



HM Treasury/FCA - Policy Paper DP23/5 Advice Guidance Boundary Review – proposals for closing the advice gap

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to Discussion Paper 23/5 from HM Treasury and the FCA, *Advice guidance boundary review – proposals for closing the advice gap*. Our response has been led by members of the Finance and Investment Board.
2. Under its royal charter, the IFoA has a duty to protect the public interest. For this reason, we take an active interest in the impact of important proposals on consumers. However, since most investment actuaries focus on institutional work, we have commented below on the broad themes in the consultation document rather than addressing each question in detail.

General comments

3. Chapter 2 describes the advice gap and sets out the three main proposals in the consultation. The IFoA supports the general aim to give consumers better quality of guidance/advice and to ensure that this is more widely used in practice. One area we highlighted in 2022 research on the impact of the government's pension freedoms was the need for better access to advice¹. We would stress that advisers should be liable for the appropriateness of their advice however it is delivered (the issue of liability is not covered in the Discussion Paper).
4. We think it is sensible to encourage more consumers to take advice but to recognise there will also have to be effective solutions for those who are less engaged due to auto-enrolment, for example putting more obligations onto fiduciaries through retirement.
5. The table on p17 comparing current and proposed future support is helpful; we think illustrations of the later scenarios such as flow diagrams or decision trees could also be useful.

¹ <https://actuaries.org.uk/media/nqsj02ge/freedom-and-choice-public-attitudes-seven-years-on-survey-report.pdf>

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Clarifying the boundary

6. The proposals for clarifying the boundary seem sensible. We think this proposal would need to be accompanied by a significant awareness campaign, to ensure that firms will feel confident to offer wider guidance options.

Targeted support

7. We welcome the proposals for targeted support, but we think it will be difficult to implement it in an effective manner. Although the advice is generated from limited data it will have to be meaningful to consumers. On the other hand, advisers will be conscious of their liability and may offer advice that is too generic and risk-averse to be genuinely useful.
8. Some consumers will fit less neatly than others into target markets. There is a risk that some well-informed consumers might be tempted to stretch the truth about their circumstances in order to qualify for cheaper advice.
9. The description of targeted support mentions that 'the consumer may have individual needs that have not been identified', i.e., there could be important factors for this individual that don't relate to the identified 'target market'. We would welcome more detail on how such factors would be identified and assessed for whether targeted support was still appropriate.
10. We are concerned that the data items used to define the groups for targeted support may not generate sufficiently homogeneous groups of consumers. The advice provided may not be suitable for those who are outliers. Will advisers still be liable in such circumstances?
11. In terms of the scenarios mentioned, some seem quite 'self-contained', e.g. changing to a cheaper tracker fund or a lower-risk investment fund. However others seem more holistic and therefore more difficult to define as targeted support, e.g. to become an investor for the first time.
12. While targeted support could reduce the cost of seeking advice for some consumers, we think it is also important to investigate ways in which technology could bring down the cost of holistic advice.

Simplified advice

13. We support simplified advice in theory, as a way to provide face-to-face advice with a personal recommendation to the mass market. However, we would question how an advisor can feel confident that simplified advice is the best option unless they have first satisfied themselves that there are no more complex issues that are too material to ignore. However, going through that process seems similar to giving full advice.
14. Two key features of the simplified advice proposals are that it would be one-off in nature and would focus on a specific need rather than looking holistically at a customer's circumstances. We think it could prove difficult to define which scenarios possess these two features. For example, one of the scenarios for simplified advice suggested in the paper is investing an inheritance. While this is indeed a one-off situation, the level of complexity of an estate will vary, and in some cases giving sound advice may require awareness of the consumer's wider circumstances. In general, as noted in the paper, we think it will be challenging to define the scope of simplified advice to avoid being either too narrow or too all-encompassing.
15. If you would like to discuss any of the points raised, please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk).