at some point but were not given help or were not told where to find it.

- **The preventative advice gap** affects those who would benefit from having money advice as a preventative measure. We found that as many as 23 million people have fallen into a preventative advice gap at least once in their life.
    - For instance, 39 per cent of people who have expected a baby would have taken money advice if it was offered.
    - 1.2 million people who have taken paid for or free advice in the last two years have not had the non-financial causes of those problems addressed.

Our research highlights that the wide ranging approach adopted in the government reviews of money advice is necessary, but that the notion of the 'advice gap' itself must be broadened if the provision of money advice is to be improved.

The need for free money advice will continue to exist alongside demand for paid for money advice; people are willing and able to pay different amounts, for different types of advice, at different times in their lives. Large numbers of people would benefit from access to both free and paid for money advice and, in a well-functioning system, they should complement each other.

Recognising that the need for free and paid for advice overlaps, that there needs to be a process of referral between them and that money advice is most effective when it works to prevent money problems, not just solve them, is crucial to improving the current system.

Over the coming months we will be building on this research to explore each of the four advice gaps in more depth to better understand how more people can benefit from high quality money advice.

Introduction

In 2010 as part of wider reforms of the financial sector, the government created the Consumer Financial Education Body. Funded by a levy collected from financial institutions, it was created to enhance public understanding of financial matters and help people to manage their own money. The service was launched publicly as the Money Advice Service (MAS) in 2011 to oversee the delivery of money advice and the funding of debt advice in England and Wales.

Alongside the creation of MAS, the Coalition government continued the work of the previous government of reviewing the provision of advice by financial advisers through the Retail Distribution Review (RDR). The review aimed to improve the service that consumers got from financial advisers.

The Retail Distribution Review (RDR) was conducted by the the Financial Conduct Authority (FCA). As part of the review the FCA made a number of regulatory changes which aimed to 'improve the interactions between consumers and the advice industry.' The changes had three goals: to improve the clarity with which firms describe their services to consumers, to address the potential for adviser remuneration to distort consumer outcomes and to increase the professional standards of investment advisers.

The key changes implemented by the RDR were:

- A new standard for what can be described as 'independent' advice and new requirements for disclosure when an adviser is only able to offer non-independent, 'restricted' advice.
- The introduction of 'adviser charging' which required advisers to disclose their fees when a consumer first contacts them and when the specific price to be paid is confirmed.
- Tighter rules and guidance on what constitutes an 'inducement' by third parties of advisers. Any benefits given by third parties to advisers or firms must be designed to enhance the quality of service to the client and not act as a 'soft commission' for an adviser favouring a particular investment product.
- Developing new qualification and continuing professional development (CPD) requirements for advisers.

The changes made by the previous government were a response to two things; a perceived lack of financial understanding among consumers and dissatisfaction with the conduct of the financial advice sector. They were also seen as a crucial aspect of giving people greater individual choice over major financial decisions in their lives, such as how to use their pension pots.

More recently, concerns have emerged around the consequences of the 2010 - 2015 reforms. Since 2013 the Treasury Select Committee, the National Audit Office and the

Treasury have questioned the value for money provided by the Money Advice Service, particularly in relation to the use of the money advice levy.[1] At the same time, providers of financial advice have expressed their own concerns that the regulatory burden of the RDR has pushed advisers out of the market and made providing financial advice too expensive for the vast majority of people.[2] In response to these concerns the government has launched the Financial Advice Market Review (FAMR) with the aim of making money advice accessible to a wider range of consumers.[3]

The review is taking a broad view of of how to make money advice more accessible, looking at how far regulatory changes could reduce the cost of providing financial advice as well as how the provision of free money advice and guidance can be improved. Throughout this report, in line with the government review, 'money advice' is used to describe everything from regulated advice to free guidance (Annex A provides a brief summary of the distinction).

With the aim of making money advice more accessible, the Government has drawn attention to a perceived 'advice gap'. That gap is regarded by some as an unintended consequence of the RDR. While the RDR's ramifications are not fully clear, it is blamed for excluding people from money advice by pushing up costs, making advice less attractive to high street banks and encouraging the intermediary sector to focus on wealthier clients.[4]

In the context of the breadth of the government review - which is looking at both the impact of regulation of paid for advice as well as the provision of free advice - the concept of the advice gap should be expanded to include not only people who have taken advice in the past but also those who need, or would benefit from, advice and don't get it, not just those who want to pay for advice and aren't willing or able to at current prices.

A broader definition of what constitutes the advice gap - to include the lost benefit of money advice, not just unmet demand - is able to incorporate the complexities of the advice people want and need, the inevitable overlap between free and paid for money advice, and the reality that paid for money advice can only go so far in addressing the underlying problem, a broad lack of financial capability.

Most of the original data in this report is based on a YouGov survey of 2,041 adults between 2nd - 5th October 2015. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). Any scaling up is based on figures for the Great Britain adult population of 48,358,351 taken from the 2011 census.

[1] Treasury Select Committee, (2013) Money Advice Service; National Audit Office, (2013) Helping consumers to manage their money; Farnish, C., (2015) Review of the Money Advice Service ('Farnish Review').
[2] Association of Professional Financial Advisers, (2014) The Financial Adviser Market in Numbers.
[3] HM Treasury, (2015) Financial Advice Market Review: Terms of Reference.
[4] Power, A., Cohen, S., Evans, P., (2012) Bridging the Advice Gap; Delivering investment products in a post-RDR world.

Four advice gaps

The affordable advice gap

Of the four gaps in this report, the affordable advice gap is the most widely recognised and discussed.[5] Our research found that just six per cent of people have paid for money advice in the last two years. The affordable advice gap is generally seen as affecting those consumers who are willing and able to pay for advice, but not at current price levels. Such a gap will always exist in a market with fees - it is the importance of money advice and the potential size of the gap which make it such a concern.

Though there is an ongoing debate around the exact impact of the RDR, the contention, particularly of those in the advice sector, is that the RDR has pushed some advisers out of the market and, by pushing up costs, forced those remaining to focus on wealthier individuals.[6] At the same time, demand has been affected as the true costs of advice have been made clear to consumers. The impact is that there are both 'excluded consumers' who have not taken advice before but would if it was cheaper, and 'lost consumers' who took advice before the RDR and now don't because it is too expensive.

Our research finds that up to 5.4 million consumers currently fall into the broad affordable advice gap - those who don't currently plan to pay for advice but would be more likely to do so if it were cheaper. This figure is in line with other existing research.[7]

We also know that people's willingness to pay for advice depends on the choices they are facing. Whereas more than one in four people (27%) would pay for money advice if setting up a business, just one in sixteen people would pay for advice if they had debt problems.

That willingness to pay is replicated in *how much* people are willing to pay. While 20 per cent of people would consider paying for advice when making an investment, just six per cent would pay £500 or more - a typical cost for simple investment advice.[8] This suggests that more than 2.5 million people could fall into the affordability gap for investment advice because they are willing to pay £100 - £500.

That varying willingness to pay, and how much people are willing to pay, means the impact of the affordable advice gap is not straightforward. The need for free advice exists alongside
the need for more affordable advice, and we turn now to provision of free money advice.

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[5] Europe Economics, (2014) Retail Distribution Review Post Implementation Review, reviews the literature.

[6] We will be publishing more detailed research on the barriers for consumers who would benefit from paid advice but can't access it. The FCA's post implementation review; Europe Economics, (2014) Retail Distribution Review Post Implementation Review states for instance, "RDR has not deterred a significant proportion of consumers from seeking advice.'

[7] In Bridging the Advice Gap, Deloitte found that number to be similar, 5.5 million, which included both consumers who have chosen not to access advice and those who are no longer served by advisers.

[8] If the typical cost of advice for investing a year's ISA allowance is £500. Unbiased estimate that a typical cost for investment advice on an £11,000 ISA is £450, see https://www.unbiased.co.uk/cost-of-financial-advice-guide.

The free advice gap

There is a far broader second gap affecting people who would benefit from free money advice (referred to as 'public financial guidance' in the Treasury consultation) and don't get it. While up to 4.5 million people have had free money advice in the last two years there is an ongoing need for greater provision of free money advice. There are huge numbers of people who have not taken advice and who need, or would benefit from it and who are not in a position to pay for it. In addition, as noted above, many consumers would benefit from free advice despite being willing to pay for advice and in some cases already paying for it in some instances.

Those affected by the free advice gap can be broken down into two groups:

- A small group of people who have tried to get free advice but have not been able to.
- A far broader group who would benefit from money advice but have not had it.

i. 'The service seemed stretched when I asked for an appointment'

The clearest impact of the gap in the provision of free advice is where people have tried to access it but haven't been able to. Our research found that the free advice sector is already under pressure; more than one in ten people who have taken free guidance in the past two years have seen symptoms of excessive demand. Overall up to 500,000 people may have experienced a delay or had to take an appointment at an inconvenient time while taking free money advice in the past 2 years.[9]

There is a larger group of people who have sought free advice but have not been able to access it at all. Of those who said they have needed advice in the past two years but have not accessed it, 14 per cent said they had tried to get free advice but had been told the services were too busy. This suggests that 735,000 people may have been unable to access free advice when they sought it due to overstretched services.

ii. 'I'm not sure what to do'

The second aspect of the free advice gap is broader, affecting everyone who needs, or would benefit from, some form of advice but doesn't get it. As noted above, crucial to understanding the free advice gap is the recognition that it doesn't affect a stable group of people but different people at different times and in different situations over the course of their lives.

Free money advice is not used by everyone who would benefit from it. We have found that as many as 14.5 million people who think they would benefit from free advice haven't taken any in the past two years. That includes 5.3 million people who said they have *needed* advice in this period but have not had it.

[9] The sample size is small due to the relatively low numbers of people who have had a bad experience of free money advice. We will be undertaking further research to better understand the experiences of this group.

Figure 2 illustrates the numbers of people missing out on free advice despite recognising that they should get it. The size of that group depends on how we define it.

Figure 2: The free advice gap

Taking the group of those who said they would benefit from free advice and have not had it, that means up to 14.5 million people are falling into the free advice gap. That includes the narrower group of 5.3 million people who said they have needed advice and not had it.

However you measure the group that are missing out on free money advice, three aspects of the reality of people's finances make that ongoing need apparent:

- There is a widespread lack of financial capability - our survey found that 28 per cent of people find managing their money difficult.[10]
- There are large numbers of people who are unwilling to pay for advice - over half (55%) of people do not think they will pay for money advice in the future.
- Many households are not in a position to pay for advice and are unlikely to be at a level that is profitable in the current market; 49 per cent of households have net financial wealth of less than £5,000.[11]

As well as the acknowledged complexity and fluidity of the group affected by the free advice gap, it must also be recognised that there is an ongoing need for free advice for those who are simply unable to pay for the advice they need.

[10] As a comparison, existing research by MAS found that 21 per cent of people did not feel confident managing their money, MAS, (2013) The Financial Capability of the UK.
[11] ONS, (2014), Wealth and Assets Survey - Chapter 5: Financial Wealth, Wealth in Great Britain 2010-12.

The awareness and referral gap

The third advice gap is caused by the lack of awareness of the money advice that is on offer. Large numbers of people miss out on the benefits of advice because they don't know where to get it, who to get it from or even that it exists. That lack of awareness is compounded by the fact that there isn't a fluid system of referral to point people towards the right advice for them.

This lack of awareness about money advice causes people to miss out on its benefits in two ways:

- Through a general lack of awareness of money advice, where to get it, or who to get it from - an awareness gap.
- Due to the absence of a process of referral to point people towards the advice that would be most beneficial to them - a referral gap.

i. 'I never even knew it was out there'

The general awareness gap affects both the free and paid for sectors. Large numbers of people who would benefit from advice do not access it, including those who think that they need or would benefit from specialist support. This also affects those who aren't able to find paid for advice despite 'hunting' for it.[12]

Our survey found that there is a low level of awareness that free, government-backed money advice is available. Just 45 per cent of people are aware that the UK government supports free guidance. Of those who said they would benefit from from it over half (53%) are unaware that the government provide money advice. That suggests that more than 10 million people who would benefit from advice may be unaware that free, government-backed money advice exists.[13]

This lack of awareness has tangible consequences for millions of people. As many as 3.36 million people who say they have needed free money advice in the past two years have failed to get it because they don't know that it exists or where to get it.

ii. 'Nobody told me about that'

The broad lack of awareness of the money advice that is available is compounded by the absence of a system of referral to point people towards the advice they need. The lack of consistent referral procedures and trusted sources of information affect those who raise money issues with people who are unable to help them, those who aren't sure where to look for advice and those who do look for advice but can't find it.

[12] Europe Economics, (2014) Retail Distribution Review Post Implementation Review, p.64.
[13] Of the 39 per cent of people who would benefit from free advice, more than half (53%) are not aware that the government supports free advice services. This means that 10 million people who would benefit from free advice are not aware the government supports it.

Referral already plays a key part in the money advice sector. Our research shows that of the 4.5 million people who have taken free advice in the last two years, nearly half (48%) of them found that advice after a referral:

- 22 per cent of people were referred by friends, family members or colleagues
- 17 per cent were referred by a non-financial professional
- 9 per cent were referred from another financial organisation

Where this feature of the advice system falls short is a lack of a system for those referrals. More than a quarter (26%) of people for instance have shared a financial issue with a trusted person or organisation (illustrated by Figure 3).[14] While many of these received help directly or a referral to someone who could help them around a third don't. This means that up to 3.4 million people who have raised financial issues with someone in a position of trust or responsibility have not had help or been referred on.

Figure 3: The referral gap - people who have ever raised a money issue with the following organisations

The lack of a system of referral also affects those who want or would benefit from paid for advice. Our research shows that up to 2 million people people who don't currently expect to pay for advice would be more likely to do so if it was easier to find. Similarly, 8.5 million consumers would be more likely to pay for advice if they could get help choosing an adviser. Better referral would help more people get both the free and paid for advice they need.

We believe that this represents a huge opportunity to make more consumers aware of money advice and to improve individual outcomes.

[14] We asked whether people had ever shared an issues with any of the following: Doctor or medical professional, Charity, Colleague, Employer, Jobcentre Plus, Landlord, Energy company, Local council, Government organisation (e.g. HMRC), Bank or other financial company.

The preventative advice gap

The final advice gap we have identified is the result of the failure of money advice to respond to the realities of people's lives. Public financial guidance tends to be delivered as a distinct service, separate from other events and challenges people face.

This shortcoming of the current system affects people in two ways:

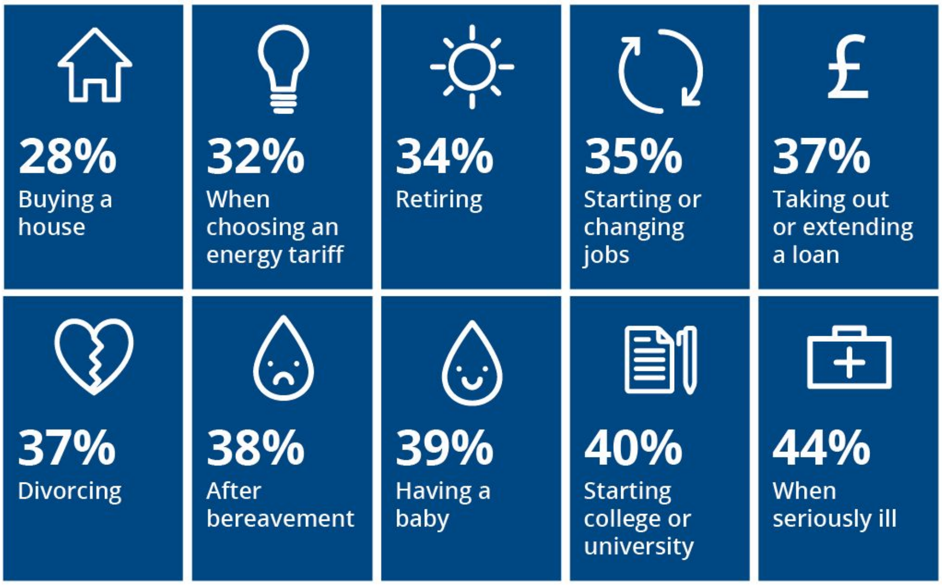
- People don't get money advice at key times in their lives to help them avoid money problems in the future.
- When they do get money advice, they don't get the *breadth* of help they need. Money advice often fails to deal with the broader non-financial causes of financial problems.

i. 'Back then, I really needed some help'

The money advice system currently fails to coherently offer advice to people at the times in their lives when they are most likely to need it. If advice is offered at key times it can help people plan and prevent problems before they arise.

We found that there is a significant demand for financial support at different key financial moments in people's lives.[15] Overall, we estimate that as many as 23 million people have fallen into the preventative advice gap at least once where they would have taken advice if they had been offered it during key financial moments.

Figure 4: The preventative advice gap - proportion of all people who would have taken money advice at these key moments[16]



[15] The key life events were: starting university, expecting a baby, expecting or changing jobs, taking our or extending a loan, buying a house, during serious illness, when divorcing, at retirement or following a bereavement or choosing an energy tariff.
[16] The percentage figures are of people who have been through each financial moment.

In some cases there was already reasonable provision, in other areas it was poor. For example, just 14 per cent of people had been offered financial advice when expecting a baby, but 39 per cent of people in that situation said they would have taken money advice had it been offered.

Taking the population as a whole, 48 per cent of people said they would have taken money advice at one key moment in their lives if they had been offered it. That equates to 23 million people missing out on the benefits of money advice at one stage in their lives. Figure 4 highlights the number of people who would have taken money advice had it been offered at key stages in their lives.

ii. 'My landlord keeps hiking up my rent'

Another limitation of public financial guidance is that it often fails to help people address other challenges they face which aren't directly *money* issues. Money touches almost every aspect of people's lives and that needs to be reflected in the advice people get.

Nearly half (45%) of the debt clients seen by Citizens Advice have at least one problem not directly caused by money issues, with housing, employment and welfare issues particularly common. For those people, getting money advice also means getting general advice. Even among clients who came to us with a serious problem that was not about money, 20per cent ended up getting help with with their debts.[17]

Our survey found that more than half of all people who have had money advice (both free and paid for) in the past two years had other issues beyond their financial ones.[18] For those who have taken free advice in the past two years and had other non-financial issues, 40 per cent had those problems dealt with, while a further 28 per cent were referred onto another organisation. This shows that positive efforts are being made to address people's broader problems. However that leaves up to 1.23 million people, 28 per cent of those who have had free or paid for money advice in the last two years, who have raised non-financial problems and not had those problems addressed. Those people are affected by a gap in the provision of preventative advice.

Put another way, money issues are often symptoms of other problems in people's lives. When people seek help with their money, there is a chance to help them with those wider problems. Failure to address the root causes of people's money problems means that those problems will remain even when the immediate financial concern is addressed.

[17] Citizens Advice, (2015) Unsecured and insecure? Exploring the UK's mountain of unsecured personal debt—and how it affects people's lives.
[18] These include problems at work, legal issues, issues with housing, issues with benefits, physical or mental health issues.

Conclusion

This report demonstrates the crucial importance of the Financial Advice Market Review and the Treasury consultation on public financial guidance. Currently, millions of people in the UK do not get the money advice they need each year and the reviews, which are looking at both the costs of providing paid for advice and the provision of government-backed money advice, are a recognition that responding to that problem must involve a range of solutions.

In light of the breadth of the reviews, the notion of the 'advice gap', should be expanded to include the gaps in the provision of money advice which are not simply the result of the discrepancy between the price of money advice and what people are willing to pay for it.

Our research from the consumer perspective found evidence of four advice gaps that cause people to miss out on the benefits of advice. Closing each of those gaps is essential to helping people and families make the right choices about how to manage their money and ensure their financial futures.

In order to close the four advice gaps the Government must work with the intermediary sector, financial institutions, consumer bodies and charities to ensure that the different needs of consumers of financial services are at the centre of the debate.

Over the coming months we will be building on this research to explore in more depth the reasons people miss out on money advice and to better understand how to ensure that more people get the benefit of high quality money advice.

Annex

Annex A - Advice and guidance

Throughout this report the term 'money advice' is used to describe everything from regulated independent financial advice to general money guidance.

In reality there are key differences, both between types of financial advice and between what constitutes 'advice' and what falls under the more general definition of 'guidance'.[19]

Broadly speaking, financial advice is regulated by the FCA and are authorised to provide suggestions to consumers of the best financial decisions for them.

Within regulated advice, there is a further key distinction between 'independent' and 'restricted' advisers. Advisers, under the rule of the RDR must disclose whether they provide independent or restricted services and independent advisers can provide information on a full range of products and services whereas restricted advisers will only make suggestions from a limited range of financial products.[20]

In contrast, 'guidance' is used to refer to the general provision of financial information and does not involve the recommendation of particular products or services. Guidance services are sometimes referred to as 'information only' services to make that distinction clear. There is also a distinction between public financial guidance - which includes information and guidance funded directly by government or by a levy underwritten by statute - and other financial guidance provided by charities such as as Citizens Advice and other organisations.

[19] HM Treasury, (2015) Public financial guidance: consultation.
[20] Some restricted advisers only offer recommendations on certain firms' products, whereas others only focus on certain areas of advice such as pensions.

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We value diversity, champion equality, and challenge discrimination and harassment. We're here for everyone.

Joe Lane and Thomas Brooks, October 2015

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