

ABOUT APFA

The Association of Professional Financial Advisers (APFA) is the representative body for the financial adviser profession. There are approximately 14,000 adviser firms employing 81,000 people. 40% of investment and protection products are sold through financial advisers, with annual revenue estimated at £3.8 billion (£2.2 billion from investment business, £1.2 billion from general insurance and £400 million from mortgages). Over 50% of the population rank financial advisers as one of their top three most trusted sources of advice about money matters. As such, financial advisers represent a leading force in the maintenance of a competitive and dynamic retail financial services market.

Summary

The views below are based on discussions with advisers and some limited survey work we have conducted since the introduction of the reforms in April. We would be happy to come and present oral evidence on the issues below or others that the Committee would like to examine.

Overall, the adviser profession has seen an increase in interest in financial advice, but at lower levels than the numbers contacting pension companies. Advisers report that there has been a material increase in the volume of pension transfer activity and in the use of income drawdown as a retirement income strategy.

Clients are using the pension freedoms to access funds in their pension, typically using tax free cash, to meet a range of other needs. These include to help-out other family members, fund home improvements, pay for travel i.e. holidays, and for debt reduction or redemption. The majority of the fund is then being left untouched in drawdown, with no income being taken. In essence the ability to take the tax-free lump sum without having to purchase an annuity seems to be appealing.

Advisers have expressed concern about the decisions people will make on unadvised basis. The increased flexibility has created more confusion and complexity for consumers, particularly with regards to taxation of ad hoc withdrawals, death benefits and the interaction between drawing benefits under a 'flexible' arrangement and paying future contributions. Clearly, the need for advice has increased and this has been borne out by the increased number of enquiries, although some are unwilling to pay fees for what they mistakenly regard as merely providing an 'administration' function. Typical fees, which may range from £600-1000 for initial advice, will be prohibitive for many, especially those with smaller pots.

Different approaches from pension providers have proved confusing for consumer and adviser alike. Whilst it is understandable given the different bespoke legacy IT systems that providers will be running, it has nevertheless created challenges for advisers in dealing with clients and their needs. Advisers report that some providers are proving obstructive to clients accessing their money by refusing access unless the client has actually taken advice.

The take up of the government's Pension Wise service is reported as relatively low. We believe it needs to be given more prominence in communications from pension providers and the service itself needs to better explain the benefits of taking financial advice. Where the cost of the service is obviously a barrier to take up, it is important for prospective clients to understand that a conversation with a financial adviser costs them nothing until they have agreed a fee.

The cost of regulation is a significant driver of the price clients pay for advice. From APFA's cost of regulation report¹, we have estimated the average client pays £170 for regulatory fees and compliance. We are updating the 2014 report now and the results will be published in September. Should the Committee consider it helpful, we are of course happy to send them a copy of the latest report once we have it.

Financial Advice Enquiries

People seeking financial advice as a result of the pension reform can be viewed in 3 ways:

- a) New clients seeking advice;
- b) Existing clients looking to change their plans; and
- c) New clients having to seek advice to access DB pension schemes or other safeguarded benefits.

In a survey conducted by NMG on behalf of APFA in July 2015, the majority (87%) reported new client enquiries (all types of enquiry) as a result of the pension freedoms. The average number of enquiries an adviser received was 8. Not all enquiries will have resulted in the person taking advice and not all will be unique. A rough and ready calculation (which must be considered very approximate) suggests that overall the number of enquiries to financial advisers from pension reform to be around 150,000². To provide some context, in the early weeks pension providers were receiving 200,000 calls a week and the FCA reported that by the start of July 60,000 had taken advantage of the new freedoms.

Some advisers have said they are not that interested in new clients from pension reform, either already having as many clients as they can cope with or seeing such clients as being incompatible with their business model. An indication of the numbers of advisers seeking new clients can be taken from registration with the MAS Retirement Adviser Directory. In the survey, 29% said they were registered on the MAS directory and a further 30% said they were considering registering. However, the remaining 40% said they have no plans to register. Managing new clients is important to a number of advisory businesses that are set up to deal with particular types of client and wish to keep their business focussed on their target segment.

The enquiries that have prompted the most concern are from those that are required to seek advice because they wish to either transfer from a DB scheme or access some form of safeguarded benefit. There are differing approaches amongst advisory firms:

- a) firms that are willing to take on new clients;
- b) firms that are concerned about the lack of clarity from FCA/FOS about the potential liabilities that might arise and so do not wish to take on business of this type;
- c) firms unwilling to transact such business (as (b)) with new clients but will advise existing clients;
- d) firms that are not interested in new clients from pension freedom.

In our survey, over half (55%) reported they had had a request to advise on a DB to DC transfer. Most report enquiries with potential clients calling up to request "a letter" but who have no interest in actually engaging with the taking of advice. We have had a couple of enquiries at APFA itself from people who have been unable to find someone willing to advise.

The reasons for this are varied. The principal concern relates to the potential future liabilities that may arise from people taking and spending all their retirement assets and then

¹ APFA Cost of Regulation 2014 <http://www.apfa.net/documents/publications/apfa-cost-of-regulation-june-2014.pdf>

² Assuming c. 23,000 financial advisers

complaining they weren't told of the risks. Advisers with long memories are reluctant to advise anyone wanting to leave a DB pension scheme. Some also consider those that are only interested in ticking a box to access such pension assets as unattractive as clients. If your business is aimed at developing long term relationships with a client base that you know well and you are a trusted and respected confidant, then providing advice on a one-off basis to someone who has little interest in what you have to say does not fit your business model and may be an unrewarding experience.

There is a further issue for those willing to advise on a transfer: do they help the client effect the transfer if they have advised against it (a so called "insistent client")? The FCA has issued some guidance on the issue but in our view it falls short of what is needed. The FCA has previously been cautious about the concept of "insistent clients" (rightly) as they consider it would be unusual for clients to override a financial adviser's recommendation. If you have sought advice, you are likely to take it. Being an insistent client leaves you without the protection a consumer accepting the advice would have.

However, the situation in respect of DB transfers is different; the process is designed to facilitate people doing what they want even if it is against the recommendation of a financial adviser. The process uses taking financial advice as a protection to encourage people to reflect on taking the benefits, but ultimately leaves the choice to the individual. In our view, in such cases a client going against a financial adviser's recommendation is likely to be common and the FCA and FOS should be clear that there is no risk in assisting a client in such circumstances. However, the lack of certainty means that even if they advise on the transfer, some advisers will be unwilling to then administer a transfer.

The cost of regulation

One of the principal drivers for the price of advice is the cost of regulation, with firms incurring significant direct and indirect regulatory costs. APFA's Cost of Regulation report found that the entire financial advice sector spent almost half a billion pounds on regulation in 2013. The cost to each client is an estimated £170 a year. We are currently updating the report for 2015 and it will be published in September.

The current framework creates significant problems regarding the liabilities advisers face and the compensation costs, as demonstrated, for instance, by the availability of professional indemnity insurance. In recent years a number of providers have exited the market and prices have increased, exclusions widened and excesses increased. The combined levies to provide compensation through the FSCS for the current financial year for pensions and investment intermediation (financial advisers) are £216m. The retained profit for the financial advice profession in 2014 was £171m³. If the levies continue at this level there is no capacity for firms to invest in the future. Advisers also have concerns about the way in which the Financial Ombudsman Service handles complaints - we recognise the need for a dispute resolution service for consumers, but advisers need to have confidence in the way complaints are handled. Another problem is the lack of a limit on the length of time during which a complaint can be brought - the lack of a "longstop". These uncertainties around liability deter investment, which has a knock-on impact on the ability of the profession to attract funds for expansion and, thus, the capacity to provide broader consumer access. For advisers involved in sole traders or partnerships the effect of unlimited liability means they carry the liability for advice given until their death.

³ APFA Financial Advice Market in Numbers 2015

http://www.apfa.net/APFA/Policy/Campaigns/The_Financial_Adviser_Market_In_Numbers/APFA/Policy/The_Financial_Adviser_Market_In_Numbers.aspx?hkey=ee6e83cd-7715-43ac-be0b-b24c94e063a0

The cost of regulation is a driver for the price a client pays. As a specific issue, we believe it should be addressed by the Treasury/FCA Financial Advice Market Review but we raise it here as being relevant to the scope of the Committee's inquiry.

APFA

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