FCA Sector Views

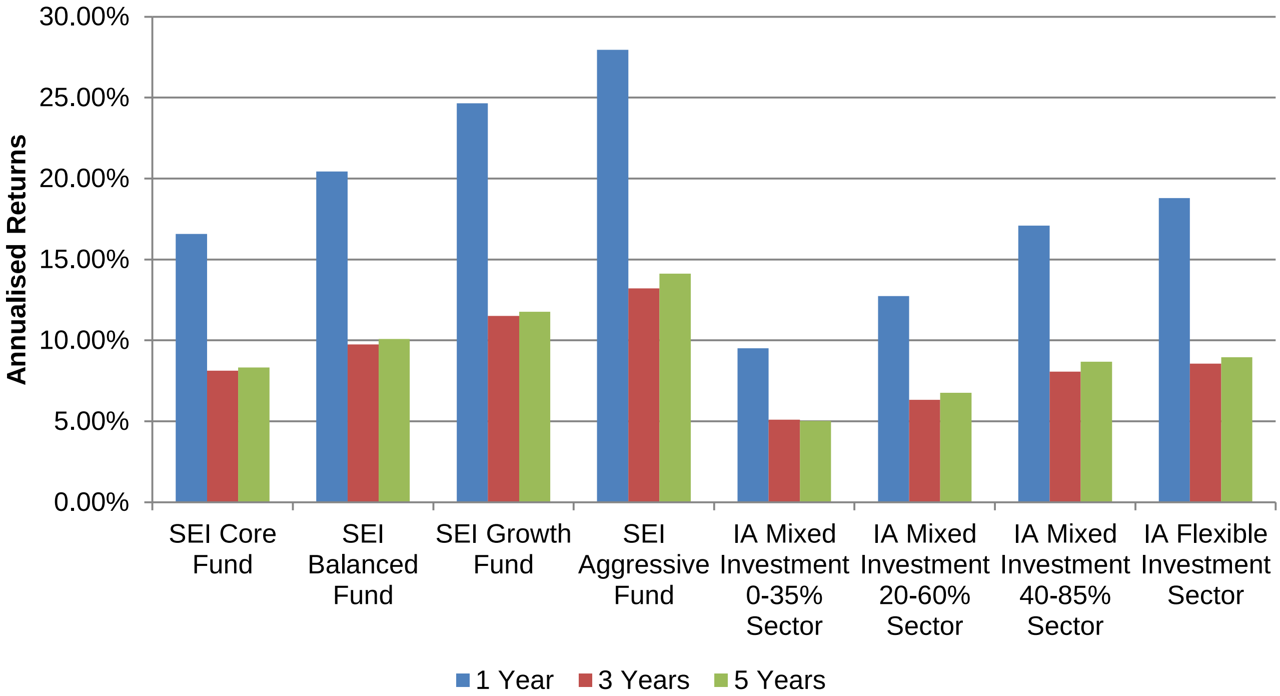
June 2017

The Financial Conduct Authority's now annually published Sector Views paper is an interesting insight into the regulator's perception of various areas of financial services. It strikes a balance between interesting factual information, some forthright opinions and signals as to where they are interested in spending more time investigating. The 2017 edition of Sector Views returned to some familiar themes from recent years – the advice gap and various costs to consumers to name but a few – and some clear points for discussion.

One of the early points of note was the role of technology as a driver of change within retail financial advice. The FCA explicitly referred to Automated Advice propositions as being a force for positive change by facilitating greater access to advice whilst also improving the level of information and choice available to consumers. This is welcome praise given recent years of fear mongering around direct-to-consumer 'robo advice' from the press, which never really lived up to its proclaimed potential to end human adviser relationships and we see it as an affirmation that our own Automated Advice solutions designed to supplement existing advisory businesses' propositions is a force for good in advice.

The FCA further expressed their concerns over the lack of awareness of the potential benefits of advice to consumers with small amounts of assets and that without guidance there is a risk of them choosing unsuitable products. We believe that Automated Advice models which allow that particular demographic of consumer to seek advice at a cost that is fair for both themselves and advisers can help to address such concerns.

On which note, the debate around costs continued to rage across the spectrum. Advisers, platforms and investment managers all came under scrutiny for their contribution to costs faced by consumers. This is likely to be a difficult tightrope act, especially in the face of an increased FCA levy of which advisers are expected to see a 4.7% rise in their dues to the regulator in the coming year. The FCA also suggested that there isn't enough price competition amongst actively managed funds, leading to investors paying high charges and, on average, performance fails to justify those charges.



Source: SEI Datamart, data as at 30th April 2017.

Conversely, they found that whilst passively managed funds competed more on price there were examples of poor value for money and, perhaps most interestingly, their performance is not always reported against an appropriate benchmark. This echoes our own sentiments of industry benchmarks largely being irrelevant to the majority of investors, who can benefit more from focusing on benchmarks that mirror their goals in life.

All considered, the paper doesn't highlight anything that anybody wasn't aware of to some degree. Despite this, it is a useful barometer of the regulator's intended areas of focus for the year ahead and provides some food for thought over service propositions and which service providers are least likely to come under scrutiny.