CAN'T GET THERE FROM HERE

Barriers to switching in the stocks and shares ISA market

A consumer research paper from

the lang cat

NEARLY 70% OF STOCKS AND SHARES ISA INVESTORS HAVE NEVER SWITCHED PROVIDER.

THE TOP 3 DRIVERS FOR THOSE WHO HAVE SWITCHED ARE:

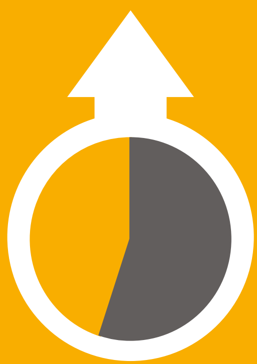
a new provider with a better product

poor investment returns

a desire to cut costs

INVESTORS AGED 55 OR OVER ARE **ALMOST TWICE** AS LIKELY TO BE AWARE OF CHARGES THAN THOSE AGE 18 TO 24.

ONLY 54% ARE AWARE OF THE CHARGES ON THE INVESTMENTS HELD IN THEIR STOCKS AND SHARES ISA.



HALF OF ALL STOCKS AND SHARES ISA INVESTORS WOULD BE WILLING TO CHANGE THEIR ISA PROVIDER IF THEY KNEW THEY COULD SAVE MONEY.

ONE IN THREE SAID IT WOULD MAKE NO DIFFERENCE.

MEN ARE **MORE LIKELY** THAN WOMEN TO KNOW ABOUT CHARGES AND TO SWITCH PROVIDER.

WELCOME

Hello and welcome to **Can't Get There From Here**[1], a consumer research paper from the lang cat.

If you don't know us, you're forgiven. We're specialists in the retail investment industry, and most often ply our trade analysing in depth what goes on inside the products served up to the investing public. If you're not part of the retail investment club (and what a club it is) then you might not have come across us.

We've written about ISAs many times – lots of newspapers, magazines and comparison websites carry our analysis of how much it costs to invest where – but we've never really got in around what happens once someone has invested.

So we commissioned YouGov to ask investors about their attitude to switching, what they know about the charges on their ISA investments and the extent to which savings from lower charges would make them consider switching. They questioned a nationally representative sample of 1,345 UK adults with investments in a stocks and shares ISA between 5 and 7 June 2019.

The findings? Well, those lie ahead. But a market in which only just over half of investors understand what their investments cost, and in which nearly 70% have never switched, seems to us to be working brilliantly for providers, but not so well for customers.

You may not be shocked to find that we have some thoughts on how things can start to get better for those investors who may wish to switch more often than they do but are currently hamstrung for whatever reason. We've taken the liberty of making suggestions for ISA providers and the financial industry as a whole. If you agree – great. If you don't – even better. Tell us how it should be done.

Let's not accept that things have to be the way they've always been. Let's create some change for the better.

Enjoy the paper.
Mark Polson
principal
the lang cat

Can't Get There From Here is brought to you by:	Mark Polson Mike Barrett Jeff Salway Linda Plant

1. With apologies to R.E.M. We really are very sorry.

ISA SWITCHING: THE WHY AND WHY NOT

Stocks and shares ISAs are easy to set up and subscribe to, and nearly three million people did just that in 2017-18[2]. Switching is clearly a different matter, however. Most investors stay put once they've made their choice – not so much FOMO (Fear Of Missing Out) as FOMIW (Fear Of Making It Worse).

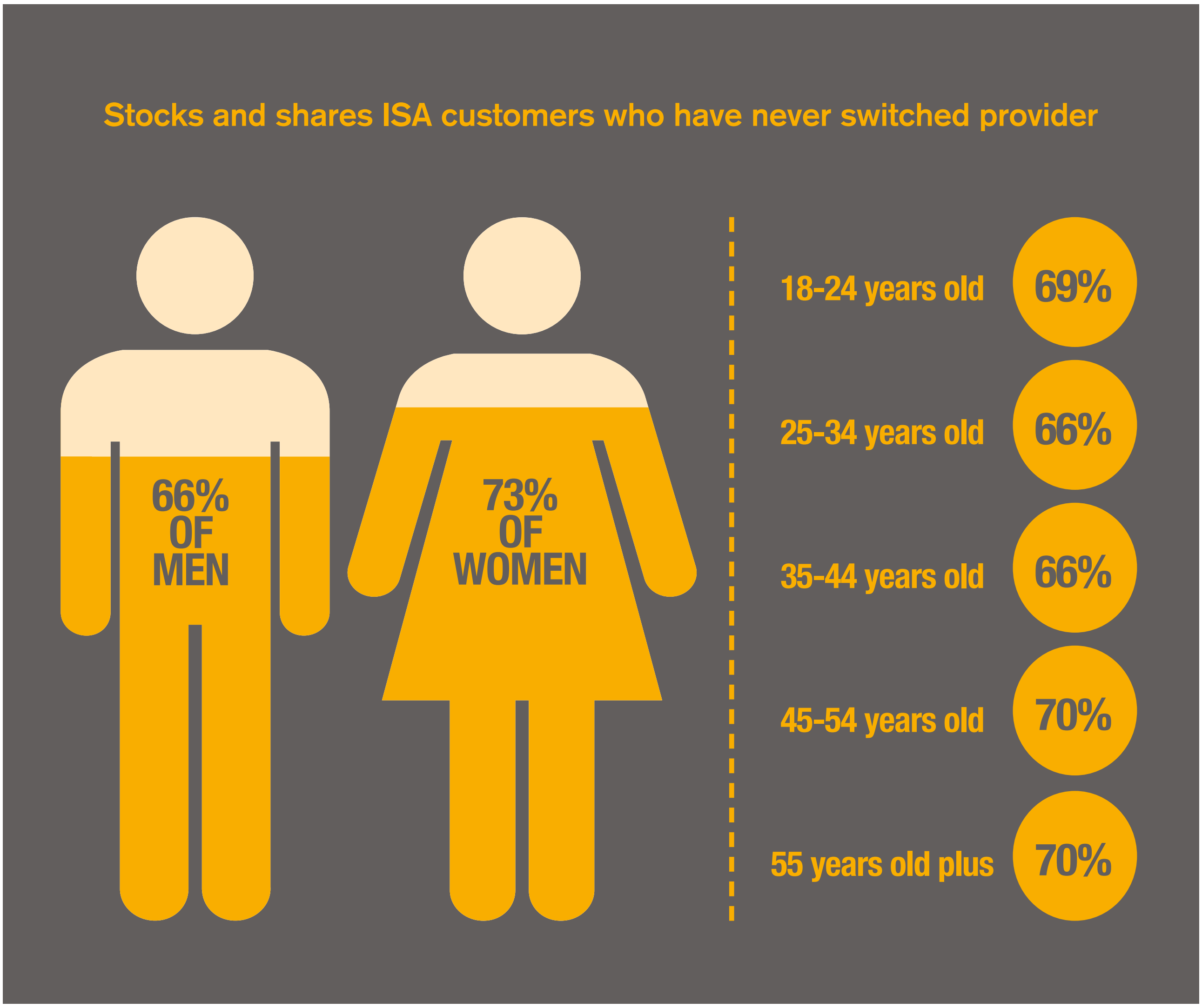
Yet differences in charges and investment returns also mean investors can secure decent savings by moving product. What level of saving would make it worth taking the perceived risks associated with switching?

To find out more about this, we asked investors about the factors that would make them switch, their awareness of the charges connected to their ISA investments and the extent to which the possibility of savings would influence their decisions.

2. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf

REASONS FOR SWITCHING

When asked the reasons for switching ISA provider, 69% of respondents said they had never done so, rising to 73% among women. Another 9% said they moved to a new provider with a better product, while 7% cited poor investment returns on their existing product and 5% said they were motivated by finding a lower cost provider. Another 4% cited poor service.



Switching motivations tend to persist across age categories. However, we did find that 18 to 24-year olds are more likely to move to a lower cost provider in pursuit of better investment returns. Poor investment returns were also a driver for the 25-34 age bracket, alongside the offer of a better product. This also influenced investors aged 55 and above. Where investors aged 35-44 had switched ISA providers this tended to be for a reason other than those listed.

It's worth noting that poor overall service was not a leading factor for any age group.

AWARENESS OF CHARGES

Around 2.9m Britons subscribed to a stocks and shares ISA in 2017-18, the latest figures show, with the average account worth £27,000[3]. The account sizes in our research tended to be smaller, with 20% of respondents holding less than £30,000 and the vast majority of them stating that they had under £10,000 invested.

There has been increased coverage of costs and charges in recent years, including the extent to which high charges can erode long-term investment returns. But we found that only 54% of respondents were aware of the charges on the investments in stocks and shares ISAs, with men (60%) more likely to claim to know about them than women (47%).

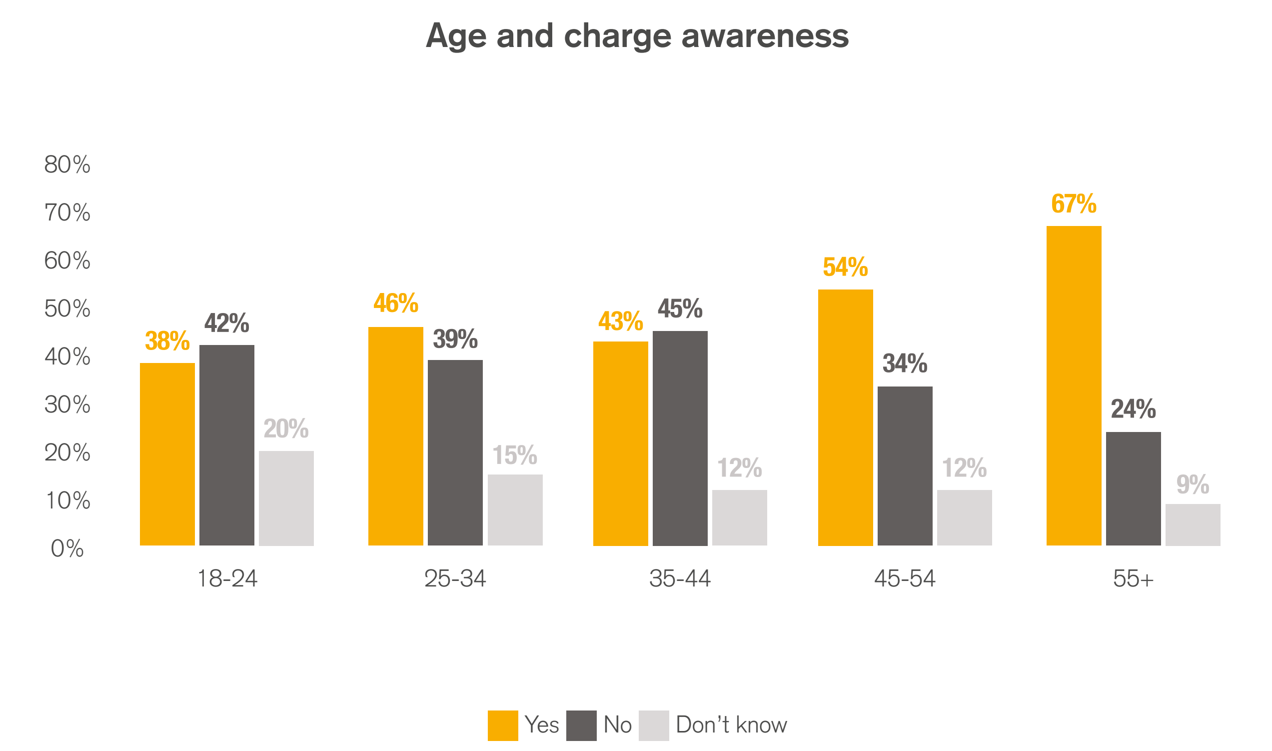
This bears out research published by Alliance Trust Savings in January 2018 on the investment gender gap, which found that men were significantly more likely to be familiar with investment charges. A broader theme in that research was the lower level of confidence and knowledge among women in comparison to men[4].

Awareness remains low even among investors with more than £50,000 in their stocks and shares ISA. Almost a fifth of that group said they were not aware of charges (25% among women and 15% of men).

One third of all respondents said they were not aware of the different charges and 12% weren't sure if they knew about them.

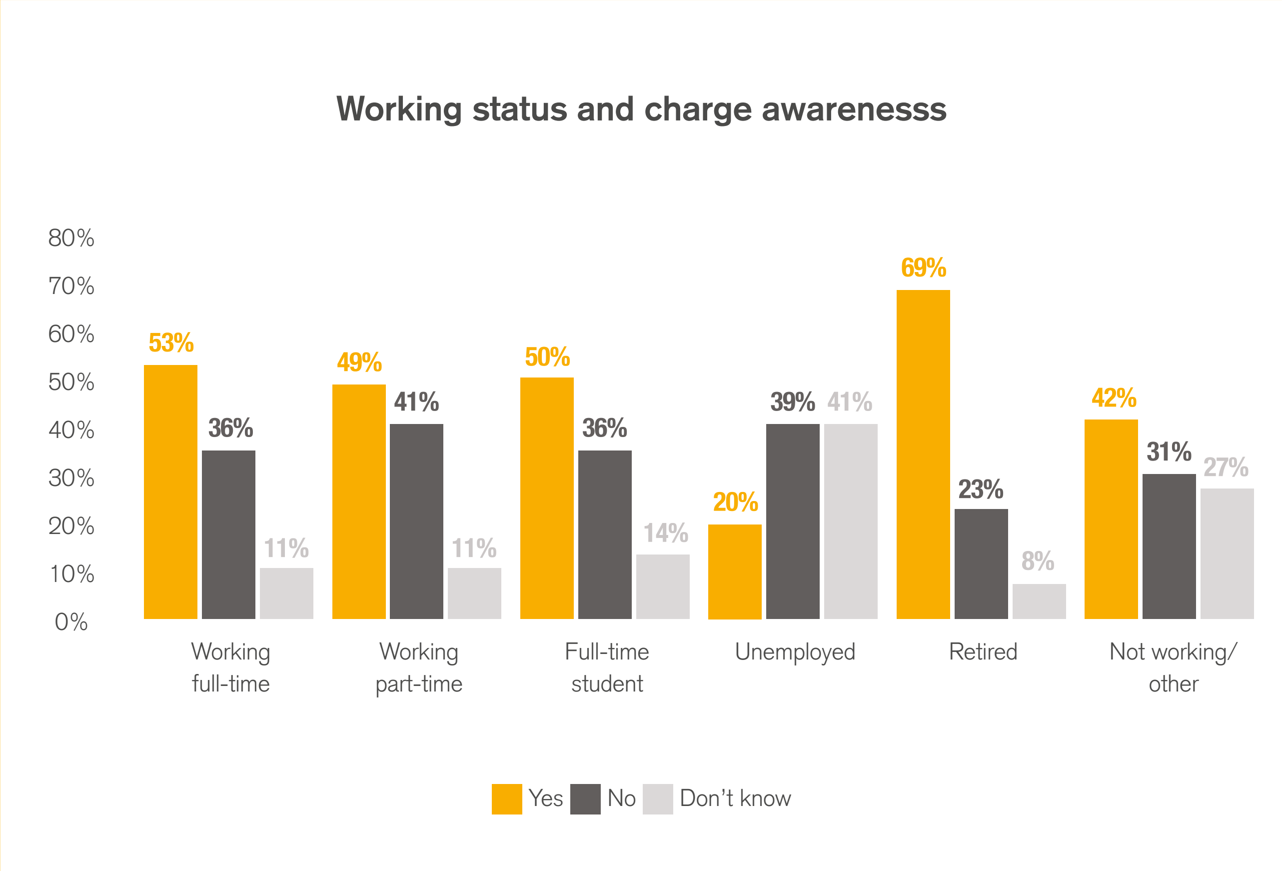
There's a clear age differential when it comes to awareness of charges. Those aged 55 or over are nearly twice as likely to be aware of them than people in the 18-24 group (67% compared to 38%).

Nearly half of 25- to 34-year olds are aware of the charges associated with their ISA investment; that proportion rising to a majority among 45- to 54-year olds (54%).



3. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf
4. http://www.alliancetrustsavings.co.uk/gender-gap-white-paper3.pd

This age pattern is reflected in the variation across different working situations. Almost 7 in 10 of retired respondents said they were aware of investment charges, considerably more than any of the working age groups.



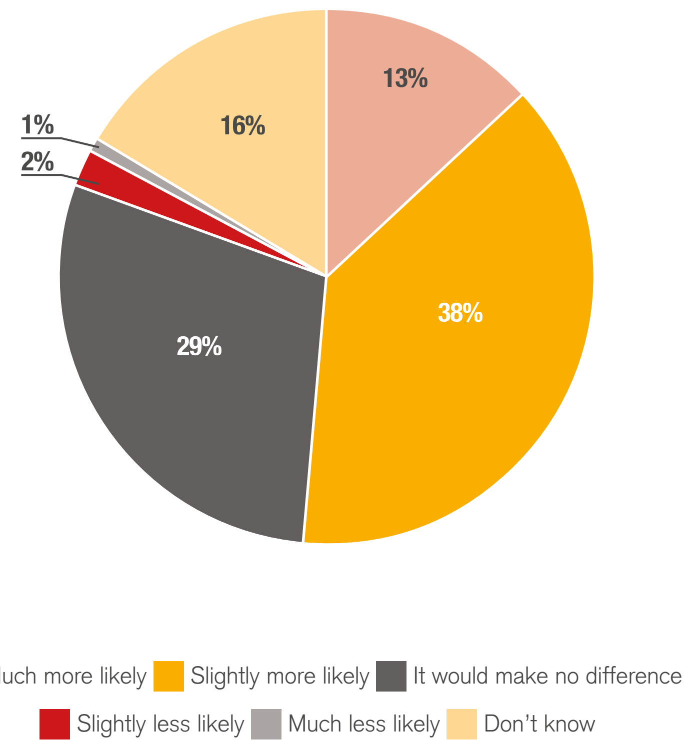
WOULD SAVINGS MAKE THE DIFFERENCE?

We asked investors whether they would be more likely to change stocks and shares ISA provider if they knew it would reduce the charges they pay.

Given we already know that nearly half aren't aware of charges, and that switching activity in the sector is low, we didn't expect any big surprises here.

The results are still striking, however.

How more or less likely would you be to change ISA provider if you could save money on charges?



Just half (51%) said they would be either slightly or much more willing to change provider if they knew they could save money. Almost a third said it would make no difference, 16% weren't sure and a small number said it would make them *less* willing to move.

Men are more likely to be swayed by charges than women, although they are also more likely to say it would make no difference. A much bigger proportion of women said they didn't know (21% compared to 13% of men), perhaps reflecting a lower level of confidence among that group of respondents.

There are no significant variations across the different age groups, with the exception of those aged 45 to 54 being markedly less likely to switch in pursuit of savings.

A key factor in this decision would often be the amount of savings that could be secured by switching.

		Amount invested				
		All (Base: 1,342)	Less than £10,000 (Base: 685)	£10,000-£49,999 (Base: 426)	£50,000-£99,999 (Base: 123)	£100,000 + (Base: 108)
Potential annual saving	Less than £10	11%	12%	7%	14%	14%
	£10 – £49	26%	37%	22%	5%	1%
	£50 – £99	25%	28%	26%	21%	10%
	£100 – £249	24%	13%	30%	37%	54%
	£250 – £499	3%	2%	3%	7%	9%
	£500 – £999	3%	2%	4%	5%	7%
	£1,000+	5%	4%	5%	8%	4%
	Don't know	2%	2%	4%	4%	1%

Just 11% would switch for a saving of less than £10 a year, but interest is much higher when savings of between £10 and £250 are on offer, before falling again at higher levels. There is a clear correlation between the amount invested and the savings that would trigger a switch, with investors taking a realistic view of the potential savings on offer.

WHAT WE'VE LEARNED

SPOILER ALERT: PRICE IS NOT THE ANSWER

So our research has shone what we think is a fascinating light onto consumer behaviour for stocks and shares ISAs. If our findings hold good for other forms of long-term savings and investments, this could be instructive for pensions and much more.

Much commentary on switching – including ours – focuses on price. But if switching choices boiled down to comparing the price of two different options and selecting the cheapest, they would be much simpler, and we would see more evidence of price-seeking behaviour in our research group.

There are other models for us to examine. For example, we've learned that switching household utilities and car insurance is generally to our benefit; another way to say that is that loyalty doesn't pay. The fact that we have learned this from a cast of Eastern European *herpestidae*[5] with a limitless marketing budget is probably best not dwelt upon.

Even bank account switching has increased over time, as data from BACS show[6]. So consumers do switch – but not ISAs.

Here are five of the reasons that we think help explain the findings you've just read about.

1 DO WHAT WE SAY, NOT WHAT WE DO

We're always being told (rightly) that investing is a long-term game and that our time horizon should be at least five years. Set against that, switching can seem counterintuitive. But it is possible to switch providers while maintaining the same underlying investments. So investors can tick the 'long term' box while still making changes to benefit their wealth.

2 WHAT DO YOU MEAN YOU DON'T HAVE A MATHS DEGREE?

It's not at all easy to know which provider or product offers the best value. The different forms that charges take are a) mind-boggling, b) exceptionally dull and c) very difficult to compare on a like-for-like basis. This is not an accident; the industry has no vested interest in helping investors understand what's going on and in fact has had to be repeatedly booted in the backside by its regulator to improve matters.

3 SURELY IT'S AS SIMPLE AS…

The process of switching is far from straightforward. Exit fees can deter customers from moving away. Wet signatures are often still required because it is still apparently 1995. Investment availability isn't common between platforms either. For example, investors in a discounted fund on Hargreaves Lansdown may not find it easy to move their ISA to, say, Interactive Investor. That's because each fund comes in a range of different versions – and if you don't have exactly the same version in ISA B as in ISA A, then you'll have to sell your investment, transfer the cash, and then buy it again in your new ISA home. This is what we in the industry call 'a pain'.

5. Simples.
6. https://www.bacs.co.uk/NewsCentre/PressReleases/Pages/LatestCurrentAccountSwitchServiceFiguresPublishedJan19.aspx

4

FEAR OF MAKING IT WORSE

Various studies have challenged the assumption that people will always act rationally and in their own best interests. For example, status quo bias suggests people have more regret for bad outcomes that result from new actions than for bad consequences arising from inaction[7]. This is magnified when the range of variables increases uncertainty. Research by London Economics for the Office of Fair Trading in 2011 noted, among other things, that the way in which prices are framed can add sufficient complexity to the picture to deter consumers from making a switch[8]. We need to understand that switching is genuinely scary for investors.

5

A GLASS OF WHITE WINE FOR THE LADY

We've already mentioned earlier research about the gender gap when it comes to investing. There is exactly no coherent reason why there should be a 60%/47% gender split in awareness of charges between men and women. The fact that this exists suggests that providers need to do much more to think about how their communications land with different audiences. We'll make some suggestions in a moment.

ENTER THE REGULATOR

The Financial Conduct Authority (FCA) has recognised various barriers to switching investments and platforms and is looking at ways to deal with some of these issues. Before we dive in, it's worth saying that platforms are the most common way for investors to hold stocks and shares ISAs, whether they have bought directly or through a financial planner. As a result, we'll look at regulation now which isn't specific to ISAs, but certainly scoops them up in its scope.

In its catchily titled *CP19/12: Consultation on Investment Platforms Market Study Remedies*[9], issued in March 2019, the FCA proposed rules forcing platforms to make it easier for investors to decamp to another provider.

In our example on the previous page, where the ceding platform holds a discounted share class that the new provider does not have access to, it will be up to the ceding platform to convert the investor free of charge into a share class that can be transferred over. Platforms have until 31 July 2020 to sort this unless they can come up with a very good reason why they can't.

CP19/12 also took a swipe at exit fees; sadly this isn't a done deal yet. Heavy lobbying from some of the less progressive elements in the sector has convinced the FCA that a platform exit fee ban is unfair because other kinds of investments could still have exit charges and, hilariously, that it would be confusing for customers.

The good news is that most firms have got rid of them, including most recently the UK's largest investment platform, Hargreaves Lansdown. So that leaves just a few laggards to go.

The FCA also recognised the difficulty consumers face when comparing fees across investment platforms. However, the UK implemented a new European directive (MiFID II) in January 2018 which has some new rules on transparency of costs.

Under this directive, all investment companies within the EU must send investors an annual statement detailing the full cost of their investments over the previous year. The first round of statements had to have been sent out by the end of April 2019.

The aim of the new rules is to provide customers with greater transparency around charges to help them make informed decisions, ultimately driving down charges. The FCA is taking a wait-and-see approach before making any further changes to disclosure rules.

7. https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/status-quo-bias/
8. https://londoneconomics.co.uk/wp-content/uploads/2012/06/Consumer-behavioural-biases-in-competition-OFT1.pdf
9. https://www.fca.org.uk/publications/consultation-papers/cp19-12-consultation-investment-platforms-market-study-remedies

THE LANG CAT SEVEN-POINT PLAN FOR MAKING IT BETTER

There are three possible financial services industry responses to our findings that consumers don't switch stocks and shares ISAs in anything like the numbers that they should. These are:

1. We know – there's nothing we either can or will do about it.
2. We know – we need to raise our collective game.
3. We disagree – it all depends how you look at it.

Only one of these is in the interests of investors, providers and the wider industry. So, here are some ways we think we can all raise our game. If investors want to play stick rather than twist with their stocks and shares ISA investments, more power to them. But it shouldn't be because the alternative is too painful to contemplate.

AT THE INDUSTRY LEVEL

ENGAGE

This isn't about education, the industry's favourite fig leaf. It's about talking to people in plain English about the ISA they're investing in – what it does, how much it costs, what to expect, the main rules – and using technology (i.e. automatic top-ups, goal-based apps) to make people want to know more and do more.

SIMPLIFY

This is one for HM Treasury. ISAs have mutated over the past few years, from a simple proposition to a six-headed beast which makes Cerberus look like a lap-dog.

Several recent proposals for simplification should help. For instance, the Association of Accounting Technicians (AAT) ISA Working Group proposes replacing the £20,000 annual allowance for tax-friendly investment wrappers with a £1m lifetime contribution allowance for a single "Everything ISA" available to all from birth[10]. Similarly, AJ Bell recently suggested boiling the ISA back into a single product based on the existing stocks and shares and cash ISAs[11]. Whatever the eventual answer, please please please just make it simple.

REBUILD

We need to reboot the relationship between consumers and financial services. Ok, this is about playing the long game. But the industry will only make so much progress while investor trust remains low. The cognoscenti might scoff at investors refusing to switch even when told how much they could potentially save in charges, but you can't blame them for suspecting that the numbers they're being given don't really tell the full story.

More generally, as behavioural insights suggest, the uncertainty that is inherent in investment-related decisions will for many people trump any improvement in the ease of making changes. Low levels of trust only deepen this uncertainty.

ILLUSTRATE

Industry self-interest has long been a disincentive to making the impact of charges on long-term returns more explicit. This is beginning to change as charges come down and the focus shifts to the question of value. We found that even among those with sizeable pots, savings aren't typically an incentive to change. But those savings figures are presented on an annual basis. Would the incentive be greater if the long-term impact of lower charges were made much clearer, and in goal-based terms? If you knew you might be £10,000 better off for exactly the same investment over 10 years just by moving, might you not be more up for making the jump?

10. https://www.aat.org.uk/prod/s3fs-public/assets/AAT-ISA-Working-Group-Time-change-review-ISA-regime.pdf
11. https://www.ajbell.co.uk/news/aj-bell-calls-new-chancellor-simplify-isas-and-launches-policy-paper

AT THE PROVIDER LEVEL

LEAD

Providers can make a real difference without industry-level change. Our research shows that there remains a need for greater consumer awareness around charges (while a third were unaware of the different charges on their ISA funds, another 12% didn't even know if they were aware of them). Without this, people simply can't make informed decisions about their investments or compare like-for-like.

The ongoing impact of MiFID II and the outcomes of CP19/12 will help, but we need much greater innovation in showing investors how different fees would apply in different circumstances. Providers can do this right now, if they want to.

Also, and we're talking directly to the providers here, if you're still charging exit fees – stop it. Now.

EQUALISE

There are enough differences in the results of our research across different genders, age groups and working status to suggest that tailoring and framing choices to different segments may help lower barriers to engagement and switching.

For instance, the Alliance Trust Savings gender gap study found women are significantly more likely than men to focus on saving towards specific, practical goals[12]. Engagement might therefore be bolstered by illustrating the impact of savings (i.e. from lower charges) on hitting those targets. There is also considerable evidence that women are more risk-averse than men when it comes to investment decisions, indicating that risk warnings could be framed differently.

DIVERSIFY

Client portals, interactive tools, tailored communications and social media are just some of the tools that firms can use to engage more effectively with investors (and differentiate themselves in the process).

Some providers have stolen a march here, blending podcasts, films and infographics to convey important information about investing and funds in a way that makes them more accessible to the average investor. But there's plenty of room for improvement when it comes to using different channels to promote better investor engagement and understanding.

And that's it for now. We hope you've enjoyed **Can't Get There From Here**, and that its findings might encourage you into some action. If we're allowed to have a wish list:

If you're an **investor** – we hope you'll take a little time to really understand what you've got and what you're being charged for it. It's fine to be at a low-cost provider and it's fine to be at a high-cost provider – so long as you know what that means and why. Staying with a provider is as much an active decision as moving to another one.

If you're an **adviser** – we hope you'll realise that our sample will naturally have advised and direct clients in it. Advised clients need information too; it's not enough to just say "that's what they've got me for". Clients get to have an opinion – even if that opinion is that they simply don't want to know.

If you're a **provider** – we hope you'll understand that the potential hassle of reworking disclosure and marketing materials and the revenue loss of removing exit fees will be more than paid back many times over if we really do manage to reboot the relationship between investors and the industry. And if you still charge exit fees, stop.

If you're a **regulator** or **policymaker** – we hope you'll heed what we think is a very obvious call for greater simplicity. Someone once said "if it's fair it can't be simple, and if it's simple it can't be fair", and that might be true. But sometimes simplicity has to win out. This is one of these times. Oh, and ban exit fees already.

Thank you for reading.

Slàinte mhath

the lang cat

12. http://www.alliancetrustsavings.co.uk/gender-gap-white-paper3.pdf

ABOUT THE LANG CAT

Mark Polson founded the lang cat in 2010 to gently remind providers that the people who buy their products will only do so if they are designed with their needs in mind and communicated in a way that makes sense to them.

Nearly a decade later and, while the lang cat has grown in numbers, influence and reputation, that core purpose remains unchanged and we now provide consultancy, insight, strategic comms and PR services to clients on four continents.

Working across platforms, pension and investment providers, advisers, fund managers and technology providers we define, develop and bring to life propositions and communications that work for their intended audience.

We know what works because we know the industry – every last lang cat has served their time with at least one provider or advice firm. And that experience is woven into everything we do. But what really makes us stand out from the agency crowd is how we work together, how our specialisms support one another. Our PR work is grounded in deep industry knowledge and no consultancy job is complete without being well written and communicated.

If you want to find out more, or think that your firm could benefit from the judicious addition of some cat, drop by our website www.langcatfinancial.com and have a look around or get in touch with Mark at mark@langcatfinancial.com or 0131 202 5999.

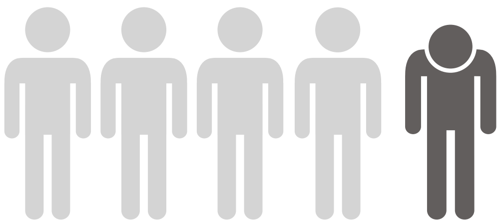
AND NOW FOR SOMETHING COMPLETELY DIFFERENT: THE LANG CAT GUIDE TO LOOKING AFTER YOUR BIGGEST ASSET – YOUR PEOPLE

Seeing as you've got this far you've probably noticed we like to add a light touch to the dry matter of platform and investment analysis. But there's a time and a place to be serious, so bear with us for a moment. Because:

Almost 13% of all sickness absence days in the UK can be attributed to mental health conditions.

Better mental health support in the workplace can save UK businesses up to £8 billion per year, it is estimated[13].

Every week, 1 in 5 adults experiences a common mental health problem, such as anxiety or depression[14].



13. https://www.mentalhealth.org.uk/statistics/mental-health-statistics-mental-health-work
14. https://www.mentalhealth.org.uk/statistics/mental-health-statistics-uk-and-worldwide

1 in 5

adults has as at some point considered taking their own life[15].

More than 7 in 10

employees have experienced mental health problems and more than half are affected by poor mental health in their current workplace, according to Mind's most recent workplace wellbeing index[16].

Talking about mental health is not something our industry has traditionally been brilliant at. That needs to change – so here are a few things you can do to help change it:

Show it's ok to not be ok: sharing your own experiences of mental health difficulties and admitting to struggling is a sign of strength, not weakness. Be the change you want to see and give others an example to follow.

Don't be the problem: the workplace can be a mental health minefield. Long hours, job insecurity, pressure, lack of support, comments or jokes about mental health, bullying, poor management and organisational cultures that impose expectations on individuals (i.e. "work hard/play hard") are among the common stressors. Having measures in place to react to mental health problems is great, but prevention is even better.

Empowerment through empathy: company bosses can save themselves a lot of problems by ensuring managers at all levels have the skills to help their staff, whether through training or by putting basic relational skills at the heart of recruitment. Empathy is not a superpower, it's a skill we can develop.

Look out for the signs: everyone's experience is unique to them. But there are general signs you can look out for – poor concentration, excessive worrying, being easily distracted, low mood, mood swings, low energy, disinhibited behaviour, avoiding social contact, irritability and tearfulness are just some. And look out for them in yourself too – we don't always recognise our own struggles.

Listen: people often worry about saying the wrong thing. So keep it simple – asking if someone's ok and giving them space to talk is often the best thing you can do. Really listening to someone, with empathy and without judgement or offering advice, can be incredibly helpful for both parties.

Put resources in place: providing access to counselling, promoting healthy behaviours, creating workplace mental health champions, offering mental health training for managers and raising awareness of support helplines are just some of the options.

We're not experts on this – no one is, arguably – so feel free to get in touch with any suggestions or feedback. And if you do think some of this makes sense, maybe you could use your own materials to share the same messages.

We won't get far enough on words alone – make your actions count too.

FIND OUT MORE

Samaritans: free helpline offering emotional support to anyone in emotional distress, struggling to cope, or at risk of suicide. 116 123 / www.samaritans.org/

Time To Change: resources for employers wanting to look after the mental health of their employees. https://www.time-to-change.org.uk/get-involved/get-involved-workplace/champions-workplace

Mind: mental health charity offering information and advice on mental health problems. www.mind.org.uk/

Mental Health Foundation: charity offering resources to help people to thrive through understanding, protecting, and sustaining their mental health. www.mentalhealth.org.uk/publications

NHS Moodzone: resources including practical advice, interactive tools and videos for those struggling with stress, depression and anxiety. www.nhs.uk/conditions/stress-anxiety-depression/

15. https://www.mentalhealth.org.uk/statistics/mental-health-statistics-uk-and-worldwide
16. https://www.mind.org.uk/news-campaigns/news/less-than-half-of-staff-think-managers-would-spot-their-mental-health-problems-despite-two-in-three-managers-feeling-confident-promoting-wellbeing/

do what you love

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