The Financial Conduct Authority asks robo-advisors for more

The UK's financial regulator has recently reviewed the offerings of the 'robo-advice' sector. The results, whilst superficially not encouraging, suggest teething problems rather than deeper underlying issues. In the report released in May, the Financial Conduct Authority (FCA) noted that online discretionary investment managers were not communicating risk in a clear way, lacking transparency on pricing and failing to obtain adequate information to make the best recommendations for some clients.

The FCA reviewed ten digital advice/guidance providers and found many areas in need of improvement. However, despite being termed 'robo-advisors', many of the new digital advice platforms do not actually provide financial advice. They often provide a much simpler service which the FCA describes as investment guidance. Robo-guidance, whilst a more accurate descriptive term for many of these platforms, is not yet in common parlance. For comparison, the term 'robo-advice' is now widely seen in the national press and has even been included in the Oxford English Dictionary. The ramifications of robo-guidance are so far only discussed by investment compliance consultants and regulators.

Both the regulator and fintech solution providers hope that a consumer attracted to a digital asset manager with their simpler customer journey and simpler message should be able to understand the products available. However, the service received when using a digital advice platform may not be clear, even to a regulatory expert. The terms "advice" and "guidance" are explained in different ways by different providers, and even a compliance specialist can find this confusing.

The term "guidance" is considered less encompassing than 'advice' and is often seen to be explained in negative language. Descriptions of guidance in standard Terms and Conditions frequently list items that the service did not offer rather than outlining the benefits.

The inconsistency between these two product types is creating a situation where both the consumer and the platform provider could easily be confused as to which product or service they are transacting. Clearly this is not ideal, and the regulator and the industry need to work together on creating commonly accepted standards. A clear explanation of the differences would encourage competition in addition to promoting a better understanding of the services available. By making services more directly comparable the consumer can better find value for money or find the service most appropriate for their needs.

The Financial Advice Working Group has performed market research to understand consumer opinions on the matter, their findings supported the need for more communication:

- Participants had conflicting views on what constitutes “advice” and “guidance”, with many transposing the meaning.
- Participants lacked understanding of what services to associate with “advice” and “guidance”.
- Participants were unfamiliar with the concept of “guidance” in a financial context.

It seems that “financial guidance” is not yet a familiar term, despite the simpler process being a valuable addition to the financial product range available to the consumer. The industry will need to work harder to communicate its benefits to the small saver.

If an advisor or platform recommends a specific product or course of action for someone to take, given individual circumstances and financial goals, then it is likely that the provider has crossed a line and is providing ‘financial advice’. This requires more detailed reporting, a greater regulatory cost and the need to create a ‘suitability report’. One of the issues the FCA has raised is the lack of suitability disclosures and this is a clear issue.

Despite these issues, the regulator and consumer bodies are likely to further support growth in the digital advice sector. An individual starting their savings journey is likely to receive a superior experience from a digital provider due to the lower charges. For example; a consumer with £10,000 would likely pay under £100/yr or less than 1 per cent to a ‘robo-advisor’. Using a traditional analogue channel could easily cost five times more! It would be difficult for even the most ardent fans of analogue financial advice to claim that these costs are likely to lead to more ‘suitable’ outcomes.

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Notes:

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