

## Inside FCA Podcast: Interview on consumer investment research findings

**OI:** Hello and welcome to the Inside FCA Podcast, I'm Ozge Ibrahim and today I'll be speaking with Atinuke Akintola from the FCA's campaigns team, who has been working on research which has scanned the UK's broad investor landscape, revealing a growing number of investors willing to take risks by buying into complex high-risk financial products. We'll be talking about this trend, what it means and how the FCA aims to tackle potential harms by helping investors to make wise choices.

Welcome Atinuke, and thanks for joining me today.

You recently commissioned research into consumer investment. Can you tell me what prompted this research and why you think it's important at this time?

**AA:** First of all, thank you for having me today Ozge. So investing is important to us all, you know we use it to save and invest for really important things in our lives, whether it be a wedding that we are saving for or you know, for retirement. And it's important for the economy as a whole, you know, we use it to fund businesses and it just helps everything go around, so investing is really good. What we've seen recently is that consumers are actually having to make more and more decisions themselves about how they choose to save or invest their money. Covid has had an impact on this too; some people have had more time and more money and more motivation to put into investing and this has just meant that more and more people have taken up being a DIY investor and doing things themselves. So, this is all great but we've noticed that there is this group of consumers who are getting involved with investments that actually have a quite high level of risk involved, and actually when you speak to them they claim that they have a low risk appetite, so these investments aren't actually suitable for this group. We've also found that when you ask them, this group also said that if they were to lose their investment it would have quite a huge impact on their life and this actually means it's quite harmful to their financial security.

So, we asked our research agency Britain Thinks to help us do some research to really understand this audience. It was quite thorough - we did qualitative and quantitative research and we spoke to over 550 people. And the purpose of this research was really to find out what really motivates these people and drives them towards investing in high risk products, 1, to help inform our rules and our policies here at the FCA and then 2 to help with a campaign that we are developing, which aims to help consumers make better investment decisions.

**OI:** Can you say more about your main findings from the research?

**AA:** So, one interesting thing that the research found is that for many people they were actually motivated by social and emotional reasons. Things like, you know, enjoying the thrill of investing or enjoying the status that comes with owning a stake in a company and actually this was more important for those who were invested in high-risk products and they actually claimed that you know, functional reasons like just wanting to make your investment work harder were not as important as these emotional and social factors. The research also highlighted 3 main groups of investors: the 'having a go group', 'the thinking it through' and the 'gambler'. And what they found was that the having the go group tended to be less experienced investors; they were keen to do on their own and they tended to go along with hyped investment opportunities that they saw online on social media, and I'm sure everyone can think of one or two investments that they've seen recently on the news that have been really hyped up. The second group were the 'thinking it through' group, and they tend to have more experience, sometimes have a background in finance sometimes not, but they tended to have high levels or knowledge and high levels of confidence. But actually, the research shows that sometimes their confidence can be a bit misplaced. And then the third and final group was the 'gambler', and they saw investing more like betting and they were really attracted to, like short term high-risk investments like foreign exchange and contracts for difference.

**OI:** And what are you most concerned by based on the results of this research and the demographics you've just highlighted?

**AA:** So, I think it's important to be aware that with high-risk investments you're more likely to lose your investment than if you were to go with a straight forward investment like a stocks and share ISA, and the findings revealed that there was actually a younger, more diverse group of consumers getting involved with high risk investments and that group actually had the lowest level of financial resilience. Which meant they were more vulnerable if they were to lose money. The research also showed that there was a lack of awareness about the basic risk to do with investing: 4 in 10 said that losing money they didn't actually feel was a risk to do with investing, when as we both know, your capital is always at risk when it comes to investing and actually there are times when you can lose more money than you initially put in. So, that's why we try through our communications, to let people know that consumers should only invest money that they could afford to lose when it comes to a high-risk investment.

**OI:** And why do you think there's a higher risk appetite displayed by this new group of self-directed investors as you call them?

**AA:** So, they're quite a few macro factors that are affecting investing at the moment, one of the major ones is that we've got long-term low interest rates, and this has driven people more towards riskier investments in order to try and get better returns. But it is really hard nowadays for people to tell what is too good to be true, what's not, and also what counters as a high-risk investment. On our website we have a little bit of a tip where we ask people to think about what's the current level of return offered in a cash ISA - it's probably around 1%. And so, the lower return offered there reflects the amount of risk, which is much less, and so we asked consumers to be wary if you're offered anything significantly more than that and the higher returns offered should indicate that it's a high-risk investment. Another thing that's affecting the high-risk appetite are just advances in technology. We have these new apps which are making investing in high-risk products a bit more accessible. You can invest in foreign exchange, crypto currency all through an app, and there's online adverts and a lot of time these apps have low cost or no costs and so this is encouraging more and more consumers to invest, especially those who are younger and more technology savvy.

**OI:** Does the FCA want to discourage investing in high-risk financial products?

**AA:** So, one thing to note is that high-risk investments definitely has its place among the range of the different type of investment products that consumers can choose from, but we think that high-risk investments should be reserved for consumers who number 1 understand and are aware of the risk involved and then number 2 are able to absorb the losses without it having a fundamental impact on their finances. And so the messages that we try to share, ideally we want to empower rather than inhibit people's investment choices. And a way we do this is on our website we have a rule of thumb for people who are thinking about investing in a high-risk product. So, if you take all the money that you have available to invest, we advise that people don't invest more than 10% of this in a high-risk product and this way you can diversify your investment portfolio into safer investment options, and it also means that your assets are protected from a potential investment loss.

**OI:** And now that you have detailed research findings, what happens next?

**AA:** The research has been really vital for us internally in order to help with policy changes that we're thinking of doing in the market. We have recently issued a discussion paper asking for the industry's feedback on this area, and the research also underpinning the campaign that we want to develop in order to help consumers choose investments that are more suitable for their needs. And we also use communications as a regulatory tool, so as well as policy and rules we use communications to develop behaviour change campaigns, for example our award-winning PPI campaign, which was about raising awareness of the complaints deadline and our ScamSmart campaign, which is about raising awareness about investment and pension scams. And with all of our campaigns understanding the audience is the first step, which is why this research was so valuable to us because it makes sure that we can have the right messaging at the right time in order to really change behaviour. And as well as publishing the research, we're also doing an online campaign where we are trying to disrupt investors' journeys and give them key questions they should consider before they invest.

**OI:** And what can people do at the moment to help themselves?

**AA:** So, there are 5 important questions that we ask consumers to ask themselves before they invest. Number 1: are you comfortable with the level of risk? All investments carry some element of risk but usually the higher returns offered the higher the risk involved, so if you're offered an investment that has high levels of returns ask yourself can I afford to lose all the money I invest in this product? Number 2: do you fully understand the investment being offered to you? So, high-risk investments can be really complicated and a bit difficult to understand sometimes. There might be things that you want to make sure you're clear about, for example could you get all your money out when you needed to, are people willing to buy this investment on from you if you needed to as well? It's really important you make sure you fully understand the investments and the risk involved just to help you making better decisions. Number 3: are you protected if things go wrong? So, protection could be through the FFCS [Financial Services Compensation Scheme], or the [Financial] Ombudsman. Some people have mistakenly believed that they were entitled to compensation if an investment went wrong, and this isn't always the case. So, it's really important that you look into protections that are available before you invest. Number 4: are your investments regulated? There are activities that we would regulate other FCA and activities in products that we don't, and so it's really important that you understand whether your investment is regulated because this could affect whether or not you're entitled to compensation if things were to go wrong. And number 5: should you get financial advice? An advisor could really help you get the balance right between your risk appetite and the type of investment that they may suggest to you. If you do opt for an advisor, do make sure they are regulated by the FCA, and you can check that on our website.

**OI:** And where can our audiences find out more about the work being done on consumer investment harm?

**AA:** So, what our research showed is that there was a large part of our audience who didn't know who the FCA was or what we did and so that's one of the reasons why we're doing this podcast, to reach a new audience and get our messages out there. But another part of that puzzle, it will actually be working with partners whether that be brands or organisations that work within financial services or even beyond, in order to get them to help us communicate our messages to a wider audience. There's a link [see Podcast web page], where people can sign up to a mailing list to find out more about the campaign, and so that partners and brands could support us in future.

And for everyone else, for the wider public you know, please visit our website to find out more how to protect yourself from high-risk investments and also watch this space - you might be seeing one of our adverts on your social media timelines very soon.

**OI:** Thanks for your time and for sharing the findings from this consumer investment research, Atinuke. For anyone interested in learning more and participating in helping towards the FCA's work in this space, we have a discussion paper on our website called: [\*Strengthening our financial promotion rules for high-risk investments in firms approving financial promotions\*](#), which will help to shape future policy in this area.

For now, stay safe, and join us again soon on the next Inside FCA Podcast.

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