

# **Personal Financial Planning Advice: Barriers to Access**

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## **Abstract. – Personal Financial Planning Advice: Barriers to access.**

With the move towards a society where responsibility has been placed upon the individual to make financial provision for future events, comes the need for individuals to be able to interact with the financial services sector and make informed decisions regarding their financial choices. This research focuses on the barriers that influence why and how consumers access advice from Regulated Financial Advisers.

Three key variables are highlighted by this research that each affect the consumer's ability to access regulated financial advice; Firstly, knowledge, where sub-themes relating to need, knowledge of services and 'finding an adviser' were identified. These highlighted the concept of advice not generally being the 'subjective norm'. Secondly, trust, where the concepts of 'general trust' and 'individual trust' emerged along with the issues surrounding consumers' abilities to apply 'critical trust'. Thirdly, affordability and cost, which includes the consumer's appreciation of the value of advice.

Finally, this research asks whether consumers are overwhelmed by the extent of the provision they need to make to shape their financial future. It therefore begs the question as to whether the degree to which the welfare state has already been rolled back has resulted in financial planning issues beyond the capabilities of most consumers.

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## **Glossary of Acronyms.**

ABM – Advice Belief Model

CA – Citizens Advice

CF30 – FCA/FSA designation for Pension and Investment Advisers

CFEB – Consumer Finance Education Body

CII – Chartered Insurance Institute

FCA – Financial Conduct Authority

FSA – Financial Services Authority (former financial regulator)

FSMA(2000) - Financial Services and Markets Act (2000)

GPP – Group Personal Pension

HBM – Health Belief Model

IFA – Independent Financial Adviser

MAS – Money Advice Service

NAE – National Average Earnings

QCF – Qualifications and Credit Framework

TPB – Theory of Planned Behaviour

USS – Universities Superannuation Scheme

# Chapter 1

## Introduction

*“I think they stumble upon it [advice] more than anything else”... Alan, an Independent Financial Adviser (Moss, 2013).*

With the move towards a society where more responsibility has been placed upon the individual to make financial provision for future events, comes the need for the individual to be able to interact with the financial services sector and make informed decisions regarding their financial choices. This shift towards what Strauss (2008) refers as an ‘ideology of individualism’ brings with it an increasing need for consumers to be able to access financial advice.

The aim of this research, has been to try and better understand the barriers that influence why and how consumers access advice from Regulated Financial Advisers. These results have then been used to help to show how the barriers can be lowered and access improved.

Chapter one sets out the broad aims of the project and summarises the content of the future chapters.

Chapter two of this thesis begins by explaining from a policy perspective how the increasing need for the individual to take personal responsibility has developed and then goes on to explain how this has influenced the growth of the financial services sector. It then considers the issues of affordability of both products and advice, going on to look at how the mis-selling scandals of the last three decades have affected consumer confidence. The next section of chapter 2 reviews the current structure of the financial services industry and in particular the advice sector along with the associated regulatory regime. This leads on to an examination of the work the regulator carried out on developing a new advice regime that commenced, following the Retail Distribution Review, in January 2013. This review of the advice regime ran in tandem with the development of a national generic financial advice service that followed the

recommendations of the Sandler Report (2002) amongst others. Finally, the chapter discusses the different ways in which advice is delivered, comparing the holistic and transactional approaches that are adopted by different firms of regulated financial advisers.

From a social policy perspective a key aspect of this research is to understand the relationship between the structure and agency issues that prevail in this debate as to how the consumer can successfully engage with financial services and therefore access financial advice. Chapter two describes the current structure that prevails whilst chapter three considers how as active agents consumers are able [or not] to make choices within the prevailing structure that determines whether or not they engage with the financial services sector. These choices partly determine the wealth they are able to accumulate which has implications for the welfare provisions that government provides.

Chapter three deals with a number of different theories and concepts that are relevant to the advice process drawing on literature from a variety of disciplines including health behaviour models, behavioural economics and economic psychology. It starts by looking at how advice is used and then how the consumer may be alerted to the need for advice by particular 'triggers'. These might be either particular life-course events or other external influences that highlight particular needs, which they then may want to subsequently address.

The next section of the chapter looks at models used to predict behaviour, in particular the 'Health Belief Model' is considered along with subsequent developments of this idea. More general models from social science are then considered that lead on to the development of the 'Advice Belief Model', which is an attempt by the author to better understand the process the consumer follows when taking advice and the barriers they may encounter on the way. The discussion then moves to the issue of trust and how it may influence the consumer's willingness to engage with financial advisers and the

financial services sector more generally. This section first considers some of the underlying theories of trust and then goes on to show how these are relevant to consumer engagement with the advice process. Finally the trust section considers how these theories are being applied in the policy that has led the development of both the Money Advice Service and the post-RDR advice regime.

Chapter three concludes by describing some of the relevant theories from economic psychology and behavioural economics which are starting to be used to 'nudge' (Thaler and Sunstein, 2008) the consumer in to taking particular actions. These theories are currently being used to try and help consumers better manage their money.

The next part of this thesis, chapter four, explains the methodology that has been adopted in this research and justifies why the 'mixed methods' approach was adopted. It provides detailed explanations of how both the quantitative and qualitative stages of the research were conducted paying particular attention to the potential for bias that existed because of the researcher's role and experience as a financial adviser. Furthermore, as the survey and interviews were conducted with attendees at Money Advice Service Workplace Seminars, it discusses the ethical implications of this approach.

From chapter five onwards the results of the research are revealed. These have been presented on a thematic basis where the key themes are presented separately, although the section starts with a short introductory chapter that precedes the themed chapters. Each themed chapter looks firstly at the results from the survey conducted at the Money Advice Service seminars and then goes on to look in more detail at the experiences of the survey participants that were later interviewed. Each chapter also takes account of the views of regulated financial advisers who were later interviewed following analysis of the consumer interviews.

The first of the thematic chapters (6) considers the implications of consumer knowledge. There are three sub-themes within this area that are discussed separately before these different aspects of knowledge are drawn together to consider the links between them. Knowledge of need is the first of these sub-themes and is about consumers' understanding of the risks that have been enlarged by the policy shift towards this more individualistic approach where there is an expectation that consumers take greater responsibility for future risks. Without this knowledge of the risks posed by the current approach the consumer cannot see any need for advice and therefore may not interact. Within this section life course events are considered that can act as prompts to advice whilst unrealistic coping strategies that may act as barriers are also discussed.

The second sub-theme within this chapter is the knowledge of available services. This considers how the participants' knowledge of advice services influenced how and when they had used services. In particular, how this had varied for different financial needs and objectives. Finally this section explains how the interviewees had valued the advice they received.

The third sub-theme within chapter six considers how the interviewees found particular advisers and the issues that this presents to the consumer more generally.

Chapter seven explains the advice process from the perspective of trust. Firstly it considers the results from the survey concerning how participants' decisions to take advice were influenced by trust. The chapter then moves on to consider the influence of trust on interviewees' experiences for each particular area of potential need. Following this the advisers' views are considered before the chapter closes by relating the theory of trust to the experiences of the interviewees.

The last of the themed chapters, eight, considers the impact of cost and affordability upon consumers' ability to take advice. Firstly, the chapter looks at how affordability can

be an issue and then goes on to look at how the consumer's willingness to pay for products and/or advice can affect whether they seek advice. An important aspect of this is the consumer's knowledge of how advisers are remunerated. Finally, the chapter considers the interviewees' views on the benefits of advice from a cost perspective and how they interpret the value advice can bring. This is then related to the implications for both the Money Advice Service and the post-RDR advice environment.

The last chapter of this thesis (9) then draws together the findings of this research and attempts to offer some thoughts on how engagement and/or services may be improved. Firstly, the chapter answers the research questions and then goes on to discuss these from the perspective of policy, attempting to frame them in terms of the various models from health and social sciences and in particular the model developed as part of this research. Finally, the chapter considers the implications of barriers to advice for consumer welfare and offers some alternative approaches that may be considered.

## Chapter 2

### Advice: what it is and where to get it

#### 2.1 - Introduction

Since the 1980s when the neo-liberal policies of government started to come to the fore, there has been an increasing emphasis towards citizens making provision for their own future rather than relying upon the state to provide (Green, 2004). In this chapter I will discuss how this shift towards a more individualistic society has seen the growth in home ownership, greater emphasis on private pension planning and the reduction in welfare benefits. This has resulted in the need for consumers to be able to access financial advice to help guide them through the maze of potential solutions that have become available as the financial services industry shifted its focus to take advantage of this opportunity created by the rolling back of the Welfare State.

This chapter will follow the development of the advice sector from its self-regulated approach of the 1980s through to the recent changes that have been implemented in January 2013 following the Retail Distribution Review (RDR). Along this journey there have been a number of strategies adopted by the financial service providers which have disadvantaged many consumers, such as endowment and pension 'mis-selling scandals'. The discussion will try and highlight the reasons behind these strategies, which are generally accepted as having damaged consumer trust in the financial services sector and resulted in the consumer and the industry failing to engage. Part of the proposed solution to this failure to engage, by both parties, has been the development of a generic advice service. The objective of this service is to help consumers more easily engage and is particularly relevant to those in the lower income groups who may have been, historically, less likely to be able to access regulated financial advice.

The chapter will conclude by summarising the different types of advice service currently available and comment on how consumers access these services.

## **2.2 – The Policy Context**

This section will consider how changing government policy has influenced the growth of the financial services sector which has been fuelled by the increasing consumer need for financial products such as personal pensions, mortgages, insurance products and savings vehicles. Claessens (2006,p.207) suggests that “...*Finance can help individuals smooth their income, insure against risks, and broaden investment opportunities*”. This growth in consumer need has resulted from the particular welfare model that has been adopted in the UK in recent decades.

Esping-Anderson (1990) identifies three welfare state models (cited in Gough and Wood,2004, p.4) that exist in the democratic advanced capitalist world. The conservative-corporatist model such as that operating in Germany utilises social insurance funds, whereas for the Social Democratic model, the role of the state is central to this approach. In social democratic regimes the state provides sufficient support for most of the population at retirement and protects them in the event of them being unable to support themselves due to unforeseen circumstances. In some countries, notably Sweden, this collective model prevails where state benefits and pensions are of a sufficient level for the majority to enjoy a life above subsistence level. Obviously, this model results in the state having higher costs and can result in generally higher levels of taxation. However, the trade-off is better state provision for citizens. The more individualistic liberal model, adopted in the UK since the 1980s, relies to a greater extent on citizens to make provision for themselves, which for some may not be as easy as might be assumed. In this type of regime ‘the market’ is central to welfare provision and the state plays a more marginal role. The major problem with this model is that the safety net provided by the state is generally insufficient for the majority to enjoy a reasonable standard of living and the responsibility for bridging this gap falls upon the individual (Taylor-Gooby, 2008). For the more affluent citizen who is generally more financially experienced this does not necessarily pose a major problem , but for middle/lower income citizens and more vulnerable groups it means that, assuming they

can afford to make additional provision, they will need to interact with the market and may have to seek assistance in planning their finances. Establishing trusted relationships with suitably qualified advisers is an important element of ensuring they take the right action.

This shift in policy is accounted for by some commentators as an outcome of globalisation. That is, the interdependence of the economies of countries throughout the world. Alcock (2004) suggests that this has the effect of reducing the scope countries have to make policy and strive for full employment, whilst empowering the economics of neo-liberalism. Page (2007), notes that New Labour moved away from its earlier social democratic philosophy by adopting values that supported the increasingly competitive global market.

Skott and Ryoo (2008) comment on the implications of 'financialisation' within this globalised market, which they define as the increasing role of finance within the world economy that they suggest results in instability of employment and opportunities for growth. Finlayson (2009) suggests that this inclusion of more and more consumers in the financial markets has attempted to make consumers less dependent on the state by providing them with opportunities to find employment, save and invest. Erturk et al (2007,p.554) argue that post financialisation "*...individualised money making and risk control*" is favoured as an alternative to the collective politics of social security. They go on to explain that this democratisation of finance is being increasingly used by the state and the financial services sector to encourage citizens to invest as a way of meeting a range of financial needs. However, they also say that the difference between the expected outcomes and reality has resulted in disappointment for consumers, highlighting various mis-selling scandals as examples of this. Furthermore, they express concerns about consumers' financial capability not being sufficiently developed to make the complex decisions that are required to manage unknown risks through the life-cycle. They highlight the language of supporters of this strategy, referring to an early FSA paper (2004) with which they share the vision of "*...better informed, educated and more*

*confident citizens, able to take greater responsibility for their financial affairs and play a more active role in the market*” (Erturk et al 2007, p.559) subsequently asking the question as to how the financially illiterate are expected to cope.

More recent research by Clasen et al (2013, p.588) discusses how the use of these non-statutory social protection approaches available through the market are influenced by “... *class, income and other social divisions*” whilst those, for example, on lower incomes may have to fall back upon state or informal provision. Again, agreeing with earlier commentators, Brunson (2004,p.184) suggests New Labour continued the Conservative policies of “...*Self provisioning for life-cycle contingencies*”. Clasen et al (2013) go on to highlight how successive governments have shifted responsibility towards the individual and suggest that currently the main UK political parties concur that all but those on the lowest incomes should make private provision rather than depend upon the state. However, there are issues within the market that can make this unrealistic for some, where fluctuating income, job insecurity and onerous medical underwriting conditions can make these products unavailable or unaffordable for certain consumers.

So this shift in policy towards the market solution has resulted in the UK Government providing only a ‘safety net’ for the individual. For most citizens this is insufficient to maintain the standard of living to which they have become accustomed and keep them out of poverty (Clasen et al, 2013). It therefore falls upon the individual to make additional provision to bridge the gap between state provision and the income required if they wish to maintain their living standards should these eventualities occur. This may require them to save in to a pension plan to bridge the gap at retirement or take out insurance plans to maintain income for themselves and their dependents in the event of being unable to work due to sickness, disability, unemployment or premature death. Rowlingson (2000, p.2) describes what was perceived by New Labour as the “...model citizen”, as someone with a strong savings ethic, living in a society where individual

planning is considered a “...morally responsible activity”. She goes on to say that there may be some justification for this move towards greater individual responsibility and away from state planning but it has consequences. Furthermore, the general lack of trust in the financial services has meant that many people have felt unable to interact with ‘the market’. This lack of trust in the financial services sector was the motivation for the Treasury enquiry, ‘Restoring Confidence in Financial Services’. This paper (HMT, 2004 , p59) drew on the views of a range of stakeholders including Citizens Advice who warned that “...there are particular difficulties for those on low income in accessing suitable financial advice at a low cost. Distrust of financial advisers, not knowing how to find a suitable adviser and the cost of financial advice are significant factors for many consumers to put off seeking professional independent financial advice”. The paper went on to discuss the various mis-selling scandals that have damaged trust in the financial services industry including the mis-selling of endowments, pensions, split capital trusts etc. These mis-selling scandals (see 2.6) and the issues around consumer trust (see 3.6) will be discussed later in this thesis.

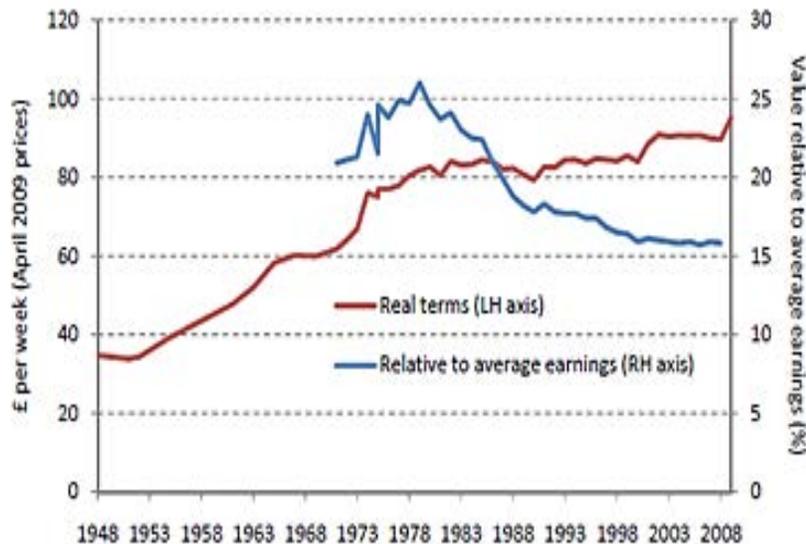
Although many commentators suggest that the consumer should have choice in planning for future events, Baldock et al (2003) suggest that choice is only really available to those that have the means and the knowledge to exercise it. He goes on to say that under Labour’s Contract for Welfare, although the citizen has certain obligations, for example to save for retirement, the state also has obligations.

As well as providing for those that are unable to provide for themselves, the state also attempts to protect those that exercise choices by regulating the savings, insurance and pension products they buy. So by providing adequate regulation of these products the state tries to give the consumer confidence (and therefore trust) in these products (FSMA, 2000). Of course this still does not mean the consumer will take the action required to plan for the future. Lack of income or motivation can also contribute to inaction.

Examples of how the state provision has been rolled back are evident in the following;

- Decline in real value of the basic state pension - originally the increases in state pension were linked to national average earnings (NAE); this was subsequently changed to a link with the retail prices index which had the effect of reducing the value of the state pension as a proportion of earnings. The link with NAE was restored in 2011 (CII, 2010).
- The reduction in accrual rate and earnings definitions of the state earnings related pension scheme was reduced on accrual post 1988 and the earnings definition was changed to lifetime average earnings (Bozio et al, 2010).
- Reduction in Income Support for Mortgage Interest – this was significantly reduced in the early part of the last decade and, although there has been a temporary reprieve since the ‘credit crunch’, this is due to revert to a lower benefit level (Pawson and Wilcox, 2012).

The first two examples above show how the state attempted to reduce its future pension liabilities. However, in the first example this decision has been subsequently reversed although for pensioners during this period the increased gap between state pension and NAE has not been restored. This is illustrated by the figure below.



**Figure 2.1 – Reducing value of the State Pension (Bozio et al, 2010).**

(Direct Reproduction)

So the effect of the 'rolling back' of the state has increased the need for financial products as consumers wanting to bridge this gap have been encouraged to take individual responsibility. For some consumers, this has meant a greater need to find a suitable source of advice to help them make the right choices in the new world of individual responsibility.

Strauss (2008) refers to this neo-liberal approach of recent governments that has shifted policy towards a welfare system that expects the citizen to become actively involved in planning for both known and unknown future events, as a shift to an 'ideology of individualism'. She goes on to say that this ideology of individualism assumes that 'active agents' are seeking to maximize matters to their own advantage. So the assumption is that the consumer will attempt to accumulate wealth over their working life and then use this wealth [decumulate] during retirement. Furthermore, as active agents they will attempt to maximize this accumulation of wealth to their own advantage. To be able to do this, consumers need to know how best to do this and have the means to achieve it. Lusardi and Mitchell (2006, p.1) suggest that "*...The standard economic model of wealth accumulation posits that people make saving/consumption decisions in a forward-looking context. Thus a young decision-maker who faces a hump-shaped profile of income must save during his working years to finance consumption during retirement*". These ideas from both Strauss (2008) and Lusardi and Mitchell (2006) originate from traditional economic theory and in particular the assumption that consumers act in a rational manner. However, this is not always the case (Herbert, 1955). Commenting on the consumer as an 'active agent', Strauss (2008) suggests that some consumers will have this capability and means whilst others will not. For some, advice and/or access to information can help them achieve this objective, whilst others will simply not have the means or act in a way that economic theory would predict.

Taylor-Gooby (2008) describes the changing nature of welfare from that of the 'industrial welfare model', which related to a mainly male orientated work-force and

was supported by horizontal re-distribution of income when required due to illness, unemployment or retirement. Today, a much more diversified work-force situated substantially in the service sector has meant that this traditional welfare model has become unsustainable. He goes on to say that from this has evolved a more market orientated model that expects the citizen to take a more active role in the provision of their welfare.

Government has attempted to help consumers to adopt this more individualistic role via policies that have had the objective of helping consumers to accumulate wealth.

Examples of these are;

- Personal Equity Plans (PEPs). These were introduced in 1986, allowing consumers to invest in equities and bonds via collectives and later directly, in a tax free environment (CII, 2006a). No further contributions were allowed after April 1999 when they were effectively replaced by ISAs with which they were later merged.
- TESSA. These were savings accounts available via banks and building societies that allowed interest to accrue free of tax (CII, 2006a). They were available from 1991 to 1999.
- ISAs. These replaced the above options in 1999, allowing investment in both cash and other asset classes in a tax efficient environment (CII, 2006a).
- Personal Pensions. Introduced in 1988 replacing retirement annuity plans which had previously only been available to the self-employed. The new personal pension plans facilitated contracting-out of SERPS and contributions were paid net of basic rate tax (CII, 2010).
- Right-to-Buy. Gave council house tenants the right to buy their home at a discounted price (Pickvance, 2003).
- Mortgage Interest Relief at Source (MIRAS). Provided tax relief on mortgage interest payments for mortgagors (HMRC, 2013). This is no longer available.
- De-regulation of the mortgage market. Housing policy was focused on extending

home ownership and removing some of the controls around the mortgage market. This has made mortgages more widely available and shifted the bulk of mortgage lending from the building societies to the banking sector (Holman, 2007).

These policies amongst others have provided the consumer with vehicles through which they can accumulate wealth, but for consumers to achieve this role of the active citizen, some may need to interact with the financial services sector and for an increased number of citizens to do so there appear to be a number of requirements (as mentioned in a number of relevant publications); -

- An established and trusted financial services sector with which the citizen can successfully interact. (The Financial Services and Markets Act 2000. Part of the FSA statutory objectives)
- A better [financially] educated citizen with the knowledge of the risks to which they are exposed and able to make an informed decision as to whether they wish to protect against these risks (FSA, 2007a).
- Easier access to financial information for the consumer so they know how, where and when action may be required and how to take it (FSA, 2004).
- Simpler products may also help to empower more consumers to successfully take the necessary steps to towards securing their financial future (Sandler, 2002).
- The consumer needs an awareness of how to get help, if necessary, to assist them with implementing solutions to negate the risks they face (FSA, 2006a).

As the gap between the 'state safety net' and the current incomes of the middle and higher earning sectors of the population widens, there is an increased need to make additional provision for those that wish to retain living standards in the future.

Individuals need to save for known events such as retirement and be protected against potential risks that may jeopardize their financial well-being and security.

Ford et al (2010) highlight ill-health as one of a number of factors that can influence mortgage arrears and repossessions. Pawson and Wilcox (2012) suggest that with the introduction of universal credit and the gap left by mortgage payment protection insurance, homeowners whose circumstances change adversely will be left exposed.

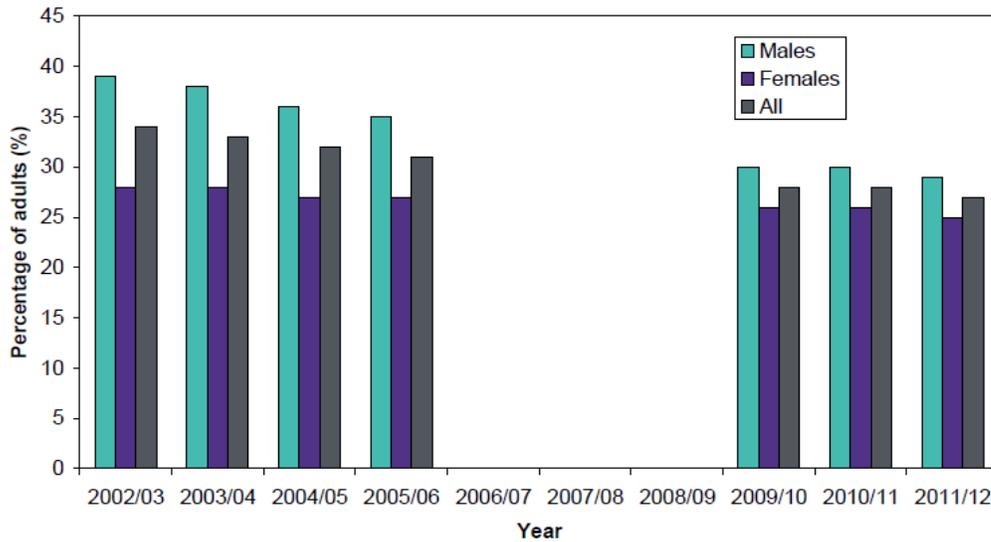
Interestingly, the DWP figures (2012) suggest that currently approximately 1.5 million people of working age (18 -65) are claiming Incapacity Benefit and have been doing so for more than six months. This represents more than 5% of the working population. Although, from the figures, the likelihood appears to increase with age, it is not dramatically so. CFEB (2010) state that:

*“...When people make bad decisions, or no decisions, there are often negative consequences for society generally. So an individual’s inadequate provision for retirement [or protection] creates a burden for the state.”*

So clearly consumers’ lack of knowledge of risks, or unwillingness to accept the gravity of these risks, can leave them exposed if their circumstances change.

Another aspect of this is the demographics of an ageing population which means the cost of welfare provision will increase as the proportion of the working population to the retired population reduces. The FSA (2008) comment that the increase in ‘late-life’ life expectancy has resulted in the expectation that citizens will live longer in retirement. This has driven a need for greater retirement resources to be built up. They go on to say that the number of families from age groups 40 – 69 with cash based savings products declined between 1995 and 2005. Similarly, fewer people held investment products. This is illustrated by the figure below which shows the reduction in pension scheme membership in more recent years (includes both occupational and personal pension

membership).

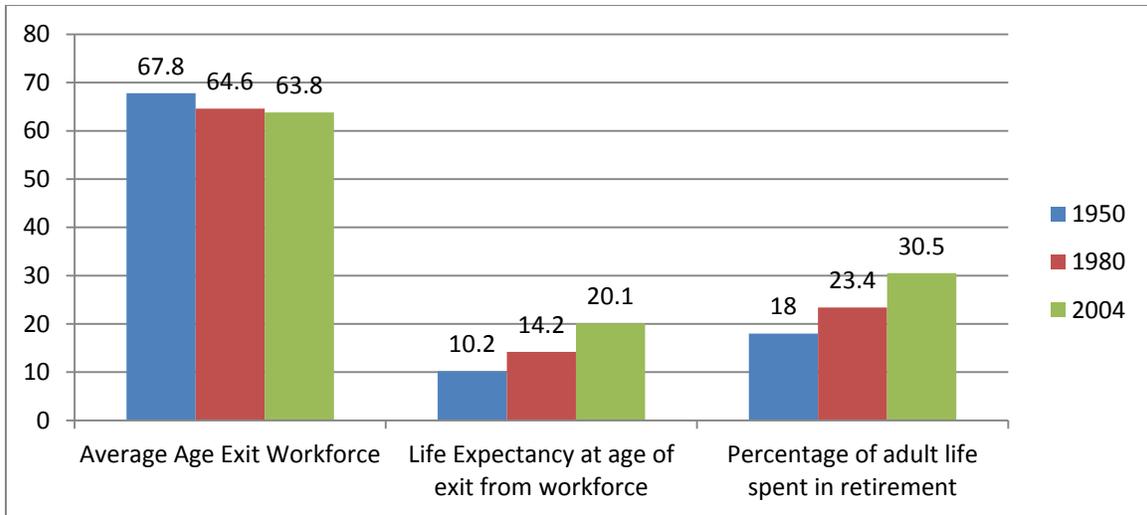


Figures from 2006/7, 2007/8 and 2008/9 are not presented due to concerns about the data for these years.

**Figure 2.2 – Pension Membership (ONS, 2013) - (direct reproduction)**

ONS (2012a, p.4) say “...the fastest population increases have been in the ‘oldest old’ (those aged 85 and over). Between 1985 and 2010 the percentage of the population aged 85 and over increased from 1 per cent to 2 per cent, with the number aged 85 and over more than doubling from nearly 0.7 million to reach over 1.4 million by 2010. By 2035 it is projected that the number of people aged 85 and over will be almost 2.5 times larger than in 2010, reaching 3.5 million and accounting for 5 per cent of the total UK population”.

The figure below illustrates this, showing how the time spent working is reducing coupled with increased life expectancy. This means citizens spending much more time in retirement than they did in the 1950s.



**Figure 2.3 – Increasing time spent in retirement (Pension Commission, 2004, p.35)**

So this ageing of the population has resulted in increased costs to the state for pensions and care. Figure 2.3 shows that retirement today is earlier and life expectancy in retirement is nearly twice what it was in the 1950s.

Furthermore, since the introduction of right-to buy in the 1980s we have seen an increasing desire by the UK population to become home-owners. Maclennan and More (2010) suggest that home-ownership increased in the UK between 1979 and 1997 from 55% to 67% and that 40% of this increase was accounted for by right-to-buy. All these factors have contributed to an increased need for citizens to access financial services products.

### **2.3 - The Structure of Financial Services**

This section outlines how regulation of financial advice has developed over the years, explains the different types of advice available in the market-place and goes on to discuss how this is changing with the implementation of the Retail Distribution Review (RDR) and the development of the Money Advice Service (MAS). It also considers the need for advice along with the issues surrounding mis-selling and affordability.

I believe it is important to consider the issue of access to advice from different perspectives. If the consumer were to act in the way that traditional economic theory would assume, then they would pursue goals that they perceived as being in their self-interest and choose options that would provide the highest expected utility (Monroe and Maher, 1995; Herbert, 1955). In which case they would not need advice as they would already be aware of all the relevant information to make a decision or they would know that advice would provide access to missing information so they could choose the best option for them. However, this is not the reality of the real world as barriers to consumer access to advice clearly exist. Before I discuss the need for advice (section 2.6) I will discuss the development of the advice sector and the sources of financial advice available to consumers.

### **2.3.1 – From self-regulation to the Financial Conduct Authority**

Up until the implementation of the Financial Services Act (1986) a great deal of the regulation around the financial services sector had operated on a self-regulatory basis via a number of different professional bodies (CII, 2006a). This Act applied to various investment and long-term insurance products but excluded bank and building society accounts, mortgages and general insurance. Later, the Financial Services and Markets Act (2000), which introduced a single regulator, along with subsequent amendments, increased the scope of the regulator to bring these excluded product areas within their scope. This legislation set out the objectives of the FSA.

The FSA's four regulatory objectives were to promote;

- Market Confidence
- Public Awareness
- Protection of Consumers
- Reduction of Financial Crime

Part of the remit of the FSA was to promote public awareness and consumer confidence in the financial services sector. The objective of the Financial Services and Markets Act (2000) was to bring together under one regulator, the governance of the financial services industry. Previously, where regulated, different sectors of the industry were covered under different acts of parliament. For example;

- Insurance Companies by the Treasury under the Insurance Companies Act 1982.
- Investments were regulated by Self-Regulatory Organisations under the Financial Services Act 1986.
- Banking by the Bank of England under the Banking Act 1987.
- Building Societies by the Building Societies Commission under the Building Societies Act 1992.

So in many respects this was a consolidation exercise to bring all financially related organisations and products under a single regulator and provide more consistent practices across the sector. It also resulted in one Financial Ombudsman Service and one Financial Services Compensation Scheme.

The Financial Services and Markets Act (2000) requires that any person who carries on regulated activities in the UK must be authorised by the FCA or exempt. Appendix 2.1 lists these activities. The FSA and now the FCA have policed these requirements since the introduction of this legislation. The implications for firms are that they must be authorised and, for certain product areas, individuals must also be individually registered. For example, financial advisers involved in advice upon and sale of investment and/or pension products will be part of a firm that is authorised and they will also be individually registered with the FCA. This is not necessarily the case for all classes of adviser or employees of financial services providers. However, the firms must show that these people are 'fit and proper' where they are authorised to carry out a 'controlled function'. The FCA lay down certain criteria regarding this (FCA, 2013).

Financial firms are granted permission by the FCA to transact certain types of business. Typically, firms of financial advisers (whether tied or independent) are likely to have permissions allowing them to arrange pensions, investments and insurance, whereas banks will commonly have permissions to transact a wider range of business. Although, a firm may have permission to transact certain types of business this does not necessarily allow all employees within that firm to provide advice to the customer regarding these products.

From April 2013 regulation of the financial services sector changed. Regulation of financial advice now comes under the control of a new body, the Financial Conduct Authority (FCA). At this stage it is too early to know how this will change the way regulated advice is supervised, although the FCA has already stated that it will take a more interventionist approach which will include the power to ban financial products and publish information about mis-leading financial promotions (FCA, 2013).

In the FSA (2012c, p.7) document, 'Journey to the FCA' it states:

*"...The FCA has three purposes. It is responsible for ensuring that markets operate with integrity; promoting effective competition; and requiring firms to put the well-being of their customers at the heart of how they run their business".*

Figure 2.4 below summarises how it plans to achieve the required outcomes.

Statutory objectives	Ensuring that relevant markets function well					
	Securing an appropriate degree of protection for consumers		Promoting effective competition in the interests of consumers		Protecting and enhancing the integrity of the UK financial system	
Outcomes	Consumers have access to fair products and services, which deliver what they promise	Consumers can be confident that firms will treat them fairly, with problems fixed promptly and effectively	Competition contributes to better consumer outcomes and firms do not exploit consumers' behavioural bias	Firms compete on clear costs and quality of service and consumers have the information they need	Consumers trust authorised firms to be fit and proper, to keep their assets secure and for financial markets to be clean and protected from abuse	FCA is part of a respected regulatory system that enables firms to know where they stand and contributes to the attractiveness of financial markets
Indicators	Fair products and services	Building trust and engagement	Value for money products and services	Competitive markets	Clean regulated markets	Attractiveness of market
	Improved consumer experience	Effective remedies	Getting better service	Clear and useful information	Low financial crime	Respected, joined-up regulation

Figure 2.4 – FCA, (2013), *Business Plan 2013/14*, Financial Conduct Authority, London.

(direct reproduction)

One of the ways it plans to monitor consumer issues is by considering the range of problems that consumers contact the Money Advice Service about.

## 2.4 – Sources of Financial Advice

There are a range of advice and information services available to the general public through a variety of channels. These include informal channels such as friends, colleagues and family, a variety of services through 'third sector organisations' such as Citizens Advice, the Money Advice Service (established by government in recent years), through to the regulated advice services that are the main focus of this research.

Part of the need for consumers to have access to a range of advice services comes from the shift in policy towards a more individualistic approach to welfare, as described earlier, and the low levels of financial capability in the UK generally (FSA, 2006a). This may in part be accounted for by lack of financial education provided at school. Currently (2013) there is little financial education available in schools although it is now to be

included in the National Curriculum as part of mathematics and citizenship education (PFEG, 2013). Over the longer term this is expected to increase the awareness of financial issues and may help to spread a wider understanding of where regulated financial advice fits within the range of options available to the consumer. However, at the moment there are issues that persist with consumers using informal sources of advice. These different aspects of sources of information and advice will be discussed over the next few sections.

#### **2.4.1 - Informal Advice**

Although there is much Generic Financial Advice available from a variety of sources, by far the most common initial source of advice is from friends or family. Atkinson and Kempson (2004) suggest that 45% of young people use their parents as their initial source of financial advice. Later research by Finney and Kempson (2008) which looked more closely at what sources of information consumers use, found that family and friends were a popular choice for those considering buying a variety of different financial products which included mortgages, investment and complex insurances. This reliance on informal networks can have associated benefits and downsides. Jones and Barnes (2005) believe that the use of informal networks to gain advice can perpetuate the rumours and myths that often surround financial matters and that this is particularly so for lower income groups.

My earlier research, *“An Investigation in to how people get financial advice”* (Moss, 2006) identified a relationship between trust and knowledge. The post-graduate students that were interviewed all used informal sources of advice as their first ‘port of call’. Generally, this was parents or knowledgeable friends who were trusted and seen only to have the interviewee’s interests at heart. This high level of emotional trust seemed to waive the need for them to have any knowledge of the subject. They all were prepared to accept the advice of a parent/friend without question. In these examples, all the post-graduates interviewed had knowledgeable sources of advice to draw upon, for example, the father of one interviewee was an accountant and another’s a

policeman who had always successfully managed his own financial affairs. So in these cases the sources of informal advice were informed and knowledgeable, making them able to provide good advice and help their off-spring make informed choices. Unfortunately, not everybody has access to informed sources of advice through informal channels that they can trust implicitly. This is the point Jones and Barnes (2005) make.

In their paper, Jones and Barnes (2005) deal mainly with the reasons why consumers use alternative lenders, and in some cases, unauthorised money lenders. In low income communities, citizens are often of low financial capability and tend to rely on information from social networks. This can prevent them from accessing mainstream services, as often the information they receive is wrong or there are gaps in it. Of those Jones and Barnes interviewed, only 11% preferred to get information from leaflets whereas more than 50% favoured word of mouth. They also suggest that reliance on social networks is a causal reason for one in ten people not accessing mainstream financial services and that this contributes increasingly to debt and poverty. They suggested a system of 'financial buddies' that could operate in local pubs, churches and community centres amongst others. Financial buddies would be able to provide accurate information about financial products.

So clearly there are issues that arise for consumers when they use informal sources of advice. This appears to be particularly so where their social networks are not generally inhabited by individuals with high financial capability.

#### **2.4.2 - Generic Financial Advice**

With the demise of the direct sales forces and the door step services, the access to and availability of financial advice has reduced, particularly for those on lower incomes. Traditionally, insurance companies such as the Prudential and the Co-op had offered services where local agents regularly visited individuals collecting premiums for existing life assurance, saving and household insurance policies. Some of these agents were able to sell other products such as personal pensions whilst others were able to introduce

their customers to specialists within the company able to sell these products. Similarly, the banks, insurance companies and friendly societies often offered similar services through their own direct sales forces that targeted their client bases, selling either their own bancassurance products or acting as agents for particular insurance companies. As the compliance cost associated with these services increased and a minimum qualification level at QCF level 3 became a requirement in the mid-1990s the number of this type of adviser reduced. Sandler (2002) stated that since 1991 the number of advisers in direct sales forces had fallen from 190,000 to less than 20,000. Craig Errington of Wesleyan Assurance, suggested at that time “...*Face to face is no longer viable in the mass market*” (Money Marketing, 2003,p.10). Kempson and Collard (2005) also suggest that availability of financial advice for those on lower incomes has reduced.

In the early years of the new millennium, there were many commentators proposing that a new model financial advice was required that separated advice from the sales process. This, in part, resulted in the FSA establishing the National Strategy for Financial Capability. Research emanating from this project identified Generic Advice as a priority, with the Consumers Association envisaging a “...*two tier financial advice system*” (2002, p.13), where the General/Generic Financial Adviser would advise on generic needs and then if necessary refer the customer to a regulated adviser who would operate at the higher tier. Similarly, the Financial Services Skills Council was keen to see Generic Advice established as a stand-alone service (2005).

The FSA report, Financial Capability: developing the role of generic financial advice (2005a, p.6), defines generic financial advice as “...*a set of services and tools that use information about individuals’ circumstances to help them identify and understand their financial position and their needs and to plan their finances accordingly*”.

The table below shows how the FSA envisaged the divide between a Generic Advice Service and regulated financial advice. The dividing line being the point at which product research and a recommendation would be required. In many respects the framework

set out for generic advice is the same as any regulated financial adviser should follow but without the option to purchase the solution to meet the identified need.

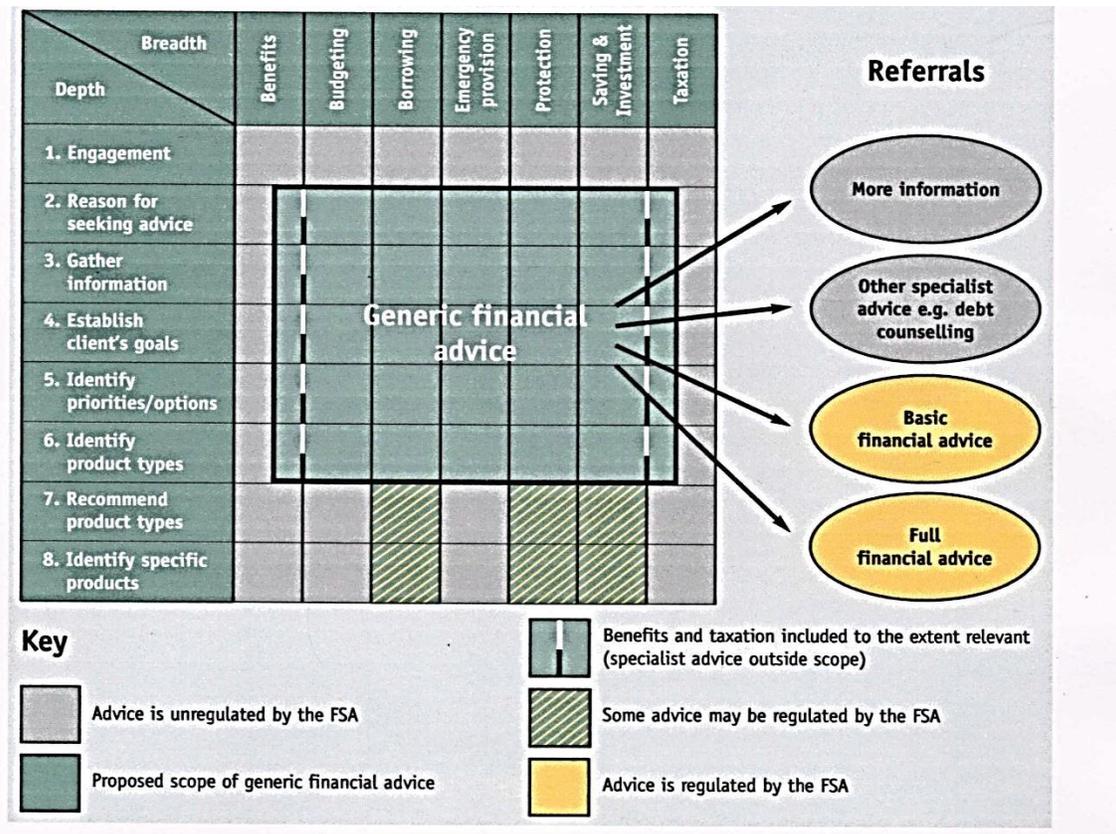


Figure 2.5 – The scope of Generic Advice. (FSA, 2005a) - (direct reproduction)

This service, now known as the Money Advice Service (MAS), was launched following a pilot project in Northern England. The principles of the Money Advice Service (Thoresen, 2007) are;

- **“on my side”** - Impartial Guidance from Government and Financial Services Industry
- **“supportive”** - assistance with financial decisions and behaviour
- **“preventative”** - help with planning for today and future - help to withstand financial shocks
- **“universal”** - available & free to all users
- **“sales free”** - not a product sales channel

Thoresen (2007), who was commissioned by the Treasury to complete research on the shape of a generic advice service, suggested that the regular users are likely to fit the following criteria;

- Income between £10,000 - £30,000
- Slightly lower education levels than average
- Slightly younger than average
- More likely to be female than male

Research by the CII (2008) suggested that a National Service would help improve the consumers understanding of money matters. When consumers were asked who they would most rely on for advice, a preference was shown for Citizens Advice.

Currently there are a variety of generic advice services available to consumers although most seem to be focused on helping people with debt problems. Organisations such as Citizens Advice (CA) offer advice to consumers through their branch network on a face-to-face basis, via telephone help-lines and via the internet. Having accessed the web-site it seems that most of the information within the 'Money Management' section relates to resolving debt problems. CA have a partnership arrangement with the CII whereby CII members work with particular branches within the network offering pro-bono advice; this scheme is known as 'MoneyPlan' (CII, 2009). Other services such as 'Step Change' provide debt management advice on a national basis. Other organisations also offer education and/or advice services, including;

- Union Learn - have provided information in partnership with other organisations to help members manage their finances.
- TUC Pension Champions - the TUC offers its members access to pension experts and also trains local union representatives so the members can obtain advice from an organisation with the members' interests at heart.
- NatWest - through its MoneySense scheme this bank offers free impartial advice to consumers, although there have been some suggestions that it was being used as an opportunity to sell products (MoneySavingExpert.com, 2009).

- Regional and Local organisations - these could include professional and trade bodies, social lenders such as Fair Finance, Credit Unions and Local Authorities - for example, Bath & NE Somerset Council had a section on its web-site providing advice on how to save money. During the recession it ran through its Community Learning Service a course entitled 'Budgeting for the Credit Crunch'. In 2013 this now seems to be no longer available.
- FSA ran a range of programmes such as workplace seminars, advice services and forums for students in Further and Higher Education plus services to help new parents plan their finances. These became, upon its formation, part of the Money Advice Service programmes. However, some of these no longer run, for example the workplace seminars.
- Specialist organisations - for example UNLOCK helps ex-offenders, offering money advice and assistance in identifying banks, lenders and insurance companies which will not exclude them even though they have a criminal conviction(s).
- Quakers Social Action - through their Made of Money financial literacy programme that helps low income families to learn about money.
- Age Concern - provide information and advice to the older generation. They provide a variety of guides on subjects particularly relevant to the age group they serve.

The formation of the Money Advice Service has been a step forward in providing consumers with access to financial information and advice which is free and not sales related. However, concerns have been expressed about the effectiveness of this service and whether it is reaching the more vulnerable consumers. One of the objectives of MAS is to change consumer behaviour towards managing their money and as part of this strategy they have developed a financial health-check. MAS (2012, p.5) state:

*"...As an early part of this process, it launched, in the summer of 2011, an online financial health check with a target of reaching 500,000 people by the end of April 2012. This tool allows people to review their finances and create a personal action plan through a series of simple steps that take just a few minutes to*

*complete. Over 520,000 people had used it by the end of the 2011/12 year, 58% creating an action plan with over 100,000 online actions taken immediately. The service is drawing on this data and users' experience of the online tool to improve it even further as part of a service upgrade in the year ahead."*

Following the introduction of the MAS health-check, IFF research and the Policy Studies Institute (2012) conducted some research to assess the impact that an on-line health-check can have on the behaviour of individuals. Although there was some evidence of increases in what the report calls "...smaller scale/low level actions" (p.7) which include such things as shopping around, there was little evidence of the health-check changing the core behaviours tested. Taking financial advice was considered one of these core behaviours along with the main areas upon which a regulated adviser would provide advice. Although, as encouraging consumers to shop around has been one of the objectives of MAS then it seems to have achieved some success. An earlier assessment of the service (Kempson et al, 2010) found that MAS was providing access to advice to groups who had previously been vulnerable to poor financial decision making. So in some respects MAS is achieving its objectives but the health-check is not acting as a trigger for consumers to address potential needs such as retirement planning, family protection and saving.

In the development work that led up to the formation of this service Thoresen (2008, p.29) identified a number of high level outcomes required from a money guidance service. One of these was:

*"...Shift in mindset (attitudes) towards planning ahead and preparing for life events... [leading to] more appropriate use of regulated advisers."*

So although in theory it seems that the financial health-check is the right way to engage consumers, in practice it appears not yet to have achieved this objective. Perhaps this is the reason that we have seen the recent shift in policy of Money Advice Service towards

an approach where ‘consumer outcomes’ are now the benchmark rather than numerical targets (Holt, 2013).

### **2.4.3 -The Need for Advice**

The FSA (2006e) suggests that the behaviours of more financially capable consumers exhibit the following characteristics:-

#### **More capable**

Seeks advice from an appropriate professional adviser before buying financial products or actively shops around  
Doesn't just rely on the information that accompanies the product to inform his/her purchasing decision  
Compares products from multiple providers either personally or through an appropriate professional adviser  
Compares products on features and price rather than making a choice based on brand image  
(FSA, 2006e,p.18)

So according to the FSA (2006e) the ability to seek advice from a financial adviser is a key skill that the financially capable consumer requires. Furthermore, using the services of an adviser to compare products from multiple providers infers that the financially capable consumer must firstly know how to find a suitable adviser and secondly understand what services financial advisers can offer. So the assumption is that the financially capable consumer is a ‘rational actor’ who will attempt to maximise things to their own advantage.

Thoresen (2008, p.1) describes Generic Financial Advice as:

*“...guidance on the money matters that shape people’s lives: budgeting weekly or monthly; saving and borrowing; protecting and insuring the individual and the family; and retirement planning”.*

A research study by the Resolution Foundation (2007, p.4) suggests:

*“...that if low to median earners act on financial advice, they are likely to save more overall, but shift more of their savings from short term to medium and long term investments. They are also likely to invest more heavily in protection*

*products, and build up larger pensions pots with which to purchase an annuity at retirement. Although their consumption is likely to rise on the whole due to greater personal wealth, they reduce their credit card and other forms of unsecured debt considerably”.*

The Money Advice Service provides guidance to help consumers to decide whether to take regulated advice:

*If you're looking for straight savings type products you don't need advice.*

*If you're looking for investments you could DIY, but it's definitely not for everyone. It will depend partly on your knowledge and experience of investments, the product and your needs. Also, ask yourself these questions:*

- *Do you have the time to do the research?*
- *Do you have much experience, knowledge or skills when it comes to investing?*
- *Can you afford to lose any money?*
- *If things go wrong, are you comfortable taking responsibility for any bad investing decisions?*

*If the answer to any of these is 'No', then seeking financial advice may be your best option.*

*Money Advice Service Web-site 2012.*

<https://www.moneyadviceservice.org.uk/en/articles/do-you-need-a-financial-adviser>

The Chartered Insurance Institute and Institute of Finance Services both also make positive comments about the benefits of advice although, of course, this would be expected to some extent as they are both trade bodies representing the sector.

So the general consensus seems to be that taking financial advice can help the consumer. Although some of the quotes above are referring to generic financial advice, the same principle applies to regulated financial advice, that is, it is a way of guiding the consumer in such a way as to help improve their financial security by increasing wealth and protecting against potential risks. Regulated advice, of course, is not generally free and has the added risk of the consumer being mis-sold a product. However, it also has,

or some consumers may consider so, the advantage that it combines advice with a portal enabling access to the required products.

It is only recently with the introduction of the Money Advice Service (MAS) that we have seen a national advice service available to the consumer other than the services that have been provided by regulated financial advisers (generic advice has been available on a local basis from various third sector organisations but not on a co-ordinated national basis). This research is particularly interested in the experiences of consumers in attempting to access regulated advice, the barriers that have impeded this process and whether advice has helped consumers to build a more secure future. However, MAS has a role in this process of lowering barriers for consumers.

#### **2.4.4 - Regulated Advice**

Financial Advisers providing advice on pension and investments products are often referred to as regulated or investment advisers and are granted permissions CF30 by the FSA (now FCA). A full list of regulated activities can be found in Appendix 2.1 and a list of the FCA's Scope & Powers at Appendix 2.2.

Individuals within a firm that are undertaking a 'Controlled Function' must be individually approved and registered with the FSA/FCA (CII, 2006a). So all 'regulated financial advisers', whether tied, multi-tied or independent must be registered with the FCA and if they are no longer found to be 'fit and proper' then their registration can be withdrawn. Authorised Firms are responsible for the conduct of their employees, agents and appointed representatives including the advice they provide. Firms must have a 'compliance function' to oversee the advice provided by their advisers and are responsible to compensate the consumer if the poor quality of the advice given results in the consumer incurring a loss.

From December 2004, the FSA introduced the 'Polarisation Regime'. This set out the rules as to how financial advisers could operate. There are three basic types of adviser;

- Tied Agent – an agent or appointed representative of one provider
- Multi-tied – an agent of a limited number of providers
- Independent Financial Adviser (IFA) – IFAs have access to the whole market or a segment of it.

Until January 2013, IFAs were obliged under the ‘Polarisation Regime’ to offer the client the option of paying fees as an alternative to the adviser being remunerated on a commission basis. Now, all investment and pension advice falls under the RDR rules (see appendix 2.3). All advisers were obliged to disclose their status to ‘Retail Clients’ at the initial meeting, so the customer was clear as to the type of adviser they were dealing with and the scope of the advisers’ permissions (CII, 2006a). These requirements still apply in the new environment. All regulated advisers whether tied or independent are required to collect detailed information regarding the client’s circumstances before they are able to offer advice. They also need to agree with the client the scope of the advice being offered. For example, a client may only require advice on a specific area of their financial planning. If the adviser is dealing only with a specific area of the client’s planning, pensions for example, then the adviser must confirm with the client that they understand the implications of this and that by not taking a holistic view (see section 2.4.6) of the client’s affairs that the advice may conflict with other areas of the client’s financial planning. For tied or multi-tied advisers that have restricted product ranges, it may on occasions be necessary for them to recommend that the client seeks advice from an independent financial adviser so they are able to access suitable products not available within the tied/multi-tied adviser’s product range. Regulation prevents them from referring the client to another tied adviser. Tied and Multi-tied advisers are agents of their employer but an independent adviser’s responsibility under the FSMA(2000) is to “...have regard for the client’s best interest in any advice given”. So the IFA is the agent of the client (CII, 2006a).

There are a number of tiers to the regulatory regime that may apply to particular advisers and they may need further qualifications above the basic entry level to provide advice.

- Conduct of Business Rules (COBS)
- Mortgage Conduct of Business Rules (MCOB)
- Insurance Conduct of Business Rules (ICOB)

Investment and pension advisers (CF30 – FCA designation) generally operate under the COBS rules when giving advice on pensions or investments but they may operate under COBS or ICOB for protection business (life assurance, income protection, etc where there is no investment content). Minimum levels of qualification (QCF level 3 until December 2012 raised to QCF level 4 subsequently) apply to investment advisers. Mortgage advisers require specialist qualifications and further qualifications are required for such activities as advice on equity release and long term care insurance.

It was the FSA (2012b) view that good practice for CF30 advisers should take account of the client's circumstances in full before making any recommendation. Furthermore, they suggested the adviser should highlight to the client other needs where it was clear there are potential risks. However, this system of different types of adviser with different 'permissions' can be confusing for the consumer (CII, 2011b) and can have the result of consumers not receiving advice across all relevant areas of their finances, particularly if they appoint an adviser who only covers a limited range of financial planning areas. It is not difficult, therefore, to see that this could be confusing for the consumer and act as barrier to consumers accessing advice on particular matters. So the regulatory structure does not always encourage wider advice.

Added to the issue for the consumer of identifying the right type of adviser, is finding one at all. One of the factors that has already and will further reduce access to advice is the reduction in the numbers of advisers. In 2011 it was estimated that 40,566 (Atkin et al, 2011) CF30 (pension and investment) advisers were active in the market place; since January 2013 the RDR has come in to force and this number has reduced. Estimates of reductions of between 10% and 30% have been suggested, although this is unlikely to be clear until later in 2013 or 2014. For example, the FSA (2013b) state that there were

35,899 advisers in late 2012 - a fall of 11.5% since summer 2011. Of these Atkin et al (2011) estimate that about 15% are female. This decreasing trend has continued for many years (Sandler, 2002). This demise of the insurance company direct sales forces, increased regulation, higher levels of adviser qualification and reduced profitability of products has driven this reduction in numbers. Although many of the products that were sold by the direct sales forces had high and complex charging structures which could result in losses to consumers particularly where products were stopped or en-cashed early. However, this did mean that consumers were engaging with long term saving and in recent years this seems to be less of a case.

So to summarise this section, all regulated advisers are authorised under the FSMA(2000) and they may advise on particular areas of financial planning or take a more holistic view. There are however, a range of different levels of advice which may also be independent or restricted. Added to this there are various sources of generic advice and information upon which consumers can call which can confuse matters further. Although there is clearly a distinction between advice and information from a regulatory perspective, this is not always clear to the consumer.

#### **2.4.5 – Retail Distribution Review**

The Retail Distribution Review (RDR) was launched in June 2006 by John Tiner, the Financial Services Authority (FSA) Chief Executive, following work that was commissioned by the FSA and completed by KPMG (FSA, 2006b). This work set out a number of scenarios outlining new models for delivery of financial advice in the future. Subsequently the FSA (2007a; 2009a; 2009b; 2010a; 2013a; 2013b) conducted an on-going consultation with the relevant stakeholders which resulted in regulatory change that took effect from January 2013. These new rules changed the basis of how investment and pension advice is delivered by Regulated Financial Advisers (designated CF30 advisers by FSA). The new regime does not include advice regarding mortgage or protection products. These advisers are still able to receive indemnity commission and

will not be subject to the higher qualification requirements. Clearly the banning of commission was a key strand of this policy change which was driven by mis-selling (see section 2.6). Sandler (2002) had made this point and Callum McCarthy, the then FSA Chairman, (FSA, 2006d) likened the problems with the current distribution model to those the energy companies had experienced. He commented on the reason for improvements in the practices of the salespeople following changes by the energy companies to the remuneration packages, saying, “...*not because the door-to-door salesmen and women had become more ethical, but because it was not profitable to cheat*”. The inference being that changing the way advisers were paid would achieve a similar result. Appendix 2.3 sets out a more detailed list of the terms of these regulatory changes.

The impact of the review from the consumer’s perspective was that investment advisers are no longer be able to receive commission from product providers for business placed with them. From January 2013, where an adviser provides advice and arranges any investment or pension product for a consumer, they will have to be remunerated by the customer. This may be via a deduction from the product or by direct payment.

The effect of RDR for many advisers has been a need to gain the QCF Level 4 qualification and review their business model. This has resulted in some advisers proposing to leave the industry or retire. It may also be the case that others remaining are focusing their attention on high net worth clients.

For the consumer that can still gain access to an adviser, this means better qualified advisers and more transparent charges. Nevertheless, advisers still have the option to charge based on the value of the monies invested and this may still result in large fees being levied but at least the impression that the cost of advice was met by the insurance companies will have been removed. However, research by KPMG (2010) suggests that many consumers have an aversion to paying realistic fees.

The FSA (2011b; 2013b) planned to judge the success of RDR using a number of short and long term success indicators. These included;

- Consumer understanding of advice channels
- Firms sell fewer commission driven products
- Consumer's perceptions of the market improve
- Fewer unsuitable product sales are recorded

Only time will tell whether this new approach will help to improve consumer engagement.

#### **2.4.6 – Holistic and Transactional Advice**

It has already been mentioned in section 2.4.4 that the FSA had certain expectations as to good practice by advisers. That is, to take account of the client's circumstances in full before making any recommendation. Furthermore, they suggested the adviser should highlight to the client other needs where it is clear there were potential risks.

From a financial planning perspective, holistic advice is about looking at the customer's overall financial position. Different adviser firms appear to interpret the extent of holistic advice in different ways; some may just refer to this as full advice, but, whatever the interpretation of different advisers, the basic idea is that the customer receives advice across all relevant areas within the remit of the adviser. This differs from advice that is focused on a particular objective (sometimes referred to as limited advice); for example, pension planning or investment. Where advisers are operating on this limited scope basis they are obliged to add warnings to any letters or reports pointing out to the customer that the advice is limited to a particular area and will therefore not highlight other areas that may be of greater importance from a planning perspective. Where full disclosure of financial information has not occurred then the recommendation may not be most suited to the consumer's needs. In other words, although the customer wants

to focus on a particular objective it may be that there is a different need that should, from a financial planning perspective, take priority.

FSA (2011a, p.2) highlighted examples of poor practice, one of which was:

*“...Whilst Firm E’s stated policy was that it would review all potential financial planning needs of its customers, all files reviewed evidenced focused advice. The firm had not investigated why this was the case and whether its advisers were adequately emphasising the importance and benefits of full advice to their customers”*

Murray (2010, p.38) discusses the issue of consumers understanding the different services available to them, and how different advisers describe the services they offer, saying:

*“...Whatever the truth in the definition of holistic financial planning, the more important debate for the industry is whether the various name tags it uses actually help in consistently delivering the best outcomes for clients. Too often they do not and, call it what you want, this inconsistency has created the lack of trust that so many clients feel for financial services, and which so many financial advisers struggle to overcome in return.”*

Bloomfield (2009) discusses the differences between the transactional and holistic approach:

*“... In a transactional relationship, you have a problem, concern or issue and your adviser pops along and helps you work out or resolve the matter usually by finding the best financial product available to take care of it ... When you get holistic advice your adviser takes a big picture view of your finances and your personal goals and aspirations, he or she deals with the issues a transactional adviser would but in the context of the ‘bigger picture’.”*

This could be considered as an advice continuum. This would place transactional advice at one end where the adviser deals with one specific issue upon the client’s request. At

the other end is a fuller service that may extend to focusing on goals and aspirations. The advice offered by majority of advisers will sit somewhere on this continuum with the extent of the service offered varying dependent upon what the client wants. The issue is how well the client understands the scope of the service they are receiving and the extent of the service they could have received.

## **2.5 – Affordability of Advice**

Research by the Chartered Insurance Institute (2011) found that 40% of non-users of financial advice cited affordability as their reason for not taking advice. The IFF Research (2012,p.68) review of the effectiveness of the Money Advice Service ‘Health-check’ found that:

*“...Individuals felt that they simply lacked the financial resources to act on the advice given (particularly in a climate of low/no wage increases)”*

The evaluation on behalf of the DWP (2011) of the Financial Inclusion Champions Initiative, which considered how financial inclusion via the use of financial champions could be used to improve access to financial services, suggests that individuals can benefit from financial advice. This latter report focused particularly on low income consumers. However, it highlights the point that advice can be helpful to different income groups in different ways and that basic budgeting skills, which some regulated advisers may assist clients with, could be helpful to lower income consumers. It may be that other free advice services, such as MAS, may be more appropriate to provide this type of advice than the regulated channel, but as is clear from the quote above, where a product is required to satisfy a particular area of risk, then affordability is still a key issue. This problem of affordability is not just restricted to low income households, as the next section highlights.

The Resolution Foundation report (Squeezed Britain, 2013) defines low-middle income households as having incomes in the range £12,000 – £41, 000 depending upon family

circumstances. Of this group, 55% have no savings at all and two-thirds have the equivalent of less than a month's income in savings. Furthermore, 69% have either a frozen pension or no pension at all, compared to 41% in the higher income group. The report goes on to say that (p.11):

*"...Major shocks such as illness or unemployment can be catastrophic and a large proportion of the group is at risk of poverty in old age"*

Some of the 'squeezed middle' (Squeezed Britain, 2013) will be better catered for than others as they will have employee benefits that, to some extent, remove the need to make individual provision. Employees that have access to occupational pension schemes and some form of employer sickness benefit or death-in-service benefit have some protection against the risks they face. However, unless they are aware of the specific risks and understand the implications, then they will not know if the benefits the employer provides are sufficient to fully protect them. This knowledge is a key financial capability skill and necessary to make an informed decision.

One of the issues associated with the new advice regime (see section 2.4.5) is that consumers often perceive advice as free. This was originally raised by Sandler (2002, p.187) who suggested that consumers perceived advice as free and went on to say:

*"...the Review is conscious that it must take account of consumers' general reluctance to pay upfront fees for advice. Payment by the hour for advice, for example, would deal fully with all the concerns above, but is of little practical use as a solution since it appears not to be attractive to most consumers"*

So this drive for transparency must take account of the assumptions of some consumers that advice is free.

A further factor in the issues relating to affordability is the wage stagnation of more recent years. Rowlingson and McKay (2013) suggest that in 2012 the real value of UK

workers' wages fell back to the levels of 2003. So this reduction in real income must have an impact on consumers' abilities to afford both the products and advice that may be required to ensure a secure financial future.

## **2.6 - Mis-selling**

One of the FSA's four key objectives under the Financial Services and Markets Act (2000) was consumer protection. In satisfying this objective the FSA took account of;

- consumers' experience
- that consumers may need information and/or advice
- the varying degrees of risk associated with different types of investment

However, the general principle that the consumer should take responsibility for their own decisions should also be exercised (CII, 2006a). This means that in the view of the regulator some responsibility falls upon consumers.

Unfortunately this objective of consumer protection has not always been achieved and the result of this has been a number of, what have been labelled, 'mis-selling scandals' being uncovered over recent decades from both before and after the FSA became the regulator (FSA, 2003b; Sandler, 2002; Kempson and Collard, 2005). These have included mis-selling of pensions, endowments, split capital investment trusts and in more recent years, payment protection insurance. Howard Davies (FSA Chairman's keynote speech, 2003) said:

*"... Sadly, the recent history of the British financial services industry is proof of the adage that those who fail to understand the mistakes of the past are condemned to repeat them. Though the pensions mis-selling debacle, which has cost the industry £11 billion compensation, should have been a stark lesson of the dangers of uncontrolled and unsuitable selling, it is hard to see evidence that the lesson has been understood"*

Ultimately, this failure has led to the measures introduced following the Retail Distribution Review that are described earlier in this chapter.

In reality there are a number of different examples of pension mis-selling where the advice process has potentially fallen down. In the late 1980s after the pensions market was opened up with the introduction of personal pensions, there were numerous cases of members of occupational pension schemes and, in particular, defined benefit schemes (both active and deferred members) being advised to leave these schemes that provided inflation protected benefit guarantees linked to final salary, in favour of schemes that were purely investment based. In February 2002 the FSA (2003b) issued a final reminder to consumers regarding mis-sold pensions. At that time 1.8 million cases had been checked. Today the advice process for this type of recommendation would involve a comprehensive transfer analysis that compared the potential pension outcomes for both potential routes. This would make certain assumptions regarding levels of growth that may be achieved from the investment based scheme and also take account of the member's attitude to investment risk. In the late 1980s and early 1990s when much of this transfer activity was taking place the FSA guidelines and internal compliance procedures of adviser firms are likely to have been a lot less stringent than they are today.

Following the review of transfer advice instigated by the FSA, consumers found to have been disadvantaged were either compensated by having additional monies added to their personal pension fund or, where possible, were re-instated into the occupational scheme from which they had previously been transferred out.

There are other examples of pension mis-selling associated with the facility to contract-out of the state earnings related pension scheme (SERPS). Again, this was an option that became available when the pensions market was opened up in 1988 by the implementation of the Financial Services Act 1986. In a similar vein to the occupation

transfers discussed above, it was an argument in favour of investment returns that could potentially outstrip the guaranteed benefits offered by SERPS. Later this was perhaps considered a less attractive option and some providers (Standard Life for example) took action regarding this, a number of years ago, automatically re-instating members back in to the state scheme unless the member advised them otherwise.

As with pensions mis-selling, the sales pitch for [mortgage linked] endowments was based around investment returns and the potential for a lump sum in addition to the mortgage being repaid. In earlier times, where 'full endowments' were linked to mortgages the risk of the maturity amount not meeting the outstanding mortgage amount was not an issue because the sum assured on the plan was guaranteed at maturity and therefore there was no danger of a shortfall. However, with the introduction of low cost endowments this position changed, as only the death benefit was guaranteed but there was no guarantee that the maturity amount would match this and the mortgage amount. Therefore as investment returns declined and markets stalled investors were left facing potential shortfalls at maturity.

It is clear from the vast amount that has been written on this subject that in both the above examples the commission culture and poorly trained advisers were responsible for these mis-selling scandals. Sandler (2002) highlights these as reasons for the industry's failure in these areas. The FSA (2007a, p.4) also highlighted the issue of: *"...low levels of training and testing compared to other professions"*.

The more recent case of mis-selling of Payment Protection Insurance associated with mortgages, credit cards or bank loans has focused mainly on the failures of the banks in this matter and resulted in a super complaint being raised and many consumers subsequently being compensated (FSA, 2010d). All these mis-selling scandals have a number of things in common. Some staff/advisers were poorly trained, they were incentivised to sell these products and the companies were more focused on volume

sales rather than the product being suited to the customer's needs. This problem of mis-selling seems to be an issue that has only been highlighted in the UK and USA (FSA, 2007a) even though remuneration by commission is dominant globally. Although, the FSA (2007a) do go on to comment that this may be accounted for by simpler products and other countries regulators not having actively looked at this. The baseline survey (FSA,2006a) comments that this research found that financial capability is not necessarily a factor in the purchase of a product that is later found to be unsuitable and therefore concluded that this might suggest mis-selling rather than mis-buying.

Although there have been examples of mis-selling in recent years these seem to have been mainly related to products that are not regularly sold by regulated financial advisers, for example PPI.

## **2.7 - Summary**

This chapter has explained how the shift in policy towards a more neo-liberal position has resulted in the need for citizens to consider making increased financial provision for future events that put themselves and their families at risk from a financial perspective. It went on to consider how this has fuelled the growth of the financial services sector. This growth at a time when regulation was initially on a self-regulatory basis led to mis-selling scandals that were perpetrated by an industry driven by targets and providing poorly trained sales advisers to a mainly financially incapable population.

The 'sources of advice' section of this chapter explained how consumers often use informal sources of advice and how this poses a potential risk. This leads on to how the need for a generic financial advice service was recognised which eventually led to the formation of the Money Advice Service. Following this, the basis of regulated advice is explained, showing how this has recently been restructured to try and help improve consumer engagement. This section then describes the different ways in which the

financial services industry provides advice, highlighting the differences between the transactional and holistic approaches.

Affordability of advice is also considered in this chapter, showing that it is not only an issue for low income consumers. It goes on to highlight how some consumers perceive advice as free, discussing the potential implications of this.

The chapter concludes by discussing in more detail the mis-selling scandals that have resulted in consumers losing trust in the industry. This failure by the financial services sector to engender consumer trust and the attempts to rebuild this are discussed further in the next chapter.

## **Chapter 3**

### **Consumer Behaviour**

#### **3.1 – Introduction**

Chapter 2 reviewed a number of key trends, in particular how the shift in policy towards a more individualistic approach has resulted in the growth in financial services and increased the need of consumers to access financial advice. It also outlined the range of different types of advice used by consumers and went on to discuss the changing nature of advice. This chapter will consider when consumers actually use advice and in particular what ‘triggers’ them to do so.

Section 2.4.4 of chapter 2 explained different layers of regulation that apply to advice, highlighting the different types of advice available to consumers in the market place and how recent changes following RDR have affected the way advisers now work. The implications of these changes will be debated further in this chapter. It will then go on to discuss the potential outcomes for the consumer of this potentially confusing range of advice services and how this can impact upon the actual advice the consumer receives (or not, as the case may be).

The chapter will then describe how I have attempted to model the advice process to better understand the path down which the consumer travels when trying to access advice. A key part of this process was looking at the different models of behaviour around taking advice and, in particular, drawing on the Health Belief Model and its subsequent variants as a way of identifying elements of the process that may be analogous to the regulated advice process. There seemed to be some particular concepts that emerged from this model but it was later decided to take a more generalist approach rather than exploring these particular concepts in greater detail.

The chapter then goes on to consider another aspect of the advice process. That is, how the consumer establishes trust in the adviser they ultimately engage to provide advice. There has been much debate on this matter and it has been highlighted in the relevant

literature as a main cause of consumers' failure to engage. This section will discuss a number of theories of trust and try to relate these to the various processes adopted by the consumer.

The chapter concludes with consideration of how theories from economic psychology and behavioural economics are being used to try and prompt the consumer to take action regarding their finances. It will then try to link this to the recent changes in the advice regime.

### **3.2 – Use of Advice**

Research by the CII (2011b) suggested that 67% of the population had not received financial advice. The Baseline Survey (FSA, 2006a) suggested that 70% of the population do not take advice when choosing a financial product. Regarding advice on investments and pensions, the CII's results suggest that only one in five people have taken advice and of those that have two-thirds were male. Furthermore, there appears from their results to be a direct correlation between age and likelihood of having taken advice.

However, there seems to be a discrepancy between these figures above suggesting low levels of access to advice and the position regarding the mortgage market where the assumption is advice must regularly be sought. Given that current home-ownership levels in the UK are of the order of 64% of the population (ONS, 2013) it is not unreasonable to assume [with the regulatory requirements that govern the mortgage sector] that the majority of home-owners would have needed a mortgage to assist with the purchase and would therefore have been required to take some form of advice. Clearly prior to 2004 it would be difficult to know the extent of the advice that was provided, but since then there has been a clear process so it is likely most mortgagors received some form of advice. Obviously there will be some home-owners who have bought outright and it is also likely that some will have been able to arrange a mortgage without advice [particular with the recent growth in internet services where individuals

can access a range of web-sites to help research the market and make direct applications] but generally speaking it is likely that the majority would have taken independent or tied advice to help them through this process. The Council of Mortgage Lenders (Davies, 2005) stated that mortgage applications were split 54% introduced (ie. from mortgage brokers etc) and 46% direct (where the consumer applied direct to the lender). This latter figure may or may not have included advice.

It seems, therefore, that although the use of regulated advice for investments and pensions is by only a small proportion of the population, a much greater number must have had some exposure to mortgage advice but this has not led on to advice regarding other areas. The issue here may be that consumers do not recognise the mortgage sales process as incorporating advice. Furthermore, the CII (2007, p.26) suggest that there is evidence that consumers are confused about the different types of adviser/advice available, saying: '*... 84% of UK adults do not understand the different types of advice now available*'. Although this statement encompasses all different types of regulated financial advice, it no doubt includes understanding of whether consumers believe they are receiving mortgage advice.

### **3.3 – Triggers to Advice**

In 2005 the FSA reviewed the literature relating to how consumers access advice and concluded that most are triggered to take advice by some external influence (FSA, 2005b). Drawing on earlier research they had carried out, they concluded that consumers were often prompted to seek advice when;

- A crisis point had been reached
- A current or future problem with their finances had been highlighted to them
- There had been a change in personal circumstances
- They had identified a need for a product
- Advice was available in the workplace.

IFA Promotions Omnibus Research 2004 (cited in FSA, 2005b) refers to research which

suggested the main reasons for consumers seeking the services of an adviser are when they have long-term health problems; are approaching retirement; changing job; have received an inheritance; or their mortgage is coming to an end. It would appear therefore that consumers are 'reactive' to seeking advice in that the event has occurred or is approaching rather than being pro-active in seeking advice where they plan for unknown future events as well as addressing known risks or objectives.

There appear to be a number of reasons why consumers do not seek advice. Again, the above report mentions IFA Promotion research suggesting that often consumers simply do not know where to go for advice. Sandler (2002) highlights trust as an issue with which work by DWP (2004) and FSA (2005c) seems to concur. Jones and Barnes (2005) suggest that often the language of 'financial advice' can be off-putting for some consumers.

The Money Advice Service (2012) web-site highlights the following life-course events as times when *'it helps to be in control of your money'*.

- Setting up home
- Having a baby
- Losing your job
- Divorce or separation
- Retirement
- Wills and estate planning.

Taking into account previous research these should also include starting a new job, death of a family member and the experiences of others, for example, the negative financial experiences of a friend or colleague in the event of long term illness. There is a great deal of literature that suggests that life-course events are a good time to prompt the consumer to take action. An example of this is where the FSA issued (prior to establishment of CFEB and later MAS) booklets to new parents providing guidance on money matters.

The Henley Centre produced a report on behalf of the FSA (2005c) which lists 52 triggers, dividing these into internal and external triggers. The report lists internal triggers under the following headings;

- Family/Personal life
- Occupation/Education
- Health
- Accommodation
- Windfalls and income

Such things as policy, the economic climate, regulation and increasing/decreasing homeownership are considered external triggers. In a social policy sense these would be considered structural issues whereas the factors listed above are associated with the agency of the consumer.

These life-course events, which Dixon (2006) discusses more broadly and calls 'critical moments', can act as a prompt to consumers to consider reviewing their finances, which perhaps leads to consumers taking advice.

As discussed earlier (2.4.2), a key strand of government policy has been to try and make consumers take greater responsibility for their finances (Hoban, 2010). Part of this was the instruction to CFEB (now MAS) to develop a financial health-check that would highlight to consumers the areas of their finances that were in need of attention. However this has not so far achieved the results that were anticipated (IFF, 2012). It is clearly not yet providing the 'triggers' to advice that had been envisaged. One of the reasons cited by IFF (2012) is that the messages are not sufficiently 'hard hitting' (p.67).

It would seem therefore that although 'triggers' are the most common way consumers are prompted to take advice, the interventions of MAS via the financial health-check have so far not been effective in increasing consumer access to advice.

### **3.4 – Health Belief Model and others**

Within Social Sciences numerous models exist that attempt to predict the behaviour (or lack of it) of citizens. One of the early classical models is the Health Belief Model (Rosenstock et al, 1988) which has been subsequently refined. There are also other models from Health Psychology and, more generally, from the realm of Social Sciences that have particular synergies with the problems encountered in the Financial Services arena. These models, which will now be summarized briefly below, have been drawn upon in the development of my Advice Belief Model which ultimately has formed the basis of my theoretical framework. A comparison of the important variables utilised in these various models are shown in the matrix at the end of this section (Table 3.1).

#### **Health Belief Model**

The Health Belief Model (HBM) was developed to try and explain the lack of participation in health screening and prevention programmes (Rosenstock et al, 1988). It attempts to predict the behaviour of individuals by focusing on their attitudes and beliefs. The model identified a number of key variables that are considered to influence an individual's behaviour. The major variables were 'Level of Threat' and 'Perceived Outcome Benefit', the early model did not consider self-efficacy as this was not thought to be a significant factor influencing the individual's behaviour for the original use of this model. Self-efficacy, that is - *"...people's beliefs in their capabilities to perform a specific action required to attain a desired outcome"* (Luszczynska and Schwarzer, 2008, p.128) has subsequently been added to this model as an important variable where the model is used more generally.

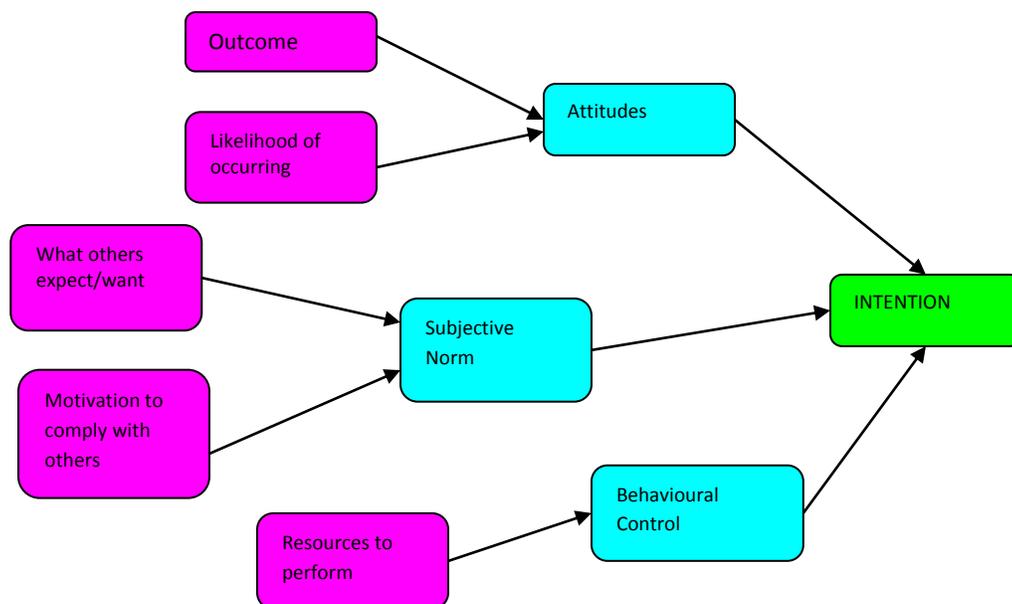
Conner and Norman (2008) also suggest that the value an individual places on health is an important trigger to action.

### Protection Motivation Theory

This model was developed by Rogers (1975) (cited in Conner and Norman, 2008,p.9). It has similarities to the HBM in that it considers the individual's appraisal of the 'threat' to which they are exposed as the main driver of action but it also introduces the idea of a 'coping strategy'. The idea behind the 'coping strategy' is that the individual assesses 'behavioural alternatives' as part of the process of deciding whether to take action. The suggestion being that there is a process of weighing up the potential outcomes of various courses of action and inaction along with their belief as to whether the required action is achievable. If the individual believes that the outcome of inaction is less of a concern than the complexity of taking action (self-efficacy), then inaction may result.

### Theory of Planned Behaviour (extension of Theory of Reasoned Action)

The Theory of Planned Behaviour (TPB), developed by Ajzen in 1985 from Ajzen and Fishbein's earlier Theory of Reasoned Action (1969) identifies the factors that determine an individual's decision to follow a particular behaviour. It states that a person's intention is what motivates them to perform a particular behaviour and the model below shows the various factors that contribute to the individual's intention.



**Figure 3.2 – Diagram illustrating the Theory of Planned Behaviour.**

So, similar to earlier models, the TPB combines a number of variables to predict an individual's intention to perform a particular behaviour. These include;

- Strength or importance of the outcome
- The likelihood of the outcome occurring
- The attitudes of others within the individual's social networks and the importance of the individual's motivation to comply with the attitudes of others.
- Whether the individual has the resources and/or skills to perform the behaviour.

Conner and Norman (2008) comment that there is some divergence of views regarding the Behavioural Control variable. Some commentators have replaced this factor with self-efficacy whereas others consider self-efficacy as an element of behavioural control. Either way, if the individual does not have either skills or the resources to perform the behaviour, then it would seem unlikely that they would be able to take action.

### Social Cognitive Theory

This theory was originally developed by Bandura (1977). It proposes that motivation and action are based on three 'expectancies';

- Situation Outcome – for example, an individual's susceptibility to a particular health threat. That is, the consequences that may occur if no action is taken.
- Action Outcome – the given behaviour that will/will not lead to a particular outcome. For example, stopping smoking leads to a lower risk of lung cancer.
- Perceived Self-Efficacy – the belief by a person that they are capable of performing a particular behaviour required to achieve the desired outcome.

There are clear links between these variables to the extent that they appear to be inter-dependent. The degree of fear of the Situation Outcome must influence the individual's willingness to attempt to carry out the Action Outcome. Similarly, the attitude towards whether to attempt to carry out the behaviour must be influenced by the degree of difficulty they perceive the action will involve (Perceived Self-Efficacy).

### Health Locus of Control (HLC)

This theory comes originally from Social Learning Theory developed by Bandura in 1977. Those with an 'Internal Locus of Control' are more likely to believe that their own behaviour will determine a particular outcome. This type of person is likely to seek knowledge and information and is more likely to assume that their efforts will be successful. A person with an 'External Locus of Control' believes that other people or fate and chance determine the outcome of events (Conner and Norman, 2008). The assumptions of either type of person may of course be right, but they also may not be.

As a predictor of health behaviour the HLC suggests that 'internals' are more likely to '*engage in health-promoting activities*' (Conner and Norman, 2008, p.12). They go on to say that the research has been inconclusive but if the value individuals place upon health is factored in then the research results were more positive. However, as a predictor of health behaviour this theory is still considered weak.

Bandura (1977) also introduced another factor, setting out a typology that illustrates the relationship between self-efficacy and locus of control;

<b>Self-Efficacy</b>	<b>Internal Locus of Control</b>	<b>External Locus of Control</b>
<b>High</b>	A	B
<b>Low</b>	C	D

**Figure 3.3 – Typology of Self Efficacy and Locus of Control.**

Bandura (cited in Rosenstock et al, 1988) suggests that the various combinations of self-efficacy and locus of control will provide the following results.

A - most likely to follow professional advice

B - capable of undertaking but not convinced it will have the required effect

C - believe outcomes are personally determined but lack the skills, therefore experiencing low self-efficacy.

D - Least likely to comply with professional advice.

Wallston (1992) (cited in Conner & Norman, 2008, p.12) modified this model to incorporate health locus of control, health value and self-efficacy, although there appears to have been little application of this theory.

### Stage Models of Health Behaviour

This model suggests that there are different stages in the initiation and maintenance of health behaviour and that intervention at particular stages of the process are necessary.

Dixon (2006) comments that the Transtheoretical Model of Change - more commonly known as Stages of Change Theory – has been successfully used to change behaviour across a number of different areas other than the health arena where it was originally developed. The theory suggests that individuals go through five distinct stages when they try to change their behaviour, three of these occurring before the person attempts to substantially alter it (Dixon, 2006, p.60).

- *Precontemplation. Not intending to take action within six months.*
- *Contemplation. Intending to take action within six months.*
- *Preparation. Intending to take action within 30 days*
- *Action. Made overt changes less than a month ago*
- *Maintenance. Made overt changes more than six months ago.*

He goes on to say that policymakers need to appreciate that change can be a long process and may require different approaches at different stages of the change process. These stages of change listed above are purely that aspect of the model, which also incorporates such variables as weighing up the pros and cons of changing behaviour and the self-efficacy issues that influence whether the individual believes they are able to achieve the outcome (Sutton, 2008). Of course there will be many examples of individuals not fully travelling through this process because a particular variable acts as

a barrier. For example, people say they will save more next year but do not do it when the time arrives. This could be because they do not see the benefits of saving, cannot afford to save or do not know how to go about arranging a suitable vehicle to save in to.

### Major Theorists Model

This model was developed when a number of the major theorists came together at a workshop organised by the National Institute of Mental Health (Conner and Norman, 2008). They derived a model that incorporated eight variables that they argued would account for most of the variations encountered when attempting to predict health behaviour. These variables are;

For Behaviour: -        Strong Intention (outcome expectancy)  
                                 Skill to perform (self-efficacy)

Absence of environment constraints (Social norms, industry structure)

For Intention: -        Perceive advantages of action (outcome expectancy)  
                                 Perceives social pressure (social norms)  
                                 Consistent with self-image  
                                 Positive emotional reaction  
                                 High self-efficacy.

All these variables appear in the earlier models discussed although not necessarily in each individual model.

There are a number of other models from social science that may also be relevant, the matrix below (Table 3.1) attempts to highlight the variables that are relevant to the various health and more general models considered.

Table 3.1 – Summary of Behaviour Models.

Model	Threat – susceptibility & severity	Perceived Benefits/ Inhibitors Outcome expectation?	Locus of Control	Cues to Action	Health Motivation. (value they place on health)	Self-Efficacy	Comments
<b>HBM</b>	Level of threat acts as a motivator.	Belief strategy will reduce risk of illness. Outweighs psych. costs		External events – publicity, advice Internal events - symptom		Belief can execute required behaviour	SE not part of original model
<b>Protection Motivation Theory</b>	Theory based on threat appraisal	Coping appraisal – will behaviour reduce threat				Also a factor in coping appraisal	
<b>Theory of Planned Behaviour</b>		Outcome & likelihood indicator of intention		Intention – combination of attitude, subjective norm & BC		Behavioural control (BC) – resources to perform action	BC continuum – need resources, skills & opportunity
<b>Social Cognitive Theory</b>	Situation outcome occurs without individual action	Action outcome		Will perform behaviour in their control		Influenced by action outcome expectancy	Based on 3 expectancies
<b>Health Locus of Control</b>		Expectancy of outcome leads to re-enforcement	Internal more likely to participate		Value re-enforcement	Internal & SE more likely to take advice	Dependent on outcome expectancy and perceived value of outcome
<b>Stage Models of Health Behaviour</b>				Environment is acting as a cue when conditions are met			Limited evidence that defined interventions more effective than unmatched
<b>Major Theorists Model</b>	<u>Behaviour</u> Absence of					Skill to perform	

	environment constraints						
	<u>Intention</u>	Perceives benefits/advantages		Social pressure Consistent with self-image	Positive emotional reaction	High SE	
<b>Benefits Models</b>							
<b>Kerr</b>	Perceived Need	Perceived Need Basic Knowledge Perceived Eligibility Perceived utility of benefit			Perceived stability of the individual's socio-economic situation	A positive net balance of beliefs and feelings with regard to the (expected) procedural and social outcomes of claiming.	Only at client level. Ordered sequential thresholds
<b>Stafford</b>	Triggers Specific event induced claim	Triggers Competence & confidence Complexity Stigma Eligibility				Perceived admin issues Structure can influence SE	
<b>Consumer Model</b>	Need or problem	Needs recognition Search for info. – from memory External sources					No one buys a product unless problem need or want
<b>Financial Advice Belief Model (The ABM)</b>	Potential threat or outcome of not taking advice	Importance of the outcome. Belief advice will help achieve outcome	Are 'internals' more likely to seek advice	External and internal triggers. Immediacy of enjoying the benefit of the objective.	Perceived value of financial security & advice	Belief that can identify suitable source of advice	

The various health and other models from the social sciences have highlighted factors that affect individuals' behaviour in particular circumstances. By drawing upon elements of all these, a model was constructed that attempted to map the financial advice process.

### **3.5 – Advice Belief Model**

As the literature review for this project progressed, it became obvious that there are a multitude of inter-related factors that may contribute to the consumer's action or inaction. Drawing on the literature and various models from the social sciences, in particular Health Psychology research, a model has been constructed, using many of the variables from the Health Belief Model (Rosenstock et al, 1988). This model attempts to show the process through which the consumer travels when they consider taking action to try and plan for a secure financial future or take advice to help achieve this.

The key variables that are relevant to the Advice Belief Model are;

- Susceptibility to and severity of the potential threat
- Perceived benefits of or inhibitors to action
- Cues to Action – Triggers - timescale
- Value placed upon financial well-being and financial advice
- Self-Efficacy

In fact most of these variables appear in the Major Theorists Model. However, for regulated financial advice there is also the factor of cost to consider. This may be cost of advice or the cost of the product that the advice has recommended. So although it may be that cost is an aspect of self-efficacy in that consumers need the resources to take action, there are differences between the health advice process and the financial advice process in that the former is generally free in monetary terms, whereas the financial advice process may result in a potential cost even if the advice itself is free at point of delivery.

The **'Advice Belief Model'** (see below) I have constructed, can, I believe, be divided in to four sections;

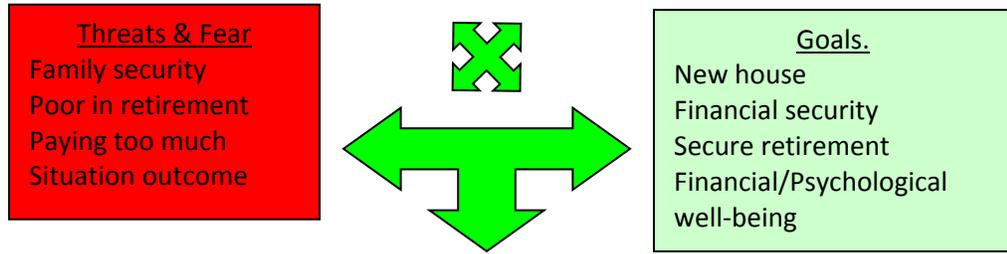
- The 'Trigger Events' that bring to consumers' attention the need to review their finances
- The 'Motivators' – Fear of the consequences of inaction and/or personal goals that they wish to achieve
- The 'Intention Influencers' that may either encourage the consumer to take action or result in inaction. It is the combination of these variables that appear to determine the strength of the consumers 'perceived outcome expectancy' which will influence whether the consumer takes action. (See appendix 4)
- 'Self-Efficacy' – the consumer's perception of their ability to overcome the practicalities of achieving the objective. (See appendix 4)

The Advice Belief Model attempts to illustrate the whole process through which the consumer must pass when making the decision to take a step towards achieving financial independence. Part of the process of achieving this financial objective may be assisted by taking regulated financial advice, so advice is acting as a catalyst for the consumer. It is clear that certain consumers are sufficiently motivated and informed to understand that advice will help them achieve their objective (in fact, some will be able to act without advice), but for others, although motivated to try and take a step forward, there are barriers that prevent them achieving their objective. It may be that it is a combination of variables that prevent the consumer from utilising the services of a particular adviser or it may be that they take advice but then fail to act on it.

It may also be the case that the strength of some individuals' objectives are sufficient to ensure that they do surmount any barriers that present themselves, but this is not so for all consumers and where the immediacy and strength of the outcome are lower or the practicalities of finding a suitable adviser appear to be complex, then they fall by the

wayside. Initially, it was hoped that this model could be developed and the relationship between two key variables - perceived outcome expectancy and perceived self-efficacy - could be explored. However, it became clear later that this was beyond the scope of this project but the model was useful in summarising the factors that influence the consumer's decision to take advice and acted as a theoretical framework for the analysis. Furthermore, it can be used to trace the consumer's journey to advice and highlight the stages where interventions may aid this journey. There is no one reason why consumers do not take financial advice or plan for the future although there must be particular combinations of factors that are common to certain groups of people with similar needs.

Trigger Events	
<p style="text-align: center;"><b>Internal</b></p> <p>Memory Knowledge of Need Life-course Event</p>	<p style="text-align: center;"><b>External</b></p> <p>Advice or referral from trusted source Family/Friend/Employer/Other professional Financial Health-Check, Publicity campaigns Others' negative experiences Social Norm</p>



<u>Promoter</u>	<u>Consumer Intention Influencers</u>	<u>Inhibitor</u>
High .....	Trust.....	Low
High .....	perceived value of outcome.....	Low
High.....	perceived outcome expectancy.....	Low
Short .....	Timescale until outcome enjoyed.....	Long
Difficult .....	Coping strategy.....	Easy
High .....	perceived value of advice.....	Low
High .....	perception that it is accepted behaviour.....	Low
Like me.....	Messenger.....	Unlike me
	<u>Structure of Service</u>	
High.....	Industry Ethics.....	Low
For all .....	perception that.....	for the Rich
Consumers' interest at heart.....	Industry Culture.....	self-interest/Profit
Perceived as value.....	Cost.....	perceived as Expensive
Easy.....	Administration.....	Difficult
Easy.....	Accessibility of information or adviser.....	Difficult
Promotes ease of access.....	Regulatory Policy.....	Complex access



Figure 3.5 – The Advice Belief Model.

From the diagram above it can be seen that there are a number of key stages the consumer encounters when contemplating financial advice. Firstly, there must be a trigger to advice, these have been discussed in more detail at section 3.3. Often this trigger may be associated with a particular desire such as wanting to buy a house, to be secure in retirement, to protect against potential risks or it may be advice itself that triggers this desire. For example, a financial health check highlighting a risk the consumer has not previously considered. This is the theory behind the MAS Health-check discussed earlier in section 3.3. Alternatively a conversation with a friend or colleague may highlight a particular need or simply it may be expected that a particular financial action is adopted within certain social groups.

So once the consumer has identified a particular objective or need, they then need to know how they may satisfy this objective or need. In some cases they may have the financial capability to go and take the necessary action. For example, if the objective is to buy a house and they have insufficient resources to purchase outright then they are likely to require a mortgage to allow them to achieve the objective. Most consumers would be aware of this need for a mortgage, some would be able to go and source the most appropriate deal themselves and make an application to their chosen lender without any further assistance whilst others may not have this capability or alternately the desire to do it themselves, preferring to ask an expert. It is these latter groups that may benefit from advice.

The model also identifies a number of 'Consumer Intention Influencers' that may impact upon whether the consumer progresses further. Trust for example (to be discussed below in section 3.6) has been highlighted in the literature by numerous commentators as a barrier to consumers taking advice. Other factors that may influence the consumer's decision are;

- Perceived outcome expectancy - Belief that the advice will provide the perceived benefit. For example mortgage advice will allow them to arrange a suitable mortgage and thereby buy the house they want. Or advice regarding savings will achieve a better return.
- Perceived Value of Outcome - Strength of belief that the particular action is of value to them. For example, the importance of buying a house or planning for a comfortable retirement.
- Confidence & coping strategy - Whether the consumer has unrealistic expectations about their ability to manage without taking action, or advice and/or makes decisions based on incomplete information. Some consumers' expectations that they would cope may be correct. However, advice could set out the potential outcomes so the consumer could make an informed decision.
- Perceived value of advice - Whether the consumer believes that advice will help them more easily [or not] achieve their objective. This is in part a financial capability issue in that the consumer needs to understand what advice can provide but it is also a trust issue in that they feel confident that it will deliver the required outcome.
- Timescale. – Some consumers may be more interested in dealing with financial matters that bring them immediate results compared to ones that will benefit them later. For example, a mortgage brings immediate access to a new home whilst pension planning may be perceived as something that will provide benefits in the distant future and will currently only incur cost.
- Perception that it is accepted behavior – In some social networks it is the accepted norm that consumers take financial advice. Clients of Regulated Financial Advisers may refer other family members who want help with financial matters.
- The messenger - This idea of the messenger (adviser) being 'somebody like me' is drawn from work by CFEB (2010). It is about establishing trust and is discussed further in section 3.7.

The other issues that can interfere with the consumer's path to taking advice are firstly, industry matters concerning the structure and regulation of the financial services sector (which have been discussed in the previous chapter) and self-efficacy. The latter is about the consumer believing that they can deal with the practical aspects of the process; that is, finding the right type of adviser, being comfortable with the delivery channel, having the available time, being sufficiently motivated to take action and believing that there is the likelihood advice will allow them to achieve the required outcome. Appendix 3.1 attempts to 'map' the relationship between the different variables present in these concepts.

As this model developed it became clear that some of the variables were in fact elements of other variables and could not necessarily be located solely in the stages of the model to which they had been originally allocated. So things were clearly more complex than was initially thought and a more general perspective was required rather than exploring the relationship between specific variables. This is what led to the change in how the model was used within this research.

However, creating the model was a useful exercise in gaining a greater understanding of what factors influenced the consumer and how these were inter-linked. Furthermore, the model drove the design of the questionnaire and later the topic guides (see chapter 4) and eventually formed the basis of the theoretical framework used to guide data analysis. Originally it was hoped, naively perhaps, that the model would provide an all-encompassing explanation as to the barriers to advice, which it did not, but it has played an important part throughout this research, contributing to both the collection and analysis of the data.

### **3.6 – Trust and its underlying theories**

This shift towards a more liberal Welfare State Model has happened over the last three decades, resulting in a position where the citizen needs to take greater responsibility for

their own future. Trust is a key component of the multi-faceted relationship the consumer establishes when considering how to plan their finances for both expected and unexpected future events. It is reasonable to believe that most citizens want to be in a position to retire at some stage in later life and ensure that they are able to maintain the standard of living they have previously enjoyed. Furthermore, they may want to ensure that they have made provision to deal with the financial consequences of unexpected events during their life course.

This greater responsibility that has been placed upon the individual to make provision for the future has brought with it an increasing need for the individual to understand the provision available from the state and to feel sufficiently confident to interact with commercial providers of financial services. To be able to successfully engage with these organisations, the consumer often needs to find a source of financial advice that they can trust. Furthermore, the individual also needs to be able to rely on the state providing the benefits that have been promised. So the individual must also be able to trust that the state will provide these benefits at the expected time they are due. First I will consider some of the theories of trust before going on to look at how trust has been lost and the current strategy to restore it.

### **3.6.1 - Theory of Trust**

Manstead and Hewstone (2004) define trust in two ways. In one respect it is seen as a *“subjective state of being”* whereas in the other it is considering a willingness to trust others. In practice this would appear to be the same thing but the theorists see it from a different perspective, the former depending on the individual’s assessment of the situation and the likelihood that the other person will act in a manner that does not put the first individual at risk. The latter definition is more related to the first individual being of a trusting nature. Trust is measured as the rate of co-operation, that is, how willing the subject is to co-operate with another. This in reality means that however trusting an individual is, they still need to be confident that the second person will not

put them at risk. The implication therefore being, that although the trusting nature of the different individuals will vary, ultimately the individual must be confident that they are not threatened or in danger before they will be prepared to entertain a trusting relationship. From the client adviser relationship perspective this means that the adviser must not threaten the client or a trusting relationship will not be established and thereby a business relationship may not result. However, this is not always the case as sometimes individuals may see no alternative but to engage with a particular company or individual. This is where 'forced trust' may prevail (Devlin, 2014).

Rousseau et al, 1998 (cited in Poortinga and Pidgeon,2003,p.962) define trust as: "*...a psychological state comprising the intention to accept vulnerability based upon the behaviour of positive expectations of the intentions of or behaviour of another*". Again this agrees in many respects with the opinion above where individuals have varying degrees of willingness to trust – trusting nature – and their risk assessment of the likelihood that the other individual will act in their best interests.

Poortinga and Pidgeon (2003) go on to develop the argument by citing Renn and Levine's (1991) work that identifies five core components of trust;

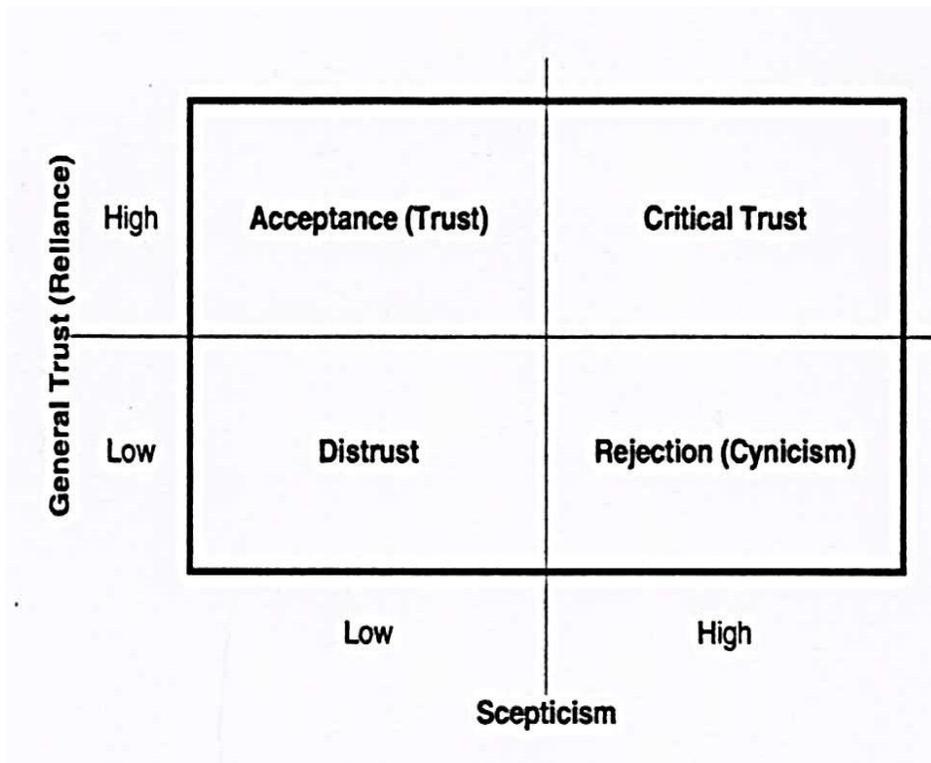
- Perceived competence – suggesting technical expertise
- Objectivity – absence of bias
- Fairness – takes account of all relevant points
- Consistency – predictability of argument
- Faith – perception of good will of source (my interests at heart)

It would seem that in the client/adviser relationship all the above components of trust would be significant although it may be that different elements are more important at different stages of development of the relationship. For example, initially, faith in the goodwill of the source and perceived competence may drive the relationship forward and as things develop then the other elements would become more relevant.

Poortinga and Pidgeon (2003) go on to cite other writers such as Jungermann et al (1996), Metlay (1999), Frewer et al (1996) and Earle & Cvetkovick (1995). All of these agree that there are various core components that define how trust is established which can be summarised by Metlay's (1999) simple definition of Competence and Care. Although, Earle & Cvetkovick (1995) (cited in Poortinga and Pidgeon,2003) suggest that in complex circumstances trust is based on agreement or sympathy rather than reasoned argument or direct knowledge; they refer to this as 'Salient Value Similarity'. Perhaps this is why the more skilled sales people [power of persuasion] within the financial adviser fraternity may be successful although some may be lacking in technical expertise - perhaps they are more skilled at empathising with the client and thereby gaining trust.

The objective of Poortinga and Pidgeon's study (2003) was to apply the theories of others to test how they best describe the citizen's trust in Government Regulation. They found little difference in the degree of trust across the organisations and suggested that trust in Government rather than individual organisations (risk agencies) may be important. They set out a typology of trust that places trust in to one of four categories;

- Acceptance (Trust)
- Critical Trust
- Distrust
- Rejection



**Figure 3.6 – A typology of trust in government (Poortinga and Pidgeon, 2003)**  
 (direct re-production)

They describe critical trust as: “...reliance on a person or institution combined with some healthy skepticism” (Poortinga and Pidgeon, 2003, p.971). Where high levels of general trust and high levels of scepticism are present then they consider this as critical trust, whereas if scepticism is low but general trust high then this is deemed acceptance. From a policy perspective they conclude that the policy makers may be confusing these categories of trust and that it may be more effective to encourage citizens to be involved but critical. So by linking these various theories it is easy to see how a ‘Trust Continuum’ could be constructed. At one end would be the consumers able to apply Renn & Levine’s (1991) (cited by Poortinga and Pidgeon, 2003) core elements of trust, whereas as at the other end less able consumers would rely on ‘Value Similarity’ to judge trustworthiness.

Hardin(2006) (cited in Wells and Gostelow, 2009) suggests that distrust is a response to evidence that somebody else does not have ‘their interests at heart’. O’Neill (2002)

(cited in Wells and Gostelow, 2009), concurs with this and comments that suspicion has increased rather than trust declining. Perhaps they are suggesting that people have become more cynical. These ideas seem to confirm the view of Poortinga and Pidgeon (2003) that some consumers exercise critical trust, which is a combination of scepticism (or suspicion) and general trust.

Taylor-Gooby (2006) also comments on the movement of trust in public authorities and institutions from 'accepting trust' towards a more sceptical approach. He suggests that scepticism and trust differ across social groups with the privileged becoming less trusting as scepticism increased whereas scepticism and trust are positively correlated for the working classes and those of lower educational achievement. Taylor-Gooby (2006, p.21) offers a potential explanation for this, saying:

*"...those with greater capacity and confidence to challenge and assess need to have their scepticism answered in order to trust, while others may experience scepticism, but feel they have little alternative but to trust. The former feel they have voice and need to be convinced by government if their misgivings are to be assuaged. The latter lack voice and may be mistrustful but have no alternative to continued loyalty."*

### **3.6.2 – Trust and Financial Services**

These theories of trust can be recognised in what the FSA had been trying to do through its Financial Capability Programme. By improving consumers' level of financial education and encouraging them to shop around, consumers become more involved and are more able to critically appraise the advice received or product choice. Furthermore if the Retail Distribution Review (RDR) proposals (implemented in January 2013) are considered in the light of the core elements of trust then again it could be that the FSA have done the right thing to try and improve the consumer's trust in the financial services sector. These issues will be considered further below in a more detailed review of the work on trust by Wells and Gostelow (2009) that was commissioned by the FSA.

From the individual's perspective, trust is a key element in the adviser/client relationship. As mentioned earlier in chapter 2 (2.3.1, 2.4.5 and 2.6) trust is highlighted as a key barrier preventing consumers from engaging with financial services. Research by Kempson et al (DWP, 2005) with financial intermediaries found that they considered loss of trust in pensions and pension providers as the biggest barrier to take-up of personal pensions.

AEGON (2007a; 2007b) also ran a number of workshops to investigate consumer attitudes and access to financial advice. They found a common theme of lack of trust in financial services throughout these workshops. The Financial Services Consumer Panel (2006) found that mis-trust of financial services was more prevalent amongst those groups that had less experience of interacting with the industry. This lack of trust in the financial services sector was the motivation for the Treasury enquiry, 'Restoring Confidence in Financial Services' which is mentioned by Kempson and Collard (DWP, 2005). The theme of re-building trust was again re-iterated by Mark Hoban, the Financial Secretary to the Treasury (HM Treasury, 2012), where he went on to highlight the failure of the earlier tripartite regulatory system and emphasised the tougher regulatory stance that is to be adopted by the FCA as it attempts to restore trust and consumer confidence in financial services. As discussed in chapter 2 much of this loss of trust in the financial services sector is attributed to the mis-selling scandals (section 2.6) of the last three decades.

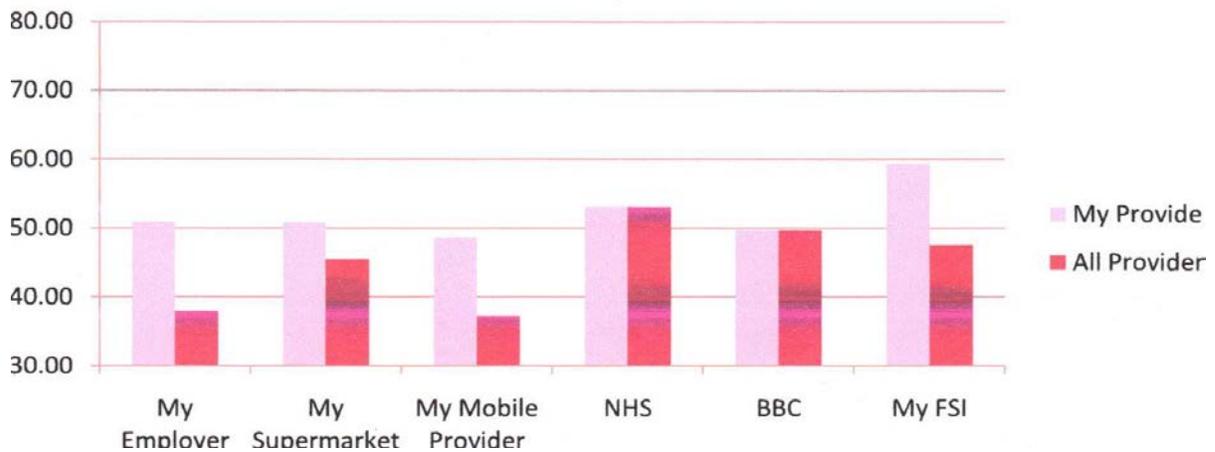
It appears that the general consensus throughout Wells and Gostelow's paper (2009), which was commissioned by the FSA to summarise issues regarding rebuilding trust, is that the financial services industry has failed the consumer. They attribute the blame for the low level of trust in the financial services industry to a number of issues;

- Mis-selling scandals

- Commission remuneration model
- Ethics
- Low standards of adviser qualifications

In many respects this is a regurgitation of the reasons the FSA has given throughout the RDR as the reason change is required. This failure exhibits itself in the form of a strong theme relating to low levels of 'Generalised Trust' which is the term attributed to the trust in the industry as a whole. The paper then goes on to discuss the high levels of trust that consumers have in their financial advisers which seems to be in complete contrast to the 'generalised trust' in the industry. This latter point is supported by the trust index produced by the Financial Services Research Forum at the University of Nottingham which measures trust in the consumer's 'own' financial services provider. The Trust Index report (Ennew, 2009) does highlight the fact that a significant number of consumers were found to have low levels of trust in Financial Services and that younger males were 'over represented' in this group. This index (see Figure 3.7 below) looks largely at consumers that are already using financial advisers/institutions and have surmounted the trust barrier and gained access to the services of an adviser. It suggests that trust in their financial services providers, was measured as higher than that in both the NHS and BBC. This comparison relates to the participants' trust in their own financial services provider (My FSI); when asked about trust in all providers the NHS & BBC were above Financial Services providers who in turn were more trusted than employers, supermarkets and mobile phone providers.

## Overall Trust - Comparators



**Figure 3.7 – Nottingham Trust Index – comparison of Trust in various organisations (Ennew, 2010, p.12) – (direct reproduction)**

Within the financial services sector, the research found that: “...brokers and advisers are seen as the most trustworthy” (p.2). This is put down to the nature of financial advice being generally face to face and the report suggests that this should be considered in the move towards more depersonalised services that are increasing being offered through alternative delivery channels.

The index uses ‘Shared Values’ as one of the variables to assess trust, but it does not appear to be interpreted in the same way as how Earle and Cvetkovich (1995) consider ‘Value Similarity’. They consider this ‘*trust heuristic*’ (Dixon, 2006, p.53) as a potential risk whereas ‘shared values’ is considered a positive variable within the index. Wells and Gostelow’s report (2009) explored this issue of trust in the individual and in the industry as a whole, dividing trust in to two distinct categories;

Trust in the individual - trust on an individual basis is established in a number of ways, either on an emotional basis where the consumer may have some form of personal relationship with the adviser (or organisation) or where the consumer is reflective (analytical) and prepared to trust the adviser because they satisfy certain criteria. This

continuum from emotional trust to analytical trust is similar to the Value Similarity/Critical Trust Continuum referred to earlier in this chapter. For different consumers, different combinations of these variables will influence their decision as to whether they are able to put themselves at risk by engaging with an adviser. Wells and Gostelow (2009) go on to suggest that membership of a professional body can act as a 'Trust Heuristic' (they refer to this as a proxy) that can help consumers with little or no experience to breach the trust barrier. Furthermore, they suggest that outside of personal relationships (Emotional Trust) consumers rely on ethical behaviour and competence to assess trust. This is questionable: what about Value Similarity or is this an element of ethical behaviour? If Value Similarity is a factor then again, Taylor-Gooby's question (2006, citing Cook), as to whether people making decisions are competent to judge the issues, seems particularly relevant and makes it questionable to whether the 70% of the population currently not taking advice are likely to be able to judge the significance of advisers being members of a professional body (see discussion later regarding membership of a professional body – p.77). Furthermore the use of the 'value similarity heuristic' by salespeople to gain consumers' trust, assuming this is the case, may not always be considered ethical behaviour.

Trust in the industry - the suggestion is that if the industry only commands a low level of respect from the general public then they are less likely to interact with it and the barrier to access is therefore higher. The implication is that if levels of trust in the industry as a whole can be raised, then greater consumer access will be achieved. Wells and Gostelow (2009) cite research from the Financial Services Consumer Panel that found only 14% of consumers had high levels of trust in the financial services industry. This FSCP (2005) suggests that 14% of participants had a positive view of financial services whilst 34% had a negative view, the remainder being neutral. Digging in to these figures a little deeper appears to reveal that experience of financial services has a significant effect on the participants' views.

<b>Personal Characteristic</b>	<b>Positive View (%)</b>	<b>Negative View (%)</b>	<b>Neutral View (%)</b>
All respondents	14	34	52
Low/no household savings	9	44	47
High household savings	20	26	54
AB socio-economic group	19	27	54
DE socio-economic group	11	46	43
Many investments	19	20	61
No investments	9	41	50

**Figure 3.8 - Summary of view of industry by personal characteristics (FSCP, 2005)**

The above table suggests that where consumers have greater experience of using financial services then they are more likely to take a positive view. The consumers surveyed suggested that their views were influenced by;

<b>Influence</b>	<b>%</b>
Own Experience	71
Experience of family and friends	49
Articles in newspapers & magazines	28
TV & Radio	22
Experience of working in the industry	7

**Figure 3.9 – What influences consumer views (FSCP, 2005)**

One of the key objectives of the RDR (FSA, 2009) is to restore trust such that more of the citizens that do not currently interact with the financial services industry are able to engage. It seems clear from the information above that experience of financial services is one of the key drivers of trust. From the perspective of the financial services industry it is clear they try to build a picture of businesses that can be trusted. This is discussed below.

For the consumer, it may be that it is trust in the brand of a provider – financial services companies devote much time and expense to building a brand that paints a picture to

the consumer of a company that they can rely upon to look after their pensions and investments. Often television advertisements will portray the investor reaping the benefits of the company's products by showing how they are enjoying a retirement doing all those things they had previously only dreamed of. Similarly, the banks try to build a picture of being organisations focused on helping the consumer through the financial maze whilst offering the security of a long established business with credibility. For these organisations consumers' trust tends to be gained by the strong brand image these companies portray - although of course this image can easily be damaged at the individual level if the consumer feels unable to trust the particular adviser. The research completed by AEGON (2008) with focus groups found that they envisaged 'trustworthiness' as an important characteristic of the ideal adviser and felt that companies with brand images like 'The John Lewis Partnership' portrayed the quality and trust that they would want from a financial services company.

Although a few of the larger independents are owned or linked to the banks and insurance companies that have strong brand images, much of the commercial financial planning advice is offered by smaller independent brokers. The majority are small organisations without the kudos of a nationally recognised brand. For the smaller organisations, the building of trust can be much more dependent on the adviser/client relationship where the adviser must fit the consumer's perception of an individual that they can trust with their money. Palmer (2001) comments on this, saying that the service proposition means different things to different people and that 'first impressions' can be a major factor in establishing trust. He goes on to say that trust is key to the consumer making a commitment. Furthermore, that legislation can reduce the need to establish trust between the buyer and the seller, as the buyer may feel more secure in the knowledge that the product is effectively backed by the state. A good example of this is the Financial Services Compensation Scheme.

For many smaller brokers, new business often comes largely from client referrals.

Consumers often trust the opinions of their friends and colleagues and will therefore be happy to be introduced to advisers by recommendation from these informal sources. Again this is an example of how the individual is able to reduce the 'trust barrier'. There are of course risks to the individual in finding an adviser via this method. Jones and Barnes (2005) talk about the 'myths and rumours' that prevail particularly amongst groups with low income and financial capability. This could result in situations where the referral may be to an inappropriate adviser only offering a limited range of solutions to meet clients' needs. Furthermore, it begs the question as to whether the introducer (friend or colleague) is sufficiently knowledgeable to judge the quality of the advice they have themselves received. Another example of this might be where somebody is referred by a friend or neighbour to a 'door-step lender' where in reality they could have accessed credit through more main stream sources. This downside risk of an introduction to an inappropriate adviser should be less likely when the introduction is via a Trade Union, professional body or employer.

Where trust is gained by the implicit faith the individual has in the 'introducing organisation', the risk of inappropriate advice should be reduced if the body (with their interests at heart) has the capability to make an informed judgement as to the quality of the adviser. For example, the Universities Superannuation Scheme (USS) lists financial advisers that have been vetted by USS as appropriately qualified to provide advice to USS members. To be able to participate in this scheme advisers need to be qualified to Chartered Status, agree to operate only on a 'fee paying' basis (pre-RDR) and to have completed appropriate scheme specific training. USS members can therefore have some degree of confidence that advisers listed on the USS web-site will offer appropriate advice and from the individual's perspective there may be less need to establish a 'trusting relationship' from scratch as the initial 'trust barrier' has already been lowered. If we were to analyse USS's approach to this using Renn and Levine's core competencies of trust (cited by Poortinga and Pidgeon, 2003, see section 3.6.1) then it would be clear that USS had adopted some of the elements of critical trust to help establish their

adviser panel.

In a similar vein, formalised introductory arrangements exist between brokers and professional advisers such as Solicitors and Accountants (there may have been a financial incentive for the introducer to refer clients to certain advisers where introducer agreements were in place; RDR seems to have made this less likely). In this situation, the client already has established a relationship with the professional adviser and this trusting relationship is transferred to some extent to the relationship with the financial adviser. In many respects this easing of the 'trust barrier' is similar to the scenario mentioned earlier where national IFAs and bank advisers have the backing of the organisations brand to help surmount this initial barrier. Obviously, the introducing organisation risks damaging its own credibility, if subsequently, the adviser does not provide the client with appropriate advice. However, in certain cases there may be a financial incentive that encourages the introducer to refer consumers and in this case consumers' interests may not be the key concern.

Another aspect of the 'trust barrier' is the current demographic of the 'adviser population' and how this is perceived by groups that are poorly represented in this demographic. This is highlighted in the CII report (Money's too tight to mention, 2008) which talks about the IPOD generation (18 -34) who feel the financial services industry is out of touch with the young, whom they tend to patronise, and are more interested in the older generation. Similarly, Nichols (CII, 2009) suggests that women often find advisers patronising and lacking in communication skills. She believes the industry needs to devise a marketing strategy that will appeal to female consumers and suggests that a lot could be learned from 'Weight-Watchers' approach, where the clients are provided with a plan, achievable goals and a mentor to guide them. Again these are good examples of how certain parts of the population are prevented from accessing suitable advice services by the current Financial Services business model. Part of this issue may be that women currently account for only about 15% of the overall adviser population

(Atkin et al, 2012, personal communication with Andrew Wood) which is mainly dominated by older male advisers.

In 2009 one of the RDR papers (FSA, 2009a, p.20) refers to the earlier work done with pre-consultation groups, where governance objectives were established. One of these was to: *“...deliver a visible change to consumers that makes this a more attractive and trustworthy sector from which to seek advice”*. Although this objective is laudable, it is questionable as to how much of the proposed policy is focusing on achieving “visible change” and whether this is change to demonstrate to the general public that the industry has changed, or whether it is about improving the services available.

Accompanying this paper, as part of the ongoing consultation, the FSA commissioned the Professional Standards Research Network (PARN) to complete an external review of the literature on consumer trust and how the Retail Distribution Review may be used to shape policy so that consumer trust in the industry could be restored. One of these reports, discussed earlier, (Wells and Gostelow, 2009) summarises a wide variety of literature from a range of academic disciplines and draws a number of conclusions as to how trust in the financial services industry may be restored, with particular emphasis on how increased professional standards are likely to help improve consumer trust. The other report (Friedman et al, 2009) deals specifically with Professional Standards Bodies, looking at the structures and processes of five existing bodies. Wells and Gostelow (2009) discuss the need to take “positive transformational actions” to restore trust. They suggest that promotion of ethical conduct and membership of professional bodies can act as a heuristic for assessing trust in organizations. The second paper (Friedman et al, 2009) considers how these bodies measure the success of their strategies in upholding professional standards. PARN’s own model, Three Pillars of Professional Standards, is used to compare different systems from the different professional bodies. The three pillars are;

- Entry Standards
- Complaints and Discipline

- CPD and positive ethical behaviour

This report does not appear to make any substantive recommendations as to how a professional standards body might measure its success other than suggesting that the three pillars are linked and that information gathered from disciplinary action and complaints should be fed into the initial standards and CPD educational programme.

Thomas (1998) (cited in Wells and Gostelow, 2009) suggests that membership of a professional organisation, 'the badge of professionalism', can act as a trust heuristic, although they go on to say that there is no direct evidence that promoting professional standards and ethical behaviour improves consumer trust. In fact, it raises the question as to whether consumers that do appreciate the significance of membership of professional bodies are already able to exercise 'critical trust' and are therefore likely to be able to interact with the financial services industry. The other side of this argument is that if Taylor-Gooby's question (2006), citing Cook, is posed, asking whether people are always competent to judge issues when making decisions. This seems relevant to whether the majority would be aware of the significance of a professional body when trying to select a suitable financial adviser.

Later, Wells and Gostelow (2009) comment that there is little research on repairing organisational trust. They highlight 'Gillespe's recipe' which although it deals mainly with restoring employer-employee relations could be applied to restoring organisational trust. This includes;

- Implementing regulatory controls
- Removing incentives that encourage unethical behaviour
- Punishing acts that violate trust
- Acknowledging responsibility
- Making visible statements of benevolence, competence and integrity

Again, elements of this 'recipe' can be identified in the FSAs strategy that resulted in the

implementation of RDR.

There are a number of points that Wells and Gostelow (2009) raise where there appear to be contradictory research; in particular the comments regarding factors such as the relationship between trust, age, gender and education have not been considered in any detail. Taylor-Gooby (2009) suggests that critical/sceptical trust is more prevalent amongst the middle classes and better educated members of society. Whereas it is those on lower and middle incomes that currently are less likely to take advice and may be less able to apply critical trust. Perhaps the relevance of these variables should be investigated further.

Di Luzio (2004) (cited in Wells and Gostelow, 2009) goes on to say, that it is the public welfare aspect that differentiates a profession from a business occupation. They imply that the industry failure is due in part to Financial Advisers having not yet adopted all characteristics of a profession. This seems to simplify things given that currently Financial Advisers are guided by FSA/FCA Principles and the Treating the Customer Fairly Regime along with the codes of ethics that apply to members of the CII, IFS and other professional organisations active within the industry. The 'Treating Customers Fairly' regime was introduced by the FSA in 2006 and set out a series of 'consumer outcomes' that the FSA expected to emerge from expectations they had set out as to how firms should treat customers. In many respects these principles are 'rooted in' the FSA Principles (see appendices 2.1 & 2.2)

If Wells and Gostelow's findings (2009) regarding professional bodies are considered in the light of Renn and Levine's (1991) 'elements of trust' (section 3.6.1) –

- Perceived competence – suggesting technical expertise
- Objectivity – absence of bias
- Fairness – takes account of all relevant points
- Consistency – predictability of argument

- Faith – perception of good will of source

- then for consumers that are able to apply these criteria to assess trust (critical trust) it seems logical that membership of professional bodies could be regarded as a trust heuristic. For those consumers that do not understand the significance of a professional body then this may be less helpful.

Generally, there seems to be agreement that trust is necessary for co-operation to prevail and that it is exhibited in different ways, from emotional trust to critical trust. This may differ by social class, education, gender and income. So it appears that trust is established by satisfying a number of the required conditions. Citizens will have varying degrees of trusting nature and this will influence whether a trusting relationship is established. It may be that the citizen who is able to exercise more critical trust, is better educated and appears to be of a less trusting nature whereas the less educated citizen may be more easily swayed by agreement and empathy therefore appearing to be less able to apply critical trust.

Interestingly, both the FSCP (2005) and the Nottingham Trust Index (Ennew, 2010) show consumer trust in IFAs/brokers as highest amongst the various organisations referred to in these reports. The latter puts this down to the higher degree of personal contact/relationship with the individual.

An alternative way to help excluded groups is to use policy to reduce the need for advice. The recent example of how policy is being used to try and encourage citizens to save more for retirement is the phased introduction of the auto-enrolment regime that commenced in 2012 (see section 3.7). These are individual savings vehicles into which all employees not already participating in an approved scheme will be automatically enrolled by their employer. So the introduction of auto-enrolment in to the UK can be expected to increase retirement savings. From a trust perspective, citizens will not need to seek advice to join a scheme, so the barrier of establishing a trusting relationship with

an adviser is removed. Although there is still the issue of choosing appropriate funds, but default options may address this.

A further influence on consumer trust in the financial services sector is how responsibly the press report events in the financial sector, particularly the bad news. Lacey and Longman (1997) suggest that the great majority of the general public rely on the media as their main source of information regarding matters about which they have little personal experience. They suggest that the media as a source of information allows the general public to access knowledge about a wide range of subjects. The risk of relying on this source of information is, they suggest, that a “*culture of ignorance*” can be perpetuated by tabloid journalists without the knowledge or ability in order to overcome the influence of their editors who withhold information to fashion stories to suit their own means. Lacey and Longman believe that it is the need for the press to sensationalise that perpetuates the short-termism which prevails. A survey by MORI (IPSOS MORI, 2013) found that journalism is one of the least trusted professions.

### **3.6.3 – Applying the theories of trust to RDR and MAS**

In the early sections of this chapter there are many examples of how trust impacts upon the consumer’s relationship with the state and the financial services industry. Now I will link the theories of trust to the policy that has driven the implementation of RDR & MAS.

We have already seen how consumers make decisions on trust; they may be emotional, critical or most probably include different degrees of each. It seems likely that consumers’ ability to apply critical trust may be linked to education and experience. Similarly, it may be that policy is using strategies that either encourage the citizen to apply ‘critical trust’ or reduce the need to do so

Firstly, we will consider how regulation is being used to try and break down barriers

consumers face when trying to access financial advice. The implementation of RDR has changed the way in which financial advisers work with their clients. The core objectives of this policy are to improve consumer trust in the financial services industry. From trust theory we can see that Competence and Absence of Bias (Renn and Levine, 1991) are elements that may improve consumer trust. From the RDR perspective it can be seen how they are being used to try and help achieve the policy objective.

#### Perceived competence – suggesting Technical Expertise

The RDR proposed that adviser qualifications should be raised to the standard of the Diploma in Financial Planning which is a QCF level 4 accredited qualification.

Furthermore, advisers will be required to complete structured CPD to maintain their knowledge at this level. So by raising the entry level qualifications for advisers the FSA is hoping to increase the technical expertise of advisers and this in turn should help to heighten the consumer's perception of the technical expertise of advisers. This of course assumes that the consumer understands the significance of a level 4 qualification. In fact, if the consumer already assumes that advisers would be qualified to similar levels as other professions (often level 6) then this may have the adverse effect of reducing public confidence when they realise how low the base qualification level has been. Chartered Insurance Institute research highlights this risk (Money Marketing, 2009).

#### Objectivity – Absence of Bias

One of the core elements of the RDR proposals was to separate the cost of advice from the product costs and to break the link between insurance company commissions and the cost incurred by the consumer. Again, this could be construed as a way of reducing the opportunity for bias to skew the advice. That is, advisers remunerated by product commission may be more inclined to sell these high commission products rather than a more suitable alternative. Of course, this is an area of concern and there are examples of advisers taking excessive commissions that bear no comparison to the amount of work required (Sandler, 2002). Removing this opportunity for bias, may help to improve consumer trust in the financial services sector.

So it can be seen that the RDR is using two elements of the theory of trust (Absence of Bias and Technical Competence) to help achieve the policy objective. It seems that this strategy is trying to increase 'acceptance' of the advice sector by satisfying these elements of trust establishment. Critical trust does not appear to play a major part in this strategy although it does in the financial capability strategy.

The financial capability strategy is aiming to educate citizens so they are more able to critically assess the actions they take or are recommended to take. The FSA (and later MAS) have run a number of initiatives as part of the strategy, including the Workplace Seminar initiative. The strong theme through the Workplace Presentations was the need to 'shop around' rather than just accept the first option being offered. This theme is repeated in other strands of the Financial Capability Strategy. Notably, the MoneyMadeClear web-site that not only encourages the user to shop around but also offers the facility to compare product costs and features, highlighting some of the issues that need to be considered before committing to buy a product. Again there are elements of trust theory that can be directly related to the strategy adopted. By improving the consumer's financial education and ability to shop around, these better educated citizens are then able to critically assess the options available. This would seem to fit with Poortinga and Pidgeon's 'Critical Trust' where initially they exercise a high degree of scepticism before making a decision. Taylor-Gooby (2005) also comments that the service user needs to be an active citizen interacting with the Welfare State and that trust must become active rather than passive.

Another strand of the Financial Capability strategy is The Money Advice Service (see section 2.4.2). The idea behind this service is that it will help all users to plan the finances in an environment where they feel neither obliged to buy a product or incur a cost, the service being free at point of delivery. If the principles and objectives of this service are considered in the light of Renn and Levine's (1991) elements of trust and

Poortinga and Pidgeon's critical trust (2003) then it can be assumed that the potential service user would feel able to enter into a 'co-operative relationship' with this service without having to be able to apply 'critical trust' in the same way as they might have to when choosing a regulated adviser. This is because there should be no competing agendas and therefore lack of bias would be more likely. Yet again the FSA seems to have utilised the elements of trust to shape policy in a way that helps to erode the current barriers that prevent some segments of the population receiving advice.

This lowering of the trust barrier by altering the balance of the factors the consumer needs to consider already operates in the consumer/regulated adviser relationship where referrals are prevalent. As discussed in the previous section, many consumers are referred to advisers by family and friends or via some form of professional connection. In these cases it appears that where critical trust is being applied it is 'outsourced' to a third party where a trusted relationship is already established. This is evident in the 'USS referral' where the pension scheme administrator has set certain criteria that advisers must meet before being allowed to join the panel. To some extent this takes away from the scheme member the responsibility of applying critical trust as the adviser has already been 'vetted' by the scheme.

In more general terms, a number of commentators express concerns about the movement towards the individual having to take greater responsibility for planning their own finances. Shiller (2003) believes the government should have a major role in risk management. Taylor-Gooby (2008) cites results from the BSA Survey that confirm it is the more vulnerable that are the most trusting whereas better educated citizens are likely to be less so. This fits with Poortinga and Pidgeon's view (2003) regarding the need and ability of the citizen to be able to apply critical trust which involves exercising a degree of scepticism. The BSA Survey confirms that younger people are less likely to trust the state and again this concurs with the results of the CII report on the IPOD Generation.

This strategy of moving towards a more individualistic society where the citizen is responsible for planning their own future raises a number of concerns. There are basically two approaches within this strategy that seem to be being utilized: firstly the approach to introduce mandatory savings policies that compel the citizen to make individual provision via a state controlled savings/pension scheme and secondly, the option where market regulation and education are used to break down barriers so the citizen is able to interact with the market and therefore make provision. The former scenario removes the need to establish trusting relationships as the citizen is obliged to participate whereas in the latter scenario the citizen is able to interact with the market, exercising critical trust and therefore being able to make rational informed decisions. Auto-enrolment is a step towards the first scenario. However, giving the member the option to opt out is not overcoming this trust barrier completely as mis-trust may result in the member not participating.

A report from the Social Market Foundation (Evans et al, 2008) cites the example of the “Danish model of flexicurity” that provides a combination of flexible employment protection legislation and the security associated with high level ‘out of work benefits’. The report suggests that a similar system could be established in the UK where workers earning above a certain threshold were obliged to enroll in a private insurance product. This scheme would protect workers incomes in the event of long term sickness or unemployment and it could also provide benefits for dependents. This model of providing benefits via compulsion (in addition to the safety net already provided by the state) again removes the need for the citizen to have to engage in ‘critical trust’ to establish a trusting relationship. This approach would help those less able to make informed choices by removing the need to do so.

### **3.7 – Behavioural Finance**

In the earlier sections of this chapter it has been explained how the models from health

psychology and the social sciences more generally have been used to identify factors that may influence consumers' actions when seeking financial advice. From this the Advice Belief Model was then developed and following this the theories of trust were considered. These earlier sections, along with the discussion regarding financial capability in chapter 2 have all been focused on the underlying reasons why consumers do or do not decide to access financial advice. The next section concerns how the theories from behavioural economics and economic psychology are starting to be used to try and overcome these barriers and change consumer outcomes.

Charupat and Deaves (2004) define 'Behavioural Finance' as an area of behavioural economics which relates to financial decision making and financial markets. The roots of these different disciplines (behavioural economics and economic psychology) come originally from economics and psychology. Earl (2005, p.910) describes four perspectives of the relationship between economics and psychology suggesting that the relationship between these two disciplines may remain '*debatable*'. Fetchenhauer et al (2012) commented that one of the issues preventing increased cooperation between these two disciplines was that knowledge of one side regarding the other was still limited. However, for the purposes of this thesis I will collectively refer to these theories as being part of behavioural finance and economic psychology.

In July 2010, The Consumer Finance Education Body (CFEB) issued a report entitled 'Transforming Financial Behaviour'. This report highlights the problems that consumers' failure to engage with the Financial Services Sector causes these individuals and society as a whole. In particular this report explores the possible interventions that could be used to change consumer behaviour. It draws on a process known as 'Choice Architecture' which it suggests can be used to help people make better decisions. The report's authors have used a framework called 'MindSpace' that divides the types of intervention into categories. In many respects this approach is about changing the structures that prevent individuals from engaging with financial services and advice

thereby allowing them to become more active agents.

Some of the factors that can encourage or discourage consumers from taking advice are located in the theories from economic psychology and behavioural finance. Before considering the details of the CFEB (2010) report mentioned above I will first explain the background to this change in approach and summarise some of these theories that have only recently started to be utilized.

Over the last decade, policy relating to the Financial Services Industry has moved from one of purely protecting the consumer by ever increasing regulation to one which is trying to improve the financial education of the consumer. The theory behind this latter policy is that a more informed consumer will be able to make better financial decisions and interact more readily with the Financial Services Sector. Although considerable resources have been dedicated to the 'National Strategy for Financial Capability', until more recently little use has been made of the existing knowledge available from the literature in Economic Psychology and Behavioural Finance.

There are many different theories from economic psychology and behavioural economics that are relevant to helping the consumer engage more easily with financial services. Some of these are briefly described below;

- Heuristics - These are 'mental short-cuts' that people use when faced with an unfamiliar or complicated problem about which they have little knowledge. CFEB (2010) suggest these lead to consumers making wrong decisions. An example of this might be if consumers make trust judgements based on whether they like advisers rather than assessing their capabilities. As far back as 1955, Simon highlighted the issues of incomplete information on consumer decisions. Later, in 1974, Tversky and Kahneman discussed how the use of heuristics are used to simplify complex decisions but can lead to '*systematic errors*' (p.1124). The term 'trust heuristic' is drawn from Dixon (2006) which, although can be found in some earlier literature, is the first time I can find this concept referred to with

respect to consumer financial decisions. In more recent literature (Mehta, 2013) refers to this concept when contrasting assumed unbounded rationality of the rational actor model with the bounded reality that is the norm for most consumers and leads to the use of heuristic decision making.

- Procrastination - '*postponing things one knows one should do today*' (De Meza et al, 2008, p.95).
- Framing Effects - Dixon (2006) suggests that the manner in which things are explained to people can influence their behaviour and financial decisions.
- Prospect Theory - people are more concerned about a loss than a gain (Tversky and Kahneman, 1981)
- Default Options - Dixon (2006) explains that people prefer not to take decisions, preferring to go with the status quo. Thaler and Sustein (2003) looked at the effect of auto-enrolment on the levels of participation in three US company pension schemes. Before the schemes were changed to auto-enrolment, participation levels were between 26% and 43%. After auto-enrolment was introduced participation levels rose to between 57% and 69%. This research is important as it is significant to the design of the UK pension policy of auto-enrolment that is currently in the process of being introduced.
- Mental Accounting - The idea of 'Mental Accounting' was put forward by Thaler (1985). This suggested that people mentally allocated pots of money for specific purposes. There is much synergy with the practice of 'days gone by' when people used 'separate tins on the kitchen shelf' for the rent man, the insurance man or school dinner money. This may still happen today in some households.

So returning to the CFEB (2010) report, this highlights ten types of intervention some of which are based on theories from economic psychology.

<b>Mindspace Category Intervention</b>	<b>Justifications from report.</b>	<b>Comments</b>
<b>Messenger</b>	lower socio-economic groups more comfortable with someone 'like them'	Understanding how to find a suitable messenger could help improve access to advice. However judgements from an emotional trust perspective could be damaging.
<b>Provide Incentives</b>	Standard incentives can have a significant effect on behaviour	Examples of this may be tax relief on pension contributions. Other incentives to save may also increase saving.
<b>Mental accounting to establish rainy day fund</b>	Appears to be a successful tool to encourage saving for unexpected events.	Mental accounting may safeguard the money so it is used for emergencies only
<b>Information on relevant peer group</b>	Using social norm information could affect behaviour	Promote financial capability norms
<b>Default options</b>	Set up regular deposit transfer when opening savings account.	This is the Default Option theory that underlies auto-enrolment
<b>Feedback to support money management.</b>	Feedback mechanisms that alert customers to how well they are doing financially will result in behavioural change.	Information showing Savings objective on target. Text messages when approaching credit card limit.
<b>Information that provokes particular responses</b>	Visualising the future. Using case studies to illustrate others successes.	Could strengthen outcome expectancy. It is what advice does.
<b>Commitment to action.</b>	Consumer commits to check statements or to save regularly	Public statements to peers can make more effective.
<b>Set realistic targets</b>	Realistic goals can be achieved by breaking down in to stages	May reduce self-efficacy barrier as easier if considered in small steps
<b>Financial Health Checks</b>	Can counter beliefs and norms that have negative effects on financial capability.	So far the MAS Healthcheck has had little effect. There is a suggestion that messages need to be 'harder hitting'.

**Table 3.2 – Summary of 'Mindspace' categories (CFEB,2010).**

It appears that the main commentators on how economic psychology can be used to increase engagement with personal finance (Dixon, 2006; De Meza et al, 2008; Willis, 2009) agree that the strategy of increasing knowledge can only make moderate differences to consumers being able and sufficiently motivated to make informed choices. They all suggest that theories from Behavioural Finance and Economic Psychology can be used to simplify product design, make products more consumer

friendly (by taking account of cognitive biases that deter consumer engagement) and change consumer attitudes that hamper improvement in financial capability and access to advice services.

Already both product providers and policy makers do use some of these theories. These have been illustrated earlier in this section and fall broadly in to two categories; firstly, those that either remove or reduce the need for individuals to engage with the financial services sector through use of default strategies and secondly, those that motivate the consumer to take the required action. To date the strategies used tend to fall in to the former category. More work is required on motivating citizens to adopt a more active role in their welfare planning which seems to vary across different social groups, partly because of embedded social norms that influence how members of these groups act.

The literature on using economic psychology to improve consumer access and motivation seems to identify the importance of social networks and capital but does not develop this area to any extent. Comments by Jones and Barnes (2005) are mentioned earlier regarding this in section 2.4.1 on Informal Advice. They suggest that this reliance on social-networks for information results in increased debt and poverty. De Meza et al (2008) also comment on this area suggesting that there are 'peer group' effects in financial decision making.

Economic Psychology and Behavioural Economics obviously have a part to play in understanding the good financial decisions people make as well as the irrational and illogical ones. By understanding the cognitive biases that drive these decisions (or indecision), then alternative biases could be developed to counter those that result in inappropriate actions. De Meza et al (2008), Dixon (2006) and Willis (2009) all seem agreed that progress could be made by adopting a two pronged approach:

- Firstly, understanding better the 'social norms' that prevail in certain communities and perpetuate the 'myths and rumours' (Jones and Barnes, 2005)

- that prevent access to accurate financial information and good quality advice.
- Secondly, that advice is an important aspect of consumers making the right decisions particularly where this involves more complex situations or solutions.

The FCA (2013) has already stated that it plans to take account of behavioural biases in the work it intends to do regarding analysis of the mistakes and non-rational choices consumers make when buying financial products. It believes that market forces alone do not always reduce or eliminate these mistakes and that certain interventions, including regulation, will be required in their: “...*proactive and speedy approach to consumer protection*” (FCA,2013,p.12).

In 2011 The House of Lords published a report on factors that government should consider when using theories from economic psychology to change the behaviour of citizens. Concerns were expressed that there may be a lack of evidence as to how to use these theories to change behaviour of populations in practice.

### **3.8 – Summary**

This chapter has brought together a number of diverse elements of this research. Firstly it considered how advice is used, illustrating clearly that there is a large gap between the use of mortgage advice and other forms of regulated financial advice. It went on to look at the triggers that often prompt consumers to take advice. The nature of a trigger is that the consumer generally has a particular objective in mind when they then seek advice. So it is therefore likely that they will take a transactional rather than holistic approach to advice (see section 2.4.6). This in itself may account for consumers not taking advice on the full range of areas an adviser is able to help them with particularly where there are trust issues and consumers feel there are competing agendas.

The chapter went on to discuss the Advice Belief Model (ABM) and show how this was developed from earlier work on health and other more general models from social science. The ABM illustrates the process through which the consumer travels when

taking advice, highlighting the various barriers they may encounter. Although this model was not developed in the way initially imagined it still played a major role in various stages of the research, guiding the survey design, topic guide designs and serving as a theoretical framework that guided the analysis.

The chapter then moved on to consider the importance of trust in the consumer's relationship with financial services. Initially the theories of trust were outlined and this section then went on to explain how trust in financial services was lost and how the regulator has shaped policy, attempting to rebuild it. Finally, this trust section of the chapter discussed how trust theory has been applied in the design and implementation of both the RDR and Money Advice Service.

The chapter concludes with a section on behavioural finance that highlighted the theories of this discipline and showed how the regulator and industry were attempting to use these theories to help the consumer more easily engage with financial services.

## Chapter 4

### The Research Method

#### **4.1 - Introduction**

In this chapter the reasons are set out as to why the particular research methodology, design and method were used to investigate the barriers to accessing financial advice. The contrast between the different potential outputs offered by the quantitative and qualitative techniques utilised within the mixed methods process aimed to provide a more comprehensive picture of what happens when consumers consider taking financial advice. The chapter will start by setting out the research questions.

There are some schools of thought that consider it impossible to mix qualitative and quantitative techniques whilst others believe that mixing methods can bring together the strengths of both approaches. The chapter will highlight the arguments for and against the mixed methods approach and attempt to show why, in this case, it was considered that the benefits of this method outweighed the disadvantages.

The next part of the chapter will explain how the data for each section was both collected and analysed. It then goes on to reflect upon the quantitative and qualitative phases of the research, the design, the fieldwork, the analysis and the ethical issues. This includes considering how the researcher's role as an independent financial adviser has influenced this research by considering the role of the 'insider looking in'.

#### **4.2 - The Research Aim and Questions**

My motivation to carry out this research came from a number of different directions. Firstly, as an independent financial adviser with many years of experience advising clients, I had encountered various barriers to consumers taking action both before and after receiving advice and it was interesting to have the opportunity to explore these barriers further. Secondly, my earlier research (Moss, 2006) suggested a relationship between knowledge and trust in that where high levels of trust were present there was

less need for the individual to understand why they were taking a particular action regarding their finances. Although this latter position is not necessarily ideal in that it would seem better for the individual to understand the rationale behind a particular action, if it results in a better overall financial outcome for the individual then it would appear to be beneficial.

These experiences led to me wanting to understand further the factors that influenced consumers regarding planning for the future and in particular how and why they may use the services of a regulated financial adviser to help them achieve this. This desire to better understand the consumer experience resulted in the following research questions.

#### **4.2.1 - Explanation of research questions/hypotheses**

**Question 1 - How does the level of consumers' knowledge affect the likelihood of them accessing regulated financial advice?** - Without the knowledge of particular needs, consumers may be unlikely to believe they require advice unless realisation of these needs is triggered by some external source, for example, a health-check. This can be related back to HBM theories notably Planned Behaviour/Major Theorists or ABM. Understanding how this factor influences consumers' behaviour might be key to understanding the barriers to accessing advice.

Some confusion might exist over the scope/range of advice that is offered by advisers. There is overlap between different levels of the regulatory regime which allows advisers with differing ranges of 'permissions' to provide advice on, in some cases, the same product areas. The literature suggests that consumers often do not understand the different types of adviser available in the marketplace. This links to regulatory structure and value of advice.

The third aspect of this research question asks about consumers' knowledge of how to find a suitable adviser. Regulated Advice is available from banks, building societies,

insurance companies and various types of independent and multi-tied brokers. But how do consumers find a suitable adviser and what are the implications of this from the perspective of the scope of advice they receive and the risks this may pose. Again there are links here to the questions regarding trust and regulation.

**Question 2 - How does trust influence the likelihood of consumers taking advice?** How do consumers from a trust perspective make decisions regarding whether or not to engage a particular adviser? The objective of this question is to try and better understand the part trust plays in the decision making process by considering how consumers decide whether or not to engage with an adviser. This then leads on to the next sub-question (ii) which considers the trust related factors that either drive or act as a barrier to this decision. The third sub-question (iii) then raises the question as to whether the theories of trust help to explain the actions of consumers. So what this may tell us is why consumers take the actions they do.

The fourth trust related sub-question (iv) asks about the level of trust in financial advisers and whether the level of trust in product providers highlighted in the literature acts as a barrier. Is this related to the levels of trust consumers have in advisers, particularly where consumers have experience of using these advisers? What evidence can this research provide to support this idea? One aspect of this is whether regulation of financial services is an important factor in consumers' decisions to take advice.

Regulation may be positive from consumers' perspectives in that it offers a degree of protection particularly given the record of the financial services sector and the extent of the mis-selling scandals but does it present a barrier to access? If so, how important is it to consumers that advice carries some degree of regulatory protection?

The final sub-question (v) relating to trust raises the questions as to whether there are different levels of trust associated with different types of product? That is, are consumers willing to engage with advisers even though they do not necessarily trust them and does this vary depending on the product area in question?

### **Question 3 - Does the perceived cost of advice act as a barrier to consumer access?**

There are a number of inter-related factors that fall within the general question about cost and affordability of advice affecting the likelihood of consumers accessing advice. Firstly, does a perception prevail that in the past advice has been free. This in itself may lead to a number of issues; firstly the changes to the advice regime in 2013 which banned the payment of commission for advice on certain classes of business could lead to fewer consumers taking advice as they believe they now have to pay for this. Secondly, the assumption that advice is free may lead consumers to under-value advice, potentially perceiving it as part of the 'buying process' of a particular product.

The sub-question asks about consumer attitudes towards the cost of taking action on the basis of advice. This raises the question as to whether consumers believe that where there is a cost associated with advice, there should be some immediately tangible benefit? This last aspect of the question is asking about the importance for consumers to be able to see some immediate outcome from the advice; for example, an improved mortgage or savings rate rather than clarification of likely pension income or understanding an investment concept. If this is the case, then this raises the question as to whether there is a link to the earlier question regarding knowledge of adviser services and also is relevant to how consumers value advice.

Finally and probably most important is that some consumers simply may not have the resources to arrange the products or advice that can help them plan for a more financially secure future. Low income consumers may have a multitude of competing priorities for limited resources, of which planning for the future may be relatively low on the list.

**Question 4 - How does industry structure act as a barrier to consumers accessing advice?** Reducing adviser numbers as a result of RDR may lessen consumer access as advice is currently a commercial activity and therefore needs to be profitable. Are advisers, therefore more likely to gravitate towards more high net worth clients?

A regulatory regime where advisers have different permissions might be confusing for consumers? Do advisers provide full advice to consumers or is their advice focused to a particular product area? If so, why is this and how may it affect consumer outcomes? Where focused advice is the norm, can it be accounted for by adviser attitudes or is it due to consumer requirements?

**Question 5 - What are the implications for the welfare of consumers not accessing advice and how can policy help to improve access?** - There are various types of welfare regime operating in different countries across the world. The neo-liberal model utilised in the UK provides only a safety net, expecting the individual to act as an active agent and make provision for both planned and unplanned future events. This raises a number of questions on different levels. Firstly, is it realistic to expect consumers to engage with financial services and make informed decisions with or without advice? Can the use of theories from economic psychology such as those that underlie the auto-enrolment regime be used to help shape policy such that either the barriers to engagement with financial services are lowered or consumers are more easily able to access financial advice? How else can policy be used to help lower the barriers to engagement with financial services so consumers are more easily able to access financial advice? What are the implications for consumer welfare under the current regime?

**4.2.2 - The Research Questions.**

<b>Research Question</b>	<b>Source/Method</b>
<b>Research Aim:</b> What are the barriers to consumers accessing regulated financial advice? How can these barriers be reduced?	The sources/methods listed below will be used to answer this question.
<b>1). How does the level of consumers’ knowledge affect the likelihood of them accessing regulated financial advice?</b>	The survey will show the areas on which participants have already taken advice and highlight the reasons for not taking advice on other areas
(i) How and why does consumers’ lack of knowledge of their needs and objectives act as a barrier to advice?	Empirical research from both the survey and consumer interview data will be used to answer this question.
(ii) How does consumers’ knowledge of adviser services affect the likelihood they will take advice?	Empirical research from both the survey and consumer interview data will be used to answer this question.

(iii) How does the consumer access advice?	Existing literature and empirical research from both the survey and consumer interview data will be used to answer this question.
<b>2). How does trust influence the likelihood of consumers taking advice?</b>	The survey will identify participants that consider trust a barrier to access.
(i) How from a trust perspective do consumers decide whether or not to engage a particular adviser?	Consumer interviews
(ii) What factors either drive or act as a barrier to this decision?	Consumer interviews
(iii) Can the theories of trust help to explain the actions of consumers?	Existing literature and consumer interviews
(iv) What is the level of trust in financial advisers? How does the level of trust in product providers highlighted in the literature act as a barrier and how is this related to the levels of trust consumers have in advisers, particularly where consumers have experience of using these advisers?	Existing literature Survey Consumer interviews
(v) Does the influence of trust upon consumers' decision to take advice vary across product areas?	Consumer interviews
<b>3). Does the perceived cost of advice act as a barrier to consumer access?</b>	Empirical research from both the survey and consumer interview data will be used to answer this question.
(i) How does the cost of taking action on the basis of advice act as a barrier?	Consumer interviews
<b>4). How does industry structure act as a barrier to consumers accessing advice?</b>	Existing literature Adviser interviews Consumer interviews
(i) How do adviser attitudes to how they deliver advice influence consumers' understanding of the services available?	Adviser interviews
<b>5). What are the implications for the welfare of consumers not accessing advice and how can policy help to improve access?</b>	All sources listed above will be used to answer this question.

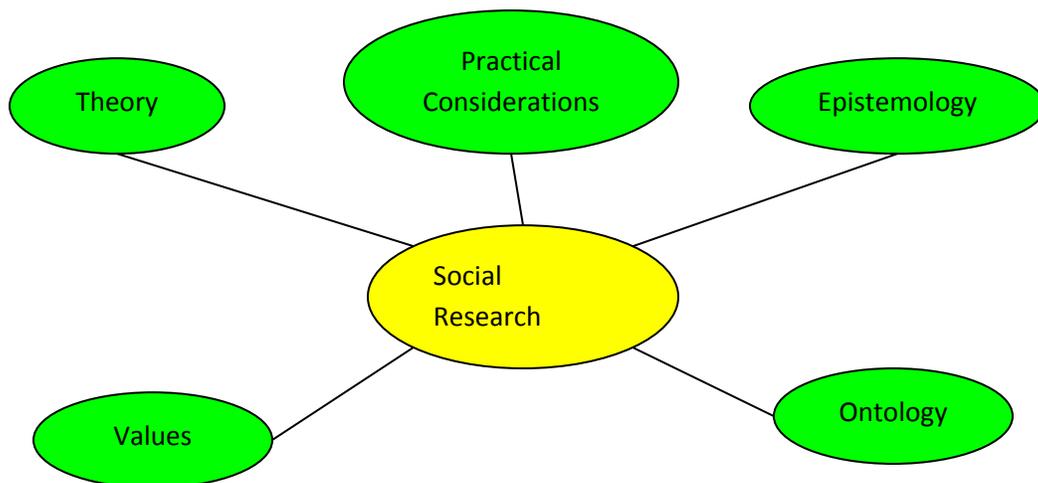
### **4.3 - The Research Methodology**

A mixed methods approach uses a combination of qualitative and quantitative techniques jointly within one project. The reason why this approach may be used rather than either purely qualitative or quantitative methods is because using the two techniques together can, in certain circumstances, provide greater 'richness' of

understanding. The quantitative element provides greater breadth and may be representative of the sample population whilst the qualitative element offers greater depth (Teddle and Yu, 2007). Furthermore, the quantitative stage of the process can also be used to screen the participants for the qualitative stage of the research.

Before considering the particular reasons for developing a mixed methods approach, I will discuss the background to the various options available and the different aspects of research design that need to be considered before deciding on a particular method.

Bryman (2004) summarises the various considerations in the diagram below.



**Figure 4.1 – Influences on Social Research - Bryman (2004,p.21)**

### Theory

Bryman (2004) suggests that ‘theory’ is commonly categorised under two headings; Grand Theory, which tends to operate at a general level and be more abstract whereas ‘Middle Range Theory’ tends to deal with specific areas of the social sciences and is more suited to empirical enquiry. The latter is used to attempt to explain certain aspects of social life. So in the case of this research, this empirical enquiry attempts to add to

the knowledge regarding the barriers that prevent consumers from accessing regulated financial advice and is therefore classified as middle range theory.

Theory is also often considered under two distinct headings, Deductive Theory and Inductive Theory, although Bryman (2004) considers that this distinction should be thought of as a tendency rather than a hard and fast rule. Deductive Theory is when theory is deduced from what is already known, this may be from the existing literature and/or the experiences of the researcher. From what is known, the researcher derives theory that can then be tested via the empirical element of the research. So it is the theory that drives the process of collecting the data. On the other hand, 'Inductive Theory' is derived from the data collected (or by observation), so the data and the analysis of the results provide a theory.

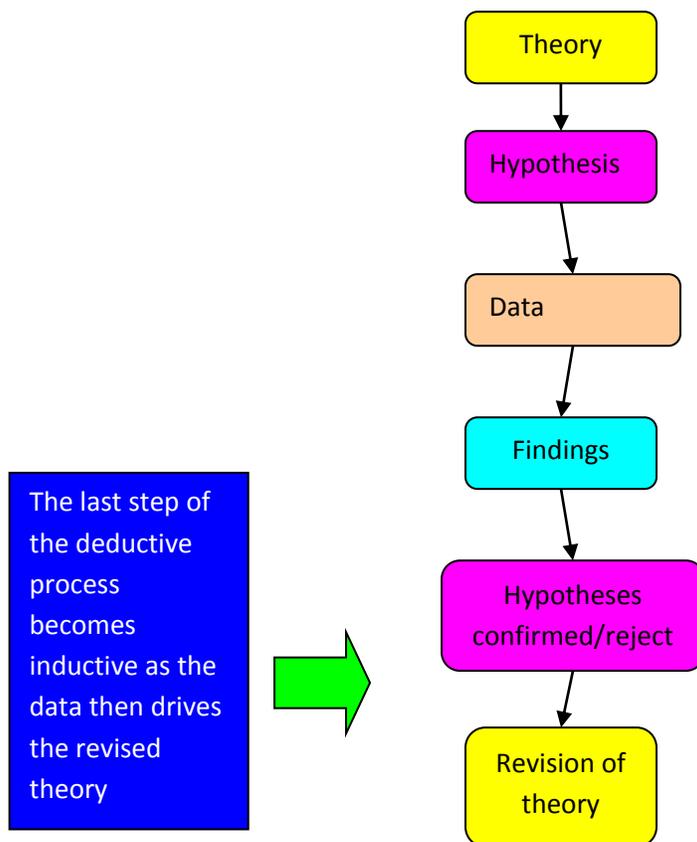


Figure 4.2 – The process of deduction – (Bryman,2004,p.9)

Some commentators may suggest that Deductive and Inductive Theorising are diametrically opposed approaches, quantitative research usually being deductive and qualitative research being inductive. However, both processes can be present at different stages of the research process (Bryman, 2004) as shown in the diagram above.

For this research I wished to gain a better understanding of how, when and why people have or have not accessed regulated financial advice and, from this, identify the reasons why this has occurred. By gaining a better understanding of the processes people adopt it was expected that barriers to accessing advice would be identified.

As described in the earlier chapters, the existing literature already sets out what regulated financial advice is and that, currently, levels of use amongst the general population are low. Furthermore, the literature highlights the ability of the individual to know when, how and why to engage the services of a regulated financial adviser as a key financial capability skill.

So for this research there is existing theory suggesting there are barriers to consumer access to advice. My hypotheses are that access to regulated financial advice is influenced by consumer knowledge, trust and affordability along with the prevailing industry structure. Therefore, by exploring the process of accessing financial advice, a greater understanding of the reasons for low levels of consumer access will be gained. This is achieved by collecting data and analysing the findings from which my hypotheses are either confirmed or rejected. So these initial stages are deductive yet involve both quantitative and qualitative research techniques. In the latter stages of the qualitative stage of the research the process becomes inductive as the theory is revised. So as illustrated in figure 4.2 above, it can be seen that the initial stage of the process is deductive but the revision of theory is inductive.

## Epistemology and Ontology.

Denzin and Lincoln (2005) state that the basic set of beliefs that a researcher holds are encompassed in the paradigm they adopt. Part of this paradigm involves the epistemological and ontological stances that are to be adopted. Bryman (2004, p.11) defines epistemology as “...*the question as to what should be regarded as knowledge*”. He goes on to say that some writers consider that this determines how the research is positioned from a philosophical perspective. Regarding the Ontological question he asks whether social constructions are an external element of the social world or whether they are created by the ‘social actors’ within them. Teddlie and Tashakorri (2009, p.88) define ontology as “...*the nature of reality, being and truth*”.

Bryman (2004) describes the various epistemological positions that can be adopted, which have been summarised below;-

- Positivism - This epistemological position relies on the principles that apply to methods used to research the Natural Sciences. The positivist approach looks at the ‘hard facts’ but is less effective in interpreting how social action can influence the causal explanation of the research findings. Teddlie and Tashakorri (2009,p.5) comment that positivists traditionally took the position that research should be conducted in an “...*objective, value free environment*”.
- Interpretivism - This is often considered as the contrasting position to positivism. It considers the social world in which citizens live and their interaction with that social world, that is, social phenomena are produced by human beings (Miller et al, 2002). Bryman (2004,p.14) goes on to say that Social Scientists try to understand “...*people’s common sense thinking*” and interpret their actions from the perspective of the world in which they live.

According to Bryman (2004) the two broad ontological positions are Objectivism and Constructionism. The former is the position that suggests organisations and culture are external influences rather than ones created by the interactions of individuals. Whereas

Constructionism is the position that argues individuals have influence over these 'external realities', so organisations or cultures are produced by social interactions.

Bryman (2004) suggests that the importance of the researcher stating their ontological position is that the particular stance adopted can influence the way in which research questions are formulated by stressing particular assumptions.

Burke-Johnson and Onwuegbuzie (2004) highlight the debate that has been ongoing for many years between the quantitative and qualitative purists who advocate the superiority of their particular discipline and epistemological stance. This purist stance sometimes referred to as the incompatibility thesis (Guba and Lincoln, 1985) suggests that the paradigm adopted prevents the mixing of quantitative and qualitative methods. However, Morgan (2007,p.50) contends that there are different interpretations of what a paradigm is, going on to say that it is the "*...level of generality of that belief system*" which distinguishes the different versions. Teddlie and Tashakkori (2009, p.4) suggest that the different research paradigms can be described as "*...a worldview, complete with the assumptions that are associated with that view*". In fact, Denzin and Lincoln (2005,p.192) consider that various paradigms are starting to "*interbreed*".

Clearly, if the traditional approach is adopted, which Morgan (2007, p.52) refers to as "*Paradigms as Epistemological Stances*" then it poses a problem to mix qualitative and quantitative research methods. However, if a more generalist view is adopted where paradigms are considered as worldviews then this issue does not arise. One of these worldviews is Pragmatism, an emerging philosophical position which uses 'what works' (Creswell and Plano-Clark,2011). Teddlie and Tashakorri (2009,p.7) describe the Pragmatism paradigm as "*...a deconstructive paradigm that debunks the concepts of truth and reality and focuses instead on 'what works'*" they go on to say that pragmatism does not accept the either/or position of the positivist/interpretivist debate and furthermore it accepts that the researcher's values may influence the outcome. Burke-Johnson and Onwuegbuzie (2004,p.15) support this view, saying that adopting a

*“non-purist view”* can allow the researcher to *“mix and match”* in order to have the best chance of answering the research question most comprehensively.

Burke-Johnson and Onwuegbuzie (2004) assert that *“...the project of pragmatism has been to find middle ground between philosophical dogmatisms and scepticism and to find a workable solution to many long standing philosophical dualisms about which agreement has not been historically forthcoming”*. This suggests that pragmatism is offered as an alternative approach to overcome the incompatibility thesis, that some contend prevents, the mixing of methods. Creswell and Plano-Clarke (2011,p.42) set out the different elements of the four worldviews used in research. Of these elements epistemology and ontology are two, of which they say for the pragmatic worldview the implications for practice are;

- Epistemology – Practicality – researchers should collect data by “what works” to address research questions.
- Ontology – singular and multiple realities which may provide multiple perspectives.

Again, this is stressing the case that the relationship between *“epistemology and ontology on the one hand and research methods on the other are not deterministic”* (Bryman, 2004,p.449).

Section 2.4.3 describes the use of advice citing the FSA (2006e) which defines the financially capable consumer as somebody who knows when and how to access financial advice. The implication therefore being, that if a consumer does not know how or when to seek advice then they are somehow deficient in their capability. This is the ‘rational actor’ position Mehta (2013) highlights where the unbounded rationality is considered the norm and consumers exhibiting ‘bounded rationality’ are considered deficient. However, she goes on to say that if the norm was considered to be the bounded rationality perspective then rather than trying to address the supposed deficiencies of the individual, the structure and environment may also be considered. To some extent this is the approach adopted for pensions with the introduction of the auto-enrolment

process. Similarly, the 'guidance guarantee' relating to retirement planning (HMT, 2014) removes the need for the consumer to know how, why and when to access advice as it becomes the default position, so structure is changed. Clearly there are different perspectives that can be taken regarding how the issue of access to advice can be considered and this therefore calls for a worldview that will accommodate different perspectives and focus on a methodology that helps to best answer the question.

This Pragmatism paradigm is, I believe, the position I have attempted to adopt in this research. The reasons for this are that pragmatism as a 'worldview' is about answering the question rather than being bound by the restrictions that may apply to other worldviews. It is centred around using whatever combination of methods that are appropriate to solve the problem that has been posed, being orientated towards a '*what works*' approach (Creswell and Plano-Clark,2011,p.41)

### Values

One of the criteria for adopting a Positivist stance is that research should be 'value free', that is, not influenced by the ideas, experiences or biases of the researcher. In recent years this has become a less credible stance. In fact, Bochner and Ellis (in Denzin and Lincoln, 2003) believe the experiences of the researcher are key to achieving an improved understanding. Bryman (2004) considers that the values of the researcher may influence the research at a number of points. The points listed below are discussed in more detail in the following section.

- Choice of Method
- Research design & data collection techniques
- Implementation of data collection
- Analysis of data
- Conclusions

Bryman (2004) suggests that the position the researcher adopts influences the research design and that if a positivist approach is to be used then the research should be 'value free'. Given that the researcher carrying out this research has for many years been an independent financial adviser then it is unrealistic to consider that this research could be completed without the researcher's experience influencing the direction of the research. In fact, it is my experience that has hopefully added value to this project through the detailed understanding of how the industry operates, which has been gained by being part of this structure and culture of the industry. This has helped me to understand the experiences the research participants have encountered and how these drivers and barriers they have faced have arisen. Furthermore, my experience has contributed to the design of the initial questionnaire and also the more detailed exploration that arose during the qualitative interviews. Of course, it is possible that by being part of the structure and culture of the industry has biased my views, so it was important to try and stand back and view these things from a distance. This issue is discussed further below.

#### **4.3.1 – The insider looking in**

Much has been written about the issues faced by researchers when research is conducted by a member of a group, a profession or the research focus is on a subject that the researcher has extensive knowledge of. Researchers of this type are often referred to as "insiders".

Traditionally research has been expected to ensure that the processes used, eliminate, as far as possible, any influences or characteristics of the researcher. This is particularly the case for the natural sciences. The positivist stance is that research should be 'value free' (Bryman, 2004), that is, not influenced by the ideas, experiences or biases of the researcher. Many commentators have written about the potential biases that can be introduced by the researcher's background and beliefs (Van Heugten,2004; Bochner and Ellis,2003; Reinharz,1979; Brodsky and Faryal,2006; Zinn,1979), to the extent that there is now a substantial amount of literature about what have been labeled the 'insider' and

'outsider' positions. Much of this literature relates either to members of black and ethnic minority communities or to females. The arguments being that, for example, being part of a particular group or community can give the researcher access to information and people that may otherwise not be available to the outsider. Similarly, 'the insider', as part of the culture of that community, may have greater understanding of the perspectives of the research subjects than the outsider. On the other hand, the researcher's views and particular stance will be heavily influenced by membership of this community and may lead to what Kanuha (2000) (cited in Van Heugten, 2004, p.208) refers to as "*...dominant discourse blind spots pervading the analysis*".

The experiences of Van Heugten (2004), originally a New Zealand social worker working in private practice, seem to highlight a number of the issues I faced. She carried out research on the issues surrounding social workers moving from agency work to private practice. Reinharz (1979) (cited in Van Heugten, 2004, p.207) suggests that a researcher should use "*...human tools that include ... personal experiences, imaginative identification and emotion*". Van Heugten (2004) decided to try and 'create a distance' between her research and her previous experiences by 'a stream of consciousness writing', interviewing herself on tape and speaking to others such as her supervisors. She goes on to explain how as part of the research project she also interviewed a number of agencies that funded counselling within this sector. During this process she felt 'internal tensions' between her role as a practitioner and a researcher, particularly in relation to policy ideas that could impact upon her independent practice (presumably negatively or by increasing costs) against the need as a researcher to encourage the participants to express and develop their ideas freely. Later in her paper Van Heugten (2004, p.210) raises the issue of "*...Intersubjective disjunctions*' where '*the researcher assimilates the respondent's material into a configuration that differs significantly from that of the respondent*'. My interpretation of this is that the researcher was affronted by the participants' views and perceptions of the sector that the researcher is part of (ie. an insider within). Van Heugten (2004, p.210) felt that she wanted to resist exploring these

ideas and was *'in denial'* of the fact that these issues existed within the industry where she worked.

Zinn (1979) suggests that the 'insider' sees social reality through a different lens to the 'outsider', which may allow 'insiders' to ask questions and gather information others could not. She goes on to say that this acceptance that the insider can achieve through being part of the 'group' can also create additional unrelated work, where group members request assistance with matters not directly related to the research project. Brodsky and Faryal (2006, p.313), one being an insider and the other an outsider, completed research together allowing them to contrast the different perspectives of the insider and outsider. One of the traits they identified was that the outsider researcher could be *"...blinded by the similarity of settings"*. My assessment of the point being asserted is that what may appear to be the same to an outsider is interpreted differently by the insider as they are able to identify what may be subtle differences because of their deeper understanding of the nuances of the group in question.

For this PhD, there are many similarities with the potential for biases that have already been mentioned. As an Independent Financial Adviser carrying out research on the attitudes of the consumer to using (or not) the services of Financial Advisers it would be near impossible to believe that the twenty years I have spent advising clients, experiencing the attitudes of consumers and reading the press and regulator's comments about adviser shortcomings would not influence how I approach this research. Perhaps more important than trying to adopt the (impossible) value free position, is to recognise the potential biases that exist and make every effort to either overcome these or take account of them in the final analysis.

Although many schools of thought believe that the researcher's personal experiences should be excluded, as far as possible, from the research process, there is an opposing view that the researcher's experience should be drawn upon to add value to the research. This discipline, Auto-ethnography, believes the experiences of the researcher are key to achieving an improved understanding. Auto-ethnography is a qualitative

research method, generally written in the first person, which is dramatically different from what is considered the “normal way” to conduct research (Bochner and Ellis, 2003). Although this methodology is not being drawn upon for the main research project, using the underlying idea of the researcher writing a personal narrative is very much in line with the pragmatic view adopted which is about ‘what works’. If writing a personal narrative helps to identify potential biases then this should be attempted.

So as an ‘insider’ of the industry that provides consumers with financial advice, my experience will hopefully add value to this research through the detailed understanding of how the industry operates. These experiences should help me understand the experiences the research participants have encountered and how these drivers and barriers they have faced may have arisen. This experience should contribute to the design of the initial questionnaire and also the more detailed exploration that will arise during the qualitative interviews. However, this potential for bias must be considered in the context of the results.

One of the practical issues of being an ‘insider’ was that the participants and particularly the interviewees would be aware of my role as an adviser. Potentially there were a number of aspects to this. Firstly, there may be an expectation that I was there in part to provide them with advice, secondly there may be some mis-understanding regarding my agenda and finally that they may feel uncomfortable revealing their ‘perceived financial failings’ to an industry professional. These issues are discussed later in section 4.7 on ethics.

Possible Positives.	Possible Negatives.
<p>Comprehensive knowledge of the products and services provided by Financial Services</p> <p>Understanding of how the regulatory influences drive the practicalities of offering advice.</p> <p>Knowledge of the potential risks the consumer faces in the current 'individualistic' environment.</p> <p>Experience of discussing the intimate details of consumers' finances.</p> <p>Consumers' perceptions that as an industry professional I understand their needs.</p> <p>Ability to understand how consumer expectations are not necessarily aligned with the current industry structure.</p> <p>Experience and understanding of how the FS industry has failed the consumer.</p> <p>Realisation that it is policy that has created the need for a profit focused industry which serves the consumer in the individualistic environment.</p>	<p>Consumers may not be prepared to reveal their true feelings to an IFA regarding their finances as they may be embarrassed by their lack of future planning.</p> <p>Consumers embarrassed by their lack of knowledge regarding their finances.</p> <p>My [FS cultural] beliefs that the issues driving the RDR are not altogether valid.</p> <p>Expectation by consumers that I can help them with aspects of their financial planning.</p> <p>The '<i>you know what I mean</i>' statement which I will need to address to ensure I do understand what they mean.</p> <p>Expectation by consumers that I will confirm they have 'done the right thing'.</p> <p>Concern that alerting the interviewees during the interview to inadequate planning will cause them anxiety.</p> <p>My pre-conceived ideas about how realistic it is to expect consumers (particularly lower income) to make sufficient provision for long term liabilities.</p>

**Table 4.1 - Comparison of the issues I faced as an insider from the Financial Services Industry.**

The above table (4.1) compares the potential advantages and disadvantages of being an industry 'insider'. Probably the most important advantage was my understanding the implications of the different levels of conduct of business rules for advisers when providing advice and selling products. The most difficult disadvantages to deal with were the interviewees' expectations that I was there to help them with their financial planning and alerting them to the inadequacies of their current position without having the option to assist with more than generic advice.

Writing this section gave me the opportunity to consider some of the issues and potential biases that I faced in completing this research from my perspective as a member of the IFA community. When I started this research I had certain preconceptions regarding both the strengths and weaknesses of the industry of which I was part. These included the failure of the industry to provide appropriate advice services to consumers, particularly to those on lower incomes, the resistance of consumers to pay for advice by fee when there has been a perception (promoted by many in the industry) that financial advice is free and that advice was the answer for those consumers that failed to engage.

Over the intervening time it has been necessary for me to challenge these views, which has been achieved in large part by the regular discussions with my supervisors. Although I still believe the industry has in many cases failed the consumer there are broader perspectives to this discussion and advice is not the only route that consumers can take to help address the failure to plan for the future.

#### 4.3.2 - Practical Considerations

Bryman (2004,p.43) suggests it is important for the research method to be *'dovetailed with the specific research question'*. The ways in which this may be appropriate are, for example;

- Quantitative research can be used to identify differences of groups within the sample and highlight the importance of particular social phenomena. So for this research the quantitative element was used for a number of reasons. For example;
  1. the questionnaire was used to identified the demographic profile of the sample, that is, it showed age, gender, income quartile, level of education and whether advice was a norm within the individual's social network. (Questions 6 - 11)
  2. It allowed the participants to be grouped by those that had taken advice regarding a particular need/objective and those that had not taken advice

regarding this need/objective. Furthermore, for the latter group, it identified their reasons for advice not being taken by allotting them to a particular sub-group. (Questions 1 & 2)

3. It provided data on the participants' reasons (where applicable) for not taking financial advice.(Question 2)

The very fact of using a questionnaire was also a practical consideration in itself given the limited time that was available to collect this information from the participants.

- Qualitative research will bring out the views of the members of particular groups which can help in the generation of theory. This approach helped to provide a greater understanding of the issues participants faced. Silverman (2004, p.32) suggests that qualitative researchers believe “...they can provide a *‘deeper understanding of social phenomena than can be obtained from purely quantitative data’*”. So the qualitative aspect of my research allowed themes that emerged from the quantitative aspect of the research to be explored further. Another important issue is the nature of the particular subject and group on which the research is to be completed. If it is necessary to draw out information from research participants then semi-structured or unstructured interviews may be more appropriate than survey research methods, hence the use of qualitative techniques. So again there were practical considerations that contributed to the overall design of this research.

#### **4.4 - The Research Design**

From the literature and in particular, the various models that have been drawn from social science, along with the researcher's personal experiences, the **‘advice belief model’** (see chapter 3) was constructed in an attempt to map the process the consumer follows when accessing advice. This model played an important role in the research. It guided the design of both the questionnaire and the topic guides whilst also providing a theoretical framework for the analysis stages of the research.

Bryman (2004) describes research design as the framework for collecting and analysing data which reflects the importance given to certain aspects of the research process. He classifies these different research designs under five headings;

- Experimental
- Cross-sectional
- Longitudinal Design
- Case Study
- Comparative Research

The research process, using a cross-sectional research design, was to collect data in an attempt to try and develop and expand existing theories, determine the demographic of the sample, identify any groups that emerge from the data and try and better understand the factors that influence the decisions these groups make. It was decided to look more closely at the middle income quartiles (Q7 of the questionnaire asks interviewees to indicate total household income – see appendix 4.2) because these groups fit most closely with the frequent and infrequent user groups identified by Thoresen (2007;2008) as likely to benefit from financial advice and as the target groups for the generic advice service that was being proposed at that time, which has subsequently been established (see chapter 2 for more information on MAS). Once the participants had been identified, the factors that appear to influence their decisions were then to be explored further using qualitative techniques. The reason for using a cross-sectional design to carry out this research was that this type of research design is suited to identifying variations across a particular demographic sample. The drawback of this design is that it is only suitable for identifying correlations between variables, although Bryman (2004) does suggest that causal inferences can be drawn from this design.

This cross sectional approach is appropriate to a situation where there is no requirement or ability to manipulate the variables and can be used for both quantitative and qualitative research methods, so it suited the mixed methods approach used for this project. It was proposed at the outset that at the qualitative stage of the process, matching samples of those that have 'taken advice' and those that have 'considered taking advice but not proceeded' would be compared to identify the different variables that have driven these different outcomes. In practice it was not possible to do this but it was possible to categorise the interviewees to show some form of explanation as to what influenced their decision whether or not to take advice.

#### **4.5 -The Research Method**

A mixed methods approach has been selected to carry out this project. The methods are ordered in what Creswell and Plano-Clark (2011) describe as an 'explanatory sequential design'. They go on to say that it is important for the researcher to justify their reasons for using a mixed methods approach, and to support this they provide two typologies of reasons for using mixed methods;

**1.** Greene, Caracelli & Graham (1989) identified five factors that may be important when justifying the design. For my research project the relevant criteria were Development and Expansion:

- Development - this will help use the results from one part of the project to develop the second phase for which it will provide a sample. So the results from the quantitative phase will identify emergent themes which will then be investigated further via the qualitative element.
- Expansion – this extends the depth of the project by using different methods for different aspects of the project. This is relevant to understanding the 'why' questions that emerge from the first phase of the project and addressing the research questions that cannot be answered by the initial questionnaire.

2. Bryman (2004) - this typology provides sixteen different reasons why the researcher may wish to adopt a mixed methods approach. The relevant ones for this PhD were;

- Completeness - a more comprehensive account should result
- Different types of Research Questions – a number of my research questions are more suited to semi-structured interview techniques rather than a questionnaire approach.
- Sampling - the first phase of the project should identify groups within the sample so the corresponding emergent themes can be explored further in phase 2.
- Context - the conclusions from qualitative phase of the project will help to provide contextual understanding of the first phase of the research, that is, explain some of the findings from the quantitative analysis.
- Diversity of Views - identifying relationships between variables and helping to understand the underlying meanings behind these relationships.

Both the quantitative and qualitative phases of the research contributed to the overall results, although in different ways. The quantitative phase helped to identify the demographics of the sample, identified the sample's experiences of advice along with the reasons for not using it and helped guide the purposive sampling for the qualitative stage. The qualitative phase of the mixed methods process was the more important phase of the research as it provided explanations as to the reasons why the participants decided not to take financial advice. Furthermore, the consumer interviews allowed me to explore the interviewees' views on trust and cost of advice that would not have emerged from purely survey based research. The above typologies have illustrated a number of reasons why for this study a mixed methods approach was used.

The research was completed in two stages. Firstly the quantitative stage took the form of a questionnaire (collected via Money Advice Service Seminars) which identified patterns in the data and screened participants for the qualitative stage of the process.

Before considering the actual process used, I will consider the underlying theory and relevant literature regarding the rationale of the process.

## **4.6 - Rationale behind using Mixed Methods**

The aim of this research was to try and gain a better understanding of how and when consumers accessed regulated financial advice, whilst trying to identify the factors that may affect them doing so. By gaining a better understanding of these factors that influence consumer access to advice it was believed that this would help to find ways of lowering these barriers.

The FSA (2006a) suggest that less than 30% of consumers have accessed financial advice in the previous five years. They also say (2006e) that knowledge of how to access advice is a key financial capability skill. Much of the literature talks about the issue of consumer trust in financial services being the main factor that prevents consumer access (see chapter 2 for discussion on the subject). However, there seems little that explains why the consumer does not take advice when much of the literature coming from the FSA and academia suggests that they should.

### **4.6.1 – The Quantitative Stage**

Bryman (2004) states that when conducting a social survey, there are various routes that can be considered. There were a number of decisions that needed to be made and considerations to be addressed.

The quantitative data was to be gathered via an agreement reached with the Money Advice Service (MAS). This organisation is described earlier in Chapter 2. One of the financial capability work-streams MAS ran involved Workplace Seminars that were delivered in the workplace and provided attendees with generic information and ‘financial tips’ regarding how to better manage their money and plan for the future. I had been presenting these seminars for MAS for a number of years and from my

experience of presenting these seminars believed that the attendees at these seminars would provide a suitable sample to investigate my research interests further. MAS gave me permission to issue questionnaires at seminars I presented, having first themselves received the employers' permission. Prior to formalising this agreement with MAS it was necessary to make an application to the University's ethics committee to obtain consent for data to be collected in this way. The ethics application process is discussed in more detail later in this chapter.

In many respects the decision as to whether to use a structured interview or self-completion questionnaire approach was driven by the source of the data, the latter being selected. Although ideally structured interviews may have advantages over a self-completion questionnaire as the most appropriate tool to collect the initial quantitative data, in pragmatic terms the self-completion questionnaire was considered more appropriate particularly given the time restrictions imposed by MAS at the seminars. Below I have set out a comparison of the various strengths of the two methods.

<u>Structured Interview</u>	<u>Self Completion Questionnaire</u>
Less susceptible to participant fatigue	Fewer open questions.
Can probe participant	Easy to follow design
Change question order as required	Cheaper
Preferred for low literacy participants	Quicker
Avoids 'partial answers'	Absence of interviewer bias/effect
Interviewer can see when participant is confused by question	

**Figure 4.3 - Bryman(2004) Structured interview versus Self Completion Questionnaire.**

Therefore, for the quantitative stage of this research, self-completion questionnaires were used as they are a simple and efficient method of collecting the data particularly given that the time available at the workplace seminars, where the data was to be collected, was restricted to five minutes.

In quantitative research one of the key aims is often to produce results that can be generalised to a wider population. This requires that a probability based sample is used, whereas in qualitative research this is generally not the point (Silverman, 2004). There are a number of different sampling strategies that can be adopted for Social Science research.

These fall broadly into two distinct groups;

- Probability Sampling
- Purposive Sampling

Bryman (2004) recommends that the researcher decides upon the type of population that is best suited to investigate the topic in question and that the sample should be a sub-set of the population to be investigated. I will firstly describe the features of these two categories of sampling and then go on to explain why the particular choice of sampling method was adopted for this project.

Teddlie and Yu (2007), amongst other commentators, suggest that probability sampling offers greater breadth and is therefore more representative of the population of interest. They go on to say that purposive sampling is a process where the sample is selected based on a 'specific purpose' rather than randomly. This is typically where a small number of cases are selected to provide the maximum amount of information about a particular phenomenon. An example of this is provided by Ivankova et al (2006) who conducted a mixed methods study using a sequential explanatory design. The quantitative element was concerned with organising the participants into groups such that analysis would identify the variables making the greatest contribution towards discriminating between the groups, so the predictive power of the selected factors could be assessed. Having used the quantitative process to identify suitable prospects, the qualitative element of the study, which was the main focus of the study, was then used to explain how the factors influenced the participants. The participants having

been chosen to represent the groups they wished to explore and compare further in the qualitative analysis were identified through the quantitative analysis.

Marshall (1996) uses, as a justification for a purposive sampling approach, the analogy of asking at random a passer-by rather than a mechanic about fixing a problem with a car. By selecting the participant (the mechanic) it is more likely that a much richer insight will be gained (of the likely problem with the car).

For this PhD it was not realistic to adopt a probability sampling process due to the scale of the project and the fact that the qualitative element of the research was where the main focus lay. Ideally, a probability sample of the middle income quartiles would have allowed results from this stage of the research to be generalised but this was not realistic. However, the purposive approach that was adopted, drawing on attendees at the MAS seminars, provided access to a range of participants of different ages, educational attainment, gender and income quartile. It was the experiences of these participants in attempting to access regulated financial advice that I was interested in rather than a need to try and generalise the results. It was therefore considered that the sample drawn from the MAS seminars was suitable for this research even though the seminar attendees may have had different reasons for attending.

Development of the questionnaire drew upon the literature review and in particular the Advice Belief Model (ABM) to formulate the questions. It was important firstly to establish the participants' experiences of taking advice and in particular which areas of need this advice related to. Question 1 addressed this matter. The second key requirement was to try and understand what had prevented participants from taking advice with regard to particular aspects of their finances. Question 2 addressed this by offering the participants a range of possible reasons why they had not taken advice. These again were rooted in the variables identified within the ABM. The other key question (Q5) was regarding their attitude to paying for advice. Again this was an important factor highlighted in the literature and present in the model. Questions 3, 4

and 6 also tried to explore concepts that were present in the model whilst the remaining questions concerned the demographic of the sample.

Following the drafting of the questionnaire (see appendix 4.1) to be used at the seminars, it was decided to pilot it initially at a Doctoral Research seminar and then at two MAS seminars. The input from the Doctoral Researchers was very helpful as it was an opportunity to get comments from a group who had no prior knowledge of the project and no particular knowledge or industry experience of the advice process. However, some were able to speak from personal experiences of the advice process whilst others had experience of designing questionnaires related to their own areas of research. This was a useful exercise and resulted in a number of changes that made the questionnaire more 'user friendly' along with the removal, amendment or addition of certain questions.

Furthermore, the pilot MAS seminars gave me the opportunity to test the questionnaire in a 'live' situation and learn the most effective way to achieve maximum completion rate with the minimum level of incomplete questionnaires. These pilot seminars resulted in me setting out a standard introduction to the seminar that introduced the questionnaire and explained how to complete it. In addition they led to certain questions being removed or modified and a further question being added.

This two stage piloting process was beneficial and helped to ensure that the questionnaire was as user friendly as possible. It also highlighted weaknesses in the way I introduced the questionnaire, allowing me to address this issue before the main fieldwork commenced. Ultimately, 12 Workplace Seminars were presented on behalf of MAS and from these, 201 questionnaires were collected. Of the 201 seminar attendees that completed questionnaires 70 indicated that they may be willing to participate in qualitative interviews, although in reality fewer were prepared to do so when they were approached at the qualitative stage of the research.

Characteristic	Percentage of sample (%) n=201
<b>Age</b>	
Up to 29	18
30 – 39	21
40 -49	25.5
50-59	25.5
60 and above	10
<b>Academic Qualification</b>	
Up to QCF Level 2	13.5
QCF Level 3	22.5
QCF Level 4	16.5
QCF Level & above	47.5
<b>Income Quartile</b>	
Up to £15,000	5
£15,001 - £25,999	23
£26,000 - £43,999	35
£44,000 and above	37
<b>Gender</b>	
Male	50
Female	50
<b>Employment</b>	
Public sector	80
Private sector	20

**Table 4.2 – Characteristics of Survey Sample**

The table above summarises the characteristics of the survey sample and this is clearly not representative of the UK population of working age. For example, it is strongly biased towards public sector workers who account for 80% of the participants. Furthermore, the attendees at some seminars were there on a voluntary basis whilst other employers actively encouraged employees to attend with some being under threat of redundancy whilst others were not. One issue that needs to be considered in the analysis of the results is that by the time the interview participants were interviewed they had sat through a seminar on financial planning which may have alerted them to some of the issues that they had previously not considered. However, it does include people of a range of ages, income quartiles, gender, academic

achievement and sector of employment. It was the differing experiences of this wide variety of participants that was of particular interest to this research, especially how different factors had influenced whether these people had accessed advice. Furthermore, the quantitative stage provided a method of identifying suitable interviews for the qualitative stage of the research whilst also providing some interesting descriptive statistics on all the survey participants.

Once the data from the seminars had been collected it was loaded on to the SPSS system which was used to manage the analysis of the data.

#### **4.6.2 - Qualitative Stage**

For the qualitative stage of the research that involved in-depth interviews, it was decided to focus on participants from the middle income quartiles because the literature suggested that these groups were less likely than the top income quartile to have been able to access regulated advice (Thoresen, 2007).

Marshall (1996) sets out three strategies for qualitative research which he labels;

- Convenience Sample – this involves selecting participants on the basis that they are easily accessible. He states that many qualitative studies contain an element of convenience sampling but comments that where it is the major focus, this strategy lacks intellectual credibility and leads to poor quality data.
- Judgement Sampling – also known as purposive sampling, is where the researcher identifies a sampling frame that is likely to be most productive.
- Theoretical sampling – this is where the emerging theoretical considerations drive the selection of participants.

Marshall (1996) contends that the appropriate sample size for a qualitative study is one that adequately answers the question, which he suggests will be the data saturation point when themes and explanations stop emerging. Teddlie and Yu (2007) advocate that typically 30 or less qualitative interviews should be sufficient to learn the maximum

amount of information although this will depend on the number of variables being investigated and is likely to be larger where more complex questions are being posed. Mason (2010) presents data on the number of qualitative interviews that were typically completed for a PhD across a range of different qualitative research methods, the mean was found to be 31 interviews.

For the qualitative stage of this PhD, a 'judgement' sampling approach was adopted. Marshall (1996,p.523) describes a judgement sample as "*...one where the researcher selects the most productive sample to answer the research question*". The sample was drawn from attendees at 'Workplace Financial Capability Seminars' offered by the Consumer Finance Education Body (CFEB). In particular, interviewees were drawn from the middle income quartiles as these fit most closely with Thoresen's (2007; 2008) definition of irregular and regular users of a generic advice service. The rationale behind this being, that this group are less likely to have taken advice than the higher income quartile and therefore more likely to have faced barriers.

Questionnaire Number	Pseudonym	Age	Gender	Marital status	Income Quartile	QCF Level	Employment Sector
08	Mavis	57	Female	Single	2	4	Public
10	Heather	51	Female	Single	2	3	Public
21	June	45	Female	Single	2	2	Public
60	Eric	43	Male	Single	2	5	Public
61	Kazim	33	Male	Married	2	3	Public
62	Marta	48	Female	Married	3	3	Public
71	Ronnie	57	Male	Married	3	2	Private
73	Alan	52	Male	Single	3	4	Private
75	Jim	36	Male	Married	2	2	Private
90	Bryan	48	Male	Married	3	4	Private
95	George	47	Male	Married	3	3	Private
101	Tom	64	Male	Married	2	2	Private
132	Elaina	56	Female	Single	2	5	Public
134	Frank	47	Male	Married	2	2	Public
147	Ernie	57	Male	Married	3	2	Public
149	Peter	36	Male	Married	3	3	Public
164	David	49	Male	Married	3	5	Public
170	Suzie	27	Female	Single	2	5	Public
179	Kathy	59	Female	Married	2	5	Public
180	Sarah	42	Female	Single	3	5	Public
186	Emily	23	Female	Single	2	3	Public

**Table 4.3 - Characteristics of the interviewees**

Although there was a relatively even distribution of gender, married/single and academic qualifications those in age group 20 -29 were under represented compared to other age groups.

#### **4.6.3 The In-depth Interviews**

The second phase of this research consisted of a series of semi-structured interviews.

Interview types can be categorised broadly under three headings;

- Structured
- Semi-structured
- Unstructured

In a structured interview, the researcher will use a set of pre-prepared questions from which it is hoped that measurement of key concepts will be obtained that provide

validity and reliability (Bryman, 2004). This type of interview technique is more suited to a quantitative survey than the qualitative research approach.

Semi-structured and unstructured interviews are more suited to the qualitative research approach where it is important to be able to explore the research participants' views and attitudes to subjects that develop during the interview process. Bryman (2004, p.320) argues that "*...rambling and going off at tangents is often encouraged*" during the qualitative research process whereas, it is actively discouraged in the structured interviews used in quantitative research.

The reason for using a semi-structured interview technique rather than an unstructured approach is to ensure that the interviewer asks all the questions that are initially considered relevant whilst allowing the flexibility to develop areas of discussion that become pertinent as the conversation proceeds. The topic guide at appendix 4.3 provides some examples of areas that are likely to be discussed during the interview stage. Silverman (2004, p.90) talks about Emotionalism, where the researcher is interested in "*...not only obtaining objective facts but with eliciting authentic accounts of the subjective experience*". This fitted well with the objective of this research which was to discover how the barriers to accessing financial advice influence the research participants' decisions as to whether to proceed. This approach helped me to understand how they arrive at their decisions and what influenced them.

Semi-structured interviews can be conducted on either a face to face basis or by telephone. There advantages and disadvantages of both approaches.

These are summarised below;

Telephone Interview	Face To Face Interview
<p>Offers convenience and efficiency</p> <p>Reduces the risk of bias to some extent from interviewer’s class, ethnicity, age etc.</p> <p>Length of interview likely to be unsustainable for more than 20 -25 minutes.</p>	<p>Interview sustainable for longer periods</p> <p>May be preferred where dealing with sensitive issues.</p> <p>Interviewer can see more easily where participant is confused by the question.</p> <p>Can use visual aids.</p>

**Figure 4.4 - Telephone Interviews v Face to Face Interviews.**

Bryman (2004) suggests that, generally, face to face interviews are better, particularly where semi-structured and unstructured interviews are being used as they provide better opportunities to probe particular views with the participants. The interviewer can also see the participant and therefore interpret body language and other non-vocal cues. On the other hand telephone interviews have the advantage of time saving where there is a wide geographical spread of the research participants.

I decided that face-to-face interviews would be used where possible but a few participants preferred to be interviewed by phone so in the end a mix of both was used.

Once it had been decided to focus on the middle income quartiles the next stage of the process was to design the topic guide and pilot the interview process. In many respects the design of the topic guide (see appendix 4.3) developed in two parts. Firstly, it was important to gain a clear understanding of the areas of financial planning on which the interviewees had and had not taken advice and what had been the drivers of taking advice and the barriers to not taking advice. Secondly, there were a number of issues that were highlighted from the ‘Advice Belief Model’ (see chapter 3) which needed to be explored further. For example; the interviewees’ attitudes to cost of advice and regulation of advice.

The interview process involved piloting the topic guide to ensure that the necessary areas were being considered. The middle income band participants were targeted because there were similarities with Thoresen's target groups for the Money Guidance Service (now launched as the Money Advice Service - MAS).

A number of the participants in the middle income quartiles who had agreed to take part in the interview process were employed by the same employer. Clearly, this had advantages from a logistical perspective but it did mean the pilot interviews were concentrated in one particular area. Following discussions with this employer, agreement was gained to conduct the interviews during 'works time' at the employer's site. So the pilot interviews were conducted at one workplace. In fact, this employer was very helpful in this process, providing an office that I could use and agreeing for me to return at a later stage to conduct further interviews if required.

Bryman (2004) refers to how access is sometimes gained to research participants via a 'gatekeeper'. During the research this issue arose on more than one occasion; initially with MAS who wished to vet the process prior to agreeing that research could be conducted via the work-place seminars and, secondly, when the pilot interviews were conducted. In this latter example, the employer's workplace was a secure site so at both the seminar and pilot interview stage it had been necessary to utilise the HR contact as a gatekeeper to arrange the necessary security clearance to access the site and to co-ordinate the timing of both the seminars and also the interviews. Bryman (2004) comments that sometimes gatekeepers can seek to influence how the research is conducted. Although MAS did require to vet the questionnaire and documentation issued to participants prior to agreeing that the research could be conducted via their seminars they did not attempt to influence the way the research was conducted other than suggesting that the time allocated for completing the questionnaire at the beginning of the seminar was limited to five minutes. This arrangement, where a number of participants could be interviewed on the same site was an efficient one and I adopted this approach, where possible, for the later interviews. This tended to be

arranged by one of the participants at particular workplaces, so an informal gatekeeper. One employer would not allow interviews to be conducted in the workplace but most were willing to allow this.

Participants that had volunteered to be involved at the interview stage of the process had completed the relevant section of the questionnaire and indicated the appropriate time to contact them, although some had only provided e-mail addresses which turned out to be a less successful way of contacting them. For the pilot, I initially contacted two employees who had indicated that they had never taken financial advice. Upon contacting them, one agreed to participate in the interview stage whereas the other declined. I then contacted two other employees who also agreed to be interviewed. Having gained agreement it was then a matter of liaising with the employer's HR department to agree a suitable date. The HR contact was very helpful and able to check the shift patterns of the relevant employees to ensure that a suitable day was selected where they would all be available. I then confirmed with the participants the day on which the interviews were to be conducted to ensure they had no other commitments.

On the day, again the HR contact was very helpful, in particular contacting the employees to arrange for them to come and meet me in the office that had been provided. I had not set a specific start time for each interview merely saying that I would be on site by about 2pm and would remain until the process was complete. This did cause a bit of confusion with one participant arriving at the office whilst I was in the middle of interviewing another and another participant having to leave part way through the interview as his shift had finished and his wife had arrived to collect him. In later interviews I set specific start times for the interviews but advised the participants that these times may change if the interviews finished early or ran over the expected time. Ultimately, some interviews were conducted in the workplace whilst others were at the interviewees' homes.

The interviews were recorded on a digital dictaphone and saved on to computer based files. The interview files were then transcribed.

For each participant the topic guide was personalised using the information already collected via the questionnaire. This seemed to work although one participant had indicated that he never taken any financial advice when at interview it transpired that in fact he had. This meant that the relevant questions/prompts in the topic guide were not necessarily relevant to this participant. Fortunately I had a copy of the template which I could refer to. I think this personalised approach was useful but for future interviews I made sure that I had copies of the full topic guide template.

The two full pilot interviews lasted just over an hour each and the participants talked openly about their experiences although I did feel that they wanted my view [as an IFA] on various aspects of their finances. From my perspective as the interviewer (and, I suppose, also as an IFA) I felt it was reasonable that I provided them with information (see section 4.7 regarding Ethics). I did feel that when I was talking to them about their shortfalls in provision that they thought I was leading up to trying to sell them something. There was a degree of defensiveness on their part. I addressed this matter by making it clear to them that this was not my objective. In fact as part of the process of gaining agreement from the ethics committee, I promised not to sell them anything even if they asked me to.

For future interviews (21 in total) I addressed these points clearly at the start of the interview. Section 4 of the topic guide (appendix 4.3) contains the statement that I read to interviewees before the interview process commenced.

There were a number of learning points from these pilots that resulted in changes to the approach in later interviews. Firstly, I regularly referred to protection whereas I needed to say Life Assurance and sickness benefits so the interviewees knew what I was talking about. Secondly, from the analysis of the questionnaire data it appeared that mis-selling and finding a suitable adviser are key barriers. So in relation to concerns about mis-selling which is a trust issue, I decided it would be interesting to try and understand better how participants have made judgments regarding whether to use the services of a particular adviser, and, in particular whether this is a judgment based on Emotional

Trust or Critical Trust. I attempted to do this by drawing on Renn and Levine’s five elements of trust (see chapter 3). The questions below were added to the topic guide as an outcome of the pilot interview experience. Having considered a couple of ways of doing this, I decided to incorporate the table below into the topic guide and use it as a ‘prompt’ to try and ensure I fully explored these indicators that ultimately helped to determine the type of trust assessment strategy participants were adopting when they employed an adviser.

<b>Initial Impressions of your adviser</b>
Did you think he/she knew what they were talking about?
Did you think he/she was unbiased?
Do you think they took account of all points relevant to your circumstances?
Was what they said consistent?
Do you think they had your interests at heart?
Were you sceptical about anything they said?

**Figure 4.5 – Questions about establishing trust**

The questionnaire had asked participants how much they would be prepared to pay for a ‘full financial review’. Given the impending changes [at that time] which would occur when RDR was introduced, I wanted to try and understand whether the perceived source of the adviser remuneration influenced [or would influence] participants’ decisions as to whether to take advice. I therefore added to the topic guide (section 12c) a description of the impending changes and asked participants for their view on this. What I was trying to get at was that, even though the cost of advice ultimately comes out of the customer’s pocket, did they feel more willing to pay if the deduction was via the product rather than them paying directly.

Following the completion of the interviews, they were transcribed and loaded onto the Nvivo system which was used to manage the analysis of the data. This was done by

setting up a series of 'nodes' drawn from the variables that make up my Advice Belief Model.

To analyse the data gathered from the interviews the Thematic Framework Method was used. Ritchie and Lewis (2005) suggest that there are two aspects to analysing qualitative research data. Firstly, managing the data and secondly, making sense of the data. The Thematic Framework Method allows the researcher to organise the data by 'key themes', 'concepts' and 'emergent categories'.

Using the Thematic Framework method in conjunction with Nvivo helped to manage the data and explore the sub-themes within the three dimensions that had been identified from the literature and formed the basis of the research questions.

#### **4.6.4 – The Adviser Interviews**

It appears from the earlier work that part of the problem some consumers face may be as a result of certain regulatory and business requirements. It was therefore considered important to try and get the views of the practitioners who were delivering the advice and understand better their process. From this it is hoped that conclusions may be drawn as to whether this may restrict consumer access in some way.

Agreement was gained from the Personal Finance Society to make a short presentation regarding this research at their area conference and to ask for volunteers to participate in interviews. Prior to this approval had been gained from the Ethics Committee as this had not been part of the original application.

At the area conference 18 advisers agreed to be interviewed. From these I was able to contact 10, the majority of which (8) agreed to be interviewed.

The interviews were on a semi-structured basis and a suitable topic guide was designed, a copy of which can be found at appendix 4.4. As discussed earlier in this chapter, the reasons for using semi-structured interviews are the same in that they have the structure dictated by the topic guide but allow the interviewer the flexibility to explore

other areas as the conversation develops. On this occasion the interviews were conducted via telephone as this offered convenience and efficiency for both parties particularly because these interviews were not anticipated to last longer than 20 minutes. The interviewees were open in their comments and willing to discuss all the issues raised. Following analysis of the earlier interviews there were a couple of areas that I thought needed to be developed further. The topic guide was therefore amended to cover these for future interviews and I emailed the earlier interviewees to ask them to comment on these issues.

Again, Nvivo was used to manage the analysis of the data having first loaded an analysis template that was constructed of nodes drawn from the topic guide. These had been constructed from the advice belief model, my knowledge of the advice process and the literature more generally.

#### **4.6.5 - Description of Adviser sample**

Of the eight advisers that were interviewed and all but one were male. The age range is between 39 and 61 and 5 of the 8 had entered the industry via the home-service or other direct sales-force route. The other three had joined financial services in non-sales functions and gravitated to a sales/adviser role later. All but one offered mortgage related services in addition to the normal CF30 permissions with some also offering equity release and long term care advice. They were all experienced advisers, five of the eight had been practising for more than 20 years.

From a sampling perspective, this sample would be considered a combination of convenience and judgement sampling. The advisers were drawn from the adviser population but no attempt was made to make them representative of the overall adviser population. However, all advisers are governed by the same set of basic rules regarding the advice process, albeit that the product outcome may be influenced by their status from an independent or tied perspective. It was their comment on a mixture of experiences with their clients and how regulation along with business factors

influenced how they provided advice to these clients that was of particular interest to this research.

#### **4.6.6 - Case Study Sampling.**

To illustrate how the Advice Belief Model (ABM) can be used to identify the stage within the consumer's journey where barriers may impede their progress it was decided to use some case studies drawn from the consumer interviews. These case studies are included in each of the thematic chapters and show the journey of certain interviewees that best illustrate particular concepts that have been identified as barriers to consumer action.

When sampling pre-existing data, Draucker et al (2007) suggests that there are a number of different approaches that can be adopted depending on the particular objective that is to be achieved. Patton (1990, p.169) suggests that in qualitative study samples are selected '*purposefully*' with the intention of selecting cases that are information rich. These may for example be cases that are '*typical*' in that they illustrate the norm, they may be '*extreme*' in that they illustrate less common phenomenon or there may be some other justification for using a particular type of purposeful sampling strategy. In this case the case studies selected have been chosen to illustrate typical barriers consumers encounter other than the case of Heather which illustrates the extreme outcome of using the trust heuristic.

Theme	Case Study	Sample Type	Comment
Knowledge of Need	Elaina	Typical	Illustrates how financial capability acts as a barrier to advice
Knowledge of Adviser Services	Frank and David	Typical	Illustrates the factors that influence decision making processes that result in different outcomes.
Finding an Adviser	Marta	Typical	Illustrates how lack of knowledge of methods of 'finding an adviser' other than via referral acts as a barrier
Trust	Heather	Extreme	Highlights the inherent dangers of heuristic decision making
Trust	Peter and Kazim	Typical	Illustrates how different levels of trust can influence decision making processes that then result in different outcomes
Cost and Affordability	Bryan	Typical	Illustrates how affordability acts as a barrier to advice and risk mitigation
Cost and Affordability and Financial Capability	Emily	Typical	Illustrates how more than one factor may act as a barrier

**Table 4.4 – Case Study Sampling Rationale.**

In the final chapter (9) the use of the ABM will be discussed in detail making reference to these case studies to show how it can help to better understand the consumer's journey.

## **4.7 - Ethics Review**

All PhD research projects carried out at the University of Birmingham require approval from the university's ethics committee. This involves completing an application to the committee that considers the following;

- A summary of the research project
- An explanation of how the research will be conducted
- A description of the number and characteristics of the participants that will take part
- An explanation as to how the participants will be recruited
- How consent will be gained from the participants along with details of the feedback they will get, their right to withdraw and confidentiality regarding the

data collected

- Assessment of potential risks to research participants and the researcher along with proposals as to how these risks may be minimised

Agreement was granted following clarification of a number of points. Firstly, how I would protect my safety when meeting with participants. Secondly, confirmation that no conflict of interest would arise between my role as an IFA and my role as a researcher along with clarification that I would not receive any monetary gain via this process. This resulted in the agreement that I would not sell any products to the participants even if they asked me to. However, as part of the ethics application it was stated that I would provide them with information, if requested, about how to identify a suitable regulated financial adviser and provide guidance on appropriate questions they should ask before selecting an appropriate adviser.

Finally, clarification was required of the participants' right to withdraw which involved amendments to the information that was to be issued to the survey and interview participants at outset.

It is important to gain informed consent from the participants so they are aware of the purpose of the research, know that confidentiality and anonymity will be respected and they will not be exposed to any 'Intrusive Threat' (Lee, 1993). This was achieved by providing detailed information at the start of the process consisting of hand-outs summarising the aims of the research, a consent form attached to the questionnaire that the participants were required to sign and an explanation from me at the start of both the seminar and the interview.

#### **4.8 – Summary**

This chapter has set out the research methodology that has been used to investigate the barriers to accessing financial advice. Initially it considered the ontological and epistemological positions that can be adopted which highlighted the view of some that quantitative and qualitative research methods are not something that can be used

together. However, other schools of thought consider that mixing these methods can add value to the overall outcome of the research.

The chapter went on to discuss the considerations when planning this research and described the design of the quantitative and qualitative phases of this research. It then relates the researcher's experiences of the two phases of the fieldwork and finally covers the issues the researcher faced as an 'insider looking in'. It concludes by summarising the ethical review process that was a pre-requisite prior to any data collection commencing.

This method adopted has generated the data that has allowed me to answer the research questions posed earlier. The analysis of this data is discussed in more detail in the following chapters, along with my reflections on the method that are discussed in the final chapter.

## Chapter 5

### An introduction to the Analysis Chapters

#### Introduction

This brief chapter provides an introduction to the thematic analysis chapters that follow. It explains where the three key themes have emerged from and why a thematic approach was adopted whilst also providing an overview of the important elements of the quantitative data.

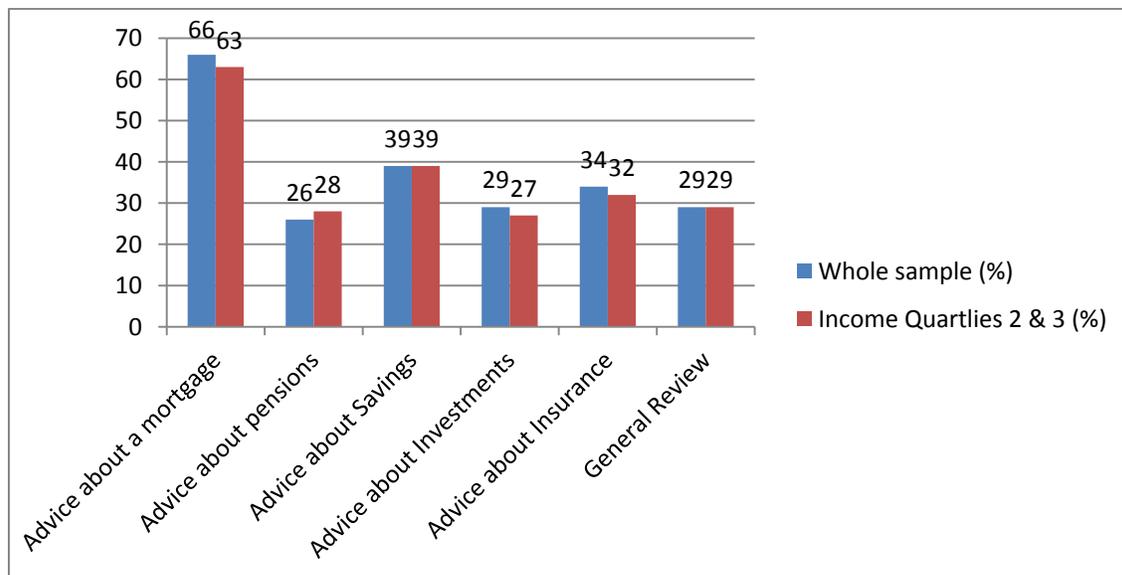
As described in the previous chapter the research process was driven in many respects by the Advice Belief Model (ABM), which was constructed from a combination of the existing literature, my experience as an adviser and the concepts drawn from the health and social science models. The ABM had shaped the questions in the survey which were then analysed using the SPSS software. Following the analysis of the quantitative data the decision was taken to interview the middle income quartiles as these most closely resembled Thoresen's potential user groups for the generic advice service (2007; 2008). The variables from the ABM formed the basis of the topic guide and the nodes that were input into NVIVO to analyse the interview data. It was from this empirical data that the three themes of knowledge, trust and affordability emerged.

However, before discussing these themes on an individual basis it was felt necessary to provide an overview of the relevant parts of the quantitative results which led to this thematic approach being adopted. In the survey there were three key questions (Q1, Q2 and Q5).

The first question asked the participants whether they had taken advice with regard to specific areas of their financial planning. The second question asked them to provide reasons why they had not taken advice regarding the relevant areas highlighted by

question 1. From these two questions along with the personal information collected in the 'about you' section of the questionnaire (questions 7 – 11), it was possible to know which of the sample had taken advice, what area that advice related to and where they had not taken advice, why they had not done so. Then using the personal data it was possible to consider whether there were any obvious trends across different age groups, gender, educational attainment and income quartile. Furthermore, it allowed me to compare the experiences of the interview sample (income quartiles 2 and 3) with the sample as a whole. The comparison of the interview sample against the sample as a whole is discussed in the following chapters but in this section it is interesting to discuss the results from questions 1 and 2 in more general terms.

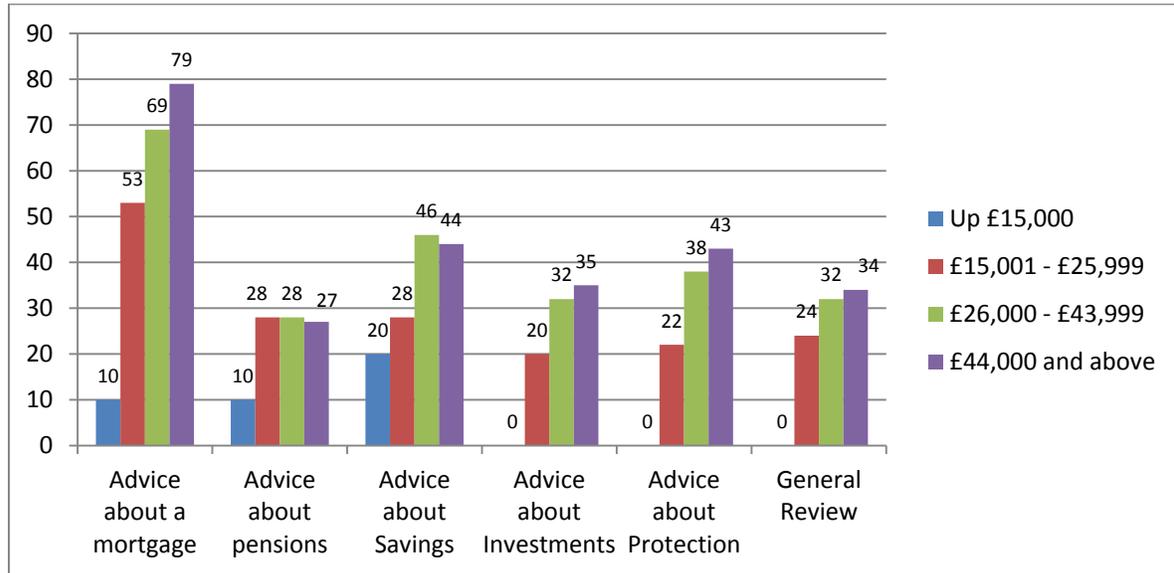
Nearly twice as many of the survey participants (66%) had taken advice on mortgages than any other area of advice. This fits broadly with the use of advice by the wider UK population (see section 3.2 for further information). The charts below illustrate this and also show how income, education and age may influence the use of advice.



**Figure 5.1 – Use of advice. (n=201)**

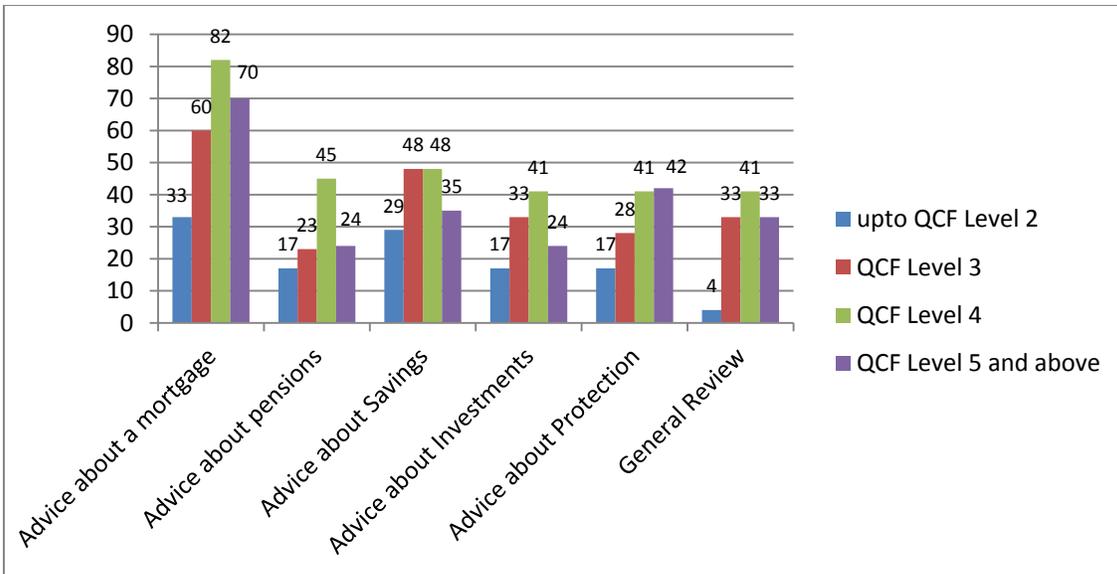
Figure 5.1 above shows the use of advice by the whole sample compared to those survey participants within the income quartiles 2 & 3. There are slight variations

between these two groups which may be accounted for by differences in use of advice across different income groups. The literature (see chapter 3) suggests this to be the case.



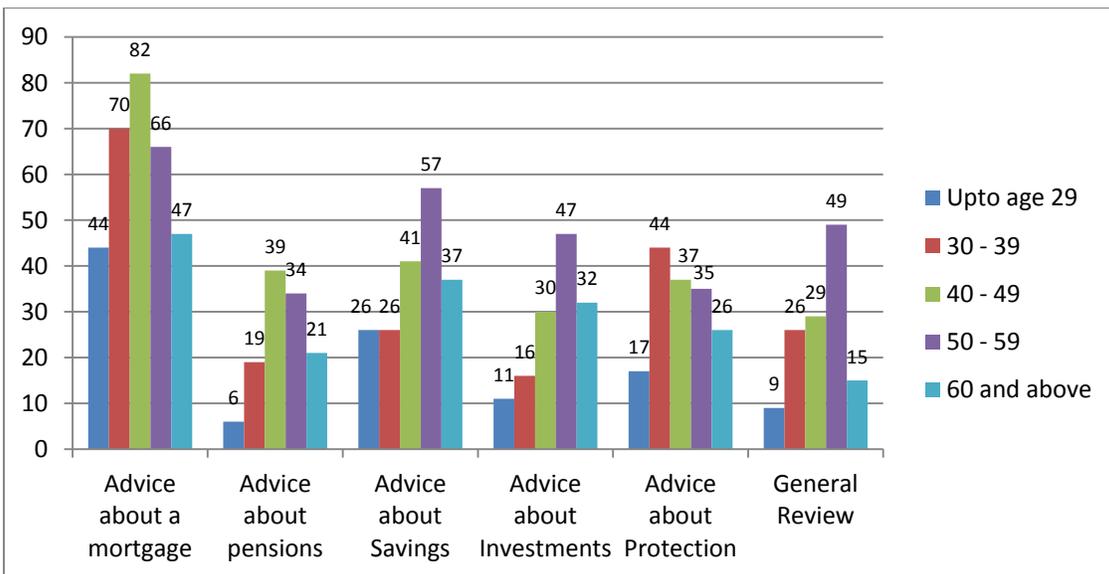
**Figure 5.2 – Use of advice by percentage of income quartile. (n=201)**

It appears from the figure 5.2 above that household income is a factor in the likelihood of participants having taken advice. The higher the income quartile the greater the percentage of that group that have taken advice on a particular area. This appears to apply to every area of advice other than pensions which may be accounted for by a high proportion of the sample already being pension scheme members.



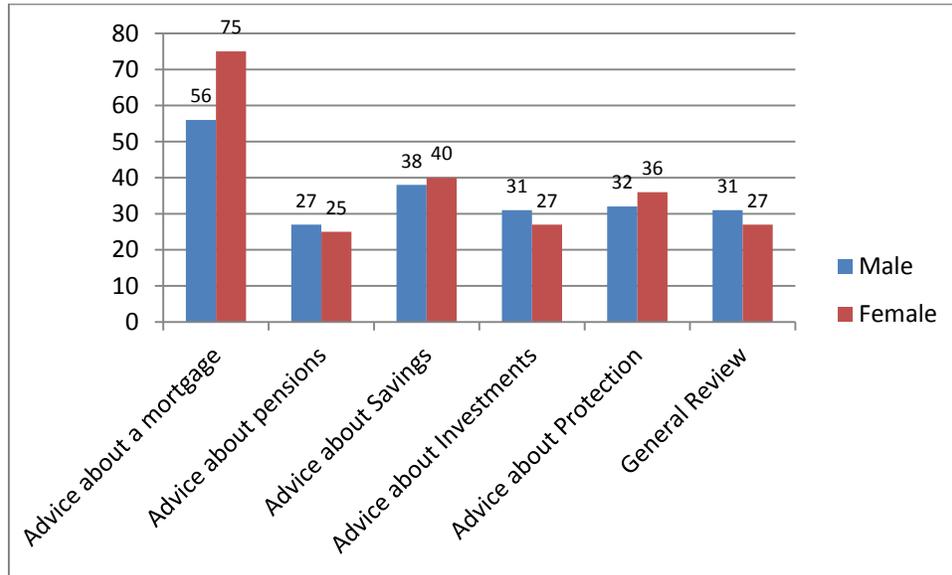
**Figure 5.3 – Use of advice highest academic qualification (% of quartile – n=201)**

There is no clear trend in figure 5.3. It seems there is a clear upward trend across the first three QCF Levels, but those of degree level or above seem less likely to take advice than of the group immediate below. This could be accounted for by better educated individuals being more able to interact with financial services without the help of advice.



**Figure 5.4 – Use of advice by age group as a percentage of age group (n=201)**

Again there is no clear pattern emerging with respect to age in figure 5.4. It seems to vary depending on the type of advice. In some respects this would be expected, as consumers are likely to require different types of advice at different stages of their life course.



**Figure 5.5 – Use of advice by gender. Percentage within gender (n=201)**

When considering use of advice by gender it was clear that a much higher percentage of females had taken advice regarding mortgages than males. This clearly conflicts with research by the CII (2011). Similarly a higher proportion of women had taken both savings and protection advice than men although the difference was not as significant. In part, this may be accounted for by the sample consisting of higher percentages of women compared to men in the QCF Levels 4 and 5, but the use of advice by women is not consistently higher across all advice areas so this may not necessarily be the case.

Across the advice areas other than mortgages the numbers that had taken advice regarding one or more area were much lower, ranging between 26% and 39%. The highest of these relates to savings, but as savings advice does not necessarily require the services of a regulated adviser, in reality this is unlikely to be the case as generally speaking savings advice (cash based) is not always an area that financial advisers would direct much attention to on a stand-alone basis. In the Workplace Seminars the Money

Advice Service distinguishes between savings and investments in the following way, as illustrated by the slide from the Workplace Seminars below.

**Money Made Clear™**  
from the Consumer Financial Education Body (CFEB)

## Savings and Investments

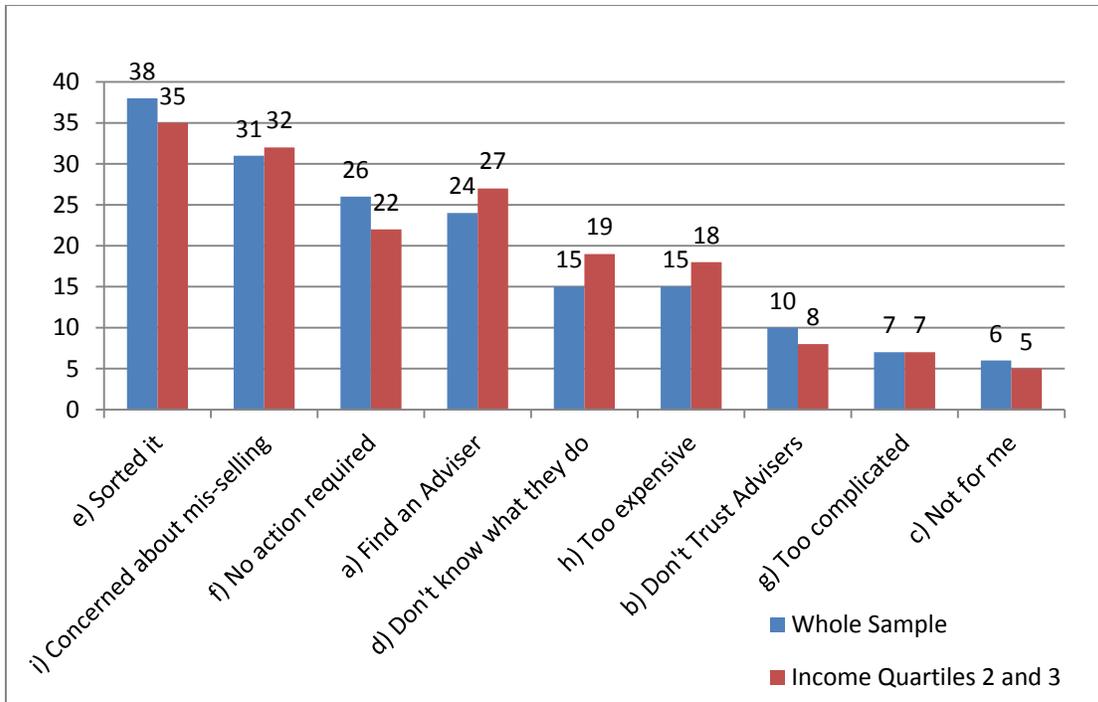
Savings	Investments
<b>Term:</b> Shorter	<b>Term:</b> Longer
<b>Return:</b> Usually modest	<b>Return:</b> Potentially higher
<b>Risk:</b> Lower risks, but inflation	<b>Risk:</b> Value may go down as well as up
<b>Protection:</b> Up to £85,000	<b>Protection:</b> Up to £50,000 or more in some cases
<b>Buying:</b> Shop around	<b>Buying:</b> You may need advice

**Figure 5.6 – MAS definition of savings and investments – (Direct reproduction).**

The suggestion here is that savings relate to cash based products which are more likely to be arranged by bank and building society branch staff rather than regulated financial advisers [with CF30 permissions]. However, that is not to say that regulated advisers do not give advice in this market, it is just not their main focus.

So the sample appears to reflect the experiences of the wider population other than with respect to gender. However, this may be accounted for by the skewed sample.

Moving on to question 2, the answers to which are directly related to the areas on which participants had not taken advice as indicated in question 1. As can be seen from the chart below, the most common reason participants had not taken advice was because, in their view, they had already dealt with the issue, which of course they may have done. That is, assuming that they knew they had an issue in the first place.



**Figure 5.7 – Reasons for NOT taking advice (n=201).**

This issue along with ‘no action required’, ‘finding an adviser’, ‘don’t know what they do’ and ‘too complicated’ all potentially come within the knowledge theme and are discussed in more detail in chapter 6 where applicable.

Concerns about mis-selling (31% of whole sample) and whether participants trust advisers (10% of whole sample) both relate to trust that the participant has in individual advisers and the financial services sector more generally. There seems little difference in the percentages between the sample as a whole and the middle income quartiles for either question. These are discussed in more detail in chapter 7 which considers trust and how consumers make judgements as to whether to trust advisers along with their thoughts on the industry more generally.

The question regarding cost (15% of whole sample) was not particularly high up in the order of barriers highlighted by the participants but it needs to be considered in the light of question 5, which asked about the amount participants were willing to pay for

advice and the more general issue that comes from the literature (and may emerge from the interviews) regarding consumers' perceptions that advice is free or at least a part of the product buying process. This is discussed further in chapter 8.

The least popular answer to question 2 was 'Financial Advisers are not for me'. The idea behind this question was to try and establish whether any of the participants felt that financial advice was not something that was needed or possibly available to them. That perhaps it was something for the rich. However, this did not seem to be a major issue with the participants although there was an odd mention by some interviewees that they would take savings advice if they had 'a lot of money'. This idea was therefore not pursued in any great depth.

It can be seen from the explanation above that at the quantitative stage of the research these themes had started to emerge from the data. As I moved on to the interviews this clear emergence of these three variables continued to develop. The following chapters now consider each of these themes in turn.

## Chapter 6

### Knowledge as a barrier to access

#### 6.1 - Introduction

Knowledge seems to be one of the key variables that influences whether or not the consumer is able to access financial advice. Much has been written in the literature regarding levels of financial capability. This influences the citizen's ability to interact with the financial services sector and therefore make provision for the future. The baseline survey (FSA, 2006a) assesses consumers' financial capability under a number of dimensions all of which are relevant to this discussion but in particular 'planning ahead', 'choosing products' and 'staying informed' are key to the consumers interaction with financial services and financial advice. Whereas, 'managing money' is paramount for many consumers as if they have no disposable income and/or are struggling with debt, then the likelihood of them interacting with financial services and planning for the present and future is unlikely. These issues of cost and affordability are discussed later in chapter 8.

This chapter will attempt to answer research questions 1 and in part questions 4 and 5 (see section 4.2) which are concerned with how and when the consumer takes advice and how their knowledge of various aspects of the advice process influence this.

There are three dimensions to the knowledge variable that are a pre-requisite to the consumer accessing advice.

- Appreciating that they have a particular need or objective that may result in them being financially disadvantaged or at least not maximising things to their best advantage (Strauss, 2008). If they do not appreciate there is a need or objective then it is unlikely that they will do something about it unless otherwise prompted to do so.

- An appreciation of how regulated financial advice (or generic advice) can help them to identify, quantify and satisfy (if necessary) the need or objective in question. Taking advice may act as a prompt to take action regarding other areas of need.
- An understanding of how to find a suitable adviser to provide advice.

There will of course also have to be the necessary desire and resources to satisfy the particular need. However, this chapter is considering things from a knowledge perspective and these other factors will be discussed in subsequent chapters.

Firstly, the consumer must be aware that they have a problem they need to address. If they are not aware of the risks to which they are exposed and how this might affect their current lifestyle then they are unlikely to attempt to deal with them unless otherwise prompted to do so. The other aspect of this is that they must have a desire to satisfy the need which implies, for example, a desire to maintain their current lifestyle rather than having to cope on lower income or state benefits.

As the gap between the 'state safety net' and the current incomes of the middle and higher earning sectors of the population widens, there is an increased need to make additional provision for those wishing to retain living standards in the future. This may include planning for a comfortable retirement or to maintain household income in the event of the long term illness or the premature death of a household member. Individuals need to save for known events such as retirement and be protected against potential risks that may jeopardise their financial well-being and security.

One approach to helping the consumer address these needs and objectives is for them to take financial advice. As discussed earlier (section 2.4.3), the FSA (2006e) suggest that one of the dimensions of behaviour exhibited by the more financially capable consumer is to know when and how to take advice.

So the next section looks at the use of advice by survey participants and draws upon the interview results to gain a better understanding of how knowledge may influence the choices consumers make.

## **6.2 – Knowledge of Need**

In chapter 5 the results from the survey showed the percentages of survey participants that had taken advice and the reasons why for some or all areas they had not. Of particular interest to this dimension of knowledge are the results from sub-sections (e) and (f) from question 2 that concern participants' belief that they either had no need to take action or that they had already addressed the relevant issue. As mentioned in the last chapter, it may be the case that these participants did not have had a particular need or it may be that they had either not appreciated they had a particular need or they believed that the extent of that need was not sufficient for them to be concerned about. That is, in the latter case, they believed they would cope.

Managing to resolve the problem themselves (e) was the most common answer with 38% of participants stating that this was why they had not needed to take regulated advice. Of course this does not tell us whether they resolved the problem in the most effective way to enhance their financial security but nevertheless it does show that many participants felt able to engage with financial institutions. The high proportion of responses (26%) to part (f) are less clear; there would appear to be three possible reasons for this answer, either that they did not need to take action regarding the particular financial objective/need, they were not aware that they were at risk in this area or that they felt they would cope if this event occurred.

If the results regarding pension advice are considered, it can be seen that this was generally the least common form of advice for the survey participants. As discussed earlier, the reason for this may be because of the high proportion of survey participants

that had access to occupational pension schemes. Of those that had not taken pension advice, 43% indicated as one of their reasons for not taking that they had 'sorted it'. It is not possible in most cases to determine whether this response relates specifically to pension advice but it may suggest that the act of joining a pension scheme is perceived as sufficient to negate the need for advice. Furthermore, 82% of those that indicated that 'action was not needed' had not taken pension advice. This is discussed further, later in this section

The third possible reason for answering 'action not needed' is that they were aware of the potential risks but believed they would cope. Clearly it is not possible to know whether the expectations of participants that did believe they would cope were realistic. However, De Meza et al (2008) suggest that optimism is an issue for financial capability and results in individuals not saving enough, not making sufficient pension provision and under estimating the health risks they may face. Only the results from figure 5.7 that relate to 'Knowledge of Need' are discussed in this section, other results are discussed later.

The qualitative interviews revealed some examples of this and added some substance to the other reasons stated for not taking financial advice. The following section describes participants' experiences for each aspect of advice.

Mortgage advice – It seemed to be common knowledge for all the interviewees that if they wanted to buy a house and needed to borrow money to assist them with this then they would need to approach a bank or building society to arrange a mortgage. The industry structure (and, to a great extent the regulatory regime) make advice an integral part of this process in most cases. In fact some consumers may not even appreciate that advice is involved and merely see it as the natural route to obtain a mortgage (buy a product). Kazim, aged 33, a public sector worker who is married and about to be made redundant talks about this, saying that he he never really thought about it as advice

when the estate agent arranged his mortgage, that it was just a way of getting the mortgage. He goes on to say:

*“... I knew there was so many mortgage products out there but it was too confusing to think about it, it was like just arrange it for me ... I can't really think about it because I'm too busy with my life to think about it ... you know, a few quid here or there is not going to make any difference and I'll just arrange my mortgage so I don't miss out on the house. It was more I don't want to lose the house so just do whatever it takes.”*

Because Kazim's focus is the house purchase rather than the terms of the mortgage he is not necessarily maximising things to his own advantage (see section 2.2). So for mortgages, it is often the purchase of the house that is the driver and the mortgage is merely a way of achieving that.

The most common action for interviewees to have taken, was arranging a mortgage. This fits with the quantitative results that suggest nearly twice as many survey participants (66%) had taken mortgage advice than any other area. From the qualitative interviews (21) it was found that 13 interviewees currently had mortgages and of these 12 had at some stage taken mortgage advice. Of those with mortgages, only Suzie, age 27, QCF Level 5 and single, stated that she had not taken advice. Her parents had arranged the mortgage for her. It is difficult to know the extent of the advice that some interviewees were provided with because although the regulations supposedly provide a clear dividing line between advice and information, this is not always clear to the consumer. The FSA (2012a) has recently issued a policy statement that attempts to address some of these issues for the industry but whether this helps the consumer remains to be seen.

Of the other 8 interviewees, 2 had previously taken mortgage advice but were now mortgage free, one had purchased outright so had no need for advice, one was now

mortgage free but the mortgage had been arranged by her husband (now deceased), she having had no involvement with it at that time. Another of the interviewees is currently hoping to buy another house following divorce although is concerned age may be a barrier to this. The others were not or never have been home-owners. Of those that have taken advice regarding a mortgage, there seem to be a number of drivers which are to some extent dependent on the interviewee's base knowledge of mortgages. Peter, aged 36, and married, said:

*"...Yeah, because it was all new to me. It was the first house I'd bought so I didn't have a clue. It was just that the woman at the bank who helped me out was really, really helpful."*

When asked if he would have managed without advice he replied:

*"...Probably not, no no, probably not. I'm not the greatest with things like that."*

In a similar vein, June, aged 45, QCF Level 2 and single, commented that:

*"...mortgages are about as foreign as pensions"*

In contrast to this, some of the other participants saw advice as a means of confirming that the action they were planning to take was suitable and as a channel to arrange the mortgage they wanted.

Sarah, aged 42, QCF Level 5 and single said ..

*"...I think I looked it up on the internet and in the paper. And then I found, because I've got my bank account with HSBC, so I found a rate that was for, like for customers only and that seemed lower than the other ones. So I thought I'd just go for it then"*

Although she met with an adviser it was just for a discussion regarding rate options. My own experience of using this lender would suggest to me that this was deemed advice.

The examples above illustrate the different ways in which the interviewees used advice to help them arrange a mortgage. There seems to be an element of learning through experience which is again illustrated by Sarah, who had originally used a 'broker' when she first bought a house but later felt more able to do much of the background research herself. It seems that it is sufficient for consumers to know that the way to get a mortgage is via a bank, building society or a broker. No other knowledge of adviser services is a pre-requisite other than this.

Protection Advice – Protection advice encompasses areas such as protecting income in the event of a breadwinner dying prematurely, suffering long term illness or redundancy. This may involve considering how existing benefits will suffice or arranging suitable insurances to protect the consumer who wants to ensure they are able to maintain their lifestyle or at least wants to maintain a position above the state safety net.

From a protection perspective there seemed to be a difference in knowledge of mortgage related protection compared to more general cover. Interestingly, of the 13 interviewees that currently had a mortgage, 8 had some form of life assurance in place to protect the mortgage in the event of their premature death. Four of the other five were single (although 2 had dependent children) and therefore it is arguable as to whether there is a need. Emily, age 23 and one of the single parents had previously been covered when with her partner but since their separation the policy had lapsed, whereas Heather simply did not believe in insurance. Bryan, age 48, simply felt he could not afford any cover (which he had earlier cancelled) although he did have some benefits via his employee benefit package (see Case Study - section 8.8).

There seemed to be a general attitude that prevailed where interviewees considered that if the mortgage was repaid on their death then those left behind would cope, which of course they may although this could result in the need to change their lifestyle. This

expectation of being able to cope is illustrated by the comments of Marta, aged 48, QCF Level 3 and married:

*“...We took out a mortgage protection policy, as long as the mortgage was paid they’d find the money to feed themselves”*

A number of the other interviewees (4), who had previously had mortgages, also had had life assurance. Of these, one mortgage had been repaid by the life cover upon her husband’s death. For both current and past mortgagors, life assurance had often been arranged at the time of the mortgage by the same adviser. Of the 17 interviewees that were either current or previous mortgagees all but three had at some stage had mortgage related life assurance. Of these 14, all but two cases had been arranged by the mortgage adviser. Kazim was prompted by the mortgage adviser but organised it himself. Three of the interviewees had mortgage payment protection insurance, which is likely to have been arranged in conjunction with the mortgage.

There are very few examples of interviewees taking advice regarding protection in the event of long term illness and protecting household income for the survivors in the event of the death of a breadwinner. Twelve of the interviewees simply had not thought about how they would manage if they were unable to work due to redundancy or long term illness. Similarly, maintaining lifestyle in the event of the death of either themselves or a partner just had not been considered by these interviewees.

The interviewees talked about these risks – Heather, aged 51, said:

*“...I’ve never really thought about it”*

This was a theme repeated by a number of interviewees. Kazim was alerted to the risks by a mortgage broker but did not want to spend the money. He felt that:

*“...family would help out and my wife was working at the time”*

This issue of willingness to pay for products and advice is discussed further in chapter 8. However, the relevance to this chapter is that Kazim was made aware of this risk by the advice process. In this case he did not trust the broker who arranged his mortgage (again this is covered in chapter 7) which was no doubt another factor in his decision, but this example does illustrate how the advice process can alert consumers to other risks they face. This issue of consumers 'coping strategies' (in the event of premature death or long term illness), which are sometimes unrealistic, was mentioned earlier and is clearly an issue that the financial capability strategy may need to address. Further example of interviewees responses to how they believe they would cope in the event of long term sickness are set out below.

George aged 47, an ex-home service adviser said:

*"...Rely on savings for a couple of years and then family if we were destitute."*

Again, this is an interesting response, given that this interviewee had been a home service adviser and held the basic financial planning qualification (pre RDR requirements). It would be expected that he would be much more aware of the risks yet he still felt that savings and family support would be sufficient, which of course they may have been. However, it is likely this would have required a change in life style.

A number of interviewees believed that they were unlikely to be long term sick.

Frank aged 47, a public sector worker who was married with children said:

*"...I'm not a sickly person"*

Elaina aged 56, a widow of east European decent, simply didn't think about being sick and said if this were to happen she would:

*"...move to another country where it's cheaper to live"*

There is a combination of knowledge related factors here: interviewees not fully appreciating the risks, not knowing what employee benefits they already have, not

believing it will happen to them, a propensity to assume the employer or family will provide and an aversion to insurance or the cost associated with it. Some interviewees accept that their lifestyle would change if these risks came to fruition but believed the risk to be low. Others had an aversion to insuring or over insuring, particularly where the costs were high and the perceived risk low.

These alternative strategies interviewees are adopting can be summarised under the following headings;

- Never thought how they would cope
- Family and friends would help
- 'Too young' – 'not likely to be ill' – 'I'm not a sickly person' – 'won't happen to me'.
- Acceptance that they could lose everything or at least lifestyle would have to change
- Would cope – where close to retirement and reasonable provision.

If these are considered in the light of some of the statistics quoted in section 2.2 regarding the risks of long term illness then there seems to be a gap between the perceived risk and the actual risk faced.

Savings & Investment Advice - Those interviewees that had taken action relating to savings and investments had tended to deal with matters regarding cash based savings themselves (12), whereas where investment in asset classes other than cash were involved, advice had been sought. There were examples of interviewees shopping around for the best savings rates and also others relying on their bank to provide these, but in both scenarios the view seemed to prevail that it was sufficiently simple to deal with themselves and the cost of advice would outweigh the benefit.

Heather said:

*"...I think when it comes to savings, it's more about going and looking at different banks and building societies and different plans instead of actual*

*independent advice.... websites are so easy to go online and have a look these days, and the comparison websites, there's so many that it's so easy to do it yourself these days"...*

When asked about shopping around Eric said [talking about shopping around]:

*"...Probably not the major consideration, it's just that I like to have some money saved away. I suppose it's just laziness to an extent. You're with one bank so it's sort of easier just to stay with them."*

This is an example of inertia and perhaps not fully appreciating the additional benefit that can be gained by shopping around to maximise returns.

A further (and more extreme) example of inertia acting as a barrier to an interviewee not taking action regarding savings even where they had substantial amounts on current accounts paying no interest is highlighted by Ernie, aged 57 and married who said:

*"...we just let it sit there and build. As I said, I should sometimes probably put it into a savings perhaps pick up 50 quid at the end of the year, in that case it's better than nothing, like everybody says but it just seems pathetic to me and you know, I can't be bothered..... it bores me" .....*

Even though he had more than £20,000 on his current account, Ernie never quite got round to doing anything about it. Surprisingly, he had various non-cash investments upon which he had previously taken advice, but he did not appear to have thought about taking advice regarding this money. This £20,000, even at today's meagre savings rates, could have generated something in excess of £500 per annum. When I pointed out to him that this would probably pay the majority of his golf club fees for the year he seemed to see it in a different light.

In both cases the additional benefit was not considered worth the effort to achieve the most advantageous financial outcome. Or perhaps the alternative outcome had just not been considered in detail.

For those interviewees that had taken advice regarding investments (7), this appears, for some to have been initiated by either their bank or a home service adviser they already had a relationship with. So advice was 'reactive' to a particular trigger. These tended to be regular savings plans (endowments, ISAs and unit trusts) where the advice and action was prompted by the provider. So interaction with financial services, through a visit to the bank or visit from a home-service adviser had initiated this.

Mavis, aged 57 and single, along with Ernie, both initiated the advice themselves, (pro-active) identifying a suitable adviser by referral. Mavis said:

*"...I didn't know what to do with all this money that I'd got. .... so I went to a financial adviser, an independent financial adviser...I wanted his advice...For him to give me some options, not to say you should do this, you should do that. I had no idea, I know how a cash ISA works but I had no idea how the other ISAs work or anything like that"*

It was clear that Mavis's previous experience of advice regarding pensions had made her aware of other services and, upon receipt of her divorce settlement she was prompted to take advice. Ernie's trigger to advice seems less clear, he had received the tax free lump sum from a maturing pension and a conversation at the golf club led to him taking advice. It seems the driver for this action was the prospect of a better return, but Ernie certainly did not feel he had the knowledge to do this himself.

Pension Advice - Regarding pension planning, 7 of the interviewees had simply never really thought about what they might need and get at retirement. All but one of these had joined their employers' pension schemes but had no real idea what they may get at retirement and whether this would be sufficient to provide the retirement they wanted. When asked about membership of his employer's pension scheme, Jim, aged 36, QCF Level 2 and married said:

*“...No I’m not because I didn’t ever think I was going to be there long enough, saying that I’ve been there ten years now”*

He was surprised to discover the difference between his current income and state pension and had no idea how he would cope if this was the case when he reached retirement. For Kathy and Ernie who were close to retirement and had been members of their employers’ final salary schemes for many years, there was an assumption that the schemes would provide sufficiently and there was therefore no need for advice. When asked about why she had never taken pension advice, Kathy, age 59, QCF Level 5 and married said:

*“...No. Before because I was with a local authority pension which is probably the better one you can have anyway.”*

Although this may be the case, there are various things that advice could have raised that may have improved their financial positions regarding pension benefits. Other interviewees were aware of their current pension position and simply felt they had sufficient provision or were not aware there was anything they could do about it. Others just could not afford to do anything to improve their current position. It seemed that some had never really thought that advice could help them to better understand where they were now and what they could do to achieve the objectives.

The four interviewees that had taken advice regarding their pension planning had done so for various reasons. Heather had the offer from her employer of a pension contribution but needed to arrange a suitable contract to accept this. David, aged 49, QCF Level 5 and married, along with Eric, aged 43, QCF Level 5 and single were both concerned that their existing provision was insufficient. They had sought advice to help clarify this. In Eric’s case this resulted in him setting up an additional pension although there seems have been no consideration of doing this via the employer’s scheme.

He explained why he sought advice, saying:

*"...I suppose I just wanted to boost my pension really. You get to 40 and you become very aware that it's only like 20 years to go really."*

David discussed how advice had followed on from a mortgage advice interview:

*"... I had no idea what a good pension arrangement was or was possible to make, which was why I asked him to come along [the adviser]."*

It was clear from the consumer interviews that many of them were simply not aware of some of the potential risks they faced and therefore had made no attempt to protect against these risks. Others were aware of certain risks but did not consider them sufficiently high to act. In the adviser interviews I asked about consumer knowledge and found that they expressed similar views to those above, that is, consumers were not aware of the risks, felt they would cope or that the risk of the event occurring was minimal. Some of the advisers' comments regarding this are set out below.

Advisers on Customer Knowledge of Need - Mike, an IFA aged 39 talked about telling clients about things they had not previously considered, saying:

*"Nobody knows what they don't know"*

He went on to say that, generally clients were grateful that he had highlighted these things, although later mentioned some of the reasons his clients gave for not following his advice:

*"...It won't happen to me (with regard to protection)..... I won't retire / my house is my pension / my business is my pension.....Cannot afford"*

Alan, aged 40 and again an IFA was a bit more blunt about it, saying:

*"...Consumers don't know it themselves what they need"*

Sorat, aged 50, a restricted adviser felt similarly, saying:

*“...most people aren’t aware of needs they should be looking at”*

So the view of most of the advisers interviewed was that often consumers were not really aware of the risks to which they were exposed. They all seemed to believe that it was their duty to advise clients of these risks and where possible appeared to do so. Generally speaking, they felt that responses to this approach were positive. However, where there was ‘resistance’ they were likely to adopt a more focused approach to advice. The implications of this being that they would therefore only deal with the issues the client wanted to address, meaning the client may not fully appreciate the extent of the risks they face.

In the earlier discussion about the consumer interviews, there were a number of interviewees who, although being aware of particular risks, felt they would cope in the event of these risks coming to fruition. Phil mentioned his experience of this, saying:

*“...You do get a lot of people that obviously think that they are going to rely on inheritance, you do hear that a fair bit .... I think some people don’t want advice because they think well yes we are going to rely on family or whatever”*

Phil talked about consumer resistance to accepting and addressing a particular need from a business perspective, saying:

*“...Yes I will highlight what I believe to be priorities but I am not going to sit there and flog a dead horse basically”*

Richard aged 51 and again an IFA mentioned how clients sometimes are unwilling to disclose full information, saying:

*“...The only time I ever get a client saying I don’t really want to talk about that is probably about other savings they have got. I have had one or two clients who would say ‘yes I have got quite a bit in other things which I don’t really want to involve in this and keep it separate”*

He went on to talk about how sometimes clients' perceptions of what the state provides can influence their willingness to consider particular needs:

*"...Income protection some of them struggle to get their head around it...but the barriers probably are costs ... they perceive the State, family and friends and everyone will sort them out and help them out"*

So, although these advisers felt they had a responsibility to highlight other areas of risk to their clients, there was also a commercial aspect to this in that they face the possibility of alienating clients and potential clients, which ultimately are their source of income. It is therefore not difficult to believe that other less ethical or less skilled advisers may completely ignore other areas of risk if they felt it jeopardised the relationship or was simply unlikely to be sufficiently profitable.

#### Triggers to Advice

The table below shows what the particular drivers of advice were for the interviewees. Clearly purchase of a new home or subsequent re-mortgage is the most common driver of taking advice but it can be seen that there are other examples of life-event triggers that can also influence consumers to take advice.

Life course events such as receiving a capital lump sum from a maturing pension or due to divorce, were events that prompted interviewees to take advice as did the death of a partner, change of employer and birth of a child. There are only two examples of interviewees seeking advice without the prompt of a life-course event and in one of these cases advice was already a social norm as it had been the family's practice to deal with a home service adviser.

Age Ed. Income	Interviewee number	Advice				Driver of advice
		Mortgage	Protection	S & I	Pension	
33/3/2	61- Kazim	Advice				New home
36/2/2	75 - Jim					N/A
48/4/3	90 – Bryan	Advice				New home
64/2/2	101 – Tom			Advice	Advice	Adviser visit/servicing, social norm
56/5/2	132 – Elaina			Advice		Death of husband
47/2/2	134 – Frank	Advice	Advice			New home/remortgage
27/5/2	170 – Suzie					N/A
59/5/2	179 – Kathy	Advice	Advice			New home/new child/adviser servicing
42/5/3	180 – Sarah	Advice				New home
23/3/2	186 – Emily	Advice	Advice			New home
57/4/2	08 – Mavis			Advice	Advice	Desire for knowledge/divorce
51/3/2	10 – Heather	Advice			Advice	New home/new job
45/2/2	21 – June	Advice	Advice			New home/divorce/adviser servicing
43/5/2	60 – Eric		Advice	Advice	Advice	Adviser servicing/social norm/Desire for knowledge
48/3/3	62 – Marta	Advice	Advice	Advice	Advice	New home/new job/adviser servicing
57/2/3	71 – Ronnie	Advice	Advice	Advice		Adviser servicing/marketing call
52/4/3	73 - Alan	Advice	Advice	Advice		New home/social norm
47/3/3	95 - George	Advice	Advice	Advice	Advice	New home/high financial capability
57/2/3	147 – Ernie	Advice		Advice		New home/retirement lump sum
36/3/3	149 – Peter	Advice	Advice			New home/death of mother
49/5/3	164 - David	Advice			Advice	New home/desire for knowledge

**Table 6.1 – Triggers of Advice**

### **6.2.1 - Case Study (Elaina) - Knowledge of Need.**

**Elaina**, aged 56, educated to QCF Level 5, was originally from the USSR but had moved to UK and married a UK citizen. She was a public sector worker who had been widowed a couple of years ago. Up until her husband died she had had no involvement whatsoever in the household finances. In the questionnaire she indicated that she had taken advice regarding mortgages and savings. However, the mortgage advice related to repayment of the mortgage via the life assurance policy that had paid out upon her husband’s death. It appeared that neither the mortgage or savings advice were from a ‘regulated financial adviser’.

Elaina had never considered how she would cope in the event of long term illness. So there was no internal trigger. She had not been involved in the earlier ‘financial advice’ her husband had taken, so there was no external trigger to alert her to the potential risks she faced. When asked about this risk, it became clear that she was under the impression her employer would pay her for two years in this eventuality. So she as not aware of this potential threat and therefore not motivated to act.

Primarily it is financially capability that is acting as a barrier to advice and protecting against this risk. However, when this issue was explored further with Elaina she believed that the answer might lie in moving to another country it was ‘cheaper’ to live. In reality she was a public sector worker who would have 6 months full pay and 6 months half pay in the event of sickness and if she were unable to return to work due to illness/disability then the pension scheme of which she was a member would provide an early retirement option.

Section of Model	Elaina
Trigger Events	No internal or external triggers
Motivators	Not aware of the potential threat so not motivated to act
Intention Influencers	Not applicable
Self-Efficacy	Not applicable
Comments	Incomplete information therefore Elaina is not aware of potential risks and therefore not able to make an informed decision

**Figure 6.4 – Summary of Case Study**

By considering Elaina’s circumstances from the perspective of the model it is possible to highlight where the barrier to advice arises.

### **6.3 - Knowledge of Adviser Services and Value of Advice.**

This dimension of the knowledge variable considers interviewees’ understanding of the services advisers can provide and how these services may help to identify potential risks, quantify the implications of these potential risks and provide the interviewees (and more generally consumers) with possible solutions to address these risks. Value of

advice is an aspect of this variable, because unless there is an understanding of the extent of adviser services it is difficult to see how advice will be fully valued. From the survey data, 15 % of the sample suggested that not knowing what advisers do was a reason why they had not accessed advice. For the middle income quartiles this rose to 19% of the sample. So knowledge of adviser services is clearly a barrier to access.

Below I have considered this dimension for each of the advice areas, Mortgages, Protection, Savings & Investments and Pensions.

Mortgage Advice – The mortgage adviser’s role is to assist their client in sourcing a mortgage that meets the client’s particular needs. Firstly, the adviser has a duty to consider the client’s overall circumstances, explain the mortgage process and to confirm what is affordable. The latter point is the main driver of establishing the maximum amount the client can borrow which for some will determine the maximum purchase price they can consider. This of course will also be dependent on the deposit available. Secondly the adviser should discuss with the client the various ways the mortgage can be structured (i.e. capital repayment or interest only). Thirdly, the adviser should consider the different types of interest rate available and discuss with the client the implications of each option and how it relates to the client’s individual circumstances. This might, for example, involve explaining the benefits of a fixed rate for a particular term where a client could be adversely affected from an affordability perspective by a potential rise in interest rates. Finally, the adviser should highlight to the client any other potential risks they face when entering in to this arrangement and how these risks may be addressed in the event of them occurring (FSA,2010e).

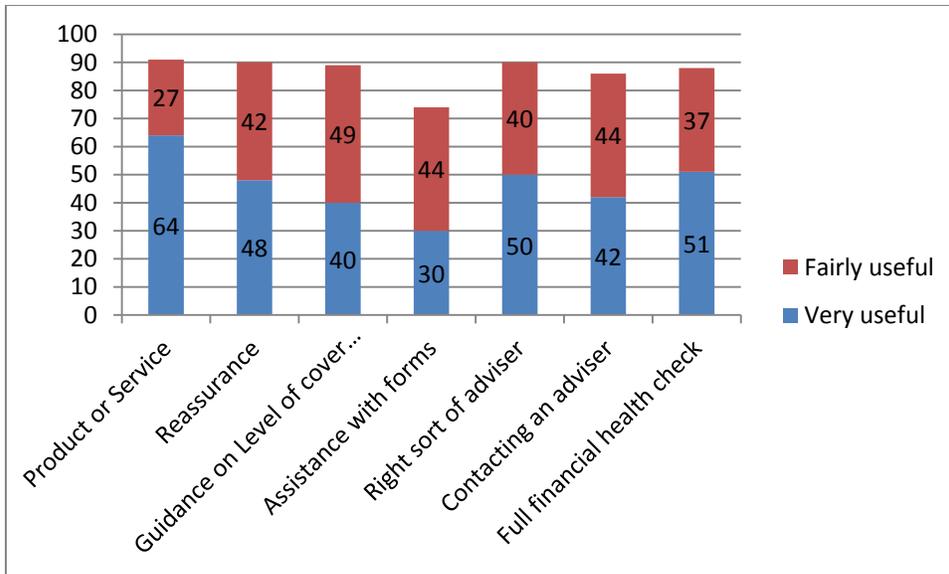
Some interviewees had used independent mortgage brokers whilst others had used tied providers, for example, their bank that could only offer their own products rather than whole of market options.

Generally as far as knowledge of the services advisers could offer, a fair proportion of the interviewees understood that independent advisers could offer products from the 'whole of market'. Heather explained independence as:

*"...that means he's not allied to one particular finance house"*

Whereas other advisers may be restricted to the products of the company they worked for. Many interviewees seemed to fail to appreciate that this could have cost implications and/or give them access to products of better quality. There seemed to be a misconception that bank/tied advice was free whereas independent advice would incur a fee. These issues of cost will be discussed further in chapter 8. However, it is mentioned here because it relates to consumers' knowledge of services and is a factor in how they value advice.

Knowledge regarding the scope of services advisers offered was limited and there was little appreciation that one adviser (depending on particular FSA permissions granted) could deal with all aspects of their financial planning. Many liked the idea of somebody reviewing their overall position, - 88% of the survey sample felt that a financial health-check would be very or fairly useful (see chart 6.1 below) - yet there was a sense that when advisers had attempted to consider areas other than the immediate objective there was resistance and some believed this was a 'sales agenda'.



**Figure 6.1 – The importance of various aspects of advice.**

There are few mortgage related examples of where knowledge of services had been a barrier preventing interviewees accessing advice and arranging a mortgage. Tom aged 65 and retired by the time he was interviewed, had dismissed the option of becoming a home-owner many years ago, saying:

*“...We never really tried. I suppose we could have done it. I’ve never got in touch with any financial advisors because we just thought we were so low at the bottom of the ladder, they wouldn’t be interested anyway”*

This is an example of an interviewee not really knowing enough about how to achieve a particular objective, or how advice may have helped him achieve this objective. Of course, it may have been that he was not sufficiently interested in achieving this objective to pursue it or in fact perhaps it was a realistic assumption that house purchase was not an affordable option for him. However, this would appear to be based on assumption rather than an informed decision.

Interviewees highlighted examples of advice that resulted in lower interest rates but there was little other comment about areas that could (and may) have been discussed with an adviser. Although, Ronnie, aged 57, did mention his experience of a remortgage:

*“... what we’d done in going with the Co-op was that we lengthened the term, but reduced the payments. So we were able to live without over extending ourselves...let’s say he appealed to our wants, opposed to just the mortgage, and said “what would you like” and I said a new caravan as ours was coming to an end and we’d like to pay off the car”*

This is an example of consolidating other loans into the mortgage which can result in the overall amount of interest paid being higher than it would otherwise have been had the original loan been repaid over the original [shorter] term. Similarly, extending the mortgage term can have the same effect. However, Ronnie was clearly more interested in replacing his caravan than any concerns about the increase in the term of the loan, assuming of course, that he was aware of this latter point.

David talked about their choice of adviser, saying:

*.... “ well my wife liked the idea of having somebody independent rather than relying on the estate agent and banks... and also advice from outside the estate agents point of view”....*

Clearly in this example they appreciated there was a difference between the types of advice available.

Protection. – The adviser may consider protection of mortgage liabilities and more general family protection either separately or together. However, either way the client should be clear as to the impact various unforeseen events could have upon their financial position (FSA, 2011a). The events that have the potential to put the client’s

current financial position at risk concern coping (from a financial perspective) in the event of;

- Death of themselves or a family member upon whose income the household is wholly or in part dependent on.
- Illness or disability of themselves or a family member upon whose income the household is wholly or in part dependent on.
- Redundancy of themselves or a family member upon whose income the household is wholly or in part dependent on.

Any of these events can affect the consumer’s ability to maintain lifestyle or stay above the state safety net, so assuming the consumer wants to do so, an adviser can discuss a protection strategy that will safeguard against these risks in the event of any of them occurring. This strategy would look at how existing protection benefits, debts (both secured and unsecured) and savings would interact if these events happened and help identify any gaps in existing protection. The slide below from the MAS Workplace Seminar presentation illustrates this process showing how the ‘insurance gap’ is established.



Figure 6.2 - Insurance Gap Slide – MAS Workplace Presentations 2012.

(direct reproduction)

As discussed in the earlier section of this chapter on knowledge of needs, the interviewees had generally been prompted by some external influence to take protection advice. It appeared generally that the prompt was associated with arranging a mortgage. There were no examples of interviewees having pro-actively taken protection advice, other than Peter who was prompted to do so after his mother died. This example will be considered in more detail later.

The slide above is part of the MAS campaign to alert consumers to the risks they face. However, given that all the interviewees had sat through a presentation that included discussion of these risks there was little appreciation of how adviser services could help them address these issues.

Some consumers may not have an insurance gap. From the interviewees, Ernie is an example of this. He is age 57, mortgage free, with savings and already has an armed forces pension in payment and following his redundancy from his current employer will also have a further final salary pension. He has no concerns about maintaining his lifestyle even if he does not have to work again and his partner would be adequately catered for by the spouse's pensions available to her via the occupational schemes.

For others this is not necessarily the case.

Savings & Investments – It is non-cash based investment products rather than cash based products that generally fall within the adviser's regulatory space, although this does not prevent the regulated adviser from assisting the client with both product types.

The adviser can work with the client to establish what savings and investment goals the client has, the time-line regarding when this money is required and consider a range of product options depending on these factors, the client's attitude to investment risk and capacity for capital loss.

Generally interviewees felt able to make decisions about cash based savings options. There are a number of examples in the earlier section (knowledge of need) that illustrate how they have done this. However, many had not considered whether alternative non-cash based solutions were more appropriate for their timescales and objectives. It is widely considered that over the longer term non-cash based products can offer better returns although clearly attitude to investment risk and capacity for loss would be issues that needed to be considered before adopting this type of strategy. Callaghan et al (2007) suggest that equity based investments have produced better returns than cash on 95% of occasions over an 18 year (or greater) term. If they were aware of how advice could help them understand the options then they would be able to make an informed decision.

Other interviewees, notably Ernie and Mavis, had sought regulated advice to try and understand the options available to them. The corresponding section on savings and investments in section 6.2 sets out their comments explaining why they decided to take advice.

It is clear in both these examples that these interviewees knew enough to understand that taking advice could help them to explore more options than they felt able to on their own. The FSA (2006e) identifies this knowledge (that a regulated adviser can assist them in this way), as a key financial capability skill.

Regulated Financial Advisers offer a range of services across a number of product areas. From the consumer interviews, there were clear indications that the interviewees had

not appreciated the full extent of the services advisers could offer and this may have resulted in them not addressing particular needs.

Pensions - Again there are limited examples of interviewees' knowledge of services with regard to pensions. In section 6.2 the details of the interviewees that had sought pension advice are set out. In each of these cases the interviewee appeared to know that a 'pension adviser' could help them to take action. However, it was only David that appreciated and therefore attempted to take advantage of the fact that advisers can help individuals to better understand their existing provision and highlight what is required to achieve their objectives. Others seemed to see the advice channel as a conduit to arrange a product rather than gaining a greater appreciation of their current position and their expectations. This seems to have been the norm amongst the interviewees as if having a pension was sufficient to achieve their retirement objective rather than knowing that it would do so.

Advisers on Customer Knowledge of Services - The advisers interviewed talked about how they tell clients and potential clients about the services they offer, yet they still encounter existing clients who do not really know the full scope of the services they offer.

Mike, an IFA aged 39, highlighted this, explaining that at outset he went through the full disclosure process telling his clients about the services he offered, yet often, this did not seem to sink in. He commented on this:

*"...I have had contact from clients in the past saying you helped me with my pension, do you do mortgages? And I feel that I have been quite explicit about that I can help them in that area, it's a service I provide, yet they seek to ask that clarification. And therefore some obviously won't ask, they will just presume Mike helps me with my life assurance requirements"*

Alan, an IFA aged 40, talked about:

*“...a mass ignorance”*

of what advisers do.

Richard, an IFA aged 51, commented on clients understanding of the services advisers offer:

*“...I think the understanding of our industry is fairly poor ..... I would say the average client doesn't have a great understanding of what we do”*

Wendy, the only female adviser I was able to interview, commented on the problems that influenced consumer access:

*“...not being fully aware of the services that we offer”*

Pete apportioned the blame for lack of consumer knowledge partly on adviser attitudes, saying ....

*... “Advisers don't see the value of themselves ... if they're not selling a product ... Project a service rather than products”...*

His suggestion was that this was a hangover from the culture promoted by direct sales and the providers with commission based remuneration playing a part. This is an interesting point, as one of the original objectives of the RDR was to try and separate advice from the sales process, which now seems to have gone completely by the board; in a recent FSA bulletin (2013a) they answered questions advisers had raised now RDR is in force. One of these related to advice fees which confirmed that it was up to advisers whether they made a charge in situations where formal advice was given but not followed by the client. This is not separating advice from sales because if advice is to be considered separately from the buying process, then the charge for advice would be expected to apply whether or not the consumer acts on that advice.

So the general view of the advisers was that consumers often did not fully understand the range of services that advisers offered even though these should always be discussed at the start of an initial client meeting. In the consumer interviews there was evidence of interviewees perceiving the adviser as 'the mortgage man' or 'pensions person'. This may be because advisers fail to tell customers about the other services they offer, or it could be [as Mike highlights above] that the customer is focused on their particular objective and the disclosure regarding other services is forgotten amongst all the other things the customer needs to take on board.

Another aspect of this, which Pete referred, is how the consumer values the service the adviser offers. If the consumer perceives the adviser as a channel to arrange a product rather than the provider of advice from which the outcome may be a product to satisfy a particular need, it is easy to see how the consumer may not appreciate the full extent of the range of services and therefore not value the extent of the advice available.

Age Ed. Income	Interviewee Number & pseudonym	Advice				Valued advice
		Mortgage	Protection	S & I	Pension	
33/3/2	61- Kazim	Advice				Channel to arrange mortgage
36/2/2	75 - Jim					N/A
48/4/3	90 – Bryan	Advice				Channel to arrange mortgage
64/2/2	101 – Tom			Advice	Advice	Did not appreciate advice was involved
56/5/2	132 – Elaina			Advice		Advice related to cash based accounts and was not via a regulated adviser.
47/2/2	134 – Frank	Advice	Advice			
27/5/2	170 – Suzie					N/A
59/5/2	179 – Kathy	Advice	Advice			Advice was of value
42/5/3	180 – Sarah	Advice				Channel to arrange mortgage
23/3/2	186 – Emily	Advice	Advice			Channel to arrange mortgage
57/4/2	08 – Mavis			Advice	Advice	Advice was of value
51/3/2	10 – Heather	Advice			Advice	Advice was of value
45/2/2	21 – June	Advice	Advice			Advice was of value
43/5/2	60 – Eric		Advice	Advice	Advice	Advice was of value
48/3/3	62 – Marta	Advice	Advice	Advice	Advice	Advice was of value
57/2/3	71 – Ronnie	Advice	Advice	Advice		Advice was of value
52/4/3	73 - Alan	Advice	Advice	Advice		Advice was of value
47/3/3	95 - George	Advice	Advice	Advice	Advice	Advice was of value
57/2/3	147 – Ernie	Advice		Advice		Advice was of value
36/3/3	149 – Peter	Advice	Advice			Advice was of value
49/5/3	164 - David	Advice			Advice	Advice was of value

**Figure 6.3 – Value of Advice**

The figure above attempts to illustrate the type of advice interviewees had taken, and draw conclusions as to whether they valued the advice or whether they merely perceived it as a sales channel. It seems that the interviewees with more experience of taking advice had a greater appreciation of the value it could add, whereas the less experienced interviewees were more likely to see advice as a sales channel. Perhaps this is linked to knowledge of services available. Where interviewees had a greater experience of using advice services they were more likely to understand the value they could add. However, a number of those that are classified as valuing advice still perceived it as part of a sales process, that is, the driver was a perceived need for a product rather than to gain a better understanding.

### **6.3.1 - Case Study (Comparison of Frank and David) – Knowledge of Adviser Services.**

**Frank**, aged 47, lived with his partner and worked in the public sector. He was due to be made redundant within six months of the interview. He had indicated in the questionnaire that he had never taken any financial advice, however at interview it became clear that he had taken advice regarding a mortgage and had arranged a mortgage related life assurance plan.

He knew roughly what his occupational pension was likely to be worth at retirement but was unsure whether this would be sufficient to meet his needs. He did not perceive advice as a way of clarifying his position and there was no external trigger that motivated him to take action. Frank was not aware that advice could help him clarify his retirement position and therefore there was no perceived outcome expectancy. Furthermore, it seemed that Frank perceived pension advice as a way of arranging a pension – ie. Buying a product rather than establishing whether existing provision is sufficient to meet his likely needs.

**David**, age 49, is married and works in the public sector. At the time of completing the questionnaire he had only taken advice on mortgages, however in between this and the interview he had also taken further advice. David is unsure what benefits his pension will provide at retirement and is aware advice may help him to establish this. This is an internal trigger as it comes from prior knowledge. Furthermore, he has a desire to try and ensure he has sufficient income in retirement.

David perceives the outcome of advice as something that will help him establish the likely value of his pension at retirement. He will then be in a position to make an informed decision as to whether he needs to make additional provision.

Section of Model	Frank	David
Trigger Events	Advice not perceived as subjective norm so there is no internal trigger. Similarly there have been no external triggers to advice.	Internal trigger prompts action
Motivators	Not applicable	Desire to have sufficient income in retirement acts as motivation
Intention Influencers	Not applicable	David perceives the outcome of advice as something that will help him establish the likely value of his pension at retirement. So outcome expectancy is a driver of advice
Self-Efficacy	Not applicable	David found difficulty finding an adviser that would provide this service. He eventually found a suitable adviser via an employer seminar. Advisers he had spoken to earlier did not seem interested in assisting him with this.
Comments	The barrier in this case is knowledge of adviser services and in particular Frank's perception of advice as a route to a product rather than a means of helping him make an informed decision	David encountered some barriers on his journey to advice but eventually overcame these. Clearly the fact that he perceived advice as something that would help him establish his current position rather than just sales channel is an important aspect of his journey.

**Figure 6.5 – Summary of Case Study**

In this case a comparison is drawn between the experiences of Frank and David in an attempt to illustrate how different levels of 'knowledge of services' resulted in different outcomes. Clearly the main point is that David perceives 'Financial Advice' as a way of better understanding the value of his current pension provision and establishing whether he needs to make additional provision.

Frank on the other hand perceives financial advice as a way of buying a product. As he is already in a pension scheme he sees no reason to why he needs advice. However, although he has some idea as to the value of his pension he is not clear as to whether it is likely to be sufficient to meet his needs in retirement.

So Frank's perception that advice is perceived as a product channel is acting as a barrier to advice. By considering their different experiences from the perspective of the model, it is clear where the barriers lie.

#### **6.4 - Knowledge of finding an adviser**

Knowledge of how to access advice concerns the issues related to finding a suitable adviser. Appendix 6.1 shows which interviewees accessed advice and how they did so.

Of those interviewees that had taken advice, they had either identified a suitable adviser by some form of referral (from family, a friend, a colleague or via their employer) or used a high street bank or building society, generally 'their own'. Some of the older interviewees had experienced advice via some of the door-step services (home service advisers). All of the above ways of finding an adviser seemed to be centred on trust, either the good experiences of others whom they trusted or the experience of dealing with 'their bank' which had a strong brand and could therefore be trusted.

From the survey data, 24 % of the sample suggested that finding an adviser was a reason that they had not accessed advice. For the group the interviewees were selected from this rose to 27% of the sample. So knowledge of how to find a suitable adviser is a barrier to access. Furthermore, of the 49 survey participants that suggested finding an adviser was a reason for not taking advice, 27 had taken mortgage advice in the past. This was not the case to the same extent for other areas of advice.

Mortgage Advice - It seems there were limited knowledge related barriers to the interviewees accessing mortgage related advice. Some had used their bank whilst others had accessed independent advice. However, the general knowledge of how to arrange a mortgage and the associated advice was common to most interviewees. Getting a competitive rate was a factor that most mentioned. There was little discussion about how advice might help them decide on the most appropriate type of rate (for example

fixed or variable), term of the loan or repayment method, all of which are factors that advisers should consider (FSA,2010e).

Appendix 6.1 shows the interviewees that had taken mortgage advice and how they accessed this advice. It appears that this happened in a number of ways;

- Referral from estate agent – Kazim said talking about his mortgage: *“...with the estate agents”*.
- Referral from a friend or colleague – Kathy said: *“...she was a friend of a friend I think”*.

Heather said: *“...he must have been recommended... a friend or colleague I think”*.

June was referred to an adviser by the Welfare Officer of her employer.

- Via the high street presence of a particular lender or broker. George talked about walking up the high street: *“... anyway the next port of call was the Abbey National as it was then and they lent me the money”*.
- Sarah talked about: *“... I think maybe it was someone who lived locally and they had an office in XXXX where I live”*.
- Their ‘bank’- Elaina said when asked where she would go to get a mortgage if she required one said: *“... Well I would go to Lloyds TSB..... yes they are my bank but I’ll tell you what, I have a nice experience with them”*.
- Internet research – Sarah also talked about identifying the best rate: *“...I think I looked it up on the internet and in the paper”*.
- Home service adviser – Ronnie’s original mortgage had been arranged via initial contact with the home-service adviser.
- Direct marketing – Ronnie said: *“...they phoned up I think and we had a look to find out what’s best for us”*.

So the interviewees’ experiences of finding an adviser to arrange a mortgage seem to have been impeded very little by potential barriers.

Protection Advice – a number of the interviewees had arranged life assurance in association with the mortgage but there were other examples of protection being arranged that was not mortgage related or at least not part of the broader mortgage process. There are five examples of interviewees taking protection advice that was not mortgage related.

Kathy had met an adviser when they originally arranged their mortgage and had arranged life assurance at that time. It appears that this adviser provided an on-going service and when they were expecting children, he alerted them to the additional protection risk the responsibility of children brings, which resulted in them increasing the level of cover at that time to make provision for this increased responsibility.

Eric, aged 43, single and living with his mother said:

*“...I’ve got my life assured, it’s a sort of family thing. We’ve just had life assurance in the family because we thought it was important, so I’ve just carried on with it really...obviously things like funeral expenses... without leaving bills behind that somebody else has to pay really”*

The family had a home-service adviser that visited them and this being the norm within the family provided the driver to accessing advice and arranging the product.

Peter, aged 36 married with children had not originally taken any protection when he arranged his mortgage but a family bereavement acted as a trigger (This case is discussed further in chapter 7, section 7.6).

George, aged 47 and married with children, had been a home-service adviser prior to a career change. This set him apart from the rest of the interviewees as he was so much more aware of the risks he faced and had a network of ex-colleagues that he used to access advice. This is highlighted by George when asked about how he would access advice if he required any:

*“...in the first instance I bank with Lloyds, so I’d walk in there. I’ve got an ex-colleague from CIS at another company and I might give him a bell. Use the internet and do a bit of research first myself and see what the best buys are”*

He had recently arranged some additional life assurance through exactly this route. This was as a result of an existing policy maturing.

It can be seen from the above examples that the barriers to accessing protection advice are knowledge related and when this risk is highlighted as part of the advice process, it may then be addressed. In all of these examples (other than George) some form of external trigger has come in to play, either a life-course event or a prompt from an adviser servicing call. So interviewees were not prevented from taking advice on protection because of their lack of knowledge regarding services available, it was that they had not appreciated the risk.

Savings and Investments – There are no examples of interviewees having a desire to access regulated advice regarding cash based savings products. This is not particularly surprising as the sale of these products do not require the advice to be from the regulated regime (CF30). Although, in my experience regulated advisers do offer clients assistance on occasions with arranging these products.

On the other hand there are examples of interviewees (7) who have looked beyond cash based savings products as a home for their savings. In three of these cases (George, Ernie and Mavis) advice had been pro-actively sought. The circumstances of why these three interviewees required advice in this area has been discussed earlier, it is how they accessed this advice that is of interest to this particular section.

George (the ex-home-service adviser), had a variety of investments including both collective funds and direct equities. He gained access to advice via his network of former colleagues when required. Ernie, who had funds available following the maturity of his armed forces pension, found a suitable adviser via a referral from a fellow member of his golf-club. Mavis, aged 57 and single, had received funds following a divorce settlement and was aware of the existence of investment ISAs but wanted to know more. Access to advice in her case was gained by an earlier experience. She had met an adviser when she joined an employer's pension scheme and it made absolute sense to her to return to this adviser when she required assistance with investment planning. She said:

*"...when I got divorced I ended up with quite a lot of money and I wanted to invest some of it but didn't really know what to do with it, not just let it sit in an ordinary amount of interest, I wanted to do something else"*

She then went on to say:

*"... I didn't really know how to do it so I went to an independent financial adviser"*

When asked about how she found the particular adviser she said:

*"... I used to work at a school and I took out a personal pension when I started there, an adviser came to talk about it...I got a card [at that time]... that's how I got the adviser"....*

So access is being gained via referral from interviewees' social networks or through previous experience of a particular adviser.

Pensions – Seven of the interviewees had accessed pension advice. One of these was George, for whom it is clear from his industry experience there were no barriers. Of the others, four of the interviewees had actively sought advice whereas the other two had received advice on a reactive basis. The latter two were Mavis (when joining her employer's scheme) and Tom, who had arranged a pension via a home-service adviser, but was not really clear that this had involved advice.

Eric was concerned about his pension provision and had arranged an additional personal pension via his bank. He had previously taken advice from a home-service adviser regarding transfer of a deferred public sector pension. David and Heather's experiences are described in case studies 6.3.1 and 7.6 respectively.

Similarly, Marta whose experience is described in case study 6.4.1 was struggling to find an adviser and was concerned about whether she should join the employer's scheme, said:

*"...where they put 7% and I put 3% in but I am not 100% convinced with that pension plan."*

Group personal pension plans (GPP) offered by employers can be provided with or without advice to the member but this can result in the member not having direct contact with an adviser to answer questions and address concerns upon joining. Williams (2008) highlights this in his study which considered the impact of not receiving advice when offered membership of an employer's GPP.

Advisers on Customers 'Finding an Adviser' - From the perspective of the advisers that were interviewed, most of their clients came to them via referrals from existing clients and the general view seemed to be that if people wanted advice then they would find a suitable adviser one way or another. This seems to be supported by the experiences of the MAS seminar interviewees, most of whom had found an adviser when they felt they needed one. This actually may be part of the problem, because consumers generally access advice when they want a particular product (often a mortgage) they then perceive the adviser as fulfilling only that particular function. Alan commented:

*"...I think they stumble upon it [advice] more than anything else"*

Dave, an IFA aged 46, whose business came mainly via referral, was concerned, for future referrals, that people seemed less likely to ask friends and family to recommend an adviser and were turning more to the internet. He said:

*“...I think there is still, thankfully, there is a degree of do you know a financial advisor? But I’m surprised at that. I tend to find that especially within friends, that it’s a subject people don’t really want to discuss and it’s only a certain type of person that will help me out here and open up, because you really are delving into their private matters. So I think that’s less and less and I think people are turning more and more to the internet, certainly the younger, mid to younger age group. They probably wouldn’t even think to ask their friend” .....*

A number of the advisers had never really thought about this and found it difficult to believe that there was an issue for consumers finding a suitable adviser. On this theme Phil said:

*“...Yes again I suppose from a personal point of view because I know where to go to get advice for different things I suppose I am thinking why can’t other people just go to get that advice from somewhere”*

Summarising this section on knowledge of accessing advice, it seems that, in most cases, the interviewees had managed to access advice when they felt they needed it, other than Marta who had recently experienced a problem (see 6.4.1). From the consumer interviews it appears that ‘finding an adviser’ was generally not an issue for the interviewees. However, 24% of the sample had indicated that that ‘finding an adviser’ was a reason for not taking advice. Of these, more had taken mortgage advice than had not, whereas for all other areas of advice, it was more likely to be those that had not taken advice who highlighted this as an issue. Of those that highlighted finding an adviser as a barrier, nearly 45% had either never taken advice or only done so on one area of their finances (most commonly mortgages).

Of those that had taken advice, many had done so either via their bank or by referral from a friend, colleague or employer. For some, home service advisers had been their first experience of advice or perhaps buying a financial product. In some cases the initial sale via a particular adviser had led on to addressing other issues whilst in other cases this appears not to have happened and in fact on occasions there had been resistance from interviewees to this.

More generally, there are also other factors such as financial capability and the structure of the industry, which can result in consumers not accessing advice or not receiving advice on other needs. This may be the case even when they have met with an adviser.

#### **6.4.1 - Case Study (Marta) – Finding an Adviser**

**Marta**, aged 48, was married and a home-owner with a mortgage. She had recently been made redundant from her role in the public sector but had subsequently found alternative employment in the private sector. Her new employer had offered her access to a pension scheme which included an employer contribution of 7% of salary. Previously she had been in a final salary pension scheme and felt secure regarding her retirement provision. Following redundancy she was concerned about this but unsure whether she should join the pension offered. She has previously used the services of a financial adviser. She therefore valued advice and believed that the outcome of advice would help to confirm whether the new pension was value for money and whether she should join. However, both the advisers that had helped her in the past had left the industry and she was unsure how to find a suitable adviser. She contacted a brokerage that appeared to have taken over responsibility for her deferred personal pension, she was hoping they could help, but to no avail. Now she has no idea how to find a suitable adviser.

Section of Model	Marta
Trigger Events	Marta is made redundant and joins a new employer who offers a pension scheme. External trigger to advice.
Motivators	Wants to understand whether she should join the new scheme so is motivated to take advice.
Intention Influencers	Previous experience of advice means she believes advice will help her make an informed decision. So outcome expectancy and value of advice is present.
Self-Efficacy	Does not know how to find a suitable adviser
Comments	The barrier in this case is knowledge how to find an adviser. Originally she had found one of the advisers via referral from her husband's employer. She had not been able to find another adviser via referral and did not know how else to proceed.

**Figure 6.6 – Summary of Case Study**

This case study illustrates how the model can help to identify the barrier Marta experiences when trying to access advice. Had she been aware of the advice and information available from MAS, this may have helped.

## **6.5 - Summary**

There are three dimensions to the knowledge related variable; knowledge of need, understanding the scope of adviser services and finding a suitable adviser. These three aspects of the knowledge variable clearly influence the consumer's ability to access financial advice. The first of these, knowledge of needs, is plainly a financial capability issue. There is evidence from the baseline survey (FSA, 2006a) that planning ahead is an issue. The MAS campaign to encourage consumer to take a 'financial health-check' is part of their strategy to try and address this gap in consumer knowledge of the potential risks they face. However, it appears that few of the interviewees were aware of the 'financial health-check' even though it has had substantial coverage via advertising and has been mentioned in the press. In fact, many of the interviewees had clearly forgotten what MAS was even though they had attended a seminar arranged by it. Moreover, the advisers interviewed were similarly poorly informed about this tool and the services offered more generally by MAS. A number of them seeing it as a threat to their service rather than complementary, which certainly had been Sandler's (2002) and later

Thoresen's perception (2007; 2008) of how this service would dovetail with those offered by regulated advisers.

There are some key aspects that influence consumers taking advice. In the case of house purchase it seems common knowledge as to how and what is required to access these services. In fact, there seems to be a perception that arranging a mortgage is about buying a product and the advice is part of sales process and not really perceived as advice at all. The other key factor seems to be experience; as this increased interviewees seemed to have been more confident to make their own decisions and more able to access advice. There are some examples of advice arising (and prompting of the need to address other areas) from advisers returning to the interviewees to provide servicing reviews. Some interviewees had established relationships with advisers that led to other areas being addressed. For example Ronnie talked about the home service adviser who helped arrange the mortgage for their house purchase and also considered some of the protection issues. Later they arranged investment ISAs through him as well.

It was asserted by the FSA (2012b) that it is good practice for investment and pension advisers (CF30) to take account of the client's circumstances in full before making any recommendation. They also suggested the adviser should highlight to the client other needs where it is clear there are potential risks. If this process had applied to each of the 19 interviewees who had received advice then it would be expected that firstly, there would be some reference to this process within the interviews and secondly, the interviewees would have been more aware of the potential risks to which they are exposed. A good example of this is the lack of appreciation of the risks of long term sickness and its potential implications on their finances. Many interviewees had simply never considered this. It appears, therefore, that, although the regulator encourages advisers to take this approach, there must be barriers to it being implemented. Section 2.4.4 explains how the different levels of regulation that different types of advisers may

work under can influence the scope of the service the consumer receives. However, for some the system does work, the case of Ronnie mentioned above being an example. For others this is not necessarily the case. There is evidence that a number of the interviewees felt that when the adviser had attempted to introduce advice on associated areas this was interpreted by the interviewee as a 'sales agenda'. These issues of mis-trust are discussed further in chapter 7.

In many respects the interviewees' and, more generally consumers' lack of knowledge regarding the scope of the services advisers offer, is again a financial capability issue. However, without the consumer being aware of the risks they face it is pointless them being aware of the services advisers offer unless advice is perceived as a way of identifying these risks. It appears that the norm is that regulated advice is perceived as a way to arrange a product rather than a means of highlighting risk and addressing it with a plan for the future.

The third aspect of the knowledge variable concerns the consumer's knowledge of finding an adviser and in particular one that can provide the services they require. It seems from the interviews that in reality when consumers are aware they have a need and that a financial adviser is the person to help them satisfy that need, then generally they do not really have any problem finding somebody to help. There was one example, though (Marta), amongst the interviewees, that had experienced this problem which has already been discussed in case study 6.4.1.

With regards to identifying a suitable adviser, across the interviewees, there was no mention of the sourcing facilities that are available through such organisations as 'Unbiased', the Chartered Insurance Institute or the Money Advice Service, all of which offer information on how to contact a suitable adviser and guidance on questions to ask before committing to move forward. The Money Advice Service provides detailed information on the questions consumers should ask before employing a financial adviser

and detailed information as to what advisers do. The site also includes links that can help consumers contact advisers in their locality. Had Marta been aware of this option it may have helped her to find a suitable adviser.

For most interviewees it seems that when they felt there was sufficient need then they found a way to access advice. In most cases this was via some form of personal or business referral and often this was triggered by a life course event, the most common of which was house purchase (often associated with marriage or a new relationship) or re-mortgage. Although it seems that consumers generally do find an adviser when they know they need one, there are concerns about the way they achieve this. These are discussed further in the next chapter.

So to summarise the issues above;

- Low Financial Capability, particularly with respect to planning ahead.
- Confusion caused by the Regulatory regime
- Mis-trust of adviser motives
- Lack of use of available signposting services
- Experience of advice breeds knowledge – although mortgage advice does not necessarily lead to advice on other areas.
- Policy not producing the required outcomes – For example, the MAS health-check is not effective in motivating consumers to address high level needs/risks.

## Chapter 7

### Trust (or the lack of it) as a barrier to access

#### 7.1 - Introduction

Trust, or more precisely, the lack of it seems to be one of the main reasons given for consumers failing to engage with the financial services industry and thereby failing to make the necessary plans to protect (from a financial perspective) both their short and long term futures from the potential risks that may disrupt the lives of their families and themselves. This chapter will attempt to answer research question 2, *“How does trust influence the likelihood of consumers taking advice?”* and, in part, questions 4 and 5 which relate to industry structure and the effects on the welfare system of consumers not taking advice.

This theme relates to whether consumers trust financial advisers or the financial service industry more generally and is one of the key variables. How the consumer makes the decision to place trust in an individual or company is of particular interest given the volume of literature indicating that this is a major issue. Most commentators suggest that a high level of trust in the Financial Services Industry and the individual adviser is more likely to encourage the consumer to seek advice.

The chapter will attempt to answer research question 2 first by considering those results from the survey that are indicators of trust or mis-trust and then go on to look at the interviewees’ experience of how trust played a part in them accessing (or otherwise) advice. These experiences will be considered for each of the advice areas and then the interviewees’ experiences of finding an adviser will be considered, particularly from the trust perspective of referral. The differences between individual trust placed in an adviser or organisation will be contrasted with more general trust in financial services as a whole. Finally the views of the advisers will be taken into account before the overall experiences of both groups will be related back to trust theory. This reflection on the links between theory and practice will also help to answer questions 4 and 5.

## **7.2 – Results from the Survey**

The survey carried out at the MAS seminars asked the participants two questions that relate directly to consumer trust.

**Question 2.** Which of the following reasons contributed to you NOT taking financial advice in any of the scenarios mentioned in Q1.

- b). I do not trust Financial Advisers
- i). I was worried they would sell me something I didn't need or couldn't afford

**Figure 7.1 – Trust related Survey Questions**

Figure 5.7 (in chapter 5) illustrates the responses to question 2. However, these are considered more closely below with respect to a number of independent variables. From the survey 10% of participants indicated that their reason for not taking financial advice was because they did not trust financial advisers whilst 31% indicated that fear of mis-selling was a concern. 12 of the 21 participants that were concerned about trust were also concerned about mis-selling.

Characteristic	b). I do not trust Financial Advisers (% answered yes)	i). Mis-selling (% answered yes)
Age		
Up to 29	6	22
30 – 39	9	44
40 -49	6	39
50-59	20	24
60 and above	11	16
Academic Qualification		
Up to QCF Level 2	21	21
QCF Level 3	8	38
QCF Level 4	10	24
QCF Level 5 & above	11	36
Income Quartile		
Up to £15,000	20	20
£15,001 - £25,999	9	39
£26,000 - £43,999	7	27
£44,000 and above	14	30
Gender		
Male	11	29
Female	10	33
Employment		
Public sector	11	31
Private sector	10	29
Advice area.		
Have/Not taken mortgage advice	10/12	31/30
Have/Not taken pension advice	12/10	19/35
Have/Not taken savings advice	9/12	18/39
Have/Not taken investment advice	9/11	16/37
Have/Not taken protection advice	7/11	24/35
Have/Not had general review	5/13	22/35

**Table 7.1 – Summary of Question 2 responses by independent variable.**

Analysis of the data relating to parts (b) and (i) of question 2 suggest that age group 50 – 59 were more likely to have not used the services of a financial adviser because of lack of trust, while those aged 30 – 39 and 40 -49 seemed to cite concerns about mis-selling

as their reason for not taking advice. Within the particular advice areas there seems little difference between those that have taken advice and those that have not with respect to trust (Q2 (b)) whereas for Q2 (i) a significantly higher proportion of those that have not taken advice were concerned about mis-selling, except for mortgage advice. Clearly, as the sample size is relatively small resulting in the numbers within each cell being low, no definitive conclusion can be drawn as to whether fear of mis-selling acts as a greater barrier to advice for those that have not previously engaged with adviser services. However, it is a point that might be interesting to explore in a future project.

### **7.3 – Interviewees’ experiences of trust and the advice areas**

This section of the chapter will look at how trust appears to have impacted on the interviewees’ experiences of taking advice (or not) for the different advice areas. It will then draw these together and show how referral is a key factor in interviewees obtaining advice because it has the effect of lowering the trust barrier.

#### **7.3.1 – Mortgages**

Trust did not seem to present a barrier to interviewees accessing mortgage advice. 18 of the 21 interviewees were home owners (or had been) and most had needed at some stage to arrange a mortgage. There are no clear examples of interviewees not taking action or advice because of trust issues. However, there were examples of concerns being expressed by interviewees as to whether they could trust particular advisers, although this did not stop advice being taken.

June, a divorced public sector worker aged 45 talked about her experiences of taking mortgage advice many years earlier, saying:

*“...He was full of energy, I mean clean-cut, immaculate, but he was pushing ... talking too fast ... I won’t say he didn’t actually answer questions, but I felt that my questions hadn’t been answered...hope to come out of a meeting with a higher understanding than I had before ...when I tried to ask him about things*

*that weren't related to his products, what he was able to sell, he couldn't give me any advice."*

Even though June had clearly felt uncomfortable with this adviser from the start there were other factors that seemed to override her lack of trust in him. She was pregnant and needed to move house before she and her husband were evicted. Her then husband had arranged to meet the adviser who was referred by an estate agent. He appears to have been happy with the adviser and June felt pressured to continue. So it is clear that on occasions other factors may influence consumers' decisions as to take advice, outweighing concerns about trust. Later on when June was introduced to another adviser, trust became an important factor. The fact that on this subsequent occasion the referral was from the welfare officer at her place of work had helped to inspire trust.

Sarah, aged 42 and a single graduate seemed generally less trusting. She had done much of the initial research for her recent re-mortgage herself, before approaching the lender. Trust, or perhaps the lack of it, played a part in her decision to do this but it did not prevent her from accessing advice. In fact, she felt able to make an informed decision without advice and merely used the adviser as a channel to arrange the mortgage. She commented:

*"...I trusted what they told me to be accurate but I know they weren't always telling me the full picture. "*

### 7.3.2 - Protection

Again there was little evidence of trust acting as a barrier to interviewees arranging suitable protection contracts. The only examples of interviewees arranging protection, other than where it was mortgage related and arranged by the same adviser, were all cases where a relationship with the adviser was already established and on occasions the action was prompted by the adviser.

Kazim's experience (discussed later in this chapter – case study 7.6) is an example of where lack of trust can act as a barrier to taking advice. He had been introduced to a mortgage broker who arranged the mortgage and also highlighted the protection areas where Kazim and his family were potentially exposed. He said:

*“...Well they were trying to sell me buildings insurance, life insurance, income protection - all these other insurance things that I know I'm not really gonna need, that they're gonna charge me a lot of money for.....well at the time I was thinking why are they trying to sell me all these products? I was just a bit concerned, I was thinking are they trying to rip me off? Will they be getting a big commission? So at the back of my mind, whenever I go to think about it I think that, I think that's maybe why I try to avoid financial advice.”*

The outcome of this was that Kazim went off and arranged his own life assurance policy but decided against any other protection (such as critical illness cover or income protection) because he felt the cost outweighed the potential benefits. Whether or not he was right about this would only ever be known in the future. However, trust had clearly been the barrier to discussing matters further or arranging these products with the adviser. Had he felt able explore these options in more detail with the adviser he may have better appreciated the potential risks to which he was exposed and the implications of his own strategy. He had arranged a life assurance plan that was not for the full term of the mortgage and seemed not to appreciate the underwriting issues this could potentially present at renewal if his health had deteriorated. Had he felt able to explore matters further with the adviser he may have been able to make a more informed decision. It is unclear whether the adviser was trying to follow FSA 'good practice' (FSA, 2011a) or was merely focused on sales.

If we were to apply Renn & Levine's components of trust ( section 3.6.1) to this scenario it is clear that Kazim felt the adviser was exhibiting neither 'absence of bias' nor had his

‘interests at heart’. He was obviously sceptical about the adviser’s agenda so was exercising the critical trust that many suggest is appropriate.

### 7.3.3 - Savings and Investments

Once more there is no evidence of trust being a barrier to consumers accessing savings and/or investment advice. Mavis seemed less likely to take investment advice in the future following the losses she incurred on her investments. However, she did not blame the adviser for this, although better customer service may have provided the reassurance she needed to remain invested and potentially recoup the losses. Part of this may be accounted for by the original adviser having left the company and there not being any incentive for another one to provide a service. In the ‘adviser space’ where commission prevailed, earnings tended to be mainly focused on the initial sale rather than service related. In the new world post RDR an adviser may have felt more inclined to offer a service review at an agreed cost rather than there being an expectation from the client that this was part of the ongoing service.

### 7.3.4 - Pensions

The main example of where trust impacted on one of the interviewees abilities to take action relates to Marta when she was offered a pension by her new employer. Having moved from a post where final salary benefits were available, she was unsure of the value of the money purchase option she had been offered. This appears not to be a trust issue from an advice perspective - in fact, had advice been available alongside this scheme it is possible that her concerns would have been addressed. The other pension related example is Heather, which is discussed in case study 7.6.

### 7.3.5 – Individual and General Trust

Section 3.6.2 discusses the contrast between the high levels of trust consumers have in individual advisers and organisations they have experience of, compared to the low levels of trust that relate to the financial services industry more generally. During the

interviews the interviewees were asked whether they trusted financial advisers, the industry more generally and whether they thought there was a need for regulation of financial services, given that this contributed to the overall cost of the products. The interviewees' responses are summarised in the table below.

Interviewee Pseudonym	Trust adviser	Trust industry	Importance of regulation
Kazim	No	Yes	Yes
Jim	N/A	Yes	Yes
Bryan	Sceptical	No	Very important
Tom	Yes	No	Yes
Elaina	Yes	No	Yes trusts state
Frank	No problems with Bank	Sceptical	Yes
Suzie	N/A	Yes	Yes
Kathy	Yes	Yes with reservations	Yes
Sarah	Yes with reservations	Sceptical	Yes
Emily	Yes	Unsure	Yes
Mavis	Yes	Sceptical	Yes
Heather	Yes	Yes with reservations	Yes
June	Yes	No	Very important
Eric	Yes	Yes with reservations	Yes
Marta	Yes	Yes	Yes
Ronnie	Yes	Yes	Yes
Alan	Yes	Yes	Very important
George	Yes	Sceptical	Yes
Ernie	Yes initially, sceptical later	No	Yes
Peter	Yes	Yes	Yes
David	Mixed experiences	No	Yes

**Figure 7.2 – Interviewees views on Trust**

It can be seen from the table above that generally the interviewees were trusting of the advisers they had dealt with although some had been sceptical about the adviser's motives. Sarah, for example, felt she trusted the adviser but caveated this statement by highlighting her understanding that part of their role was to sell products. Ernie had initially trusted his adviser but later expressed some doubts about this. David had mixed experiences which are described below.

Clearly some interviewees put absolute trust in the adviser and made that judgement from an emotional trust perspective. Examples of this are;

Heather said:

*"...he was calm, made me feel comfortable, was smartly presented and didn't bombard me."*

In similar a vein, Peter said:

*"...it was sort of a family friend so I felt like I could trust her you know, it wasn't sort of the case that we'd never met her before and I was thinking 'is he/she trying to rip me off to make commission on this?' But it's worked out OK"*

Suzie talked about the confidence she had in 'her bank':

*"...I perceive them as a trusted brand ... don't mind looking a bit daft saying that maybe I don't understand things there. Whereas I might feel awkward to do that with somebody else"*

So for these interviewees it was the sense that the adviser (or the bank in Suzie's case) was somebody they felt comfortable with. This fits with the CFEB (2010) comments about the importance of the 'messenger', particularly for lower socio-economic groups (see section 3.7). These are examples of the high levels of individual trust consumers have in advisers and organisations they have used.

Other interviewees were more sceptical about advisers and it is interesting to consider these in the light of Renn and Levine's components of trust and Poortinga and Pidgeon's (see section 3.6.1) views on critical trust. Eric had perhaps been slightly more critical in his assessment of trust, saying:

*"...I think the most important thing is that you can tell if the person has a good knowledge of the subject they're talking about. It comes across and it's reassuring. I think you just need to have a healthy scepticism, to make sure you get what you want really"*

This is an example of 'perceived competence'.

David had mixed experiences of advisers, saying:

*“...we saw him a couple of times and he’d been recommended. We just got on well, I was impressed with the way he went about things, he seemed very efficient and on the ball.... Yes, because we discussed all the different companies and debated the different pitfalls”*

Here are examples of ‘perceived competence’ and ‘objectivity’. Referring to another adviser David had met with to discuss pensions, he said:

*“...I don’t know because we didn’t really discuss pensions with him. The reason I didn’t trust him was because he kept talking to me about insurances”*

So, in this case, David had clearly felt that this adviser was not displaying ‘objectivity’.

June had grave mis-givings about an adviser she had dealt with. However pressure from her then husband and the need to move home seemed to be the drivers. She described the adviser as:

*.... “a wide boy, pushing too hard”....*

So in this case ‘faith’ was lacking.

It would seem therefore that the interviewees’ views support this distinction between individual trust in the organisations they have used and the lower levels of trust and scepticism towards the industry in general. Figure 7.2 above shows that a third of the interviewees trusted the financial services industry whereas all but one of those that had taken advice (19) either trusted their adviser or did so with an element of reservation. There is much comment in the literature regarding this distinction between individual trust and general trust; in particular, the view expressed by Wells and Gostelow (2009) who suggest that whilst general trust in the sector as a whole is low, consumers tend to have high levels of trust in their existing advisers and the financial institutions that they use.

### **7.3.6 – Referrals**

In chapter 6, section 6.4, interviewees' experiences and issues with finding an adviser were discussed. This highlighted referral as the most common way interviewees and consumers more generally find a suitable adviser. Much of this is to do with trust and the 'transference of trust' from the introducing individual or organisation. This implies that interviewees (and perhaps consumers more generally) are using a 'trust heuristic' (see section 3.7, p.88) to access advice. CFEB (2010) suggest that use of heuristics can result in consumers making wrong decisions.

As highlighted in the earlier chapter, consumers' knowledge of what advisers do and how to find a suitable adviser is generally fairly limited. However, from a financial capability perspective, this is a key skill. So, in many respects, referral is acting as a trust heuristic that helps the consumer to find a suitable adviser. Section 6.4 of chapter 6 includes a number of quotes from the interviewees that explain how and why they found an adviser via referral. One of the advisers, Alan (quoted earlier) suggested consumers stumble upon advice, the inference being that they do not approach this in a logical manner, often finding an adviser by chance.

Referral is a common way for consumers to meet financial advisers. Friends, family or colleagues may have already used a particular adviser and found it beneficial and therefore either reactively or pro-actively referred the adviser to them (by pro-active referral, I mean situations where advisers actively ask clients to refer friends, family and colleagues to them). Of the 19 interviewees that had taken advice, ten of them had been referred to an adviser, of which six of these were personal referrals from friends, colleagues or family. The other referrals came from associated businesses.

In the reactive scenario, consumers who are in need of advice identify an appropriate adviser via family or friends who have previous experience of their services. This appears to be considered a more reliable way of accessing a trusted adviser but can still

have drawbacks as the referrer may not really be in a position to judge whether the advice they have received is of good quality (the example of Heather is highlighted in case study 7.6). In fact, there could be similarities here in certain social networks to the issues that Jones & Barnes (2005) highlight regarding 'myths & rumours' that circulate (see section 2.3.4). It is easy to imagine an adviser being referred by consumers to friends and relatives to sell them a product that the original 'introducing friend' had been convinced was beneficial. Presumably this was not uncommon in some of the mis-selling scandals.

Interviewees talked about how advisers were referred to them. Heather mentioned how she was introduced to an adviser that her friend had met at a social club and Ernie had been referred to an adviser at his golf club. Heather, talking about the importance of her referral from a trust perspective, said:

*"...I mean I think I'm glad I was able to find one by recommendation as I don't think I would have gone down any other route without feeling worried about it"*

Interestingly, in this case, after the interview I reviewed the pension illustrations that had been left with the interviewee, her dilemma was whether she should pay a contribution to this pension as she was concerned about affordability. As part of the Ethics Review (section 4.7) I had stated that I would provide guidance to participants where I was asked about particular issues; in this case it seemed that there were further questions Heather needed to ask regarding this matter, so I made some suggestions as to things she should look into further. This case is discussed further in the case studies at 7.6.

It seems that Heather had based her decision to trust this adviser, firstly on her friend's experience of him and secondly, that she felt comfortable with him. It is difficult to see how this decision was based on any of the elements of trust that Renn and Levine set

out, so the assumption must be that this was an ‘emotional decision’ rather than her exercising critical trust.

Emily, talking about how she would find a suitable adviser if she needed one, had met an adviser that was part of a volunteer scheme through CA when the adviser came into the interviewee’s workplace to offer her services to their clients. This seemed to make Emily more trusting of this person:

*“...because she’s been in and spoken to us and I know her face, then I’d feel that she had my best interests at heart then. I’m not saying that a financial advisor wouldn’t, but you know.”*

There seems to be two aspects to this; firstly, that she met the adviser in a different capacity to normal, - that is, the adviser was offering her services on a voluntary basis – and, secondly, that the act of volunteering was perceived as an act of good.

So, from the various examples highlighted above, it would seem that the common way of establishing trust when trying to find an adviser to work with is by relying on the trust already established within existing networks. These may be friends, family, colleagues, employer or a financial institution with which they already have a relationship.

Obviously, the danger in this approach is that trust is transferred from one member of the network to the next and any objectivity or exercising of scepticism goes out of the window.

#### **7.4 - Trust and the advice process**

As explained in chapter 3 there is a conflict between the FSA (now FCA) perception of good practice by advisers and how consumers sometimes interpret this during meetings with advisers.

Sarah, David and Kazim all had issues with trust regarding financial advisers. They had experienced situations that they perceived as advisers trying to sell them products other

than those necessary to meet their immediate objectives and this had put them off taking advice where possible. Of course this may have been the adviser's objective but it may also have been the adviser's interpretation of how to do the job according to FSA guidance (2011a). This issue of lack of trust in the advisers' motives resulted in them only addressing immediate needs and not having the opportunity to consider other requirements that they may not previously have been aware of. Again this is about the consumer being able to make an informed decision and this lack of trust is acting as a barrier to that.

The advisers interviewed also talked about this issue. When interviewed they were asked :-

*"What about trust – how do you develop this and gain the customers confidence"*

(Topic Guide – Appendix 4.5)

Most of the advisers interviewed seemed never really to have thought about this. When Mike was asked this question he said:

*"...I would say that's an easier one for me to achieve or for an adviser that works in the same manner as me whereby their advertising is minimal and their distribution is to existing clients' repeat business and referrals"*

By this he meant that for new clients, trust was, in part, already established via the referral, so he was not starting from scratch. He went on to tell the tale of how losing trust has the potential to affect a whole stream of linked referrals, saying:

*Well also if I do badly by the one that's been referred to me, that might get passed back to the one that did the referral and there could be any number, to I think about 40 or 50 linked clients in my client base. I would say one example of when I changed company in the past, I made a pretty poor choice of my next home and was there for about six months. A referral that I received from a previous client, I found out that I couldn't transact certain types of business, which wasn't made explicitly aware to me when I joined, and so they were rather displeased...I haven't heard from the previous client either. So it's an example of*

*where just a small error, misfortune, enquiry at the wrong point in time, can possibly affect five, ten, fifteen clients on your book”*

The implication here is that access through a referral stream such as Mike describes provides the consumer with an element of protection particularly compared to trying to access advice from scratch.

Alan was in agreement with this opinion regarding transference of trust via the referral stream that acted as an aspect of consumer protection, saying:

*“...Well as I say the trust’s generally there because you’ve been referred, and that’s all I can really say on that ..... Yes, if you’ve been passed on by a friend or a trusted advisor, or by their accountant or the solicitor that I already know, you know, and it’s a mutual client then yes, it has generally, it’s warmed up; there’s already a trust there”*

Dave talked more generally about trust in the industry being an issue, saying:

*“...not because financial services is a bad industry, there are bad sections and it’s not the individuals that somebody sees in the bank necessarily, it’s the top level that drive the situations and the products”.... “But as we’re on the street, on the sharp end, I don’t think it’s as bad as it used to be. I mean you do come across the odd sharp practice, but generally I think people would see us in a better light than they would if they were going to their bank”*

The general consensus was that to establish and maintain trust there was a need to provide on-going service where required. To return phone calls in good time, deal with matters in an efficient manner and simply to try and be fair. Dave commented about the post RDR world, saying:

*“...I think you’ve just got to try and be fair, especially now, with the fees and the service that you’re providing, and the reasoning behind what you’re doing or*

*recommending to try and show that they're perhaps getting a better deal than what they could be getting"*

As discussed above, a number of interviewees had become sceptical about particular advisers when they felt there was an attempt to try and sell them other products, especially where these were not necessarily directly associated with the particular objective that they were attempting to address. This issue of the consumer doubting the advisers underlying motivation when attempting to discuss other possible needs is interesting because this is something the FSA considers good practice (FSA,2012b), whereas the consumer appears to perceive this as the adviser having a sales agenda. It may of course be that the adviser does indeed have a sales agenda and in some cases this may result in the consumer being persuaded to purchase products they do not want. The various mis-selling scandals are riddled with examples of this. However, this is not to say that advisers addressing other aspects of the risks consumers face is a bad thing, as was highlighted by the protection advice some interviewees were happy to receive when arranging their mortgages.

For this issue to be resolved there is a need for consumers to have a better understanding of the value of financial advice. By re-building the trust in the sector as a whole this may help to give consumers more confidence that there is a real benefit in reviewing their broader planning issues.

## **7.5 – Using the theory to understand interviewee experiences**

I will now consider the advisers' comments in the context of Renn and Levine's work (1991) (cited in Poortinga and Pidgeon, 2003) that identifies five core components of trust;

- Perceived competence – suggesting Technical Expertise - where introduction is by referral, this is being passed from the referrer who has experience of the adviser's capabilities. This is otherwise difficult for the consumer to judge at outset.
- Objectivity – Absence of Bias – this is difficult for the consumer to judge at outset and advisers can be influenced by the culture within the industry. For example, it is clear from the adviser interviews that there is a strong belief in the need for protection. In fact, Sorat highlighted protection as the most important issue. Perhaps some advisers attempt to demonstrate to the consumer their 'absence of bias' by avoiding areas the consumer does not want to talk about rather than the consumer believing they have an alternative agenda.
- Fairness – takes account of all relevant points – again this is hard for the consumer to judge at outset and is dependent on the integrity of the adviser.
- Consistency – predictability of argument – this is something the consumer could make a judgement on at outset. Discussions that lead the consumer to believe the adviser has a 'sales agenda' could damage this. From the adviser interviews it is clear they are careful about this and the priority is to retain the client which may result in them taking a focused approach.
- Faith – perception of good will of source – again this is something that may be easier for the consumer to make a judgement on when the adviser is found via referral as the introducer already has experience of the adviser.

Poortinga and Pidgeon (2003) suggest that the consumer should exercise 'critical trust' which involves a degree of scepticism. It is generally accepted that the consumer should

do some background research before selecting an adviser to work with (MAS, 2012). For example, by following the Money Advice Service guidelines on things to consider before appointing an adviser the consumer should more easily be able to exercise critical trust. However, from the adviser's perspective it is not always seen this way.

Mike referred to this when talking about the quality of non-referral enquiries he received on occasions:

*"...The limited advertising that I do and I have done more in the past, has achieved me a very low success rate as people are touting around for their next financial adviser, or indeed possibly just touting around for ideas before doing it from a DIY approach"*

In fact it may be that the consumer is merely exercising critical trust.

## **7.6 - Case Studies – The Trust Heuristic and Forced Trust.**

### **The Trust Heuristic.**

**Heather**, aged 51, was a single parent now working in the private sector who had been made redundant from a public sector role following the initial MAS seminar she attended. She owns her home with a small mortgage and had taken advice when arranging this.

Heather's other experience of taking advice was when she joined a new employer who did not offer access to a pension scheme but was prepared to make a contribution to a plan for her. She needs to set up a pension to receive this contribution. She believes she needs the services of a regulated adviser to set up a pension for her. Heather perceives this pension contribution as 'free money' and is therefore motivated to find an adviser. She perceives the outcome of advice as a way of achieving her objective. So outcome expectancy is high.

She attempts to identify a suitable adviser via the internet but does not really know what she is looking for so feels uncomfortable with this route. Trust is therefore initially

an issue. She overcomes this by a referral to a local adviser from a friend who has met him socially.

Heather felt the adviser was trustworthy because her friend trusted him and she felt comfortable with him. Clearly trust was established on an 'emotional basis' rather than Heather exercising 'critical trust'. It appears to me, based on the information Heather later showed me, that this adviser had given her the impression that she would need to make a pension contribution to the scheme he was proposing. In fact, stakeholder contracts were available at that time which could have been set up to accept just the employer's contribution. Had Heather been more sceptical about the information she was given and perhaps first used MAS to clarify some points, she may have been less trusting of this adviser.

This case study illustrates an extreme case where the inherent dangers associated with the 'trust heuristic' are relevant. Heather has made a judgement based on the fact that both she and her friend feel comfortable with this adviser. It would appear that she has not drawn on any other criteria to judge this adviser's competence. The outcome is that she is given advice that at the least does not tell the full story and at worst (in my opinion) is biased and unethical. The result of this is that she is unsure whether to arrange a pension to accept her employer contribution and therefore potentially may miss out on this benefit because of the poor quality advice she has been given. Financial Advisers were directed by the regulator (FSA, 2007c) to confirm to clients in writing why the plan they are recommending is at least as suitable as a stakeholder pension. Clearly the illustration provided to Heather showed that the plan was not as suitable as a stakeholder plan because it required Heather to make a contribution which a stakeholder plan would not have required.

Section of Model	Heather
Trigger Events	Heather is made redundant and joins a new employer who offers to contribute to pension for her. External Trigger.
Motivators	Perceives contribution as 'free money' and is motivated to take advice
Intention Influencers	Believes advice can help her arrange a suitable pension to accept the employer contribution. So outcome expectancy is present.
Self-Efficacy	So finding an adviser is initially an issue but overcome via the trust heuristic.
Comments	This case highlights the inherent dangers that personal referral can present.

**Figure 7.3 – Summary of Case Study**

By using the ABM to trace Heather's experience we can highlight the factor that resulted in her accessing advice that was not suitable. Had her knowledge of how to find a suitable adviser been better or she had contacted MAS before meeting an adviser, she may have used another route to advice that should have resulted in a more satisfactory outcome.

This extreme example illustrates how the model can be used to identify the stages at which appropriate interventions may have changed the outcome of Heather's journey.

### **Trust and Forced Trust**

**Peter**, age 36, is a public sector worker about to be made redundant. When he first took advice, he and his wife were planning to get married they decided that they would like to buy a house to live in.

He is aware that he needs a mortgage to assist with the purchase of a house and that advice will help him to arrange this. They find a suitable adviser to provide mortgage via their social network, the adviser being a family friend. The issue of trust was not a barrier because they already knew the adviser on a different basis and felt that she had their interests at heart. Yet on the first encounter with the adviser, where no doubt the issues would have been discussed, protection was not a sufficiently important matter so no life assurance or other protection products were arranged at that stage. It was not until Peter's mother died that the implications of something happening to either Peter

or his wife became clear to them and action was therefore required. At that stage they already had an established 'pathway' that would allow them to fulfil this objective.

**Kazim**, aged 33, was at the time of the interview a civil service employee although he was soon to be made redundant. His experience of financial advice was regarding a mortgage when he bought his first house. The adviser was introduced to him by the estate agent (see pages 150 and 193).

He had not perceived the mortgage advice as advice just as a way of buying the house. When this adviser attempted to sell him a range of associated protection products he felt that the adviser had a sales agenda and he therefore did not engage. This initial 'bad experience' of advice had made him wary of taking advice in the future. He then went on to arrange life assurance via 'the internet'. This case is already described in the main thesis but it provides a clear example of how lack of trust can lead to unwillingness to engage and resulted in Kazim taking a course of action that did not necessarily offer as comprehensive protection as might otherwise have been achieved. Clearly Kazim viewed the advice channel as a means of selling products and saw little value in the needs analysis element of the process.

Section of Model	Peter	Kazim
<b>Trigger</b>	Getting Married	Getting Married
<b>Motivators</b>	Buying house and needs a mortgage	Buying house and needs a mortgage
<b>Intention Influencers</b>	Trust – finds an adviser who is a family friend to arrange mortgage	Trust – introduced to adviser by estate agent to arrange mortgage (Forced Trust)
<b>Trigger</b>	Mother dies which alerts Peter (and his wife) to the implications of premature death.	Broker has alerted him to risks in the event of death.
<b>Intention Influencers</b>	<p><b>Value of outcome</b> – now believes requires life assurance and other protection products</p> <p>Outcome expectancy – believes adviser can arrange these products</p> <p><b>Trust</b> - Contacts original broker and arranges life and critical illness cover to protect the mortgage</p> <p><b>Value of Advice</b> – feels more secure now they are protected</p>	<p><b>Value of Outcome</b> – now believes he needs life assurance</p> <p><b>Trust</b> – does not trust adviser as believes he is trying to sell products</p> <p><b>Value of Advice</b> – perceives adviser as a sales person trying to maximize sales. So does not value advice</p>
<b>Self-Efficacy</b>	Felt unable to do it himself however the existence of a close family friend who is an adviser overcomes this.	Uses internet to arrange life assurance
<b>Comments</b>	In my view the advice Peter has received resulted in more comprehensive cover that is for the term of the loan.	Kazim has arranged cover himself but only on his life and for a term that was much less than the mortgage term. He was just about to renew this plan at the time we met. Had his health deteriorated since arranging the original plan he may not have been able to replace the cover.

**Figure 7.4 – Summary of Case Study**

The case study compares the experiences of two interviewees with similar objectives but different outcomes. By tracing the path they followed using the ABM it becomes clear of the factors that resulted in these different outcomes. Again both interviewees have accessed advice via the ‘trust heuristic’. However, Kazim experience could be classified as ‘forced trust’ and his perception of the advisers motives regarding the advice relating to supporting products was that maximising sales was the focus rather than the adviser having his interests at heart. In Peter’s case, the ‘trust heuristic’ has worked for him although it still took an external trigger to alert him to the potential risks they faced.

## **7.7 - Summary**

Although the literature suggests that trust can be an issue for consumers wanting to engage with financial services, it seems that if the need to take advice is sufficiently strong then consumers will engage. In fact, particularly with respect to mortgages they often see it as a sales channel to achieve this rather than one that has advice at its core. This, along with an industry structured in such a way which results in different advisers being able to offer different ranges of advice, is also confusing.

There is clearly a major difference between how consumers perceive the individuals from the financial services sector that they interact with compared to the view of the sector as a whole. However, there was no real evidence of this affecting consumers' willingness to engage when the need is something they wish to address. Although for the less experienced consumer with lower financial capability, trust may account for their failure to engage with holistic advice. This being perceived as an opportunity for advisers to sell more products, rather than an opportunity to consider other risks.

Referrals and 'their bank' are common ways that consumers access advice and although this often seems beneficial to both consumers and advisers (particularly for referrals) it does have some inherent dangers if consumers fail to exercise a degree of scepticism. Information provided by MAS on how to find an adviser highlights a number of questions consumers should ask before employing an adviser. However, there is little evidence of interviewees doing this. Furthermore, from the adviser perspective this is not always viewed as productive as some of the comments above suggest. Generally speaking, the advisers interviewed appreciated there was an issue regarding trust in the financial services sector but it seems that this did not particularly affect them in a detrimental way. Perhaps they had just accepted this as an on-going problem, naturally adapting their skills to accommodate this. As most relied mainly on referrals for new clients then it seemed not to be an issue. It appeared that advisers were more focused

on retaining the customer's trust and an on-going relationship by ensuring that the service proposition met the clients' requirements. In addition to this, the risk of upsetting the 'referral chain' acted as an element of protection for the consumer, in their view.

Trust it seems is a dilemma for all parties. For some consumers, particularly those that are not as well informed about the different types of advice service, using the trust heuristic via referral to access advice may seem a logical approach to take. However, this is fraught with risks as they are not exercising critical trust in the way that MAS suggest they should. So in part this comes back to financial capability of consumers. Because some consumers do not have the knowledge to know how else to access advice other than by referral they are at the mercy of the trust heuristic. From the advisers' point of view, referral is a common and successful method of meeting new clients and has the advantage of a degree of existing trust being present within the process. So it could be argued that there is a conflict of interests here.

From the standpoint of the industry as a whole, the literature suggests consumer trust is low and this may alienate some consumers from engaging. However, the nature of the individualistically focused neo-liberal regime in which we currently live leaves consumers with little choice other than to engage if they want to make adequate provision for the future.

## Chapter 8

### Cost and Affordability as a barrier to access

*“I think it’s disappointing because it’s costing me money to get advice now”* – Mavis

MAS seminar interviewee (Moss, 2013)

#### **8.1 - Introduction**

In this chapter I will consider the third theme that has emerged from this research and attempt to answer the research question as to whether *“the perceived cost of advice acts as a barrier to consumer access?”* For some consumers affordability of advice and associated products can in itself be a barrier. However, for other consumers it may be the perceived cost of advice or products that may deter them from taking advice. This raises the question of whether the consumer needs to see the value of advice to be willing to pay for it?

There are a number of aspects to this theme of cost and affordability; firstly, whether the consumer has the disposable income to be able to buy the required products to make the necessary provision and secondly whether they can afford [or at least believe they can] and are willing to pay for advice to help take the necessary actions. Probably more important still is the consumer’s perception that they can afford to take the necessary action. If they consider starting a pension or taking advice as unaffordable, or feel that the cost outweighs the immediate benefit then they are unlikely to take any action.

The survey found that 15% of participants cited cost of advice as a factor that prevented them from taking advice on an area of their finances. Interestingly, this appears to be a relatively low number although, as will be seen later, it may be that many were under the impression that advice was actually free or they simply saw it as part of the product sales process (which, of course, in many cases it is). This aspect will be discussed further in the section of this chapter that considers consumers’ understanding of how advisers are paid for their services.

Finally, the chapter will look at the importance to some consumers of being able to see an immediate benefit from advice. There is a contrast between this and the nature of advice, which is often about long term planning or protecting against possible events that may never happen and may therefore never produce any immediate gain. This links with how the consumer values advice which was discussed in the earlier knowledge chapter (6) but also has implications for the consumer's willingness to pay for advice.

## **8.2 - Affordability**

In section 2.5 the issues surrounding affordability of financial planning products and the associated advice was set out. Clearly, many households have made very limited provision for the future - or none at all. There was evidence of this from the interviews.

A number of the interviewees said they were struggling to manage on their current incomes and simply did not have the disposable income to consider making any further plans for their financial futures. These included June, Jim, Emily and Bryan. All were either unsure or certain they would not be able to cope if they were forced to live on state benefits or they or a family member were to die. They had no (or very limited) emergency funds and in Jim's case no pension provision. The others were members of their employers' pension schemes although were not clear as to what benefits these might provide. June, divorced, a public sector worker aged 45 highlights this, saying:

*"... they were saying to me about protecting your income and, you know, covering yourself if you're off work sick and things like that, so it was fifty-fifty in that I was thinking, "Oh yeah, it's good to be insured," but then I was thinking when they were saying it, "Oh well that's another going to be another fifty pound-a-month going out of your account, well I need that fifty pound-a-month to pay my rent, so no thank you." So that was the deciding factor, but their advice I think overall was very good, was very sound."*

Emily, a single mother aged 23, said:

*“...To be honest I get my pay every month. I also get child tax credit and child benefit, so I’m not really in a position to save money or do anything like that. At the moment my attitude is as long as my bills are paid and my school dinners for my child, shopping etc. anything left over at the end of the month is a bonus where I’d go out socially.....Yes. I live to my means. Like I said I’m not really in a position at the moment where I can save anything”*

Although a case could be made for their taking advice, particularly with respect to budgeting and reviewing the suitability and the cost of any existing products, they did not have the resources to pay for this. For these the Money Advice Service seems the obvious choice to help.

As regards whether regulated advice is appropriate, there is a structural issue in that the cost of advice is either funded via an associated product sale or via a fee and, for this group of interviewees, neither option is likely to be suitable. June is fortunate in that she has an established relationship with an adviser who is willing to help her with her financial planning. For the others, generic advice via the Money Advice Service or similar may be more appropriate, although none of this group, other than June, had thought to use this service, even though they had all attended a seminar which referred on several times to the services available.

It would appear that the main reasons both Emily and Jim had not thought of using MAS was because they simply did not see any reason to do so. They had no money available to spend or save and Emily believed she was too young to be long term sick so was not concerned about this risk. It seems they had not appreciated how MAS may have helped them with identifying issues and budget planning, the latter of which may have identified available income which could be used to address the issues identified.

From the perspective of the advisers interviewed, there were concerns that affordability could be an issue in the post RDR environment, whereas they had never really perceived this as a barrier in the past. Mike highlights this saying:

*... "So it's become more frequent that a client will ask 'What's this going to cost me? With regard to assessment for pension or whatever it may be. And so I have told them what our fee scale is. But yes, historically it was, it's going to cost you £35 this protection contract and that will get remunerated by the insurance company. There has been no cost barrier there because it's been a free initial meeting and if they are taking my advice, I will get remunerated separately"*

Sorat agreed with this, expressing concerns about how this may increase exclusion:

*"...I think the RDR element will hit the lower end of the market, what people don't have and what money available to pay for advice, whereas high net-worth clients are probably already used to working in an environment where they pay a fee structure..... the people that need it most will lose out in terms of the advice that they need, so there will probably be a class of people that will probably be void of financial advice"*

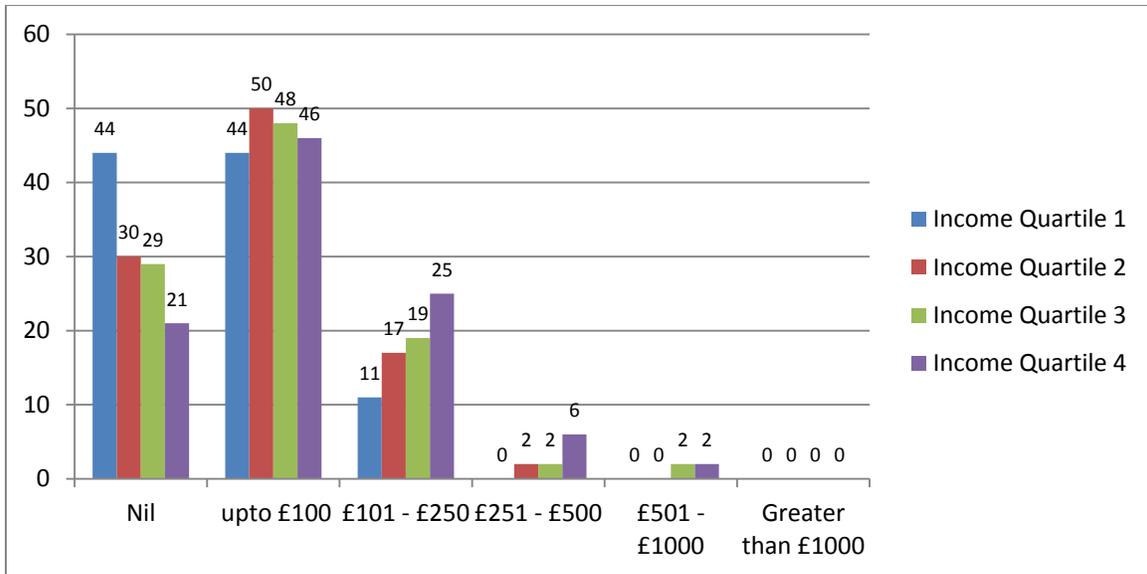
The view from the press and the FSA (2009c) regarding the effects of RDR appears to be that advisers will move 'up-market' (Guardian, 2012). This will leave a group of consumers with less chance of accessing regulated advice. However, it is questionable whether this is the right starting point for these consumers anyway. It may be that MAS is more appropriate. Unfortunately, there seems to be a general ignorance amongst both consumers and advisers about the services MAS offer. However, this may change as time goes on and in the light of MAS's recent change of focus towards outcomes.

It seems from the adviser interviews that many have dealt with clients falling within low-middle income groups and will try to continue servicing these clients where possible in the future. Obviously, these advisers have only ever come in to contact with consumers who have already accessed or are in the process of trying to access, advice.

However, they will have practical experience of consumers with limited budgets and, in many cases, already will have had to address issues of affordability with these clients, so it would seem reasonable to assume that their views on the effect of RDR on access from an affordability perspective are valid.

### **8.3 - Willingness to pay for products and/or advice**

The survey considered willingness to pay for advice. In particular, part (h) of question 2 asked the participants whether their reason for not taking advice was because it was too expensive. Figure 5.7 in chapter 5 shows the responses to this question. Only just over 15% of participants suggested their reason for not taking advice was because of cost. It is interesting to contrast this answer with the responses to question 6 (Figure 8.1) where over 28% of the sample indicated that they would not be prepared to pay anything at all for a Full Financial Review. In fact, more than 95% of participants would not be willing to pay more than £250 for this service, where the market rate for this service, could be between £500 and £1000. This issue of more than a quarter of the sample not being prepared to pay for advice may be accounted for by some consumers perceiving it as free (Sandler, 2002).



**Figure 8.1 - MAS Seminar Survey - Showing distribution of participant responses to how much they would be prepared to pay for a full financial review, by income quartile (n=201).**

This corroborates the research by YouGov on behalf of KPMG that states;

*A new survey by KPMG of over 3,000 consumers has found that less than a third would be prepared to pay for one hour's professional financial advice, and that of those who would pay over half would only be prepared to pay £50 or less while only one per cent would be willing to pay over £200. <http://rd.kpmg.co.uk/23161.htm> downloaded 11/10/10.*

The consumer interviews highlighted a number of examples of interviewees not really appreciating that there was a cost associated with advice. When the proposed changes [now implemented] resulting from RDR were explained to them, many were surprised and there was a mixture of views as to whether they were a good or bad thing. A number of the interviewees seemed to have an aversion to over insuring and this is partly accounted for by an unwillingness to pay the premiums. For the adviser this can also be a dilemma. It is their obligation to recommend to the client a plan that covers all eventualities, where possible, but, from a business perspective, how do they do this without putting the client off the strategy? From the consumer's point of view it may

also be to do with perceived risk; if they think the risk is small and the cost large then this is likely to be a barrier. This is also an aspect of cost-benefit.

Elaina seemed to feel that as there was only a finite amount of money, insuring potential liabilities would affect her lifestyle:

*"...but I don't want to spend all my money on insurances on covers and suffer and not afford myself the salmon or what I like, you know, or going to the gym"*

In a similar vein, Frank said:

*"...and the more insurances you have then the more you have to pay out"*

In many respects this is an aspect of the cost-benefit dimension that will be discussed later and has its roots in the Knowledge of Need sub-theme. If consumers cannot fully understand the potential risk they face then they cannot make an informed decision which is one of the skills of a financially capable citizen. Even if they do fully appreciate the risk to which they are exposed, it will depend on their attitude to risk as to whether they take action and cost will influence this decision.

Peter, whose action to take protection advice sometime after he had arranged his mortgage had been triggered by a life-course event (the death of his mother), talked about why he took no protection or insurance at the outset:

*"...Well that was the main thing, the cost of... keeping the cost down at the time when I first got the house"...*

Later he went on to talk about the value for money of the advice he had received:

*"...It has been for me, yes, definitely, because of what's happening here [referring to the security he felt after arranging protection products]. So yes I think it is"*

From the advisers' perspective there was concern about the need to charge fees in the future and whether this was going to affect business levels. Mike differentiated

between referrals and consumers that responded to advertising, he felt the latter group were just shopping around:

*"...I would say again at the referral time, cost has rarely been a barrier, however for advertised clients, ones who have replied to the limited advertising that I do, then they are pretty focused on finding the cheapest practitioner"*

Phil expressed his concerns about fees and talked about one of the strategies they were using as a business to try and overcome this barrier:

*"...And I think when you mention fees and stuff like that, people run a mile. Would you walk in to your local solicitors without fear that somebody's going to charge?"*

He went on to explain:

*"...We've just moved to a high street, whereas we have the last 5 to 6 years been tucked down some back alley not really welcoming people in to the office, but we've gone the complete opposite now and trying to suggest come in and have a chat"*

This idea of a service where consumers can drop-in to ask a question or get a feel for what advice involves is an interesting one and, in this case, is linked with a building society agency so consumers will naturally come through the door.

Sorat talked about his fee structure in the new environment, saying:

*"...Again, they are looking at possibly £100-£200 for an initial fact find meeting, but I'm not going to be charging that, I'm just going to do it free of charge"*

It is clear that advisers are aware of consumer attitudes to paying a fee rather than the cost being embedded in the product and are concerned about this. Some had mentioned that they were currently undecided as to whether they would make a charge for advice in cases where they had made a recommendation but the client had not followed that advice. There seemed to be concerns that this would act as a barrier to

clients engaging with them. This is one of the questions the FSA (2013b) answered in its recent bulletin, suggesting that this would be the adviser's decision, yet this therefore does not separate advice from sales. This in part promotes the continuing norm that prevails, which is that people seek advice as part of arranging a product rather than advice being the driver of a needs and objectives agenda.

It seems that consumers are often unable or unwilling to pay fees for financial advice and that advisers are aware of this issue. Sandler (2002) talked about a wholesale and a retail price for financial products where the differential reflected the adviser fee for providing advice and arranging the product. Price caps were recommended to prevent overcharging and the charge would be agreed up-front with the consumer. He seemed to favour a simple hourly rate as the ideal solution but considered this impractical in an environment where the consumer was generally unaware that there was a cost associated with the advice they were receiving and often may simply have assumed the advice to be part of the sales/purchasing process. These proposals included the provision of a simplified product range similar to or as an extension of the 'stakeholder product suite' that was available at that time. Much of what has recently been implemented was driven by Sandler's work (2002) although there seem to have been some changes and omissions along the way.

Perhaps we are currently only part way through this transition to a revised model of financial product distribution and associated advice. Further development of the Money Advice Service, improved consumer financial education and a simplified product suite would allow consumers to better understand the routes by which they can access particular products and how these different channels can offer different service levels that reflect different costs.

## **8.4 - Knowledge of how advisers are remunerated**

As described in chapters 2 and 3, the way consumers pay for some areas of advice has changed from January 2013. During the interviews, this change was explained to the interviewees who were asked their views on it. Prior to this discussion, there seemed to be a general perception amongst some interviewees that the cost of the advice was incorporated into the product while others had simply never thought about it. This is despite the fact that for many years the commission disclosure regime has required advisers to explain to the client the cost of advice and for IFAs to offer the client a fee or commission remuneration route.

Heather said:

*“... nobody likes to pay for any financial advice that they don't have to, but.. I think I would think twice, unless I had lots of money, about paying up front for advice.... I don't think I was too aware of where his commission was because it wouldn't affect me... I think if I was paying him directly, I think I would look more seriously at the costs and how they were being paid.”*

Here, Heather has highlighted a key objective of the RDR, which is that consumers may become more discerning when taking advice in the future.

When asked how her mortgage adviser had been paid, Kathy said:

*“...I don't know to be honest is the answer because I mean it could be that whoever had done it, and independent one would have had some sort of payback from Nationwide, I don't know. They've got to get paid somehow haven't they?”*

It seems clear from this that consumers often are not aware how advisers are paid for advice and as it appears to have no direct impact upon them, (which, of course, in reality it does) then they are not concerned about it. However they are often aware that advisers receive commission for the sale of products which seems to be acceptable where the consumer wants to buy the particular product but sometimes unacceptable

when they perceive the adviser trying to earn more commission by attempting to discuss other areas of their finances. This is where advisers can experience resistance to a more holistic advice approach.

When the implications of the Retail Distribution Review, that came in to force in January 2013, were explained to the interviewees, the following comments were made.

Mavis said:

*“... I think it’s disappointing because it’s costing me money to get advice now, whereas before it wasn’t quite so much. But that depends on whether the insurance companies or whatever don’t charge me so much for my investment. They say a percentage don’t they? Are they going to up their admin charge or lessen that?”*

The effect of RDR on the charges applied to products should be to reduce them to what is referred to in the industry as the ‘clean price’. That is, one where there is no allowance made for the commission. Contracts on this basis have been available for a number of years and typically would have been used by fee charging advisers. So although Mavis clearly thought that the new regime would incur costs, it is merely the transparency of RDR that exposes these costs. With advisers no longer incentivised by commission, this may encourage greater ‘shopping around’ by advisers on behalf of the consumer and therefore drive product costs down further. From her perspective, though, this is seen as a charge where previously there appeared not to be one, so it may act as a barrier in some cases.

June commented:

*“...it would hinder me in approaching a financial adviser. It would be a major hurdle to try and overcome. As I’ve said I would willingly pay the money if I had the money at the time, but if I had the money at the time why would I need the financial adviser”*

Eric was more positive about the changes saying:

*"...I think if it's good honest advice then you don't mind paying for it but if some of the cost is absorbed via the product then that's a bonus really"*

Most were surprised to hear about these changes and there was a range of comments about the need to pay a fee.

Mavis said:

*"...I mean when you're talking in thousands, no way. I wouldn't give anybody a thousand to give me advice, no way. Not at all"*

Tom who was a bit more positive said:

*"...I would like to think that maybe you would get a more honest opinion by a person .....To be honest I wouldn't mind paying for that. I think it would make me feel a bit better, more secure"*

Peter was asked about paying for advice when there was no product involved, he said:

*"...I think I would still take advice. It is beneficial to take advice; if you don't know, don't understand how it all works, so then you've got to have advice on it, definitely"*

From the consumer interviews it was clear that consumer knowledge of how advice was paid for was sketchy to say the least. From the advisers' point of view, although they have had a clear obligation for many years to disclose the cost of advice as part of the product sales process, they still accept that the consumer believes advice to be free in many cases.

Mike felt that there was perhaps more appreciation of how advice was paid for now than in the past, saying:

*"...it's become more frequent that a client will ask what's this going to cost me with regard for assessment for pension or whatever it may be"*

Dave did think that the cost of advice was a barrier for consumers.

There seems to be a factor that differentiates between attitudes of different interviewees. Perhaps it is a financial education issue regarding the cost of advice that needs to be addressed. Some are clearly unhappy with the idea that in the future they will have to pay for a service that they had previously understood to be free and merely part of the sales process. Others, though, had understood that they had received advice regarding particular aspects of their finances, which had highlighted to them risks they perhaps had not previously appreciated and they therefore appreciated the value that advice can add to personal financial planning. This is perhaps a key factor in access to advice and will be discussed again in the section below.

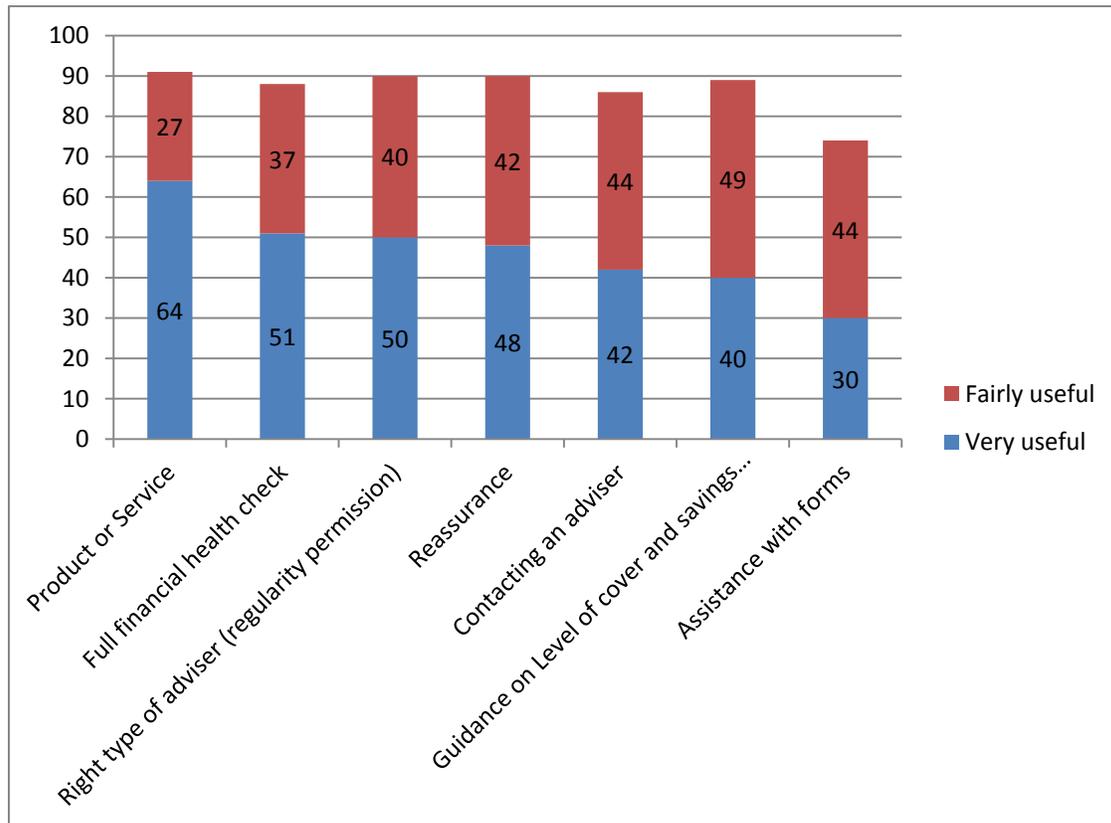
### **8.5 - Cost Benefit and Value of Advice**

Mark Hoban (Promoting a Responsible Approach to Personal Finance: the Government's Vision, 2010) said of advice:

*“...The best kind of advice is not that which solves all your problems for you but that which shows you how to deal with the challenges you face and gives you the tools to confront them on your own in the future”.*

He went on to talk about ‘nudging’ consumers towards taking a responsible attitude towards their finances and seemed to suggest that the ‘health-check’ (later introduced by MAS) was the vehicle to provide this. In chapter 2, the range of different advice services was described and this explained the scope of regulated financial advice and the various ways in which it can be delivered. It is clear that for the consumer to be aware of the financial challenges they face (as Hoban describes it), they need to consider all aspects of their financial planning and, if taking advice, then this will involve a holistic approach. However, as consumers may sometimes perceive this as some other sales agenda (which of course it may be) rather than an attempt to expose all areas of risk then there is a clear barrier to consumers achieving Mark Hoban’s objective via regulated advice. This really is the crux of the matter: - if the consumer does not appreciate the extent and benefit that advice can deliver then they will not value it as a service that can help them to move towards the ‘Government’s vision’ (Hoban, 2010).

Question 4 of the research survey asked the participants to rate how important different aspects of the advice process would be to them if they were to take advice in the future.



**Figure 8.2 – Survey responses to Question 4.**

**Q4.** Imagine you were considering taking advice on a mortgage, pension or other financial product from a Regulated Financial Adviser. How useful might the following types of advice/information from/about a Regulated Financial Adviser be to you at some stage in the future. Please tick one box for each statement.

It seems that more than 75% of the survey participants would value the aspects of the advice process that were highlighted yet from the interviews it appears that their experiences of the advice process have not always reflected this. Clearly they see these services as helpful but may not always be willing to pay for them.

There seemed to be some variation in the interviewees' comments regarding the cost-benefit of the advice depending on the area of planning that was being discussed. In some areas, such as savings and mortgages, interviewees felt able to make the decisions themselves without advice, whereas in other areas, for example investments, some felt there was a requirement for assistance and would not have been able to move forward on their own. It is in the former case where interviewees seemed to feel it was important to see immediate justification for the cost of advice. Perhaps this is the 'rational actor' in play.

This point is illustrated by Bryan who was talking about mortgages and said:

*"...and then they say, ok well the fee is £400. Well I'm at the stage now where I say well yeah but if I break that down and say we'd gone for a fixed rate 2 year. Let's say that's the fee so I divide that by 24 and add payment. Well that's £3 saving a month I say, so what's the point?"*

The point he makes is valid if cost is the only driver of advice, but, if the security of knowing that the mortgage payment will not change for two years is more important, then perhaps it is less so. Furthermore, if it were the advice process that identified the need to ensure payments do not rise in the next two years, then value has been added.

George, talking about the introduction of RDR in the investment context, thought that:

*"...If there's an up-front fee I think it's going to put a lot of people off. If the returns are there then it's obviously worth paying so again, it's a bit of a balancing act from that point of view."*

His point being, that if the improved investment returns achieved via the advice process exceeded the cost of advice, then it was worthwhile. Interestingly, for many years both shares and unit trusts have had a buying and a selling price (bid/offer spread), yet this seems to have been accepted as the norm even though it incorporates the 'broker' commission. In his review, Sandler (2002) had talked about wholesale and retail prices,

which seems to be a similar idea to both the bid/offer concept and the consumer paying a percentage based fee to invest capital. Yet somehow there seem to be different attitudes towards these similar concepts.

Talking about advice on savings rates, Ernie said:

*"...If they were going to say 12% I might consider it! If I can just go on my own back and just put it into a Building Society somewhere and get 3, and they could only offer me 5 say, then I wouldn't be interested"*

Again, this is about cost being the only driver of advice and Ernie not appreciating what other value may be added via the process.

From the perspective of the advisers, there was little comment relating to cost benefit other than the odd comment about consumers not really understanding what advice could offer and, if they did not know what it involved, then perhaps it was about them not appreciating the value of advice. Mike highlighted this when discussing other product channels:

*"...The advent of the internet and search engines and discounted brokers, knowing that my £35 protection contract costs £29 when bought through one of those channels, certainly makes people look at the price rather than the value of the site. And if they go to Confused.com or wherever else, then if they want a second product or chat, then they can't just carry on from where their relationship left off because there is no relationship"*

This implies that the service Mike offers includes that 'chat' when they want another product, cannot remember the ISA rules, want to know where to put their cash savings or are worried by something they have read in one of the Sunday papers. It is certainly my view and seemed to be that of a number of the advisers I interviewed that what the adviser offers is a service proposition and sometimes when the press and MAS are promoting the value of shopping around they neglect to consider the amount of work

advisers often do for which there is no direct payment. The other side of this is that advisers have often been very well paid for relatively straightforward cases.

In a presentation (27/02/2013) to Personal Finance Society members regarding the financial planning process, Carole Nicholls, a past PFS chairperson, IFA and trainer, talked about the need for advisers to spend time explaining to the client the financial planning process so that they had realistic expectations of the outcomes and costs of this process. Perhaps sometimes advisers are guilty of under-selling their services which leads the consumer to under-value them.

### **8.6 - Implications of MAS and RDR**

There are obviously issues regarding 'affordability and cost' related to the changes that have been introduced following RDR. Consumers have often been unclear as to how advisers have been remunerated, and though, on the face of it, this more transparent regime resolves many of these problems, it does not address the issue that many consumers may be unwilling or unable to pay for advice. This may be particularly so if they perceive this as something that will come directly out of their pocket rather than via a deduction from the product.

Part of the remit of MAS and RDR is to try and improve consumer access to financial services including regulated advice where required. It seems, then, that MAS needs to act as an information and signposting service for consumers so they may better appreciate when it is appropriate to take regulated advice, how it may assist them and the value that it can add. If this information is communicated by what is effectively a state run organisation with consumers' interests at heart, then the likelihood of the consumer mis-interpreting the objective of regulated advice services is less likely.

Perhaps the focus of MAS needs to be on enlightening consumers to the risks they face and helping them to develop basic money management skills such as budgeting. Once

the consumer is aware of the government’s expectation (Hoban, 2010) then MAS can signpost the consumer to the appropriate channel to address their borrowing, protection, savings and retirement planning needs, which is likely to result in regulated advice.

Of course the industry also has a role to play in this by working towards a culture that can be trusted rather than one that is littered with mis-selling scandals. Hopefully the higher professional standards that have been introduced as part of RDR will help to drive this forward.

### **8.7 – Fees v Commission**

<b>Fees versus Commission as the payment option for regulated financial advice</b>	
<b><u>Fees</u></b>	<b><u>Commission</u></b>
<b>Advantages</b>	<b>Advantages</b>
Transparent advice cost Lower product charges reflect only cost of management and should result in higher returns Separates cost of advice from product thereby helps to encourage independence.	Consumer pays for product which includes cost of advice No product no advice cost Regular premium commission indemnified – helps adviser cash –flow and whole of investor’s money invested at outset.
<b>Disadvantages</b>	<b>Disadvantages</b>
Up-front cost separate from product Consumers unable or unwilling to payment upfront. Decreases range of those that can engage with advice as only those that can afford it can engage. No clarity of fee structure so people do not know what is fair to pay.	Product charges reflect cost of management and commission and are likely to be higher Difficult for consumer to separate cost of product and advice even with disclosure Potential for product bias driven by commission

**Table 8.1 – Comparison of Fees versus Commission**

The table above highlights the advantages and disadvantages of both fee and commission routes as methods of remunerating financial advisers.

## **8.8 - Case Studies – Cost and Affordability.**

**Bryan**, aged 48, is married and works in the private sector. He feels confident in making financial decisions. The questionnaire he completed indicated that he had only taken advice on mortgages. At the time of the interview he was struggling [although managing] to make ends meet as his wife was currently unable to work. She has accrued large credit card debts that he had initially been unaware of and was now trying to resolve. He was aware that they were vulnerable in the event of him not being able to work. However, he considered it was simply not affordable to think about any advice or associated protection. So cost was the key barrier. He had already cancelled all insurances other than those that were mandatory.

<b>Section of Model</b>	<b>Bryan</b>
Trigger Events	Bryan was aware that if he was off work through sickness/disability he would be paid for 21 days.
Motivators	He was aware this was a potential threat
Intention Influencers	Perceived affordability acts as a barrier
Self-Efficacy	N/A
Comments	Perceived affordability was clearly the barrier here. It could be argued that some of the money he was using to reduce their debts could be used to fund protection. However, it seemed that if these risks were to come to fruition then there was an acceptance that they would lose the house and fall back upon the state.

**Figure 8.3 – Summary of Case Study**

**Emily**, age 23, was a single parent working in the public sector. She was a home-owner with a mortgage although she did not live in this property she rented it out. She rented her own home. Her experiences of financial advice were limited to arranging the original mortgage on the property she owned with her ex-partner that was now let out. Emily’s current position was such that she managed to cope on her current income but there was nothing to spare or put away for emergencies.

Her priorities were to be able to afford her ‘bills’ and school dinners for her daughter. She had never considered how she would cope if she were unable to work because of

long term sickness/disability. So there was no internal trigger and she had not been prompted to consider this by any external trigger. Furthermore, she was just managing on her current income.

Section of Model	Emily
Trigger Events	No internal or external trigger
Motivators	When prompted at interview to consider this during the interview, she believed the risk was low as she was only 23. So even when prompted she did not consider this a threat so was not motivated to act.
Intention Influencers	N/A
Self-Efficacy	N/A
Comments	Initially I saw this case as one where the barrier was affordability. However it is clear from the above that financial capability was also a barrier.

**Figure 8.4 – Summary of Case Study**

This example illustrates how the ABM can help breakdown down the consumer’s journey and identify the barriers that are acting in particular scenarios.

## **8.9 - Summary**

The different aspects to this theme influence the likelihood of consumers accessing advice in a number of ways.

The consumer’s ability to pay is a key factor because if they simply do not have the available disposable income to pay for advice and any associated product then they will not engage. In the past (and this is still the case for products under the ICOB regime – see section 2.32) advice has been funded via the product commissions. Whilst this has clearly had certain disadvantages for consumers, it did mean they engaged with financial services and it removed the up-front cost of advice as a potential barrier. In the RDR world it is still possible to build the cost of advice in to the product (see section 2.33), although for regular premium contracts advisers will no longer be paid at outset.

For those that feel unable to afford advice or the products required to conform to the ‘government’s vision’ (Hoban, 2010) advice can still help. Advice on budgeting and review of existing finances could result in an increase in disposable income which would

then allow some action to be taken. Research by AXA (2009) (cited by MAS,2011) suggests an hour a month spent dealing with your finances can save an average of £1,500 per annum.

Willingness to pay for advice, knowledge of how advice is paid for and cost-benefit, all act as barriers to consumers accessing advice. It seems there is definite resistance from consumers to pay (particularly directly) for advice that they do not see will bring any immediate financial benefit. In many respects this stems from the earlier regimes where advice has traditionally been funded from the product sale. Advisers appreciate this and there appears to be a general concern as to how this will develop in the new environment.

Generally there is a lack of knowledge of how advice is paid for and more importantly the value of what it can deliver. Advisers and the industry must in part take the blame for this. Advisers have often undersold the services they offer, acting as a product sales channel rather than a facility that offers advice. The industry is also responsible for much of this, having developed products with complex charging structures that disguise the costs and also running sales forces where income was related directly to sales volumes and taking little account of the suitability of the related advice. This industry culture has steered advisers towards this approach. However, individual ethics should have had more influence than it perhaps might appear to have done.

## Chapter 9

### Lowering the barriers to accessing financial advice

#### 9.1 - Introduction

This thesis has set out the reasons why it has become increasingly important for the consumer to be able to access regulated financial advice (FSA,2006a; FSA,2007a; CII,2009;CII,2011b). It has traced the history of how changing government policy has resulted in a greater responsibility falling upon the citizen to take control of their finances and make plans for both known and unknown future events (Rowlingson,2000). This rolling back of the welfare state has been accompanied by growth in the financial services sector which has attempted to provide a range of products to replace some of the gaps left by the reduced state provision. Unfortunately this relatively uncontrolled growth has been littered with a range of financial services mis-selling scandals that ultimately have resulted in loss of public trust in the sector as a whole and in particular, the area of interest to this research, the regulated advice sector (Wells and Gostelow, 2009). Although this same loss of trust is not necessarily reflected in the relationships consumers have with the organisations and individuals from the sector with whom they deal.

Attempts are currently in progress to try and re-establish this trust. With the introduction of the Money Advice Service and the new regulatory regime for advisers following RDR, it is hoped that more consumers will again feel able to engage with financial services. However, as adviser numbers appear to have continued to diminish and those remaining have shifted their focus towards higher net worth individuals, concerns have been expressed that an 'advice gap' is developing (Hurman, 2012; Worvell,2013).

This research on access to financial advice has drawn on the views of a range of consumers with varying experiences of using the advice sector and attempted to better

understand the process through which they travel when accessing advice. This has helped develop the understanding of the drivers of advice and the associated barriers. It has also shown how the structure of the regulatory system that governs the advice sector influences the scope of advice that consumers receive. By also drawing on the views of financial advisers a different perspective of the issues surrounding access to advice has been presented. Furthermore, it has developed the Advice Belief Model, which can be used to help identify where barriers exist in the consumer's journey.

This research is important because it contributes to the current knowledge on this subject and can help to show where interventions may help to ease the consumer's journey towards a process that can assist them in making more informed financial decisions. For policy makers, the financial services industry and academia alike, the importance of this research is equally relevant because it should help each of these stakeholders identify problems that consumers face and perhaps then consider how the environment and structure could be amended to aid consumers' knowledge and decision making processes.

From my research, three key areas emerged from the empirical work, which have differing influences on the consumer's ability to access advice.

- Knowledge – much has been written earlier in this document and in the more general literature (FSA, 2006a; MAS, 2013b) regarding levels of consumer financial capability and how this impacts upon their ability to interact with the financial services sector. For this research, knowledge was sub-divided in to three sections. Firstly, the consumer's knowledge of particular needs and objectives was considered and how this impacted on their use of advice services. Secondly, their knowledge of the services advisers offered was discussed with a focus upon how consumers both perceive and value these services. Finally, the issue of how consumers had found a suitable adviser was considered.
- Trust or the lack of it has been highlighted in a wide range of literature as the

root cause for consumers' failure to engage with financial services (Aegon, 2007a; Aegon, 2007b; Ennew, 2009; Wells and Gostlow, 2009). This research has shown that although trust is an issue, the greater concern may be how dependent many consumers are on emotional trust rather than being able to exercise a degree of scepticism (critical trust) when engaging with a sector that combines advice with sales and has traditionally been dependent on the latter to fund the cost of the former.

- Cost and affordability is the third key area that can influence consumers' decisions (Resolution Foundation, 2013). This section considers how consumers' ability to pay for advice and associated products affects their willingness to engage. Furthermore, this section has highlighted how consumers think advice is paid for, which illuminated issues that are related to industry structure and the perceived value of advice.

These themes have developed as part of this research that has been carried out to answer both the research aim and associated questions.

**Research Aims** - What are the barriers to consumers accessing regulated financial advice?

- How can these barriers be reduced?

## **9.2 - The Research Conclusions**

This section will now draw together the results from the preceding chapters to answer the research questions that were posed earlier. Following this will be a more general discussion of the barriers to accessing advice, considered from a number of perspectives. First the research questions are set out below, followed directly by the answers to these questions.

### **1. How does the level of consumers' knowledge affect the likelihood of them accessing regulated financial advice?**

- How and why does lack of consumers' knowledge of their needs and

objectives act as a barrier to advice?

- How does consumers' knowledge of adviser services affect the likelihood they will take advice?
- How does the consumer access advice?

## **2. How does trust influence the likelihood of consumers taking advice?**

- How from a trust perspective do consumers decide whether or not to engage a particular adviser?
- What part does trust play in consumers' decisions to take advice?
- What trust related factors either drive or act as a barrier to this decision?
- Can the theories of trust help to explain the actions of consumers?
- What is the level of trust in financial advisers? How does the level of trust in product providers highlighted in the literature act as a barrier and how is this related to the levels of trust consumers have in advisers, particularly where consumers have experience of using these advisers?
- Does the influence of trust upon consumers' decisions to take advice vary across product areas?

## **3. Does the perceived cost of advice act as a barrier to consumer access?**

- How does the cost of taking action on the basis of advice act as a barrier?

## **4. How does industry structure act as a barrier to consumers accessing advice?**

- How do adviser attitudes to how they deliver advice influence consumers' understanding of the services available?

## **5. What are the implications for the welfare of consumers not accessing advice and how can policy help to improve access?**

**1. How does the level of consumers' knowledge affect the likelihood of them accessing regulated financial advice?** – Consumers appear to use advice in a number of different ways. Some see it primarily as the channel to arrange a particular product whereas others understand that although often combined with the sales channel it is separate

from it and has value in its own right. From the interviews there are clear cut examples of both perceptions of the advice process. However, there are also examples of where both perceptions are present.

In the cases where interviewees have perceived the process as a way of arranging a particular product it has often been mortgage related (which often appears to be perceived as a sales channel rather than an advice channel – although 66% of the survey participants stated they had taken mortgage advice). That is, the interviewee has had a particular objective in mind, typically purchase of a new home or re-mortgage at the end of a particular rate deal. In a number of cases this mortgage related advice had led on to protection advice that has resulted in interviewees arranging associated life assurance plans to protect themselves and their families. For some of the interviewees this has led on to further advice. Notably, Ronnie, Kathy and David all had taken advice regarding mortgages but this had later resulted in them taking advice on other areas of their finances as the relationship with the adviser developed. So in these cases it appears that the subsequent advice was triggered by either the adviser raising the subject or the interviewee appreciating from their previous experience with the adviser that there were other areas the adviser could assist them with.

In the cases where 'advice' rather than the product was the driver of the interviewees taking advice, it was the more financially capable of the sample that tended to take this approach. For some of this group it seemed that experience of earlier advice had led them to a better understanding of how advice could assist them whereas for others there just seemed to be a 'base knowledge' that to better understand particular areas of financial planning they needed to employ a professional to advise them. From the interviews it was not clear why this was the case but it seems reasonable to assume that it stemmed from education, work experience or the social networks they inhabit.

**How and why does consumers' knowledge of their needs and objectives act as a barrier to advice?** – It is clear from this research that those interviewees that were not aware of some of the risks they potentially faced could see no reason to take financial advice. From the survey 26% of the sample suggested their reason for not taking advice was that 'no action was required', this of course may mean that they were not aware of a particular risk. The consumer being aware that they have a particular need is a prerequisite to advice unless otherwise prompted. Some interviewees simply were not aware of the potential risks they may face. This acts as a major barrier to advice.

From the perspective of protection, many interviewees had simply never considered how they or their families would cope in the event of long term illness or the premature death of the breadwinner. Others dismissed the risk as minor or believed that they would cope. Although they may have coped it is unrealistic to believe they would have maintained the same living standard. This is a financial capability issue and could be resolved by undergoing a 'financial health-check' which would alert them to the risks they face and offer possible solutions. At least then they could make an informed decision as to whether they wanted to take action. However, it does not currently seem to be the accepted norm to do this. Clearly current policy is trying to encourage this approach via the tool available through MAS along with the FSA/FCA's belief that addressing all relevant issues is good practice for advisers.

For other areas of interviewees' financial planning this was not necessarily as clear. For example, most of the interviewees had joined their employer's pension scheme and therefore felt they had made provision for retirement (the survey results showed 'pensions advice' as the least common type of advice). For some, particular the public sector employees with long service (or expecting to complete full service), in many respects this was all they needed to do. However, most were not really sure whether this would produce sufficient to meet their retirement needs. For other interviewees (and perhaps consumers more generally) who do not enjoy these valuable benefits, the

problem is somewhat greater as again they were unaware of the likely benefits. So for some of these their expectations are not likely to be fulfilled. Again, a financial health-check could highlight these issues before it was too late to remedy them.

Another aspect of how the consumer can be alerted to knowledge of a particular need is by various life course events that highlight issues that they have previously not considered (16 of the 19 interviewees that had taken advice had at some stage been prompted by a life-course event). Again MAS have attempted to use this approach by targeting consumers at particular life stages, for example by making young parents aware of the additional financial issues they may need to consider. Events within consumers' family and social networks can also have this impact and we saw earlier (section 7.6) how this triggered Peter to take action.

**How does consumers' knowledge of adviser services affect the likelihood they will take advice?** – From the survey results, 15% of the overall sample and 19% of the middle income quartiles suggested that the reason they had not taken advice was because they did not really know what advisers do. The interviewees' knowledge of the services that financial advisers offer was patchy. They were aware that there were mortgage brokers, 'life assurance salesmen', pension advisers along with financial advisers available via banks and brokerages. Furthermore, many understood the difference between independent and tied advisers regarding the product providers they could access. However, they did not always see these different types of adviser as one in the same thing, which (subject to regulatory permissions) they may be.

Some interviewees appreciated that advisers could and do offer advice regarding the potential risks that consumers face rather than just product advice. Along with this, they understood that advisers are able to review existing arrangements and comment on the suitability of these arrangements to meet particular objectives. However, some consumers were not aware of these aspects of the adviser's service proposition and this

is a key barrier to consumers taking advice. If they are not aware of the scope of the advice available then, it is unlikely that they will pro-actively seek advice. Again, this is something that both the industry and MAS could help to address by providing consumers with clear guidance as to how the services advisers offer could help them. The research survey illustrated that a high proportion of the sample considered the features of advice listed in question 4 as useful or very useful yet there was little evidence from their experiences of advice of that they had enjoyed all of these benefits when they had taken advice. In fact, there was evidence of some interviewees not being prepared to discuss other areas when advisers had highlighted them, this being because they were suspicious of advisers' motives.

**How does the consumer access advice?** – Evidence from the interviews illustrated that when they had wanted advice or perhaps more accurately, when they had wanted to arrange a product they had managed to access advice. However, 24% of the survey sample cited concern about 'finding an adviser' as a reason for not taking advice. Of those that cited this reason, more had taken mortgage advice than had not, which in itself suggests mortgage advice does not always lead to advice on other areas.

The interviewees either accessed advice via referral, 'their bank' or by some other financial institution with a high street presence. Referral was the most common method and can be divided between personal referral and business referral. In both cases this involves the 'trust barrier' being lowered. However, there are some inherent dangers in this method of accessing advice as particularly in the personal referral case the referrer may not be qualified to judge the competency of the adviser they refer (Heather's case study at 7.6 illustrates this). In the 'business referral' situation there may be other agendas that do not necessarily have consumers' interests as the priority. However, from the standpoint of the advisers interviewed, they were aware that upsetting the newly referred customer may have an effect on their wider business. These advisers believed that this system of referral afforded the consumer a degree of protection as for

many advisers referral is the key method of finding new clients and upsetting the referral chain risks future referrals.

MAS offer guidance for consumers on things to consider when engaging an adviser. Perhaps greater promotion of this would help consumers to make more informed decisions when engaging advisers. Although the theories from behavioural economics and economic psychology are currently popular as a way of changing consumer behaviour regarding how they manage their money, there seems to be little use of the theories in prompting consumers to take advice.

There is already evidence that there are certain points at which consumers are more likely to take advice (see section 3.3). That is, consumers may be prompted by a life-course event to take advice. The most common example of this is house purchase where a mortgage is required. Other life course events such as death of a family member, birth of a new child, divorce and change of employer all seemed to act as prompts to take advice. There was little evidence of interviewees seeking advice unless a clear external driver such as one of the triggers mentioned above was present. Only two interviewees appeared to have sought advice without any obvious external trigger and for one of these, advice appeared to be a social norm. Both these interviewees were male, over 40 and degree level educated although whether these are relevant factors it is difficult to know. MAS has attempted to use this reliance on life course events as a prompt to advice by producing a range of guides dealing with the financial issues that accompany these events. I am aware that some adviser firms used these guides to provide further credibility to the advice given regarding particular life-course events. Examples of these are the MAS Income Drawdown Guide and Divorce Guide.

The three dimensions of knowledge that influence whether consumers access financial advice are described above. Improved financial capability, better communication of availability of services and how they may be accessed would overcome much of this problem. However, the former issue may take more than a generation to address as

only now are we starting to see financial education as part of the National Curriculum, so it will be many years before this influences when and how consumers access advice.

**2. How does trust influence the likelihood of consumers taking advice?** - Most interviewees had felt able to trust the advisers that had acted for them (although 10% of the survey sample cited 'lack of trust' as a reason for not taking advice). Many interviewees had originally met their adviser through some form of referral and there appeared to be a 'transference of trust' taking place. This tended to mean that the decision to engage with a particular adviser was based on emotional trust rather than an informed decision that involved some element of critical/sceptical trust. Although there were some examples of interviewees not trusting advisers but still employing them to assist with arranging a particular product. It seemed in these cases the interviewees felt it was the only way to achieve their objective. So perhaps there are links here to lack of knowledge regarding services advisers provide and knowing how to access an adviser. These examples were notably in cases where mortgage advice was involved and the interviewees had been concerned about whether they would 'lose the house' they were hoping to buy. It was not obvious elsewhere. There were also examples of dis-trust particularly where advisers had attempted to address issues other than those that the interviewee had originally engaged them to address. Again, there is a link here with knowledge of adviser services and the regulators view on how they should be implemented. The effect of this unwillingness to take holistic advice regarding their finances, which seems to be a trust issue driven by lack of knowledge, may lead to failure to plan for some future events and/or potential risks.

It is a theoretical concept from economic psychology (heuristics) that appears to explain the interviewees' experiences of accessing advice via referral (Tversky and Kahneman, 1974; Dixon, 2006) along with the theory of trust that supports this. The theories of trust such as those discussed by Poortinga and Pidgeon (2003) that advocate a critical trust approach do not seem to be the norm.

There was a general mis-trust of the financial services industry. However, this did not seem to be a barrier to the interviewees accessing advice when they felt they needed to. It was generally the trust in the individual adviser that seemed to be the important factor. Interviewees did believe it important that the financial services industry was regulated by a 'government body' and this was a factor in their decision to take advice. In some respects this seemed to compensate for the lack of general trust in the industry.

It does seem that if the interviewee's objective was sufficiently strong then trust in the adviser was a secondary matter and this was particularly the case for mortgage related advice. This perhaps has synergies with the concept of 'forced trust' recently identified in research by the University of Nottingham (Devlin, 2014).

### **3. Does the perceived cost of advice act as a barrier to consumers accessing advice? -**

Affordability was an issue for some interviewees in that they simply did not have the disposable income to consider advice or address particular needs. Other interviewees were aware of the risks and may have been able to afford to address these needs but were averse to the idea of paying for advice and similarly 'insuring every option' (nearly 30% of the survey sample suggested they would be unwilling to pay anything for a full financial review). There was some evidence that the former point stemmed from an assumption that advice was free. Again this acted as a barrier to them taking advice. This perception is a hangover from the commission regime that previously applied to certain classes of advice and may become less of a problem as the implications of RDR become better known. However, with a regime where commissions are available on certain products [potentially funding the cost of advice], but not on others this adds to the confusion for consumers. For many consumers the number of areas they need to consider, how to prioritise these different issues and to be able to afford the solutions can simply be overwhelming, particularly for those on lower incomes that have so many other competing matters that they may also need to address.

There were clear links between the perceived cost of advice and the cost of taking action on the basis of advice. In fact many interviewees perceived this as one in the same thing. That is, their perception of advice was as a way of buying a product rather than a means of clarifying their current financial position. Again this links with knowledge of services and ultimately is about how consumers value advice. It appears that consumers' willingness to pay for advice is a function of the degree to which they value it. Some interviewees seemed to need to see an immediate return from advice to justify the potential cost it incurs. For example, where it would lead to a better savings rate or reduced mortgage cost, this was acceptable but where there was no clear immediate advantage interviewees in most cases seemed less willing to pay for advice. Again, this connects with knowledge of services and value of advice. Perhaps here we are seeing the 'rational actor' in action.

For many of the survey sample there was clearly a vast difference between how much they would be prepared to pay for advice and the market rate (more than 75% would not be prepared to pay more than £100 for a full financial review). However, many of these consumers are likely to have already paid significantly more for the advice element of products they have purchased yet this had presumably not been an issue at the time as it was embedded in the product charges. This is perhaps one of the outcomes of RDR that now we are in a more transparent regime the consumer can clearly see what the associated costs are. Although, generally speaking this has to be a good thing, if it acts as a barrier to consumers taking advice then it will have consequences for long term saving, retirement planning and investment.

There are service issues for existing plans that can act as a barrier to consumers accessing advice. There is an assumption that the cost of service is within the original plan costs and consumers may also have an aversion to paying for advice to review existing contracts. Again the more transparent regime now in force should address these issues but it still requires the consumer to be willing to pay for advice.

#### **4. How does industry structure act as a barrier to consumers accessing advice?**

Regulated advice is currently a commercial activity and therefore from an industry perspective it needs to be commercially viable. In the past this commercial viability was served largely by the commission regime but with the introduction of RDR from January 2013, this option is no longer available for investment and pension advice. It remains to be seen whether the new regime will help to encourage more consumers to engage with advice. The issues with respect to industry structure are discussed below from the perspective of consumers and then from the perspective of advisers.

**How does the industry regulatory regime influence the likelihood of the consumer taking advice?** - There are three dimensions to this answer. Firstly, the transparency of the new regime is better for consumers and, in the view of the interviewees, regulation of the financial services sector is paramount because it affords them an element of protection against an industry they do not always trust. The second dimension of this is that currently the new regime has resulted in adviser numbers reducing and this in itself must act as a barrier to consumer access (House of Commons, 2013). Finally, the different layers of regulation result in an inconsistency between different advisers who may appear to do the same thing from the consumer's perspective. This final point relates to the different tiers of regulation that apply to different types of regulated advice. Most commonly this division appears between mortgage advisers and financial advisers who may or may not advise on mortgages. The result of this is that consumers do not necessarily appreciate the differences and are not always offered the option of the more comprehensive services that are available from some advisers. This may then result in them not addressing other financial needs.

**How do adviser attitudes to how they deliver advice services influence consumers' understanding of the services they deliver?** – The advisers interviewed were mainly IFAs with many years' experience, servicing their own client banks and trying [it would appear from their comments] to provide an on-going service to their clients. Therefore their views may not necessarily reflect the views of advisers more generally. However, it

seems clear that these advisers wanted to do the best they could within the limits of the services they offered and that they saw the service they offered as an on-going proposition. Although there were occasions when they offered advice on a focused basis rather than covering the full extent of their clients' finances, this tended to be driven by the client rather than them. This could result in consumers not being fully aware of all the risks they face.

Evidence from the consumer interviews suggests that many had dealt with advisers on a single issue basis rather than considering things from a more holistic stand-point. This conflicts with advisers' views who suggested they tended to deal with clients on a holistic basis where possible, although where clients preferred focused advice [single product] then they offered this option. From a commercial perspective this would seem to make sense. However, as these advisers were interviewed by a fellow adviser, they may have been keen to appear to be operating generally on full advice basis when in reality this may not have been the case.

**5. What are the implications for the welfare state of consumers not accessing advice and how can policy help to improve access?** – The implications for the welfare of consumers not accessing financial advice to help plan their finances is that many consumers will pay more than necessary for particular products, will not save sufficient towards future expenditure, particularly retirement and may be unnecessarily exposed to the financial implications of long term illness, redundancy or premature death. This will have an impact on the 'welfare bill' and perhaps more importantly the lives of those that are unfortunate enough to suffer these eventualities.

It appears that for many consumers it is unrealistic to expect them to make provision to cover all potential eventualities. This may be because they are not aware of the potential risks they face and even where they are aware, may not be able to afford to put in place the necessary plans to cover all eventualities. This again is the structure and

agency debate that was highlighted earlier and raises the question as to whether the shift towards a neo-liberal welfare model that places responsibility on the individual citizen is a step too far. Clearly for many citizens there is a gap between their individual agency and the structure within which they are expected to live. This is discussed further in the next section. Of course, other consumers may simply not be prepared to pay to top up the safety net the state provides, preferring to take the risk that it will not happen to them.

This section, that answers the research questions, has set out the issues that surround each aspect of the three key themes which influence consumer access to regulated financial advice. For different consumers these themes have different significance to the ultimate decision. For many it seems that knowledge of need and services are the prime issues but for others affordability (or lack of it) simply prevents any prospect of them taking action. These key barriers are now considered from different perspectives that help to highlight the various roots of the problem.

### **9.3 – Discussion**

In summarising the results of this research and its implications for consumers, I will discuss this from a number of perspectives.

- The Advice Models
- Policy Issues
- Alternative approaches
- Agency and Structure

#### **9.3.1 – The Advice Models**

In section 3.4 the various models from health and social sciences were discussed and later in 3.5 these concepts were drawn upon to develop my Advice Belief Model (ABM) a revised version of which can be found in appendix 9.1. The ABM has played a key role

throughout this research and is a tool that should help policy makers, the financial services industry and academia to better understand the consumer's journey and the barriers that impede it.

If the three themes identified in this research are considered in the context of the model it may help to explain further how these themes impact on accessing advice. According to the ABM, knowledge of need will either come from an internal or an external trigger. The former is a function of financial capability, for example, if it is known that a mortgage is the vehicle to help consumers with insufficient funds to purchase a house outright then this may ultimately lead to advice being taken. Similarly, a life-course event, such as the birth of a child, may act as a prompt to consider family security for a financially capable individual. The external triggers are more important when financial capability is insufficient for an individual to recognise the need. So in this case a financial health-check prompted by a publicity campaign [or seminar] may lead to advice. Similarly, a conversation with a friend about the negative experiences of another person losing the family breadwinner may prompt the individual to consider how their family may cope in this situation. A big barrier in this process is present in the model as an 'intention influencer', 'coping strategy'. If the consumer believes that they would cope adequately in the event of a particular adverse event occurring then they are unlikely to act. This is illustrated by the example of Elaina (Case Study 6.2.1). If it were the norm for consumers to seek formal guidance on the risks they face then this barrier may be overcome. In part this links to the knowledge of services, which in reality concerns how much consumers know about what advisers do. The argument being, that if it was the norm to have potential risks assessed via a formal process and if they were aware that advisers could help them to identify and assess these potential risks, then they may be more likely to seek advice.

For the second dimension of knowledge, knowledge of adviser services, it is the consumer's perception of the value of advice and outcome expectancy [again, an

intention influencer from the model] that may influence the decision to take advice. If the consumer appreciates that advice can help them to achieve a particular objective or satisfy a particular need, then they should be more likely to take advice. This is where the combination of incomplete knowledge of services linked with coping strategy act as a barrier. This is because consumers may not fully appreciate that advisers can quantify these risks which will help consumers make more informed decisions. If the consumer perceives the adviser as only a route to a product then a barrier to advice is present. The case study of Frank and David at 6.3.1 illustrates this point and shows how the ABM has helped to identify this barrier.

The third dimension of knowledge relates to finding a suitable adviser. The ABM highlights this issue in two parts. Firstly, as an issue from a 'structure of service' perspective, and secondly, as a 'self-efficacy issue'. That is, finding the right adviser would be a function of how easy or difficult it would be for an individual to find information about types of advisers and where to locate them. So from the structure of service perspective it is about how industry and regulatory structure affect access whilst from the self-efficacy perspective it is about the practicalities of the individual actually finding a suitable adviser and being able to meet with them. Again, this links to the previous dimension in that consumers do not always understand that different financial advisers do not necessarily offer the same range of services or conversely the 'mortgage man' might actually be able to help with all these other areas of need that require addressing. So this is confusion that can be caused by the complex regulatory regime. The fact that many of the interviewees had had mortgage advice often incorporating protection advice but this had not led to advice on to other areas may be explained by this.

From the self-efficacy perspective it seems that the issue is that the consumer needs to know the practical aspects of finding an adviser. This could include appreciating the type of adviser required and being aware of the ways in which a suitable adviser could be

identified. So, again, a financial capability issue. Interestingly, MAS already provides some of the answers to this issue although of course the individual would need to be aware of the scope of information MAS can provide. The case study at 6.4.1 illustrates this.

The implication to consumers of not appreciating the full range of methods available to identify a suitable adviser brings us to the next theme that emerged from the research, which is trust. Use of the emotional trust heuristic, referral, as a method of finding an adviser relies on the knowledge of the introducer which may not take account of whether the skills of a particular adviser match the needs of the introduced consumer. Secondly, this reliance upon the experience of the introducer lowers the trust barrier and discourages the individual from exercising the critical trust that may be more appropriate when appointing a particular adviser. From the perspective of the ABM, trust was considered an 'intention influencer' where high trust encouraged engagement and low trust acted as a barrier. The case studies at section 7.6 illustrate how the 'trust heuristic' can work in the favour of some, in the case of Peter and against others as in the case of Heather. Furthermore, they have illustrated the different outcomes that can arise when 'forced trust' arises. Again the ABM has helped map the process the interviewees have followed and helped identify areas where issues exist.

The third theme that emerged from the research was affordability and cost of advice. There are two main dimensions to this theme. Firstly, affordability and secondly cost of advice which in itself needs to be considered from various perspectives.

It was clear from the research (and the literature more generally) that there were some interviewees who simply could not afford either the cost of advice or the product solutions that may result from this advice and this in itself acted as a barrier. This is perhaps the case for Bryan illustrated in the case study at section 8.8. It could be argued that better money management and budgeting could alleviate to some extent this

problem, and that advice itself could offer this benefit. However, unless consumers are aware advice may help then a barrier exists and even if they do know, then affordability will still be a barrier to advice as some people simply cannot afford it.

The second aspect of this theme relates to the cost of advice and, an intrinsic part of this is consumers understanding of how advice has been paid for in the past and the value that it can add. The ABM classified cost as an aspect of 'structure of service' but also a factor within 'perceived outcome expectancy'. In both cases the assumption was that it would act as a barrier where cost was perceived as high. From the research it was clear that most interviewees had not really appreciated how much they were paying for advice as it had been part of the product cost (the research having been completed prior to implementation of RDR). However, there was some suggestion that the perception of a cost in the future may deter some to take advice. Some interviewees did make the distinction between advice as a stand-alone proposition and advice as part of the product purchase process, in the former case there seemed to be an appreciation of the value of advice and therefore less resistance to the prospect of a cost being associated with this. In fact, some viewed this in a positive light.

Throughout this research it has always been difficult to separate advice from the product sale and in some cases they are one and the same thing. The reason that I return to this point is that it has been cited (Sandler, 2002) as a major reason for the failures of the regulated financial advice regime. For consumers, sometimes it is about the product, that is, they already know what they want (a mortgage being an example of this) and the advice extends to selecting the best product to meet their requirements, whereas on other occasions it is about understanding a concept and the inherent risks within that concept that is the important aspect of the process. This may [or may not] then lead to a product being recommended. In this latter case it is the advice that is the primary driver whereas in the former case it is the product. In part this is accounted for by there being two intrinsic aspects of advice. Firstly, the 'needs analysis' aspect, and

secondly, the 'product selection' aspect. It is perhaps the latter element that gets the bulk of the attention. It can be seen from the discussion above that it is an aspect of both the knowledge and cost themes. To try and understand this difference more clearly it is worth framing it in terms of the earlier theories (see section 3.4) used to produce the ABM.

The Theory of Planned Behaviour (Ajzen, 1985; Conner and Sparks, 2008) suggests that 'intention' results from three variables (attitude, subjective norm and behavioural control) which are themselves dependent on other factors. If we apply this model to try and better understand the case of a consumer who has decided to buy a house then we might assume the following;

Attitude – the model suggests that this is dependent on outcome and likelihood of occurring. So the consumer wants to buy a house (both Peter and Kazim are examples from the interviewees that have been discussed earlier), the outcome of owning a home rather than renting is preferred and the consumer believes it is a feasible option. From the perspective of behavioural control there must be sufficient resources to perform the action either with or without a mortgage, so it must be affordable and the consumer will need to have the ability to interact with the various stakeholders in this process. Finally the subjective norm is a combination of what others expect and the individual's motivation to comply with others. So if we think of this in the context of a consumer who needs a mortgage, it could be considered the subjective norm to arrange a mortgage when buying a house. Drawing on the interviews, this is how the majority considered it, that is, they arranged a mortgage. The advice may have been part of it but it is the product that can be considered the subjective norm in this situation.

Throughout the interviews there are few examples of the alternative, where 'advice' was the subjective norm. That is, it was the expectation that advice was sought to better understand a particular aspect of their finances. However, this is highlighted in case study 6.3.1 where David does perceive advice as the subjective norm.

In many respects this idea of advice rather than the product driving the agenda is the principle behind the health-check. If the starting point for making an informed financial decision is to consider it in terms of the implications for all aspects of the consumer's finances, so a holistic approach, then advice rather than the product needs to become the focus. That is, advice is then the subjective norm. Although this may be a rather simplistic application of this model it does serve to highlight this difference.

If this is then considered in terms of the ABM, it is the trigger events that are relevant to this discussion. If holistic advice is the norm for a consumer or they are of high financial capability and aware of the interactions of particular decisions on other aspects of their finances then they should be able to make an informed decision. One of the amendments to the ABM that comes from this is that I have now included 'advice as the subjective norm' within the 'internal trigger' section of the ABM.

The real issue with consumers taking advice regarding particular product areas and not addressing wider needs is that these other needs may be ignored and the consumer may simply not be aware that they have an issue. Whereas where advice is the starting point, the normative belief, then a more balanced view should be achieved. Examples of how this perception that advice is about arranging a product litter the interview transcripts. This in itself is a barrier to accessing advice in that if a consumer already has a product they do not see any point in taking advice. This is illustrated by interviewees that were pension scheme members, it seemed that the fact they were, exempted them [in their view] from any further need for guidance on their pension planning. Where, in reality, this could have helped them to better appreciate whether their existing provision was sufficient.

From the perspective of the FSA (and now FCA) it has always been considered good practice for advisers to consider all areas of a client's finances (FSA, 2011). Furthermore, the introduction of the health-check by MAS supports this approach. Yet for some

consumers there is clearly a resistance to this approach, their perception being, that this is a sales rather than regulatory agenda. Again, we see this combination of lack of trust and lack of knowledge of services acting as a barrier to advice. Perhaps greater promotion of the benefit of this approach is required.

### 9.3.2 - Policy Issues

The policy issues are on two levels, firstly those that relate to the welfare regime in which we live, and, secondly the policies that are associated with helping citizens to participate in the overarching regime that persists. It is this second policy aspect, concerning the difficulties consumers face when trying to work within this regime, which is of interest to this research. Whereas detailed comment regarding the suitability of the first is perhaps beyond the scope of this thesis other than to say that a shift towards a more socially democratic regime providing more comprehensive benefits would alleviate much of the basic need for advice. However, with the current emphasis on welfare cuts in these times of austerity, it seems unlikely this will happen. Which in itself, is a reason why this research is important at this time.

Given that the state provide a safety net, the responsibility then falls upon the citizen to add any additional provision they may require to bridge the gap between their current or desired position and what the state provides. The idea being that additional provision will allow them to maintain their current lifestyle in the event of long term illness, the death of the breadwinner or in retirement. Maximising efficiency of savings could also be another aspect of this. To achieve these goals, there are a range of products that can bridge this gap many of which are complex so may require the citizen to take regulated advice.

For the citizen to take advice, ideally they need to be aware of a need or that advice will help identify a need (FSA, 2006e), they need to trust the financial services sector (Wells and Gostelow, 2009) and they need to be able to afford both the advice and associated

products (CII, 2011b). From a policy perspective the formation of the Money Advice Service and its introduction of the health-check has attempted to satisfy the first of these requirements. The RDR is attempting to re-build trust by increasing adviser knowledge and making the system more transparent. It is the third requirement that is more difficult to legislate for. Although improved money management as an outcome from MAS may help to reduce this barrier.

The recent change at the top of MAS (Holt, 2013) seems to have been accompanied by a change in strategy away from what is described as ‘the feet-through-the-door’ approach to one where consumer outcomes become the benchmark (MAS, 2013a). This research, with the agreement of MAS, surveyed and interviewed attendees at MAS workplace seminars yet the evidence from the interviews is that many interviewees had not taken on board the benefits this service may offer and how it could help them to make the most of their money. While the sample interviewed was small in general terms, this is not a reason to believe that this is not a more general problem, particularly given that a high percentage of the interviewees were unaware of MAS even though they had attended one of its workplace seminars. There has been trade press comment over the last year regarding MAS failing to achieve its original objective (Lewis, 2012; Holt, 2013; Money Marketing, 2012) and the recent change of strategy towards an outcomes based approach appears to be confirmation of this. Furthermore, there is obviously little confidence from the adviser community in the service MAS is offering if the comments from advisers, in the same edition of Money Marketing (2013) that highlighted the change of strategy mentioned above (Holt, 2013), reflect the views of the sector as a whole. There was certainly little understanding of the reason for MAS’s existence from the advisers interviewed as part of this research and a general suspicion of their motives. Of course this is not the case for every adviser, there have been reports in the trade press of some advisers engaging with MAS and encouraging their potential clients to take the MAS financial health-check before meeting with them as a means of highlighting items for discussion at a subsequent meeting.

This position until recently has been unfortunate when in reality MAS could be helping consumers to pay more attention to their financial planning and part of this could result in consumers being pointed in the direction of appropriate regulated advice services. This signposting function of MAS could benefit all parties, the consumer, the financial services sector and the state if it helps to relieve the pressures on the welfare system in general. One way of addressing these barriers between MAS and advisers may be for MAS to communicate to the industry that they are there to help the consumer and this in turn may result in more consumers engaging with the advice sector.

In fact, it would appear that MAS have recently started to adopt this strategy. A recent interview with Caroline Rookes in the Personal Finance Society magazine 'Financial Solutions' (Worvell,2013) , sets out the objectives of the service, how these can be complementary to the regulated sector and attempted to dispel the myth that MAS is a competitor to the regulated sector.

In chapters 2 and 3 of this thesis the regulatory layers have been discussed that can result in different advisers having greater or lesser scope as to the areas on which they advise their clients. It is clear both from the interviews and from the broader literature that consumers, in many cases, do not really understand what financial advisers do. It seems logical to assume that these different 'permissions' granted to different advisers must therefore add to the consumer's confusion. Without changing the current position, which would involve some advisers undergoing further need to obtain additional qualifications and no doubt result in further reductions in adviser numbers, a way needs to be found to help the consumer to better understand how advice may be able to help them. Perhaps MAS can contribute towards this.

From the financial adviser's position it is clear they arguably need to embrace these changes and start to make it clear the value that advice can offer to those that can

afford it. Transactional business should no longer be the default position, as this type of service will be widely available and at much lower cost through the alternative channels that are developing.

### 9.3.3 - Alternative strategies

There are of course alternative policy strategies that could be used to encourage citizens to be better prepared for current and future events that can disturb their financial independence. In many respects auto-enrolment has already taken a step towards achieving this for retirement planning. Similar strategies could be used to encourage engagement for other areas of financial planning. For example, the Danish system of 'flexicurity' (discussed in chapter 3), where a scheme offered workers additional protection benefits over and above those offered by the state safety net. Auto-enrolment into this type of scheme would offer workers additional protection and potentially avoid the need for regulated advice. Although, some form of generic advice may be required particularly with respect to opt outs. Similar approaches could be taken regarding regular savings. This in many respects is Mehta's point (2013), that by changing structure and environment it removes the need for complex decisions by those only able to exercise 'bounded rationality' in their financial decision making.

So where complex products are involved two approaches are currently being used where individuals need assistance to take up these benefits. Firstly, regulation of the product and associated advice services are offered to the consumer so that they can have an element of confidence in the services. This takes the form of regulation by a state backed regulator. Alternatively, the need for advice is removed by the automatic enrolment into these schemes via associated legislation. However, currently a gap in the advice process still exists.

Since RDR we have seen many of the banks and insurance companies moving out of the advice market which is further reducing access for consumers (Kerr, 2013; House of Commons, 2013). Martin Wheatley (House of Commons, 2013, p.31) , Chief Executive of the FCA, commented to the Treasury Select committee that :

*“... I do think that there are some issues with the removal or withdrawal of some of the mass-market distributors from the retail market. You can question how much of it was advice before, or simply sales dressed up as advice. I think most of the banks and advisers worked out that you cannot provide a fully advised service with less than five or six hours of work, and that costs, and we are therefore seeing less of that model. What we are seeing is the arrival of web-based, internet-based entrepreneurial-type models that are delivering advice in a different form. We are at the relatively early stages of seeing that, and some of those banks or insurers that have withdrawn have said, “We have withdrawn and we don’t see it as a space to be in.” Some of them are, frankly, trying to work out how they can offer a cost-effective advisory model to that part of the market. That part honestly is still in transition, I would say.”*

He then goes on to say when asked about the ‘advice gap’:

*“... People who have portfolios that are below — I don’t know what the threshold level is — maybe £50,000 or £100,000 are not getting the same sort of service that they were getting, so that is a concern”*

The ONS Wealth and Assets Survey (2012b) states that 10.7% of the population have investable assets of £100,000 or more. This would therefore imply that the regulated advice regime is no longer serving the mass market.

It seems the current industry approach is to develop ‘assisted non-advised’ approaches (Hurman, 2012) in an attempt to fill the void left by the reduction in access to advice. Hurman (2012) goes on to say that these are internet and phone based remote selling models that are likely to be profitable options for the banks to operate in this market. Kerr (2013) also raises this theme discussing how some insurance companies are

targeting the 'workplace' as a way of engaging directly with consumers rather than via the advice channel. Although these methods may be more profitable options for these providers there will still be a need for the consumer to be aware that they have a need for them to engage with these services.

It seems that the mass market will no longer be served by the adviser community as it continues to reduce. With the growth of internet and telephone based services that may be delivered by the banks to their customer bases or insurance companies via the workplace, there will be increased need for the Money Advice Service to provide a credible source of information and advice that helps the consumer to compare the options available to them. The outcome of the consumer using MAS in the above scenario may also result in a referral to an adviser rather than a non-advised solution.

Although MAS is attempting to bridge the advice gap via its various strategies, there have been other proposals under discussion for a number of years. Until recent years there was a 'Basic Advice Regime' that allowed the sale of simple products with capped charges. This was developed from the 'Stakeholder product suite' suggested by Sandler (2002). However, this never really took off but discussions have continued regarding a simplified product suite that could provide products and advice at a lower level but this has yet to progress past the discussion stage. Perhaps there is a case for this type of regime to help fill the advice gap.

If it is accepted that the current regulated advice regime is no longer able to serve the mass-market yet consumers prefer the option of face to face advice where possible, then perhaps there is a place for a simplified advice and product service delivered through not-for-profit agencies funded or at least subsidised by government. The current development of the credit union sector could be a potential alternative delivery channel for this type of service.

#### 9.3.4 - Agency and Structure

From a social policy perspective it is clear that this discussion regarding access to regulated financial advice could be framed in terms of agency and structure.

From the agency perspective, consumers have low financial capability particularly with respect to planning ahead (FSA, 2006a). They are often not aware of the potential risks to which they are exposed and how advice might help them to both identify and address these risks. From the structural perspective, a neo-liberal welfare regime persists that places the responsibility on the individual resulting in a financial services market that attempts to serve the needs of these individuals. However, as this financial services industry is profit orientated it presumably has a duty to its shareholders to maximise profits which does not fit comfortably with providing a service for the mass-market.

Mouzelis (2008) (cited in Farrall et al) suggests that social actors make decisions based on the structures that surround them and goes on to say it is their perceptions of these institutional structures that guide their choices. So if the implication of this is applied to the debate regarding access to advice it would suggest that it is the consumer's perception of financial services (the structure) that guides the decisions they make. Therefore if consumer knowledge of the system is low and there is a general perception that the industry is untrustworthy then the less financially capable consumers are less likely to engage. Furthermore, they are more likely to perceive the industry as a channel to purchase products rather than a source of advice.

#### 9.3.5 - Behavioural Finance

As discussed in section 3.7 theories from economic psychology and behavioural economics are currently being used to design systems that try and help consumers manage the finances more effectively. These theories have contributed substantially to the introduction of pension auto-enrolment and could be used in a similar way for other

areas of financial planning, thereby negating the need for advice for some individuals. However, currently little use of these theories seems to have been made to encourage the use of advice other than by some of the insurance companies where aspects of these theories can be seen in their advertising campaigns.

In fact a major issue highlighted by economic psychology, 'the trust heuristic', is acting as a barrier to consumers applying critical trust and making informed decisions regarding the choice of adviser they use.

#### **9.4 – Reflections on the research method**

In this section I will try to reflect on the research process and explain what I have learned on this journey. Before I do so I will comment on the limitations of this research.

The literature and earlier research provides much information about the issues that surround the financial services industry and the way in which advice is delivered. Since the early part of the last decade Sandler (2002) and others have been advocating a need for changes to the way advice is delivered as the model (until RDR took effect in 2013) did not necessarily serve the consumer's needs. However, little has been written from academia about why the practicalities of the current system have failed the consumer.

This research relies on a relatively small unrepresentative survey sample and a relatively small qualitative sample. Furthermore the views of the advisers interviewed cannot be assumed to represent the adviser community as a whole. However, it still contributes to the current knowledge on the issues that consumers face when trying to plan for a secure financial future under the current market based system. It illustrates the barriers to advice, such as lack of knowledge of need and adviser services, which can stop consumers engaging with the regulated advice sector. This ability by the consumer to engage with the regulated advice sector is a key financial capability skill highlighted in the literature (FSA, 2006e) and should help less able consumers to more easily engage.

This research highlights a number of problems that can exist within the relationship between consumers and the financial services sector, particularly the advice sector. This in turn highlights the issues with the Money Advice Service which should be acting as a catalyst to consumer engagement. There is clearly scope to explore some of these issues further.

As far as the lessons I have learned by completing this project, there are a number that would have resulted in me perhaps doing things a little differently. As the project progressed and the discussions with my supervisors advanced, it became increasingly clear to me that I was heavily influenced in how I looked at these problems regarding access to advice by my role as a financial adviser. These issues of bias are discussed in more detail earlier in this thesis but having now completed the project it has changed my attitudes towards some of the assumptions I had previously made. This is not to say that my experience was not a benefit whilst conducting this research as I feel it has allowed me to explore issues that may not have been obvious to the 'outsider'.

On the practical side, it would have been better to have a more representative sample that was not so heavily biased toward the public sector and the geographical spread of the sample also created some time issues particularly at the interview stage. It would also have been better if the answers to question 2 (Reasons for NOT taking advice) had been able to be related to particular areas of advice. Although this was possible on some occasions where participants had taken advice on all but one areas of advice it was not always possible to know which area the barrier applied to. Had this been available it would have highlighted at the survey stage of the process whether there were particular barriers associated with particular advice areas.

## **9.5 - Conclusion**

My thesis has summarised the policy context that has resulted in the need for a market solution to complement state welfare provision. This has taken the form of development of a financial services industry which was intended to serve the mass-market and allow individuals the opportunity to make any additional provision they required that was not available via the state. Unfortunately this development of the financial services sector has not always had the interests of the consumer at the heart of its strategies.

As part of the development of the financial services sector has been the development of the regulated advice sector which forms one of the delivery channels for the products the industry provide. The various mis-selling scandals and poor quality advice that has been associated with parts of the advice sector resulted in a step-change in the structure of the industry which was introduced at the start of 2013. These changes have made the industry more transparent and broken the link (for some products) with commission. Furthermore, the minimum examination requirement for advisers has been raised to QCF level 4 which should mean greater technical competence prevails.

This research used a mixed methods approach to try and gain a better understanding of how individuals access advice and what are the barriers that may prevent them from doing so. From the research three key themes emerged:

- Knowledge
- Trust
- Cost and Affordability.

Each of these has been discussed in detail in the themed chapters and reviewed further in this chapter. It seems that knowledge and affordability are the key factors that act as barriers to consumers accessing advice. Affordability, in respect that if the products and advice are simply not affordable then consumers will not engage must be the prime

barrier. Although to some extent, the cost of advice may also be a barrier. If consumers need or desire for the outcome is sufficiently strong and the solution is affordable then consumers will engage. Knowledge of these two key themes is probably the most important where affordability is not the immediately barrier. Of the three dimensions of knowledge identified via the research process, it is knowledge of need that is key to consumer engagement. Without this knowledge of need, whilst the product remains the subjective norm the perception that there is a need for advice does not exist.

This research has brought together and developed a number of themes that were already present across the relevant literature. From this it has drawn a number of conclusions and thereby added to the existing knowledge on this subject. In particular it has:

- Identified ‘the product’ as the subjective norm and suggested that advice needs to be considered in these terms
- Shown that the referral system could be considered as a ‘trust heuristic’ which does not necessarily always work in the consumer’s favour.
- Emphasised the importance of the Money Advice Service as both an independent signposting and generic advice service that can complement the regulated advice sector whilst retaining its focus on having consumers’ interests at heart.
- Highlighted the current view that the regulated sector is no longer able to serve the mass-market and that a simplified service may be required to fill this gap.
- Developed a model (ABM) that helps to identify the stages in the consumer’s journey where they may encounter barriers. This should be of use to policy makers, the financial services industry and academia.

Now steps have been taken to restore the trust in the financial services sector, progress towards lowering the barriers to accessing financial advice has started. However, for consumers to perceive advice as the norm we need better financial education of

consumers and a better understanding of how advice can assist consumers to plan for the future. Part of this process could be achieved if we could progress from this position where the consumer uses an adviser to arrange a particular product (transactional advice) to one where the consumer appreciates how advice can help them to look at their overall financial position and address the risks that threaten them. To achieve this somebody [MAS perhaps] will need to change the perception consumers have of what a financial adviser actually does. This in itself may help to improve access and will then result in the barriers to access having been lowered.

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**APPENDICES.**

2.1 - FSA Regulated Activities

2.2 - Scope & Powers of FSA

3.1 – Diagram of Outcome Expectancy & Self-Efficacy.

4.1 – Overview of Adviser Interviewees.

4.2 – Survey Questionnaire

4.3 – Topic Guide for Seminar Participant interviews

4.4 – Topic Guide for Adviser interviews

6.1 - Interviewees experiences of accessing advice.

9.1 – Revised Advice Belief Model (ABM)

## **Appendix 2.1**

FSMA is concerned with the regulation of financial services and markets in the UK . Under Section 19 of FSMA, any person who carries on a regulated activity in the UK must be authorised by the FSA or exempt (an appointed representative or some other exemption). Breach of section 19 may be a criminal offence and punishable on indictment by a maximum term of two years imprisonment and/or a fine.

A copy of FSMA, as well as secondary and related legislation, can be found on the Treasury's website. Bear in mind that this version of FSMA does not include amendments made to it by subsequent legislation.

The activities and specified investments are detailed in The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (RAO), which is secondary legislation under FSMA.

Specified activities are defined in Part II of the RAO and comprise:

- accepting deposits;
- issuing e-money;
- effecting or carrying out contracts of insurance as principal;
- dealing in investments (as principal or agent);
- arranging deals in investments;
- arranging home finance activities;
- operating a multilateral trading facility;
- managing investments;
- assisting in the administration and performance of a contract of insurance;
- safeguarding and administering investments;
- sending dematerialised instructions;
- establishing etc collective investment schemes;
- establishing etc stakeholder pension schemes;
- providing basic advice on stakeholder products;
- advising on investments;
- advising on home finance activities;
- Lloyd's market activities;
- entering funeral plan contracts;
- entering into a home finance activity;
- administering a home finance activity;
- agreeing to do most of the above activities.

Specified investments are defined in Part III of the RAO and comprise:

- deposits;
- electronic money;
- rights under a contract of insurance;
- shares etc;
- instruments creating or acknowledging indebtedness;
- government and public securities;
- instruments giving entitlement to investments;
- certificates representing certain securities;
- units in a collective investment scheme;
- rights under a stakeholder pension scheme;
- rights under personal pension scheme;
- options;

- futures;
- contracts for differences;
- Lloyd's syndicate capacity and syndicate membership;
- rights under funeral plan contracts;
- rights under regulated mortgage contracts;
- rights under a home reversion plan;
- rights under a home purchase plan;
- Rights to or interests in anything that is a specified investment listed, excluding 'Rights under regulated mortgage contracts', 'Rights under regulated home reversion plans' and Rights under regulated home purchase plans'.

Downloaded from FSA web-site 18/12/2009.

<http://www.fsa.gov.uk/Pages/Doing/Do/index.shtml>

## **Appendix 2.2 - FSA Scope and Powers.**

### **1.Integrity**

A firm must conduct its business with integrity.

### **2. Skill, care and diligence**

A firm must conduct its business with due skill, care and diligence.

### **3. Management and control**

A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems..

### **4. Financial prudence**

A firm must maintain adequate financial resources.

### **5. Market conduct**

A firm must observe proper standards of market conduct.

### **6. Customers' interests**

A firm must pay due regard to the interests of its customers and treat them fairly.

### **7. Communications with clients**

A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

### **8. Conflicts of interest**

A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

### **9. Customers: relationships of trust**

A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.

### **10. Clients' assets**

A firm must arrange adequate protection for clients' assets when it is responsible for them.

### **11. Relations with regulators**

A firm must deal with its regulators in an open and cooperative way, and must disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice

[http://www.fsa.gov.uk/smallfirms/new\\_to\\_regulation/principles/principles.shtml](http://www.fsa.gov.uk/smallfirms/new_to_regulation/principles/principles.shtml)

downloaded on 18/12/2009.

FCA authorised persons and fit & proper criteria.

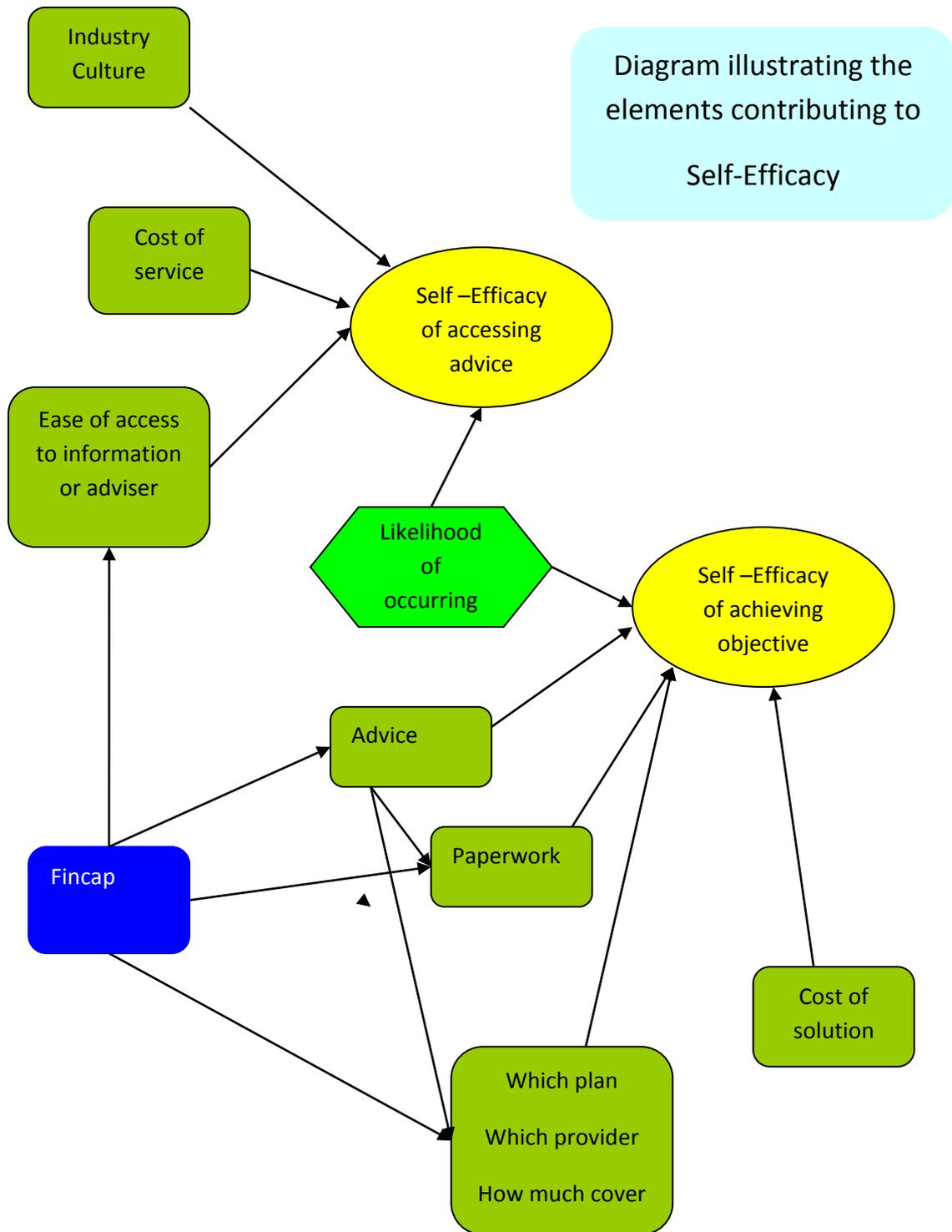
<http://www.fca.org.uk/firms/being-regulated/approved/approved-persons>

### **Appendix 2.3 – Retail Distribution Review.**

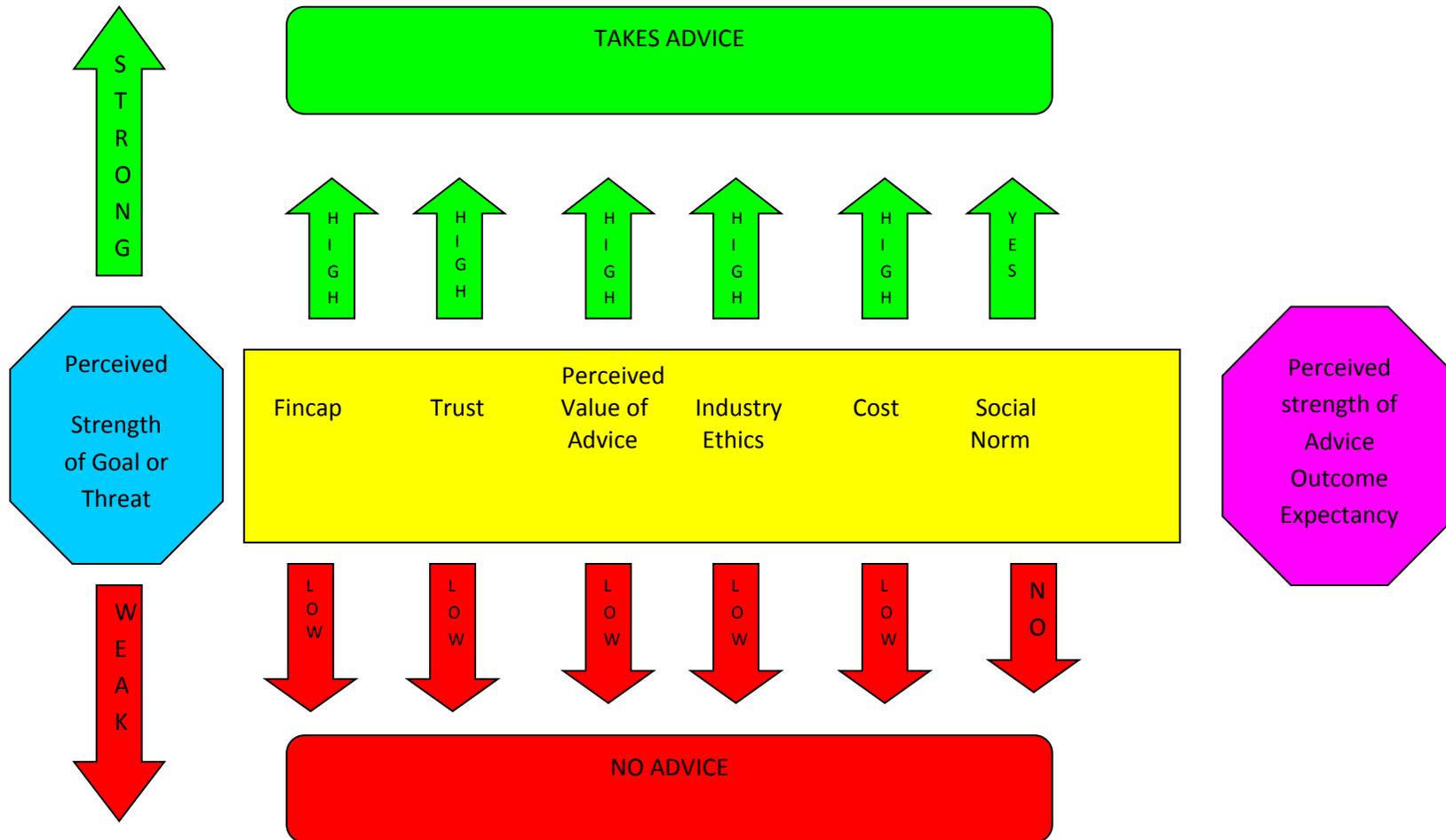
Below is a summary of main implications of the RDR.

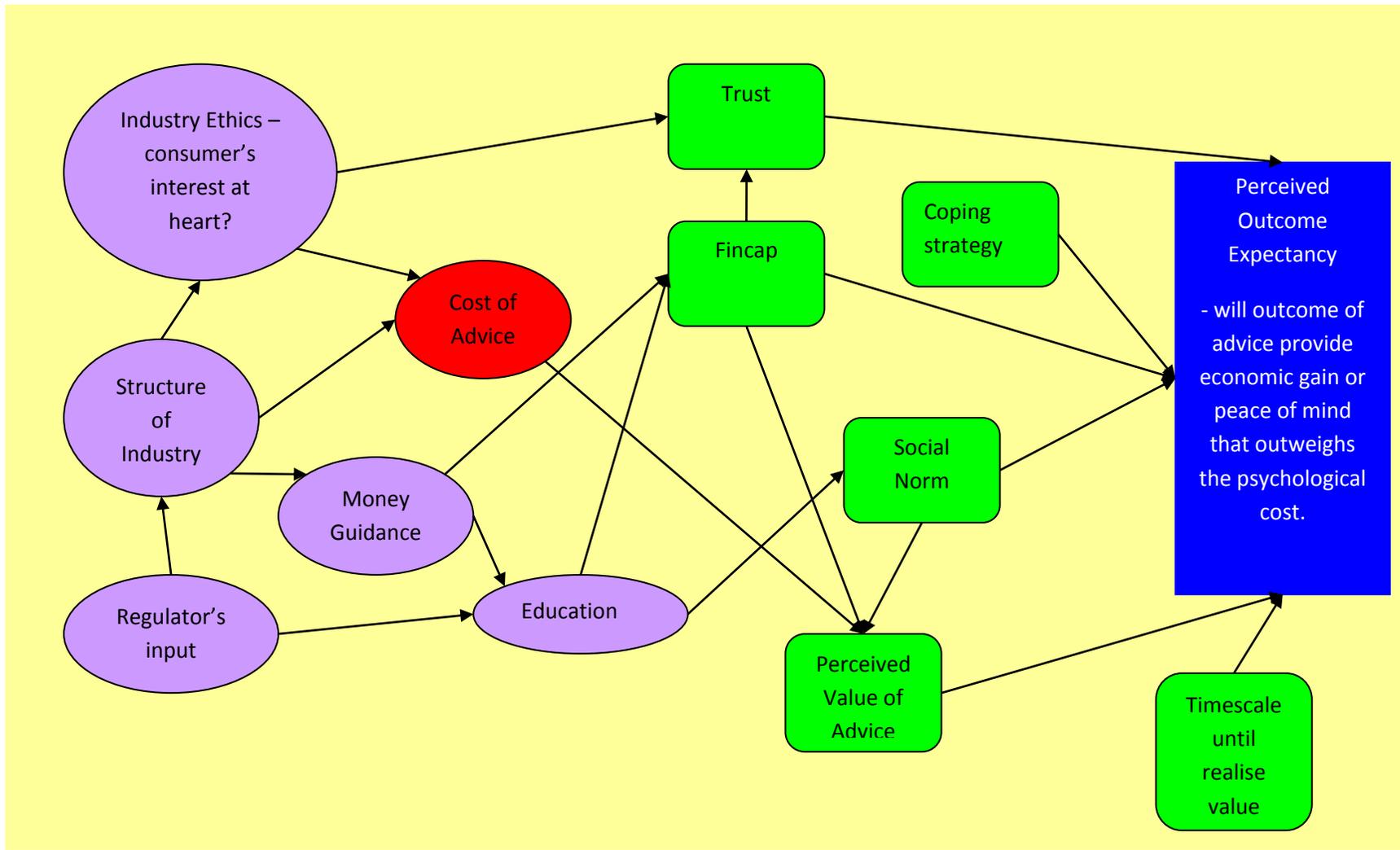
- Independent or Restricted Advice - advisers will operate on either an independent basis (whole of market) or a Restricted basis (a limited range of product providers)
- Advice will be Full or Restricted - advisers will need to inform clients which areas of the advice market they are advising on.
- Adviser Charging - advisers will agree a fee (hourly, fixed or percentage based) at the commencement of client meetings. Charges are more likely to reflect the cost of the work completed than the present commission based structure does. This regime will apply to both Independent and Restricted Advisers.
- Indemnity commission is banned post RDR for new business - the insurance companies will no longer be able to pay advance commissions on regular premium business or offer enhanced allocation contracts that have been used [some suggest] to hide the effect of commission and charges on the money invested. Commission will continue to be paid on pensions for new members enrolled in existing group pension schemes that were in place at December 2012.
- Adviser Qualifications - by the end of December 2012 all investment advisers were required to be qualified to QCF level 4. Up until then the base qualification (Certificate in Financial Planning or equivalent) was a level 3 qualifications. (FSA,2009)
- Advisers will require a 'Statement of Professional Standing' issued by a professional body, to be able to continue providing advice post RDR.

**Appendix 3.1.**



Diagrams illustrating Outcome Expectancy





**Appendix 4.1 - Overview of the Adviser Sample**

Interview number (Pseudonym)	Age	Gender	Type of adviser	Time in industry (years)	Started as	Mortgage	DFM	LTC	Equity Release	Comments
1 (Mike)	39	Male	IFA now restricted	16	Home Service	Yes	Yes (firm)	Yes	Yes	
2 (Pete)	61	Male	IFA	25+	Home Service	Yes (firm)	No	Yes (firm)	Yes (firm)	Works with son – mortgage broker
3 (Alan)	40	Male	IFA	11	Home Service	Yes	No	Yes	No	
4 (Sorat)	50	Male	Multi-tied	6	Home Service	Yes	No	No	No	
5 (Dave)	46	Male	IFA	23	Bank then Direct sales	Yes	No	No	Yes	
6 (Phil)	40	Male	IFA	21	Financial services admin/underwriting	Yes (not active)	No	No	Yes (studying)	
7 (Wendy)	47	Female	IFA	25	Financial services admin	No	No	No	No	
8 (Richard)	51	Male	IFA	25	Home Service	Yes	No	No	Yes	

**DFM – Discretionary Fund Management**

**LTC – Long Term Care Insurance**

**Appendix 4.2**

## Your Experiences of using the services of a Regulated Financial Adviser.

**Regulated Financial Advisers are individuals who generally provide advice on Pensions, Savings, Investments, Family Protection and Mortgages. They may be independent or tied to the products of a particular company or companies. Generally, they are employed by Banks, Building Societies, Insurance Companies or other firms such as brokers, via Estate Agents or Independent Financial Advisers (IFA).**

**Please fill in the questionnaire by ticking the appropriate box(es) at each question or writing in the relevant information.**

### About your experiences.

**Q1.** Have you ever used the services of a Regulated Financial Adviser to assist you with advice on any of the following;

Please tick the relevant box for each scenario.

	Used	Never used
Advice about a mortgage	<input type="checkbox"/>	<input type="checkbox"/>
Advice about a pension	<input type="checkbox"/>	<input type="checkbox"/>
Advice about Savings	<input type="checkbox"/>	<input type="checkbox"/>
Advice about Investments	<input type="checkbox"/>	<input type="checkbox"/>
Advice about protecting income or assets in the event of death, ill-health or redundancy	<input type="checkbox"/>	<input type="checkbox"/>
A General Financial Planning Review	<input type="checkbox"/>	<input type="checkbox"/>

**IF YOU HAVE USED AN ADVISER IN ALL AREAS LISTED ABOVE GO STRAIGHT TO Q3, OTHERWISE ANSWER Q2.**

**Q2.** Which of the following reasons contributed to you NOT taking financial advice in any of the scenarios mentioned in Q1; - **Tick all that apply**

a). I was unsure how to find a suitable Financial Adviser	<input type="checkbox"/>	
b). I do not trust Financial Advisers	<input type="checkbox"/>	
c). Financial Advisers are not for me	<input type="checkbox"/>	
d). I don't really know what Financial Advisers do	<input type="checkbox"/>	
e). I managed to sort out the particular problem without taking advice	<input type="checkbox"/>	
f). I did not need to take this action regarding my finances	<input type="checkbox"/>	
g). In the end it was all too complicated so I did not bother	<input type="checkbox"/>	
h). The cost of Financial Advice was too expensive	<input type="checkbox"/>	
i). I was worried they would sell me something I didn't need or couldn't afford	<input type="checkbox"/>	

**EVERYONE TO ANSWER.**

**Q3.** Do you think that taking Regulated Financial Advice might assist you in the future with advice on any of the following;

	YES	NO	I don't know
A Mortgage			
Joining/starting a pension scheme			
Savings			
Investments			
Protecting income or assets in the event of death, ill-health or redundancy			

**IF YOU HAVE ANSWERED NO TO ALL SECTIONS OF Q3, PLEASE GO TO Q5.**

**Q4.** Imagine you were considering taking advice on a mortgage, pension or other financial product from a Regulated Financial Adviser. How useful might the following types of advice/information from/about a Regulated Financial Adviser be to you at some stage in the future. Please tick one box for each statement.

Statements	Very useful	Fairly useful	Not very useful	Not at all useful
a). Advice on the most suitable product or service to meet your need				
b). Reassurance that you were doing the right thing				
c). Guidance on level of cover and amount you should save				
d). Assistance with completing the required application forms				
e). Information on the right sort of adviser to contact				
f). Guidance on how to contact a suitable adviser				
g). A Full Financial health-check that reviewed all your existing arrangements and identified areas at risk.				

**EVERYONE TO ANSWER**

**Q5.** What is the **MAXIMUM** you would be prepared to pay for a full financial advice review

with a Regulated Financial Adviser. This would involve reviewing all your existing financial products, including pensions, life assurance, mortgages and loans and investments and making recommendations regarding future actions you should take;

(Please circle one answer)

Nothing

upto £100

£101 -£250

£251 - £500

£501 - £1000

£1000+

**Q6.** As far as you know, have any of your friends or colleagues taken Financial Advice from Regulated Financial Advisers.

Yes

No

### **ABOUT YOU** **Everybody to answer.**

**Q7.** Which of the following represents your overall household income (self and spouse/partner) from all sources in the last year, before tax and other deductions. This includes earnings from employment or self-employment, income from benefits and pensions, and income from other sources such as interest from savings or from a pension. Please tick one box only.

less than £15,000 per annum .....

£15,001 – £25,999 per annum .....

£26,000 – £43,999 per annum .....

£44,000 or more per annum .....

**Q8.** What is your main occupation?

.....

Previous occupation (if applicable) .....

**Q9.** What was your age last birthday?

.....Yrs

**Q10.** Are you

(please circle)

MALE

FEMALE

**Q11.** What is your highest academic or vocational qualification?

.....

**Thank you very much for taking the time to complete this questionnaire. You will not be personally identified from any of the information you have given and all information provided will be kept in accordance with data protection legislation.**

**Finally, we will be carrying out further research into peoples' views and experiences associated with taking (or not taking) Financial Advice. If you would be willing to take part in this please tick the box below and fill in your name and address below.**

**I agree to be contacted regarding participating in this research project further**

**NAME :** .....

**ADDRESS :** .....

.....

.....

**CONTACT TELEPHONE NUMBER:** .....

**Best time to contact :** Anytime    Morning    Afternoon    Evening

**E-MAIL ADDRESS :**

Official use only.	G		A		I		E	
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Seminar 9	Reference Number :	
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# University of Birmingham

## Drivers and Barriers to accessing Regulated Financial Advice

### Topic Guide

<b>1.INTERVIEWER DETAILS</b>	
Date	
Name of interviewer	
Interview start time	
Interview end time	

<b>2.INTRODUCTION</b>	
<p>Thank you very much for agreeing to be interviewed</p>	
<p>My name is John Moss and I am working for the School of Social Policy at the University of Birmingham.</p>	
<p>This study is about individuals' experience (or not) of accessing regulated financial advice. These issues are particularly important given the current economic climate and the research will highlight any problems individuals face in relation to accessing suitable advice services.</p>	
<p>GO THROUGH PARTICIPANT INFORMATION LETTER Have you any questions?</p>	
<p>COMPLETE CONSENT FORM/RECEIPT</p>	
<p>Ask about tape and switch on, with permission.</p>	

<b>3. INTERVIEWEE BACKGROUND</b>	
Name	
Age	
Sex	
Marital status/living arrangements	
Age of children	
Occupation of self	
Occupation of partner	
Home-owner	YES                      NO

#### 4. Introduction

Context – Regulated Financial Advice - **Regulated Financial Advisers are individuals who generally provide advice on Pensions, Savings, Investments, Family Protection and Mortgages. They may be independent or tied to the products of a particular company or companies. Generally, they are employed by Banks, Building Societies, Insurance Companies or other firms such as brokers, via Estate Agents or Independent Financial Advisers (IFA).**

Main part of study – interviews

Research ends next year - publication

Confidentiality, tape

Ground rules, no right/wrong answers I just want to hear about your experiences and concerns.

As you are aware I am also an Independent Financial Adviser but as part of the university's ethics process I have agreed that I would not offer any paid advice to research participants so any conflict of interest is avoided. During the interview process I will not be able to give you any generic financial advice but if you have any questions regarding your finances that you think I may be able to help you with I will be happy to discuss these matters at the end of the interview and point you in the direction of somebody who may be able to help you if required.

#### 5. Meaning of different words/phrases

Meaning of 'have you taken financial advice'?

This relates to Advice from a regulated adviser regarding;

Mortgage

Pension

Saving

Investment

Life Assurance

Other protection

This may or may not involve purchase of a financial product.

6. It is generally considered that the following areas of financial planning are relevant to most individuals.

Objectives Table;

(tailor Topic Guide to applicant's questionnaire response)

You indicated on the questionnaire that you had;

Objective	Taken advice	Reason not taken advice	Relevant to interviewee
Mortgages			
Pensions			
Savings			
Investments			
Family Protection			

Tell me about your attitude towards money and how it has been shaped – who has influenced you –[parents, culture, background, religion]

Tell me about the areas of your finances that you have taken advice on  
 What was the advice about  
 who deals with household finances  
 do you feel confident making financial decisions – if so which ones

do you believe that state benefits would cover living expenses if unable to work

7. Mortgage – you indicated in the questionnaire that you had taken financial advice with respect to mortgages;

Why did you take advice

Why did you think this was something you needed advice about

Did you find the advice valuable

How did you find the adviser - What resources did you use to find an

adviser [family, friends referral, papers, bank, internet, telephone, other]

Why did you use this particular adviser

Did the advice provide the outcome you hoped for

How did you hope advice would help you

How did you feel after you had taken advice/action

How important was it for you to arrange a mortgage [and own a house] and what were the implications of not being able to do this.

You indicated in the questionnaire that you thought financial advice with respect to mortgages could help you in the future. Tell me why you think this. What particular aspects of advice would be particularly useful to you. How did you believe advice could help.

8. Protection of Income and assets. – you indicated in the questionnaire that you had financial advice with respect to protection of income or assets in the event of death, sickness, accident or unemployment. [if taken advice regarding mortgages, did the adviser also discuss the risks to which you are exposed as a mortgagee]

How would you and your family cope financially if you or another family breadwinner were;

Off work through sickness, accident or unemployment

Does your employer pay you if you're off sick? For how long?

How would you cope after that.

Similarly if one of the family breadwinners died, how would the survivors cope?

Why did you take advice

Why did you think this was something you needed advice about

Did you find the advice valuable

what was the outcome of the advice

How did you find the adviser - What resources did you use to find an adviser [family, friends referral, papers, bank, internet, telephone, other]

Why did you use this particular adviser

Did the advice provide the outcome you hoped for

How did you hope advice would help you

How did you feel after you had taken advice/action

Were there any areas of risk remaining after action was taken or were all risks covered.

How important was it for you to that you and your family were protected against these risks we've just discussed.

### 9. Savings & Investments.

You indicated in the questionnaire that you had taken advice with regard to savings or investments.

Why did you take advice

Why did you think this was something you needed advice about

Did you find the advice valuable

what was the outcome of the advice

How did you find the adviser - What resources did you use to find an adviser [family, friends referral, papers, bank, internet, telephone, other]

Why did you use this particular adviser

Did the advice provide the outcome you hoped for

How did you hope advice would help you

How did you feel after you had taken advice/action

Timescale to enjoyment of Benefit. [Planner or a Doer]

- Do you save with no particular objective in mind – (Rainy day saver)
- Do you save with a spending objective in mind/the driver of saving – (Instrumental Saver)
- Do you live for today and not bother about the future or are unable to save as you are hampered by borrowing/debt
- Do you have any particular savings goals.
- Do you have an emergency fund
- How do you think that advice did/would have helped you achieve your savings goals
- How important was it for you to that you saved/invested money to achieve your objectives.

[where participants have invested ask them why]

#### 10. Pension planning.

How much income do you think you will need when you retire compared to your current income.

Do you think you will have this amount of income in retirement

If no, how much

When do you plan to retire.

How important to you is it to have this amount of income in retirement

How will you cope if you don't

Tell me what current arrangements you have put in place for retirement

You indicated on the questionnaire that you had taken advice regarding pensions.

Why did you take advice

Why did you think this was something you needed advice about

Did you find the advice valuable

what was the outcome of the advice

How did you find the adviser - What resources did you use to find an

adviser [family, friends referral, papers, bank, internet, telephone, other]  
 Why did you use this particular adviser  
 Did the advice provide the outcome you hoped for  
 How did you hope advice would help you  
 How did you feel after you had taken advice/action

**11. General Questions.**

a). Value of Advice. [does the participant believe financial advice can help them].

You indicated in the questionnaire that you may/may not take financial advice in the future regarding;

	YES	NO	I don't know
A Mortgage	X		
Joining/starting a pension scheme	X		
Savings	X		
Investments	X		
Protecting income or assets in the event of death, ill-health or redundancy	X		

Do you think taking financial advice would;

- help you live more comfortably on your income,
- or – you would cope in a similar way to prior to advice
- or - make it more difficult in the immediate/short-term future [cost implication]

- What do you Know about advice services
- how do you think it could help you
- who would you go to for advice
- why would you do this
- do you think advice is value for money
- how much would you be prepared to pay for advice
- how often do you think it is worth taking advice

In the questionnaire you rated the following aspects of advice;

Statements	Very useful	Fairly useful	Not very useful	Not at all useful
a). Advice on the most suitable product or service to meet your need	X			
b). Reassurance that you were doing the right thing	X			
c). Guidance on level of cover and amount you should save	X			
d). Assistance with completing the required application forms	X			
e). Information on the right sort of adviser to contact	X			
f). Guidance on how to contact a suitable adviser	X			
g). A Full Financial health-check that reviewed all your existing arrangements and identified areas at risk.	X			

Tell me why you thought these aspects of advice were important.  
which was most important  
Are there any other parts of a service that you think are important.

b). Accepted Behaviour

- is it a social norm – you said in the questionnaire that you thought friends and colleagues have taken financial advice
  - o tell me about how you think this may have helped them
  - o do you know how often they take advice
  - o was this a factor in you taking/not taking advice – if friends/colleagues used these services how might this have influenced your decisions
  - o have they used different advisers for different objectives
- 

c). Trust

- Tell me whether you trusted the adviser that helped you and if so what initially made you feel you could trust him/her – what was the most important factor

<b>Initial Impressions of your adviser</b>
--

To what extent did you think he/she knew what they were talking about
To what extent did you think he/she was unbiased
To what extent do you think they took account of all points relevant to your circumstances
To what extent was what they said consistent
To what extent do you think they had your interests at heart
Were you sceptical about anything they said

- 
- Tell me about the type of person your ideal adviser would be
- Do you trust financial advisers [your adviser if relevant]
- Do you trust the financial services industry
- Tell me about what things would be important to you regarding the FS industry

**d). Self-Efficacy.**

- practicalities of taking advice

What problems have you had/did you think you might face when trying to take advice

- practicalities of arranging products and how advice may help
  - o How do you think advice might help you overcome problems you had/thought you would have when trying to arrange financial products

**12. Structure of Service**

Tell me about the sorts of financial advisers and organisations you would ideally like to have available to you to provide advice.

**a). Industry Ethics**

- Do you believe that it has their interests at heart
- How do you think it needs to change

**b). Perception that for the Rich**

- Do you think that financial advisers firms are geared up to help people like you

#### c). Cost of Advice

- Tell me how you feel about the cost of financial advice
- You indicated in the questionnaire that the maximum you would be prepared to pay for a full financial review was £101 – 250

To complete a Full Financial Review [explain what this would involve] a realistic cost is somewhere between £500 and £1000

The way financial advisers are paid for pensions and investment advice is changing. In the past IFAs have been able to charge a fee or receive commission and tied advisers commission only. Often [although not always] advisers would complete a full review on the assumption that the client would buy a product that would then cover the adviser's costs. This led to concerns about biased advice and consumers feeling obliged to buy a product, legislation is being changed to try and separate the advice and sales process. From January 2013, for any investment or pensions advice, advisers will have to agree a charge with the consumer upfront rather than receiving a commission if a product is sold. If a product is purchased or advice relates to an existing product, then it will still be possible to deduct the advice charge from the monies invested.

How do you feel about these changes?

- Would you be prepared to pay for advice from your own resources
- If the cost was deducted from a new or existing product – how would this influence your decision

How do you think the Money Advice Service might help you if you needed advice.

#### d). Administration

- Have you ever experienced difficulties in dealing with financial services administration, call centres etc.
- Have there been errors in documents that have been difficult to resolve
- Do you think financial adviser firms could help you resolved these problems
- Would you be more likely to take advice if advisers – visited you at home/you could visit their offices/were available by phone & post/video phone?

e). Regulatory Policy

- how important do you think it is for financial adviser firms to be overseen by the an independent or Government body

What if this regulation makes it more difficult for people to access advisers

f). Conclusion.

We are now coming to the end of this interview, is there anything else that you feel is relevant to our discussions.

Thank you for your time and help with this project.

Gift for Interviewee? - Bottle of Wine/Tin of Biscuits/Box of Chocolates

**University of Birmingham**  
**Drivers and Barriers to accessing Regulated Financial**  
**Advice**  
**Topic Guide ( Financial Adviser Interviews)**  
**Telephone Interviews**

<b>1.INTERVIEWER DETAILS</b>	
Date	
Name of interviewer	John Moss
Interview start time	
Interview end time	

**2.INTRODUCTION**

Thank you very much for agreeing to be interviewed

My name is John Moss and I am working for the School of Social Policy at the University of Birmingham.

This study is about individuals' experience (or not) of accessing regulated financial advice. These issues are particularly important given the current economic climate and the research will highlight any problems individuals face in relation to accessing suitable advice services.

GO THROUGH PARTICIPANT INFORMATION LETTER  
 Have you any questions?

COMPLETE CONSENT FORM/RECEIPT

Ask about tape and switch on, with permission.

<b>3. INTERVIEWEE BACKGROUND</b>				
Name				
Age				
Sex				
Type of Adviser	IFA	Multi-Tied	Tied	
Network or Directly Regulated				
Time in Industry – how long have you been an adviser				
How and when did you start in the industry	IFA	Direct Sales Force	Broker Consultant	
	FS Administrator	Other		
Permissions in addition to CF 30	Mortgage	Discretionary	LTC	ER

#### **4. Introduction**

Context – Regulated Financial Advice - **Regulated Financial Advisers are individuals who generally provide advice on Pensions, Savings, Investments, Family Protection and Mortgages.**

Main part of study – interviews

Research ends next year - publication

Confidentiality, tape

Ground rules, no right/wrong answers I just want to hear about your experiences and concerns.

#### **5. Meaning of different words/phrases**

The research I have completed is suggesting that there are some barriers to consumers within the structure and regulation of advice services

What motivates your clients to come and see you/arrange a meeting

Tell me about how you explain to your clients the services you offer

Tell me about a typical client discussion

- [if I'd met you today for the first time – say pension review]

Tell me about a typical meeting when clients approach you with a particular objective

Do you immediately talk about this or do you try to cover area other than their immediate objectives

How do clients and potential clients respond?

- [when addressing other areas]

If so what sort of objections do you get

How do they think they'll cope if the unexpected happens

How does this make you feel

How do you address these

Is this different for servicing and new business?  
[likelihood of focused advice]

[I want to know whether they feel they are being intrusive?]

On what basis do you operate – face to face or by telephone and post/email/on-line/web-based

What do you think are the barriers that consumers face when trying to access advice

Awareness of what advisers do

Aware of risks to which they are potentially exposed

Finding an adviser

Inertia

What about trust – how do you develop this and gain the customers confidence

What about cost of advice – is this ever a barrier for consumers

Tell me about your fee structure

Tell me about the type of business you usually write. – what is your main focus

Does your compliance regime allow you to write business on a focused/limited advice basis or do you operate on a holistic basis

On what basis do you tend to operate mainly

Is it more likely you'll operate on a particular basis with existing clients

What do you think about the various reforms and in particular RDR

How do you think this will affect consumers accessing advice

What do you think could be done to improve access to advice

Are you familiar with the MAS Health-check – are you aware of any of your clients having used it.

How useful is this service?

In what ways

Are you familiar with the proposals for simplified advice

If so what do you think about them

How would they affect your business

What do you think about the demise of home service business – like Pru and CIS

How do you think the regulatory structure for advisers could help to make consumer access to advice easier

Can you think of any other barriers to accessing advice?

What are your thoughts about consumer financial knowledge

Louise to call re equity release

CHASM – research unit interested in ‘asset based welfare’ and the policy that influences consumers to accumulate assets.

Mailing list.

**Appendix 6.1 – Interviewees experiences of accessing advice.**

Group 1	Mortgage Advice	Mis-selling Concerns	Product or understanding	Business referral	Personal referral	Doorstep	Bank	Employer	Other
61 - Kazim	Y	Y	P	Y					
75- Jim		Y		No advice					
90 – Bryan	Y	Y	P						High street
132- Elaina	N		U				Y		
134 – Frank	Y		P				Y		
170 – Suzie				No advice					
179 – Kathy	Y		P & U		Y				
180 – Sarah	Y	Y	P						High Street
186 - Emily	Y		P	Y					
Group 2	Mortgage Advice	Mis-selling Concerns	Product or Understanding	Business referral	Personal referral	Doorstep	Bank	Employer	Other
08 – Mavis	N		U & P					Y	
10 – Heather	Y		P & U		Y				
21 – June	Y	Y	P & U	Y				Y	
60 – Eric	N		P & U			Y	Y		
62 – Marta	Y	Y	P & U			Y	Y	Y	
71 – Ronnie	Y	Y	P			Y			Cold call
73- Alan	Y		U & P	Y			Y		
95 – George	Y		P		Y				High street
101 – Tom	N	Y	P			Y			
147 – Ernie	Y	Y	U & P		Y		Y		High street
149 – Peter	Y		P		Y				
164 - David	Y	Y	U & P		Y			Y	

**Group 1** – interviewees who had taken no regulated advice or only mortgage advice and (possibly) associated protection.

**Group 2** – interviewees who had a broader experience of taking advice that may include mortgage and associated protection.

**Business referral** – where the interviewee has been introduced to an adviser by an estate agent or other professional introducer and where there is potential for gain for the introducer, in the form of commission from adviser or sale on own part. This could also include where advisers have actively pursued customers for referrals although there are no obvious examples of this within the sample.

**Personal referral** – where the interviewee is introduced to an adviser by a friend or colleague who has experience of that adviser's service.

**Doorstep** - where advice has resulted from an interaction with a home service adviser

**Bank** - where advice has arisen as a result of an approach by the interviewee's bank

**Employer** - where the interviewee has met an adviser via their employer. This may be the pension scheme adviser or a referral from an officer of the company who will have the employee's best interests at heart.

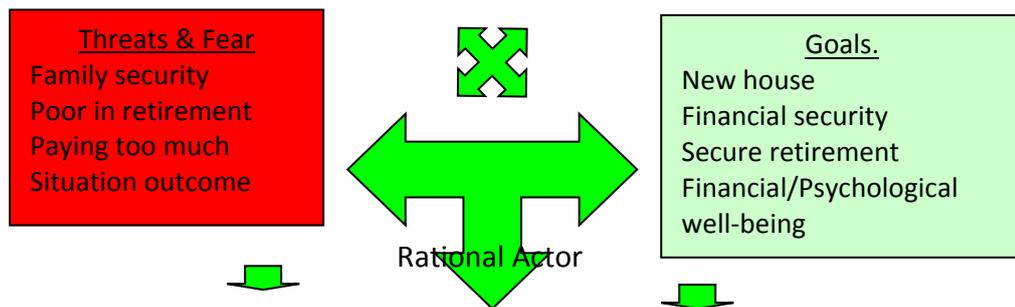
**Other** – where the interviewee has met an adviser by some other method. For example they have visited various banks or buildings on the high street, trawled the internet or received marketing information or a marketing call.

**Mis-selling** – this is whether the participant identified this as a barrier on the initial questionnaire (question 2 – see Figure 5.7).

**Product or understanding** – whether the participants initial reason for seeking advice was because they wished to arrange a product (eg. a mortgage) or whether they required to better understand a particular aspect of financial planning (eg. Investment ISAs or pensions). Of course it could be argued that this is never clear cut as somebody who goes to an adviser with the idea of arranging a mortgage will no doubt want to better understand the relevant issues , but I have attempted to make a judgment as to which was the key factor. The order of P & U denotes which I believe was the strongest motivator.

**Appendix 9.1.**

<u>Trigger Events</u>	
<b>Internal</b>	<b>External</b>
Memory Knowledge of Need Life-course Event Advice as Subjective Norm	Advice or referral from trusted source Family/Friend/Employer/Other professional Financial Health-Check, Publicity campaigns Others' negative experiences Social Norm



<u>Promoter</u>	<u>Consumer Intention Influencers</u>	<u>Inhibitor</u>
High .....	Trust.....	Low
High .....	perceived value of outcome.....	Low
High.....	perceived outcome expectancy.....	Low
Short .....	Timescale until outcome enjoyed.....	Long
Difficult .....	Coping strategy.....	Easy
High .....	perceived value of advice.....	Low
High .....	perception that it is accepted behaviour.....	Low
Like me.....	Messenger.....	Unlike me
	<u>Structure of Service</u>	
High.....	Industry Ethics.....	Low
For all .....	perception that.....	for the Rich
Consumers' interest at heart.....	Industry Culture.....	self-interest/Profit
Perceived as value.....	Cost.....	perceived as Expensive
Easy.....	Administration.....	Difficult
Easy.....	Accessibility of information or adviser.....	Difficult
Promotes ease of access.....	Regulatory Policy.....	Complex access

