Consumer Savers and Investors 2022:

Market Trends Report

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About IRN Research
IRN Research (trading name of IRN Consultants Ltd) is a full-service market research consultancy that was formed in 1991 and has a strong track record in providing market research services to business across all industry sectors. If your needs are for a small-scale UK-based research project or for a large- scale, multi-country research project, IRN can help. To satisfy our client's needs we utilise a range of market research techniques, including desk research, telephone/online surveys, face-to-face interviews, focus groups, and can provide a full results analysis. Responding to our client's needs, we go beyond the data and present our clients with actionable insight.

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EXECUTIVE SUMMARY

This report considers the market for consumer savings and investments. This report does not consider investing in pensions, which is the subject of other IRN reports. The central focus of this report is the types of savings and investment products consumers own, how much they are saving and investing and the environmental framework in which savings and investments are made. It looks at the size and structure of the market, recent trends and the future.

A diverse market

Almost 30,000 businesses are engaged directly or indirectly in the consumer savings and investment market. The market encompasses financial advisors and intermediaries, fund managers, fund providers (e.g., unit trusts, OEICs), stockbrokers, banks, building societies, National Savings, insurance companies, Friendly Societies etc. The number of businesses has declined between 2019 and 2021, mainly reflecting a decline in the number of intermediaries, i.e., financial advisors and brokers. This decline was strongly influenced by COVID 19 over 2020/21.

Each section of the market has its own key players. For example, the largest six investment managers in the open-ended fund market in terms of total retail and private client assets under management are BlackRock Investment Management (UK) Limited, Baillie Gifford & Co, Legal & General (Unit Trust) Managers Limited, Fidelity Worldwide Investment, Jupiter Unit Trust Managers Limited and Aberdeen Standard Fund Managers Limited. The largest investment trust managers include Baillie Gifford, J.P. Morgan Asset Management, BMO Global Asset Management, 3i Group and abrdn. In terms of consumer savings, Lloyds Banking Group is by far the largest player in the market, followed by NatWest and then National Savings.

Consumers have £4.1 trillion invested

While almost all consumers own at least one type of savings or current account product (including national savings products), only around one-third own any investment product (like shares or an investment fund). Most households in the UK have relatively modest amounts of net financial wealth, with wealth very unevenly distributed. One-quarter of households in the UK have negative net financial wealth (i.e., they owe more in debt than they own in assets) and in total 30% of households have net wealth of less than £500. In contrast, just over one-quarter (26%) have net financial wealth of £50,000 and above.

At the end of September 2021, UK households collectively held £4.1 trillion in non-pension financial assets, with their accumulated wealth having risen by around 5% between December 2020 and September 2021. In 2020, consumers invested net £196.6 billion into financial assets (excluding pension and non-life insurances). Net new investment rose significantly over 2019 as the COVID-19 lockdowns caused consumers to save more and invest more. There was a significant rise in investment in deposits, with consumers deciding to place their unspent income into safe assets like current and savings accounts. IRN expect investment in 2021 to remain high by the standards of recent years but to fall back compared with 2020, as the UK economy opened and consumer spending increased. In 2021 and 2020, consumers invested more money into financial assets compared with real assets (e.g., housing). This is in sharp contrast to previous years. The COVID-19 lockdowns and the boost to consumer savings helps explain this, along with COVID's impact on the housing market.

Investing and savings being re-shaped

How consumers save and invest is being reshaped by a number of forces, including

- Greater investment uncertainty – caused by developments like COVID-19, Brexit and a greater pressure to invest in environmental, social, and governance (ESG) friendly products and companies.

- A rise in online investing and online advice (including Robo Advice) – a long-term trend but one accelerated by COVID-19 lockdowns. This has resulted in greater use of investment platforms and investment and savings apps by consumers. This is encouraging consumers to engage in DIY investing, even if they have little experience of the market.

- Increased consumer savings during the pandemic have drawn into the market a new breed of younger, but less experienced, investors who are more prone to scams, frauds and investing in unsuitable products compared with longer-term investors.

Distribution patterns vary by asset

Each investment/savings asset has it sown unique pattern of distribution. Products like long-term care insurance, bonds, SCARPS and ISAs are the most heavily dependent on intermediaries for sales. For all these products, more than 50% of volume sales are channelled via intermediaries and do not come direct from the provider. In contrast, endowments (insurance companies) and trusts, OEICs (investment funds) and savings products are sold mainly directly by providers. In the funds sector of the market, investment platforms have become increasingly important as channels for new investment.

A future which is impossible to predict

The investing environment will remain subject to uncertainty and variation in 2022 due to the continued impact of COVID-19, rising inflation, rising interest rates, increased taxation and rising domestic fuel costs.

A feature of the investing environment over the coming years will be FCA plans to enable consumers to make effective investment decisions, including

- ensuring consumers make best use of their money (i.e., don't hold too much money in cash)
- reducing consumer vulnerability to scams, frauds and investing in unsuitable high-risk investments
- restricting the sale and marketing of very high risk products like cryptocurrencies to mainstream consumers.
- imposing new rules on financial services firms, requiring them to put themselves *"in the shoes of customers"* when selling and recommending products and services
- improving the Appointed Representatives (AR) regime

The future is also likely to see:

- a continued increase in the use of fund platforms and other online services to make savings and investment easier.
- the introduction of savings and investment dashboards – i.e. an online service where consumers can see all their savings, investments, pensions, mortgage and loan data in a single location. This will give the consumer a complete picture of their financial position.
- greater automation of personal finance, with the continuation of the development of Robo-advice and automated systems to allow consumers to manage their finances themselves.
- improved flow of information with consumers who use a dashboard or a fund platform, including investors receiving investment and saving suggestions, similar to the way that Amazon and Spotify make recommendation to their respective consumers.

INTRODUCTION

This report considers the market for consumer savings and investments. It is a sister publication to the IRN Research Market Trends Report *Retail Financial Advisors and Intermediaries*. The central focus of this report is the types of savings and investment products consumers own, how much they are saving and investing and the environmental framework in which savings and investments are made. It looks at the size and structure of the market, recent trends and the future.

Definition

This report looks at two related markets, savings and investment. Savings products are taken to cover cash, current accounts and deposit accounts, including cash ISAs and National Savings products. Investments are taken to include:

- Stocks and shares (not part of an ISA)
- Equity ISAs
- Investment bonds
- Endowment policies, with-profits insurance policies or unit-linked insurance policies
- Life insurance policies with an investment element
- Unit trusts/OEICs (not part of an ISA)
- Investment trusts (not part of an ISA)
- Other financial investments.

Investments in this report exclude pension products because these are covered in other IRN Research Reports, see http://www.irn-research.com/products-category/sector-2/financial-services-2/pensions-and-retirement/ for details.

Abbreviations

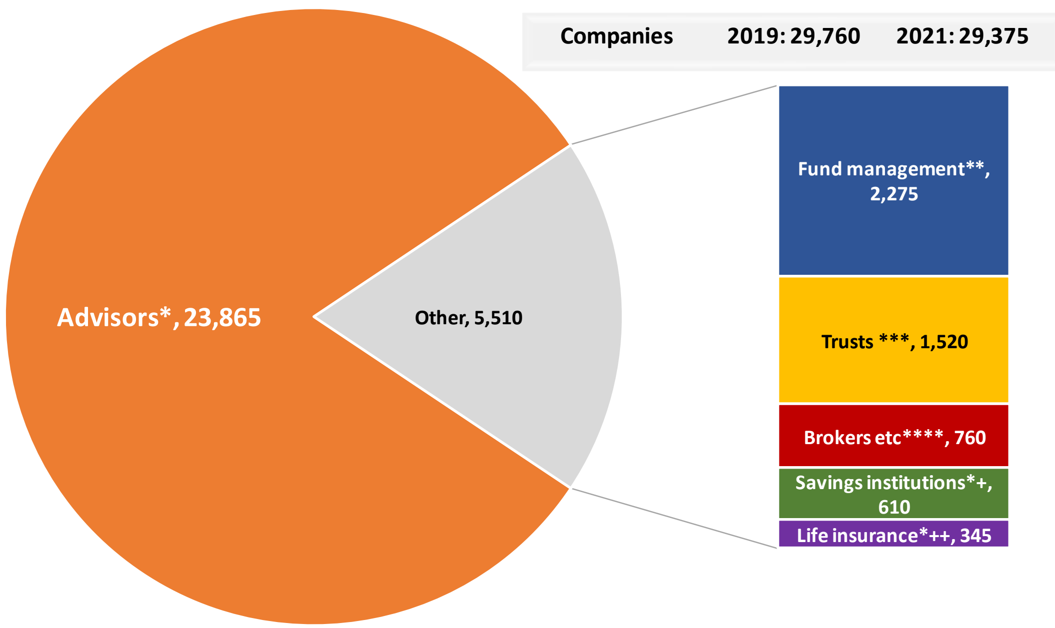
AUM	Assets under management
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FUM	Funds under Management (FUM)
IFA	Independent financial advisor
ISAs	Individual savings account
NS&I	National Savings and Investment
OEIC	Open-ended investment company
RDR	Retail Distribution Review
RMAR	Retail Mediation Activities Return
SCARPS	Structured capital at risk products
SIPPS	Self-Invested personal pension

MARKET STRUCTURE

Almost 30,000 businesses

Almost 30,000 businesses are engaged directly or indirectly in the consumer savings and investment market. The largest number of businesses are engaged in activities auxiliary to financial services, which includes financial advisors. The second largest number are engaged in fund management.

Figure 1 The number of businesses engaged in consumer saving and investing, 2019/2021



** Auxiliary financial services, including Independent financial advisors (not specialising in insurance or pensions advice), financial advisors, investment advisory services*
*** Fund management activities, mutual funds management, pension fund management, portfolio management services*
**** Investment funds, Investment trusts, In-house trust activities, Unit trusts, development capital company. venture and development capital companies and funds, Open-ended investment companies, property unit trusts and Real estate investment trusts*
***** Security /commodity brokerage. including dealing in finance markets for others (e.g. Stock broking), related activities (not fund management)*
** + Banks, Building Societies and National Savings*
**++ Assurance company, Friendly society, life assurance, provident fund, life insurance underwriter (life insurance)*

Source: ONS/IRN Research

The number of businesses has declined between 2019 and 2021, mainly reflecting a decline in the number of intermediaries, i.e., financial advisors (23,865 in 2021 from 24,250 in 2019) and brokers (760 in 2021 from 905 in 2019). This decline was strongly influenced by COVID 19 over 2020/21.

Almost 4,000 funds

The Investment Association - which represents the major companies engaged in the management of open-ended funds in the UK – has 270 members managing £9.4 trillion in funds. An open-end fund is a type of mutual fund that does not have restrictions on the amount of shares the fund can issue, and a typical example is a unit trust. There are around 4,000 open-ended investment funds spread across 50 difference sectors, such as Global, UK All Companies, Specialist, Global Bonds etc.

The Investment Association estimates that the UK asset management industry supports around 114,000 jobs in the UK, covering employees engaged in fund and wider administration services and dealing activities (both securities and commodities). The bulk of this resource is concentrated in London and South East England, with a broader regional footprint, particularly seen in a strong Scottish industry.

The Association of Investment Companies, which represents close-ended investment companies, lists 200 management groups and wrappers schemes in its statistics on closed-end funds, which collectively offer around 422 funds for investment. A closed-end fund is organised as a publicly traded investment company. Like a mutual fund, a closed-end fund is a pooled investment fund with a manager overseeing the portfolio: it raises a fixed amount of capital through an initial public offering (IPO). The fund is then structured, listed and traded like a stock on a stock exchange.

Companies that manage closed-end funds may also manage open-ended funds, with many of the largest operators in each sector being owned by the same investment groups.

Almost 700 major banks, building societies and insurers

Data from the Bank of England shows there are 172 major insurance companies authorised by the Prudential Regulatory Authority (PRA) or FCA in the UK which offer consumers long-term savings and investing products and plans. There are also over 380 banks and buildings societies regulated by the PRA, although some of these banks may not be retail banks.

Figure 2 The number of authorised insurers, banks and building societies, October 2021

	UK companies	Non-UK	Total
Insurers			
Life and annuity	99	38	137
Linked long term	122	21	143
Permanent health	80	10	90
Capital redemption*	39	16	55
Total Insurers**	145	27	172
Banks and Building Societies			
Banks	176****	163***	339
Building societies	42		42

** an investment contract without any associated insurance. These can be unit linked or guaranteed-return policies or a combination of the two alternatives*

*** total does not sum because an insurer can operate in more than one activity*

****Banks incorporated outside the UK but authorised to accept deposits through a branch in the UK*

***** includes non-retail banks*

Source: Bank of England/IRN Research

MARKET DEVELOPMENTS AND DRIVERS

Almost all households have some financial assets, but only one-third invest

The Financial Conduct Authority's (FCA's) Financial Lives survey run in both 2017 and 2020 shows that virtually all adults own some forms of saving or current account, with eight-in-ten owning a savings account. In contrast, only 33% of adults own any investment product, with direct holding of stocks and shares being the most popular. Therefore, ownership levels peak for capital safe but low return products like current accounts, savings accounts and cash ISAs.

Between 2017 and 2020, ownership of savings accounts has increased with an extra 3.5 million adults owning a bank, building society or NS& I savings account. Over the same time period, 2.7 million extra adults have invested in investment products, especially shares and equities. Therefore, despite low interest rates recently, more consumers have preferred to put their money in save, low return products, rather than higher yielding but riskier investment products.

Figure 3 Household ownership of formal financial assets, UK 2017-2020

	% owning		No. owning (million)		
	Apr 2017	**Feb 2020**	**Apr 2017**	**Feb 2020**	**Change 2017-2020**
Unweighted base	12865	16190	51.1	52.4	
Savings products					
Any savings or current account	**97%**	**98%**	**49.6**	**51.3**	**1.7**
Savings account (bank, building society or NS&I)	59%	**65%**	30.4	33.9	**3.5**
Current account	96%	**97%**	49.1	50.6	**1.5**
Cash ISA	37%	**36%**	19	18.8	**-0.2**
Premium bonds	21%	**26%**	10.6	13.5	**2.9**
NS&I bond	7%	**7%**	3.3	3.8	**0.5**
Help to buy ISA*	na	**5%**	0	2.5	**na**
E-money alternative account	1%	**4%**	0.7	2	**1.3**
Credit union savings account	2%	**3%**	1.2	1.8	**0.6**
Post Office card account	3%	**2%**	1.3	1.1	**-0.2**
Lifetime ISA (held as cash/ don't know if held in cash or invested)*	na	**1%**	0	0.5	**na**
Investment products					
Any investment product	**29%**	**33%**	**14.6**	**17.3**	**2.7**
Shares/ equities	16%	**21%**	8.3	11.2	**2.9**
Stocks and shares ISA	17%	**15%**	8.8	7.9	**-0.9**
Investment fund or endowment	10%	**9%**	4.9	4.8	**-0.1**
Buy-to-let, second home, or other property investment including commercial property	7%	**8%**	3.7	4.1	**0.4**
Other 'real' investments, eg wine, art, jewellery	2%	**5%**	1.1	2.7	**1.6**
Insurance bond	5%	**4%**	2.5	2.2	**-0.3**
Corporate bond or gilt/ government bond	2%	**3%**	1.2	1.5	**0.3**
Structured deposit/ investment	2%	**2%**	0.8	1.2	**0.4**
Exchange tokens or Cryptocurrencies	na	**2%**	0	1.1	**na**
Peer-to-peer lending**	na	**2%**	0	0.8	**na**
Investment based crowdfunding**	na	**1%**	0	0.7	**na**
Innovative finance ISA (IFISA)*	na	**1%**	0	0.4	**na**
Lifetime ISA (invested)*	na	0%	0	0.2	**na**

** new to 2020 survey*

*** Crowdfunding/ peer-to-peer lending' was a single category (1% of UK adults held). 2020. Exclude those held in FISA*

Source: FCA Financial Lives Survey/IRN Research

30% of households have net financial wealth of less than £500

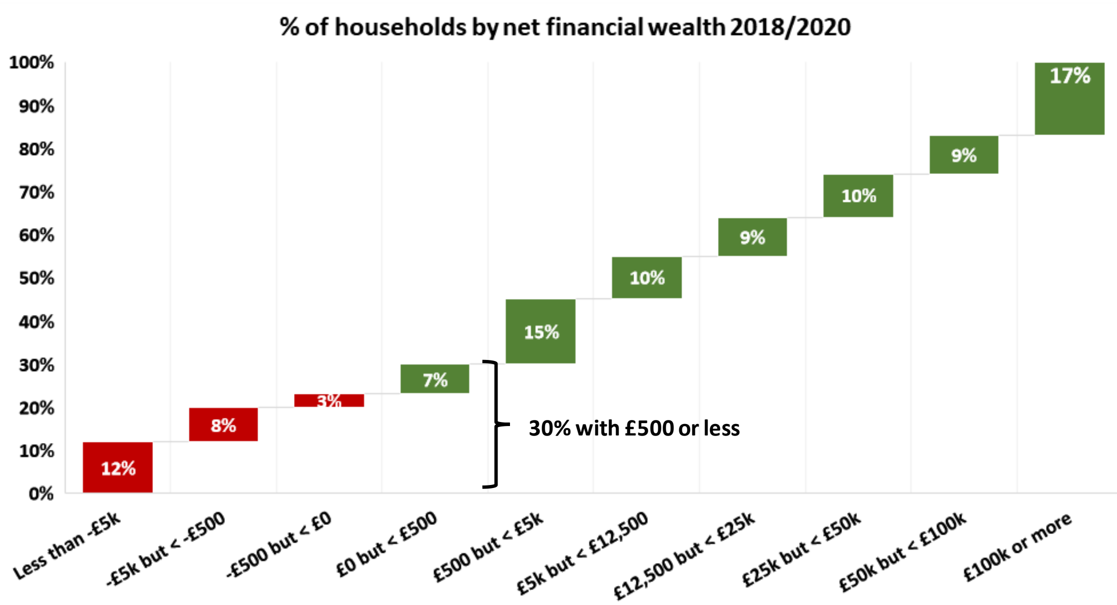
Most households in the UK have relatively modest amounts of net financial wealth, with wealth very unevenly distributed. Net financial wealth in this context is defined as the value of financial assets owned, less the value of financial liabilities owed, where financial liabilities include loans, credit card debt etc. but excludes mortgages.

The latest data from the ONS Wealth and Asset survey shows that almost one-quarter of households in the UK have negative net financial wealth (i.e., they owe more in debt than they own in assets) and in total 30% of households have net wealth of less than £500. In contrast, just over one-quarter (26%) have net financial wealth of £50,000 and above. The percentage of households with net financial wealth of less than £500 has remained very stable between 2006 and 2020.

Figure 4 The distribution of net financial wealth* Great Britain, April 2006 to March 2020

PERCENTAGE OF HOUSEHOLDS BY NET FINANCIAL WEALTH* 2006-2020								
	Year ending June					year ending March		
	2006/08	2008/10	2010/12	2012/14	2014/16	2014/16	2016/18	2018/20
< -£5,000	9%	11%	11%	10%	11%	11%	12%	12%
-£5,000 but < -£500	9%	10%	10%	9%	9%	9%	8%	8%
-£500 but < £0	4%	4%	3%	3%	3%	3%	3%	3%
£0 but < £500	9%	7%	8%	8%	8%	8%	7%	7%
£500 but < £5,000	16%	15%	16%	17%	16%	16%	16%	15%
£5,000 but < £12,500	11%	12%	11%	11%	11%	11%	11%	10%
£12,500 but < £25,000	10%	10%	9%	9%	9%	9%	9%	9%
£25,000 but < £50,000	11%	11%	10%	10%	10%	10%	9%	10%
£50,000 but < £100,000	9%	9%	9%	9%	9%	9%	10%	9%
£100,000 or more	11%	12%	12%	13%	14%	14%	16%	17%
All households	100%	100%	100%	100%	100%	100%	100%	100%
% with wealth of £500 or less	**31%**	**32%**	**32%**	**30%**	**31%**	**31%**	**30%**	**30%**

Source: Office for National Statistics, Wealth and Assets Survey



* Total financial assets less financial liabilities (e.g., debt but excluding mortgages). Percentage of households.

Sourced ONS Wealth and Assets Survey/IRN Research

COVID-19 makes investing more popular but also more problematic

Investors have faced an uncertain two years, caused by developments like COVID-19, Brexit and a greater pressure to invest in environmental, social, and governance (ESG) friendly products and companies. Investor confidence was low when COVID first hit, but it swung dramatically on the positive news of COVID-19 vaccines and the political certainty provided by the US election and the Brexit agreement. The resulting upward trend in confidence coincided with increased consumer savings, as consumer stayed at home more and spent less during COVID-19 lockdowns. Together, these factors helped drive an interest in investing. In particular, a new breed of investor has been drawn into the market. Many firms have seen an influx of younger investors, especially those who have benefited from inheritance and money from older relatives. Many of these new investors have been attracted by online investing, a style of investing made more popular by COVID-19. COVID-19 has accelerated the shift in the advice market from physical face-to-face meetings towards online meetings and more widely increased online investing and online wealth management.

At the same time that investing has become more popular, COVID-19 has also made it harder to make the right investment choices. COVID-19 radically changed the potential investment returns from different sectors of the economy and from different regions of the world. COVID has also led to rising inflation as economies have emerged from the worst of the pandemic, and it is now leading to rising interest rates. These developments have made it harder to judge the best sectors, companies and countries to invest in.

The rise of app-based investing and online investment platforms

As was mentioned above, COVID-19 has helped accelerate a shift towards the use of online investment platforms. Consumers, despite not being investment experts, like to have personal control or personal influence over their investing. Therefore, they are open to using investment services that make their investing decisions easier and more rational. At the same time, investment firms are looking for ways to keep their retail clients engaged and informed but do so in a way which keeps costs under control. The result has been the development of app-based and online investment platforms offering a range of investment services, which depending on the platform, may:

- Let investors access investments normally only available to institutions (e.g., corporate bonds).
- Offer Robo-advice for investing in funds, often via Exchange Traded Funds (ETF), with varying choices of ongoing management tailored to cost.
- Let investors analyse their spending habits and manage how much they can save/invest, and possibly automatically sweep money available for savings into stocks and shares ISAs.
- Let investors buy and sell assets, especially funds and investment portfolios, much more quickly and cheaply than in the past, allowing for more trading.
- Allow investors to gain more personal control of their investment strategies, so lead to a more proactive approach to investing.

- Make a greater range of independent investment research available to individuals, which they can use to make investment choices.
- Allow investors to select among a wide range of funds/assets from a single platform source.

Investment Platforms come in three main flavours:

- Traditional human-based (either aimed at the DIY investor or advisors) where humans make the investment decisions – either the investor themselves or their financial advisors.
- Robo-platforms - where mathematical algorithms drive investments

One result of using investment platforms and apps is that retail investors have reduced the time they hold a particular investment fund or asset: investors have become more willing to switch their investments.

Similar developments are taking place in the savings market. Personal financial management tools have become a popular feature of many banks' and building societies' online services recently, and consumers have become increasingly willing to use these to manage their savings products. These include tools for day-to-day budgetary management and customer tools to manage and plan savings for a deposit.

COVID-19 and platforms widen the investment market

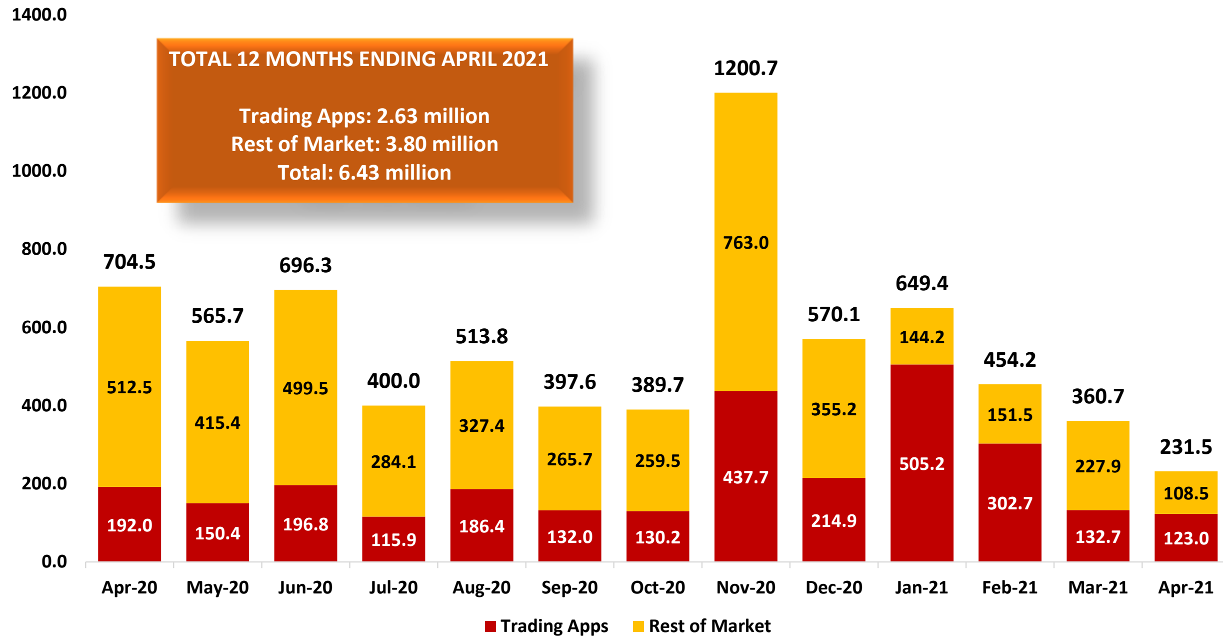
Many of the investors coming into the market to use platforms are younger or first-time investors. More than half of new investors (defined as those with less than two years' experience) are less than 35 years old, according to a survey by Oliver Wyman in October 2021.

In response some platforms are introducing new App-based services. For example, AJ Bell launched a commission-free investment app Dodl, with those new to investing offered guidance from furry "monster" characters.

New trading platforms are making it easier for consumers to make retail investments, without financial advice, and the shift away from face-to-face meetings between advisors and clients during COVID-19 has accelerated this.

According to the FCA, 1.15 million new accounts were opened by 4 trading app firms in the first 4 months of 2021, almost double the amount opened with all other retail investment services combined (632,000). 50% of these were opened in January, driven by the surge in investments in GameStop and other meme stocks. While the FCA acknowledges that these platforms make it easier for consumers to invest, it also notes that the ease of investing also makes it easier for consumers to make bad decisions and bypass existing support mechanisms.

Figure 5 New accounts – the market share of trading apps versus rest of market, 2020/21*



* All firms offering retail investment services

Source: FCA

According to research firm Fundscape, investment platform assets reached £865.8 billion at the end of June 2021, of which 63% represented assets under administration in retail advised platforms, 16% in corporate/institutional platforms and 21% in direct-to-consumer platforms.

The growth in DIY investing via platforms has led to traditional investment and advisory firms moving into the platform market. In December 2021, abrdn bought Interactive Investor for £1.5 billion, while earlier in 2021 JPMorgan (Nutmeg) and Lloyds Banking Group (Embark) also moved into the customer-focused digital investment market.

Because of these trends towards direct-to-consumer platforms during COVID, in 2020 the reliance on advice when buying retail investment products declined compared with previous years. In other words, consumers became more self-reliant. The movement away from advice most likely reflects the decline in face-to-face meetings between advisors and customers during lockdowns, leading to some consumers to become more focused on do-it-yourself investing.

FCA moves to make platform switching easier.

The FCA has put greater effort into making the investment platform market more competitive and easier to use for consumers. Its moves follow its publication of its Investment Platform Market Study (IPMS) in 2019 and Consultation Paper 19/12, which consulted on rules to make it easier for consumers to switch platforms without having to sell their investments.

The FCA concluded from its analysis that new rules were needed to help consumers who invest through platforms to more easily find the platform which is right for their needs and help consumers switch to the best platform if they already use another platform. Therefore, it introduced new rules to

- offer consumers the choice to transfer units in investment funds that are common to both platforms via an in-specie transfer
- request a conversion of unit classes, where this is necessary to enable an in-specie transfer to take place
- ensure that consumers moving onto a new platform are given an option to convert to discounted units, where these are available for them to invest in

The FCA is also monitoring the development of STAR, which is a cross-industry initiative, aimed at defining and shaping industry-wide good practice standards in transfers. STAR was created to take forward the implementation of an industry agreed framework (TRIG framework) that aims to improve the switching process for consumers. STAR aims to

- Define the end-to-end processes required to complete a transfer.
- Specify good practice standards and timings for each process component.
- Measure, recognise and accredit performance across the industry.

The FCA will carry out a review of STAR progress in 2022 and will consider taking forward further action if consumers' experience of the switching process does not continue to improve. In 2022, the FCA expects to be able to see the impact of the implementation of the standards on the switching progress for consumers.

Consumers have to navigate frauds and scams

Consumers are facing increasing threats from fraudsters and scammers, who are using new technologies to attract consumers. In addition, a growing number of consumers are being drawn into high risk investing (some fraudulent and some legitimate). Even if legitimate, many of these high risk investments are not suitable for most investors. High risk investments include:

- mini-bonds (also known as high interest returning bonds) and other non-readily realisable securities
- unregulated collective investment schemes (UCIS)

- some structured products, derivatives and Contracts for Difference (CFDs)
- forex products
- Venture Capital Trusts (VCTs)
- exchange tokens or cryptocurrencies (e.g., Bitcoin)
- investment-based crowdfunding
- peer-to-peer lending

For example, forex and cryptocurrencies and other high risk products are being promoted on social media platforms like TikTok via influencers who are appealing to young consumers, many of whom do not understand that these products are unregulated and not legally protected.

Young consumers are especially vulnerable to online scams. In 2021, the FCA interviewed 1,000 respondents aged between 18 to 40 who invest in one or more high-risk investment product. It found that 76% of those aged under 40 who have invested in high-risk products such as cryptocurrency and forex say they are driven by competition with friends, family and acquaintances, with over two thirds (68%) likening it to gambling. Moreover, 58% say hype on social media and in the news lies behind their investment decisions.

The FCA research also found that the majority of those who purchased forex or crypto (57% and 69% respectively) incorrectly believed these to be regulated by the FCA. As a result, they were unlikely to understand the lack of investor protection and the risk to their money.
Bodies like the FCA have responded to these threats. For example, the FCA publishes a list of unregistered businesses and has launched its ScamSmart and InvestSmart campaigns. These allow consumers to check on scams for investment and pension products. Part of ScamSmart is the ScamSmart Warning List tool, where consumer select which product is concerning them, highlighting to consumers in general where problems lie.

Figure 6 Indicators of scam and high risk investment activities, Year ending March

ScamSmart Activity, 2020/21

No. of people visiting ScamSmart website: 125.000. no of people searching for a firm on the warning list: 24,000.

Consumer reports to SmartScan

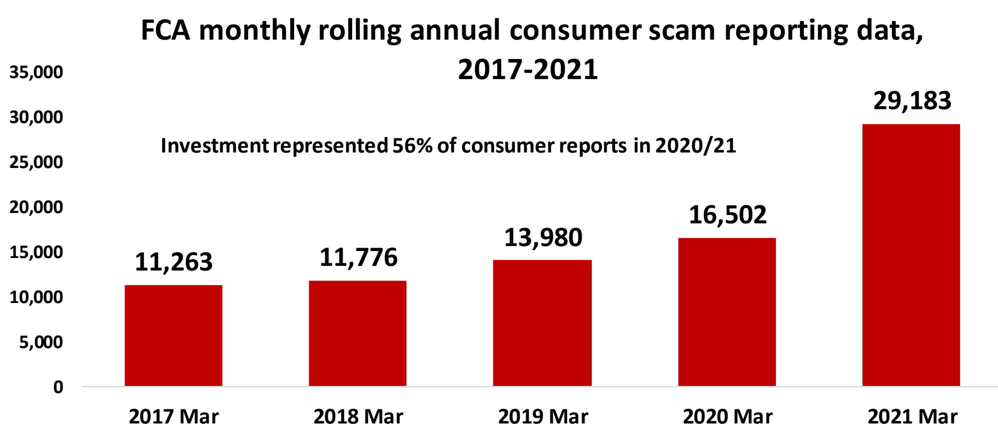
Category	Number
Cryptocurrency (e.g. bitcoin)	5,512
Foreign exchange	2,934
Pension transfer to a new scheme	2,610
Bonds	2,424
Other	2,328
Shares	2,070
undefined	1,179
Binary options	949
Free pension review	901
Taking money from my pension	853

Number of FCA cases opened involving scams or higher risk investments in 2020/21: 1,715

General FCA Scam Activity, 2020/21

Consumer Queries

Investments	12,191
Pensions	5,752



Source: FCA

The FCA has also been actively engaging with social media platforms and contributing to the Online Safety Bill. Moreover, it has deployed digital listening tools to help it collect data on everything from mortgages and investments to fraud and scams. These include listening to discussions on social media. In addition to these moves, the FCA over 2020/21 has also:

- banned the mass marketing of Speculative Illiquid Securities, a type of mini-bond, to retail consumers
- banned the sale, marketing and distribution of both crypto-derivative and binary options to retail consumers

- set out new rules and guidance for consumers transferring from defined benefit (DB) pensions to defined contribution (DC) schemes by setting out new rules and guidance on pension transfer advice
- developed rules introducing investment pathways that came into force in February 2021, which help non-advised consumers entering drawdown to choose investments that match their retirement objectives
- consulted on guidance for firms to ensure vulnerable consumers are treated fairly
- published a Call for Input (CFI) on Consumer Investments looking at areas where the consumer investment market is not working well for customers and seeking views on potential improvements.

Legislation has improved access to investment markets for consumers

Over the past 10 years the FCA has enacted legislation to improve the quality of investment advice open to consumers, thereby making is easier for consumers to invest. The FCA's effort to improve the quality of advice on offer, centred on two major legislative changes

- **The Retail Distribution Review (RDR) – December 2012**. This made charges for advice clearer (commissions were replaced by fees and advisors must agree charges with the consumer upfront); made it clearer what the consumer gets in return for fees (advisors must disclose in writing and orally, before providing advice what type of advice they can offer, whether it is whole of market or limited to specific products); and made the advice provided of better quality (advisors have to meet higher standards of qualification, keep their knowledge up to date and sign up to an ethical code requiring them to treat consumers fairly). Any financial product purchased by a consumer via any form of financial advisor that involves an investment element is covered by the RDR. Therefore, advisors working for banks, product providers, independent financial advisors, wealth managers and stockbrokers are covered if they offer financial advice.

- **Financial Advice Market Review (FAMR) – March 2016**. In response to issues raised after RDR, FAMR aimed to simplify and clarify the boundary between advice and guidance, thereby allowing advisory firms more freedom to deliver useful guidance without having to charge a fee for regulated advice or worry about inadvertently straying into giving personalised advice. It became clear after RDR that some consumers with simple financial needs only need guidance and not regulated advice. Moreover, they could not/would not pay upfront fees for finance advice. Despite this untapped demand for guidance, some regulated advisors felt unable to offer such guidance fearing it could subsequently be interpreted by the regulatory bodies as advice, meaning the advisory firm could become liable to any losses suffered by the consumer, with the advisory firm potentially fined. As a result, many consumers with relatively small amounts to invest, or who have very simple needs, failed to find both guidance and advice to manage their financial affairs. FAMR freed companies to offer guidance by making clear the line between guidance and advice.

In 2021, the FCA published an evaluation of the impact of RDR and FAMR on consumer investment advice. According to the FCA research, more adults have received financial advice recently and consumer awareness of automated advice has increased, with 19% of consumers reporting having heard of these services in 2020 (compared to 10% in 2017).

But there is still some way to go

Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review in December 2020, found that only 8% of UK adults had received financial advice. Moreover, automated or Robo advice is failing to fill this gap, with only 1.3% of adults having used this in 2020. Moreover, 67% of consumers believe they can make investment decisions themselves and the majority (54%) have received no support in making investment decisions.

FCA seeks to reform the Asset Management Market

A great deal of consumer wealth is held in investment funds, including funds made available via fund platforms. Funds are sold by a range of institutions who employ investment managers to handle asset allocation and day-to-day investing decisions. The FCA Asset Management Market Study (AMMS), whose final report was published in 2017, found that authorised fund managers generally did not consider robustly whether they were delivering good value. In April 2018, the FCA introduced new rules to ensure fund managers act as agents of investors in their funds, including requirements for an annual review of value and for increased independence. In 2019, the FCA introduced rules and guidance to help consumers understand more about how their money is being managed, so that they can make better investment decisions. The new rules and guidance:

- set out how fund managers should describe fund objectives and investment policies to make them more useful to investors
- required fund managers to explain why or how their funds use particular benchmarks or, if they do not use a benchmark, how investors should assess the performance of a fund
- require fund managers who use benchmarks to reference them consistently across the fund's documents
- require fund managers who present a fund's past performance to do so against each benchmark used as a constraint on portfolio construction or as a performance target.
- clarify that where a performance fee is specified in the prospectus, it must be calculated based on the scheme's performance after the deduction of all other fees

And a subsequent review of unit-linked funds

The above rules and guidance do not apply to unit-linked funds. A subsequent FCA investigation found that like authorised funds, unit-linked fund managers often did not consider robustly whether they were delivering good value for their investors. Specifically, it found:

- limited consideration of unit holders' interests in decision-making around levels of fees and charges. Some firms, for example, only consider performance net of fees and charges, with limited assessment of how active the manager of a unit-linked fund had been in achieving the net performance.

- Firms often do not compare fund fees with others in their range and cannot provide reasons for significant disparities in fees and charges among otherwise similar funds.

- Firms share scale economies with funds only to a limited extent. For example, where firms appoint asset managers within the same corporate group to manage unit-linked funds, the FCA often found less-extensive efforts to negotiate savings in asset management fees as the funds grew in size, relative to where firms appoint external managers. Moreover, if firms do identify scale economies and other opportunities to achieve efficiency gains, they often only pass benefits on to unit holders through reduced fees where they are contractually obliged to do so. This can lead to a firm treating groups of funds quite differently depending on how terms and conditions vary between its unit-linked funds.

- Firms comply with regulatory interventions but tend not to go further.

- Firms could not demonstrate to the FCA how product features other than asset management were good value.

- Firms check their competitors' prices but not apparently with the aim of competing on price.

- Institutional customers can drive lower fees compared with retail investors.

- The impact of independent governance bodies has been positive if limited.

Given the above, the FCA will decide whether further remedies are needed.

DISTRIBUTION

Overview of the distribution process

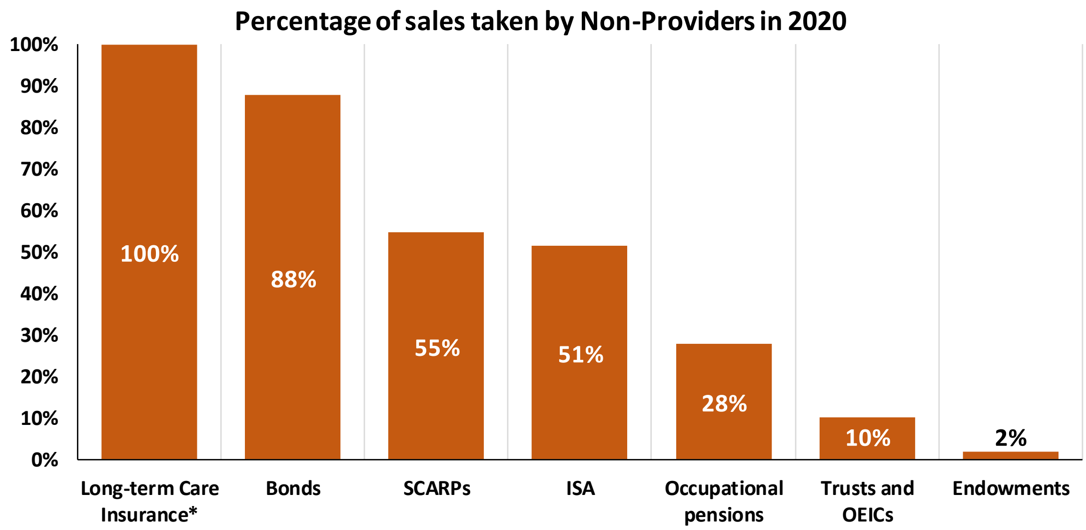
When taking out an investment product, the consumer can get their investment product direct from the product provider or buy via an intermediary. A firm is categorised as a provider when it manufactures retail investment products regardless of whether the same firm sells them directly to the customer or not. Provider firms could also sell products that were not originally created by them. A firm is categorised as a non-provider firm when it does not manufacture retail investment products, but it sells products created by provider firms.

Care, bonds, SCARPS and ISAs the most likely to be sold by intermediaries

FCA figures indicate that products like long-term care insurance, bonds, SCARPS and ISAs are the most heavily dependent on intermediaries for sales. For all these products, more than 50% of volume sales are channelled via intermediaries and do not come direct from the provider. In contrast, endowments (insurance companies) and trusts and OEICs (investment funds) are sold mainly directly by providers.

Figure 7 The share of investment volumes sales channelled through non-providers

PERCENTAGE OF SALES TAKEN BY NON-PROVIDERS, 2016-2020					
	2016	2017	2018	2019	2020
Long-term Care Insurance*	100%	100%	100%	100%	100%
Bonds	83%	86%	89%	88%	88%
SCARPs	54%	72%	56%	65%	55%
ISA	58%	62%	58%	55%	51%
Occupational pensions	39%	39%	31%	44%	28%
Trusts and OEICs	14%	14%	12%	11%	10%
Endowments	2%	2%	1%	2%	2%
Average all products	59%	56%	61%	60%	62%



** FCA does not provide data for long-term care insurance because almost all these sales go via non-providers*

Source: FCA Product Sales Data/IRN Research

Figures from the Investment Association give a more detailed view of the fund sector and show data in terms of the value of new investments. While a fund may originally have been sold by a provider, new investment into that fund is often channelled through third parties like fund platforms. Moreover, some fund platforms have their own fund of funds products as well. In terms of new investments, fund platforms are the largest source of new money flowing into investment funds, followed by IFAs and other intermediaries. It should be noted, however, that many IFAs use fund platforms on behalf of their clients, so IFAs are more important to the market than the raw data suggests.

Figure 8 The source of gross retail sales of investment funds (% of value), 2015-2021

	2015	2016	2017	2018	2019	2020	2021 (Q1-Q3)
Direct*	**12%**	**9%**	**7%**	**8%**	**7%**	7%	5%
UK Intermediaries							
UK fund platforms	45%	47%	44%	45%	49%	48%	51%
IFAs and other intermediaries	24%	24%	27%	25%	26%	27%	26%
Discretionary Investment Manager	11%	13%	13%	12%	10%	9%	8%
Trustees and Custodians	2%	2%	2%	3%	0%	0%	0%
Execution-only	1%	1%	0%	1%	0%	0%	1%
Total UK Intermediaries	**83%**	**85%**	**86%**	**85%**	**85%**	**84%**	**86%**
Non-UK intermediaries	6%	5%	7%	7%	8%	10%	8%
Total	100%	100%	100%	100%	100%	100%	100%

** includes sales through a sales force or tied agent and private client sales of own funds*
Transactions made through insurance companies (whether in-house or third party) are not included here as they are counted as institutional

Source: Investment Association/IRN Research

The growing use of fund platforms has also been aided by the fact that most investment products sold via platforms and exchanges are purchased via single, lump sum payments rather than via on-going annual investment/premiums, meaning there is no need to cancel direct debits, set up new direct debits when assets are sold and purchased via platforms.

Figure 9 The percentage of investment product purchases made after a single, lump sum payment, 2020

Long-term Care Insurance*	100%
SCARPs*	100%
Trusts and OEICs	96%
ISA	83%
Bonds	60%
Endowments**	0%

*** FCA does not show data because nearly all are single*
** FCA does not show data because nearly all are regular payments*

Source: FCA Product Sales Data/IRN Research

Savings products in general go direct

In contrast with the investment products above, savings products are generally sold direct by the provider, primarily banks, building societies and National Savings and Investment. As an example, in 2020/21, 63% of new investment into National Savings came via NS&I internet sales, 29% via NS&I electronic transfers (i.e., BACS, CHAPS and Faster Payments), 5% via NS&I postal sales and the remaining 3% via NS&I phone sales.

THE KEY PLAYERS

The largest insurance companies offering investment products/services

The Figure below lists some of the major insurance companies in the UK which offer investment-related products and services. It does not claim to list all the main providers, but it shows some of the major companies in the UK, along with the areas they operate in. Also, some of the largest insurance companies are part of, or may own, asset management and investment companies.

Figure 10 Examples of the major insurance companies in the UK offering long-term savings

Firm	Insurance subsidiary	Investment Activity		
		Life and annuity	Linked long term	Capital redemption
Aegon	Scottish Equitable Plc	✓	✓	-
Aviva Plc	Aviva Insurance Limited	✓	✓	✓
	Aviva International Insurance Limited	✓	✓	✓
	Aviva Investors Pensions Limited	✓	✓	✓
	Aviva Life & Pensions UK Limited	✓	✓	✓
Black Rock Group Ltd	BlackRock Life Limited	✓	✓	-
Canada Life Limited		✓	✓	✓
Columbia Threadneedle Investments	Threadneedle Pensions Limited	✓	✓	✓
Countrywide Assured Plc		✓	✓	✓
Covéa Life Limited		✓	✓	✓
Fidelity International	FIL Life Insurance Limited	✓	✓	-
HSBC Bank	HSBC Life (UK) Limited	✓	✓	✓
Invesco	Invesco Pensions Limited	✓	✓	-
J P Morgan Asset management	JPMorgan Life Limited	✓	✓	-
Legal & General Group Plc	Legal and General Assurance (Pensions Management) Limited	✓	✓	-
	Legal and General Assurance Society Limited	✓	✓	✓
Liverpool Victoria	Liverpool Victoria Financial Services Limited	✓	✓	-
	Liverpool Victoria Life Company Limited	✓	✓	✓
Lloyds Banking Group	Scottish Widows Limited	✓	✓	✓
Phoenix Life group	Phoenix Life Assurance Limited	✓	✓	✓
	Phoenix Life Limited	✓	✓	✓
	The Standard Life Assurance Company 2006	✓	✓	✓
	Standard Life Assurance Limited	✓	✓	✓
	Standard Life Pension Funds Limited	✓	✓	✓
Pinnacle Insurance Plc		✓	✓	✓
M & G Prudential	Prudential Pensions Limited	✓	✓	✓
	The Prudential Assurance Company Limited	✓	✓	✓
Quilter plc	Old Mutual Wealth Life & Pensions Limited	✓	✓	✓
	Old Mutual Wealth Life Assurance Limited	✓	✓	✓
Royal London Group	The Royal London Mutual Insurance Society Limited	✓	✓	✓
Sanlam Life & Pensions UK Limited		✓	✓	✓
Schroder Investment Management Limited	Schroder Pension Management Ltd	✓	✓	-
St James's Place Wealth Management	St James's Place UK plc	✓	✓	✓
Standard Life Aberdeen PLC	Aberdeen Asset Management Life and Pensions Limited	✓	✓	-
Sun Life Assurance Company of Canada (U.K.) Limited		✓	✓	✓
The Equitable Life Assurance Society		✓	✓	✓
The National Farmers' Union Mutual Insurance Society Limited		✓	✓	✓
Unum Ltd		✓	✓	✓
UBS Group	UBS Asset Management Life Ltd	✓	✓	
Zurich Insurance Group	Zurich Assurance Ltd	✓	✓	✓

Source: IRN Research

Largest investment managers

It is hard to define the largest investment managers in the UK because size is traditionally measured by assets under management and this can change from day-to-day because of changes in share prices worldwide. Data from the Investment Association for August 2021, shows that six investment managers lead the open-ended fund market in terms of total retail and private client assets under management. These are

- BlackRock Investment Management (UK) Limited
- Baillie Gifford & Co

- Legal & General (Unit Trust) Managers Limited
- Fidelity Worldwide Investment
- Jupiter Unit Trust Managers Limited
- Aberdeen Standard Fund Managers Limited

These are the only investment managers holding more than 4% of retail and private client funds under management. It should be noted that not all the open-ended fund investment managers are part of the Investment Association.

Different fund managers have different strengths, so major companies like Vanguard Investments UK Limited, HSBC Global Asset Management (UK) Limited and Scottish Widows Unit Trusts Managers (who are not shown in the Figure) plus others like Link Fund Solutions Limited, Royal London Unit Trust Managers Ltd and Aberdeen Standard Fund Managers Limited (shown in the Figure) are key players in the institutional sector, so are major investment management firms but not in the direct to consumer sector of the market. The institutional sector is heavily focused on the management of pension fund assets and insurance company funds. Therefore, the large institutional players indirectly manage consumer assets but are less engaged in the business-to-consumer sector of the market.

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Figure 11 The largest open-ended fund investment managers, AUM £bn August 2021

	Retail*	Private Client**	Institutional	Total	Total Retail and Private Client		
						% of total	
Company	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**%**	
BlackRock Investment Management (UK) Limited	£87.55	£0.06	£7.06	£94.67	**£87.61**	11.7%	
Baillie Gifford & Co	£51.21	£0.00	£16.71	£67.92	**£51.21**	6.8%	
Legal & General (Unit Trust) Managers Limited	£50.01	£0.00	£5.68	£55.69	**£50.01**	6.7%	
Fidelity Worldwide Investment	£48.29	£0.00	£6.28	£54.56	**£48.29**	6.4%	
Jupiter Unit Trust Managers Limited	£36.36	£0.00	£0.00	£36.36	**£36.36**	4.9%	
Aberdeen Standard Fund Managers Limited	£34.73	£0.36	£33.12	£68.21	**£35.09**	4.7%	
Fundsmith	£27.73	£0.00	£0.62	£28.34	**£27.73**	3.7%	
Threadneedle Investment Services Ltd	£27.19	£0.00	£3.59	£30.78	**£27.19**	3.6%	
M&G Securities Limited	£25.90	£0.00	£2.76	£28.66	**£25.90**	3.5%	
BNY Mellon Fund Managers Limited	£25.62	£0.00	£5.28	£30.89	**£25.62**	3.4%	
Invesco	£24.52	£0.00	£1.17	£25.69	**£24.52**	3.3%	
Schroder Unit Trusts Limited	£23.02	£1.38	£13.59	£37.99	**£24.40**	3.3%	
J.P. Morgan Asset Management	£23.37	£0.00	£2.61	£25.99	**£23.37**	3.1%	
Janus Henderson Investors	£23.01	£0.00	£6.86	£29.86	**£23.01**	3.1%	
Liontrust Fund Partners LLP	£17.84	£0.00	£12.75	£30.58	**£17.84**	2.4%	
First Sentier Investors	£16.34	£0.00	£0.02	£16.36	**£16.34**	2.2%	
Aviva Investors UK Fund Services Limited	£15.19	£0.00	£4.02	£19.21	**£15.19**	2.0%	
Royal London Unit Trust Managers Ltd	£14.95	£0.00	£44.69	£59.64	**£14.95**	2.0%	
RLUM Ltd	£13.56	£0.00	£0.00	£13.56	**£13.56**	1.8%	
Quilter Investors Limited	£11.56	£0.42	£11.50	£23.47	**£11.97**	1.6%	
AXA IM UK Limited	£11.62	£0.00	£2.31	£13.92	**£11.62**	1.6%	
Link Fund Solutions Limited	£11.54	£0.01	£75.73	£87.28	**£11.55**	1.5%	
Allianz Global Investors	£9.11	£0.00	£0.98	£10.09	**£9.11**	1.2%	
Thesis Unit Trust Managers	£7.02	£1.07	£2.62	£10.71	**£8.09**	1.1%	
Maitland Institutional Services Limited	£7.82	£0.01	£5.19	£13.03	**£7.83**	1.0%	
Premier Portfolio Managers Limited	£7.73	£0.00	£5.64	£13.37	**£7.73**	1.0%	
Others	£84.19	£9.05	£355.11	£448.35	**£93.24**	12.4%	
Total	£736.95	£12.36	£625.88	£1,375.19	**£749.31**	100.0%	100.0%

*** includes funds for which, over the preceding 3 years, at least 1/3 of gross sales were retail sales AND the minimum lump sum is less than or equal to £10,000**

**** includes funds for which, over the preceding 3 years, at least 1/3 of gross sales were retail sales AND the minimum lump sum is more than £10,000 but less than or equal to £50,000**

Source: Investment Association/IRN Research

Largest closed-end fund managers

Data from the Association of Investment Companies provides data on the largest providers of close-end funds. Some of these companies like Baillie Gifford, J P Morgan, abrdn (Aberdeen Standard) are also major investment managers for open-ended and other funds. Large management companies like Baillie Gifford, J.P. Morgan Asset Management, BMO Global Asset Management, abrdn and Janus Henderson Investors operate multiple investment trust companies, e.g.

- Baillie Gifford (Scottish Mortgage, Monks, Edinburgh Worldwide, Baillie Gifford Japan)
- JP Morgan (Mercantile, JPMorgan Emerging Markets, JPMorgan American, JPMorgan Japanese)
- BMO (F&C Investment Trust, TR Property, BMO Commercial Property, BMO Global Smaller Companies)
- abrdn (Murray International, UK Commercial Property REIT, Murray Income, Standard Life Private Equity)
- Janus Henderson (City of London, Bankers, Henderson Smaller Companies, TR European Growth)

Others like 3i Group and Pershing Square Capital Management operate just one company.

Figure 12 The largest closed-end fund management companies by market capitalisation, December 2021

Management Group	Market Capitalisation		No of investment companies
	£bn	% of total	
Baillie Gifford	32.88	11.9%	13
J.P. Morgan Asset Management	13.23	4.8%	20
BMO Global Asset Management	12.53	4.5%	13
3i Group	12.01	4.3%	1
abrdn	11.63	4.2%	20
Pershing Square Capital Management	11.41	4.1%	1
Janus Henderson Investors	8.46	3.1%	12
Frostrow Capital	5.82	2.1%	5
InfraRed Capital Partners	5.60	2.0%	2
BlackRock Investment Management (UK)	5.30	1.9%	9
Polar Capital Holdings	5.28	1.9%	4
Greencoat Capital	5.04	1.8%	2
Fidelity	4.71	1.7%	5
RIT Capital Partners	4.60	1.7%	1
Goldman Sachs Asset Management, L.P.	4.05	1.5%	1
Schroder Investment Management	4.03	1.5%	9
NB Alternatives Advisers	3.92	1.4%	3
Fundsmith	3.76	1.4%	2
Willis Towers Watson	3.74	1.4%	1
ICM	3.13	1.1%	6
Allianz Global Investors	2.84	1.0%	3
HarbourVest Advisers L.P.	2.74	1.0%	1
Pantheon Ventures	2.67	1.0%	2
Caledonia Investments	2.64	1.0%	1
Others	104.33	37.8%	285
Grand Total	276.36	100.0%	422

Source: AIC/IRN Research

The largest individual investment companies in December 2021 were

- Scottish Mortgage (£20.9 billion in assets) – Baillie Gifford
- 3i Group (£12.0 billion) – 3i Group
- Pershing Square Holdings (£11.4 billion) - Pershing Square Capital Management
- F&C Investment Trust (£5.9 billion) - BMO Global Asset Management
- RIT Capital Partners (£4.6 billion) - RIT Capital Partners
- Petershill Partners (£4.0 billion) - Goldman Sachs Asset Management, L.P.

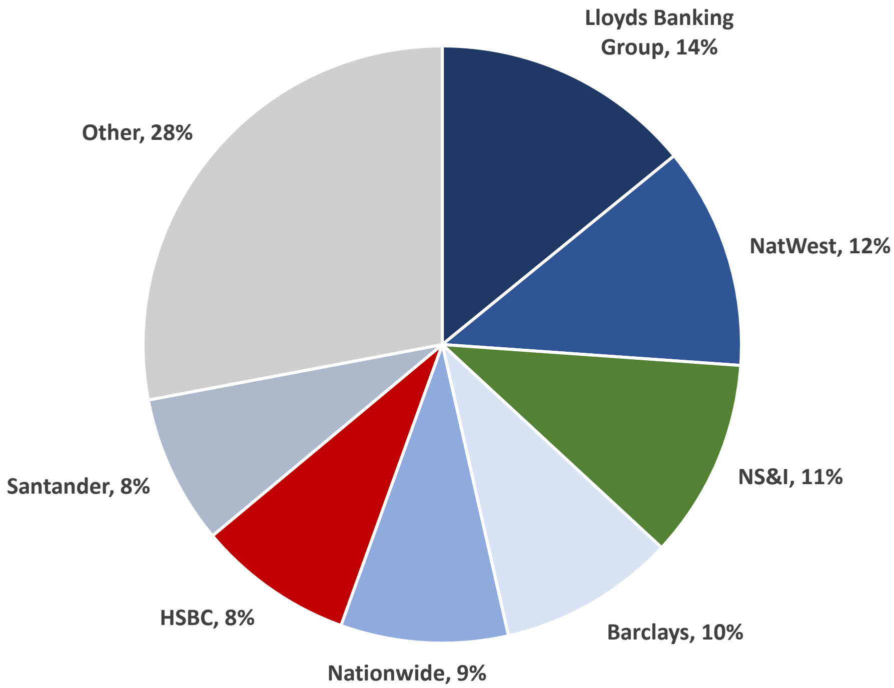
Big Five Banks dominate the savings market

In terms of money held by consumers in savings products (i.e., current accounts, savings accounts and National Savings), around 52% of this amount is held in the big five banks, Barclays, NatWest, Lloyds, HSBC and Santander) with a smaller share held in building societies (with Nationwide by far the largest building society in the UK).

Lloyds Banking Group is by far the largest player in the market, followed by NatWest. NS&I is a significant player in this market holding third spot with around 11% of money saved.

According to the FCA in its study into the personal current account (PCA) market, large banks are in a strong position but face increasing competition. Traditionally, low levels of consumer engagement have contributed to high barriers to entry and expansion; however, digital challengers now have around 8% market share for PCAs. They have attracted customers in part by offering innovative mobile apps which make the experience of banking easier and more convenient and to help consumers manage their money. Relative to the major banks, a smaller proportion of the digital challengers' PCAs are main accounts. This results in lower balances, lower volumes of transactions, and lower overdraft usage. These lead to lower funding benefits and less scope to generate fee income. The FCA estimate the big five banks still hold 64% of the market.

Figure 13 Estimated shares of consumer currency and deposit accounts, Year ending December 2020*



* % of personal deposit balances (current accounts and savings accounts), currency and National Savings

Source: IRN Research

MARKET SIZE AND TRENDS

Consumers have £4.1 trillion invested

At the end of September 2021, UK households collectively held £4.1 trillion in non-pension financial assets, with their accumulated wealth having risen by around 5% between December 2020 and September 2021. The Figure below shows gross consumer wealth, excluding wealth held in pensions (not the subject of this report) and non-life insurances (no investment element).

Figure 14 Household non-pension financial wealth, 2016-2021

						Year ending September	% change 2020/21	% of total 2021
	2016	**2017**	**2018**	**2019**	**2020**	**2021**		
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**		
Cash								
Currency	58.0	58.5	58.2	58.0	67.0	70.1	4.7%	1.7%
Deposits	1,464.5	1,515.1	1,576.8	1,637.1	1,815.0	1,905.8	5.0%	46.1%
Total	1,522.5	1,573.6	1,635.0	1,695.1	1,882.0	1,976.0	5.0%	47.8%
Lending to others								
Short-term debt securities	3.0	3.4	3.5	3.7	3.1	3.3	7.5%	0.1%
Long-term debt securities (eg Gilts)	9.1	8.6	8.0	8.0	8.5	7.7	-8.9%	0.2%
Long-term loans	18.7	18.9	18.8	19.0	18.6	18.8	1.0%	0.5%
Total	30.7	30.9	30.3	30.7	30.2	29.9	-1.1%	0.7%
Equity and investment fund shares/units								
Equities								
UK Listed	217.2	260.6	236.5	273.3	252.3	280.6	11.2%	6.8%
UK Unlisted and other	240.1	250.2	255.1	289.6	301.7	325.9	8.0%	7.9%
Overseas	132.2	143.0	149.9	147.3	165.8	164.7	-0.7%	4.0%
Total	589.6	653.7	641.5	710.2	719.8	771.2	7.1%	18.7%
Mutual funds	283.0	277.6	261.4	282.9	287.1	315.1	9.8%	7.6%
Total	872.6	931.4	903.0	993.1	1,006.9	1,086.3	7.9%	26.3%
Life insurance and endowment entitlements*	633.7	659.4	683.7	705.8	728.7	746.0	2.4%	18.0%
Other								
Financial derivatives/employee stock options	5.8	6.5	6.6	6.5	7.3	7.2	-1.3%	0.2%
Other accounts receivable**	210.7	201.9	196.8	232.2	272.4	288.4	5.9%	7.0%
Total financial assets	**3,276.0**	**3,403.6**	**3,455.4**	**3,663.6**	**3,927.5**	**4,133.7**	5.3%	100.0%

**financial claims that life insurance policy holders and beneficiaries of annuities have against corporations providing life insurance. These figures cover accumulated premiums paid plus investment increases less payments made to endowment and life policy holders. This also covers term insurance as well as insurances/endowments with an investment element*

*** financial claims arising from timing differences on transactions including dividends due but not yet paid and monies held on the purchase and sale of securities which have yet to be used to buy a securty or pay a consumer.*

Note: these figures exclude pension wealth and wealth in non-life insurance

Source: ONS/IRN Research

Almost half of household wealth is in the form of currency and deposits (mainly the latter) just over another quarter is in the form of equity and investment funds. Just under 20% of wealth is held in the form of life insurance and endowments (covering policies with an investment element and also term insurance).

A feature of the investing market in recent years (a trend only partially offset by the COVID-19 pandemic) is strong returns from stock markets worldwide, with the result that higher yielding but riskier assets like equities and funds have taken a growing share of wealth over 2016 to 2021, with a slight dip in 2020 and a rise in 2021.

Almost £90 billion invested into National Savings

Most of the money held in deposits represent balances at banks and building societies. In a typical year around £30-£40 billion is invested into National Savings and Investment products. In 2020-21, however, this rose to almost £90 billion. This reflects the decline in interest rates in early 2020 as COVID-19 hit the UK economy with many NS&I competitors lowering their rates of return accordingly. In an effort to boost money flowing into the Government, NS&I held their rates steady, with the result that it moved towards the top of many "best buy" tables. In addition, decreased consumer spending due to the lockdowns led to record growth of consumer savings and the attractiveness of NS&I products drove exceptional demand for its products.

Figure 15 Financial performance of National Savings and Investment

	Inflows		Gross outflows	Net Financing	Total stock
	New investment	C&AIP*			
	£bn	£bn	£bn	£bn	£bn
2014-15	32.3	1.6	15.7	18.2	123.9
2015-16	31.5	2.1	22.3	11.3	135.1
2016-17	35.0	2.3	25.5	11.8	146.9
2017-18	42.7	2.5	35.4	9.8	156.7
2018-19	37.3	2.4	28.9	10.8	167.6
2019-20	28.2	2.4	27.1	11.6	179.2
2020-21	86.2	2.2	64.6	23.8	203.0

**C&AIP is capitalised and accrued interest and prizes earned.*

*** based on figure for Q1 to Q3 of the financial year*

Source: NS&I/IRN Research

Consumers had almost £300 billion available to invest in 2021

Consumers generate the money to save and invest from three sources: by saving money from their income, by receiving capital transfers and by borrowing money. Financial investment and savings have to compete with other possible investments to access the money available for investing, especially investments in real assets like houses and property.

In 2021, consumers are estimated to have had available £277 billion to invest and they spent £83.6 billion on real assets (e.g., property) compared with £211.3 billion on all types of financial assets (including pension assets and non-life insurances which are not covered in this report). They also made a small net divestment in non-produced, non-financial assets like natural resources. Therefore, more money was put into financial assets compared with real assets. The same was true of 2020 and is in sharp contrast to previous years. The COVID-19 lockdowns and the boost to consumer savings helps explain this.

While in 2021, consumers invested almost £211.3 billion net into all financial assets, once account is taken of their net increase in borrowing, their net growth in financial wealth (growth in assets less rise in liabilities) was lower at £130.1 billion. The net growth in financial wealth was relatively low until 2020, but the impact of COVID on consumer saving over 2020 and 2021 has led to a substantial rise in net financial investment.

Figure 16 Household saving and financial asset acquisition

Notes		2016	2017	2018	2019	2020	2021 (est)
		£bn	£bn	£bn	£bn	£bn	£bn
	Total money available to invest, from all sources						
1	Gross savings (income minus expenditure)	83.0	64.2	71.3	72.2	209.5	192.9
2	Net capital transfers*	0.8	1.9	1.2	2.7	3.3	3.2
3	Net new amounts of money borrowed**	63.8	61.8	53.7	54.1	63.1	81.2
4	**Total (1 + 2 + 3)**	**147.7**	**127.9**	**126.3**	**129.0**	**275.9**	**277.2**
	Where the money is invested* **						
5	Real assets, like houses and property	68.5	79.0	78.3	77.8	68.2	83.6
6	**Financial assets****	**88.2**	**60.5**	**57.5**	**65.9**	**223.2**	**211.3**
7	Non-produced non-financial assets***	-0.4	-0.3	-0.4	-0.4	-0.3	-0.3
8	Total identified investments (5 + 6 + 7)	156.3	139.1	135.4	143.3	291.2	294.6
9	Unidentified investments+ (4 - 8)	-8.6	-11.2	-9.1	-14.4	-15.3	-17.4
10	**Total change in assets (5+6+7+8)**	**147.7**	**127.9**	**126.3**	**129.0**	**275.9**	**277.2**
11	**Change in net financial wealth ++ (6 - 3)**	**24.3**	**-1.3**	**3.7**	**11.8**	**160.1**	**130.1**

** investment grants plus other capital transfers less capital taxes and other capital transfers*

*** new loans repaid less new loans taken out - positive figure shows consumers are borrowing more than they are repaying.*

**** net acquisition: new investments made less assets sold - positive figures show consumers are adding to their assets. These figures include net acquisition of pension and non-life insurance assets*

***** natural resources (e.g. land, mineral and energy reserves, non-cultivated biological resources such as virgin forest, water resources, radio spectra and others), contracts, leases and licences as well as goodwill and marketing assets.*

+ data from consumer current account (e.g. income and spending) does not match data from the consumer capital account (e.g. changes in investments), so a balancing item to cover the statistical discrepancy is used by the ONS

++ the net change in assets less the net change in liabilities or the net acquisition of financial assets minus the net new borrowing (plus the balancing item)

Source: ONS/IRN Research

Almost £200bn invested into non-pension assets

The Figure below shows the net amounts invested in financial assets which are the core focus of this report. i.e. they exclude pensions and non-life insurance. As a result, the total of net investment in financial assets in 2020 (£196.6 billion) in the Figure below is much smaller than the 2020 total in the previous figure (£223.2 billion) because the previous Figure included net investments in pensions and non-life insurance.

In 2020, consumers invested net £196.6 billion into financial assets (excluding pension and non-life insurances). Net new investment rose significantly over 2019 as the COVID-19 lockdowns caused consumers to save more and invest more. There was a significant rise in investment in deposits, with consumers deciding to place their unspent income into safe assets like current and savings accounts. IRN expect investment in 2021 to remain high by the standards of recent years but to fall back compared with 2020, as the UK economy opened and consumer spending increased.

It should also be noted that the net investment figures in the Figure below do not necessarily match the changes in total financial wealth for each type of asset shown earlier in this report. This is because assets like mutual fund investments and equities are subject to capital appreciation. In addition, many investors have their income returns reinvested rather than paid out to themselves. Similarly, any interest earned on savings products is credited to the savings account, so changes in amounts held in savings include more than just new money invested. As an example, in 2020 consumers bought more equities than they sold (by £8.3 billion according to the Figure below) but they saw the value of their equity holdings rise between 2019 and 2020 by £9.5 billion.

Investments in equities and mutual funds have been negative for some years, although equity investment is expected to be positive for 2021. Many consumers save into equities and funds indirectly via their pensions and investments rather than directly.

Figure 17 Household net acquisition of financial assets by asset type (purchases less sales), 2016-21

	2016	2017	2018	2019	2020	2021 (est)	Change 2020-21
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash							
Currency	5.2	0.5	-0.3	-0.1	8.3	4.8	-3.5
Deposits	80.0	49.9	58.2	59.7	186.6	140.3	-46.3
Total	85.2	50.4	57.9	59.5	194.9	145.0	-49.8
Lending to others							
Debt securities	-0.5	0.1	-0.5	0.1	-0.3	-0.4	-0.1
Long-term loans	-10.3	-6.2	-3.1	-7.1	2.0	1.6	-0.4
Total	-10.8	-6.2	-3.6	-7.0	1.8	1.2	-0.5
Equity and investment fund shares/units							
Equities	-41.1	-8.1	-14.0	-20.0	-1.6	8.3	9.9
Mutual funds	-13.1	-26.6	-30.9	-22.9	-25.2	-19.8	5.4
Total	-54.2	-34.7	-44.9	-42.9	-26.8	-11.5	15.3
Life insurance and endownment entitlements*	12.0	22.9	28.6	26.9	26.3	27.4	1.1
Other							
Financial derivatives/employee stock options	2.6	2.9	1.9	2.7	2.5	3.0	0.5
Other accounts receivable**	-0.7	-14.0	-16.6	-4.1	-2.0	12.9	15.0
Total financial assets	34.2	21.5	23.2	35.1	196.6	178.1	-18.5

**financial claims that life insurance policy holders and beneficiaries of annuities have against corporations providing life*
*** financial claims arising from timing differences on transactions including dividends due but not yet paid and monies held on the purchase and sale of securities which have yet to be use to buy a securty or pay a consumer.*

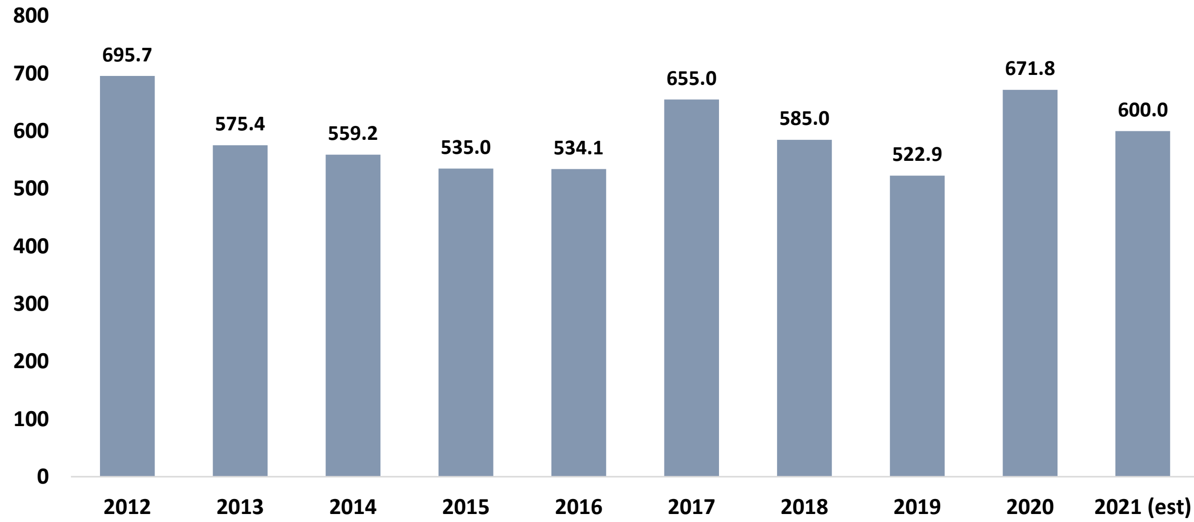
Note: these figures exclude net investments in pensions and non-life insurances

Source: ONS/IRN Research

Almost 700,000 investment products sold in 2020

In 2020, 671,800 investment products were sold compared with 522,900 in 2019. The rise in sales is explained by increased savings in 2020 as outlined above. In 2021, IRN expect product sales to fall back somewhat but still to be higher than they were in 2019.

Figure 18 The number of investment products sold (000), 2012-2021



Source: FCA Product Sales Data/IRN Research

Consumers retreat to ISAs

2020 saw some very significant falls in new product sales especially in the with profit bond sector. It should be noted this is new sales and does not reflect investment into existing holdings.

The star performer in 2020 were ISAs with a 79% increase in ISA sales. Most other products, with the exception of unit trusts and unit linked bonds also saw declining sales. While consumers may have saved more in the pandemic, they clearly remain wary about taking out higher risk products, given stock market variability in the early months of the pandemic. Unit trusts offer a way of mitigating investment risk by spreading investments across assets, industries and countries, while sales of unit linked bonds are often linked to investments in self-invested personal pensions and income drawdown products. A unit-linked bond is a single premium investment policy, where the funds are invested in equities and gilts and an income is paid each year to the policyholder, dependent on the performance of the investments.

Figure 19 Trends in the investment products market 2015-2021

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**Change 2019-20**
	(000)	(000)	(000)	(000)	(000)	(000)	
ISA	215.7	190.2	284.6	253.4	216.9	388.4	79.0%
Trusts and OEICs							
Unit Trust/OEIC	183.9	194.8	213.4	198.1	185.0	185.3	0.2%
Investment Trust	5.1	4.5	6.1	6.1	2.3	1.9	-18.1%
Total	189.0	199.4	219.5	204.2	187.3	187.2	0.0%
Bonds							
Unit Linked Bond	35.6	38.9	41.2	37.8	38.1	39.7	4.2%
With-profit Bond	17.0	39.5	31.5	23.3	22.2	11.8	-46.8%
Other Bonds	14.3	8.8	8.2	5.9	4.6	3.4	-25.4%
Total	66.9	87.2	80.8	67.1	64.8	54.9	-15.3%
Endowments	47.2	43.0	47.7	44.3	40.4	31.1	-23.0%
SCARPs	15.1	13.3	21.5	14.9	12.5	9.7	-22.6%
Long-term Care Insurance	1.0	1.1	0.9	1.1	0.9	0.6	-37.1%
TOTAL	535.0	534.1	655.0	585.0	522.9	671.8	28.5%

Source: FCA Product Sales Data/IRN Research

THE FUTURE

A problematic investing environment

2022 could be a difficult year to invest for consumers. UK inflation has already topped 5% and is likely to remain high for some time and the Bank of England has already raised interest rates, with further rises on the horizon. At the same time, COVID-19 and its variants like Omicron will impact on economies worldwide and UK consumers face a rising tax burden from increases in national insurance and rapidly rising domestic fuel costs.

Rising inflation is particularly problematic for those with large cash holdings and those living off fixed incomes. Any positive impact on savers of higher interest rates will be outweighed by the negative impacts of inflation.

Cash holding will be especially significant in 2022 because of the FCA's moves to stop people holding too much in cash (see below). However, with economic uncertainty many with large cash holdings might be reluctant to invest their money in riskier assets.

FCA to introduce a new strategy

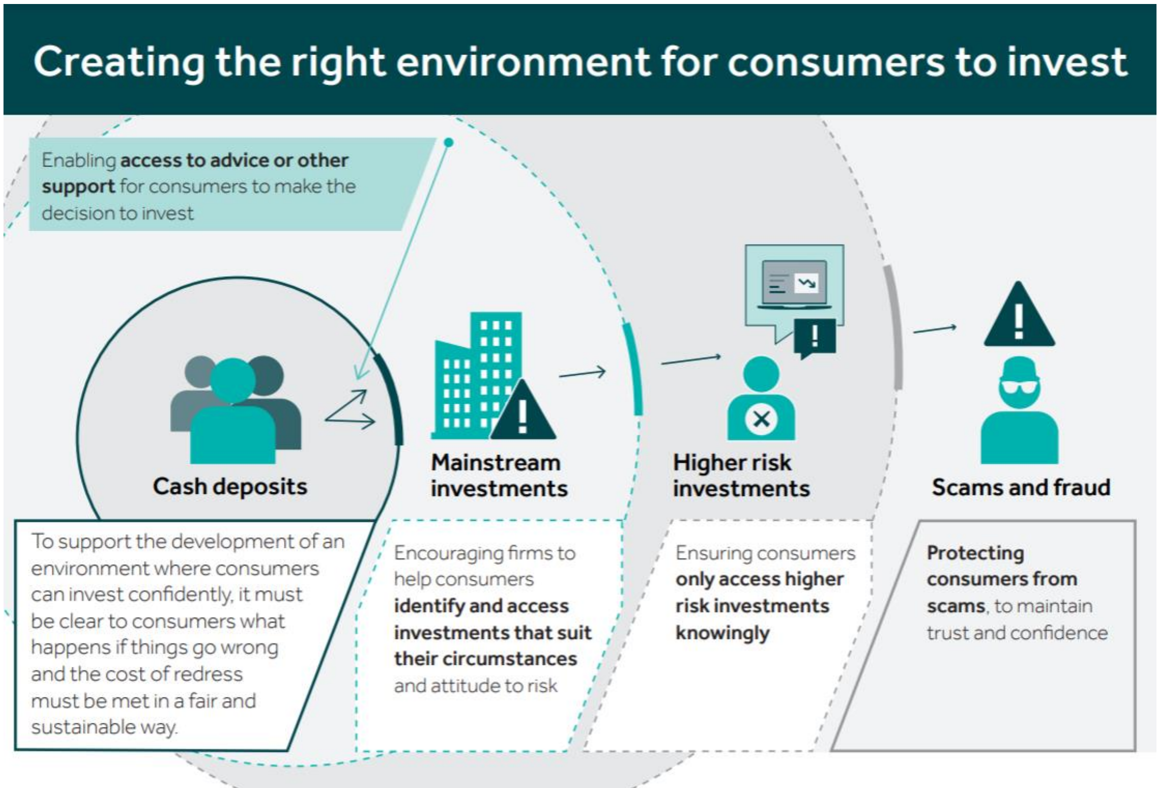
The 2021/22 Business Plan of the FCA set out its consumer priorities for the year ahead. One of these priorities is to enable consumers to make effective investment decisions. In early 2022, the FCA will publish its consumer strategy to set out its ambition for this market. According to the FCA in its document *Consumer Investments: Strategy and Feedback Statement* published in September 2021 and updated in October 2021

"We want to see a consumer investment market in which consumers can invest with confidence, understanding the risks they are taking and the regulatory protections provided.

We do not want to restrict consumers if they want to invest, but we do want them to be able to access and identify investments that suit their circumstances and attitude to risk. Key to this is ensuring that consumers can get the advice or support they need, that they only access higher risk investments knowingly and that they are protected from scams.

When things go wrong, as they sometimes will, we want consumers to know how to seek compensation and for the cost of redress to be met by firms in a fairer and more sustainable way"

Figure 20 The FCA's Approach to creating the right environment for consumers to invest



Source: FCA

The FCA also set out a series of metrics to measure its success, including by 2025:

- Reduce by 20% the number of consumers who could benefit from investment earnings but are missing out. There are nearly 8.6 million consumers holding more than £10,000 of investible assets in cash.

- Halve the number of consumers who are investing in higher risk products that are not aligned to their needs. 6% of consumers increased their holdings of higher risk investments during the pandemic, with 45% of self-directed investors saying they did not realise the risks.

- Reduce the money consumers lose to investment scams perpetrated or facilitated by regulated firms. Consumers lost nearly £570m to investment fraud in 2020/21 – this has tripled since 2018.

- Stabilise the £833 million compensation bill for the Financial Services Compensation Scheme (FSCS).

To achieve this, the FCA has set out a package of measures for the future including:

- exploring regulatory changes to make it easier for firms to provide more help to consumers who want to invest in relatively straightforward products.
- launching a new £11m investment harm campaign, to help consumers make better-informed investment decisions and to reduce the number of people investing in inappropriate high-risk investments.
- being more assertive and agile in how the FCA detects, disrupts and acts against scammers, thereby reducing investment scams.
- strengthening the Appointed Representatives (AR) regime, with a consultation launched in 2021, which aims to raise the quality of financial advice.
- strengthening the financial promotions regime in 3 areas; the classification of high-risk investments, further segmenting the high-risk market and strengthening the requirements on firms when they approve financial promotions.
- reviewing the compensation framework to ensure that it remains proportionate and appropriate, particularly where firms fail leaving behind compensation liabilities for the FSCS to address. This will reduce the cost and impact of poor advice.

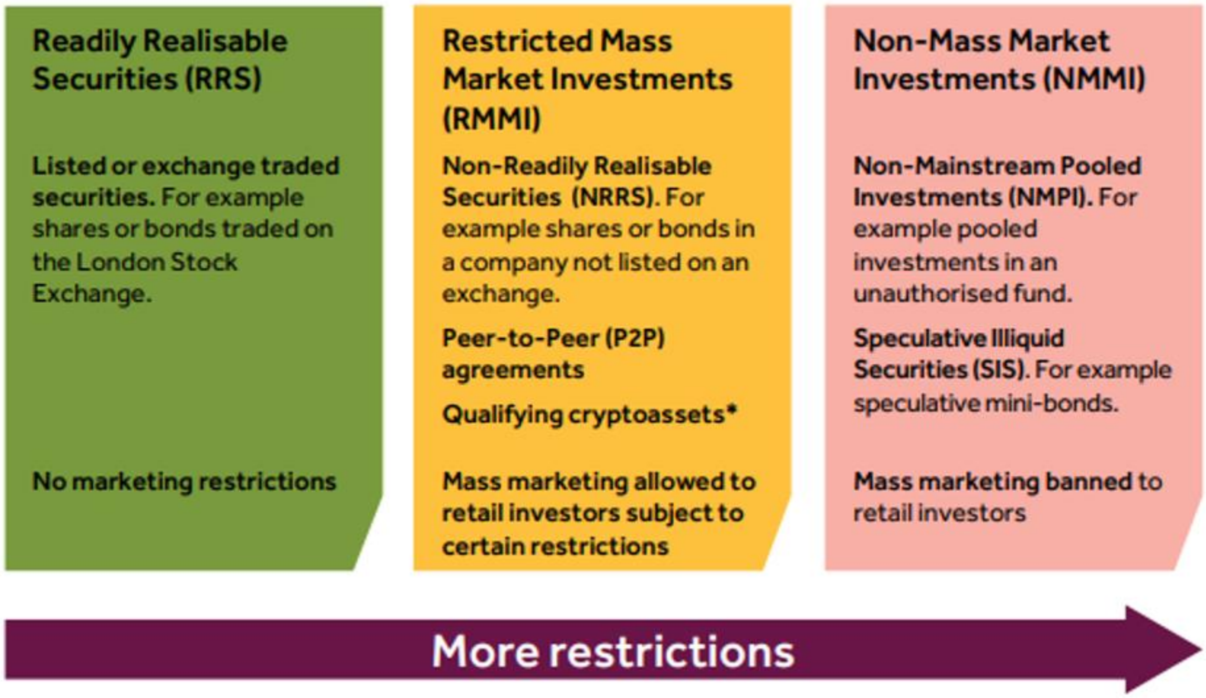
FCA to curb the marketing of cryptoassets and other high-risk investments

As part of its attempts to improve the investment environment for consumers, in January 2022, the FCA announced it planned to curb the marketing of cryptoassets and other high-risk investments. This will involve strengthened risk warnings on ads and a ban on incentives to invest, such as new joiner or refer-a-friend bonuses. The planned rules cover high-risk investments such as cryptoassets, including cryptocurrencies such as bitcoin, as well as crowdfunding, peer-to-peer agreements, mini-bonds and speculative illiquid securities.

The FCA is aiming to categorise some cryptoassets as "restricted mass market investments," meaning consumers can only respond to promotions if they are classed as restricted, high net worth or sophisticated investors. Moreover, firms that approve and publish promotions must have relevant experience and understanding of the investments offered.

Following this move, this means the FCA's restrictions on promoting financial investment products now fall into the following pattern

Figure 21 FCA Classification of Investment Products



FCA's New Consumer Duty

As part of its new strategy, the FCA is set to publish new rules on consumer duty for financial services firms by July 2022, with the new rules to be implemented by April 2023. Financial firms will need to adjust their operations. Under the proposed rules, all regulated firms will be required to put themselves *"in the shoes of customers"*. Firms are asked to think if they would recommend products and services to their friends and families, if the recommended products and services meet the needs of those they are sold to, and if recommendations represent fair value. Firms will need to answer yes to these three fundamental questions and show evidence to the regulator. If they fall short of the desired consumer outcomes, firms will be expected to withdraw or change their product offering or will face regulatory action.

Improving the appointed representatives regime

In December 2021, the FCA issued a consultation paper outlining its proposed changes to the Appointed Representatives (AR) regime. The proposed changes aim to reduce potential harm arising across the sectors where they operate. The FCA feels changes are required because it is seeing a wide range of harm across all the sectors where firms have ARs. This harm often occurs because principals do not perform enough due diligence before appointing an AR, or from inadequate oversight and control after an AR has been appointed.

The FCA is proposing

- That principals be required to provide additional and more timely information on their ARs and how these are overseen, and

- Greater clarification and strengthening of the responsibilities and expectations of principals

Next-Gen Tech to lead a digital transformation

Financial services firms are continuing to invest heavily in new technologies to re-shape the financial services industry on three fronts

- Customer experience
- Internal workflows
- Customer/product analytics

For many firms, enhancing the customer experience is seen as a key driver for their digital transformations. Improved customer experiences, better workflows and the greater generation and use of data are likely to result in the development of:

- Savings and investment dashboards – i.e., an online service where consumers can see all their savings, investments, pensions, mortgage and loan data in a single location. This will give the consumer a complete picture of their financial position.

- Greater automation of personal finance. The future will not only see the continuation of the development of Robo-advice but also the development of automated systems to allow consumers to manage their finances themselves. For example, automated rules can be developed which could see money automatically transferred from a savings account to an investment product once a certain amount of money is saved in the account or if the gap in returns between savings and the product reaches a certain figure.

- Consumers who use a dashboard or a fund platform might also begin to receive investment and saving suggestions, similar to the way that Amazon and Spotify make recommendation to their respective consumers. Such suggestions would be based on the consumer savings and investment history, risk preferences, future goals etc. This is like Robo Advice but always on. It's a relatively small step from making recommendation to offering more generic help via digital assistants.

ASSOCIATIONS

Association of British Insurers
The ABI is the main trade body for the UK insurance and long-term savings industry. It has over 250 member companies, including most household names and specialist providers. Its role is to represent the industry in policy debates, promote the value of insurance and long-term savings products, highlight the importance of the industry to the wider economy and help encourage consumer understanding of the sector's products and practices.
https://www.abi.org.uk/

The Association of Investment Companies (AIC)
The AIC was founded in 1932 to represent the interests of the investment trust industry - the oldest form of collective investment. Today, the AIC is the trade body for closed-ended investment companies, incorporating investment trusts, offshore investment companies, REITs venture capital trusts and other closed-end funds.
https://www.theaic.co.uk/

Building Societies Association
The Building Societies Association (BSA) is the voice for all 43 UK building societies as well as 6 credit unions. Together these organisations serve around 25 million customers across the UK. The BSA's objective is to push for the best outcomes for building societies and its other members from the plethora of new and changing regulation and legislation in the UK and Europe.
https://www.bsa.org.uk/

Investment Association
The Investment Association is the trade body that represents UK investment managers. It has 200 members that collectively manage over £7.7 trillion on behalf of clients in the UK and around the world. Its role is to promote UK investment management, including engaging with policymakers and other stakeholders in the UK and around the world.
https://www.theinvestmentassociation.org/

Personal Investment Management and Financial Advice Association (PIMFA)
PIMFA is the UK's leading trade association for firms that provide investment management and financial advice to everyone from individuals and families to charities, pension funds, trusts and companies. The association represents the diverse range of firms in the investment and financial advice industry with a unified voice, provides industry thought leadership, consolidating its extensive technical insights and expertise in research and policy work, leads the debate on policy and regulatory recommendations, promotes the industry as a key catalyst to develop a culture of savings and investment in the UK and facilitates dialogue across industry stakeholders. PIMFA was formed from a merger between the Wealth Management Association (WMA) and the Association of Professional Financial Advisers (APFA).
https://www.pimfa.co.uk/

UK Finance

UK Finance is the collective voice for the banking and finance industry. It represents more than 250 firms across the industry. It acts to enhance competitiveness, support customers and facilitate innovation. The organisation brought together most of the activities previously carried out by the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.
https://www.ukfinance.org.uk/