DP 23/5: Advice Guidance Boundary Review – proposals for closing the advice gap

26 February 2024

The UK insurance and long-term savings market and the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry.

A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 350,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.6 trillion, pay over £17.2 billion in taxes to the Government and support communities and businesses across the UK by enabling trade, risk-taking, investment and innovation.

We are also a global success story, the largest sector in Europe and the fourth largest in the world. The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

Executive summary

Many consumers receive too little support with their financial decision making and this negatively impacts their financial resilience and living standards, especially in retirement.

Discussion Paper 23/5 has accurately identified some of the drivers of the advice gap. Another driver is that people are simply unaware that they have a need and/or don't like thinking about how to save and invest. 39% of all those contributing to a DC pension haven't considered how much they should be paying in[1] and 33% of non-retired adults have never thought about how they will manage financially in retirement.[2] As a result of these drivers, common problems arise with consumers ending up with too much of their savings in cash[3], saving too little for retirement[4], remaining invested in funds selected at outset which no longer suit their financial objectives, or withdrawing their pensions at unsustainable rates[5]. And people know they are making bad choices – a third of respondents in a recent survey felt they had made poor financial decisions over the past two years.[6]

The problems seem to be getting worse. For example, the proportion of full encashments from DC pension plans that received advice dropped to 19% in the twelve months to September 2023, an all-time low.[7] While 13% of consumers reduced their pension contributions in 2023,[8] the PLSA has updated its retirement living standards suggesting that a moderate standard of living in retirement for a couple now requires £43,100 of post-tax income (up 27% from £34,000 in 2023). A persistent gender pensions gap sees women retire today on average with pension savings of £69,000 compared to £205,000 for men.[9]

To help solve these problems, we support the two major proposals in this paper: targeted support and simplified advice.

---

[1] Pensions (accumulation and decumulation), FCA. (2023). Pp 33.
[2] Ibid, pp 43.
[3] Approximately 8.4 million UK consumers held the majority of their over £10,000 investable assets in cash. From: Broadening access to financial advice for mainstream investments, FCA (2022), pp 9.
[4] Midlifers face acute pension savings challenge needing £160K more on average for a moderate standard of living in retirement. From: Reimagining Roads to Retirement, Phoenix Insights. (2023). PR.
[5] Retirement Income Data, 12 months to March 2023, ABI. (2023): Over 43% of regular partial withdrawals were made at a rate of 8+%.
[6] Protecting the Vulnerable: Navigating the Evolving Regulatory Landscape in a Post-Pandemic World, AKG. (2023). Pp 9.
[7] Retirement Income Data, 12 months to September 2023, ABI. (2024).
[8] Retirement Report 2023, Scottish Widows (2023). Pp 22.
[9] The gender pensions gap report 2024, Now: Pensions (2024). Pp 24.

We recommend pausing work on the proposal to **further clarify the boundary.** Our discussions across 2022-23 with the FCA's Retirement Policy team and ABI members on decumulation guidance highlighted that clarifying the FCA's Perimeter Guidance (PERG) will have limited impact because PERG can only ever interpret the law, which is where boundary issues primarily arise.

Targeted Support: This proposal will allow firms to better help a wide range of consumers avoid foreseeable harm and meet their financial objectives. To be successful the regime needs to:

- Cover a very broad range of product and scenarios, across accumulation and decumulation.
- Work for firms wishing to offer targeted support to consumers within their existing products, as well as for firms wanting to help consumers toward the purchase of new products. Targeted should not have to be an opt-in service.
- Provide consumers with clear courses of action while ensuring consumers understand the limitations of the suggestions they are receiving and feel able to shop around and switch products and providers.
- Leverage existing Consumer Duty product governance requirements, building on existing target market processes.
- Enable cross-subsidy and avoid explicit charges, with light-touch cost disclosure.
- Give firms the confidence to provide targeted support without fear of overstepping into advice. This may not require a new regulatory permission but amendments to article 53 of the Regulated Activities Order (RAO), including the definition of a personal recommendation is likely needed. The FCA should make clear which rules and guidance would not apply: e.g. COBS 6 on remuneration, COBS 10 on appropriateness testing, and PERG 8 on what constitutes advice.

Simplified Advice: This proposal is needed in conjunction with targeted support for consumers who cannot afford holistic advice but need additional help, reassurance, or a personal recommendation to act. To be successful the regime needs to:

- Cover decumulation decisions as this is where the greatest potential harm lies for consumers. There are many examples of one-off need for customers at and in retirement, not just the major decision on how to take an income.
- Have an investment value limit higher than £85,000 as currently proposed. We recommend a figure closer to £225,000 because someone in their 30s contributing 8% on a median wage throughout their life is likely to have this much saved in their DC pension pot(s) when they retire in the 2050s.[10]
- Provide regulatory clarity. A new COBS chapter, including some specific rules and guidance on what firms should ask clients (as well as what they would not need to ask) would help tackle liability concerns. But this should not extend to the FCA prescribing the entire fact-find and suitability assessment for a narrow set of scenarios. Flexibility is needed for firms to innovate and to cater for evolving consumer needs.
- Adopt a proportionate training and competency framework – i.e. lower qualification requirements for the provision of narrower advice, especially where processes are prescribed.

Cross-cutting points:

- Testing & timing: The next stage of policy development should include designing case studies with industry and consumer representatives with a goal to test these customer journeys, communications and disclosures to measure consumer understanding and outcomes. The FCA and HMT (with FOS involved) should get into the detail as soon as possible to maintain momentum.
- Prioritisation: Work on both proposals should continue simultaneously as the development of one informs the other. But if either takes longer to 'get right', it should not hinder progress on the other.
- Scope:
    - Consistent scope between targeted support and simplified advice can help achieve the Review's objective of a 'continuum of support', where consumers move seamlessly between different service levels.
    - We recommend that when developing these proposals, officials keep in mind that the case can be made for looking at protection insurance in the future.
- Role of the FOS: The FOS should be involved in the Review, providing feedback on case studies/scenarios as they are developed. Prior to implementation of either new regime, the FOS should publish guidance on how it would adjudicate complaint scenarios. This is needed to provide firms with the confidence to introduce new propositions.
- Channel agnostic: The regulatory regimes should enable firms to innovate and provide targeted support or simplified advice via various channels, depending on customer preferences.
- Privacy and Electronic Communications Regulations (PECR): amendments are required to PECR and ICO direct marketing guidance to enable firms to provide more engaging, targeted communications to their members within a targeted support regime. This includes extending the soft opt-in to automatically enrolled customers.

[10] Planning for Retirement in the 2050s, WPI Economics, (2023). Pp 8.

- Measuring success: The regulator, in conjunction with industry, should work to track the underlying consumer outcomes, to help us measure the impact of these solutions.
- Mitigating risks: The primary risk associated with both solutions is that consumers will act upon suggestions which are sub-optimal given their overall circumstances, assuming it is the best course of action. The standards, processes and disclosure requirements for both solutions, while less stringent than for holistic advice, must mitigate this potential harm.
- The Money and Pensions Service: MaPS plays a crucial role in the guidance ecosystem. A question not yet addressed is how these proposals fit with consumers' use of impartial guidance provided by MaPS.

The ABI and its members are committed to helping the FCA and HMT develop these proposals further to ensure they improve the financial outcomes of consumers and are commercially viable for suppliers. For example, we published consumer research on the impact of personalised guidance in December 2023, which includes useful findings for a targeted support regime. As an appendix to this consultation response, we have attached our qualitative research findings on lessons learned from previous attempts at simplified advice-type reform (note: these findings reflect the views of those we interviewed rather than an ABI position).

Taking a step back, we feel that these reforms can supercharge wider Government and regulatory initiatives:

- Consumer Duty: We envisage that some firms will decide to adopt targeted support and simplified advice propositions to best meet their Consumer Duty requirements. Both proposals will positively influence consumer understanding and help customers avoid foreseeable harm and achieve their financial objectives.
- Retail Disclosure Framework: Disclosure tailored to the customer's circumstances will be more engaging and effective, enabling better customer understanding of consumer composite investments (CCIs).
- Decumulation reform: Targeted support-type help should be enabled for Trust-based schemes to more effectively guide their members to the decumulation services they will be duty-bound to provide. Additionally, it can help industry live up to TPR's nascent five principles for 'good decumulation'.
- Small deferred pots: If the value of consolidation can be made clear to customers, then we can see greater consolidation of small pots.
- Investment in UK plc: If the value of pension saving and ISA investing can be articulated more clearly with customers then we may see savers actively increasing their contributions or investing for the first time. This will help grow the pool of domestic capital available to be invested in UK equities. Platforms can more confidently offer LTAFs on platforms to customers they establish fall within the relevant target market.
- ISA reform**:** Improved guidance to help customers choose appropriate ISA wrappers and investments within them can increase uptake of stocks and shares ISAs.
- Value for Money: Enabling greater personalisation of support can improve the quality of service provided by workplace pension providers, raising standards across the industry.

Q1: In your view, do any of the proposals outlined in this paper adversely affect different groups of consumers and why?

1. Groups with lower trust in financial services generally may be less likely to benefit from these proposals where opting-in is required.

2. While targeted support may be best suited to digital-first channels, it could exclude older or more vulnerable people if it must be provided digitally. This highlights the importance of allowing firms to offer services via other channels (e.g. telephone or face-to-face) where this suits their customer base and business model.

Q2: Is there a role for the 3 proposals (further clarifying the boundary, targeted support, and simplified advice) outlined in this paper? Could these work alongside existing forms of support? When responding, please include how the proposals would (or would not) work alongside each other.

3. There is a role for both targeted support and simplified advice to help provide a continuum of support, filling the existing gap between generic, factual information and regulated financial advice and planning. We suggest pausing the workstream on further clarifying the boundary to focus attention on the two major proposals in the paper.

4. <u>Targeted Support:</u> This proposal can help customers avoid foreseeable harm and meet their financial objectives. We are confident that a targeted support regime could be achievable and commercially viable with Government, regulators, industry and consumer groups working together to develop the proposal.

5. <u>Simplified Advice:</u> This proposal is needed in conjunction with targeted support for consumers who cannot afford holistic advice but need additional help, reassurance, or a personal recommendation to act. We feel that pension decumulation scenarios should remain in scope as there are many examples of one-off need for customers at and in retirement (not just the major decision on how to take an income from accumulated DC pension pots).

6. The next stage of policy development should include designing case studies with industry and consumer representatives with a goal to test these customer journeys, communications and disclosures to measure consumer understanding and outcomes. This could include work to understand how the two proposals would fit together.

7. <u>Further clarifying the boundary:</u> We recommend pausing this work to focus on the two major proposals in this paper. If you were to go ahead with this workstream, our recommended approach would be to simplify existing guidance by removing parts of it as it is lengthy and sometimes inconsistent as our discussions with the FCA pensions policy team in 2022/23 demonstrated. We are sceptical of the ability of additional non-Handbook and perimeter guidance to move the dial for providers without substantive changes to the rules to which the guidance refers. Adding scenarios which contradict the underlying guidance may add to the confusion around the advice guidance boundary; although some firms may find it helpful to see further specific examples.

Scope

8. Consistent scope between targeted support and simplified advice (as well as generic guidance and financial advice) can help achieve the Review's objective of a 'continuum of support', where consumers move seamlessly between different service levels.

9. We recognise that protection products are not in the scope of the Review. We recommend that when developing these proposals, officials keep in mind that the case can be made for looking at protection insurance in the future. This is not to say that the current proposals ignore protection completely. Whether a customer has a protection product or not may be relevant information for target market determinations under targeted support or important information to collect as part of a simplified advice process, and signposting to protection products could be considered.

Lessons learned on simplified advice

10. We thought it important to learn from previous attempts at simplified advice reform to understand how it could work in conjunction with existing forms of support.
11. Our lessons learned research outlined in Appendix 1 highlights that the introduction of the Consumer Duty and close Government and FCA collaboration are both conducive to a successful simplified advice regime. Advances in technology – particularly AI and machine learning – can improve platform and adviser efficiency, reducing the time required for an adviser to spend with each client. This could potentially reduce costs considerably.
12. But our research participants noted some challenges for commercial liability. On the demand side that some people don't understand the value of advice services and are not willing to pay regardless of how cheap. On the supply side that liability for unsuitable advice looms larger in a simplified process where less information is known about a customer prior to making a recommendation.
13. Some participants suggested features of a simplified advice regime that they felt could tackle these problems, including non-explicit charging, lower qualification requirements, and potential amendments to MiFID and a new COBS chapter to create a simplified regime partially set out in rules. For further details, see Appendix 1.

Q3: Are there are any other proposals that we should consider to help close the advice gap and how can we support the provision of more guidance? Please outline your proposal in as much detail as possible.

14. None more so than the prioritisation of targeted support and continued work on simplified advice.
15. <u>Basic advice</u>. The FCA should investigate the existing 'basic advice' regime to either 1) inform the development of a new simplified advice regime or 2) extend the basic advice regime by clarifying existing guidance and bringing it into the Rulebook, with changes outlined below.
16. This regime was introduced in April 2005 as a new form of regulated advice for the sale of stakeholder saving and investment products. It allows firms to sell stakeholder products, except the smoothed investment fund, through a streamlined sales process when compared to 'full advice'. The simpler process is based on posing pre-scripted questions and warnings to the customer. Stakeholder products include cash deposits, medium term investment products – i.e. life assurance contracts or collective investments, stakeholder pensions and Child Trust Funds.
17. Crucially for take-up, it allows the advice/support costs to be built into the product margin, with a charge cap to protect consumers (COBS 6 does not apply). The fee is disclosed to customers upon request. It is more economical to provide than holistic advice because of lower qualification and ongoing CPD requirements, lighter touch oversight process enabled through reduced adviser discretion and a shortened process enabled by a decision tree approach, technology and narrower scope of advice. Further detail is provided in Appendix 1 within our lessons learned research findings.
18. Restrictions associated with the basic advice regime which might have hindered uptake (by providers and consumers) include:
    a) The narrow range of stakeholder products, especially the exclusion of low risk and higher risk funds in stakeholder investment products – for example, only 60% of the fund can be invested in riskier assets such as shares.
    b) Customers may be left confused where their questions fall outside of the decision-tree process. E.g. where a customer wishes to pay more into a collective investment on a regular basis, the adviser can't make a personal recommendation on how much to increase the contributions as this falls outside basic advice.
    c) Basic advice is 'moment in time' and cannot take account of information gathered historically – e.g. in previous reviews. This can be frustrating for the customer as they may expect this information to be accounted for as part of their relationship with the adviser/firm.

19. International examples may too be worth exploring in more depth.

20. In Australia, the Government has recently responded to the Quality of Advice review, and will look to:
    a) Introduce a new class of financial advice provider—to be termed 'qualified advisers'—to increase the availability and affordability of simple personal advice.
    b) Introduce more flexibility for superannuation trustees to provide advice.
    c) Replace Statements of Advice with a 'principles-based' advice record.

21. The Netherlands has introduced a new standard for ‘choice guidance’ where a ‘pension provider is not obliged but may advise a participant about the choices a participant has. For example, a participant has the choice to exchange a partner’s pension for a higher retirement pension.’ ‘As long as the pension provider does not recommend a financial product or mediate in this regard, it does not violate a prohibition if it advises the participant about the choice of whether or not to exchange.’[11]

22. Advice market:
    a) Government proposals to attract more advisers to the sector could help meet consumer demand for advice, driving down the average wealth required for a consumer to find an adviser willing to take them on as a client.
    b) On the demand side, higher awareness of the ability for consumers to redeem a small part of their pension pot against the cost of retirement advice may help too. For example, the pension advice allowance could be overhauled with a higher overall fee limit and fewer restrictions.

23. Role of MaPS: MaPS has an integral and positive role within the customer support ecosystem. Pensions and other forms of MaPS guidance be popular and proven to improve users’ understanding. They are underused though, and measures to improve take-up would be welcome. There may also be scope for further refining MaPS guidance appointments according to customers’ circumstances (as recommended by Behavioural Insights Team in the Stronger Nudge II report)[36], possibly helped by Pensions Dashboards at a later date.

Q4: Do you think that further guidance would provide more clarity to enable firms to get closer to the boundary? What scenarios, if any, do you think could be set out in FCA guidance? Is guidance needed on the scenarios in Chapter 3? Would there be any appropriate cases for Handbook rules rather than guidance being used?

Q5: In your view, is there value in simplifying existing guidance? If so, what are the key relevant areas of PERG and other guidance that the FCA should focus on?

24. There will be limited impact from tweaking existing guidance because the Perimeter Guidance (PERG) is designed to interpret the law, and it is from the latter that issues around the advice guidance boundary primarily arise. Therefore, we recommend that this workstream is paused to focus Government and FCA energy on development of the two more significant proposals in the paper.

25. However, to deliver targeted support it will be crucial that the parts of PERG outlined in this section do not apply to firms when providing targeted support.

26. Our view is that adding scenarios does not provide more clarity because if any of these scenarios contradict the rules set out in PERG itself then firms are still unlikely to provide the support outlined in these scenarios. Currently it is the complexity of the rules around guidance and advice which makes the boundary of what is acceptable/compliant difficult for firms to navigate. Many firms therefore avoid any communication that could be construed as a personal recommendation, which prevents them from offering services that could benefit their customers in the long run.

---

[11] Choice guidance: putting participants first, Netspar. (2023). Accessible here.

27. For example, to take one scenario set out in the paper: a pension provider warning a consumer about the potential tax implications of withdrawing a large lump sum from their pension, by presenting illustrations of the potential tax implications of different approaches, including spreading the withdrawal across tax years. Let's imagine this is a non-advised customer over 55 years old and is looking to withdraw a £20,000 pension pot and the provider took a customer through the following journey. They might ask:
    a) "What is your current weekly income?" [Customer to input].
    b) "If you receive benefits, how much do you receive?" [Customer to input].
    c) "Withdrawing all your pot will mean you pay £X tax (£Y at 40% rate). You may end up paying more in income tax than you need to. For example, if you spread the £20K withdrawal across multiple tax years then you can pay less tax (shows illustrations of the two different approaches). Are you sure you want to go ahead?

28. This guidance provides a warning about potential tax implications, shows illustrations of impacts of the customer's initial decision and alternatives (such as spreading the withdrawal across tax years). But this guidance could be interpreted as having strayed into personal recommendation territory because:
    a) It is based on a customer's circumstances, in this case income and benefits status giving it the potential to be a personal recommendation (PERG 8.30B.2G).
    b) The information relates to a particular investment (in this case, the investments that the pension pot consists of) (PERG 8.26.1G).
    c) It involves information on the pros and cons (tax implications) of holding or selling the investment (PERG 8.29.1G).
    d) And it can be construed as advice because:
        i. While providers will choose words carefully when drafting messages e.g. they would use 'can' or 'may', but not 'you should' or 'we suggest', this may not make a difference to consumers who are likely to regard it as advice irrespective of these nuances. In this case, the wording 'are you sure..?' might be considered as advice for a customer to review/reconsider their decision to withdraw (i.e. sell) (PERG 8.28.5G).
        ii. There is no explicit recommendation but the 'are you sure' language is intended to persuade the consumer to consider a different option based on the tax implications (PERG 8.28.6G).
        iii. The statement is likely to influence decision making – indeed, it's the aim of this type of communication, in this case to help consumers avoid paying at the higher tax rate (PERG 8.28.2G).

29. Similar concerns apply to all the scenarios listed in the August 2023 publication and in this policy paper. Therefore, we suggest that instead of adding scenarios, the FCA explores simplification of existing guidance, essentially removing aspects of PERG which sees these types of scenarios – mostly intended to help customers avoid potential harm from poor decisions – interpreted as advice by compliance departments.

30. Parts potentially worth removing are those in chapter 8.28 of PERG which outlines the distinction between information and advice. This is the area which concerns firms as it establishes that information provision could be considered advice if:
    a) It has any significant element of evaluation, value judgment or persuasion (PERG 8.28.6G).
    b) It goes beyond the mere provision of information and is objectively likely to influence the customer's decision whether or not to buy or sell (PERG 8.28.2G(3)).
    c) An impartial observer… would conclude that what the adviser says could reasonably have been understood by the customer as being advice (PERG 8.28.5G), i.e. 'implied advice'.
    d) The customer asks for a recommendation. In this case, any response is likely to be regarded as advice (PERG 8.28.8G).

31. Parts of PERG 8.30 are also concerning to firms looking to meet Consumer Duty requirements but wishing to remain on the guidance side of the boundary:

Reference	Summary	Commentary
PERG 8.30A.6 Identification of product based on facts	Sub-para 5 gives a scenario in which the information provided does not constitute advice, but then contradicts this by saying it might still be advice. The relevant factors to consider at PERG 8.30A.8 are not specific enough to give clarity.	The scenarios described underline how subjective the application of an advised process can be, and underline to providers that given the ambiguity of the guidance, they should avoid even providing factual information in such a way that it could be construed as constituting advice.
PERG 8.30B Personal recommendation	This applies the definition in MiFID more widely, encompassing taking a person's circumstances into account as then constituting a personal recommendation and hence advice.	This again limits what providers can say to customers to help them to achieve good outcomes, as taking their circumstances into account is not permitted.
PERG 8.30B.8 Presenting a recommendation as suitable.	Using generic phrases to present a possible course of action can still amount to a recommendation due to implied suitability.	This prevents providers from directing customers towards good or better outcomes by including communications that could be seen as providing implicit recommendations as being a personal recommendation.
PERG 8.30B.18 Recommendations sent to several customers.	Where marketing is sent to a target audience, if the circumstances that led to the individual being contacted are highlighted, then it is 'very likely' that the investment is being presented as suitable.	Providers can market to people based on the information they hold about them but if they tell them why this is relevant to them it becomes a personal recommendation and hence covered by the advice rules. This limits firms' ability to help their customers and makes even operationalising target market strategies as potentially problematic.

32. While the FCA's summary guidance in August 2023 was welcome, the document reaffirms the core principle that broadly no personalisation is permissible outside of regulated advice, which the industry perceives as a material blocker to developing new guidance tools.

Q6: Do you support the concept of targeted support and do you support developing a regulatory framework to deliver it? If not, why not? Are there any key features (in addition to those discussed below) that you believe targeted support should include?

33. Yes, we are supportive of this proposal to help customers avoid foreseeable harm and meet their financial objectives and believe a light-touch regulatory framework should be developed to deliver it.

34. Targeted support is very similar to the idea of personalised guidance, of which the ABI has been supportive of for the past few years. Both enable providers to use limited information about their customers to tailor communications and product journeys to help those customers achieve better outcomes.

35. We commissioned research in 2023 from Thinks Insight and Strategy's Behavioural Team to test the efficacy of personalised guidance to improve financial decision making. Thinks ran a randomised controlled trial where participants chose how much to withdraw from a hypothetical pension pot. When provided with generic guidance, 14% of participants chose a financially advantageous option. When participants received personalised guidance highlighting a withdrawal option and using choice architecture, this figure rose to 76% of participants. We also found that more participants indicated a willingness to pay for this latter personalised guidance, compared with generic guidance (indicating that they may find it more valuable). And personalised guidance was more likely to be sufficient to meet a customer's stated information needs for decision-making.

36. Our key takeaways are that personalised guidance can be effective where it:

a) Reduces the amount of information put in front of the customer.
b) Suggests a course of action for the customer.

37. Therefore, a key feature of any targeted support regime should be for the guidance to **provide consumers with clear courses of action** while ensuring consumers understand the limitations of the suggestions they are receiving and feel able to shop around and switch products and providers.

38. We also found that personalised guidance does not appear to reduce perceptions of customer responsibility for financial decision making. In other words, regardless of whether consumers receive generic, factual information or more targeted support, the majority will accept that they are responsible for the consequences of the decisions they take. This reflects another key feature of targeted support: **individual responsibility for decisions made**.

39. The **customer information used should be adequate to provide the support offered, but limited** to avoid targeted support becoming an advice process. The limited information used to establish whether a customer meets a target market should include little more than customer behaviour (e.g. usage patterns on an investment platform), customer's stated objectives and intentions, basic information about financial circumstances (e.g. income, overall wealth, benefits status, number of pension pots) and demographic information (age, gender). This customer data may have been provided to the firm in a previous interaction or have been shared via open finance, or the firm may have requested it at the point immediately prior to giving guidance. The FCA could usefully provide guidance in this area.

40. **Data should be efficiently utilised:** From a consumer perspective, if someone transitions from targeted support to simplified advice; or use targeted support services by the same provider but years apart, they will want the information previously collected to be utilised to save them from providing it repeatedly (subject to necessary verification checks and reviews where information may be out of date).

41. The paper does not necessarily imply this, but it is important that '**people like you' suggestions** can be based on both:
    a) What the average customer within a target market does. Often this might not be appropriate to share with consumers as the average customer may be making poor decisions, or the firm is just starting up and does not have sufficient customer numbers.
    b) What an expert thinks 'people like you' should consider doing. In this case, the expert would be the FCA-authorised firm offering targeted support.

42. **Channel agnostic:** targeted support should be available to provide across telephone, face-to-face and digital channels and no durable medium requirement should need apply to the output. This ensures that customers with different preferences for receiving information are still able to receive enhanced support and firms which currently offer non-advised support over the telephone are able to take advantage of the new regime. Discussions over the phone or in person should not imply 'scripted support'. Consumers have conversations and their needs won't follow a script. Digital channels should be able to utilise interactive videos, chatbots and decision-tree approaches.

43. **Various models of targeted support should be enabled.** There is an unresolved question around what targeted support actually looks like from a consumer perspective? In the paper, it is described as 'akin to a supported sales channel', where a customer makes a clear positive choice to receive targeted support (either for an upfront fee, with the cost rolled into any product fees, or 'free' via cross-subsidisation). We can see the benefits from a consumer understanding perspective, and we think targeted support could operate in this way. Indeed, it sounds similar to what discretionary fund/portfolio managers already do for their customers opening and accumulating assets within an ISA, GIA or personal pension, where they ask questions around attitude to risk, investment timeframe, financial situation and present portfolio options for the customer.

44. But we don't think targeted support should be limited to this model. For a number of reasons:
    a) Opt-in has limitations: Automatic enrolment is much less likely to have been successful as an opt-in scheme. If targeted support is properly supervised with clear rules around the standard to provide it built on the Consumer Duty, then consumer risks should be appropriately managed, without the need for express opt-in which could significantly reduce the number of people helped by the offering. Many firms will wish to provide targeted support throughout their offering to meet their Consumer Duty requirements.
    b) Support throughout the life of a product: supported sales are great to help customers enter into a product, but as the Consumer Duty states clearly, firms should be supporting customers throughout the journey of their long-term savings product, in particular around decumulation of assets. If a customer is exhibiting behaviour that does not fit the profile of the product (e.g. using a Stocks and Shares ISA like a cash account) then the firm should be able to responsibly support a customer in taking different actions. Perhaps most importantly, if they receive information that suggests the customer no longer fits the target market for the product chosen then they should be able to responsibly suggest courses of action to support a customer to exit the product (although this decision of course would be for the customer).
    c) Support across the full suite of products and services: investment platforms, mutual societies, pension providers will offer tax wrappers, investment funds, consolidation services, financial education, contribution and tax calculators, the list goes on. Containing targeted support to a single sales channel may limit its applicability and see customers entering and exiting a targeted support channel multiple times, creating unhelpful friction for the customer.
    d) Reassurance: consumers are often simply after reassurance that the decision they are about to take is a reasonable one. They don't need to be taken through a whole journey. They are essentially execution-only customers that would like their provider to double check they haven't gone completely off-piste.

45. Therefore, other models should also be also enabled (note that models are not mutually exclusive). The most important being baseline targeted support. This is where firms offer targeted support within existing products, amending their standard customer journeys and communications to maximally meet Consumer Duty requirements (which advice rules currently prevent). In this model, an execution-only customer may not receive targeted support during product purchase, but when on the platform, or in their account, they will receive support beyond that which is possible under existing guidance. This model requires:
    a) The customer to be defaulted in if the firm decides to offer it.
    b) Cross-subsidisation, with no explicit charges for the support.

46. Other potential models include:
    a) Premium account. Firms offering a 'premium' account for customers they establish as fitting within pre-determined target markets, where the firm can offer targeted support across their entire offering for those premium customer for a higher platform fee or account fee.
    b) Targeted-support wrappers. Platforms offering an execution-only SIPP or ISA vs a targeted support SIPP or ISA where in the latter consumers get targeted support across all decisions they make for the lifespan of that product.
    c) Reassurance at point of sale. Firms may wish to provide targeted support at the point a decision is about to be taken, where a consumer can request for them to 'double check' their course of action. A provider could confirm that the option chosen is 'reasonable' for 'people like you.' If the provider doesn't have enough information on the customer, they can make that clear and request further information or signpost the customer to MaPS services and advice.

47. For firms with closed books, the baseline targeted support and premium account models are the only two that will make sense given they do not sell new products. Excluding these models would keep these firms from offering targeted support to their customer base.

Q7: What types of firms do you think would be well placed to provide targeted support?

48. We think life insurers, pension providers, platforms, discretionary portfolio/fund managers, asset managers, mutual societies, fintechs and advice firms are well placed to provide targeted support. Currently unregulated firms including master trusts and pension administrators, and in future Pension Dashboard Operators, could also help pension savers.

Q8: Do you think there should be restrictions on the types of firms allowed to provide targeted support, and why?

49. To exclude advice firms may be an issue on competition grounds. Advice firms may wish to:
    a) Offer targeted support to younger clients with simpler decisions to take as a way to build a relationship that may result in financial advice service provision in future.
    b) 'White label' a targeted support service for the mass-market audience. For example, X advice firm has a targeted support solution online with platform technology in the background.

50. Their expertise would be missing if excluded.

Q9: Do you agree that the scenarios outlined are appropriate for a new targeted support regime? Please suggest any other specific scenarios where targeted support might be appropriate and could benefit consumers.

51. Crucially to ensure the regime is future-proofed, it will be important not to prescribe the scenarios where targeted support may or must be used. Firms should be able to make those decisions based on their customer base and capabilities.

52. But we agree with all the scenarios listed and would add the following in accumulation that would be covered under a targeted support regime:
    a) Triaging customers toward the most suitable wrapper in accumulation to cut through the jargon (based on their financial objectives and risk appetite).
    b) Helping customers transfer from existing products based on financial objectives, age and risk appetite. E.g. supporting customers to move from a cash ISA to a LISA where they are saving for a first home or helping a parent to transfer to a stocks and shares JISA (from a cash JISA) for their child where appropriate.
    c) Helping customers automatically enrolled into workplace pension default funds to take more ownership over how their pension is invested (based on their financial objectives and risk appetite). E.g. a customer may benefit from making an active choice such as investing in a strategy that incorporates illiquid assets.
    d) Informing a customer about the potential benefits of consolidation and helping them to consolidate multiple small pension pots following various jobs in their 20s and 30s.
    e) Informing a customer about the possible risks of life styling in a default fund in periods of interest rate volatility or where a customer may enter drawdown in the early years of retirement rather than buying an annuity.
    f) Helping customers use up their ISA allowance rather than continuing to invest in a GIA.
    g) Whether an employee should opt-out of auto-enrolment.

53. The types of harms that firms would be managing with investment decisions include investing with short time horizons, lack of diversification, investing with lack of emergency savings/cash buffers or where protection and debt repayment may be preferable options, and customers responding to market volatility rather than investing for the longer term.

54. In decumulation:
    a) Investment pathways – firms could provide more details on risk within investment pathways such as subsequent drawdown withdrawal rates not matching the investment pathways objective, they could help promote the pathways and also better describe the options depending on a customer's circumstances.
    b) Explaining the impact of drawdown on welfare payments, where someone is eligible for means-tested benefits.
    c) Offering drawdown withdrawal rate rules of thumb and suggesting when withdrawals may be too high or low.

d) Helping customers to decide between a single and dual life annuity.
e) Nudging people in later life that a guaranteed income may be an option of interest, and being able to provide better answers to individuals asking what options other people choose.
f) Avoiding foreseeable harm from accessing a pension as a lump sum, e.g. from an unnecessarily high tax payment, or where the customer has a Guaranteed Annuity Rate.
g) Explain the benefit of using MaPS guidance services and Pension Wise in particular, for consumers considering pensions access options.

55. We acknowledge that the FCA believes firms can already do much of the above, but many of our members feel that it is only targeted support (or other similar regulatory change) that will enable firms to take the actions listed in the August 2023 FCA clarification of existing guidance and the scenarios listed in 3.5 of DP 23/5.

56. Targeted support should also enable firms to provide claims forms in certain circumstances where it is likely the best option for the customer. For example, providing customers who have low value pots (that would not support an annuity payment or drawdown) with a Small Lump Sum claim form or customers in a legacy pension plan that has a hard end date with details of the annuity they would receive if they did nothing. This would helpfully reduce the number of touchpoints for a consumer.

Q10: Do you agree with the high-level minimum requirements for a proposed new standard for targeted support? Please explain your answer.

57. We agree that the new standard must be below that required to give a personal recommendation but should ensure consumers' interests are served through collection of customer information and appropriate use of that information to suggest courses of action in various scenarios.

58. We agree with the high-level minimum requirements and a light touch approach. Using the Consumer Duty as the basis is sensible because much of what targeted support is trying to achieve is to enable firms to maximally meet their Consumer Duty requirements.

59. The second requirement listed on determining the extent of information to be collected will require more development as it is slightly ambiguous, but we agree that firms should be satisfied that their targeted support offering is likely to provide a 'better' outcome (rather than best) with respect to consumer duty requirements. We know that the common alternatives to receiving guidance from a provider include free and easy sources. For example, in the twelve months to May 2022, social media was used by 18% of investors to research investing, while 23% received information from family and friends.[12] Alternative wording to 'better' might be 'not unsuitable' as it is primarily about stopping people from making bad decisions.

Consumer understanding as part of the high-level requirements

60. Customer understanding of the outcome sought and the risk involved is important to ensuring that customers appropriately use the product. Before final rules are published, the FCA should ensure consumer testing of any proposed disclosure requirements. Once the regime is in place, the Consumer Duty would already mean that firms must test their own targeted support propositions to satisfy themselves that customer understanding is sufficient. There is a clear link to the development of the future disclosure framework for CCIs (to replace EU PRIIPs), which will aid the explanation of risk, performance and costs and charges product information to consumers; this should improve firms' ability to meet the consumer understanding aspect of the standard set out here.

61. However, we note that consumer understanding is low for financial services and products and the threshold should not be so high as to lock out people from receiving targeted support who need it most (i.e. those with the lowest financial literacy). This high-level requirement may assume a level of financial literacy that does not exist for the mass market. Previous research[13] shows us that interventions which work well to improve financial

12 Financial Lives Survey: Consumer Investments and Financial Advice findings, FCA. (2023). Pp 32.
13 Do interventions that improve financial capability work for people with low numeracy? National Numeracy. (2020). Report accessible here.

capability generally may still not help those with low numeracy skills. Targeted support should. Embedding of Consumer Duty has put more onus on firms to get it right and allows for less reliance on disclosures, which we know are a major barrier to customers engaging, understanding and taking decisions.

62. Firms should be liable for providing 'bad' targeted support where they don't meet this standard with appropriate redress for consumers. It should also be defined in such a way that allows firms to use MI to demonstrate that they have met the standard. These protections will be crucial, especially where firms are using targeted support to offer their own products.

63. The standard should be principles-based (as set out here) rather than regimental. But to ensure that firms are confident to offer targeted support without undue concerns around liability, it would be extremely useful for FOS to publish example adjudications and guidance to show how they would interpret the new standard when taking decisions. Customers should not receive compensation on the basis that the targeted support suggested or highlighted a course of action that was not the best option given the customer's holistic circumstances. I.e. providers shouldn't be liable for not having established suitability.

Product Governance

64. We are supportive of PROD 4.2.15 and PROD 6.2.1 as precedents to establish that the targeted support is designed to meet the needs, characteristics, and objectives of an identified target market. Firms that have embraced the Consumer Duty will be well prepared to embed these assessments into a targeted support framework.

65. We don't expect firms offering targeted support will need to design large numbers of new target markets and the process followed should remain similar. For example, a firm:
    a) Designs the intervention.
    b) Deploys appropriate expertise to assess the benefit to the consumers within target markets and potential harms.
    c) Establishes if there are sub-groups for which this is not true and where there is harm and ensure these groups can be identified.
    d) Documents that process.
    e) Provides evidence to the FCA as required.

66. The FCA should recognise that target markets can be very widely drawn (e.g. 'any eligible adult requiring a range of tax wrappers and able to put the money away for the medium term'). Firms should be able to show that the target market would benefit from support and then tailor specific interventions to sub-cohorts (e.g. 'over 80s with portfolios full of emerging market funds' or '55+ year olds with pension pot sizes below £X') as that information becomes available to the firm. This way firms can start to suggest courses of action that are very likely to be well suited to that customer, but with a degree of optionality. Some suggestions – e.g. for a customer to save more to achieve higher retirement income – will not require much information about a customer (e.g. existing values/premiums and time to retirement).

67. Firms would not expect to create target markets for each of those sub-cohorts, but rather an obligation to sensibly define those sub-cohorts with the intention to mitigate potential harms.

68. Firms will need robust analytics, clearly defined consumer profiles and consumer journeys to exclude those that do not meet the defined target market.

69. Firms do not require significantly more definition from the FCA around target markets. Although, guidance would be welcome for the level of information to be collected (especially for smaller firms with less experience). This may provide for a level of consistency in the market. It may reduce the risk of unscrupulous firms exploiting ambiguity to inappropriately sell product.

70. Note that target market rules would need to be extended to all wrappers, as these currently don't have target market requirements.

71. Firms may wish to use a decision-tree or choice architecture approach to deliver the targeted support. For example, to build a plain English process to establish the preferred type of annuity for a customer. We agree that firms can usefully learn from the examples of investment pathways and default investment options in non-workplace pensions.

Q11: Are there any regulatory rules or guidance that apply to your firm which could impact on your ability – positively or negatively – to contact consumers and offer them targeted support? Please specify which rules and explain the impact.

72. The FCA will have to be very clear which parts of the Rulebook no longer apply or are overridden to enable targeted support; or if there is a separate permission then which parts of the existing Rulebook do not apply to firms that have permission to offer targeted support, when they are providing targeted support.

73. For example, Article 53 of the Regulated Activities Order, including the definition of a personal recommendation, as well as the existing Perimeter Guidance in Chapter 8 (outlined in response to Question 5 of this paper) would impact on a firm's ability to provide targeted support unless the regime provides regulatory/legislative certainty that a customer's circumstances can be taken into account to offer suggestions on products (and other courses of action).

74. COBS 10 and 10A would need to be significantly revised to facilitate the implementation of targeted support. A 'personalised customer communication' intended to influence the recipient in respect of a specific financial instrument negates the COBS 10 'appropriateness test' requirement exemption allowed for by the rules, and so a firm must then confirm appropriateness in accordance with the rules. The types of customer communication envisaged by targeted support would be personalised to a customer, based on knowledge of that customer, and could be suggesting a particular action in respect of a financial instrument or instruments. Therefore, COBS 10 and 10A, as currently drafted, would be a barrier to the implementation of targeted support.

75. COBS 19 makes it difficult to construct a smooth journey in targeted support and more proportionality is needed. COBS 19.4.8 in particular is a barrier to telling consumers about solutions that may benefit them. It restricts the help that firms can give in Retirement Option Packs to more guided solutions if it influences the consumer to take a specific course of action.

76. Cold calling rules (COBS 4.8.2 & MCOBS 3A.3.5) could also prevent firms from proactively contacting the customer, e.g. a firm calls the customer to tell them that they have too much money in cash in their pension.

77. To enable cross-subsidisation and non-explicit charging, aspects of COBS 6 would need to not apply.

78. Vertically Integrated Firm rules (including profit and loss rule) may be preventative and should be reviewed.

79. Privacy and Electronic Communications Regulations and ICO direct marketing guidance also provide barriers for engaging communications, discussed at length in our response to questions 31 and 32.

Q12: Which of the 3 options for types of suggestions would be most impactful under targeted support, and why? Are there any other options we should consider?

80. We support all three types of suggestions being available for firms within a targeted support regime, with the scenario and customer information used to determine which is most appropriate.

81. The first and third options suggested are likely to be the most impactful because they suggest a single course of action, either within an existing product, to transfer out of an existing product, or to take up a new product,

reducing complexity for customers.

82. The findings from our consumer research provide evidence for this position. Personalised guidance with a clear course of action saw significantly improved decision-making in our randomised controlled trial, relative to generic guidance. When provided with generic guidance, 14% of participants chose a financially advantageous option. When participants received personalised guidance highlighting a withdrawal option and using choice architecture, this figure rose to 76% of participants. Whereas guidance that was personalised to the customer's circumstances but only nudged the participant in a particular direction (to withdraw less from their pension pot) actually saw fewer participants take the most effective withdrawal amount (9%). Specific testing on targeted support interventions can provide additional insights, and HMT and FCA (with FOS involved) should engage with testing options at the earliest opportunity, in partnership with firms.

83. The Pensions Policy Institute (PPI) in its recent research on pensions engagement[14] noted that people with lower levels of financial capability and knowledge are both less likely to make active choices and less likely to benefit from this behaviour. They suggest mechanisms that may more effectively deliver the goal of positive retirement outcomes for this group, including better guidance but also rules of thumb, for example:
    a) Dividing the age at which you start saving for a pension by two to give a suitable contribution rate.
    b) Building up a pension pot that is worth ten times your annual salary.
    c) Drawing down at an annual rate of 4%.

84. These rules of thumb may be provided as a form of option one (a clear course of action) to customers that fit within established target markets.

85. At the wrapper level, there are clear examples where it would likely be appropriate to narrow it down to one option for the customer that fits within a particular target market or at least to highlight one option over others. For example, for those within the LISA age thresholds, saving for a house below the LISA cap, with an acceptable attitude to risk for investing, then it is clearly appropriate to narrow a savings vehicle down to one option: a LISA.

86. The second option similarly reduces complexity for customers in a world of vast consumer choice and goes further to support customers than our personalised guidance which only nudged in a particular direction. This type of approach is already taken by discretionary fund manager platforms which ask a series of questions and narrow down a customer's options when choosing an investment portfolio.

Consumer protections

87. One question to be ironed out is what firms should do if they don't offer the type of product that they establish would be sensible for someone in the target market identified. This could happen in the decumulation space (e.g. a firm does not offer a guaranteed income in retirement) or in the accumulation (e.g. a firm does not offer a LISA wrapper as in the example above). A proportionate option might be for the firm to signpost to financial advice, or MaPS guidance on that particular product type identified, although firms may wish to signpost to this information even where they do offer a particular solution. Targeted support should enable FCA-regulated pension schemes to partner with third parties to offer a range of decumulation products and services, in line with the DWP's duty on occupational schemes.

88. Regardless, customers should be able to make a fully informed decision and know that other providers in the market offer these products, and that they can indeed go elsewhere for the targeted support service. An unintended consequence of targeted support could be that a customer becomes less likely to use the open market option which gives those customers buying an annuity the freedom to shop around and compare rates. Based on accumulative lifetime benefits this could cost a consumer £000s if a better annuity rate was available but they didn't go to open market. Therefore, the FCA could consider requiring suitable caveats along the lines that other providers will provide similar products and the customer can shop around.

[14] What could effective pensions engagement look like? Pension Policy Institute. (2024). Pp 25-28.

89. However, a targeted support provider should be expected to compare outcomes against the status quo for non-advised customers rather than what an individual would receive from full financial advice.

Q13: How should communications to consumers be framed so that they can effectively understand the targeted support they are receiving? Please give examples.

90. We think consumer testing should form a core part of the next stage of the review, following work with industry and consumer representatives to develop targeted support type customer journeys, communications and disclosures. We think the FOS also should be involved at this early stage. The FCA may even wish to consider involving consumers directly in testing design, utilising an 'inclusive design' process. This should help all parties understand how communications to consumers can best be framed.

91. As stated in FG22/5 8.13 Consumer Duty Guidance, Plain Numbers has demonstrated how seemingly small changes to communications can substantially increase comprehension among consumers. Examples of the principles underpinning this approach include:
    a) Simplifying the numbers – for example, do the maths by converting a percentage fee to the specific cash amount.
    b) Providing numbers in context – for example, removing technical terms, using actual dates and/or framing the numbers appropriately.
    c) Considering how people think – for example, enabling a quick initial appreciation of the most salient information perhaps using images alongside the words and numbers.

92. One way to present targeted support to customers would be the use of 'people like you' statements. This could help the customer understand that the suggestion is not necessarily the best option given their personal circumstances. But there are a number of ways to present or frame targeted support. For example, warning statements, interactive graphics, explainer videos, or rules of thumb as mentioned above. We have had feedback that some people are put off by the phrase 'people like you', finding it patronising, which could then have a negative impact on their decision-making process.

Layering

93. The most successful version of guidance in our consumer research involved layering so that the specific information that can help to improve financial outcomes is presented first and saliently, without restricting access to other information. This approach is supported by Financial Capability Lab research which suggests that consumers often rely more heavily on the first piece of information they encounter when making decisions.[15] Layering can additionally break down complex information into smaller, more manageable chunks, including for those in vulnerable circumstances or with additional needs.

94. Firms will need to strike the right balance between:
    a) Providing the right level of information for comprehension.
    b) Not hiding key information from the customer.
    c) Not ending up creating more barriers – for example, non-advised customers may disengage if their digital customer journey forces them to interact with many screens of layering, especially for app-based products where it is harder to get lots of information across in a single screen.

95. Firms should be empowered to layer and test this layering with customers without fear that good faith changes are misinterpreted as sludge practices or hiding information. Firms will need to find the key points of salient information that must be prominent to achieve the customer's objective.

[15] FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty, FCA. (2022). Section 8.13

Q14: Do you agree that targeted support should not necessarily be subject to explicit charges? If so, how should firms be remunerated, and why?

96. Yes, because we know that many customers aren't willing to pay upfront for this type of service yet may derive benefit from it to make better financial decisions.

97. As outlined, firms should be able to recover costs by cross subsidising this service from other services provided by the firm as part of their broader proposition (e.g. product charges, platform charges). For example, a firm may wish to provide targeted support for a target market within their workplace pension offering and this may effectively be paid for by advised platform charges).

98. While firms should make sure to provide fair value across all their services in the baseline targeted support model, they should not be expected to report/disclose in detail exactly the cost of providing the targeted support service and how much is being subsidised from another part of the business. This would be too onerous and markedly reduce the likelihood of uptake.

99. Alternatively, firms could charge a fee, for a standalone targeted support proposition, but more likely our members would embed a fee into existing propositions (e.g. included within a platform fee as targeted support is offered across the platform).

100. We agree that remuneration via commission payments that could incentivise volume product sales should remain prohibited.

Q15: If you agree with Q14, what safeguards and disclosure requirements should be in place to manage any conflicts of interest arising from enabling targeted support to not be subject to explicit charges, and why?

101. Within a new targeted support regime:
    a) Firms will need to disclose that the support provided is based on limited information and not a full assessment of the individuals' circumstances.
    b) Firms should signpost to MaPS services (MoneyHelper and PensionWise) and to simplified advice and financial advice options. Firms will be expected to know when a customer is likely to need more support than a targeted support process can provide, and subsequently provide an off-ramp.
    c) If guidance does not meet the minimum requirements, the customer should be able to complain to the firm and to the FOS.
    d) FSCS coverage should apply to the provision of targeted support – just as customers are covered if firms deliver other parts of their service badly and become insolvent.

102. Where a targeted support provider (e.g. an advised platform) knows that a client on their service is an advised client, they should be informing them that targeted support does not provide the same level of service as their adviser can provide.

Q16: Do you agree that there should be no limit on product and investment range or monetary value limits (beyond those applying to the Review as a whole and in the retail distribution space more generally) applied to targeted support? If you disagree, what should the limits on product and investment range and monetary value be and why?

103. Yes – ultimately this service is to support customers who are unwilling or unable to pay for financial advice but who need more support in taking decisions. These customers will vary significantly with respect to accumulated wealth and the types of mainstream investments and products they may be interested in purchasing.

104. The consequence of a monetary limit would be that for decisions where there is greater risk of customer harm (i.e. where there is 'more to lose') customers would get less help. The regime will also require signposting to advice services to highlight this option for those that can afford it.

Q17: Are there any other limitations which should be imposed on targeted support? Please explain your answer.

105. Those involved in the provision of targeted support should be expected to complete a minimum number of CPD hours.

Q18: Do you agree with the disclosure objectives for targeted support? Are there other factors that consumers should understand when making decisions in relation to targeted support?

106. Disclosure should help customers understand the suggestions they receive as part of targeted support. This makes most sense to be disclosed at the point of providing the targeted support, and could cover points such as:
    a) The limited nature and type(s) of data that has been collected to identify that the consumer falls within the identified target market.
    b) That the suggestion is not based on consideration of the whole needs, characteristics and objectives of the consumer.
    c) The reasons underpinning any suggestion that would be given to the consumer and any disadvantages of the transaction for the consumer in line with the target market to which the firm has identified them as belonging.
    d) The nature of the suggestion (i.e. that it would not be a recommendation) and that it would be based on a target market of 'people like you' not personalised to the individual customer.

107. Consumers who use targeted support should understand that impartial, free-to-use guidance services are available for people like them, which they can easily access via MaPS. Simplified advice and full advice services are also available if they need more personalised support.

108. Disclosure should also help consumers understand the nature, scope and limitations of a firm's targeted support offering. Regardless of the targeted support model (e.g. as a standalone proposition or across a range of products and services, where a customer fits within a determined target market) a firm can disclose information about their targeted support regime at the point of onboarding.

109. This will be front and centre where a customer is entering a targeted support sales channel, or if you are opening a 'targeted support' SIPP or ISA. If a provider offers the baseline targeted support model, then disclosure would be made when the client first establishes a relationship with the firm. For existing customers who onboarded prior to implementation of a targeted support regulatory framework, we do not think it is necessary for a firm to update all their customers with a service communication noting that they are now offering targeted support within their products and services.

110. Disclosure on the targeted support service itself should also not need to be presented every time that a customer receives targeted support within a product they already own or when they are buying another product from the same provider/platform. The suggestions would still require disclosure as described above.

111. Consumer understanding is low for financial services and products and disclosure materials should be designed to facilitate people receiving targeted support who need it most (not creating unnecessary friction).

Q19: Do you consider an 'outcomes based' or 'prescriptive' approach to rulemaking most appropriate in underpinning disclosures for targeted support? If a prescriptive approach is thought more appropriate, please outline what detail you would like included and why?

112. We endorse an outcomes-based approach to disclosure, building on the approach taken with Consumer Duty. This would provide firms with flexibility to determine the appropriate delivery of the disclosure described in Q18 and to use a plain language and simple approach to disclosure. For example, terms like restricted or independent advice are confusing to customers.

113. Taking the example of PRIIPs, what clearly has not worked for product disclosure has been a prescriptive approach, too focused on standardisation and jargon to aid comparability across sometimes very different products. In the case of targeted support, the scenarios, target markets, product range, proposition itself can all vary meaning that a prescriptive approach is unlikely to be effective.

114. This outcomes-based approach could enable testing, like under the Consumer Duty. For example, firms might test their journeys and communications by asking a sample of customers to show they understand the suggestion presented to them under targeted support.

115. For this outcomes-based approach to be successful, the FCA may need to review the durable medium requirement, in consultation with industry and other stakeholders. It currently places a limit on firms' ability to innovate on delivery of disclosure. We recommend a digital by default approach which redefines a durable medium to cover the storage of information collected within interactive, dynamic, tailored customer journeys. Examples of this in practice might include:
    a) Having customers confirm at appropriate points along the journey that they have been presented with prescribed disclosure information, with this record emailed to customers upon purchase of a product.
    b) Delivery of disclosure in interactive video format, with an extremely short test of customer comprehension prior to purchase. The result of this testing would be stored by the distributor.
    c) Requiring distributors to digitally record and store the customer's journey, including whether they hovered over a hover-over button or clicked on links, to establish engagement with information required for disclosure, with this available to the Ombudsman upon request.

116. We believe this digital by default requirement could help encourage customer engagement with disclosure, as well as improve efficiency, lower costs, and support Net Zero/sustainability objectives by moving away from paper.

117. A more prescriptive approach to disclosure will work better for the suggestions given rather than descriptions of the service itself (which will vary depending on the model adopted by firms).

Q20: How should targeted support be delivered from a regulatory and legislative perspective and why? Which regulatory and legislative mechanism should be used to deliver targeted support, and why?

118. Ultimately, we are in favour of a regulatory mechanism that ensures firms will be able to provide targeted support without the suggestions provided being interpreted as advice or a personal recommendation. As discussed previously, the FCA will have to be very clear which parts of the Rulebook no longer apply to firms offering targeted support. A definition of targeted support in the rulebook will likely be useful.

119. With respect to the three options set out in this policy paper, there are pros and cons to each approach. Further work is required to determine the most appropriate.

120. The first – a new permission in the RAO for a new targeted support activity – ensures the FCA can look over the business plan and submissions and only let those firms through that are most likely to be compliant with a new regime. It reduces the ability for bad actors to enter the targeted support market, provides a forward-looking supervision tool and prevents well-intentioned smaller firms with smaller compliance from getting it wrong (in the absence of an authorisation mechanism). It may also provide the greatest amount of regulatory clarity, delineating the service from simplified or holistic advice.

121. But there are downsides. A new permission will create a significant amount of work for the authorisations team at the FCA, which will need to manage the demand without distorting the market.

122. A permission may create unintended consequences for firms that only wish to offer a baseline targeted support model to help existing customers avoid foreseeable harm. For example, a firm with a closed book may have no interest in selling new products, as they do not have new accumulation products to sell. But undertaking the authorisation process for the new permission may not stack up commercially and so they may continue to provide the same level of guidance under existing permissions. Indeed, given the perceived overlap of targeted support and existing guidance rules, some firms in this position may feel that they need to decrease the quality of their guidance to ensure they are not deemed to be providing targeted support without the requisite permission. This could

inadvertently decrease the quality of guidance provided in the industry.

123. These firms might conversely feel that to meet their Consumer Duty requirements, they must become authorised to offer targeted support. This would imply that every firm offering an investment or pension product may feel compelled to receive the permission, exacerbating the first downside mentioned around work for the authorisations team at the FCA.

124. These downsides give more credence to option three: enabling FCA-authorised firms to deliver targeted support within existing permissions linked to relevant products. Given that targeted support is ultimately a system designed to better guide customers (and is not advice), being able to offer it without new permissions, as guidance is now, feels like an appropriate fit. Consumer Duty too has raised standards in the industry and will apply to both open and closed books from mid-2024. Consumer Duty is the cornerstone of the minimum requirements suggested for targeted support. The third option also enables firms to reach the greatest number of consumers most quickly.

125. The second option (a sub-permission) has very similar pros and cons to the first option. However, if a firm needs to receive an Advising on Investments permission, prior to applying for the sub-permission, this would advantage those with the existing permission and seems an inefficient approach for firms that only wish to provide targeted support (and not financial advice).

Q21: Do you think the scenarios outlined for consumers considering investing a lump sum or reviewing an existing investment are appropriate for a new simplified advice regime? Please suggest any other scenarios where simplified advice might be appropriate and could benefit consumers.

126. We agree that the scenarios outlined would be appropriate for a new simplified advice regime, although they are fairly narrowly focused on how to invest cash savings (either accumulated over time or received via inheritance) or how to rebalance a portfolio where already invested.

127. We recommend the FCA explores further scenarios relating to pensions:
   a) <u>Investment decisions within workplace pension accumulation:</u> working with employers, pension providers could look to offer a simplified advice process which is paid for by the firm as a benefit to the employee. The advice could be limited to the investments decisions within their workplace pension scheme, and would involve an assessment of the clients attitude to risk, long-term financial objectives, expected date of retirement etc. This could help members who want to come out of the default fund.
   b) <u>DC pension consolidation/transfer</u>: A consumer is contemplating the benefits of consolidating their various workplace/personal pension pots to make it easier for them to manage their pension savings. But they aren't sure if this is an appropriate course of action or what the costs involved might be. They approach a firm offering simplified advice as they want a recommendation as to whether to go ahead and consolidate all or some of their DC pension pots. We feel that this decision is relatively low-risk, and it would be simpler to evaluate suitability (especially where there are no protected benefits/GARs).
   c) <u>Tax-free cash withdrawal:</u> significant harm may occur at age 55+ where consumers are able to take out 25% of their pensions savings as tax-free cash. If a cheap simplified advice offer could advise customers on the pros and cons of withdrawing this cash, factoring in the customer's intentions for the funds, their debt situation, wider savings and current income, this may see people withdrawing less, with significant returns to be had in the long run.
   d) <u>At retirement:</u> once an individual has decided to annuitise, or to purchase a flexible access drawdown product, a simplified adviser could help them make the decision about which exact product to purchase from the range available, with basic information about the individual's objectives in retirement, income and other accumulated wealth. This could include an active prompt to Pension Wise, as simplified advice may be better understood by an individual after they have the fundamentals explained to them by MaPS guidance.
   e) <u>In retirement:</u> there are myriad smaller decisions to be taken, and for those not able to afford or not willing to pay for ongoing financial advice, one-off advice would be valuable. Examples could include:
      i. In drawdown, a consumer may be unsure of an appropriate withdrawal rate to choose from, concerned both of under and over withdrawing over the expected life of the product. Simplified advice could be offered to help provide a range of withdrawal rates for the consumer to choose from to minimise the risks,

making the most of cashflow modelling.

ii. In later life, a consumer may be interested in taking a guaranteed income (having been in drawdown) but be uncertain about the merits of this approach and wish to receive a personal recommendation based on their age, gender, health, and other wealth.

f) Choosing your first pension scheme: if DWP's pot for life proposals go ahead, then individuals will need to make a very important decision about which pension provider to choose. Already self-employed people will wish to commence a new pension without support from the workplace.

128. For many of these scenarios, triaging would need to occur to filter out people for which investing is not suitable. For example, even in the simplest accumulation scenario, a firm would want to understand whether a customer has unsecured debt and may be better advised to pay that off first before investing.

129. Consumers don't necessarily come to advisers with a specific need in mind. A simplified advice regime should leave space for firms to help identify a customer's need, acknowledging that holistic financial advice may be determined as the most appropriate for that customer.

Q22: Do you agree that wealth accumulation products should be in scope of simplified advice, and why? Are there any wealth accumulation products that you feel should be included or excluded, and why?

130. We welcome the wider range of products than was set out in the core investment advice regime (CP 22/24). Having separate guidance and advice regimes emerging by product category will make it more difficult for providers to help people manage their household finances more holistically.

131. It will be important to include insurance-based investment products so as to avoid distorting the market, given they will have similar objectives although with different tax implications. We are concerned that a customer could be advised to buy a S&S ISA from an asset manager when an ISA with identical investments written in an insurance wrapper would be excluded. This would reduce consumer choice and would be anti-competitive. Insurers can also provide an investment solution which offers smoothed investment returns via an insurance product which many non-sophisticated investors find attractive and understandable, and which may be more appropriate for an investor with a lower appetite for investment risk. This would be consistent with the target market of consumers with simple investment needs.

132. Learning from basic advice, which was only available on a range of stakeholder products, feedback we heard from industry experts was that the products were too simple and so the regime lost flexibility. A provider of a basic advice type model additionally noted that the narrow range of products was a dampener on demand.

Q23: Do you agree that pensions decumulation should be out of scope for simplified advice, and why?

133. Pensions decumulation should be kept within the scope of a simplified advice proposal. The risk of bad customer outcomes is highest for decumulation decisions because this is the point where consumers will most commonly have the most accumulated wealth. Therefore, there is more to lose from a poor decision. Indeed, the biggest audience for simplified advice may be those who have built up sizeable DC pension pots as a consequence of automatic enrollment but for whom holistic financial advice is too great an expense.

134. As you can see from our response to Q21 above, there are some specific pension decumulation scenarios we think should be included within a simplified advice regime. Pensions decumulation is not just the major decision at retirement about whether to annuitise, take flexible drawdown, withdraw in cash (or a blended approach) and we believe the one-off scenarios mentioned earlier could be suitable for low cost simplified advice. These were:

a) Help to decide how much to withdraw at the point of taking tax-free cash.
b) Help to decide which flexible drawdown product; or which annuity product to choose once the consumer has indicated this is their intention.
c) In drawdown, the appropriate withdrawal rate.
d) In later life, whether to take a guaranteed income.

135. The main decumulation decision is complex and is irreversible if annuitising. There are complications such as fixed term

annuities being under drawdown rules and there are many blended approaches that may well be the best options for people in one particular economic climate, but which are no longer true in another, making it difficult for a one and done simplified process to get it right. But it is also such an important decision that more people need help with. Given how beneficial a simplified advice process could be for this particular decision for those that are unwilling or unable to afford full financial advice, we also recommend exploring it further as part of the simplified advice regime.

136. Previous FCA thinking has also considered decumulation scenarios as appropriate for a narrower advice process. Within 'streamlined advice' (introduced via guidance following FAMR), an example was given on the recommendation of annuities from an available range that covers the different types of annuity.

137. Some of our members feel they can already provide a narrower advice process focused on the scenarios above. For example, we have spoken with members who feel it would be possible to calculate the tax implications for a pension withdrawal and recommend a course of action or help a customer with their withdrawal rates in drawdown. However, the issue (from their perspective) is not with the rules, but with commercial viability, especially for these scenarios where there is no product being sold at the end of the process to help pay for the advice by product providers. Therefore, a simplified advice solution should enable technological innovation which can drive cost efficiency.

Providing a continuum of support

138. People also don't just retire with pension wealth. They have accumulated assets within ISAs, insurance-based investments and general investment accounts. Would individuals be able to receive simplified advice when selling off assets within these other tax wrappers at the point of retirement? If so, this would create an odd inconsistency. If not, then there would essentially be a stage of life restriction where people entering retirement and drawing down their assets would be unable to receive simplified advice. This disparity of scope between targeted support, simplified advice, and full financial advice will be detrimental for customers as firms would ideally be able to connect their offerings, with on and off ramps to different types of support regardless of the specific consumer problem as different stages in the journey.

139. Consistent scope between targeted support and simplified advice can help achieve the FCA's objective of a 'continuum of support', where consumers move seamlessly between different service levels.

140. The FCA's work on Open Finance and their Centre for Innovation, Finance and Technology (CFIT) will be hindered if the FCA creates silos of guidance/advice rules which are specific to products/product groupings.

Q24: Do you consider that a cap of £85,000 is the correct investment limit for simplified advice? If not, please suggest an alternative limit, and explain why this would be more appropriate.

141. No. As for targeted support, minimum or maximum limits aren't conducive to providing support broadly. Customers interested in simplified advice will vary significantly with regard to their accumulated wealth.

142. The consequence of a monetary limit would be that for decisions where there is greater risk of customer harm (i.e. where there is 'more to lose') these customers will receive less help. Indeed, if decumulation decisions are included within the simplified advice framework, then £85,000 will be far too low given the size of average DC pension pots is growing as younger generations rely solely on DC pension plans. Many financial advisers are unwilling to take on clients with assets lower than £200,000. Therefore, a cap of £85,000 would leave a significant gap for the mass market that wants more than targeted support to make these financial decisions.

143. Therefore, we recommend an investment value limit closer to £225,000 – someone in their 30s now saving 8% on a median wage throughout their life is likely to have this much saved in their DC pension pot(s) when they retire in the 2050s.[16] Alternatively, the FCA could allow firms to be free to set their own limits, based on their risk appetite and overheads in providing the service.

[16] Planning for Retirement in the 2050s, WPI Economics, (2023). Pp 8.

Q25: Do you consider that simplified advice should allow firms to provide repeated instances of transactional advice to a customer but exclude ongoing and periodic review services? Please state the reasons for your answer.

144. Simplified advice should not prevent firms from offering repeated instances of transaction advice to the same customer, as customers would likely be confused to find a provider denying them services they have received in the past. Having established a relationship with the firm or an adviser, the customer may wish to use a similar simplified advice service in the future. To take the scenarios set out in the policy paper, a consumer may receive simplified advice first to invest cash savings accumulated at age 45; and then similarly want investment advice for an inheritance received at age 60.

145. Learning from basic advice, we recommend that future transactional advice events should take account of information gathered historically. It is frustrating for the customer if they have to provide the same information again and increases costs for the firm.

146. Excluding ongoing and periodic review services would delineate the service from holistic advice, but it feels against the spirit of the Consumer Duty to remove this as an option for firms that would be able to provide this to their customers if they deem it financially viable. Indeed, if a periodic review would add value for customer outcomes, then the ability to offer this and charge for it may improve the commercial viability of a simplified advice regime, because the most labour-intensive aspects occur up front. Allowing ongoing advice services on simplified advice for drawdown funds could be beneficial in assisting customers to manage their funds throughout retirement. Ongoing services/periodic reviews would give the opportunity to check that a customer's actions are still in line with their stated original objectives/needs.

Q26: Could including the information to be collected from a client in Handbook rules provide the legal certainty for firms to offer a simplified advice service, while still providing appropriate levels of consumer protection? How might that be delivered? Please explain your answer.

147. Regulatory clarity is required. A new COBS chapter, including some specific rules and guidance on what firms should ask clients would help tackle liability concerns. This might include a questionnaire or script to help firms filter out / triage customers for whom a simplified advice process is clearly not appropriate. For example, to identify those with unsecured debt who may need debt counselling or a lack of emergency savings who need non-investment services.

148. Rules on what an adviser would not need to ask are similarly crucial. Firms need to be confident that as long as they followed a robust process, met other requirements (e.g. anti money laundering KYC rules) and subsequently gave a product recommendation, that this recommendation would be unlikely be interpreted as unsuitable for the customer due to some piece of information not being collected.

149. Previous attempts at reform such as streamlined advice created excellent examples of how a firm could operate a streamlined process, but as this was set out in guidance (rather than Handbook rules) the liability question remained.

150. However, we do not recommend the FCA prescribing the entire fact-find and suitability assessment for a small set of scenarios. Flexibility is needed for firms to innovate and to cater for emerging customer needs – for example, if the Government was to go ahead with a lifetime provider model for pensions, then consumers would need help choosing their lifetime provider.

Role of the FOS

151. The FOS plays a crucial role in our system. But inconsistent interpretation of policy between FCA and FOS keeps firms from providing guidance which may be construed as advice by a customer. The risk of an adverse FOS ruling is that firms may suddenly face liability for multiple (e.g. 100s, 1000s) of customer interactions following the initial ruling. For example, a single piece of communication found to have breached advice rules by the FOS might have been sent to half of a provider's workplace pension customers.

152. And the risk is real: in a final decision taken on 31 March 2023, the ombudsman noted that 'had [the pension provider] sent [the complainant] [specific fund] information directly and he'd taken action based on this information alone it

could be seen as Aegon providing advice, something it wasn't allowed to do.' This type of ruling stops firms from sending generic fund related information to specific/targeted customers, an activity that should be acceptable to better inform the customer. We acknowledge that this ruling was made pre-Consumer Duty, which should have an impact on FOS deliberations.

153. To achieve regulatory clarity, the FOS should be involved in the Review, providing feedback on case studies/scenarios as they are developed. Prior to implementation of either new regime, the FOS should publish guidance on how it would adjudicate complaint scenarios. For example, how would FOS apply the rules in the hypothetical event of a customer complaining that they took a sub-optimal action on the back of receiving targeted support or simplified advice. This is needed to provide firms with the confidence to introduce new propositions.

154. It would be useful for firms to know how FOS would respond differently to a process defined in rules, relative to ones set out in guidance.

Consumer protection

155. If firms did receive customer information outside of the information set out in Rules, then firms should have a responsibility to filter out those customers from the simplified advice process where that new information either suggests the customer's needs are 1) too complex for a simplified advice process or 2) product recommendations available within the simplified advice process will not be suitable. This requirement, combined with FSCS coverage and a sensible fact-find within Rules, should provide for an appropriate level of consumer protection.

Q27: Do you have any suggestions for how to make it easier for consumers to pay for simplified advice, without undermining the changes made as part of the RDR?

156. Our position is that the possibility for advice charges to be wrapped into product charges should be explored further within simplified advice. We know that a majority of people either can't or won't pay for advice. 'Can't' is an affordability challenge and a cheaper form of support could meet that need. 'Won't' is a principles challenge and a form of support where consumers aren't presented with an explicit charge may be needed. Basic advice currently enables advice charges to be wrapped into product charges, with a charge cap to protect consumers.

157. However, mitigations would be required to keep out bias from the regulated advice process: the bias of advisers recommending products to suit their needs rather than their clients, and the bias of product providers recommending their own products when they are unlikely to be the best in the market for that customer's needs. Charges should also be transparent. We do not want to undermine the changes made as part of the RDR.

158. Simplified advice offered without explicit charges is likely to work best when advisers are tied to the provider. In this case, the provider can pay the adviser a salary and not a commission per product sold. To tackle the second bias listed above, disclosure will be required to ensure consumers understand where they are receiving advice from a provider that is providing simplified advice restricted to their own products. If firms are unable to recommend a suitable product (e.g. they only offer flexible drawdown and no annuities, or don't provide a LISA wrapper) then they will have a responsibility to signpost to holistic advice or guidance services that can help the customer find an appropriate product – presumably this could be established early in the advice process.

159. For an independent or restricted advisor working for themselves or an advice firm, it is tricky to see how fees wrapped into product charges could work practically. The product provider would have to be set up to facilitate advisor charging which not every firm has the capability to do (therefore, an adviser would have to turn down customers from particular pension schemes because of the back-office technology used by that scheme). Advised platforms would likely play a key role, with advisors setting their % fee and this needing to apply across the entire product range of their client. This fee would be unchanging for any product that the adviser recommends, to avoid bias. There would need to be an ongoing relationship between the product provider and the advisor for the life of that product, unless it is set in a way that this relationship ends once a certain amount has been recouped.

160. For scenarios with no product recommendation at the end (e.g. withdrawal rate in drawdown, how much to withdraw

when taking out tax-free cash) rolling charges into advice fees would not be an option. This would have to be paid for upfront.

161. If this charging approach is pursued for a simplified advice regime, it should also be explored for holistic advice.

Q28: Do you agree with our proposed T&C framework for simplified advice? Do you agree that firms and advisers wishing to provide simplified advice on more than one product type should comply with the same T&C standards as for holistic financial advice?

162. We think the FCA should adopt a proportionate training and competency framework – i.e. lower qualification requirements for the provision of narrower advice, especially where processes are prescribed.

163. If the FCA takes a highly prescriptive approach where the fact-find is set out in rules, for example, then the T&C framework should be dramatically different to that of full regulated advice. Like with basic advice, there could be lower qualification requirements where staff are not required to hold formal financial planning qualifications, although they need to be competent through a combination of training and supervision (accreditation and ongoing CPD). This would reduce the cost of providing advice as these individuals' salaries would be lower than the remuneration expected of fully qualified financial advisers.

164. If the FCA implements a less prescriptive regime, with fewer rules in the Handbook and a greater range of scenarios covered, then we recommend a T&C framework closer to that set out in the core investment advice paper where individuals need only pass modules under the Regulated Qualifications Framework as necessary to provide the advice for the scenarios that they offer. For example, if they advise on a single area, accumulating wealth, then they only need to show competence to provide advice in that area. A reduction in CPD required from 35 hours to 15 hours per year (with no structured requirement) which is in line with the minimum requirements of the Insurance Distribution Directive (IDD) would be sensible too.

165. Regardless of the approach taken, the T&C framework needs to be robust enough to keep out undesirable market entrants from giving the lowest common denominator advice and charging high fees. The SMCR could be extended to simplified advice to provide accountability for the advice given.

Q29: If the proposals in this paper are taken forward, do firms consider there should be any amendments to the Dispute Resolution sourcebook to enable them to provide different levels of support? If so, please describe them.

166. There would be value in a review of DISP to consider if the new proposals would have implications, for example incorrect disclosure of the limitations of targeted support, value for money where a customer has received the same outcome from full advice as they would have from targeted support and how customers should be treated where they have moved between various distribution methods over time.

Q30: We welcome views on whether stakeholders believe the scope of FSCS protection should include the 3 proposals in this paper, or whether FSCS protection might be more appropriate for some proposals or products than others, and why.

167. The FSCS provides a backstop in the event that a regulated firm goes out of business and this protection should continue, subject to existing limits. This should include cover for products that are purchased at the end of a targeted support or simplified advice process.

Q31: What examples of consumer support do firms want to provide to consumers, particularly in light of our proposals, but feel they are unable to do so because of PECR direct marketing rules or other data protection rules? Evidence on the consumer outcome being sought and, where appropriate, reasoning for why direct marketing rather than other communications is necessary for delivering this outcome, would be welcome.

168. The Consumer Duty requires firms to communicate directly with consumers, in the most appropriate manner to aid understanding and to ultimately nudge the consumer to take action in order to avoid foreseeable harm. This builds on the existing requirement to communicate in a way that is clear, fair and not misleading. It requires firms to equip customers to make decisions that are effective, timely and properly informed and to monitor and adapt

communications to support understanding and good customer outcomes. Email will often be the most appropriate form of communication to achieve this.

169. Section 22 of the Privacy and Electronic Communications Regulations (PECR) states that unsolicited communications for the purposes of direct marketing cannot be sent by electronic mail unless:
    a) The recipient consents to marketing communications being sent, or
    b) The marketing is in respect of similar products and services and the recipient has been given a simple means of refusing the use of their contact details for direct marketing, at the time that their personal details were obtained (which must be in the course of the sale of the product). This requirement is referred to as the 'soft opt-in'.

170. The ICO's direct marketing guidance establishes that a message is likely to be direct marketing if it 'actively promotes or encourages people to make use of a particular service, special offer, or upgrade'. ICO's direct marketing and regulatory communication guidance goes on to note that while it is important to comply with 'your statutory regulator's requirements', these regulators 'do not expect you to contravene other laws' (e.g. PECR).

171. The same guidance states that information provided by a firm is unlikely to be direct marketing if, as well as adopting a neutral tone, it is:
    a) 'solely for [their customer's] benefit; and
    b) against [the firm's] interest and [the firm's] only motivation is to comply with a regulatory requirement.

172. These restrictions make it difficult for long-term savings providers to send useful, engaging digital communications that would help support their customers to take better financial decisions, if those customers have opted out of direct marketing. It creates issues where an individual may have opted-out of marketing fifteen years ago but is presently at a different life stage, and who many now benefit from a prompt toward a new savings behaviour.

173. There are certain cases where customers are unable to opt-in to marketing permissions altogether:
    a) Customers are auto-enrolled into workplace pensions set up by their employer as a statutory requirement so the customer doesn't provide data directly to their pension provider nor communicate with them at point of sale. There is no opportunity for providers to satisfy the requirements for the PECR soft opt-in exception as part of the sales process nor can they subsequently request these customers' marketing permissions in follow-up communication via email.
    b) The case is similar for policies opened by parents for children, which transfer to these young people from the point they turn 18. People under 21 are deemed potentially vulnerable by the FCA due to a lack of financial understanding and so need more support and clear information to help them make informed decisions. This is particularly pertinent for Child Trust Funds, a Government-initiated policy with many products allocated by HMRC between 2002 and 2010.
    c) Long-standing customers in life insurance, pension or investment contracts which were already in place before the regulations came into effect, so never had an opportunity to opt in.

174. Specific examples of scenarios and the customer outcome sought are listed below:

Customer scenario	**Benefit of a direct communication**	**Regulatory considerations**
Eliza disengages with retirement planning, saving the minimum contribution rate without considering whether it is adequate.	Eliza may up her contribution rate following an email, which might include: • Monthly newsletters with information on the value of increasing contributions. • Prompts to consider whether they are saving adequately, helping the customer make an informed choice.	Recent ICO guidance clarified that the provider could send a message along the lines of: 'your contributions affect the amount of money you will get at the end of your investment' which could include illustrations of projected returns from higher savings rates. But this is couched under the condition that: *A statutory regulator asks their sector to remind people that their contributions affect the size of their investment at the end of the term.*

	• Steering toward a firm's digital services where customers can manage their plans online, making it easier to up their contribution.	Our members feel this type of communication should be acceptable without having to rely on instruction from the relevant regulator. Indeed, our members would want to use language that does more to push against the behavioural biases that lead to under-saving for retirement (e.g. temporal discounting, inertia, a general lack of knowledge about personal finance).
Chis is in a default investment and may benefit from making an active choice. (e.g. to invest in a strategy that incorporates illiquid assets at higher cost).	Chis may choose a more appropriate investment following communication which informs him of the option to change investments and explains why a specific alternative might be suitable.	While generic comms about reviewing investments and the options customers is likely acceptable under current rules, providers are unable to highlight specific options. For example, if they were to develop and promote alternative defaults with an allocation to private capital as per the Mansion House compact.
Alex has multiple deferred pots and may benefit from consolidating them.	A provider could communicate to Alex the option to consolidate, explaining why consolidation can be beneficial and offer pension tracing tools. This is especially relevant where Alex's employer changes its workplace pension scheme from an occupation workplace pension to a group personal pension. In this case, Alex would have to actively elect to transfer their benefits to the new pension scheme. Further, iff Alex failed to transfer as part of a block transfer then he could lose valuable entitlements if he transfers at a later date (>25% tax free cash or early retirement options). (Note: the inability to promote these tools to pension savers could be contributing to the proliferation of small pension pots and poorer outcomes for savers).	This communication would be likely interpreted as a clear call to action and therefore considered direct marketing. Careful drafting may allow providers to highlight consolidation as an option, but it would likely be relatively unengaging and would not be able to link to the provider's transfer process. Promotion of pension tracing tools is likely to be considered marketing as they provide customers with information about other pension pots that they have with other providers. Additionally, promoting pension tracing tools may be interpreted as encouraging customers to consolidate, thereby increasing funds under management, and having a commercial benefit. In the case of moving from the OPS to the GPP, all the auto-enrolled customers are unlikely to have given consent to receive email marketing, preventing communication of this type. The new provider can rely on the legitimate interest lawful basis to send consolidation messages to savers by post. But this is known to be less effective: hard copy messages are not compatible with an online transfer process and result in a customer journey that is disjointed and full of friction points.
Dehbia is uncertain how to take decisions to convert their pension into a sufficient income during retirement.	A pension provider could inform Dehbia of its financial advice services and offer retirement MOT solutions or personalised statement videos highlighting how she can meet her financial goals. This could lead Dehbia to take significantly more informed decisions in retirement.	Currently service communications to pensions and investments customers can direct them to independent government-backed services like MoneyHelper or Pension Wise to access guidance and a list of regulated advisers at unbiased.co.uk. But communication outlining its own services would be likely interpreted as a clear call to action and therefore considered direct marketing.

Q32: What steps could be taken to provide reassurance about the electronic communications that firms can provide to give greater consumer support, in compliance with PECR direct marketing rules? Do you consider a similar approach to the joint FCA / ICO letter on savings rates may help provide additional clarity on this?

175. We recommend a series of actions.

176. As soon as practicable, a resolution is needed for auto-enrolled customers and now adult holders of Child Trust Funds (CTFs) who did/do not have the opportunity to opt-in to direct marketing. Our members would like to be able to send customers a marketing preference email after collection of the contact details from the employer (for auto-enrolled customers) and once the young person turns 18 (for holders of CTFs). If it is possible to achieve this through guidance extending the soft opt-in exception, then that would be welcome. However, an amendment to PECR creating a new exception for customers who purchase products via government-initiated schemes without their direct involvement may be necessary. This is because to use the soft opt-in, Regulation 22 in PECR requires the organisation to give the recipient 'a simple means of refusing' the use of their contact details for direct marketing at the time of collecting those details. A process enabling this means of refusing at the point that firms collect customer data from the employer is difficult to envisage. Legislative vehicles could include the DPDI (No. 2) Bill, a future Pensions Bill, or legislative changes in the wake of the cold-calling ban that HMT is consulting on or the AGBR outputs.

177. In the near term, industry would welcome high-level, principles-based guidance from the FCA, TPR and ICO to clarify the definition of service vs. direct marketing communications for long-term savings products. This could include a list of specific examples of acceptable messages within each category. This could be in a similar form to the joint letter from the ICO and FCA to UK Finance and Building Societies Association on interest rates.

178. In the longer term, the service communications category (i.e. not direct marketing) needs to enable more engaging content to be sent to long-term savings customers. Practically, a change in the rules with respect to tone will be needed as well as an acknowledgment that non-marketing communications can be beneficial both to the customer and the firm. There are a few options to explore:
    a) redefine non-marketing to include an objective standard of 'avoidance of harm' to help ensure that communications designed primarily to help the customer avoid harm are not treated as direct marketing. Amendments will be required at minimum to the ICO's direct marketing and regulatory communications guidance which focuses on regulated organisations.
    b) amend the definition of 'direct marketing' in legislation to exclude communications that are 'necessary to comply with a legal obligation, or any rules, guidance or request of a regulatory authority'.
    c) introduce a new exemption for financial support marketing provided by FCA-regulated firms to their policyholders and policy stakeholders.

179. It may also be worth investigating the concept of legitimate interest - i.e. being able to make sensible assumptions that existing customers would want to know more about the features and benefits of products they have taken or similar products that might be better for them.

Q33: How can we design the policy proposals to best strengthen competition in the interests of consumers? Are there any risks or perverse incentives we should be aware of? Please provide specific examples.

180. Competition will be best served by enabling regulated firms to offer these new support services, with the overlaps between sales channels creating a suite of support options to enhance good customer outcomes.

181. However, under targeted support it will be important for firms to make it clear to consumers:
    a) When making product suggestions, that other similar products are available on the market.
    b) Where they don't offer products that fit the customer's target market, to signpost to MaPS guidance or advice services to help the customers reach a positive outcome.

Q34: How do trustees feel the advice boundary restricts the support they want to give, including around decumulation, taking into account DWP's proposals? Do any other regulated activities or regulatory requirements constrain the support trustees wish to provide? Please give examples.

182. We acknowledge that this policy paper argues that rights under occupational pension schemes are not investments for the purposes of the 'advising on investments' activity, so the boundary is not generally relevant for trustees. But It is clear the advice guidance boundary was on the mind of many who responded to DWP's consultation on the a duty on trust-based schemes to offer decumulation products and services to their scheme members – with 'most responses' agreeing that 'personalisation of choices and more effective guidance is necessary [for the duty to work] but will likely risk crossing the current boundary'.[17]This is certainly the view of many of our members, who noted concerns about trust-based schemes' ability to adopt choice architecture where questions are asked of scheme-members about their financial objectives and circumstances and guidance is subsequently given based on their responses. Trustee boards and trustees are essentially taking into account the FCA's advice rules**.** At minimum, further clarity for trust-based schemes will be required in this space.

183. But even if trust-based schemes could ignore the boundary when providing guidance to their scheme members, there is remaining murkiness where a trustee steers a member toward an FCA-regulated product as part of a partnering arrangement under the new duty. For example, if a trust-based scheme, to fulfil the requirement for a decumulation default based on the general profile of the scheme membership, partners with an FCA-regulated personal pension offering drawdown. This is entirely possible, and especially likely for smaller schemes that may not provide their own service offering. If the trustee used data about the customer (e.g. their stated intentions, objectives, financial circumstances) to suggest the FCA-regulated product, would that trustee then be breaking FCA's advice rules? Even putting aside the use of customer data, could simply sending a website link or similar to an FCA-regulated product cause the Trustee to be engaging in an 'arranging activity' and/or sending a financial promotion?

184. If this murkiness is not resolved, the uncertainty alone could lead to FCA-regulated contract-based products (e.g. a SIPP) at a commercial disadvantage to trust-based arrangements as it would be considered less risky for trust-based schemes to partner with another trust-based scheme than a contract-based scheme. There are millions of people in trust-based schemes and a contract-based decumulation product/service naturally will be a better fit for some proportion of this group. There is a risk of worse consumer outcomes if the issue is not resolved.

Inconsistency

185. Scheme members need more help with decumulation decisions. Therefore, we are supportive of the duty on trust-based schemes, as well as targeted support being available for contract-based schemes (and covering decumulation) as this can improve customer outcomes.

186. However, targeted support does not equal the DWP duty. Therefore, there is a risk of further exacerbating the inconsistent customer outcomes received by trust-based and contract-based scheme members. FCA-authorised firms sponsoring a master trust already deal with this inconsistency, which leads to different systems and processes being adopted within the same firm (e.g. approaches to cross-selling), with different outcomes for their customers. For the contract-based schemes, providers can implement decisions (e.g. introduce a new guidance proposition) with internal agreement. For the master trust, any change will need to be approved by the independent trustee boards, for them to be rolled out and ultimately independent trustee boards can take a different perspective given their approach to legitimate interests, or as a consequence of the fiduciary duty. Another consideration is that the data controllers for the master trust are usually the trustees, while the provider is the data controller for the contract-based scheme. If a provider was trying to implement a targeted support proposal across all the pension schemes it runs, would there be issues in utilising the customer data from the master trust - a clear limitation on the ability to operate targeted support?

187. The risk is ultimately that the introduction of targeted support for contract-based schemes (across accumulation

[17] Helping savers understand their pension choices: supporting individuals at the point of access: Consultation response, DWP (2023). Pp 26.

and decumulation) and DWP's duty focused on decumulation, will likely lead to further inconsistency in the market, and difficulties for master trusts trying to achieve consistency across their customer base. To prevent inconsistency:

a) FCA should consider whether rule changes are needed to mirror the DWP duty.
b) As DWP and TPR progress the proposed duty for trust-based schemes, they should consider how targeted support can apply to occupational schemes.
c) Design of TPR guidance to implement the duty should mirror the FCA's final rules.

Q35: Are there any considerations concerning the investment advice boundary for non-authorised persons you wish to raise?

188. None.

Appendix 1: Lessons Learned from previous attempts at simplified advice-type reform

Headline Findings

- **Government needs to be coordinated**, with HMT and FCA working together on a timeline that does not rush Review outcomes.
- **Consumer Duty is a positive step forward**. It encourages firms to do more to support consumers, leading to less reliance on disclosures and better design and understanding of target markets which can simplify the information to be collected to provide advice to a specific segment on a specific need.
- **Consumer understanding is a challenge**, both in terms of encouraging demand (eg people don't understand what advice is and so don't see its value) and attempting to delineate between holistic financial advice, simplified advice and financial guidance.
- **Commercial viability can be tricky but there is hope**. Removing parts of the suitability assessment and fact-find may not reduce cost significantly. But lower-cost advice processes have been achieved (eg basic advice, focused advice, abridged advice). Technological drivers, such as AI-powered tools, Open Finance, Pensions Dashboard (assuming customers are willing to engage with them) will help.
- **Robo, digital-only channels are not the whole solution**. For many, some form of human communication with the customer is needed to provide reassurance, to explain the recommendation.
- **Regulatory clarity on the advice process is needed** to give firms confidence to innovate and introduce new propositions, with clarity needed on FCA's approach to supervision and published guidance from the Financial Ombudsman Service (FOS) on how it would adjudicate complaints (with examples).
- **Protection products are relevant** for any simplified advice process and protection insurance should be included within the Advice Guidance Boundary Review.

Background

- **Objective:** We wanted to better understand previous attempts at simplified advice-type reform to draw lessons for the Advice Guidance Boundary Review. Specifically, what might enhance the accessibility, affordability and commercial viability of a simplified advice regime.
- **Method:** In October-November 2023, we conducted semi-structured one-hour interviews with twelve experts. These research 'participants' had experience either implementing, regulating or analysing previous attempts at advice market reform.
- **Scope:** Our interviews were designed to cover the impact of RDR and FAMR on the advice market, the application of basic, streamlined and abridged advice and the role of technological innovation. Some participants commented on how a workable, future simplified advice regime might look. We focused on simplified advice, but many of the findings are relevant to providing support short of advice.

Please note that the findings and suggestions presented in this report come directly from the research participants (listed on the final page). They do not necessarily reflect or represent ABI views.

Detailed Findings

This section sets out the topics raised during the interviews, and highlights where participants were aligned and where there was disagreement. Specific findings relating to basic, focused, and abridged advice are excluded here as are specific features of a future simplified advice regime put forward by some participants.

Retail Distribution Review (RDR)

- Generally, participants recognised the problems with the commission model (especially trail commission, churning of products and lack of transparency), lack of suitability and sustainability assessments, the bancassurance model and mis-selling.
- RDR was seen as effectively tackling these problems, increasing the quality of advice (IFA networks now have better training and compliance departments).
- There were mixed views on RDR as a cause of the advice gap. Some thought it led advice to became more expensive and focused on higher net worth clients, exacerbating the gap. But others felt that full financial advice provided by IFAs has always been focused on clients who had accumulated significant assets, and RDR tackled the flawed and biased advice that did not represent good support. Therefore, the gap did not materially widen with respect to high quality support.
- The requirement for a separate advice fee was put forward by two participants as a barrier to more people taking up financial advice.

Financial Advice Market Review (FAMR)

- FAMR was seen as having high ambitions but being ultimately ineffective. The reasons given included:
    - Due to assumptions within the review that RDR had created the advice gap, that robo-advice was going to take-off and that advice must be chargeable.
    - That Government tied the review recommendations to a specific pre-election fiscal update, which rushed the outputs.
- One participant noted that FAMR provided better understanding of consumers for the industry, for example it confirmed that people don't resonate with the distinction between advice and guidance.
- Another participant noted that the creation of the Advice Unit was positive.
- Many participants reflected back that HM Treasury and the FCA need to be working together, with the Government prioritising the work programme.

Wider regulatory landscape

- Participants noted that Pension Freedoms created the need for frameworks that guide consumers towards better outcomes given the new risks of consumer detriment.
- Almost all participants raised the Consumer Duty and saw it as a step change in the regulatory landscape that requires firms to do more, laying the groundwork for greater supply of a simplified advice proposition.
- One participant noted that as Consumer Duty is embedded in firms, this will reduce reliance on disclosures and facilitates work done to design and understand needs of target markets. This should then simplify the information that needs to be collected to provide advice to a specific segment on a specific need.
- One participant noted that the Financial Services and Markets Act 2023 provides an opportunity to amend elements of the MiFID suitability requirements to create a simplified regime, to create a proportionate regime from a liability perspective. Another noted that guidance alone never worked because of the advice boundary being set at a personal recommendation, which stems from EU legislation. Therefore, there is potential for the boundary to move post-Brexit but it requires willingness from the FCA to not fall back on MiFID definitions.

Robo-advice, hybrid advice and technological development

- Where discussed, robo-advice was perceived to have failed to take off. On the demand side because people want to speak to a human and need reassurance (although views were mixed about the level of personal interaction desired). On the supply side, two participants suggested that robo-advice has low margins. It was noted by three participants that robo-advice under full suitability would be possible, but no clear view on whether this would be desirable.
- There were generally very positive views expressed on the role of technology, and participants broadly agreed that innovation in AI, data analytics, open finance and digital platforms/portals can reshape how advice is delivered (offering efficiencies in collection of customer data, in compliance oversight, and delivery of disclosure to the customer). Therefore, a simplified regime can look to take advantages of these developments.
- A newfound public appreciation of tech-driven solutions alongside these technological advances could pave the way for new hybrid solutions, which have the advantage of human interaction injecting trust and consumer confidence into the sales process. One participant noted that human interface at the front end is made more efficient by technology at the back end.
- On AI, the discussions ranged from the use of LLM-driven chatbots, AI-created advice based on machine learning, and interactive videos delivering advice to customers.
- One participant mentioned that the digital part of the journey will maintain a record that can be used for disclosure and another suggested that the platform/provider could use this as part of their regulatory return to the FCA and within FOS complaint resolution.
- Pensions Dashboard was given as an example of positive technological change to improve the efficiency of the advice process by a few participants. But one participant warned that while Pensions Dashboard sounds useful on its face, if data protocols are not designed with the advice process in mind, then it could be of limited value in that context.

Commercial viability

- Commercial viability is significantly helped by the technological innovations discussed above.
- Some argued that a narrower fact find can reduce costs and is necessary for simplified advice to work. Others noted that removing parts of a suitability assessment and fact-find won't reduce costs significantly enough to achieve commercial viability.
- Lower qualification requirements and a narrower product range were suggested as one way to make face to face interactions commercially viable.
- One participant noted that a simplified advice process can help firms build a relationship with customers when they are younger, in the accumulation phase, which might translate into advice sales for that customer during decumulation too. Therefore, a longer-term horizon may be required for firms to establish commercial viability.
- Others noted that advice could already be simplified, contingent upon the confidence of the advisor and the narrowness of the proposition. Therefore, there are examples of commercially viable propositions in the marketplace.
- A couple of participants noted that employers hold information about their employees already, and therefore simplified advice propositions built upon workplace pensions could be more efficient from a fact-find perspective.

Liability, FOS and regulatory assurances

- Most participants expressed concerns about FOS interpretation of advice rules and the need for regulatory assurances to encourage firms to offer a simplified advice proposition.
- Around a third of participants noted that previous reform has not changed the liability equation, especially when discussing the 2022 core investment advice proposals. This is seen as a barrier to simplified advice.

- Two participants noted that compliance functions within firms are gold plating existing FCA requirements – due to liability concerns – which has led to negative outcomes for the customer (eg less engaging communications and guidance).
- A handful of participants highlighted that guidance and examples are required from regulatory bodies and in particular the FOS to alleviate compliance concerns.
- Two participants noted the profit and loss rule and cross-subsidy rules, which may need to be amended or removed to enable vertically integrated firms to provide a simplified advice service.
- One participant presented a challenge for firms offering simplified advice: what if you funnel someone out of the service as a consumer that needs debt counselling rather than investment products, but then as an execution-only customer they look to purchase those same investment products?

Consumer engagement, understanding and demand:

- Helping the customer understand the nature and scope of service they are getting (eg guidance, simplified advice, full advice) is a major challenge, and consumers already have difficulty comparing products and services without further services becoming available.
- A few participants called for improved financial education (one suggested this within the advice process), including demystifying the advice process and helping customers understand the different products and services on offer.
- A few participants questioned the elasticity of demand for simplified advice. May people avoid simplified advice regardless of how cheap it is? Reasons given were:
    - People don't understand what advice is, the value of advice and/or are unwilling to engage proactively on pensions and investments.
    - The pricing structure is not transparent.
    - Some are confident as execution only customers, with information and resources being available to fulfil their needs.
- Two participants noted that in Canada and the USA people are more engaged, talk about their money more, and there is less mistrust of providers.

Protection products

- Around half of participants noted that whether customers had protection would be a relevant question to ask in a simplified advice journey (alongside other questions in a fact-find around unsecured debt and emergency cash savings).
- A few participants suggested that while the FCA generally look at this issue through an investment lens, they should extend the Advice Guidance Boundary Review to protection products.

Previous attempts at simplified advice reform

No participant had the full view of previous attempts at simplified advice reform, with ABI member firm participants particularly knowledgeable in the regime they currently utilise and other industry experts aware of a range of regimes to varying degrees.

In this section we pull out a few of the key points from each regime to provide lessons for this current attempt at simplified advice reform.

Basic advice

This regime was introduced in April 2005 as a new form of regulated advice for the sale of stakeholder saving and investment products. It allowed firms to sell stakeholder products, except the smoothed investment fund, through a streamlined, decision-tree sales process when compared to full financial advice. The simpler process was based on posing pre-scripted questions and warnings to the customer. Stakeholder products include medium term investment products – i.e. life assurance contracts or collective investments, stakeholder pensions and Child Trust Funds. These products can be found in the Financial Services and Markets Act 2000 (Stakeholder Products) Regulations 2004, the Stakeholder Pension Schemes Regulations 2000 and the Child Trust Funds Regulations 2004 respectively. The rules for giving basic advice are within COBS 9.6.

As of Friday 28 April 2006, 46 firms had registered with the FSA for Basic Advice permissions. This was mostly small advisory firms, two life companies and one building society.

Lessons learned:

- It is more economical than full regulated advice because of:
    - Lower qualification requirements, with accreditation and ongoing CPD rather than Regulated Qualifications Framework level 4 and above, and therefore lower salaries.
    - The prescribed fact-find and suitability assessment using pre-scripted questions, leading to a shorter advice and sales process.
    - Less stringent oversight and monitoring due to the decision-tree approach.
    - Information being collected on broad financial priorities rather than full financial circumstances, and at a point in time.
- It allows the advice/support costs to be built into the product margin, with a charge cap to protect consumers.
- It was an advice process designed to be given face-to-face, but it could likely be done digitally.
- Screening customers out is crucial to ensure people receive products that meet their needs.
- The restrictions associated with the regime which might have hindered uptake (by providers and consumers) include:
    - The narrow range of stakeholder products. Especially the exclusion of higher risk funds in stakeholder investment products, for example only 60% of the fund can be invested in riskier assets such as shares. Over time, these products become out of date.
    - Customers may be left confused where their questions fall outside of the decision-tree process. For example, where a customer wishes to pay more into a collective investment on a regular basis, the adviser can't make a personal recommendation on how much to increase the contributions as this falls outside the scope of basic advice.
    - It is 'moment in time' and cannot take into account information gathered historically – eg in previous reviews. This can be frustrating for the customer as they may expect this information to be considered given their existing relationship with the adviser/the firm.
    - The charge cap may too have been prohibitive for firms and the model did not reward intermediaries enough to provide it.

Focused advice

Focused advice was introduced via guidance (FG 17/8) following FAMR (it was 'recommendation 4'), in September 2017. The definition of focused advice in FAMR is: 'advice which is focused, at the request of the client, on the provision of personal recommendations relating to a specific need, designated investment or certain assets'. The service does not involve analysis of the client's circumstances that are not directly relevant to this focus. FG 17/8 presented example scenarios where a firm might offer streamlined advice on:

- A range of well diversified funds to be held within a stocks and shares ISA.
- The fund choice for employees who have been automatically enrolled into their employer's scheme (which is not a group self-invested personal pension).
- Retirement decumulation options, specifically the recommendation of annuities from an available range that covers the different types of annuities.

Lessons learned:

- Focused advice has a narrower scope compared to holistic advice. For example, on investment decisions only, such as how much to invest and what to invest in within a particular wrapper (stocks and shares ISA, workplace pension, SIPP).
- Therefore, a proportionately narrower set of factors are considered, which will very likely include debt protection, capacity for loss, attitude to risk, investment objectives. Customers can be filtered out and triaged to holistic advice, MoneyHelper/PensionWise or to debt counselling services as required.
- The advice must be focused on the request of the client. If all a firm offers is a single advice process, then this would be an example of a firm narrowing the service and this would not be focused advice. The need of the client is that which is narrow. Therefore, to provide focused advice the advisor or firm must have the capability to offer more holistic advice. Advisors tied to a particular provider and their products might find it more difficult to offer focused advice.
- While for a focused set of needs, the personal recommendation must meet full suitability requirements.

Abridged advice

Abridged advice was introduced in Handbook rules (COBS 19.1A) in 2020 and is a shorter form of regulated advice that advisers can use when 'advising on conversion or transfer of pension benefits'. It enables advisers to offer advice at a lower cost than when giving full DB transfer advice, with the objective of making DB transfer advice accessible to more consumers, especially for those where a transfer is unlikely to be suitable. A firm may not give abridged advice where safeguarded benefits involved are guaranteed annuity rates.

Lessons learned:

- Consumers can receive a recommendation without any product at the end, in this case a recommendation to remain in their ceding arrangement (ie not to make a DB transfer). The adviser can be reimbursed to highlight the value of not taking an action.
- Even if you say 'no' to a customer now (ie no to the DB transfer), it is not 'no forever', it is 'no for now'. There is still an opportunity to build a relationship with that customer.
- But the rules drive the same standard for abridged advice as for full advice with respect to the fact-find / know your customer requirements. Therefore, the advice process is not significantly shorter. An option to improve upon this system for both parties would be for advisors to be able to:
    - Stop the advice process early if there are certain triggers – for example, if the customer only has a DB pension and is over 5 years away from accessing the benefit.
    - Use contingent charging – currently, firms have to charge for the DB transfer advice even if the recommendation is for the customer to remain (ie not go ahead with the transfer).

A future simplified advice regime

Many participants noted concerns around commercial viability for simplified advice, with a minority suggesting it is not feasible either due to lack of demand or inability to supply profitably at a price that would attract demand.

However, there was a clear enough picture painted by one third of participants for what they saw as a potentially viable simplified advice regime.

Please note that no participant nor the ABI is endorsing the model below, rather it is an amalgamation of responses from those participants that suggested features of a possible regime, augmented with specific feedback we received on the pros and cons of basic, focused and abridged advice. The 'minority view' is where a suggestion was given (for a particular feature) that conflicts with the description in the 'proposal' column.

Feature	Proposal	Minority view
Who provides it?	Offered primarily by insurance companies, banks and asset managers with a direct client bank; IFAs unlikely to be interested unless perhaps using a white-labelled model.	Best for vertically integrated firms that can offer all services.
Scope	Straightforward product range (not kitemarked) of accumulation products. Excluding specialist investments (eg VCTs or IHT). One-off rather than ongoing.	Needs to tackle pensions and at retirement space given risk of poor outcomes (excluding IHT and Trust planning).
Triaging	Prescribed questions from the FCA to filter/sift out individuals who should not be investing and redirecting them to non-investment services (eg debt counselling). Questionnaire could be offered by MaPS too.	
Fact-find	Prescribed, shorter fact-find including income level, expenditure, attitude to risk, capacity for loss, affordability, financial objectives.	Flexibility needed in fact-find for different scenarios.
Suitability	Suitability narrowed to the specific need in question, with amendments to MiFID to create the simplified regime.	Recommendations to meet same suitability standard.
Fees	Advice fees wrapped into product fees (disclosed to customer).	Transparent fees, no bundling. Set in pounds and pence rather than %.
Qualifications & remuneration	Accredited customer support/sales team act as the advisers, with minimum CPD requirements. Advisors on salary and bonuses (not commission for selling specific products).	Need a minimum level of centralised qualifications.
Regulatory mechanism	New regulatory permission and COBS chapter with Handbook rules prescribing aspects of the regime.	Build up from existing regime (eg basic advice)
FOS	FOS to give guidance and examples on how it will adjudicate complaints within a new regime.	

Participants who do not think that a simplified advice model is feasible, clearly would not agree with the above. An alternative suggested by one participant was for the FCA to investigate a prescribed investment pathways-type model for specific consumer needs, which would be mandatory for firms to provide (with consumers able to opt-out). This would be a guidance solution, rather than an advice process.

Research Participants

Thank you to the individuals that took the time to speak with us and share their views on this important subject.

These were five ABI member representatives from:

- Aviva
- Foresters Financial
- NFU Mutual
- Quilter
- Wealth Wizards

And seven industry experts:

- Keith Richards, CEO, Consumer Duty Alliance
- Michael Lawrence, Principal Consultant, Bovill
- Philip Deeks, Head of KPMG’s Regulatory Insight Centre
- Hugh Savill, Senior Advisor, Sisic Advisory
- Alex Roy, Director, Regulatory Insights, EY
- Two consumer representatives who preferred not to be named.