Call For Input: The Consumer Investments Market

September 2020

How to respond

We are asking for comments on this Call for Input by **15 December 2020**.

You can send them to us using the form on our website at: fca.org.uk/publications/calls-input/consumer-investments

Email:
ConsumerInvestmentsCFI@fca.org.uk

A full list of question is provided in Annex 1. Respondents do not need to answer all questions. We welcome views on any of the issues covered in this CFI.

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Foreword by Christopher Woolard

Consumers need to be able to invest with confidence: for major expenses, for a property and for retirement and care in later life.

Demographic changes mean more people are living longer. Social and economic changes mean more people are responsible for making complex decisions about how they invest their long-term savings to enjoy in later life. Consumers have more choice of products and services than ever before. This new choice has many benefits, but some can be complex for consumers to fully understand, which increases the risk of things going wrong. The nature of long-term savings means that, when things go wrong, it's often too late to put things right.

We have made significant improvements to this market to protect consumers. But there are over 5,000 financial adviser firms and more than 27,000 individual advisers acting as intermediaries between the consumer and their investment. Dominated by small firms, these complex chains of interdependent products and services – some of which are beyond our regulatory remit – make it easy for bad actors to 'hide' and challenging for us to oversee.

The consumer investment market is not working as well as it should. Too often consumers receive lower returns than they should because of unsuitable products with high fees. Too often there have been scams and scandals in this market leading to consumer loss. Too often consumers leave their savings in cash because they don't have confidence in the alternatives. That's why we have made Consumer Investments a priority in our current Business Plan.

The overwhelming majority of retail investors are best served by readily understood, well-diversified and low-cost investments which are already available from a range of providers, but many retail investors don't choose these. We are seeing some progress on reforms of governance and a focus on making investments better value for money, but progress is still slower than we might like.

Many consumers don't seek financial advice, perhaps because of complexity and cost. Many financial services firms seem reluctant to provide simple advice and guidance which will serve the needs of large numbers of consumers. We need the system as a whole, including regulation, to work better for consumers.

Some of the most serious harms we see relate to investments outside our regulatory perimeter and online scams, many based overseas. We have limited powers and capabilities in this space, in particular in our ability to deal with online promotions.

We are seeking views to help us decide how our own rules and approach should address the harms in this market within the powers and resources we have, and where other partners may need to do more to assist or where we might ask government to consider additional powers. We need views that help us to strike the right balance between consumer protection and consumer choice, bearing in mind we cannot offer effective protection to consumers from products outside the scope of regulation.

I would like to thank in advance all those who help us by responding to this Call for Input.

Christopher Woolard
Interim chief executive

1 Executive summary

1.1 This Call for Input (CFI) looks at areas where the consumer investment market is not working well for customers and seeks views on what changes we can make to improve protections and outcomes in this market.

1.2 Much of the consumer investment market meets the goals of retail investors. For example, we have seen growth in retail investors' use of mass-market investments through stocks and shares ISAs. 3.2 million consumers now hold £314bn in stocks and shares ISAs, helping them to save for both planned and unexpected life events.

1.3 But there are some areas where the market isn't working well enough and where change is needed so that everyone can benefit from the rewards of investing. This is a key priority for us. Our Business Plan 2020/21 sets out our aim to build on our existing programme of work to change this market so that consumers have access to investment products that are appropriate, they can make effective decisions and the firms we authorise operate to high standards.

1.4 We aim to deliver a consumer investment market that works well for the millions of people who stand to benefit from it, and the businesses in the real economy for which it provides essential funding.

1.5 We are asking for feedback on the questions in this CFI by **15 December 2020**.

1.6 We will use this feedback to shape our work over the next 3 years and share with Government any views or insights on matters that are for them.

Areas of focus

1.7 This Call for Input is focused on the following core questions:

- What more can we do to help the market offer a range of products and services that meet straightforward investment needs?
- How can we better ensure that those who have the financial resources to accept higher investment risk can do so if they choose, but in a way that ensures they understand the risk they are taking?
- How can we make it easier for people to understand the risks of investment and the level of regulatory protection afforded to them when they invest?
- What more can we do to ensure that when people lose money because of an act or omission of a regulated firm, they are appropriately compensated and that it is paid for fairly by those who cause the loss?
- How can people be better protected from scams?
- What more can we do to facilitate effective competition and encourage firms to develop innovative products and services which help consumers to invest?

1.8 A full list of question is provided in Annex 1. Respondents do not need to answer all questions. We welcome views on any of the issues covered in this CFI.

Q1: Have we prioritised the right issues and questions? Are there other things you think we should be looking at?

1.9 The rest of this Call for Input covers these questions in more detail. To provide context we first consider some facts about the consumer investment market, and the challenges which consumers face when they are thinking about investing.

Background

1.10 The consumer investment market can help to improve people's lives. It performs a vital function in allowing people to provide for later life, to save for major expenses or for a home and can help them deal with unexpected shocks.

1.11 A well-functioning investment market also channels money to companies looking to grow and innovate, supporting the UK economy. This will be even more important as the UK recovers from the economic effects of the coronavirus pandemic.

1.12 Many people have straightforward investment goals. They want to make their money work for them and invest in products that can provide higher returns than are available through cash savings alone. When things work well, investors can save, reinvest or use the returns on their investment.

1.13 Investors should be able to make informed decisions which, at a minimum, means they understand the risks they are taking and know the regulatory protections provided. The value of investments can go up or down, and they can even lose their value entirely. So it is important that retail investors can identify investments that suit their circumstances and attitude to risk, and firms should make efforts to understand customers' risk tolerance. It should also be clear to consumers what happens if things go wrong, for example where a firm fails, and what forms of redress they might be able to get.

1.14 How much regulatory protection investors have partly depends on the type of product or instrument they buy. For example, if an investor chooses to invest in a UK authorised fund, there are detailed rules governing what the fund can invest in. There will also be an authorised fund manager responsible for the day-to-day running of the fund, and an independent depositary, who holds the assets and is subject to a set of strict rules and obligations. By contrast, if an investor chooses to invest in unregulated cryptoasset tokens, there is very little protection at all, outside of regulations to guard against money laundering. For most people, most of the time, the mainstream market should have more than enough investment options and ways to buy that meet their goals. Because of this, as a general rule we think that consumers should only invest outside the mainstream market if they are sure that they understand the risks they are taking, and can absorb the losses if they happen.

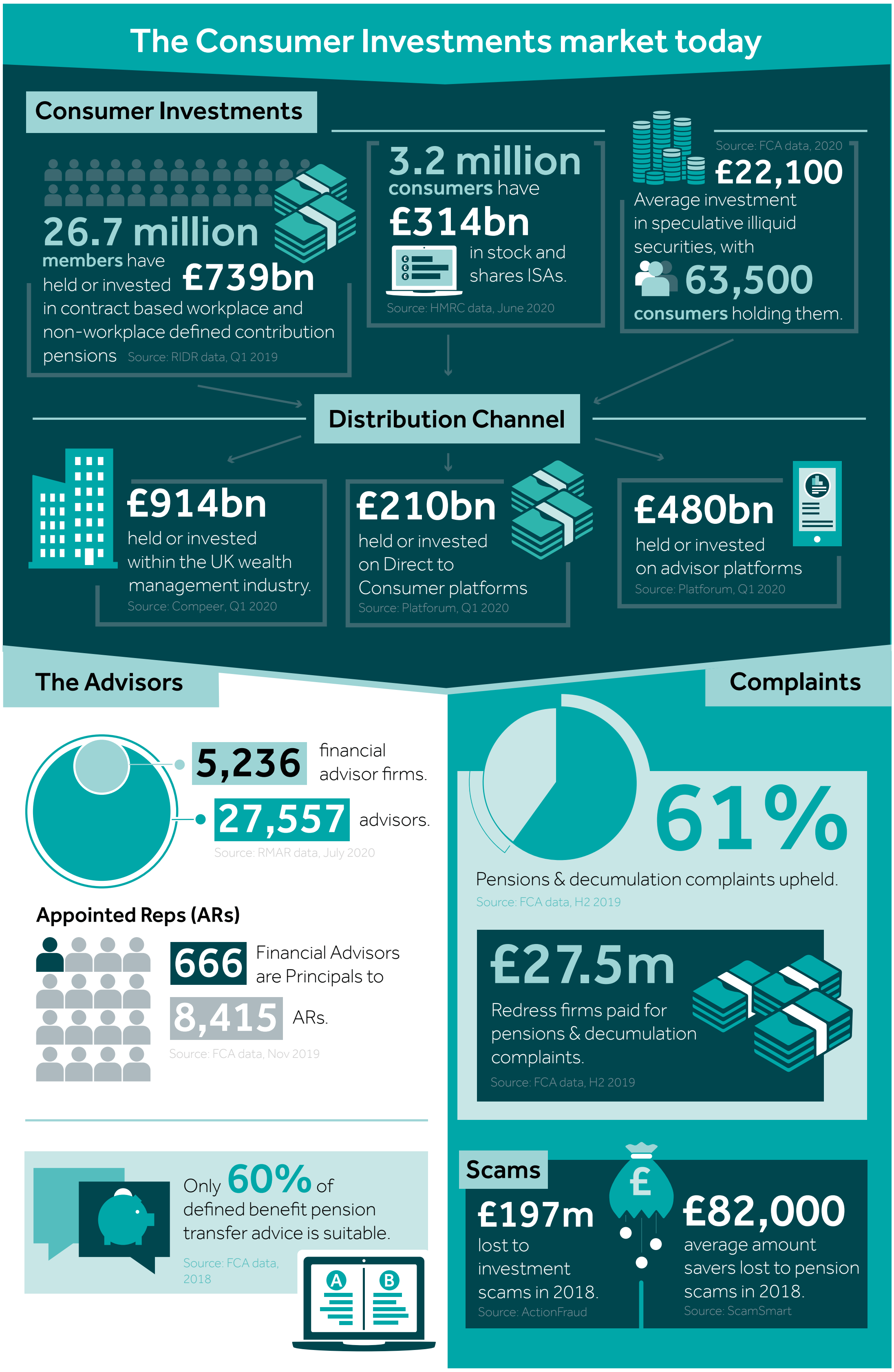
1.15 People should understand what type of investment they are buying and the level of protection which goes with that investment. When people engage with authorised firms, they should be treated fairly and have recourse to redress if they are not. However, when people choose not to engage with authorised firms they should understand that they will have less protection, and in some cases no protection at all. Some investments are outright scams, and in a world where these can be promoted on the internet from anywhere in the world, it is not realistic to expect the UK authorities to prevent all these scams.

1.16 Over the years we have made significant changes to improve this market. For example, in 2012 we stopped advisers from being paid by commission, which had incentivised some to chase the highest commission instead of searching for the best products for their clients. In 2019 we more than doubled the maximum amount that the Financial Ombudsman Service can award to a consumer against a regulated firm, to £350,000. We have also reviewed how firms pay redress to consumers when firms fail, and how the industry should fund it. In our most recent review, which took place between 2016 and 2018, we increased the limit for investor compensation from £50k to £85K. Through our supervision we have focused on financial advice to consumers on pension transfers, where there is far too much unsuitable advice. We have banned contingent charging, where the adviser has a financial incentive to encourage clients to transfer their pension and we have also taken action against pension transfer advisers where advice has been unsuitable.

1.17 We continue to make changes to improve the working of the market in specific areas. For example, we have been reviewing the impact of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR), which aimed to improve consumer outcomes from financial advice and guidance. We expect to publish the findings of this review by the end of this year, which will provide a further input into this work. We have also consulted on proposals to make permanent our ban on the mass-marketing of speculative illiquid securities to retail investors.

1.18 The boundary of what is regulated, and the tools at our disposal, are set out in legislation. The Government is currently consulting on changes to the regulatory framework for the approval of financial promotions and we are working with them to consider whether any further changes are needed to help this regime work better.

The Market Today



2 The consumer perspective

Making good decisions can be hard

2.1 Every day many people engage with the consumer investment market, making sensible decisions to grow their wealth. However, we are concerned there are some consumers who are making – or are led into making – poor investment decisions.

2.2 Academic research shows that common behavioural biases prevent consumers from accurately assessing the cost and risk of different investments. For example, attractive framing of investments can mean consumers fail to assess the costs accurately, causing them to be enticed by products that offer poor value for money.[1] Investors can be over-confident in the quality of information presented to them, and their ability to act on it, which can lead to poor decisions.[2] Some consumers rely too heavily on their own view of a company's prospects or past performance when they make decisions. These factors might not be relevant, for example when buying a stock after the price has already risen significantly or selling because it falls.[3]

2.3 Wider changes in markets and the overall economy may also be making it more difficult for consumers to make effective investment decisions:

- People are having to make more and more decisions themselves and shouldering the risk of their investments not performing as they hoped. This is most obvious in pensions where many workplace schemes are no longer 'defined benefit', where what you get when you retire is set, but 'defined contribution' where only what you pay in is set. This means investors need to worry about whether they will have adequate pension savings to pay for their retirement and can't rely on someone else to do this for them. Pension freedoms gave people more options at retirement, and some consumers are able to take advantage of that choice to their benefit. Some, however, have taken additional risk or been exposed to scams and have suffered loss as a result.

consumers might only start to recognise that a financial promotion for an investment product is 'too good to be true' when the promised rate of return is around 30% or more

- The historically low interest environment has driven a 'search for yield' and may have affected some people's perception of what a 'good rate of return' is. For example, recent FCA research found that consumers only start to recognise that a financial promotion for an investment product is probably 'too good to be true' when the promised rate of return is around 30% or more, at which point they are less likely to choose the product. This is despite the fact that current interest rates mean a bond paying 5% per annum is likely to carry a significant risk of loss. The same research found evidence that consumers misunderstand the risk associated

1 e.g. Hunt, Stewart & Zaliauskas, 2015
2 e.g. Menkhoff, Schmeling & Schmidt, 2013
3 e.g. Chen et. Al 2007

with a range of high risk investments, including speculative illiquid securities, with some consumers mistakenly believing that both their initial investment, and the advertised returns, were guaranteed.

- For many investments, consumers will always know a lot less about the company or investment being offered than the people offering it – what economists call 'information asymmetry'. In some of the markets we regulate, large organisations trade the investments every day and help to establish market prices. These markets have detailed rules to address the information gap, with companies having to provide lots of information and regular updates to investors. There are also independent parties who are required to vet this information to check it is accurate. Not all markets work this way, and some consumers can find large amounts of additional information overwhelming. Behavioural traits such as limited attention can mean that this type of information overload can lead to disengagement and poor decisions.
- We know that further behavioural biases play a huge part in this market by influencing people's choices and decisions. Some people can be intimidated or overwhelmed by the need to make decisions and put off investing when maybe they shouldn't be. Others may suffer from overconfidence and end up risking more than they should or intend to. We know that people are susceptible to 'present bias' and can find it hard to make decisions now about things that are a long way away, like retirement. These ways of thinking, including tendencies to use heuristics or rules of thumb to make decisions are deep-seated, hard for people to recognise, and can make people vulnerable to scams.
- More and more of these difficult decisions are being taken online. People receive direct marketing about possible investment opportunities, and can often access them immediately, in a way that simply wasn't possible a generation ago. We have entirely new ways of investing, like peer-to-peer platforms. Advertisers now know a huge amount about people from their online behaviour and can meticulously target their adverts, testing and adapting their approach to maximise the chances of encouraging people to invest.

2.4 Good regulation cannot remove these challenges, but it can help. By testing what works, the FCA can help maximise good outcomes for consumers. Firms can also help, providing services that help people to navigate complexity and making use of technology to automate behaviours, like repayments, rather than relying on people's increasingly overloaded memories to do the right thing.

Education, education, 'just in time' education?

2.5 Many commentators often propose consumer education as a solution for tackling these types of challenges. However, a meta-analysis using 201 prior studies found interventions that attempted to improve financial literacy had very little effect on financial behaviours. Most of the evidence from our behavioural work suggests that well-chosen defaults and timely information or education in small bursts are more effective than educational programmes which have recorded zero medium- and long-term effects in past studies. Firms also help, by incorporating the basics of what effective learning looks like from psychology, making use of timely feedback and enabling consumers to learn from experience. This often takes the form of 'just-in-time' financial education – where information is provided at an appropriate time to help people who are dealing with an issue or need to make a choice - so people can incorporate it into their decision-making.

2.6 Our own behavioural research has found mixed results for the effectiveness of disclosure on consumer choices. It has found improvements to information given to consumers has only a small positive or even a negative effect. However, testing of 'nudges', as popularised by Richard Thaler and Cass Sunstein, has provided further insights for effective regulation. For example, in a large field trial of credit card customers, FCA researchers found that removing the minimum payment as a specified option when signing up for a direct debit, resulted in 20% more customers agreeing to pay back a fixed amount (an amount higher than the minimum) – which would help them repay their debts more quickly and cheaply. However, 1 in 20 customers, when not presented with a default minimum payment, dropped out of signing up for a direct debit at all. This highlights how solutions to these challenges need to recognise that consumer behaviour is not identical and methods to help them navigate this complex market need to be nuanced.

Q2: Are there other underlying issues which have an impact on the consumer experience in this market that you think we should consider? What are they and how do you think they affect consumers?

Q3: What role could or should 'just in time' consumer education play in helping consumers make more effective investment decisions?

3 Making the mass market work well

3.1 We would like to see a broader range of services more widely available to consumers. We are interested in exploring whether clearer 'pathways', like those that have been designed for pensions drawdown, could be built to help more people benefit from engaging with the consumer investment market.

Meeting straightforward needs

3.2 Most people's financial needs are likely to be relatively straightforward. If they have debts the priority will normally be to pay them down. If possible, they should put aside some 'rainy day' cash somewhere safe. For those with more money to save or invest, the Government provides a £20,000 per year tax free allowance to put in an ISA.

3.3 Yet people can understandably still find these decisions intimidating.

3.4 Simpler products and clearer labelling could help, though past efforts have failed to successfully engage consumers. In lots of markets there are requirements for what has to be on the label of a product to help customers make a choice. For example, lots of foods must tell you how much sugar or salt is in them. This doesn't tell you if the food will taste nice, but it does help you to understand how healthy a food is, and to compare products against set criteria. For this to be helpful it needs to be possible to compare like with like. Things that are complicated need to be broken down into a simple system, such as 'traffic light' colour coding. This type of labelling could have wider application, but may be particularly helpful for the narrow range of products aimed at meeting the more straightforward needs of investors.

3.5 An alternative, or complementary, approach might be to require firms to use a more outcomes-focused approach, placing more onus on firms to satisfy themselves that their customers understand the products they choose. This is an area we will explore when considering options to change our regulatory framework following our Duty of Care Feedback Statement.

Q4: **What more can we do to help the market offer a range of products and services that meet straightforward investment needs?**

Q5: **Could clearer, consistent labelling of investment products help consumers make effective decisions? Please provide examples where this approach has/has not been successful.**

Q6: **What are the potential risks and benefits of standardised labelling requirements for consumer investments?**

Q7: **What are the barriers to firms providing simple investment products for consumers?**

Getting the right help

3.6 Even where people have straightforward needs they might still need some help to decide. Our recent research, conducted as part of our evaluation of the Retail Distribution Review and Financial Advice Market Review (RDR/FAMR), backs this up. This research found most people said they were comfortable making what they see as simple decisions, such as buying car insurance. However, many also said they'd like access to either good guidance or simple forms of advice to help them make certain financial decisions such as setting up a stocks and shares ISA. We plan to publish the results of this research by the end of 2020.

3.7 This is why there has been a lot of discussion about 'financial guidance' which helps people identify their options and narrow down their choices but does not recommend a particular product or course of action. We believe it is possible to set up financial guidance models that support consumers, without straying into giving personalised advice. Firms have also told us that they recognise there is consumer demand for a broader range of high-quality guidance to help people make effective investment decisions. However, growth in these models is frustratingly slow. We are told this is often because firms are worried about any costs and liabilities if, in practice, their model does more than give guidance and amounts to providing a personal recommendation

3.8 As part of the RDR/FAMR review we have been working with firms to understand their concerns so they have the confidence to give consumers the guidance they need. We would like to see more firms offering broader forms of high-quality support for their customers and testing how this can work in practice. We may need to provide a degree of regulatory oversight and comfort for some of these tests, akin to our Sandbox regime.

Q8: Do you think financial guidance can help consumers make effective investment decisions? Why?

Q9: What are the barriers to firms providing financial guidance services?

From the general to the specific

3.9 For some consumers in certain circumstances, guidance alone may not be enough but it may still help them understand that their needs are more complicated and that they might require some form of advice.

3.10 Some people have long-term needs and seek advice on managing their finances over many years. Data we collected in our RDR/FAMR review indicates that these consumers are typically wealthier, with more to invest and more complex and regular investment decisions to make. The current financial advice market already provides for these consumers, with 94% of advisers offering ongoing advice services.[4]

3.11 In other cases, people are likely to be looking for straightforward, one-off or 'focused' advice. These consumers will need an adviser to consider their relevant personal circumstances, but they won't necessarily want or need an ongoing relationship with

4 RMA-K – percentage of firms reporting earning revenue from ongoing adviser charges 2019

an adviser. This type of investor would benefit from access to a 'pay as you go' form of focused advice model. As noted above, most advice is provided on an ongoing basis and we believe there is likely to be an unmet need and, therefore, an opportunity for focused advice models. To date, we have seen slow growth and innovation in services that meet these needs. We are told by firms that this is often because of concerns about costs and liabilities if things go wrong.

Q10: **Do you think straightforward financial advice can help consumers make effective investment decisions?**

Q11: **What are the barriers to firms providing simple advice models?**

Q12: **Should the redress model for simple advice be any different to standard financial advice? If yes, please explain.**

3.12 Our supervisory work shows that over 90% of the regulated advice given in the UK is suitable. But a minority of firms and advisers still give advice that is not suitable. In some parts of the market, like defined benefit pensions transfers, we found only 60% of advice was suitable. This is unacceptable and the consequences can be devastating for people.

there are more than 5,000 advice firms and over 27,000 advisers

3.13 We want to reduce the amount of unsuitable advice firms give. This is challenging in a market with more than 5,000 advice firms and over 27,000 advisers, where the majority of advisers are meeting our standards. We want to target our activity so it focuses on the minority who give poor advice, forcing them to raise the standard of their advice or leave the market.

3.14 We use a range of tools to target advice firms where we see a higher risk of unsuitable advice. For example, where we identify risk of harm to consumers, we may require firms to cease new business, or complete reviews of their past business to consider if they owe redress to consumers. In cases of serious misconduct, we open enforcement investigations.

3.15 We are considering whether we need do more to ensure firms maintain high standards in this area, for example by imposing reporting requirements, restricting firm activities, or applying higher capital requirements to cover potential liabilities from higher risk activities.

Q13: **What do you think are the main causes of unsuitable financial advice e.g. weak competition, complex products, etc?**

Q14: **How can we target and prevent unsuitable advice without imposing additional requirements on firms which provide suitable advice?**

Buying without advice

3.16 A growing number of people don't use advisers and instead buy through a platform service, often online. As we set out above in 'the Market today', latest statistics show that £210bn of assets are held or invested on Direct to Consumer platforms. By comparison, £914bn is invested by wealth managers and £480bn invested on adviser platforms.

3.17 Buying direct in this way can lower costs, with the savings often being passed on to investors, encouraging more people to invest and allowing them to keep more of the returns on their investments. But these types of direct models can also prey on natural human biases, tempting people into investments that may not be right for them.

3.18 If people are buying directly through online platforms, they need clear information to help them make a decision and understand what to do if something goes wrong. Many firms have developed tools to support direct investors. For example, helping them with prompts to consider tax beneficial wrappers or diversifying their portfolio of investments. Clearly there is a balance to be struck between responsibilities placed on those facilitating direct investments and the cost of the services provided. However, there are some decisions that regulators consider too complex or important to be made without advice. For example, consumers generally need to take independent advice before deciding to transfer out of a defined benefit pension.

3.19 We want a consumer investment market where people can benefit from buying directly but, given the complexities involved, we also want safeguards in place to ensure that consumers can invest with confidence. This may mean placing more obligations on those who distribute products to consumers through online platforms.

Q15: What role do you think there is for direct sales in a well-functioning consumer investment market?

Q16: What protections are necessary for consumers buying direct?

Q17: What safeguarding requirements should apply to those who distribute products to consumers through online platforms?

Q18: Are there any products or investment decisions which bring greater or specific risks of harm when consumers buy them directly?

4 Higher risk investments

Choice for those who can afford loss

4.1 Higher risk investments have a place in a well-functioning consumer investment market for those consumers who understand the risks and can absorb any potential losses. These informed investors may reasonably choose to invest a limited proportion of their wealth in higher risk investments to diversify their portfolio and in the belief that this may increase their total return on investments. Overall though, most retail investors' needs can and should be met by reasonably straightforward, mass-market investments.

4.2 However, we are worried that some investors are being tempted - often through online adverts or high-pressure sales tactics - into buying complex, higher-risk products that are very unlikely to be suitable for them, do not reflect their risk tolerance or, in some cases, are fraudulent. Many of the examples we have seen involve investments that are not traded over public markets. These won't have the same disclosure and governance protections as publicly traded investments. Some of these investments present very high risks without a realistic prospect of higher returns. Even where higher returns are possible, the greater risk that an investor could lose all their money makes these types of investment unsuitable for most retail investors.

4.3 This is an area where it's hard to gain a clear picture of the number of people affected. This is because, outside of investments made through crowdfunding platforms or other authorised intermediaries, we do not regulate many of the issuers of these investments. Our recent consultation on high-risk investments estimated that upwards of 63,500 people hold speculative illiquid securities (a more technical description for some of the riskiest types of investment often called 'mini-bonds') with an average investment of £22,100 per person.

4.4 Even where it might make sense for someone to take more risk, these investors should ensure their investments are spread across a diverse range of assets to avoid a significant loss if a single investment, or type of investment, fails. Unfortunately, we have seen instances where consumers have put all their money into a single investment. This approach of putting 'all your eggs in one basket' is, generally, not a sensible approach to investing, and is certainly not appropriate for very speculative, higher risk investments. We also see consumers buying investments with very high upfront fees - which are not always made clear at the point of sale – which can significantly reduce the chances that they will make the returns that are promised, or any returns at all.

4.5 We have taken action to stop this. For example, we banned the sale of a type of financial instrument called a 'binary option' to retail investors and the mass-marketing of complex and high-risk investments called speculative illiquid securities where we did not think they are appropriate for most retail investors.

4.6 However, banning the sale or marketing of individual types of investment to certain classes of investor is not always the most efficient way for us to prevent this kind of harm. To prevent unintended consequences, we must set out specifically what is banned. However, it is often very easy for the promoters to produce new but very similar products that fall outside the scope of our ban. This means we have to be responsive to identify and act to prevent any attempts to circumvent the rules.

Q19: **How can we better ensure that those who have the financial resources to accept higher investment risk can do so if they choose, but in a way that ensures they understand the risk they are taking?**

Q20: **How can we and the industry help consumers understand the benefits of diversifying their investments?**

Making risks clearer

4.7 Public markets involve investments where the value can, and sometimes does, become zero. Partly to reflect these risks, regulation and market practice has evolved to ensure that buyers receive high quality information to help them to decide whether to invest, and if they hold an investment, whether to keep it or try to sell it. For example, when buying shares issued by an issuer with a premium listing in the UK (a category on the London Stock Exchange) it is still possible to lose the whole investment - the value of the share can fall to zero. Shares are also, in general, volatile - their price can change very quickly. However, they are traded over markets that are generally liquid, with many buyers and sellers, helping to inform reliable price discovery. Premium listed issuers must also meet detailed requirements, including governance requirements, before they are able to join the market.

4.8 When offers are first made or a security is admitted to trading on a relevant exchange for the first time, a detailed 'prospectus' is normally required that sets out details of the company. Importantly, the company must also keep investors updated on an ongoing basis. The scope of the prospectus regime is currently a matter for the EU, but will be for HM Treasury on expiry of the transition period. It requires giving investors detailed information and comes with a liability regime for the issuer. These disclosures and checks and balances are required even though many of the investors are sophisticated financial services companies.

4.9 Ordinary consumers looking to invest in unlisted retail investments do not receive this level of information. This can mean that a sophisticated financial services company is being given better information when deciding whether to invest in the stock market than retail investors are given when they decide whether to invest in mini-bonds.

sophisticated financial services companies can be given better information when investing in stock markets than retail investors are given when investing in mini-bonds

4.10 It may be the case that some form of prospectus regime could offer benefits for consumers beyond public markets. We don't think that better disclosure alone will address the challenges consumers face when investing outside of public markets, but the rigour and discipline the prospectus regime brings could make an important difference. The associated liability regime could also help improve the standards of the investments, as well as improving the quality and effectiveness of disclosure.

Q21: **Would more investments benefit from 'prospectus-like' disclosure, and/or the disciplines involved in this? If so, in what circumstances?**

Q22: **Should more investments be subject to continuing disclosure requirements after they are issued, and what liabilities should be attached to these disclosures?**

Exemptions to the rule?

4.11 We would also like to consider the role of the exemptions in the financial promotions regime.

4.12 The financial promotion restriction, which is contained in legislation, restricts the ability of unauthorised persons to promote financial services activities and products (including investments). Exemptions from this restriction exist for promotions to 'high net worth' (wealthier) and 'sophisticated' (more experienced) investors and this allows authorised and unauthorised companies to advertise investments directly to those investors without necessarily having to follow our rules.

4.13 These exemptions have been a well-established feature of the regulatory framework for some time. They allow companies to promote investments to high-net worth and sophisticated retail investors without needing to be FCA-authorised, with the associated costs, or having to take their financial promotions to an FCA-authorised firm for approval. This is because these investors are either certified as sophisticated and so are better able to understand the risks, or they are high net worth and deemed more able to pay for financial advice or to absorb a loss if an investment fails, or both.

4.14 To self-certify as a 'sophisticated' retail investor, a consumer must confirm that one or more of a list of circumstances applies to them. One of these is that the consumer has made more than one investment in an unlisted company in the last two years. In the past, this would have required some private business experience. However, since the advent of investment-based crowdfunding and peer-to-peer platforms, access to these types of investments has become relatively straightforward.

4.15 There is also an exemption for promotions to 'high net worth' retail investors. While high income or wealth does not automatically mean that someone has experience of investing or skills to help them make investment decisions, it should mean that they are better able to pay for help or absorb losses when things go wrong.

4.16 However, the current definition of 'high net worth' is investors who have an annual income of £100k or more, or more than £250k net assets. These levels have remained unchanged for the last two decades, although the value of money has declined significantly in that period.

4.17 We have also seen evidence of firms abusing these exemptions by 'coaching' people through them. Investors who do not, in practice, meet the tests set in legislation are being 'pushed' through them, often by unregulated firms. This unscrupulous behaviour is sometimes helped by the appeal to some retail investors of self-certifying themselves as 'sophisticated' or 'high net worth' and the sense of exclusivity that the exemptions provide. Where this occurs, investors are not getting the protection of our rules when they should be. We act when we find evidence of this, but this is inherently difficult for us to police as it often involves individuals who aren't authorised by us and many prove difficult to trace and are sometimes based overseas.

4.18 The financial promotion restriction and related exemptions are contained in legislation, and are a matter for the Government. In its consultation on the 'Regulatory Framework for Approval of Financial Promotions', the Government noted that it continues to keep the legislative framework underpinning the regulation of financial promotions under review, including the effectiveness of the exemptions that currently form part of the regime.

4.19 We also have an interest in understanding views on the exemptions and how they are working in practice, and whether there are things we can do to help consumers understand the difference in the standards required of promotions which are communicated or approved by authorised persons and those communicated under an exemption. We have a clear interest in how the exemptions are set and how they are working in practice as they define one of the key boundaries of our role.

4.20 We would therefore welcome views on how the high net worth and self-certified sophisticated investor exemptions currently work. We will share any feedback we get with Government.

Q23: **What do you think about how the current high net worth and self-certified sophisticated investor exemptions are working in practice and the level they are set at?**

Q24: **Firms: Have you relied on the exemptions recently to communicate promotions? Why did you do so? Consumers: Have you categorised yourself recently as high net worth or sophisticated? Why did you do so and what was your experience?**

Q25: **What more can we do to help consumers understand the high net worth and sophisticated investor exemptions and what they mean for them in practice?**

5 Regulatory protections

5.1 We are concerned that many investors believe that they will be protected and get redress if their investment fails. This might not be the case, even with legitimate investments.

Am I Protected?

5.2 It's important that financial services firms can promote their products and services to consumers. They need to do so by providing clear and accurate information to enable consumers to make informed and appropriate decisions, including helping them to understand if an investment has regulatory protections.

5.3 Financial regulation is generally focused on investment activities rather than products. This can make it difficult for consumers to understand how they are protected as investors. Even where two investments might look similar they may be regulated differently and have different protections depending on how they are structured or sold.

two investments might look similar but be regulated differently and benefit from different protections

5.5 A financial promotion includes an invitation or an inducement to invest in a product, and this can take a wide variety of forms, including advertisements placed through print, broadcast or online media, marketing brochures, direct mail or social media.

5.6 It is important that financial promotions meet certain minimum standards so consumers can make well-informed decisions appropriate to their financial circumstances. To achieve this, each individual financial promotion, with some exemptions (some of which we discuss above), needs to be communicated or approved by an FCA-authorised person who we regulate and who is subject to our rules. This applies even though the company issuing the investment may not require authorisation to do so. This means that our regulation may only touch the marketing, not the underlying investment activity. However, the authorised person is required to ensure that the marketing complies with our rules on financial promotions before giving its approval, and must withdraw approval if it becomes aware that a promotion no longer complies.

5.7 One of the main ways people build their understanding of the regulatory protections behind a possible investment is through the information they are given at the start, when they are thinking about whether or not to invest. We think high-quality financial promotions are an important part of ensuring that consumers understand the investment and any regulatory protections they will have. We welcome the recent Government consultation on whether to introduce a new 'gateway' so that authorised firms need specific consent from us before they start approving financial promotions for companies we don't regulate.

5.8 We think this change could be an important step in the right direction. Subject to any decision on whether to introduce a gateway and the precise form any new regime would take, this may mean that when granting consent for firms to approve financial promotions for unauthorised persons, we could limit this consent to approving promotions for products only within a firm's experience, skills or expertise.

5.9 There are already rules requiring that firms do not imply an activity is regulated when it is not. Our rules require financial promotions communicated or approved by a firm we regulate to be 'fair, clear and not misleading'. Our guidance also clarifies that where the promotion refers to unregulated matters, the firm should make this clear to prospective investors. However, the rules do not require, in all cases, an explanation or warning to consumers when a product or service is not subject to regulation or the consequences of it not being regulated.

5.10 In the peer to peer (P2P) market we have introduced marketing restrictions to protect new or less-experienced investors. We require these firms to check whether the investments they offer are likely to be appropriate for an investor before they are allowed to invest. We also introduced rules restricting the sale, marketing and distribution of Contracts for Difference (CfDs) and CFD-like options to retail customers.

testing the line 'you may lose all your money' had a positive effect on consumers understanding of investment risk. However, consumers inappropriately trust FCA stamped warnings.

5.11 We welcome views on what else can be done to make clearer to consumers what regulatory protections there are for different types of investment activity. For example, should there be additional disclosures / warnings? How can we best make use of behavioural insights and "nudge" techniques, or more interactive media, to encourage consumers to think before they buy? When we tested a new FCA risk warning that included the line 'you may lose all your money' we found that this had a positive effect on consumer understanding of investment risk. Yet in other research we found that FCA-stamped warnings led consumers to inappropriately trust the material they are being warned about.

Q26: **How can we make it easier for people to understand the risks of investment and the level of regulatory protection afforded to them when they invest?**

Q27: **What can be done to help consumers to better understand the circumstances in which they will be able to claim on the FSCS?**

6 Fair compensation

6.1 We think that it is important that consumers receive redress when they have been harmed by a regulated firm's act or omission, and that the costs of this redress should be met in a fair and sustainable way. Every redress payment reflects a consumer who has suffered harm.

6.2 Despite efforts from industry and ourselves, too many of these payments continue to be needed, and the overall bill for redress in the advice market is too high.

6.3 Given the consequences of bad advice, it is important to think about the protections people have where things go wrong because of regulated companies' actions, and who pays for these.

6.4 If more advice is suitable, then fewer people will find themselves needing redress in the first place and this has to be seen as an important goal. However, regulation cannot prevent all harms from happening. Where a consumer is harmed through receiving bad advice, then they have the right to seek redress.

6.5 Where redress is owed, paying for this starts with the firm that gave the bad advice. Our rules require regulated firms to take complaints from consumers seriously. Where they are unable to resolve a complaint, they are required to signpost people to the Financial Ombudsman Service. The Ombudsman Service is an independent body which decides complaints based on what, in their view, is 'fair and reasonable' in all the circumstances of the case. It can order firms to pay redress up to £350,000. In 2019-2020, the Ombudsman Service received 10,920 complaints about investments and pensions, which was a fall of 29% on the previous year's total of 15,484. It upheld 30% of complaints in favour of the consumer. The Ombudsman Service is free to consumers and is funded by a levy on regulated firms and a case fee payable for each complaint the Ombudsman looks at.

Q28: What more can we do to ensure that when people lose money because of an act or omission of a regulated firm, they are appropriately compensated?

Who covers the bill for unsuitable advice?

6.6 Our rules require firms to hold capital – to have financial strength - to cover their liabilities, such as for unsuitable advice. However, the current level of financial strength firms must have is often not enough to cover the cost if bad advice is more than a 'one-off'. Many firms giving advice must also hold Professional Indemnity Insurance (PII). If a firm realises it has given bad advice it can claim on this insurance, and use the money to pay redress to the consumer. However, firms do not always notify claims appropriately under these policies and, more fundamentally, there is often a significant time lapse between consumers receiving advice and realising that this was not suitable. By the time consumers realise there is a problem, the firm that gave the advice may no longer be in the market, so neither their capital nor insurance is there to provide redress.

In 2019/20 the FSCS received 14,034 claims about Life Distribution and Investment Intermediation

6.8 Where a firm goes out of business and defaults on redress liabilities, eligible complainants can turn to the Financial Services Compensation Scheme (FSCS). The FSCS is independent of the FCA and can pay compensation to people who would have had a claim against a firm that the FSCS has declared in default. This compensation is generally limited to £85,000 for investment claims. The FSCS is funded by a levy on the industry and is free to people making claims. In the year 2019-2020, the FSCS received 14,034 claims about Life Distribution and Investment Intermediation class, which was similar to the previous year's total of 14,194. Compensation costs for those claims rose to £282 million in 2019-2020, from £207 million the previous year. This covered the failure of 549 firms, showing that the costs of this class of complaint involve many small firms failing with large redress liabilities. The FSCS upheld 69% of claims and an average claim amount of £19,478 was paid out. The FSCS also received 3,390 claims for investment provision, 81% of which were upheld with an average payment of £24,735. 85% of these were about Self-Invested Personal Pension (SIPP) providers.

6.9 The FSCS is an important safety net, providing a compensation scheme of last resort for consumers who have a claim against a firm in default. If people are thinking about investing, FSCS protection can help to give them the confidence to invest. This reinforces the importance of firms' disclosure and being clear to consumers when they will and won't benefit from FSCS protection.

6.10 Overall, firms whose activities are covered by the scheme (such as advisers) benefit from the confidence the FSCS gives investors. There are good arguments that these firms should therefore help to pay for the scheme. At the same time, this inevitably involves firms that are still in business paying for the errors of those that have left the market. This can leave some firms paying the compensation costs for other firms who operated against a very different risk profile, such as advising on completely different types of investment. This, and the fact that it is a 'pay as you go' scheme with contributions taken upfront, means that the 'polluter' does not always pay.

> **Q29:** **What more can we do to ensure that compensation is paid for fairly by those that cause the loss?**

Making the polluter pay

6.11 Our aim is for all advice to be suitable. The less bad advice firms give, the fewer consumers will find themselves let down and needing redress in the first place. Over time, this will drive down the cost of bad advice for the industry. For this reason, we are working closely with our regulatory partners, including the FSCS, to prevent the need for FSCS compensation (and associated levies) arising in the first place. We can achieve this by spotting emerging problems in the market early and considering how to tackle them before firms go bust leaving behind unresolved redress claims that the FSCS would have to pick up. Our current work to reduce future claims includes ensuring SIPP operators undertake appropriate due diligence to reduce their holdings of non-standard assets and our intervention to restrict the marketing of speculative illiquid securities to only sophisticated and high net worth retail investors. A more preventative approach to the regulation of consumer investments is one of the long term aims of our Consumer Investments Business Priority, which we adopted in our business plan for the current year.

6.12 We completed a review of the FSCS funding model in 2018, and do not think there would be benefit in conducting another fundamental review at this time. Reviewing how we distribute the costs of FSCS will not deal with the fundamental issue that the costs are too high to begin with. But we do want to consider how we can have a system where firms which cause harm end up paying more of the bill before recourse is needed to a scheme of last resort. This is only fair and would also serve to further incentivise firms to achieve good outcomes for consumers in the first place. This is an area where there are no easy answers. Some possible approaches are set out below:

- Firms could be required to hold more capital, based on the risk that their business presents. For example, the type of advice they give, or how they are structured and the likelihood their activity will cause claims in the future. We would need to think about what level to set this at, how we decide now which firms are more likely to create problems in the future, and how we keep that assessment up to date.
- We could make changes to the type and amount of Professional Indemnity Insurance advisers are required to have. We would need to think about the impact our changes might have on how willing insurers would be to provide this insurance, and how much they would charge for it. The insurers would also have the problem of needing to know now which firms were likely to cause problems in the future, so they could charge the right price.
- We could look for ways to ensure 'riskier' firms pay more towards the FSCS, but again we would need to find a means of establishing which firms should pay higher levies, and why, and keep this up to date. Further, due to the time lag between risk arising and the need for compensation, today's riskier firms will not necessarily be paying for tomorrow's redress liabilities.

6.13 All of these ideas are about the firms who are likely to cause the problems picking up the costs of redress before they go into default and burdening the FSCS, which should only ever be a safety net. A further benefit would be that identifying those firms with the greatest likelihood of causing harm to consumers would also enable us to focus our own supervisory work on reducing the risk of these harms arising in the first place. One way or another, these approaches all require a way to identify these firms. This is difficult in a market generally made up of a large number of small firms, and when it can take several years for an investor to realise the advice they received wasn't good enough. We welcome views on how we might do this.

6.14 We also recognise that in some cases it is individual advisers within firms who are responsible for poor advice. Again, the 'lag' between consumers being given advice and realising this wasn't good enough can make tracking poorly performing advisers difficult, particularly as they often try to move around the industry. This is often called 'phoenixing', where an adviser who has realised they have given bad advice leaves or closes down one firm, and tries to join or set up another before the consequences of their actions are realised. Finding these advisers, removing them from the advice market and stopping them from returning is one of our priorities. We have set up a specific group to focus on this, alongside our regulatory partners, and it has provided important intelligence to help us combat phoenixing. We also considered the limit for investment advice claims as part of the last FSCS funding review and we will not be reviewing this again as part of this work.

6.15 Consumers should be able to trust the advice they're given. While our work has shown that most can and do, the minority of bad advisers, and the advice they give, is damaging the reputation of the whole market. Tightening up on this is likely to increase costs for firms, the majority of which aren't giving bad advice. But they are already paying for the minority through FSCS costs, and behind every FSCS pay-out is a consumer who has suffered harm. This needs to change.

Q30: **What do you think should be done to help ensure that the 'polluter pays' for unsuitable advice?**

Q31: **What do you consider to be the right balance of approaches to ensure we provide an appropriate level of protection to consumers?**

Appointed Representatives

6.16 The appointed representative (AR) regime enables unregulated firms to carry on regulated activities under the supervision of an authorised firm, who acts as 'principal'. The principal must have a written agreement in place with the AR and take responsibility for their conduct. This means that the principal is responsible for ensuring the AR complies with our rules and is accountable for any breaches.

6.17 Principals must notify us of AR appointments. This is a notification and not an approval regime. The Senior Managers and Certification Regime (SM&CR) – which applies to most authorised firms and is designed to make individuals more accountable for their conduct and competence – does not apply to individuals within ARs. Instead, the Approved Person regime generally applies to ARs. This means our approval is required to perform certain controlled functions, including the customer (eg investment advisers) and governing functions (eg directors, partners, etc). So different rules apply to staff in similar roles in the principal firm (for example our Conduct Rules) and its AR (the Statements of Principle for Authorised Persons).

6.18 Following reviews into the use of the AR regime (general insurance (2016) and investment management (2019)), we had concerns about the effectiveness of the principal model in some sectors. Both found shortcomings and some significant weaknesses in the control and oversight of ARs by many principals. Where appropriate, we intervened to stop certain authorised firms from acting as principals and asked them to end their relationship with certain ARs. We also wrote to the CEOs of authorised firms acting as principals in the investment management sector to set out our expectations.

Q32: **Do you have any views on how the AR regime is working in practice?**

7 Tackling scams

7.1 We are concerned that despite all the efforts we, the industry, and wider stakeholders have made, too many people are falling victim to investment scams. While the move online has the potential to lower costs and improve the quality of service for investors, it also makes it easier for firms and individuals to illicitly take money from consumers on the basis of false claims, such as high returns.

Scams

7.2 We often talk about fraud or scams interchangeably. Both involve bad actors preying on consumers to try and take their money illegitimately. For simplicity, in this Call for Input we refer to this range of practices as 'scams'. At their worst, we see scams where investments simply do not exist, which are marketed based on false or misleading statements and / or where the people involved deliberately act without the regulatory approvals and permissions required by law. Other practices may not be criminal but are still in breach of our rules and often involve a concerted and conscious effort to promote investments that are clearly not appropriate for the people being targeted. These practices are causing real harm.

In 2018 the average amount savers lost to pension scams was £82,000.

7.3 In 2019 there were over 10,000 calls about investment scams to the FCA Supervision Hub, an average of over 800 calls a month. In 2018, there were over £197m of reported losses to investment scams. In the same year, the average amount savers lost to pension scams was £82,000. Joint analysis we did with the Pensions Regulator demonstrated that based on reasonable assumptions it can take 22 years for a saver to build a pension pot of that size.[5] Our data is likely to underestimate the size of the problem, partly because people may not always know that they have been scammed until much later, and partly because they may not want to come forward, for example, through embarrassment that they were scammed.

7.4 Our focus is to ensure that the firms we regulate do not facilitate scams, that consumers are as protected as possible and that we take action around the edges of the perimeter to shut down companies doing business without the permissions they must legally have ('unauthorised firms').

7.5 We believe there is a strong case to include fraud within Online Harms legislation, given the FCA's limited power to take down advertising by those seeking to scam people via the internet. Without this change in the law, our efforts in this area will not achieve the results that many of our stakeholders expect. For example, we are seeing a large number of adverts online that we think are not appropriate, such as search engine results. If we want to have them taken down, we have to convince the online company that the ads are illegal on a case by case basis. In practice, this takes time and can have limited effect as online adverts can re-appear, in a slightly different form, soon after the original advert is removed.

5 Pension pot calculation based on a starting salary of £28k, with annual pay rises of 2%, taking into account 8% contributions (auto-enrolment) and a 3% per annum fund growth.

7.6 To address this, we are engaging with other agencies to look at the steps that can be taken to ensure that more care is taken by internet platforms, including search engines and social media platforms, before advertisements for online financial products are accepted and that faster action can be taken to have scam ads taken down.

Over 1 million people have visited ScamSmart since its launch in 2014

7.7 We use our ScamSmart campaign, working with our regulatory partners, to arm consumers with the knowledge and tools to help prevent them falling victim to investment and pension scams. We have found through testing that since the campaign started, at-risk consumers are now more likely to consider the risk of scams when investing, are more likely to be aware of the warning signs of a scam, and more likely to check with us before investing. Over 1 million people have visited our ScamSmart website since its launch in 2014, and more than 20,000 have seen our warnings about specific, unauthorised firms. If each of those 20,000 people chose not to invest, then we may have stopped as much as £580m from falling into the wrong hands.

7.8 Building on ScamSmart, we recently confirmed that we will start a consumer harm campaign to warn consumers of the dangers of scams and high risk, illiquid investments and to help them make better investment decisions.

7.9 However, we still see high numbers of unauthorised firms offering 'too good to be true' investment returns to consumers. Many of these firms advertise online using bogus details which means it is difficult to track down the perpetrators, especially when it looks as though the advertising is sourced from outside the UK.

7.10 We have increased the number of alerts about unauthorised firms and individuals operating without the right permissions, or unlawfully communicating financial promotions. Last year we issued 578 alerts against firms or individuals that we believed to be engaging in breaches of the perimeter. Most of these involved breaches of the financial promotion restriction online. This year we have issued 771 of these alerts so far. Of the 578 alerts issued last year, 254 warnings were about 'clone' investment firms where fraudsters pretend to be authorised firms. We are seeing the volume of clone reports increasing.

7.11 Helping people to spot the tell-tale signs of a scam can help them to protect themselves. But the onus should not just be on people to help themselves. We try to prevent illegal activities by shutting down unauthorised firms where we find them. We currently have over 40 live enforcement investigations involving unauthorised business, the majority of which also involve scams.

7.12 We investigate scams that involve unauthorised business in pursuit of wrongdoers and to recover funds for investors. In total, our work on scams has resulted in over £22 million being secured for consumers in the last year. This includes sums seized through final civil restitution orders as well as criminal confiscation orders.

7.13 While criminal law can be a powerful tool, it can only be used after a crime has been committed, which is often too late to prevent investment losses. Investigation and prosecution of fraud is often a long and expensive process and not all cases can be prosecuted because the perpetrators may be impossible to identify or be located overseas, and even where we can track them down the evidential requirements are very high.

7.14 The FCA is a member of the National Economic Crime Centre (NECC) and routinely shares information and intelligence with the NECC. The NECC's role is to coordinate and task the UK's response to economic crime. The NECC has deemed investment fraud a priority area. It works with us and other agencies such as the National Crime Agency, the Serious Fraud Office, HMRC and the City of London Police, to respond to economic crime across the 4Ps strategy (PROTECT, PREVENT, PURSUE, PREPARE) – for example through the NECC-owned national law enforcement campaign Project OTELLO.

Q33: **How can people be better protected from scams?**

Q34: **What do you think are the most suitable and proportionate remedies to further tackle scams and other online investment harms?**

8 Competition and innovation

8.1 We are concerned that we are not seeing all of the potential benefits from new technologies being translated into better products and services for consumers.

Innovation for who?

8.2 The earlier parts of this Call for Input set out some of the challenges we see in the consumer investment market today. As well as grappling with these, we want to help firms look to the future and make the most of the opportunities technology presents to offer people new and better products and services.

8.3 Some firms have already launched innovative products or services, but could they do more? Could greater use of technology provide new ways to tackle some of the thornier, longstanding problems in this market? For example, by offering consumers newer, more accessible ways to get guidance or advice? Could better data sharing allow more people to access the benefits of investing?

8.4 Done well this could create a 'virtuous circle'. If firms come up with new and better ways to help their customers, this will challenge other firms to do the same. This can create a positive environment where firms are competing to provide the best experience for investors.

Firms coming through Innovate are authorised 40% faster than usual

8.5 We have a role to play in helping to foster this kind of environment. We have done a lot to support innovation in consumers' interests. In 2014, we launched Project Innovate to tackle regulatory barriers to allow firms to innovate in the interest of consumers, and we have received nearly 1,600 applications and supported nearly 700 firms since then. The results have been positive. Firms coming through Innovate are being authorised on average 40% faster than usual, and this is benefiting consumers as firms bring new products to market. We also play an active role in the 'fintech' industry, where new financial services firms enter the market largely based on making the most of new technologies. Building on our approach to innovation we have worked with key partners to pilot a 'digital sandbox'. This provides a space for companies to try something new in a controlled environment. This can speed up how quickly innovations that can help consumers, including those thinking about investing, come to market. Equally, we need to be mindful of how our rules might provide unnecessary regulatory barriers to innovation.

8.6 Importantly though, innovation must be in the interests of consumers. Clearly not all innovations end up having this effect. We are aware of the risk that as firms try new things, not all of them work. And just as new uses of technology can improve things for customers, they can also introduce new risks and things to keep an eye on. We welcome views on how we can help the right kind of innovation to help people wanting to invest safely.

Q35: **What opportunities do you think can emerge for the consumer investment market from innovation?**

Q36: **What do you think are the main risks of innovation for consumers?**

Q37: **What are the barriers to innovation and effective competition in this market?**

Q38: **What more can we do to facilitate effective competition and encourage firms to develop innovative products and services which help consumers to invest?**

Q39: **Have there been initiatives to promote innovation and competition in other countries that may be relevant for the UK?**

Annex 1
List of questions

Respondents do not need to answer all questions. We welcome views on any of the issues covered in this CFI.

Chapter 1: Executive summary

Q1: **Have we prioritised the right issues and questions? Are there other things you think we should be looking at?**

Chapter 2: The Consumer perspective

Q2: **Are there other underlying issues which have an impact on the consumer experience in this market that you think we should consider? What are they and how do you think they affect consumers?**

Q3: **What role could or should 'just in time' consumer education play in helping consumers make more effective investment decisions?**

Chapter 3: Making the mass market work well

Q4: **What more can we do to help the market offer a range of products and services that meet straightforward investment needs?**

Q5: **Could clearer, consistent labelling of investment products help consumers make effective decisions? Please provide examples where this approach has/has not been successful.**

Q6: **What are the potential risks and benefits of standardised labelling requirements for consumer investments?**

Q7: **What are the barriers to firms providing simple investment products for consumers?**

Q8: **Do you think financial guidance can help consumers make effective investment decisions? Why?**

Q9: **What are the barriers to firms providing financial guidance services?**

Q10: **Do you think straightforward financial advice can help consumers make effective investment decisions?**

Q11: **What are the barriers to firms providing simple advice models?**

Q12: **Should the redress model for simple advice be any different to standard financial advice? If yes, please explain.**

Q13: **What do you think are the main causes of unsuitable financial advice e.g. weak competition, complex products, etc?**

Q14: **How can we target and prevent unsuitable advice without imposing additional requirements on firms which provide suitable advice?**

Q15: **What role do you think there is for direct sales in a well-functioning consumer investment market?**

Q16: **What protections are necessary for consumers buying direct?**

Q17: **What safeguarding requirements should apply to those who distribute products to consumers through online platforms?**

Q18: **Are there any products or investment decisions which bring greater or specific risks of harm when consumers buy them directly?**

Chapter 4: Higher risk investments

Q19: **How can we better ensure that those who have the financial resources to accept higher investment risk can do so if they choose, but in a way that ensures they understand the risk they are taking?**

Q20: **How can we and the industry help consumers understand the benefits of diversifying their investments?**

Q21: **Would more investments benefit from 'prospectus-like' disclosure, and/or the disciplines involved in this? If so, in what circumstances?**

Q22: **Should more investments be subject to continuing disclosure requirements after they are issued, and what liabilities should be attached to these disclosures?**

Q23: **What do you think about how the current high net worth and self-certified sophisticated investor exemptions are working in practice and the level they are set at?**

Q24: **Firms: Have you relied on the exemptions recently to communicate promotions? Why did you do so? Consumers: Have you categorised yourself recently as high net worth or sophisticated? Why did you do so and what was your experience?**

Q25: **What more can we do to help consumers understand the high net worth and sophisticated investor exemptions and what they mean for them in practice?**

Chapter 5: Regulatory protections

Q26: **How can we make it easier for people to understand the risks of investment and the level of regulatory protection afforded to them when they invest?**

Q27: **What can be done to help consumers to better understand the circumstances in which they will be able to claim on the FSCS?**

Chapter 6: Fair compensation

Q28: **What more can we do to ensure that when people lose money because of an act or omission of a regulated firm, they are appropriately compensated?**

Q29: **What more can we do to ensure that compensation is paid for fairly by those that cause the loss?**

Q30: **What do you think should be done to help ensure that the 'polluter pays' for unsuitable advice?**

Q31: **What do you consider to be the right balance of approaches to ensure we provide an appropriate level of protection to consumers?**

Q32: **Do you have any views on how the AR regime is working in practice?**

Chapter 7: Tackling scams

Q33: **How can people be better protected from scams?**

Q34: **What do you think are the most suitable and proportionate remedies to further tackle scams and other online investment harms?**

Chapter 8: Competition and innovation

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