By email, to: dp23-5@fca.org.uk

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

12 February 2024

AFM Response to FCA DP23/5, Advice Guidance Boundary Review- proposals for closing the advice gap

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 how they might be adopted by AFM members and more generally.

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[1].

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[2] and to take account of corporate diversity[3].

[1] ICMIF and AFM, 2022: https://financialmutuals.org/wp-content/uploads/2022/10/UK-Market-Insights-2022.pdf
[2] Financial Services Act 2012, section 138 K: http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted
[3] http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted

AFM comments on the proposals

4. We welcome the opportunity to comment on the proposals in this paper. We have supported the industry workshops on the advice guidance boundary, and recognise the imperative of closing the advice gap. We are pleased to see the progress the FCA and HM Treasury have made in recent months, and even at this early stage, can see that the proposals put forward are innovative, and where delivered well, can make a real difference to the support millions of consumers receive from the financial services industry.

5. AFM members typically work with people with limited financial means, and therefore the 10 million customer base of our sector is a key target for the FCA/ HMT work of closing the advice gap. AFM members pursue a range of routes to market, in recognition of the needs of their members, and the lack of affordable advice available; our comments reflect experiences of supporting customers, as well as the constraints of the current regulatory regime. We see a place for all the proposed solutions put forward, and amongst our members can see ready demand for extra guidance, and for exploring the concept of targeted support.

6. With regard to targeted support, we consider this fits closely with the way many mutual insurers and friendly societies operate today; in our assessment, targeted support can be the primary basis by which the FCA and industry can start to close the advice gap. One of our members uses the pre-existing basic advice regime very successfully. The key differences between that and full advice are that advisers have lower qualification requirements, which makes this more cost-effective for the firm; and that there is no up-front fee, as the cost of providing advice is rolled into the annual management charge, which addresses one of the key barriers for customers. Extending the range of propositions covered by basic advice, or making simplified advice look more like basic advice, which is a proven business model, is seen as key. Basic advice is currently provided on a face-to-face basis and by video appointments. We would like to see targeted support also available on a face-to-face or video basis, as well as by telephone, in addition to the digital route envisaged by FCA. In this way, targeted support has the potential both to engage consumers, and to give them the confidence to make a decision.

7. We note that in general terms, the approach taken in this paper only seeks to address the advice gap in a limited fashion. With an assumed focus on pension planning and investments, and on existing customers (for targeted support), the proposed approach may need further

reflection, in order to address equally, if not more pressing, problems such as protecting people's income against illness or redundancy.

8. For example, young people are likely to have a myriad of concerns, such as the effects of debt, student loan repayments, high rents and the cost of living, and if employed, will be included in an auto-enrolled pension arrangement. Hence they will not be likely to benefit from simplified advice or targeted support that is centred only on investment products and pension decumulation.

9. We have commented against the questions raised in the paper below. We would welcome the opportunity to discuss further the issues raised by our response. We are happy to be included in the published list of respondents.

Yours sincerely,

Martin Shaw
Head of Policy
Association of Financial Mutuals

AFM comments on the Policy paper questions

Chapter 1: Overview

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

We have not identified any, though as we state above, the focus of the proposals is on investments, and the FCA's preferences for targeted support are narrowed to customers with existing investments. Whilst we think the latter can be accommodated, this inevitably means that it does not address the people that are not is a position to invest for the long-term, including many of those who are least likely to seek financial advice, such as the young or the indebted.

As a sector that is focused on 'serving the underserved', we recognise that advice in general is currently targeted at the more affluent, and that people with limited finances are not able to source support from financial advisors. This is particularly so for products that do not attract commission payments or significant fees, though we have also seen advisors less inclined to advise on products that attract lower levels of commission.

Chapter 2: The advice gap

***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.*

The three proposals sit within the extremes of the approaches currently adopted, and reinforce the need for some mid-range support to consumers. There is a risk though that in offering too many paths for support, consumers will become confused, or be at risk of making sub-optimal decisions. There is also a risk that the new proposals do not address or learn from the failures of the past, which have contributed to the growth in the advice gap.

An effective targeted support option, building on the current basic advice regime, would appear to be the most likely of the three options to succeed in closing the advice gap, though we also consider successful implementation of all three will be necessary.

As the paper points out, FCA has already provided clarity on the boundary, and proposing further clarity so soon after the latest guidance (in August 2023) indicates that this has not been well-received. We suggest that extra clarification is necessary, though it is unlikely to produce a significant step forward alone.

The proposals on ‘targeted support’ appear to build on the current rules for basic advice. Limited uptake of the latter indicates it is not well-understood, and the new focus provided within the ‘targeted support’ title- as well as improvements to the current basic advice regime, which we will cover in our response- are vital in making this option viable for a wider range of firms and consumers.

In particular, it needs to overcome the concern firms had about a lack of ‘safe harbour’ for the nature and extent of support given, and there needs to be a realistic appraisal of how targeted support can be delivered with sufficient margin to make it attractive for a wide range of firms to take up. There also needs to be a careful understanding of whether customers fully understand the limits of support given and that this does not lead to consumers failing to act in their best interests. Equally, FCA should set out clearly the boundaries of support given, to ensure firms are not concerned unnecessarily about Financial Ombudsman Service referrals, or the risk of complaints management companies, or indeed the risk of being sued if something goes wrong beyond the scope of support given.

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.*

It is not clear how the pre-existing ‘basic advice’ regime should form a part of the future advice guidance regime. Whilst not widely adopted, we consider this is a viable option in some cases, and rather than disregarding it, we consider it would be helpful to explore how the simple advice rules can be amended to better suit the market today. Basic advice has provided a potential valuable tool for the workplace, and we see this as offering more scope for consumers to take up advice.

Chapter 3: Further clarifying the boundary

Q4*: Do you think that further guidance would provide more clarity to enable firms to get closer to the boundary?*

Yes ☒

No ☐

4b) 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?

It is inevitably the case that if a consumer seeks support from a firm, but the firm considers it is unable to provide what is required, then that consumer may suffer harm as a result. The reticence of firms to act, in circumstances where the FCA considers they would be acting in the scope of the rules, is likely to be a result of lack of clarity in those rules, as well as concerns about how the Financial Ombudsman might act, its contractual obligations to a distributor, or the natural caution of firms- or indeed a combination of these.

FCA's expectation that: 'it must be at least as easy to switch products, leave a service or make changes, as it is to buy the product or service in the first place', as per the February 2023 Dear CEO letter to life insurers (as raised in the discussion paper), sets a high expectation and does not fully recognise the commercial challenges that prevent insurers from intervening. We would welcome greater clarity on this from FCA. Where FCA may have seen examples of good practice in this, it would be useful to include this in future guidance.

It would also be helpful if this guidance gave an interpretation of how the Financial Ombudsman would view the limits to support that might be given, to avoid that being seen as a personal recommendation. This should also point to data protection issues and reflect the views of the Information Commissioners' Office.

The scenarios in paragraph 3.5 of Chapter 3 provide a good starter for additional guidance. Many of these are covered by the Consumer Duty, so care is needed to ensure there is a consistency of approach. For provider firms, a major limitation- in cases where a sale was originally undertaken by an intermediary- is the restrictions placed on the provider that might prevent them from enacting this guidance.

Q5*: In your view, is there value in simplifying existing guidance?*

Yes ☒

No ☐

5b) If so, what are the key relevant areas of PERG and other guidance that the FCA should focus on?

The Privacy and Electronic Communications Regulations (PECR) are particularly restrictive, stating that unsolicited communications for the purposes of direct marketing cannot be sent by electronic mail unless the customer has specifically consented to electronic mail from a company; or they are an existing customer who bought (or negotiated to buy) a similar product or service from a company in the past, and that they were given a simple way to opt out both when their details were first collected and in every message sent thereafter.

It is unlikely that consent or opt-out will have been obtained for long-term products taken out before the regulations came into force, including Child Trust Fund customers.

The ICO make it clear that PECR should not be contravened. The regulation on communications to customers where they have either not opted-in or not given consent limits the scope of support given to the provision of information only. This means that customers may not get guidance or be given advice that could be in their best interests.

It would be useful for PERG to be expanded in the future to include guidance on Targeted Support and Simplified Advice, assuming these are taken forward, and as these fit between the current arranging and advice permissions.

Chapter 4: Targeted support

Q6: *Do you support the concept of targeted support and do you support developing a regulatory framework to deliver it?*

Yes ☒

No ☐

6b) If not, why not? Are there any key features (in addition to those discussed below) that you believe targeted support should include?

We strongly support the development of a regulatory framework to deliver targeted support. We consider that of the three options being explored, this has the most potential to make meaningful change.

In order for this to happen effectively, we suggest that a targeted support framework should build from the current basic advice regime. This already enables much of the goals FCA seeks, but it not well-understood. It would be helpful for FCA to undertake direct research with a range of potential providers, to identify what the limits and constraints of the current basic advice regime are, that have led to its under-utilisation. This will help ensure that a re-branded 'targeted support' framework will be more likely to be taken up than has been the case for basic advice and other initiatives. In any event, we expect some of the past barriers, such as implementation costs, will have become less significant, and that the Consumer Duty already enables firms to achieve many of the operational requirements of basic advice/ targeted support. From an FCA perspective, adopting person-to-person targeted support via the pre-existing basic advice rules would make it much easier to implement.

In addition, the basic advice regime suffers from the narrow range of propositions that it is currently applicable to. The FCA definition of basic advice sets out that it is 'providing advice on *stakeholder product*s using a process that involves putting pre-scripted questions to a *retail client*.' The current focus on stakeholder products narrows the range of propositions it can be used for, and in particular the fund options that are available.

Whilst FCA has set out a basis by which targeted support can be delivered electronically, we consider it is vital that it is also enabled for face-to-face, or telephone-based support. This will better engage the consumer, and help them make a decision in their best interests. In this way, suitable trained customer-facing staff in banks or insurers should be able to provide meaningful support to customers. Evidence from AFM members, who either adopt the basic advice regime, or who use distribution channels including introducers and member-get-member, is that human interaction is critical for many consumers who are not confident in managing their finances.

The current framework proposals envisage support is offered to the customer on the basis of pre-existing customer data. However, where the targeted support proposal collects new or updated data during the customer interaction, that can be better used to identify the segment relevant, and the nature of support needed.

We suggest care is needed in setting the level of specificity applied: if this is too narrow it will result in very narrow segments; this will reduce the viability of the proposition, and increase the risk of personalised advice.

Care is also needed in relation to the nature of support provided by targeted support. Providers need confidence that they understand the rules, to ensure the support provided does not risk being constituted as a financial promotion, or financial advice. Language is also important and there needs to be dedicated support for consumer education, to help people understand the difference between advice and being told (i) their options and/or (ii) what people like them should do in similar circumstances. The FCA need to be clear, as do providers, that this is not personal advice and where the responsibilities and accountabilities are if the outcome of the action is not favourable.

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

We agree that the targeted support model lends itself to provision mainly by product providers. Advice firms should not be restricted, though may see the simplified advice route as more appropriate.

In any event, we consider that an effective targeted support regime will bring about innovation that would widen the range of firms willing and able to provide targeted support, as well as a broad range of products. Given the focus on making generalised recommendations based on 'people like you', it is certainly the case that firms capable of exploiting big data effectively would benefit from a targeted support regime.

We do not though consider that this means only large providers or AI firms will be interested in providing targeted support. The model has many similarities to the nature of mutuality (i.e. to serving the underserved, and working in the best interests of members), and the form of in-house support that friendly societies and mutual insurers provide to customers already, both to individuals and in the workplace.

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

We consider there should be clear criteria around how a firm offering targeted support should behave, and the importance for firms that proclaim to offer 'whole of market' support do not adopt targeted support as a lower cost route to sales.

Q9: *Do you agree that the scenarios outlined are appropriate for a new targeted support regime?*

Strongly agree ☒

Agree ☐

Neutral ☐

Disagree ☐

Strongly disagree ☐

9b) Please suggest any other specific scenarios where targeted support might be appropriate and could benefit consumers.

It would be helpful for FCA to define the type of customer circumstances that would lend themselves to targeted support. The scenarios provide a narrow range of customer circumstances.

For example, we consider that another scenario that could lend itself to targeted support would be a young person with a Child Trust Fund that is coming up to maturity. This is traditionally a market that has proved difficult to engage, for products that are unlikely to be of sufficient value for wealth advisors to wish to provide full advice on. The main choice open to the young person is between either to withdraw all or some of the cash, and on the other hand, how to invest for the longer term- generally in an ISA.

Other investment products coming up to maturity may also benefit from targeted support. This would include savings endowments, which are typically of low value and where the customer may not receive advice or guidance at present. Holloway income protection products are classified by FCA as investment products, due to the small amount of premiums that is set aside for bonuses: currently Holloway-style products can only be sold by a qualified adviser (CF30), but bringing them within the scope of targeted support, and simplified advice, would remove a major competitive barrier for these products. This would in turn provide a valuable alternative for consumers who find it difficult to purchase income protection today (including the self-employed and employees in certain industries), or who dislike insurance contracts that don't reward the vast majority of people who haven't needed to make a claim.

Another consideration might be a customer wishing to save on a regular basis for the medium term, with a specific goal in mind. An assessment of the options available to 'people like you' would help the consumer consider whether an investment product might be more appropriate than holding the money in a savings account.

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

Strongly agree ☒

Agree ☐

Neutral ☐

Disagree ☐

Strongly disagree ☐

10b) Please explain your answer.

The approach provided is relevant. In particular the clarity on how the Consumer Duty applies is critical. We agree that a key criteria to be determined is that the targeted support is 'likely to provide a better outcome for customers than would reasonably be expected if the customer did not receive targeted support'. Other Consumer Duty outcomes are equally valid and would provide a template for firms to consider whether to offer targeted support.

The pensions investment pathway framework is a good comparison, where it provides a guided route for an individual to make investment decisions. However, feedback suggest this works best if the customer already knows what they want, as otherwise consumers may lack the confidence to make effective decisions without speaking to an individual.

In a friendly society for example, this may mean that the early stages of targeted support might be conducted online, but that the society may prefer the option for an employee to speak to the customer to help them complete the process (as suggested in paragraph 4.25 this might be via a prepared script). This would also help address the issue of orphan clients- where a financial adviser has retired or has changed their business model to focus on high net worth clients only, but also to support consumers who would be unwilling or unable to pay a fee for support.

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?*

Yes ☐

No ☒

11b) Please specify which rules and explain the impact.

We are not aware of any.

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?*

The third option would be most likely to convince the customer to act (i.e. suggesting a single new product); however it would need a clear test that the consumer understands this is not a personal recommendation, and that alternatives are available, even if they are likely to be inferior.

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

Communications should meet Consumer Duty standards for clarity and relevance.

Q14: *Do you agree that targeted support should not necessarily be subject to explicit charges?*

Strongly agree ☒

Agree ☐

Neutral ☐

Disagree ☐

Strongly disagree ☐

14b) If so, how should firms be remunerated, and why?

We agree that the nature of targeted support lends itself to the customer not paying a fee, and that this would make a significant impact on the potential market for targeted support. Allowing cross-subsidisation from the general product charges to pay for the provision of support would make this attractive to both consumers and product providers.

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?*

We would expect the terms and conditions of the targeted support to be laid out clearly. We support the cross-subsidy of costs for targeted advice, so this should mean that disclosure documents would not need to illustrate the impact of charges for targeted support, or their impact on performance. Product charges, including on early cancellation of the product would need to continue to be set out explicitly.

We consider that the recently introduced Consumer Duty rules, and the price and value outcome in particular, set expectations here and that complicated disclosure requirements- which may disengage customers- would be unnecessary and unhelpful.

FCA rules relating to cross-subsidy would need to be reviewed. Care would need to be taken for with-profits firms, to ensure COBS rules reflect the capacity for cross-subsidy. For some mutual providers, where the with-profits fund also acts as the firm's only capital fund, attention will need to be given to how the cross-subsidy operates, if there is a potential for member's funds to be used to cross-subsidise support for consumers that hold non-membership products.

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?*

Strongly agree ☐

Agree ☒

Neutral ☐

Disagree ☐

Strongly disagree ☐

16b) If you disagree, what should the limits on product and investment range and monetary value be and why?

We agree there should be no limits on value, though we feel that some high-risk investment products should be excluded: i.e. those that would not normally be marketed at unsophisticated or inexperienced investors.

Q17: *Are there any other limitations which should be imposed on targeted support?*

Yes ☒

No ☐

17b) Please explain your answer.

The limitations might relate to the nature of support or the range of products it is leant to (such as DB pensions, as per paragraph 4.40). As it is envisaged by FCA that targeted support is largely provided to existing customers, though consideration also needs to be made as to how the proposed product solution can include those sourced from outside the provider firm. We think this would help make targeted support more relevant to more consumers.

Q18: *Do you agree with the disclosure objectives for targeted support?*

Strongly agree ☐

Agree ☒

Neutral ☐

Disagree ☐

Strongly disagree ☐

18b) Are there other factors that consumers should understand when making decisions in relation to targeted support?

We consider that the proposed levels of disclosure add too much complexity and should be simplified. There are limitations in the IDD and PRIIPs rules, which FCA has acknowledged in the past, that should be addressed as part of the review.

There is also an important role for education of consumers by FCA and industry, to reduce disclosure requirements, and to help understand what targeted support is, and what it won't provide.

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?*

An outcomes-based approach is consistent with the Consumer Duty approach, though to give firms confidence in operating targeted support we consider a degree of clarity over the form and content of disclosure is necessary. The items covered in paragraphs 4.45 and 4.46 are a good starting point for providing examples of good practice.

We do not advocate detailed prescription of the disclosure rules: the problems UK regulators and firms have experienced with the PRIIPs rules are a caution about trying to over-regulate disclosure. Equally, the onus is on general suitability, and not on comparability- as targeted support is largely envisaged to happen between an existing customer and their product provider; hence it is not necessary for all disclosure documents to adopt the same look and feel.

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?*

We agree that the options outlined in paragraph 4.52 are the most relevant. The most suitable option would depend on FCA's starting point: as we set out elsewhere, building targeted support from the existing basic advice rules- and mirroring the permission requirements there- should be relatively straightforward. In many cases, product providers will hold a range of permissions, and establishing new ones, rather than building on current arrangements may create unnecessary duplication. We are aware that some firms rely on waivers to deliver services such as basic advice, and we consider this should be addressed in any change of the permissions required.

For firms that envisage a member of staff being involved in the support process, we would be interested to see what extra T&C conditions FCA would expect; however we would be cautious about making these excessive, as the targeted support approach will be carefully structured within the firm.

Chapter 5: Simplified Advice

Q21: *Do you think the scenarios outlined for consumers considering investing a lump sum or reviewing an existing investment are appropriate for a new simplified advice regime?*

Yes ☒

No ☐

21b) Please suggest any other scenarios where simplified advice might be appropriate and could benefit consumers.

A consumer with a regular savings investment or term investment comes to the end of the term, and seeks advice on whether to re-invest the lump sum, and options for continuing to invest regularly in the future.

Q22: *Do you agree that wealth accumulation products should be in scope of simplified advice, and why?*

Yes

22b) Are there any wealth accumulation products that you feel should be included or excluded, and why?

We are not aware of any.

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

No- as stated in the discussions paper, pensions decumulation might carry extra risk for larger sums, and involve tax implications. However, as long as simplified advice is limited by a cap that means only small pots are covered, or that simpler decumulation solutions can be covered (such as what to do with a lump sum), then we consider there is an important role for simplified advice. This is particularly the case where many consumers are unwilling to pay for financial advice, and are therefore at greater risk of not having personalised support to ensure they make appropriate decisions.

Q24: *Do you consider that a cap of £85,000 is the correct investment limit for simplified advice?*

Yes ☐

No ☒

24b) If not, please suggest an alternative limit, and explain why this would be more appropriate.

The original proposal was for £20,000. To increase the limit to the figure covered under the FSCS limits appears arbitrary, and implies that FSCS limits apply to the overall wealth of the investor rather than the sum invested in a particular product.

There is also a risk that in setting the limit too high, the focus for advisors is to use simplified advice to churn existing products and to focus on more on their existing client base of high-net-worth customers, who already have ready access to full advice. As a result the core potential audience- people with limited funds who currently don't seek advice due to its cost- will continue to find that they are excluded from the advice market.

We also think that retaining a lower limit, such as £20,000 for investments, though with a higher limit for support on auto-enrolment advice, would require FCA to demonstrate that it has offered sufficient simplification to the advice process, to make it practical for industry to operate at lower cost, and to a currently disengaged audience. As the main costs involved in the advice process are time-related and IT development, this means identifying reductions in the amount of work needed to set up and maintain the advice process.

Whilst we have not quantified the costs and time estimates, we suggest FCA retains a low maximum- at either £20,000 or close to it- unless there is evidence that simplified advice cannot be delivered on this basis. The onus will be to establish a simplified advice regime that can be delivered cost-effectively.

Simplified advice proposals are predicated on the consumer paying a fee; however, FCA research indicates that even a small fee is a barrier to a consumer taking advice. For that reason, we do not consider this proposal offers as much potential as the targeted support option, particularly as the advice sector has already signalled a concern about the economics of this option.

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?*

Yes ☒

No ☐

25b) Please state the reasons for your answer.

We consider this will cater for the occasional advice needs of many consumers, for whom a regular and holistic process would be considered unnecessary and too costly.

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?*

Yes ☐

No ☒

26b) How might that be delivered? Please explain your answer.

We consider that too much structure will hinder innovation and duplicate other regulatory initiatives unnecessarily.

With the introduction of the Consumer Duty, FCA now has in place much of the regulatory structure needed. This includes the range of checks and balances that firms should undertake, the focus expected of firms on risk mitigation, the provision of product reviews, and the need for evidence to demonstrate that good outcomes are being provided.

Some rules or structure will be valuable. For example, if simplified advice adopts similar decision-tree approaches to those used under basic advice, firms will seek clarity on the approach needed and the evidence required to demonstrate they are focus on achieving good customers outcomes.

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 Retail Distribution Review?*

The high cost of advice is a legitimate reason for considering how a new model, such as simplified advice, can make advice more accessible to more people, at a price and with a method they are happy to pay.

Advice provided for the sale of protection products is generally paid for out of customer premiums. In some cases, consumers may not be aware of this, or the consequences of cancelling their policy early. Paying for simplified advice for investment products would have the same challenge, and consumers would need to understand that they will need to repay the cost of advice in certain circumstances. If a customer is unwilling, the targeted support option might still be available as an alternative.

As FCA research evidences, consumers are resistant to paying for advice that they do not consider represents good value. Understanding how much that barrier is, and how it is paid for, probably needs more consumer research, particularly amongst people with more limited financial means, who may be within the target market for simplified advice.

Q28: *Do you agree with our proposed Training & Competence framework for simplified advice?*

We consider that for simplified advice to be feasible, the qualifications needed to provide the service need to be simpler than those currently in place for full advice. Where fully qualified advisors equate to CQC 4, we consider that staff should be required to possess CQC 2.5 in order to provide simplified advice. We consider that where there is a relatively low cap on simplified advice, e.g. of £20,000, this helps to differentiate the service from full advice and therefore the nature of the service provided and the experience needed of the adviser.

28b) Do you agree that firms and advisers wishing to provide simplified advice on more than one product type should comply with the same Training & Competence standards as for holistic financial advice?

We think it would be essential for a simplified T&C regime, but only if, as we suggested earlier, the investment limit is kept at a low level. This is because the major concerns expressed about simplified advice appear to be the high cost of delivering financial advice through CF30s. The key to making simplified advice cost effective is by ensuring it can be delivered by less qualified staff. This is borne out by experiences of basic advice.

This would also ensure that simplified advice was more likely to be delivered to people who are less wealthy, as currently many financial advisers focus almost exclusively on high new worth individuals. In turn, this would ensure that products which currently are not available to consumers on an advised basis, because they are of low financial value, are opened up. As mentioned previously, this would include products like savings endowments, and Holloway income protection, both provided by friendly societies.

Chapter 6: Other issues

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.*

Yes ☒

No ☐

29b) If so, please describe them.

There should be sufficient clarity in DISP on the nature of support or advice received by the customer, and where complaints arise, the basis on which those complaints should be upheld by the firm (and FOS).

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.*

We would prefer to see more explicit proposals set out by FCA before commenting. FSCS protection works differently for advice firms compared to provider firms, and the comments in Chapter 6 do not address this.

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 Privacy and Electronic Communications Regulations (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.*

No evidence to offer.

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?*

As we stated above, it would be helpful to address in the guidance the extension of legitimate interest beyond PECR- this would allow a lot of useful engagement with existing customers, without the risk that this is seen as a financial promotion.

With regard to targeted support, we would not expect a customer to have to opt-in to the service, as this will significantly impact the potential to close the advice gap.

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.*

We agree with suggests that the currently drafted proposals for targeted support may offer further competitive advantage for larger firms. However, where we represent smaller providers, we do not see any value in protectionism, where this acts contrary to the needs of consumers. We would though wish to work with the FCA to identify ways to make adoption of targeted support effective for small firms: this may include addressing potential cost barriers, simplifying further regulatory requirements, or agreeing areas where collective effort can be developed at lower cost- such as shared IT solutions or compliance services- or the provision of products outside a firms own product range.

Chapter 7: Specific considerations for pension scheme trustees

Q34: *How do trustees feel the advice boundary restricts the support they want to give, including around decumulation, taking into account DWP's proposals?*

No evidence to offer.

34b) Do any other regulated activities or regulatory requirements constrain the support trustees wish to provide? Please give examples.

No evidence to offer.

Annex 1: Existing regulatory framework

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

We believe that Annex 1 represents an effective summary of the existing framework, and have no comments to add.

Any other feedback

Please provide any other feedback you wish to provide on this policy paper.

In our response to an early FCA consultations on the consumer duty we highlighted the vast range of initiatives the regulators have taken to address consumer protection, including many that are specifically focused on consumer investments. We have referred to some of these in our response, and for a full list, please refer to AFM's response to CP21/36.

There appears to be a real appetite in FCA and industry to make the latest proposals in DP23/5 work. In so doing, it is important to learn less from previous initiatives, rather than re-inventing past mistakes. It may also be necessary to ensure that where FCA brings in targeted support and/ or simplified advice, that it does not unintentionally remove frameworks, such as basic advice, during the process or where there are still consumer gaps that firms can provide meaningful support on.

Executive Summary

If you would like to provide an executive summary to your response, please provide it here.

We offer broad support to the proposals in this Discussion Paper. AFM members between them serve around 10 million consumers, and a majority of those customers fall into the advice gap. Currently AFM members deliver support to consumers via a range of methods, and our members are a natural audience for these important new initiatives.

Consumer research reinforces that most consumers are unwilling to pay for financial advice. It is vital therefore, in seeking to close the advice gap, that solutions can be delivered without upfront charges.

There is a risk in establishing a new framework that too long is taken identifying firm proposals and in writing new rules. The current rulebook provides much of the ground already: in particular the Consumer Duty has, since its implementation date in July 2023, provided a significant change in the way firms test products and markets, and the way they address foreseeable risk. Similarly, whilst underutilised, the basic advice regime provides a strong starting point for testing how to make consumer support more accessible and meaningful.