Consumer duty May 16 2023

Third of advisers unprepared for consumer duty

Research from Embark has also revealed that a significant number of advisers are suffering with various mental health challenges as a result of the current difficult business environment in the UK. (Tim Gouw/Pexels)

By Jane Matthews 0

Advice firms are under significant strain at the moment as a result of rising costs, heavier work loads and increasingly stringent regulations, Embark has said.

The results of Embarks latest investor confidence barometer, published today (May 16), showed that on top of these general concerns, many advisers are still not ready for the consumer duty.

Some 30 per cent of advisers said they are not confident they are prepared for the go-live date of the consumer duty in July.

> This isn't a situation that has suddenly been thrown on the industry, it's been brought to market quite effectively
>
> Gary Bush, MortgageShop.com

The Financial Conduct Authority first set out plans for a new consumer duty in 2021, stating it was designed to create a higher level of consumer protection in retail financial services.

In October 2022 firms' were expected to have agreed their implementation plans for the duty which comes into force for new and existing products or services at the end of July this year.

Some in the industry said they were surprised to see that so many advisers have said they are not ready.

"To read that some advisers are quoted as saying they 'do not feel prepared' for consumer duty doesn't sit well with me at all," Gary Bush, a financial adviser at MortgageShop.com told FTAdviser.

"I'd question how many rounds of golf they have had over the past 12 months. This isn't a situation that has suddenly been thrown on the industry, it's been brought to market quite effectively and with plenty of noise from supporting providers."

'Unintended consequences'

Tthe barometer from Embark also highlighted there may be some unintended consequences resulting from the roll out of the consumer duty.

The majority of advisers (57 per cent) agreed the consumer duty will prompt them to move lover-value clients out of legacy products into new lower cost ones.

Embark noted that while this is the outcome intended by the FCA, there are signs that it may further widen the advice gap, as 84 per cent of advisers said they have increased their minimum portfolio value for new clients.

> We may not be able to help these customers who perhaps need advice the most
>
> Luke Thompson, PAB Wealth Management

Additionally, 66 per cent have also increased, or will increase, their charges for lower-value portfolios due to the extra work required by the consumer duty.

Luke Thompson, director of PAB Wealth Management said this will create further barriers to financial advice for clients with smaller pots.

"As a firm we charge £1,495 for initial advice that we provide but for someone with a smaller pot of say less than £50,000 this advice fee will feel disproportionate.

"In the past, we may have reduced our fee for these smaller pots to give people the advice that they need. However, it appears that consumer duty will bring an end to this and with this in mind we may not be able to help these customers who perhaps need advice the most."

Bush said this shows advice firms need to adopt a new way of thinking for smaller client investments.

"In our mind this makes for perfect handling in an online and lighter touch environment where you can match the work being undertaken by advice firms by the size of return," he said.

Likewise, 60 per cent of advisers surveyed agreed that FCA intervention in the lower end of the advice market could be successful in reducing the advice gap.

Furthermore, some 62 per cent of surveyed advisers agreed that the FCA's proposal for a low-cost simplified advice regime will have no impact on their businesses, as it targets different consumers with smaller cash balances.

Without this, Wes Wilkes, chief executive of wealth manager Net-Worth NTWRK said the impact is "inevitable and clear".

"Clients with lower perceived value or simpler requirements, will either find it difficult to obtain the services they need or will only have access to a 'lighter' service as firms attempt to assess and order their value measure appropriately,' he said.

Wilkes added: "Some people will be 'priced out' and this is a sad consequence."

Mental health pressures

The survey results from Embark also revealed that a significant number of

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advisers are suffering with various mental health challenges as a result of the current difficult business environment in the UK.

Some 40 per cent of surveyed advisers said they are experiencing greater levels of anxiety, while 43 per cent said they are struggling to find motivation.

Of those who have reported increased mental health pressures, 70 per cent agreed that rising business costs were a contributing factor.

Embark's intermediary distribution director Ranila Ravi-Burslem said that people's awareness of mental health and their willingness to discuss it has "grown immeasurably in recent years".

"We know from our engagement with advice firms that they are really feeling the impact of heavy compliance burdens, higher workloads, and increased business costs, but our survey really helps put this into perspective.

"Providers and platforms must do more to support advisers and help lighten their workload. We are determined to be the easiest and best-connected platform on which to do business and are investing heavily to deliver this," she said.

jane.matthews@ft.com

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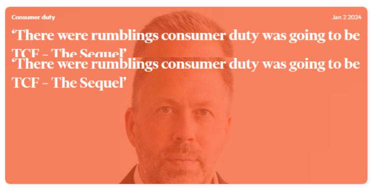

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