

Exploring the advice gap

The opportunities, the challenges
and the need to work together



What's inside

Foreword **03**

About this research **04**

- Our findings at a glance



The barriers to financial advice **06**

- When do customers need professional financial advice?
- What's stopping customers from seeking professional financial help?



The advice gap in more detail **09**

- What does the advice gap look like?
- Disengaged gap
- Guidance gap
- Self-sufficient gap
- Professional advice gap



Fixing the advice gap **14**

- The advice gap - breaking down the customer segments
- The adviser opportunity and the industry's responsibility
- Fixing the advice gap

Appendix - research methodology **17**

Foreword



Jamie Jenkins

Director of Policy & External Affairs

Many people talk about the **'advice gap'** in the UK. We all accept that it exists, but few commentators have explored it in detail. In producing this report, we want to do just that.

Our aim is to improve people's understanding of what we really mean by the advice gap, and offer some recommendations on how to reduce it.

Arguably, there are many financial 'gaps' that need resolving - from the retirement savings gap to the protection insurance gap.

The pandemic has exposed many of these in ways that no one could have anticipated, prompting state intervention on an unprecedented scale.

However, the kind of events that have affected people over the last 12 months are the kind of events that affect families all the time. And usually with far less help from the government.

Good financial advice leaves people much better prepared for life events, big or small.

And it must surely sit at the heart of tackling all the other financial gaps we've identified as a nation.

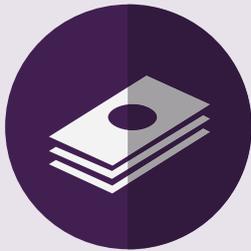
In this report, we've looked at the reasons we have an advice gap, the barriers people perceive, and the types of people involved. The answers are far more nuanced - and thought provoking - than you might imagine.

I hope you find it interesting.

A handwritten signature in black ink, appearing to read 'J Jenkins', written in a cursive style.

About this research

Royal London has always championed the value of advice. Our previous research revealed that people benefit from professional, independent financial advice in two important ways:



The financial benefits

We've shown that, on average, professional financial advice leads to people being **£47k better off after 10 years**.¹



The emotional benefits

Talking to a financial adviser helps people feel **more in control** of their money, **confident about the future** and **better prepared** to deal with life's shocks.²

Despite these benefits, only **26%** of the country seek professional financial advice. This leaves almost **three quarters of the population** missing out on the value and security it can provide.

In fact, **39 million adults**³ in the UK currently don't take any form of professional advice or guidance when it comes to looking after their finances. This is commonly referred to as 'the advice gap'.

To better understand this challenge, we've carried out research with customers and professional financial advisers. Our key learning is the fact the advice gap is formed by different segments of customers who are all facing different challenges.

In this report we'll bring these populations to life, explore their financial needs and present our view on what our industry has to do in order to help them.

¹Source: ILC, What it's worth - Revisiting the value of financial advice, December 2019

²Source: Royal London, Feeling the benefit of financial advice, September 2020

³Sizing based on 52,673,433 (ONS, 2019 UK population aged 18+)

Our findings at a glance



The entry point for professional financial advice

We've spoken to over 200 advisers to understand the average level of investible assets a customer would need before their firm would take them on as a client.

Our findings reveal that **£48.6k** is the point when professional financial support becomes the most accessible for those customers who fall into the advice gap.

[Read more on page 6 →](#)



The six barriers to advice

More than 4,000 customers have shared all the different things that get in the way of them seeking professional help when it comes to looking after their money.

Using this input, we've uncovered **six common barriers** – along with a widespread lack of understanding of what advisers do and the value they can add.

[Read more on page 8 →](#)



The advice gap in detail

Our research shows there isn't a single advice gap that everyone falls into. Instead, there are **four separate gaps**.

And while there have been similar research findings in the past, our study can fully separate each gap into entirely distinct customer populations for the very first time.

[Read more on page 9 →](#)

When do customers need professional financial advice?

In their recent paper, *'Evaluation of the impact of Retail Distribution Review and the Financial Advice Market Review'*, the Financial Conduct Authority (FCA) suggested that customers who have **£10k of investible assets** may need some form of professional support to help them manage their finances.

While there may never be a universally accepted life event or financial threshold which triggers the need for money advice, having a ballpark number is helpful to understand when customers need support and who would be best placed to provide it.



According to the FCA, customers who have **£10k of investible assets** may need some form of professional financial help.

What advisers tell us

Our research with advisers reveals that, on average, customers would need closer to **£48.6k** before many advice firms would consider taking them on as a client.

In fact, **20%** of advisers in our sample said that their firm would not take on a client with **less than £100,000**. At the same time, **41%** of advisers have turned a client away, or purposefully not followed up with them because they didn't hold enough investible assets.

This could effectively disqualify millions of customers from accessing paid for professional advice. It also raises the question, who will help these people make informed financial decisions and find the right level of support when they need it?



Advisers tell us that customers would need, on average, **£48.6k** before their firm would take them on as a client.



41% of advisers have turned a client away, or purposefully not followed up with them, because they didn't hold enough investible assets.

When do customers need professional financial advice?



As many as 3.5 million people are missing out on professional advice

Our research shows there are **3.5 million** adults in the UK who currently have assets between **£10k** and **£50k** and are open to talking to a financial adviser. While many of these clients would currently be turned away by a number of advice firms, they do present potential future opportunities for advisers. In the meantime, we need to provide the right level of support to help these people make good financial decisions with their money.



The cost of regulation stops advisers taking on less affluent clients

While the Retail Distribution Review has undoubtedly helped to improve the standards of the advice market, it has demonstrably driven up the cost of advice. So much so, it simply isn't economical for advisers to support customers who have lower levels of investible assets.



Providers can help advisers scale up their business – or do more to help to bridge the gap

Assuming regulations remain the same, we need to help advisers take cost and risk out of their business so that it's profitable to support a broader spectrum of clients. We can also provide tools and education to help customers make better financial decisions, so that one day they may be able to access tailored professional advice.

What's stopping customers from seeking professional financial help?

Through our customer research, we found there are **six key barriers** that stop customers from seeking professional help when it comes to looking after their money.



I think it's too expensive

This is the biggest barrier to advice and covers **47%** of non-advised customers. Despite the fact these people believe professional advice costs too much, a sizeable number (**40%**) have no expectation as to what an adviser might charge.



It isn't something I'd thought about

22% of customers have never sought professional financial advice because they simply haven't considered it as being something they might need.



I can look after my own money

35% of non-advised customers think advisers can't offer them anything that they can't take care of themselves. This contrasts with our previous research which has shown advised customers not only feel more informed about financial matters, they are also financially better off.



I don't like talking about my money

17% of non-advised customers are either too proud or embarrassed to talk to someone about how to manage their finances. **32%** of all non-advised customers say they would find financial advice more appealing if they could do everything digitally.



I don't trust advisers

29% of non-advised customers feel they can't trust an adviser – or they don't know how to find a good one. **27%** would be likely to see an adviser once prompted with more information about the services on offer.



It isn't for someone like me

15% of non-advised customers feel their finances are either too simple or that advisers are only interested in customers who are wealthier than them. **31%** of this group have more than **£50k** in investible household assets.

The barriers to advice are mainly driven by myths and misconceptions

There's undoubtedly lots of customer confusion around what advisers do and the value they add. For instance, **29%** of non-advised customers believe advisers can only offer guidance – and a massive **45%** believe advisers are only interested in selling them something.

We can convert 1.5 million non-advised customers through basic education

While **20%** of non-advised customers are open to taking professional advice, this increases to **24%** when we explain a bit more about what advisers do and the value they add. While that might seem like a small bump, it's the equivalent of converting **1.5 million** customers.

What does the advice gap look like?

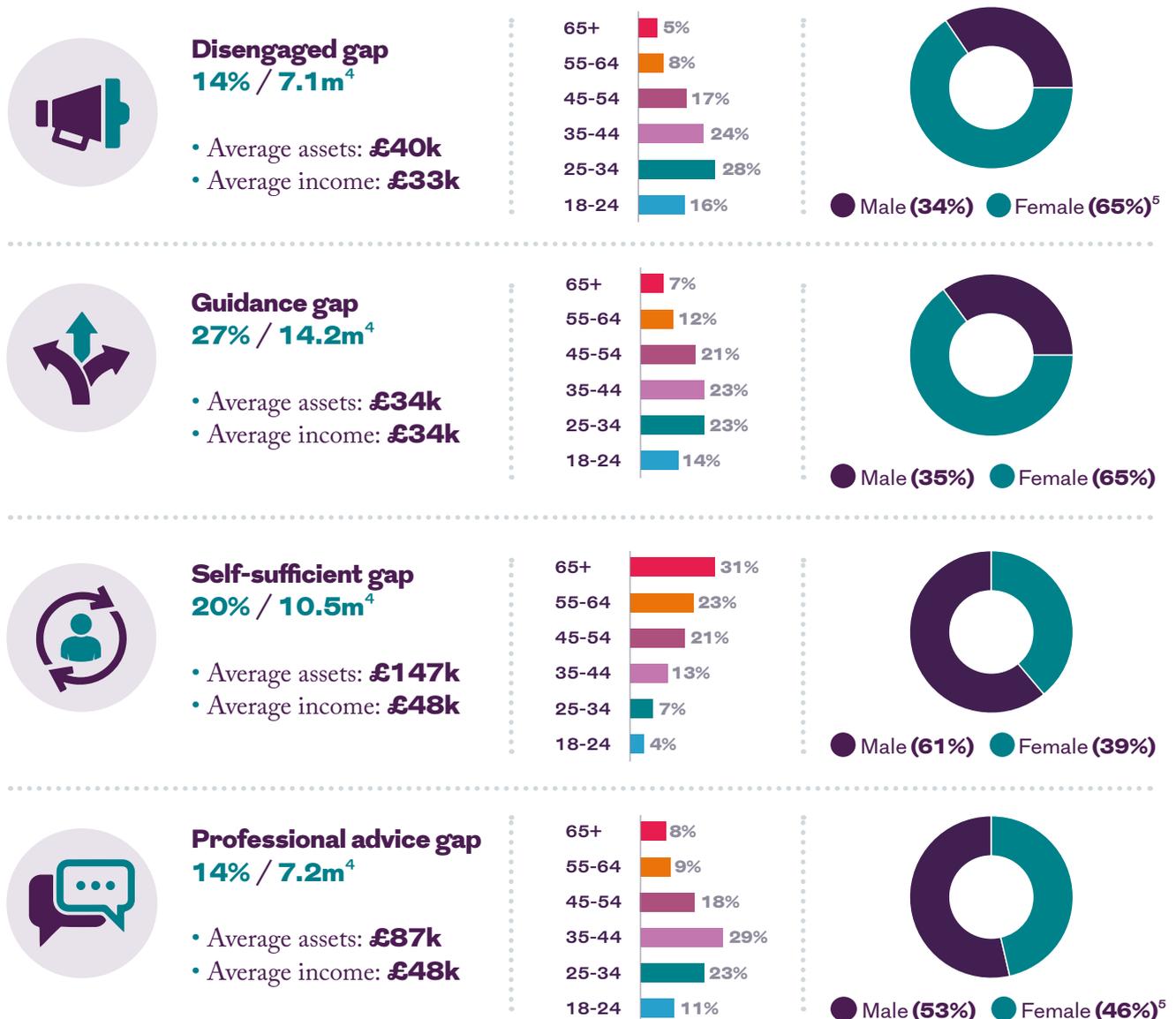
When our industry talks about the advice gap, we can often be guilty of oversimplifying the problem. So instead of boiling things down into a single issue, we must firstly recognise that there's considerably more nuance to it.

Through our customer research we found that, rather than there being one big gap which everyone falls into, there are in fact **four separate and distinct advice gaps** – and we can accurately measure the population of each.

The customers who fall into each gap share common characteristics – such as their personal wealth, financial needs and propensity to seek financial advice.

By focusing on each customer segment separately, we can better understand their particular needs, and make sure that our industry's solutions are able to provide everyone with the right level of support. This could be free financial guidance, fully regulated advice, or a combination of both.

We found that the **39 million** non-advised adults in the UK can be broken down and separated into four distinct advice gaps:



⁴ % of UK adult population.

⁵ 1% of customers did not wish to specify their gender.

Disengaged gap



The 7.1 m customers who fall into this gap have the lowest level of income and the smallest number of product holdings. They have little awareness of their own financial situation and are among the least likely to seek professional advice.

This gap has the largest proportion of young people, with **44%** falling between the ages of **18 to 34**. Our findings also show that women are the most likely to feel disengaged with their financial situation (**65%**).

The main barrier to seeking advice for these customers is that it isn't something they'd thought about. They have the most knowledge gaps when it comes to financial planning and products, yet **56%** have never sought any form of financial help.

Only **17%** of this group feel prepared to cope with a life shock, so there's a high risk that these customers could find themselves in financial crisis.

Who falls into this gap?

Ayesha, 22



Ayesha lives at home with her mum and dad. She works in a call centre, earning £19k a year and pays the minimum contribution into her workplace pension. On the advice of her parents, she puts some of her salary away each month into a cash ISA – where she's managed to save £2k. She plans to put this money towards renting her first flat.

“My finances are very basic – they don't warrant paying for advice.”

How do we close this gap?

We should encourage financial education in schools

With a large proportion of young people, it's easy to see how this would be the entry point for many customers. The risk is that, given their low levels of engagement with financial products and planning, these customers could be sleepwalking into significantly poorer outcomes. Our industry should be thinking about how to use our influence and reach to improve financial awareness and education in schools – so that when young people do enter the workplace, they're more equipped to make informed financial decisions.

We should deploy more financial planning resources into the workplace

35% of customers who fall into the disengaged gap are already in a workplace pension – so this perhaps offers the biggest opportunity to reach them. Our industry should be working closely with employers to make it easier for this population to engage with their money, understand the importance of financial planning and the value of professional money advice.

Guidance gap



Covering 14.2m customers, this is the largest of the four advice gaps. This group are the most likely to feel anxious about their money. And they worry the most about being able to cope financially when they retire.

The population is relatively young, with **37%** falling between the ages of **18 to 34**. The customers who fall into this gap are also more likely to be female (**65%**).

The main barrier to seeking advice for these customers is that they think it's too expensive. Despite this belief, **40%** have no idea or expectation as to what adviser would charge for their services.

Only **6%** of this group have sought support from a government guidance service – although as many as **24%** are open to receiving financial advice when they're given some basic education about the benefits.

Across all four gaps, these customers feel the least prepared to cope with a life shock (**14%**) – so they represent the highest risk of falling into a financial crisis.

Who falls into this gap?

Jenny, 30



Jenny lives with her fiancé Mark. They plan to marry next year and start a family soon after. She works as a marketing consultant for a local brewery, earning £34k a year. She's been auto enrolled into a workplace pension and has a £6k 'wedding fund' stashed away in a savings account. Money is a regular source of conversation at home, which can often leave Jenny worried about the future. She's thought about talking to an expert to help with her financial planning, but she's worried about the cost.

"I don't have any spare cash, so advice would have to be free."

How do we close this gap?

We need to clearly signpost free guidance services – and promote their value

Given their relatively low levels of income and wealth, these customers are unlikely to secure the services of a financial adviser. However, they have higher than average knowledge gaps when it comes to pensions and protecting their income, and feel anxious when thinking about their household finances. We need to do more to promote the availability, and the value, of free financial guidance services.

We need to put resources in place to help customers cope with a life shock

It's clear that the customers who fall into the disengaged gap and the guidance gap feel significantly ill prepared for a life shock. Should the worst happen, we need to make sure there are good services available to help these customers recover – though this is a fall-back solution, and a focus on preventative measures must remain the primary objective.

Self-sufficient gap



The 10.5m customers who fall into this gap are the most confident when it comes to looking after their money – with a massive 94% feeling in control of their finances.

These customers have the most diverse product holdings and the greatest level of investible assets - **22% have more than £250k**. This gap has the largest population of older customers, with **75%** falling between our age brackets of 45 up to 65+. They are also more likely to be male (**61%**).

The main barrier to seeking advice for this group is that they believe they are best placed to look after their money themselves. They are also the group which is most likely not to trust advisers. **18%** believe advisers don't have any additional knowledge that they can't get elsewhere for free.

Despite this, **10%** are open to advice - and this increases to **14%** once they're given more information. That's an overall adviser opportunity of around **1.5m** customers.

Who falls into this gap?

Andrew, 57



Andrew is a manager in a high street bank, where he's worked for 24 years. He lives near the coast with his wife Dawn and they have two children – both of whom are studying at university. Andrew earns £86k a year and has a number of investments, including a second home which he currently rents out. Andrew considers himself to be financially savvy and has never looked to anyone for advice on how to invest his money. He's approaching retirement and has been recently thinking about passing some of his wealth on to his children.

"I'm perfectly capable of managing my own finances."

How do we close this gap?

We need to reset customer thinking about the professional advice market

Our research shows there's widespread confusion among customers as to what advisers do. This, along with well-publicised historical scandals, will undoubtedly contribute to feelings of mistrust and scepticism when older customers think of the professional advice market.

To change this, our industry has to do a lot more to reassure customers about the financial advice market, the standards it's held to and the professionalism of the industry.

We need to show how advice can make a difference – especially in later life

While these customers largely feel self-sufficient, **14%** are open to advice when they're given basic education as to what advisers do and how they can help. And, with an older population of customers, there's an opportunity to highlight the benefit of taking advice in later life - especially when it comes to things like making retirement decisions and inheritance planning.

Professional advice gap



The 7.2m customers in this gap represent the biggest immediate opportunity for advisers – with more than 1 in 2 (54%) saying they're open to receiving professional financial advice. That's around 3.9m customers.

This population have among the highest levels of household income – and, even though 47% have more than £50k in investible assets, 17% believe they aren't wealthy enough for professional financial advice.

There's a largely even split between men and women in this gap (53%/46%), and they're most likely to be aged between 25 and 44.

The main barrier to seeking advice for this group is that they believe it's too expensive. As we've also seen with those in the guidance gap, 13% of these customers have no idea or expectation as to what an adviser might charge for their services.

Who falls into this gap?

Trevor, 39



Trevor lives with his husband Paul, along with their two children aged 6 and 9. He works as a digital media designer, earning £54k a year. He has a stocks and shares ISA where he's invested some of the £75k inheritance he received on his father's death last year. He thinks talking to someone about his money is a good idea – but he doesn't know where to start. He believes professional advice could be quite expensive and he's not sure what he'd end up getting out of it.

"I don't really know what advisers can offer me or how much they would cost."

How do we close this gap?

We need to make the cost of professional financial advice clear

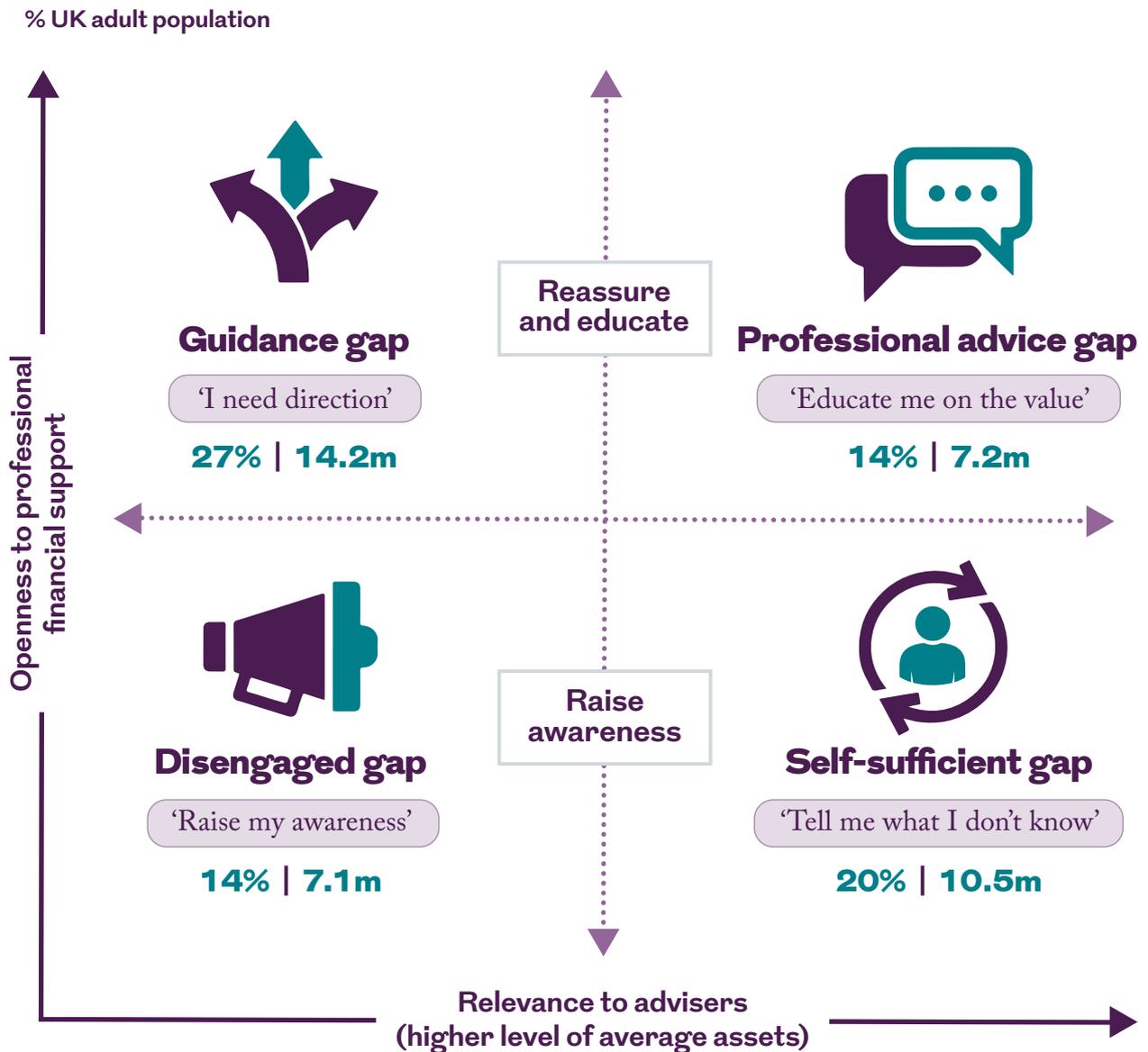
While there are lots of variables which determine what an adviser charges each client, we need to make the general cost of advice more transparent. If we can help customers understand exactly what they might expect to pay – and the options for doing so, there's potential for unlocking considerable opportunities for advisers.

We need to showcase the value of professional financial advice

We know that professional financial advice delivers better outcomes and experiences for customers. And while there's a definite need to improve customer education about the support advisers can provide, there's a bigger onus on the industry to bring the value of professional advice to life in ways that demonstrate tangible value to the customer. It's only by doing this that we'll be able to persuade people to try it for themselves.

The advice gap

Breaking down the customer segments



We've been able to segment all the customers who fall into the advice gap into four distinct groups – and accurately measure the population of each.

By looking at these populations individually, we can better understand the challenges they face, and how we may be able to encourage them to seek professional financial support.

Understanding the needs and wealth of each group also helps us define which type of help would be most appropriate – whether that be a free guidance service or professional financial advice.

The adviser opportunity and the industry's responsibility

According to our research, there are **3.7 million non-advised customers** who are not only open to professional financial advice, but also have investible assets worth over **£50k**.

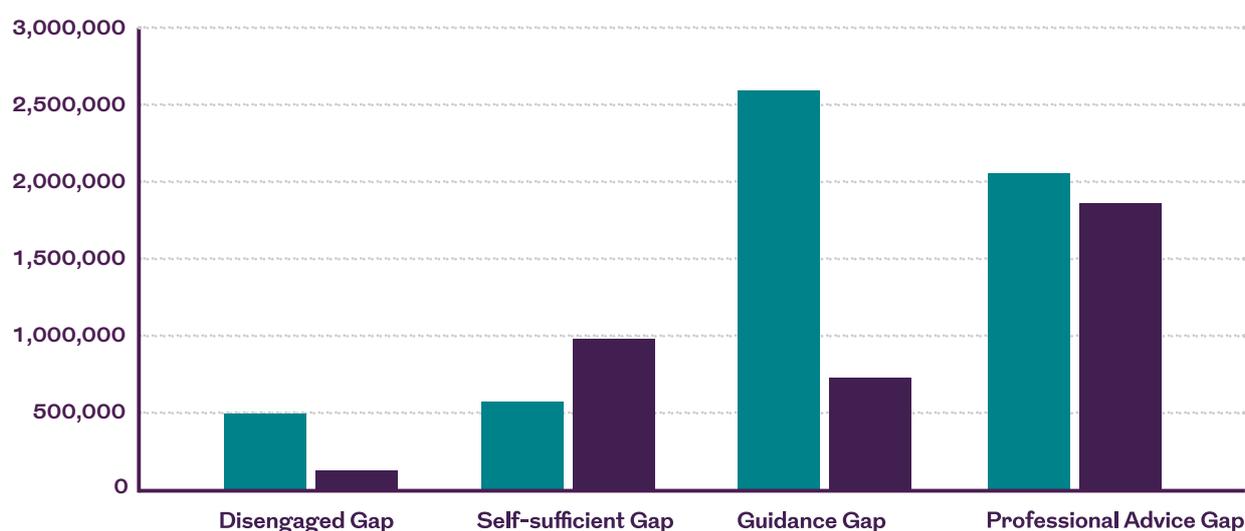


That's over **£185 billion** of unadvised investible assets.

If all these customers suddenly woke up tomorrow and wanted professional financial advice, there simply isn't enough capacity in the adviser community to help them. So we need to think about how we can help advisers scale up their business in order to reach more of the clients who need them.

At the same time, there are **5.7 million non-advised customers** who are open to financial advice but have investible assets of between £0 and £50k. If advice firms are unable to take these customers on as clients, how will the financial services industry make sure they can find and access the level of support they need?

UK adult population open to financial advice within each advice gap



Fixing the advice gap

The findings from this research underline the challenge of closing the advice gap. The sheer scale and complexity of the problem means it will never be solved by a single party acting on their own. Indeed, if we truly want customers to enjoy better financial outcomes and experiences, the only way this will ever happen is if our industry comes together and takes mutual responsibility for putting the right solutions in place.

In our view, these should be the immediate areas of industry focus.



Promote the free government guidance services

We know there are millions of customers who need help with financial matters. The reality is that most of these customers will never be able to access professional financial advice (and arguably may never have the need) so we need to do more to promote the different sources of free guidance that exist – and encourage customers to use them.



Help advisers scale up their services

We must recognise the integral role financial advisers play in helping customers enjoy financial security. But, unless there's a change to the regulations which will allow advisers to deliver a form of simplified advice, advice firms will never be able to meet the level of customer demand. That being the case, we need to develop new, digital solutions that will allow advisers to scale up their services and deliver support to more customers.



Demystify the world of financial advice and guidance

There's no question that the primary barrier which stops customers seeking professional help when it comes to their money is a lack of basic understanding around what advisers do, and what the free government guidance services offer. This confusion ultimately puts a barrier between customers and the financial help they need. If we can find a way to break that down, we could unlock opportunities for advisers – and connect more people with potentially life-changing support.



Improve financial education at grass roots

It may be no surprise that those who show the least engagement with their financial situation are generally young adults. To change this, we need to introduce more financial education into schools. By doing so, we have a chance to change customer attitudes towards their money – and the importance of making good financial decisions. We then need to make sure this financial education is carried into the workplace, and give people the resources they need to engage with their income in a positive way and build financial resilience into their lives.

How would you fix the advice gap?

Share your thoughts on social by using the hashtag **#FixTheAdviceGap**



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Royal London Adviser - Pensions
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Appendix – research methodology

As part of this research activity, we engaged with both customers and advisers. Here's a snapshot of our sample research groups.



Our customer research

To understand the advice gap and the barriers that customers perceive to be in the way of them seeking professional support, we spoke to **4,007 nationally representative UK customers**.

Fieldwork took place between 5 June and 23 June 2020. The sample was provided by Dynata. The questionnaire and fieldwork was managed by the Royal London research team.



Our adviser research

We spoke to **205 UK financial advisers** to understand the minimum amount of investible assets customers would need before advice firms would take them on as a client.

Fieldwork took place between 10 and 17 February 2021. The sample was provided by Opinium.

We're committed to working with advisers and the wider industry to help more customers access the right level of financial support.

You can find out more about the steps we're taking at

adviser.royallondon.com/fixtheadvicegap



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1 Thistle Street, Edinburgh EH2 1DG

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