

Asset Management Market Study – Experimental Consumer Research and Focus Groups

Report for the Financial Conduct Authority prepared
by London Economics



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Executive Summary

This study for the Financial Conduct Authority (FCA) follows on from the FCA's Asset Management Market Study¹ (AMMS). It aims to test the impact of different ways of presenting charges information on investors' decision-making as well as their understanding and awareness of fees and charges in the asset management market.

Context

Research conducted for the AMMS² found mixed evidence on whether investors take charges into account in investment decisions. While most (77%) non-advised retail investors said they look at charges when making their initial investment decisions, more than half did not recall charges being influential in their decision, and other evidence also suggests awareness of charges is quite low. In qualitative research charges were usually not mentioned unless the respondents were prompted, and a quantitative survey found that less than half of respondents reported paying any fund charges.³

The AMMS final report also notes that there is no clear relationship between charges and the gross performance of retail active funds, and there is some evidence of a negative relationship between net returns and charges. This suggests that, on average, when choosing between active funds investors who pay higher prices for funds achieve worse performance.⁴

Our approach

This study comprised an online behavioural experiment and survey with a sample of 1,049 non-advised retail investors, three preliminary focus groups with investors, in-depth follow-up interviews with twelve investors (three in each treatment group) who had completed the experiment, and four focus groups with advisors. The experiment and survey were first piloted with 100 investors. These research activities were conducted between May and September 2017:

- The **experiment and survey** tested the impact of different ways of presenting information on charges (the 'treatments') on the likelihood that **non-advised retail investors** selected a cheaper fund, as well as their understanding and awareness of the charges. The design of the experiment and the treatments it tested were informed by the **investor focus groups** and **pilot** to ensure that they were clearly presented and understood.
- The **qualitative interviews** aimed to explore the external validity of the experiment results and to gain **deeper qualitative insights** into the investors' understanding of charges, their decision-making processes, and the impact of how information on charges is presented.
- The **focus groups with advisors** aimed to gather evidence on the likely impact of the treatments on which funds they would advise investors to buy, in order to understand the likely impact on **advised investors**.

¹ <https://www.fca.org.uk/publications/market-studies/asset-management-market-study>

² To inform the AMMS the FCA commissioned 40 in-depth interviews and a survey of 2,500 non-advised retail investors to understand how retail investors make choices and review their investment over time.

³ AMMS interim report, paragraph 4.28. A full discussion of the results of the consumer research conducted for the AMMS can be found in Annex 3 of the interim report.

⁴ AMMS final report, paragraph 1.12.

Experiment set-up

The experiment was set within a simulated online investment platform. It recreated the investment process from the point where the investor has narrowed their options to a small set of funds. The platform was designed following extensive desk research on existing platforms and the key features of the platform were validated via investor focus groups, which discussed whether the elements shown on the platform were clear, sufficient and realistic. Respondents were able to navigate the mock online investment platform in a similar way to actual platforms.

At each choice respondents selected from a set of six funds, presented in a random order. Each fund set consisted of three pairs of funds. Funds within a pair were very similar in all characteristics displayed, except charges. Thus, the only material difference between the two funds in any pair was that one fund had a higher ongoing charge than the other. Across the fund pairs the three low-cost funds had very similar charge levels, as did the three high-cost funds. Historic fund performance was varied significantly across the fund pairs such that in each fund set one pair had high historic performance, one pair had medium historic performance, and the third pair had low historic performance, based on cumulative performance over the last five years.⁵ Table 1 below summarises the set-up of each fund set and an example from the experiment is shown in Figure 1 below.

Table 1 Set-up of the fund sets in the experiment

Fund number	Charge level	Past performance	All other feature (risk level, dividend, etc.)
Fund 1	High	High	No or minimal variation
Fund 2	Low	High	No or minimal variation
Fund 3	High	Low	No or minimal variation
Fund 4	Low	Low	No or minimal variation
Fund 5	High	Medium	No or minimal variation
Fund 6	Low	Medium	No or minimal variation

The key outcome measure relating to respondents' decision-making in the experiment was therefore **whether or not respondents chose a lower cost fund** (i.e. the lower cost fund within a pair from amongst the set of six presented at each choice). Furthermore, questions were also asked following the fund choice task to provide key outcome measures related to respondents' awareness and understanding of charges and preferences.

⁵ Thus, within any given fund set the six funds had the following characteristics: 1) low charge/high historic performance; 2) high charge/high historic performance; 3) low charge/medium historic performance; 4) high charge/medium historic performance; 5) low charge/low historic performance; 6) high charge/low historic performance.

Figure 1 Example fund set (screen shot from the experiment, fund pairs are 1&2, 3&6, 4&5)

Fund name	Ongoing charge (OCF)		Total costs and charges (%)	Annual performance					Risk level
	Percentage	Per £10,000 invested		Jul 12 to Jul 13	Jul 13 to Jul 14	Jul 14 to Jul 15	Jul 15 to Jul 16	Jul 16 to Jul 17	
Pluto NM Equity UK	0.93%	£93	1.47%	20.44%	5.44%	6.88%	-9.82%	10.69%	5
NS UK Equity Market	0.59%	£59	1.04%	20.03%	5.55%	6.74%	-10.02%	10.48%	5
River Advisors UK Focus	0.95%	£95	1.49%	22.54%	5.30%	6.34%	-7.94%	16.76%	5
A Langelly Macro UK	0.60%	£60	1.05%	15.80%	2.99%	2.56%	-13.82%	15.16%	5
State Active UK Equity	0.94%	£94	1.48%	16.12%	2.93%	2.61%	-13.54%	15.46%	5
SVD UK Diversified	0.61%	£61	1.06%	22.09%	5.41%	6.21%	-8.10%	16.42%	5

Note: In this table, funds 1 and 2 are a pair, funds 3 and 6 are a pair, and funds 4 and 5 are a pair. Funds 3 and 6 have the highest cumulative historical performance, followed by funds 1 and 2 (medium performance), then funds 4 and 5 (low performance).

Experimental treatments

The experiment tested the impacts of **four treatments relative to a baseline**:

- **Baseline:** This was the platform in the absence of any treatment.⁶
- **Written warning only:** This treatment included a written warning on the landing page⁷ above the table of funds. It was designed to affect decision-making by increasing the saliency of charges and explaining that charges may affect investment returns, in order to lead investors to more carefully assess the charges they see.
- **Warning & Impact Chart:** In addition to the written warning, this treatment placed a chart on the landing page showing the impact of a 0.5% difference in charges on net returns over 20 years. It was designed to illustrate the importance of compounding and to reinforce the saliency of the message in the written warning with an image.
- **Warning & Comparator Chart:** In addition to the written warning, this treatment showed a 'comparator chart' on the first page of detailed information⁸ for each fund, indicating the quartile of the fund's ongoing charge relative to other funds in the same asset class. This treatment was designed to further increase the saliency of charges and make comparisons easier.
- **Warning & Review Screen:** In addition to the written warning, this treatment also featured a 'review screen' which was displayed *after* the respondent had selected a fund. This screen asked respondents to review their chosen fund and confirm whether they wanted to proceed, or to return to the landing page and select another fund. It showed the detailed breakdown of the fund charges and the comparator chart (explained in the treatment above). This treatment was designed to increase the saliency of charges and could change decisions that would otherwise be taken too quickly (without careful thought), as it encouraged investors to pause, think again about their choice and actively confirm it.

⁶ The baseline sought to reflect the minimum information disclosure requirements following the introduction of Mifid II in 2018 (see sections 2.1 for details of the baseline experimental condition).

⁷ The landing page was the first page arrived at by respondents. It displayed a table of six funds from which they could choose.

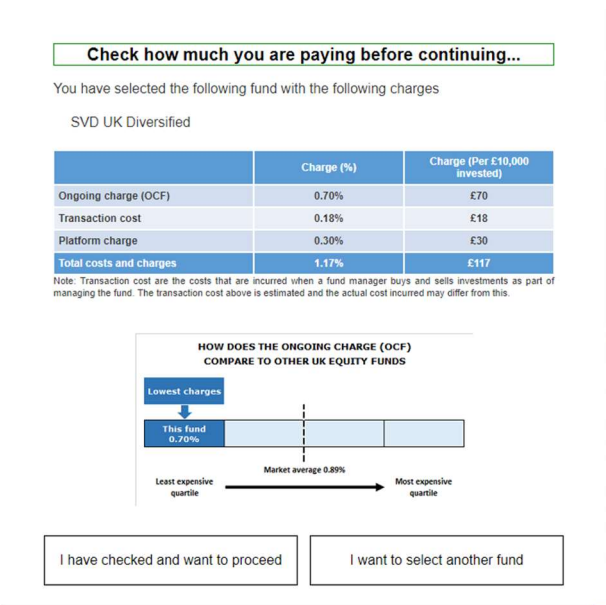
⁸ From the landing page, respondents could access two detailed information pages about each fund.

These combinations (i.e. the written warning with each of the other elements) were tested because we anticipated that they would be complementary and more effective together. This set-up allowed us to examine the impact of the warning alone versus the baseline, the impact of each combination relative to the baseline, and the impact of each additional element (the impact chart, comparator chart and review screen) when it is added to the treatment with the warning only. Under the baseline and all four treatments the ongoing charge of each fund was displayed both as a percentage and in pounds and pence per £10,000 invested and a total costs and charges figure was also shown.⁹

Key findings

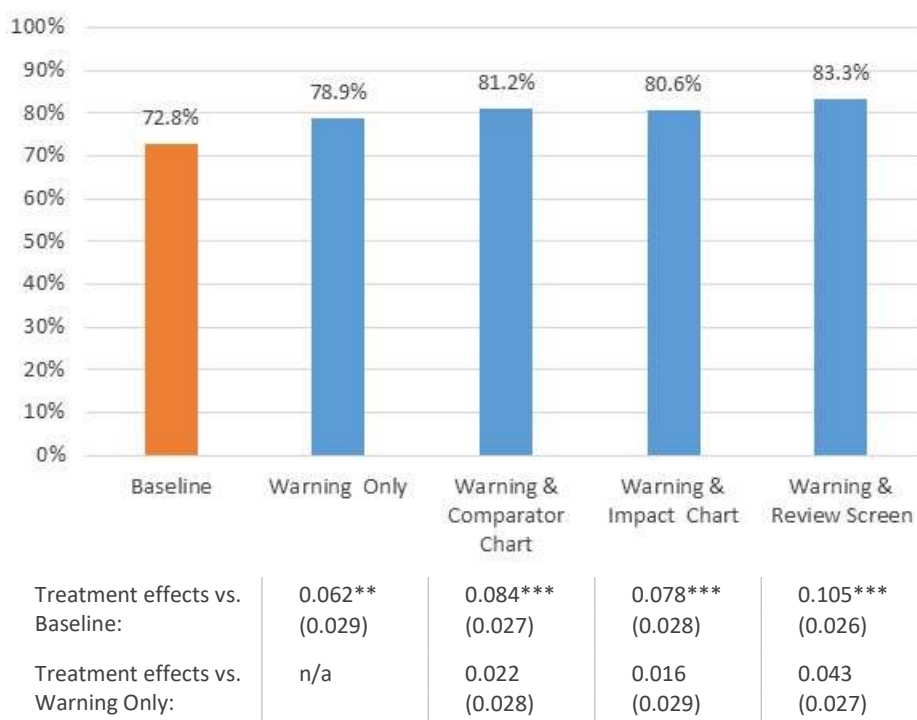
The experiment and survey results reveal a clear hierarchy among the treatments in terms of their effectiveness, which is broadly supported by the evidence from our qualitative research:

Review screen (displayed after the respondent selected a fund) plus written warning:



Overall, among those examined the treatment which had the greatest impact was the review screen combined with the written warning. This treatment impacted on a range of outcome measures from the experiment and survey relating to both respondents’ decision-making and their understanding and awareness of charges.

⁹ The total costs and charges figure was a percentage figure that was the sum of the OCF, transaction costs, and platform charge. This was included to reflect potential future regulatory changes requiring an all-in fee to be presented to investors.

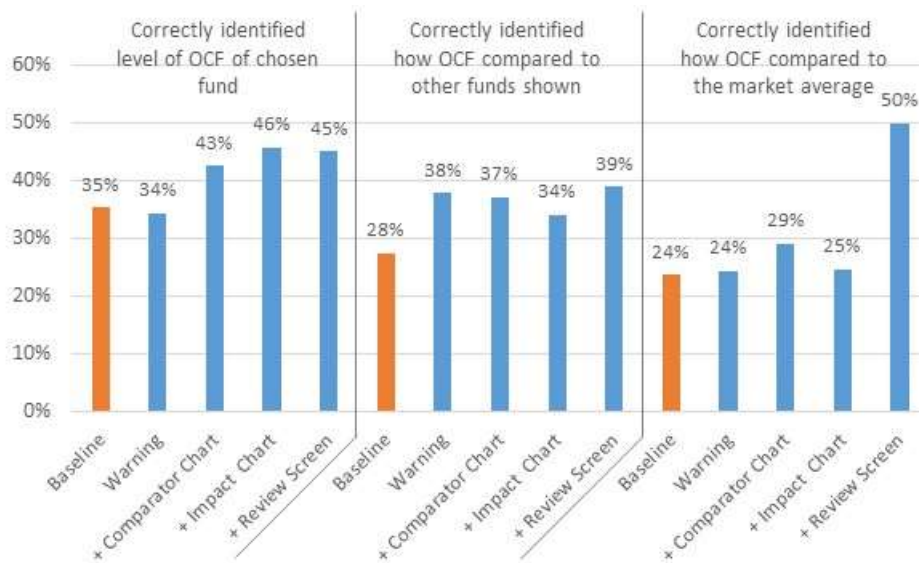
Figure 2 Percentage who selected a lower cost fund and related treatment effects

Note: Values are in percentage points. Total N=3,147 (3 choices each by 1,049 respondents). Standard errors calculated clustering on the respondent identity. ***/**/* signifies statistical significance at 1/5/10 % level.

Source: London Economics analysis of experiment data

This treatment resulted in a +10.5 percentage point treatment effect versus the baseline on the likelihood that respondents selected a lower cost fund (the largest impact of any treatment on this outcome measure), which was highly statistically significant (see Figure 2 above).

It also resulted in improvements in respondents' understanding and awareness of charges. In particular, as Figure 3 shows, there was a +26.1 percentage point treatment effect for this treatment for the share of respondents who correctly identified how the charge of their chosen fund compared to the market average for UK equity funds, the single largest effect found from the experiment.

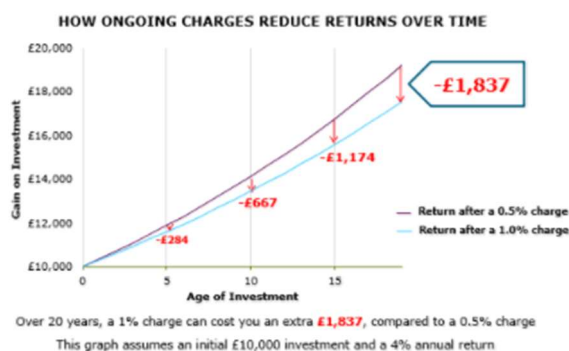
Figure 3 Percentage who correctly identified the level of charges for their chosen fund

Note: N=1,049. [1] Based on question UA10 (the questions can be seen in the survey questionnaire in Annex 1). [2] Based on question UA11. [3] Based on question UA12. Weights not applied.

Source: London Economics analysis of experiment data

In the three in-depth interviews with investors who saw this treatment, one investor reported that the review screen prompted him to go back and look at a couple more funds, one said it confirmed that they had not selected the most expensive fund and that the comparator chart was useful, and the third reported that the comparator chart worked well and the review screen made them feel more confident about their choice. During the experiment, in 8.2% of cases respondents in this treatment went back to the landing page and in 42.3% of these cases they changed their choice. Among those who went back from the review screen only 65.4% had initially chosen a lower cost fund, whereas 84.6% of these respondents ultimately chose a cheaper fund. This indicates that these respondents did indeed typically use the review screen to switch from a high charge to a low charge fund.

Impact of charges chart plus written warning (displayed on the landing page):



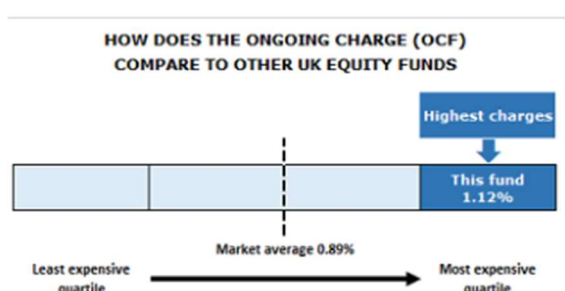
The chart showing the impact of charges over time combined with the written warning was the second most effective treatment in the experiment. The experiment results provide strong support for the overall effectiveness of this treatment in terms of prompting respondents to select a cheaper fund, with a relatively large and highly statistically significant impact on the experimental outcome measure relating to decision-making (see Figure 2).

This treatment also had some impact on outcome measures relating to respondents' awareness and understanding of charges. In particular it increased the share who correctly identified the level of the OCF of the fund they chose in the experiment, and the share who answered correctly regarding whether or not every one of five different fees and charges applied to their chosen fund.¹⁰

According to the in-depth interviews, this chart stood out and was useful for two of the three interviewees in this treatment, and they found the chart to have clearly demonstrated the compounding effect of the charges over a suitable time period. However the third, less experienced, investor struggled to understand it.

Participants in the advisor focus groups thought that this chart could impact clients' decisions by helping them to understand the effects of compounding. However, some did not see the need for the chart, and thought that it could be too complex for some of their clients. A specific criticism of this chart (which was also raised in the focus groups with investors) was that it related to two hypothetical funds which performed identically over the relevant period but differed in price, rather than real funds. Advisors generally felt, though, that this chart was a better way of cautioning investors about the impact of charges than written warnings.

Comparator chart (displayed on the first detailed information page, or the review screen) plus written warning:



In the experiment the treatment that displayed the comparator chart on the first page of detailed information (and the written warning on the landing page) had some limited impact on respondents' decision-making and awareness of charges. There is some evidence of respondents in this treatment being more likely to select a lower cost fund. The limited impact of this treatment may be due to the fact that in 54% of the investment decisions made in this treatment group the respondent did not click to view any detailed information pages where this chart was displayed.

When this chart was shown in the experiment as part of the review screen (see above), meaning that respondents could not finish the task without seeing it, it was especially effective in terms of helping respondents to understand how the charges of funds compare to the rest of the market of the same asset class (as shown in Figure 3). Similarly, in the in-depth interviews, interviewees in the review screen treatment said that having the comparator chart on this page was helpful as it made them reflect on how their fund related to the market average.

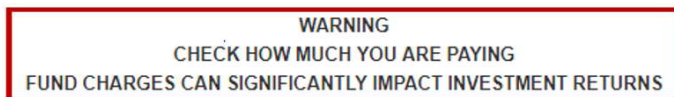
Among the three interviewees in the treatment where the comparator chart was shown on the detailed information pages, one did not see the chart (due to not viewing these pages) and another

¹⁰ The fees and charges asked about included an ongoing charge, transaction costs platform fee, initial investment charge and performance fee, and for this outcome measure the respondent had to answer correctly regarding the presence (or not) of every one of these in order to be classed as 'aware'.

felt that they knew the market average already, although according to the survey results such investors are a minority (only 30% of all respondents gave the correct answer when asked a test question on this). The third felt the chart was useful in helping them to compare funds.

Advisors in the focus groups had mixed views about the comparator charts. Some thought the chart could have a positive impact by making comparisons easier. Although they thought that clients may struggle to understand them¹¹, they could imagine using the charts themselves. Most advisors felt that the usefulness of this chart depended on the whether it was presenting a 'like for like' comparison (*"The market average must be relevant and a true comparison"*).

Written warning alone (displayed on the landing page):



The experiment and survey found that the written warning alone had some limited impact on the likelihood that respondents chose a lower cost fund and their awareness of how the ongoing charge of their chosen fund compared to those of other funds shown. When the written warning was combined with other treatment components (see above) this did result in significant increases in the likelihood that respondents chose a lower cost fund, and the warning itself appears to contribute to these overall impacts.

In the post-experiment interviews, investors reported that they often only glanced at the written warning and overall felt it had little impact on their decision making. However, this perception was not borne out in the experiment.

Advisors in the focus groups were relatively sceptical about the potential effectiveness of the written warnings (they were shown three variants) in an advised setting, partly because they do not stand out in text heavy documents. Some were also concerned that such warnings could put clients off from investing altogether, although this was not supported by the survey responses. These showed that the share who would not have invested in the funds they chose in the experiment was no higher under this treatment (40.8%) than the baseline (42.5%).

Importance of prominence

In the experiment, few respondents viewed the detailed fund information pages, with 53% of choices made without the respondent having examined any detailed pages for any fund, rising to 81% of choices for the second detailed page of any fund. As respondents were clearly informed that they could access these pages at the start of the experiment, this is not likely to be because they did not realise they could do this.

Moreover, as discussed above, the comparator chart had limited impact when it was presented on the first detailed information page. It had a greater impact (particularly on respondents' awareness of how the charge of their chosen fund compared to the market average for UK equity funds) when it was displayed with more prominence on the review screen.

¹¹ Note that the variants of the charts shown to advisors were more complex than those eventually tested in the experiment.

These results illustrate the importance of the prominence of any disclosure measures (i.e. where information is placed), as other research¹² has also found. In the interviews with investors, however, some interviewees who did not view the detailed information pages said they would have done so in reality when real money was at stake, and some noted that they would even reflect on such pages (and other sources) a number of times before investing.

Stated importance of charges

Overall, charges were stated as the second most important factor in respondents' decisions in the experiment behind performance (charges were the most important factor for around one fifth of respondents – for full details of these results see section A6.6 in the annexes). This is in line with insights from the investor and advisor focus groups which found that investors typically consider charges alongside other factors such as performance and risk.¹³

Furthermore, the treatments did not materially affect the extent that respondents reported charges as being important in their decisions. For example, the share of respondents who said charges were the most important factor ranged from 16.1% to 22.2% across all treatment groups, with no statistically significant differences.

The strongest treatment effects arose among those who recognised the importance of charges in their choices, but did not believe them to be the most important factor. Specifically, the treatment effects in terms of whether investors chose a lower cost fund were largest (ranging from 8.4 to 11.9 percentage points versus the baseline) and most statistically significant for those who identified charges as the second most important factor (see Table 5 in section 3.4).

Among those who said charges were the most important factor, the treatment effects were more modest and less statistically significant, which can largely be explained by the fact that a high share of this group (84.8%) chose a lower cost fund under the baseline (see Figure 15 in section 3.4).

Investors' preferences with respect to historic performance

In the experiment, the shares of respondents who chose funds with high, medium and low past performance levels did not vary to any great extent across the treatments. For example, the share of respondents who selected a fund with high past performance ranged from 68.2% to 71.1% across different treatment groups. The largest shifts under the treatments relative to the baseline were from the previously high performing/high charge fund to the previously high performing/low charge fund (see Annex 6).

Thus, respondents' preferences with respect to performance were unaffected by the treatments. This finding, combined with the finding that the treatments did not impact on the extent that respondents said charges were important, implies that the treatments influenced peoples' choices without changing their preferences.

¹² For example, a recent behavioural experiment by London Economics for the European Commission ('Study on consumers' decision-making in insurance services: A behavioural economics perspective', 2017) found that consumers rarely clicked to see detailed information on non-life insurance products, and Roth et al. (2013) ('Location matters, especially for non-salient features—An eye-tracking study on the effects of web object placement on different types of websites, International Journal of Human-Computer Studies, 2013) found that the placement of objects on web pages matters through an eye-tracking study.

¹³ Furthermore, it is also in line with the results of the investor survey that was conducted by NMG for the FCA during the AMMS.

Precedence of advisors' recommendations

Advisors argued that most clients prioritise their advice over written information in investment documents. Since clients have approached an advisor for their expertise the most influential source of information is the advisor. Therefore, many advisors thought the treatments would have little impact on investors' decision-making compared to their own advice.

That said, in the focus groups some advisors stated that some advised clients do challenge them about fees and that the proportion of advised clients who care about charges has risen due to the media attention on charges and the growth of passive funds.

External validity of the results

Detailed research was undertaken in the design phase to ensure that the observations from the experiment can be transferred to the real world setting in which investors search for and compare funds. The functionality and look and feel of the platform was based on extensive desk research on existing platforms. In addition, qualitative research, including focus groups with investors and advisors and a pilot, was used to refine the experiment environment to maximise the external validity. This research was used to fine-tune a range of aspects including the scenario given to respondents, how investors could compare and choose between the funds (i.e. the functionality of the platform), the content and look of the landing page and detailed information pages, the fund names, and the treatments. The final experimental environment was thus a carefully designed simplification of reality, which captured the fundamental features of real platforms in terms of the information it provided and the functionalities it offered.

Although the option of making an incentive payment to respondents who chose the cheapest fund was explored, it was decided that respondents should only be paid a flat fee for participation, as it was felt that an incentive based solely on selecting the cheapest fund would result in behaviour conditioned on the incentive and not how investors would behave in the 'real world'.

In most respects the evidence from the twelve in-depth interviews provides good support in favour of the realism of the experiment. Investors spontaneously mentioned that the landing page looked similar to platforms they currently use, and the charge amounts, fund performances, fund names and other information and terminology presented on the landing page were considered to be realistic. Those who looked at the detailed pages generally also found these to be realistic. Although real brand names were not included in the experiment only a low share of survey respondents (21.4%) reported that seeing a particular fund brand name would have affected their choices.

Limitations of the experiment

The experiment was designed to maximise external validity but, as for all controlled behavioural experiments, simplification was necessary so that the experiment could isolate the effects of the individual treatments on decision-making. This led to some limitations:

- Although the experiment environment captured the fundamental features of online platforms it was not feasible, nor desirable, to capture the full diversity of information and actions available to investors on a real platform.
- To ensure that the experiment provided a clearly defined outcome measure, the fund sets presented to respondents had to be constructed in a specific way, which limited the diversity of the funds shown relative to the real world.

- The experiment began from the point where the investor had already narrowed the options to a set of six funds and respondents had to select just one of these funds
- The charges shown may not have reflected what investors would see in reality after narrowing the selection to just six funds (e.g. the filtering process may reduce the range of charges seen in reality, relative to the range shown in the experiment); although, the share who chose a cheaper fund was consistently higher under the treatments than the baseline irrespective of the level or range of charges of the funds shown (see section 3.5.3).
- Finally, although the sample size of just over 1,000 respondents allowed us to identify treatment effects to a relatively high degree of accuracy, while also being feasible to collect within the time frame of the study, as with any experiment a larger sample size would have given us greater confidence in our results and may have allowed us to identify further treatment effects with statistical significance.

1 Introduction and background

This study for the Financial Conduct Authority (FCA), conducted by London Economics in association with YouGov, follows on from the FCA's Asset Management Market Study. It aims to test the impact of different ways of presenting and explaining charges on investors' understanding and awareness of charges as well as their decision-making.

The study involved a behavioural experiment with 1,049 respondents, follow-up interviews with 12 of these respondents, three preliminary focus groups with investors, and four focus groups with investment advisors. This introductory chapter sets out the context of the study, the issues it aims to address, and how the various components of the research link together to contribute to the objectives of the study.

1.1 Context

This study followed on from the research conducted for the FCA's Asset Management Market Study (AMMS). The terms of reference¹⁴ of the AMMS set out the FCA's intention to understand how asset managers compete to deliver value to both retail and institutional investors. Following their terms of reference, the FCA conducted a range of analysis, including reviewing over 20,000 share classes and 30,000 investment strategies. The AMMS interim report¹⁵ published in November 2016 set out the FCA's provisional view on the way competition works for asset management services, the resulting outcomes for investors and the FCA's proposed remedies to address concerns that were identified. After considering the consultation feedback to the interim report the FCA has since confirmed the key findings set out in the interim report and published their final report¹⁶ in June 2017.

1.1.1 Evidence of limited attention to and awareness of charges

The Market Study final report found a range of issues and areas where competition in the asset management market is not working well for consumers, including weak price competition in a number of areas, considerable price clustering on the asset management charge for retail funds, and high profitability levels.¹⁷

Particularly relevant to the present study, research conducted for the AMMS¹⁸ found mixed evidence on whether investors take charges into account. A majority (77%) of non-advised retail investors who responded to a survey said they looked at charges when they made their initial investment decision and 45% said charges were a factor in their choice. While this suggests that charges do play a role in decision making, more than half of respondents did not recall charges being influential in their decision, and other evidence also suggests awareness of charges is quite low. In the qualitative research commissioned by the FCA charges were usually not mentioned unless the

¹⁴ <https://www.fca.org.uk/publication/market-studies/ms15-02-1.pdf>

¹⁵ <https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf>

¹⁶ <https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf>

¹⁷ Further details of these findings as well as other findings of the Market Study can be read in Asset Management Market Study Final Report.

¹⁸ To inform the AMMS the FCA commissioned 40 in-depth interviews and a survey of 2,500 non-advised retail investors to understand how retail investors make choices and review their investment over time.

respondents were prompted, and the quantitative survey found that less than half of respondents reported paying any fund charges.¹⁹

Furthermore, the AMMS final report also notes that there is no clear relationship between charges and the gross performance of retail active funds, and in fact there is some evidence of a negative relationship between net returns and charges. This suggests that, on average, when choosing between active funds investors who pay higher prices for funds achieve worse performance.²⁰

1.2 Overview and objectives of the present study

Four strands of research were conducted during the present study:

- An online behavioural experiment and survey with a sample of 1,049 of non-advised retail investors;
- In-depth follow-up qualitative interviews with twelve investors who had already completed the experiment and survey;
- Four focus groups with advisors; and
- Three preliminary focus groups with investors.

The preliminary focus groups with investors were undertaken first, followed by the experiment and survey, then finally the follow-up interviews. The advisor focus groups were carried out prior to the experiment. The methodology is described in detail in chapter 2. The overarching objectives of the study are to explore the likely effectiveness and impacts of alternative ways of presenting charges information:

- The **experiment and survey** tested the impact of different ways of presenting information on charges on the extent that non-advised retail investors pay attention to charges in their decision-making, as well as their understanding and awareness of the charges. The design of the experiment and the treatments tested in the experiment were informed by the **focus groups with investors**.
- The **qualitative interviews** aimed to explore the external validity of the experiment results and to gain deeper qualitative insights into the investors' understanding of charges, their decision-making processes, and the impact of how information on charges is presented.
- The **focus groups with advisors** aimed to gather evidence on the likely impact of different ways of presenting charges information on investors who purchase funds after seeking advice.

Figure 4 below presents the components of the study and summarises what each component contributes to meeting the objectives. Chapter 2 sets out the methodology of the study taking each strand of research in turn. Chapter 3 presents the results and findings of the research. Chapter 4 discusses the external validity of the experiment. Finally, chapter 5 presents the overall conclusions of the study.

¹⁹ AMMS interim report, paragraph 4.28. A full discussion of the results of the consumer research conducted for the AMMS can be found in Annex 3 of the interim report.

²⁰ AMMS final report, paragraph 1.12.

Figure 4 **Components of the study**

Focus groups with investors	<ul style="list-style-type: none"> • Provided insights to inform the design of the experiment 	May 2017
Focus groups with advisors	<ul style="list-style-type: none"> • Helped us understand the likely impact of the treatments on advised investors • Helped refine the experiment design 	June 2017
Behavioural experiment	<ul style="list-style-type: none"> • Provided quantitative evidence regarding the impact of potential remedies (the ‘treatments’) for non-advised investors 	Sept 2017
In-depth interviews with investors	<ul style="list-style-type: none"> • Gathered qualitative evidence on the impact of the treatments • Assessed the external validity of the experiment 	Sept/Oct 2017

2 Methodology

2.1 Behavioural experiment and survey

We conducted an online behavioural experiment and survey with a sample of 1,049 investors that was representative of the UK population investing in retail funds without a financial advisor. These investors were asked to make hypothetical investment decisions on a simulated online investment platform by choosing an actively managed investment fund from a selection of six funds presented to them. The experiment tested different ways of presenting and explaining fund charges.

The simulated platform was designed following extensive desk research on existing platforms. Various elements of the design, including the general environment, platform navigation and the treatments, were informed by preceding qualitative research. This research included three focus groups with investors²¹, four focus groups with advisors (see section 2.3), and a pilot with 100 investors. These activities during the design phase aimed to ensure the external validity of the experiment (see chapter 4).

Each respondent was randomly allocated to either the baseline or one of the four treatments and repeated the experiment three times (i.e. there were three ‘rounds’) for different sets of investment funds so that the experiment collected a greater number of observations for a more powerful data analysis.

Questions were asked in a survey immediately after the final round of the fund choice task. These included objective questions to assess respondents’ understanding and awareness of charges. In addition, we asked some questions on investor preferences in which respondents were asked to indicate how important fund charges, as well as other fund characteristics, were for their investment decisions.

2.1.1 Experimental environment

At the beginning of the experiment, investors saw an introduction telling them that they would be asked to make investment decisions on a simulated online investment platform. The scenario that was given to respondents read: *“Think about the amount of money that you typically invest in a fund at any one time. Imagine you are choosing an actively managed fund to invest this money in. Please select the fund that you would choose to invest this money in, among those shown below, given the information provided.”*

This scenario was informed by the investor focus groups in which participants were shown different versions of it. The groups discussed whether it should feature a particular investment amount (e.g. £1,000 or higher amounts²²), an investment strategy (e.g. accumulation or income), and investment horizon (e.g. long term, 5 or 10 years). There was no agreement in the groups on what these elements should be in order to be realistic for investors in general. The pilot also found that the amounts that investors typically invest varied quite substantially across individuals. The groups confirmed, however, that a generic scenario, as the one ultimately used in the experiment, was

²¹ Two groups with investors with investable assets between £10,000 and £30,000 and one group with investors with investable assets above £30,000.

²² Those in the focus group with investable assets between £10,000 and 30,000 in particular said that they would not invest as much as £10,000 at a time.

realistic for them and that they did not need further information to make a choice between the shown funds.²³ We also concluded that this was appropriate from an experimental design perspective, as it would avoid any potential bias from presenting different individuals with different amounts.

Investors were asked to interact with the platform as they would in real life. They were also told that they should choose their preferred fund and that there were no right or wrong decisions.²⁴ The simulated online investment platform had two types of pages from which respondents could select their preferred fund:

- 1) **A landing page** on which investors saw some information on six investment funds; and
- 2) **Detailed information pages**, which respondents could reveal for each of the six funds.

According to the preparatory desk research and investor focus group discussions, these steps represent how investors typically choose between investment funds in a simplified way. Below we present screenshots of both types of pages below and explain their functionality.

²³ The final survey asked respondents how much they typically invest at one time into a single fund and the results confirmed that the decision not to present a one-size-fits-all investment amount was correct: 26% typically invest less than £1,000, 36% between £1,000 and £4,999, 15% between £5,000-£9,999, 12% between £10,000 and £19,999, and 8% £20,000 or more.

²⁴ It was decided together with the FCA to not use monetary incentives in the experiments. Respondents were given a flat fee as an incentive to participate in the survey and experiment. The option was explored to add an incremental payment to respondents who chose the cheapest fund, in order to incentivise respondents to pay attention in the task. However, it was felt to be more important for respondents to behave like they would in 'real life' rather than make choices in the experiment that had been conditioned by an additional incentive.

Figure 5 Screenshot of the landing page



[EXERCISE 1/3] Think about the amount of money that you typically invest in a fund at any one time. Imagine you are choosing an actively managed fund to invest this money in. Please select the fund that you would choose to invest this money in, among those shown below, given the information provided.

The Fund House - Making Investing Easy

Invest now - Top 100 funds - Actively managed equity funds - UK All Companies

Fund name	Ongoing charge (OCF)		Total costs and charges (%)	Annual performance					Risk level	More info	Select fund
	Percentage	Per £10,000 invested		Jul 12 to Jul 13	Jul 13 to Jul 14	Jul 14 to Jul 15	Jul 15 to Jul 16	Jul 16 to Jul 17			
JH UK Extended	0.94%	£94	1.48%	15.80%	3.11%	2.56%	-14.38%	15.16%	5	More info	<input type="radio"/>
First Henge UK Equity High	0.59%	£59	1.04%	20.44%	5.67%	6.88%	-10.22%	10.69%	5	More info	<input type="radio"/>
Black Crescent UK Growth	0.93%	£93	1.47%	20.03%	5.78%	6.74%	-10.42%	10.48%	5	More info	<input type="radio"/>
Conlon UK Opportunities	0.95%	£95	1.49%	22.09%	5.63%	6.21%	-8.43%	16.42%	5	More info	<input type="radio"/>
Halto UK	0.61%	£61	1.06%	22.54%	5.52%	6.34%	-8.27%	16.76%	5	More info	<input checked="" type="radio"/>
Joshi UK Equity	0.60%	£60	1.05%	16.12%	3.05%	2.61%	-14.10%	15.46%	5	More info	<input type="radio"/>

Confirm Selection & Proceed

The **landing page** showed information in tabular form about the six investment funds, as shown in Figure 5 above.²⁵ The page setup was a simplification compared to real investment sites but captured the essence of what would be shown on a landing page in reality.

Several versions of the landing page – containing more, less, or different content – were discussed by the investor focus groups. The overall conclusion of these discussions was that investors appreciate seeing a leaner version with less content, provided that they could ‘dive deeper’ on funds they were interested in. There was agreement that the final version of the landing page was not dissimilar to those found on real platforms.

The landing page allowed easy comparison of funds based on the following criteria:

- **Fund name:** imaginary names were used to avoid associations with popular brands. The fictitious fund names were discussed in the focus groups to ensure that investors would not make any value judgements based on names alone. The focus group participants felt that the names sounded realistic and neutral and no names particularly stood out relative to others.

²⁵ In the preliminary focus groups investors said that they typically consider around six funds, which informed our decision to present respondents with six funds.

- **Ongoing charge:** the OCF was shown using a standard percentage figure as well as a figure expressing the OCF in £ per £10,000 invested. This was done to align the experiment design with forthcoming changes which will require this type of disclosure.²⁶
- **Total costs and charges figure:** this was shown as a %-figure and was included to reflect potential future regulatory changes requiring an all-in fee to be presented to investors.²⁷
- **Fund performance:** Investors regard past performance as one of the most important fund characteristics²⁸ so we included discrete performance measures for the past 5 years, as is typical on most investment platforms.
- **Risk level:** The risk level was indicated using the standardised numerical scale from 1 to 7 in line with EU Regulatory Technical Standards.²⁹

Respondents could take the following actions on the landing page:

- **Choose a fund to invest in:** To do this, respondents had to select a fund and then click the 'Confirm Selection & Proceed' button in the bottom right-hand corner. Depending on the precise experimental condition a respondent was allocated to, they would then proceed to a next screen (see the 'review screen' treatment in section 2.1.2) or directly to the next round of the fund choice task. Each investor completed the fund choice task three times.
- **Click to see more information on one or more funds:** There was a 'More info' button beside each fund in the table. Clicking on this button opened the detailed information page for the respective fund. The functioning of this type of page is explained below.

In the pilot many respondents did not click to open the detailed fund information pages from the landing page, because they did not realise they could do so. Therefore, for the mainstage fieldwork a screen was included (at the start of the exercise) which clearly explained the different elements and functionalities of the platform and how more information on the funds could be accessed, and the salience of the "More info" buttons was increased.

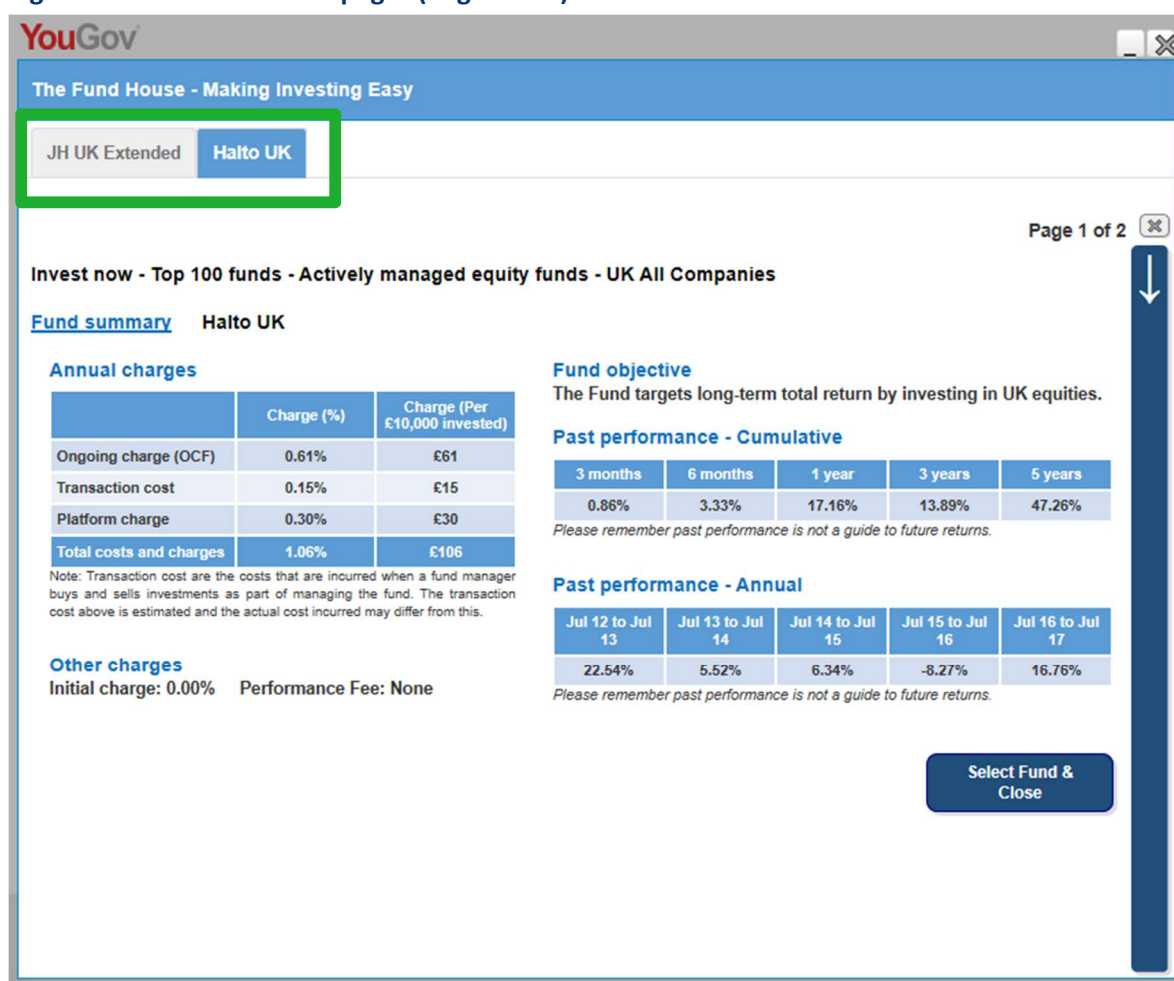
²⁶ Numerous previous studies have found that charges expressed using £ and pence amounts are better understood by investors than simple percentage figures. See for example: European Commission (2015), 'Consumer testing study of the possible new format and content for retail disclosures of packaged retail and insurance-based investment products', a report prepared by London Economics and Ipsos. Following this evidence, new EU regulations require this best practice to be used on key information documents for Packaged Retail and Insurance-based Investment Products (PRIIPs) and it is required by the Markets in Financial Instruments Directive (MiFID II).

²⁷ The FCA notes in the Asset Management Market Study Final Report that it supports the introduction of an all-in fee being brought in by MiFID II.

²⁸ See FCA (2016) 'Asset Management Market Study – Interim Report', the findings from the Market Study were also confirmed by the investor focus group discussions which were conducted to validate this design.

²⁹ The RTS can be found here: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017R0653&from=EN>.

Figure 6 More detailed pages (Page 1 of 2)



Note: The tabbing function is highlighted by the green rectangle. This green rectangle was not shown to respondents in the experiment.

The detailed information available for each fund comprised of two separate pages. An example of Page 1 of the detailed information is shown in Figure 6 above. This page contained the following:

- **Fund name.**
- **Full breakdown of charges:** The OCF was shown again, alongside transaction costs and platform charges. These three figures were summed into a total costs and charges figure. For completeness and external validity, it was also specified that nil initial charges and performance fees applied.
- **Fund objective:** Each fund had a hypothetical objective.
- **Past performance:** The detailed pages showed the same discrete (annual) performance figures as the landing page, and in addition showed cumulative performance figures.

Respondents could click on the down arrow in the scroll bar on the right-hand side in order to see Page 2 of the detailed fund information. An example of Page 2 is shown in Figure 7 below. Page 2 provided the following additional information:

- **Asset allocation;**
- **Risk level;**
- **Income frequency and yield;** and

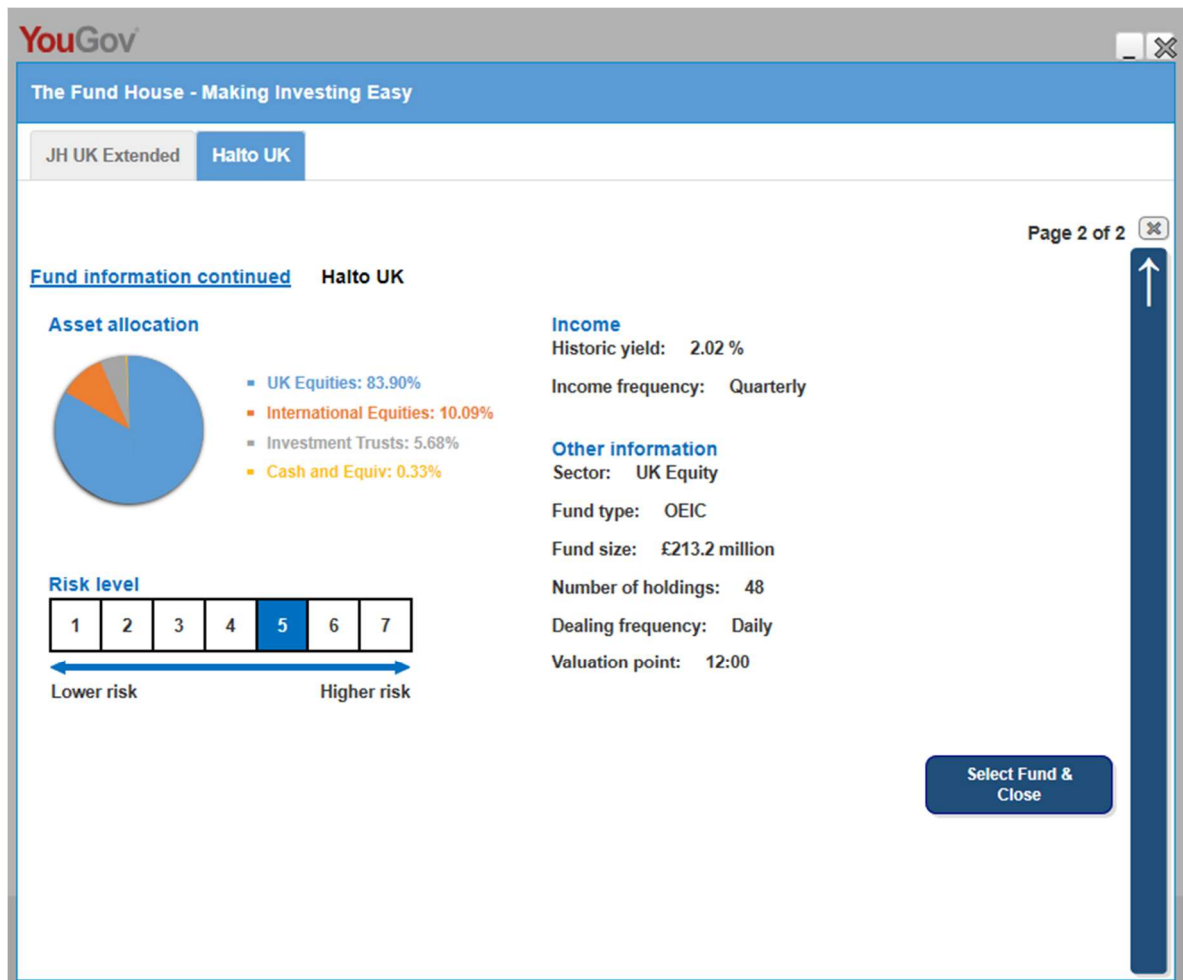
■ **Other information** (see screenshot).

Initial mock-ups of these pages were discussed in the focus groups with investors who felt that they were sufficiently realistic and they would be able to make an informed investment decision based on the information provided. Whilst some investors said that they would have liked to see additional information, there was no agreement regarding which specific pieces were missing.

After clicking to see the detailed information for more than one fund respondents could switch directly between the pages for these funds via a tabbing function, highlighted in the green box in Figure 6. In the preliminary focus groups some investors indicated that they looked at the detailed information for several funds side-by-side in different browser tabs, or windows, or by printing fund information side-by-side at the same time, whilst others looked at them one-by-one. This function was introduced to allow participants to view funds one-by-one and to quickly and easily compare different funds by switching between tabs.

On both detailed fund pages investors could click 'Select Fund & Close', which led them back to the landing page with the relevant fund selected, ready for them to confirm their selection and proceed.

Figure 7 More detailed pages (Page 2 of 2)



2.1.2 Experimental treatments

The respondents were randomly allocated to either a baseline condition or one of four treatments. The sample was stratified so that a similar profile of respondents was allocated to the baseline and to each of the treatments (see section A7.3 in Annex 7 for more detail). Each respondent completed all three rounds of the fund choice task under the same experimental condition throughout. As explained below, each treatment tested a different way of showing and explaining fund charges and was included because we would expect it to affect the extent to which investors focus on and understand charges.

Baseline

The baseline contained the landing page and the detailed pages with no treatments. We compare all of the following treatments with this baseline to assess their effectiveness.

Warning Only

The ‘Warning Only’ treatment included a written warning on the landing page (see Figure 8). It was designed to affect decision-making by increasing the saliency of charges and explaining that charges may affect investment returns, to lead investors to assess the charges they see more carefully.

Several versions of a written warning message were discussed in the investor focus groups and the version that was best perceived across all groups was *“Fund charges can significantly impact investment returns. Over time, charges can have a material impact upon your net returns”*.³⁰ Part of this message was then used in the final version of the warning in the experiment and a judgement was made regarding the choice of wording which would have the most impact. The investor focus groups also confirmed that the warning should appear on the landing page.

³⁰ The four versions of the warning discussed in the investor focus groups were 1) *“Fund charges will reduce your investment returns”*, 2) *“Fund charges can significantly impact investment returns. Over time, charges can have a material impact upon your net returns”*, 3) *“Fund charges can significantly impact investment returns. Choosing a high-charge fund could lose you money”*, and 4) *“Fund charges can significantly impact investment returns. Choosing a low-charge fund could save you money”*.

Figure 8 Screenshot of the written warning on landing page



[EXERCISE 1/3] Think about the amount of money that you typically invest in a fund at any one time. Imagine you are choosing an actively managed fund to invest this money in. Please select the fund that you would choose to invest this money in, among those shown below, given the information provided.

The Fund House - Making Investing Easy

Invest now - Top 100 funds - Actively managed equity funds - UK All Companies

WARNING
CHECK HOW MUCH YOU ARE PAYING
FUND CHARGES CAN SIGNIFICANTLY IMPACT INVESTMENT RETURNS

Fund name	Ongoing charge (OCF)		Total costs and charges (%)	Annual performance					Risk level	More info	Select fund
	Percentage	Per £10,000 invested		Jul 12 to Jul 13	Jul 13 to Jul 14	Jul 14 to Jul 15	Jul 15 to Jul 16	Jul 16 to Jul 17			
Hearns UK	1.20%	£120	1.80%	15.96%	3.02%	2.59%	-13.96%	15.31%	5	More info	<input type="radio"/>
Cortstone UK Balanced	0.93%	£93	1.47%	20.64%	5.50%	6.95%	-9.92%	10.80%	5	More info	<input checked="" type="radio"/>
Two Arrow UK	0.95%	£95	1.49%	22.76%	5.36%	6.40%	-8.02%	16.92%	5	More info	<input type="radio"/>
Sutern UK Select	1.21%	£121	1.81%	22.31%	5.47%	6.27%	-8.19%	16.59%	5	More info	<input type="radio"/>
LE Capital UK	0.94%	£94	1.48%	16.28%	2.96%	2.64%	-13.68%	15.62%	5	More info	<input type="radio"/>
Fullerian Strategy UK	1.19%	£119	1.79%	20.23%	5.61%	6.81%	-10.12%	10.59%	5	More info	<input type="radio"/>

[Confirm Selection & Proceed](#)

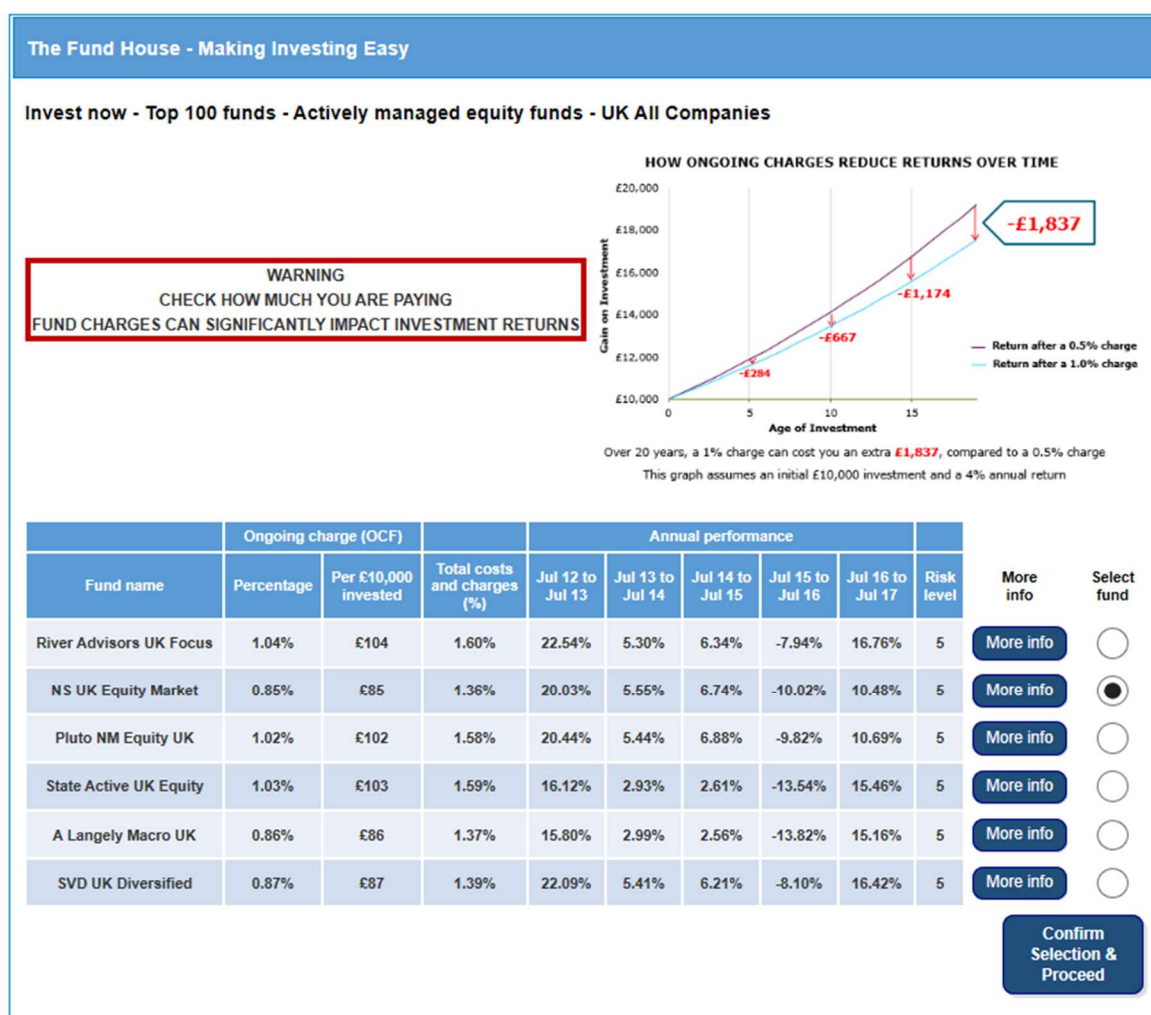
Warning & Impact Chart

In addition to the written warning on the landing page, this treatment placed a chart on the landing page illustrating how the net returns of two funds that performed identically before fees and charges would differ over time, as a result of a 0.5% difference in fund charges over 20 years. This treatment can be seen in Figure 9 below. This chart reinforced the saliency of the message in the written warning using an image and provided an illustrative example in pounds. At the same time, it highlighted the impact of higher charges on returns over time due to compounding.

The impact chart was well perceived by all investor and advisor focus groups. These groups felt that the principle of compounding of charges was well communicated by the chart and that they appreciated the written explanation shown below the chart.

The combined effect of the chart and the warning together is assessed by comparing behaviour under this treatment to the baseline. To get an understanding of the incremental impact of the chart behaviour under this treatment is compared to behaviour under the Warning Only treatment.

Figure 9 Screenshot of warning and impact chart on landing page



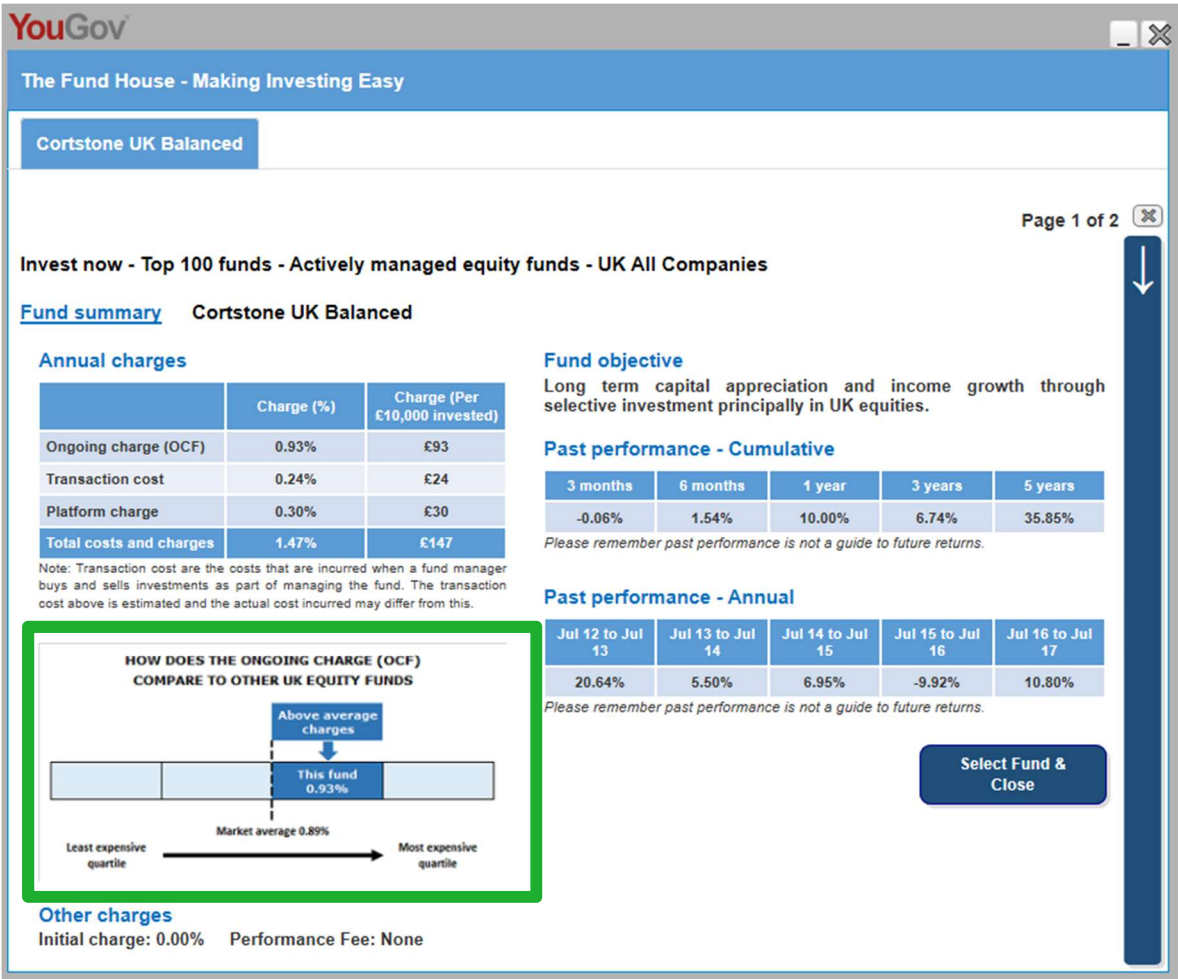
Warning & Comparator Chart

In addition to the written warning on the landing page, this treatment showed a ‘comparator chart’ on Page 1 of the detailed information pages. This treatment can be seen in Figure 10 below. For each fund, this chart indicated the quartile of the fund’s ongoing charge relative to other funds in the same asset class. Thus, it highlighted whether the fund’s charges were among the least or most expensive, allowing an easy assessment of how the fund compared with other similar funds.

In this treatment, the chart was only visible to respondents who actually clicked to see the detailed information pages. For those respondents we would expect that the saliency of charges is further increased compared to the Warning Only treatment, and we would expect a higher sensitivity to charges due to the clear comparison of each fund to the market average for the same asset class. In addition, we might expect a better awareness of how the ongoing charge of the respondent’s chosen fund compared to the market average for the relevant asset class (UK equity funds).

To assess this treatment’s effectiveness we compare it to the baseline as well as to the Warning Only treatment.

Figure 10 Screenshot of the comparator chart on a more information page



Note: The comparator chart is shown in the green rectangle. This green rectangle was not shown to respondents in the experiment.

Several versions of the comparator chart were discussed during the investor and advisor focus groups (including density distributions and various quartile and decile charts). There was broad consensus across the groups that it was useful to indicate the market average, as the main aim of the chart was to indicate whether a fund was more or less expensive than the average.

Warning & Review Screen

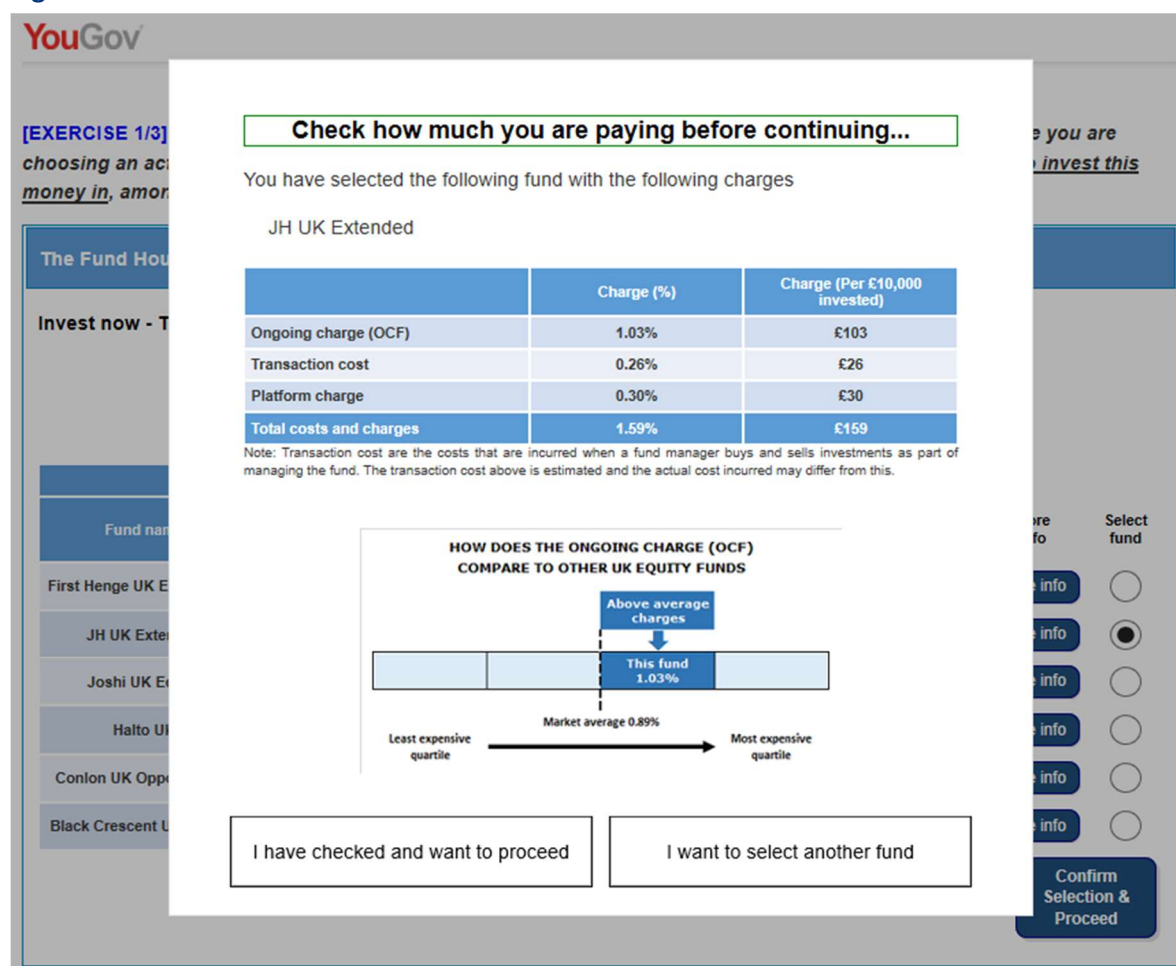
This treatment also featured the written warning on the landing page. In addition, once a respondent had selected a fund and clicked 'Confirm Selection & Proceed' a 'review screen' was displayed which asked respondents to review their chosen fund and confirm whether they wanted to proceed, or select another fund. The review screen showed the detailed breakdown of fund charges and the comparator chart. This treatment is shown in Figure 11 below.

This treatment showed the comparator chart to every respondent via the review screen, irrespective of whether they clicked to see the detailed information pages. The saliency of charges were thus increased for more respondents compared to the 'Warning & Comparator Chart' treatment. In addition, the review screen could change decisions that would otherwise be taken too quickly (without careful thought) because it encouraged investors to pause and think once more

about their choice, thus allowing them to ‘cool off’.³¹ Such measures have been shown to be effective at improving decision-making in other markets; for example, cooling off periods are mandated for distance selling³² and have been shown to improve purchasing decisions of non-life insurance products.³³

To assess this treatment’s effectiveness, we again compare it to the baseline as well as to the Warning Only treatment.

Figure 11 Screenshot of the review screen



Note: The review screen once again featured the ‘Comparator Chart’ which shows the quartile in which the selected fund is located in terms of fund charges compared to other funds in the same asset class.

³¹ Loewenstein (2000) ‘Emotions in Economic Theory and Economic Behavior’, American Economic Review; Lerner et al. (2004) ‘Heart Strings and Purse Strings - Carryover Effects of Emotions on Economic Decisions’, Psychological Science; Loewenstein (2005) ‘Hot-cold empathy gaps and medical decision making’, Health Psychology.

³² Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council, available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0083&rid=1>.

³³ European Commission (2017) ‘Study on consumers’ decision-making in insurance services: A behavioural economic perspective’, a report prepared by London Economics, Ipsos and VVA Europe, available at: <https://londoneconomics.co.uk/blog/publication/study-consumers-decision-making-insurance-services-behavioural-economics-perspective-november-2017/>

The treatments were carefully designed using the input received from investor and advisor focus groups. The set of treatments was designed such that we could draw conclusions on individual elements of the treatments (i.e. the effectiveness of the written warning alone and the incremental impacts of the comparator and impact charts and review screen on top of the warning alone), as well as on packages of elements, in particular the combination of the written warning with each of the other elements.

2.1.3 Fund sets presented to respondents and outcome measures

Each respondent was shown a different set of six funds in each of the three rounds.³⁴ This was done so that the task was realistic and not repetitive. **The fund sets were systematically set up to allow us to define clear outcome measures for the analysis.**

Pairwise setup of funds

Each fund set shown to respondents consisted of **three pairs of funds**. Funds within a pair were very similar in all characteristics displayed, except charges. Thus, the main difference between the two funds in any pair was that one fund had a higher ongoing charge (OCF) than the other. Across the fund pairs the three low-cost funds had very similar charge levels, as did the three high-cost funds.

To allow for differences in preferences between respondents, historic fund performance was varied *across pairs of funds*. In each fund set, one fund pair had high historic performance, one pair had medium historic performance, and the third pair had low historic performance, based on cumulative performance over the last five years.³⁵

To avoid respondents easily realising that the funds were set up in high/low charge pairs, minimal ('token') differences were also applied to other fund characteristics. That is, funds within a pair had very similar (but not identical) past performance, and the fund objectives, asset allocations, historic yield, fund size and number of holdings had minimal differences across all six funds. Other fund characteristics were held constant across all funds in the set, namely risk level, sector³⁶, income frequency, fund type, dealing frequency and valuation point. The order of the funds in the table on the landing page was randomised to eliminate possible ordering effects and prevent respondents from spotting patterns in the funds over the rounds.

Furthermore, the *average level* of the charges of the funds in a given fund set, and the *difference* between the ongoing charges of the high charge fund and the low charge fund in each fund pair, were also varied *across fund sets*.³⁷

³⁴ In total 90 fund sets were contrasted, each with the properties described in the present section. Respondents were allocated at random to three fund sets among the 90.

³⁵ Thus, within any given fund set the six funds had the following characteristics: 1) low charge/high historic performance; 2) high charge/high historic performance; 3) low charge/medium historic performance; 4) high charge/medium historic performance; 5) low charge/low historic performance; 6) high charge/low historic performance.

³⁶ All funds presented were UK equities funds. The geographic origin of the funds was discussed in the investor focus groups. There was agreement that UK equities (rather than European equities) were a realistic group of funds the participants would invest in in real life.

³⁷ Across all fund sets and pairs, the ongoing charges of the funds ranged from 0.59% to 1.21%. This maximum range was specified by taking the 5th and 95th percentiles of the OCFs of 242 UK equity funds downloaded from Hargreaves Lansdown. The *average level* of the charges of the funds in a particular fund set ranged from 0.69% to 1.11%. The *difference* between the ongoing charges of the high charge fund and the low charge fund in each fund pair was varied over three levels (17bp, 26bp and 34bp).

Key outcome measure of the experiment

The key outcome measure for investment decision-making in our analysis (see chapter 3) is thus **whether respondents chose a lower cost fund** (i.e. one of the three lower cost funds among the set of six presented at each choice). The analysis examines whether investors were more likely to select a lower cost fund under particular treatments among those described in section 2.1.2.

Given that funds within each pair were very similar (almost identical) apart from the charges, based on the information given in the experiment respondents would be expected to choose one of the lower charge funds over the more expensive ones. However, in practice this may not be the case if investors do not pay sufficient attention to charges or do not understand them such that they do not effectively take charges into account in their decision-making. Therefore, if the treatments described above are effective we would expect that respondents in these treatments would be more likely to choose a low charge fund compared to those in the baseline.

2.1.4 Questions to assess respondents' awareness and understanding of charges

The fund choice task was complemented by survey questions which assessed investors' awareness and understanding of charges. These questions were designed to provide further key performance measures in addition to decision-making in the choice task. Here we describe the questions that were of key importance for the analysis of the experimental treatments. The full survey, which also contained further questions, can be found in Annex 1.

Respondents were asked to answer several questions in relation to the fund they chose in the final round of the experimental choice task. These questions each had correct and incorrect answers. Respondents were asked to identify (questions numbers in parentheses):

- **Which three factors (e.g. performance, charges, riskiness, etc.) were most important in their decisions in the fund choice task (UA1)**
- **Whether their chosen fund had a charge at all (UA6)**
- **Whether or not each of several different charges applied to their chosen fund**, including an ongoing charge, transaction costs, a platform fee, an initial investment charge, and a performance fee (UA8)
- **The level of the OCF of the fund they chose in the experiment (UA10)**
- **How the OCF of their chosen fund compared to those of the other funds shown (UA11)**
- **How the OCF of the fund they chose compared to the market average for UK equity funds (UA12)**

The first of these questions allowed us to examine the factors that drove respondents' choices. The next three allowed us to assess respondents' understanding of whether charges were associated with their chosen fund, which types of fees and charges applied, and whether their understanding of this was affected by the treatments. The latter two questions allowed us to assess respondents' awareness of how the charges of their chosen fund compared to the other funds they saw and to the market average for the relevant asset class (UK equity funds).

The other questions asked included questions on (among other things) how much respondents usually invest in a single fund at one time, whether they would have invested in the funds they chose in reality (and if not why and what they would do instead), whether seeing a particular recognisable brand name in the experiment would have affected their choices, and questions to assess their financial literacy. See Annex 1 for the full set of questions.

2.1.5 Sampling

In total 1,049 respondents completed the experiment and survey, recruited from the YouGov panel. This sample size was sufficient to allow us to identify treatment effects to a relatively high degree of accuracy while also being feasible to collect within the time frame of the project. Panellists who were entered into the survey had to fulfil the following screening criteria in order to take part (these criteria mirrored those used by the FCA in partnership with NMG Consulting for the AMMS in early 2016, albeit with some updates):

- 1) Sole or part financial responsibility in their household;
- 2) Be an investor in funds, either directly or via a stocks and shares ISA, personal pension, or income drawdown plan;
- 3) Hold fund investments directly, without going through a financial advisor;
- 4) Hold investments in active funds, or a mix of active and passive funds; and
- 5) Have investable assets of £10,000 or more.

In addition, to ensure that the experiment could function properly respondents were asked to complete the survey on a large-screen device (laptop or desktop). Those who entered on a small-screen device were given the option to return later using a large-screen device, or exit the survey, which may have introduced some selection bias.

The FCA required the research to be carried out with a sample that was representative of the UK population investing in retail funds without a financial advisor. The best-known approximation for the demographic make-up of this population was the sample frame used in previous research conducted to inform the AMMS undertaken for the FCA by NMG consulting in 2016.³⁸ The aim at the outset of our fieldwork was to achieve a sample of 1,000 completed responses which matched the sample frame used in NMG's research in terms of age, gender, social grade, region and total investable assets, with a similar sample of 200 respondents for each treatment. Details of the target sample frame are provided in Annex 7.

In practice, it was not possible to precisely achieve the target sample frame within a reasonable time period. Therefore, data weights were generated after the fieldwork was completed in order to weight the sample to match the original target sample frame, except with some categories and bands merged together (e.g. the 55-64 years and 65+ age bands were merged to form a single band). Details of the weighting process can also be found in Annex 7.

2.2 In-depth telephone interviews with investors

Twelve in-depth telephone interviews (duration 30-40 minutes) were conducted in September and October 2017 with investors who took part in the behavioural experiment and survey. Each interview was undertaken within two weeks of the respondent completing the experiment and survey to ensure it was fresh in their mind. The primary aim of the interviews was to understand the investor decision making processes in the experiment, and to understand the effectiveness of the treatments they were exposed to. Three investors were recruited per treatment, excluding the baseline.

³⁸ <https://www.fca.org.uk/publication/market-studies/ms15-2-2-appendix-1.pdf>

Respondents were sent a personalised link to the survey, prior to their interview, showing the exact screens they had previously seen, including the funds in the same order on the landing page and the treatment they had been exposed to. The interviewer had the survey and the respondent's answers open in front of them so they could guide the interviewee through the screens.

2.2.1 Development of the interview guide

The discussion guide was developed in close collaboration with the FCA. The guide covered the following key research topics (The final guide can be found in Annex 4):

- Whether they found the simulated investment platform to be realistic or not;
- Their decision making process around investigating and selecting a fund:
 - Whether they looked at the detailed information pages, and why/why not;
 - Which factors were the most and least important to them when selecting a fund;
 - Which funds stood out to them and why;
- Their understanding of and the role played by charges in their decision-making:
 - Impressions of the format of the charges;
 - Understanding of the types of charges presented e.g. total cost and transaction cost;
- Awareness and views of the effectiveness of the treatment they were exposed to, including any role it had in their decision making.

2.2.2 Recruitment of investors

The interviewees were members of YouGov's online panel and were recruited off the back of the behavioural experiment and survey via an opt-in question. Interviewees were recruited to ensure that the sample included a mix of respondents in terms of age, gender, ethnicity, region, social grade and investable assets.

2.3 Focus groups with advisors

Four online focus groups with advisors were conducted in June 2017 to examine the potential impacts of different ways of communicating charges on which funds the advisors would recommend to investors, as well as on investors' decision-making around which fund to choose. Each focus group lasted 1.5 hours.

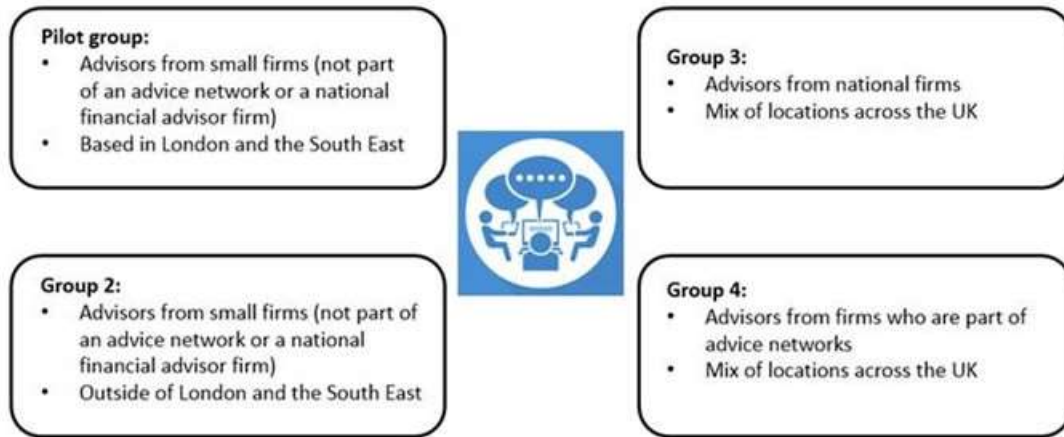
2.3.1 Development of the focus group guide

The discussion guide was developed in close collaboration with London Economics and the FCA. The guide covered the following key research topics (the final guide can be found in Annex 2):

- The role and importance of charges to advisors and clients;
- What sources of information advisors use when discussing charges with clients;
- Exploring the draft treatments, (e.g. how realistic they were, comprehension and perceived impact on investors' decision-making and ability to compare charges).

2.3.2 Recruitment of participants

Between six and ten advisors were recruited per focus group from YouGov's online research panel. Advisors were recruited to include a range of companies in terms of turnover, number of employees, geographical focus of the company (local/national) and location:



Incentives were offered in line with the MRS Code of Conduct.

3 Results and findings

This chapter presents the analysis and results of the behavioural experiment and survey, in-depth post-experiment interviews, and focus groups with advisors. The first section provides relevant details of the approach taken to analysing the experiment data; the second section presents overall results from all four strands of research relating to the impact of the treatments on investors' decision-making and awareness and understanding of charges; the third section presents further results from the experiment concerning the impact of the treatments on investors' preferences and the likelihood they would invest; the fourth section presents interesting results about how the treatment effects vary depending on perceived importance of charges; the fifth section presents the effects of the treatments by subgroup of respondents; and the sixth and final section presents views from the advisor focus groups on the precedence of advisors' recommendations.

3.1 Approach to analysing the experiment data

The main outcome measures that we use to assess the impact of the different treatments are:

Relating to decision-making and preferences:

- Whether respondents chose a lower cost fund (i.e. one of the three lower cost funds among the set of six shown at each choice) – since each respondent made three choices, the total number of observations for this measure is three times the number of respondents
- Whether respondents' ranking of fund factors that influenced their decision-making, such as charges and past performance, differed under different treatments
- Whether respondents chose a fund with a high, medium or low level of past performance (i.e. their preferences with respect to historic performance)

Relating to understanding and awareness of charges:

- Whether or not respondents correctly identified
 - The level of the OCF of the fund they chose in the experiment
 - How the OCF of the fund they chose compared to those of the other funds shown
 - How the OCF of their chosen fund compared to the market average for UK equity funds
 - Whether their chosen fund had a charge at all
 - Whether their chosen fund had an ongoing charge (OCF)
 - Whether or not each of several different charges – an ongoing charge, transaction costs a platform fee, an initial investment charge, and a performance fee – applied to their chosen fund³⁹

In our analysis we calculated **seven treatment effects for each outcome measure** and tested whether these effects were statistically significant:

- Four of the treatment effects calculated are the differences between the baseline group and the four treatment groups on the relevant outcome measure.

³⁹ That is, the respondent had to answer correctly regarding the presence (or not) of each and every one of these charges in order to be categorised as having answered correctly on this measure.

- The other three are the differences between the 'Warning Only' treatment group and the treatment groups with the warning plus a further additional element (i.e. the impact chart, comparator chart, or review screen).

Weighting

As explained in section 2.1.5, weights were generated following the fieldwork in order to weight the sample to match the target sample frame (Annex 7 explains the weighting process and presents the distribution of the weights). The analysis has been conducted with and without applying the weights in order to explore the impact this has on the results and to test the robustness of the results when the weights are applied.

Applying weights can increase or decrease both the point estimate of a statistic (e.g. a mean) and variance around it, potentially leading to changes in the statistical significance of the treatment effects.

The advantage of applying weights is that any differences between the target sample frame and the composition of the actual sample are adjusted for. That is, the treatment effects calculated with the weights applied reflect those we would expect of the target population (without weighting, the measured treatment effects apply to our sample, which was somewhat different to the target population). Conversely, the main disadvantage is that respondents that are underrepresented are given a high weight which can increase noise in the sample data caused by potential outliers (and result in higher standard errors), making it more difficult to detect statistically significant treatment effects.

Throughout the figures and results tables presented below **we present unweighted results, but the treatment effects that are statistically significant both with and without the weights applied are highlighted using bold text**. The key weighted experiment results are presented for comparison in section A6.10 in Annex 6.

Clustered standard errors

As noted above, for the outcome measure signifying whether respondents chose a lower cost fund the total number of observations is three times the number of respondents, since each respondent made three choices. To account for the fact that for this variable the dataset contains three repeated observations per individual, which therefore are not independent observations, it is good practice to calculate clustered standard errors for our estimates of this outcome measure. Clustered standard errors tend to be larger than conventional standard errors due to higher correlation between the measure of interest and errors within a cluster (which in our case is the individual). Hence this approach is more stringent and robust when testing for statistical significance. Therefore, all tests of the statistical significance of the treatment effects reported below for this outcome measure use clustered standard errors on the respondent identity.

3.2 Impact of the treatments on investors' decision-making and awareness and understanding of charges

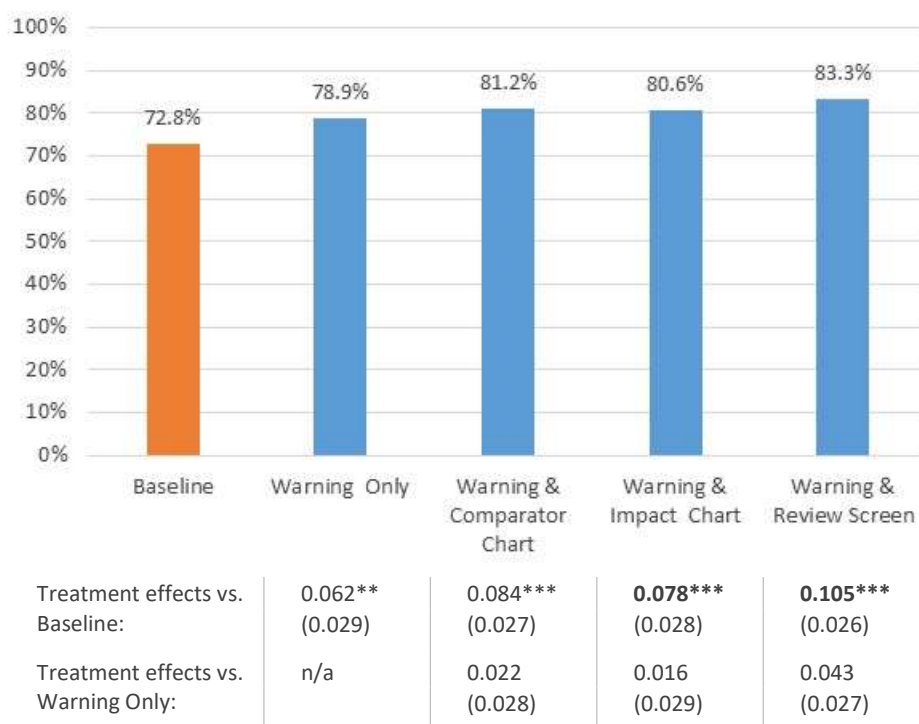
This section presents overall results relating to the impact of the treatments on investors' decision-making and awareness and understanding of charges, based on all four strands of research, taking each treatment in turn.

3.2.1 Written warning

Impact of the written warning on decision-making

Figure 12 below presents the shares of choices made in the experiment where the respondent chose a lower cost fund (i.e. one of the three lower cost funds among the six) under each treatment, as well as the treatment effects versus the baseline and the Warning Only treatment (and whether these treatment effects are statistically significant).

Figure 12 Percentage who selected a lower cost fund and related treatment effects



Note: Total N=3,147 (3 choices each by 1,049 respondents). Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. **/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

These results show that the warning alone had some impact on the likelihood that respondents chose a lower cost fund, with a treatment effect of 6.2 percentage points (pp). However, this is less than the impact of any of the three treatments that combined the warning with the other elements, and the treatment effect is not statistically significant if the weights are applied. The warning itself seems to have contributed a substantial part of the large overall impacts when it was combined with the impact and comparator charts and the review screen. For example, the +6.2pp effect of the warning alone equates to six tenths of the overall impact of the warning and review screen together.

Insights from the twelve post-experiment in-depth interviews give an indication of how investors' behaviour and thought processes could have resulted in these experiment results for the written warning. Most interviewees noticed the warning⁴⁰ but there was little spontaneous

⁴⁰ It stood out due to the bold, capitalised font and being clearly framed in red, and most expect to see this on an investment platform.

acknowledgment of it (it was not the first thing that came to mind when investors were asked if anything, stood out on the landing page) – relevant quotes are presented in Box 1 below.

Less experienced investors appeared to take greater notice of the warning (e.g. one investor said she wished she had seen it a few years ago when she was ‘stung’ with high charges). However, more experienced investors tended to ignore or glance over the warning, as they assumed they knew what it said, and the warning had little reported impact on these investors’ decision-making, as they already take charges and their exposure to risk into account.

The fact that investors paid mixed levels of attention to the warning and provided mixed views regarding its impact on their decision making could help explain the limited impact of the Warning Only treatment on respondents’ choices in the experiment.

Box 1 **Quotes from the in-depth interviews regarding the written warning**

- *“I glanced at it as most platforms have it. I am aware of it but I did not read it out immediately to myself, as I know this and accept it... I glance over these now as I am experienced in investing”*
- *“It is not scary unlike some e.g. ‘you may lose it all’. Written information is clear so useful- there is no hidden terminology... I just glanced at it... It had no major impact as I know this already, as I am experienced and it is often shown”*
- *“Did notice this, but doesn't make an impact on my choices, as it is there because of regulation – they're forced to put that on the pages”*
- *“I did notice it – it gave me pause for thought – I tend not to worry too much about charges so it makes me think I should look at what I've got in a bit more detail”*
- *“I did notice it but didn't read it as I guessed what it said. I expect it to say they go up and down. I just assumed this so I didn't read it”*

In the advisor focus groups mixed views were expressed on the likely impacts of the warnings.⁴¹ Before studying the specific warnings some argued that warnings can be useful for some clients, while others argued that written warnings are often ignored or discounted as they are too common, too negative and ‘just state the obvious’. After seeing the warnings, while many felt these would have some positive impact by causing investors to reflect fully before making their final decision, some were concerned that their negative focus would put clients off investing, especially if they are shown repeatedly (see the quotes in Box 2). Some held the view that if warnings were repeated excessively it could detract from the aims and objectives that the advisor is paid for.

The view among some advisors that the warning would deter investors from investing is, however, not supported by findings from the survey. Respondents were asked whether they would have invested in their chosen funds in reality and the answers suggest that the treatments would not discourage investors. The shares who would not have invested in their chosen funds in reality were no higher under the treatments compared to the baseline. The share under the baseline was 42.5% whereas the share under the Warning Only treatment was in fact slightly lower at 40.8%.

⁴¹ In the focus groups advisors were shown three preliminary variants of the written warning, which said a) “Fund charges will reduce your investment returns”, b) “Fund charges can significantly impact investment returns. Over time, charges can have a material impact on your net returns”, and c) “Fund charges will always reduce your returns over time, but a fund that has performed well in the past may not perform well in the future”

As a further follow-up, those who said they would not have invested in their chosen funds in reality were asked why this was the case. Two answer options – ‘a particular statement put me off’ and ‘a particular chart put me off’ – were included to identify whether any particular elements of the treatments might put investors off. However, very few respondents gave these reasons (0.4% and 0.7% of the whole sample across all treatments), providing further evidence that the treatments would not deter investors from investing. The most common reasons given were that they were not provided with enough information (16.7%), they did not recognise any brand names (10.4%), the funds were too risky (9.8%), and the levels of the charges were too high (9.3%). When asked what they would do with the money instead, respondents most often said they would invest in another type of fund (24.9%) or another type of asset (14.1%). This is also supported by some evidence from the in-depth interviews, where one investor said that “[the warning] is not scary unlike some e.g. ‘you may lose it all’”.

Box 2 Quotes from the advisor focus groups regarding the written warning

- “[It’s] not useful, this is just going to put the client off” (Part of an advice network)
- “...And rightly we are obliged to [explain risk] but sometimes I do feel these are too onerous in the sense the client is likely to lose the will to live after they reach page 7 of 25 pages of risk warnings!” (National firm)

Impact of the written warning on awareness and understanding of charges

In the experiment the Warning Only treatment resulted in a 10.3pp increase versus the baseline in the share of respondents who correctly identified how the ongoing charge of their chosen fund compared to those of the other funds shown (the share who answered this correctly was 37.8% under the Warning Only treatment compared to 27.5% under the baseline – see Figure 13 below in section 3.2.4). This result is statistically significant (at the 5% level) when the data is not weighted, but this significance does not hold when the weights are applied. However, for all other outcome measures relating to understanding and awareness no statistically significant treatment effects were found for the Warning Only treatment relative to the baseline.

3.2.2 Impact Chart

Impact of the impact chart on decision-making

As explained in section 2.1.2, in the experiment the chart showing the impact of charges on net returns over time was combined with the written warning in a single treatment (the Warning & Impact Chart treatment). The results provide strong support for the overall effectiveness of the combination of the warning and the impact chart. This treatment resulted in a 7.8pp increase in the share of respondents who selected a lower cost fund relative to the baseline – 80.6% versus 72.8%, see Figure 12 above – a treatment effect that is statistically significant at the 1% level, and statistically significant irrespective of whether the weights are applied.

To some extent the in-depth interviews provided support for these strong experiment results. The chart stood out (especially compared to the warning) and was useful to two of the three investors who were subject to this treatment, as it clearly showed the compounding effect of charges over a suitable period of time. Interviewees felt that the visual diagram, in addition to the text, was powerful in illustrating how ‘charges add up over the years’. One investor noted that it was useful in how it displayed impact over 20 years, and one noted that they had not seen a chart like this before and that it should always be shown. Quotes from the interviews are presented in Box 3.

However the third investor, who was less experienced, struggled to understand the chart. This interviewee had not fully read the chart during the experiment and at first she did not understand why there 'were minus figures going up the curve', whereas on closer inspection (in the interview) she realised that the chart shows 'money coming out over time'. On reflection, she found the chart useful and wished she had seen it when she first started investing (she recommended the chart be shown prior to the landing page to make it stand out and the landing page less crowded), although the written warning was clearer to her at first glance.

Mixed views were expressed by the three interviewees on the likely impact of this chart. For one interviewee, it reminded them to look at cheaper funds, but for another he felt he was already focusing on charges so it made little difference to his choice. Similarly, in the preliminary online focus groups investors generally understood the impact chart⁴² and said the information would prompt them to take greater notice of charges, although not all thought that it would make a large impact on what fund they would choose.

Box 3 Quotes from the in-depth interviews regarding the impact chart

- *"The chart is much more useful than the written warning. The written warning is not scary or new. The graph is new, useful and clear – it should be there all the time. It points it out clearly"*
- *"It adds up over years – shows considerable difference. The chart gives more clarity- helps a lot. It didn't shape my decision fully but made me think I need to look at the cheaper funds"*
- *"It's very helpful, it shows that after 10 years you've got a £670 reduction in what you're getting - good representation and very clear. The chart is more useful as it's in a graphic representation and it gives it in pounds; the warning is fine but a lot of people would expect that"*
- *"The [written warning] is most useful – as I don't have to think about- it hits you in the face. I need to look at the graph to actually work it out"*

The focus groups with advisors provided some mixed evidence that the impact chart could also have an impact in the advised setting. Participants in the groups felt that this chart could influence clients' decisions by assisting them to understand the effects of compounding.

However, some advisors were concerned that it could lead to more questions than answers and argued that ultimately clients would take more notice of their advice, and some did not see the need for the chart (in particular advisors in smaller firms said they may not use the chart as it focuses too much on charges, rather than the potential returns). Furthermore, a specific criticism of this chart was that it was hypothetical (*"I don't like hypothetical graphs"*), which was also raised in the focus groups with investors where one participant pointed out that the chart assumed a constant rate of return.

That said, the advisors generally thought that the impact chart would be a better way of alerting investors to the impact of charges than written warnings. Charts were considered to stand out more effectively than written warnings and can visually demonstrate complex information in a clear way, and stand out from dense copy.

⁴² In the preliminary online focus groups investors were shown an early draft of the impact chart.

Box 4 Quotes from the advisor focus groups regarding the impact chart

- *"I do not think most clients understand the effects of compounding and so this will help to give an idea"* (Small firm, London / SE)
- *"I don't like hypothetical graphs, I prefer them to relate to actual funds and actual performance"* (National firm)

In the experiment, the effect of the impact chart over and above the warning alone (i.e. the difference between the Warning & Impact Chart treatment and the Warning Only treatment) on the share of respondents who selected a lower cost fund was positive, at +1.6pp (refer back to Figure 12 on page 35), but not statistically significant; and, moreover, the same was also true for the comparator chart and review screen.

Hence, the results for the three treatments with the warning plus a further additional element compared to the Warning Only treatment give a nuanced picture. Since these treatment effects are not statistically significant they do not allow us to identify, with a high level of confidence, the marginal impact of the additional elements on top of the effect of the warning on its own. However, the larger magnitudes and higher statistical significance of the effects of the combined treatments versus the baseline, compared to the impact of the warning alone, suggests that these elements do play an important part in the overall combined impact.

Impact of the impact chart on awareness and understanding of charges

The treatment with the impact chart also had some impacts on experimental outcome measures relating to awareness and understanding of charges. Firstly, more respondents correctly identified the level of the OCF of their chosen fund under this treatment compared to the baseline (by 45.7% to 35.3%) or the treatment with the warning alone (by 45.7% to 34.3%) – see Figure 13 in section 3.2.4. However, these treatment effects are only statistically significant when the weights are not applied, meaning there is some uncertainty concerning whether these results apply to the general population.

Secondly, more respondents answered correctly regarding whether or not every one of five different fees and charges applied to their chosen fund⁴³ under the treatment with the impact chart than under the baseline (12.6% to 4.8%) or the treatment with the warning alone (12.6% to 7.5%) – see Figure 14 on page 45 – and both of these results are statistically significant irrespective of whether the weights are applied.

Although the impact chart did not give information relating to the fees and charges of the specific funds presented in the experiment, a possible explanation for these observed treatments effects is that the chart raised the general saliency of charges, prompting respondents to look more closely.

Moreover (as noted above), some advisors in the focus groups argued that the impact chart could help clients to understand the effects of compounding. They thought a visual format would be especially useful for demonstrating the compounding effects.

⁴³ This was the final outcome measure analysed, with the lowest proportion of correct answers. The fees and charges asked about included an ongoing charge, transaction costs platform fee, initial investment charge and performance fee, and the respondent had to answer correctly regarding the presence (or not) of every one of these in order to be classed as 'aware' on this measure.

3.2.3 Comparator chart

Impact of the comparator chart on decision-making

The comparator chart together with the warning resulted in more respondents selecting a lower cost fund compared to the baseline, by 81.2% to 72.8% (see Figure 12 on page 35). However, the statistical significance of this treatment effect does not hold when the weights are applied, so this finding may not be applicable to the general population of unadvised retail investors.

The overall impact of this treatment may have been limited because many respondents did not click to view the more detailed information pages where the comparator chart was shown – in just over half (53%) of the choices made the respondent did not view any detailed information pages (see section A6.9.2 in Annex 6). Among those who viewed at least one detailed page the effect of the comparator chart treatment versus the baseline was larger (at 11.7pp) than the effect for the full sample, and was statistically significant irrespective of whether the data was weighted.⁴⁴ This illustrates the importance of the prominence of any disclosure measures (i.e. the importance of where information is placed), as other research has also found.⁴⁵

The twelve investor interviews suggested that in reality the issue of prominence may be more nuanced. A few interviewees who did not view the detailed information pages in the experiment said they would have done so in reality when real money was at stake, and some noted that they would even reflect on such pages (and other sources) a number of times, which suggests that information placed there might in reality have a greater impact.

One interviewee of the three assigned to this treatment had not seen the chart due to not having viewed the detailed information pages. Another interviewee noted the importance of knowing how the fund compared to the market average, appreciated how the chart helped them compare the fund against others, and said it was clear and stood out. The third interviewee stated that they did not find the chart useful, since they already knew the market average which is something he is mindful of when assessing charges, although he did think that the chart would be useful for novices. While some investors may indeed know the market average for UK equity funds, only 30% of survey respondents specified the correct range of 0.5-0.99% when asked a test question on this.

Box 5 Quotes from the in-depth interviews regarding the comparator chart

- *“I would usually look at this in comparison to other funds – usually have a graph that you can compare. I prefer a visual chart to a written warning”*
- *“I know the market average anyway – so I am looking for it. It would be useful for a novice”*

Among the advisors who took part in the focus groups there were mixed views on the comparator chart. Many could see the value in them for their own use, but think that their clients may struggle to understand them, and most would like the charts to ensure the comparison was on a ‘like for like’

⁴⁴ We undertook further analysis of the treatment effects among only those who viewed at least one detailed information page. The results of this analysis are discussed in section 3.5.2 and the details can be seen in section A6.5 in Annex 6.

⁴⁵ For example, a recent behavioural experiment by London Economics for the European Commission (‘Study on consumers’ decision-making in insurance services: A behavioural economics perspective’, 2017) found that consumers rarely clicked to see detailed information on non-life insurance products, and Roth et al. (2013) (‘Location matters, especially for non-salient features—An eye-tracking study on the effects of web object placement on different types of websites, International Journal of Human-Computer Studies, 2013) found that the placement of objects on web pages matters through an eye-tracking study.

basis (*"I like the average as it can show significant difference in performance, but the market average must be relevant and a true comparison"* (Part of advice network), further quotes can be seen in Box 6 below). Some considered this meant that comparisons should not be made to both active and passive funds.

The advisors felt that the chart may have little influence on investors' decisions in comparison to their own advice, noting that such charts are only part of the advice process and only part of being transparent. However, despite this, a number of advisors said they could imagine using the chart themselves, which could be useful for cost sensitive clients, and some thought that the chart could have a positive impact by making comparisons easier.

Box 6 Quotes from the advisor focus groups regarding the comparator chart

- *"All charges should be accounted for here for a fair comparison"* (Small firm, outside of London/SE)
- *"I think as part of any research they would be useful but nine times out of ten they buy what we sell them"* (Small firm, outside of London/SE)
- *"It simply confuses the matter"* (National Firm)
- *"Not that useful as we all know that tracker funds will be first quartile, so need to compare like with like"* (National Firm)
- *"Useful but need to compare like for like i.e. does this include passive and active UK equity?"* (Small firm)

Impact of the comparator chart on awareness and understanding of charges

In the experiment, under the treatment with the comparator chart, more respondents correctly identified how the OCF of their chosen fund compared to the other funds shown than under the baseline, by 37.2% to 27.5% (see Figure 13 below on page 43). This treatment effect is statistically significant (at the 5% level) when the data is unweighted, but not when the weights are applied.

Given what was shown by the comparator chart, it could have been expected to have a large impact on respondents' awareness of how the ongoing charge of their chosen fund compared to the market average for UK equity funds (and this was indeed the view of some advisors in the focus groups). However, the fact that this was not the case in the experiment, coupled with the strong impact that the comparator chart seemed to have when it was shown via the review screen (see the following section), further highlights the importance of the prominence of any disclosure interventions.

3.2.4 Review screen

Impact of the review screen on decision-making

Among the treatments examined, the strongest impact (in terms of magnitude and statistical significance) on the share of experiment respondents who chose a lower charge fund was the review screen combined with the written warning. A lower cost fund was chosen in 83.3% of cases under this treatment compared to 72.8% under the baseline (see Figure 12 on page 35), a treatment effect of 10.5pp which is statistically significant (at the 1% level) irrespective of whether the weights are applied.

The share of respondents who chose a lower cost fund was 4.3pp higher under this treatment than under the Warning Only treatment. Although this difference is not statistically significant, it does suggest that the review screen played an important role in generating the overall effect (of the

warning and review screen combined). The results show that both the warning and review screen were linked with an increase in the share who selected a lower charge fund and although the effects of these components individually are not found to be statistically significant, together they were strongly significant.

Among those in the relevant treatment respondents actually used the review screen to go back to the landing page in 8.2% of cases and in 42.3% of these instances the respondent changed their choice. Among those who went back from the review screen only 65.4% had initially chosen a lower cost fund (i.e. less than the overall average), while 84.6% of these respondents ultimately selected a cheaper fund (more than the overall average), which shows that these respondents did indeed typically use the review screen to switch from a high charge to a low charge fund.

In the three in-depth interviews with investors who saw this treatment, one experienced investor reported that, although it did not teach him anything new, the review screen did prompt him to go back and look at a couple more funds in detail. Another interviewee said that the review screen had confirmed that they had not selected the most expensive fund and that the comparator chart was useful, although for this investor the written warning had greater impact as it was shown at the start of the process. A third investor reported that, although they had to spend time “working it out”, the comparator chart worked well and the review screen made them feel more confident about their choice of fund.

Box 7 **Quotes from the in-depth interviews regarding the review screen**

- *“It prompted me to double check. I like to have a screen like this to make sure I am sure. It will help people to think more”*
- *“I felt better about my choice”*
- *“Positive thing about it is that [the comparator chart] shows it’s a fund that’s better than the average and the fact that it’s right at the end of the bar not a market average”*
- *“The initial warning made me think about it more than this did – by the time you get to this stage you have done it. This is a useful but had less of an impact.”*

Impact of the review screen on awareness and understanding of charges

Figure 13 below shows the shares of respondents who correctly identified the level of the OCF of the fund they chose in the experiment, how the OCF of their chosen fund compared to those of the other funds shown, and how the OCF of their chosen fund compared to the market average for UK equity funds. Table 2 (below Figure 13) presents the treatment effects for these outcome measures and the statistical significance of these treatment effects.

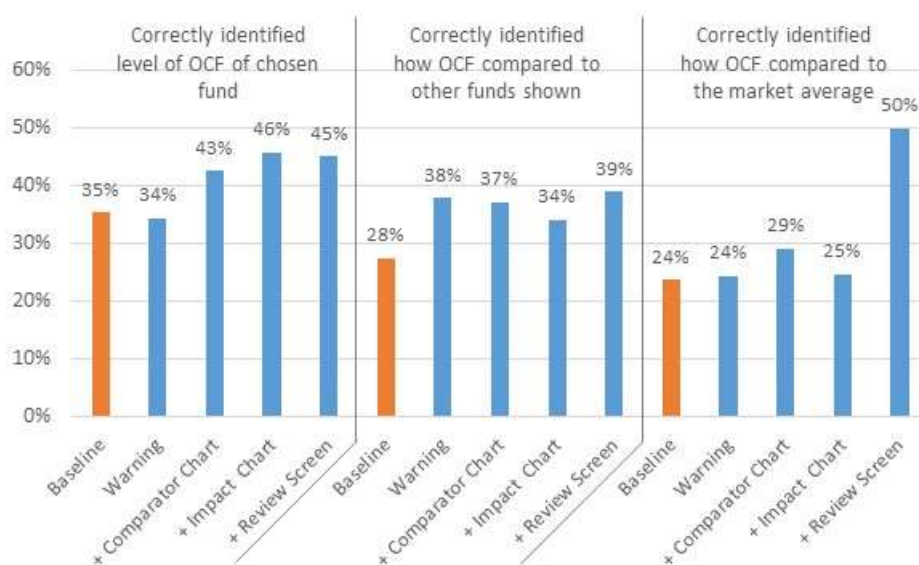
The impact of the treatment with review screen with respect to the share of respondents who correctly identified how the level of the OCF of their chosen fund compared to the market average stands out in particular. The share of respondents who answered this correctly was substantially higher under this treatment (49.8%) than under either the baseline (23.7%) or the treatment with the warning alone (24.4%). The corresponding treatment effects are the largest found in this study, at 26.1pp and 25.4pp, and are highly statistically significant (irrespective of whether the weights are applied).

The comparator chart is the component of the review screen that can explain this improvement in respondents’ understanding, as this chart presented information about how the OCF of the chosen fund compared to the market average for UK equities. Hence this experiment result implies that when the comparator chart was shown on the review screen it was inspected by respondents and

helped them to understand how the charges of the fund they chose compared to the market for the relevant asset class. This is in line with the views of some investors in the interviews, who said that they found the comparator chart useful when they saw it on the review screen. It is an important finding since it suggests that showing the comparator chart at the review screen is likely to help investors to align their choices with their preferences regarding charges. It provides support for the chart itself and for the method of delivering it via a review screen.

One further treatment effect in Table 2 is statistically significant whether or not the weights are applied. This is the 11.3pp impact of the Warning & Review Screen treatment versus the Baseline with respect to the share of respondents who correctly identified how the OCF of their chosen fund compared to those of the other funds shown in the experiment.

Figure 13 Percentages who correctly identified the level of charges for their chosen fund



Note: N=1,049. [1] Based on question UA10 (the questions can be seen in the survey questionnaire in Annex 1). [2] Based on question UA11. [3] Based on question UA12. Weights not applied.

Source: London Economics analysis of experiment data

Table 2 Treatment effects for outcome measures relating to whether respondents correctly identified the level of charges for their chosen fund

Correctly identified the following:	Treatment effect:	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Level of OCF^[1]	Versus Baseline	-0.009 (0.047)	0.072 (0.048)	0.105** (0.047)	0.098** (0.048)
	Versus Warning Only	n/a	0.082* (0.048)	0.114** (0.048)	0.107** (0.048)
How OCF compared to other funds shown^[2]	Versus Baseline	0.103** (0.046)	0.097** (0.046)	0.065 (0.045)	0.113** (0.046)
	Versus Warning Only	n/a	-0.006 (0.048)	-0.037 (0.047)	0.011 (0.048)
How OCF compared to market average^[3]	Versus Baseline	0.007 (0.042)	0.053 (0.043)	0.010 (0.041)	0.261*** (0.047)
	Versus Warning Only	n/a	0.046 (0.044)	0.003 (0.042)	0.254*** (0.048)

Note: N=1,049. [1] Based on question UA10 (the questions can be seen in the survey questionnaire in Annex 1). [2] Based on question UA11. [3] Based on question UA12. Standard errors in parentheses. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Three further outcomes measures relating to experiment respondents' awareness of charges are presented in Figure 14. These measures are whether or not respondents correctly identified:

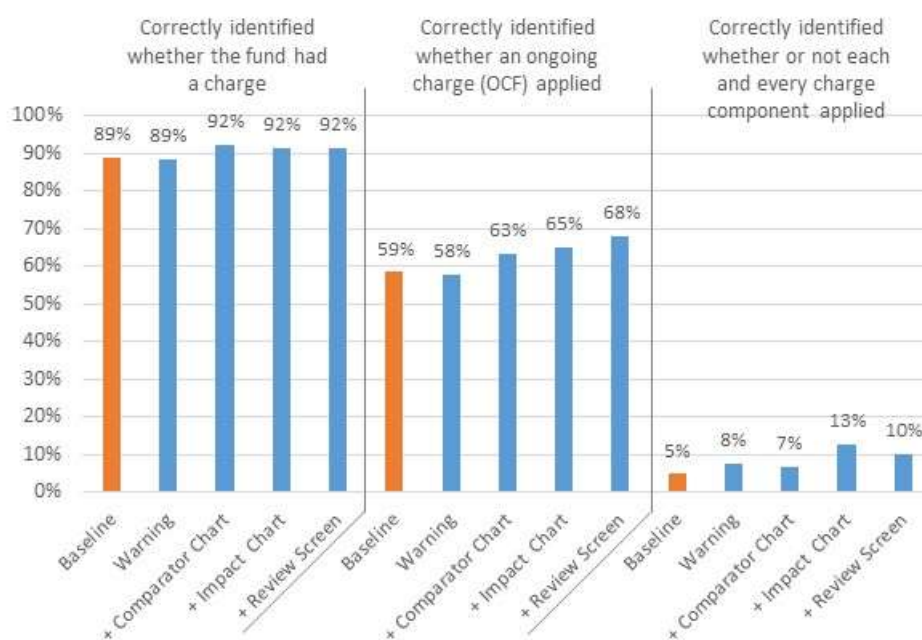
- Whether their chosen fund had a charge;
- Whether an ongoing charge applied to their chosen fund; and
- Whether or not a range of different fees and charges applied to their chosen fund.⁴⁶

Table 3 (below Figure 14) presents the treatment effects associated with these outcome measures and the statistical significance of these treatment effects.

The treatment with the review screen increased the share of respondents who correctly identified that an ongoing charge applied to their chosen fund relative to both the baseline and the Warning Only treatment by around 10pp, although these effects are not statistically significant when the weights are applied.

The only treatment effects in Table 3 that are statistically significant irrespective of whether the weights are applied are those for the outcome measure signifying whether the respondent answered correctly regarding every one of five different fees and charges (the final outcome measure in the table). For this measure statistically significant effects are found for the treatment with the impact chart (as discussed in section 3.2.2) and the treatment with the review screen. For the treatment with the review screen this is intuitive, as the review screen showed a breakdown of the charges that applied.

⁴⁶ For this final measure, the fees and charges asked about included an ongoing charge, transaction costs platform fee, initial investment charge and performance fee, and the respondent had to answer correctly regarding the presence (or not) of every one of these in order to be classed as 'aware' on this measure.

Figure 14 Percentage who correctly identified the level of charges for their chosen fund

Note: N=1,049. [1] Based on question UA6. [2] Based on question UA8. [3] Question UA8, respondents had to answer correctly for all five charge components mentioned in the question. Weights not applied.

Source: London Economics analysis of experiment data

Table 3 Treatment effects for outcome measures relating to whether respondents correctly identified various aspects of the charges of their chosen fund

Correctly identified the following:	Treatment effect:	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Whether the fund had a charge ^[1]	Versus Baseline	-0.003 (0.031)	0.034 (0.029)	0.026 (0.029)	0.026 (0.029)
	Versus Warning Only	n/a	0.037 (0.029)	0.029 (0.029)	0.029 (0.030)
Whether an ongoing charge (OCF) applied ^[2]	Versus Baseline	-0.007 (0.049)	0.048 (0.048)	0.066 (0.047)	0.098** (0.047)
	Versus Warning Only	n/a	0.056 (0.048)	0.073 (0.047)	0.105** (0.048)
Whether or not each and every charge component applied ^[3]	Versus Baseline	0.026 (0.024)	0.019 (0.023)	0.077*** (0.027)	0.051** (0.026)
	Versus Warning Only	n/a	-0.007 (0.025)	0.051* (0.029)	0.025 (0.028)

Note: N=1,049. [1] Based on question UA6. [2] Based on question UA8. [3] Question UA8, respondents had to answer correctly for all five charge components mentioned in the question. Standard errors in parentheses. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

3.2.5 Presentation of charges in pounds and pence

Although the presentation of charges in pounds and pence terms (per £10,000 invested) was not varied across the treatments in the experiment (charges were shown in this format in all

treatments), we have insights regarding the potential impact of disclosing charges in this format from the interviews and preliminary focus groups with investors and the advisor focus groups.

Most of the investors in the focus groups and interviews welcomed this format of the charges (as well as the percentage format), with a few noting that it made the charge ‘more real’. However, not all felt that this format was necessary. The more experienced investors especially, who are confident with percentages, did not feel that this additional format would make it any easier to compare funds. Nevertheless, many believe that the pounds and pence format would be useful for novice investors, alongside the percentage format.

Box 8 **Quotes from investors regarding pounds and pence format**

- *“It just helps to make it clearer in pounds as well. Spells it out clearly”*
- *“It makes it feel more real rather than just a percentage”*
- *“Putting it in pounds is good if you know what you are investing, but percentage works on whatever sum you’ve got”*
- *“I don’t need to know per £10,000. I am baffled by people who don’t know percentages”*

The pounds and pence format was also generally welcomed by the advisors, although it was not seen as necessary and few thought that showing charges in this way would have a substantial impact on their clients’ investment decisions. Some advisors in larger firms reiterated that clients are led by their advisors in regard to product information, so the presentation format would have little effect.

Some were concerned that this format could have a negative impact due to investors being given too much information. Showing charges in pounds makes it easier to contextualise but may seem higher than the percentage value, potentially putting the client off investing.

Box 9 **Quotes from the advisors focus groups regarding pounds and pence format**

- *“It helps in quantifying charges as most people don’t understand percentages”* (Part of an advice network)
- *“I don’t think the majority of people understand a percentage charge. They understand putting it in pounds and pence”* (Part of an advice network)
- *“If it was a £1m+ portfolio the amount in £s could look quite high”* (Small firm)

3.3 Impact of the treatments on investors’ preferences

The experiment and survey also provide evidence on the potential impact of the treatments on investors’ preferences with respect to charges and performance. In particular, we can examine whether the treatments affected the extent to which respondents said charges were important in their decisions, and the shares who selected funds with different performance levels by treatment group.

Firstly, Table 4 below shows the share of respondents who said that charges were important in their decisions in the experiment.⁴⁷ Charges were the most important factor for around one fifth of respondents and among the two most important factors for just under two-thirds of respondents;

⁴⁷ These results are based on a follow-up question asked after the experiment. See question UA1 in the survey script in Annex 1.

among the factors asked about, only performance was identified as being the most important (around 60%) or among the top two (around 85%) by more respondents (see section A6.8 in Annex 6). This is in line with insights from the advisor focus groups where it was argued that while charges are discussed with clients they are only one of several important attributes, as well as the focus groups and interviews with investors where similar points were made.

This reported importance of charges and performance was borne out by econometric analysis of respondents' actual choices (see section A6.2 in the annexes), which found that charges and past performance were indeed strong drivers of choices in the experiment (a higher charge implied a significantly lower likelihood that a fund was chosen, and vice versa for performance).

The results in Table 4 show that the extent to which respondents said charges were important was fairly consistent across the treatments. For example, the share of respondents who identified charges as the most important factor ranged from 16.1% to 22.2%, a difference of just 6.1pp. When we tested the statistical significance of the treatment effects for each of these outcome measures none were found to be significant.⁴⁸ Thus, the treatments caused respondents' to select lower cost funds *despite* the fact that the treatments were not linked to higher stated importance of charges. We can infer from this that the treatments that led respondents to choose cheaper funds did not lead them to change the other factors that they considered or the importance they placed on these.

Secondly, the shares of respondents who chose funds with high, medium and low past performance levels did not vary to any great extent by treatment group (see Table 12 in Annex 6). For example, the total share who selected a fund with high past performance was relatively constant across the treatments, ranging from 68.2% to 71.1%. The largest shifts under the treatments relative to the baseline were from high performing/high charge funds to high performing/low charge funds (see Table 13 in section A6.1 in Annex 6).

Table 4 Percentage who identified charges as the most important factor, among the top two factors, and among the top three factors in their decision-making

Stated importance of charges in respondents' choices	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Most important factor	22.2%	17.9%	21.7%	16.1%	18.5%
Among top 2 factors	66.2%	66.2%	63.3%	62.3%	63.5%
Among top 3 factors	85.0%	84.6%	80.2%	84.8%	88.6%

Note: Total N=1,049. Weights not applied.

Source: London Economics analysis of experiment data

3.4 Treatment effects depending on perceived importance of charges

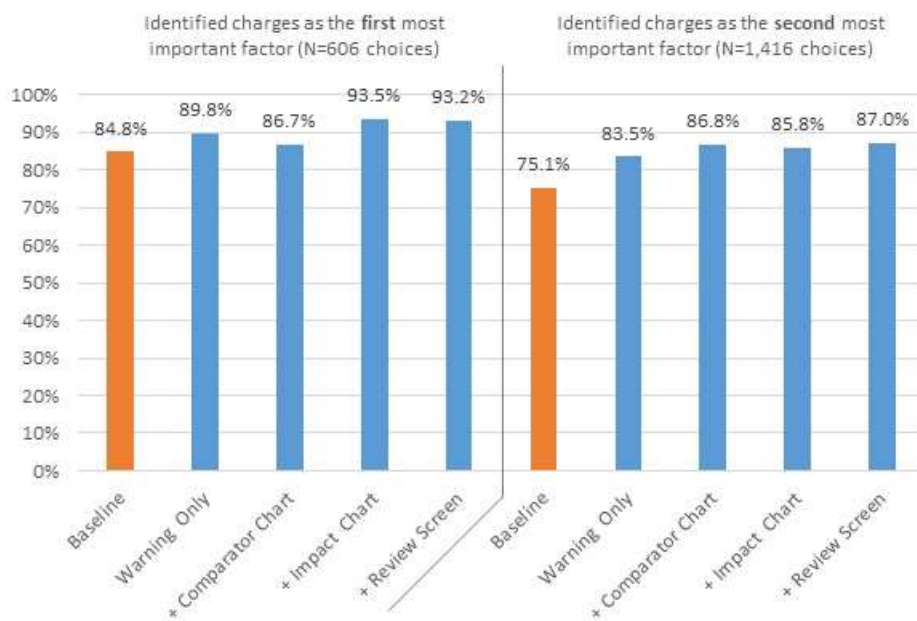
Figure 15 below presents the shares of choices made in the experiment where a lower cost fund was chosen by subgroup depending on whether the respondent identified charges as the first or second most important factor in their decision-making. Table 5 shows the corresponding treatment effects and their statistical significance levels.

⁴⁸ When the weights are applied, one treatment effect – the difference between the shares who identified charges as being among the three most important factors under the Warning & Comparator Chart treatment (75.5%) compared to the baseline (84.1%) – is significant at the 90% level.

These results show that the strongest treatment effects occurred among those who recognised the importance of charges in their decision-making but did not consider them as the most important factor, in particular those who identified charges as the second most important factor (usually after performance). This is shown by both the size of the treatment effects – which for this group range from 8.4pp to 11.9pp for effects versus the baseline – and their statistical significance.

Among those who said charges were the most important factor, the increase in the share who chose a cheaper fund under the treatments are more modest (effects versus the baseline range from 1.9pp to 8.7pp) and less statistically significant, although the sample size for this sub-group is relatively small (606 choices in total). This can largely be explained by the fact that a high share of this group (84.8%) chose a lower cost fund under the baseline, indicating that this group are already minimising costs in their decision making.

Figure 15 Percentage who selected a lower cost fund, by perceived importance of charges



Note: Weights not applied.

Source: London Economics analysis of experiment data

Table 5 Treatment effects for the percentage who selected a lower cost fund, by perceived importance of charges

Importance of charges in the respondent's choice:	Treatment effect:	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Identified charges as the first most important factor ^[1]	Versus Baseline	0.050 (0.053)	0.019 (0.056)	0.087* (0.045)	0.084* (0.044)
	Versus Warning Only	n/a	-0.031 (0.058)	0.037 (0.047)	0.033 (0.046)
Identified charges as the second most important factor ^[2]	Versus Baseline	0.084** (0.040)	0.117*** (0.035)	0.107*** (0.040)	0.119*** (0.036)
	Versus Warning Only	n/a	0.033 (0.034)	0.023 (0.039)	0.035 (0.034)
Identified charges as the third most important factor ^[3]	Versus Baseline	0.054 (0.064)	0.095 (0.060)	0.120** (0.057)	0.088 (0.057)
	Versus Warning Only	n/a	0.041 (0.067)	0.066 (0.064)	0.034 (0.064)
Charges outside the top 3 most important factor ^[4]	Versus Baseline	0.043 (0.082)	0.116 (0.073)	-0.020 (0.074)	0.135 (0.090)
	Versus Warning Only	n/a	0.073 (0.076)	-0.063 (0.077)	0.092 (0.093)

Note: [1] N=606 choices in total. [2] N=1,416 choices in total. [3] N=642 choices in total. [4] N=483 choices in total. Standard errors in parentheses. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

3.5 Treatment effects by subgroup

This section presents exploratory analysis of the treatment effects by subgroup. It is important to note that this analysis was not the primary aim of the research and care should be taken when interpreting these results due to the small sample sizes for some subgroups. Specifically, this section examines the treatments effects depending on the respondent's characteristics (their investable assets, education and financial literacy), whether they the more information pages, the charges of the six funds shown to them in the experiment (both the overall level of charges and the difference between the low and high charge funds), and the typical size of investment they make into a fund at any one time.

3.5.1 Demographic subgroups

Table 15 in section A6.3 (in Annex 6) shows that generally the proportion of experiment respondents who chose a lower cost fund did not vary substantially depending on various characteristics such as age, gender, region, socioeconomic group and investable assets. The exception was the youngest group of 18-34 year olds, who tended to be less likely to select a lower cost fund. More interesting, though, are the differences in the treatment effects between demographic subgroups. These are summarised in Table 6 and discussed below, with full details provided in section A6.4 in Annex 6.

Table 6 Treatment effects by level of investable assets, education and financial literacy

	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Investable assets				
<i>Investable assets of £10,000 to £49,999 (N=789 choices in total):</i>				
Treatment effect vs. Baseline	0.07	0.025	0.107*	0.144***
Treatment effect vs. Warning Only	n/a	-0.045	0.037	0.074
<i>Investable assets of £50,000 or over (N=2,358 choices in total):</i>				
Treatment effect vs. Baseline	0.058*	0.097***	0.069**	0.092***
Treatment effect vs. Warning Only	n/a	0.039	0.011	0.034
Education				
<i>High education^[1] (N=1,689 choices in total):</i>				
Treatment effect vs. Baseline	0.091**	0.132***	0.0121***	0.130***
Treatment effect vs. Warning Only	n/a	0.041	0.03	0.038
<i>Medium education^[2] (N=1,080 choices in total):</i>				
Treatment effect vs. Baseline	0.06	0.056	0.079*	0.078*
Treatment effect vs. Warning Only	n/a	-0.003	0.02	0.018
<i>Low education^[3] (N=378 choices in total):</i>				
Treatment effect vs. Baseline	-0.072	-0.053	-0.073	0.056
Treatment effect vs. Warning Only	n/a	0.018	-0.001	0.128
Financial literacy				
<i>High financial literacy^[4] (N=2,562 choices in total):</i>				
Treatment effect vs. Baseline	0.071**	0.096***	0.106***	0.103***
Treatment effect vs. Warning Only	n/a	0.025	0.035	0.033
<i>Low financial literacy^[5] (N=585 choices in total):</i>				
Treatment effect vs. Baseline	0.039	0.025	-0.047	0.081
Treatment effect vs. Warning Only	n/a	-0.014	-0.086	0.042

Note: [1] Obtained a first (e.g. BA, B.Sc, B.Ed) or higher (e.g. M.Sc, Ph.D) degree. [2] Highest qualification is one of: recognised trade apprenticeship; advanced City & Guilds certificate; ONC; GCE A-level or Higher Certificate; Scottish Higher Certificate; nursing qualification (e.g. SEN, SRN, SCM, RGN); teaching qualification (not degree); university diploma; other technical, professional or higher qualification. [3] No formal qualifications or highest qualification is one of: youth training certificate/Skillseekers; clerical and commercial; City & Guilds certificate; CSE grades 2-5; CSE grade 1, GCE O-level, GCSE, School Certificate; Scottish Ordinary/ Lower Certificate. [4] Answered both financial literacy questions (UA17 and UA18) correctly. [5] Answered one or both financial literacy questions (UA17 and UA18) incorrectly. Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Treatment effects by level of investable assets

For those with at least £50,000 of investable assets, all four treatments in the experiment had statistically significant effects versus the baseline regardless of whether the data was weighted, with impacts ranging from 5.8pp to 9.7pp (see Table 6 above).

For those with lower investable assets, in the range of £10,000 to £50,000, only the treatment with the review screen had a statistically significant effect versus the baseline (of 14.4pp) irrespective of whether the data was weighted. However, the lack of statistically significant results for the other treatments among this group may be due to the relatively small sample (just 158 choices on average per treatment), which makes it more difficult to detect statistically significant treatment effects.

Treatment effects by level of education

The treatment effects were strongest among those with a high level of education (i.e. with a university degree). For these respondents the treatment effects versus the baseline ranged from 9.1pp to 13.2pp, all of which were statistically significant when the weights were applied (all except one were also statistically significant when the data was not weighted, the exception being treatment with the warning alone).

For those with a medium level of education (with some qualification above GCSE level and a highest qualification of A-level or similar) the effect of the treatment with the review screen relative to the baseline was 7.8pp, and was statistically significant regardless of whether the weights were applied. The effect of the treatment with the impact chart, at 7.9pp, was statistically significant for this group, but only if the data was not weighted.

No statistically significant treatment effects were found for respondents with low education (with a highest qualification of GCSE level or similar or no qualifications). However, the sample size for this group was very small (76 choices per treatment on average), which greatly limits our ability to detect treatment effects.

Treatment effects by level of financial literacy

The effects of the treatments were stronger among those with high financial literacy.⁴⁹ For these respondents all treatment effects versus the baseline were statistically significant, ranging from 7.1pp to 10.6pp. Conversely, the analysis did not find any statistically significant treatment effects for those with low financial literacy, although again this is unsurprising due to the small sample size for this group (on average just 117 choices per treatment).⁵⁰

3.5.2 Whether the detailed fund information pages were viewed

Table 7 summarises the treatment effects relating to whether a lower cost fund was chosen for choices where the respondent viewed at least the first detailed page for at least one fund and, conversely, for choices where no detailed pages were viewed (for any fund). Full details of these results are presented section A6.5 in the annexes. These two groups each account for around half the choices made in total (47% and 53% respectively), so the sample sizes are still reasonably large (1,481 and 1,666 choices respectively).

These results show that when the respondent engaged and viewed at least one detailed page the treatment effects versus the baseline were larger (10.8-11.7pp) and more statistically significant. The treatment effects for this subgroup were found to be statistically significant for all four treatments regardless of whether the weights were applied (unlike those for the full sample or when the respondent did not view any detailed pages).

It is especially interesting to consider the impact of the treatment with the comparator chart on the first detailed page, if the respondent viewed this page for at least one fund. Whereas based on the

⁴⁹ Respondents are defined as having 'high' financial literacy if they answered both financial literacy questions (UA17 and UA18) correctly, otherwise they are defined as having 'low' financial literacy. Questions UA17 and UA18 related to compound interest and inflation. These questions can be seen in the survey script in the annexes.

⁵⁰ The treatment effect that is closest to being statistically significant for the low financial literacy group is the effect of the treatment with the review screen versus the baseline, at 8.1pp with a p-value of 0.255. A p-value of this size implies that we can be 74% sure that the treatment had an impact for this group (i.e. well below the 90% threshold for statistical significance, but not negligible).

full sample the results for this treatment were mixed (see section 3.2.3), among those who inspected at least one detailed page its effect relative to the baseline was statistically significant irrespective of whether the data is weighted.

Table 7 Treatment effects depending on whether detailed fund information was viewed

	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Viewed a detailed information page for at least one fund (N=1,481 choices in total):</i>				
Treatment effect vs. Baseline	0.108***	0.117***	0.114***	0.109***
Treatment effect vs. Warning Only	n/a	0.009	0.006	0.001
<i>Did not view any detailed information pages for any funds (N=1,666 choices in total):</i>				
Treatment effect vs. Baseline	0.025	0.057	0.046	0.102***
Treatment effect vs. Warning Only	n/a	0.033	0.021	0.078**

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

3.5.3 Charge levels and differences in charges among the funds shown in the experiment

In the experiment the fund sets shown to individual respondents differed in terms of the charges of the funds. Specifically, the average level of charges of the six funds varied across the sets, and so did the 'fee gap', i.e. the difference between the charges of the lower costs funds and the charges of the higher cost funds in the set. The funds sets were randomised across respondents (and hence across the treatments) meaning that the charge levels and fee gaps were very similar across the treatments. The treatment effects by level of charges and fee gap are summarised in Table 8 with full details presented in section A6.6 in Annex 6.

Treatment effects by average level of charges

The share of respondents who chose a lower charge fund was consistently higher under the four treatments compared to the baseline irrespective of the average level of charges of the funds in the set. There is a mixed picture, though, across the treatments regarding the size and statistical significance of these differences. For fund sets with (on average) below average charges, the treatment effects versus the baseline ranged from 9.9pp to 11.6pp (see Table 8) and were statically significant for all four treatments regardless of whether the weights were applied.⁵¹ Whereas, for fund sets with above average charges (on average) the treatment effects were smaller, ranging between 3.3pp and 11.5pp, and only the impact of the treatment with the review screen was statistically significant irrespective of whether the data was weighted.

⁵¹ The distinction between above and below average is based on a market average figure of 0.89% (which was provided by the FCA). This is very close to the overall average of the funds presented in the experiment, which was 0.90%. Fund sets with an average charge below the market average had average OCFs in the range 0.69-0.86%. Fund sets with an average charge above the market average had average OCFs in the range 0.94-1.11%. Choices where the average level of charges of the funds in the set was equal to the overall average of 0.90% are excluded from Table 8.

Treatment effects by fee gap

The proportion of respondents who chose a lower cost fund was always higher under the four treatments relative to the baseline regardless of the fee gap. However, the sizes and statistical significance of the treatment effects versus the baseline varied by treatment and fee gap. These treatment effects were typically slightly larger when the fee gap was large⁵² (the exception being the treatment with the review screen, the effect of which was fairly uniform across the fee gaps). The only treatment effects that were statistically significant both when the weights were applied and when they were not applied were the effects of the review screen treatment (regardless of the fee gap) and the treatments with the impact and comparator charts specifically when the fee gap was large.

Table 8 Treatment effects by average charge of funds in the set and fee gap

	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Average charge of funds in the set				
<i>Average charge of the funds was above the average for UK equity funds (N=1,467 choices in total):</i>				
Treatment effect vs. Baseline	0.033	0.072**	0.058	0.115***
Treatment effect vs. Warning Only	n/a	0.04	0.025	0.082
<i>Average charge of the funds was below the average for UK equity funds (N=1,469 choices in total):</i>				
Treatment effect vs. Baseline	0.101***	0.116***	0.113***	0.099***
Treatment effect vs. Warning Only	n/a	0.015	0.012	-0.002
Fee gap				
<i>Fee gap was small (0.17 percentage points) (N=1,260 choices in total):</i>				
Treatment effect vs. Baseline	0.067	0.098**	0.072*	0.110***
Treatment effect vs. Warning Only	n/a	0.032	0.005	0.043
<i>Fee gap was medium (0.26 percentage points) (N=1,053 choices in total):</i>				
Treatment effect vs. Baseline	0.034	0.036	0.061	0.098**
Treatment effect vs. Warning Only	n/a	0.002	0.027	0.063*
<i>Fee gap was large (0.34 percentage points) (N=834 choices in total):</i>				
Treatment effect vs. Baseline	0.088*	0.124***	0.106**	0.098**
Treatment effect vs. Warning Only	n/a	0.036	0.018	0.013

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

3.5.4 Typical size of investment into a fund at any one time

Before the start of the experiment respondents were asked what size of investment they typically make at any one time into a single fund. The distribution of responses to this question and the treatment effects by the level of the respondent's typical investment are presented in section A6.7 in Annex 6. The treatment effects by typical level of investment are summarised in Table 9 below.

⁵² The fee gap is defined as three categories: small, medium and high. A small fee gap has a 0.17 percentage point difference, a medium fee gap has a 0.26 percentage point difference and a high fee gap has a 0.34 percentage point difference.

These results show that respondents who said they typically invest larger amounts at a time (£5,000 or more) were less likely to select a lower cost fund than those who invest less at a time, under both the baseline and the treatments (although this is expected given the results on treatment effects by level of investable assets reported above, since the amount typically invested is correlated with investable assets).⁵³

The largest treatment effects were for those who typically invest between £5,000 and £9,999 into a fund at a time. The treatment effects versus the baseline were always positive irrespective of typical investment amount, with just one exception (the effect of the impact chart treatment, which was -0.3pp). However, the statistical significance of the results varies depending on the respondent's typical level of investment (although the caveat of relatively small sample sizes at subgroup level should again be noted).

In line with the results for the full sample, the treatments that had the most consistent effects (in terms of being statistically significant) across different investment levels were the treatments with the impact chart and the review screen. The effect of the review screen treatment versus the baseline was statistically significant for three of the four investment level bands analysed (the exception was the £1,000-£4,999 band, although the result for the £5,000-£9,999 band was not statistically significant when the weights were applied). The effect of the impact chart treatment relative to the baseline was statistically significant for two of the four investment level bands (namely the £1,000-£4,999 and £5,000-£9,999 bands, although only for the latter when the weights are applied).

Table 9 Treatment effects depending on by typical size of investment into a single fund at any one time

	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Typical investment size of less than £1,000 (N=813 choices in total):</i>				
Treatment effect vs. Baseline	0.007	0.074	-0.003	0.102**
Treatment effect vs. Warning Only	n/a	0.067	-0.010	0.094*
<i>Typical investment size of £1,000 to £4,999 (N=1,134 choices in total):</i>				
Treatment effect vs. Baseline	0.059	0.049	0.077*	0.063
Treatment effect vs. Warning Only	n/a	-0.010	0.019	0.004
<i>Typical investment size of £5,000 to £9,999 (N=471 choices in total):</i>				
Treatment effect vs. Baseline	0.154**	0.133*	0.138**	0.161**
Treatment effect vs. Warning Only	n/a	-0.020	-0.016	0.007
<i>Typical investment size of £10,000 or more (N=615 choices in total):</i>				
Treatment effect vs. Baseline	0.000	0.080	0.085	0.106*
Treatment effect vs. Warning Only	n/a	0.080	0.085	0.106

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

⁵³ Among those with less than £50,000 of investable assets 16% typically invest £5,000 or more into a fund at a time, while among those with £50,000 or more of investable assets the share is 42%.

3.6 Precedence of advisors' recommendations

The advisors who took part in the focus groups argued that their recommendations take precedence in investors' decision-making and that most clients prioritise their advice over written information in investment documents. According to the advisors, clients consider a range of factors when making decisions but are ultimately steered by their advisors, since they pay for their expertise and trust their recommendations. Hence, when shown the treatments many advisors thought that generally there would be little impact on investors' decision-making compared to their own advice. Relevant quotes are presented in Box 10.

Box 10 **Quotes from advisors regarding the precedence of their recommendations**

- *"I wouldn't say they choose them as they seek my advice to make that decision"* (National firm)
- *"Nine times out of ten they buy what we sell them"* (Small firm, outside of London/SE)
- *"Ultimately a client will default to our recommendation. We can't have the passengers navigating the ship!"* (National firm)

That said, there was some evidence that more sophisticated advised clients do challenge their advisors on the basis of fees and that the share of advised clients who care about charges has risen as a result of media attention on charges and the growth of passive funds. Some advisors noted that some clients are also more cost sensitive, with value for money being key.

4 External validity of the results

A key aspect of any experiment is its external validity, meaning the extent that the results can be generalised to the real world. This chapter considers the external validity of our experiment.

Ensuring external validity in the design phase

Behavioural experiments are often used to inform policy making and can be useful for testing the effect of market practices and potential remedies on consumer decision-making.⁵⁴ Experiments conducted online or in the laboratory must be carefully designed such that the observations from the experiment are meaningful. This is referred to as external validity, and refers to the extent that observations can be transferred to real world settings.

For experiments to provide meaningful insights for policy-making they must be designed to capture the important features of the market of interest, while not introducing too much complexity.⁵⁵ To achieve this, the design must capture the features of the environment that are fundamental to consumer decision-making.

Detailed research was undertaken in the design phase to ensure that the observations from the experiment can be transferred to the real world setting in which investors search for and compare funds. The functionality and look and feel of the platform was based on extensive desk research on existing platforms. In addition, qualitative research, including focus groups with investors and advisors and a pilot, was used to refine the experiment environment to maximise the external validity. As explained in section 2.1, this research was used to fine-tune a range of aspects including the scenario given to respondents, how investors could compare and choose between the funds (i.e. the functionality of the platform), the content and look of the landing page and detailed information pages, the fund names, and the treatments.

The final experimental environment was thus a carefully designed simplification of reality which captured the fundamental features of real platforms in terms of the information it provided and the functionalities it offered.

Use of incentives

Respondents were given a flat fee as an incentive to participate in the survey and experiment. The option was explored to add an incremental payment to respondents who chose the cheapest fund, in order to incentivise respondents to pay attention in the task. However, it was ultimately decided that respondents would be paid only a flat fee for participation. This was because it was felt that introducing an incentive based solely on selecting the cheapest fund would take respondents' attention away from other important funds attributes (e.g. performance) and this would result in behaviour conditioned on the incentive and not how investors would behave in the 'real world'.

⁵⁴ Financial Conduct Authority (2014) Occasional Paper no.3, 'How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation'.

⁵⁵ R.G. Cummings, M. McKee, L.O. Taylor (2001) 'To whisper in the ears of princes: laboratory economic experiments and environmental policy', In *Frontiers of Environmental Economics*. Edward Elgar Publishing

Evidence from the post-experiment interviews and the survey

Insights from the in-depth interviews concerning the external validity of the experiment include a) insights regarding whether the experiment environment was realistic and b) insights regarding whether behaviour in the experiment reflected how respondents would act in reality. In general, the evidence in both of these two areas supports external validity of our experiment.

In terms of the realism of the experiment environment, in most respects the evidence from the twelve in-depth interviews provides support in favour of the external validity of the experiment. Investors spontaneously mentioned that the landing page looked similar to platforms they currently use, and the charge amounts, fund performances, fund names and other information and terminology presented on the landing page were considered to be realistic. In addition, those who looked at the detailed pages generally found them to be realistic, and the treatments themselves were seen as realistic. Investors expect to see warnings and the warning was seen as realistic. Interviewees could imagine the impact chart being suitable for a platform, and noted that review screens are included on real financial and utility platforms and so would not be out of place.

The only exception is that a number of interviewees would like to have had more information on the sectors and the fund manager's experience. Although some said that not having the manager's experience would deter them from investing, the share of survey respondents who reported that they would not have invested in their chosen funds in reality did not vary greatly by treatment.⁵⁶ Furthermore, a low share of respondents (21.4%) reported that seeing a particular fund brand name would have affected their choices, and this did not vary significantly across treatments (from 18.8% to 20.3%).

Box 11 Quotes from the in-depth interviews regarding the realism of the experiment

- *"Very similar to what I have seen before. It is a good starting position but I always need more information"*
- *"All fairly realistic – I could imagine it being on a platform"*
- *"Fairly realistic but I understand the limitations of it being in a survey. A level of detail is not there but the summary and wording relates e.g. key facts, charges, performance over 5 years and cumulative."*
- *"I like to have this type of screen [the review screen] – it makes me check again and can help people think more. I have seen them before on other financial provider websites"*

In terms of respondents' behaviour, the main difference between that in the experiment and real-life investing behaviour, according to the interviewees, is that in reality they would take more time to reflect and conduct further research, which could potentially somewhat dilute the overall effectiveness of the treatments.

However, the evidence also suggests that respondents generally examined the funds in the experiment as they would in reality, looking at the same fund characteristics as they would normally do. Most studied the past performance upon first seeing the landing page, which they said was their usual behaviour, before considering the charges of all funds that have performed to a satisfactory level. As they do in reality, respondents place importance on past performance and looked for funds with a strong and stable performance over the five years. Funds with higher charges and lower

⁵⁶ For three of the four treatments the share ranged between 40.6% and 43.1%, while for the other treatment (the treatment with the impact chart) the share was somewhat lower at 31.8%.

performance compared to others were often discounted straight away (as were funds with higher charges and more variable performance), suggesting that behaviour in the experiment was rational (to an extent), which is what would be expected of investors when making investment decisions in reality.

Limitations of the experiment

The experiment was designed to maximise external validity but, as for all controlled behavioural experiments, the simplification necessary such that the experiment could isolate the effects of the individual treatments on decision-making led to some limitations:

- Although the experiment environment captured the fundamental features of online platforms it was not feasible, nor desirable, to capture the full diversity of information and actions available to investors on a real platform. If the platform design had been very complex, there would have been a risk that too much noise would have been found in the data meaning the treatment effects could not be isolated.
- To ensure that the experiment provided a clearly defined outcome measure, the fund sets presented to respondents had to be constructed in a specific way (see section 2.1.3). This limited the diversity of the funds shown relative to the real world. However, as noted above, the interviews with investors provided evidence that the fund characteristics were seen as realistic by respondents.
- The experiment began from the point where the investor had narrowed the options to a set of six funds and respondents had to select a single fund there and then. Investors may not behave like this in reality. They might, for example, select more than one fund and/or do additional research before making an investment (indeed some interviewees told us that this was the case), although it is unclear how this would interact with the impact of the treatments.
- Although the universe of charges included in the experiment accurately mirrored reality for UK equity funds, the charges shown may not have reflected what investors would see in reality after narrowing the selection to just six funds (e.g. the filtering process may reduce the range of charges among the six). However, as discussed in section 3.5.3, the share that chose a lower cost fund was consistently higher under the four treatments compared to the baseline irrespective of the average level of charges of the funds or the size of the 'fee gap'.
- Although the sample size of just over 1,000 respondents allowed us to identify treatment effects to a relatively high degree of accuracy, while also being feasible to collect within the time frame of the study, as with any experiment a larger sample size may have allowed us to identify further treatment effects with statistical significance.

Such limitations are standard in all controlled behavioural experiments. However, a well-designed experiment that takes care in its external validity helps to ensure that the relative effects of the treatments hold in the real world. There is an important distinction between the absolute effects (i.e. the precise magnitudes of effects) and relative effects (i.e. the presence, direction and relative sizes of effects).⁵⁷ As a result of the necessary simplification of the real world in order to isolate the causal effects of treatments, controlled experiments are less well suited to the measurement of

⁵⁷ Financial Conduct Authority (2014) Occasional Paper no.3, 'How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation'.

absolute effects, while even highly stylised experiments provide reliable predictions of the real-world difference between treatments.⁵⁸

⁵⁸ Duke, C., Huck, S and Wallace, B (2010) 'Experimental Economic Research'. A London Economics report for Ofcom.

5 Conclusions

This chapter presents the overall conclusions of the study based on all strands of the research.

Impacts of the treatments

The most effective treatment was the **review screen** coupled with the warning. This treatment had the largest and most statistically significant impacts on the likelihood that respondents selected a lower cost fund, as well as various measures of respondents' awareness and understanding of charges – a summary of the treatment effects for all treatments is provide in Table 10 overleaf. The review screen also received good qualitative support from the three interviewed investors who saw this treatment.

There is also convincing evidence of the effectiveness of the treatment with the **impact chart and warning**. The experiment provided strong support for the overall effectiveness of this treatment in terms of prompting respondent investors to select a cheaper fund, with a relatively large and highly significant impact on this experimental outcome measure, as well as its impact on some outcome measures relating to awareness and understanding of charges. Some advisors felt this chart could help clients' decision-making by helping them to understand the effects of compounding, although the three interviewed investors who saw this chart expressed mixed views on its likely impact.

The treatment with the **comparator chart** displayed on the first detailed page and the warning on the landing page had some limited impact on respondents' decision-making and awareness of charges. There is some evidence that under this treatment respondents were more likely to select a lower cost fund, although this result is sensitive to the analysis approach (whether the data was weighted). In the qualitative research both advisors and investors gave mixed views regarding the potential impact of this chart.

That said, it is the presence of the comparator chart on the review screen that can explain the large improvement in respondents' awareness of how the charge of their chosen fund compared to the average for UK equity funds, and thus the results do provide strong support for the chart as a tool.

The **written warning alone** had some limited impact on respondents' tendency to choose a lower cost fund and on their awareness of charges, although these results are sensitive to whether or not the data was weighted. The warning itself appears to account for some proportion of the significant overall impacts when it is combined with other treatment elements. Overall, the investors who were interviewed felt the warning had little impact on their decision making and, similarly, advisors in the focus groups were sceptical about the likely effectiveness of written warnings.

A caveat to the discussion above is that there is uncertainty regarding whether the effectiveness of the treatments seen at the aggregate level would apply for less 'sophisticated' investors (i.e. those with low assets, education and financial literacy), due to limited sample sizes for these investors (see section 3.5.1).

Table 10 Summary of treatment effects

	Warning Only treatment	Warning & Comparator Chart treatment		Warning & Impact Chart treatment		Warning & Review Screen treatment	
	vs. Baseline	vs. Baseline	vs. Warning Only	vs. Baseline	vs. Warning Only	vs. Baseline	vs. Warning Only
Decision-making in the experiment:							
Selected a lower cost fund in the experiment	0.062**	0.084***	0.022	0.078***	0.016	0.105***	0.043
Awareness and understanding of charges:							
Correctly identified the following for their chosen fund:							
Level of OCF	-0.009	0.072	0.082*	0.105**	0.114**	0.098**	0.107**
How OCF compared to other funds shown	0.103**	0.097**	-0.006	0.065	-0.037	0.113**	0.011
How OCF compared to market average	0.007	0.053	0.046	0.010	0.003	0.261***	0.254***
Whether an ongoing charge (OCF) applied	-0.007	0.048	0.056	0.066	0.073	0.098**	0.105**
Whether or not each and every charge applied	0.026	0.019	-0.007	0.077***	0.051*	0.051**	0.025

Note: Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Importance of prominence

Few experiment respondents viewed the detailed fund information pages (despite being explicitly informed that they could do so) and the comparator chart had a much greater impact when it was displayed with more prominence on the review screen than when it was shown on the first detailed page. These findings illustrate the importance of the prominence of any disclosure measures (i.e. where information is placed), as other research⁵⁹ has also found.

Stated importance of charges

In line with the investor and advisor focus groups, overall charges were the second most important factor in respondents' decisions in the experiment after performance. Moreover, the treatments did not notably affect the extent to which respondents reported charges as being important.

The treatment effects were strongest among those who recognised the importance of charges in their choices, but did not see them as the most important factor. Conversely, those who said that charges were the most important factor were, very often, already choosing the cheaper funds even under the baseline. The treatment effects were thus more modest and less statistically significant among this group.

Investors' preferences with respect to historic performance

In the experiment, the shares of respondents who chose funds with high, medium or low past performance did not vary to any great extent between the treatments. The largest shifts under the treatments relative to the baseline were from the high performing/high charge fund to the high performing/low charge fund.

Thus, respondents' preferences with respect to performance were unaffected by the treatments. This finding, as well as the finding (mentioned above) that the treatments did not affect the extent that respondents said charges were important, implies that the treatments influenced peoples' choices without changing their preferences.

Precedence of advisors' recommendations

Advisors argued that most clients prioritise their advice over written information in investment documents. Since clients have approached an advisor for their expertise the most influential source of information is the advisor. Thus, when shown the treatments many advisors thought that these would have little impact on investors' decision-making compared to their own advice. That said, there was some evidence that some advised clients do challenge their advisors on the basis of fees and that the share of advised clients who care about charges has increased.

⁵⁹ For example, a recent behavioural experiment by London Economics for the European Commission ('Study on consumers' decision-making in insurance services: A behavioural economics perspective', 2017) found that consumers rarely clicked to see detailed information on non-life insurance products, and Roth et al. (2013) ('Location matters, especially for non-salient features—An eye-tracking study on the effects of web object placement on different types of websites, International Journal of Human-Computer Studies, 2013) found that the placement of objects on web pages matters through an eye-tracking study.

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ANNEXES

Annex 1 Focus group guide – Preliminary groups with investors

Two different guides were used during the preliminary focus groups with investors. Guide 1 was used with the first group. Following the first group some refinements were made to the guide (e.g. changes to the stimuli presented) in order to create Guide 2, which was used in the second and third groups. These two guides are presented here.

Guide 1: Discussion guide for online focus group with consumers (group 1)

Introductions (5-7 minutes)

Good evening and thanks for being on time. My name is Olivia/Mel and I will be moderating the session for the next 1.5 hours.

Just a few points before we start. Today's discussion is a very informal session - I am here to hear your thoughts and opinions. So please be as open and honest as possible, and the more you have to say, the better!

Everything you share is anonymous and will not be attributed to you.

Please also remember that there are no right or wrong answers and please also respect each other's views even if they are different from your own.

- Please start by introducing yourself by your first name, age and region
- What is your job role, if relevant?
- What hobbies/interests do you have?

Section 1: Warm up and understanding of decision making (10- 15mins)

Tonight we will be talking about financial investing in funds and the decision making processes involved.

- How would you describe your financial attitudes? What shapes and drives your financial attitudes and behaviours?
 - How risk averse are you? Why do you say this?
 - How financially confident would you say you are? E.g. understanding of financial information, interest rates, returns, charges etc. Do understand what is meant by the terms “net returns” and “net ongoing charge”?
- Which of the following investment products do you hold or have ever held? Please say the related number
 1. *Stocks & Shares ISA. This is not a cash ISA*
 2. *Junior Stocks & Shares ISA on behalf of a child. This is not a Junior cash ISA*
 3. *Self-Invested Personal Pension. This is also called a SIPP*
 4. *An Individual Personal Pension. This is not a pension scheme connected with your employer*
 5. *An income drawdown plan. This is a policy through which your pension money is invested in a range of funds*

6. *Investment funds (e.g. Unit Trusts, OEICs, Investment Trusts, exchanged traded funds ETFs) which are not in an ISA or pension and where the investments are managed by a fund manager, rather than you picking assets such as shares and bonds*
- How do you invest in funds? Do you ever invest in funds via an online platform? Do you ever use a mobile to do fund research and/or invest in a fund (this excludes dealing after the initial investment in the fund has been made)?
 - What are your views on how charges are presented to investors? E.g. clarity, format, language, ease of understanding, stand out or not

Section 2: Testing components of the experiment (1- 1.10hr)

Section 2.1: Have we got the steps/process correct, is it realistic and familiar

- Thinking about the process of investing in a fund via an online platform, what steps are usually involved?
- When you choose a fund to invest in, do you typically: examine one fund at a time; or examine information on different funds side-by-side; or compare funds in some other way?
- How many funds do you typically open to compare information about when considering an investment in a particular sector?
- Thinking about when you are comparing multiple funds together on a platform, what information about the funds is usually presented?
- How many funds are do you usually see on a screen at the same time?
- When looking at for multiple funds on the screen at the same time, what information are you usually presented with at this stage?

Section 2.2: Testing investment scenarios

We will now present you with some hypothetical investing scenarios, which you find yourself in.

Please look at the scenario shown on the whiteboard:

Imagine you have £10,000, and you are choosing to invest it in an actively managed fund. Please select the fund that you would choose to invest this money into, given the information provided about the fees and performance on the following screens.

- Would this be a realistic scenario for you, could you imagine it?
- Suppose you were asked to consider this scenario and to choose a fund to invest in from a given list of funds, do you think you would be able to do so (choose a fund)?
- Why (not)?
 - Prompt: Is it realistic to be told to imagine you will be investing in an actively managed fund, rather than passive?
- What further information, if any, would you require in this scenario to be able to choose a fund?
 - Prompt: Whether you should be looking for an accumulation or income fund, a fund with a certain number of holdings or of a certain size

- Prompt: Is accumulation versus income an important distinction for you

Now please consider another scenario:

Imagine you have £10,000 and you are choosing to invest it over the long term, and are going to invest it into an actively managed fund. Please select the fund that you would choose to invest this money into, given the information provided about the fees and performance on the following screens.

- And how about this scenario? [Repeat discussion above.]
- How realistic would it be for you if the amount was £1,000? £5,000? Why or why not? Can you imagine these scenarios or not?

Now please consider one further scenario:

Imagine you have £10,000 and you are choosing to invest it over the long term, and are going to invest it into an actively managed European equities fund. Please select the fund that you would choose to invest this money into, given the information provided about the fees and performance on the following screens.

- And how about this scenario? [Repeat questions from above.]
- Does 'European equities' make sense to you? Is there a more user-friendly way to express this?

Section 2.3: Testing screen 1 – is it realistic

We will now be showing you mock ups of a hypothetical platform for searching for investment funds. These are all mock ups. Please give us your honest opinion of your understanding of the information. The first mock ups show you some fund information from which you could select your preferred investment fund as if you were in one of the scenarios we previously discussed.

[Present the first version of screen 1 to participants (slide 2)]

[Present the second version of screen 1 to participants (slide 3)]

[Note: One key aim here is to determine whether participants think there is anything missing in slide 2, and then when shown slide 3, what they think is superfluous. We suggest showing slide 2 first and going through the questions below. Then show slide 3 and ask people about the same issues and to consider which (slide 2 or slide 3) is most realistic in terms of the type and amount shown on the landing page of a platform.]

Questions after each screen:

- Please look at the screen, which shows some information about alternative funds.
- Looking at this screen, what thoughts / associations come to mind - both positive and negative - on viewing this? Why?
- Would you say this looks like a platform on which you could in reality search for fund information? If not, why not?
- Which pieces of information are missing? Why?

- What further information would you need to make a choice? [Specifically note whether they mention, unprompted, income versus accumulation]
- And is there any information shown which you do not think is important/relevant enough to be displayed here?
- What information and fund characteristics most catch your attention? Why is this?
- Which fund is most appealing and why? *E.g A or B*
- Which fund is least appealing and why?
 - What information and fund characteristics would influence your investment decision and in what way? *E.g. make you more or less likely to choose a specific fund*

General question: Does having unbranded funds (e.g. Fund A, Fund B etc.) prevent you from imagining that this is a real platform. To what extent does it reduce the realism of the task? Would you prefer hypothetical fund names?

Section 2.4: Testing treatment variants of screen 1

We will now show you some slightly different versions of the first mock up you saw [note by ‘first mock up you saw’ we are referring to slide 1].

[Present the third version of screen 1 to participants (slide 5)]

[Present the fourth version of screen 1 to participants (slide 6)]

For each screen explore the following questions:

This screen contains the same funds as before but uses a different presentation of the charges.

- What thoughts / associations come to mind – both positive and negative – on viewing this? Why?
- When discussing:
 - Slide 5, note to participants that *‘this screen shows the net ongoing charge in pounds and pence’* (point out the relevant column in the table)
 - Slide 6, note to participants that *‘this screen shows the net ongoing charge more prominently in percentages, without the pounds and pence figures’* (by making these numbers bold, and the column heading darker)
- What impact, if any, do you think this [referring to the above sub-bullet points] would have on the importance you place on the charges compared to the other fund attributes? Why?
- In general, what impact, if any, does the presentation and format of charges information have on the importance you place on the charges compared to the other fund attributes? Please explain why
- What impact, if any, does the presentation and format of charges information have on your decision of what funds to invest in? Please explain why
 - Probe: what about the presentation and format do they like or dislike
 - Do you understand how the charges work, as they are presented here? Why or why not?
 - What is your understanding of the charges?
 - How could the presentation and format be improved to make the funds easier to compare?

- When discussing slide 5: Does the pounds and pence presentation of charges make them easier to understand? Would there be value in displaying them as well as percentages? Is charges per £10,000 investment useful or confusing?

Section 2.5: Testing setup of Screens 2 and 3 – is it realistic

Now I'm going to show you another screen which is intended to resemble the next screen you would see when searching for a fund on an online platform. It shows information on one investment fund, in more detail. Again, please imagine you are planning to invest in a fund.

[Present slide 8]

This mock shows one way of presenting extra information about Fund A. Here the table shown earlier would be expanded by the user in order to show extra information including the fund overview, performance and asset allocation. [Give people time to look at it and understand]

[Present slides 9 and 10]

These mocks show an alternative way of showing the extra information on Fund A. In this case this extra information would be shown on separate pages, rather than by expanding the table. [Give people time to look at it and understand]

Thinking about these alternative ways of presenting more detailed information a fund:

- Which of these is better, in your view?
- Which of these would best help you to choose a fund?
- Which seems most realistic to you?
- Would you prefer a combination of these, i.e. being able to expand the table and see further information on separate pages?

[Present each screen (slides 8, 9 and 10) sequentially]

For each screen, discuss the following:

- Please look at the screen, which shows some information about a certain fund.
- Looking at this screen, what thoughts / associations come to mind – both positive and negative – on viewing this? Why?
- Would you say this looks like a platform on which you could in reality search for fund information? If not, why not?
- Which pieces of information are missing? Why?
- And is there anything you wouldn't expect to see?
- Are you missing any information on this page to decide whether you would want to invest in this fund, or not?

Section 2.6: Testing treatment variants of Screens 2 and 3

[Present slide 9 again]

Please look again at the screen shown now. Now I am going to present you with a further screen, which is a variant of this screen.

[Present slide 13)]

Give participants a moment to look at the screen.

Discuss the following:

- What thoughts / associations come to mind - both positive and negative - on viewing this? Why?
- How does the presentation and format of the charges in this fund, compare to the last screen you were presented with?
 - Prompt (if participants don't notice the charges chart): Do you notice the chart showing ongoing charges?
- What are your thoughts on this way of presenting charges?
- Is this way of presenting charges clear? In what ways is it clear/not clear about it?
- Does it make the level of charges clearer (when the chart is not presented)?
- What impact, if any, do you think the presentation of charges in this screen would have on the importance you would place on charges compared to the other fund attributes? Why?
- And what impact would this presentation of charges have on the extent that you would take charges into account in your choice of fund? Why?
 - Probe: What about this presentation of charges do you like or dislike?

Now I will show you a series of screens, similar to the last ones, except the charges information placed in different positions on the page.

[Present the 3 alternative positions of charge info: charges at the top right (slide 15), bottom right (slide 16), or charges info beside past performance (slide 17)]

- In which position would you be most likely to read the charges information?
- Do you think the position of the charges information, would impact on the likelihood you would take charges information into account in your choice of fund?
- Do you think displaying charges and performance together, i.e. side by side, would make you think more about the charges in the context of returns?
- Are there any ways of presenting charges relative to performance that you think would be particularly effective?
- If the charges information was shown only on a later screen, such as the second page of detailed information about the fund, rather than the first page, do you think this would affect the likelihood you would take charges information into account in your choice of fund?

Section 2.7: Testing of specific warning messages

Present alternative warning variants on screen (sequentially) - shown in pairs:

- "Fund charges will reduce your investment returns."
- "Fund charges can significantly impact investment returns. Over time, charges can have a material impact upon your net returns"
- "Fund charges can significantly impact investment returns. Choosing a high-charge fund could lose you money."

- “Fund charges can significantly impact investment returns. Choosing a low-charge fund could save you money.”

For each different warning variant, explore:

- Looking at this screen, what thoughts / associations come to mind - both positive and negative - on viewing this?
- What are your views on this style of communication?
- How do you think this warning would affect your investment decisions?
- Would it make you think about charges more, the same, less?
- Where do you think this message would be best placed to help you guide your investment decision?

As a close to this section, explore:

- What are your views on the blunter wording relative to the softer warnings?
- Do you have suggestions regarding how warnings about charges might be presented at worded.

Section 3: Further discussion on important criteria when selecting a fund, and fees and charges

- What is your decision making criteria when deciding which investment fund to buy? Why?
- *Please see the whiteboard and rank the importance of each criteria - 1 being of most important.* Is anything missing here? If so, what and why?
 - Brand
 - Reputation of the firm managing the fund
 - Past performance
 - Likely return of the fund
 - Initial charges
 - Ongoing charges
 - Transaction charges
- What comes to mind when you think about ‘Investment fees and charges’? Words, associations, feelings, images
 - What are your views on charges? Positive, negative, indifferent etc, fairness
 - How much do you understand about charges associated with investment products? How clear are they? E.g. what are the different types of charges? Probe: ongoing charges and transactional charges?
 - How challenging is it to understand them, if at all? E.g. language used, inconsistency across providers/ products, uncertainty about charges in future (transactional charges)
 - How do you find out about the charges? E.g. do you read the key investor information documents (KIID), websites, financial blogs etc? Does the fund manager or financial adviser etc tell you?
 - How do you tend to consume this information- on a computer, tablet, mobile or in written documents? Why?
 - How easy is it to compare charges across products?
 - What does value for money look like to you when choosing an investment product? How do charges play into this, if at all?

- **What impact if any do charges have on your decision making process to choose a fund?** E.g. put you off, change your view on the fund- positively or negatively
- Do higher charges mean more chance of a product performing above average? Why or why not? Can higher charges be a good thing or not? Why?

Section 4: Conclusions (5-7 mins)

- On reflection, how do you now feel about charges?
- What, ideally, are you looking for in terms of charges information? What are the essential points? Has anything been missing in the information presented to you today? If so, what?
- What have been the most useful ways of presenting information of charges that you have seen tonight? *Probe: position on the screen, how the amount is displayed, prominence of the information, on which page the information is located etc.*
- What have been the least useful ways of presenting information of charges that you have seen tonight?
- Do you have any other ideas to improve the presentation and understanding of charges?

Thank you and close

Guide 1: Discussion guide for online focus group with consumers (groups 2 and 3)

Introductions (5minutes)

Good evening and thanks for being on time. My name is Olivia/Mel and I will be moderating the session for the next 1.5 hours.

Just a few points before we start. Today's discussion is a very informal session - I am here to hear your thoughts and opinions. So please be as open and honest as possible, and the more you have to say, the better!

Everything you share is anonymous and will not be attributed to you.

Please also remember that there are no right or wrong answers and please also respect each other's views even if they are different from your own.

- Please start by introducing yourself by your first name, age, job role/ working status and region

Section 1: Warm up and understanding of charges (5mins)

Tonight we will be talking about financial investing in funds and the decision making processes involved.

- What comes to mind when you think about 'Investment fees and charges'? Words, associations, feelings, images

- How much do you understand about charges associated with investment products? How clear are they? *Probe: ongoing charges and transaction charges?*
- What are your views on how charges are presented to investors? E.g. clarity, format, language, ease of understanding, stand out or not
- How easy is it to compare charges across products?
- **What impact if any do charges have on your decision making process to choose a fund?** E.g. put you off, change your view on the fund- positively or negatively
- Do you understand what is meant by the terms “gross returns”, “net returns” and “ongoing charge figure (OCF)”?

Section 2: Testing components of the experiment (1.15)

Section 2.1: Testing screen 1 – is it realistic

On the screen now I have presented a hypothetical investing scenario. Please read this investing scenario.

Imagine you have £10,000, and you are choosing to invest it in an actively managed fund. Please select the fund that you would choose to invest this money into, given the information provided on the following screens.

Looking at this scenario:

- Would this be a realistic scenario for you, could you imagine it?
- Specifically, would you require more information about the time horizon that you would be investing over?

We will now be showing you some mock ups of a hypothetical platform for searching for investment funds. These will represent the various screens you would see as you as you navigate through an online platform for funds.

The first few mock ups represents the first page you would see when using an online platform. It shows information on multiple funds, from which you could select your preferred fund, or to see more information about several funds. Please look at the mock up shown now.

[Present the first version of screen 1 to participants (slide 2)]

Later mock ups will show you examples of screens you could access from this screen by clicking on the “More info” button. The later mock ups will show more details information about a particular fund.

Looking at the screen currently shown:

Questions about the screen:

- What thoughts / associations come to mind - both positive and negative - on viewing this? Why?
- Would you say this looks like a platform on which you could in reality search for fund information? If not, why not?

- What further information would you need to make a choice? What information if any, is missing? *[Specifically note whether they mention, unprompted, income versus accumulation]*
- And is there any information shown which you do not think is important/relevant enough to be displayed here?
- At this screen, how many funds would you typically click to see more information for?
 - (If they would look at more than one) How would you view these? Would you view them side by side, or look at them one at a time.
- Which fund is most appealing and why? *E.g CD UK Special Situations, or Hearn's UK?*
- Which fund is least appealing and why?
- What are your views on the fund names? Does having hypothetical fund names prevent you from imagining that this is a real platform?

Show on board:

1. Sutern UK Select
 2. AF Special Situations UK
 3. Two Arrow UK
 4. Hearn's UK
 5. LE Capital UK
 6. Fullerian Strategy UK
 7. Cortstone UK Balanced
 8. C L UK Flexible
- Do any of these hypothetical names sound more, or less realistic? Why? You can write the related number.
 - Do any of these names sound especially appealing/unappealing?
 - Would you be more likely to invest in any particular fund purely based on their names presented here? Why or why not?
 - Did you notice that these funds are all “UK equities” funds? Would you be put off by being asked to invest in UK equities?

[Show slide 2 again]

- Did you notice that the funds are ordered by the size of the ongoing charges figure?
- Is this a helpful ordering? Why or why not?
- Would you like to be able to re-order funds? If yes, according to which criteria?
- When you use a platform, do you change the order in which the funds are shown?
 - (If yes) How do you usually order funds?

Section 2.2: Testing treatment variants of screen 1

We will now show you some slightly different versions of this mock up. These mock ups still show the first screen you would see when using an online platform, we have just made some changes to it compared to the first screen you saw.

Please look at the mock up shown now

[Present the second version of screen 1 to participants (slide 4)]

- Please note that this screen shows the ongoing charge in pounds and pence
- Do you think displaying the ongoing charge in this way would be useful for you? Why?
 - Does the pounds and pence presentation make charges easier to understand?
- Do you think displaying the ongoing charge in this way would impact on the way you compare funds
- Do you think it would impact on your choice of fund?

OK, now we are moving on to the next screen. Please look at the mock up shown now.

[Present the third version of screen 1 to participants (slide 5)]

- Please note that this screen shows a warning message in addition to the charges figures
- How would you feel about seeing this warning?
- How do you think you would react to this warning?
 - Prompt: Do you think it would make you focus on the charges more?
 - Why / Why not?
- (LOW PRIORITY, time permitting: How would you rephrase this warning, if at all?)

Great, thanks, now moving on to the next screen. Please look at the mock up shown now.

[Present the fourth version of screen 1 to participants (slide 6)]

- Please note that this screen shows a graph in addition to the charges figures
- How do you think you would react to this graph?
 - Prompt: Do you think it would make you focus on the charges more?
 - Why / Why not?

I can also show you a close up of this graph.

[Present the warning graph alone (slide 7)]

- What is your understanding of this graph? What do you think it represents?
- Do you find the graph intuitive or complex to understand and interpret? Why?
- What impact, if any, would this graph have on your decision of what funds to invest in? Please explain why.
- How would you improve any of the graphs you just saw?

Thanks all. We are now going to look at a couple of variations of this graph.

[Present second version of warning graph (slide 8)]

This is a simplified version of the previous graph. It shows the difference in fund performance only after 20 years, and no longer after 1, 10 and 15 years.

- Do you find this version clearer/easier to understand than the previous version?
- What impact, if any, would this graph have on your decision of what funds to invest in? Please explain why.

[Present third version of warning graph (slide 9)]

We now added an explanatory sentence to the graph.

- Does the sentence aid your understanding of the graph?
- What impact, if any, would this graph have on your decision of what funds to invest in? Please explain why.
- Do you find the graph intuitive or complex to understand and interpret? Why?

[Present fourth version of warning graph (slide 10)]

This screen shows a modified version of the previous graph.

- What is your understanding of the shaded area?
- What impact, if any, would this graph have on your decision of what funds to invest in? Please explain why.
- Which graph do you prefer? Among the different versions we just showed you? Why?
- How would you improve any of the graphs you just saw?

Section 2.3: Testing setup of Screens 2 and 3 – is it realistic

Thinking back to the very first mock up you saw – I will put it back on the screen now...

[Present slide 2 again]

We are now going to look at some mock ups of screens that you could access by clicking on “More info” on this screen. These next screens will show more detailed information for one of the funds, as if you had clicked to see more info on that fund.

Again, please imagine you are planning to invest in a fund.

[Present slides 12 and 13]

For each screen, discuss the following:

- Looking at this screen, what thoughts / associations come to mind – both positive and negative – on viewing this? Why?
- Would you say this looks like a platform on which you could in reality search for fund information? If not, why not?
- Which pieces of information are missing? Why?
 - In particular would you prefer or expect to see information on the objectives, i.e. what the fund is trying to achieve?
- And is there anything you wouldn't expect to see?
- Are you missing any information on this page to decide whether you would want to invest in this fund, or not?

Section 2.4: Testing treatment variants of Screens 2 and 3

[Present slide 12 again]

Please look again at the screen shown now. Now I am going to present you with a further screen, which is a different version of this screen.

[Present slide 15]

Discuss the following:

- How does the presentation and format of the charges in this fund, compare to the last screen you were presented with?
 - Prompt (if participants don't notice the charges chart): **Do you notice the chart showing ongoing charges?**
- Is this way of presenting charges clear? In what ways is it clear/not clear about it?
- Does it make the level of charges clearer? Why or why not?
- What impact, if any, do you think the presentation of charges in this screen would have on the importance you would place on charges compared to the other fund attributes? Why?
- And what impact would this presentation of charges have on the extent that you would take charges into account in your choice of fund? Why?

[Present slide 16]

We will now zoom in on that graph.

[Present slides 16-19 and repeat understanding discussion]

Take a look at different version of this charges graphs.

- Do you understand what each of these graphs represent?
- What is your understanding of each of these graphs?
- Which one is clearest to you? Why?
- How would you improve the graphs? Are you missing any information (e.g. titles or labels)?
- These graphs include both active and passive funds. Do you think this provides a meaningful comparison for you?
- **FOR SLIDE 17:** What is your understanding of the shading of the graph?
- **FOR SLIDE 18:** What is your understanding of the shading of the graph? Is it clearer with the boxes?
- **FOR SLIDE 19:** Is the graph easier to understand without the different colour shading?

Section 2.5: Testing of specific warning messages

Present alternative warning variants on screen:

- *"Fund charges will reduce your investment returns."*
- *"Fund charges can significantly impact investment returns. Over time, charges can have a material impact upon your net returns"*
- *"Fund charges can significantly impact investment returns. Choosing a high-charge fund could lose you money."*

- *“Fund charges can significantly impact investment returns. Choosing a low-charge fund could save you money.”*

For each different warning variant, explore:

- Looking at this screen, what thoughts / associations come to mind - both positive and negative - on viewing this?
- What are your views on this style of communication?
- How do you think this warning would affect your investment decisions, if at all? Why?
- Would it make you think about charges more, the same, less? Why is this?
- Where do you think this message would be best placed to help you guide your investment decision?

As a close to this section, explore:

- What are your views on the blunter wording relative to the softer warnings?

Section 4: Conclusions (5mins)

- What, ideally, are you looking for in terms of charges information? Has anything been missing in the information presented to you today? If so, what?
- What have been the most useful ways of presenting information of charges that you have seen tonight? *Probe: how the amount is displayed, prominence of the information, graphs, on which page the information is located etc.*
- Do you have any other ideas to improve the presentation and understanding of charges?

Annex 2 Focus group guide – Focus groups with advisors

1. Welcome / introduction (5 mins)

- *Good evening and thanks for being on time. My name is Mel / Olivia and I will be moderating the session for the next 1.5 hours.*
- *Just a few points before we start. Today's discussion is an informal session – I am here to hear your thoughts and opinions. So please be as open and honest as possible, and the more you have to say, the better.*
- *Please also remember that the groups are anonymous and there are no right or wrong answers- we are not here to judge what you do as an advisor.*
- *Please don't worry about spelling tonight*
- *To start with could you all please briefly introduce yourself – sharing your name, age, the type of company you work for (e.g. size and location), your job role, length of time in service, and your day-to-day role / responsibilities*

2. Advising clients and role of fund charges (55 mins)

Please put your advisor hat on....

1. What factors do YOU take into consideration when looking for funds for your clients? Why?
2. [Some of you have mentioned charges] How much of a consideration/ how important are fund charges when you're looking for products for your clients? Why?
3. How easy is it to seek out information on fund charges at present? Why do you say this?
Probe: clarity, format, language, prominence, ability to compare across products
 - Does this vary depending on the type of fund charge (e.g. ongoing vs transaction charges)? If so, how? Are there some costs which are more difficult to track down?
 - How easy or difficult is it to calculate the total cost of a product (given that costs are disclosed separately)? Why do you say this?
4. **Under MiFID 2, transaction costs will have to be disclosed.**
 - How useful is this information to you? Why? (probe: into exactly how they are going to use this)
 - How might you explain transaction costs to a client?

Now we would like to understand more about how your clients choose investments...

5. What factors do you think clients typically consider when choosing a product/ fund? Why?
Probe: how does this vary by level of sophistication / wealth / age / knowledge and experience
6. [Some of you have mentioned charges]. From your perspective, how much of a role do fund charges play in clients' purchase decisions? Why?
 - How important are charges to investors?
 - Do clients actively ask about fund charges? Or do you bring this up?
 - How does this differ between types of clients? Sophistication/level of wealth/age

7. How much do you think they understand about fund charges?
 - Do they understand the different types of fund charges? Are there some they understand more than others?
 - How does this differ between types of clients? Sophistication/level of wealth/age/amount they are investing
 - How much of a role do you think you need to play here to help them understand the charges?

Now we want to think a bit more about the advice process for new clients...

8. Typically, how long do initial meetings with NEW clients last for?
9. Do you provide the client with a short list of funds for them to consider? Why?
 - If so, how many funds are typically included in a short list?
 - If so, are they sorted in any way?
10. What materials / sources do you use when discussing fund charges with new clients? Why do you use these?
 - Which of these materials do you go through with the client? Why?
 - Are there any that you just give to the client to take away? If so, why do you give them these types of materials vs other ones to take away?
11. How do you talk to your new clients about fund charges (e.g. for investments, pensions etc.)?
 - Do you tend to talk about fund charges altogether (e.g. the asset management charge, transaction costs, charges for ancillary services, platform charges, advisor charge etc.) or separately?
 - How much importance would you say you place on charges when explaining them to clients? Do you say that charges are important or not to clients? Why?

Lastly we want to think a bit more about the annual reviews which you undertake with existing clients ...

11. How do you typically undertake the annual review- face to face or on the telephone? Why is this? How long does it typically take?
12. What do topics do typically cover? Why?
 - What level of detail do you typically go into?
13. Do you cover fund charges? Why or why not?
 - If so, in how much depth? Why is this?
 - How long would this topic typically take to cover?

Concept testing (30 mins)

Thank you for your useful comments. From this discussion we recognise that charges are only one of a range of factors which are important when you're advising clients. Notwithstanding this, for

the remainder of this session, we would like to however focus on the role of fund charges in a bit more detail.

Again please be as open and honest as possible, and the more you have to say, the better.

14. If fund charges were presented in a more prominent way would they be helpful or more complicated for clients? Why do you say this?
- Do you think that making charges more prominent might have an impact on a client's decision-making? Why or why not? In what way?
 - Does this differ by type of client or the type of charge? If so, how?
 - How could they be made more prominent?
 - Do you think that charges and past performance are shown with equal prominence typically?

Treatment 1- charge comparator

The two charts illustrate how the ongoing charge compares to those of other UK equity funds. Please imagine these charts in materials that you would provide to your clients when discussing funds.

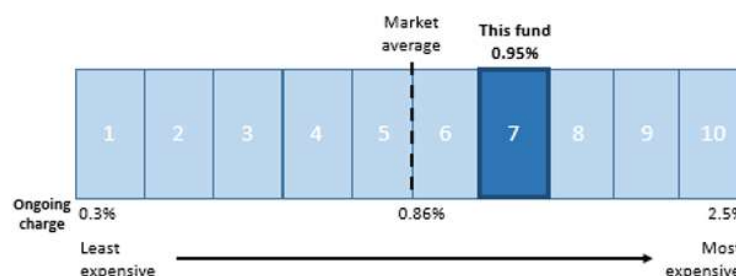
Chart A:

This chart illustrates how the ongoing charge of this fund compares to those of other UK equity funds. The chart shows which quartile this fund is in



Chart B:

This chart illustrates how the ongoing charge of this fund compares to those of other UK equity funds. The chart shows which decile this fund is in

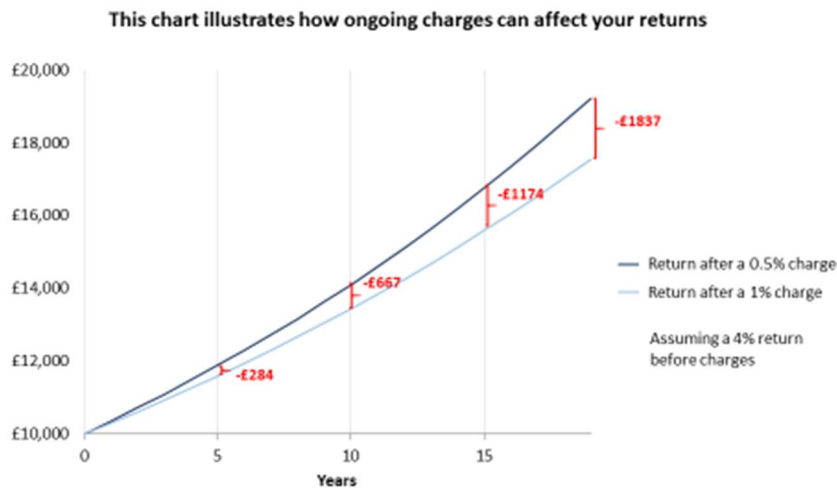


15. Do you think that this way of presenting charges is useful? If not, why not?

- a. Is the comparison against UK equity funds a sensible comparison? Or should it be A. all equity funds or B. more specific e.g. UK equity large cap funds?
 - b. Does it make sense to just show ongoing charges information here, or should it also incorporate transaction costs or initial costs etc?
16. Would you use these charts when developing investment advice? If so, how?
17. Would such charts impact your client's decision making (if any)? Why or why not? If so, how?
18. Which chart is likely to be most effective in enabling investors to compare charges and why? (A or B). Which chart makes the charges easier to understand? Why or why not?
 - a. How could they be improved?
19. Do you think that the chart divided into quartiles or deciles is more helpful - why? Which would be the most effective in enabling an investor to compare the charges across different products? Why do you say this?
20. Do you think the labelling on the charts is appropriate? Why or why not?
 - a. Do you prefer the ranges brackets used in chart A, or the "market average" and "this fund" labelling used in chart B? Why?
21. Thinking about materials you use when talking to clients, where should these types of charts be placed to be most effective / impactful? Which document and where in the document? (If advisors respond by saying that they should be placed at the end or an annex, we should probe as to why.)

Treatment 2- Impact of charges on returns

This graph illustrates how the compounding of charges can affect returns over time. It also has a description underneath it.



This chart assumes an initial investment of £10,000 and a steady annual return of 4%. On this basis a 1% charge could cost you £1,837 more than a 0.5% charge over 20 years.

22. Do you think that your clients understand the compounding of fund charges over time? Would this help you to explain this? If not, how would you explain this point? Why?
 - a. Does the sentence (at the bottom) make the graph clearer? Is it needed?
 - b. Is there any other information which should be included?

23. Would you use a chart like this when discussing investments with clients? Why or why not?
 - a. If so, how?
24. Would such charts impact your client's decision making (if any)? Why or why not? If so, how?
 - a. Do you think this information would impact on the types of funds you are likely to recommend to your client? Why or why not? If so, how?
25. Thinking about materials you use when talking to clients, where should these types of charts be placed to be most effective / impactful? Which document and where in the document? (If advisors respond by saying that they should be placed at the end or an annex, we should probe as to why.)

Treatment 3- Warnings

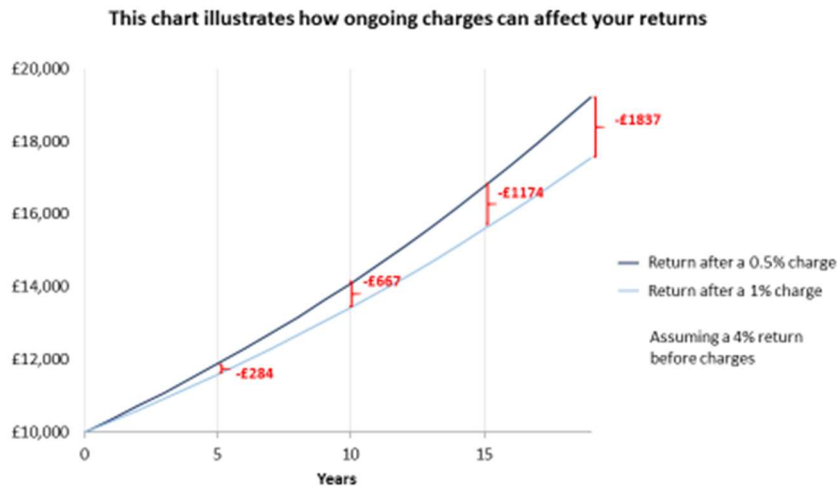
On the board are 3 examples of 'warnings'. Please imagine these warnings being in materials that you would provide to your clients when discussing funds.

- A. Fund charges will reduce your investment returns
 - B. Fund charges can significantly impact investment returns. Over time, charges can have a material impact on your net returns.
 - C. Fund charges will always reduce your returns over time, but a fund that has performed well in the past may not perform well in the future.
-
26. Do you think that providing a written warning is useful? If not, why not?
 - a. Do you think that investors would pay attention or not to such a warning?
 27. Do you think a warning might impact your client's decision making? Why or why not? If so, how?
 28. What are your reactions to these specific warnings? Which do you prefer? Why do you say this? Probe: if they find them misleading or not and if so what in particular is misleading
 - a. How could they be improved? (probe for specific points)
 29. Which warning do you think is most likely to make investors aware about the impact of charges? Why?
 30. Thinking about materials you use when talking to clients, where should these types of warnings be placed to be most effective / impactful? Which document and where in the document? (If advisors respond by saying that they should be placed at the end or an annex, we should probe as to why.)

Summary for chart and written warning:

Both the chart which we looked at earlier and the written warnings attempt to highlight to investors that charges can have an impact on their returns

Show chart again as reminder



This chart assumes an initial investment of £10,000 and a steady annual return of 4%. On this basis a 1% charge could cost you £1,837 more than a 0.5% charge over 20 years.

31. Which of these do you prefer – the chart or a written warning? Why?
32. Which of these do you think would have the most impact on a client's understanding of charges and the decisions they make about funds? Why?
33. Which of these do you think would have the least impact on a client's understanding of charges the decisions they make about funds? Why?

Treatment 4- Pounds and pence

The fund charges are presented here in pounds and pence:

Fund name	Initial charge	Annual charge	
		Ongoing charge	Ongoing charge (per £10,000 invested)
Sutern UK Select	0.00%	0.70%	£70.00
Fullerian Strategy UK	0.00%	0.73%	£73.00
C L UK Flexible	0.00%	0.75%	£75.00
AF Special Situations UK	0.00%	0.89%	£89.00
Hearns UK	0.00%	0.95%	£95.00

34. What are your first reactions to charges being presented in pounds and pence?
 - Do you think clients will pay attention to it? Why or why not?
 - Do you think your clients will have a better understanding of charges presented in pounds and pence compared to percentages? Why or why not?
 - Do you think it would impact your client's decision making? Why or why not? If so, how?

35. Thinking about the materials you use when talking to clients, where should this information be placed? Why?

Sum up / close (5 mins)

36. Is there any other information that you would like to see alongside fund charges information to help with comparisons e.g. fund objectives?
37. What have been the most useful ways of presenting information of charges that you have seen tonight? *Probe: pounds and pence, graphs, charts, written warnings, graphs with a written warning*
38. Do you have any other ideas to improve the presentation and understanding of fund charges to better help client's make investment decisions?

Thank you and close

Annex 3 Full survey script (excluding experiment)

S1. Are you responsible for making financial decisions in your household, either solely or jointly with a spouse / partner?

1. Yes, solely
2. Yes, jointly
3. No

S2. Which, if any, of the following investment products do you hold? Please select all that apply.

1. Stocks & Shares ISA. This is not a cash ISA
2. Junior Stocks & Shares ISA on behalf of a child. This is not a Junior cash ISA
3. Workplace pension scheme. This is a pension arranged via your employer, including a Defined Contribution pension
4. Self-Invested Personal Pension. This is also called a SIPP
5. An Individual Personal Pension. This is not a pension scheme connected with your employer
6. An income drawdown plan. This is a policy through which your pension money is invested in a range of funds
7. Investment funds (e.g. Unit Trusts, OEICs, Investment Trusts, exchanged traded funds ETFs) which are not in an ISA or pension and where the investments are managed by a fund manager, rather than you picking assets such as shares and bonds
8. Cash based investments. This could include a Cash ISA or an NS&I account
9. Stocks and shares not within an ISA, ETF or Investment Trust
10. None of these

S3. Which of the following bands do your total investable assets fall into? By investable assets we mean savings and investments (e.g. bonds, cash, ISAs, funds such as Unit Trusts/OEICs) that you have, including any personal pensions where you or your advisor decide which funds to invest in. You should exclude your home, second property or buy-to-let property and any pension arranged via your employer

1. Under £10,000
2. £10,000 -£29,999
3. £30,000 -£49,999
4. £50,000 -£74,999
5. £75,000 -£99,999
6. £100,000 -£149,999
7. £150,000 -£199,999
8. £200,000 -£249,999
9. £250,000 -£349,999
10. £350,000 -£499,999
11. £500,000 -£999,999
12. £1 million or more
13. Would rather not state

S4. Within your Stocks & Shares ISA(s), do you...

1. Make your own direct investments. This involves picking your own stocks and shares such as Vodafone or picking your own government bonds
2. Invest in Funds (e.g. Unit Trusts, OEICs, ETFs, Investment Trusts). This involves a fund manager picking, monitoring and/or managing the underlying investments (e.g. company shares) for you so you don't choose them directly
3. Both of the above

4. Don't know

S5. Within your Personal Pension(s) do you...

1. Make your own direct investments. This involves picking your own stocks and shares such as Vodafone or picking your own government bonds
2. Invest in Funds (e.g. Unit Trusts, OEICs, ETFs, Investment Trusts). This involves a fund manager picking, monitoring and/or managing the underlying investments (e.g. company shares) for you so you don't choose them directly
3. Both of the above
4. Don't know

S6. Within your income drawdown plan do you...

1. Make your own direct investments. This involves picking your own stocks and shares such as Vodafone or picking your own government bonds
2. Invest in Funds (e.g. Unit Trusts, OEICs, ETFs, Investment Trusts). This involves a fund manager picking, monitoring and/or managing the underlying investments (e.g. company shares) for you so you don't choose them directly
3. Both of the above
4. Don't know

S7. We'd like to focus just on the investments you have which invest into funds (rather than cash or direct stocks and shares). Thinking about when you last took out each of these investments, to what extent was a professional financial advisor involved in the final purchase/set up of your investment? By 'professional financial advisor' we mean a qualified individual who gave you a specific recommendation after due consideration of your personal circumstances and objectives. You are likely to have been charged for their advice. If you have more than one of each product and they were arranged in different ways, you can select more than one option in the row.

1. I arranged the investment myself without any input from a professional financial advisor at any stage
2. I spoke to a professional financial advisor but then decided to arrange the investment myself
3. A professional financial advisor arranged this investment for me
4. Can't remember

S8. Do you know whether your investments are in active funds, passive funds or a combination of the two?

1. Active funds (where the fund manager has greater freedom to select individual stocks and shares and/or invest across different asset classes e.g. bonds, property)
2. Passive funds (funds where the fund manager seeks to track the performance of an index or a market e.g. the FTSE in the UK)
3. I have investments in a mix of active and passive funds
4. Don't know / unsure

Q1. When did you take out the most recent investment product, which you set up yourself (without a Financial Advisor)?

1. Within the last 12 months
2. 1-2 years ago
3. 2-3 years ago
4. 3-5 years ago
5. More than 5 years ago
6. Don't know / can't remember

P1. What size of investment do you typically make at any one time into a single fund?

1. Less than £1,000
2. Between £1,000 and £1,999
3. Between £2,000 and £2,999
4. Between £3,000 and £3,999
5. Between £4,000 and £4,999
6. Between £5,000 and £7,499
7. Between £7,500 and £9,999
8. Between £10,000 and £12,499
9. Between £12,500 and £14,999
10. Between £15,000 and £19,999
11. Between £20,000 and £24,999
12. Between £25,000 and £29,999
13. Between £30,000 and £34,999
14. £35,000 or more
15. Don't know

P2. How would you rate your own level of financial expertise?

1. Very poor
2. Poor
3. Average
4. Good
5. Very good

UA1. Thinking generally about the funds you chose to invest in during the previous exercise, which of the following factors were most important in your decisions? Please select the three most important factors, with the most important in ranking position 1 and so on.

1. The charges of the funds
2. The performance of the funds
3. Riskiness of the funds
4. What the funds are invested in
5. The objectives of the funds
6. The name of the fund

UA2. Still thinking generally about the funds you chose in the previous exercise, do you think you would have invested in your chosen funds in reality (i.e. if the exercise was reality)?

1. Yes, certainly
2. Yes, it is likely
3. No, it is unlikely
4. No, certainly not
5. Don't know

UA3a. And why wouldn't you have invested in your chosen funds in reality? Please select all that apply.

1. The levels of the charges were too high
2. The levels of the charges were too high
3. The funds were too risky
4. The performances of the funds were too low
5. I did not like what the funds were invested in

6. A particular statement put me off
7. A particular chart put me off
8. I was not provided with enough information
9. I did not recognise any of the brand names
10. Another reason
11. Don't know

UA3b. And what do you think you would do with your money instead, rather than investing it in the funds you chose in the previous exercise? If you would do more than one thing with this money, please select all that apply.

1. Invest in another type of fund
2. Keep the money in cash (e.g. in a bank account)
3. Invest in another type of asset
4. Pay off debt
5. Something else
6. Don't know

UA4. Would seeing a particular, recognisable fund brand name have affected your choice of funds in the previous exercise? If so, what brand name in particular comes to mind?

1. No, seeing a particular fund brand name would NOT have affected my choices
2. Yes, seeing a particular fund brand name would have affected my choices
3. Don't know

UA5. The following questions will ask you about the fund you just selected in the final round of the previous exercise. But first, please tell us the extent to which you agree or disagree with the following statements?

- I always pick the lowest cost funds
 - If a fund has performed well in the past, it is worth paying more for
 - Past performance is a good indication of future performance
 - Charges can make a significant difference to returns over time
1. Strongly disagree
 2. Disagree
 3. Neutral
 4. Agree
 5. Strongly agree
 6. Don't know

UA6. The next eight questions ask you about the fund you just selected in the final round of the previous exercise. Firstly, thinking about this fund, was there a fee or charge associated with this fund?

1. Yes
2. No
3. Don't know

UA8. Still thinking about the fund you selected in the final round of the previous exercise, which of the following charges, if any, were associated with this fund? Please select all that apply.

1. An ongoing charge (OCF)
2. Transaction costs
3. A platform fee
4. An initial investment charge

5. A performance fee
6. Don't know
7. None of the above

UA9. And, which of the following were presented in the information about the last fund that you selected? Please select all that apply.

1. A number for the total costs and charges
2. Fund objective
3. Cumulative past performance
4. Breakdown by market cap
5. Fund launch date
6. Top 10 holdings
7. Don't know

UA10. Still thinking about the fund you selected in the final round of the previous exercise, what was the level of the ongoing charge (OCF) of this fund?

1. Less than 0.25%
2. 0.25% - 0.49%
3. 0.50% - 0.99%
4. 1.00% - 1.49%
5. 1.50% - 1.99%
6. 2.00% or more
7. Don't know

UA11. And how did the ongoing charge (OCF) of the last fund you selected compare to the ongoing charges of the other funds shown in the exercise? Please select one answer.

1. The lowest
2. Below average
3. About average
4. Above average
5. The highest
6. Don't know

UA12. And how do you think the ongoing charge (OCF) of the last fund you selected compares to the market average for UK equity funds, including both active and passive funds. Please indicate a position using the sliding-bar below. *[Left hand end: Lowest ongoing charge on the market - Middle: Market average - Right hand end: Highest ongoing charge on the market]*

UA13. How did the performance of the last fund you selected compare to that of the other funds shown in the exercise? Please select one answer.

1. The lowest
2. Below average
3. About average
4. Above average
5. The highest
6. Don't know

UA14. Please tell us what you think is the average ongoing charge for UK equity funds, including both active and passive funds.

1. Less than 0.25%

2. 0.25% - 0.49%
3. 0.50% - 0.99%
4. 1.00% - 1.49%
5. 1.50% - 1.99%
6. 2.00% or more
7. Don't know

UA15. The fund information shown to you in the earlier exercise included a breakdown of the "Total Costs and Charges" figure. Do you agree or disagree with the following statements about the "transaction costs" element?

- A fund with a higher transaction cost is always worse than one with a lower transaction cost
 - The transaction costs figure is an estimate
 - Transaction costs are the cost of buying and selling the fund
 - Transaction costs are the costs of the fund manager buying and selling the securities in a fund
1. Disagree
 2. Agree
 3. Don't know

UA16. When investing in funds, how much importance do you place on charges relative to past performance? Please indicate the relative importance of these two characteristics using the sliding-bar below. *[Left hand end: Charges are much more important - Middle: Charges and past performance are equally important - Right hand end: Past performance is much more important]*

UA17. Suppose you had £100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money in the account to grow without taking any of the money out?

1. More than £110
2. Exactly £110
3. Less than £110
4. Don't know

UA18. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

1. More than today
2. Exactly the same
3. Less than today
4. Don't know

Annex 4 In-depth interview guide – Interviews with investors

Introductions and warm up (3-5 minutes)

Hello, thanks for agreeing to take part in this telephone discussion. My name is Olivia/Mel.

We will be exploring the reasons behind your answers that you gave in the simulated online investment platform, which was part of a recent YouGov survey. Please open the link we emailed you a few days ago, so you can see the survey again. I will ask you to click 'next' at particular points during our discussions. I do have your answers to the survey in front of me, so I can remind you what you selected if needed.

Everything you share today is anonymous and will not be attributed to you. Please note that there are no right or wrong answers

- *Please start by introducing yourself by your first name, age, job role/ working status and region*
- *When did you start investing?*
- *How experienced would you say you are at investing? What makes you say this?*

Experiment (30mins):

- *Treatment Group 2: Written Warning*
- *Treatment Group 3: Written Warning & Comparator Chart*
- *Treatment Group 4: Written Warning & Impact of Charges Chart*
- *Treatment Group 5: Written Warning & Review Screen*

Landing page for each treatment group:

You were initially shown a page containing information about a number of different funds:

- What were your thoughts about this page?
- Did anything in particular stand out on this page? If so what?
 - Ask if needed: Did you notice the warning at the top of the page?
 - Ask if needed: Did you notice the charges chart? (for those in this treatment)
- Did any of the funds stand out for you? Why?
 - Probe: Are there any funds which stood out to you for negative reasons? Are there any funds which particularly stood out to you for positive reasons?
- Could you talk me through how you chose which funds to look at in more detail?
 - Probe: Which factors were most important to you?
 - Probe: Which factors were least important to you? Why?
 - Probe: Were there any funds which you immediately discounted at this stage? Why?

Now thinking about the charges in particular - this page had two types of charges:

- Could you talk me through your understanding of what each of these are and what the differences are between them?
- Which did you find most useful to your decision-making?
 - Probe: Why do you say this?

Questions about charges expressed in £s and pence:

- What were your impressions of the format of the charges?
 - Ask if needed: Did you notice that they were in pounds and pence?
- How useful did you find this piece of information? Why do you say this?
- Did you use this piece of information in deciding which fund to invest in?
 - Probe: And why was this?
 - Probe: Could you explain how you used this information in selecting a fund?

As we have discussed, there was also a warning at the top of this page:

- What were your thoughts about this?
- In your opinion how useful did you find this warning? Why do you say this?
- What role, if any, did this information play in helping you decide which fund to invest in?
 - Probe: Why do you say this?
 - Probe: Could you explain to me how you used this in your decision?
- Before we move on, do you have any other comments to make about this warning?



Probes for specific treatments-

Treatment Group 4 ONLY: Written Warning & Impact of Charges Chart:

Along with the warning you were also presented with a chart:

- What were your thoughts about this warning?
- How useful did you find this chart? Why do you say this?
- Could you talk me through your interpretation of what this chart shows?
 - What do you think are the key assumptions and limitations of this chart?
- Do you think that this chart helped you in deciding which fund to invest in? Why?
 - Probe: And how exactly did you use this chart in deciding which fund to select?
- I am interested in your views about whether the chart or the warning was most useful. Why do you say this?
 - Probe: Which one do you think had the greatest impact on your decision-making? Why?
- Before we move on, do you have any other comments to make about this chart?

Questions for the detailed pages:

FOR ALL: We will now focus on the detailed information pages/ pop-outs which you would have seen if you had clicked the ‘more information’ buttons:

- Did you open any of the detailed pages? Why or why not?

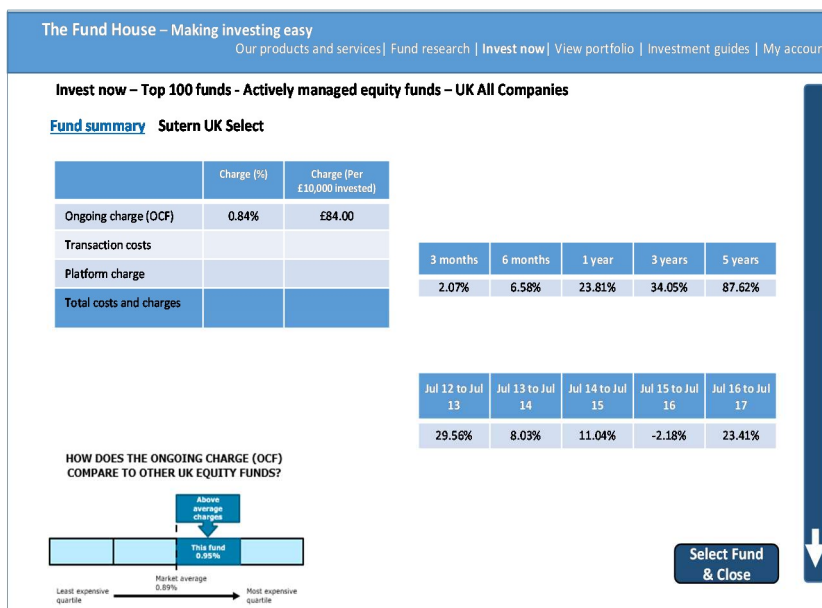
If so,

- How many funds did you open in the more detailed pages? Why did you do this?
- What were your thoughts about these pages?
- What stands out, if anything, about the way in which charges are presented on this page?
 - Ask if needed: Did you notice the charges chart? (for those in this treatment)
 - Ask if needed: Did you notice the “Total costs and charges” figure and the different components of this?
- What information did you look at on these pages?
 - Probe: What was the most useful/important? What was the least useful/important?
- Before we move on do you have any other comments to make about this page?
- This page included a “transaction cost” figure. How useful did you find this information in helping you to select a fund? Why do you say this?
 - Probe: Could you explain to me your understanding of what a “transaction cost” is?
 - Probe: How exactly do you think you could use this information in your decision-making?

Treatment Group 3 ONLY: Written Warning & Comparator Chart:

As we have mentioned, this page also had a charges chart on it

- What were your thoughts about this chart?
- Could you talk me through your interpretation of what this chart shows?
- How useful did you find this chart? Why do you say this?
- What role, if any, did this chart play in helping you in deciding which fund to invest in? Why?
 - How exactly did you use this chart in deciding which fund to select?
- I am interested in your views about whether the chart or the warning which you were shown on the first page was most useful. Why do you say this?
 - Which one do you think had the greatest impact on your decision-making? Why?
- Before we move on, do you have any other comments to make about this chart?



- **Treatment 5 group only (written warning and review screen): Review screen**

After you had selected a fund, you were presented with a screen asking you to confirm that you wanted to proceed with the fund which you had selected:

- What were your thoughts about this page?
- Did anything in particular stand out for you on this page?
 - Ask if needed: Did you notice the charges chart?
- Did you find the information on this page useful? Why do you say this?
 - Probe: If so, what did you find useful in particular?
- This page also contained a chart showing charges. How useful did you find this information?
- What did you do when you saw this page? Why did you do this?
 - Probe: Did this page cause you to review the fund which you had selected?
 - Probe: Did this page have an impact on your choice of fund?
- I am interested in your views about whether the information on this page or the warning which you were shown on the first page was most useful. Why do you say this?
 - Which one do you think had the greatest impact on your decision-making? Why?
- Before we move on, do you have any other comments to make about this page?

Reflection on decision- ask to ALL (10mins):

The last set of questions relate to the fund which you chose:

- Firstly, can you remember which fund you decided to invest in?
- Could you talk me through why you chose to invest in that fund in particular?
- What information or pieces of information were most important to you in reaching this decision?
 - Probe: Why do you say this?

- What role did the fee or charge have in influencing your decision-making? Why do you say this?
- Would you have selected this fund in real life? Why?
 - If not - what would you have done instead? Why do you say this?
- In this simulation you had to invest in a fund straight away. In a real life setting would you have done this? Why do you say this?
 - Probe: Would you have consulted other sources? Why do you say this?
 - If so, what sources would you have consulted in particular?
- How confident were you in making this decision? Why do you say this?
- Do you still think this is the best fund for you? Why do you say this?
- Would you have made the same decision if there were known brands amongst the funds which you were presented with?
 - Why?
 - How would this have impacted you?
 - Probe: Which brand in particular comes to mind? (if they answer “Yes”)
- How realistic did you find the platform?
 - Probe: Why do you say this?
 - Probe: What, in particular, is unrealistic? (if they say it’s not very realistic)
- Is there any other information which you were not presented with which you would expect to see or which could impact your decision-making?
 - Probe: What information? How would this had impacted your decision-making
- In the discussion today we have talked about the warning and (add additional treatment as applicable) which you were shown on the simulated platform. Do you have any other comments or thoughts on these in particular?
- Before we close, I just wanted to give you the opportunity to add any further comments or thoughts which you might have on any element of this simulation or anything we’ve covered today.

Thank you and close

Annex 5 Sample frame for the in-depth interviews

Investors from YouGov's online research panel were recruited for the in-depth interviews off the back of the behavioural experiment and survey, via an 'opt in' question. Interviews were scheduled within two weeks of completing the survey, to ensure it was fresh in their minds. Incentives were offered in line with the MRS Code of Conduct.

The sample frame is outlined below:

- 12x depths: 3 people per treatment (excluding treatment 1 where no warning presented)
- A mix of demographics including age, working status, gender, location and social grade
- Mix of investable assets (amount)
- Mix of answers to questions: UA1 (decision making factors), UA5 (views on charges), UA16 (importance of charges relative to performance)
- Inclusion of 1-3 participants who indicated that they would not have invested in the funds they selected in reality.

Table 11 Overview of participants who took part in the in-depth telephone interviews

Name	Age	Gender	Ethnicity	Region	Social grade	Investable amount	Treatment
Amy	28	Female	Chinese	London	C1	£10,000 - £29,999	3
Richard	30	Male	White British	London	AB	£75,000 - £99,999	2
Lynden	51	Male	White British	Yorks & Humber	C1	£100,000 - £149,999	4
Katherine	62	Female	White British	London	E	£250,000 - £349,999	3
Mahesh	34	Male	Indian	East Midlands	AB	£100,000 - £149,999	2
Miles	54	Male	White British	London	AB	£500,000 - £999,999	4
David	52	Male	White British	Scotland	E	£200,000 - £249,999	5
Evonne	43	Female	White British	North East	C2	£30,000 - £49,999	2
Sue	52	Female	White British	Wales	AB	£75,000 - £99,999	4
Hanya	54	Female	Other white	London	AB	£350,000 - £499,999	5
Gareth	64	Male	White British	Yorks & Humber	C1	£500,000 - £999,999	5

Annex 6 Further experiment and survey results

This annex presents further detail of the experiment and survey results, including:

- A detailed breakdown of respondents' experiment choices
- Regression analysis of respondents' experiment choices
- Shares who selected a lower cost fund by demographic group
- Treatment effects by type of investor
- Treatment effects depending on whether detailed fund information was viewed
- Treatment effects depending on charge levels and 'fee gaps' among the funds shown in the experiment
- Treatment effects depending on the size of investment the respondent typically makes at one time into a single fund
- Results on the importance of different factors in respondents' decision-making
- Time spent and navigation in the simulated platform
- Weighted results

A6.1 Detailed breakdown of respondents' experiment choices

Table 12 shows the shares of respondents who selected, in the experiment, each charge and past performance level combination among the six funds presented at each choice. These results show that there was no strong link between the treatments and respondents' preferences regarding past performance of the funds. The total share of respondents who selected a fund with high past performance is relatively constant across the treatments, ranging from 68.2% (under the Warning & Impact Chart treatment) to 71.1% (under the Warning & Review Screen treatment).

Table 12 Share who selected low/high charge and low/medium/high performance funds

Baseline			
	Low performance	Medium performance	High performance
Low charge	7.1%	15.9%	49.8%
High charge	2.6%	5.8%	18.8%
Warning Only:			
	Low performance	Medium performance	High performance
Low charge	8.8%	15.1%	55.1%
High charge	3.3%	3.3%	14.4%
Warning & Comparator Chart:			
	Low performance	Medium performance	High performance
Low charge	7.9%	16.9%	56.4%
High charge	2.9%	2.9%	13.0%
Warning & Impact Chart:			
	Low performance	Medium performance	High performance
Low charge	7.3%	17.9%	55.3%
High charge	3.4%	3.1%	12.9%
Warning & Review Screen:			
	Low performance	Medium performance	High performance

Low charge	7.7%	16.0%	59.6%
High charge	1.3%	3.9%	11.5%

Note: Total N=3,147 (3 choices each by 1,049 respondents). Weights not applied.

Source: London Economics analysis of experiment data

Table 13 shows the treatment effects corresponding to the shares in the table above (i.e. differences between the treatment groups for each charge and past performance level combination). This table shows, for example, that the major differences between the Baseline and Warning & Review Screen treatments were the shares who chose the high performance/high charge fund (7.3pp lower under the Warning & Review Screen treatment) and the high performance/low charge fund (+9.8pp higher under the Warning & Review Screen treatment).

Table 13 Treatment effects for the share who selected low/high charge and low/medium/high performance funds

Warning Only vs. Baseline			
	Low performance	Medium performance	High performance
Low charge	0.017	-0.009	0.053
High charge	0.007	-0.025*	-0.044*
Warning & Comparator Chart vs. Baseline			
	Low performance	Medium performance	High performance
Low charge	0.008	0.010	0.066*
High charge	0.003	-0.029**	-0.058**
Warning & Impact Chart vs. Baseline			
	Low performance	Medium performance	High performance
Low charge	0.002	0.020	0.055
High charge	0.009	-0.027**	-0.060***
Warning & Review Screen vs. Baseline			
	Low performance	Medium performance	High performance
Low charge	0.007	0.0001	0.098***
High charge	-0.013*	-0.018	-0.073***
Warning & Comparator Chart vs. Warning Only			
	Low performance	Medium performance	High performance
Low charge	-0.009	0.018	0.013
High charge	-0.004	-0.004	-0.014
Warning & Impact Chart vs. Warning Only			
	Low performance	Medium performance	High performance
Low charge	-0.015	0.028	0.002
High charge	0.001	-0.002	-0.016
Warning & Review Screen vs. Warning Only			
	Low performance	Medium performance	High performance
Low charge	-0.010	0.009	0.045
High charge	-0.021**	0.006	-0.029

Note: Each treatment effect is the difference between the relevant treatments in terms of the share who selected the relevant charge/performance combination; these values can be calculated from those in Table 12. Total N=3,147 (3 choices each by 1,049 respondents). Standard errors calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level.

Source: London Economics analysis of experiment data

A6.2 Regression analysis of respondents' experiment choices

Table 14 shows the results of a regression of respondents' choices in the experiment. The dependent variable signifies whether or not a given fund was chosen, while the explanatory variables are the characteristics of that fund, including the charge (OCF) and performance over the most recent year.

The statistically significant (negative) coefficients on the interaction terms in Model 1 confirm the findings presented in section 3.2 that charges are a stronger driver of investors' choices under the treatments relative to the baseline, in particular for the Warning & Impact Chart and Warning & Review Screen treatments (the interaction terms for these two treatments are significant irrespective of whether the weights are applied).

Table 14 Conditional logistic regression analysis of respondents' experiment choices

Dependent variable: Whether a fund was chosen (1) or not (0)	Model 1: Treatment effects relative to baseline	Model 2: Treatment effects relative to Warning Only
OCF	-3.720*** (0.402)	-5.101*** (0.508)
Performance Jul16-Jul17	0.220*** (0.0138)	0.220*** (0.0138)
Baseline*OCF	Omitted as base	1.382** (0.648)
Warning Only*OCF	-1.382** (0.648)	Omitted as base
Warning & Comparator Chart*OCF	-2.030*** (0.633)	-0.648 (0.706)
Warning & Impact Chart*OCF	-1.838*** (0.657)	-0.456 (0.727)
Warning & Review Screen*OCF	-2.421*** (0.652)	-1.039 (0.722)

Note: Total N=18,882 (3 choices, each between 6 funds, by 1,049 respondents). Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Coefficients in bold are statistically significant at at least 10% both with and without weights applied.

Source: London Economics analysis of experiment data

A6.3 Percentages who selected a lower cost fund by demographic group

Table 15 presents the shares of respondents who selected a lower cost fund by demographic group. Generally we do not find that the proportion of people choosing a cheap fund varies significantly across different demographic characteristics, including age, gender, region, socioeconomic group and investable assets. The main exception is the youngest group of 18-34 year olds, who tended to be less likely to select a lower cost fund.

Table 15 Percentage who selected a lower cost fund by demographic group

Demographic group	Share	Demographic group	Share
Gender		Investable assets	
Male	79.4% (N=2478)	£10,000-£29,999	80.3% (N=402)
Female	79.2% (N=669)	£30,000-£99,999	77.5% (N=1098)
		£100,000-£249,999	79.5% (N=837)
		£250k+	81.4% (N=810)
Age		Region	
18-34	69.1% (N=330)		
35-44	80.3% (N=441)		
45-54	81.4% (N=720)	North East	80.0% (N=105)
55-64	79.8% (N=786)	North West	71.9% (N=303)
65+	80.8% (N=870)	Yorkshire & Humber	82.6% (N=219)
		East Midlands	82.2% (N=213)
Socio-economic grade		West Midlands	76.8% (N=228)
A	78.7% (N=906)	East of England	82.6% (N=288)
B	79.7% (N=1098)	London	82.1% (N=480)
C1	79.9% (N=717)	South East	77.4% (N=615)
C2	76.8% (N=207)	South West	78.2% (N=285)
D	79.8% (N=114)	Wales	80.7% (N=135)
E	82.9% (N=105)	Scotland	81.1% (N=249)
		Northern Ireland	85.2% (N=27)

Note: Total N=3,147 (3 choices each by 1,049 respondents). Weights not applied.

Source: London Economics analysis of experiment data

A6.4 Treatment effects by type of investor

The tables below present the results for the key outcome measure from the experiment (whether a lower cost fund was chosen) by level of investable assets, level of education, and level of financial literacy.

Treatment effects by level of investable assets

The results in Table 16 show that the treatment effects were stronger among investors with of £50,000 or more. For these investors all treatment effects relative to the baseline are statistically significant, ranging in magnitude from 5.8 to 9.7 percentage points.

That said, the Warning & Review Screen treatment (which had the strongest overall effect among all respondents) had an especially large and statistically significant impact on the choices of those with investable assets of less than £50,000, at 14.4 percentage points. Although the effects of the other treatments are not statistically significant for those with lower assets, it should be noted that the sample size for this group is relatively small (158 choices on average per treatment), partly due to the screening criteria for the experiment which excluded those to assets of under £10,000. This smaller sample size makes it more difficult to detect statistically significant treatment effects.

Table 16 Percentage who selected a lower cost fund and related treatment effects, by level of investable assets

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Investable assets of £10,000 to £49,999 (N=789 choices in total):</i>					
Selected a lower cost fund	72.3%	79.3%	74.8%	83.0%	86.7%
Treatment effect versus Baseline	n/a	0.070 (0.051)	0.025 (0.057)	0.107* (0.055)	0.144*** (0.051)
Treatment effect versus Warning Only	n/a	n/a	-0.045 (0.054)	0.037 (0.052)	0.074 (0.048)
<i>Investable assets of £50,000 or over (N=2,358 choices in total):</i>					
Selected a lower cost fund	73.0%	78.8%	82.7%	79.9%	82.2%
Treatment effect versus Baseline	n/a	0.058* (0.035)	0.097*** (0.030)	0.069** (0.032)	0.092*** (0.031)
Treatment effect versus Warning Only	n/a	n/a	0.039 (0.033)	0.011 (0.034)	0.034 (0.033)

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Treatment effects by level of education

The results in Table 17 show that the effects of the treatments were strongest among those with a high level of education (those with a university degree). For these investors all treatment effects relative to the Baseline are statistically significant when the data is unweighted, with three of these (all except for the Warning Only treatment) also being statistically significant when the weights are applied. For this group the magnitudes of the treatment effects versus the Baseline ranged from 9.1 to 13.2 percentage points.

For those with a medium level of education (with some qualification above GCSE level and a highest qualification of A-level or similar) the effect of the Warning & Review Screen treatment is statistically significant, at 7.8 percentage points. This statistical significance of this result holds irrespective of whether the weights are applied or not. The effect of the Warning & Impact Chart is also statistically significant for this group, but only if the data is not weighted.

None of the treatment effects are statistically significant for those investors in the sample with low education (with no qualifications or a highest qualification of GCSE level or similar). However, it should be noted that the available sample size for this group is small (76 choices per treatment on average), substantially reducing our ability to detect statistically significant treatment effects.

Table 17 Percentage who selected a lower cost fund and related treatment effects, by level of education

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>High education^[1] (N=1,689 choices in total):</i>					
Selected a lower cost fund	72.0%	81.1%	85.2%	84.1%	84.9%
Treatment effect versus Baseline	n/a	0.091** (0.041)	0.132*** (0.037)	0.0121*** (0.039)	0.130*** (0.037)
Treatment effect versus Warning Only	n/a	n/a	0.041 (0.036)	0.030 (0.038)	0.038 (0.035)
<i>Medium education^[2] (N=1,080 choices in total):</i>					
Selected a lower cost fund	78.3%	77.9%	80.2%	80.1%	78.3%
Treatment effect versus Baseline	n/a	0.060 (0.045)	0.056 (0.043)	0.079* (0.045)	0.078* (0.046)
Treatment effect versus Warning Only	n/a	n/a	-0.003 (0.046)	0.020 (0.047)	0.018 (0.048)
<i>Low education^[3] (N=378 choices in total):</i>					
Selected a lower cost fund	77.0%	69.8%	71.7%	69.7%	82.6%
Treatment effect versus Baseline	n/a	-0.072 (0.086)	-0.053 (0.081)	-0.073 (0.075)	0.056 (0.076)
Treatment effect versus Warning Only	n/a	n/a	0.018 (0.095)	-0.001 (0.091)	0.128 (0.091)

Note: [1] Obtained a first (e.g. BA, B.Sc, B.Ed) or higher (e.g. M.Sc, Ph.D) degree. [2] Highest qualification is one of: recognised trade apprenticeship; advanced City & Guilds certificate; ONC; GCE A-level or Higher Certificate; Scottish Higher Certificate; nursing qualification (e.g. SEN, SRN, SCM, RGN); teaching qualification (not degree); university diploma; other technical, professional or higher qualification. [3] No formal qualifications or highest qualification is one of: youth training certificate/Skillseekers; clerical and commercial; City & Guilds certificate; CSE grades 2-5; CSE grade 1, GCE O-level, GCSE, School Certificate; Scottish Ordinary/ Lower Certificate. Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Treatment effects by level of financial literacy

The results in Table 18 show that the treatment effects were stronger among investors with high⁶⁰ financial literacy. For these respondents all treatment effects versus the Baseline are statistically significant, ranging in magnitude from 7.1 to 10.6 percentage points.

No statistically significant treatment effects are found for those with low financial literacy, although again it should be noted that the available sample size for this group is small (on average 117 choices per treatment). The treatment effect that is closest to being statistically significant for the low financial literacy group is the effect of the Warning & Review Screen treatment relative to the baseline, which is 8.1 percentage points with a p-value of 0.255 (see the second to last row, right hand column of Table 18). A p-value of this size implies that we can be 74% sure that the treatment

⁶⁰ Respondents are defined as having 'high' financial literacy if they answered both financial literacy questions (UA17 and UA18) correctly, otherwise they are defined as having 'low' financial literacy. Questions UA17 and UA18 related to compound interest and inflation. These questions can be seen in the survey script in the annexes.

had an impact for this group (i.e. well below the 90% threshold for statistical significance, but not negligible).

Table 18 Percentage who selected a lower cost fund and related treatment effects, by level of financial literacy

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>High financial literacy^[1] (N=2,562 choices in total):</i>					
Selected a lower cost fund	74.7%	81.7%	84.2%	85.3%	85.0%
Treatment effect versus Baseline	n/a	0.071** (0.031)	0.096*** (0.029)	0.106*** (0.029)	0.103*** (0.028)
Treatment effect versus Warning Only	n/a	n/a	0.025 (0.028)	0.035 (0.029)	0.033 (0.028)
<i>Low financial literacy^[2] (N=585 choices in total):</i>					
Selected a lower cost fund	65.0%	68.9%	67.5%	60.3%	73.1%
Treatment effect versus Baseline	n/a	0.039 (0.069)	0.025 (0.067)	-0.047 (0.068)	0.081 (0.071)
Treatment effect versus Warning Only	n/a	n/a	-0.014 (0.073)	-0.086 (0.074)	0.042 (0.077)

Note: [1] Answered both financial literacy questions (UA17 and UA18) correctly. [2] Answered one or both financial literacy questions (UA17 and UA18) incorrectly. Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

A6.5 Treatment effects depending on whether detailed fund information was viewed

The table below presents the results for the main outcome measure of the experiment (whether a lower cost fund was chosen) for those who viewed at least the first detailed information page for at least one fund in the specific choice⁶¹ and for those who did not view any detailed information pages for any funds.

These results show that when only choices where the respondent viewed at least one detailed information page are included, the treatment effects for all four treatments versus the baseline are statistically significant, and this statistical significance holds irrespective of whether the weights are applied.

Conversely, when only choices where the respondent did not view any further information pages for any funds are included, the only statistically significant treatment effect is that for the Warning & Review Screen treatment.

However, it should be noted that those who viewed/did not view the detailed information pages are self-selected subgroups of the sample, meaning that other respondent characteristics may be behind the differences in the effectiveness of the treatments between these groups. Therefore, the

⁶¹ Note that the variable signifying whether or not a detailed information page was viewed for at least one fund could be defined at either the respondent level or the choice level. We have defined it at the choice level.

strong effects among those who did view the detailed information pages cannot necessarily be extrapolated to the wider population.

Table 19 Percentage who selected a lower cost fund and related treatment effects, depending on whether detailed fund information was viewed

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Viewed a detailed information page for at least one fund (N=1,481 choices in total):</i>					
Selected a lower cost fund	75.4%	86.2%	87.1%	86.8%	86.3%
Treatment effect versus Baseline	n/a	0.108*** (0.036)	0.117*** (0.036)	0.114*** (0.034)	0.109*** (0.035)
Treatment effect versus Warning Only	n/a	n/a	0.009 (0.033)	0.006 (0.031)	0.001 (0.032)
<i>Did not view any detailed information pages for any funds (N=1,666 choices in total):</i>					
Selected a lower cost fund	70.3%	72.8%	76.0%	74.9%	80.5%
Treatment effect versus Baseline	n/a	0.025 (0.041)	0.057 (0.039)	0.046 (0.041)	0.102*** (0.038)
Treatment effect versus Warning Only	n/a	n/a	0.033 (0.039)	0.021 (0.042)	0.078** (0.039)

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

A6.6 Treatment effects depending on charge levels and ‘fee gaps’ among the funds shown in the experiment

In the experiment the fund sets shown to individual respondents differed in terms of the charges of the funds. Specifically, the average level of charges of the six funds varied across the sets, and so did the ‘fee gap’, i.e. the difference between the charges of the lower costs funds and the charges of the higher cost funds in the set.

Table 20 below presents the shares of choices by treatment where the respondent selected a lower cost fund when the average level of charges of the fund set was below the market average for UK equity funds and, conversely, when the average of the charges of the set was above the market average.⁶²

These results show that the share who chose a lower charge fund was consistently higher under the four treatments compared to the baseline irrespective of the average level of charges of the funds in the set.

There is a mixed picture, though, across the treatments regarding the size and statistical significance of these differences. For fund sets with (on average) below average charges, the treatment effects

⁶² The market average figure used to make this distinction (which was provided by the FCA) is an OCF of 0.89%, which is very close to the overall average of the funds presented in the experiment, which was 0.90%. Fund sets with an average charge below the market average had average OCFs in the range 0.69-0.86%. Fund sets with an average charge above the market average had average OCFs in the range 0.94-1.11%. Choices where the average level of charges of the funds in the set was equal to the overall average of 0.90% are excluded from Table 20.

versus the baseline ranged from 9.9pp to 11.6pp and were statically significant for all four treatments regardless of whether the weights were applied. Whereas, for fund sets with above average charges (on average) the treatment effects were smaller, between 3.3pp and 11.5pp, and were not statistically significant except in the case of the treatment with the review screen.

Table 20 Percentage who selected a lower cost fund and related treatment effects, depending on whether the average charge of the funds was above or below the average for UK equity funds

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Average charge of the funds was above the average for UK equity funds (N=1,467 choices in total):</i>					
Selected a lower cost fund	74.0%	77.3%	81.2%	79.8%	85.4%
Treatment effect versus Baseline	n/a	0.033 (0.039)	0.072** (0.037)	0.058 (0.038)	0.115*** (0.034)
Treatment effect versus Warning Only	n/a	n/a	0.040 (0.038)	0.025 (0.039)	0.082 (0.036)
<i>Average charge of the funds was below the average for UK equity funds (N=1,469 choices in total):</i>					
Selected a lower cost fund	69.9%	80.0%	81.5%	81.2%	79.8%
Treatment effect versus Baseline	n/a	0.101*** (0.039)	0.116*** (0.037)	0.113*** (0.039)	0.099*** (0.038)
Treatment effect versus Warning Only	n/a	n/a	0.015 (0.036)	0.012 (0.038)	-0.002 (0.036)

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

Table 21 presents the shares of choices where a cheaper fund was selected by the respondent when the 'fee gap' was small, medium or large.⁶³ These results show that the proportion who chose a lower cost fund was always higher under the four treatments relative to the baseline regardless of the fee gap.

However, the sizes and statistical significance of the treatment effects versus the baseline varied by treatment and fee gap. The treatment effects were typically slightly larger when the fee gap was large (the exception being the treatment with the review screen, the effect of which was fairly uniform across the fee gaps).

The only treatment effects that were statistically significant both when the weights were applied and when they were not applied were the effects of the review screen treatment (regardless of the fee gap) and the treatments with the impact and comparator charts specifically when the fee gap was large.

⁶³ The fee gap is defined as three categories: small, medium and high. A small fee gap has a 0.17 percentage point difference, a medium fee gap has a 0.26 percentage point difference and a high fee gap has a 0.34 percentage point difference.

Table 21 Percentage who selected a lower cost fund and related treatment effects, depending on whether the 'fee gap' was small, medium or large

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Fee gap was small (A gap of 0.17 percentage points) (N=1,260 choices in total):</i>					
Selected a lower cost fund	70.5%	77.1%	80.3%	77.7%	81.5%
Treatment effect versus Baseline	n/a	0.067 (0.043)	0.098** (0.04)	0.072* (0.041)	0.110*** (0.04)
Treatment effect versus Warning Only	n/a	n/a	0.032 (0.04)	0.005 (0.041)	0.043 (0.04)
<i>Fee gap was medium (A gap of 0.26 percentage points) (N=1,053 choices in total):</i>					
Selected a lower cost fund	76.5%	79.9%	80.1%	82.6%	86.2%
Treatment effect versus Baseline	n/a	0.034 (0.044)	0.036 (0.042)	0.061 (0.042)	0.098** (0.04)
Treatment effect versus Warning Only	n/a	n/a	0.002 (0.04)	0.027 (0.04)	0.063* (0.038)
<i>Fee gap was large (A gap of 0.34 percentage points) (N=834 choices in total):</i>					
Selected a lower cost fund	71.7%	80.5%	84.1%	82.3%	81.8%
Treatment effect versus Baseline	n/a	0.088* (0.047)	0.124*** (0.045)	0.106** (0.046)	0.098** (0.04)
Treatment effect versus Warning Only	n/a	n/a	0.036 (0.044)	0.018 (0.045)	0.013 (0.044)

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 1/5/10 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

A6.7 Treatment effects depending on typical size of investment into a single fund at any one time

Table 22 Size of investment typically made by respondents into a single fund at any one time

Amount	Percentage
Less than £1,000	25.8%
£1,000-£1,999	13.9%
£2,000-£2,999	9.0%
£3,000-£3,999	7.0%
£4,000-£4,999	6.2%
£5,000-£7,499	10.4%
£7,500-£9,999	4.6%
£10,000-£12,499	7.7%
£12,500-£14,999	1.0%
£15,000-£19,999	3.2%
£20,000-£24,999	2.8%
£25,000-£29,999	1.1%
£30,000-£34,999	1.0%
£35,000 or more	2.7%
Don't know	3.6%

Note: Based on survey question P1.

Source: London Economics analysis of survey data

Before the start of the experiment respondents were asked what size of investment they typically make at any one time into a single fund. The distribution of responses to this question is shown in Table 22 above.

Table 23 shows the treatment effects by the level of the respondent's typical investment amount.

Table 23 Percentage who selected a lower cost fund and related treatment effects, by typical size of investment into a single fund at any one time

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
<i>Typical investment size of less than £1,000 (N=813 choices in total):</i>					
Selected a lower cost fund	79.8%	80.5%	87.2%	79.5%	89.9%
Treatment effect versus Baseline	n/a	0.007 (0.051)	0.074 (0.045)	-0.003 (0.053)	0.102** (0.045)
Treatment effect versus Warning Only	n/a	n/a	0.067 (0.050)	-0.010 (0.057)	0.094* (0.050)
<i>Typical investment size of £1,000 to £4,999 (N=1,134 choices in total):</i>					
Selected a lower cost fund	76.4%	82.3%	81.3%	84.1%	82.7%
Treatment effect versus Baseline	n/a	0.059 (0.046)	0.049 (0.047)	0.077* (0.046)	0.063 (0.046)
Treatment effect versus Warning Only	n/a	n/a	-0.010 (0.043)	0.019 (0.041)	0.004 (0.041)
<i>Typical investment size of £5,000 to £9,999 (N=471 choices in total):</i>					
Selected a lower cost fund	64.9%	80.2%	78.2%	78.6%	81.0%
Treatment effect versus Baseline	n/a	0.154** (0.078)	0.133* (0.070)	0.138** (0.069)	0.161** (0.068)
Treatment effect versus Warning Only	n/a	n/a	-0.020 (0.080)	-0.016 (0.079)	0.007 (0.079)
<i>Typical investment size of £10,000 or more (N=615 choices in total):</i>					
Selected a lower cost fund	66.7%	66.7%	74.7%	75.2%	77.2%
Treatment effect versus Baseline	n/a	0.000 (0.073)	0.080 (0.060)	0.085 (0.067)	0.106* (0.062)
Treatment effect versus Warning Only	n/a	n/a	0.080 (0.070)	0.085 (0.076)	0.106 (0.071)

Note: Standard errors in parentheses, calculated clustering on the respondent identity. Weights not applied. ***/**/* signifies statistical significance at 99/95/90 % level. Treatment effects in bold are statistically significant at at least 10% both with and without the weights applied.

Source: London Economics analysis of experiment data

A6.8 Important factors affecting respondents' decision-making

The table below shows which factors were the most important in respondents' decision-making in the experiment, expanding the table shown in section 3.3 to include all six factors asked about in the survey. These results suggest that investors' preferences were not affected by the treatments – performance was always the most important factor, followed by charges and then riskiness.

Table 24 Important factors affecting respondents' decision-making

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Most important factor					
Charges of the funds	22.2%	17.9%	21.7%	16.1%	18.5%
Performance of the funds	59.9%	62.7%	56.5%	63.2%	64.5%
Riskiness of the funds	6.8%	7.5%	7.2%	4.9%	7.6%
What the funds are invested in	5.3%	7.0%	6.8%	8.5%	5.2%
Objectives of the funds	4.3%	4.0%	6.8%	5.4%	3.3%
Names of the funds	1.4%	1.0%	1.0%	1.8%	0.9%
Among top 2 factors					
Charges of the funds	66.2%	66.2%	63.3%	62.3%	63.5%
Performance of the funds	87.9%	85.1%	79.2%	83.9%	88.2%
Riskiness of the funds	16.4%	19.4%	21.3%	17.9%	20.4%
What the funds are invested in	16.4%	18.4%	17.4%	16.6%	17.5%
Objectives of the funds	11.1%	10.0%	15.9%	16.6%	9.0%
Names of the funds	1.9%	1.0%	2.9%	2.7%	1.4%
Among top 3 factors					
Charges of the funds	85.0%	84.6%	80.2%	84.8%	88.6%
Performance of the funds	95.2%	93.5%	90.8%	90.6%	93.8%
Riskiness of the funds	48.3%	52.2%	50.7%	48.4%	52.1%
What the funds are invested in	37.2%	37.8%	42.5%	37.7%	35.5%
Objectives of the funds	30.0%	29.4%	32.4%	32.7%	27.0%
Names of the funds	4.3%	2.5%	3.4%	5.8%	2.8%

Note: Total N=1,049. Weights not applied.

Source: London Economics analysis of experiment data

A6.9 Time spent and navigation in the simulated platform

The tables in this section present information on the time spent by respondents within the simulated online platform in the experiment and how respondents navigated the platform.

A6.9.1 Time spent

The results in Table 25 show that the most common amount of time spent making a choice in the experiment was between 31 seconds and a minute (accounting for 25% of all choices). The amount of time spent decreased as the rounds progressed (as one might expect), with two minutes or more spent on 43% of first round choices, compared to just 11% of third round choices.

Table 25 Time spent making choices in the experiment by round

	Round 1	Round 2	Round 3	Average
10 seconds or less	3.3%	6.6%	9.6%	6.5%
11 to 20 seconds	3.5%	8.0%	12.7%	8.1%
21 to 30 seconds	3.9%	12.5%	14.3%	10.2%
31 to 60 seconds	16.7%	27.9%	31.4%	25.3%
61 to 90 seconds	16.9%	18.4%	15.4%	16.9%
91 to 120 seconds	12.7%	8.3%	5.7%	8.9%

further detail of the experiment and survey results, including:

121 to 180 seconds	17.8%	9.3%	6.1%	11.1%
181 to 240 seconds	10.7%	3.0%	2.8%	5.5%
Over 240 seconds	14.5%	6.0%	2.0%	7.5%

Source: London Economics analysis of experiment data

A6.9.2 Navigation

The table below shows the shares of respondents who viewed page 1 of the detail information pages for different numbers of funds during the experiment, by round and overall on average across all three rounds of the experiment. These results show that for just over half of all choices (52.9%) the respondent did not view the detail information pages for any funds. This share ranged from 44.5% in round 1 rising to 58.6% in round 3. In 16.7% of cases the respondent viewed the page 1 of the detail information pages for all six funds.

Table 26 Shares of respondents who viewed page 1 of the detail information pages

Number of funds for which page 1 was viewed	Round 1	Round 2	Round 3	Average
0	44.5%	55.7%	58.6%	52.9%
1	20.7%	14.8%	13.8%	16.4%
2	7.1%	4.9%	5.3%	5.8%
3	5.1%	4.1%	3.8%	4.3%
4	1.9%	1.7%	1.0%	1.6%
5	3.3%	1.8%	1.6%	2.3%
6	17.3%	17.1%	15.7%	16.7%

Source: London Economics analysis of experiment data

Table 27 shows the shares of respondents who viewed page 2 of the detail information pages for different numbers of funds. These results show that, on average across the rounds, the respondents rarely viewed the second page of detailed information for any funds (on average across the rounds this page was viewed for no funds at all in more than 80% of cases).

Table 27 Shares of respondents who viewed page 2 of the detail information pages

Number of funds for which page 2 was viewed	Round 1	Round 2	Round 3	Average
0	78.5%	81.0%	84.4%	81.3%
1	5.6%	6.5%	6.1%	6.1%
2	4.0%	3.0%	3.1%	3.3%
3	2.5%	2.8%	1.4%	2.2%
4	1.0%	1.0%	1.0%	1.0%
5	2.9%	1.2%	0.8%	1.6%
6	5.5%	4.5%	3.3%	4.4%

Source: London Economics analysis of experiment data

A6.10 Weighted experiment results

This section presents the shares and key treatments effects with the weights applied to the data, for comparison with the equivalent results presented in chapter 3. The unweighted results are valid

for our actual (unweighted) sample⁶⁴ but do not necessarily apply to the target population. The weighted results, on the other hand, are our best estimates for the target population (i.e. non-advised retail investors in funds, with assets of at least £10,000). A treatment effect that is observed based on the weighted analysis can be said to apply to the relevant target population, although there is generally greater uncertainty (larger standard errors) around these estimates. At least partly due to this greater uncertainty, fewer of these results are statistically significant.

A6.10.1 Impact of the treatments on the percentage who selected a lower cost fund

Table 28 Percentage who selected a lower cost fund and related treatment effects – Weighted

	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Selected a lower cost fund	72.9%	78.2%	77.1%	80.3%	82.5%
Treatment effect versus Baseline	n/a	0.053 (0.034)	0.042 (0.034)	0.074** (0.031)	0.096*** (0.031)
Treatment effect versus Warning Only	n/a		-0.011 (0.037)	0.022 (0.034)	0.043 (0.034)

Note: Total N=3,147 (3 choices each by 1,049 respondents). Standard errors in parentheses, calculated clustering on the respondent identity. Weights applied. ***/**/* signifies statistical significance at 99/95/90 % level.

Source: London Economics analysis of experiment data

⁶⁴ That is, where we see a treatment effect based on the unweighted analysis, this result applies to the population of investors that is represented by our actual sample.

further detail of the experiment and survey results, including:

A6.10.2 Awareness and understanding of the level of charges for the respondents' chosen fund

Table 29 Percentage who correctly identified the level of charges for their chosen fund and related treatment effects – Weighted

Correctly identified the following for their chosen fund:	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Level of OCF^[1]	37.7%	36.3%	40.7%	42.0%	44.4%
Treatment effect versus Baseline	n/a	-0.014 (0.058)	0.031 (0.059)	0.044 (0.055)	0.067 (0.057)
Treatment effect versus Warning Only	n/a	n/a	0.044 (0.058)	0.057 (0.056)	0.081 (0.058)
How OCF compared to other funds shown^[2]	29.9%	39.1%	34.2%	32.7%	40.3%
Treatment effect versus Baseline	n/a	0.092 (0.057)	0.043 (0.054)	0.028 (0.052)	0.104* (0.056)
Treatment effect versus Warning Only	n/a	n/a	-0.049 (0.058)	-0.065 (0.055)	0.012 (0.059)
How OCF compared to market average^[3]	24.9%	21.0%	28.4%	22.5%	45.1%
Treatment effect versus Baseline	n/a	-0.039 (0.048)	0.035 (0.052)	-0.024 (0.047)	0.201*** (0.054)
Treatment effect versus Warning Only	n/a	n/a	0.074 (0.049)	0.015 (0.044)	0.240*** (0.050)

Note: [1] Based on question UA10 (the questions can be seen in the survey questionnaire in Annex 1). [2] Based on question UA11. [3] Based on question UA12. Standard errors in parentheses. Weights applied. ***/**/* signifies statistical significance at 99/95/90 % level.

Source: London Economics analysis of experiment data

A6.10.3 Awareness of the charge components that applied to the respondents' chosen fund

Table 30 Percentage who correctly identified various aspects of the charges of their chosen fund and related treatment effects – Weighted

Correctly identified the following for their chosen fund:	Baseline	Warning Only	Warning & Comparator Chart	Warning & Impact Chart	Warning & Review Screen
Whether the fund had a charge^[1]	89.4%	87.4%	87.5%	88.9%	89.4%
Treatment effect versus Baseline	n/a	-0.020 (0.037)	-0.019 (0.042)	0.005 (0.036)	0.000 (0.036)
Treatment effect versus Warning Only	n/a	n/a	0.001 (0.045)	0.015 (0.040)	0.020 (0.040)
Whether an ongoing charge (OCF) applied^[2]	58.1%	56.4%	58.0%	61.7%	63.6%
Treatment effect versus Baseline	n/a	-0.017 (0.058)	-0.001 (0.058)	0.035 (0.055)	0.055 (0.057)
Treatment effect versus Warning Only	n/a	n/a	0.016 (0.060)	0.052 (0.057)	0.072 (0.059)
Whether or not each and every charge component applied^[3]	3.4%	7.5%	6.1%	13.8%	8.8%
Treatment effect versus Baseline	n/a	0.041 (0.025)	0.027 (0.022)	0.104*** (0.030)	0.054** (0.024)
Treatment effect versus Warning Only	n/a	n/a	-0.014 (0.029)	0.063* (0.036)	0.013 (0.031)

Note: [1] Based on question UA6. [2] Based on question UA8. [3] Question UA8, respondents had to answer correctly for all five charge components mentioned in the question. Standard errors in parentheses. Weights applied. ***/**/* signifies statistical significance at 99/95/90 % level.

Source: London Economics analysis of experiment data

Annex 7 Sampling, randomisation and weighting for the experiment and survey

In total 1,049 respondents completed the experiment and survey, recruited from the YouGov panel. YouGov maintain an engaged community of panellists who have specifically opted in to participate in online research activities. Such panels provide continuous access to a responsive audience ready-profiled on important demographic, attitudinal and lifestyle attributes.

Recruitment from the panel was controlled using the YouGov proprietary sampling technology (a process called 'turbo sampling'). This is an active sampling system which assigns panellists to the most appropriate survey at the time they respond to an invite. The most appropriate survey is defined based on a number of factors including demographic needs, time left in field and any criteria based on other surveys in the field that may mean a respondent is not suitable for a current study. This ensures that, as well as being demographically balanced, we also have a number of responders of differing response times rather than the sample being just made up of those that responded to the survey invitation immediately. The step-wise process behind this active allocation of panellists to surveys is described below:

- 1) 5-10% of the panel are selected at random
- 2) Potential respondents are evaluated to identify those most wanted (taking into account all demographics of the respondents, and the targets of all the surveys)
- 3) The most appropriate panellists are chosen and sent invitations
- 4) This process is repeated every 30 minutes
- 5) When panellists come into the system (click on the invite), they are allocated to surveys currently in field according to fit and greatest need

A7.1 Screening of potential respondents

Panellists who were entered into the survey had to pass the following screening criteria in order to take part and be counted as a completed observation. This was based on the same screening used by the FCA in partnership with NMG Consulting in early 2016, albeit with some cosmetic updates. Respondents had to have the following characteristics:

- 1) Sole or part financial responsibility in their household
- 2) Be an investor in funds, either directly or via a stocks and shares ISA, personal pension, or income drawdown plan
- 3) Hold fund investments that were fully or partially self-invested
- 4) Hold investments in active funds, or a mix of active and passive funds
- 5) Have investable assets of £10,000 or more

In addition, so that that the experiment could function properly respondents were asked to complete the survey on a large-screen device (laptop or desktop). Should they enter on a small-screen device, they were given the option to return later on a large-screen device, or to exit the survey.

A7.2 Sample frame

The FCA required the research to be carried out with a sample that was representative of the UK population investing in retail funds without a financial advisor. The best-known approximation for the demographic make-up of this population was the sample frame that was used in previous research conducted to inform the AMMS undertaken for the FCA by NMG consulting in 2016. According to the technical report from this NMG's technical report: *"NMG's D2C survey provided the profile of the population of interest and allowed quotas to be set by age, gender, region, total investable assets and social grade, to ensure a representative sample was achieved in the [Asset Management Market Study]"*.⁶⁵

The sample frame used in NMG's research is presented in Table 31 below. This was the target sample frame at the commencement of our fieldwork. The aim at the outset was to achieve 1,000 completed responses, with five identical sample frames, one for each experimental treatment.

Table 31 Target sample frame based on NMG Consulting's 2016 research for the FCA

Demographic		Target
Age	18-34	23%
	35-44	19%
	45-54	16%
	55-64	20%
	65+	22%
Gender	Male	68%
	Female	32%
Social grade	A	22%
	B	40%
	C1	21%
	C2	8%
	D	4%
	E	6%
Region	North East	4%
	North West	12%
	Yorks & Humber	7%
	East Midlands	7%
	West Midlands	7%
	East of England	7%
	London	20%
	South East	16%
	South West	7%
	Wales	4%
	Scotland	6%
	N. Ireland	2%

⁶⁵ <https://www.fca.org.uk/publication/market-studies/ms15-2-2-appendix-1.pdf> (page 8)

Demographic		Target
Total investable assets	£10,000-£29,999	24%
	£30,000-£99,999	37%
	£100,000-£249,999	17%
	£250,000+	22%

At the outset of fieldwork it was agreed with the FCA that should the sample become difficult to achieve in a reasonable timeframe, either due to the availability of panellists with the relevant demographic profile, or because of a high drop-out rate from the experiment, YouGov would revisit the sample frame and suggest adjustments. This did become necessary through the course of fieldwork, and the following adjustments were required:

- Regions were merged from twelve regions to eight regions. The new targets were as follows:

Demographic	Group	Target proportion
Region	North	24%
	Midlands	14%
	East of England	7%
	London	20%
	South	23%
	Wales	4%
	Scotland	6%
	N. Ireland	2%

- Age bands 35-44 and 45-54 were merged to create one target for this whole group:

Demographic	Group	Target proportion
Age	35-54	35%

- Socio-economic grades C2, D and E were merged to create one target:

Demographic	Group	Target proportion
SEG	C2DE	18%

- Total investable assets bands were adjusted:

Demographic	Group	Target proportion
	£10-50k	35%
	£50-100k	25%

- We placed 20% 'overage' on age and socio-economic grade, which allowed for any quota band within these demographics to go up to 20% over or under target.
- A final measure of removing all quotas to achieve the last 10% of completes was applied. This ensured that there were more than 1,000 records for analysis, and the data collection remained in line with the agreed timings.

A7.3 Randomisation

We specified separate sets of quotas (in terms of age, gender, etc.) for the baseline and each of the four treatments (i.e. 5 sets of quotas). At the point when a respondent entered the survey (by qualifying through the screening process) we already knew their profile in terms of the

demographics against which the quotas were set. Thus, when a respondent entered the survey we could assign them to the experimental condition (i.e. the baseline or a certain treatment) where they were most needed in order to complete the quotas for that condition (i.e. where respondents with their profile were most lacking at the time). While this was not a purely random process, it was as random as possible within the limits of panel-based research and achieved the objective of having a similar profile of respondents in each condition.

A7.4 Weighting the data

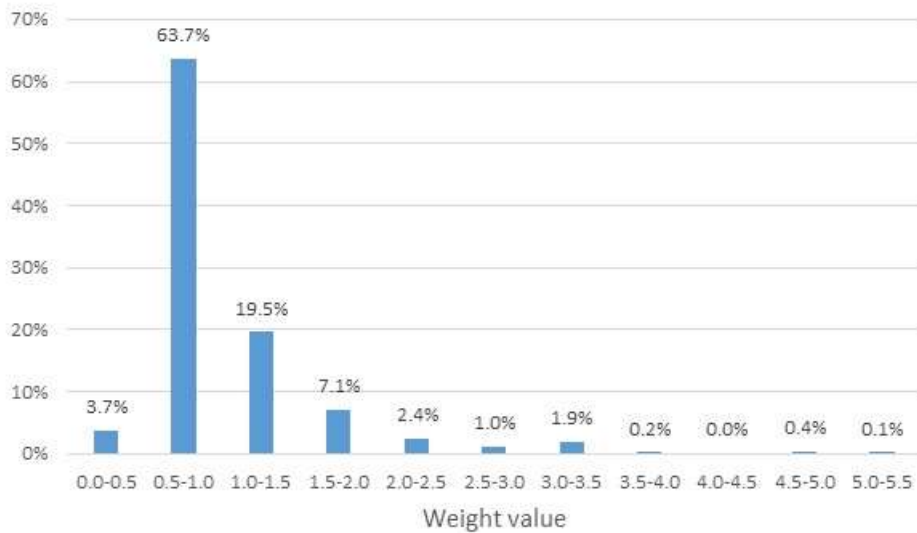
In order to maximise the efficiency of the sample collected, and to create as robust a data set as possible from the 1,049 completed responses, YouGov and London Economics agreed with the FCA to test a number of weighting profiles against the sample.

The Random Iterative Method (RIM) for generating weights used by YouGov is used when there are a number of different standard weights that must all be applied together. This weighting method calculates weights for each individual respondent from the targets and achieved sample sizes for all of the quota variables. This RIM weighting approach is the standard approach in market research. It takes into account all of the quota group targets and estimates 'best' individual weights across the different quota cells. The RIM weights are calculated in such a way that overall the weight for a single variable group (such as age or gender) will equate to the unweighted base size for that variable group.

At the conclusion of this process, the weights were created using the weighting profile in the table below (which matches the original target sample frame, except with some categories and bands merged together). This adjustment was made to ensure that the weighting efficiency score was greater than 70%, creating a robust dataset for the analysis. The distribution of the weights can be seen in Figure 16. In the analysis the weights were applied as probability weights (the appropriate use of the weight variable when working with sample survey data) via the 'pweight' command in Stata.

Table 32 Weighting profile

Demographic		Target
Age	18-34	23.0%
	35-54	35.0%
	55+	42.0%
Gender	male	68.0%
	female	32.0%
Social grade	ABC1	82.5%
	C2DE	17.5%
Region	North	23.5%
	Midlands	14.0%
	East of England	7.0%
	London	20.0%
	South	23.0%
	Wales	4.0%
	Scotland	6.5%
	Northern Ireland	2.0%
Investable assets	£10,000-£29,000	24.0%
	£30,000-£99,999	37.0%
	£100,000+	39.0%

Figure 16 Distribution of the weights



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