



# Restoring Trust in Financial Services: Build on that which works

Association of Independent Financial Advisers



# Contents

1. Foreword: "Build on that which works"	/03	P. 02 Contents
2. Executive Summary	/05	
3. Introduction	/07	
4. Lack of Consumer Trust	/08	
5. Restoring Consumer Trust	/19	
6. Increasing the Market	/22	
7. Helping Individuals Improve their Financial Well-Being	/23	
8. Conclusion	/25	
Appendix: Manifesto for Advice	/26	
Sources	/27	

# 1. Foreword: “Build on that which works”

Foreword by Rt Hon. John Gummer MP

P. 03  
Foreword

It is a sad fact that just at the time when the UK public needs to have confidence in financial services, global economic events have shredded almost the last vestiges of trust we had in our largest financial services institutions. Of course, the retail financial services market, as a whole, seems to struggle with disappointingly low levels of trust from the buying public. It would be easy to dismiss the entire sector as one that was failing and where only wholesale root and branch reform was needed. Easy but wrong.

There is one part of the financial services industry that enjoys strong levels of consumer trust: the independent financial advice profession.

Unlike all other parts of the sector, the public’s trust in IFAs goes from strength to strength. Yet we recognise that perception often lags behind reality – sometimes even in policy making and regulatory circles. That is why we have taken the bold step of publishing the latest research findings from respected, impartial, organisations, all of which paint a picture which may surprise some people – though not the clients of IFAs.

The independent advice profession has been on a remarkable journey over the last decade. From its roots in various parts of the financial services community, the profession has grown in stature by investing in ethical conduct, gaining ever-higher levels of qualification – and stretching levels of competence until we arrive at a situation where now the IFA profession is the most well qualified part of financial services taken as a whole.

IFA firms have also changed as they have become more robust and scalable businesses.

Recognising their role as good corporate citizens, IFA firms offer pro bono services, advise clients across the socio-demographic spectrum, and also serve the needs of the wider business community by offering advisory services to corporates of all descriptions. One of the fastest growing aspects of the profession is advice on ethical investments, philanthropic giving and the environmental impact of business. This is not the end of the story however. The advisory profession is set to embark on the next stage of its development and, with the support of the regulatory establishment, will emerge stronger and larger.

**“There is one part of the financial services firmament that enjoys strong levels of consumer trust: the independent financial advice profession.”**

In 2008, AIFA published its vision for the future of the professional advice community, the “Manifesto For Advice”. It supported this agenda-shifting paper with new research which proved the value to individuals (and the Exchequer) of receiving financial advice. We start 2009, with another ambitious set of proposals. These can be summed up in a single phrase: “build on that which works”.

We are often confronted with issues where the answer is a simple one: facilitate more people receiving independent advice, yet this is the only answer left to one-side as the largest vested interests offer second best solutions or the work of the IFA is re-invented under a different and less appealing guise.

I hope that the message that shouts out of these pages is clear to all those who have a role in determining the future of financial services. Listen to the voices of the UK public, support the development of the IFA profession, and, in short, build on that which works.

I commend this research to you.

A handwritten signature in black ink, appearing to read "John Gummer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Rt Hon. John Gummer MP  
Chairman

## 2. Executive Summary

P. 05  
Executive Summary

There is growing concern about the decline of consumer trust in Financial Service Institutions (FSIs), a concern which has been exacerbated by the actions of some FSIs, changes in tax or regulatory policy, negative media coverage - and the events of the past year. Retail financial services has not experienced such a period of economic turmoil since the Great Depression. Few people would have predicted that major British banks would be taken into nationalisation and that leading players would be ushered into mergers.

Recent research confirms the significance attached to trust and suggests that consumers may have become disengaged from the financial services industry as a result. This disengagement means they are not making effective financial decisions, planning for their long-term financial well-being or making sufficient provision for themselves.

A Financial Services 'Trust Index' produced by the University of Nottingham on behalf of the Financial Services Research Forum (FSRF) provides a useful insight into trust in financial services, showing that many FSIs get their highest customer ratings in relation to 'ability and competence' in their field — i.e. in the area of 'low level' trust. But they find it much harder to present themselves to customers in terms of 'higher level' trust, particularly in relation to 'shared values'<sup>(1)</sup>. Data also shows trust is much lower for consumers who have a remote relationship with their FSI (i.e. via the internet) when compared with consumers who have a face-to-face and individualised relationship, such

as the relationship typified by IFAs and their clients.

Banks in particular have seen a notable decline in 'high level' trust findings between 2006 - 2008. However this is not the case for Independent Financial Advisers (IFAs), who are consistently found to be the most trusted of all FSIs - in terms of both low level and high level trust.

A major contributor to the general lack of trust in FSIs is confusion around the role of FSI representatives, as consumers are often unsure of whether they are getting impartial advice or being sold a product. The current disclosure regime fails to make this sufficiently clear – and often occurs too late in the process. A more radical approach is needed if this problem is to be cured.

This is why AIFA believes there needs to be a clear separation of independent advice from all other types of services offered by other FSIs, so people will be clear about the motivations of the FSI – and the remit of the individual with whom they are dealing. Without establishing this simple 'start point' trust cannot be built and the public will not feel safe in re-engaging with financial services.

AIFA's proposals are for a market which is simple for the public to recognise and therefore easy to navigate, builds on consumer understanding of everyday words like "advice" and which throws open the doors to market improvement. Given the current economic conditions, there has never been a more

important time to relay to consumers the benefits of seeking independent financial advice, from someone who is on their side, and most importantly, how to find it.

It is also vital that public and regulatory policymakers and industry play their part in improving financial capability. The public are in a poor state of financial health and need help with the important decisions they have to make. Without such help, people will not fully engage with their financial affairs nor make effective decisions. A recent study proved it is those who suffer from poor financial management that most often need access to advice to help in better budgeting<sup>(ii)</sup>. A key insight from this study was that the biggest difference is made where people receive trusted advice, whereas the provision of information typically has a very limited impact.

The impact of restoring trust, and promoting the value of trusted advice, can therefore not be underestimated. By creating a better informed and more confident public, people will make better financial choices, saving them money in the short term and, in the long term, offering the opportunity to improve their income in retirement. It will also deliver significant long term benefits to the Exchequer, create a more efficient financial services industry and lead to a greater take up of financial products resulting in a larger market.

AIFA believes that the current regulatory reviews present an opportunity to significantly improve financial outcomes for the public, providing it makes absolutely clear to them the difference between independent advice and all other FSI models.

**“There needs to be a clear separation of independent advice from all other types of services.”**

### 3. Introduction

P. 07  
Introduction

Trust and trustworthiness are crucial to any exchange relationship, and nowhere is this more apparent than in financial services. The long-term nature of many financial products, their complexity, and the importance of financial assets to individual well-being, mean that customers perceive high levels of risk when making purchase decisions. They typically lack specialist knowledge and may have difficulty in judging product performance. The costs of making a mistake are considerable.

Faced with such risk and uncertainty, many customers are dependent on FSIs to offer advice and products of an appropriate type and quality - and must trust them to do so.

However, there is an ever-growing concern about the extent to which FSIs are trustworthy and the extent to which consumers feel able to trust them. This is due to a range of factors but the onset of the banking crisis has clearly contributed further to this concern. The last year has seen once 'solid' high street banks nationalised or merged, the slashing of interest rates, a multi-billion pound rescue package, and the seeds-sown for a dramatic rise in home repossessions.

Media coverage of the financial services sector - which has a tendency to highlight poor relationships between customers and FSIs, while also focusing on 'negative' stories - has done little to ease people's worries.

Unless action is taken soon to restore consumer trust and confidence in the financial services industry, the consequences for both the public and the industry could be disastrous.

This is a fact recognised by the Prime Minister himself, writing in the Observer in February that, "For, distant as the relationship between banker and client has become, the restoration of trust, the most precious asset of all, to the heart of that relationship must now underpin all that we do."

It is therefore crucial that the Government and regulators look to the sectors of the industry which are working successfully, and are most trusted by consumers, in order to build on that which already works.

**"The restoration of trust, the most precious asset of all...must now underpin all that we do."**

## 4. Lack of Consumer Trust

There currently exists a general consumer trend towards cynicism and distrust which appears to have become more prominent in recent times. This trend has been confirmed by research from the Financial Services Consumer Panel (FSCP), which claims “consumer trust in traditional institutions is in decline, as consumers lose their traditional deference to authority”<sup>(iii)</sup>.

On top of this, the Consumer Panel found there was a further trend towards cynicism and distrust “specifically within financial services”. The Panel says the perceived profit, rather than customer, focus of financial services providers is driving an increasing distrust of them. This has been further exacerbated by recent experiences and media exposés such as credit card and overdraft charges and also the coverage of problems with UK banks. Also, it seems that people are increasingly information savvy; they are able and likely to question information, its source, motive and uses. The role of the internet, as a ready information source, and debating forum, is key to a thorough understanding of the changing position. As such, these trends together bring about an increasing distrust of financial services.

Many of these conclusions are supported by the findings of the Financial Services ‘Trust Index’, developed at the University of Nottingham on behalf of the Financial Services Research Forum to monitor levels of consumer trust in the industry<sup>(i)</sup>. The

University has been producing the Index since 2005, and takes a forensically detailed approach to the research which aims to understand the influences on trust and benchmark the sectors within the industry.

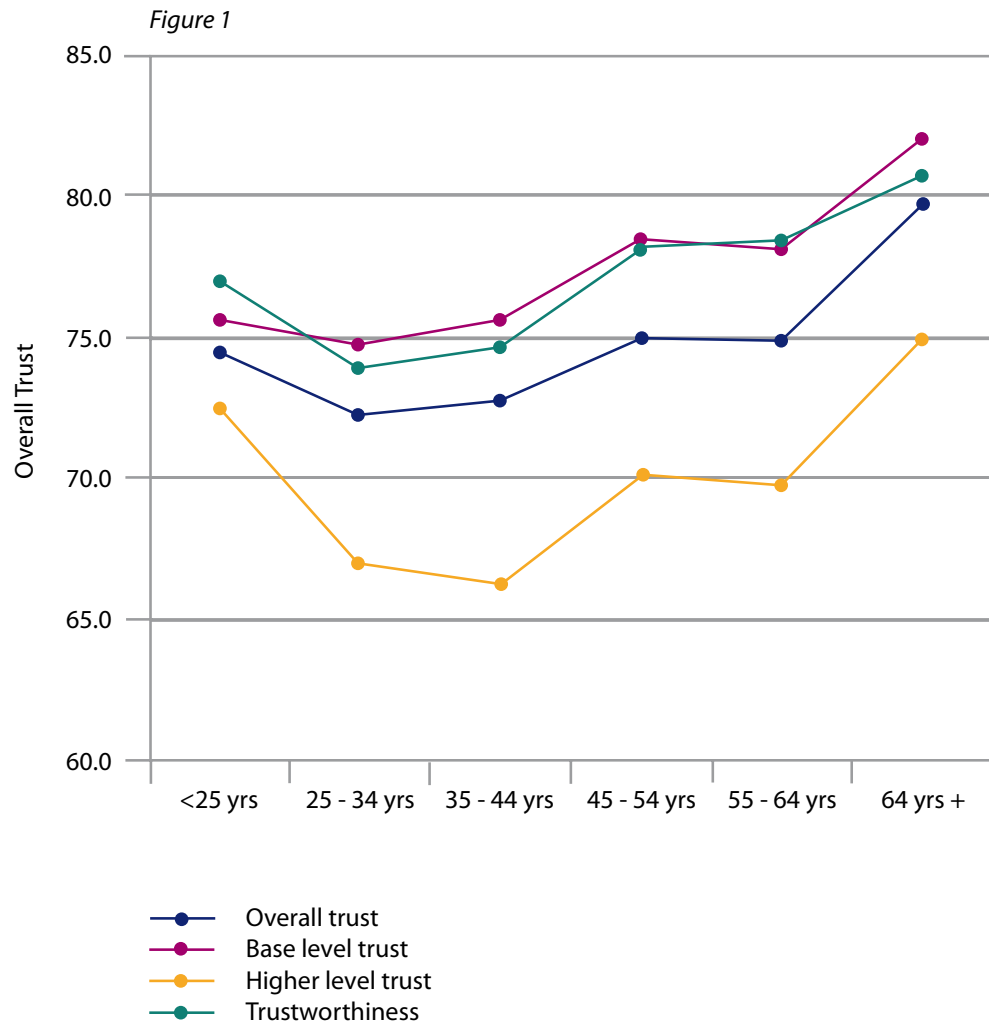
While previous surveys of the financial services sector have often been limited to simple yes/no answers, the Trust Index broadens this out by looking at how customers rated FSIs on two levels – low level trust (cognitive) and high level (affective) trust. Low level trust relates to the extent to which an organisation can be relied on to do what it says it will do and higher level trust relates to the extent to which the organisation is concerned about the interests of its customers.

The findings of the Trust Index indicate, for example, that many FSIs get their highest customer ratings in relation to reliability and competence in their field - i.e. in the area of ‘low level’ trust. But they find it much harder to present themselves to customers in terms of ‘higher level’ trust, particularly in relation to shared values. In other words, while many customers might trust their insurance company to operate efficiently in its sector, fewer feel that it has their interests at heart.

P. 08  
Lack of Consumer  
Trust

## Trust by Age Group

The analysis by age also suggests that the issue of consumer trust could be a serious cause for concern in the longer term. Those aged between 25-35 show significantly lower degrees of trust in FSIs, perhaps reflecting different experiences of the financial services sector. This is suggestive of a significant challenge for FSIs in the future management of their relationships with customers in this age group.



(Source: The Financial Services Trust Index 2009, University of Nottingham)

“IFAs are the most trusted FSIs”

## Trust by Channel

Another challenge for FSIs is the channel of interaction with consumers. Data from the Financial Services 'Trust Index' shows evidence of a decline in trust among users of internet channels and also shows that face-to-face relationships evoke greater trust than remote distribution. This face-to-face contact, and

the more individualised nature of the service, underpins the relationship typified by the IFA. It also suggests that other financial services organisations may need to pay particular attention to the extent to which service delivery is depersonalised.

P. 10  
Lack of Consumer  
Trust

## Trust and Trustworthiness by Institution

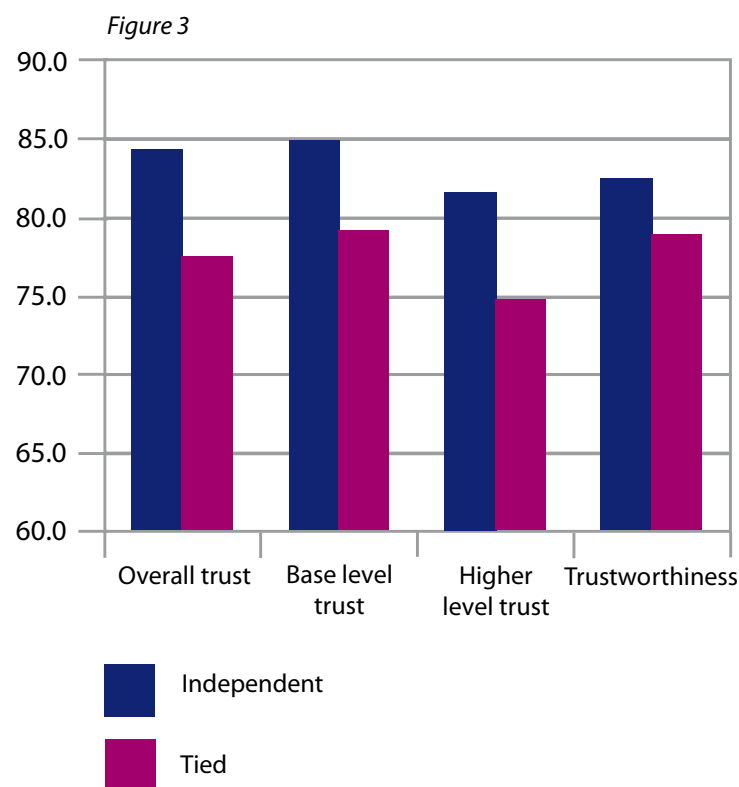
The 2009 Financial Services 'Trust Index' shows that IFAs are the most trusted FSIs in terms of base level trust, high level trust, trustworthiness as well as overall trust. IFAs are followed by investment companies, GHIs and building societies.



(Source: The Financial Services Trust Index 2009, University of Nottingham)

## Trust by Broker Status

Comparative analysis with the previous Trust Index Surveys shows IFAs have consistently been the most trusted FSIs since the Index was established. The ratings for advisers who are independent are higher than those for advisers who are tied.

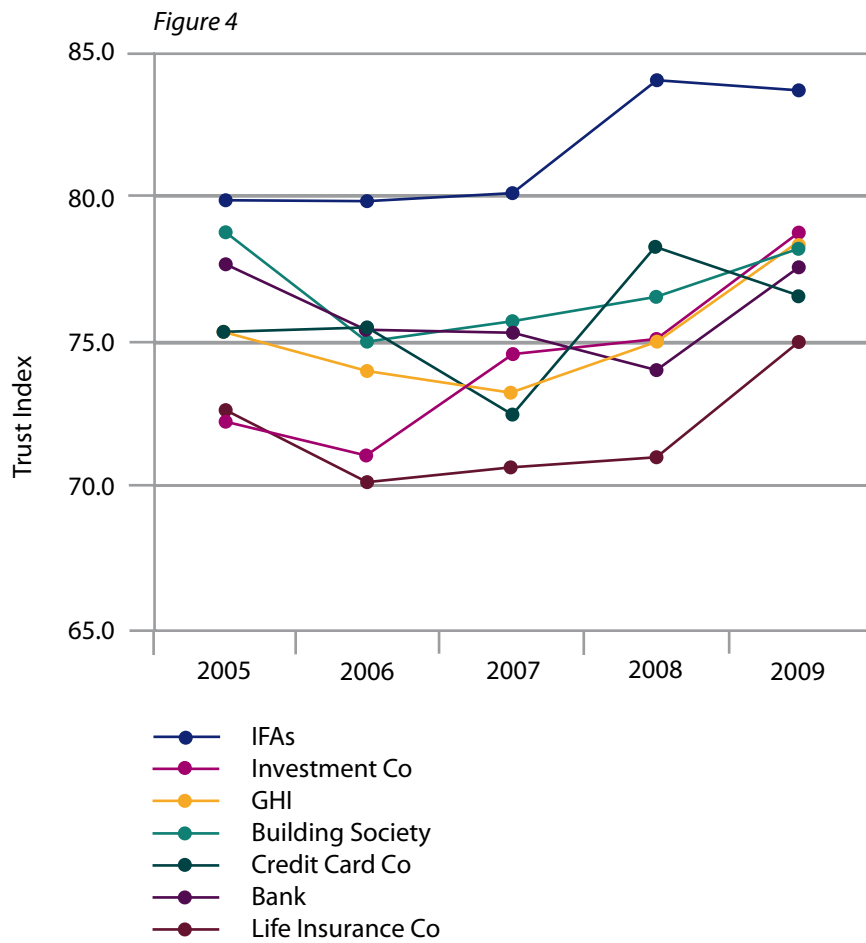


(Source: The Financial Services Trust Index 2009, University of Nottingham)

**“IFAs are more trusted than tied firms.”**

## Base Level Trust Over Time

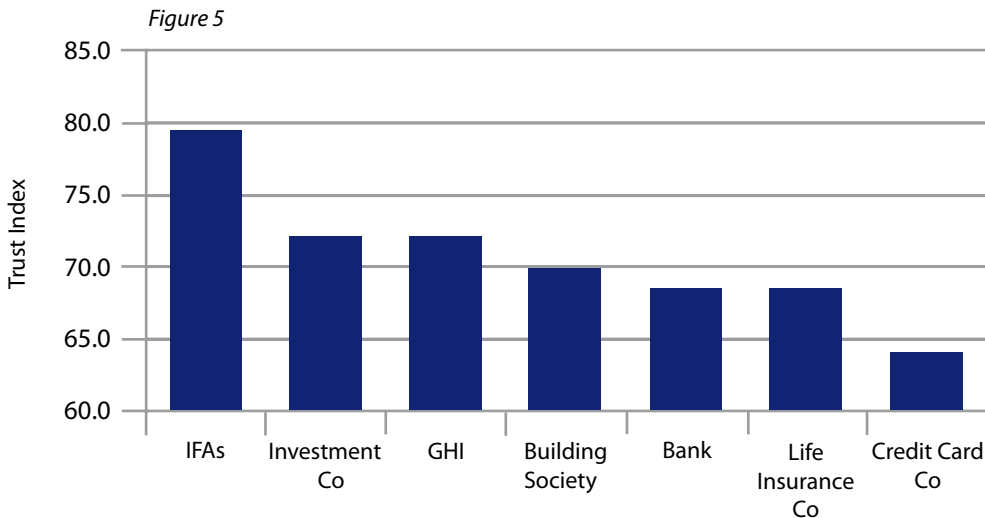
Low level or 'base' level trust relates to the reliability and dependability of an organisation i.e. the extent to which it will do what it says it will do.



(Source: The Financial Services Trust Index 2009, University of Nottingham)

## High Level Trust (2009)

High level trust for IFAs has also remained high over the past 18 months, no mean feat when the financial services industry is facing some of the worst economic conditions seen and is hardly out of the media's glare.



(Source: The Financial Services Trust Index 2009, University of Nottingham)

Therefore not only are Independent Financial Advisers (IFAs) consistently the most trusted of all FSIs, they also have consumers' high level trust as they are understood to operate on "shared values", picking up a phrase from AIFA's Manifesto for Advice <sup>(iv)</sup>. The public is growing to understand the IFA profession's core value: "The guiding light is to do well by the client".

Results from a July 2008, YouGov consumer survey confirmed these findings <sup>(v)</sup>. 86% of adults surveyed who had dealings with IFAs in the past 3 years, rated their services good or extremely good. 98% of consumers who already have an IFA state that it is their IFA who they trust most to offer financial advice. The YouGov research also showed that of the respondents who have had dealings with different FSIs in the past 3 years, 78% of those questioned trusted IFAs to treat them fairly; this is higher than the levels of trust consumers had in their dealings with banks, life insurance companies, pension providers and investment companies over the past 3 years. Eighty percent of those questioned were also confident that an IFA considered their personal needs above all else.

Tellingly, high level trust remains lower for all other FSIs. It is safe to assume that the impact of the difficulties faced by the sector in the wake of the banking crisis has lessened the extent to which consumers believe that financial services providers have their best interests at heart. Banks experienced a substantial decline in high level trust at the peak of the economic crisis, although thanks to the extensive Government backing

announced last year, consumers have now regained some degree of confidence in them, although they still remain one of the least trusted FSI.

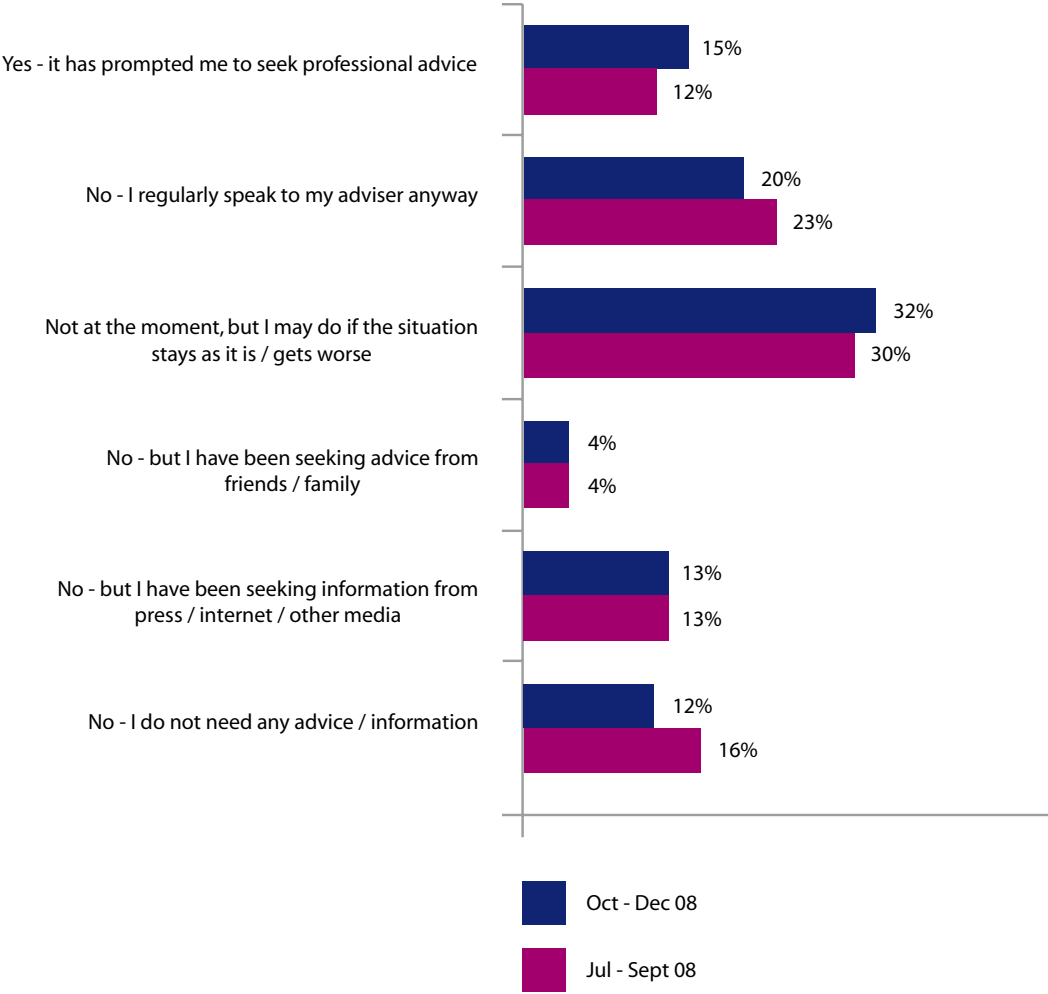
These findings are backed up by recent research from Which? that shows over a third of people (37%) think banks can not be trusted to act in the best interests of the UK economy, while 29% do not trust their bank to be sympathetic to them if they ran into difficulties <sup>(vi)</sup>. Additionally many people think that banks have been irresponsible with their lending too – 88% of people surveyed by Which? agreed that banks have encouraged excessive borrowing and 87% felt that banks should make better checks that people can afford to repay loans before they agree them.

While the turbulent market conditions may have damaged faith in banks and other FSIs, they have resulted in increased demand for the services of IFAs. 85% of IFAs surveyed by charity Turn2us in February 2009 reported an increase in the number of people coming to see them in financial difficulty in the last 6 months <sup>(vii)</sup>. The vast majority (95%) also expected to see a further rise in the 6 months to come.

Similar findings from research company NMG Consulting show investor attitudes are changing, and that a statistically significant number of consumers have been prompted to turn to IFAs for advice by the current economic conditions, and even more will be tempted to do so if the situation stays as it is, or gets worse <sup>(viii)</sup>.

# Impact of Current Conditions on Seeking Advice

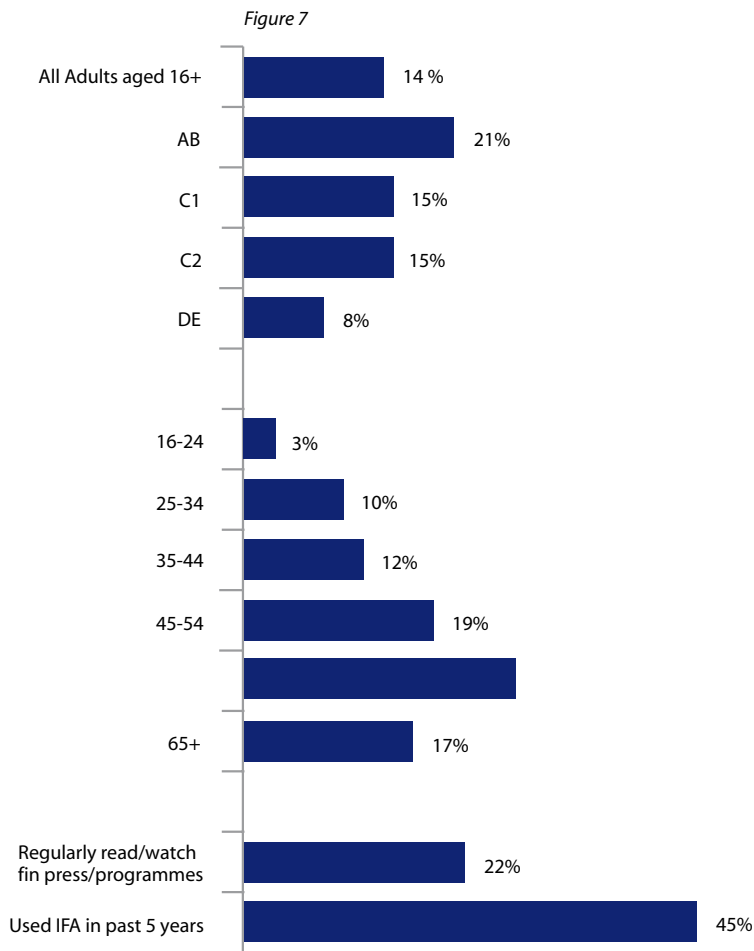
Figure 6



(Source: NMG Consulting, Investor Census July – Dec 2008)

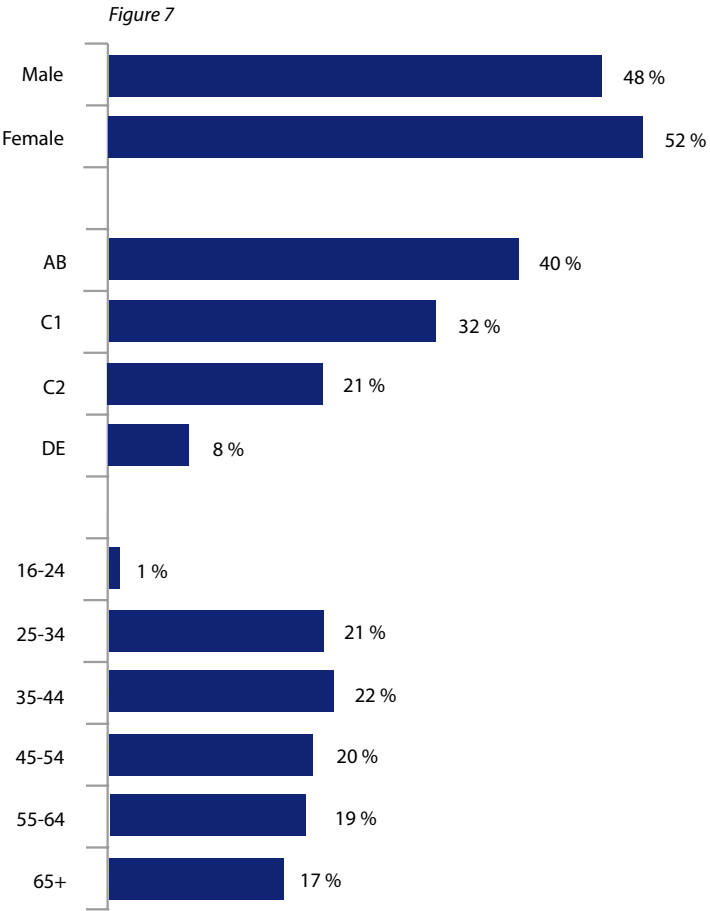
It is also important to note that independent financial advice is not just a luxury for the rich. While the AB socio-economic group is more likely to use IFAs, a significant percentage of the groups C1 and C2 would also go to an IFA first if they wanted to get financial advice tomorrow <sup>(ix)</sup>.

### First step for finding financial advice % saying “IFA on the high street”



## Profile for those who have taken advice from any IFA in the last 5 years

P. 18  
Lack of Consumer  
Trust



### In Summary

Several research sources confirm IFAs are consistently the most trusted of all FSIs, both in terms of people trusting them to operate efficiently in their sector, as well as trusting them to have their best interests at heart. This trust in IFAs has increased over the past 5 years, despite the economic turmoil and challenges of recent times. However, the same cannot be said for other FSIs who have seen their levels of trust not only remain low, but in some cases decline even further.

An increasing number of people from across the socio-economic groups are now turning to IFAs for advice to guide them through these difficult times, and these numbers are set to increase should the conditions continue or get worse.

## 5. Restoring Consumer Trust

P. 19  
Restoring Consumer  
Trust

A major problem is that the public are often confused about the role of FSIs as they are unsure of whether they are getting impartial advice or being sold a product. Research from IFA Promotions reveals 84% of UK adults admit they do not understand the roles and qualifications of the FSIs who claimed to be offering some form of 'advice'<sup>(x)</sup>. Indeed the ambiguity of financial services jargon misleads consumers and so perpetuates a feeling of mistrust in the sector.

This is why AIFA believes there needs to be a clear separation of independent advice from all other types of services offered by other FSIs. The focus of regulatory policy should assist the public in recognising which firms are independent and which are offering a different service. As the weight of evidence now shows, people want to know who to trust – and they trust the IFA profession over all other options. It would seem if regulatory policy was to help the public have the confidence to re-engage with their own long-term financial well being, it should **build on that which works**.

### AIFA proposes:

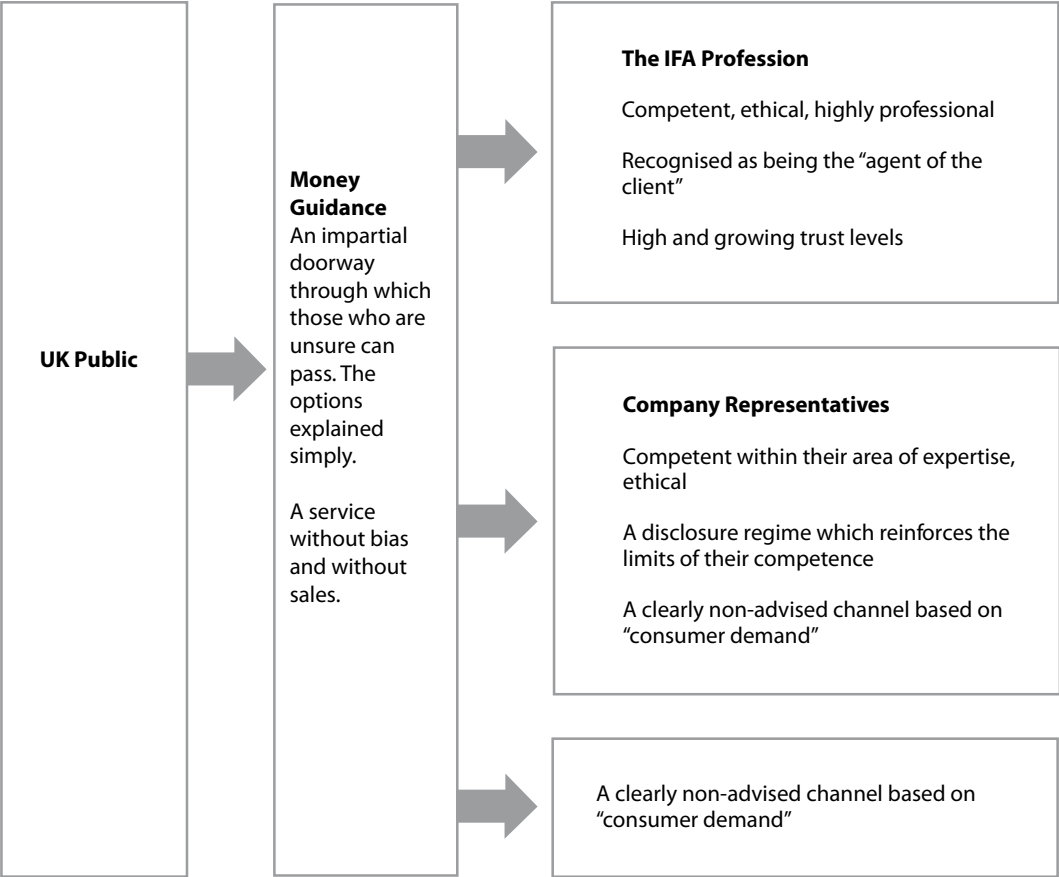
- A market which has the fewest possible divisions, is easy for the public to recognise and navigate.
- Provides new 'doorways' through which people can pass to find the most appropriate solution for them.
- Talks to the public in everyday language and uses common sense terms with 'Plain English' standards.
- Allows consumers to better judge value by helping them to recognise the services available to them – their scope, limitations and costs.
- Helps those who choose to access financial services recognise the rights they enjoy and the responsibilities they have. As well as ensuring those who decide not to access the market understand the results of that decision.
- A regulatory structure that values competition and diversity, promotes confidence in the system, provides incentives for firms who excel, and is focused on raising standards in a way that supports the development of the market.

AIFA believes that in this way, trust and confidence in retail financial services will be returned. As a valuable by-product, the regulator's current aspirations set out in the Retail Distribution Review, will be delivered.

**“Build on that which works: the IFA profession”**

# AIFA's proposed "market map"

Figure 9



These proposals are for a market which is simple for people to recognise and easy to navigate.

There should be total clarity of the available options - it should be easy for the public to tell who is offering them independent financial advice and who is selling them a product. It should build on consumer understanding of simple words like "advice" and encourage competition and higher standards.

This improvement is essential, for, as FSCP stated in its report, "the current advice landscape is characterised by confusion and negative emotions" (iii).

The report added that a clear distinction between those in the "sales" arena (labeled in fig (vi) as Company Representatives) and independent advice should "reduce distrust and confusion in the advice market and in theory may enhance the propensity of consumers to seek advice."

## Disclosure

All forms of disclosure to consumers, both written and oral, should be based on everyday language which moves away from industry jargon and allows consumers to easily understand what they are being told. It is crucial that the labels used to describe the FSI make absolutely clear to consumers the distinction between the various business models and what they can deliver.

Regulatory proposals to allow tied and multi-tied company representatives to call themselves 'sales advisers' (as currently set out in the RDR Feedback Statement, but which we label as 'Company Representatives' a clearer term in everyday usage) create a muddy middle ground which will only continue to confuse customers and damage trust. AIFA agrees fully with the FSCP which shares the belief that the term "sales advice" is "devoid of meaning"<sup>(xi)</sup>.

AIFA also strongly agrees with Which? when it says, "There has to be a clear distinction between those offering unbiased advice and those simply trying to sell products. It must be made crystal clear to consumers what type of service they are receiving and how they are paying for it"<sup>(xii)</sup>.

Consumers clearly value the concept of independent and unbiased advice. IFA Promotions found 95% of people believe it is important that the adviser can recommend the most suitable products from the whole of the market; and 88% say it is important that an adviser has no commercial ties to product providers<sup>(x)</sup>. YouGov consumer research commissioned by AIFA in 2007 produced similarly high statistics - 75% of those who receive advice from an IFA expect them to be someone that can select a product from the whole of market to best suit their needs while 73% of those questioned expect IFAs to work for their interest and not for anyone else's<sup>(xiii)</sup>.

Further research conducted by YouGov on behalf of AIFA in July 2008 showed 81% of the 2,453 adults questioned thought that knowing whether they were being sold a product or given personal advice would build trust in FSIs, while 77% of people thought knowing an FSI was 'on their side' would build trust<sup>(v)</sup>.

The research also indicated that when considering the most important features of an FSI, consumers believed that dealing with a firm that is on their side, or agent of the client, is a key consideration. This therefore makes clarity of the FSI's role the most important feature when consumers are considering who can help them and who they can trust. We believe this further underlines the importance of the differentiator that advisers work on behalf of, and as agents of, their clients.

It is also important that the disclosure regime insists that the limits of the firm's scope, and individual's competence, are set out clearly so that the client may better judge the value of the service offered.

## Financial promotions

Changes to the current disclosure regime are necessary – but not sufficient to bring significant improvement. The financial promotions regime must also be reviewed. Disclosure occurs once a potential customer has engaged with a firm, by that stage they may feel under pressure to continue with the process.

AIFA proposes that a new financial promotions regime is introduced which helps the public understand what the firm can offer them, even before they enter into a conversation. This would include not only above the line advertising but also the signage on any retail premises – and most certainly the firm's websites and all promotions.

# 6. Increasing the Market

In AIFA's recent research, 12% of those consumers who had not engaged with an FSI in the previous three years, attributed this to a lack of trust in the sector, and a further 8% said FSIs were too confusing to deal with <sup>(v)</sup>. AIFA believes that the restoration of trust could see the re-engagement of these consumers in financial services.

Other groups that are worthy of study are those who declared a lack of income for their disengagement with financial services and a third group which stated an "absence of need" for financial services. Restoration of trust through improved transparency could successfully address this. As research has proved (for instance that conducted as part of the AXA Avenue study)<sup>(vi)</sup> it is those who suffer from poor financial management that most often need access to advice to help in better budgeting. The research conducted by AIFA demonstrated that one-third of an IFA's meetings are about matters other than product recommendation and a significant proportion of this time is in helping with budgeting and financial planning to deliver better outcomes. Consumers need help to move out of overpriced, expensive debt, as the first step in their journey to a regular savings pattern.

Many IFA firms already offer pro bono advice to clients who cannot afford their services, or to charities and schools, while others encourage their advisers to assist in Citizens Advice Bureau.

If trust was restored and the aforementioned group of consumers re-engaged with a professional financial adviser, the implications would be a 25% uptake in professional financial advice. This would lead to a £650 million increase in new regular premiums on individual pensions alone <sup>(xiv)</sup>.

This is clearly a substantial market increase, and is just one area where increased consumer trust would bring large benefits to the wider economy, encouraging greater engagement and consumer responsibility.

AIFA's research also showed that with increased levels of trust, 60% of consumers would be likely to purchase products with 'product information only', and take responsibility for the buying decision <sup>(v)</sup>.

Only 22% were unlikely to do so. This is because of improved clarity and transparency, itself creating consumer empowerment and self confidence.

## 7. Helping Individuals Improve their Financial Well-Being

P. 23  
Helping Individuals  
Improve their  
Financial  
Well-Being

Given the widespread consumer confusion and the turbulent market conditions, there has never been a more important time to relay to consumers the benefits of seeking independent financial advice, from someone who is on their side.

A 2007 report commissioned by the Resolution Foundation from YouGov suggests that people in the UK are in a poor state of financial health, with parents in particular concerned about how their children will cope with the financial decisions they will face and large numbers of people regularly worrying about their finances <sup>(xv)</sup>. The Office for National Statistics report – Family Spending 2006 edition – also found that, excluding debt and mortgage repayments, the average household spends £43.90 a week, nearly 10% of their income on financial products and services <sup>(xvi)</sup>.

The Resolution Foundation argues that improved financial capability will deliver significant long term benefits to the consumer, the Government and the financial services industry. For consumers, it would lead them to make better product choices, saving them money in the short term and, in the long term, offering the opportunity to improve their income in retirement. It would also deliver significant benefits to the Exchequer by promoting personal responsibility, reducing welfare dependency and supporting a range of policies including efforts to reduce over-indebtedness, encourage people to save for their retirement and tackle financial exclusion.

The report claims that by creating more informed and confident consumers, improved financial capability would help promote a more efficient financial services market. It says it would also increase take up of certain types of products and improve the industry's reputation (as a more effective interface with consumers increases trust and reduces complaints), potentially leading to a reduction in the need for regulation over the long term.

As can be seen from our "market map" from fig <sup>(vi)</sup>, AIFA supports proposals for a Money Guidance service as set out by Otto Thoresen - we see it as an integral part of an improved, more trustworthy retail financial services landscape. A properly functioning Money Guidance service will be able to clearly signpost consumers into the "sales" channel for swift product purchase (where they take significant personal responsibility) or to the independent advice community, where they can be sure they will deal with an adviser who is on their side. It must operate independently of any part of the industry that has a vested interest in selling products in order to retain its impartial status and with it the confidence of consumers.

The CAB Moneyplan pilots proved very successful and demonstrated the need for a generic guidance service. It clearly showed that people will use it if it is made available to them. IFAs were happy to get involved with this scheme as they felt they were giving something back to the community.

The AXA Avenue study also recognises that people will need help with the various decisions they have to make <sup>(iii)</sup>. Without such help, people will not fully engage with their financial affairs nor make effective decisions. The study proved it is those who suffer from poor financial management that most often need access to advice to help in better budgeting. It also clearly demonstrated that those consumers who have had the benefit of IFA advice, prize it greatly. The challenge must be to promote the role and value of independent financial advice to a wider audience.

A key insight from the study was that the biggest difference is made where people receive trusted advice, whereas the provision of information typically has a very limited impact. The study stated that:

“The way that people behave in practice needs to be contrasted with what an economically rational person might do. The provision of information might give a person some of the data they need in order to be able to take personal responsibility: it does not however provide them with the means by which they can fulfill that responsibility. We do not think that perfect information is the answer to imperfect human behaviour – we believe that the answer lies in the provision of trusted advice.”

AIFA agrees that perfect knowledge is not the answer to imperfect human behaviour. Indeed FSA’s research into Financial Capability

entitled ‘A Behavioural Economics Perspective’ confirms that attempts to improve knowledge may not necessarily lead to better outcomes, and “what people choose to know and what they do with their knowledge may primarily depend on their intrinsic psychological attributes” <sup>(xvii)</sup>. Psychology therefore appears to be the main driver of what people actually do.

To improve financial capability it is therefore crucial to tap into this psychology and restore people’s trust. Consumers can be given all the financial information in the world but if they do not trust the information or the person giving it to them, then the information is ultimately pointless. Hence whilst information is an important building block, “advice” is the essential “ingredient X” that makes all the difference. Because the information is delivered by a trusted source, the IFA, people have confidence to act on it.

P. 24  
Helping Individuals  
Improve their  
Financial  
Well-Being

**“We do not think perfect information is the answer...the answer lies in the provision of trusted advice”**

## 8. Conclusion

P. 25  
Conclusion

There is no doubt that consumer trust in FSIs needs to be restored, and that this needs to happen soon if Britain is to emerge strongly from the current economic crisis. It also needs to be a priority for the longer term as consumers under 35 show significantly lower degrees of trust in FSIs than those above 35. This is suggestive of a significant challenge for FSIs in the future management of their relationships with customers outside this age group.

Given the last decade has seen the “democratisation of credit” as it has been called, the next decade must redress the balance and restore the “enfranchisement of savings”. This can only happen if people are encouraged to re-engage with their financial well-being, and this will only happen if they can trust FSIs to act in their best interests.

AIFA believes that the current regulatory reviews present an opportunity to restore consumer trust and significantly improve financial outcomes for consumers, providing it makes absolutely clear to them the difference between independent advice and all other FSI models. It is crucial that the labels used to describe the financial service representative make absolutely clear to consumers the distinction between sales and independent advice. Regulatory proposals to allow tied and multi-tied advisers to call themselves ‘advisers’ create a muddy middle ground which will only continue to confuse customers and damage trust.

AIFA proposals are therefore for a market which has the fewest possible divisions, builds on consumer understanding of simple words like “advice” and which rewards firms who excel. People therefore need to be absolutely clear as to whether they are receiving “independent advice” or being “sold” a product. It should also be made clear here that we see “independent advice” and “sales”

as two sides of the same coin; that they can and should be supportive and increasingly leverage better consumer outcomes. Further, we support the notion of a growing financial services market where the sales and advisory arenas work in tandem serving client needs. Indeed, if properly constructed, the two channels will be mutually supportive providing shared skills and generating better outcomes for consumers. The ‘myth of scarcity’ (that all financial services companies are fighting to serve a shallow pool of consumers) is just that; restoration of trust will lead to more consumers engaging with the financial services industry as a whole.

Some past attempts have not been successful because of pressure not to change from within the industry. However, it is a prize worth striving for - as more consumers will engage with retail financial services, and improve their own long term financial well-being as a result. Our own research indicates that a two-thirds reduction in the proportion of people facing finance stress can be achieved through receiving professional financial advice.

We estimate that such an approach will increase consumer engagement and lead to a larger market, delivering an increased tax-take to the Treasury (through more economically productive and active consumers) and a reduction in welfare state costs (as more consumers will have insurance-based cover to rely upon should the need arise). The societal benefits of consumers coming to terms with the understanding that they are ultimately responsible for their own long term financial well being should also not be underestimated and will have a positive impact across wider public policy. These things can be achieved by a regulatory structure which recognises the value of the IFA profession, listens to consumers and commits to **build on that which works.**

# Appendix: Manifesto for Advice

The Manifesto for Advice was produced by a representative group of AIFA's members to set out a clear vision for the future of the independent advice profession <sup>(iv)</sup>. The Manifesto was presented at a Parliamentary reception in January 2008, and received for the Government by Mike O'Brien MP (then Minister for Pensions Reform).

The Manifesto represents the core principles that underpin the profession and should be the foundation on which policy can be built as the public has expressed, loud and clear, its desire to access professional, independent, financial advice from a trusted source.

The core principles of the Manifesto for Advice are:

1. Professional financial advice is focused on the client. The guiding light is to do well by the client.
  - The primary interest of a professional financial adviser is to meet the needs of the client, whether or not this includes the sale of an appropriate product.
  - By contrast, the primary interest of a sales person is to generate revenue for his or her principal by selling products – this should be carried out as part of an ethical sales process.
2. Advisers have an obligation to deliver the most suitable advice in the interest of their clients.
  - The professional advice community exists to serve consumers who need advice about how to manage their financial affairs.
  - The public have a right to expect a high degree of professionalism, knowledge, and expertise in those who provide advice.
3. Advice firms should be free to operate commercially in whatever way best meets the needs of their business and clients, within the regulatory and legal framework.
  - In a market economy like the UK, the most efficient way to ensure that the supply of services meets the demand for them, is to allow the market to operate as freely as is reasonably possible.
4. Consumers should be able to obtain fair, expert advice from financial advisers in order to be come well-informed about the decisions and actions they need to take to improve their long-term financial situation.
  - It is unrealistic to expect the whole population to be able to understand the full complexity of their financial affairs, and make the best decisions, without access to expert advice.
  - If the country wishes to have its citizens making good decisions around their financial affairs, Government needs to actively remove barriers to them obtaining advice.
5. Providers of financial services and products have an obligation to support the market for fair and high-quality financial advice.
  - Advisers are dependent on the services offered by product providers and others, and need to be able to rely on them in the process of giving advice to their clients. Advisers and providers must work closely together for the benefit of the client.
6. Advisers have the right to expect a consistent, cost-justifiable and fair approach to their regulation.
  - Regulation is about protecting consumers. Maintaining and promoting their access to high quality advice is an important means of protecting consumers.

We believe that these are a fair and consistent set of principles upon which an effective and efficient market for advice can be built. The principles are expanded in the following sections, and their implications for a healthy market for financial advice are explored.

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P. 27  
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Ref 04/09V1

