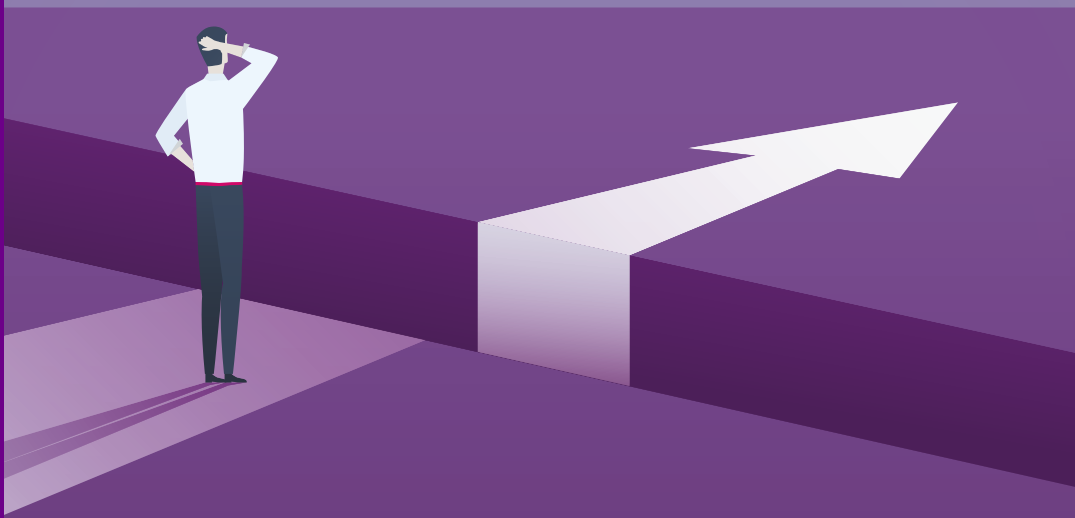
Financial Services Compensation Scheme

FSCS CONSUMER RESEARCH:

Attitudes towards Financial Advice



Promote is a key part of the Financial Services Compensation Scheme's (FSCS) strategy. Our ambition is that the full range of FSCS protection is known about and trusted. Promoting the protection we offer helps consumers to make informed and confident financial choices. Our Promote to Prevent work centres around raising awareness and helping reduce consumer harm which is driving up FSCS's compensation costs.

This Consumer Research series aims to share the results of our exclusive research on consumer attitudes towards financial products and services. It helps us, and stakeholders across the financial services sector, to identify gaps and opportunities to provide consumers with the essential, accurate information they need about FSCS protection.

FSCS can pay compensation when financial firms go out of business. FSCS can protect deposits, insurance policies, some investments, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), pensions advice, payment protection insurance (PPI), debt management plans and funeral plans. For more information on what we cover, visit our website.

Funded by the industry, we are independent and our service is free to use.

January 2023

www.fscs.org.uk

Why are we interested in financial advice as a topic?

Welcome to the third in our series of FSCS research papers where we share insights from our exclusive consumer research, highlighting opportunities for us all to improve consumer outcomes.

Financial advice comes in many forms. When we talk about advice at FSCS, we are usually referring to the regulated activity of 'advising on investments'. In the 2021/22 financial year, once you exclude claims volumes from large insurance failures, around 85% of our claims involve this activity. In the same year we paid more than £400m in compensation for poor investment advice, around 70% of the total compensation funded by levy payers.

When consumers talk about advice, it can be a bit broader. Advice is often sought in connection with investing for the future, particularly pensions, or after receiving a lump sum such as inheritance. It can also be used to help choose the right mortgage or insurance policy or even just the best place to put your savings. Our research shows that the distinction between advice and guidance isn't clear for many consumers, perhaps as their primary concern is not the definition but the quality of the outcome.

Why it's important

Even if the outcome is what's most important to consumers, the definition of advice and guidance does matter – especially as only the former has the potential to be protected by FSCS, up to our compensation limit of £85,000. It is clear consumers need the right support to engage with financial services, especially when they are facing into complex options for large sums of money such as their pension savings.

> The definition of advice and guidance does matter – especially as only the former has the potential to be protected by FSCS.

Getting good quality advice is vital, and there has been much debate on the boundary between advice and guidance and the 'advice gap', whereby many consumers simply can't afford to access regulated advice or don't have enough saved to make it viable. To help address this gap the Financial Conduct Authority (FCA) recently opened a consultation on 'core investment advice', a simplified form of financial advice which would be protected by FSCS that consumers could access to make their first move into investing via a stocks and shares ISA. The FCA have also committed to review the advice/guidance framework more broadly.

Sadly however, too many people who do choose to pay a regulated adviser are getting advice that isn't suitable for them. Over the last five years, FSCS has declared more than 330 firms in default who were offering advice, which means FSCS has received at least one valid claim against the firm, where a former customer was eligible for FSCS compensation. This type of failure must reduce if we want to see a sustainable reduction in FSCS's compensation and thus the levy burden on industry.

As with all the research in this series, we conducted it to help us with our communications activity – better understanding consumers' attitudes and habits around financial advice helps us raise awareness of FSCS's protection in this area and what consumers may wish to consider when looking for support in managing their money. I hope you find the results interesting, and we would be happy to discuss them with you if it would be useful for your own work. You can find our contact details on the back page.

Lila Pleban
Chief Communications Officer

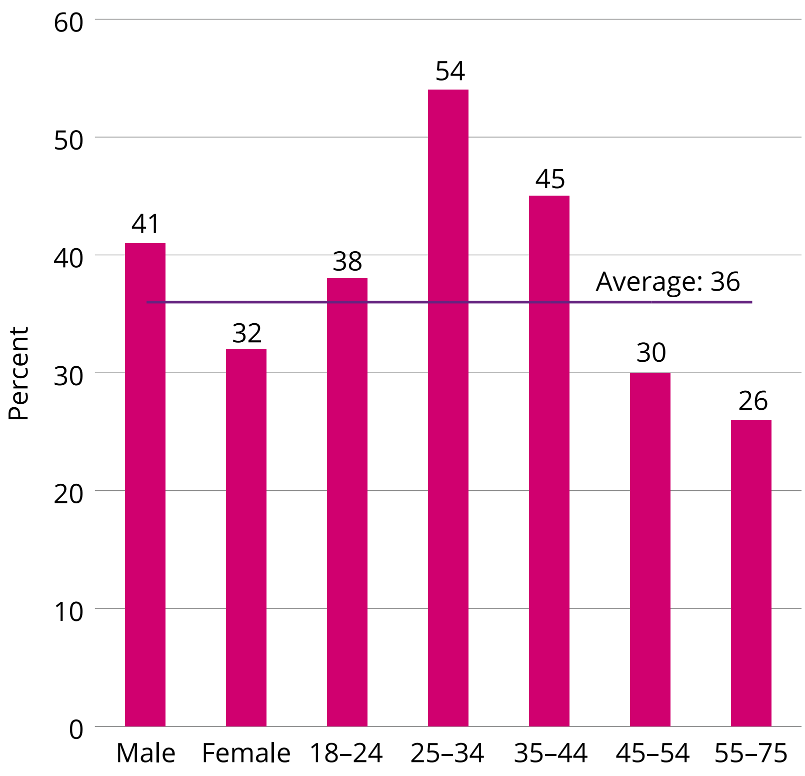
Who is taking advice and what for?

When we look at the demographic of our customers who claim for poor advice, the majority are men, and they typically fall within the age range of 45–65. Given we know that people tend to claim with FSCS five or more years after the event, this suggests that a typical client of a financial advisor might be male and aged 40 or older.

The research showed that overall, just over a third of participants (36%) who had savings, investments or a mortgage had sought financial advice within the last five years. This figure was higher for men than women, 41% and 32% respectively. The age range however skewed younger than our own customer base, peaking in the 25–34 range with 54%. This could suggest that these younger groups are taking more unregulated advice and guidance which would not be protected, which would not be protected (which we discuss later on in this report), are confused about the definition of advice, or potentially are less aware of their ability to make an FSCS claim.

Figure 1: Use of financial advice, by demographics

"Which, if any, of the following have you personally sought in the last five years? - Answered 'Financial Advice'."



Base: 1,660 UK adults aged 18–75 with investments, savings or a mortgage

Source: FSCS/Ipsos, August 2022

KEY FINDINGS

36%
of participants who had savings, investments or a mortgage had sought financial advice within the last five years – 41% of men and 32% of women.

23% who sought advice but not from a regulated financial adviser said this was because their savings and investments weren't large enough, 23% also said it was because they already had enough information, and 22% said advice was too expensive.

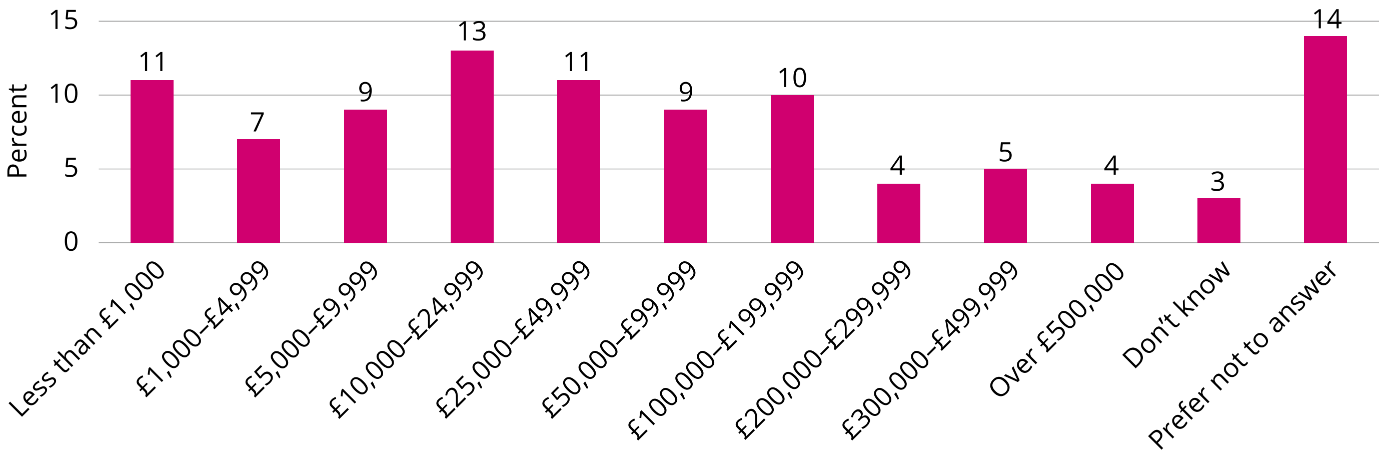
80% of adults with financial products agreed that there should be affordable ways to access professional financial advice.

21% of adults with savings, investments or a mortgage didn't know how much money they would need to have at stake to make paying for regulated advice 'worth it' for them.

A similar proportion of participants who currently have savings or investments – around a third (32%) – reported having £50,000 or more put away for the future. It is possible that there is a correlation between the amount of money 'at stake' and the likelihood of someone seeking advice.

Figure 2: Value of savings and investments

"Approximately, what is the total value of your savings and investments? Please include all of your personal or joint savings and investments, such as saving accounts, ISAs, shares, bonds, etc. and any savings held in a pension. Please exclude the value of your main home."



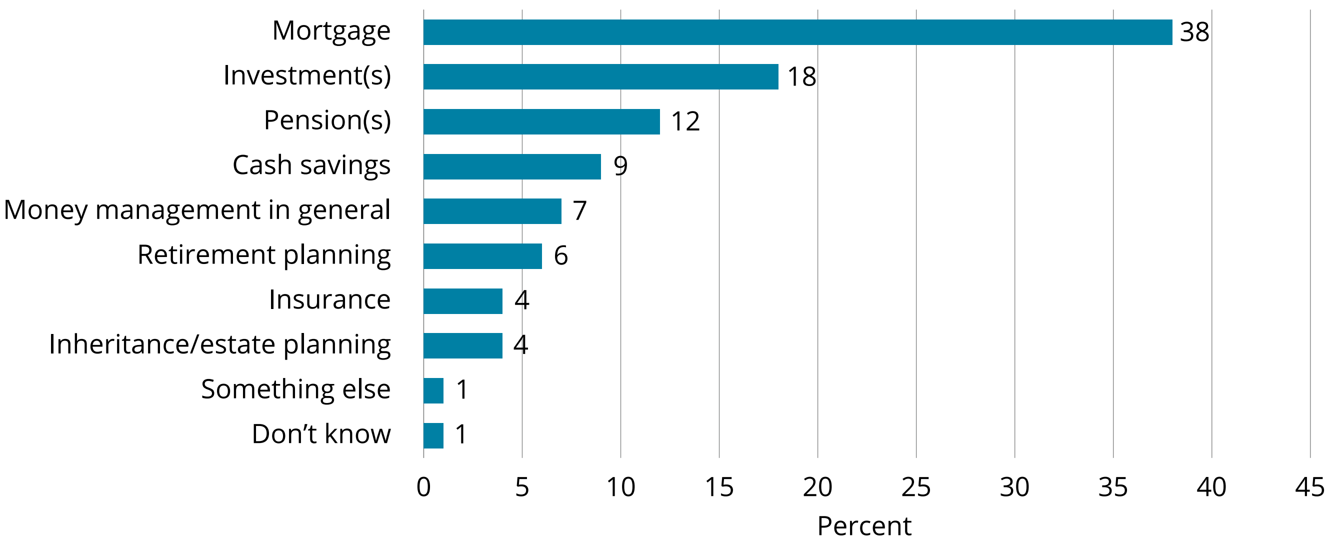
Base: 1,595 UK adults aged 18–75 with savings or investments

Source: FSCS/Ipsos, August 2022

We asked those who say they had sought advice within the past five years what the primary topic of conversation was. More than a third (38%) were taking advice on their mortgage, likely from a specialist mortgage broker. The remaining were split across a range of subjects, with investments, pensions, and savings the next most likely products that participants are seeking advice on.

Figure 3: Topic discussed

"Thinking of the most recent occasion when you sought financial advice, what was the main topic discussed?"



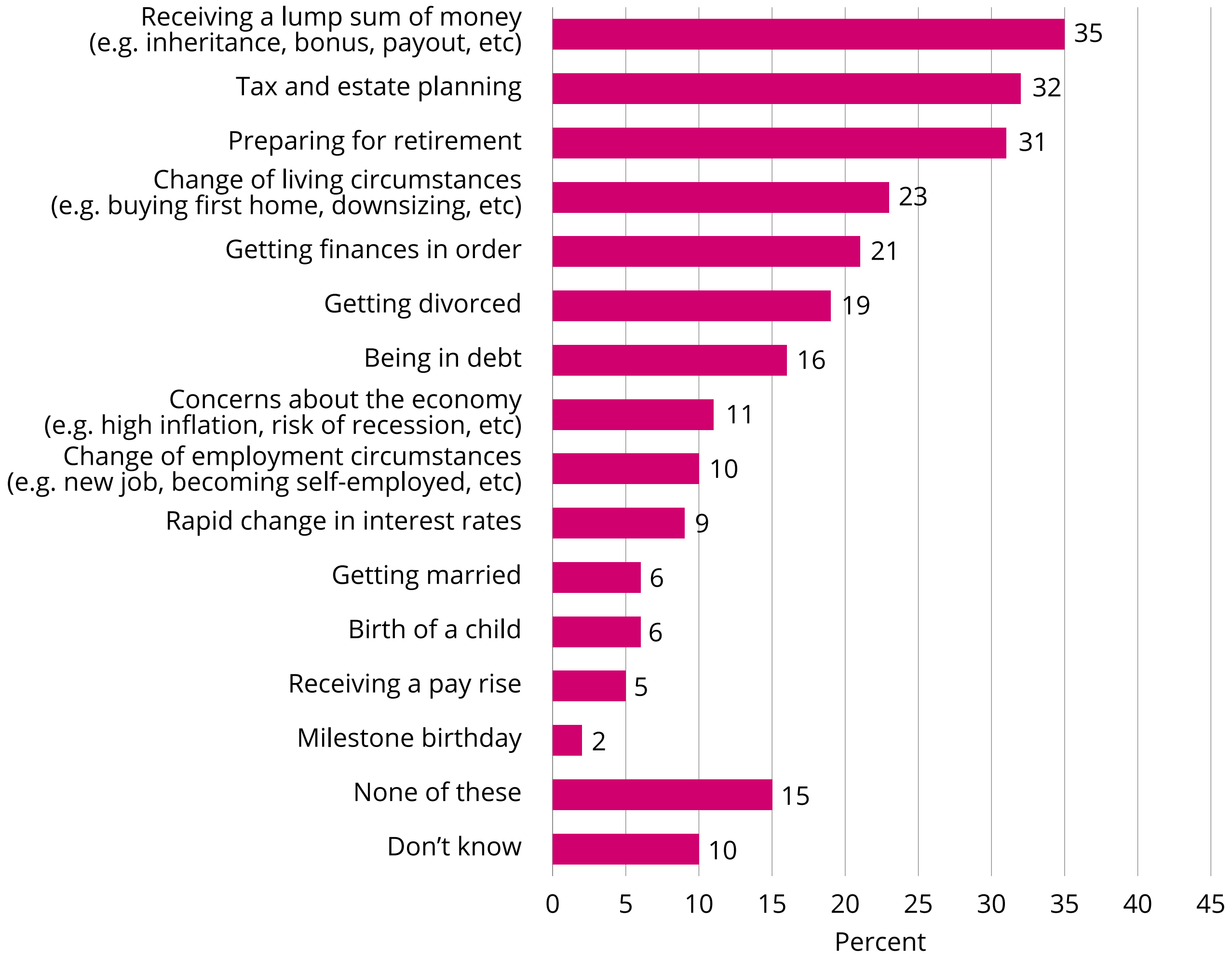
Base: 678 UK adults aged 18–75 with investments, savings or a mortgage who have sought financial advice in the last five years

Source: FSCS/Ipsos, August 2022

We also asked what circumstances would trigger them to pay for regulated financial advice in the future, every option put forward was chosen by at least 39 of the 1,660 participants. Despite the broad range of options presented, 15% selected 'none of these', which suggests they would likely not pay for financial advice at all. 10% said that they didn't know, which points to a significant number of people perhaps not understanding the value of advice, or what options are available.

Figure 4: Triggers to pay for regulated financial advice

"In which, if any, of the following circumstances would you pay for regulated financial advice? Please select all that apply."



Base: 1,660 UK adults aged 18–75 with savings, investments, or a mortgage

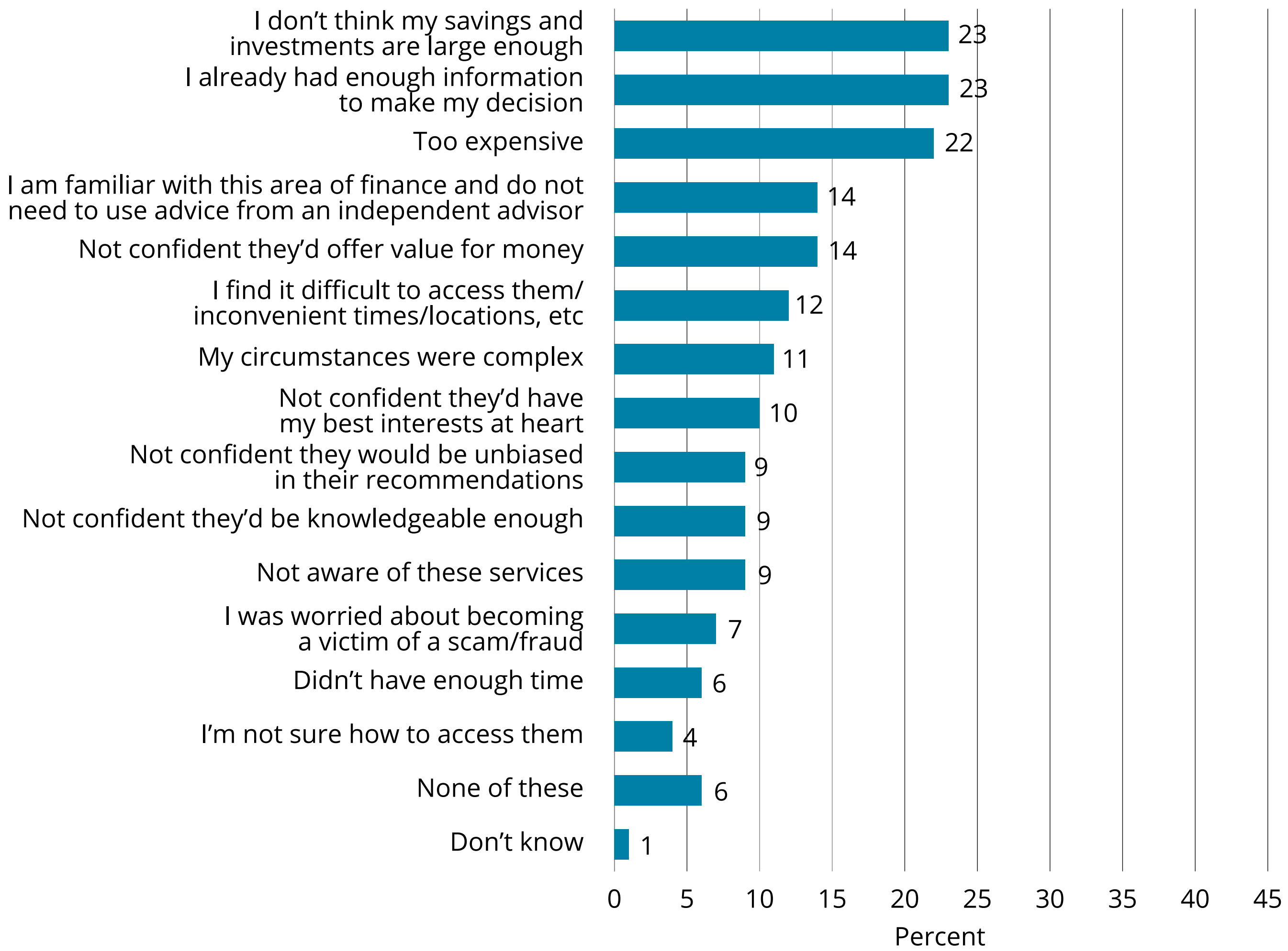
Source: FSCS/Ipsos, August 2022

There were some logical variances in responses for different demographics – for example 'birth of a child' was chosen more often by younger groups. Interestingly both circumstances that are linked to the broader environment, concerns about the economy and a rapid change in interest rates, were chosen by roughly double the proportion of men than women, 14% vs 8% and 12% vs 6%.

As well as looking at who is taking advice, it's important to consider who isn't. To finish this section we asked those who said that they hadn't taken any regulated advice why they hadn't done so. There was no single stand-out response, but a perception that they don't have enough money to make it worthwhile came out top. The variety here does suggest that there are perhaps many different interventions required to broaden access to regulated advice and help more consumers benefit from it.

Figure 5: Reasons for not using a regulated financial adviser

"You mentioned you sought financial advice without consulting a regulated financial adviser. Which of the following best describes why you didn't you use advice from an Independent Adviser, an advice firm, or an adviser from a financial services provider (e.g. bank, building society, insurer, investment manager or pension provider)?"



Base: 128 UK adults aged 18–75 with savings, investments, or a mortgage, who have sought financial advice in the last five years but did not use a regulated financial adviser

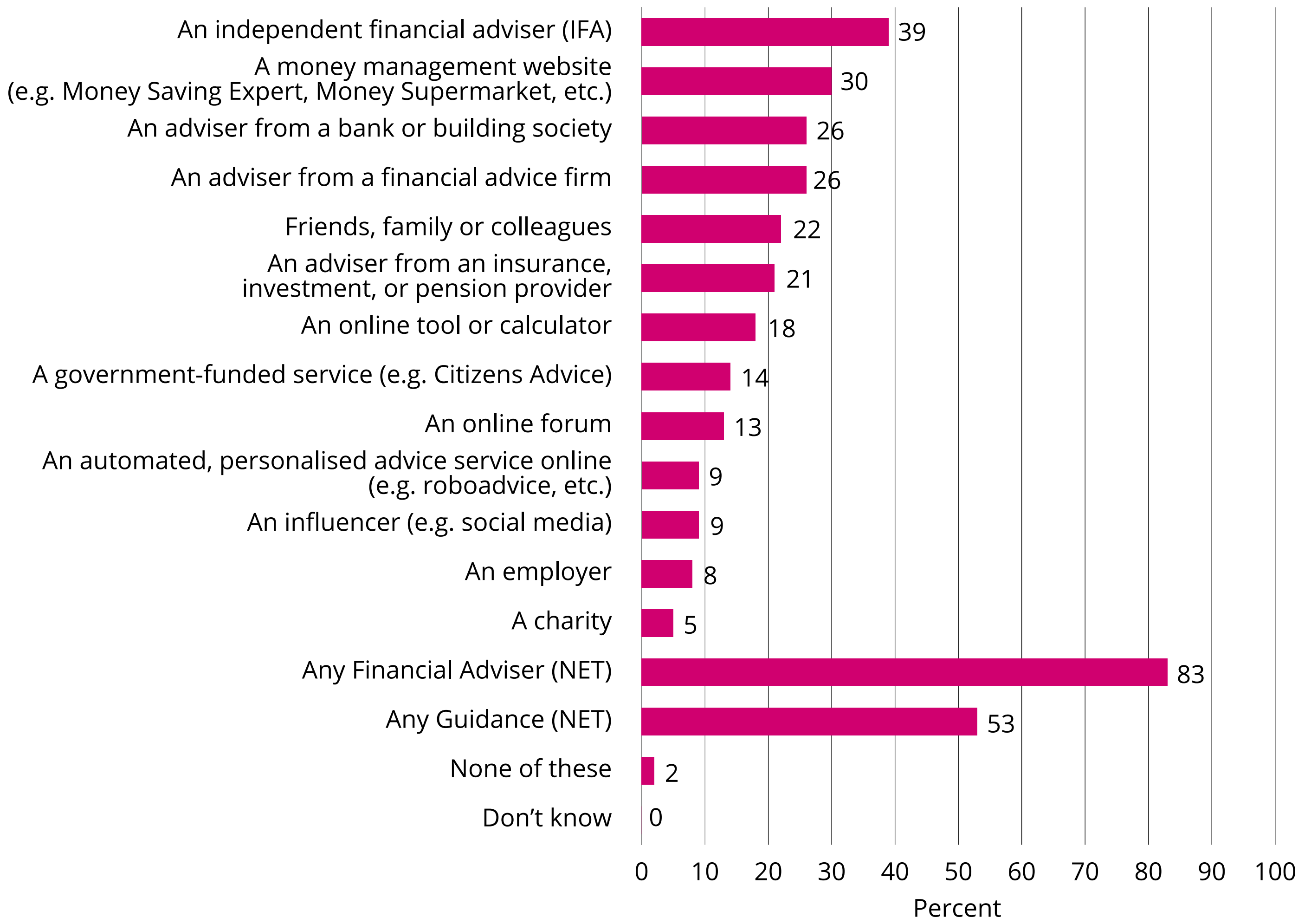
Source: FSCS/Ipsos, August 2022

Sources of advice and guidance

In the introduction to this report, we mentioned the importance of the definition of advice vs guidance. When we asked participants who had sought financial advice which sources they consulted most recently, their answers clearly demonstrate that they are using the term 'advice' to cover both regulated advice and unregulated guidance – with the latter offering no FSCS protection if it turns out to be unsuitable.

Figure 6: Sources of advice and guidance

"Still thinking about the most recent occasion when you sought financial advice, which, if any, of the following did you consult? Please select all that apply."



Base: 678 UK adults aged 18–75 with savings, investments, or a mortgage who have sought financial advice in the last five years

Source: FSCS/Ipsos, August 2022

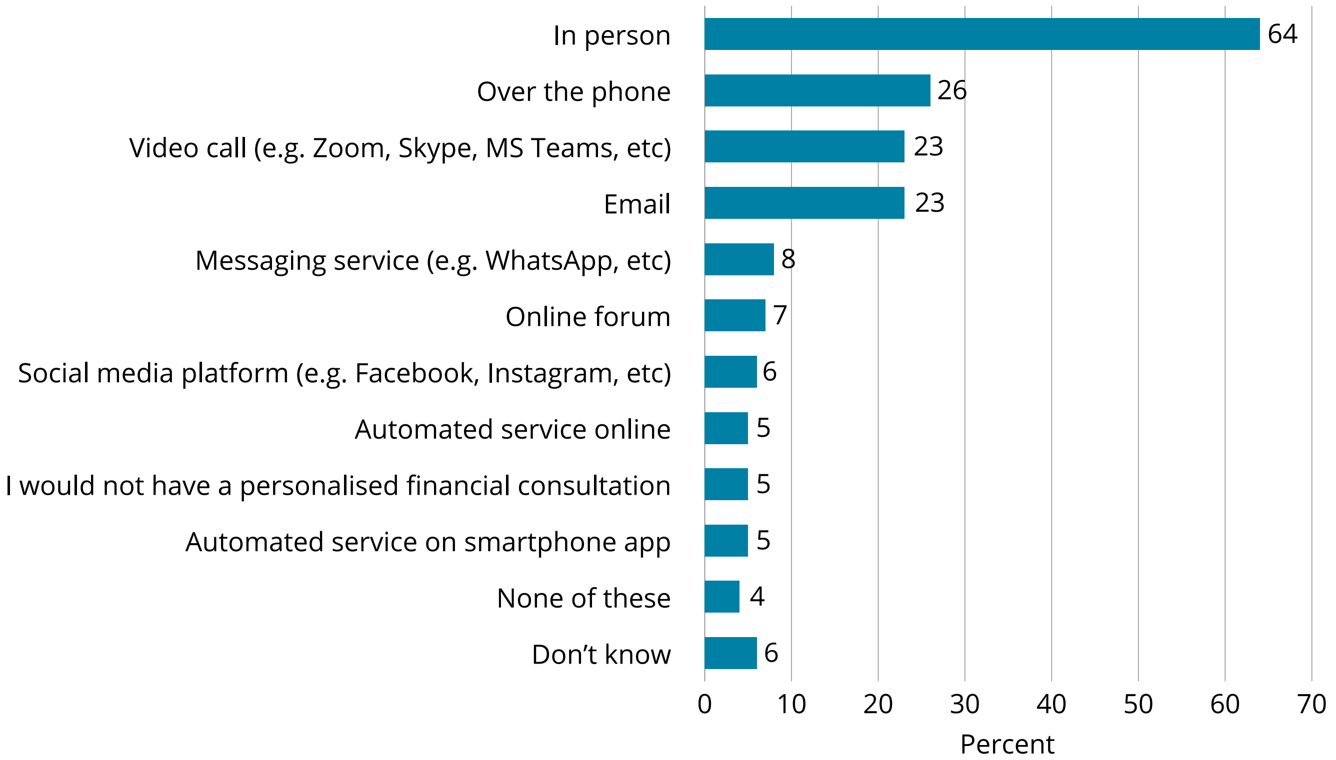
The likelihood of participants reporting that they consulted regulated advice increases with age and using sources of guidance (which are usually free) decreases. This result seems logical, as most often wealth accumulates steadily with age and major decisions such as accessing any pension savings happen at the end of our working lives. Where the risk of loss is greater, it would make sense for people to take greater care in taking paid-for regulated advice. We cover the important subject of costs in the next section. From our experience, older adults are also more likely to have greater experience with products such as mortgages, insurance and pensions – and perhaps even have had something go wrong and thus value the protection of regulated advice.

As you may expect, there were some quite stark differences in the data across different demographics. Seeking advice from an 'influencer' was something that close to 1 in 5 (19%) of those ages 18–24 had done, but only 1% of 55–75 year olds. Using an automated service also divided opinion, with more men choosing it than women (13% vs 5%), and only one participant selecting it from the oldest group.

Regardless of the source, a face-to-face meeting was the preferred channel for seeking personalised financial advice across all ages. Almost two thirds of people chose it as one of their 'top 3' options, with traditional phone call, video call and email all receiving a similar level of votes. More novel and digital channels such as apps and social media lagged behind. Only 5% said that they would prefer an automated service (so-called 'roboadvice'), but when asked to what extent they agree or disagree that 'automated financial advice services (e.g. roboadvice) have a role to play in financial advice' 30% of adults who have a financial product said they agree.

Figure 7: Channel preferences

"Which, if any, of the following channels would you prefer to use for a personalised financial consultation?"



Base: 1,660 UK adults aged 18–75 with savings, investments, or a mortgage

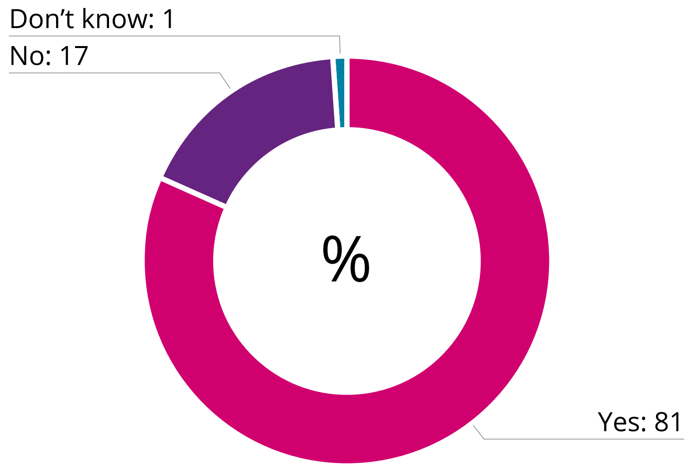
Source: FSCS/Ipsos, August 2022

However, we also asked a more general question about managing money online. 81% of people told us they used a website or app to manage their finances. As you might expect, this peaked amongst younger participants and dropped with age – from 89% of 18–24 year olds down to 74% of those aged 55–75.

Those who manage their finances online feel positive about its value, with 80% telling us they like or even love it. 5% dislike it, with the rest having no strong feelings either way. It seems there may be untapped opportunity in the area of online and app-based advice, especially if the benefits of face-to-face, personal support could be replicated. Perhaps hybrid offers with initial face-to-face support could be something consumers would embrace.

Figure 8: Online money management

"Do you ever manage your finances online, via a website or app? By managing your finances, we mean budgeting, saving, investing, spending, or organising your money and/or capital."



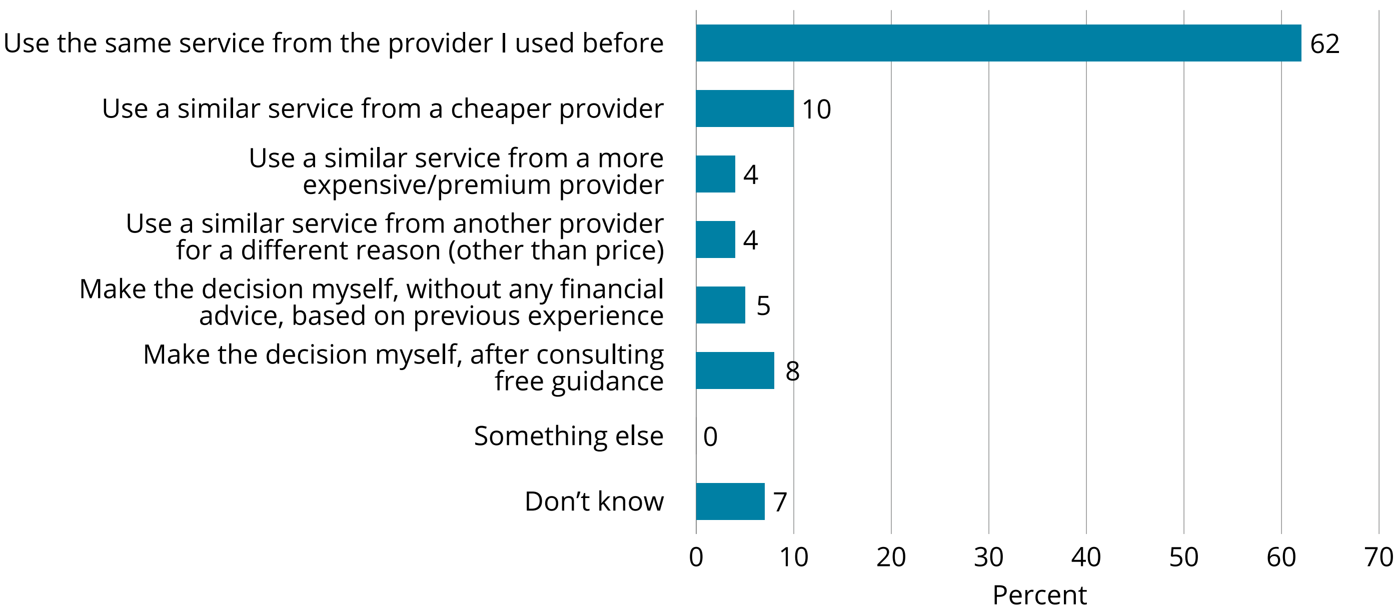
Base: 1,901 UK adults aged 18-75 who have financial products

Source: FSCS/Ipsos, August 2022

Finally in this section we asked participants who said they had taken regulated advice what they would do if they had a similar need in the future. Encouragingly 62% said they would use the same service from the same provider, indicating that generally satisfaction is high. 10% did say they would look for a similar service from a cheaper provider, hinting at the importance of costs in decision making.

Figure 9: Likelihood to use paid-for services again

"Imagine you needed financial advice for a similar reason again. On the next occasion, which of the following would you be most likely to do?"



Base: 203 UK adults aged 18–75 with savings, investments, or a mortgage, who have sought financial advice and have used paid-for regulated advice

Source: FSCS/Ipsos, August 2022

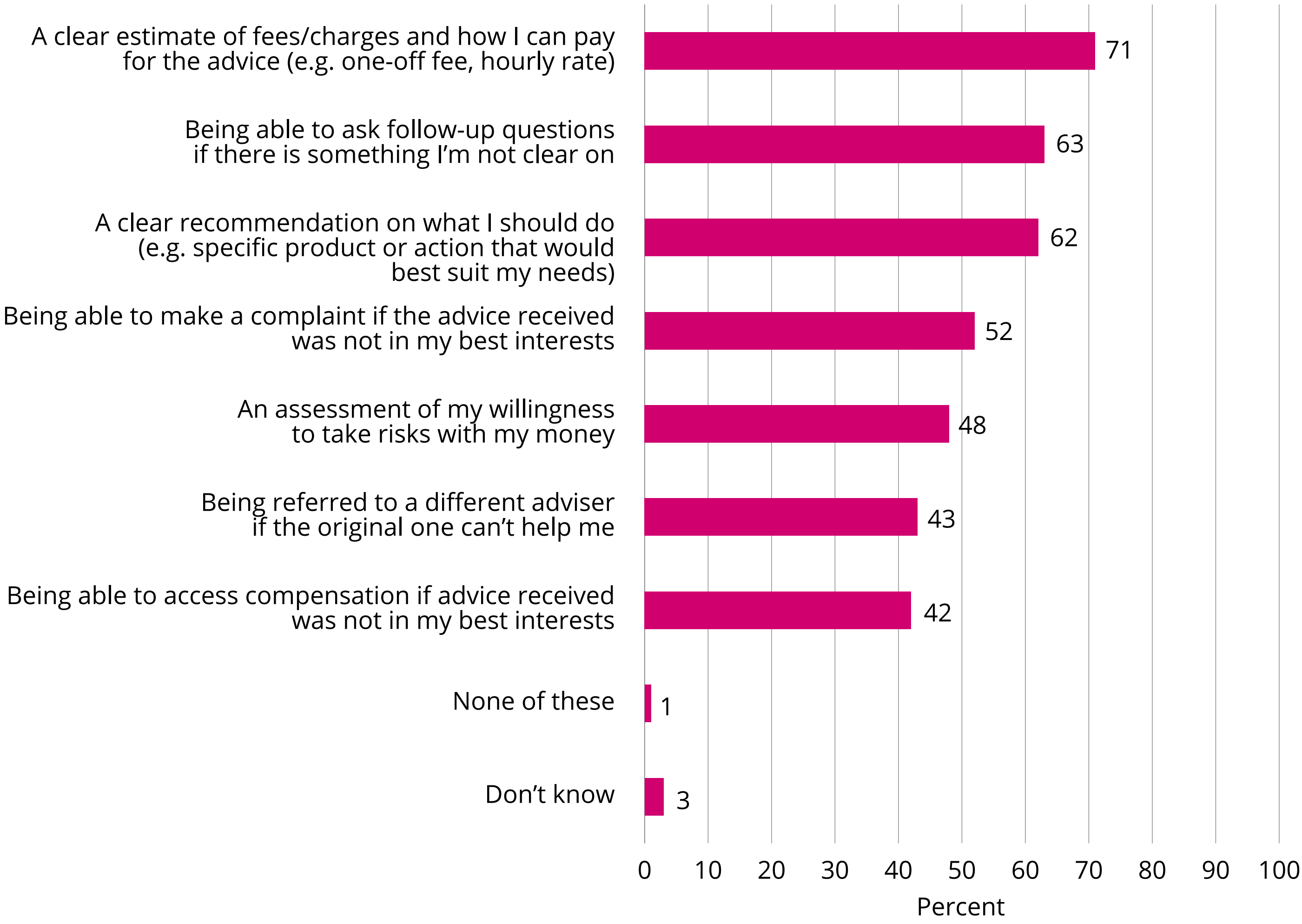
Expectations, beliefs, and value

To start this section, we showed the participants a definition of regulated financial advice, explaining that it would be paid for but not on a commission basis. We then asked participants what they would expect if they paid for this advice, presenting a variety of options and allowing them to select as many as they liked.

A clear estimate of the costs involved came out top, but overall expectations came out high – all options were chosen by at least 42% of people who said they had sought advice in the last five years.

Figure 10: Expectations of paid-for regulated financial advice

"Based on the definition you have seen for regulated financial advice, which of the following would you expect when paying for regulated financial advice? Select all that apply."



Base: 678 UK adults aged 18–75 with savings, investments, or a mortgage, who have sought financial advice in the last five years

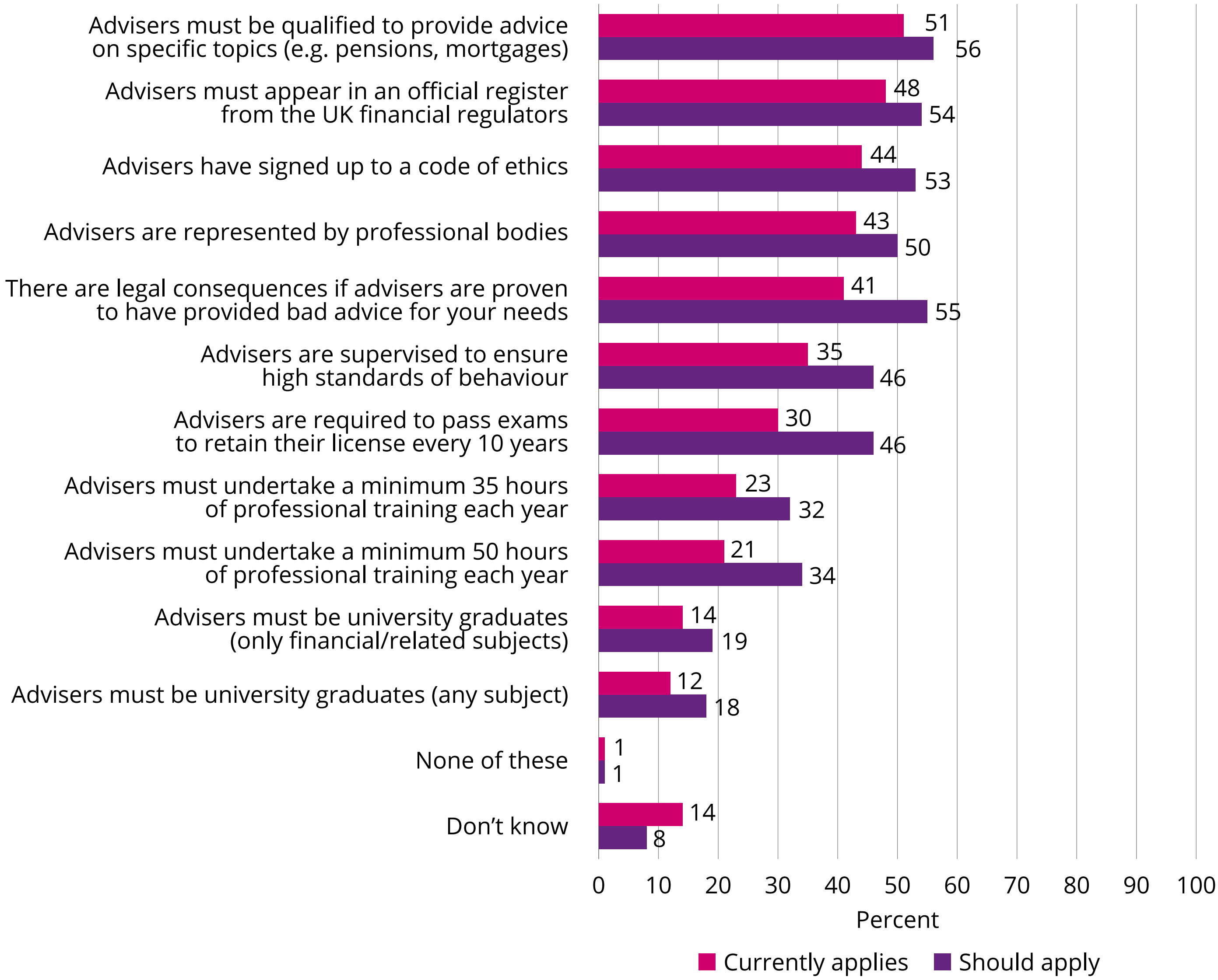
Source: FSCS/Ipsos, August 2022

We also asked participants their thoughts on professional standards. We gave a list of options and asked which of them people thought currently applied, and which they thought should be applied to regulated financial advisers. The pattern of responses was similar across both questions, but the gap again demonstrates that consumers have high expectations for regulated advisers and that they believe standards should be higher than they are today.

Given that many of the options presented here do actually apply to regulated financial advisers, there is also a good opportunity to educate consumers about the advice profession and the professionalism and expertise that exists today.

Figure 11: Expectations of regulated financial advisers' standards and qualifications

"Based on the definition of regulated financial advice you have seen, which of the following do you think currently applies and which should apply to all regulated financial advisers?"



Base: 678 UK adults aged 18–75 with savings, investments, or a mortgage who have sought financial advice in the last five years

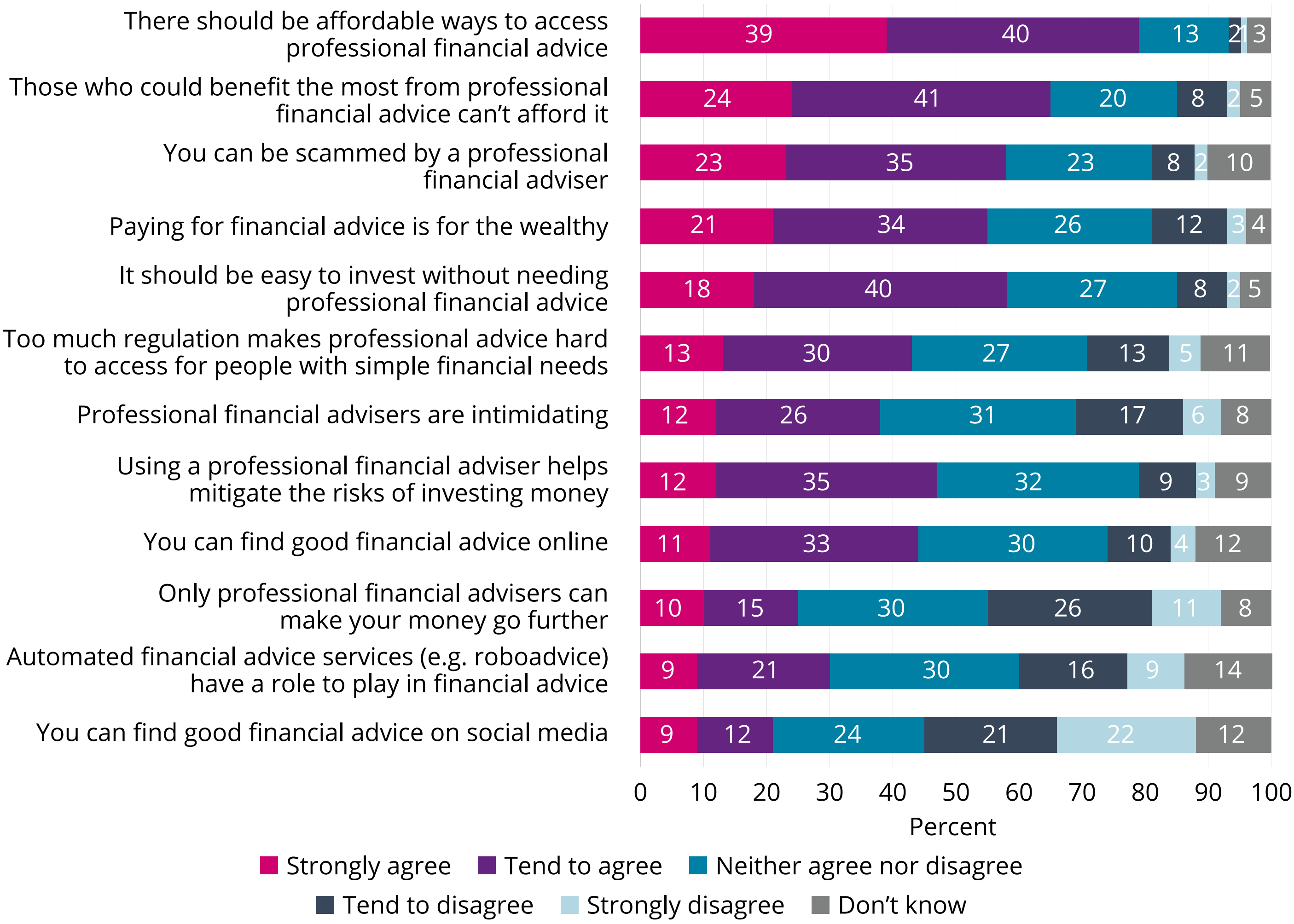
Source: FSCS/Ipsos, August 2022

Consumers beliefs about financial advice more generally was also something we explored in the research. We asked participants whether they agreed or disagreed with a range of statements about financial advice. On the whole, views were quite mixed, with around a third of people answering each question saying they neither agreed nor disagreed or simply did not know.

One question where there was greater consensus was if "there should be affordable ways to access professional financial advice", with 80% of all participants agreeing that there should. This peaked at 83% amongst 45–54 year olds, who are at an age where major financial decisions are often made.

Figure 12: Attitudes towards financial advice

"To what extent do you agree or disagree with the following statements?"



Base: 1,901 UK adults aged 18–75 who have financial products

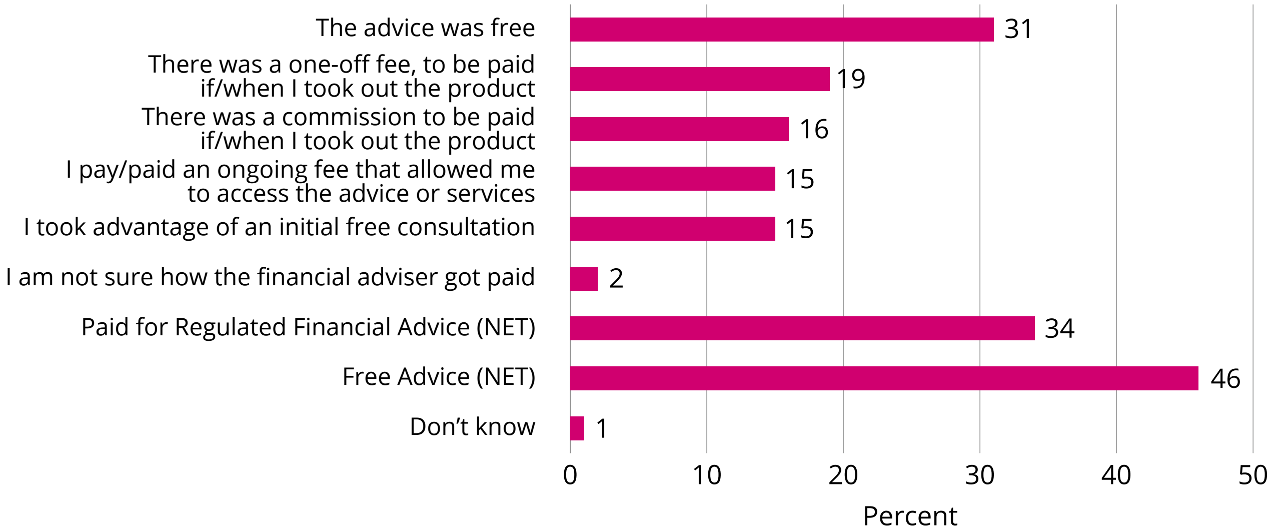
Source: FSCS/Ipsos, August 2022

The subject of advice fees and whether these costs are indeed driving an 'advice gap' was something we were particularly interested to hear about from consumers. We also wanted to understand their perception of value and whether they would seek advice again if they had paid for it in the past.

Interestingly, those who reported having received advice from a professional source – e.g., an IFA, or someone from a financial provider – were most likely to say that this advice was free. It is rare that regulated financial advice is free, so these responses are an indication of consumer confusion. For example, it may include those who received mortgage advice, perceived to be free to them if the adviser was paid a commission by the lender. But it can also include those who did not go on to receive full advice but have assumed they did. This supports the theory that consumers are not clear where the boundary is between advice and guidance, and the benefits of paying for a regulated service. Many providers offer 'informed choice' type services which consumers may be perceiving as advice, and given many participants told us they had sought advice in connection to a mortgage, they may not be directly paying any fees themselves. Although a small number, it is concerning that 3% do not know how their adviser was paid.

Figure 13: How advice was paid

"On the last occasion you sought financial advice, you mentioned you had used an independent adviser or an adviser from a bank, building society, insurance, investment or pension provider. Which, if any, of the following applies to the service you receive?"



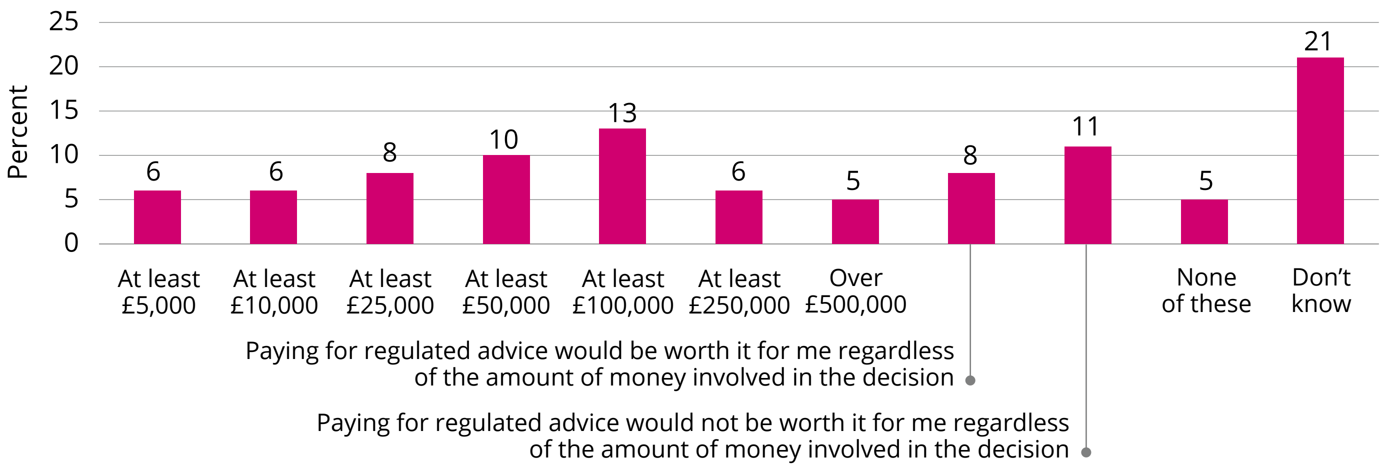
Base: 550 UK adults aged 18–75 with savings, investments, or a mortgage, who have taken financial advice from IFA, FA at bank/building society, insurance, investment or pension provider or a FA firm in the last five years

Source: FSCS/Ipsos, August 2022

In an earlier section, not having enough money to make taking advice worthwhile came out as the top barrier to seeking paid-for regulated advice. We asked all participants how much money they think they would need to make paying for regulated advice 'worth it'. As with many questions posed, the responses ranged right the way from at least £5,000 to over £500,000. A significant group, 21%, didn't know. This potentially represents a large group of people who could be seeking advice but aren't, as they are not clear if it would be worth it or not.

Figure 14: Threshold making financial advice worth paying for

"Based on the definition you have seen of regulated financial advice, how much money would need to be at stake to make paying for regulated financial advice worth it for you?"



Base: 1,660 UK adults aged 18–75 with savings, investments, or a mortgage

Source: FSCS/Ipsos, August 2022

Trust and confidence

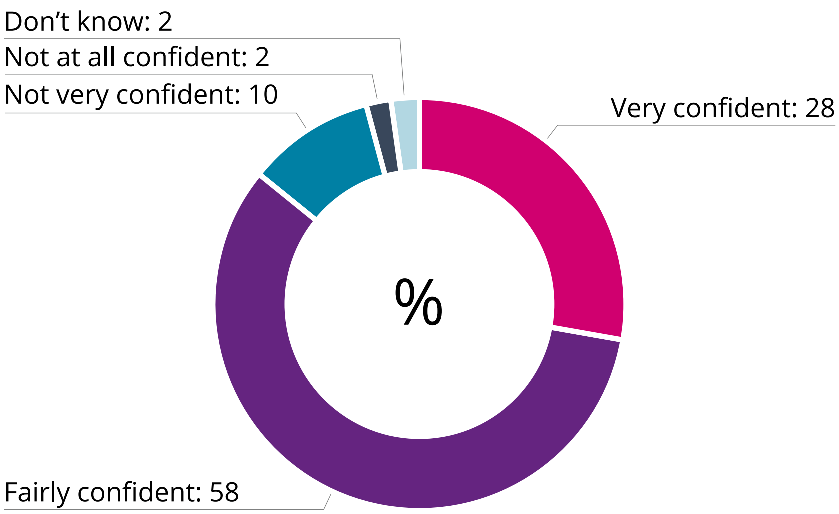
FSCS's mission is to provide a trusted compensation service that helps raise confidence in the financial services industry. Consumers being able to trust and have confidence in the industry is vital for both stability and growth. The subject of trust and confidence and how it translates into behaviour is something we have already been looking into and we will be working with the FCA on further research during 2023.

In this research, we asked those who already had savings, investments or a mortgage how confident they were in choosing financial products or services. The results show that overall, confidence is high, with 86% stating that they are fairly or very confident in doing so. Interestingly, the group most likely to be confident was 18–24-year-olds at 90% - who also scored highly when asked their views on whether you can find good financial advice online (57% vs. 44% average) or on social media (44% vs. 20% average).

When it comes to opinions about being able to find good financial advice on social media, the difference between age groups was most stark. The 18-24 year olds were more than six times as likely to say they agreed or strongly agreed than those aged between 55 and 75.

Figure 15: Confidence when choosing financial products

"Overall, to what extent are you confident, or not, when choosing financial products or services for yourself or jointly with someone else – whether they are online or offline?"



Base: 1,660 UK adults aged 18–75 with savings, investments, or a mortgage

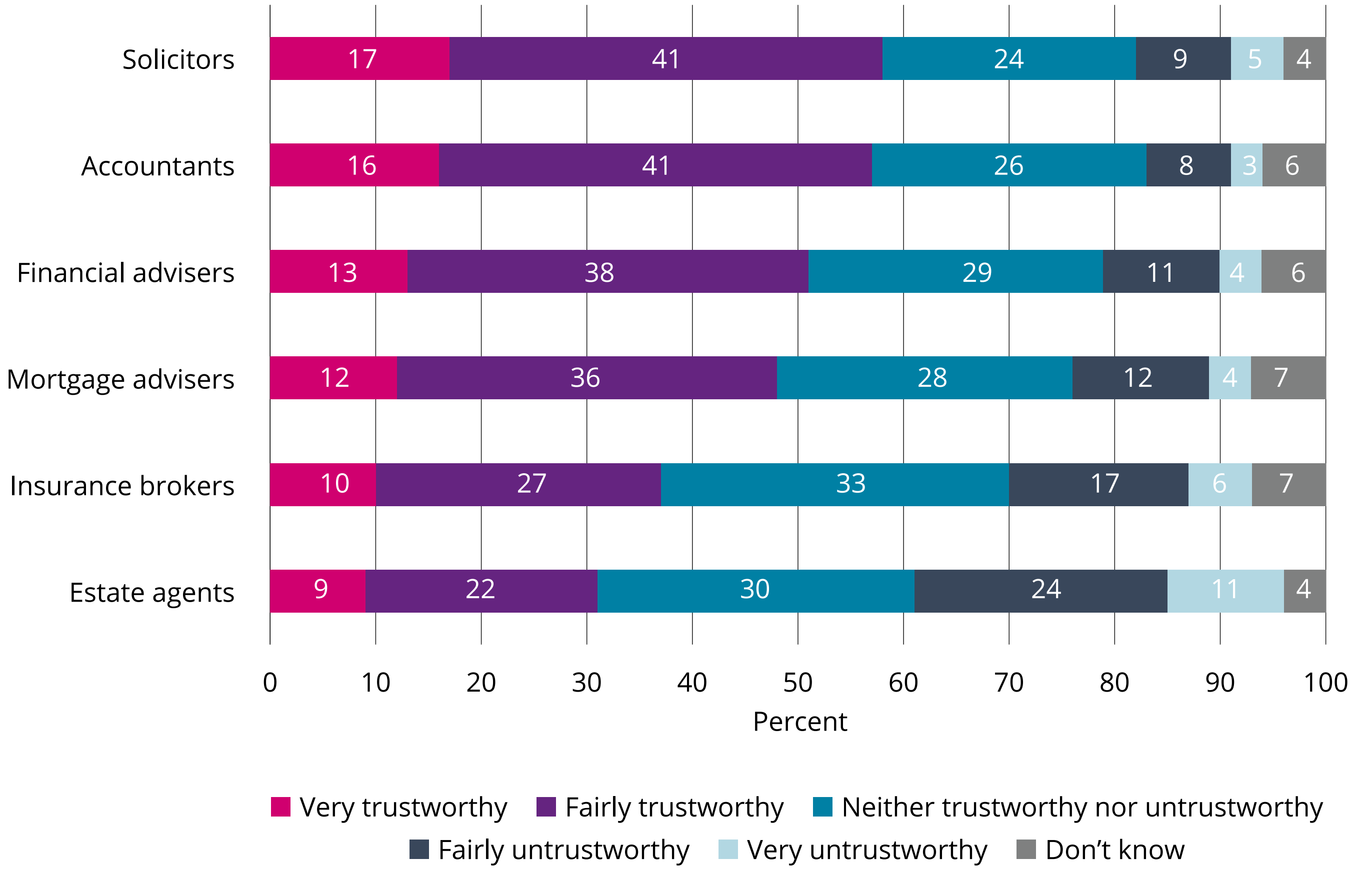
Source: FSCS/Ipsos, August 2022

> The subject of trust and confidence and how it translates into behaviour is something we have already been looking into and we will be working with the FCA on further research during 2023.

We also asked participants how trustworthy they feel financial advisers, mortgage advisers and insurance brokers are alongside other professionals outside of financial advice. Financial advisers came out at the middle of the pack, with 51% of participants finding them fairly or very trustworthy.

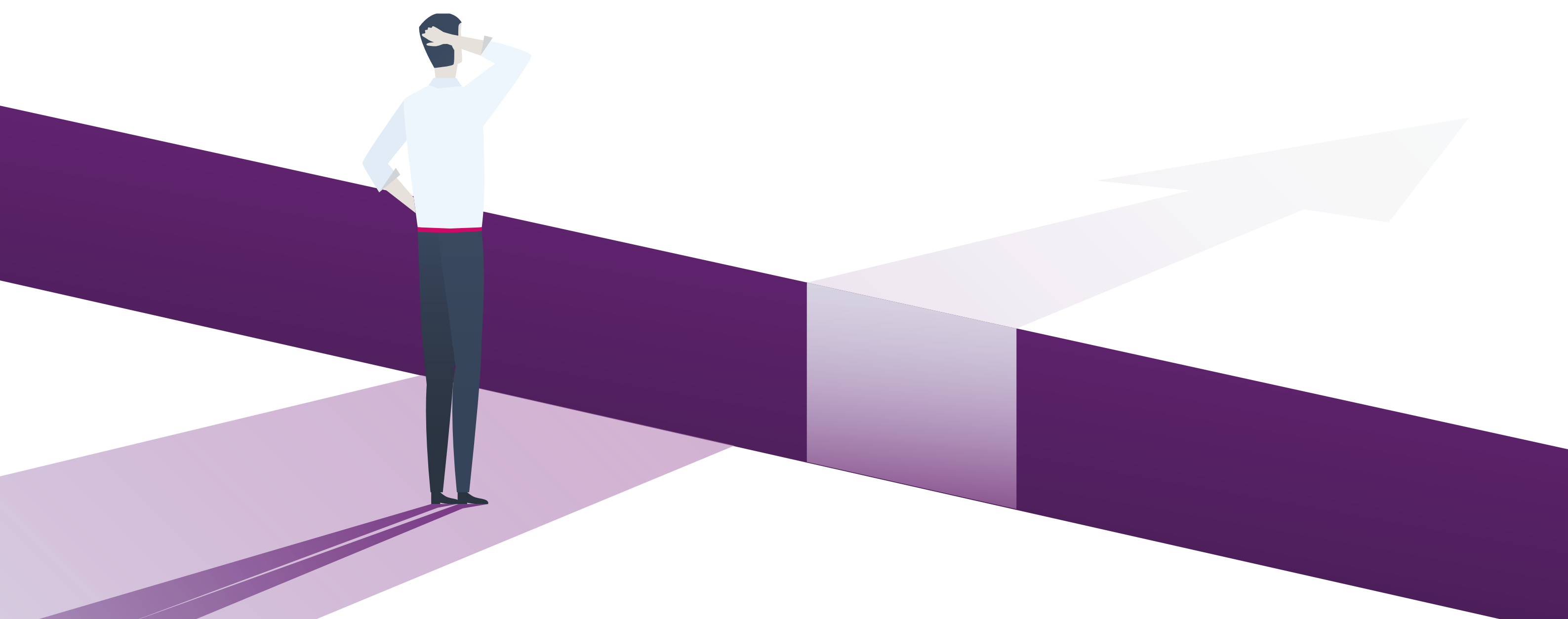
Figure 16: Trust in financial advisers and similar professions

"In general, to what extent do you consider the following professions to be trustworthy or not, when dealing with you as a customer?"



Base: 2,000 UK adults aged 18–75

Source: FSCS/Ipsos, August 2022



Conclusion

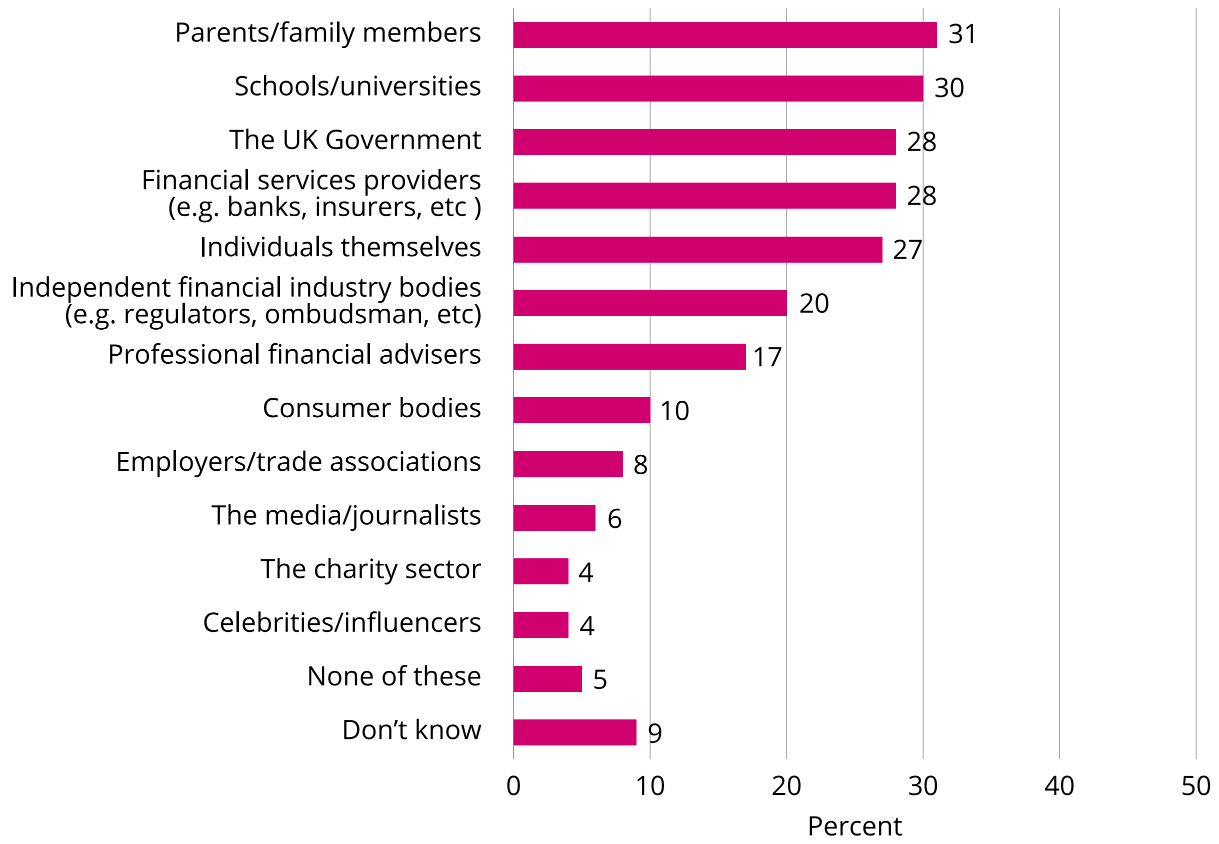
From what we already understood about consumer attitudes towards financial advice from our day-to-day work, we had a number of hypotheses about what the research would tell us. A key belief, which the research has supported, is that there is definitely misunderstanding and confusion amongst some consumers about advice – what it is, what it isn't, where to find it, and what value they may get from it.

There are clearly opportunities to improve understanding and awareness amongst all demographics. This alone could increase the number of consumers accessing advice that could help them reach their financial goals. The results also support discussions taking place already around the definitions of advice and guidance and the boundary between them.

A final question that we asked with this in mind, was who participants thought was most responsible for educating the general public about managing their personal finances – they could choose up to three. In keeping with a trend we saw across many of the questions, the answers were a real mixed bag. Positively, this could suggest consumers are open to being educated on financial matters from a range of sources, but also highlights how responsibility for education is unclear and thus could easily fall between the cracks.

Figure 17: Educating people about personal finances

"Which, if any, of the following do you think is most responsible for educating the general public about the management of their personal finances? Please select up to three."



Base: 2,000 UK adults aged 18–75

Source: FSCS/Ipsos, August 2022

FSCS is the UK's statutory compensation scheme of last resort for customers of authorised financial institutions. FSCS is an independent body, created under the Financial Services and Markets Act 2000 (FSMA).

FSCS may only pay compensation, up to certain limits, to eligible customers if a firm (or a firm's successor) is authorised by the Financial Conduct Authority (**FCA**) or the Prudential Regulation Authority (**PRA**) and that firm is unable, or likely to be unable, to pay claims against it.

Very broadly, claims relating to insurance, investment products (including pension plans), deposit-taking, mortgage and home finance broking, general insurance broking, debt management plans and funeral plan activities may potentially fall within the scope of FSCS's cover.

FSCS must determine claims submitted to it under the rules set for it by FCA and PRA as applicable. FSCS cannot pay compensation to a customer unless the customer's claim meets the qualifying conditions for payment under those rules.

About this series

This paper is the third of a series that aims to share the results of the exclusive consumer research we regularly commission to support our communications strategy. It will help us identify gaps and opportunities and to work closely together with our stakeholders to provide essential, accurate information to consumers about the protection FSCS provides.

Find out more and sign up to be the first to hear about future research here.

Research methodology

Unless specified, all findings referenced in the release came from research conducted by Ipsos UK. Ipsos conducted the survey on behalf of FSCS, interviewing a representative quota sample of 2,000 UK adults aged between 18–75 using its online FastFacts platform.

Survey data were weighted to the known profile of this audience. The research was conducted between the 10th and 13th August 2022.

Of the 2,000 UK adults aged 18–75:

- 1901 have financial products
- 1660 adults currently have savings or investments or a mortgage.

If you would like to discuss any aspect of this report, please speak to your usual FSCS contact, or you can email our Research Analyst at irene.salazar@fscs.org.uk

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