

WHITE PAPER

Bringing financial advice to the mass market

How Octopus is open-sourcing a new methodology to close the advice gap



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The opportunity

Reading customer feedback is one of the best parts of my job. Money is one of the most emotional areas of our lives and it's a privilege to hear the experience of real people finally getting help they've wanted for years: "I felt such a relief from talking to David and listening to his advice, I welled up with tears. Being a single person on my own, I felt so lost on what I should do next or where to go. He allayed all my fears and provided me with an outline of what I needed to think about and consider in the future." Financial planning and advice truly transforms lives.

It's no wonder the advice industry boasts some of the most loyal, longest-lasting customer relationships of any sector. 90% of people who have seen a financial adviser feel it has benefitted them.¹ Compare that to the banking industry, where a mere 21% of people would even speak "somewhat favourably" of their bank, with a minute 6% speaking "very favourably" of them.² Almost everybody can create a bank account, but very few can access financial advice.

Fundamentally, we believe you can give somebody access to all the financial tools in the world, **but there is no substitute for being told exactly what to do to improve your personal finances.** We are a nation plagued by personal finance inertia, and 92% of people have never received financial advice to overcome it.

The financial adviser's combination of trust, expertise and empathy can give clarity to a person's future, inject a feeling of control, and most importantly, **motivate.** We believe everybody has a right to receive this life-changing service.

However, the advice gap can often feel like it has never been wider, despite industry and regulatory attempts to increase access to financial help. The Lang Cat (2024) estimates that another 1.5 million people have been added to the advice gap over the last 2 years alone.

The stakes have never been higher, with half of Brits reaching retirement age without enough money to live the life they want.³ I don't doubt that every financial adviser in the UK would love to open their doors to every customer, but for various reasons, this simply isn't feasible. We need a fresh perspective and big ideas, to overcome a big problem.

The FCA have been really clear what they want to see, stating "Innovation can be a driving force for effective competition. When competition works well, consumers benefit from lower costs and prices, higher service standards and quality, and increased access to financial services."⁴

We believe technology and collaboration across the industry can make this happen.

While Octopus Money was created to enable **everybody** to have 1-to-1 access to money help, it is brutally clear that we can't fix this problem alone. We want to lead the collaborative charge to make a real difference for the nation's financial health, and we want your input, expertise and help to do it.



Ruth Hancock
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¹ Why Aren't More People Accessing Financial Help? 2024

² YouGov, 2024

³ Age UK, 2017

⁴ FCA, 2023

In the spirit of transparency and collaboration, I'll be honest: digitising financial advice is really, really hard. What sets the most effective financial advice apart is that it's holistic – meaning it covers all aspects of someone's financial life (spending, savings, investments, pensions, protection and more). It's no surprise that most financial services companies have chosen to just focus their efforts on **elements** of personal finance, instead of the **entire** process of optimising all aspects of somebody's finances.

Take companies like Vanguard, who have engaged millions of DIY investors, or PensionBee who have been hugely successful in engaging people around their old pensions. You would think they are perfectly primed to make the small step into automating financial advice so their customers can improve their lives (and possibly add more funds to their platforms in the process). Why on earth haven't they?!

Well, it makes your brain ache, and we've got the scars to prove it.

There are a number of factors that make democratising financial advice really difficult to execute. Technology is well suited to overcome some of them – but not all of them.

That's why Octopus Money firmly believes that the best possible chance we have of closing the advice gap, **is to combine the best of humanity, with the best of technology.**

The purpose of this paper is to lift the lid on how Octopus Money have approached this challenge, and why we believe we have built a bridge over the advice gap that can last.

But we don't want to be one little octopus in a giant ocean. We want to help our entire industry tackle this challenge. Closing the advice gap is going to take all of us – wherever there is a relationship with a customer, there is an opportunity.

There's one scoreboard we all share and it's the number of customers who are getting help and taking positive actions for their future.

The only way we can make rapid progress that will stick is to innovate in an "open source" way. We really do want you to **take this work and apply it to your own business.** To be clear, we don't have all the answers, but we're constantly learning and iterating to make progress on this massive challenge.



Tom Francis

Head of Digital Advice

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Get involved

"I always wondered why somebody doesn't do something about that. Then I realised I was somebody."

Lily Tomlin



We all have the opportunity to help close the advice gap and we'd love to work with others across the industry in the following four ways:

1. Give us feedback

Our methodology will be stronger with your input so we'd love to hear from you with comments, ideas, improvements and twists.

2. Share us

We're trying to lower the barrier to innovation by sharing everything we know about what works, so please pass the knowledge on to others working on the same problem.

3. Try us

Octopus Money partners with employers to give every employee access to help with their money. So launch us in your business, or book a session directly, and increase the number of people that get access to help.

4. Use us as a shortcut

Our technology, coach training & accreditation, and case checking can all be licensed for use in your organisation so you can get advice to mass market customers more quickly and cheaply.

...we look forward to hearing **from you**.


02

The challenges

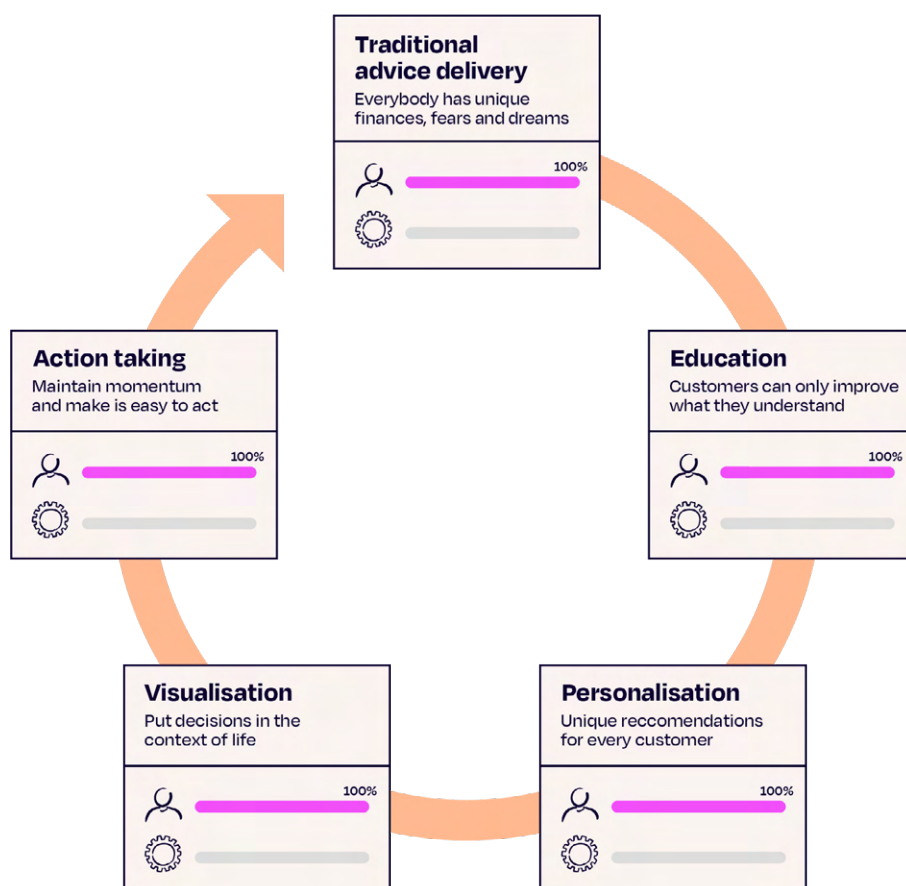
Let's start by highlighting some of the challenges we face and what we've learned as we've looked at providing advice to the mass market. Broadly, you can bucket these into three themes.

Delivering financial advice is expensive

On average, it costs over £800 per annum¹ to serve an advice customer. The combination of an adviser, paraplanner and admin support doesn't come cheap, and often all three are required at each step of the customer lifecycle (shown below). Customers with lower assets are simply uneconomical to serve and there are signs it's getting worse.

 = Human

 = Technology



¹ Octopus Money Research, Censuswide, July 2024, n=200

... and the cost to deliver advice is often magnified by it being a glacial process

In a world where you can set up a bank account in 10 minutes, the financial advice process can make customers feel like they're wading through treacle. The entire process can take many weeks, from first client interaction, through to account funding, and then onto regular reviews. The painstaking processes of letters of authority (and often incessant chasing), report writing and paper document completion can mean the difference between a customer taking action, and not.

... and it is clear that *people* are required to engage people

We believe that humans are an absolutely essential part of financial advice. Once promised to be the white knight to overcome the advice gap, "tech-only" solutions have largely failed at their original mission of closing the advice gap. Despite the best intentions, provider after provider has shown their inability to engage customers of all backgrounds and needs. Most would-be investors still feel baffled when confronted with a screen asking how much they want to invest. The absence of a plan, and humankind's innate expertise at procrastinating, results in inertia. No matter how intelligent technology gets, when the stakes feel high, people connect best with other people. When it comes to big financial decisions, we want to speak to a human, not a robot.

Consumer Duty might be widening the gap

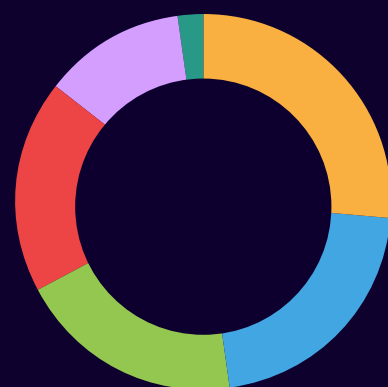
Consumer Duty is rightfully enforcing high standards of advice to be delivered to every single customer, regardless of wealth or background. To ensure that foreseeable harms are avoided, regular updates and modelling are imperative, and need to be linked to the customer's unique goals, fears and dreams.

Research by The Lang Cat in 2024, estimates that another **1.5 million customers** will be added to the advice gap, solely due to the additional admin and work created by Consumer Duty. That's a problem getting worse, not better. In our recent research, **98% of advice firms** say it's getting harder to serve small customers and **82%** are either implementing or considering higher minimum fees for smaller customers to account for the cost of the service.¹

Our own research has shown that before Consumer Duty, the average minimum asset threshold for new customers was **£191k**. After it? **£213k**. That's another swathe of customers who need financial help, who are cast into the advice gap.

From a different perspective, at Octopus Money, we imagine a world where any ongoing advice fee must be opted *into* by the client, every single year. Bear in mind, our imagination does not need to work hard, as this is the current reality in Australia. Working with this assumed future, the need to evidence consistent ongoing value is paramount.

How are advice firms dealing with smaller clients since Consumer Duty?¹



- 26% onboard them with a min. fee
- 21% refer them to another service
- 19% offer a scaled down service
- 18% provide a one-off consultation
- 12% decline to take them on entirely
- 2% other

¹ Octopus Money Research, Censuswide, July 2024, n=200

Consistency is key

Our regulator has often indicated the need for consistent advice being provided to two customers of similar backgrounds, needs and circumstances. Perspective, instinct and experience are what makes humans excellent advisers, but they can introduce the risk of biases, both conscious and unconscious, resulting in different outcomes for “identical” people.

1 in 5 advice firms are not confident every adviser would give consistent advice to the same customer.¹

For this reason, Octopus Money believes that for the mass market consumer, transparency and consistency can trump infinite flexibility.

Avg. minimum asset threshold
for new customers

~~£191k~~
£213k ^{+12%}

... and income is a mass-market accumulator's greatest wealth-building tool

As an industry, traditional financial advice has often focused on assets, whether it be large amounts of cash or pensions, over earned income, and often for very good reasons. It tends to be wealthy people who seek advice, and therefore it's the management of a pot of investments or cash which is top of the priority list.

This is not always the case for younger clients, who are building wealth. While cashflow modelling has come a long way, often advice around budgeting, income management and goal prioritisation can come up short.



¹ Octopus Money Research, Censuswide, July 2024, n=200

The solution

So how can we overcome these challenges, widen the potential customer market and bridge the advice gap in the process? We believe the key is in utilising transparent technology to deliver regulated advice, and highly trained and effective humans to explore, communicate and motivate customers through the entire process in good time.

Octopus Money's mission is to democratise access to holistic money advice. That means providing regulated advice to mass market customers safely and profitability. And we know, after much experimentation, that advice must take into account someone's hopes and dreams, as well as a full picture of their finances, to be effective in getting someone to take action.

The reality of being a mass-market consumer is that **there aren't any services available which help you excavate your own financial life 1-to-1 with an experienced human, build a unique financial plan, and receive all of the advice and tools to turn it into a reality**. This is largely where fintech providers have struggled, as they don't provide the solutions in the context of somebody's life.

Our methodology at a high level is simple:

- An accredited (but unregulated) coach understands a customer's hopes and dreams, as well as their financial situation, and helps them build a simple lifetime cashflow model. It takes them about 15 minutes to build the plan.
- Our technology provides recommendations (or 'boosts'), which constitute holistic regulated advice, on how a customer's whole financial plan can be optimised. A coach helps customers understand each boost.
- Customers are able to adopt those boosts through digital journeys, with guidance from their coach as needed.

But with any fresh approach to a well-bedded, mature process like financial advice, the devil is in the detail.





To help, we have split the solution into three sections, each serving to explain some of the areas of our methodology. **The three sections are:**

Part 3a
**Integrating
guidance & advice**

Part 3b
**Understanding the
customer journey**

Part 3c
**The advice
algorithm**

It is critical to remember the customer segment this process is designed to serve. "Mass-market" consumers are those people who often cannot access traditional financial advice right now.

We can make some assumptions about the circumstances of a "mass-market" consumer, including: **(see right)**

There is also the possibility that customers who are new to the concept of financial advice could fit in this bucket, as well as those who are fundamentally opposed to being served by a traditional financial adviser. Remember, this is **92% of our population**.



Lower total assets

In their nature, these customers will often not qualify for traditional financial advice.



Average income

These customers will typically not have income exceeding levels where their pension contribution allowance is impacted.



Simpler circumstances

Common goals are often planning for a property purchase or upsizing, saving for their family and a comfortable retirement.

3a

Integrating guidance and advice

An appreciation of the boundary

The term “**advice guidance boundary review**” is a hot topic at the moment, and for very good reason. Our regulator wants the UK population to get better at taking action with their money. The FCA has primarily approached this from the angle of trying to get “guidance” to do a bit more heavy lifting, and empower banks and investment managers to go a bit further in helping customers to take action, without regulated advice, via initiatives like “targeted support”.

At Octopus Money, we believe the regulator’s focus was slightly wide of the mark. In the UK we have a high performing, reliable system in traditional financial advice, and we firmly believe making this process more accessible to others, is the key to improving the UK’s finances. The financial advice sector isn’t broken, it’s just not accessible for enough people.

The power of financial advice resides in the ability for someone to be told exactly what they should do, based on the complete picture of their current life, and linking this to compounding benefit for their future self.

We don’t need to manufacture a whole new channel, or type of financial help, we just need to make what we already have more economical, and easier to deliver to the mass market.

One of the ways to do this is by using experienced, highly trained individuals, who are not individually regulated, to do much more in the financial advice process. Call them coaches or financial planners (both of which are unregulated terms), these people are freed up to really connect with customers, and truly explore what makes them tick. Without time being spent on analysing, report writing or chasing LOAs, they can **focus 100% on the person sitting in front of them.**



Their role is to help customers excavate what is important in their lives, from holidays to family plans, retirement to home upsizing. These are all the currents which shape our customers' lives. It is these elements that motivate and drive a customer to take action.

Critically, these planners will never give financial advice, and are highly trained to understand that their communication with customers must be free of opinion or bias. This is true of any traditional adviser support, and PERG 8.30A.8 is clear about the need for a planner (or financial coach) to clarify their role in the process, and use appropriate language.

In addition, **PERGs 8.28 and 8.29** are clear that advice only becomes Advice (with a capital A), when it relates to a **particular** investment. While an individual is helping a customer plan their lives, understand their account options and how much to save into different pots, there is no Advice.

PERG 8.27.2 (1) also clearly states that **"a non-regulated individual can provide advice or analysis to an adviser (or advice technology), to form the basis of their advice"**.

The non-regulated planner's role in the process is to help a customer complete a fact find in detail, understand their options, and capture all of their financial goals, ready for the regulated, advice technology to take over and generate unique recommendations.

The FCA is crystal clear that a non-regulated individual can play an important role in the financial advice process. Couple this with the FCA's desire for innovation and we have an underused, effective tool available to help make inroads into the advice gap.

There is simply no replacement for a human to really connect with a customer, and understand their fears, hopes and dreams. Technology can then strategise, based on this information, and generate unique recommendations to help that person achieve their optimal financial future.

We think the easiest way to put this is...



**People
open up to
people, not
technology**

3b

Understanding the customer journey

How many times in the average person's life do you think they've heard that it's important to save or it's a good idea to look after their pension? When we hear financial recommendations without context of our individual motivations and lives, they're less likely to be acted upon.

In this respect, financial planning can feel a bit like knowing that healthier people eat less and exercise more, without figuring out how 30 minutes of exercise a day and 5 items of fruit and veg will fit into your daily routine.

So what drives someone to take the necessary financial actions? We break down the annual customer journey into five stages.

1. Exploration

The process starts with the customer not products. Every single customer creates a unique financial plan, using intuitive fact finding questionnaires, enabling them to immediately view their future on a screen.

The highly trained financial coach is then on-hand to help the customer really dig into their goals and plans, to ensure that the picture is complete. This is where the magic happens. With technology doing the analysis and strategic heavy lifting, the human is freed up to really drill into what makes a customer tick.

2. Education

Hand in hand with the exploration phase is education. We continue to believe that humans play a key role in testing understanding and avoiding foreseeable harm. A combination of intuitive journeys, videos and quizzes, alongside the experienced planner amount to a multipronged method of educating.



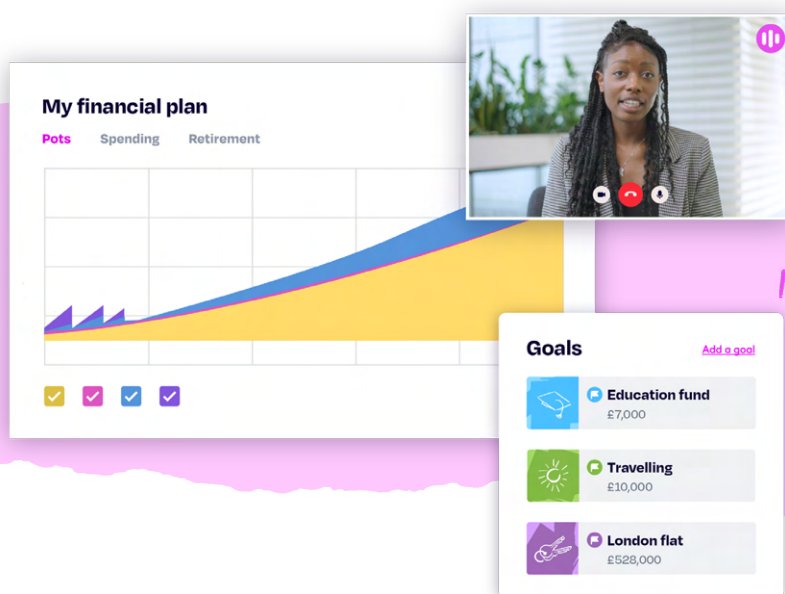
3. Personalisation

Now that the client's current life picture is captured, technology can analyse, in real time, their financial circumstances, and make unique recommendations according to their financial plans as to how to optimise their financial lives.

Crucially, all recommendations are generated in a way that is tied to the customer's financial goals, and can estimate the time taken, and progress made towards achieving them over time. The recommendations are generated in seconds - freeing up humans to communicate and connect with customers.

4. Visualisation

Tying these recommendations to an updated view of what the future could look like is a proven way of maintaining motivation and interest in the next steps. Every customer receives, as a minimum, two forecasts. One forecast represents the current state of play, and an estimate as to what their future might look like if they keep doing what they're doing. The other forecast represents their possible future with all of the recommendations applied. Seeing this on a screen is often where we see plans beginning to turn into action.



5. Acting on advice

Once the planning is complete and the recommendations have been generated, it is time to turn the optimised future into a reality. Here, a lack of obstacles and simplicity are of the essence, and the fulfilment phase is automated so that recommendations flow into a suitability letter within seconds, and clear payment instructions are generated.

The advice algorithm

Now we understand the role of the planner, and the overall customer journey, it's time to understand how the recommendations are actually generated. We do this by taking a customer's unique circumstances, goals and preferences, and applying a series of "boosts". A boost is simply a rule which we apply to the customer's plan, in order to generate recommendations, and a path to an improved future.

Applying these "boosts" takes a standard cash flow forecast (based on what the customer is already doing) and turns it into an optimised version of the future. In this process, we generate unique recommendations within minutes, around how much to pay, into which account, and which portfolio.



BOOST 1

Start with no debt

A customer's plan must start without any short term debt, which we define as: **any unsecured debt which won't be repaid in the interest-free period, with interest over 7% (excluding student loans, mortgages or debt secured against an asset)**. Debt repayment is a separately regulated activity, which this advice process does not cover.



BOOST 2

Build a "just in case" fund

Assuming the customer has a monthly surplus, the next boost to be applied is to fill their **"just in case"** fund, often referred to in the industry as the Emergency Fund. A "just in case" fund is the amount of money that should be kept safe and accessible, and our boosts will fill this pot before any surplus is allocated to other pots (i.e. goal savings, investments, etc). Often, a customer might already hold sufficient cash to cover this, which would take us on to the next boosts.

In the past, we have seen customers time and again feeling a sense of nervousness at the point they are recommended a specific amount to invest, especially if this is a relatively new activity for them. This is where the context and human support available from a planner is critical, and is typically where **"digital only"** journeys have suffered.



BOOST 3

Consider protection insurance

Now that the customer has their “just in case” fund in place, we have made great strides at reducing some of the risks of things going wrong in life – but mainly the **short-term risks**.

Protection is a vital part of good financial planning, but it is often handled in varying ways by different advice firms and **advisers**. With many digital journeys, it can also feel like a dead-end for many customers, who want to move forward and take action.

Boost 3 will estimate a level of protection, based on the customer’s circumstances, that could be held to cover their key risks, such as loss of income or life. It will then compare this with the existing level of cover already held. If there is a difference, the customer will be directed to speak to a protection adviser, and a “placeholder” cost of cover will be added to the customer’s plan to fund the surplus protection policy. This enables the customer to proceed, while acknowledging and making allowances for the importance of protection.

We are now in a position where the customer has filled a cash buffer, and has made allowance for protection of their long term risks. Now it’s time to start thinking about pension and investment planning.



BOOST 4a

Maximise employer pension

Next on the list is to make the most of any contribution matching, which is available via an employer. You aren’t going to get a 100% immediate return anywhere else in life, so this is top of the priority list once protection and emergency funds are considered. It is quite literally free money. Therefore, where we know the employer’s pension offering, we will recommend that a customer increases their contribution to optimise their employer’s matching.



BOOST 4b

Increase contributions to regain any lost personal allowance

This boost is only relevant to those earning between **£100k** and **£160k**. A customer is now in a position where they have filled their just in case pot, considered their protection needs, and maximised their employer's pension matching.

Next up, we give the customer the option of optimising their pension contributions, in order to avoid the 60% tax trap. If a customer earns over £100k, then they will lose £1 of their personal allowance (that is, the amount you earn tax-free every year) for every £2 your income is over £100k. So, earnings equal £120k? You've just lost £10k of your personal allowance, and this equates to an effective tax rate of 60%. Ouch.

The good news is that in the eyes of HMRC, your taxable income equates to total earnings MINUS personal pension contributions. Therefore, for the example above, if that person put £20k into a pension, then their earnings are £100k, and they keep their whole personal allowance.

A simplified example

	Current finances	Boosted finances (increase contributions)	Explainer
Total earnings	£110,000	£110,000	
Employer pension contributions (15%)	£16,500	£16,500	Pension contributions via salary sacrifice reduce your taxable earnings, and reserve money not only for the future you, but away from HMRC.
Employee pension contributions	£0	£11,000	
Total pension contributions	£16,500	£27,500	
Adjusted earnings	£110,000	£99,000	For every £2 earned over £100k, you lose £1 of your personal allowance BUT pension contributions reduce your earnings.
Lost personal allowance	£5,000	£0	
Total take home	£72,357	£67,977	Increasing pension contributions by 10%, has cost the employee £4,380 in take home pay, BUT has increased pension savings by a huge £11,000, with most of this coming from HMRC.
Amount paid in tax	£33,432	£27,032	
Amount saved in pension	£16,500	£27,500	

We have chosen to apply this boost as an **option** for the client, because there will be instances where the desire for access to funds before retirement (house purchase, family costs, etc) will trump the mathematical upside of this boost.



BOOST 5

Allocate cash for short term goals

(Short term is anything within five years)

Now we are in a position where the customer has filled a just in case pot, made provisions for protection, maximised their workplace pension matching and been given the option to regain their personal allowance (if their earnings are over £100k).

This boost will now actively allocate savings for any goals in the **next five years**. This is any time period (a single or multiple year) where a client's expenses exceed their income. It is a common, and sensible approach, supported by **the regulator**, that when savings need to be accessed within five years, cash is a more effective choice for the mass market.

Let's take a look at an example of this boost taking effect, for a customer who has filled their "just in case" pot, and is now looking to effectively organise their excess monthly savings to the right account types:

Tess has a full "Just in case" pot, and now has excess monthly savings of around £300. She has made provisions for protection, and maxes out her employer pension matching. She doesn't know what to do with her excess savings.

Tess has created her financial plan, and is looking to save for a house deposit with her partner in five year's time. They are not in a rush, and hence feels like 5 years is the right timeline for her. She agrees that £10k is about the amount she wants to personally save.

The digital adviser recognises:

- Her £10k goal in 5 years' time
- Her monthly excess savings of £300
- Calculates that in order to hit the target amount, a monthly saving of £166 is required, or £1,992 per year
- Therefore the adviser recommends £166 is allocated to the goal savings pot, and the additional £134 is available to be allocated via the succeeding boosts.

In cases where the monthly excess savings are insufficient to meet the goal amount, the model will access a second source of funds to meet the goal, starting with existing cash savings.

For "Day 1" recommendations (i.e. the first time a customer receives advice) we will not recommend the drawdown from investments to raise cash for the goal. In this instance, the customer would be expected to sell and withdraw from the investments when they reach the goal time frame, instead of moving to cash right now. We expect this to complement any existing advice, often delivered via a human adviser neatly.

In later years, when a customer reaches a goal, or large planned withdrawal, the logic will access funds...

- **1st Source:** Monthly excess savings
- **2nd Source:** Existing cash savings
- **3rd Source:** Existing general investment account
- **4th Source:** Existing ISA

We believe this is an effective, and efficient way for customers to achieve not only good, but perfectly transparent outcomes.





BOOST 6

Invest funds for medium term goals

(Medium term is anything more than five years away, but before retirement)

Now we are in a position where the customer has filled a cash buffer, made provisions for protection, maximised their workplace matching and been given the option to regain their personal allowance, if their earnings are over £100k. They have also made allowances for the short term goals by allocating savings to cash.

Now our logic will review the years between now and retirement age, and ensure that funds will be accessible to fund any “**medium term**” goals. The definition of a “goal” here would be a tax year, where total outgoings exceed total income. Put simply, it might be a year where there is a large outgoing (like a property deposit being paid), which requires drawing down from savings or investments.

To maximise tax benefits, and sound financial planning, our logic here will prioritise investing funds into a **Stocks & Shares ISA** where allowance is available, and once this allowance is filled the funds would be invested into a General Investment Account (GIA).

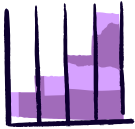
Using another customer example, let's see how this works:

Alex is 40, and is planning to purchase their dream car in 10 years' time, and they believe this will cost around £60k. They have completed their planning with the digital adviser, and therefore the preceding boosts have been applied to their finances, calculating how much excess funds are still available for Alex to make use of.

The digital adviser recognises:

- The £60k goal in 10 years' time
- The amount of spare funds available to be invested or saved
- The annual amount needing to be saved to reach the goal, is £6,000 per year, or £500 per month.
- The digital adviser will recommend that this amount is invested, for the next 12 months.

At the annual review point (in around 12 months' time), all customer values would be updated, based on the progress made over the past year, and accounting for performance. This then enables the annual recommendations to adjust, as the goal date gets closer to the present but more importantly, as the customer's plans adjust. When the goal gets within the five year time frame, annual allocations for the goal would be switched to the cash pot, as this would be caught by boost 5.



BOOST 7

Invest spare funds between ISA/GIA and pension

Now we are in a position where the customer has filled a cash buffer, made provisions for protection, maximised their workplace matching and been given the option to regain their personal allowance, if their earnings are over £100k. They have also made allowances for the short term goals by allocating savings to cash, and have planned for the medium term goals where an ISA or GIA will be used. Any excess funds will now be available to contribute to build up their pension savings.

We recognise that a number of factors play into somebody's willingness to "tie up" savings into a pension, including those which are attractive, and others which create anxiety. These factors include:



- Tax relief on contributions
- Building a larger retirement pot
- Able to retire earlier than otherwise
- Confidence in pensions



- Loss of access to funds until retirement
- Uncertainty about the future, including personal or family health
- Lack of trust in the pension regime
- Lack of confidence in their own long term income

This is an area which relies on an understanding of personal finance, emotions and clarity of future, which are really broad topics! Without a detailed conversation with a financial adviser, this can be a challenging area to "codify" for our advice boosts.

As such, we have elected to use a "**Retirement Priority Score**". This takes the form of an intuitive questionnaire, with guidance from a coach, to produce a score between one and ten. This score then has an impact on the customer's "available" funds, and whether we recommend they are contributed into the pension or ISA/GIA.

A customer who is...

- Confident in their plan's accuracy
- Comfortable with tying up funds in a pension
- Motivated by a larger pension pot vs accessible funds

... will be recommended that a larger portion of their remaining monthly excess savings be contributed into a pension over the next tax years. This pension score will be refreshed at the annual review every year, and hence will impact the future recommendations.

One of the most powerful parts of every customer being provided their own personal cash flow forecast (and projected savings at retirement) is that customers can begin to consider their goals **in the context** of their impact on retirement savings. At the end of the day, financial planning is the trade off between the now and the later.



BOOST 8

Switch funds from investments into pension

Finally, we are in a position where the customer has filled a cash buffer, made provisions for protection, maximised their workplace matching and been given the option to regain their personal allowance, if their earnings are over £100k. They have also made allowances for the short term goals by allocating savings to cash, and have planned for the medium term goals where an ISA or GIA will be used. The customer has also invested any spare funds into either a pension or an ISA, depending on their comfort level with each.

The final boost is to try and help the customer obtain the largest possible amount of tax relief, and financial benefit, from their pension savings.

This boost will be applied at the approach of retirement age, and look to move as much of their savings which are currently held outside of pensions, into them.

The core reason we recommend this is that a customer should receive tax relief on 100% of their contribution, however pay tax on 75%. This is because the first 25% of a pension can usually be withdrawn tax free. Coupling this with the common occurrence, where a customer would be a comparatively higher tax payer in their working life, vs their retired life, means that getting as much money into pensions as possible is advantageous.

The nature of this point in time is that there is greater certainty about the customer's finances, as they are much closer to the point that they can access their pensions, if need be. This means we can make a more concerted effort to increase pension contributions, instead of relying solely on a "Retirement Priority Score".

This boost will calculate the annual contribution allowance available for the current tax year, and recommend a switch from the ISA savings held.

We will then be in a position where the customer has maximised the tax relief available to them, and has worked towards an improved retirement position.

To conclude this chapter on our advice algorithm, it's worth reinforcing that one of the biggest strengths of a digital adviser is the potential for greater transparency and consistency. Only 25% of firms feel completely confident that every adviser would give the same quality of advice to the same customer. That's why we believe in codifying a standardised logic and why one of the most important themes that's emerged from our work is...

**Transparency
& consistency
trump
flexibility**

Frequently asked questions

Closing the advice gap remains challenging, and we want to be up front and honest about the risks and challenges which we have identified, and how we have attempted to minimise their potential impact on great customer outcomes.

We also welcome challenge, different points of view, and fresh takes. If you feel something is missing from this report, we would love to hear from you, as we fundamentally believe it will take collaboration and the industry to pull together, to make inroads into the advice gap.

Here are some of the key considerations, or challenges we have heard from our collaborators.

Financial planning is often not linear, and people's lives are multi coloured. Applying rules (or boosts) in this hierarchy over-simplifies things. What if the advice output isn't the same as how our firm currently delivers advice?

It is really important to remember that this process has been designed, built and tested using a target customer segment, which historically has not had access to financial advice. This is not a case of lifting and shifting an existing advice process which works well for high net worth individuals, over to a mass affluent customer. It is about building from the ground up a repeatable, clear process which helps any person improve their financial lives one year at a time.

This is where we believe there is power in simplicity, transparency and consistency. We have seen that often the greatest customer harm comes from a lack of customer understanding as to why something has been recommended, and how it was calculated. The digital adviser naturally reduces this risk, as there is zero bias or confusion as to why something has been recommended.

What about the coach staying on the right side of the advice line?

One of the key enablers for digital advice is the presence of a highly trained, experienced coach. For years, Octopus Money has been training, and leading the way with financial coaches helping customers take control of their money. We can speak with experience of the power of a financial coach, being able to connect with an individual without overstepping the advice line. We have taken on legal advice, and have years of track record to have plotted the advice guidance boundary clearly.

What do you do about debt?

Our digital advice process prevents customers who hold debt from accessing advice. This ensures that our process does not incidentally provide debt advice, a separately regulated activity, and ensures good outcomes for the customers we do make recommendations to. Now, debt comes in all shapes and sizes, and not all debt is bad debt. As such, we define debt in our algorithm as “any unsecured debt which won’t be repaid in the interest free period, with interest over 7% (excluding student loans, mortgages or debt secured against an asset).

Protection is crucial, but is too often a black hole for customers to fall into. How do you arrive at your approach?

Protection is a critical component of solid financial planning, however it can be handled so differently across the industry. Some providers follow the customers lead, allowing them to self verify sufficient cover, other providers create a mountain of work for the customer to engage with, before ever getting close to other potentially more important elements, like investing and pension management.

We have adopted an approach which focuses on avoiding foreseeable harm, by helping a customer to calculate an adequate level of cover, and then helping them source that cover, against a need to make progress with all parts of their finances.

How do you handle the tradeoff between retirement and the present?

We are a nation with underfunded retirement savings. This is never more true than for the mass market who have never engaged with financial advice.

Cash? Tick. Property? Tick. Pensions? That's tomorrow's problem.

We have broken down, and created a hierarchy of pension actions for customers. Priority = Maximise any employer matching. It's free money. Next up = If you earn over £100k, regain your personal allowance. It's a 60% tax you could avoid. Next up = Divert spare earnings between ISA/GIA vs Pension, based on the Retirement Priority Score and an awareness of the minimum required income to live a comfortable retirement.

How do you recommend handling customers' external assets?

One of the challenges that so many (especially fintech) companies face is what to do about customer assets which are not under the adviser's control? In the traditional advice arena, these assets would often be analysed, and then recommendations would be made – sometimes to change their holdings and where they sit, other times to move into the adviser's platform to be managed.

There is nothing about that process which is efficient and smooth, and at present, no way of digitally analysing and making recommendations on the best course of action for them. As such, all account transfers or pension switches are executed on an execution only basis with the digital adviser.



What if customers don't agree with your initial recommendations?

We are a nation that loves cash, which can often be at the expense of a better future. Many customers appreciate the risks that come with investing, but very few appreciate the risks of not investing.

For customers who hold large amounts of cash, and are relatively new to the process of financial advice, initial recommendations can be to invest seemingly large amounts of money. Regardless of the risk level of the investment proposed, investing a large sum can be nerve-wracking for somebody who feels new to investing (even though they may have held a pension for many years, the process of investing can feel new).

It was important to create the ability for a customer to have a small element of control around the advice outputs. However it is imperative that an unregulated planner/coach cannot change the advice, which had previously been signed off as suitable.

So we created the ability for a customer to adjust their just in case pot and goals, to ensure they are comfortable with the actions which are generated.



Conclusion

Octopus Money is on a mission to reduce the advice gap. Financial advice is proven to transform people's lives and we want to make sure millions more people across the UK have access to it.

We believe that by recognising the unique strengths of humans and technology, and empowering them to thrive in the appropriate part of the financial advice process, we can change the nation's personal finances.

Humans are great at empathising, connecting and motivating people to reflect and discover what is most important in their lives. There is no instrument better at helping someone begin their personal finance journey.

Technology is great at providing speed, consistency and a total lack of bias to generate a structured list of recommendations and next steps.

Put them together, and we believe there is a service which can serve the mass market economically for years to come.



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