Written evidence from IFA at AISA Financial Planning [PPS0016]

I have been informed that you are collecting information with regards to increased costs and fee's facing UK Financial Advisers and the affect this could have on consumers.

This is a subject which I feel strongly about and took time to write to my MP Mrs Kerry McCarthy, Labour, Bristol East. She kindly wrote me a very detailed response as she feels the same way and has heard from others voicing their concerns about the same subject.

We are concerned about the increased costs facing the Financial Advice industry, which has been partly caused by the actions of our regulator, the Financial Conduct Authority (FCA).

For a number of years the regulator has been trying to improve consumer outcomes but has failed to do so and is therefore adding additional problems to consumers due to the increased costs facing financial adviser firms.

Recent Increase in costs

Our firm has encountered the following over the last 2 years:

1. The costs of PII cover has risen from £9,000 per annum to £42,000 per annum for no other reason than actions taken by the Financial Conduct Authority.
2. The costs of regulatory bills are now largely made up by Financial Services Compensation Scheme (FSCS) which means they total at £21,000 - more than our corporation tax bill.
3. The indirect costs of compliance (where third parties assist in making sure that we are acting compliantly with FCA rules) has risen from around £6,000 per annum to almost £12,000 per annum and we are now paying for individual file checks on "defined benefit" scheme file reviews.
4. We are now spending more time on risk analysis and assessment of this business, along with presentation of our procedures to third parties that is leading to us having to employ one person full time, not on advising consumers, but on meeting the requirements in order for us to retain the permissions to actually give the advice.

How these cost increases cause Consumer Detriment and increase the Advice Gap

The recent increase in FSCS and PI costs means that we cannot reasonably conduct business with the great majority of clients when it comes to providing full pension advice and at retirement planning.

Not only is this unsustainable to us as a business, it is wholly wrong for the consumer, and with other barriers to obtaining advice, it is not surprising there is starting to be a consumer outcry about obtaining pension advice.

The FCA in July published data suggesting that nearly all advice firms were now considering retiring from future advice in complex areas, and that profits were done across the industry in every sector in 2019 (before coronavirus)

New 1st October rules

There are new rules coming soon which are the most imposing and consumer damaging rules that many have ever seen within the industry. These are with regards to having to charge ‘non- contingent’ basis for some Pension advice such as the first part of Defined Benefit advice, but then no requirement for the second part.

It means that we may advise a client not to transfer their pension on the “non-contingent” element but have to charge a fee of a few thousand pounds for doing so. This can’t be good for clients and makes it very difficult to run as a business model. The FCA may say treat the charging of pensions separately, but again they contradict themselves as we are meant to consider all pension income in our calculations and outcomes.

So how do we treat 2 clients, one with a “non-contingent charging” product, and the other without, where the sums are identical. We will end up with different and confusing charging models, and this may not be classed as “Treating Clients Fairly”.

Alternatively, by inference, this could lead to “non-contingent charging” on all pensions, and this is going to result in further consumer detriment. The FCA may secretly harbour this ambition, or suggest that this is not their intention, but they clearly do not understand that clients approach an adviser for advice on all pensions, and not just one type.

It’s hard to believe that the FCA actually believe this will not lead to a further advice gap, and that it will actually improve consumer outcomes.

There is no logic or joined up thinking at all with respect to this matter, and I believe it will lead to a consumer outcry, and severely damage consumer outcomes, as well as the industry reputation.

Will we pull out causing further consumer problems?

Our firm which has for years conducted this advice is now considering retiring itself from the market. This is not a zero-result outcome for us or our current clients, or consumers in general.

First as firms pull out of the market, it is reducing the ability for consumers to access advice further. After pulling out, we would not be immediately reducing our FSCS and PII costs as they are maintained, and therefore with costs maintained, we would have to make savings, and almost certainly that means staff losses as our overall turnover reduces.

Current Position – Consumer detriment and firms destroyed

The situation has now a serious problem as the FCA just seems to be taking actions to appease negative publicity, and passing all its costs onto firms and individuals such as ours.

The disaster in 2020 is consumer detriment both in terms of fees they pay and access to a service, a key important service, that being financial advice, pension and investment advice when approaching or at retirement.

A consumer, for example, with a small guaranteed pension scheme is now priced out of the market for advice and is no longer able to access best outcomes. At the same time, firms such as ours are in a situation of year on year increases in regulatory costs wholly through the actions of the FCA and nothing to do with ourselves, with increases of around 250% over the last 18 months alone.

If there is another industry where the mistakes or scams of operatives are entirely picked up by those who are not making mistakes or scams, then I am unaware of it. Even in other countries around the world this is not happening thus making the UK increasingly uncompetitive at a time when, post Brexit, it needs to be competitive financially.

The FCA has made the investment and advisory sector of the UK into one where successful honest business, and their hard-working clients, pick up the bills of dishonest business and irresponsible clients. Not only that, they are doing this for irresponsible clients living outside of the UK! Our director has paperwork from 2018 from the Treasury to support this statement.

What is worse is that the regulator not only recognises this, but actually takes pride in destroying honest business in the UK whilst compensating clients of business where neither party is in the UK or have ever paid towards any compensation funds or insurance costs.

The Financial Conduct Authority stand accused of actually penalising upstanding investment
firms with the regulator's own errors of judgment and failures to regulate or take actions.

Garry Heath, director general at the IFAA, has warned that consumers are now paying 20p in every pound of their advice fees for regulatory bills, which he said was only set to increase. Our own business is paying FCA, FSCS, PII and enforced regulatory costs including accountancy bills of in excess of 14% of turnover before expenditure or tax.

Consider HMRC and understand that tax raised by the revenue for both Corporation Tax and Employee tax or dividends, is being drastically reduced as a result of fees being paid to a regulator to compensate clients who do not even live in the UK. We are in a scenario were British tax take is being affected by FCA failures.

Knock on effect on staff and jobs

Essentially it is now getting to the point where increased costs are paralysing the lifeblood of most financial business. Increases in costs driven by the regulator are far more damaging, as the FCA at the same time is making continual requirements to increase capital adequacy and hold cash.

It means that during the coronavirus wave we had to furlough staff, that we would not have had to if we were not paying almost £100,000 on behalf of failures of the regulator to do its job.

It means after coronavirus we are unable to take on those unfortunate to be unemployed and expand our business. We have to let go of one staff member directly as a result of regulatory costs coming through right now.

The FCA in July 2020 published its own data on profits from all sectors of the financial services sector. In every sector profit was down through 2019. This is pre-coronavirus. You must understand that imposed regulatory costs are unsustainable already leading to us having to let go of a member of staff.

Consumer benefit or detriment?

This high cost of regulation is not only making us a firm with no capacity to grow, it is ensuring that we only have one option when charging consumers. That being fees are likely to rise.

Every part of what the regulator does is so one sided, without recourse to its own errors, it justifies every new rule or idea as being consumer driven and of consumer benefit. In fact, it is the opposite.

It is now impossible for us to advise clients where we cannot charge a minimum fee that puts advice beyond the ability of anyone other than the wealthy to pay. The FCA response to this is we could consider offering "gratis" advice on a select basis, or lower cost direct services.

However, it then talks about Treating Customers Fairly and not subsidising the advice of one client with fees from another.

The regulator, then also restricts and charges us according to criteria which are "contingent" and percentage charging, whilst telling the financial community that we should not charge clients "contingently" or flat percentage. It advises us to consider the idea of scaling our charges according to service, or charging flat fees for services, whilst it does none of these things itself.

Consideration and request for action

Most people in the FCA have never even worked in the industry; whilst they see this as potential positive detached overseer, I perceive them as having no understanding whatsoever of how business operate or what consumers really desire when they are seeking financial advice at retirement.

The FCA:

1. Need to suspend the 1st October 2020 new rules on non-contingent charging =until they have clearly considered the consequences to consumers approaching retirement who need advice but cannot afford to pay for bills irrespective of outcome, and
2. They need to change their FSCS funding model with a matter of urgency, and that the FSCS fund and FOS revert to what they were originally setup to do and only cover UK resident clients and business, and
3. They need to cease an active campaign on PI companies and start listening to their concerns with regard to the way they are insisting firms with good reputations pick up the bills of firms that have already left the industry and provided poor advice as a result of lack of regulatory oversight.

It is frustrating to see the FCA charging the hard-working advisers of good firms, for the negligence of poor advisers who are no longer in the industry.

Should you wish to contact me regarding these matters then I would be happy to discuss them with you and hopefully some action can be taken towards reducing the detrimental effects that the FCA decisions are having on the UK advice market.

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