Discussion paper: Fair charging and value for money

How do we Keep Britain Investing?

The research has spoken

interactive investor

Introduction

The retail investment market is no stranger to debate about 'fair value', 'value for money' and 'transparent charging'. As the regulator transforms the principles of Treating Customers Fairly with significant enforceable rules under Consumer Duty, pinning down what type and level of investment charges are in the best interests of self-directing retail investors has never been more urgent. To deliver good consumer outcomes, the core tenet of Consumer Duty, people need greater clarity of what they are getting for their money so they can plan properly. This is true whatever they are buying or consuming, whatever their circumstances and wealth, and whatever the economic backdrop.

At interactive investor, a flat fee subscription model underpins our service, with plans designed to meet different customer needs for a more personalised investment experience. But we are very much an exception in an industry where charging retail investors a percentage of invested assets is the norm. Does that matter? Well, we think it does. We think it's very important. And so, to get to the heart of what fair charging looks like at present – and should look like going forward – we commissioned consumer research from Opinium.

We were keen to understand what UK adult investors think and believe about fees and charges and how that varies with, for example, age or amount invested. We wanted to capture investor mindset and expectations, to take the temperature of current attitudes to investing. This paper reveals what we discovered – some of it surprising, some anticipated, but all interesting. We would like to see this paper as part of an industry discussion around fairness and trust.

In the UK our savings and investments need to work harder than ever if we are to build financial resilience in later life. Long-term engagement with those savings and investments is crucial, and that requires faith and trust both in the system and its agents. Charges are only part of how we get there, but they are an important part.

What we think comes through loud and clear in this research is a need for a pricing rethink in financial services. This is a discussion paper, the start of a debate. We welcome feedback, challenge and continued conversation. That will help us all reach a point where choosing a platform to invest for a financially resilient future really is as simple as choosing an online streaming package, but much more rewarding.

We hope you find it thought provoking.

Richard Wilson, CEO, interactive investor

About the research

The research was conducted by Opinium Research between 15 and 20 December 2022, questioning 1,000 UK adults with money invested outside a pension – ii customers were not specifically targeted. The Opinium sample reflects the gender investing gap: 67% of respondents were male and 33% female. While respondents come from the length and breadth of the UK, there was a South-East bias: 16% of respondents were from South-East England, and 11% from London. Some 52% of respondents manage their own investments entirely, while 35% said they had a mix of investments they manage on their own and some through an adviser. Some 14% only use a professional adviser. Respondents could choose more than one option for some questions so the sum of the percentages of responses may not always equal 100%.

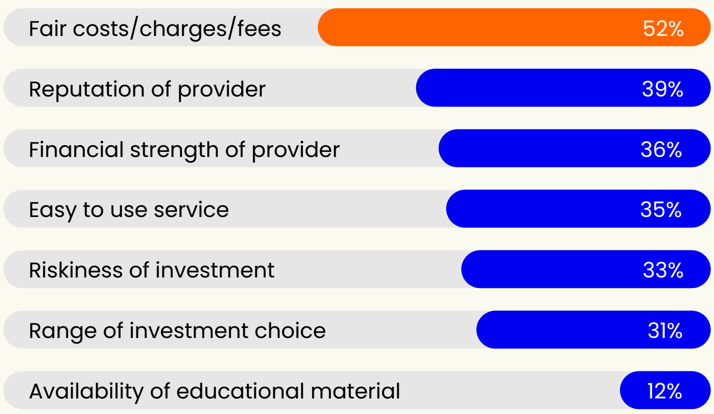
The Data

Findings and pinch points

Investors seek fair costs

When it comes to choosing who to invest with, half of investors (52%) put fair costs as their top criterion. This is followed by provider reputation (39%) and financial strength (36%).

What investors look for in an investment provider



The continuing global cost of living crisis means consumers are ever more mindful of their finances and securing value for money in all situations. That requires clear, transparent pricing to enable informed decision making. If ever there was a time for the industry to really listen to consumers and what they want this is it.

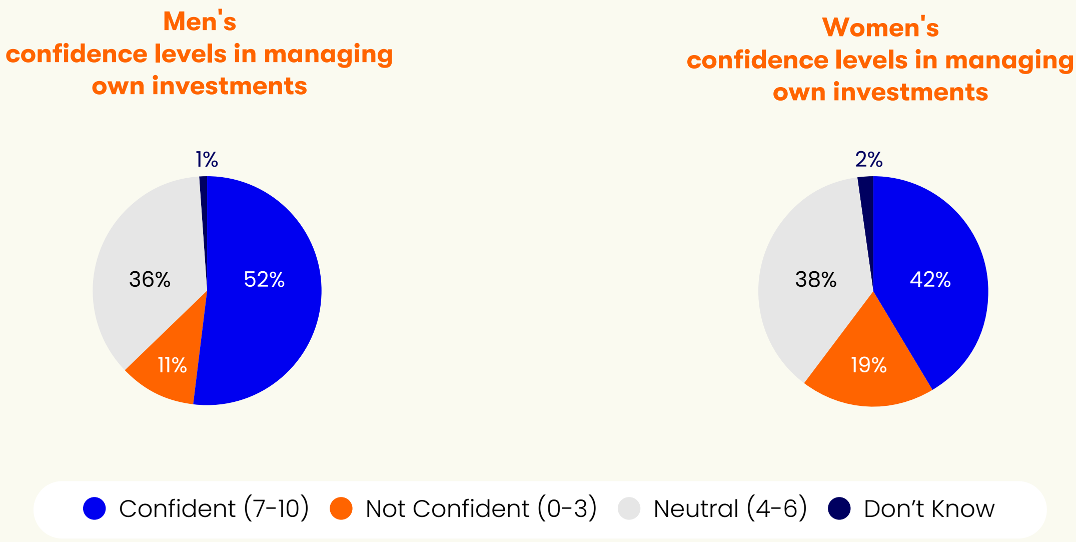
We were particularly struck by the extent to which fair costs and charges become significantly more important with age. One third (34%) of 18–34-year-olds said fair costs were top of their list in choosing an investment provider. This increased to 49% of 35–54-year-olds and a staggering 78% of those respondents over age 55.

There were significant, but not quite so dramatic, proportional increases to importance based on age for reputation and financial strength of provider.

Language matters and our research highlighted a valuable example. ‘Availability of educational material’ was bottom of the list when choosing a provider. Perhaps ‘helpful, jargon-free guides’ might have led to a more positive response. We can’t know for sure but there is clearly an issue here beyond our own survey phrasing. The industry needs to do more to help inform consumers about investing, in ways that are both accessible and engaging on investors’ terms.

Confidence in investing

Despite our sample consisting solely of UK adults with money invested outside of a pension, only 49% claimed to be confident in managing their own investments. With only 14% using a professional adviser for all investing matters there is clearly a gap here. There was also a gender gap with 52% of men confident compared to 42% of women. However, our own interactive investor Private Investor Performance Index shows that women more than hold their own when it comes to investing – once they have made the leap.

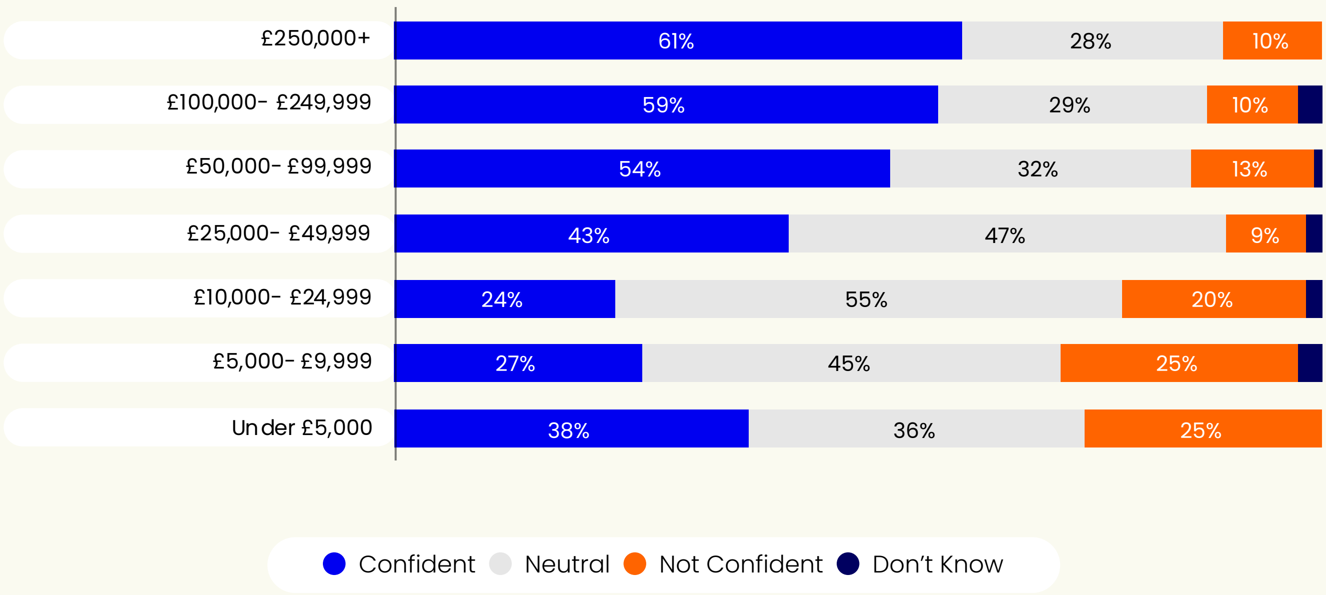


Confidence is based on a scale of 0 (not at all confident) to 10 (extremely confident)

Investors aged 35-54 are more confident (60%) compared to those aged 18-34 (38%) and those aged 55 plus (51%). Confidence tends to grow with the value of investments held and with age, but then dips again as retirement approaches. It's reasonable to think that the reality of making hugely important life choices around taking an income to last them throughout later life might make people question themselves.

The amount invested is also a factor with only 38% of those with under £5,000 confident, compared to 61% of those with £250,000 plus.

How confidence levels change as investment values increase



As with many things, confidence comes with experience: 36% of those investing for under a year are confident versus 54% who have been investing for ten years or more.

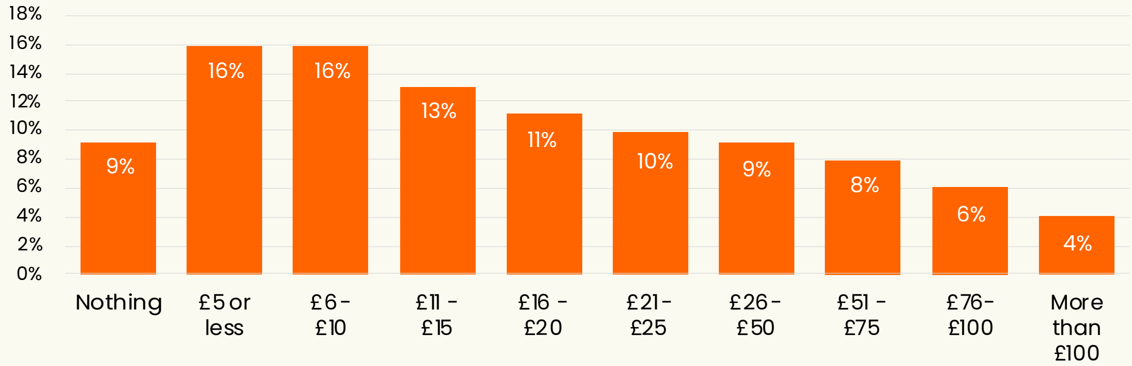
Taking everything into account, only half (49%) of investors on average are confident about investing. There's a clear need for the industry as a whole to address this issue. Alongside age and experience investors need to better understand their investments, become comfortable with what they are and how they work. Investing doesn't need to feel daunting or scary. A clear understanding of charges and what investors get in return is crucial to achieving this positive change.

Pricing expectations

Value for money is highly subjective but we were still surprised by some respondents' perceptions of fair pricing. Outside of pensions, investors on average consider £25 per month to be a fair price to pay investment companies to use their trading technology. At interactive investor we consider that expensive!

Averages involve extremes. At one end of the scale some 9% of respondents don't expect to pay any charges at all, while 4% consider more than £100 per month fair. Overall this shows a clear need for greater consumer awareness about and understanding of charges.

Fair price to pay per month to use an investment company's services

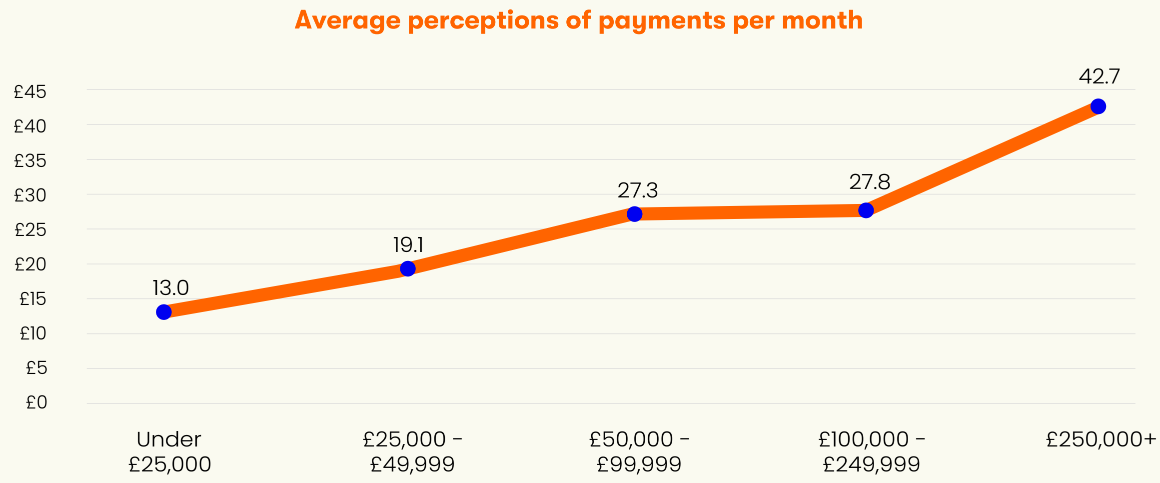


Perceptions of fair pricing increase with the value of investments held, from £13.80 per month for those with under £25,000 up to £38 per month for those with £250,000 or more. Experience, however, has the opposite effect. New investors (within the last 12 months) are prepared to pay £30 a month, which, as an expectation, is more than those who have invested for over ten years.

Investors aged 55 and above with a larger value of investments (an average of £200,629) consider £17 a month on average is a fair price to pay an investment company to use their services, compared to 35–54-year-olds who have on average £159,046 invested and think £34 per month is fair.

How much are you actually paying?

There is considerable overlap between what investors consider fair and what they believe they are paying their provider. Our sample think they are paying an average of £26 per month. Here too there are extremes with 13% who don't believe they pay anything at all, while 4% report paying over £100 per month. New investors believe they are paying £30, exactly the figure they consider fair, falling to £22 per month for those who have been investing for more than 10 years. Investors aged 55 and above think they pay an average of £17 per month, compared to £31 per month for those aged 35-54.

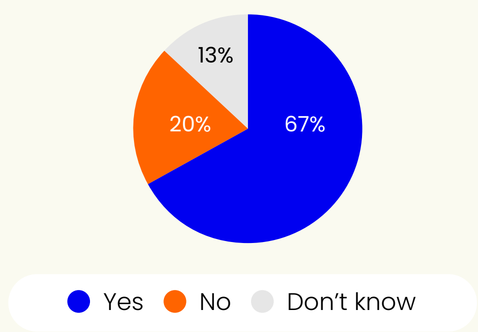


The need for greater transparency around charging is a given, but the industry must also be more open about the impact of charges on long-term wealth. This will help investors understand what their provider is giving them in exchange for the fees they're paying. This transparency will help consumers determine where they can access the services they need and want at a price they are comfortable paying.

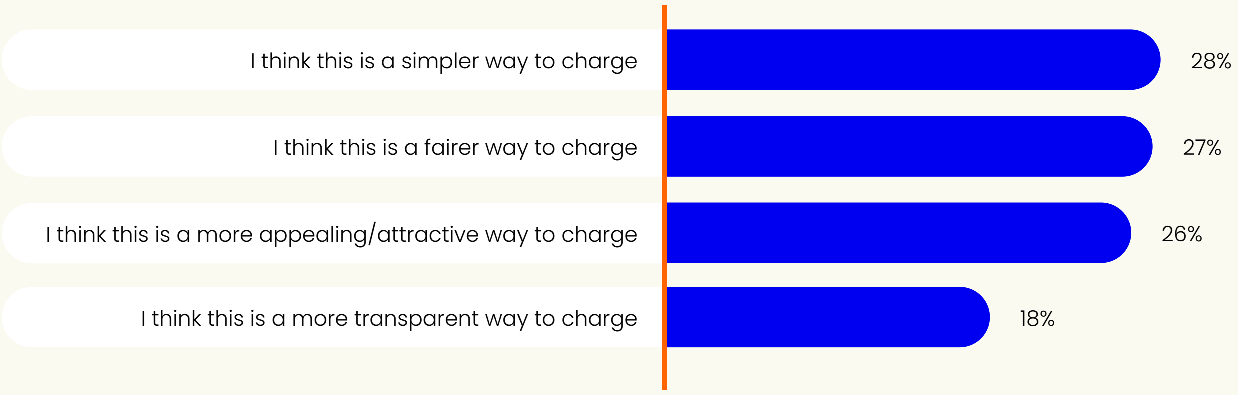
Fixed versus percentage charging

Monthly subscription pricing is now commonplace to many, from streaming media services to fitness and personal training membership, meal kits and mobile phone plans. But should we treat investments in the same manner? Two thirds (67%) of investors agree investment firms should charge a fixed subscription fee, or at the very least are receptive to the idea. Around a quarter each believe fixed subscriptions are a fairer way to charge, or think it's a simpler method, or find it more appealing, while 16% also think this is a more transparent way to charge.

Should investment firms charge customers using a fixed monthly subscription fee?



Reasons why investors feel that investment firms should charge a fixed monthly subcription fee



Only 15% prefer investment charges to be on a variable percentage basis. While 29% of those aged 55 and above are less likely to prefer subscription fees to percentage charges, only 24% in this age group would prefer variable charges.

Those with the smallest investments (under £5,000) are most opposed to subscription-based fees (42%), possibly because they think the charge is too high. Those with investments of £100,000 to £249,000 are also against this model, for reasons which merit further investigation.

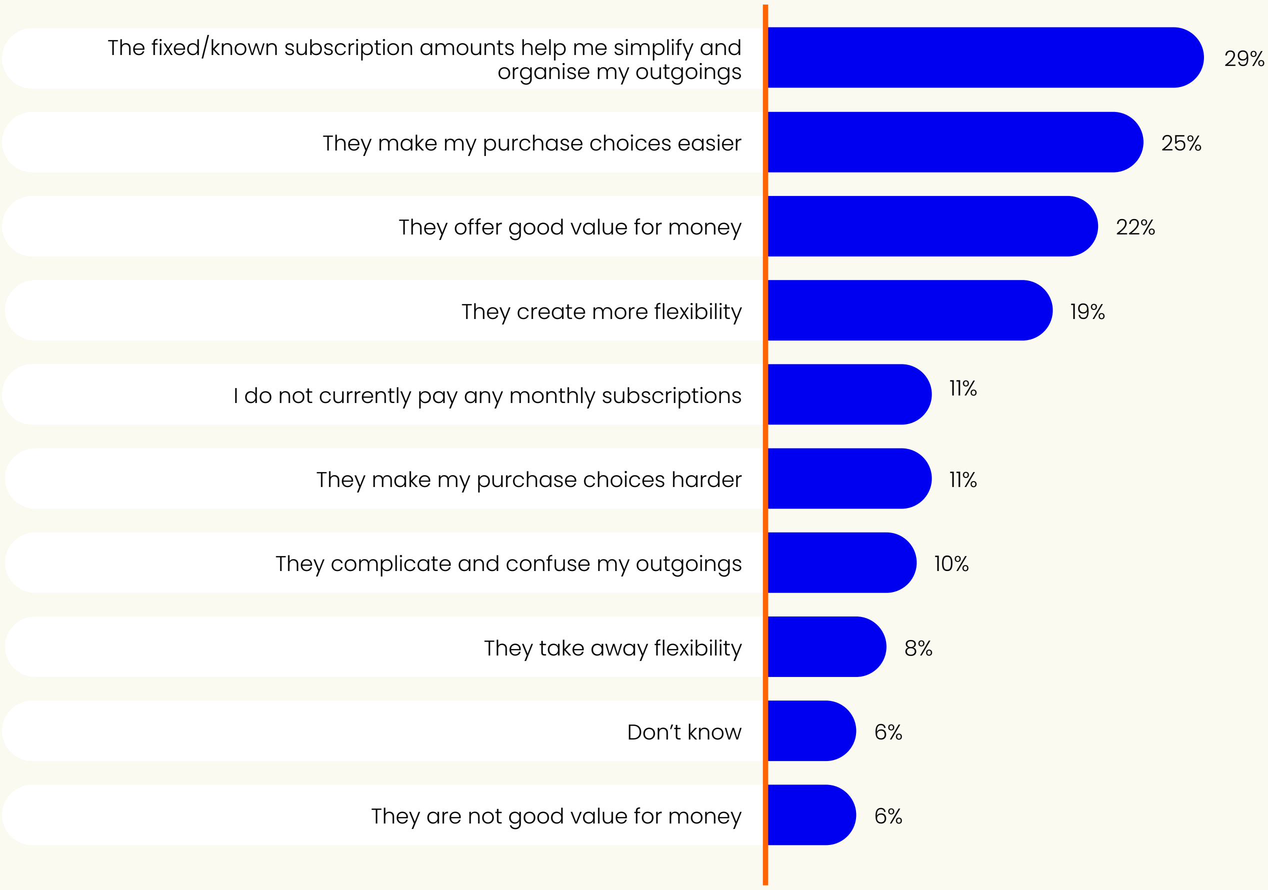
Overall, the majority of investors would welcome fixed fees.

Preferences for monthly subscriptions

On average, our sample of investors have 5.3 subscription services, including entertainment (Netflix, Amazon Prime, Spotify), utilities such as mobile phones, and services such as gym and groceries, e.g., Gusto, Eat and Fresh.

Men have more subscriptions (5.6) than women (4.8), and young adults aged 18-34 have more (6.3) than those aged 35-54 (5.5) and the 55+ cohort (3.4).

How investors feel about monthly subscription services



Perceptions around subscription services are mainly positive, with 29% stating they help to manage outgoings, 22% that they are good value for money and 19% that subscription charges create more flexibility. Women (39%) are more likely than men (25%) to say that subscription charges help them to organise outgoings. Those aged 55 and above are more likely to agree that subscription services help them organise their outgoings (39%) than those aged 18-34 (17%). Only 11% don't currently pay for any monthly subscriptions.

Demographic view of differences regarding monthly subscription services

	Men (n=671)	Women (n=329)	18-34 (n=386)	35-54 (n=312)	55+ (n=302)
The fixed/known subscription amounts help me simplify and organise my outgoings	25%	39%	17%	36%	39%
They make my purchase choices easier	25%	25%	31%	32%	12%
They offer good value for money	21%	23%	17%	31%	19%
They create more flexibility	20%	18%	23%	25%	7%
I don't currently pay any monthly subscriptions	12%	9%	9%	6%	20%
They make my purchase choices harder	13%	7%	20%	9%	2%
They complicate and confuse my outgoings	12%	8%	17%	8%	4%
They take away flexibility	8%	8%	12%	6%	5%
Don't know	7%	5%	5%	5%	9%
They are not good value for money	5%	7%	3%	5%	11%

Here we have evidence that known, agreed monthly costs which the consumer has chosen work for many and can help investors manage their finances more confidently. This feels particularly pertinent in the current cost of living crisis.

Our Conclusions

Uncomfortable truths demand an industry response

Whatever side of the charging fence readers favour, our research highlights several uncomfortable truths which point to the industry needing to up its game in line with both Consumer Duty requirements and pricing methods.

1. Investors need help to understand what their investment provider is giving them in return for the charges they pay, and what 'good value' actually looks like

There is a long-standing perception that pensions and investments are complicated and only for those who already have money. This doesn't fit with the now universal requirement for individuals to provide for their own later life.

Prime Minister Rishi Sunak has talked about the need for more maths education up to age 18, but we think a better focus would be financial understanding and capability. A basic understanding of pensions, ISAs, saving and investing, charges and investment growth would help to overcome what is currently a major barrier to long-term financial resilience in the UK.

Engagement and education are key. Two data points in particular demonstrate how people can sleepwalk into a lifetime of unnecessarily high charges:

- 13% of people with money invested outside their pension believe they are paying nothing in investment charges
- On average £25 per month is considered a fair price to pay for non-pension investing

2. The industry must work to earn the trust of consumer investors, specifically that the charges they pay are fair

Trust can't be forced or sold, it must be earned. This is another area where the financial services sector has suffered over the years from stereotyping and the behaviour of a few bad actors. One way to foster trust is through transparency and clarity. People may not always like what they see and may choose to walk away, but they will be empowered to make an informed choice.

The lack of awareness over how much our respondents are paying in charges speaks of a lack of clarity. If we'd asked how much they paid for their streaming services each month we would probably have seen very different results. Why should investments, which can have a long-term impact on an individual's quality of life, be different? What can we learn as an industry from the success of this model? Simplicity, transparency and clarity. Fair pricing is the number one priority for UK investors selecting an investment provider. How can it be fair if it isn't clear?

3. A pricing rethink is long overdue: a fixed fee subscription model should become more of a norm, not the exception, for today's retail investors

Price is core to any transaction or contract and fixed fee pricing has a lot of positive qualities. It's an open, transparent, familiar, accessible and trusted route to fair, known pricing. Paying a fixed fee helps to build investors' confidence and trust with the certainty that they get X when paying Y. The alternative percentage-based charging model can be much more difficult for investors to grasp, which raises concerns about how well informed some investment decisions might be. That in turn can have long-term implications for retail investors.

We believe people should have more options to pay for their investment services in the same easy and modern way they do the usual subscription services that dominate the wider consumer landscape. Our research shows that this is what the great many want to do. The financial world needs to catch up and we are leading the way.

4. Younger investors in particular need to be better engaged from the off, so they have the best chance of accumulating wealth for later life

We may struggle as an industry to encourage younger people to engage with investing, but they make financial decisions every day. They choose and manage ongoing payments for a range of services: the 18-34-year-olds in our research have an average of 6.3 subscriptions services, more than any other age group. But these are for the here and now, while investing in an ISA or particularly a pension can be a long-term project with no immediate rewards. Investing can be perceived as complex or boring and the future as a far-off land. In short there isn't a good enough case for them to commit what may well be increasingly stretched resources.

When asked about priorities in choosing a provider 'Educational material' scored poorly across all age groups, but it scored higher among younger respondents. There is some appetite to learn. The challenge is in encouraging and developing that. The industry needs to work harder at providing informative jargon-free guides on how to invest, what to look for and the pitfalls to avoid.

The days are gone when retail investors can be kept in the dark about the true extent of fees and charges, with a vague notion of value for money.

It is now up to the financial services sector to collectively create a new normal of clear, transparent pricing. An environment where retail investors can easily engage with knowable and quantifiable charges from the outset, making well informed decisions throughout the lifetime of their investments.

We believe a fixed fee subscription model is the best way to achieve this goal. In making this shift the industry will be helping retail investors to fully understand the charges they pay and gain confidence that they receive real value for the pounds and pence they commit to investing for the future.

If you have any questions about the research, please contact jemma.jackson@ii.co.uk

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