

Rt Hon Frank Field MP
Work and Pensions Select Committee
House of Commons
London
SW1A 0AA

12 January 2018

Our Ref: SA171227E

Dear Frank Field,

Re: Automated Advice

Thank you for your letter of 20 December 2017 about automated advice. You have asked a number of questions on driving down costs for advice, outcomes testing and any lessons learnt. I will answer each question in turn, but before I do I thought it would be useful to give some background to this work on automated advice.

In August 2015, the Financial Advice Market Review (FAMR) was launched to explore ways in which government, industry and regulators can take individual and collective steps to stimulate the development of a market to deliver affordable and accessible financial advice and guidance to everyone.

FAMR's final report recommended that the FCA should establish an Advice Unit to support the development of automated advice tools. The aim of these tools was to provide low cost, high quality advice to mass market consumers looking for investment advice, protection, and retirement planning.

The Advice Unit was established in June 2016 specifically to work with firms seeking to develop automated advice solutions. The Unit is therefore still relatively young following the implementation of FAMR. This means while we have seen a few examples of lower cost advice models there are likely to be more in the pipeline as increased numbers of firms are accepted into the Advice Unit.

"Evidence that automated advice will drive down costs: Are the FCA aware, through the work of your Advice Unit, of examples that demonstrate how automated advice might be driving down costs?"

One of the criteria for firms seeking that assistance is that they intend to deliver that advice at a lower cost for consumers. Through both our work in the Advice Unit and our wider interaction with the advice market, we have seen a number of examples of firms seeking to offer lower cost advice.

One of the first firms to enter the Advice Unit, in August 2016, set out to develop a low cost advice model which it recently launched in November. The model has a flat advice charge of £10 to customers which, when compared to the average face-to-face charge of £150 per hour, is considerably less.

This is a positive development that we are looking to build on with other firms. We are seeing other firms putting forward proposals that are also seeking to offer cheaper advice across a range of investments including pensions, although many are not yet ready for launch. For example, some firms are currently providing automated advice and charging a flat fee of £50 with others charging around £100. We are also seeing firms opting for a different type of fee structure and opting instead a 0.5% charge.

The work of our Advice Unit continues, and in 2017 we accepted another 12 firms to take part. In June 2017, we announced we are accepting applications throughout the year, rather than on a cohort basis. We look forward to seeing more firms creating new and innovative ways of providing lower cost, suitable advice for consumers.

"Outcomes from automated advice: What work have the FCA done to date to assess whether automated advice is producing outcomes for consumers that are equivalent, or better, to what they might expect from face-to-face advice?"

As noted in our Business Plan, we are currently assessing the developing market of automated advice models in the investment advice sector. This includes reviewing models already providing advice, as well as new entrants to the market. This work will help to inform our regulatory strategy moving forward.

In addition, a number of firms have conducted small-scale tests in our regulatory Sandbox. The Sandbox seeks to provide firms with the ability to test innovative propositions in a controlled environment, reducing the time to market (with potentially lower cost), with support in identifying appropriate consumer protection safeguards to build into new products and services.

The Advice Unit and regulatory Sandbox have provided firms with an opportunity to ensure their product is suitable for rolling out to the wider market. In most cases qualified financial advisers are checking the outputs generated, to mitigate the risk of unsuitable advice being delivered. The findings of this work are being fed back to us on a regular basis by those firms enrolled in the Advice Unit.

It is also worth noting that, our rules require that where a firm gives investment advice this must be suitable for the client regardless of the channel through which it is delivered – this includes automated advice. The suitability requirements for automated advice are, therefore, the same as for all other forms of investment advice and allow scope for firms to offer both full advice and more simplified models

"Publication of test and learn reports: Have any such reports been produced, and if not, are the FCA able to share any lessons that have been learned as part of the testing of automated advice so far?"

Following the establishment of the Advice Unit, we committed to publish available tools and resources for all firms developing automated advice propositions. Last year we developed some of the most common areas where individual firms have sought our guidance into case studies for the market as a whole. These have been published on our website and can be found at www.fca.org.uk/publication/finalised-guidance/fq-17-08.pdf.

The case studies cover issues such as assisting clients through the automated advice process, advising clients with uncertain investment needs and the timing of disclosing information to clients. The feedback we have had from stakeholders is that they welcome the case studies as a useful resource for firms who are seeking to understand our rules in this area. We also

published in June 2016 signposts to rules and guidance which may be useful to financial advice firms – this can be found at www.fca.org.uk/firms/advice-unit/rules-guidance. We intend to publish further guidance in 2018 to reflect our continued work with firms in the Advice Unit.

I hope this helps to explain the work being doing on automated advice by our Advice Unit and regulatory Sandbox.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Andrew Bailey". The signature is written in a cursive style with a large, sweeping flourish at the end.

Andrew Bailey
Chief Executive