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The future of financial advice in a post-polarization marketplace

A new CSFI paper by Stuart Fowler

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This report is the product of a working group that we set up in the summer to look at the impact that CP121 and the Sandler Review would have on the structure of the retail financial services industry in the UK. Is there any hope for the IFAs? Who will be the new players in the market? And is there any more mileage in voluntarism when it comes to making provision for retirement and old age? Or (as Frank Field suggests) is compulsion the only way?

Around a couple of dozen people participated in the working group – some anonymously and all in a personal capacity – and all of them have made an important contribution to this paper. However, it has been written by Stuart Fowler (whose previous book, *No monkey business*, was an extremely well-received dissection of the UK retail savings industry); although he has tried to take into account the hundreds of comments from working party members, in the end it is his report – though I think we managed to change his views in some important ways.

The main conclusions of the paper are:

- that things cannot go on as they are: In a low inflation world of historically low equity returns, the high cost of active fund management and the hidden fees of a commission-driven business model will become (indeed, already are) utterly unacceptable.
- that we have got to increase the number of people saving: Given how savers are currently being treated, that's not so easy – but it is a major job for government and the industry. We need new products, and we need new ways of selling them. We also need a campaign of tax rationalisation and simplification so that those whom we are most anxious to bring into the savings net are not (as they are now) disincentivised from coming in.
- that we have got to dump commission-driven selling: Stuart is even tougher than Sandler on this – and more optimistic than either Sandler or CP121 that an economic case can be made for fee-for-service investment advice.

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- that we are going to have to drive the cost of financial products right down: Stuart is a techie, and he believes that back and front-end technologies will make an enormous difference (eg portable fact-funds, intelligent agents etc). But he also believes that consolidation in the industry will mean lower costs.
- that consumers are not stupid, and should be given more freedom to invest: This is where Stuart parts company with other commentators. Sandler, for instance, believes a “safe” product is one that is, effectively, a balanced equity fund – and that is what he advocates for *hoi polloi*. Stuart argues that all the regulator should do is make sure a product is fairly labelled as to what it does and where it stands on the risk spectrum – then the consumer can make up his/her mind whether to buy it.

I think this is an important report – and an important step beyond Sandler, Pickering, Myners and CP121. Inadequate private provision for old age is the biggest challenge we all face, and resolving the problem must be government’s top priority.

Andrew Hilton
Director, CSFI

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