

7 October 2024

Dear CEO/Director,

FCA's expectations for financial advisers and investment intermediaries

We are writing to you because your firm's primary business is financial advice or investment intermediation. This letter provides a summary of our priorities, our expectations of you, and the work we intend to do.

Firms like yours play a vital role in helping consumers make complex financial decisions. The support provided is significant, with 4.4 million consumers paying for financial advice last year. However, we know most people do not access traditional channels of support. This can deprive them of valuable help and the economy of investment.

As we look to the future, we expect the sector will continue to evolve. This is likely to be driven by, among other things, ageing consumer and adviser populations, the transfer of wealth, a shift from defined benefit to defined contribution pensions, geopolitical and climate uncertainty, interest rates, industry consolidation, technology advancements, and regulatory requirements.

This presents opportunities for firms to grow and serve new markets. It also poses challenges and risks, which could lead to harm to consumers and the market. We want to work with you to ensure consumers receive consistently good outcomes from a sector which is sustainable and well placed for the future. We also want to empower more consumers to manage their finances.

To help achieve this, our priorities over the next two years are to:

1. **Reduce and prevent serious harm** – with a focus on retirement income advice, ongoing advice services, ensuring the 'polluter pays', and consolidation. These are explained below.
2. **Monitor and test higher industry standards under the Consumer Duty** – you should be able to evidence your firm has implemented the Duty and complies on an ongoing basis.
3. **Enable more consumers to pursue their financial objectives through the Advice Guidance Boundary Review** - we encourage your firm to actively engage with us on the review and consider the opportunities it may provide to better support your clients.

Our priorities will be underpinned by:

- **Increased industry engagement and collaboration** - we want to engage with you to gain insights into the issues and challenges you see, help shape our future regulatory proposals, and share our expectations. We will increase our engagement across the country, including through in person events and keynote speeches.
- **A forward-looking and data-led approach** – our aim is to maximise the power of data within the sector. We recognise we are in a unique position, with access to data from firms across the sector. This can provide valuable insights to firms and the wider industry, including on the sector's current position, its sustainability, and how it is likely to change. As part of our engagement, we will proactively seek views on what insights would be most useful to share. This will focus on data that is easily accessible to minimise the burden on firms. We expect to follow by issuing a survey to firms next year to obtain these insights and aim to start retiring the collection of less valuable data.

Retirement income advice

The size of the retirement income market is significant and growing. Decisions for consumers approaching or in retirement have also become more complex with the potential for more risk. Financial advisers have a key role in this market. However, the harm caused by poor advice can have a particularly detrimental impact on consumers.

In March 2024, we published the [findings](#) of our thematic review of retirement income advice. Our review found examples of both good and poor practice across the market. Some firms showed they had considered their clients' needs and designed their advice model in a way likely to lead to good outcomes. However, we saw that some firms may not be meeting client needs, potentially leading to poor outcomes.

What we expect of you

All firms that provide retirement income advice should use our findings to review and update how they work. We have issued a [Dear CEO letter](#) which sets out the actions for firms to take.

What we will do

We are following up on the findings of the thematic review with firms and carrying out further work to explore the scale of any issues identified and tackle any harms. We intend to publish further commentary on the retirement income advice market in Q1 2025.

Ongoing advice services

Our analysis shows that 90% of new clients are placed into arrangements for ongoing advice. The proportion of advice revenue from ongoing advice has also increased from 60% in 2016 to 80% in 2023. We have concerns firms may not be adequately considering the relevance and costs of these services for all clients and that some clients are being charged for services that are not delivered.

What we expect of you

You should ensure the service offered is appropriate for your clients' circumstances, that it provides fair value, and is delivered within the terms of the agreement. You should also clearly confirm the details of the ongoing service to your clients, its associated charges, and how clients can cancel the service should they wish. You should not charge clients for services that are not delivered. Firms must maintain records to ensure appropriate monitoring and demonstrate they are delivering good outcomes.

What we will do

Earlier this year we wrote to a number of firms requesting information about their delivery of ongoing advice. We aim to provide a further update later this year on our findings and next steps.

Polluter pays

We have seen significant liabilities fall to the Financial Services Compensation Scheme (FSCS). Our aim is to ensure the firms that create the liabilities are better able to pay them. Should a firm fail, we want to ensure there is more capital for FSCS recoveries.

What we expect of you

We expect you to ensure your firm and any appointed representatives you oversee hold adequate financial resources to meet potential redress liabilities. You must not seek to avoid redress liabilities. Firms considering selling their business or client bank must act to deliver good outcomes. Our [publication](#) of December 2023 provides more information on our expectations. Our [website](#) also contains information for firms before they apply to cancel.

What we will do

We expect firms to identify and meet any potential liabilities before we will cancel their authorisation. Actions we may take include use of past business reviews and deed polls to ensure liabilities to consumers are identified and met. Where firms are unable to meet their liabilities and accountable individuals seek to move to another firm, we will seriously question their fitness and propriety to hold a role that requires FCA approval. We expect to outline our next steps on our [Capital Deduction for Redress](#) consultation before the end of this year.

Consolidation

There has been an increase in the acquisition of firms or their assets over the last 2 years. While industry consolidation can provide benefits, various types of harm can occur where this is not done in a prudent manner with effective controls to promote good outcomes.

What we expect of you

We expect you to:

- Notify us and get our approval to acquire or increase control in a firm we regulate.
- Ensure the delivery of good outcomes is central to your culture. Your leadership, governance, oversight arrangements and controls should be effective, adequately resourced, and commensurate with your growing size and complexity.
- Undertake adequate due diligence of the selling firm or client bank.
- Take into account our [supervision review report](#) and [guidance](#).
- Hold adequate financial resources at all times. Where acquisitions are funded by debt, you should have a credible plan to service the debt. This should be supported by realistic and stress-tested financial projections. Where you are an investment firm group, you must fully comply with our prudential consolidation rules. Our [newsletter](#) gives further details.

What we will do

We plan to undertake multi-firm work to review consolidation within the market. Where we receive notifications from individuals or firms to acquire or increase control in regulated firms, we will assess and challenge their suitability and the financial soundness of the acquisition. Where acquisitions complete without prior regulatory approval, we may use our enforcement powers to object to the transaction or initiate criminal proceedings.

Other areas and next steps

Our other areas of work which may impact your firm include, but are not limited to, ensuring effective appointed representative oversight, the future disclosure regime for Consumer Composite Investments, and environmental, social and governance priorities. This includes our [sustainability disclosure requirements](#) and the [advisers' sustainability group](#).

In writing to a large group of firms, we know all these issues may not be relevant to you. However, we expect you to review this letter and consider how it applies to your firm. As CEO/Director, you are responsible for ensuring your firm meets FCA requirements.

Should you have any queries please contact our Supervision Hub on 0300 500 0597 or visit our [website](#). This is the primary point of contact for your firm's day-to-day interactions with the FCA. We also recognise that there may be times when your firm faces urgent issues of strategic importance. In such significant circumstances, please contact the Head of Department for Advisers, Wealth and Pensions Nick Hulme at Nick.Hulme@fca.org.uk.

Yours faithfully,

Lucy Castledine, Director of Consumer Investments



Goals



Priorities

- 01 Reduce and Prevent Serious Harm**
 - Retirement Income Advice
 - Ongoing Advice Services
 - Polluter Pays (Capital Deduction for Redress)
 - *Consolidation
- 02 Test and Monitor under Consumer Duty**
 - Evidence ongoing compliance
- 03 Advice Guidance Boundary Review**
 - Consider opportunities to support clients

* While consolidation can provide benefits, harm can occur if not done in a prudent manner with effective controls to promote good outcomes. See our letter for more details.



Other Focus Areas

- ✓ Appointed Representative oversight
- ✓ Environmental, Social and Governance
- ✓ Future Disclosure Regime



Supervisory Approach

- ✓ More industry collaboration
- ✓ Forward-looking and data-led