OpenMoney

The UK advice gap:

are consumer needs for advice and guidance being met?

We're here.

For millions of you, not just those with millions.

OpenMoney combines online financial advice with intuitive money management tools to help you make the most of your money.

Manage it. Save it. Invest it.

At last, financial advice for all.
www.open-money.co.uk

OpenMoney

Welcome

> "There's a justifiable belief that traditional face-to-face financial advice is only accessible to those who have already accumulated wealth"

At OpenMoney we speak to customers every day and are all too aware of the financial advice gap. Our advisers talk to people aged 18–75 and often it is the first time they have sought financial advice.

Many haven't taken advice before because they thought it was too expensive, while others felt they would be overlooked by advisers as they had a relatively small amount to invest. There's a justifiable belief that traditional face-to-face financial advice is only accessible to those who have already accumulated wealth, typically those who are approaching or at retirement.

Yet we don't believe it's all about price and wealth. Research conducted by Citizens Advice in 2015* identified four advice gaps:

1. The **affordable advice gap** affects consumers who are willing to pay for advice but think it is too expensive.
2. The **free advice gap** affects people who want advice but are unable to pay for it and are unaware of, or unable to access, free services.
3. The **awareness and referral gap** affects people who do not know where to get advice.
4. The **preventative advice gap** affects those for whom non-money issues can impact their financial position.

With this paper we build on the Citizens Advice research to understand the extent to which these gaps still exist and if the availability of advice services has improved over the last four years. We also identify what steps advisers, providers and government should be taking to help bridge the advice gaps and make suitable financial advice accessible and affordable for all.

Anthony Morrow
CEO OpenMoney

* www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-four-advice-gaps/

Executive summary

Free Advice Gap	Affordable Advice Gap	Awareness & Referral Gap	Preventative Advice Gap
19.8 million[1]	5.8 million[2]	15.2 million[3]	20.8 million[4]

Although eight out of ten people say they are comfortable managing their money, in the last 12 months, almost half ran out of money before pay day. Financial difficulties appear to have a variety of causes, from unexpected one-off costs and significant life changes, to income not meeting essential expenses and difficulty keeping up with debts. Unfortunately, money issues mean many are unable to save for the future or buy the things they need.

Although a lot of people cut back on spending or budget more carefully to resolve their financial problems, a significant number dip into savings, borrow from friends or turn to credit. Fewer than one in ten seek financial advice.

In fact, since the Citizens Advice research in 2015, all except the preventative advice gap have widened. The free advice gap and the awareness and referral gap have both increased significantly.

2015	2019
5.4 million	5.8 million[2]

Around **400,000** more people fall into the **affordable advice gap** than in 2015. The research suggests that up to **5.8 million** people would be willing to pay for advice if the perceived cost was less.

2015	2019
14.5 million	19.8 million[1]

The **free advice gap** has increased by over **5 million** people in the last four years. We found that up to **19.8 million**[1] people who feel they would benefit from free advice have not received any in the past two years.

2015	2019
10 million	15.2 million[3]

The **awareness and referral gap** has increased by over **5 million** people since 2015, with as many as **15.2 million**[3] people who would benefit from free advice not aware of public financial guidance.

2015	2019
23 million	20.8 million[4]

The **preventative advice gap** affects those who would benefit from having money advice as a preventative measure. We found that as many as **20.8 million**[4] people have fallen into a preventative advice gap at least once in their life, down from **23 million** in 2015.

The next step – and a challenge to everyone involved in both free and paid-for advice – is to identify how we can reduce these advice gaps and then take action to improve awareness, understanding and take-up of financial advice across the financial spectrum.

1 This is based on 39% of the GB population estimate of 50,644,094

2 This is based on 12% of the GB population estimate of 50,644,094

3 This is based on 30% of the GB population estimate of 50,644,094

4 This is based on 41% of the GB population estimate of 50,644,094

Scene setting part one: defining the advice gap

People falling into the financial advice gap tend to be described as those who would benefit from financial advice, usually to support their long-term financial needs, but who are unable to pay for it. The Retail Distribution Review (RDR), which came into force in December 2012, is often blamed for creating, or at least contributing to, the advice gap.

> "Since 2012, we have seen the rise of 'robo-advice', which is often touted as filling the mass market gap"

The RDR examined financial adviser sales of investment products and led to tighter regulation around retail investment advice and a ban on the commission advisers could make selling certain funds. These new rules effectively forced mass market providers like high street banks to leave the financial advice space. Financial advisers who have succeeded post-RDR have generally migrated towards the wealthier end of the market to remain profitable in the face of expensive regulatory and staff costs.

In a 2016 survey, conducted on behalf of the Association of Professional Financial Advisers, 69% of advisers said they had turned away potential clients over the last 12 months. The most common reason for this was affordability, with 43% of advisers turning away clients stating the advice services offered would not have been economic given the circumstances of those clients[5].

Since 2012 we have seen the rise of 'robo-advice', which is often touted as filling the mass market gap. In theory, by using technology to replace certain human functions, these providers can offer a more cost-effective route to investing. But while some digital providers now offer one-off advice, many simply offer online investment management without real financial advice and personal recommendations. Without offering ongoing advice which looks at a customer's full financial picture, these digital wealth managers simply cannot replace the service provided by fully regulated professional financial advisers.

And although price and wealth undoubtedly contribute to the advice gap, our experience from talking to customers who desperately want advice suggests these are not the only factors. This tallies with research published by Citizens Advice in October 2015, *The Four Advice Gaps: An analysis of the unmet consumer needs around financial advice and public financial guidance*[6]. In that research, Citizens Advice argued that rather than one single advice gap, there is actually a series of gaps which are leading to a huge number of people missing out on the advantages of money advice.

They identified these gaps as:

1. The **affordable advice gap**, which affects consumers who are willing to pay for advice but think it is too expensive.
2. The **free advice gap**, which impacts those who want advice but are unable to pay for it and are unaware of, or unable to access, free services.
3. The **awareness and referral gap**, which covers individuals who do not know where to get advice.
4. The **preventative advice gap**, which involves those for whom earlier access to advice could stop non-money issues impacting their financial position.

This paper reviews these advice gaps: do they still exist, are they growing or shrinking? It also looks at the people behind the gaps: what type of financial advice they would benefit from — is it access to investment advice that is lacking, or more fundamental money management advice? Is part of the problem a lack of confidence in making decisions around finances, or lack of knowledge of the different products and services available?

[5] www.fca.org.uk/publication/corporate/famr-final-report.pdf

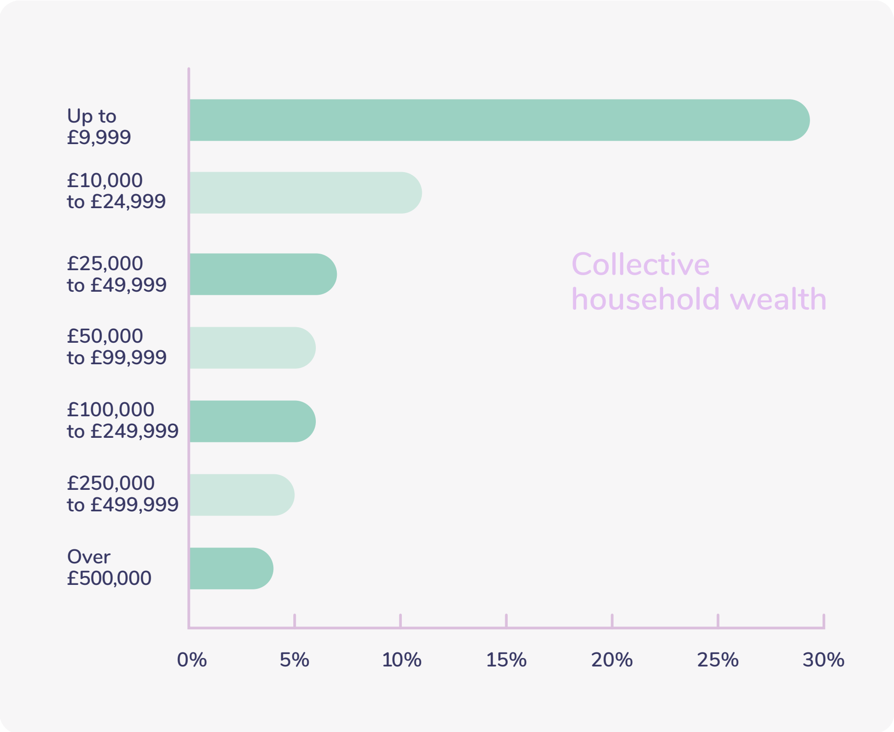
[6] www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/Fouradvicegaps.pdf

Scene setting part two: defining our sample of UK consumers

The research fieldwork was undertaken by YouGov between 30 and 31 January 2019. The total sample size was 2,088 British adults and the survey was carried out online. The figures have been weighted and are representative of all adults (aged 18+) in Great Britain. Where population figures are given, OpenMoney has extrapolated the YouGov findings to the GB adult population of 50,644,094 people (source ONS, June 2018). Figures may not add up to 100% due to rounding, some questions having more than one answer and respondents declining to answer, or not knowing the answer to, certain questions.

The basics

- **Respondents:** 2,088 people, of whom 51% are female and 49% male.
- **Employment:** 43% work full time and 17% part time, while 22% are retired, 5% are students and 3% are unemployed. A total of 9% are either not working or 'other'.
- **Gross household annual income:** 30% of our sample earn less than £25,000 (with 7% earning less than £10,000). The majority (31%) earn between £25,000 and £49,999, while a further 16% earn between £50,000 and £99,999. Only 3% earn in excess of £100,000.
- **Gross personal annual income:** we see a similar pattern here, but with higher percentages at the lower end of the scale. 18% of respondents earn less than £10,000 with the majority (again 31%) on between £10,000 and £24,999. A further 26% bring home £25,000 to £49,999 with just 6% of individuals earning more than £50,000.

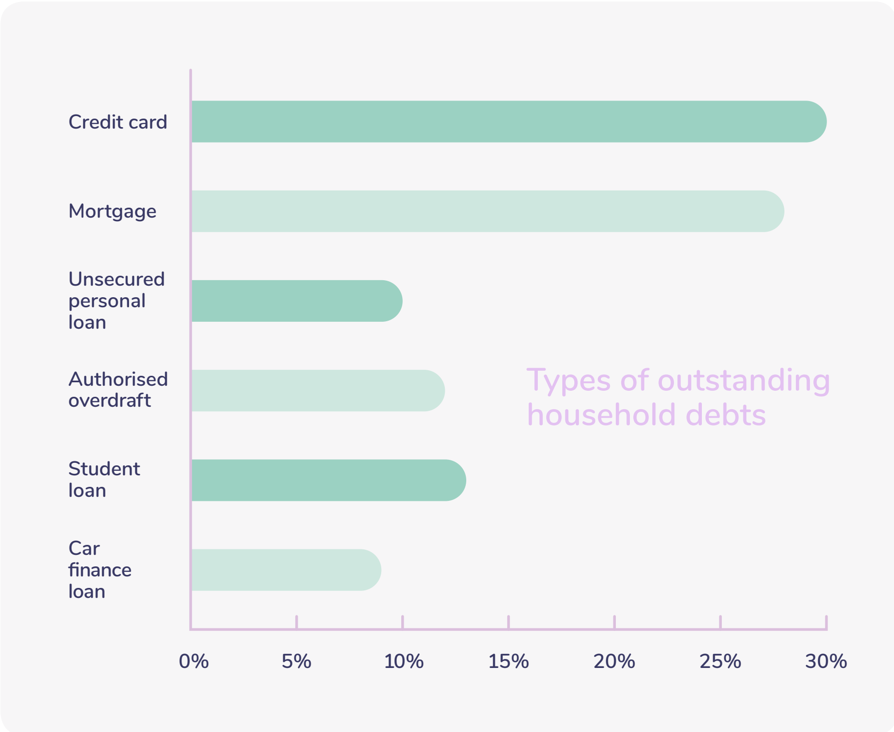


Estimated wealth and assets versus outstanding household debts

Wealth first, by which we mean the total value of all savings, investments and properties other than a main home as well as pension funds for those who are already retired. It's clear that the majority of households do not have a great deal of money saved or invested, particularly if the sums mentioned here include a cash buffer for emergencies.

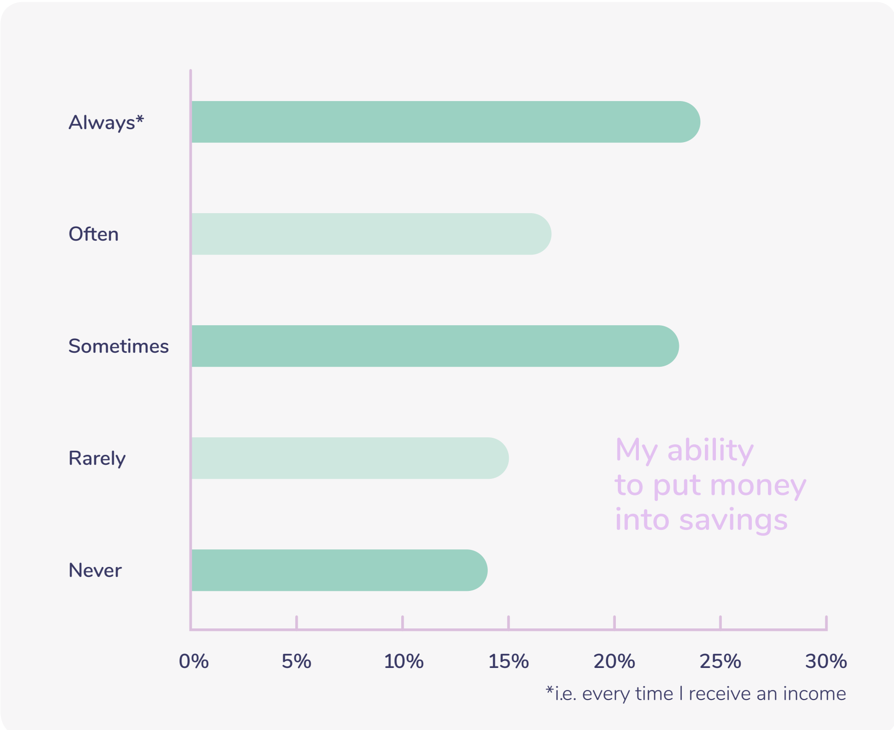
Moving on to debts and the most common by some way are mortgage and credit cards.

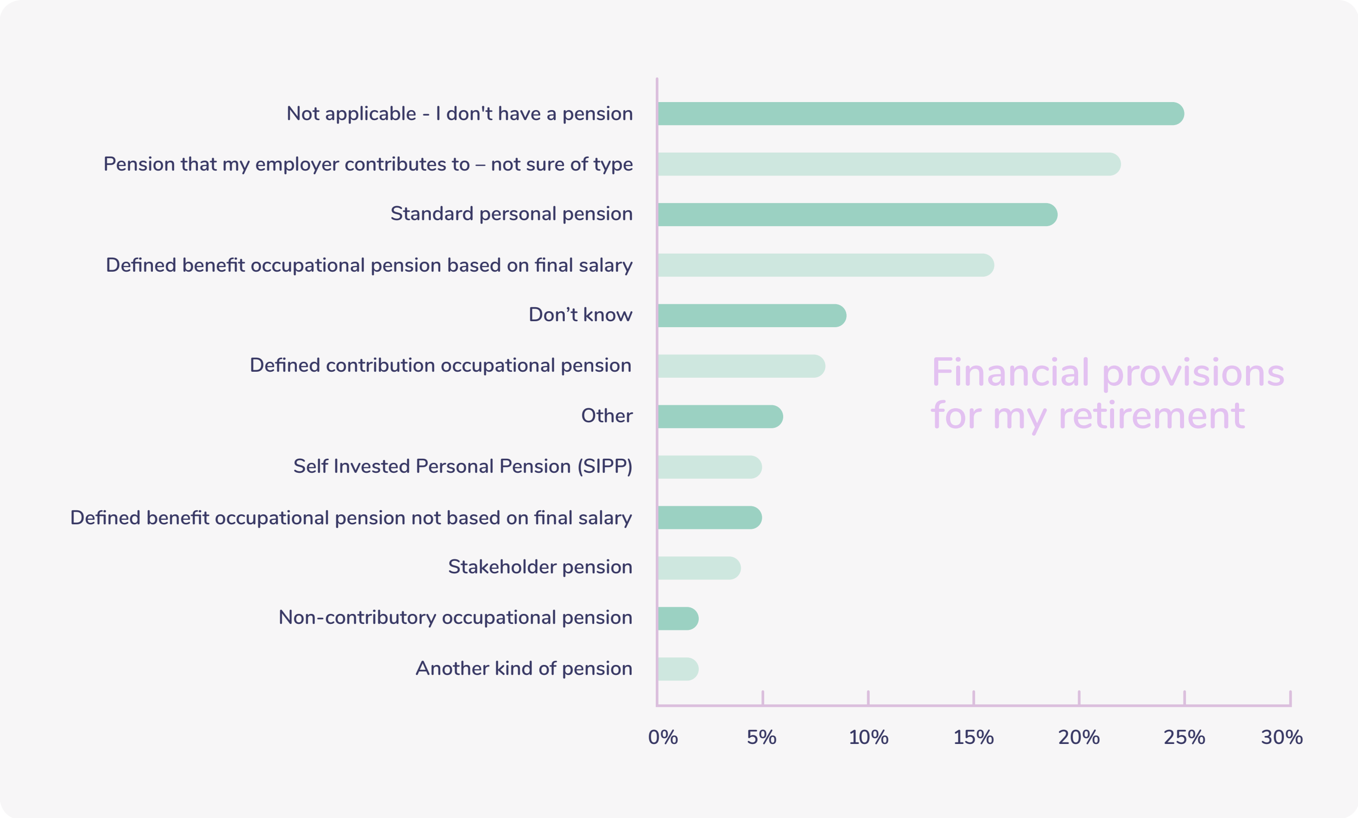
Just over half (51%) of our respondents are keeping up with their bills and credit commitments without any difficulties, while a quarter (26%) are keeping up but struggle from time to time. A further 10% reported that they constantly struggle but only 4% have actually fallen behind with payments.



Looking to the future

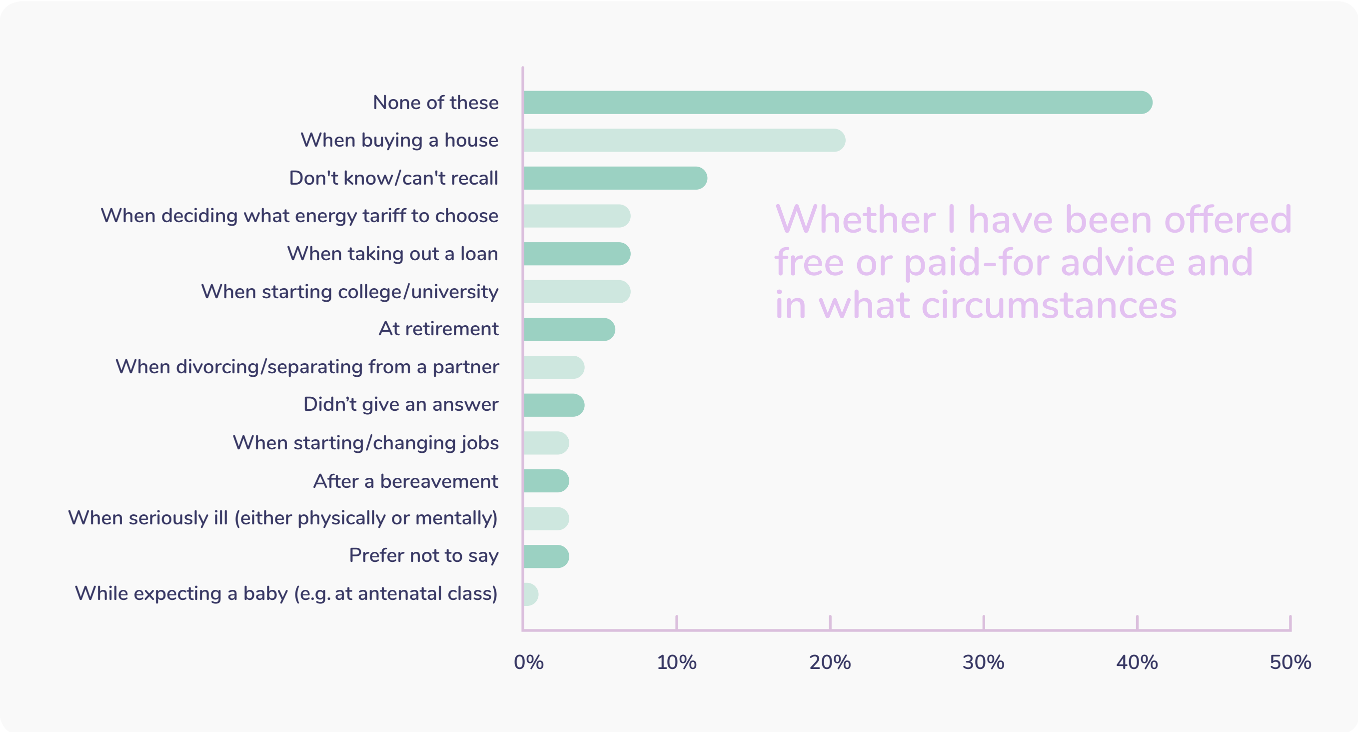
While they don't have large sums of money saved or invested, it's encouraging to see that the vast majority are saving something on a regular basis and have some pension provision in place. However, the fact that a quarter (25%) have stated they have no pension provision, despite automatic enrolment, gives cause for concern.





Financial advice can play a critical role in making decisions around debts, savings and pensions – decisions that will have a long-term and far-reaching impact on our lives.

However, 41% of our sample have never been offered either free or paid-for money advice. Where advice has been offered, this is typically in relation to a mortgage.



Dealing with money issues and debt

Around one third (30%) of people find managing money challenging. In the last twelve months[1]:

- 46% have run out of money before their next pay.
- 33% have used short-term credit because they didn't have enough money to pay for something.
- 27% have borrowed money from friends and family to cover day-to-day expenses.

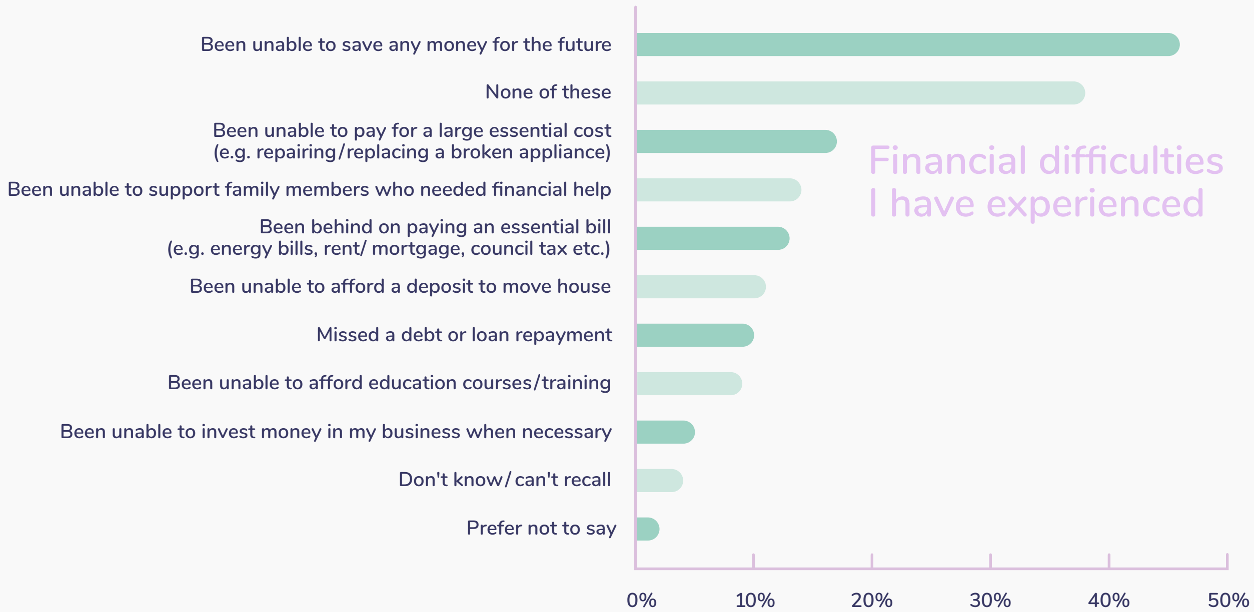
Those experiencing financial difficulties listed a variety of causes, with a quarter (26%) blaming unexpected one-off costs, one in five (19%) saying their income did not meet essential costs of living, and more than one in ten (13%) attributing it to difficulties in keeping up with debts.

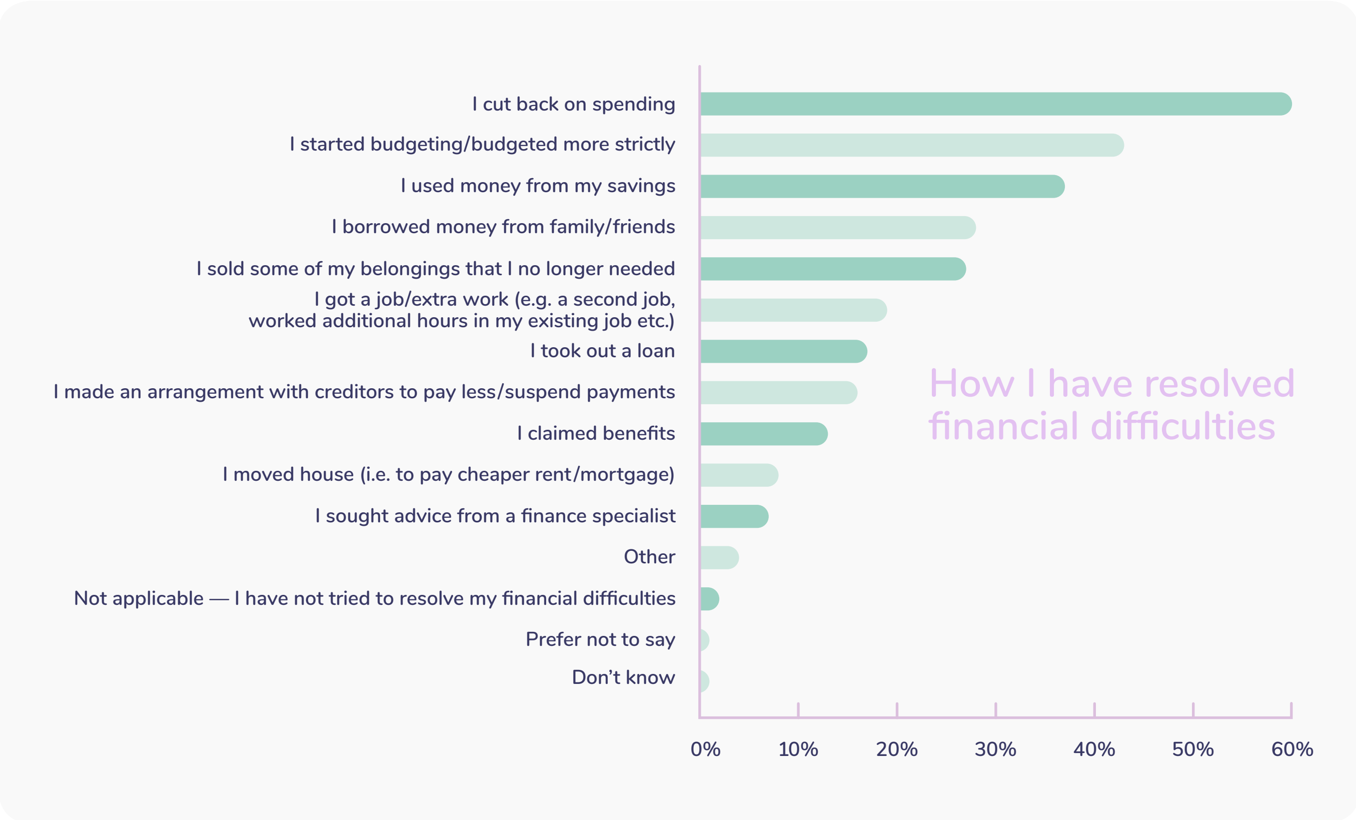
Life events play an important role, with a further 13% reporting that a significant life change, such as having a baby, had increased their outgoings.

Other circumstances which have triggered financial problems include loss of income due to a separation or redundancy (15%) and physical or mental ill health (14%).

For those who have previously had financial difficulties, such money issues meant they have been unable to do some of the things they **may** have wanted to over the last two years. 46% said they had been unable to save any money for the future and just under one in five (17%) said they had not been able to pay for something they needed.

[1] Respondents answered that the situation had occurred either always, regularly, sometimes or seldom over the last twelve months.





The survey also found that people used a range of methods to resolve their financial difficulties. Three in five (60%) cut their spending, two in five (43%) started budgeting more carefully and a fifth (19%) got a job or extra job.

However, over a third (37%) used money from savings, three in ten (28%) borrowed from friends and almost a fifth (17%) took out a loan. Only 7% of respondents sought financial advice.

Confidence in planning and managing finances

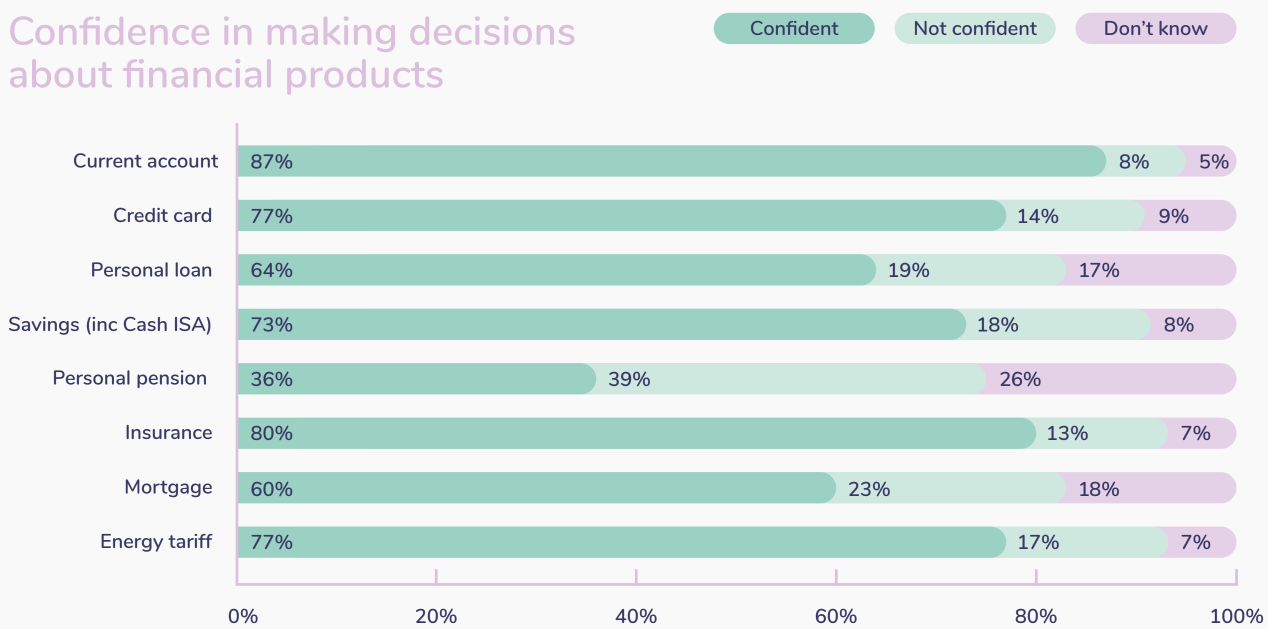
Confidence in managing your money and planning for the future is important but, as our research found, it is not an indicator of financial security or the ability to plan and manage your finances.

Managing money

Overall, 83% of respondents said they are comfortable managing their money. If we look back to the previous section we can see that this confidence is in spite of nearly half of our sample (46%) running out of money before their next pay at least once over the previous twelve months, a third (33%) having to rely on short-term credit and around three in ten (27%) borrowed money from friends or family to cover day-to-day expenses.

Financial planning

When asked specifically about planning for the future, a total of 64% said they felt confident. However, if we look at how far ahead the sample actually plan their finances, a different picture emerges. The majority (25%) only plan one month in advance and while one-fifth (21%) plan a year or more in advance, a similar proportion (19%) don't plan ahead at all.



Making decisions about financial products

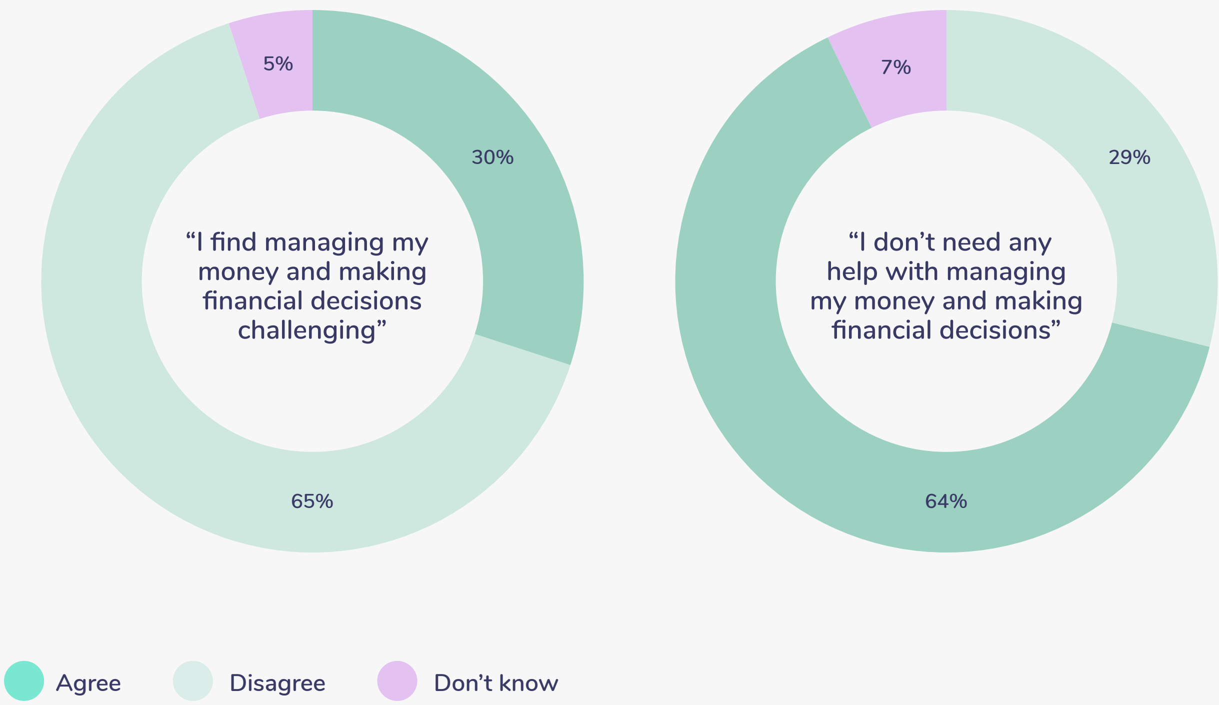
We then asked about confidence in making decisions about specific financial products – some long term and some short term.

Not surprisingly the highest levels of confidence were for products that many of us have and so are familiar with (current account, insurance, energy tariff, credit card and a savings account). The most striking figure in the table is that only just over one-third of our sample would feel confident in choosing a personal pension. This indicates a clear need for financial advice for many.

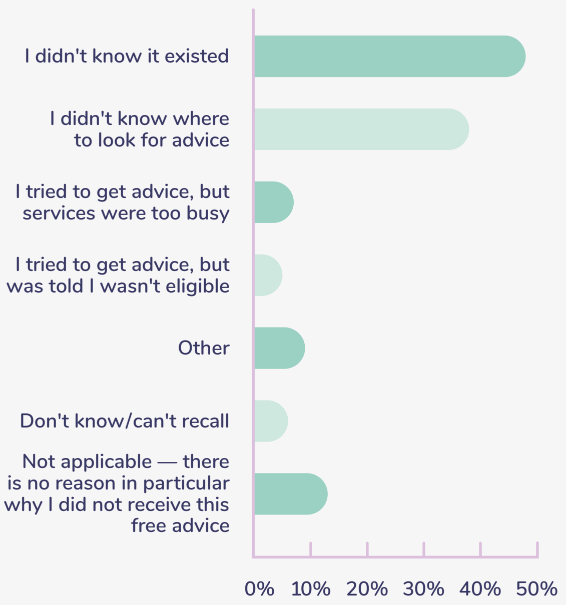
Appetite/ need for financial advice

The perceived need for money advice, or help with decision making, was broadly in line with the level of confidence people have in their ability to plan for their financial future.

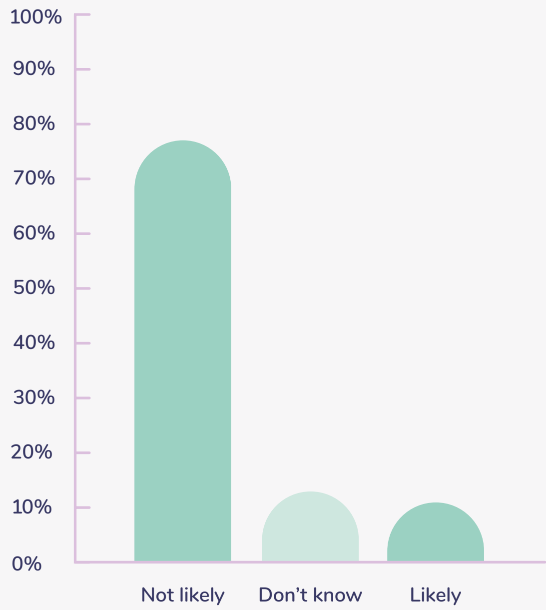
Need for advice or help compared with confidence managing money



Reasons for not accessing free financial guidance



How likely I am to access paid-for financial advice



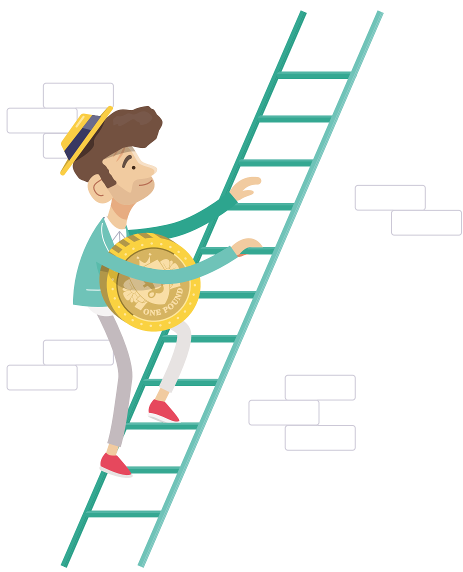
Appetite for free guidance

When asked whether they would benefit from free access to money advice, either face-to-face or online, 39% agreed and 49% disagreed. We tested how likely people would be to put this into action by asking, should they be offered free guidance on how best to manage their money, how likely they would be to take up that offer. A slightly higher percentage (43%) stated that they would, while 39% would not.

The most common reasons for not taking up this hypothetical offer of free guidance were that they would prefer to carry out their own research (45%) or that they did not need guidance (32%).

It is interesting to note that a small minority (4%) would also pay for advice, suggesting a lack of trust in a free service. This could also be a factor in the high percentage (17%) who could not articulate why they would not accept an offer of free financial advice. Understanding this group could be instrumental in improving take-up.

A number of respondents have received free financial guidance in the last two years, and we look at their experience in the next section. Where they have not, we asked why that was. The top two reasons by some distance were a lack of awareness and not knowing how to access the service. A small number of people had tried to access free guidance but had failed for various reasons.



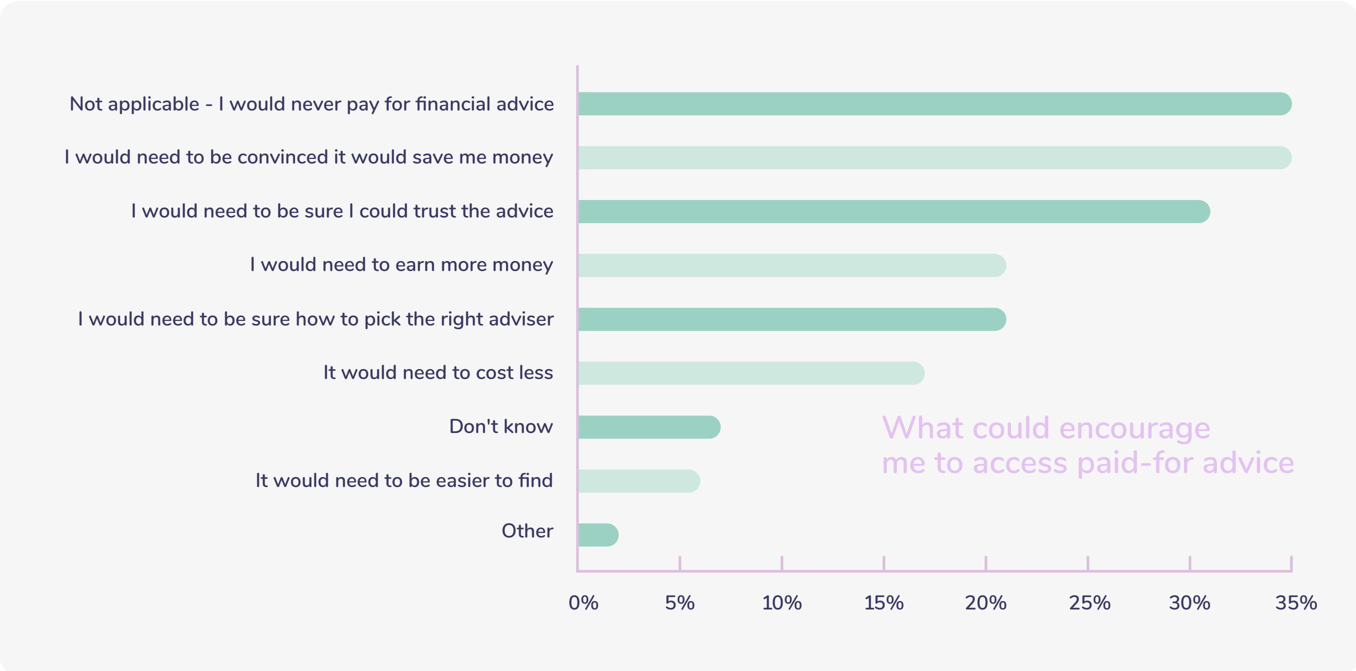
Financial event	Would consider free advice	Would consider paid-for advice	Maximum advice fee	
Debt	64%	4%	Up to £99 £100 to £199 £200 to £499 £500 plus Don’t know	47% 16% 4% 7% 26%
Making an investment	45%	22%	Up to £99 £100 to £199 £200 to £499 £500 plus Don’t know	36% 13% 6% 6% 39%
Arranging a pension	53%	16%	Up to £99 £100 to £199 £200 to £499 £500 plus Don’t know	30% 17% 9% 10% 34%
Buying a house	47%	18%	Up to £99 £100 to £199 £200 to £499 £500 plus Don’t know	26% 18% 17% 10% 29%
Starting a business	44%	27%	Up to £99 £100 to £199 £200 to £499 £500 plus Don’t know	21% 19% 15% 11% 34%

Appetite for paid-for advice

Where individuals had not paid for financial advice in the last two years, we questioned how likely they would be to do so in the future. Only 10% said they were ‘likely’ and just 1% ‘very likely’ to pay for financial advice.

Clearly more can be done to help people recognise the value of taking advice on their financial situation. To better understand the reasons behind this response, we asked the ‘not likely’ group what would have to change to encourage them to pay for financial advice. The key themes that emerged were around having faith that it would have a positive impact, trusting the advice and affordability.

To better understand what may drive people to advice, we questioned whether they would consider seeking out either paid-for or free advice for a range of financial events. Where they would consider paid-for advice, we asked how much they would be willing to pay. However, for each financial event, at least a quarter of respondents could not ascribe a cash value to the advice.



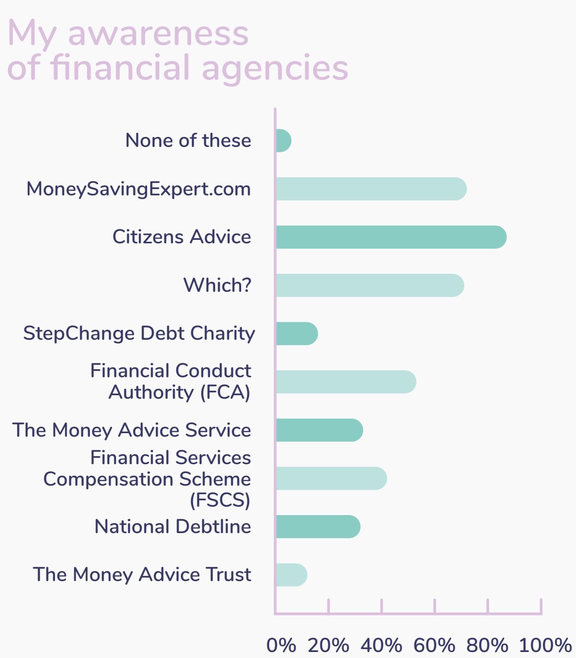
Experience of advice or guidance

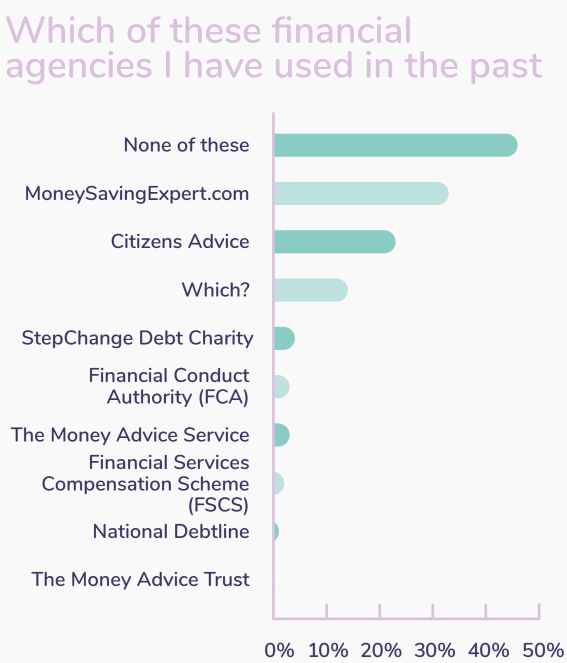
Awareness of sources of advice

As we saw in the previous section, awareness of advice – particularly free advice – can be a barrier to take-up. We tested how aware our sample is of agencies that can help with financial problems. It was encouraging to see consistent awareness of the likes of Citizens Advice (87%), MoneySavingExpert.com (72%) and Which (71%), all of which have a strong consumer focus.

Not surprisingly, our sample was most likely to have accessed the services (website, leaflet or other information) of the agencies they are familiar with at any point. For example, 23% had used Citizens Advice and 33% had used MoneySavingExpert.com. The levels of usage were considerably lower than awareness however, with nearly half (46%) stating that they had not accessed any of the agencies.

When asked whether they were aware that the Government offers free advice on managing money, the vast majority (75%) were not.





Experience of asking for help with financial problems

The norm appears to be to not seek help for financial problems, with 69% of our sample not having spoken to anyone (such as a colleague, financial company, charity, the council, Jobcentre, HMRC, a doctor or another professional body). Where they did, only a financial company, colleague and a charity scored above 2%.

However, when they have approached one of the listed sources for money advice the outcome was generally positive, with 47% getting help with their problem and a further 26% guided or referred to another agency which could help.

Experience of free specialist money advice in the last two years

Only one in ten (10%) of our sample has received free, specialist money advice about a specific financial event in the last two years. A further 13% would have benefited but did not receive advice, while just under two thirds (65%) have neither received nor wanted this help.

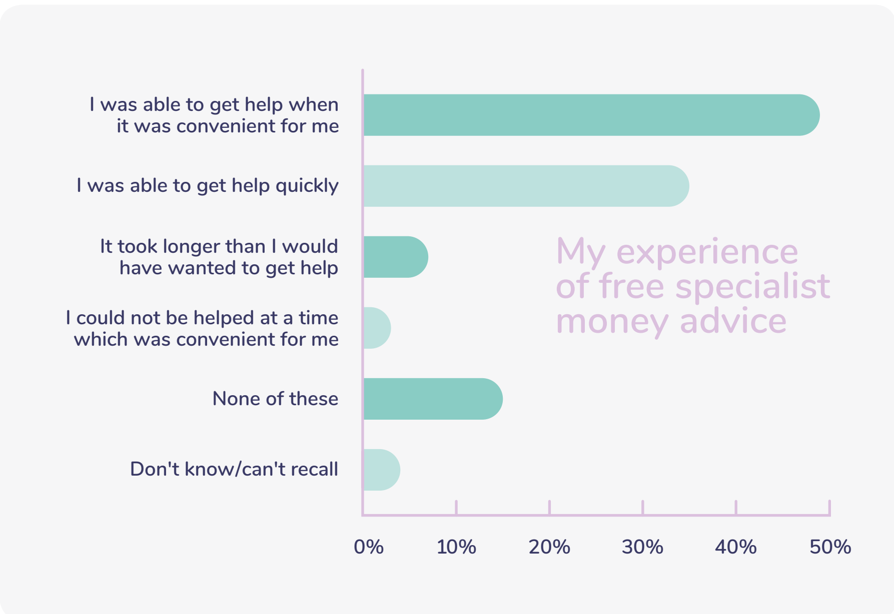
The most commonly accessed sources of free specialist money advice in the last two years were MoneySavingExpert.com (10%), StepChange (9%) and Citizens Advice (8%). A range of other agencies had been accessed by just under half of the sample (49%), but these were not detailed.

Respondents tended to find sources of advice through their own research (40%). However, 16% acted on the recommendation of a friend, family member or colleague and a further 15% were referred, either by another organisation they had approached for help or another professional, such as a doctor.

As with asking the likes of a colleague or charity for help, the experience of receiving free, specialist money advice was also largely positive, with individuals able to access the service quickly and when it suited them.

> “The norm appears to be to not seek help for financial problems with 69% of our sample not having spoken to anyone”

The outcome was also positive, with 86% reporting that the advice was helpful — and nearly half of these that it was very helpful. Fewer than one in ten (6%) found the experience to be unhelpful. Most people (60%) only needed help with one issue but one fifth (20%) either received help for related problems or were referred to a relevant agency.



Conclusions

Our research tells us that, although the majority of people claim to be comfortable managing their money and planning their financial future, in reality a high number are struggling to keep on top of their monthly expenses. Many are prevented from buying a house or going on holiday due to monetary constraints. Yet very few are taking financial advice, even though those who do take free or paid-for advice find the experience and outcome for both to be largely positive.

We found that not only do the four advice gaps identified by Citizens Advice still exist, they remain significant and three have widened since 2015.

Although the supply of free advice appears to be improving, with a **quarter of a million**[1] fewer people saying they couldn't access advice because services were too busy, **6.6 million**[2] who needed free advice have not accessed it — increasing by **1.3 million** since 2015.

Within this segment, **2.4 million**[3] more failed to get free advice because they didn't know it existed or where to get it. Clearly awareness of services, including the Government's own money advice services, and where to access them remains a problem.

Additionally, a **quarter of a million**[4] more people who have accessed paid-for or free advice in the last two years have not had the non-financial reasons for their problems addressed. Evidently more work needs to be done to ensure that additional support is better sign-posted by financial professionals to help tackle the root causes of money issues.

> "Bridging the advice gaps requires the financial services industry to work together with financial guidance organisations"

Similarly, greater efforts can be made to assist organisations such as health services, local authorities and banks in flagging where individuals can find financial advice, given than **3 million**[5] people raised a financial issue with such a trusted professional but were not given help or were not told where to find it.

---

1 This is based on 1% of the GB population estimate of 50,644,094

2 This is based on 13% of the GB population estimate of 50,644,094

3 This is based on 30% of the GB population estimate of 50,644,094

4 This is based on 3% of the GB population estimate of 50,644,094

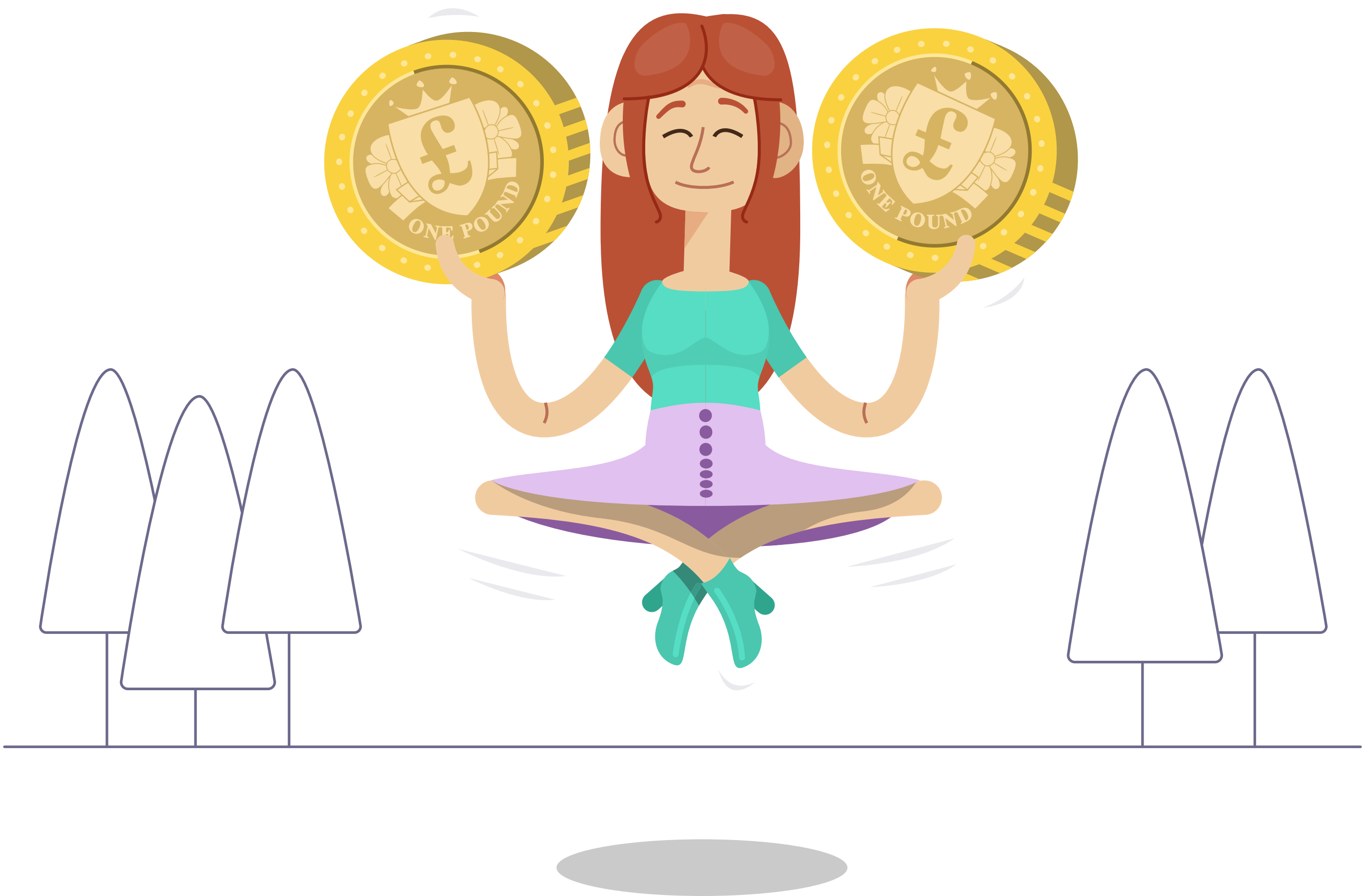
5 This is based on 6% of the GB population estimate of 50,644,094

Such steps should help promote greater trust in financial advice — one of the themes highlighted as key to encouraging people to pay for financial advice if it will benefit them.

The survey reveals that people are most willing to pay for advice on starting a business, making an investment, buying a house and arranging a pension — confidence in choosing a personal pension was particularly low.

These events fall within many advisers' areas of expertise and arguably, due to their complexity, are where financial advice can add value and have a quantifiably positive impact — another theme raised as important to promoting financial advice.

It's clear that many more people would benefit from taking financial advice and the reasons why they don't are not as straightforward as it being too expensive, or individuals not having enough money. Bridging the advice gaps requires the financial services industry to work together with financial guidance organisations and a wide range of bodies including the Government, regulators, local government, employers and medical professionals to promote the benefits of protecting our financial futures through money management, financial planning and, crucially, suitable financial advice.



OpenMoney

For press enquiries, please contact:

Jenette Greenwood
jenette@langcatfinancial.com
0131 202 5999

www.open-money.co.uk