Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Sir / Madam,

**Financial Services Consumer Panel response to FCA Consultation Paper: Broadening access to financial advice for mainstream investments**

The Financial Services Consumer Panel welcomes the opportunity to respond to the FCA's Consultation Paper on broadening access to financial advice for mainstream investments. Sound and affordable advice is a vital aspect of the consumer experience, and we support the FCA's efforts to strike the balance.

Whilst not all of the questions are applicable to the Panel, we have responded to those of most relevance.

Our responses to the questions posed in the consultation are included at Annex A below.

Yours sincerely

Helen Charlton

Chair, Financial Services Consumer Panel

## Annex A

**Q1: Do you agree with our proposed defining features of core investment advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes, agreed. Although note that using the annual limit for ISA subscriptions does not afford much protection - the annual ISA savings limits are very high relative to the median level of savings. Indeed, consumers can accumulate even larger balances over a number of years, and under the new regime a consumer could take advice on how to invest those accumulated balances, meaning that the downside risks of bad advice could be very large. Even with the ISA limits as a cap, therefore, it's important that the wider proposals are very robust in avoiding the risk of biased or poor-quality advice.

**Q2: Do you think that consumers who have received transactional core investment advice should be able to receive further instances of transactional core investment advice in the years immediately following their initial advice (for example for up to 3 years)?**

Yes, agreed.

**Q3: Please explain your answer and state any alternative suggestions for supporting consumers who receive transactional core investment advice to make initial investments and who would like transactional advice in future years on their existing S&S ISA.**

N/A.

**Q4: Do you agree with our proposed criteria for the provision of core investment advice set out above? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes, agreed. In the spirit of taking an outcome-based approach, we would also encourage the FCA to keep these criteria - and the wider approach - under review, ensuring that it delivers against the success measures set out in paragraphs 1.22 and 1.23 of the consultation.

We would also like to take this opportunity to comment on the success measures. We support the goal of reducing the proportion of consumers with high risk tolerance holding large balances of savings in cash. In line with recent discussions with the FSCP Working Group, we would encourage the FCA to reflect on the robustness of the £10,000 figure as a cutoff for a reasonable level of cash savings, and it would be wise in any case to keep this measure under review. We also note that the metrics do not track the ultimate desired outcome: that consumers achieve better long-term returns by investing their savings wisely in mainstream assets via the core investment advice regime. We would therefore encourage the FCA to develop a more direct measure of success that speaks not just to the quantum of savings held in cash but also to the quality and appropriateness of the advice consumers receive under the new regime. We agree that complaints data, including FOS complaints and adjudications, could be useful as one indicator of the success of the new regime as part of a wider basket of measures.

With respect to the success measures, we would also note that much rests on the FCA's understanding of consumers' risk tolerance. We welcome the plan to exclude certain higher-risk products from the new regime, but we would encourage the FCA to be more explicit about its assumptions about consumers' risk tolerance. The new regime intends to encourage people "with higher risk tolerance" from holding over £10,000 in cash, so what specifically is meant by “higher risk tolerance”? And how will this definition be kept under review as the regime develops and as consumer attitudes change over time?

**Q5: Do you agree with the proposed approach to service design and filtering? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes, agreed. It will be important to make sure the consumer’s borrowing position is considered as part of this, so we are keen to make sure this aspect of the proposals is not watered down. It’s common for consumers to hold savings at the same time as debts, and it’s not uncommon that the best course of action for a consumer is to pay down any high interest debts before investing cash savings. The service design could provide a useful opportunity to remind consumers to think about savings and debts in the round; it is worth starting by understanding whether or not a consumer is ready to invest in a way that is aligned with their interests.

**Q6: Do you agree with our suggested approach for how a firm may choose to undertake the knowledge and experience element of the Know Your Customer process for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

Yes, agreed.

**Q7: Do you agree with our proposed approach for the factors that we consider are relevant for obtaining the necessary information on a client’s financial situation? Please elaborate on the reasons for your answer, as well as outlining where applicable any alternative approaches that you would suggest.**

Yes, agreed. It is important to consider consumers’ wider debt positions. Possible fluctuations in a consumer’s income are also relevant to providing appropriate investment advice.

**Q8: Do you agree with the production of non-Handbook guidance to support firms in arriving at a suitability decision for core investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

Yes, agreed. We believe the additional guidance will be valuable in helping firms to navigate the complex issues around suitability and will help to encourage a more consistent approach across firms.

**Q9: Do you have any comments on the content in the non-Handbook suitability guidance? Please provide supporting information in explaining your answer and if there is anything additional that you consider should be included.**

No comment.

**Q10: Do you consider it would be helpful for a regulatory pro forma document to be produced to assist in setting out the key areas that firms should consider when providing core investment advice? Please outline any reasons supporting your answer when responding.**

Yes, agreed. This could help to encourage an all-important consistency in the consumer experience, which can so easily become complex and confusing. This will also assist consumers in comparing different offerings. We appreciate that there is a tension here with the idea of more outcomes-based approaches but believe that consistency has a value that justifies this approach.

**Q11: Do you agree with our proposals to create a new TC activity for core investment advice? Please explain your answer and state any alternative approaches you believe would achieve the same objective.**

Yes, agreed.

**Q12: Do you agree with our proposals that core investment advisers should only pass the modules in Financial Services, Regulation and Ethics as well as Investment Principles and Risk? Please explain your answer and state any alternative approaches you believe would achieve the same objective.**

In part. While we recognise the rationale for this change, we are mindful of the risks of lowering training requirements. It is welcome to see the module on Financial Services, Regulation, and Ethics included as a requirement. We would recommend that the FCA build in a timely review to assess the impact of lowering these requirements.

**Q13: Are you proposing to offer these examinations to candidates who wish to be qualified to provide core investment advice? If so, do you propose to offer these modules as a complete course or as individual separate modules? Additionally, please let us know if you offer courses that you consider may cover the necessary competencies required for an adviser to provide core investment advice.**

N/A

**Q14: If you are proposing to offer a course to cover the modules required, do you consider there to be any challenges in order for these to be operational by the effective date of the regime? If so, please outline any options that you would suggest**

N/A

**Q15: Do you agree with our proposals that core investment advisers should pass the qualifications to provide core investment advice within 24 months, rather than the current 48-month timeframe for retail investment advice? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

Yes, agreed.

**Q16: Do you agree with the proposals that core investment advisers will only need to undertake a minimum of 15 hours CPD each year? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

No. Ongoing professional development is key to the provision of good advice, helping to make sure financial advisers stay up to date with regulatory changes and the latest insights into consumer behaviour. There is a strong case for retaining a high level of expectations around CPD for these reasons.

**Q17: Do you agree that the CPD hours may be either structured or unstructured? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

We recognise that unstructured CPD can be valuable. Indeed, this an opportunity to broaden the types of CPD advisers are undertaking. For example, it can be particularly valuable to spend time with agents helping vulnerable customers at the frontline, either in a charity or commercial setting. This can increase advisers' awareness of the pressures people are facing and of the level of consumer understanding of investment decisions. The FCA should consider setting a requirement for a minimum of structured CPD to ensure the value of more structured learning is not lost.

**Q18: Do you agree with the proposal to remove the requirement for core investment advisers to hold a Statement of Professional standing? Please explain the reasons for your answer.**

Yes, but with the caveat as below.

**Q19: Do you agree with the proposal to remove the requirement that CPD will need to be independently verified by an accredited body? Please explain the reasons for your answer.**

No, we are concerned that there would need to be an equivalent mechanism for quality assurance. We worry that removing the need for accreditation could otherwise lead to declining quality in CPD.

**Q20: Do you agree with our proposed product governance requirements for the core investment advice regime? Please explain your answer and suggest alternative approaches if you believe these would achieve the same objective without compromising consumer protection.**

Yes, broadly speaking we agree with the proposed governance and the principles as described in relation to clarity, complexity, risk, ongoing appropriateness, value for money, and accessibility.

We would underscore the importance of trust for the success of the new regime; the new regime will fail to boost access to advice if consumers lose faith that core advice is being offered in a fair and unbiased way and in the interest of consumers. This would risk consumers not taking advice and either perpetuating the situation in which consumers hold too much cash, or else prompting consumers to turn to investments beyond their risk profile (on risk, see also our response to Q4). To this end, we believe that the provisions around fees (under 'value for money') are particularly important. We would push the FCA to be as concrete as possible in specifying what it means by value for money and to ensure there is clear guidance for firms to avoid consumers being advised to take investments with high fees.

**Q21: Do you agree with our proposed changes around fees and charges? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

We tentatively support this aspect of the proposals, but with caveats.

We understand the rationale for making it easier for firms to use deferred payment/payment by instalments. However, we have concerns about low levels of consumer understanding. We know from wider research and behavioural insights that consumers often misunderstand deferred payments or are over-optimistic about what they can afford. This bites hardest in credit markets like Buy Now, Pay Later, but it can apply in any situation in which consumers are paying by instalments.[1] This can make it

[1] See, for example, Citizens Advice research into consumer understanding of the deferred payment aspects of Buy Now, Pay Later.

easier for firms to overcharge and for consumers to over-commit. There are also many examples in other markets, from telecoms/mobile phones to white goods, in which payment by instalments become a cover for firms to hide fees or charges.

We recognise, however, the wider context of the reforms, namely that consumers currently under-spend on advice, meaning their cash savings are eroded by inflation. We would therefore support allowing payment by instalments as long as this comes with tight protections: clear requirements about how the price is communicated upfront and clear requirements to avoid hidden fees and to ensure that recurring payments do not result in subscription traps that exploit consumer inertia.

Finally, it's important to stress that current routes to redress, for example via the FOS and FSCS, are maintained.

**Q22: Do you agree with our proposed new guidance around core investment advice as a limited form of advice? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes. We would also underline how important it is that firms make the scope of core investment advice clear to consumers. It is important that consumers understand what is and is not included in core investment advice, so we support the proposal to include guidance in the Handbook that firms explain the scope of core investment advice in associated marketing activities.

**Q23: Do you agree with our proposed new guidance for marketing of core investment advice to make clear the limited range or products? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes. See Q22 above. This additional guidance will be important in order to maintain trust in the new regime.

**Q24: Do you agree with our proposed new guidance intended to clarify the relationship between marketing of core investment advice and personal recommendations? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes, as above.

**Q25: Do you agree with our proposed new requirements for initial disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes. It is vital that fees are disclosed at the earliest opportunity and that the scope and transactional/ongoing nature of advice is stated clearly upfront.

**Q26: Do you agree with our proposed new requirements for suitability report disclosures? Please explain your answer and suggest alternative approaches if you believe these could achieve the same objective.**

Yes. In the case of transactional advice, we agree it is important that the firm inform the client that they are responsible for ensuring the product(s) recommended continue to meet their needs in the future. However, we also believe there is a responsibility on firms to ensure ongoing appropriateness, namely that products are not recommended

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https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/BNPL%20report%20(FINAL).pdf that are likely to become significantly less appropriate at a later date. We would expect to see enforcement action on firms not acting in line with this principle.

**Q27: Do you agree that the SM&CR – including fit and proper assessment and conduct rules – should apply to directly authorised advisers offering core investment advice who are not already certified as holistic financial advisers? Please explain why.**

Yes, agreed.

**Q28: Do you agree with our proposal to delay reporting of individuals offering core investment advice only to the FCA for a period of 1 year from the implementation date of the regime? Please explain why.**

We would want to understand better why it is necessary to offer a full year's delay before firms are required to report the certification of advisers certified to offer only core investment advice. This leaves a period of exposure in the regime, when insufficient data will be reported, so we would prefer to see this window shortened if practically feasible.

**Q29: Do you agree that the APR should apply to new ARs offering core investment advice, who are not already approved, with advisers classified as CF30? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

Yes. agreed.

**Q30: Do you agree with our proposal for principal firms to submit notifications applications to the FCA on behalf of their ARs? Please elaborate on the reasons for your answer, as well as outlining any alternative approaches that you would suggest.**

Yes, agreed.

**Q31: Do you agree with our proposal that the core investment advice regime should be open only to those with an 'advising on investments permission', where other relevant criteria are met regarding qualifications and scope of advice? Please explain why.**

Yes, agreed.

**Q32: Do you agree with our proposal that firms should notify us where they intend to offer core investment advice? Please explain why.**

Yes, agreed.

**Q33: Do you agree with our proposal that firms should notify us where they intend to stop offering core investment advice? Please explain why.**

Yes, agreed.

**Q34: Do you agree with our proposal to require firms providing core investment advice to hold the information specified in order to provide it to us on request? Please explain why.**

Yes, agreed. Holding adequate information, available on request, is an important enabler of the supervisory regime.

**Q35: Do you agree with the proposals that this data should be over an annual reporting period that will come into effect from the start of the regime? When responding please outline any reasons that support your answer.**

Yes, agreed.