

Consumer Investments and Advice Policy Team  
Financial Conduct Authority  
12 Endeavour Square  
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United Kingdom

28 February 2023

**SUBJECT:** BrokerChooser's comments on the consultation on broadening access to financial advice for mainstream investments (CP 22/24 November 2022)

## **I. About BrokerChooser**

BrokerChooser is a data-driven, customer-focused, independent<sup>1</sup>, and international brokerage comparison platform founded in 2016 with the sole purpose of helping people to find the financial service provider most suitable to their needs. This is reflected in our mission statement which says '*We help people invest.*'

On an industry level, we regularly study dozens of financial reports published by brokerage service providers<sup>2</sup> in order to identify long-term trends on the brokerage market and have a holistic view of the industry.

On an individual service provider level, we are analysing and ranking approximately 76 brokerage firms active on the UK market.<sup>3</sup> Our proprietary methodology<sup>4</sup> reviews 497 data points per brokerage service provider culminating in an overall score assigned to each of them by our proprietary scoring algorithm. In scope data points are spanning across the following key areas: fees, safety and soundness, deposit and withdrawal process, trading platform, account opening process, available product portfolio, quality of the customer service provided, quality and quantity of the educational as well as research materials available.

Our analysis also includes live testing by using real money to open accounts, deposit, trade and use the resources and features available at a given brokerage service provider.

As a fully customer focused platform, we are also collecting and analysing a vast amount of customer data to gain insights into customer problems, needs and preferences mostly via our proprietary tools available on our platform such as our '*Find My Broker*', '*Compare Brokers*' and '*My First Stock Trade*' tool etc.

Beyond hard data, we are continuously conducting user interviews and online surveys to gather further information also helping us to develop a deep understanding of our customers.

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<sup>1</sup> All the information made available by BrokerChooser are based on our proprietary professional methodology, which is unbiased, prepared in accordance with the best interest of our customers and most importantly fully independent from the remuneration structure we have in place with our partners.

<sup>2</sup> Including brokerage service providers active on the UK market such as Hargreaves Lansdown, AJ Bell, Interactive Brokers, Fidelity International, Charles Schwab etc.

<sup>3</sup> <https://brokerchooser.com/broker-reviews>

<sup>4</sup> <https://brokerchooser.com/methodology>

## II. Reasons for joining to the consultation

To put it simply, we would say that the overarching goal of the Financial Conduct Authority (hereinafter ‘FCA’) with the implementation of the core investment advice regime is helping people invest which do resonate with our mission statement as an organisation. We think that our proprietary database combined with our professional expertise and analytical capabilities put us in a good position to bring in a fresh perspective and make valuable contributions to the ongoing consultation launched by the FCA.

We fully support the FCA’s objectives and its goal to implement the core investment advice regime to bring approximately 840,000 new-to-market consumer with (relatively) higher risk tolerance holding over £10,000 in cash onto the investment advisory market by 2025. We also understand the mismatch between the demand and supply of investment advice on the UK investment advisory market leaving a large number of potential investors underserved, prone to holding excess cash reserves and thereby suffering the consequences of the current inflationary environment.

On the supply side of things, (fairly understandably) the consultation and the proposed regime are focusing almost exclusively on financial advisers who are tried to be incentivized to better serve consumers falling into the target market set by the FCA.

However, we believe that it would be hard to achieve the overarching goal here without the involvement of brokerage service providers who are not only major distributors of financial instruments in scope for the core investment advice regime but also tend to be providers of investment advisory services as well (especially via the more traditional investment platforms). Accordingly, we would like to bring in a slightly different perspective and alternative approach with the aim of supporting the FCA.

On the demand side of things, we agree that the majority of consumers targeted with the proposed regime are in need of support (either in from of guidance or advice) allowing them to put their excess cash into work. Where we are holding somewhat different views is the form and source of such support as we do not see the stated general lack of trust in digital solutions on behalf of UK consumers (especially in case of UK consumers under the age of 35) as a major contributing factor to the problem.<sup>5</sup>

## III. Executive summary

- (1) Due to the nature of their business, brokerage service providers are well positioned to service UK customers falling into the target market identified for the core investment advice regime.
- (2) UK consumers who look after brokerage service providers also seem to fall into the target market set by the FCA for the purposes of the core investment advice regime.
- (3) Brokerage service providers are able to provide fee conscious target market consumers with services at better price levels.

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<sup>5</sup> FCA CP22/24 (November 2022) point 2.11 on page 11

- (4) Our data do not support the assumption of a general mistrust on behalf of target market consumers towards digital solutions. Brokerage services provided in a digital form do not exclude the possibility of human interaction from the business relationship.
- (5) Accordingly, the cause of the problem preventing target market consumers from enjoying the benefit of responsible long term investment should lie (at least in part) elsewhere than in the insufficient access to (holistic) financial advice.
- (6) Data also reveals that a considerable amount of target market consumers are getting lost at the beginning of their investment journey mostly due to administrative and technical hardships they encounter during onboarding and account opening processes.
- (7) Altering the way how investment advisory services are provided in the United Kingdom might be a challenging and resource intensive process. Therefore, we suggest using an alternative (and/or complimentary) approach which might help achieving the same objectives.
- (8) We would like to make some practical recommendations and giving examples on how might help to market players implementing the suggested alternative approach.

#### **IV. Detailed comments**

**Q1:**

**Do you agree with our proposed defining features of core investment advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Looking beyond the investment advisory horizon, there are several reasons why we think brokerage service providers are well positioned to help consumers (and the FCA) to achieve its overarching goal. Below we would like to explore and present this alternative approach.

#### **MARKET PLAYERS**

- (1) From a product perspective, they are major distributors of financial instruments (which are in scope for the core investment advice regime). Furthermore, such qualifying financial instruments are tend to be available at these brokerage service providers in a wide selection on different markets.
- (2) From a business perspective, some brokerage service providers and traditional investment platforms offering stock and share ISA (hereinafter ‘**S&S ISA**’) products to consumers are also holding licence to advise such consumers on investments in the UK<sup>6</sup> meaning that they might not only be able to act as distributors in this context but also as financial advisors participating directly in the proposed core investment advice regime.

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<sup>6</sup> Such investment platforms and brokerage service providers are for example: Hargreaves Lansdown, AJ Bell, Barclays, Fidelity International, Halifax, Interactive Investor etc.

However, we see an overarching trend on the UK market showing that alternative brokerage service providers (without holding a licence to give advice on investments)<sup>7</sup> are gaining more traction with UK consumers.

- (3) Main reasons behind this trend mostly centred around the following, the platform of many traditional brokerage service provider and investment platform is slow, the registration, account opening, deposit and withdrawal processes tend to be more complicated, burdensome and not user friendly.

We also found that the lack of advisory capabilities at such alternative brokerage providers, are often compensated with superior customer support and slightly superior educational and research resources<sup>8</sup> enabling the provision of better support (in the form of guidance) helping consumers to invest in financial instruments (in scope for the proposed regime).

#### IDENTICAL TARGET MARKET

- (1) From a target market perspective, based on data we have collected in 2021 and 2022 via our proprietary broker recommendation algorithm (powering our '*Find My Broker*' tool)<sup>9</sup>, we came to the conclusion that there is a considerable overlap between UK consumers looking after brokerage service providers on our platform and the target market identified by the FCA.

<b>CONSUMERS WITHIN THE TARGET MARKET</b>	<b>UK CONSUMERS USING OUR '<i>FIND MY BROKER</i>' TOOL</b>
<p>1. consumers not looking for wider areas of financial planning</p>	<ul style="list-style-type: none"> <li>▪ consumers in general are coming to our platform with the intention of finding brokerage service providers suitable to their needs without necessarily looking for receipt of holistic (or other form of) financial advice</li> </ul>
<p>2. consumers who have generally fewer assets</p>	<ul style="list-style-type: none"> <li>▪ approximately two third of UK consumers using our platform are beginners in the sense that they either are (i) first timers with no prior experience or (ii) only made a few simple transactions before and not having experience with various products or trading strategies</li> <li>▪ conclusion might be drawn from the above that such UK beginners tend to have fewer assets</li> </ul>

<sup>7</sup> Such brokerage service providers are for example: Freetrade, Trading 212, Fineco Bank and Interactive Brokers.

<sup>8</sup> BrokerChooser data and analysis, see for example at <https://brokerchooser.com/compare?brokers=115%2C5%2C125> or at <https://brokerchooser.com/compare?brokers=118%2C132%2C130%2C90%2C119>

<sup>9</sup> In 2021 21,256 whereas in 2022 11,023 UK customer used our '*Find My Broker*' tool. Please note however that not every UK customer answered all the relevant questions included in the tool hence the actual pool of customers related data we used to draw conclusions here might be less than the original sample.

<p><b>3.</b> consumers looking for (in scope) market based investments</p>	<ul style="list-style-type: none"> <li>▪ altogether 76% of UK beginners selected shares (including ETFs) and mutual funds as their preferred asset classes in 2021 (68% and 8% respectively)</li> <li>▪ these numbers decreased slightly to 66% (57% and 9% respectively) in 2022 but still two third of UK beginners are primarily interested in these asset classes</li> <li>▪ further support here could be drawn from qualitative data (gained from an online survey we conducted in 2023 enquiring UK consumers about their product preferences) which showed that 50% of UK consumers answering the survey were looking after a brokerage service provider with S&amp;S ISA offering</li> </ul>
<p><b>4.</b> consumers holding surplus cash assets</p>	<ul style="list-style-type: none"> <li>▪ UK beginners' preference as to the amount of money to be used as initial deposit is a good indication regarding availability of surplus cash to be invested</li> <li>▪ 44% of UK beginner clients indicated that they want to make an initial deposit between £170 and £1,700 and approximately 5% was prepared to make an initial deposit above £1,700 in 2021</li> <li>▪ in 2022, there was an increase (to 16%) among UK beginner clients with a preference for an initial deposit above £1,700 whereas 40% of them still preferred to go ahead with an initial deposit between £170 and £1,700</li> </ul>
<p><b>5.</b> consumers looking for advice on suitable investments</p>	<ul style="list-style-type: none"> <li>▪ UK beginner clients and (clients in general) are using our platform to find out where to invest rather than in what to invest</li> <li>▪ however, this does not mean that UK beginner clients are not looking for support (in the form of guidance) on suitable investments</li> <li>▪ as mentioned above, brokerage service providers are qualified and prepared to provide UK beginner clients with such support (and even with advice in case of traditional investment platforms and brokerage service providers)</li> </ul>
<p><b>6.</b> consumers having an investment horizon of 5 years or more</p>	<ul style="list-style-type: none"> <li>▪ UK beginners' preference regarding the frequency of their planned trading activity might be indicative of the time horizon for their investment</li> <li>▪ altogether 54% of UK beginner clients indicated that they want to trade either on a monthly or yearly basis in 2021 (27% and 27% respectively)</li> <li>▪ the numbers decreased slightly in 2022 but still almost half (48%) of UK beginner clients has the same preference (22% and 26% respectively)</li> </ul>

## SERVING TARGET MARKET CONSUMERS AT BETTER FEE LEVELS

- (1) From a cost sensitivity perspective, we are able to confirm the FCA's assumption that UK consumers are quite concerned about fees when it comes to the selection of a suitable brokerage service provider. Our data from 2022 shows that overall 63.4% of UK beginner consumers are treating fees as one of their top priorities, out of that 45% of them want to pay as little as possible

for the services to be provided citing that they only need basic functions and access to the market and 18.4% of them want a zero commission broker to pay for only what is absolutely necessary in this respect.

The FCA has concluded that, taking into account both advisory and underlying portfolio charges, UK consumers pay, on average, 1.9% in charges each year on the value of the assets invested when signing up for the services of an investment advisory firm.<sup>10</sup> Using a simplified model calculation, we would like to put this data in context. Our analysis on fees shows that by relying on alternative brokerage service providers (instead of investment advisers and/or traditional investment platforms) to invest into S&S ISAs (particularly into in scope financial instruments) a considerable amount of fees might be saved by UK consumers.

This means that one of the main concern of target market consumers could be addressed by relying on the services provided by such brokerage service providers.

In addition to the lower fees, consumers are not excluded from obtaining professional services at brokerage service providers because of not reaching a minimum investment threshold since minimum deposit requirements or similar investment thresholds are not used to be required for accessing professional support at the vast majority of such providers.

(2) Investment scenario for our model calculation:

- (a) given that the UK average S&S ISA subscription is below £10,000<sup>11</sup> in our model UK beginner consumers are making a monthly S&S ISA contribution of £750 (adding up to a yearly contribution of £9,000);
- (b) we are using the average annual advisory fee of 1.9% as our fee benchmark resulting in a £171 yearly fee paid by a UK beginner consumers on a yearly contribution of £9,000;
- (c) this benchmark will then be compared to the aggregate fees<sup>12</sup> charged by (i) traditional investment platforms (such as Hargreaves Lansdown and AJ Bell), (ii) medium cost alternative brokerage service providers (such as Interactive Brokers and Fineco Bank) as well as (iii) low cost alternative brokerage service providers (such as Freetrade and Trading 212);
- (d) five trades will be placed by UK beginner consumers each month to invest in domestic and international (US) financial instruments (in scope for the core investment advice regime);
- (e) in case of Hargreaves Lansdown, AJ Bell, Interactive Brokers and Fineco Bank such financial instruments are going to consist of two UK mutual funds (£3,600 invested on a yearly basis), one UK ETF (£1,800 invested on a yearly basis), one UK company share (£1,800 invested on a yearly basis) and one US ETF (£1,800 invested on a yearly basis);
- (f) in case of Freetrade and Trading 212 (reflecting the narrower set of products and markets available at these providers) such financial instruments will include two UK ETFs (£3,600 invested on a yearly basis), two UK company shares (£3,600 invested on a yearly basis) and one US ETF (£1,800 invested on a yearly basis).

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<sup>10</sup> FCA Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review (December 2020) point 3.25 on page 19

<sup>11</sup> FCA Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review (December 2020) point on page

<sup>12</sup> For the purposes of comparison, we have used our 'Compare Brokers' tool and information included in our broker reviews. Fee items used in our model calculation are those ones which are relevant for our investment scenario. Also please note that numbers are representing yearly fees and such fee amounts were also rounded up for the sake of simplicity.

<b>TRADITIONAL INVESTMENT PLATFORMS</b>		
<b>FEE TYPES</b>	<b>HARGREAVES LANSDOWN<sup>13</sup></b>	<b>AJ BELL<sup>14</sup></b>
Account open fee Deposit fee Withdrawal fee Inactivity fee	not applicable	not applicable
ISA platform fee	£25.5 [shares + ETFs] £17 [mutual funds]	not applicable
Trading fee	£286.8 [UK shares + ETFs] £143.4 [US shares + ETFs] £0 [mutual funds]	£238.8 [UK shares + ETFs] £119.4 [US shares + ETFs] £36 [mutual funds]
Mutual fund holding fee	not applicable	not applicable
Custody fee	not applicable	£14.2 [shares + ETFs] £9.5 [mutual funds]
Conversion fee (GBP to USD)	£18	£13.5
<b>Aggregate fee</b>	<b>£491</b>	<b>£431</b>
<b>Cost saving</b> (percentage amount as compared to the benchmark)	not applicable <b>(fees 187% higher than the benchmark)</b>	not applicable <b>(fees 152% higher than the benchmark)</b>

<b>MEDIUM COST ALTERNATIVE BROKERAGE SERVICE PROVIDERS</b>		
<b>FEE TYPES</b>	<b>INTERACTIVE BROKERS</b>	<b>FINECO BANK<sup>15</sup></b>
Account open fee Deposit fee Withdrawal fee Inactivity fee	not applicable	not applicable
ISA platform fee	not applicable	£23.6
Trading fee	£72 [UK shares + ETFs] £14.16 [US shares + ETFs] £0 [mutual funds] <sup>16</sup>	£70.8 [UK shares + ETFs] £47.4 [US shares + ETFs] £0 [mutual funds]
Mutual fund holding fee	not applicable	£9.45
Custody fee	not applicable	not applicable
Conversion fee (GBP to USD)	£0.54	not applicable
<b>Aggregate fee</b>	<b>£87</b>	<b>£151</b>
<b>Cost saving</b> (percentage amount as compared to the benchmark)	<b>49%</b>	<b>12%</b>

<sup>13</sup> ISA platform fees are charged on the actual account balance, for the sake of simplicity we have calculated with a 5% increase in the value of the investments overall as well as in the value of the mutual fund investments.

<sup>14</sup> Custody fees are charged on the actual account balance, for the sake of simplicity we have calculated with a 5% increase in the value of the investments overall as well as in the value of the mutual fund investments.

<sup>15</sup> ISA platform fee and fund holding fee is charged on the actual account balance, for the sake of simplicity we have calculated with a 5% increase in the value of the investments overall as well as in the value of the mutual fund investments.

<sup>16</sup> Thousands of domestic mutual funds are available for retail investors at Interactive Brokers for free although there are some mutual fund products where a 3% charge on the traded volume is applicable. Because of this wide selection of no fee mutual funds we have kept mutual fund trading fees at zero for the sake of our calculation.

<b>LOW COST ALTERNATIVE BROKERAGE SERVICE PROVIDERS</b>		
<b>FEE TYPES</b>	<b>FREETRADE</b>	<b>TRADING 212</b>
Account open fee	not applicable	not applicable
Deposit fee	not applicable	not applicable
Withdrawal fee	not applicable	not applicable
Inactivity fee	not applicable	not applicable
ISA platform fee	£59,88 <sup>17</sup>	not applicable
Trading fee	not applicable	not applicable
Mutual fund holding fee	not applicable	not applicable
Custody fee	not applicable	not applicable
Conversion fee (GBP to USD)	£8,1	£32,4
<b>Aggregate fee</b>	<b>£68</b>	<b>£32</b>
<b>Cost saving %</b> (percentage amount as compared to the benchmark)	<b>60%</b>	<b>81%</b>

- (3) Results of our model calculation reveals that medium and low cost alternative brokerage service providers are well positioned to service cost conscious UK consumers (currently excluded from the UK investment advisory market) at more attractive fee levels than the average investment advisory firm. Therefore, such consumers would save considerable amount of fees by relying on brokerage service providers for guidance and exposure to in scope financial instruments.

## TRUST AND POSSIBILITY OF HUMAN INTERACTION

- (1) The consultation paper identifies target market consumers under the age of 35 as the group most in need of advice in order to help them invest their excess cash. The FCA further argues that one of the main reason why these consumers (and consumers in general) are not turning to low cost automated solutions is the prevalence of a mistrust stemming primarily from the lack of human interaction. Such interaction would give consumers comfort by helping them understand basic steps of the process (such as what kind of information is being asked from them) and also by ensuring they do not make mistakes when supplying required documentation.<sup>18</sup>
- (2) Our qualitative and quantitative data relating to UK consumer preferences reveals that a distinction could be drawn between *automated* and *digital* solutions offered to UK consumers. Looking at the result of our analysis, neither from the consumers nor from the brokerage service providers perspective are we able to identify such a mistrust towards digital service offerings as it might be the case with fully automated (i.e. robo-type) service offerings on the investment advisory market.
- (3) We see UK target market consumers under the age of 35 (consisting of millennials and Gen Z consumers) as being mobile first, tech savvy, favouring digital solutions and becoming more active in the field of investing.

<sup>17</sup> We have calculated with Freetrade's standard account fee here which has a monthly flat fee of £4.99.

<sup>18</sup> FCA CP22/24 (November 2022) point 2.10 on page 10



Qualitative data shows that digital solutions are actually favoured by UK consumers (especially by the age group under 35). Based on user interviews we have conducted with such UK consumers, we concluded that there is a strong preference for digital, easy to use solutions (particularly app based solutions) with a clean and user friendly UX features.<sup>19</sup>

Furthermore, a global online survey from 2021 asking consumers about their preferred platform when using the services of a brokerage service provider resulted in 64.3% of consumers expressing their preference for a brokerage service provider with a mobile based platform.

Quantitative data collected on UK consumers in the years of 2020, 2021 and 2022 also indicates that (on average) more than half (54%) of such UK consumers looking after a brokerage service provider on our platform were under the age of 35.<sup>20</sup>

On average, approximately half of these UK consumers accessed our platform (with the aim of finding a suitable brokerage service provider) via a mobile or tablet device.<sup>21</sup>

- (4) From the brokerage service providers’ perspective, we agree with the general trend established by the Mintel UK Consumers and Investing Market Report 2022 pointing out that demand for guidance and advice is also set to increase and there are rising opportunities to attract new-to-market investors, with *ongoing digital developments enhancing customer access and functionality*.<sup>22</sup> What we see is that investment platforms and brokerage service providers are following this trend and are keen on developing and offering user friendly digital solutions.

Despite this trend of digitalisation, digital solutions deployed by traditional investment platforms and alternative brokerage service providers do include certain degree of human interaction throughout the consumer journey in various forms of customer support functions.

<b>EXPOSURE TO HUMAN INTERACTION</b>						
<b>Customer support functions at</b>	<b>Hargreaves Lansdown</b>	<b>AJ Bell</b>	<b>Interactive Brokers</b>	<b>Fineco Bank</b>	<b>Freetrade</b>	<b>Trading 212</b>
Phone	✓	✓	✓	✓	×	×
Live chat	×	✓	✓	✓	✓	✓
Email	✓	✓	✓	✓	✓	✓
24/7	×	×	×	×	×	✓
<b>BrokerChooser customer support score<sup>23</sup></b>	<b>4.5</b>	<b>5.0</b>	<b>4.3</b>	<b>4.5</b>	<b>5.0</b>	<b>5.0</b>

<sup>19</sup> Five user interviews conducted in 2023 with UK consumers having various professional backgrounds between the age of 23 and 30. Topic of these interviews (among other things) were consumer preferences with respect to investment platforms and brokerage service providers distributing ISA products

<sup>20</sup> BrokerChooser data from 2020, 2021 and 2022: on average 20 % of UK consumers were between the age of 18 and 24 and 34% of such consumers were between the age of 25 and 34.

<sup>21</sup> BrokerChooser data from 2021 and 2022: on average 41.2 % of UK consumers between the age of 18 and 24 and 48.7% of UK consumers between the age of 25 and 34 used a mobile or tablet device to access our platform and services.

<sup>22</sup> <https://store.mintel.com/report/uk-consumers-and-investing-market-report>

<sup>23</sup> Scores given by BrokerChooser are based on the customer support features available as well as our hands-on experience on how such functions are working when we live test brokerage service providers.

(5) As can be seen from the above, service providers while prioritising digital solutions are also using a variety of customer support functions such as live chat and email support which we have live tested and could confirm that are giving fast, relevant and straightforward answers. In addition, decent phone support is also available at Hargreaves Lansdown, AJ Bell, Interactive Brokers and Fineco Bank.

Our experience with low cost alternative brokerage service providers is that in addition to offering very good customer support some of them (such as Trading 212) also provide innovative solutions like the 24/7 availability of customer support functions.

(6) To sum it up, neither the data nor our experience indicates that target market consumers would not trust digital solutions including features and format of customer support they are receiving at these investment platforms and brokerage service providers.

Accordingly, we think that the problem or at least part of the problem why target market consumers are lost in various parts of the investing process should lie elsewhere.

#### (AT LEAST PART OF) THE PROBLEM IS ELSEWHERE

(1) The problem seems for us to be mostly administrative and operational nature. This is something which the consultation paper also touches upon when identifying typical problems target market consumers are struggling with such as not understanding what kind of information is required and not getting appropriate help ensuring no mistakes made when supplying required documentation etc.

Based on the analysis of our global end to end conversion data from 2022<sup>24</sup> we concluded that (on average) less than 10% of consumers visiting the website of a brokerage service provider with the intention of opening an account and making investments actually end up finishing the process and making the intended investment.

Using a simple example, this number means that out of every 1,000 UK consumers visiting a brokerage service provider's website less than 100 consumer actually opens an account and start investing.

(2) We have tried to look into the reasons behind this huge gap by relying on qualitative data extracted from user interviews and online surveys focusing on consumers' account open struggles conducted in 2022 as well as quantitative data on consumer preferences.

Interviews were conducted with the aim of understanding usual problems of consumers encounter during the onboarding, account opening processes at a brokerage service provider. Data reinforced that mainly administrative and technical problems (such as not knowing why personal knowledge related questions are asked, not understanding why and what documents needed to be uploaded, the overall process being too lengthy and complex, too many forms must be populated and uploaded etc.) are deterring them and causing the gap between target

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<sup>24</sup> Global end to end conversion data is a percentage amount showing the actual number consumers visiting a brokerage service provider's website via our platform, completing registration and account opening processes, depositing money and starting to invest out of the total number of consumers visiting a brokerage service provider's website.

Please note that this data is not UK specific but we still think is very useful to identify wider trends applicable to the UK market, given that qualitative data we collected during consumer interviews show that UK consumers are struggling with the same problems as their international peers.

Please also note that end to end conversion data is limited to a subset of brokerage service providers featured on our platform however we think the sample is wide enough draw conclusions here.

market consumers making only the preliminary step in their investment journey and target market consumers who actually open an account and start investing.

This finding above is confirmed by quantitative data we collected in 2021 and 2022 on global consumers using our *'Find My Broker'* tool and setting their preferences based on which they are searching for a brokerage service provider. What we have found is that from 2021 to 2022 consumer preference for fast and digital account opening processes and easy instant deposit and withdrawal methods are increased by 15% respectively.

This means that only after low fees, safety and soundness these preferences are the most important for target market consumers.

## CONCLUSION

- (1) We believe that it is hard to alter the way how investment advisory services are provided in the United Kingdom with regulatory intervention and supportive regulatory action. This might be all the more true to the deeply embedded market and fee structures prevailing in the investment advisory industry.

On the one hand, regulatory intervention inevitably imposes compliance costs on incumbents who need spend resources to tailor their activities to the new regime should they want acquire new-to-market consumers via the core investment advice regime. On the other hand, it does also consume certain amount of regulatory resources.

- (2) Therefore, in this paper we try to suggest an alternative approach which might (i) help achieve the same objectives at a lower cost to target market consumers; impose lower compliance costs on market players serving those consumers and (iii) consume lower amount of regulatory resources to be deployed by the FCA to accomplish its objectives.

- (3) We believe this approach might even be useful in case of considering it as only complementary to the core investment advice regime. Market players are also sharing this view when stating that it is important the proposed regime is not somehow viewed as a one-and-done solution to the advice gap challenge.

Even if the core investment advice regime takes off, there will be millions of UK savers and investors who either can't afford to pay for advice or choose not to take it, or both. Low-cost advice will likely only provide a partial solution for a relatively small subset of the population, with the majority relying on the information and guidance they receive from other sources to make good decisions when it comes to saving and investing.<sup>25</sup>

- (4) We are on the opinion that it is worth considering by the FCA how it could use its regulatory resources to help brokerage service providers to fix and simplify lengthy and complex onboarding and account opening processes. As this could result in considerably lowering the gap between target market consumers making only the preliminary steps in their investment journey and those target market consumers who actually go ahead with their invest journey by starting to use the services of a brokerage service provider.

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<sup>25</sup> Mr. Tom Selby, head of retirement policy at AJ Bell as cited at: <https://international-adviser.com/watershed-moment-as-fca-eyes-simplified-advice-regime/>

- (5) With the aim of helping the FCA, we are making below some specific recommendations and showing some practical examples which might worth a closer look should the FCA decide to explore an alternative approach in the future.

## RECOMMENDATIONS

- (1) The investment advisory industry needs comfort before even contemplating the expansion of their services to the target market in the form of a distinct regulatory regime rather than guidance on how to do things better.<sup>26</sup> Despite their preference, it has also been acknowledged by the industry that improving guidance on what can be done better could also be an enormous help and a big step into the right direction even if it does not (in itself) close the advisory gap.
- (2) We think that brokerage service providers (primarily global multi-product providers and traditional investment platforms when not providing advised services) would also profit from regulatory support (either in the form of clarification or improved guidance) without the need for a distinct regulatory regime.
- (3) Such clarification and improved guidance would help these providers to address existing administrative and operational deficiencies in their processes when dealing with target market consumers resulting in simpler, easy to understand and easy to navigate onboarding and account opening solutions for target market consumers.
- (4) Without such clarification and guidance, global multi-product providers and investment platforms are concerned about invoking potential regulatory actions and therefore submit target market consumers (with demonstrably simpler needs) to long and complex processes, knowledge and experience assessments in order to keep a safe distance from being in breach of the provisions of the FCA Handbook (particularly provisions on appropriateness assessment included in COBS). As a result, large number of target market consumers are lost in the process due to the lack of a differentiation in the filtering process.
- (5) Given the non-advised nature of the services provided, where we primarily see room for regulatory support for simplification is the appropriateness assessment (especially the knowledge and experience assessment).
- (6) We would argue that the investment scenario in which target market consumers using the services of brokerage service providers for the purposes of investing in financial instruments (in scope for the core investment advice regime) should be covered by the exemption included in COBS 10A.4 (Assessing appropriateness: when it not need to be done due to type of investment) for the reasons set out below.

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<sup>26</sup> Mr. Simon Harrington, head of public policy at PIMFA as cited at: <https://www.ftadviser.com/ftadviser-focus/2022/08/30/pimfa-why-simplified-advice-needs-to-feature-in-fca-handbook/>

COBS 10A.4	APPLICABLE INVESTMENT SCENARIO
<p><b>THE SERVICE</b></p> <ul style="list-style-type: none"> <li>▪ only consists of execution or reception and transmission of orders + ancillary services</li> <li>▪ relating to particular financial instruments</li> <li>▪ provided at the initiative of the client</li> </ul>	<ul style="list-style-type: none"> <li>▪ services provided here fall into the execution (only) or reception and transmission of orders category;</li> <li>▪ financial instruments in scope for the core investment advice regime are also falling into the category of particular financial instrument as defined by COBS 10A.4</li> <li>▪ target market consumers are investing relatively low sums of money into mainstream, non-complex financial instruments in line with their straightforward investment needs</li> <li>▪ services are not provided at the initiative of the client since they are demanded on the basis of a communication relating to either (i) a general information about the services available at brokerage service providers or (ii) a general information containing a promotion of financial instruments addressed to the public or a larger group of clients</li> </ul>
<p><b>THE CLIENT</b></p> <ul style="list-style-type: none"> <li>▪ clearly informed that the firm is not required to assess appropriateness and</li> <li>▪ therefore associated protections do not apply</li> </ul>	<ul style="list-style-type: none"> <li>▪ clients are given clear and straightforward information in this respect within the applicable contractual and/or policy documentation</li> </ul>
<p><b>THE FIRM</b></p> <ul style="list-style-type: none"> <li>▪ complies with its obligations in relation to conflicts of interest</li> </ul>	<ul style="list-style-type: none"> <li>▪ there are separate and enforceable conflicts of interest policies applicable and published by brokerage service providers ensuring compliance</li> </ul>

(7) We also see positive examples on the market utilising this exemption and clearly gaining traction with target market consumers. For example at Freetrade<sup>27</sup>, the whole onboarding process is straightforward, user-friendly and quick consisting only of a couple of simple steps (see an outline below), requiring minimum amount of documentation therefore taking only 10-15 minutes to be completed.

SUMMARY OF THE ACCOUNT OPENING STEPS AT FREETRADE	
<b>1.</b>	<ul style="list-style-type: none"> <li>▪ entering email address</li> <li>▪ receiving confirmation email (within a couple of minutes) with a 4 digit passcode</li> <li>▪ confirmation by the consumer using the passcode received</li> </ul>
<b>2.</b>	<ul style="list-style-type: none"> <li>▪ entering basic personal information (first and last name, date of birth)</li> <li>▪ entering postcode and address</li> </ul>
<b>3.</b>	<ul style="list-style-type: none"> <li>▪ selecting nationality</li> <li>▪ entering UK national insurance number<sup>28</sup></li> <li>▪ confirming lack of US citizenship and/or tax residency</li> </ul>

<sup>27</sup> Freetrade is a low cost alternative brokerage service provider specializing in ISA and GIA offerings. For further information please see at: <https://brokerchooser.com/broker-reviews/freetrade-review>

<sup>28</sup> Identity confirmation is automatic and requires only the submission of further documentation when the automatic verification process fails for some reason (mostly because of a typo or other error in the input information given by the consumer).

4.	<ul style="list-style-type: none"> <li>▪ account type selection</li> </ul>
5.	<ul style="list-style-type: none"> <li>▪ US tax exemption form confirmation</li> <li>▪ legal and policy documentation acknowledgement and confirmation</li> </ul>
6.	<ul style="list-style-type: none"> <li>▪ depositing money (via bank transfer or using Apple pay)</li> </ul>
7.	<ul style="list-style-type: none"> <li>▪ useful tips and information in a short and easy to understand format</li> </ul>
8.	<ul style="list-style-type: none"> <li>▪ account is ready to be used</li> </ul>

- (8) In our opinion, regulatory support from the FCA in this space might result in similar solutions to be adopted by other global multi-product brokerage service providers and investment platforms (when providing non-advised services).

We imagine a solution similar to what we see at Trading 212 where there are a completely separate, simple onboarding and account opening process for target market consumers interested in S&S ISA offerings rather than general investment account offering or trading account offering for trading risky CFD instruments.

- (9) Target market consumers could thereby be separated and channelled into this streamlined and simplified onboarding and account opening process to reduce the gap between target market consumers starting to set up their accounts and target market consumers who actually finishing the process and then start investing by using a brokerage service provider.

This would result in more target market consumers start investing their excess cash savings into simple, non-complex financial instruments ultimately supporting the FCA in achieving its stated objective of helping target market consumers to invest.

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