HM Treasury

FINANCIAL CONDUCT AUTHORITY

Policy Paper

DP23/5

Advice Guidance Boundary Review – proposals for closing the advice gap

December 2023

Policy Paper

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You can send them to us using the form on our website.

Or in writing to:

Consumer Investments Advice Policy
Financial Conduct Authority
12 Endeavour Square London
E20 1JN

Email:
DP23-5@fca.org.uk

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Foreword

Individuals have more choice than ever about how to save and invest their money. Developments in technology have facilitated greater consumer access to information and ability to exercise control over their investments. Meanwhile, pension freedoms have given individuals the flexibility to manage their financial futures in a way that works best for their personal circumstances and goals. However, we know that a majority of people are not accessing traditional channels of support such as regulated financial advice to help them make financial decisions. This means that the provision of financial advice is often out of reach for all but the already wealthy. I want to change this and ensure that a much broader range of consumers are empowered to proactively manage their finances.

I am delighted that the Government and the FCA are working together to tackle this challenge through the Advice Guidance Boundary Review. This review builds on previous Government and FCA work to improve support for consumers. The Retail Distribution Review and Financial Advice Market Review enhanced the quality of financial advice and provided greater certainty for firms. While these have been welcome steps, there is still a long way to go to address this issue and ensure that consumers can access support that works for them. Everyone should have access to financial advice.

Together with the regulators, I believe it is the role of Government to create a proportionate regulatory environment to enable firms to provide innovative solutions that respond to consumer needs. As set out in August, as part of the initial key insights of the Advice Guidance Boundary Review, for a greater level of support to be provided, it will be necessary for both firms and consumers to learn to manage risk, rather than eliminate it. High-quality and accessible support is key to empowering consumers to take full advantage of the opportunities offered to them by the UK's world leading financial services sector and to reinvigorating a culture of investment in the UK.

Not every individual will need full regulated advice and this paper seeks to understand the different types of potential support that should be available to them as well as the means through which they could be delivered. The financial services sector should be enabled to meet consumers where they are and provide support in a way that reflects their varied circumstances. Advances in digital capability also offer the prospect of supporting many more consumers with their decisions.

This review comes at a moment of real opportunity. Outside of the European Union, we have the ability to tailor regulation to the needs of UK consumers and to make it easier for businesses to raise investment in the UK and grow. Through the Smarter Regulatory Framework, UK regulators will be able to change rules in a more agile and responsive manner, enabling the UK to meet the challenges and opportunities facing our country in the years ahead. One of the great strengths of UK financial services is its ability to innovate and I welcome the opportunity to bring this to bear in the financial advice sector.

While it remains for the Government and the FCA to lay the groundwork, it will be up to industry to rise to the challenge. I look forward to engaging with the sector through this collaborative work and making progress towards our shared goal of empowering UK consumers to take control of their money.

Bim Afolami
(Economic Secretary to the Treasury)

Investments perform a vital function in allowing people to provide for later life, save for major expenses and deal with unexpected shocks. The FCA wants to see a consumer investment market in which consumers can invest with confidence, understanding the risks they are taking, and the regulatory protections provided.

Financial advisers provide valuable support to consumers, and we want them to continue to thrive. But not everyone will want or need advice, nor always need a comprehensive assessment of their financial circumstances. Instead, they may need support to help them decide what steps to take next. We know that many firms are not providing this support to consumers sometimes for fear of crossing the advice boundary. As a result, many consumers are not getting the help or guidance that they need.

We want to see a system that enables consumers to receive the help that they want, at the time they need it, at a cost that is affordable, so that they can make informed decisions. We want to see a continuum of help, guidance and advice being offered to support consumers, without the current cliff edge inherent in the current regulatory framework.

Reforms implemented as part of the Retail Distribution Review in 2012, and the Financial Advice Market Review in 2016 tried to address this topic. Despite this, we know that more needs to be done.

That is why I am delighted that, together with the Government, we are working on the Advice Guidance Boundary Review (AGBR). Now is the right time to be ambitious about how we reform the way help and advice is provided to consumers. We are taking advantage of the new Smarter Regulatory Framework (SRF) to identify what needs to change and to make more fundamental change if that is the right thing for the UK.

While we pursue broader reform, we want firms to do as much as they can do under the current regulatory framework to support consumers. That is why in August 2023 we published clarification for firms who want to support consumers more under the existing framework. We set out practical examples of the types of activity that firms can provide without crossing into "advice" or a personal recommendation under the current rulebook with the aim of helping firms get closer to the current advice guidance boundary.

To succeed in closing the advice gap, industry needs to play its part. We expect firms to actively engage with this review and consider how they can better support their customers. This means being bolder and embracing the opportunities that data and technology bring to offer more accessible, affordable and innovative services to consumers.

We are grateful for the engagement of stakeholders to date. We have listened to their views on what more can and should be done to ensure consumers have access to appropriate advice and support and further collaboration will be critical to the success of future reforms. This policy paper is a first step towards the creation of an effective framework that has the trust and confidence of all. We encourage all interested stakeholders to respond to this paper as this will help us to accelerate proposals for more fundamental legislative and regulatory reform, working together with the Government.

Sarah Pritchard
(Executive Director, Markets and International, Financial Conduct Authority)

Chapter 1

Overview

Introduction

1.1 In the 2022 Autumn Statement, the Chancellor highlighted financial services as one of the UK's 5 key growth sectors. The 'Edinburgh Reforms' announced in December 2022 provided detail on taking forward the Government's ambition for the UK to be the world's most innovative and competitive global financial centre. As part of these reforms, the Chancellor announced that the Government and the Financial Conduct Authority (FCA) would commence a joint review to examine the regulatory boundary between financial advice and other forms of support. This is now known as the Advice Guidance Boundary Review (the Review).

1.2 Investments allow consumers to plan for their later life, prepare for major life events and provide the means to cope with unexpected situations. Giving consumers the confidence to invest when it is right for them is key to improving financial wellbeing across the UK. Consumers have more choices than ever before and, while this has many benefits, choices can be complex for consumers to fully understand. This increases the risk of things going wrong and can put people off investing. Consumers also have to make more complex decisions around their pension due to the shift from Defined Benefit (DB) to Defined Contribution (DC) pensions. The nature of long-term investing means that, when things do go wrong, it is often too late to put them right. Support for consumer decision making is more important than ever.

1.3 The Government and the FCA have made significant improvements to protect and support consumers. This includes the reforms implemented as part of the Retail Distribution Review (RDR) in 2012 and the Financial Advice Market Review (FAMR) in 2016. This is in addition to the launch of the Money and Pensions Service (MaPS) in 2019. These interventions have had a positive impact, most notably by making free money and pensions guidance more accessible and improving the quality and transparency of financial advice. FAMR identified positive trends around the use of technology and innovation among adviser firms, helping drive down the cost of advice and enabling firms to support people more effectively. The FAMR reforms were also intended to give firms more clarity on what they can and cannot offer, and more recently the FCA set out further expectations for firms conducting retail market business through the Consumer Duty.

1.4 Many consumers still struggle to make critical decisions about saving and investing, or accessing their pensions, without help. The consequences of this manifest in different ways. Consumers often keep too much of their savings in cash, remain invested in funds selected at the outset without reviewing their arrangements, withdraw their pensions at unsustainable rates, or invest in inappropriate products that do not meet their risk appetite.

1.5 Data from the FCA's Financial Lives survey (FLS) 2022 support our concern that consumers are not getting advice in circumstances when it would be in their interests to seek it. FLS 2022 found that:

- **a.** 8% of adults reported taking financial advice over the previous year – just 4.4 million consumers in 2022.
- **b.** Adults with over £250,000 in investible assets were the most likely to have received advice in the last 12 months (37%, compared to 17% of those with at least £10,000, and 2% of those with less than £10,000), reflecting the relative value of advice to different consumers as well as the cost.
- **c.** Consumers do not always believe they would benefit from advice. 60% of consumers who had not received financial advice over the last 12 months but have at least £10,000 in investible assets said they did not need advice.

1.6 In the 12 months to May 2022, 12.9 million (24%) consumers had used information or guidance to help them with decisions about investments, saving into a pension or retirement planning (FLS, 2022). The information or guidance included more formal guidance organisations such as Pension Wise and MaPS, private sector advice websites such as Which? and MoneySavingExpert.com, as well as information or guidance provided through workplaces. It also included more informal sources such as social media and family and friends. However, consumer research suggests that the guidance that is currently available does not go far enough to help consumers feel confident about investing (RDR/FAMR evaluation, 2020).

1.7 The overall picture is that consumers can find it difficult identifying that they need support and when they do, their needs are not being fully met. While not everyone will want or need support, many consumers could be missing out on the value support can provide – a situation commonly known as the 'advice gap'.

1.8 In practice there is not a single advice gap representing one problem, but multiple gaps covering overlapping problems. Throughout this paper, the term 'advice gap' is used to describe different types of financial support, including both financial advice and guidance. A combination of factors – both on the demand and supply sides – can help explain why people don't seek or receive services that might help them to consider their investments. These factors are set out further in the next chapter.

1.9 We set out below a range of non-exhaustive drivers of the advice gap which we aim to address in this review. We acknowledge that there may be a range of other drivers – such as financial literacy – but these are out of scope.

- **a.** A consumer wants advice but may be unwilling to pay for it or might be reluctant to pay for professional advice without being confident about its quality or value.
- **b.** A consumer wants advice but may be unable to afford it.
- **c.** A consumer who has never invested before may need support to make an investment decision but is unsure where to start.
- **d.** Firms want to warn a retail customer of potential harms but may perceive that they would need to give advice to do so.

Aim and scope of the Review

1.10 The Government and the FCA want to build an advice and guidance framework which consumers can trust, recognising the complexity faced by consumers in making financial decisions. To achieve this, we need to create a system that ensures consumers get the help they want, at a time they need it and at a cost that is affordable.

1.11 The Review provides an opportunity to rethink the way support is delivered to consumers and take advantage of new and emerging technologies to enhance consumer experiences and outcomes. While it is imperative that existing advice services continue to thrive, we know that the solution to this challenge will not be met by changes to regulated financial advice alone. People's needs are diverse and vary over their lifetime. To deliver systemic change to the market, firms need to actively engage and provide flexible forms of support that can adapt to the different types of financial decisions made by consumers.

1.12 The Review's aim is to design a regulatory system where commercially viable, high-quality models of support can emerge so consumers can access support through regulated channels. To provide more support to more people, it will be necessary for firms and consumers to manage risk, rather than eliminate it. For firms, this means that they should not be overly reticent to offer support because they are hesitant to come too close to the boundary or due to an overly cautious risk appetite. For consumers, while any financial decision carries an element of risk, there are potentially higher risks to not investing such as the value of savings held in cash being eroded by inflation.

1.13 This is the right time to take on this challenge. The Smarter Regulatory Framework (SRF) will deliver a regime that is more agile, streamlined, and accessible. It will turn what is essentially a static framework inherited from the European Union (EU) into an agile, workable and coherent regime, ensuring that the FCA is able to keep detailed rules up to date, and removing significant legal complexity for firms. Once the FCA has taken responsibility for an area of regulation under the SRF, they will be responsible for considering future rule changes in an agile manner, as they would any other existing rule in their rulebooks.

1.14 The Review contributes to the Government's ambition to ensure that the UK remains at the global cutting edge of technology and innovation in financial services. Technology is an essential part of financial markets, and developments in digital technology offer the prospect of supporting many more consumers with their decisions. We have already seen several firms offering a wide variety of technology-based advice and guidance services. There is significant scope for technology to further help firms when supporting customers, making it more affordable, or to deliver other support services to meet consumer needs. The financial landscape is adapting and evolving faster than ever before, and the FCA is committed to an outcomes-based approach that not only serves to protect, but also to encourage beneficial innovation.

1.15 Alongside this, the Review will leverage the FCA's new Consumer Duty to set clear expectations for the support that firms provide to their customers and make sure that consumer protection remains at the core of any future regime.

1.16 Recognising the significance of this work, it is important to ensure that the Review is genuinely holistic. This review focuses on the boundary between financial advice and guidance available for retail investments and pensions (which in this paper we refer to collectively as 'support'). Within the investments and pensions sectors, the Review covers both accumulating assets (including General Investment Accounts (GIAs), Individual Savings Accounts (ISAs) and pensions wrappers) and decumulating assets (including pensions decumulation).

1.17 General insurance, mortgages and debt advice are out of scope. The Review will also not include advising on transferring out of a DB scheme or giving up other safeguarded pension benefits. This is because, for most consumers in most instances, seeking advice on transferring out of a DB scheme is mandatory due to the complexity and the consequential risk of harm. As part of our consideration of the boundary we will consider the support that can be provided by trust-based pension schemes including Master Trusts.

1.18 The FCA and Government are jointly conducting this review. This reflects the strong shared priority to address the so-called 'advice-gap' and the fact that responsibility for the whole framework which supports consumer decision-making sits across both organisations. By working together on the Review, we can consider the legislative and regulatory regimes holistically, and ensure the full range of options can be considered. Responsibility for delivering the outcomes of the Review will sit with the relevant organisation in line with our different remits.

Link to other relevant initiatives

1.19 In 2021, the FCA set out its vision, under its Consumer Investments Strategy, to develop a consumer investments market in which consumers can invest with confidence, understanding the risks they are taking and the regulatory protections offered. Alongside this policy paper published today, the FCA has set out more detail on its vision – 'preparing for the future of consumer investments'. It sets out how the core features of the sector need to work for consumers to get good outcomes and for the sector to collectively function well.

1.20 We are mindful there is a lot of regulatory reform that could impact on or inform this review. This section highlights relevant initiatives that are likely to interact with this review. We will work closely with relevant stakeholders across organisations to ensure a coherent approach across all these initiatives and will take any relevant learnings and insights into account through the course of this review.

a. **Smarter Regulatory Framework (SRF):** The Financial Services and Markets Act 2023 repeals retained EU law for financial services. The Government intends to deliver a SRF for financial services which is tailored to the UK. Retained EU law will be replaced with rules set by the financial services regulators across a range of areas, including the UK's Markets in Financial Instruments Directive (MiFID) framework. Going forward, new regulations will operate within a framework set by the Government and Parliament. As part of this review, the FCA will review, and where appropriate, adapt these rules so that they work as effectively as possible in the UK.

b. **ISA simplification:** At Autumn Statement 2023, the Government announced changes to simplify ISAs and provide more choice, meaning it will be easier for people to choose the best ISA accounts for their needs and move money between them. This involves digitalising the ISA reporting system to make it more effective, as well as expanding the investment opportunities available in ISAs.
c. **Compensation Framework Review (CFR):** The FCA wants to ensure that the compensation framework continues to provide appropriate consumer protection with costs distributed across industry levy payers in a fair and sustainable way, while making sure the regime is proportionate and drives the right consumer behaviour. The FCA and our regulatory partners (including the ombudsman service and the Financial Services Compensation Scheme (FSCS) will work together to align relevant aspects of the CFR within the AGBR as much as possible.
d. **Disclosure Reform:** As part of SRF, the Government will repeal the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation and the FCA will be designing a new disclosure framework. In preparation for this, the FCA published DP22/6 to seek feedback on how to design and deliver a proportionate and future-proofed disclosure framework. The FCA intends to implement a cohesive and transparent disclosure regime that facilitates market innovation and supports retail investors in their decision making, moving towards an 'outcomes-based' approach. Reforms to the advice guidance boundary and reforms to disclosure together have the potential to fundamentally reform and improve the consumer journey into investments. We will also ensure the Review aligns with relevant aspects of the Sustainability Disclosure Requirements (SDR). Where appropriate, we will seek to use consumer research to inform our final policy approaches.
e. **Pensions dashboards:** The FCA, working with other Government and regulatory partners, is keen to see a pensions system that provides good products, supports consumer decision-making and ensures strong confidence in pensions. As part of this, the FCA is supporting the development of pensions dashboards which will be secure digital interfaces where consumers will find and view simple information about their pensions that are not yet in payment. Armed with this information, consumers may find it easier to plan for retirement, get advice or guidance and ultimately make informed decisions.
f. **Pension engagement trials:** The FCA is working with industry to run field trials to explore effective touchpoints for engaging consumers with their pension. We have published the results from the first stage of this research alongside this publication.
g. **Retirement Income Advice Review:** The FCA's thematic review of the market is currently in progress. This discovery work is exploring how advisers are delivering initial and ongoing advice on retirement income and whether this is leading to good outcomes for consumers. The FCA is also interested in understanding how firms are responding to changing consumer needs due to the rising cost of living. As stated in the FCA's 2022/23 Business Plan, this work will link to our work on lifetime mortgages to enable us to get a clearer understanding of consumer outcomes in later life.
h. **'Helping savers understand their pension choices' consultation:** The Department for Work and Pensions (DWP) has recently published their consultation response on proposals relating to the support and products to be made available to members of occupational pension schemes when they access their pensions. The FCA and the Government will work closely with DWP as this work progresses.

Who this will interest

1.21 The paper will primarily interest:

- **a.** consumers
- **b.** groups representing consumers' interests
- **c.** life insurers
- **d.** all firms that provide pension products (both accumulation and decumulation)
- **e.** financial advisers
- **f.** investment platforms
- **g.** authorised fund managers
- **h.** retail banks
- **i.** trustees of DC occupational pension schemes
- **j.** financial coaches
- **k.** trade bodies for regulated firms
- **l.** any non-authorised persons providing support to consumers

Public sector equality duty and other statutory considerations

1.22 Section 149 of the Equality Act 2010 requires the Government and the FCA to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. We are also required to give thought to the potential impact of new proposals on relevant groups.

1.23 There is some evidence the market is currently not supporting all people with protected characteristics. For example, analysis of the FCA's latest Financial Lives survey (FLS) 2022 consumer investments report and pensions (accumulation and decumulation) report highlighted that:

- **a.** Women were less likely than men to:
  - **i.** hold any form of investment (34% vs 50%)
  - **ii.** have received financial advice in the last 12 months (7% vs 10%)
  - **iii.** be highly engaged with their DC pension (17% vs 32%)
  - **iv.** agree that they are confident in their own abilities to find financial products and services that are right for them (61% vs 72%)
- **b.** People from a minority ethnic background were less likely than people from a non-minority ethnic background to:
  - **i.** hold any form of investment (39% vs 42%)
  - **ii.** have received financial advice in the last 12 months (4% vs 9%)
  - **iii.** be highly engaged with their DC pension (21% vs 26%)

1.24 This review looks at ways to expand the market to enable firms to offer a broader range of consumer support services. If these proposals achieve their objectives over the long term, this could have a positive impact on consumers who are currently underserved in the market (including those outlined above).

1.25 However, not all consumers may benefit from these proposals, particularly where they are based on a digital solution. The FCA's 2022 FLS found that 7% of UK adults were digitally excluded and, of these, 73% were aged 65 and above. As we develop our proposals, we will continue to consider the ways in which our work could affect consumers in this market or otherwise impact on equality and diversity considerations, including people on low incomes. We welcome views on whether any of the high-level proposals outlined in this paper could adversely affect consumers, particularly those who are at a disadvantage in getting financial advice. This includes any other steps we could take to improve outcomes for potential investors who may currently be disadvantaged.

1.26 As required by the Environment Act 2021, in developing the high-level proposals, the Government has had due regard to the Government's policy statement on environmental principles produced under the Act. We are satisfied that the policy statement is not relevant to the high-level proposals as we do not consider that they would have any environmental effect.

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

How to respond

1.27 Please respond to the specific questions set out in this paper by 28 February 2024. A full list of the questions is in Annex 2.

1.28 Please use the online form. Your response will also be shared with the Government.

Chapter 2

The advice gap

2.1 In this chapter, we discuss what support consumers need and want, whether the financial services industry is meeting consumer demands and needs for support, and the barriers preventing industry from providing more support to consumers. We then set out our initial proposals to close the advice gap.

The case for change: the consumer perspective

2.2 The FCA's evaluation of the impact of the RDR and FAMR found that most people are comfortable making less complex financial decisions themselves, such as taking out a cash ISA, without getting advice or more specific support. But for decisions consumers see as more complex, such as deciding to invest in a stocks and shares ISA (S&S ISA), most would value some support. Unsurprisingly, the evaluation found that, as the level of complexity inherent in the financial decision increases, the perceived need for support among consumers also increases.

2.3 In 2022, 14% of adults had low financial capability and 5% of adults strongly disagreed that they are confident in their own ability to find suitable financial products or services that are right for them (FLS, 2022). However, only 8% of UK adults reported taking financial advice over the previous year to 2022 (FLS, 2022). While robo-advice has a role to play in providing support, its uptake has not been significant, with only 1.5% of adults having used robo-advice in 2022 (FLS, 2022).

2.4 The most cited reasons for not accessing financial advice – among those who have £10,000 or more in investible assets, or have £10,000 or more in their DC pension and intend to access it in the next 2 years – are the perception that the consumer would not benefit from it (60%), the consumer had not thought about it or got round to it (23%), or the consumer had an issue with fees (12%) (FLS, 2022).

2.5 There is evidence that financial advice remains more accessible for those with greater assets. The FCA's firm survey found that 40% of firms have formal pot size thresholds for new customers, and firms without a formal minimum threshold generally have high average pot sizes among their current customers (RDR/FAMR evaluation, 2020). This indicates that access to advice is, in practice, limited for consumers with smaller pots.

2.6 Consumers think that guidance can be helpful for understanding 'the basics'. However, guidance often does not go far enough to help consumers feel confident to make a decision as they value a personal recommendation, which is not available through guidance (RDR/FAMR evaluation, 2020). The FCA's qualitative research found that consumers value human interaction in the advice process and make very few of the more complex financial decisions without some form of human engagement (Ignition House, 2020).

2.7 Lack of appropriate support may be leading consumers to make decisions which are not in their best interests. These include:

a. **Consumers do not understand or are disengaged with their pensions making them unprepared for retirement.** Only 57% of DC pension holders read at least some of an annual pension statement in the 12 months to 2022, and only just over a quarter (26%) of them considered they understood the statement very well (FLS, 2022). This means that many consumers could be unprepared to make a complex decumulation decision or have not built a pension pot that provides an adequate income in retirement.

b. **Consumers holding savings in cash, who are at risk of having the purchasing power of their money eroded over time by inflation.** In May 2022, there were at least 4.5 million non-advised UK consumers with investible assets of £10,000 or more held mostly or entirely in cash and who had no plans to withdraw a significant proportion of their savings within the next five years (FLS, 2022). All of those in this group who were not retired were contributing to a pension. Hence, these are people who may have been in a position to invest. The number of UK consumers in this position is likely to be somewhat higher – we do not have an exact figure as some respondents in the survey did not disclose their investible assets.

c. **Consumers are not investing enough in their pensions to meet their financial goals.** 59% of DC pension holders aged 45+ agreed in May 2022 that their pension alone would not be enough to live on in retirement, while just 20% of DC pension holders had thought a lot about how much they should be paying into their pension (FLS, 2022).

d. **Consumers are making uninformed decisions when accessing their pension savings.** 36% of DC pension holders aged 50-69 had never heard of income drawdown (where a consumer takes money from their pension(s) to fund their retirement) and 10% thought it gives a guaranteed income for life. Similarly, 32% had not heard of a single life annuity (a pension product which provides a regular income to a single consumer for life), while 21% thought that with an annuity there is a risk that the value of their fund could go up or down (FLS, 2022).

e. **Consumers are turning to high risk investments, including speculative investments, without a sufficient understanding of the risks.** Data indicates that 5.7 million (11%) UK adults held high risk investment products in May 2022, including contracts for difference and cryptoassets, with younger adults more likely to be in this group. Of this 5.7 million, 23% (1.3m) had no, or very low, tolerance to investment risk (FLS, 2022) and so these products are likely to be unsuitable. Consumer research suggests some consumers do not appreciate the different risk levels associated with different types of investment, meaning many consumers may be invested in inappropriate products.

f. **Consumers risk getting 'advice' from unregulated sources often through social media.** Social media was used by 18% of investors in the 12 months to May 2022 to research investing, to find opportunities to invest in, or to keep up to date with investments (FLS, 2022). This increased to over half (54%) of new, younger investors (18-34 year-olds who started investing in the 2 years to May 2022). And while younger consumers were more likely to use social media, the effect on older consumers who may be directed towards scams or inappropriate investments, including through unsolicited approaches, could be more significant given they are closer to or at retirement and may have higher levels of investible assets. Of the 4.7 million adults who experienced at least 1 unsolicited approach related to investments, pensions and retirement planning that could be a scam in the 12 months to May 2022, 8% took up or responded to the approach and 3% lost money (FLS, 2022).

The case for change: the industry perspective

2.8 The UK market for financial support services focuses either on giving holistic advice or factual information and guidance.

a. **Holistic advice:** This is a regulated activity. A firm wishing to give holistic advice would need to be or become FCA authorised, obtain the regulatory permission to undertake the regulated activity of advising on investments and meet our requirements for firms undertaking this activity. Holistic advice is where an adviser considers a consumer's overall financial circumstances and objectives before making recommendations to meet their objectives. This usually involves face-to-face meetings with customers to understand their risk appetite, financial objectives, and their financial position (fact finding). Charges for advice are generally made on either an hourly basis or as a percentage of assets under management. Charges for holistic advice vary according to the way in which it is provided, for example as ongoing or transactional (one-off) advice. FCA research shows the average charges are 2.4% of the amount invested for the initial advice and 0.8% per annum for ongoing advice (RDR/FAMR evaluation, 2020).
b. **Information and guidance:** Consumers use a broad range of information and guidance from not-for-profit, public sector providers and the commercial sector to help them make financial decisions. These services do not make a personal recommendation. Instead, they typically give generic, factual information. Many FCA-authorised firms, including banks, asset managers, life insurers and pension providers, offer this type of non-advised support. Although suitability rules do not apply to non-advised sales, the FCA's high-level standards including the fair, clear and not misleading rule in COBS 4.2, as well as the Consumer Duty, do apply. These are important consumer protections as consumers who are not getting advice need good quality information on which to base their decisions. Free impartial guidance on money and pensions is also provided by other bodies, such as Citizens Advice.

2.9 There have been some positive trends in the use of technology and innovation among advice firms, such as attempts to introduce more simplified advice propositions (including automated or 'robo'-led models), but they have not yet been able to attract large numbers of consumers. Firms have questioned the economic viability of providing advice to mass market consumers, especially where there is a human element involved, given the extensive requirements around initial customer fact find, adviser qualifications and explicit adviser charging (RDR/FAMR Evaluation, 2020).

2.10 Alongside advice, firms have said they want to offer greater support to consumers in a way that is potentially less expensive for them to deliver, but they are reluctant to do so because they fear inadvertently crossing the advice boundary. Firms have noted concerns around the risk of the Financial Ombudsman Service (the ombudsman service) finding they have acted unreasonably or unfairly in the context of the level of support offered and the associated costs of remedying consumers in these circumstances.

2.11 Uncertainty around the advice guidance boundary was one of the issues raised in the original FAMR work. As a result, the Government amended the definition of regulated advice in the Regulated Activities Order (RAO), distinguishing regulated advice between advice that is a personal recommendation and other forms of advice. The FCA published perimeter guidance to help firms understand the boundary between these two forms of advice (PERG 8 Annex 1). While the FCA published a summary of existing guidance clarifying the advice boundary in August 2023, it is clear that some concerns remain and that some firms are still finding it difficult to develop new services to meet the needs of consumers.

Initial proposals to close the advice gap

2.12 We recognise that there are a range of firms that provide support where the advice boundary is relevant. We set out how the advice boundary currently operates for FCA-authorised firms and non-authorised persons in Annex 1. We also set out the considerations that are relevant when the non-authorised person is a pension scheme trustee in Chapter 7, including in the context of DWP's decumulation proposals.

2.13 In this paper, we set out 3 initial proposals for FCA-authorised firms, which will sit alongside existing support to give consumers greater levels of support when making financial decisions. Taken together, these proposals could smooth the cliff edge between holistic advice and information and guidance and create a continuum of support that would help many more consumers to make informed investment and pensions decisions.

2.14 These are high-level proposals at this stage and reflect early thinking. These proposals will evolve based on stakeholder feedback and further engagement. They are neither definitive proposals, nor are they listed in any order of preference.

2.15 We want to discuss what their defining features might be, how each would meet consumer needs and firms' ability to deliver services under each proposal, including through taking advantage of the opportunity provided by new technologies. All 3 proposals could potentially work together to create a continuum of support for consumers. We are also interested in whether there are any other proposals that would help to close the advice gap.

a. **Further clarifying the boundary (proposal 1):** This would provide FCA-authorised firms with greater certainty that they can give more support to consumers without providing a personal recommendation under the existing framework. Building on the August 2023 boundary clarification document, we intend to explore whether further guidance or simplifying existing guidance, would help firms to provide consumers with greater levels of support by giving them more confidence to operate closer to the boundary. In appropriate cases we could also consider rules mandating specific actions.

b. **Targeted support (proposal 2):** This option would rethink the way that financial support is delivered to consumers. This option explores a new regulatory framework which enables firms to broaden the support they can provide to consumers. The support could be offered without explicit charges (i.e., without upfront fees specifically and exclusively relating to the service provision of targeted support), based on limited information, and would enable firms to suggest products or courses of action based on a target market the consumer has been identified as belonging to, rather than fully individualised support. We see this as a key new proposal to help close the advice gap and boost access to financial support across the UK.
c. **Simplified advice (proposal 3):** In November 2022, the FCA set out proposals for a simplified advice regime 'Broadening access to financial advice for mainstream investments' (CP22/24). It aimed to provide straightforward, one-off investment advice to consumers with less complex needs. Feedback to the consultation suggested support for a core investment advice regime, but limited support for the specific proposals. This was partly due to firms suggesting there were commercial barriers to implementing the proposed regime. Building on the feedback from CP22/24, we want to explore a simplified form of advice that enables firms to support consumers with simpler needs and smaller sums to invest, and to do so in a commercially viable way. This proposal is aimed at enabling firms to better support those consumers who want to receive a personal recommendation when making a financial decision but for whom the more comprehensive support provided by holistic advice may not be cost-effective.

2.16 The proposals in this paper should be considered in conjunction with wider Government and industry efforts to close the advice gap, and any new solution must work within the wider ecosystem of support for consumers. MaPS, with its statutory remit to provide free and impartial money and pensions guidance, will continue to play an important role in improving the ability of members of the public to make informed financial decisions. We will continue to work closely with MaPS to ensure appropriate join-up between public sector and commercial services.

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.

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.

Table 1: Current and proposed consumer support

Information and guidance		Holistic advice
Information and guidance is an **impartial service** which will help an investor to identify their options and narrow down their choices but will not tell them what to do or which product to buy; the decision is theirs. For example, explaining general characteristics of a particular product or course of action but without a view of what the consumer should do.	The Advice Gap*	A service providing investors with a view on the merits of a particular product or course of action taking into account **comprehensive information** about a consumer. This form of support would be presented as being suitable for the consumer's overall financial situation and would result in a personal recommendation to '**you**'. This support is often accompanied by an ongoing service.

Options to fill the advice gap

* Excludes other forms of simplified advice or automated/robo-advice as they have not been able to attract a large number of customers.

Proposal 1 **Further clarifying the boundary**	**Proposal 2** **Targeted support**	**Proposal 3** **Simplified advice**
Exploring whether further guidance, or simplifying existing perimeter guidance, would enable FCA-authorised firms to provide consumers with greater levels of support by operating **closer to the boundary**.	A new regulatory framework that enables firms **to use limited information to suggest products or courses of action**. The suggestion to the consumer would be appropriate to a person in similar circumstances (a target market the consumer can be identified as belonging to) and could result in the firm suggesting options to the consumer on the basis of '**people like you**'.	A new advice regime, enabling firms to deliver a simplified form of advice taking into account **only relevant information about a specific consumer need**. This form of support would be presented as being suitable for the specific consumer and would result in a personal recommendation to '**you**'. Builds on feedback to initial proposals for a new simplified advice regime published in November 2022.
General information and guidance	Appropriate to a 'target market'	Personal recommendation
No explicit charge	Potential for no explicit charges	Explicit charges to be applied

Chapter 3

Further clarifying the boundary

Background to the proposal

3.1 We understand FCA-authorised firms want to provide greater support to consumers but are hesitant to do so. This is due to an overly cautious interpretation of the current regulatory framework, and because they are concerned about the regulatory requirements that apply if they provide a personal recommendation. As a result, firms may be providing less support than they could. This could lead to consumers suffering harm that might have been avoided if they had received more support from the firm.

3.2 The introduction of the Consumer Duty sets higher standards for financial services customers (see Annex 1). The FCA previously told firms in 'Dear CEO' letters on implementing the Consumer Duty in Life Insurance and Consumer Investments that, where customers are dealing with complex products or decisions, firms should not be reticent to provide such support simply because they are being overly cautious about coming closer to the personal recommendation boundary. Alongside the 'Dear CEO' letters, the FCA has produced guidance on the boundary over the years and earlier this year published the August 2023 boundary clarification document. This included examples on providing consumers with greater levels of support without giving a personal recommendation.

Overview of the proposal

3.3 In this chapter, we set out potential scenarios where the FCA believes it could provide greater certainty for FCA-authorised firms to provide consumers with support that does not constitute a personal recommendation.

3.4 Firms are currently providing different levels of consumer support, reflecting the differing risk appetites in some firms on how close they are prepared to get to the boundary in the current regulatory framework. For some firms, what we set out in this proposal may simply provide them with confirmation that their existing interpretation of the regulatory requirements is right. For example, some firms are providing extensive support that is not a personal recommendation, including personalised communications, which is welcome. However, some firms have told us that they do not move beyond the provision of basic, generic information due to the perceived risk that doing so would be giving a personal recommendation. We want these firms to have confidence to do more for their customers.

3.5 There are many scenarios where we could explore whether it is possible for the FCA to provide greater certainty for firms, if firms believe this is necessary to support them to do more and will encourage them to do so. For example:

a. a firm contacting a consumer who holds cash in an ISA warning them of the detriment of inflation
b. a platform provider contacting an investor who holds most of their portfolio in equity-based funds to highlight the volatility risk and point them towards explanatory materials on investment risk and volatility
c. a pension provider proactively warning certain consumers that they could be at risk of receiving a potentially inadequate income in retirement
d. a pension provider issuing targeted communications based on significant life events to describe the generic benefits of securing a guaranteed income but without directing consumers to a particular product
e. a pension provider warning a consumer about their withdrawal rate potentially being unsustainable by explaining for how long the pension pot may last at that withdrawal rate
f. 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

3.6 There are different ways the FCA can provide certainty to firms:

a. Using non-Handbook and Perimeter guidance to set out scenarios of consumer support that would not constitute a personal recommendation. In appropriate cases, we could also consider rules mandating specific actions.
b. Simplifying existing guidance to give greater certainty to firms that they are not giving a personal recommendation.

3.7 The ways of giving firms more certainty outlined above would not lead to changes to existing regulatory requirements. So, this proposal – while potentially valuable – on its own is unlikely to resolve the advice gap. This proposal is designed to encourage firms to do more under the existing framework. It needs to be considered in conjunction with the more ambitious proposals set out in Chapters 4 and 5. But we would still like to understand whether there is merit in giving more certainty, building on the August 2023 boundary clarification document earlier this year and we will take this forward if it will drive better outcomes for consumers.

3.8 We recognise that the Privacy and Electronic Communications Regulations (PECR) are also a key consideration for firms when providing support to consumers. We cover this in Chapter 6.

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 given 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?**

Chapter 4

Targeted support

Background to the problem

4.1 Research shows that consumers are not receiving enough support to feel confident about making investment decisions. There are many reasons for this, including regulated financial advice being seen as inaccessible or too expensive for their circumstances. Without support, consumers may be making poor decisions or avoid making important decisions altogether.

4.2 In Chapter 3, we ask for feedback on how to provide greater certainty to firms so that they can support consumers more without crossing the boundary (proposal 1). We recognise however that this can only go so far. We want to explore an option that fundamentally rethinks the way that financial support is delivered and received.

4.3 Significant technological innovations have improved firms' ability to capture and use customer data in a way that leads to better consumer outcomes. These innovations mean that firms can develop a greater understanding of an individual's financial circumstances and use those insights to design products and services that support consumers in achieving better financial outcomes.

4.4 Expanded use of customer data can help firms design more affordable and more individualised services for consumers. Stakeholder engagement to date has highlighted the importance of understanding how far consumers are comfortable with their data being used to make suggestions or recommendations. This is something we are keen to explore further.

4.5 We want to provide a robust regulatory model that enables firms to effectively and appropriately embrace the opportunities that data and technology can bring, which in turn will enable them to offer more accessible, affordable and innovative (but still high quality) support services to consumers.

Overview of the proposal

4.6 As outlined in Chapter 2, many consumers face a 'cliff edge' of support between information or guidance and regulated financial advice. We want to explore a new type of support, which has the potential to help all consumers who might have a need for help beyond that which can be provided by information or guidance, regardless of their financial circumstances.

4.7 We are calling this '**targeted support**'. We see targeted support as having the potential to be a key proposal to help close the advice gap and boost access to financial support across the UK.

4.8 Targeted support could operate to a different standard to simplified or holistic advice. It could enable firms to:

- **a.** Use limited personal information about a customer and their circumstances to provide support to consumers to help them make an informed decision. The action suggested to the consumer would be appropriate to a person in similar circumstances (ie a target market the consumer can be identified as belonging to) and could result in the firm suggesting options to the consumer on the basis of 'people like you'.
- **b.** Offer targeted support without explicit charges (ie without upfront fees specifically and exclusively relating to the service provision of targeted support), but with a clear disclosure of how a consumer is paying for the service through other associated charges.

4.9 Targeted support would be an innovative type of support, sitting between both information or guidance and simplified or holistic advice. It would allow a firm to identify whether a consumer falls within a target market and ensure that the suggestion made to the consumer aligns with the needs, characteristics and objectives of that target market, while acknowledging that the consumer may have individual needs that have not been identified. This could be akin to a supported sales channel – both in terms of how firms would deliver it and how the consumer would perceive it. It may be necessary to make broader changes to the regulatory or legislative framework to ensure this vision for targeted support can be operationalised alongside existing forms of consumer support. We discuss this in more detail in paragraphs 4.51 – 4.54.

4.10 It would be crucial for consumers to make a clear positive choice to receive targeted support. They would need to understand what this new type of support is, and especially how it is separate and distinct from simplified and holistic advice. Consumers would need to understand that – unlike a personal recommendation they would expect to receive from a regulated financial adviser – the specific product(s) suggested through a targeted support service would be for 'people like you' instead of being a recommendation on an individually personalised level. We recognise the need for this new type of support to be commercially viable for firms. But it is important that it sits within a robust framework of regulatory protections which protects consumers from harm, including the Consumer Duty requirements (which are discussed further in Annex 1). Considering this, firms would be required to ensure such support is communicated in a way to achieve the above – something we discuss in greater detail later in this chapter.

4.11 The offer of targeted support should not affect firms' existing obligations, particularly under the Consumer Duty, where firms provide support to consumers through information and guidance.

4.12 We anticipate that targeted support will be appealing to a range of firms – including retail banks, life insurers and platforms – who can use customer data and product knowledge to provide greater support to consumers than is currently possible under guidance. We will explore the different business models that might be possible when delivering this type of support and if any restrictions should be applied. For example, whether it should be limited to a product manufacturer providing support in the context of its own product suite. As it is important consumers understand targeted support is different from advice, it is not clear such a service could be provided by a financial advice firm. The simplified advice options set out in Chapter 5 is likely to be more relevant for such firms.

4.13 The requirements on firms providing targeted support would be of a different standard than those that apply to the provision of simplified or holistic advice. But firms would still be required to provide targeted support to a high standard. We explore what those standards could be below. Targeted support could also build on the example of investment pathways in pension decumulation as well as on default investment options in non-workplace pensions. We have set out further detail about investment pathways below, in particular the use of choice architecture and product governance rules.

4.14 In this chapter we explain how targeted support could work. We are keen to hear views on its key design features as we look to develop this innovative type of support.

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?

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

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

Building on Investment Pathways

In June 2018, the FCA issued the Retirement Outcomes Review (ROR) Final Report which assessed how the retirement income market was evolving following the introduction of the Pension Freedoms. The ROR showed that many non-advised drawdown consumers were solely focused on taking their tax-free cash and were insufficiently engaged with the decision around how to invest the remaining funds.

The ROR work also found that firms with choice architectures (ie how options are presented to consumers to make their decision simpler to navigate) offer more structure and appear to help consumers end up in more appropriate asset mixes compared to less structured approaches. In particular, the choice architectures that firms use when consumers enter drawdown appear to have a significant influence on the consumer's investment outcomes.

Based on this, the FCA introduced Investment Pathways to support non-advised drawdown consumers. Investment Pathways offers consumers a simple range of ready-made investment proposals – with carefully designed choice options – to help them choose investment proposals that better align with their objectives for retirement.

Importantly, Pathways are based on a choice architecture requiring providers to offer a single investment solution that corresponds to each of the 4 high level choice options that consumers are prompted to select. This choice architecture is key to making sure that consumers are directed to an investment pathway that corresponds to their intentions at the time.

The approach to product governance for manufacturers and distributors of pathway solutions is set out in PROD 6. This approach to product governance is particularly relevant to targeted support (see paragraphs 4.21 – 4.22).

We explore through targeted support whether these aspects of investment pathways can be built on and applied more widely to support consumers in both mainstream investments and pensions.

Types of support that could be offered under targeted support

4.15 We want consumers to be able to invest more easily, and to make effective, timely and properly informed decisions about their investments and pensions. As outlined in Chapter 2, the FCA's RDR/FAMR evaluation found that most consumers would value some support when making decisions they see as complex. And FLS 2022 shows that many do not use the services available in the market. As we outlined in Chapter 2, there are a range of detriments to consumers not using support services.

4.16 There are a range of scenarios within a consumer's journey that could be in scope of targeted support. We outline a number of these below. We welcome feedback on whether these scenarios and others are appropriate to be in scope of targeted support.

a. Supporting non-investors

i. A customer holds a sum of money in their bank account which meets the firm's definition of 'excess cash'. The firm highlights to the customer that, when inflation is higher than interest rates, the real value of their cash savings will be eroded and investments provide the opportunity for higher returns, but with risk of capital loss. In addition, based on an understanding of the customer's target market, the firm suggests products which align with the needs, characteristics and objectives based on this target market (ie 'people like you').

b. Supporting wealth accumulation decisions

i. A customer on a platform is invested in a particular tracker fund when there are cheaper alternatives available which follow a similar index or sector. In addition to highlighting to the customer that the product they are invested in is more expensive and therefore may not represent good value for money, the firm suggests alternative(s) with similar characteristics but at a lower cost.

ii. A customer is saving into a pension at a low rate that could potentially result in an inadequate retirement income, or a customer has stopped or reduced their contributions altogether. Based on limited data points such as age, contribution rate, and size of individual pot, in addition to warning the customer that they could be at risk of receiving an inadequate income at retirement, the pension provider also suggests they increase their contributions to a specific rate depending on their personal circumstances, with projections based on their age and investment choice.

iii. A self-select pension saver is approaching their planned retirement date and currently has 80% of their fund in equity-based funds. Based on limited data points such as age, time horizon, and risk appetite, in addition to warning the customer that they are at risk of increased volatility, where appropriate the pension provider then suggests alternative fund(s) designed for the needs, characteristics and objectives of the target market the customer is identified as belonging to.

iv. A customer has an investment fund which has 20% equities and 80% bonds. Based on limited data points, including that the consumer has a long-term investment horizon in mind, the firm presents alternative fund(s) with an asset allocation that aligns with the needs, characteristics and objectives of the target market the consumer is identified as belonging to.

c. **Supporting wealth decumulation decisions**

i. A customer has taken their tax-free lump sum and has withdrawn their pension at a rate of 10% for 3 consecutive months. In addition to warning the customer about their withdrawal rate potentially being unsustainable by explaining how long the individual pension pot may last at that withdrawal rate, the pension provider suggests a specific rate of withdrawal that is potentially more sustainable and explains how long this could enable the pot to last.

ii. A customer contacts their pension provider to access their pension savings for the first time. The provider describes the different decumulation options available. The provider then asks the customer a limited number of questions, based on their individual pension pot, to understand their circumstances and their attitude to risk. Based on this, the pension provider identifies a product designed for needs, characteristics and objectives of a target market that aligns with the customer's answers.

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.**

Understanding the customer

4.17 We want to ensure that targeted support is widely accessible to the mass market and so benefits the widest range of consumers. To achieve this, we want to establish a new standard which has a proportionate approach to gathering more limited customer information, consistent with ensuring the support is appropriate to a broader target market to which the individual customer can be identified as belonging. This will help to reduce the time needed for collecting customer information and therefore the overall cost for firms of providing the service.

4.18 Advice, underpinned by the standard of suitability, can often be perceived by firms to require directing a customer to a specific outcome for 'you' (and *you specifically*) on the basis of an extensive fact-find fulfilled by a wide range of information. But we want targeted support to be underpinned by a standard which supports a customer to a specific outcome for 'people like you' (so *you generically*) on the basis of a limited number of datapoints – so in essence identifying products or other support designed for 'people with the same high-level needs, characteristics and objectives as you'.

4.19 The new standard would reflect that targeted support would operate on a target market level to make suggestions based on 'people like you' and would therefore be less bespoke than simplified and holistic advice. It would seek to codify that targeted support is intended to provide consumers with a better outcome than would reasonably be expected if they did not receive targeted support.

4.20 Reflecting this objective, the service would need to comply with relevant Consumer Duty requirements, and at a high-level we think that the minimum requirements for such a new standard could include the following:

a. *Targeted support would need to comply with relevant Consumer Duty requirements. For example, firms shall ensure that the targeted support they provide is designed to meet the needs, characteristics and objectives of an identified target market. Firms shall take reasonable steps to ensure that the support they provide is only directed to people with similar needs, characteristics and objectives as those in the identified target market.*

b. *Firms would also need to determine the extent of the information to be collected from their client to deliver targeted support. In doing this, firms should determine, given both the nature and extent of their support proposition and the situation in which it is intended to apply, that the support they provide satisfies the following criteria:*

i. *It is likely to provide a better outcome for customers than would reasonably be expected if the customer did not receive targeted support. These better outcomes would likely be in line with those discussed in relation to the Consumer Duty, such as the requirements for firms to avoid causing foreseeable harm, to act in good faith and to enable and support customers to pursue their financial objectives.*

ii. *The customer can understand the outcome that the suggestion is intended, but not guaranteed, to achieve, and the risks it carries – notably in relation to a customer's return on investment and risk of capital loss.*

4.21 The new standard would need to incorporate robust product governance requirements to ensure firms, when providing targeted support, make appropriate suggestions tailored to a target market. A concept of designing for a 'target market' already exists in the FCA's PROD sourcebook and is embedded across many of the rules within the Consumer Duty. We are keen to build on this established concept so that, when a firm makes a suggestion, it meets the needs, characteristics and objectives of the identified target market, while acknowledging that the consumer may have individual needs that have not been identified.

4.22 In particular, this could build on the 'target market' product governance rules set out in PROD 6 for Investment Pathways and the use of PROD 4 for default investment options in non-workplace pensions. For example, PROD 6.2 sets out how manufacturers must review their pathway investments at least annually to ensure that the investments remain consistent with the needs, characteristics and objectives of their identified target market, and are being distributed to their target market. A firm must not distribute a pathway investment unless it is compatible with the needs, characteristics and objectives of those retail customers that fall within the pathway investment's target market.

4.23 We are keen for respondents' input to calibrate this new standard to ensure that, in delivering targeted support, firms are serving consumers' interests through:

- **a.** collecting the right information from the right sources (existing customer data holdings, asking questions of customers, open finance)
- **b.** using that information to assess what they should suggest to a consumer in the right way
- **c.** delivering the support in the right circumstances or scenarios.

4.24 Separately from the requirements of any new high-level standard for targeted support, firms and staff must ensure that they comply with all applicable data protection requirements. Firms have raised the direct marketing rules within PECR as a possible obstacle that prevents them offering greater support to customers. We explore this further in Chapter 6.

4.25 While the delivery of targeted support is likely to be through a digital process, we are open to designing the regime to enable a firm's employee to give scripted support to help customers through their targeted support process. That is, the firm's employee would not formulate the targeted support themselves; they would simply help the customer through the process of receiving it.

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

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.

Types of suggestions offered through targeted support

4.26 Targeted support would be a new type of support. A key consideration will be what kind of suggestions could be presented to consumers receiving this service.

4.27 We have considered 3 non-mutually exclusive options below. Option 1 relates to supporting consumers in the products they are in, while options 2 and 3 relate to suggesting new product(s) to the consumer. All of the options outlined would consist of suggestions based on the needs, characteristics and objectives of the identified target market (ie 'people like you'). When making these suggestions, firms would need to communicate clearly to a consumer the nature and limitations of the service received.

4.28 Different approaches may be appropriate under different scenarios and there may be other options not included below. We are keen to understand which approach would be most effective in supporting customers under a targeted support regime and how this may vary in different scenarios.

a. Targeted support could help customers make better decisions **about an existing product**. This would help customers by stopping poor decisions. For example, suggesting to a pension saver an alternative contribution or withdrawal rate for 'people like you'. This would help to avoid foreseeable harm in respect of the product(s) the customer is already in, but it would ultimately not be able to direct to a new product, limiting its impact.
b. Targeted support could go further than the above by offering suggestions about new products. For example, **suggesting a short list or range of new products the customer could choose** based on 'people like you'. This would help customers narrow down their choices further. However, there is still a risk of burden of choice for the customer, which could cause inertia.
c. Targeted support could go even further than both options outlined above and **suggest a single new product the customer could choose** based on 'people like you'. This option would narrow the choice significantly for the customer which might increase the chance that a customer takes action. However, there is also a question as to whether only presenting a single product is appropriate given the service is less bespoke than simplified or holistic advice. That is, it could make the suggestion be seen as personal to 'you', rather than for 'people like you'.

4.29 We are interested in exploring how firms should frame the communications so that consumers understand the nature of the support they are getting. For example, that the communication is a suggestion not a recommendation and that it is based on 'people like you', rather than 'you' specifically. This has links to the disclosures section outlined later in this chapter – though what we are interested in exploring here is the wider aspects of the consumer journey.

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?

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

Fees and charges

4.30 Some consumers either cannot afford or are not willing to pay for financial advice. In addition, consumers often expect support to be free, especially when it is provided by a firm they already have a relationship with. We want targeted support to benefit the widest range of consumers given the large advice gap that exists. This section explores how we might allow firms to offer targeted support without explicit charges (ie without upfront fees specifically and exclusively relating to the service provision of targeted support), and how firms can recover their costs.

4.31 The RDR made landmark changes to the UK's financial advice sector, including reforming the way that retail consumers pay for advice. Generally speaking, current rules ban firms from being remunerated for advice in relation to investment and pension products otherwise than through (explicit) advice charges:

a. A firm must only be remunerated for its personal recommendations and related services via explicit adviser charges; product commission payments are banned (COBS 6.1A.4R and COBS 6.1B.5R).
b. Where advisers are recommending their own products (ie for vertically integrated firms), cross-subsidisation of product charges to adviser charges is banned. Advisers must ensure that their adviser charges are 'reasonably representative' of the cost of their advice (COBS 6.1A.9R).

4.32 We want to maximise the consumer reach of targeted support. To do this, we want to explore how targeted support might be paid for. Regardless of how charges would be levied on consumers, firms would need to appropriately disclose that there is a cost for the service and how these costs are being recovered.

4.33 We have considered 2 options for firms to recover the costs for providing targeted support to consumers:

a. Firms could offer targeted support without charging an explicit charge for the service, recovering costs by cross subsidising this service from other services provided by the firm as part of their broader proposition (eg product charges, platform charges).
b. Firms could charge a fee, whether as a standalone service or embedded into existing propositions (eg platform charges, charges for paid current accounts).

4.34 We will need to ensure appropriate protections are in place to protect consumers from potential harms embedded into a remuneration model of cross-subsidisation which would allow targeted support not to be subject to explicit charges. The RDR banned cross-subsidisation (along with banning commission payments to remove bias) for very clear reasons. This was to improve transparency and to level the playing field between vertically-integrated firms and the rest of the market, and to increase trust in the investment industry.

4.35 Our view remains that those interventions were right in the context of advice because consumers have expectations about the type of support they are receiving. However, given targeted support would be an innovative service for consumers – and one likely to feel different to simplified or holistic advice – we are open to a different remuneration mechanism being permitted here. In particular, we think permitting limited forms of cross-subsidisation may well be appropriate. However, any new targeted support regime would be subject to the Consumer Duty and the need to focus on client outcomes, including for Price and Value and Consumer Understanding.

4.36 To be clear, remuneration via commission payments would still be prohibited under targeted support. Whilst such a model would similarly involve payment for the service being taken from the product charges (just like the remuneration via cross-subsidisation which we consider above), a commission-based approach would lead to disproportionate consumer harm for the following reasons:

- **a.** Permitting commission payments could encourage product manufacturers to compete for business by offering greater inducements to firms offering targeted support. This is likely to result in firms directing consumers towards particular products because of the fees the firm earns rather than because of the benefit they bring to the consumer. The proposal above to permit cross subsidisation of targeted support with fees associated through other service provisions would likely not provoke the same competitive distortion.
- **b.** A commission-based remuneration model could also be more challenging than a cross-subsidisation model for consumers to understand the potential biases involved. From the consumer's perspective, a cross-subsidised model is more akin to the established concept of a restricted advice service where – with proper disclosure – a consumer can more readily understand and accept the inherent bias towards one firm's products in the decision to engage with the service in the first instance. Even with effective disclosure, a commission-based model would allow for a more complicated picture which would be harder for consumers to understand and accept.

4.37 Enabling firms to offer targeted support via cross-subsidisation but not via commission may mean that it is most likely to be taken up by larger, more established, vertically-integrated firms. We will continue to explore the potential bias towards these firms, but this is in line with the intention that targeted support would be an offering predominantly taken up by product manufacturers. The option to charge a low subscription fee would still allow a viable route for other non-vertically-integrated firms to enter the market.

4.38 We are keen to hear views from respondents on how to manage any conflicts of interest which may arise through enabling targeted support to not be subject to explicit charges. In particular, we are keen to hear what safeguards and disclosure requirements should be in place to ensure that consumers can understand what they are paying for; and the specific restrictions which may be required on different practices (eg firms having different rates for competing products, firms compensating staff more for one product over another, etc.). Whatever approach to fees and charges is adopted for targeted support, we will carefully consider the potential impact on other distribution channels.

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

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?

Product and investment limits

4.39 We want targeted support to be as widely accessible as possible. We outline earlier in the chapter some of the scenarios where the service could help consumers make effective, timely and properly informed decisions.

4.40 In March 2023, the FCA announced that the Review would focus on advice on investments and pensions, but would exclude anything related to DB pension transfer advice and any other pensions that have safeguarded benefits such as guaranteed minimum pension or a guaranteed annuity rate. Other than this, our starting position is that targeted support will not be subject to any specific limits relating to the product and investment range (ie those products and investments which the service can provide support on) or monetary value (ie the value of money, wealth or assets the service can provide support on) beyond that which apply more generally in the retail distribution space. We think this approach is sensible to enable targeted support to reach a broader range of consumers with a range of different needs.

4.41 We want to understand whether this is the right approach, or whether any limitations on product and investment range (such as restrictions suggesting high-risk funds) or monetary values would be appropriate. In particular, we want to ensure that consumer protection remains at the core of any future regime.

4.42 When considering what limitations might be appropriate for targeted support, it will be important to note the range of conduct standards, such as those outlined in this chapter, that will set clear expectations for the support that firms provide their customers.

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?

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

Disclosures

4.43 Consumer-facing disclosure can give consumers the necessary information to make informed, effective decisions to pursue their financial goals. In the targeted support context, effective disclosure would facilitate consumer understanding of the service provision.

4.44 Targeted support would be a type of support that is distinct from simplified and holistic advice. It is important that consumer-facing disclosure around targeted support would enable consumers to decide if the service meets their needs or whether they need more bespoke support through simplified or holistic advice. Disclosure should also support the consumer's understanding that targeted support will not identify all individual needs and instead is based on a target market approach.

4.45 We want consumers to understand the nature, scope and limitations of targeted support. This could include disclosures to cover points such as that:

a. The service would not provide independent advice.
b. The service would offer a 'suggestion' not a 'recommendation' to the customer.
c. The service would be based on the needs, characteristics and objectives of the identified target market.
d. The service would be based on limited customer data and the consumer may have individual needs that have not been identified.
e. The range or type of products that would be considered within scope of the service.
f. The remuneration mechanism that would underpin support. For example, whether explicit charges are paid by the consumer, or – if a different mechanism is used – the potential commercial incentives.
g. The alternative types of support available to the consumer. For example, the difference between targeted support and other types of support and the different situations which might make each type of support particularly appropriate – and signposting to this more bespoke support.

4.46 In addition, we want consumers to understand the suggestion(s) they receive. This could include disclosures covering points such as:

a. The limited nature and type(s) of data that would be collected and analysed to identify that the consumer falls within the identified target market and the source of where that information has come from (ie the firm's records).
b. That the support would not be based on consideration of the whole needs, characteristics and objectives of the consumer and so, the consumer should consider whether any factors not considered as part of the support could affect the effectiveness of the suggestion(s).
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 which the firm has identified them as belonging to.
d. The nature of the suggestion (ie that it would not a recommendation) and that it would be based on a target market of 'people like you' not personalised to the individual customer.

4.47 We would likely expect firms to receive confirmation that the customer has understood the information provided before any transaction takes place.

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?

4.48 Firms delivering targeted support would be responsible for ensuring the disclosures they provide to consumers are effective, including considering when in the consumer journey the information should be provided. It will be important for these firms to develop and test their approach, in line with their obligations under the Consumer Duty.

4.49 We are interested in understanding the level of detail the FCA needs to include in rules to support this work. Specifically, whether an 'outcomes-based' approach (facilitated through rules and guidance such as those in the Consumer Duty) or a more prescriptive approach is required. If a more prescriptive approach is thought to be more appropriate, we are keen to understand exactly what this should cover. For example, whether such rules should cover all aspects of disclosures or focus on particular areas.

4.50 The FCA is undertaking reform of product disclosure as part of the Future Disclosure Framework and has introduced new product disclosures rules under the Sustainability Disclosure Requirements. As signalled in DP22/6 – Future Disclosure Framework – the FCA wants a cohesive approach to retail disclosure. So, we will align our work on targeted support with relevant aspects of these more fundamental reforms.

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?

Regulatory and legislative mechanisms

4.51 Whatever regulatory and legislative mechanisms we may develop for targeted support, the regime needs to be established and implemented in a way which most importantly benefits consumers but also works for firms and for regulators both now and in the future, taking account of developments in digital technology.

a. For consumers it needs to provide a framework which enforces robust protections and provides relevant legal safeguards.
b. For firms it needs to provide a framework which gives firms the clarity and the certainty to operationalise and deliver the regime.

c. For the regulatory family it needs to provide a framework which gives the FCA, the ombudsman service and FSCS clear and unambiguous responsibilities to ensure that market participants conduct themselves in a fair, reasonable and compliant way and consumers are protected from market participants who do not.

4.52 We are keen to identify a pragmatic and proportionate regulatory mechanism that would best deliver targeted support in line with the above objectives, while also ensuring coherence with the rest of the regulatory and legislative mechanisms for support services. This could include (but would not be limited to):

a. introducing a new regulated activity
b. creating a new sub-permission within the current 'advising on investments' activity in Article 53 of the Regulated Activities Order (RAO) 2001
c. allowing FCA-authorised firms to carry out targeted support where they have certain existing permissions linked to relevant products (for example, a firm with permission to operate a personal pension scheme would be able to provide targeted support for personal pension products)

4.53 All of these options would require significant development if they were to be pursued further. We invite respondents to share their perspectives of the relative advantages and disadvantages of different approaches (whether the ones listed above or otherwise), including their preference for the option we could most effectively pursue.

4.54 As noted at the beginning of this chapter, we recognise that it may be necessary to make broader changes to the regulatory and legislative mechanisms to ensure that targeted support can be effectively operationalised alongside existing forms of consumer support. We recognise that aspects of the existing framework might present impediments in delivering a new targeted support regime, including the definition of a personal recommendation under Article 53 of the RAO. We are open to exploring any necessary changes to the existing framework to deliver targeted support successfully within a coherent broader framework. We welcome views on these challenges and potential approaches to them.

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?

Chapter 5

Simplified advice

Background to the problem

5.1 Many consumers want support in the form of advice and do value a personal recommendation. However, as outlined in Chapter 2, typically advice is only accessed by consumers with larger sums to invest. Often it is not used by many consumers within the 'mass market' who have a smaller amount to invest or a simple, specific need. In recent years, the growth of robo-advice has enabled consumers to receive, and firms to deliver, advice at a lower cost. While a range of such services are offered to UK consumers, uptake has remained relatively low – in 2022, only around 1.5% of UK consumers used robo-advice (FLS, 2022). Research suggests this is because consumers prefer an element of human interaction in the advice process (Ignition House, 2020).

5.2 The FCA has previously sought to better support simplified advice propositions – for example:

- **a.** In FG17/8, the FCA set out finalised guidance establishing the concept of 'Streamlined Advice'. This focuses on the potential to limit simplified advice propositions to more accessible, more flexible, and less risky products.
- **b.** In CP22/24, the FCA set out proposals for a new core investment advice (CIA) regime which intended to make it easier for firms to give advice that is proportionate to the needs of a consumer at a lower cost.

5.3 These policy interventions have not resulted in widespread adoption of simplified advice propositions. There are several reasons for this, unique to each intervention. However, the interventions did not give firms legal certainty, which they say would have given them the confidence to deliver new simplified advice propositions. Providing that clarity will be central to any further attempt at delivering a simplified advice regime – something we discuss below.

5.4 The CP22/24 proposal was limited to investments into mainstream products within a new Stocks and Shares (S&S) ISA, therefore limiting the investment amount to £20,000. Feedback to the consultation indicated that respondents were generally supportive of the concept of a simplified advice regime to support those consumers with narrower needs. However, there were concerns that the limited product range and maximum investment amount would not allow a sufficiently broad or profitable market to develop and might only appeal to a very narrow range of consumers.

5.5 This chapter builds on the feedback to CP22/24, as well as responses to previous FCA initiatives.

Overview of the proposal

5.6 We want to explore a solution which enables consumers to get access to simpler and cheaper financial advice. Simplified advice would be a limited form of advice, in that it is one-off advice, focused on one specific need, and does not involve analysis of a consumer's circumstances that are not directly relevant to that need. But in doing so, we must ensure that those more focused standards can only apply within a more limited scope of advice. That is, the regulatory protections must be commensurate with the risk of the underlying activity – a more streamlined regime will necessitate a narrower scope of products and services that may be advised upon.

5.7 To better enable firms to design commercially viable and affordable simplified advice offerings that can reach a larger market of mass market consumers, we want to ensure that regulatory requirements on these firms are proportionate for providing such advice.

5.8 Our proposed framework for a new simplified advice regime would differ from targeted support and holistic advice in the following ways:

- **a.** Targeted support would enable firms to use limited information to suggest products or courses of action based on a target market the consumer has been identified as belonging to. Simplified advice would result in a recommendation that is personalised to an individual consumer's circumstances – ie 'you specifically' would benefit from this action.
- **b.** Holistic advice takes into account potentially comprehensive information about a consumer and might involve an ongoing service. Simplified advice is a one-off service whereby the firm would take into account only relevant information about a specific consumer need. As a result, a new simplified advice regime could involve different standards than are currently applied to holistic advice and would be suitable for consumers with simpler needs. It will be crucial for consumers to understand the nature and limits of simplified advice, including the difference between simplified and holistic advice, before receiving a service.

5.9 We anticipate that simplified advice might be offered by financial advice firms of all sizes who want to service additional consumers. It might also be offered by investment platforms, retail banks or other product manufacturers who want to develop simplified advice propositions, in addition to, or to complement their current product offerings.

Types of support that could be offered under simplified advice

5.10 It is crucial that consumers can access the right support to make effective investment decisions. In Chapter 4, we outlined what services firms could deliver under targeted support. In this section, we explore what support firms could deliver to consumers through the form of simplified advice. This would apply in scenarios similar to the following examples, although this list is non-exhaustive:

a. A consumer has a lump sum saved in deposit accounts. They wish to invest for the long term, targeting growth in excess of inflation and cash interest rates. They have never invested before and are nervous about making a decision on their own. They approach a firm offering simplified advice as they want a recommendation that is personal to them, at that point of time, and on this specific need. They are willing to pay a fee for this service.
b. A consumer has never reviewed the funds they are invested in. They feel that their attitude to risk has changed over the years. So, they approach a firm offering simplified advice, who will review the funds and recommend suitable alternatives.
c. Following an inheritance, a consumer decides they want the assurance of a personal recommendation to help them invest this one-off lump sum. They receive simplified advice which includes a suitability assessment and a personal recommendation as to how they should invest their inheritance but does not take into account their existing savings or investments, or wider financial situation.

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.

Product range and investment limit

5.11 In CP22/24, the FCA proposed limiting the range of products within the regime, and the investment limit. Specifically, we limited this to Stocks and Shares ISAs (S&S ISAs), with the amount that can be invested through the regime limited to the value of the annual ISA subscription allowance, currently £20,000. The scope of the regime was limited to exclude high-risk and potentially more complex investments. This was felt to be an appropriate mechanism to ensure simplified advice is only targeted at investment decisions that are simple enough for narrower suitability requirements to be appropriate.

5.12 However, feedback to CP22/24 suggested that the product range was too narrow and the investment limit too low to attract a sufficient number of consumers and, as a result, it would not be feasible for firms to deliver this simplified advice service profitably. Given the expanded scope of the Review, we want to explore the case for expanding the range of wealth accumulation products beyond that outlined in CP22/24. Expanding the range of products would make simplified advice available to a broader range of consumers and should increase its availability to those unable to access holistic financial advice.

5.13 We want to ensure that appropriate regulatory safeguards are in place to guard against unsuitable consumer outcomes (eg so higher-risk investments are not sold to consumers for whom they might not be suitable). Existing rules under PROD and the Consumer Duty should ensure firms who pay due regard to retail consumer outcomes are likely to deem such investments as unsuitable for most simplified advice consumers. We welcome views on whether these rules are sufficient to ensure good customer outcomes, or whether additional rules would provide necessary legal certainty for firms and protection for consumers.

5.14 Alongside wealth accumulation products, some respondents to CP22/24 requested that we expand the scope of a simplified advice regime to include pensions decumulation products, such as annuities, uncrystallised funds pension lump sums (UFPLS), and flexi-access drawdown (FAD). However, we think that these are financial decisions which may typically be too complicated to incorporate into a simplified advice regime. Drawdown decisions, for instance, may have income tax and inheritance tax planning implications, or complicated interactions with means tested benefits. **So we propose that all pension decumulation decisions are excluded from simplified advice.**

5.15 Alongside expanding the product scope, we also want to explore the case for increasing the investment limit proposed in CP22/24. The challenge is achieving a framework that secures an appropriate degree of consumer protection while still supporting industry to develop commercially viable simplified advice offerings. However, the limit must be set at a level that is not so high that it encourages firms to market the service to consumers who may be more suited to holistic advice. This outcome would be contrary to our objective of support being made available to many more mass market consumers.

5.16 We want to investigate the option of increasing the upper limit for receiving simplified advice to £85,000, which represents the limit for FSCS protection for investment advice. This would be reviewed if the FSCS limit changed in the future. We invite comments on whether this is the correct place for the limit to be set, and any alternatives which might be more appropriate.

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?

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

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?

Type of service

5.17 CP22/24 set out that core investment advice was likely to be transactional, meaning that it would be a one-off service on a specific consumer need, and would not incorporate ongoing service or periodic reviews. As part of the consultation, the FCA also asked for feedback on whether it is desirable to allow recipients the option to receive further instances of transactional advice. This was viewed as a potential pathway to holistic advice for those accumulating further cash sums to invest.

5.18 Feedback to CP22/24 was supportive of the idea of consumers receiving repeated instances of one-off simplified advice and we propose adopting the same approach under this proposed regime.

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.

Understanding the client and the fact find

5.19 When providing financial advice, the FCA rules in COBS 9/9A set out the obligations on firms when assessing suitability. In complying with these rules, a firm will need to judge what information it needs from the client, having regard to the nature and extent of the service provided and the kind of transaction under contemplation. This is so the firm has a reasonable basis for taking a view on whether its recommendation would meet the client's objectives, attitude to risk and capacity to bear losses, and not exceed the client's ability, based on their knowledge and experience, to understand the risks involved.

5.20 Within FG17/8, to meet some of the recommendations of FAMR, the FCA produced non-Handbook guidance that outlined how a firm may streamline the information that would need to be collected about a consumer based upon the scope and area(s) of advice (for instance the information needed from a consumer to give them advice on purchasing a range of well diversified funds to be held within a S&S ISA). CP22/24 went further by producing draft non-Handbook guidance outlining the specific steps expected from a firm to comply with the suitability rules for advising a consumer to invest in a S&S ISA.

5.21 The feedback to CP22/24 suggested most firms wanted a level of legal certainty that would only be provided through Handbook rules, and not by guidance. This is partly due to greater prescription provided by rules as opposed to guidance. Firms have told us that rules would provide certainty on the information they would need from a consumer to provide the consumer with simplified advice.

5.22 We recognise that a framework defined in Handbook rules should give firms greater regulatory certainty and confidence about what information is needed from a consumer. We also recognise that creating rules that capture all the information required in every situation where simplified advice could be provided may be undeliverable. We welcome feedback on whether this level of prescription would be achievable and desirable. For instance, it is arguable that a consumer's ability to complain if something goes wrong could be lessened in a situation where a firm has gathered all the information set out in the Handbook rules, but has not asked about another relevant issue which, had they been aware of it, would have led to a better outcome.

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.

Fees and charges

5.23 As outlined in the previous chapter, the RDR ended commission payments and cross-subsidisation as mechanisms for paying for personal recommendations of retail investment products. This was a necessary intervention to remove the potential for bias in product selection and to increase transparency in disclosure of fees. Advice fees are now directly recoverable from consumers through clear and transparent product charges or paid directly by a consumer to the advice firm.

5.24 These reforms have had an overall positive impact for consumers by increasing trust in the investment industry. However, we recognise that explicit adviser charges may be a demand-side barrier to consumers receiving support in the form of financial advice. For instance, whereas the FCA's regulatory return data indicates that average initial adviser charges tend to range between 1% to 3% of the investment sum, consumer research has shown that many consumers would only be willing to pay up to 1%, if indeed they think they should pay for advice at all (Ignition House, 2020).

5.25 CP22/24 did not propose to amend any of the fundamental reforms which the RDR introduced. But some respondents took the opportunity to make the case that a simplified advice service might be more successful if it was not subject to explicit charges. We are keen to explore ways to make it easier for consumers to pay for simplified advice as a way to tackle the demand-side barriers.

5.26 We are open to exploring the range of revenue models firms could use to be remunerated for simplified advice. However, this must be done in a way that does not reintroduce potential for commission bias or conflicts of interest in product selection, or otherwise undermines confidence in advice. We recognise that allowing advice charges to be included within product or platform fees reduces transparency to consumers, and it is important that the total cost of products and services are adequately disclosed to consumers in any new fee models. We welcome further views on how to make it easier for consumers to pay for simplified advice, without undermining the changes made as part of the RDR.

5.27 CP22/24 contained proposals to allow clients to pay for initial advice in equal instalments over the first 12 months of an investment, rather than having to pay for it in one lump sum. Some respondents considered that this would benefit consumers, adding choice and overcoming a barrier to investment. Others felt it would have limited value because it would not reduce the cost to consumers and providers would incur substantial implementation costs introducing it. Some respondents also highlighted that a series of recurring payments could confuse consumers, who may feel they are paying for ongoing advice, rather than one-off advice.

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?

Training and competence

5.28 In this section, we explore the proposed Training & Competence (T&C) requirements for a new simplified advice regime. It will be important to create a proportionate competency framework for advisers providing only simplified advice.

5.29 To reflect the narrower scope of the CIA regime, CP22/24 proposed a proportionate change to the qualifications an adviser would need to hold to advise on investing into a S&S ISA. This would mean successful completion of modules on Financial Services, Regulation and Ethics and Investment Principles and Risk only. By contrast, all advisers are currently required to hold a Regulated Qualifications Framework (RQF) Level 4 qualification and undertake ongoing competency requirements, including annually demonstrating 35 hours of Continued Professional Development (CPD) of which 20 hours must be 'structured' CPD. CP22/24 sought to make the ongoing assessment of competency more proportionate by making 'Core Investment advisers' undertake a mandatory 15 hours of CPD per year, with no 'structured' requirement.

5.30 Part of the rationale was the strict limitations on the product (mainstream investments into S&S ISAs only) and investment amount (up to £20,000) that could be advised upon under the proposed reduced CPD requirements. Those restrictions were the necessary guardrails to enable a less onerous T&C regime, which in turn should have allowed advice to be provided at a cheaper cost to consumers.

5.31 Feedback from respondents was generally supportive of an approach that created a new T&C activity and only required advisers to pass the qualification modules outlined above.

5.32 However, we do not think the proposals outlined in CP22/24 will continue to be appropriate in all applications of simplified advice. This is due to the potential expanded scope on both the products and investment amount under the new proposal for simplified advice, and consumers' expectations that their adviser is appropriately qualified.

5.33 We recognise that some firms will want to advise only on a single area of advice or an individual product. For instance, they may wish to only provide advice on investing in a S&S ISA. We want to ensure that the regulatory burden on these firms is proportionate, and advisers have a competency framework that proportionately reflects this narrower scope of advice. As such, we want to explore the option of an initial and ongoing T&C framework where advisers are only required to evidence competency standards applicable to the single area of advice or product upon which they advise. This aligns to the approach suggested in CP22/24, where a different examination and ongoing competency framework was proposed for advising on investing into a S&S ISA.

5.34 However, where firms and advisers provide simplified advice across multiple products (for instance pensions and investments), we consider that they will need to align to the same T&C framework that currently exists for holistic advice. This is to ensure that advisers possess the required technical competency appropriate to the different considerations each area of advice entails. This might not reduce the regulatory requirements anticipated from the proposals outlined in CP22/24, however we think that this is necessary to maintain proportionate consumer protection, given the greater scope of advice proposed above.

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?

Chapter 6

Other issues

Redress and consumer protection

6.1 The ombudsman service and FSCS provide important services to ensure that consumers have trust and confidence to engage with financial markets in the UK. As the landscape for retail investments evolves, we are committed to ensuring that the redress framework remains appropriate and proportionate for consumers of investment services in the future. There will always remain a residual risk that consumers could experience harm by the action or inaction of a firm. In these circumstances, our expectation remains that firms responsible for that harm should put a consumer back in the position they would have been in if that harm hadn't occurred.

6.2 To be able to put a consumer back in the position they would have been if the harm had not occurred, the firm must have enough capital. Having adequate capital helps align firms' incentives with the best interests of their clients and wider markets by ensuring that they have 'skin in the game'. This includes having enough capital to be able to draw on and to absorb redress related costs. Firms are more likely to assess and manage risks effectively, implement robust internal controls, and comply with regulatory obligations to avoid incurring losses that could deplete their capital.

6.3 As set out in the FCA's Consumer Investment Strategy's One Year Update, the FCA are continuing our work to review the prudential regime for non-MiFID adviser firms. This work aims to ensure that firms that create redress liabilities are better able to pay them. In doing so, we are seeking to promote access to suitable advice and reduce the burden of the FSCS bill on the broader adviser population. We will set out further details of our work in due course.

6.4 The proposals in this paper set out how we hope the advice gap could be closed. A key feature of this is clarifying the standards between the current support for consumers and potential future support that may be available. We think this clarity is important in reducing the uncertainty firms tell us they face between offering different services (inclusive of the potential of incurring redress liabilities when inadvertently offering advice). Firms have told us that a shared understanding between stakeholders (including firms, consumers, the FCA and the ombudsman service) of the standards and expectations underpinning the different level of service is integral to ensuring that the future of the advice guidance boundary will work as intended.

6.5 When an issue with wider implications for the financial services industry arises, a framework exists for FCA, the ombudsman service, FSCS and other members of the regulatory family to work together in a way that aims to improve outcomes for consumers and other financial services participants. The framework is also how the FCA, the ombudsman service and FSCS have chosen to comply with the cooperation duty under section 415C of the Financial Services and Markets Act 2000. We are not proposing to remove the requirements of firms to comply with the FCA's Dispute

Resolution Sourcebook, which sets expectations of how firms deal with consumer complaints and how consumers are able to access the ombudsman service if firms and consumers cannot come to a satisfactory resolution. However we would be interested to hear whether the solutions identified in this paper (or any other proposals not considered in this paper) would provide firms with the clarity they need on the FCA's expectations of them in ensuring good outcomes for consumers when providing a broader level of support, so they can seek to avoid causing consumer harm that incurs redress liabilities.

6.6 In the Compensation Framework Review (CFR) Feedback Statement, the FCA said that they are open to exploring opportunities to adapt the scope of FSCS protection in the context of workstreams looking at the way sectors, including the retail investment markets are regulated. For both existing and new sectors and activities, the FCA wants to ensure that appropriate safeguards are in place to protect consumers, before determining the appropriate level of protection for that activity.

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.

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.

Privacy and Electronic Communications Regulations (PECR) 2003

6.7 Firms have raised the direct marketing rules within PECR as a possible obstacle that prevents them offering greater support to consumers. PECR gives people specific privacy rights in relation to electronic communication. It applies to transmission of unsolicited 'direct marketing' communications by electronic means with different rules for different types of communication (see Information Commissioner's Office (ICO) Electronic and telephone marketing guidance). There are electronic communications that would not be captured by PECR because they are not considered 'direct marketing', namely routine service messages that are sent for administrative or customer service purposes, and regulatory communication messages that are compliant with ICO Direct Marketing and Regulatory Communications guidance.

6.8 Electronic mail that is 'direct marketing' will either require specific consent or use of 'soft opt-in' where this rule applies. This 'soft opt-in' rule applies when communicating to existing customers, and can allow 'direct marketing' to be sent to individuals even if they haven't specifically consented (see ICO Guidance on Electronic mail marketing). For the rule to apply, firms must meet all of its requirements including that individuals must be given a clear chance to opt-out of direct marketing, both when a firm first collects their details and in every message they send.

6.9 We have heard from some firms that they find this 'soft opt-in' rule particularly problematic for auto-enrolled pension savers, as policies are arranged by an employer. This means that these pension providers are unable to obtain a soft opt-in, nor can they contact policyholders via email to obtain direct marketing consent. We have engaged with DWP, TPR and the ICO as well as industry on this issue.

6.10 Beyond this specific soft opt-in issue, the FCA and ICO's July 2023 joint letter regarding savings customers provided clarity to firms that PECR does not stop them sending regulatory communications that provide neutral, factual information. Data protection law provides people with a right to object to direct marketing. However, this does not prohibit firms communicating with customers when requested or required to by a statutory regulator. This is true even where customers have 'opted out' of direct marketing.

6.11 The ICO's guidance on direct marketing and regulatory communications explains how to draft regulatory communications so they are unlikely to count as direct marketing, and includes illustrative examples. When a message is not direct marketing, it can be communicated to customers who have 'opted out' of direct marketing or when no 'soft opt-in' opportunity were available.

6.12 The FCA also published information for firms around data protection law and customer communications as part of the Consumer Duty. Where a firm sends a regulatory communication and uses a neutral tone and avoids active promotion or encouragement, data protection laws and PECR do not stop firms telling customers about better deals or providing information customers need to know as part of their relationship with that firm.

6.13 Considering the July 2023 joint letter, existing ICO guidance, and the FCA's Consumer Duty information, we want to understand the barriers FCA-authorised firms perceive PECR creating which impedes them providing greater consumer support.

> **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.**

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?

Impact on competition

6.14 The FCA and the Government aim to promote effective competition in consumers' interests. For example, this means that firms should have strong incentives to seek out and satisfy the demand of customers in the market, and that in turn consumers have access to the right information to be able to assess the best course of action that meets their needs. It also means that regulation is well tailored to the harms that regulation is seeking to address, since underregulating may be ineffective, but overregulating can impose unnecessary and excessive costs.

6.15 The policy proposals outlined in this paper, particularly targeted support, have the potential to expand markets to allow firms to innovate and offer new and more affordable services. This could improve outcomes for consumers through better and more flexible forms of support, that will not be met through changes to traditional types of regulated financial advice alone. We want to hear views about how we can best design the proposals to strengthen competition in the interests of consumers. These include how we mitigate the negative impacts of the following:

a. **The extent to which the policy design of targeted support provides larger firms, particularly manufacturers of products, a competitive advantage.** Access to customer data and the ability for firms to recover costs by cross subsidising this service through fees associated with other service provisions may mean that larger firms are better able to provide more innovative and efficient targeted support to consumers, as well as offer this service without explicit charges. It is possible that in the long run this could give advantages to larger firms and result in some market consolidation and less competitive pressure. However, the advantage that larger firms may have in providing a service is not a reason to prevent that service from being offered, and nor is there a direct link between some market consolidation and consumer detriment.
b. **The extent to which targeted support creates the possibility for firms to leverage a strong market position in one market into a second market, to the detriment of competition.** We anticipate that firms that deliver targeted support would be vertically integrated firms and therefore would only be in a position to suggest products from within their own product range. It is possible that consumers might have made a better choice by shopping around rather than accepting targeted support that prompts them to buy a new product with their existing provider. Firms may be able to leverage strong market position in one market into a second market, by prompting their customers to use their own products, thus gaining market share without necessarily having superior products to their competitors. However, the counterfactual is that consumers would not receive targeted support, and in many

cases would not consider that they could or should buy a new product or service. Targeted support may prompt consumers to do their own research, and – even if they accept a prompt to buy a new product or service with their existing provider – this may well be an improvement on taking no action at all. Under the FCA's Consumer Duty, firms must act to deliver good outcomes for their consumers. For example, they must act in good faith and avoid causing foreseeable harm. They must also design their products and services to meet the needs, characteristics and objectives of an identified target market, and have an appropriate distribution strategy in place to ensure products and services are only sold to the identified target market. Firms must also monitor whether their actions, or omissions, lead to consumer harm and, if harm is identified, take steps to address it, including through the payment of redress, where appropriate. The Duty should, therefore, help mitigate some of the risks of mis-selling.

c. **The extent to which the proposals impact on the ongoing availability of holistic advice.** The proposed simplified advice regime is intended to result in one-off advice on simpler needs being offered to consumers at a lower price point than holistic advice. The impact of this on the advice market will depend on the uptake by providers and the cost at which they can serve consumers. There will continue to be a portion of the market, in particular consumers with more complex needs, or with greater investible assets, for whom a fuller assessment of their needs as part of holistic advice would remain the right solution. If firms that currently offer holistic advice put some of their resources towards simplified advice, it is possible that holistic advice becomes more expensive or less easily available, at least while supply adjusts. However, given that a majority of the mass market is currently underserved by existing financial advisers, the introduction of a new simplified advice regime is likely to increase access to advice overall.

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.

Chapter 7

Specific considerations for pension scheme trustees

7.1 Certain non-authorised persons, such as pension trustees, may wish to give greater support to consumers in a way that does not cross into regulated advice.

7.2 Rights under occupational pension schemes are not investments for the purposes of the advising on investments activity under Article 53 of the RAO. So, the boundary for investment advice is not relevant to trustees of occupational pension schemes (or indeed any person, authorised or not) when they are providing support to members of their occupational pension scheme about the options available to members solely under their scheme. The boundary may become relevant if the trustees (or any other person) are, for example, steering a member towards an FCA-regulated product because that would be a specified investment for the purposes of the advising on investments activity (see Annex 1 for more details about the non-authorised boundary).

7.3 Pension trustees (and employers) will only need FCA authorisation if they are in the business of arranging transactions or providing regulated advice and if they receive a 'commercial benefit' for helping members. A 'commercial benefit' could take several forms. For example, where the firm that provides a financial product offers the employer commission or a reduction in their commercial insurance premiums. Where a firm's pension and benefits package results in a more motivated or productive workforce, we would not view this as a commercial benefit that would trigger the requirement to be FCA authorised.

7.4 Trustees (and employers) are not generally in the business of arranging transactions or giving regulated advice and do not normally receive any commercial benefit for giving employees information or helping them with pensions or other financial matters. In most cases pension trustees and employers should be able to help members without needing to be authorised.

7.5 Together with The Pensions Regulator (TPR), in 2021 the FCA updated the FCA/TPR guide for employers and trustees on providing support with financial matters without needing to be subject to FCA regulation.

7.6 While the potential proposals described in Chapter 3, 4 and 5 apply to FCA-authorised firms, it is important to achieve the same good outcomes for consumers regardless of their pension type. The FCA understands that many trustees of DC occupational schemes that do not have FCA-authorisation have also raised the issue of the advice boundary as constraining the support they can provide. We are keen to receive feedback on this in light of DWP's own decumulation proposals (see description of the proposals below) and the specific considerations for trustees described in this chapter (in particular, see paragraph 7.2).

7.7 Trusts (and employers) vary in nature. Some may be very small, and some will have a very particular offering for their employees. However there has been significant growth in Master Trusts in recent years which are regulated by TPR. Master Trusts are multi-employer schemes with a specific authorisation and supervision regime, where the service that they offer is much closer to a financial service in comparison to traditional single-employer pension schemes. Some Master Trusts are sponsored by a group that also provides group personal pensions (GPP) which are FCA-regulated, and so that group will have to provide support to customers across different pension types. We are aware that some of these Master Trusts align with the FCA's wake-up pack and investment pathways requirements.

7.8 We want feedback about how the support trust-based schemes (including Master Trusts) provide is affected by the advice boundary for non-authorised persons. We also want to understand how the proposals presented may affect FCA-authorised firms sponsoring a Master Trust including at an operational level. The FCA and the Government will continue to work closely with the TPR and DWP as we explore this issue further based on feedback to this paper.

Trust-based market and DWP decumulation proposals

We welcome DWP's recent publication of its consultation response on 'Helping savers understand their pension choices: supporting individuals at the point of access' including their exploration of a 'default' option for consumers in the trust-based market.

As described above (see paragraph 7.2) the position of trustees of DC pension schemes depends on what they are providing support on. Where trustees are only considering the support they can provide about the options available to members solely under their scheme, the advising on investment boundary is not relevant.

Where the default proposed by DWP involves an option provided by the trustees under the occupational pension scheme then the advice guidance boundary is not relevant but it is a key consideration in the partnership aspect of DWP's proposals (depending on how those partnership arrangements operate).

The DWP recognised in their consultation response the importance of the Advice Guidance Boundary Review. And we will continue to work closely with DWP as they develop their proposals. We are also seeking feedback from trust-based schemes on how the investment advice boundary impacts the support they want to give.

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.

Chapter 8

Conclusion

8.1 Both the FCA and the Government are strongly committed to a dynamic, competitive and innovative retail market that works well for both consumers and firms. Individuals have a lot of choice on how to save and invest their hard-earned cash. While many can compare, research and control their investments, not enough people can get affordable support to help navigate these decisions and could be missing out on opportunities to make their money work harder. Access to the right support for consumers is key to ensuring they are confident in engaging with capital markets.

8.2 This paper sets out three initial proposals, as part of the AGBR, to help close the advice gap and ensure that consumers get the help they want, at the time they need it, at a cost that is affordable. We want more people to invest where it is right for their circumstances, and we want to see a market that takes advantage of technological developments and innovations to offer a broader range of consumer support services. Taken together, these proposals will enable firms to offer more accessible and affordable support services to consumers who are not currently receiving support but would benefit from doing so to make informed investment and pensions decisions. This would be good for consumers, good for industry, and help to support growth in the wider UK economy.

8.3 The advice gap is a complex and long-standing issue. To get this right, any proposals need to work for both consumers and for firms. Our thinking is still in its early stages. As a first step, we welcome feedback from a wide range of stakeholders, including consumers and consumer groups to help shape the proposals, including whether there are any proposals we haven't yet considered. We want to make sure that we have a balanced viewpoint on which areas we should focus on and prioritise. We also want to understand if there might be unintended consequences – eg equality and diversity or competition impacts – if we were to implement any of the approaches suggested in this paper.

8.4 Alongside this paper, we plan to engage with a wider range of stakeholders in forums and roundtables as well as individual meetings. As we develop specific policy proposals, we will seek to conduct further consumer research and stakeholder engagement to inform ongoing policy development. A key part of this will be to consider what, if any, amendments should be made to the legislative framework as the FCA incorporates relevant elements of the retained EU law into our Handbook. We will also consider whether there are other aspects of the FCA rules that may need changing, or whether there are any wider changes to the RAO that would be needed to facilitate any new regime.

Annex 1

The existing regulatory framework

Summary of the current perimeter boundary for FCA-authorised firms and non-authorised persons

1. As set out in the August 2023 boundary clarification document, for FCA-authorised persons, the relevant perimeter boundary (ie where firms provide regulated investment advice) is not the giving of advice on investments, but the giving of a personal recommendation. Article 53 of the RAO was amended in 2018 to narrow the scope of the regulated activity of advising on investments in relation to FCA-authorised firms (see Article 53(1A) of the RAO). Following this, FCA-authorised firms generally only carry out the regulated activity of advising on investments where they provide a personal recommendation.

2. In relation to non-authorised persons, the relevant perimeter remains the broader activity of giving advice on investments, as a matter of consumer protection (this is expanded on in Annex 1, paragraphs 10 – 13). In general terms a non-authorised person must not give advice to an investor or potential investor on the merits of buying, selling etc, a particular investment (see PERG 8.24). If they were to give such advice by way of business, they would likely breach the general prohibition in section 19 of the Financial Services and Markets Act 2000, which is a criminal offence.

3. There are many different types of non-authorised persons, ranging from pension scheme trustees to unauthorised introducers, for whom the perimeter boundary might be relevant. The position of pension scheme trustees is discussed in Chapter 7. As we consider the perimeter boundary for non-authorised persons as part of the Review, we need to be mindful of the implications for consumer protection. For example, there is a risk that fraudsters may encourage consumers to invest in risky products.

4. When supporting consumers with their investment decisions, firms must also consider if they are undertaking a regulated activity other than advising on investments, and whether its consumer communication constitutes a financial promotion. For example, a firm needs to consider whether it is engaging in arranging activities (see PERG 8.23). Firms must ensure they have the appropriate permissions for the activities they undertake and that they are aware of, and comply with, applicable requirements under FCA rules.

5. PERG 8 (sections 24 to 31 in particular) provides guidance when considering whether advice or a personal recommendation is being provided for non-authorised persons and FCA-authorised firms respectively. PERG 8 Annex 1 provides various examples that broadly illustrate how consumer support may or may not constitute advice or a personal recommendation.

Relevant requirements for FCA-authorised firms

6. We understand some FCA-authorised firms are limiting the amount of support they give consumers for fear of inadvertently giving a personal recommendation. We have heard from firms that, in their view, consumer support that influences a customer's decision could result in a personal recommendation being given. In particular, we have heard that firms are concerned about providing an implied recommendation (see for example PERG 8.30B.9). Following the publication of the August 2023 boundary clarification document, we want to understand what overarching concerns remain. To address these concerns, we want to explore how to give greater certainty for firms in how they can offer support without providing a personal recommendation, as well as introducing new types of support.

7. A personal recommendation is a recommendation made to an investor or potential investor in relation to a security, structured deposit, or a relevant investment that is presented as suitable for the person to whom the recommendation is made, or is based on a consideration of that person's circumstances. The definition excludes a recommendation issued exclusively to the public (see PERG 8.30B.2G). In relation to advising on investments, when a personal recommendation is made, the firm must follow the standards set out in COBS 9A (for investment advice on MiFID, equivalent third country or optional exemption business or in relation to an insurance-based investment product) and COBS 9 (for other personal recommendations and investment management including advice on personal pensions).

8. Irrespective of whether a personal recommendation is made, support to customers is subject to the FCA's high-level standards. For example, a firm's communication to the customer needs to be clear, fair and not misleading (COBS 4.2.1R) and a firm must act honestly, fairly and professionally in accordance with the best interests of its client (COBS 2.1.1R). Firms also must meet the new high-level standards set by our Consumer Duty (see box below).

9. Advice that is not a personal recommendation (see Article 53(1) of the RAO) is furthermore not subject to COBS 9 or COBS 9A but still needs to comply with Principle 9.

Consumer Duty

The FCA's Consumer Duty requires firms to act to deliver good outcomes for retail customers. The central (cross-cutting) obligations under the Duty are that firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives (PRIN 2A.2).

Under the harm avoidance cross-cutting obligation, in PRIN 2A.2.8R, firms must avoid causing foreseeable harm to customers, whether through their actions or omissions, for example in connection with how the product or service is designed or marketed, or what support is offered in connection with it (PRIN 2A.2.10G).

Additional rules expand on what is required in respect of four major customer outcomes: product and services (PRIN 2A.3), price and value (PRIN 2A.4), consumer understanding (PRIN 2A.5) and consumer support (PRIN 2A.6).

Many obligations under the Duty are directly relevant to firms considering what support to provide their customers.

In relation to the product and services outcome, firms generally need to make sure their services are designed appropriately and reach customers for whom they were designed. Under the price and value outcome, firms must also ensure the service provides fair value to customers in the target market (PRIN 2A.4.2R). The consumer understanding outcome means firms' communications must meet the information needs of retail customers, must be likely to be understood by them, and must equip them to make decisions that are effective, timely and properly informed (PRIN 2A.5.3R). Finally, under the consumer support outcome firms must also ensure they offer ongoing support to their customers that meets their needs and allows them to use the service as reasonably anticipated (PRIN 2A.6.2R).

The Consumer Duty is underpinned by the concept of reasonableness. The obligations on firms under the Duty will be interpreted in accordance with the standard that could be reasonably expected of a prudent firm carrying on the same activity in relation to the same product or service, and taking appropriate account of the needs and characteristics of the relevant retail customers (PRIN 2A.7.1R). One of the relevant considerations is whether the firm has or will provide advice to the customer.

What is reasonable depends on all the relevant circumstances (PRIN 2A.7.2G) including the nature of the product or service being offered or provided and the format of the support being given. Whether or not a distributor firm provides a personal recommendation, it still needs to equip customers with the information they need to make effective decisions.

The Duty does not require firms to carry out regulated activities outside of their scope of service and/or permissions. For example, it does not require firms without advice permissions to provide personal recommendations to customers.

In the August 2023 boundary clarification document, the FCA set out examples of good practice for firms who are considering the support they are prepared to provide in light of the Consumer Duty.

Perimeter boundary for non-authorised persons

10. A non-authorised person would breach the perimeter if it provided investment advice under Article 53(1) of the RAO. Non-authorised persons would be 'advising on investments' (which they must not do) if the advice:

a. relates to a security, a structured deposit, or a relevant investment (for the avoidance of doubt, this includes personal pensions)
b. is given to a person in their capacity as an investor or potential investor (or in their capacity as agent for an investor or potential investor), and
c. relates to the merits of them buying, selling, subscribing for or underwriting the investment (or exercising rights to buy, sell, subscribe for or underwrite such an investment).

11. This means two different perimeter boundaries operate in the regulatory perimeter – one for FCA-authorised firms and a wider one for non-authorised persons.

12. Non-authorised persons are more restricted in what they can provide to consumers. This is because the risks posed to consumers by non-authorised persons compared with FCA-authorised firms are different. An FCA-authorised firm is deemed to present less risk to the consumer because it must adhere to the FCA's rules, including high-level requirements that apply in relation to the firm's business activities even where there is no regulated activity being carried out (for example, in relation to ancillary activities). They include for example the requirements set out in the FCA's Threshold Conditions (COND), Principles for Businesses (PRIN) and Senior Management Arrangements, Systems and Controls sourcebook (SYSC).

13. Therefore, a key consideration around the position of the perimeter boundary for non-authorised persons is the importance of consumer protection. We welcome views on whether this boundary is in the correct position. Based on the feedback provided, we could also consider whether further clarity could be provided around the non-authorised boundary for investment advice in a similar approach to which is set out in Chapter 3 for FCA-authorised firms.

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

Annex 2

List of questions

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

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.

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.

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?

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?

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

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

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.

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

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.

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?

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

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

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?

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?

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

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?

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?

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?

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.**

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?**

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

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.**

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.**

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.**

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?**

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?**

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.**

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.

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.

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?

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.

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.

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

Annex 3

Abbreviations used in this paper

Abbreviation	Description
AGBR	Advice Guidance Boundary Review
CFR	Compensation Framework Review
COBS	The FCA's Conduct of Business sourcebook
COND	The FCA's Threshold Conditions sourcebook
CPD	Continuing professional development
DB	Defined Benefit Pension Scheme
DC	Defined Contribution Pension Scheme
DWP	Department for Work and Pensions
FAD	Flexi-Access Drawdown
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FLS	Financial Lives survey
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Review
GDPR	General Data Protection Regulations
GIA	General Investment Account
GPP	Group Personal Pension
HRI	Higher Risk Investments
ICO	Information Commissioner's Office
ISAs	Individual Savings Accounts

Abbreviation	Description
MaPS	Money and Pensions Service
MiFID	Markets in Financial Instruments Directive
PECR	Privacy and Electronic Communications Regulations
PERG	The FCA's Perimeter Guidance manual
PRIIPs	Packaged Retail Investment Products
PRIN	The FCA's Principles for Businesses sourcebook
PROD	The FCA's Product Intervention and Product Governance sourcebook
RAO	Regulated Activities Order
RDR	Retail Distribution Review
ROR	Retirement Outcomes Review
RQF	Regulated Qualifications Framework
S&S ISA	Stocks and shares Individual Savings Account
SIPPs	Self-invested personal pensions (SIPPs)
SRF	Smarter Regulatory Framework
SYSC	The FCA's Systems and Controls sourcebook
T&C	The FCA's Training and Competence sourcebook
TISA	The Investing and Saving Alliance
TPR	The Pensions Regulator

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FINANCIAL
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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk