

**FCA Consumer Investments and Advice
Policy Team**
cp22-24@fca.org.uk

The Investment Association
Camomile Court, 23 Camomile Street,
London, EC3A 7LL

+44 20 7831 0898

reuben.overmark@theia.org

theia.org

 [@InvAssocin](https://twitter.com/InvAssocin)  [@The Investment Association](https://www.linkedin.com/company/theia)

01 March 2023

Dear FCA Consumer Investments and Advice Policy Team,

RE: CP22/24 Broadening Access to Financial Advice for Mainstream Investments

The Investment Association¹ (IA) welcomes the opportunity to respond to the FCA's CP22/24, Broadening Access to Financial Advice for Mainstream Investments. We are supportive of the FCA's Consumer Investment Strategy and of the aims of the proposals on Core Investment Advice which should help consumers on their investment journey and make financial advice more accessible.

In 2022, the IA convened 5 other financial services trade bodies (ABI, AIC, PIMFA, TISA, and UKFinance) to discuss issues relating to consumer investments and how we as an industry can support the FCA and HM Treasury in your goals to see a retail investment market where consumers can invest with confidence in products that are easy to understand and where consumers understand the risks they are taking and which protections are afforded to them. We have appreciated recent engagement with the FCA on this issue and look forward to working with you when implementing the proposals being consulted on and on your holistic review of advice/guidance.

¹ The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage over £9.4trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. That is 13% of the £75 trillion global assets under management.

Issues which need to be resolved

There are a number of issues which we have identified which need to be resolved to ensure that firms offer the service, and it is successful with customers. If the following issues are not addressed by the FCA we believe that there will be limited take up of the new regime.

Pre-Core Investment Advice Questionnaire

Many firms which offer advice may be uncomfortable offering a slimmed down advice proposition if they cannot gain a full view of their client's situation during the process nor ascertain that Core Investment Advice is right for what the client is trying to achieve. To ensure that the customer fulfils the criteria to take up the service and that they do not have needs which go beyond the permissions of the core investment adviser the IA recommends that a pre-suitability process questionnaire/screener be developed to certify that the product is suitable to the customer. We consider the development and use of this questionnaire to be imperative to the success of the Core Investment Advice regime. We recommend that the FCA, rather than industry or individual firms, develop the questionnaire, to guarantee a degree of consistency across industry to ensure that the customer is suitable to receive this product. The questionnaire should include questions on the following:

- **Do you have any unsecured debt (excluding student loans)?**
While certain types of debt, such as a mortgage, are often an investment into the consumers future, most unsecured loans are considered risky, carry a higher interest rate, and can lead to financial stress. According to the proposals the adviser will not be qualified to give advice on debt and should therefore be screened before any meeting. We recommend that student loans be excluded from the definition of 'unsecured debt' in this instance as they are taken to further education and repayment of them are in effect treated similarly to income tax in the UK, taken directly from the individuals pay.
- **Do you have at least 3 months of expenditure in a bank account?**
As the FCA points out, it is important that the consumer is on solid financial footing and can withstand shocks before they choose to invest. While the FCA's Consumer Investment Strategy is mainly aimed at customers with more than £10,000 in their bank accounts it is important for the adviser to gain a better view of the financial life of the customer before any advice is given. We will leave it to the FCA to decide which number of months for expenditure is best, however, we recommend that it not be lower than 3 months.
- **Are you planning on spending the money you want to invest in the next 5 years?**
Investing is for the long-term and, as with the question above, there is a need to ensure that the customer is in no need for the cash immediately. A 5-year investment horizon is often recommended because it allows for enough time for potential market fluctuations to even out and for the investment to potentially grow. Additionally, a longer investment horizon can provide more time for compounding, which is when the returns on an investment are reinvested to generate additional returns. This can lead to significant growth over time.
- **Do you accept that return on money invested is uncertain?**
This question ascertains the customers attitudes towards risk. The IA recommends that the word '*uncertain*' rather than wording such as '*fluctuate*' '*investments can go up and down*' or '*investing money can lead to negative returns*' to not scare customers who are not familiar with financial services before they have invested.

- **Are you contributing to a workplace pension scheme up to the amount that the employer matches?**

According to the proposals the adviser will not be qualified to give any advice on a pension. Because of the long-term benefits of investing into a pension we therefore recommend that a customer be prompted into fully maximizing their employer contributions before investing into an ISA.

Without this pre-contractual, pre-suitability process questionnaire there is likely to be little to no interest in offering the services among IA members who offer advice services.

New Money, New ISAs & Ongoing Advice

The proposals state that Core Investment Advice will be given as a one off, and advice cannot be given on the invested cash on a later stage, it can only be given on new cash invested into a new ISA. If these proposals are not changed, a customer who has invested money using Core Investment Advice later on returns to the adviser and wants to receive additional advice, they can only do so if they have new funds to invest and if they open a new ISA which will most likely be with a different intermediary than the original. This risks giving the impression that financial services is disjointed to the customer and we view it as counter to what the FCA is trying to do in simplifying financial services for consumers.

Further, the proposals include provisions for ongoing services with the Core Investment Adviser. As we reasoned above, if the adviser is not able to give advice on existing investments, nor withdrawing investments it is unclear what the ongoing advice will consist of. Intermediaries and advice firms are unlikely to offer Core Investment Advice if they cannot generate repeat customers. We urge the FCA to change the proposals so that advice can be given multiple times on funds invested in the same ISA, without new money needing to be added and a new ISA needing to be opened.

Junior ISAs

The IA understands why the FCA has chosen to exclude Innovative ISAs and Lifetime ISAs from this proposal, however, we would urge the FCA to look at including Junior Stocks and Shares ISAs. While tying up cash for up to 18 years, when it could be put different use elsewhere, may be perceived as risky for an inexperienced investor, these products are meant to be used as a tool to help parents or guardians save for a child's future, including university fees, a car or a deposit on a home. Getting advice on if this product is right and how to structure their investment may help their children's long-term financial well-being. The FCA should study if there would be demand to include Junior ISAs in this regime.

Conclusion

The IA is supportive of creating products which simplify financial services and help consumers live better financial lives through increasing the take up of financial advice. If the issues identified in our response are resolved, we deem the proposal to be a good step in the right direction, however, we do not think that this regime will, on its own, solve issues regarding the majority of consumers being disconnected from their finances and financial opportunities. Going forward the IA would like to see the FCA work constructively with industry, trade and consumer bodies as well as HM Treasury on the review of the advice/guidance boundary which has the power to transform how retail consumers will access financial services going forward. Any review should include studying proposals which will allow intermediaries to provide more targeted support when they believe an unadvised

customer is at risk of scams or breaching pensions rules as well as on personalised financial communications, proposals which the Investment Association supports.



We welcome future discussions with the FCA on these proposals and look forward to engaging with you on the holistic review.

Yours Sincerely,

Reuben Overmark
Retail Markets Specialist