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Assessing online investment & advice services

By Boring Money
On behalf of the Financial Services Consumer Panel

London December 2016

Introduction

In light of concerns about consumer protection in the developing online investment sales and advice market, the Financial Services Consumer Panel wanted to understand more about how well consumers understand the risks, charges and scope of these services.

In particular, the Panel has concerns about the boundaries around advice and guidance, the extent to which the nature of the service is communicated to investors (i.e. liability and charges), the protection available to consumers, the prominence of risk warnings, the transparency of costs and charges and the quality of risk assessment and suitability processes.

To shed light on this question, the Panel commissioned Boring Money to undertake qualitative research with consumers, and to supplement this with their own research of 15 selected online investment services, including robo-advisers, investment platforms and traditional product providers. Specifically, the research set out to assess four principal areas:

- Do consumers understand the nature of these services and what they are being offered?
- Do consumers understand how much these services cost?
- Do consumers understand the investment risk associated with these products and services?
- Are consumers aware of the protection available to them?

The Panel will use the findings of this research to make recommendations to improve the experience for consumers. The views and recommendations in this report are those of Boring Money.

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The Research Process

Boring Money recruited 15 consumers for deep dive interviews. These were UK adults who:

- Earn above £30,000 per year
- Saved at least £100 per month
- Did not consider themselves confident enough to advise others regarding finances
- Did not feel that they kept up to date with the investment markets

Each consumer reviewed 2 of our 15 online investment propositions in an hour long session.

The interviews were attended by a Boring Money expert who assessed (from an industry perspective) when the consumers were correct in their assumptions or calculations and when they were confused or made incorrect assumptions or inferences. The consumer research was supplemented by our desk research. As the secure sites and customer experience can be substantially different for actual clients, Boring Money either holds or opened accounts with 12 of the 15 providers tested. The research was conducted in August 2016.

The research was led by Holly Mackay, MD of Boring Money and supported by Alex Jones, Head of Market Research and John Chapman, Head of Advice.

Providers assessed

Robo-Advisers – we have seen a number of new entrants in the last few years. The term is a loose and generic one, covering propositions which offer regulated advice and those which don't. It covers propositions led by algorithms and by humans. However, from a consumer perspective there is a major common denominator. They offer a simpler path to investing than traditional providers, removing the distinction between administration provider and investment manager which the older model platforms have.

We selected a range of 6 of the largest "robo advisers" which are live in the UK today. Some of these providers are regulated to give advice. The majority are not.

Traditional "Direct to Consumer" investment platforms – this is a mature market segment and there are a large number of businesses. We selected four of the largest by assets under administration and included a further 2 platforms which offer investors a model portfolio service.

Provider-owned services – there has been limited growth in the provision of non-advised online investment services from the traditional providers to date, but we anticipate increased activity as more consumers turn away from traditional advice. We selected three of the largest UK consumer brands, models which offer 'ready-made' portfolios and also a model which offers advice as a fixed fee service.

All of these three brands offer services direct to consumers and do not just operate via financial advisers or other intermediaries.

Foreword

Online investment platforms and services in the UK have evolved dramatically over the last decade. 10 years ago, back in 2006, the smaller number of DIY investors were principally served by discount brokers and Hargreaves Lansdown. Go back another decade and investors were still cutting out coupons from the papers, and mailing them to providers.

The combined forces of technology and regulation have changed the landscape beyond recognition. Nutmeg, the UK's first 'robo adviser' was launched to a flurry of industry interest in October 2012 although, so far, consumers remain largely oblivious. Just 9% of UK adults have heard of a robo adviser in 2016 and just 1% have invested this way[1].

Nonetheless, when we look at the numbers, this must inevitably change. There are not enough advisers to service every consumer – and not every consumer can afford to pay the associated costs of a traditional advice provider. We face a supply issue because there are circa 23,000 advisers in the UK[2] who – even if they can evidence offering an ongoing service to 200 clients each – will only be able to cater for circa 5.5 million UK adults. And then add in an average assumed requirement for a customer to have at least £75,000 of assets and we can see the mismatch. As for demand, just 8% of UK adults said they would pay more than £100 an hour for advice[3]. Based on these facts alone, we think it inevitable that online, digital investment and advice solutions will play a growing role in helping UK adults manage their savings and investments.

We have spent the last 3 months investigating this space for the FSCP. We are independent and have neither products nor an advice service to sell. We are not a platform or a provider. An impartial bystander. There are many critics of online investment services, who believe that traditional yet expensive face-to-face advice is the only solution. This is impractical. We think it critical that online investment services find a path to success and work with providers and indeed advisers to provide consumers with the various degrees of information, guidance and advice required.

We will discuss consumers' understanding of this terminology in this report. The regulatory distinctions between guidance and advice are not at all understood, nor are the implications of this clear. We also found multiple examples of consumers who were unaware of the role of the regulator, unaware of the Consumer Panel and unaware of what their redress would be.

The regulatory distinctions between guidance and advice are not at all understood, nor are the implications of this clear.

General understanding of investments, confidence to exercise choice and the ability to work out what the charges are remain extremely low. This report includes some recommendations on what we think would improve the current landscape for consumers. We think many of the answers lie in using technology not simply to deliver these services but to deliver the messages in a smarter way. Our findings suggest that the answer is not simply to press for more onerous disclosure requirements which will do nothing but add a few pages to terms and conditions which are hidden and not read. Equally we need to avoid the tick box mentality and think with fresh minds about what the risks are. What are we warning our customers about? And include this in the copy on our sites. Display this with images. Pop-ups. Use design creatively. Compliance has become a UX[4] issue as much as a semantic issue.

Foreword cont.

The average robo adviser has customer account sizes of between £3,500 and £12,500 and an average customer age which falls between 37 and 45. This compares to the more traditional DIY investment platforms with average account sizes of between £50,000 and £75,000 and an average age typically between 54 and 57. Robo advisers have higher %s of female investors. We can see that the development and evolution of online investing represents an exciting way to engage a new audience of investors. With interest rates at historic lows, it has never been more important to engage non-expert savers, or first time investors, and help them make sensible decisions. However, the industry appears to be once again in danger of shooting itself in the foot by fudging the full cost of investing.

The same disrupters who point the finger at the "fat cats" of the asset management world are not clear enough on their charges. Just one of our 15 consumer testers could correctly work out what the all-in charges of a £1,000 investment would be. The regulator has been telling the industry to sort this out for years. Excuses about complexity are thrown back. There is still an arrogant view that the sums of money being paid are the industry's fees and not the consumer's charges. This is an important nuance. Costs to consumers are viewed by providers in terms of their profit margins and their competitive positioning, not in terms of what a consumer will pay. It's non-sensical to only disclosure half of the fees and to not disclose third-party underlying investment charges too. It's like British Airways quoting a flight to Johannesburg without fuel charges.

Just one of our 15 consumer testers could correctly work out what the all-in charges of a £1,000 investment would be.

Finally, we can see the industry's nervousness about where the boundaries between guidance and advice begin and end. Our consumer testing clearly showed the inadequacies of self-selection when it comes to risk profiles, yet this is unlikely to change without regulatory clarification and amendments. We think it a critical issue to address.

Online investment services have evolved significantly over the last 5 years and offer less confident consumers more help than ever. We think that clearer fee disclosure, improved use of visual and infographics to communicate, clearer language and more consistent labelling along with improved projections of estimated bands of returns would improve the customer experience and increase trust and engagement.

Holly Mackay, CEO and Founder, Boring Money

October 2016

1. Source: Boring Money's Spring Census report, April 2016; data source YouGov; sample size 2,042 UK adults
2. Source: FCA data, October 2015
3. Source: Boring Money's Spring Census Report.
4. User Experience – a term used to refer to the online or digital experience of a customer

1. Do consumers understand the service they are getting?

1. In general consumers were clear that the sites tested were offering investment products which carried risks of capital loss.

Jargon remains prevalent

2. Every provider's site had many examples of jargon and widespread confusing language which consumers did not understand

3. The majority of our testers did not understand common financial terminology. This includes language which those in the industry tend to assume is generally understood, such as 'fund'. Bonds, SIPPs, ETFs and investment trusts are other examples of commonly used terms which are very poorly understood.

4. Asset allocation or asset classes are a key part of the description of how we allocate a portfolio to a consumer but this language is not widely understood.

Portfolio labelling confuses

"What's an asset class? I don't know. A lesson to help you find out more about cash and bonds and things."

5. Portfolio descriptions such as defensive, cautious, balanced and aggressive mean very little to consumers. As these have become such a fundamental part of the non-expert investor's journey, this language and the underlying concepts (indeed asset allocations) need to be more clearly and consistently defined across the industry, especially where there is no adviser to translate the terminology.

"Defensive fund? What on earth is that!? Like the Ministry of Defence and weapons?"

6. It is our belief that the lack of consistency is unhelpful. Some newer language and descriptions of portfolios such as Adventurous and Ambitious can confuse and the lack of common terminology – fuelled by newcomers who seek innovation and differentiation – is likely to cause further confusion to consumers.

7. The impact of a single adjective on a non-advised customer's asset allocation must not be overestimated. We saw many consumers amend their risk profile in response to the single word description of their risk category.

Language in risk profiling tools was very clear

"Confident? That's not me. I'm not confident."

8. The language used in the risk profiling tools themselves was extremely clear and generally well understood.

9. However, when it comes to the actual disclaimers used, they are not always clear. The term "Capital at risk" was not understood by the majority of testers. However, every single person we interviewed for this research was very clear that there was a risk of losing money with an investment proposition, in fact, as we describe later, the risks of losing money were typically exaggerated.

Probability of returns is a key issue to address

10. One of the first things that a consumer wants to know is how much they might make. Yet the communication of potential returns is frequently unclear or avoided altogether.

11. The attributes and probable return parameters of portfolios should be communicated more clearly, visually and with £ examples, not % examples. We elaborate elaborate on this in the investment risks section.

Definitions of guidance and advice not clear at all

12. The distinction between guidance and advice is not understood at all. What the industry sees as guidance is widely described by consumers as advice; what the industry knows as regulated advice was more likely to be described as a '"consultation" or to be seen as something involving human interaction or conversation. This is an important consumer assumption in the context of developing robo and AI propositions.

Good practice

One provider used pop-ups well to remind consumers that they did not offer financial advice. This was reinforced by the website which clearly signposted how consumers could look for a financial adviser, reinforcing the distinction between their service and the services of an adviser.

Poor practice

One provider we tested is regulated to give advice and offers and promotes this service. However, we have not been contacted since opening the account in Spring 2015. An ongoing fee for advice should be supported by more frequent contact. Other providers who did not offer advice did not explain this either clearly or prominently on the site.

13. Purely self-select investment sites seem to deter the most novice and inexperienced investor and do not include risk profiling questionnaires. However even research and narrowing down of a list of funds is still viewed at by consumers as being some sort of approval or 'advice' even if the consumer has no idea how to usefully select or blend these funds from the list. It should therefore be prominent that this content is not regulated advice. And what the implications of this are.

Distinctions between advice, wrappers and investment not clear

14. Consumers do not understand the distinction between tax wrappers, investment funds and advice. The concept of advice – a few services tested offer just advice with no product sales - which does not include a product sale is alien. However, the concept of a product sale without regulated advice, when conducted online, is accepted.

15. This highlights a further key point. Consumers do not understand the concept of an investment portfolio which then sits inside a tax wrapper. Most want to pick one thing and see a stocks & shares ISA as a single thing. The concept of open architecture is too complex. Most consumers wanted what they described as advice in making this selection. When probed, they were happy for this small 'a' advice to be digital and generic, and they did not expect redress if the value of these investments subsequently fell.

16. This confusion between fund management, product management and regulated financial advice was exacerbated by description such as 'management from our experts' – which in fact related to investment management and not financial advice.

17. As we have said, consumers do not make a distinction between products (tax wrappers), investment products (funds) and advice. It's all seen as one integrated whole.

> **"That means they will have experts to give advice. That's good."**

18. Regulatory tick-box language such as "Capital at risk" is not widely understood and disclaimers are hidden in parts of the site which are not always clear to see. We saw little evidence of providers trying to genuinely explain the risks with the consumer in mind, and to embed this understanding in the journey. Perversely this is most apparent in the larger providers, where fear of Conduct Risk has turned compliance into a tick list rather than a desire to explain the risks to a lay consumer.

19. Despite industry preconceptions, when assessed in terms of clarity, the traditional providers were often better at offering clear explanations than the newer robo advisers.

20. The newer Robos are often misleading on charges but use graphics and visualisations well to promote consumer engagement and understanding.

21. The D2C platforms typically confuse the unsophisticated investor with both choice and charges.

22. The more traditional providers have built some of the clearest journeys for consumers with good general disclosure of charges and decent explanations of risk.

Visuals and design need more focus

23. Words are not the only tool for communication. Design and visuals were found to be key in how we convey complex information to time poor consumers. Video was also used well by some providers, to explain complex ideas without involving lengthy Word-type documents which are particularly unsuitable for today's increasingly mobile journey.

Good practice

One provider has a very clear video which explains the key aspects of investment risk in less than 3 minutes, and is easy to access from the landing page.

Poor practice

Many providers explain investment risks using lazy terminology and 'tick box' language which do not clarify things for less confident investors. "Benchmark", "Volatility", "Capital growth" are examples of words which carry little meaning for many consumers, if not clearly explained and a connection to outcomes made.

2. Do consumers understand the costs of investing online?

24. The costs of investing remain very poorly communicated. Language is misleading, many providers lead with what they do not charge for, suggesting that services are free, and we think that this needs immediate attention and improvement.

Just one consumer could work out what the % charges would be in £s

25. When the fee structure was anything other than a single flat £ fee, just one of our 15 consumer testers could correctly calculate what a £1,000 investment would cost them.

26. The fee structures of online investment propositions remain far too complex and are very poorly understood. Transparency is not the same as clarity.

27. Very few providers have easy to find links to charges and costs, from main navigation tabs.

Good practice

A few providers had clearly visible links to Fees and Charges on the homepage.

Poor practice

Several providers did not have a link to Fees or Charges from any of their main navigation tabs.

28. The vast majority of consumers are not able to convert % fees into £ fees.

29. Perhaps more pertinent to the finance sector is the fact that basis points (or figures of less than 1%) are particularly widely misunderstood. This makes sense – most %s in our daily lives are larger whole numbers. By way of an example, 0.60% was widely read as 60%. 0.95% was understood as 95%.

“0.95%? on a £1,000 investment? That can’t be right. They can’t be going to charge me £950.”

Robo adviser charges are highly misleading

30. Without exception, all robo advisers separate the (additional) underlying investment charges from their fees. This is unclear and poor practice. We suggest immediate action to improve this.

31. As we often find in the finance industry, this has evolved from competitive positioning. The new robo advisers believe that they will be compared by consumers to the heavyweight open-architecture platforms who disclose their administrative platform fees only, and exclude the variable costs of any funds selected. This desire to compare like with like has created a poor outcome for consumers who seek clarity on total costs and charges.

32. All mentions of additional fees (for the underlying ETFs and /or funds) are in smaller fonts, come at the bottom of pages, or are hidden in other charts. To a DIY investor, an all-in fee is taken to be just that. Providers should not use the term “all-in fee” if it is not indeed that. “Just one simple management fee.” “Free of charge”. This is all misleading and poor practice.

33. This language is not just limited to websites and is used in digital advertising and marketing too.

34. We suggest that terms such as “all-in fee” should be banned unless this is the case. Any consumer would expect this “all-in fee” to include underlying investment charges.

35. Many online investment services have the charges broken down in to components.

Consumers do not understand the difference between a platform fee or a portfolio fee

“You will pay either the platform fee or the portfolio fee depending on what product you have.”

36. The distinction between a portfolio fee and a platform fee is meaningless to most consumers. Some of our testers saw it as an either/or charge for different options, and did not understand that the total cost would be the sum of these 2 parts.

37. Consumers felt angry when we explained that these costs were to be viewed in aggregate.

“They make you see two fees, it’s tricky – why can’t they combine them in a total?”

38. When it comes to terminology, the words “service charge” were more clearly understood than platform charge or custody fee.

39. Given the complexity of charging structures we believe that providers should have all-in fee calculators which provide illustrative charges for given portfolio sizes in £ amounts. These should be easily accessible from the landing page.

40. For robo advisers with proprietary portfolios, this could be illustrated by a slider which provided a range of charges in £s for a £ investment. Fees will typically alter by a proportionately minimal amount depending on the risk profile selected. It should be possible to provide an illustration.

“The fund costs need to be clearer, I don’t want anything hidden”

41. For historical reasons, those stock broking platforms which are trying to attract investors as well as traders, are often the most complex from a fee calculation perspective as they have a trading revenue model on shares (in £s) and had to replace commission on funds with an administration fee (in %s). Add in separate administration charges for funds, shares, ISAs and SIPPs along with transaction charges and inactivity fees and it becomes far too complex.

Traditional platforms should have built-in fee calculators showing illustrative £ amounts

42. Direct to consumer platforms are increasingly offering ‘ready-made’ multi-asset funds, multi-manager funds or model portfolios. As these will typically be directed at the least confident investors, at the very least, these pre-populated solutions should have fee calculators. For those consumers considering open architecture, a prescribed industry average OCF could be used across the board, for purposes of illustration.

43. Traditional providers offering single manager solutions are able to provide fee calculators and some of these offered the clearest fee disclosure we saw. We acknowledge that this is much simpler with closed-architecture or in-house products.

Good practice	Poor practice
One platform offered a fee calculator which illustrated the total cost to consumers in a clear £ amount. All the consumer needed to do was to enter the planned amount to invest. An ability to work with % figures was neither assumed or required.	All robo advisers assessed were very unclear about how much the total costs to consumers were. One claimed that the first tranche would be "managed free of charge". Another calculated "Your annual fee" which omitted investment charges. Most displayed the underlying investment charges in smaller font, a lighter coloured font and nearer the bottom of the page.
Consumers do not understand disaggregated charges, and will often see 2 fees as either/or options. One provider illustrated the platform fee and the fund management fees vertically, as a sum, which made it clear to consumers that these amounts were to be totalled.	A few providers start the fees disclosure pages which what the consumer does not pay. This confuses people and is unclear. This should be secondary, not primary information. Information on charges should start with what the charges are!

Visuals and design should play a greater role in communicating complex issues

44. Visuals and design are a key component of clear fee illustration. For example, when amounts are illustrated vertically, consumers understood this was a sum. When illustrated horizontally these were taken to be either / or prices. We think this is a key point.

45. Highlighting 3 products simultaneously was a style that was liked, enabling consumers to compare not only the costs but all aspects of the products with one another, maximizing their potential to make an informed decision.

46. As for overall comparison across the industry, we do not think that charge comparison tables should be shown against the fees of IFAs/advised discretionary management services as often these figures are misleading and could deter shopping around. The service offered by many DIY online investment propositions cannot reasonably be compared to a full advice services which offers so much more than simply putting together a portfolio of investments.

"I like the comparison of products, it's just like internet shopping. I get it."

47. We saw one example which compared the online restricted advice service offered (with an initial flat fee of £69) to a stated IFA fee of 3% on a £100,000 portfolio. These numbers feel arbitrary and misleading and did not present the full picture.

Poor practice

Several providers attempted to market their services with direct price comparisons to traditional advised services which include the financial adviser's fees. This is a different service and the comparison is misleading.

3. Do consumers understand the investment risk and risk profiling process?

48. Without exception, consumers knew that the stock market involved a risk that you could lose money.

Investment risk is consistently over-estimated

49. In fact, the investment risk of more aggressive portfolios was consistently over-estimated by consumers. If we believe that long-term savers and investors are well-served by having some assets invested in the stock markets, then a key risk we note is that consumers are actually not taking enough risk.

50. Consumers could not quantify what sort of losses might arise from the types of portfolios we were looking at or understand the difference between a number of investments all described as being "high risk". The general comments and expectations in terms of quantifying loss and potential performance seemed more pertinent to what we might expect from a holding of a single AIM listed company than a modern diversified portfolio of collective investment funds comprising many asset classes and sub-sectors.

51. When we assessed risk profiling tools, the language and questions used were very clear and generally well understood.

52. One provider crossed the boundaries of everyday language and went too far in using colloquialisms which were very unpopular with our testers and raised more doubts than it allayed fears.

"Aggressive portfolio? Gosh. I could lose up to about 90% in that."

53. However, the risk profiler journey is typically presented as absolute, single and concrete. We saw no evidence of prompts to consider using different profiles for different timeframes; as opposed to simply using the single outcome.

54. One of the robo advisers we test sends an email to consumers after a year to suggest that they review their objectives and goals against their portfolio – we think that this prompt is good practice.

55. Conversely some of the model portfolios presented by the investment platforms are clearly not rebalanced and do not include a service to contact the consumer with a prompt to review the portfolio.

Language used to describe the risk profiles is confusing and inconsistent

56. The language used to describe the output of the risk profiler journey, namely the portfolios, is unclear and confusing to customers. The names of these portfolios, such as Cautious, Balanced, Conservative and more ambiguous labels, such as Experimental, can cause confusion and potential undue influence. We have researched this over the last 12 months with a broader range of consumers.

57. Many of the portfolio descriptors are subjective words without concrete meaning. "Balanced" typically sounds too comfortable for those struggling to make up their minds- this everyday word suggests comfort levels many novice investors do not feel. Portfolios with similar asset allocations called "Aggressive" and "Adventurous" may be viewed differently due to the difference in labelling. Conversely, consumers may not fully understand when looking at several portfolios all described as "Cautious" that the inherent risks and potential returns may be vary considerably.

Good practice	Poor practice
A few providers use easy to digest graphics to complement the word descriptors with likely £ outcomes – in both a positive and negative outcome scenario. This is much more meaningful to a consumer than a single adjective which has no anchor or objective meaning. Visual information about risk is more clearly understood and more memorable.	Forcing consumers to self-select a risk profile based on little more than an adjective is likely to lead to selection of the risk profile which falls in the middle of the range of options. Language such as ‘Balanced’, ‘Aggressive’ and ‘Cautious’ is not well understood and the industry’s familiarity with this terminology leads to poor consumer explanations. Newer providers have experimented with lesser used descriptions such as ‘Confident’. The behaviourally descriptive adjectives often lead consumers to select a different profile, based on their interpretation of a single word.

Self-selecting a profile is not helpful for novice investors

58. The most confusing customer journeys come from those providers which are not regulated to give advice and rely on a customer self-selecting a risk profile. From our industry knowledge of these providers, we suggest that many would like to provide an easier journey, but do not embark on this for fear of crossing the guidance/advice boundary.

59. In these instances, our testing and broader provider feedback suggests that the middle ground is often sought by the consumer, which indicates that a consumer’s asset allocation will rely far too much on the range selected by the provider and how these are ranked and displayed and labelled.

60. Almost without exception, consumers asked to self-diagnose chose the middle path. Where there were 5 risk profiles, they would pick number 3, regardless of where those 5 notches sit on a spectrum of risk in wider terms. For example, some providers ignore pure cash and fixed interest and deem these investors as not suitable for the service (given cost and returns on these assets) if the outcome falls below their scale of risk. Others have it as their lowest risk level and offer a portfolio accordingly.

61. Language and descriptors play a key role. In one example, where the middle path was described as ‘Confident’, both our testers ‘downgraded’ themselves to risk profile 2 because they did not feel confident.

62. Self-selection and mapping, often adopted as an approach because of a fear of crossing the guidance and advice boundary, and a desire to “keep the regulator happy” as one provider described it, is ironically a confusing and poor consumer outcome.

63. We would like to see more visuals and clearer language throughout the investment journey which explain the risks clearly and simply, rather than lengthy written explanations in small font which are read by no-one, and are particularly hard to see on today’s more mobile customer journey.

64. We saw a few good examples of videos which explained the risk profiling journey simply, quickly and clearly.

Probability remains a key communication problem

65. A key question most novice investors have is how much they might make. This is hard to ascertain from the websites we assessed. Probability of returns from any given risk profile and underlying solution are not well explained or well understood. Tools built for IFAs have been rehashed and are not understood by a retail audience. In our testing, we found that a 60% probability of a given return was read as meaning a 60% return. Terminology such as "median outcome" is not clear or well understood.

66. The spectrum of potential outcomes should be clearly and graphically displayed, using £ examples rather than % examples. Best practice would involve sliders which customise the experience and illustrate the potential range of returns in £ amounts. One provider plays this back to consumers as part of the risk profiling journey, asking how they would feel about specific £ outcomes. Consumers want to see illustrative £ outcomes.

67. In one example we saw a range of returns with a 60% probability, and a different range of returns with a 15% probability. This was the worrying consumer interpretation:

"It should give you hard examples of what you might get – that would be good."

"A 60% return? That seems very high. I think a 15% return is much more likely."

68. One site promises to "maximise returns." A fairly meaningless phrase and an unlikely feat from a company offering purely passive trackers to target each asset class that will still underperform the sector average benchmark due to portfolio and service costs. Consumers want more specific language and examples.

Good practice

One provider provides a clear visual illustration of the probable bands of returns over time. A specific £ amount is taken and the 5 different scenarios are illustrated – "there is an equal chance that your portfolio will change by the amounts shown below". Green bands illustrate potential gains (e.g. +£2,600) and red bands illustrate losses (e.g. -£600). Specific numerical indicators, reinforced visually, were clear to consumers.

Poor practice

One provider relied heavily on %s to describe probable returns, using the charts which are now commonplace amongst financial advisers with limited explanations. E.g. "there is a 60% chance of a 6% return." These scenarios were poorly understood by consumers and are not easy to follow. Technical language such as "median outcome" or imprecise indicators such as "moderate returns" were also poorly understood.

Capacity for loss and tolerance for loss are not widely encompassed in the process

69. Attitude to risk is one part of the equation and we have focused on this so far in this report. However, capacity for loss and tolerance for loss are not widely promoted or explained as concepts, with a few exceptions where this has been successfully embedded in the customer journey at account set-up stage.

70. Some of the providers play back the risk and the outcomes to consumer at the conclusion of the risk profiling journey. “Before continuing, a few things to double check.” Sufficient emergency funds are questioned and a range of potential outcomes in £ terms are re-stated. This is clear, helpful and good practice.

Good practice

One provider shows consumers a couple of screens which play back the level of risk taken, the implications of this and also covers the issue of affordability, making the issue of capacity for loss very prominent and clear, with strong supporting graphics. Potential gains and losses are spelt out in £ terms, related to the planned investment amount and shown in green and red.

Poor practice

Several providers require consumers to to enter financial data or information at early stages which most consumers are unable to do. One provider asks consumers to enter in projected inflation rates as part of the product mapping journey.

4. Do consumers understand the regulatory landscape and protection?

71. Consumers understand the risks of capital loss if they invest in the stock market. Redress for potential losses is not widely expected.

72. The consumer has a poor understanding of the regulatory landscape, the protection offered by the FSCS (the Financial Services Protection Scheme), the complaints process, and the role of the FOS (Financial Ombudsman Service). Consumers did not spot the references to the regulatory bodies and had no idea what the compensation process might be in a situation where “things went wrong”.

Terms and conditions are hidden away and too long to be relevant to consumers

73. Naturally, these are not subjects that take prime position on providers’ websites, although almost all of the providers we reviewed had the relevant information tucked away in their lengthy and hard to find Terms of Business or Frequently Asked Questions.

74. One provider had a 76-page customer agreement document/terms and conditions. This is clearly far too long and impractical.

75. Mention of the FSCS was only spotted once during the consumer testing – one of our 15 tested had the logo on its site. However, the significance of it was not recognised and its purpose was unknown. In terms of consumer rights in the event of ‘things going wrong’ – most testers understood that if they felt their investments had simply performed badly that there was no form of redress. Some consumers felt that if they were inappropriately advised then there might be something they could do (but no idea on what steps to take or the potential outcomes).

76. If the investment platform itself became insolvent, consumers’ expectation was that their money would be protected, but again there was a lack of knowledge in terms of the nature of protection, compensatory limits, or reference to the FSCS by name. The idea that the investment platform might become insolvent was not a scenario that consumers spontaneously thought of.

77. A minority mentioned the FCA (one stated FSA), but they had no detailed knowledge on the role of the regulator. The consumers view was that if an organisation is 'FCA regulated' then that would suffice as reassurance that the firms were not "charlatans." However, nobody understood what FCA regulated meant in the context of consumer protection. Another potential confusion with a firm's regulatory status is that all of the platforms are regulated in terms of offering a platform service and this may be confused with being FCA regulated to provide advice.

78. The FOS was not mentioned by any consumers. Almost all the websites had a reference to the complaints process and FOS in their Terms of Business, FAQs, Legal Information or Key Features, but these documents tend to be so long that consumers gloss over them and don't understand the jargon and detail. Often these documents are not drawn to consumers' attention until the point of sale.

79. With the exception of one provider, all the providers had detailed information on their website (although we had to be tenacious to find it) in relation to risk, compensation, their complaints process and the role played by the FOS, the redress process and the role played by the FSCS.

80. In respect of risk, it's an interesting balancing act to ensure the consumer is aware of the risks involved with stock market investing without frightening them into not investing at all. The consumer has to be made aware of the risks. We believe that a small statement in tiny pale grey font at the foot of each page is insufficient, while the approach of one traditional provider to have a four bullet-point risk warning in the middle and at the end of each product page could be seen as too off-putting.

81. In order to be fairer to consumers it would be beneficial to have a prominent link on the website to a page which notes the risks with investing in the service, the complaints process and the role played by FOS, the redress process and the role played by FSCS and the relevant addresses or phone numbers for communication. This information should be available in no more than one page or a summary screen which can be viewed on a mobile.

82. This is one area where clever use of pop-ups, better design and more attention to marketing (as opposed to treating it as the 'boring section to leave to compliance) could make a much better customer experience and actually engender trust too. However, providers are more likely to do this if they believe that the supervisory units of the regulator will be as open to this fresh approach as the senior FCA executives leading the clearer communications projects tell us they are.

However, providers are more likely to do this if they believe that the supervisory units of the regulator will be as open to this fresh approach as the senior FCA executives leading the clearer communications projects tell us they are.

Good practice

Some providers had an easy to read one-page summary of the terms and conditions, including consumer protections. A few summarised key messages in very succinct clear FAQ pop-ups.

Poor practice

One provider had no reference to a complaints process, FOS or the FSCS. The vast majority of providers had this information contained within exceedingly long terms and conditions pages which in turn were buried deep in the links at the bottom of a web page.

Conclusion and recommendations

It is clear that the majority of consumers remain mistrustful of investments, unclear about the terminology, unconfident about calculating % charges and unsure what exactly what the associated risks are. We have highlighted some key areas which we believe need focus and improvement for consumers who are not confident hobbyist investors.

Without exception, language on investment sites assumes levels of familiarity which the briefest discussion with most consumers will show to be unrealistic. Familiar concepts to us in the industry, such as funds, ISAs and bonds are poorly understood. Once we progress into any risk profiling journey, descriptors such as Cautious and Adventurous do not successfully communicate the risk characteristics which they should.

The use of clear visuals and short videos are two successful ways to more helpfully communicate these concepts to consumers, yet many providers continue to use lengthy 'talking head' videos only or limit design to brand illustrations only. Those sites which use design as much as language to communicate are typically always better understood by consumers.

We were asked to consider whether consumers believe that they are getting advice, when in fact they are in a non-advised environment. It was clear that the contrived regulatory definition of 'guidance' – arrived at by working backwards from the definition of 'advice' - is confusing and a little meaningless to consumers. Rather than a focus on semantics and definitions, we think more providers could usefully explain what the difference between these two might mean in practice, and signpost this throughout the journey, with pop-ups and clear language which is a part of the narrative, not languishing at the bottom of an extensive terms and conditions document. Having the confidence to indicate where consumer can actually look for a financial adviser if required is a positive step and helps to make a distinction between online investment provision and financial advice.

That said, we see a consumer need and demand for help when it comes to navigating a path through the investment noise, especially in an open architecture environment, and even in a service which offers a limited number of portfolios. Those providers which are not regulated to give advice tell us that they believe self-diagnosis into risk profiles to be a sub-optimal outcome for many consumers, but fear of overstepping that grey boundary between guidance and advice prevents them from expanding their role in the decision-making journey. DIY investors are still ultimately forced to make decisions without having a full understanding or experience of the underlying asset classes and how these might be expected to behave in various conditions. We think that it would benefit consumers and providers alike if the regulator were to review how non-advised investment providers can assist consumers with product mapping and investment selection. Do we want consumers to be approximately right or perfectly wrong?

The risk profiling tools were generally well-understood and the questioning processes provide clear information and insights to potential investors. As we have said before, the smart use of visuals makes this information both more meaningful and memorable to consumers.

Do we want consumers to be approximately right or perfectly wrong?

Although assessing the technical effectiveness of the risk profiler tools in mapping consumers to the "right" portfolios for them was outside the scope of this research, the risk profilers we assessed were an effective way of communicating, and playing back, some of the risks involved. We saw that the better journeys also include capacity and tolerance for loss questioning. However, at the conclusion of the process, the language used to describe the output of the risk profiler journey, namely the associated portfolios e.g. Cautious or Adventurous, is unclear and confusing to customers in terms of positioning asset allocation and associated investment risk. Although challenging, we think it would be interesting to see the major providers of multi-asset funds, or 'pre-packaged, risk-labelled portfolios', collaborate on agreed terminology which is approached from the lay consumer view, rather than the arguably lazy recycling of existing industry labels which are well understood in institutional circles.

Conclusion and recommendations cont.

If we broaden the definition of risk away from individual profiles to the general risk of capital loss, then it was clear that this eventuality (if not the language) is very well understood. Consumers are actually likely to over-estimate the potential losses of investments. If an objective of the regulator in the past was to make sure that consumers understand that investments can go up as well as down, we think that they have succeeded. Arguably there is now a more complex issue to address, and that is whether the risks of investing have become over-exaggerated in the consumer's mind. One provider in particular had dedicated over half of the 'real estate' of its stocks and shares landing page to risk warnings. At a time when pay-day lenders carry fewer warnings on adverts and homepages than many investment providers, we think there is a need to re-consider and clarify what best practice looks like for online investment services, along with a re-focus on what the consumer risks actually are which need to be highlighted, rather than what disclaimers need to be added to "keep the regulator" happy.

When was the last time that a marketing director actually asked himself or herself just what the risks are that they are trying to alert customers to? And how they most effectively communicate these. This thinking will simply be naïve without appropriate support from the regulator.

Finally, and critically, fee disclosure remains very poor. We were shocked that just one consumer could successfully calculate the all-in cost of making an £1,000 investment online, where they were not reviewing a fixed cost £ service. In this single instance, there was a very clear calculator where the only consumer input was the £ amount to be invested, and the total fees for the 5 different portfolios were illustrated. It was simple and clear to understand.

Clearly this simple and specific disclosure is a bigger challenge for open architecture platforms with a very broad range of available investments, however we think it possible to still provide indicative total £ amounts.

The industry must see this against the current backdrop which is that many consumers are unable to understand whether a £1,000 investment would cost them £10 or £100 a year. The newer robo advisers must avoid defining their fees through the lens of comparison with open architecture investment platforms (removing the underlying investments from the equation) and re-focus on providing their customers with a single total cost of investing. If we are to achieve clarity for consumers, we think that the regulator must work with the industry to give it the guidelines it needs to provide all-in fee illustrations within consistent parameters. It need not be as hand-wringingly complex as many make out. The industry has been told to improve disclosure of fees on many occasions. It will only have itself to blame if the regulator is forced to introduce specific rules on how the total cost of investing is to be illustrated to consumers.

Holly Mackay, CEO and Founder, Boring Money
October 2016

Summary of recommendations

1. Providers should make better use of design, graphics and video to provide quick, mobile-friendly information to an unconfident audience.
2. Senior directors should champion a project to review all language used and to listen first-hand to consumers who do not understand the jargon or language used . Glossaries are not the inevitable solution – these definitions and explanations should be worked in to the experience as pop-ups, very short videos or infographics.
3. The language around risk and the associated portfolios has become lazy. It does not communicate effectively with consumers. We believe that consistent industry-wide descriptors, which have been devised for non-expert consumers and tested with consumers (and are not simply recycled financial adviser terminology) would help a consistent understanding and enable more meaningful comparison. These consistent adjectives, or descriptors, would map to asset allocation bands which are typically associated with risk and volatility.
4. Consumers understand the prospects of capital loss and over-estimate risk on the downside, typically assessing the risk of a balanced portfolio as akin to that of a single AIM listed stock. Providers need to feel confident to show potential upside, as well as warn against losses. Potential losses or gains should be visually illustrated with £ amounts.
5. The vast majority of services which are not regulated to give advice avoid providing risk profilers or questions which help map a consumer to a portfolio. We saw that less experienced investors using online services are looking for help and validation in selecting a fund or a basket of funds, yet most providers not regulated to give advice do not offer tools or profilers to help them. The customer journey is broken. We think that regulated execution-only providers should be able to offer more help to consumers (whilst being very clear that they are not providing financial advice and what impact that has on liability) and the regulator needs to continue to work with the industry, through ongoing initiatives such as the regulatory sandbox, to explore and test the boundaries of what specific help these providers can, and cannot, offer their customers.
6. Fee disclosure remains poor and unclear. We think that fee calculators which replay illustrative costs in £s should be a requirement, accessed either on the landing page or clearly signposted from the landing page. Industry protestations about complexity are exaggerated.
7. The use of marketing terminology such as “All-in fee” should be immediately banned when it does not include the underlying investments. This is widespread amongst the robo advisers.
8. The industry focus is on telling consumers whether they offer regulated advice or not. We think a focus on the “So what” for consumers would be more effective. What exactly are the implications for a consumer of using a service which is not offering regulated advice? The core impact is the lack of accountability or provider liability - this is more important to communicate than a reliance on the consumer understanding the implications of using ‘guidance’.
9. We think compliance needs to be brought into the digital age and into a marketing mindset. It is impractical to suggest that the lack of consumer awareness of protection and regulation can be addressed by mandating even longer Ts and Cs which waste space and are not read. We think the business leads need to think with fresh minds e.g. what really are the three core risks that consumers face? What is it that we are trying to warn our customers about? Not, what does compliance tell me I must do? This will only work with co-operation from the FCA and a recognition that online services need to adapt to communicate risks effectively and succinctly.
10. We believe that a pop-up summary of no more than 10 bullet points which show the key points of the lengthy terms and conditions should be accessible from the landing pages. These could cover key information covering risk, average charges for £ portfolios and protection. The industry must stop delighting in complexity, and fix it. It would be useful for a thought-leader to champion a snapshot summary which has been tested with and understood by consumers and is well positioned on a landing page.

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Smart investing for normal people