British Actuarial Journal (2025), Vol. **30**, e13, pp. 1–28
doi:10.1017/S1357321725000054

Institute and Faculty of Actuaries

SESSIONAL PAPER

Please advise me: advice gap working party

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Abstract

We all know the importance of taking advice from the right people. In the financial services arena, good quality financial advice helps millions of people manage their money, realise their goals and achieve long-term financial security. Given the low level of financial literacy in the general population, financial advice can be seen as a necessity for millions of people. However, our brief research to date indicates that a huge advice gap has emerged in the UK following the introduction of the Retail Distribution Review in 2012. And it doesn't look like this will get better soon. Regarding this advice gap, the FCA stated in 2023 that "the provision of financial advice is often out of reach for all but the already wealthy." Furthermore, efforts to mitigate the advice gap are either non-existent or piecemeal at best.

The consequences of the advice gap include poor investment decisions leading to sub-optimal savings: research shows that 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. In this paper, we consider various mechanisms to improve access to financial advice and guidance and reduce the size of the advice gap while recognising that these should be implemented under the umbrella of Consumer Duty, which should ensure that customers receive good outcomes.

Finally, in terms of financial inclusion, there is a gender and social imbalance with women and those from lower socio-economic groups less likely to access formal advice or guidance. This is where the advice gap is biggest, and some of these groups of people could benefit most from access to financial advice or guidance, particularly those groups with lower levels of financial literacy who have reduced means to start off with. Implementing measures to reduce the advice gap under the umbrella of a strong consumer duty should provide customers with the means to pay for the level of advice that they need while being confident that they are receiving the right products for their needs at the right price leading to good customer outcomes.

Keywords: Advice gap; consumer duty; financial literacy; advice guidance boundary review; good customer outcomes

1. Summary of Paper and Conclusions of the Working Party

"Wise men don't need advice. Fools won't take it." Benjamin Franklin.

This paper is the culmination of the work of the Advice Gap in the UK Working Party, which was set up to:

- 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.

Throughout the paper, we focused mainly on the UK, though we have considered international perspectives where appropriate.

In Section 2 we set the scene, primarily in the UK context, and highlight the current thinking that can help address the advice gap. We then discuss whether a ban on commissions should be expected to naturally lead to the emergence of an advice gap in the market. We also present research highlighting the size of the advice gap in the UK market. Various sources indicate a significant advice gap of millions of people lacking access to affordable advice, with huge repercussions on financial inclusion.

In Section 3 we consider customer attitudes and behaviour. Our research indicates that lack of supply, the high cost of advice and perceived lack of trust are key factors limiting customers' demand for and ability to access advice. Advisers will generally not take on and advise lower-income and modest wealth customers. Furthermore, the cost of advice is prohibitive for those customer segments, especially given the risk of having to pay for advice even if a contract is not concluded. Finally, research indicates that nearly two-fifths of customers consider improving trust in advisers the most important consideration before they would access advice, and more than three million UK adults would pay for advice if they were sure they could trust it. This perception of lack of trust is very important, as research indicates that after the event, 58% of those receiving financial advice had high levels of trust in their adviser and only 13% had low levels of trust. This seems to indicate that the perceived lack of trust in financial advisers is perhaps more of an issue than the actual level of trust in practice.

The consequences of the advice gap are then discussed in Section 4. A lack of advice may lead consumers to make decisions which are not in their best interests, such as: being financially unprepared for retirement; holding savings in cash while having the purchasing power of their money eroded over time by inflation; making uninformed decisions when accessing their pension savings; turning to high-risk investments, including speculative investments, without a sufficient understanding of the risks; and getting "advice" from unregulated sources, often through social media "influencers". Significantly, research indicates that consumers who took professional financial advice enjoyed higher average increases in their assets and higher pensions, compared to those who took no advice. Finally, in terms of financial inclusion, there is a gender and social imbalance with women and those from lower socio-economic groups less likely to access formal advice or guidance.

In Section 5, we present some key mechanisms and solutions for mitigating the advice gap and improving access to financial advice including clarifying the advice/guidance boundary, flexible remuneration models, targeted support and utilising Consumer Duty. Clarifying the advice/guidance boundary and introducing targeted support should widen access to financial advice as different levels of advice and support are suitable for different people. Flexible remuneration models would allow consumers the option to pay for advice via product loadings and fees, while reducing the risk of paying for advice and not concluding a contract. And Consumer Duty aims to ensure that consumers receive good outcomes, which is a prerequisite for all the mechanisms discussed. In our view, Consumer Duty must remain at the core of how any specific product is chosen, presented and suggested to consumers.

The implications of the above solutions to mitigate the advice gap are then discussed in Section 6. First, we support clarifying the advice/guidance boundary and the introduction of targeted support as an over-cautious approach from advisers and fear of litigation are key limiting factors on the supply side. This, combined with flexible remuneration models, would widen access possibilities and help reduce immediate cost from the customer's point of view, which are key limiting factors on the demand side. And finally, Consumer Duty is the base that should ensure that consumers receive value for money with good customer outcomes, which should gradually improve customers' level of trust in advisers and the advice that they receive.

https://doi.org/10.1017/S1357321725000054 Published online by Cambridge University Press

Finally, in Section 7 we present our selected conclusions.

We want to make it clear to readers that there is no "silver bullet" to solve all the issues that we raise. This is an incredibly complex area, with multiple stakeholders and a constantly changing environment. The success in closing the advice gap will be a culmination of other initiatives as well, such as the launch of a pensions dashboard helping individuals to have a holistic view of retirement planning. We discuss some others as "supply side actions" below.

Our key goal has been to demonstrate how the advice gap could be mitigated if the ideas and conclusions of the research are followed. Some of the recommendations that we make will cost something to implement and should therefore be supported by cost-benefit analyses that would weigh these costs against the potentially larger benefits to both consumers and society as a whole. However, there are a number of areas where further research could be conducted. These include:

- Closing the gap between women's and men's access to financial advice.
- Ensuring that consumers understand what they are buying and what it is costing them.
- Ensuring that Consumer Duty is successful; that customers receive value for money and only invest in products that are suitable and meet their needs with good customer outcomes.

We have briefly commented on financial literacy and vulnerable customers. However, these are broad terms and there is much more to add. The working party believes that these are research topics in and of themselves. We note finally that there is strong debate currently in the UK market on the advice gap; in particular, following the FCA and Treasury's advice/guidance boundary review and the introduction of Consumer Duty. We look forward to continuing to contribute to areas such as these in the near future.

2. Background

2.1. Objectives of the Working Party and This Paper

As the Advice Gap in the UK Market working party, we were set up with the objectives of:

- Evaluating the emergence of an advice gap post-RDR.
- Assessing market distribution mechanisms by wealth segment.
- Researching product choice and complexity in the new environment.
- Considering adverse consequences of advice gap and two-tier market for consumers and society.
- Highlighting potential solutions and mechanisms to mitigate regulatory and market failure.

As a working party, our key goal has been to demonstrate how the advice gap could be reduced if the ideas and conclusions of the research are followed. As part of the working party's research, a survey was conducted with the Profession during 2023, which included sharing the survey on IFoA Communities and at the Life Conference.

In this paper, we present our preliminary thoughts and recommendations. We welcome feedback and debate. Some of the recommendations will cost something to implement and should therefore be supported by cost-benefit analyses that would weigh these costs against the potentially larger benefits to customers and society.

The paper also highlights similar initiatives from other countries.

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2.2 Setting the Scene

The advice gap has been widely publicised across the financial services industry and this paper largely references the research that has been done in this area. "Advice gap" is a generic term that is used across the segments that Life insurers operate, such as savings, investments, pensions and protection. It can be argued that each segment is affected by the advice gap either in the form of lower penetration or insufficient provision that inadvertently causes customer harm.

Before highlighting how the advice gap has evolved following the regulatory changes such as the RDR in 2012 and the Pensions Freedom in 2015, it is good to set out the challenge that the industry is facing across the four segments by considering the most up-to-date market developments such as the cost-of-living crisis.

A further catalyst going forward will be Consumer Duty, which will help companies to align their business models to better support customers and deliver value for money with good customer outcomes. However, even gold-standard conduct rules will not be sufficient to close the advice gap. It is equally important to have demand-side initiatives, as highlighted by the report "The Land that RDR Forgot" (AC, 2024). Building trust, improving financial literacy, and taking the route that will help break customer inertia will support the penetration and growth of financial provisions, which should result in a smaller advice gap.

The enhanced transparency that Consumer Duty will bring will help build trust by acting to deliver good outcomes for retail customers; for example, by highlighting how best to serve vulnerable customers. It can be argued that any customers that are not serviced by the right advice channel, leading to poor customer outcomes, implies non-compliance with Consumer Duty. Secondly, although the industry has a good track record of customer conduct stemming from principles for Treating Customers Fairly (FSA, 2006), the regulator's proactive approach in light of Consumer Duty has spurred some new activity. For example, following an FCA warning (FCA, 2023a), AJ Bell decided to pass higher interest rates to its customers (CW, 2023). Furthermore, St. James's Place had to make a provision of £426m to refund customers who paid for a service they did not receive (FNL, 2024).

We do not believe that it would be sufficient to take a bottom-up approach to consider the different product segments in order to address the advice gap. Life insurers are just one provider of financial services. The advice gap can be interpreted differently across banks, investment platforms and financial advisers themselves. We understand that there is a broad consensus around the Advice Guidance Boundary review from industry players, as highlighted by Altus Consulting (AC, 2024).

This paper will focus on the advice gap from Life insurers point of view.

2.2.1 Savings

The UK and developed markets have experienced a sudden and steep rise in interest rates due to high inflation after the pandemic, which has shifted the emphasis of macroeconomic policy to essentially tame inflation without dampening growth prospects. One monetary policy to achieve this was Central Banks raising interest rates, which made interest rates on short-term deposit accounts more attractive after years of low interest rates.

As a result, and as can be seen from the FCA's Cash Savings Market Review (FCA, 2023b), there has been a step change of the growth trend in household deposit balances after the pandemic. This is despite the subsequent cost-of-living crisis. Figure 1 below shows this trend.

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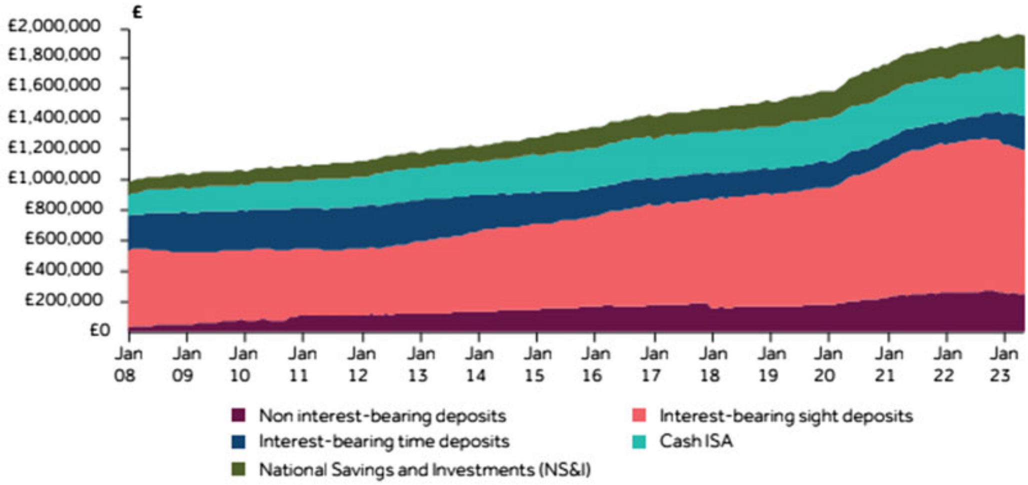

Source: Bank of England and Building Societies Association.

Figure 1. Total household deposit balances Jan 2008 – May 2023, £million.

It can be argued that this was a result of the higher household savings ratio due to the pandemic, when economic retail activity was limited, and government support measures were in place to protect the financially vulnerable. In practice, the growth in deposits happened at a time where there were cases of lack of full pass-through of the BoE base rate to the deposit rate by some providers, which customers could have enjoyed.

Some customer segments missed out on high interest rates, and in some cases the FCA had to step in to ensure this was addressed in relation to the value for money assessment of Consumer Duty. But more worryingly, the FCA stated that "Bank of England data estimates that approximately £250bn in deposits do not earn any interest. Three in ten adults (15.9 million adults in total) do not have a savings account of any type, an increase from 24% in 2020. This highlights the need to focus on building more consumer financial resilience in the UK." The FCA continues: "Of these, the survey found that 18% of all UK adults (or 9.5 million) did not own any savings products but may have had some capacity to save." (FCA, 2023b)

Savings rates often go down quickly when interest rates fall. However, they are slower to rise when interest rates increase. This can penalise cash savers, which will often include lower-income households who might not have any other accounts. As a forward-looking view, the advice gap, and more specifically ongoing advice where relevant, may become more significant when the interest rate cycle starts to return to low levels in the coming years.

The FCA goes on to point out that "...firms can support their customers to access the free advice available from MoneyHelper" to address this issue. Another useful source of advice is Money Saving Expert (MSE, 2025). This is consistent with the advice gap that has been set out by citizens advice under "the free advice gap."

2.2.2 Investments

As pointed out in Section 2.2.1, for a complete understanding of the wealth market, and to put the advice gap into context, the investment segment needs to be covered as well. Retail funds under management were at £1.6 trillion at the end of 2021, which fell to £1.4 trillion in 2022. Although this was primarily driven by poor asset returns, net outflows also contributed to the decline, as highlighted by the Investment Association's UK Fund Market Review 2022 (IA, 2023). Figure 2 below shows this trend.

https://doi.org/10.1017/S1357321725000054 Published online by Cambridge University Press

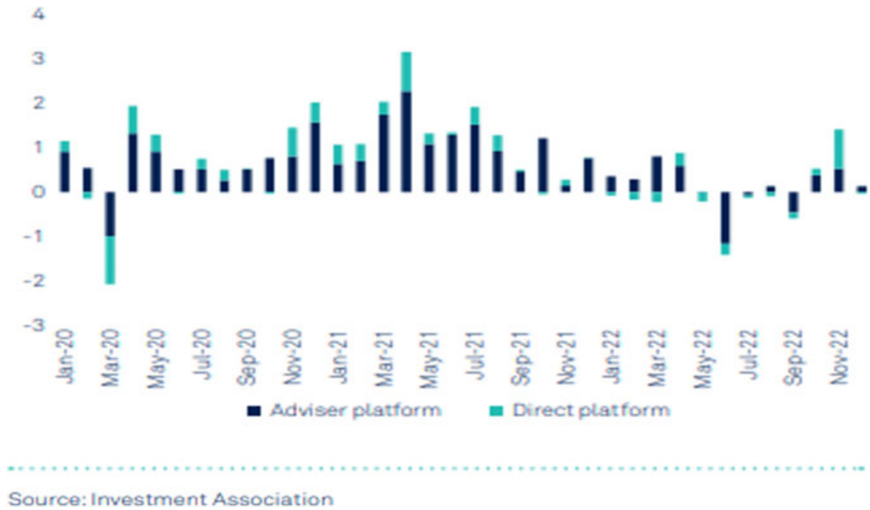

Figure 2. UK adviser and direct platform net sales 2020-2022, £billion.

The net outflows can be attributed to many causes, including the impact of the material number of people aged 50+ that decided to take early retirement at this time and switch to decumulating investments. However, exiting an investment product when markets are down or volatile may not be the best course of action, depending on customers' circumstances. According to the report, the direct channel had exhibited net outflows two years in a row, whereas financial adviser channels had experienced outflows only in 2022. The report goes on to explain the role that advisers played in helping this: "... financial advisers can have an important steadying influence on investors in times of market volatility, encouraging investors to remain invested and to follow their long-term financial plans."

There are several factors to consider for an effective advice model, which can be transient as people experience life events and react to market uncertainty. The industry has been working on several solutions to address the advice gap, most recently by defining the advice/guidance boundary as led by the FCA. Within the review, more cost-effective solutions are being considered such as the "targeted support" and "simplified advice" (FCA, 2023c). These are not as comprehensive as the existing holistic advice model but can be beneficial if combined with the face-to-face and digital tools, even with lower levels of financial adviser qualification.

However, as highlighted in the "The Advice Gap 2023" report by The Lang Cat (LC, 2023), trust is of equal importance as value for money for customers to take advice. This is being acknowledged as a top objective in the FCA Advice Guidance Boundary Review – a key ingredient to create demand for adviser services.

In any case, the industry would require further safeguards under the new advice model coming out of the Advice Guidance Boundary Review framework (FCA, 2023c), whether targeted support or simplified advice, in order to reduce liability risk from the FCA or the Financial Ombudsman Service.

2.2.3 Pensions

The challenge of addressing the advice gap across the accumulation and decumulation phases becomes more evident due to the long-term nature of pensions, their materiality and the importance of funding for retirement.

The accumulation phase is driven by the workplace market in the UK, following the launch of auto-enrolment in 2012. Pensions auto-enrolment has been a success story in terms of moving large numbers of employees to start saving for retirement, an effective demand-side action put forward by the government (DWP, 2022). However, this is in contrast with the so-called "preserved pensions" (idle pensions accounts) segment as defined by the Pension Bee (PB, 2024), which is larger and expected to grow faster than the "active pensions" segment, where employees are contributing towards their pensions. This can be explained by employees taking more jobs throughout their careers with pension accounts left behind when changing jobs. These pension accounts will be perceived as "gone-aways" or "orphan assets" without being considered under true holistic retirement planning in the absence of financial advice. There are twofold implications of the advice gap at this point.

As mentioned by several commentators, the relatively low level of contributions as a percentage of salary under auto-enrolment, compared to defined benefit contributions, must be increased to prevent a shortfall in retirement. This can be seen as another effective demand-side action that can be further supported by utilising an "employer adviser model" to help employees receive adequate financial planning for pensions. According to Aviva's Working Lives Report, "almost four in five employees (79%) would like more support from their employer about planning for a financially comfortable retirement." (AV, 2023) Therefore, financial advice could be integrated into employee onboarding (initial advice) and throughout employment (ongoing advice), where the latter is arguably non-existent at the current time. We believe that targeted support is well suited for such an advice model, specifically if provided through direct channels, and note that the FCA is currently examining the role of direct marketing in their recent consultation paper on new types of support for consumers with their pensions (FCA, 2024a).

The second point is the consolidation of pension pots to ensure individuals can take a more holistic view of their pensions provision. This facilitates holistic advice that takes into account personal circumstances and relevant data. Pensions dashboards, which are due by 31 October 2026, are expected to address this by giving a comprehensive picture of pension provision across three pillars, including returns and charges. The demand-side opportunity will lie with the industry and government bodies, to ensure that the population is motivated to take up and use the pensions dashboards.

Managing decumulation and the wide range of decumulation options is complex, and the need for advice is as relevant for decumulation as for accumulation (IFoA, 2015). The availability of options post-Pensions Freedom adds an additional level of complexity in terms of decumulation (HoC, 2022). These options start during the transition to retirement phase and include being able to withdraw pensions from age 55, having a flexi drawdown or buying a lifetime annuity. They also apply throughout life if drawdown is taken. Managing the investment portfolio and drawdown rate (and self-insuring life expectancy) is complex and frequent tax changes do not help. The introduction of investment pathways to non-advised consumers was seen as a tool to address some of the complexity. In any case, the financial consequences of not getting the transition right may not be known to pensioners for many years, possibly at older ages where they are most vulnerable.

In summary, the advice for accumulation and decumulation phases should be in line with the nature and complexity of consumer needs and outcomes.

2.2.4 Protection

The number of protection policies sold over the past two years has declined, according to Swiss Re's Term and Health watch. This is primarily attributed to the cost-of-living crisis (SR, 2023). It is interesting to note that the protection segment was not affected by the RDR because protection business can still pay commission to advisers. This is being reconsidered primarily because of the launch of Consumer Duty (FT, 2023), and increasing pressure from the FCA Handbook (FCA, 2024b). The recent pure protection market review by the FCA will investigate whether products are indeed delivering good customer outcomes (FCA, 2024c).

https://doi.org/10.1017/S1357321725000054 Published online by Cambridge University Press

The primary channel for the UK protection market is Independent Financial Advisers, which can be quite varied in the context of the underlying adviser business models such as wealth advisers, risk specialists or mortgage specialists. We believe that the IFA channel and the presence of price comparison websites make the market very competitive, as products are often quite comparable. Therefore advisers try to get the best offer from protection providers not just in terms of price but in terms service and online capabilities, such as straight-through processing and value-add services.

Section 2.3 discusses the history of how the advice market has evolved following the introduction of Retail Distribution Review.

2.3 A Ban on Commission Naturally Leads to a Gap in Advice and Potential Underinsurance

We have seen this already occur in the UK as an unintended consequence of the RDR in 2012, which prohibited commissions on insurance products (FT, 2022a). The move from traditional commissions to fee-based advice has led to a two-tier market:

- One for the masses with simple standardised products where the processes and administration can be automated as far as possible with some online servicing.
- The other side of the market has aimed towards the high-net-worth individuals who require complex products to meet their complicated needs. Advice will still be needed, and they will be willing to pay for that advice.

This gap in the market is widening in the retirement space, whereby wealthier retirees have access to various complicated retirement solutions such as self-invested personal pensions and drawdown solutions, while there are fewer options for those who have smaller accounts, other than to take their accounts in cash or take out a traditional annuity. This is compounded by the high cost of advice currently.

In addition, smaller pensions are less likely to be able to absorb risks than larger pension pots, which may mean that the scope for higher returns is more limited for these smaller pensions.

This was not entirely unexpected. In May 2012, seven months before the RDR came into force, Deloitte commissioned a survey of 2,000 UK adults to understand how consumers would react to the new rules, which would replace an advice framework based largely around commissions (Deloitte, 2012). The survey suggested that as customers became more aware of adviser costs, many would opt out of advice completely, partially opt out, or seek higher levels of service for the charges they would incur. At the same time, Independent Financial Advisers (IFAs) and bank advisers would deprioritise a large proportion of their customers based on their understanding that customers with lower levels of savings would be less likely or able to pay adviser charges.

In the early 2010s, the major banks either exited advice, except for medium-/high-net-worth clients, or moved to a restricted advice model. (MM, 2011, 2012a, b, c, d)

In 2013, Cass Business School concluded that because of the UK's RDR, a UK investor with less than £61,000 in investment funds is no longer commercially viable for investment advisory services (CBS, 2023) (note that approximately 75% of the UK adult population would have less than this amount to invest). In 2020, research commissioned by Royal London found that advisers would expect, on average, a savings pot of £48,000 to consider taking them on as a client (RL, 2021).

This contrasts with the statement from the FCA that "... customers who have £10k investible assets may need some form of professional support to help them manage their finances" (FCA, 2022). £10k is not high-net-worth, so this shows that large segments of the population may have a need for professional advice.

In its 2016 report on the Financial Advice Market Review, the FCA indicated that, over the previous two years, the proportion of firms who ask for a minimum portfolio of more than

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£100,000 has more than doubled, from around 13% in 2013 to 32% in 2015. The FCA's survey of advisers also supported this, suggesting that 45% of firms very rarely advise customers on retirement income options, if those customers have small funds (i.e. less than £30,000) to invest (FCA, 2016). In addition, there is evidence that advisers are turning clients away. According to the FCA, 69% of advisers said they had refused clients access to advice, with this being attributed to the client's financial situation in 43% of cases.

This reflects the administrative burden that the regulators have put on firms to guard against mis-selling. This increases costs for firms and makes them more cautious in offering advice. Firms may conclude that offering advice only makes sense for larger portfolios.

The latest developments with the Advice Guidance Boundary Review may help to create a third tier with "targeted support" that can fill this gap, to be able to provide a form of generic advice based on "people in your circumstances" for customers with savings at the £10k level. We shall discuss this further in Section 6.

2.4 How Big is the Advice Gap?

According to the FCA (FCA, 2020a), there are over 5,000 advice firms and 27,000 regulated professionals advising on retail investments and pensions.

In addition, 4.1 million UK adults had accessed financial advice in 2019 (up from 3.1 million in 2017), and 56% of consumers reported being satisfied with the advice they had received (up from 48% in 2017). The average advised customer has over £150,000 of assets under advice.

The FCA's research found that 54% of UK adults with £10,000 or more of investible assets, around 8.4 million people, did not receive any formal support to help them make investment decisions in 2022. Of those consumers with more than £10,000 of investible assets, 37% did not have any investments at all and were holding their assets entirely in cash, and a further 18% were holding more than 75% of their investible assets in cash. (FCA, 2023f).

Similarly, the FCA has found that only 8.6% of UK adults have received financial advice in 2024. Figure 3 below shows the trend in advice from 2017 to 2024 (FCA, 2024a).

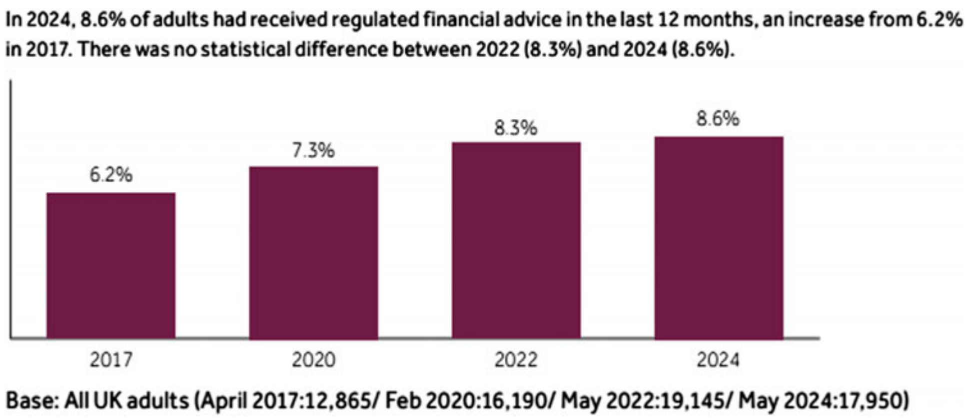

Figure 3. Adults who have received financial advice over the last 12 months.

Citizens Advice undertook research in 2015 from the consumer perspective (CA, 2015), and have identified four advice gaps:

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

https://doi.org/10.1017/S1357321725000054 Published online by Cambridge University Press

- 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 who 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 who 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:

  39% 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.

Open Money carried out research in 2019 and 2020 to highlight the change in the four advice gaps since 2015 (OM, 2020).

- The affordable advice gap remained steady at 5.3 million.
- The free advice gap has increased to 20.8 million.
- The awareness and referral gap has increased to 15.1 million.
- The preventative advice gap has fallen to 20.8 million.

They conclude that the advice gap remains significant and that the need for accessible, affordable – and in particular free – advice has never been greater.

This need is reflected in the increasing free advice gap, with an estimated 20.8 million adults who would potentially benefit from advice unaware of free advice services or unable to access them, an increase of 1.1 million over the previous year, and more than 6 million since 2015.

More recently, the FCA's Financial Lives 2022 report (FCA, 2023e) concluded that:

- 4.3 million people received information from their provider that they could not understand, was not what was needed or was not timely.
- Over the same period, 14% of adults who held one or more financial products – or 7.4 million people – unsuccessfully attempted to contact one or more of their financial services providers.
- 3.6 million people were able to contact one of their financial services providers but could not get the information or support they wanted.
- Seven in ten adults (71% or 38 million) did not receive support about investments, pension-saving or retirement planning in the 12 months to May 2022 – up two percentage points on results for the year to February 2020. Support includes regulated financial advice, for example, from a financial adviser or an automated advice service, or information or guidance to help them to identify their options and narrow down their choices.
- 91.7% (49 million) of adults had not received regulated financial advice in the previous 12 months – down 2 percentage points since 2017.

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- Use of regulated financial advice increases with wealth. For example, almost one in three (31%) adults with investible assets of £100,000 or more had had regulated financial advice in the last 12 months, compared with just 2% of adults with less than £10,000.

2.5 Other Countries

In 2013, a commission ban was introduced in The Netherlands for the distribution of complex financial products like Life insurance products. Research indicates that consumers with a below-average income often look for information themselves to avoid the costs of financial advice (Nibud, 2017); and that the willingness to take financial advice is considerably lower under the new regime (Decision, 2017; de Jong, 2017; PWC, 2017; Kramer, 2018). According to Kramer: "Our results show that we should expect an advice-gap to emerge in the new fee-based compensation regime among households low in financial literacy. If we assume that households low in financial literacy would benefit from financial advice, this is a worrying result from a policy perspective."

Foreign regulators and commentators are also taking notice of these developments, for example, the US Department of Labor's original proposed Fiduciary Duty Rule, which would ban commissions on certain individual retirement account products, including some variable annuities and fixed interest annuities, unless exempted subject to strict conditions (IN, 2014; DoL, 2016; Brodsky, 2022; NYT, 2024).

In Australia, a Royal Commission into misconduct in the banking, superannuation and financial services industry during 2018 investigated whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities by those entities fell below community standards and expectations. One of the recommendations was for a reduction in the cap on commissions in respect of life risk insurance products. Unless there is a clear justification for retaining those commissions, the cap would ultimately be reduced to zero. There was lengthy discussion in the market as to whether this would lead to an advice gap and an increase in underinsurance (CA, 2020). For example, research indicated that 3 in 5 advised clients believe removing commissions will increase underinsurance (AIR, 2019). As of 2022, research indicates an advice gap of 12.4 million Australians having unmet advice needs (PP, 2022).

In February 2023, the Australian Government recommended maintaining commission caps at current levels, stating that "there is a very real risk that banning insurance commissions would mean that fewer consumers would receive advice about insurance and that fewer people would have the insurance cover they need" (AG, 2023).

In New Zealand, regulators have taken stock of these developments. Despite restrictions on specific incentives, there is an understanding that a full ban on commissions may not be appropriate. According to Deloitte (Deloitte, 2020), "A ban on commissions could significantly reduce access to insurance advice for customers and has the potential to further exacerbate the underinsurance issue in New Zealand."

Finally, as part of its Retail Investment Strategy proposals, European bodies have considered banning inducements on all retail investment sales (which would include retail insurance products). During the consultation process, industry and political bodies and member states have debated and lobbied over the merits and pitfalls of an outright ban on inducements (DDV, 2021; GBIC, 2021). For example, the German Finance Ministry stated that they were "strongly concerned that a general ban would inhibit the provision of investment advice in cases where it is mostly needed" (BF, 2023). The final proposals include only limited restrictions on inducements in specific cases.

3. Customer Attitudes and Behaviour

According to research carried out by the Social Market Foundation (SMF, 2017), since the publication of the Financial Advice Market Review (FAMR) in March 2016 there has been no

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significant change in the proportion of consumers willing to pay for advice since 2012. Consumer polling results show that this remains at 24%.

- There is no convincing evidence to suggest that the use of paid financial advice has increased since FAMR. Only 28% of consumers have used financial advice at some point in their life.
- The main barriers to obtaining paid financial advice include the cost, availability and quality of free advice, as well as a lack of trust towards financial advisers.
- Regarding the cost of advice, there are substantial disparities between what consumers are prepared to pay for advice and the sums charged by industry. The price relates to the cost to the adviser of providing the service, and hence the breadth, depth, and quality of the advice. This suggests that consumers do not value the levels of advice offered at current prices.

3.1. Demand and Supply Side Considerations

According to the FCA (FCA, 2020a), a combination of factors – both on the demand and supply side – can help explain why people do not seek or receive services (which could be advised or non-advised) that might help them to consider their investment options.

3.1.1 Demand

On the demand side, consumer research found that the most common reason given for not seeking full regulated advice was that people do not think they need it (67% of consumers). Take-up of automated services was held back by several factors, including a wariness about using unfamiliar brands.

3.1.2 Supply

On the supply side, there has been some innovation in the advice market, but it has not yet been able to attract large numbers of consumers. The industry does offer a range of services – from automated or robo-advice, to one-off specific advice, to ongoing face-to-face holistic advice, but there is significant clustering around a few service types. Advice firms appear to face little competitive pressure to innovate and offer new, more affordable services, or to try to attract less wealthy consumers, and this is compounded by the regulatory and compliance environment making this complex and costly to perform. Competition does not appear to be operating effectively in the interests of consumers.

The lack of innovation, and the risk of liability, can be mitigated by experimenting in "regulatory sandboxes". This was highlighted in a speech by Therese Chambers of the FCA (FCA, 2023d). This idea resonates well with Consumer Duty where, for example, there is a requirement to test customer understanding.

3.2 Customer Needs

Most people are comfortable making less complex financial decisions without getting advice, such as buying car insurance or taking out a cash ISA. But, for decisions they see as more complex, such as deciding to invest in a Stocks and Shares ISA, most would value some support, although generally just on a one-off basis.

While use of support services has increased slightly in recent years (up from 26% in 2017 to 28% in 2020), many consumers do not use the services that are available in the market (FCA, 2020a). Furthermore, there are specific challenges to consumers' engagement with automated services (which have only been used by 1.3% of UK adults in the last 12 months).

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While most consumers (55–67%, depending on the type of guidance) who had used guidance found it to have helped "a little", only a minority (14–34% depending on the type of guidance) found each of the guidance or information sources to have helped "a lot" in enabling them to make a decision.

3.3 Cost of Advice

A 2015 survey indicated that retirees were willing to pay an average of £253 for advice, which is only 1–2 hours of advice at average hourly fees (MM, 2015).

More recently, the FCA concluded that most would expect to pay no more than £250, regardless of the amount invested. These responses on willingness to pay do not align with adviser charges generally seen in the market. Figure 4 below shows the amount of money non-advised adults who may need support would be willing to pay, and see as good value for money, for advice from a regulated adviser (FCA, 2020b).

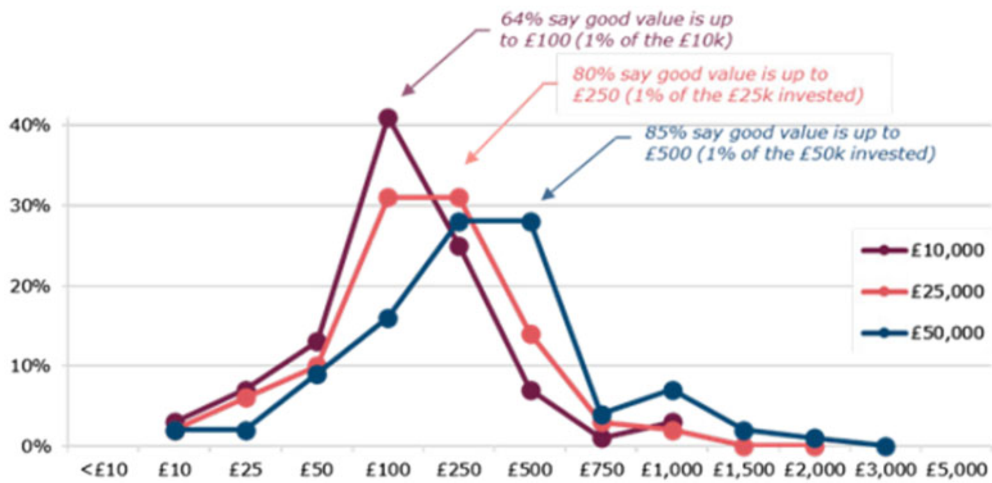

Figure 4. Amount of money non-advised adults who may need support would be willing to pay, and see as good value for money, for advice from a regulated adviser.

3.4 Lack of Trust

According to Lang Cat (LC, 2023), the biggest issue for the advice sector is still a lack of trust. Among those who haven't paid for advice in the last two years and are unlikely to do so in the future, being sure they could trust the advice topped the list of things that would need to change, with almost two-fifths (38%) selecting this, rising from 32% in 2021.

Furthermore, more than three million UK adults would pay for advice if they were sure they could trust it. Trust needs to be improved in the advice profession, through adviser trade bodies, individual advisers and encouraging referrals.

The FCA in its 2022 Financial Lives Survey (FCA, 2023e) state that trust in, and the perception of the independence of, financial advisers could be a barrier to seeking advice for many consumers that might have a need for advice. In 2022, only one in five of these non-advised adults (21%) agreed that financial advisers are unbiased (4% strongly agreed and 17% slightly agreed). Less than half (45%) trusted financial advisers to act in the best interest of their clients. Six in ten (59%) said

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they thought of financial advisers as professionals like solicitors or accountants, but only 21% strongly agreed with this.

Interestingly, in the same report the FCA states that 58% of those receiving financial advice had high levels of trust in their adviser in 2022, and few (13%) had low levels of trust. This seems to indicate that the perceived lack of trust in financial advisers is perhaps more of an issue than the actual level of trust in practice.

We can conclude that there are several factors that affect the size and robustness of the advice gap in the UK market. The most important of these are the perceived lack of trust in financial advisers for a large proportion of consumers that might need advice, and the cost of advice, which is seen as disproportionate for many.

4. Consequences of the Advice Gap

There is substantial research evidencing a low level of financial literacy in the general population (Barnard *et al*, 2021). An emerging advice gap would lead to a large proportion of adults left to their own devices when it comes to investing or buying a Life insurance or pension product. For many, decisions around Life insurance cover, contributing to a pension or converting assets to income in retirement represent critical decisions that should be made with full knowledge of the alternative options and their consequences for the individual customer. A gap in the market for financial advice coupled with prevailing low levels of financial literacy would surely lead to sub-optimal decisions for many people (Adeptli, 2024).

As part of its great risk transfer campaign, the IFoA (IFoA, 2020) concluded that:

- The introduction of charging for investment advice has priced some people out of being able to afford the expert help they might need.
- The advantages of raising the standards of independent advice following the RDR may have been diluted by diminishing numbers of consumers who seek it.
- Less affluent consumers cannot afford to take risks but may be forced to accept risks if the cost of mitigating them is uneconomic. They are likely to see lower returns and higher taxes. Basic financial planning advice is often not available, while more complex advice is expensive.

Furthermore, the IFoA (IFoA, 2021) concluded that: "financial advice is not easily accessible and affordable to many consumers having to make complex risk-management decisions. Discussions suggest that even more financially capable consumers face barriers to making good decisions about managing risks and achieving good outcomes."

The private pensions market seems particularly affected, where a decline in advice levels of approximately 66% has been recorded (Pohl, 2022). According to the FCA just 14% of savers use the free, impartial Pension Wise (part of MoneyHelper) guidance service when accessing their benefits. 64% of those who withdrew the full value of their pensions did so without advice or guidance, leaving them more exposed to poor retirement and investment choices, avoidable tax charges, pensions scams and inappropriate products, reduced benefits and exhaustion of their pension savings (FCA, 2023g).

The FCA (FCA, 2023c) concludes that "lack of appropriate support may be leading consumers to make decisions which are not in their best interests. These include:

a. Consumers do not understand or are disengaged with their pensions making them unprepared for retirement.

b. Consumers holding savings in cash, who are at risk of having the purchasing power of their money eroded over time by inflation.

c. Consumers are not investing enough in their pensions to meet their financial goals.

d. Consumers are making uninformed decisions when accessing their pension savings.

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e. Consumers are turning to high-risk investments, including speculative investments, without a sufficient understanding of the risks.

f. Consumers risk getting 'advice' from unregulated sources, often through social media."

Lower-income consumers who do not seek financial advice might not be considering all options available to them and could risk buying a product that is not suitable (CEP, 2023). They run the risk of making poor investment decisions or not investing at all, resulting in decreased savings over time (MH, 2024). According to journalist Charlotte Richards (MM, 2021), "the smaller the pot, the larger the fee percentage for advice. It's no wonder people generally aren't seeking advice on smaller pots." She goes on to say: "Imagine how many more people would seek financial advice if the fees were absorbed in a different way." Furthermore, consumers lacking advice would be less likely to even consider more complex products, which might be a good thing. As one respondent to our survey commented: "The more complex the product, the more advice is needed, so we need much simpler products for those who do not have the means for advice." (SM, 2024)

More recent research (UB, 2022; ILC, 2017) concludes that:

- 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.
- Savers could expect to pay between £1,700 and £2,500 for one-off independent advice on their financial position.
- The benefits of advice should incrementally increase over time, resulting in larger gains.
- The less well-off get greater benefits from advice. Following financial advice, the average saver in the "just getting by" group had their pension boosted after ten years by 24% (£35,054), compared to savers in the same group who didn't receive advice.

We can conclude that perhaps the main consequence of an advice gap in the UK market is that those with the least resources, and potentially even lower financial literacy than the general population, are effectively excluded from receiving personalised financial advice suitable for their circumstances and financial needs. Those with the lowest ability to absorb financial losses are particularly exposed to lack of financial advice when making investment and insurance decisions (EC, 2023). The Association of German Public Insurers agrees, stating that: "A unilateral focus on a system based solely on fee-based advice would severely discriminate against low-income households and further exclude them from financial markets. Yet, low-income households in particular are often most in need of financial advice (VoV, 2021)." In addition, 25 out of 33 respondents to our survey stated that the gap exists specifically for the lower income and wealth segment of the market. One respondent commented that "We need to serve the whole market, not only those that can afford professional advice."

Finally, research carried out by the IFoA in 2022 on pensions freedom and choice provided evidence that females and those from less affluent social groups are less likely to understand their pension savings and the charges they are paying in their defined contribution pension, or to access advice. (IFoA, 2022). The IFoA concluded that "throughout the survey there is a clear trend for women and those from lower socio-economic groups to understand less about their pension savings and be less likely to access formal advice or guidance." Additional research supports this (Fidelity, 2020; SL, 2022). This suggests overall that there is a gender and social imbalance when it comes to understanding how to access pensions savings and advice.

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5. What can We Do?

As detailed in Section 2, the move from traditional commissions to fee-based advice has led to a two-tier market:

- Tier 1 (Basic Market): highly standardised products for general or low-income population.
- Tier 2 (Advanced Market): Complex products for high-net-worth individuals.

This bifurcation has created a significant "advice gap" in the middle – those consumers who need more guidance than Tier 1 provides but cannot afford or do not require the complexity of Tier 2. We refer to this underserved segment as Tier 3 (Middle Market), where products and advice must be both accessible and affordable, without being fully bespoke.

5.1 Utilising the Consumer Duty as Principle

Before exploring specific strategies to enhance Tier 1 and establish Tier 3, it is important to consider the regulatory framework that will guide these changes. This is perhaps the most important point that we should bear in mind to fill the gap.

Under the FCA's new Consumer Duty, firms must act to deliver good outcomes for retail customers, by ensuring that customers receive the appropriate product type and investment choices to meet their needs. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives through information and guidance (FCA, 2023h).

A key part of the Consumer Duty is to ensure that customers receive fair value. In fact, a manufacturer must "ensure that its products provide fair value to retail customers in the target markets for those products" (FCA, 2023i). If commissions were to be reintroduced in some form, for example by allowing customers the option of paying for advice via product charging, firms would have to ensure that such a mechanism provided fair value to customers in the target market and ensure that the costs and mechanism for charging for commission were clearly disclosed and not misleading. Under this approach, customers would have the choice of paying for advice directly, via a fee, or more indirectly, through product charges. Provided this was understood, and the resulting product provided fair value, surely this would be an improvement on an approach where a significant part of the population was priced out of the market for advice completely?

The FCA has mentioned several times that Consumer Duty is not a price-setting regulation where companies need to demonstrate their costs against services provided to customers. A second factor to be considered is competitor benchmarking. However, value for money assessments can be a subjective exercise in the absence of relevant data. In addition, competitor benchmarking may not work due to the nature of different channels serving different customer segments.

For example, it would not be a like-for-like comparison to compare the charges for a face-to-face financial adviser channel with the direct channel. And as discussed within "The Land that RDR forgot", customers' needs will be met via different channels throughout their lifetimes. It would be natural to expect some transition across different levels of advice, especially toward later-life planning. It is interesting to note that a number of wealth managers have changed course from a fully direct model to a "hybrid" advice model (FT, 2022b).

Consumer Duty has also opened a potential discussion point around whether commission should be allowed again, given that manufacturers and advisers need to demonstrate value for money. There is no indication yet concerning moving towards reintroducing commission, but it will be interesting to see how this develops in the future.

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As a final note, Consumer Duty can be the catalyst to address the advice gap by motivating more efficient advice models, such as those discussed under the Advice Guidance Boundary Review.

5.2 Enhancing Basic Market and Establishing Middle Market

With Consumer Duty in mind, we now focus on solutions that should strengthen Tier 1 (Basic Market) and build a Tier 3 (Middle Market).

Tailoring Advice Levels to Consumer Needs: Someone who wants to take out £10,000 of cover has different needs to someone taking out £10 million of cover and thus requires a different level of advice (FT, 2024a). Having "light touch" and "full" advice could be an option, though consumers need to be clear from the outset that "light touch" advice is not as detailed as "full advice" (to reduce the regulatory burden on advisers offering "light touch" advice) and that one-off advice is not the same as wider planning.

Clarify the advice/guidance boundary. The role of guidance should be to educate and support consumers throughout the process, to help them make their own decision (FT, 2024b). This is different to personalised advice. And as one respondent to our survey commented, "Firms need clarity from regulators on boundaries between advice and guidance."

In its Advice Guidance Boundary Review, the FCA supports this, stating 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" (FCA, 2023c).

The purpose of this is to encourage firms to do more under the existing framework, providing them with more certainty.

Targeted support: Many consumers experience the gap between information or guidance and regulated financial advice (FCA, 2023e). Targeted support could bridge this gap, using limited personal information about a customer and their circumstances to provide support and help consumers to make an informed decision. It could result in an insurer suggesting options to consumers based on "people in your circumstances". Consumers would need to understand what this new type of support is, and how it is distinct from simplified or holistic advice. They would need to understand that the product offered through this service is for "people in your circumstances", rather than an individually personalised recommendation (PA, 2024).

A new means of consumer support may add further complexity to the existing advice landscape. There may be instances where the consumer ends up receiving both targeted support and holistic advice. The FCA is consulting to prevent potential for consumer confusion and potential harm where consumers receive both services (FCA, 2024a).

It will be necessary to gather more limited information, to ensure the support is appropriate to a broader target market, to which the individual customer can be identified as belonging. New standards would reflect that this targeted support would be less bespoke than individual advice. Targeted support would be intended to provide customers with a better outcome than would be expected without this support. Robust product governance would be needed to ensure that providers make suggestions that are appropriately tailored to a target market when offering targeted support.

Simplified advice. This is a one-off service, where the firm would only consider relevant information about a specific customer need. This could be suitable for customers with simpler needs, although it is crucial that customers understand the nature and limitations of simplified advice before receiving a financial service. Regulatory safeguards would need to be in place to protect against unsuitable consumer outcomes.

One type of targeted or simplified advice could be robo-advice. Consumers can use for example robo-advice to get generic advice on protection products and what might be suitable for them. This may make protection more understandable and accessible to a wide range of people. An area for additional research should focus on why robo-advice is not used by more people. As of 2022, only 1.5% of UK adults have used robo-advice (FCA, 2023e).

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Flexible remuneration models. Perhaps making the fee less central to the advice conversation might put customers off less than the current approach. Perhaps commission could be offered to customers as one option for intermediary remuneration, as long as this was offered with full disclosure of the cost and amount of commission, and how it would be charged. The FCA agrees with this (FCA, 2023c), stating that: "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."

Better advertising of government's free financial guidance service (MoneyHelper) coupled with increased funding and investment to increase capacity. This is free and publicly available, though not enough people are aware of it. Work with government to boost the awareness of this service. Also work with government to come up with a clear referral system to point people towards financial advice at key life stages.

Improve financial education in schools. Young adults typically show the least engagement with their financial situation. More financial education is needed in schools, to give people the tools to make better financial decisions. This financial education should then be carried into the workplace, so that people can engage with their finances in a positive way and develop financial resilience.

5.3 Technology-Driven Solutions

To further fill the advice gap, we consider placing more emphasis on technology-driven solutions.

Technology can create platforms that blend community-driven insight with professional oversight. For instance, develop a forum (Insurance Community) with appropriate monitoring and policing and an AI tool (Robo-Advice) for the insurance industry based on Money Saving Expert or MoneyHelper.

This could focus on: filling the gap for the low-income group, because they are most significantly affected by the commission ban; enhancing public understanding by using technology; and filling the advice gap by building connections between potential policyholders and providing them AI-based advice.

One respondent to our survey supported this kind of approach, stating that "Technology and automation of advice in conjunction with government advice services (e.g. Money Advice Service) should be explored – it should lead to better outcomes than people being uninformed about their choices and the risks they are exposed to."

In our view, the forum should include the following features:

1. Multi-end interaction.
   a. Allow people to communicate with each other about the insurance product they have bought or are going to buy.
   b. Allow people to write and view posts with their opinions about certain products or types of products.
   c. Allow people to rate the posts with their own judgement.
   d. Allow firms to participate in content co-creation with consumers.
   e. Allow people to benefit from posting well-received content.
2. Provide a fine-tuning AI tool inside the forum. For example, develop personalised recommendations which combine product information provided by firms and the stated preferences of customers.
3. The forum's interface should be easily navigable and straightforward to understand. A good example of such an interface is the existing MoneyServiceExpert.com website shown in Figure 5 below (MSE, 2024):

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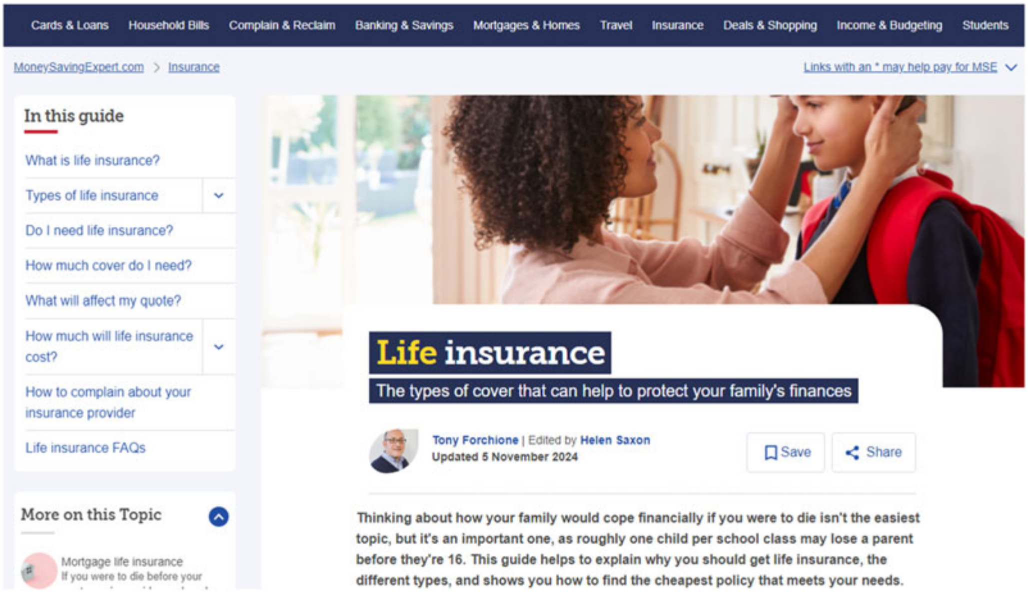

Figure 5. MoneyServiceExpert.com website.

Creating an insurance-tailored AI tool to give advice may be more efficient than designing a website that draws in users. Perhaps the biggest challenge is building people's trust in the quality and integrity of AI-driven advice and each other's posts and motivating them to visit the website. The goal is to make the website useful and profitable for both the insurance company and potential customers looking to buy an insurance product underpinned by good customer outcomes.

6. Implications and Benefits of Specific Solutions

So far, we have considered why there is an advice gap and what this means. In this section, we consider some of the solutions first introduced in Section 5.2, setting out the benefits and limitations of these potential solutions.

6.1 Utilise Consumer Duty

6.1.1 Benefits

- As a principle, Consumer Duty is very noble, ensuring that consumers receive the appropriate product type and investment choices to meet their needs and fair value.
- By considering fair value, it gives consumers the option to pay for advice either through fees or through commission. This may encourage consumers who were previously put off by the fees to take out advice, without impacting consumers who prefer fees to commission.
- The option to pay for advice by commission would improve access to advice for the lower income/lower wealth segment of the population and promote financial inclusion.

6.1.2 Limitations

- It is difficult to verify that a product represents fair value without relevant data.
- What is "fair value" may differ for the same consumer depending on their life stage, which may be confusing.
- May lead to business models and distribution channels, such as platforms, to exit the market.

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6.2 Clarify the Advice/Guidance Boundary

6.2.1 Benefits

- This may encourage advisers to offer guidance rather than advice to certain consumer segments, by reducing their concerns about potential mis-selling. This may expand the reach of advice.
- Some consumers may only need guidance rather than full advice, so offering this may be more cost-effective for consumers and advisers in certain circumstances.
- Expanding the reach of advice at lower cost may promote financial inclusion for the lower income/lower wealth segment of the population.

6.2.2 Limitations

- While this approach reduces regulatory risk for advisers, it might not be profitable for them to offer guidance for people with low levels of assets.
- Consumers need to be educated to understand the difference between advice and guidance, which again may have a cost for advisers.
- Guidance may be priced at a level that creates price pressure on full advice services.

6.3 Flexible Remuneration Models, Including Reintroducing Commissions

6.3.1 Benefits

- This may help to expand the reach of financial advice, so that it is no longer offered solely to more affluent consumers.
- It would also reduce the risk of having to pay for advice even if, for whatever reason, a contract is not concluded (BF, 2022).
- By reducing consumer awareness of the true "cost" of advice, it may encourage greater uptake of financial advice.

6.3.2 Limitations

- There is a risk that advisers direct consumers towards products that offer higher levels of commission, not those that best suit a consumer's needs.
- A commission-based model can lead to churn by advisers, which is being discussed in the Thematic Review of the FCA for protection business.

6.4 Targeted Support

6.4.1 Benefits

- 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.
- It could also unlock access to the currently underserved mass market and promote financial inclusion (FT, 2024c).
- More limited information would be collected for these cases and hence advisers' GDPR requirements and other costs may be lower.
- It could be appropriate for those with less complex financial needs, or those who could not afford to pay for full advice.

6.4.2 Limitations

- There is a risk of people misunderstanding the concept of "people in your circumstances" and thinking that it is personal advice. Robust product governance would be needed.

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- Its success will depend on how it is implemented and by whom. There is a risk that consumers make the wrong decisions based on information from targeted support.

6.5 Robo-Advice

6.5.1 Benefits

- Offers 24/7 financial advice at a lower cost, making it accessible to a wider audience, especially beneficial for beginners or those with smaller investments.
- Automates investment decisions based on user data, simplifying the process, and providing unbiased advice without human errors or biases.

6.5.2 Limitations

- May not fully capture a user's complex financial situation or personal preferences, making it less suitable for intricate financial planning needs.
- Relies on historical data for decision-making, which may not account for recent trends.
- The take-up rate has been low.

6.6 Insurance Community

6.6.1 Benefits

- An insurance community allows individuals to share experiences, advice, and insights about various insurance products. This peer support can help users make more informed decisions based on real-life experience rather than solely on marketing materials or sales pitches.
- Communities can highlight the strengths and weaknesses of different insurance products, providers, and policies. This transparency can help consumers to avoid products with poor service or value and choose those that best meet their needs.

6.6.2 Limitations

- While communities can offer a wealth of information, the accuracy and reliability of that information can vary. Users may need to critically evaluate advice and experiences shared within the community to determine their applicability and truthfulness. This is particularly challenging with the low levels of financial literacy referred to in Section 4.
- Communities may have members with specific biases towards or against certain products, services, or providers. These biases can colour the information shared, leading others astray.
- The wide range of opinions and experiences shared in a community can sometimes be overwhelming or confusing, particularly for individuals seeking clear and straightforward advice. Users may find it challenging to sift through conflicting information to make informed decisions.

7. Conclusions and Recommendations

This section summarises our selected conclusions, which are summarised below in Table 1.

Table 1. Conclusions

Clarify the advice/guidance boundary	Providing firms with more certainty, and encourage them to do more under the existing framework
Flexible remuneration models	Option for the customer subject to full transparency and disclosure
Targeted support	Intended to provide customers with a better outcome than would be expected without this support
Utilise Consumer Duty	Ensure that customers receive fair value with good customer outcomes

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The working party started off by researching the extent of the advice gap in the UK market, the key issues and factors leading to an advice gap, the highly negative consequences of the advice gap, and thus the need to think about mechanisms that could mitigate and reduce the advice gap.

We quickly realised that while widening access to financial advice and guidance and reducing the size of the advice gap are valuable in themselves, they should include special consideration for specific groups, for example women, lower-income and wealth customers and vulnerable customers. This is where the advice gap is biggest, and some of these groups of people could benefit most from access to financial advice or guidance, particularly those groups with lower levels of financial literacy, and with less means to start off with.

However, the working party support the view that mitigating and reducing the advice gap is not a silver bullet, but must be accompanied by additional measures to protect customers in financial services if we want to ensure that customers, for example, receive value for money and good outcomes from their financial products.

The working party supports clarifying the advice/guidance boundary, introducing flexible remuneration models as an option to pay for advice and further work on targeted support within the new Consumer Duty framework. Given the wide range of customer groups with differing needs and levels of financial capability, it would seem more appropriate to allow customers to access advice, guidance or support in differing ways, and to pay for those services either as a fee or from product loadings via commission, or even a combination of the two.

The Advice Gap Report 2024 (LC, 2024) has surveyed the appeal of four different service types (see Figure 6 below). Although it is yet to be seen how the Advice Guidance Boundary Review will progress, the net appeal of the propositions are broadly the same. We note for completeness the FCA's focus on targeted support in the near term (FCA, 2024a).

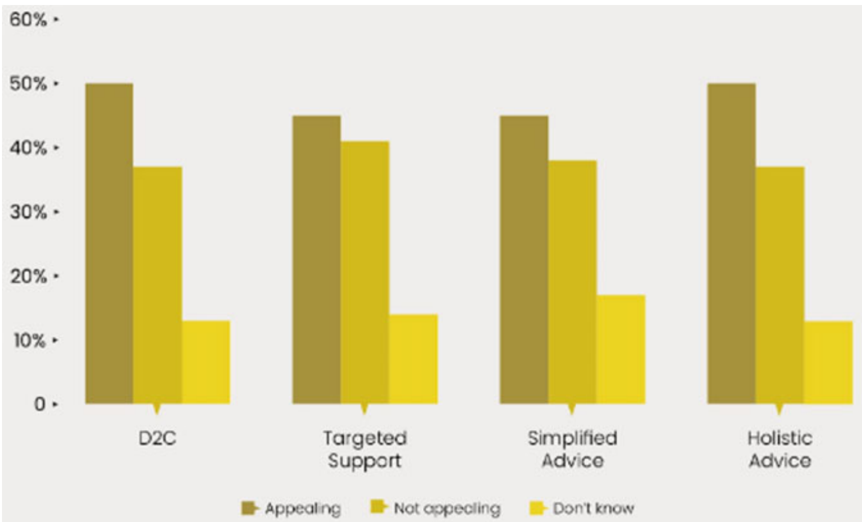

Figure 6. Appeal of different service types (LC, 2024).

However, in order to ensure that customers receive products suitable for their needs and good outcomes, it is imperative that we utilise Consumer Duty to ensure that customers receive the appropriate product type and investment choices to meet their needs and value for money in all these situations. The working party sees Consumer Duty as subsuming a duty of care, which is usually defined in law as a requirement to exercise reasonable care and skill (FSCP, 2017; HoL, 2020). Consumer Duty should ensure that customers get: the support they need, when they

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need it; communications they understand; and products and services that meet their needs and offer fair value (FCA, 2023j). Implementing this in the context of an advisory environment where we have clarified the advice/guidance boundary, introduced flexible remuneration models as an option to pay for advice and developed targeted support should provide customers with the means to pay for the level of advice that they need while being confident that they are receiving the right products for their needs at the right price and value for money. Finally, Consumer Duty should help to build trust between firms, advisers and their customers, which would improve the level of trustworthiness in the market.

The sizeable advice gap in the UK market is a societal problem, an increasing concern and requires immediate attention and remediation. The working party strongly believes that the IFoA should play a role in promoting a greater access to financial advice, guidance and support and as a general spokesperson for this topic. We are well placed as a profession to balance the public interest in mitigating the negative consequences of the advice gap with our role as experts within the financial services industry and wider fields. We hope that the research and ideas presented in this paper will help the profession to take the next step, and we, as a working party, are happy to support with further research, ideas and stimulating material.

Acknowledgements. The working party would like to thank the peer reviewers for their useful comments and suggestions, which have helped to improve the paper. Particular thanks is given to members of the Life Board and the Life Research Committee for their input. Finally, helpful comments received from the participants of our survey are greatly acknowledged.

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Appendix A

A.1 Results from a survey carried out with the Profession

As part of the working party's research, a survey was conducted with the Profession during 2023. The survey was shared in many media and forums including on IFoA Communities and at the Life Conference. The survey questions are shown in Table A.1 below for completeness. In total, 33 people took part and the respondents tended to agree with each other. The full results are available at:

https://www.surveymonkey.com/results/SM-8cLkcLOhBoat7SrguJGF2w_3D_3D/.

Respondents tended to agree that the current distribution and advisory system does not meet the needs of the consumer well. All respondents (33 out of 33) believe that there is a gap in the market for advice, with 25 respondents stating that the gap exists specifically for the lower income and wealth segment of the market. Most respondents stated that the system works well for those that can afford it, but that advice should be accessible for the less affluent. One respondent commented that: "We need to serve the whole market, not only those that can afford professional advice."

Some 52% of respondents believe that the ban on commissions has been detrimental for Life insurance sales, with commenters stating that it has resulted in lack of access to insurance for some segments of the population and lower sales volumes. One respondent stated that: "When 90% of my company's customers fall into the "advice gap" at the maturity/ retirement, there is a significant problem to be addressed." However, some respondents stated that the ban has been beneficial for those buying insurance in that it has increased transparency of costs and reduced mis-selling.

Some 31% of respondents stated that their company owned its own distribution company, with 69% stating that it did not. Commenters suggested that owning their own distribution company brought benefits in terms of product development and advice. One respondent commented that: "Owning distribution means we get a direct line into what clients need and can extend product range accordingly. It also means we are motivated to increase productivity which in turn helps address the advice gap." Another stated that: "I think being vertically integrated can be a brilliant way to reduce costs, produce high quality product and improve outcomes for customers IF it is done with integrity and strong controls."

Interestingly, some 41% of respondents supported a move to reintroduce commissions for Life insurance sales, while 31% were against reintroducing commissions. Several commented that commissions should be capped. One respondent suggested a blended approach of part commission and part fee could be helpful, and one respondent suggested that: "Under Consumer Duty perhaps the obligations to demonstrate customer value throughout the value chain should provide a sufficient safety net to remove the need to ban commissions."

Many respondents suggested that there should be a clearer distinction between advice and guidance, and that the market should find ways to reduce the cost to provide advice and guidance to the mass market. This could include: simplified AI-based advice or guidance; more use of default pathways and providing restricted advice or guidance on specific topics; placing more obligations on employers/workplace distribution to ensure their employees have access to some form of advice or guidance; creating a separate category where robo-advisors can operate and where the public have confidence that it is regulated but not full advice; and finally, developing simpler, more standardised products (perhaps kitemarked) with simple (perhaps pre-determined) advice charts.

https://doi.org/10.1017/S1357321725000054 Published online by Cambridge University Press

Table A.1. Survey questions

1	We are researching the potential advice gap in the UK market. Do you think the current distribution and advisory system meet the needs of the consumer well? (Mark from 1 (not at all) to 5 (very well))
2	What do you think could be done to improve the current distribution and advisory system to better meet the needs of the consumer?
3	Has your company increased wealth or income limits for providing advisory services following the Retail Distribution Review? **Yes No N/A**
4	Do you believe there is a gap in the market for advice? **Yes No**
5	Is this gap for all areas of advice or for specific sections of the market only? **All customersSpecific sections of the market only**
6	If for specific sections of the market only, which are these? **High net worth Middle income / wealth Lower income / wealth**
7	Do you believe the ban on commissions has been beneficial or detrimental for Life insurance sales? **Beneficial Detrimental Other (comment field)**
8	Does your company own its own distribution company? **Yes No**
9	How does owning/not owning your own distribution company drive product development and/or impact the advice gap?
10	Do you believe that the current consolidation in the market is impacting product development and the advice gap? **Yes No Maybe**
11	Do you have any additional comments to share on the impact on product development and/or the advice gap of consolidation in the market?
12	Has your company noted a change in the segmentation of customers since the Retail Distribution Review (e.g. by age, wealth, income profile or geography)? **Yes No Maybe**
13	If you answered Yes to Q12, which areas have you noticed segmentation by? **Age Wealth Income Profile Geography Other (please specify)**
14	Would you support a move to reintroduce commissions for (Life insurance) sales? **Yes No Maybe**
15	If so, would you support any special circumstances where this should/should not apply, or any limits on the levels of commissions?
16	Various groups and organisations have highlighted a perceived Advice Gap in the Market. Are there any specific changes you would recommend which could ensure that all customers could receive professional financial advice in a cost-effective manner?
17	Do you have any final thoughts or comments on the advice gap you would like to share with the working party?

Cite this article: Barnard C, Arkut B, Duffy R, and Xu X. (2025). Please advise me: advice gap working party. *British Actuarial Journal*. https://doi.org/10.1017/S1357321725000054