AFM Response to FCA consultation CP22/24, Broadening access to financial advice on mainstream investments

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
   
   • Comment on the proposals, and their consequences for members of AFM and their customers.

About AFM and its members

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not-for-profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 32 million people in the UK and Ireland, collect annual premium income of over £22 billion, and employ nearly 30,000 staff.

3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses and to take account of corporate diversity.

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3 http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted
AFM comments on the proposals

4. We welcome FCA’s intent to broaden access to financial advice via this consultation. Antecedents to these proposals include Ron Sandler’s review in 2001, and the basic advice regime, which were never adequately taken forward by FSA/ FCA, and which are notable by their exclusion from this paper. Both sought to achieve similar outcomes, in making financial services more accessible to people on lower and middle incomes.

5. We agree with the analysis which underpins this Consultation Paper – that there is an identified need to widen access to financial advice for mass-market consumers who are interested in mainstream investment products. As the CP sets out, there is clear evidence that less-wealthy consumers are unable to access financial advice, and so in many cases may be effectively prevented from making informed decisions about products which may be well suited to meet their particular needs. As a result, rather than invest in appropriate investment products for which they lack the appropriate skills or knowledge, they may be forced to hold their funds in cash: over the long-term and in particular during periods of high inflation that guarantees that the spending power of their money will be eroded over time.

6. The CP focuses exclusively on stocks and shares ISAs (S&S ISAs) which is one of several ISA-based products which are offered by many AFM Members. Hence, the policy issues the CP addresses are of direct interest AFM and its members, albeit many AFM members do not have authorisations to give advice and/ or do not rely on third party distribution. It would be helpful therefore for FCA to consider options for facilitating access to non-advised guidance as well, to ensure the competitiveness of the market for S&S ISA is not unduly distorted.

7. The CP makes proposals about a number of detailed technical issues within the wider financial advice regulatory regime, which are outside the AFM’s usual remit and expertise, or that are not relevant to AFM members that do not rely on third party distribution. Hence, we have focused our comments largely on the overall policy direction and objectives of the central proposal – to establish a new core investment advice regime.

8. In summary, we welcome the proposal to create the new core investment advice regime. It represents a step in the right direction and should help some consumers in certain circumstances access financial advice on an important product and at a reasonable cost. As a result we would expect the outcome to be an increase in the take up of financial
advice, at least in relation to this one specific ISA product; we consider this can bring tangible benefits to consumers and to the ISA industry.

9. The proposed definition of core investment advice (paragraph 3.4 and Q1) and the proposed criteria for provision of core investment advice (paragraph 3.11 and Q4) are clear, sensible and proportionate, striking a balance between the financial risk and benefit for consumers and the expectations on firms delivering the advice. Similarly, the proposals for service design, target marketing and filtering (paragraph 3.23 and Q5) are clearly set out and will help ensure that advice about S&S ISA is appropriately tailored to meet a consumer’s identified needs or aspirations.

10. We agree that, as per paragraph 1.21, access to the Financial Ombudsman Service is retained, though there will be a concern that if advice is restricted to the suitability of one product, an adjudicator might query whether a more detailed fact find and set of recommendations might have identified more pressing concerns. The consultation does not set out how FCA expects an advisor to satisfy this.

11. We note that FCA has chosen to focus the proposals in this CP on a single product (S&S ISA), as well as a closely-defined group of consumers. Whilst these proposals are in themselves welcome, if implemented as proposed the changes will have at best a limited impact on the widely recognised issue of the advice gap. As stated explicitly in paragraph 2.12 of the consultation, “The overall picture is that mass-market consumers find it difficult identifying that they need advice and when they do, their needs are not being fully met.” The regime proposed is a move in this direction, but much more is needed to tackle the fundamental challenge of better serving the needs of those currently excluded from access to advice. This includes individuals without a lump-sum to invest, with needs for regular savings or protection contracts:

12. We suggest FCA considers how the streamlined, balanced and proportionate approach reflected in these proposals could be applied to other (mainstream) investment products. This might include other products within an ISA wrapper and which are also provided by AFM members, such as junior ISA or lifetime ISA, as well as alternatives to ISAs.

13. We would welcome the opportunity to discuss further the issues raised by our response. We are happy to be included in FCA’s list of respondents, and indeed would be disappointed to be missed from any such list.
Yours sincerely,

[Signature]

Martin Shaw
Chief Executive
Association of Financial Mutuals