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Dear Philippa

## **Simplified Advice – Guidance Consultation**

This is the Financial Services Consumer Panel's response to the FSA's Guidance Consultation on simplified advice.

### ***The consultation***

We are pleased that the FSA has responded to the debate on simplified advice by issuing this Guidance Consultation. We agree with the approach taken by the FSA and the minimum standards that are being set. In particular we support the need for consumer protection to be at the heart of any advice service and the clear guidance regarding the boundaries for suitability that any simplified advice regime must comply with. We acknowledge too that there are a number of challenges around the design and implementation of commercially viable models to deliver simplified advice and we urge the FSA to help and encourage providers to develop such models.

It has been helpful to have a concise summary of the background, legal and regulatory position and key issues as a basis from which to move the simplified advice debate forward. This has helped to clarify a number of areas surrounding the provision of focused or targeted advice and the scope for different levels of advice within the current suitability rules, although as we understand the position there is still an element of uncertainty around some of the proposals coming out of the current MiFID review.

### ***Retail Distribution Review***

We are also mindful of the importance of the Retail Distribution Review and the reasons why this was introduced. We are therefore pleased to see that the guidance clarifies how simplified advice can be offered within the current suitability rules without undermining the requirements of the RDR. In particular we are pleased that the FSA has made it clear that the adviser charging requirements will apply to a simplified advice process. Consumers must be made aware at the outset of the cost of the service to be provided.

Although anecdotally we are aware that concerns have been expressed by some industry participants that up-front disclosure could lead to consumers withdrawing from the process and failing to obtain the advice that they need, we believe that once consumers begin to understand that the service being provided is one that is worth paying for, this risk will largely fall away. In a competitive market greater transparency about charges and fees should also drive down cost. We urge the FSA to consider undertaking some form of consumer education surrounding fees, to help consumers understand that advice has always had to be paid for, but adviser charging has been introduced in order to make the cost of advice more transparent and, ultimately, fairer to consumers.

### ***Access and delivery***

The Guidance Consultation focused on simplified advice services that would be accessible on-line, or through major outlets such as banks, bancassurers and the insurance sector and we note that the FSA has assumed any simplified advice regime would fall within the rules for restricted advice.

However we would like the proposed guidance to encompass also other access and delivery points, such as the workplace. With NEST fast approaching we believe that there is a real possibility that the workplace could become a far more significant financial services 'entry point' for consumers and that it would be helpful for employers and firms to have guidance available as this area is developed. We would also like clarification as to whether the FSA has considered that an independent advice service might be offered as simplified advice.

### ***Panel approach: simplified advice and related issues***

We think it is important to identify more clearly the need that simplified advice is being designed to address, and to identify the target market. But of course we cannot 'turn the clock back' in order to do so and there are already a number of areas coming into focus as a result of the RDR on which we have already engaged with the FSA, consumer and industry bodies. We will be pursuing these existing work streams.

In particular we are continuing to focus our attention on what we can do to help to ensure that consumers who wish to access advice from financial services professionals can do so, and that consumers can have access to products which deliver the outcomes they need. We suspect the solution will go beyond the strict remit of financial services regulation and will call for a number of co-ordinated initiatives between a diverse range of stakeholders, including the FSA/FCA. One example would be the work being undertaken already on what are described variously as simple or simplified products – our own work in this area has focused on products which deliver straightforward outcomes – alongside the new product intervention powers of the FCA. We are looking to the FSA to facilitate some of these initiatives and we would welcome the opportunity to discuss this further.

We strongly believe that products which deliver simple or straightforward outcomes will play an important role in giving consumers the confidence they will need to buy financial products for the first time. For more experienced consumers they could become as familiar as, for example, National Savings and Investment products as a

trusted 'brand' or benchmark to use when making financial decisions. They should also be ideally tailored for delivery through a simplified advice service. We were pleased to see the recent announcement of a new Steering Group to take forward the Treasury's work in this area and we are looking forward to engaging closely with this new project.

### ***Recent work***

Most recently we organised a roundtable on the subject of simplified advice with yourself and Richard Taylor from the FSA, Age UK, Consumer Focus, Which?, the Financial Ombudsman Service, professional bodies, the Money Advice Service, and representatives from industry. The event stimulated wide and healthy discussion but, as you know, little consensus.

As I have already indicated, it is fair to say that in reality the issues discussed went much wider than designing a 'streamlined' investment advice service. It became evident that while the stimulus for much of the current debate has been the possible reduction of access to financial advice as a result of the RDR, what we have actually been talking about are broader issues such as:

- the savings gap (which is itself the subject of differing interpretations)
- the protection gap
- the income gap (after all, if consumers do not have sufficient disposable income, they will not buy savings and investment products whether there is an advice service available or not)
- the impact of auto enrolment
- consumer buying behaviour and
- the key role of the Money Advice Service.

This may well require a more holistic approach than at present to future innovation around the incentives and facilitations that are on offer.

### ***Future action***

We are about to commission research to find out more about the sources of advice currently available to consumers with a view to continuing our work to facilitate the development of products and services that deliver the right outcomes for consumers. We believe there needs to be a broader range of ways in which consumers can be encouraged to interact with the market so that when they can afford to do so, they are able to buy the financial products they need.

I have already indicated in this letter that the work that needs to be undertaken to get the right result for consumers in the post RDR world covers a wide range of issues. Many problems already exist, but we can be sure that they will only worsen if the opportunity is not taken now to address them. Without a degree of innovation and more holistic thinking we risk leaving some consumers without any access to the

financial products they need; and others relying on execution only with no regulatory protection. We know that the solutions do not lie only in the hands of the financial services regulator, but the FSA has a significant role to play in stimulating debate and facilitating innovation. We would like to see more initiatives being launched by the FSA in the coming months and we would welcome the opportunity to discuss ideas further.

Yours sincerely

Adam Phillips  
Chair  
Financial Services Consumer Panel