



Compliance First – Professional Development Events – Round 3

Regulatory Update
September 2024



Learning Objectives

01

Summarise the Regulator's latest 'information request' on Retirement Income Advice

02

Describe the key areas of focus and understand the risks associated with non-compliance

03

Identify emerging regulatory themes and risks for the second half of 2024



Retirement Income Advice



Latest FCA supervisory work



Information request

- Firms contacted by FCA case-officer
- Series of questions on advice processes for retirement
- Request for evidence, including three advice files
- FCA give written feedback
- Where there are gaps, firms are required to prepare an 'action plan'

4 June 2024

Our ref: [REDACTED]

By email only: [REDACTED]

Dear [REDACTED]

Subject: Ongoing supervisory work on retirement income advice

Background

The retirement income advice market remains a focus for the FCA. We published a [report](#) about our Retirement Income Advice Thematic Review on 20 March 2024 which sets out our findings and expectations of firms that provide retirement income advice. We have also issued a [Dear CEO letter](#) informing firms we will target our supervisory focus on those where there are indicators and/or evidence of failings relating to their regulatory obligations.

As part of our ongoing supervisory work on the provision of retirement income advice, we are looking into the design and delivery of firms' advice process (or Centralised Retirement Propositions "CRP"), as well as oversight arrangements and suitability of advice. We have selected your Firm for this work.

Scope of the ongoing supervisory work

We will consider whether your Firm complies the relevant regulatory requirements in relation to:

1. (At-retirement advice) suitability of the advice given to consumers on accessing and/or arranging their accrued pension/wider wealth to deliver an initial income in retirement.
2. (In-retirement advice) suitability of ongoing advice given to consumers on managing pension wealth/wider assets to produce regular/*ad hoc* income in retirement.



What are firms being asked for?

Annex A: Information Request - Advice Register

Annex B: Information Request - Decumulation Advice Model

Annex C: Information Request - Firm Governance and Oversight

Annex D: Information Request - Other Information

Please submit relevant supporting evidence and commentary for the two questions below.

The supporting documents should be uploaded via Egress and labelled using the following convention: **[Question to which the document relates to (For example - Annex D 1a) [Title or description of document] [Date or version of document]**.

Please reference the relevant evidence provided (e.g., document title or description, page X, paragraph Y), and add commentary where appropriate, alongside each question below.

		Supporting evidence	Comments
1a	A description of your firm's decumulation advice business model, including details of how it attracts new business, details of introducers, how it generates revenue, and any plans for future growth.		
1b	In relation to decumulation advice only, details of the compliance monitoring arrangements that are in place, together with copies of all internal and external compliance/audit reports produced during the last two years, and actions taken in response to those reports.		



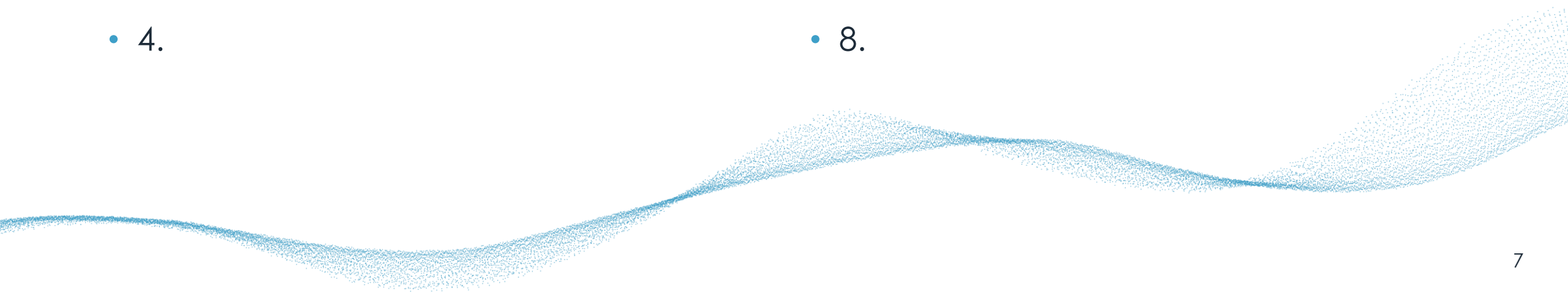
Case-study – these statements were insufficient

1. “We judge each case on whether we can add value to the client”
2. “We do not have a standard withdrawal rate or use CFM”
3. “Our risk profiling process is the same for all our clients”
4. “We use a tool from X, we rely on them to do due diligence”
5. “We typically recommend similar portfolios for accumulation and decumulation”
6. “Some reviews slip through the net for a variety of reasons”
7. “There have been zero complaints since inception. We know what we do.”
8. “N/A” - *When asked how the firm manages any potential conflicts*



What areas for improvement were on this firm's 'action plan'?

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.





What areas for improvement were on this firm's 'action plan'?

- 1. Target market consideration
- 2. Income Withdrawal suitability
- 3. Risk profiling
- 4. Third party tools/service providers
- 5. Investment selection
- 6. Periodic reviews
- 7. Control Frameworks
- 8. Conflict of Interest



QUICK RECAP: THE PRIORITY FIVE

- **Income Withdrawal strategy** – have a process; consider CFM quality
- **Risk Profiling** – specific to decumulation; CFL separate to ATR; due diligence up to date
- **Investment selection (advice suitability)** – independent file checks; CRP; RIAAT tool
- **Periodic Reviews** – check the design; delivery and quality of your ongoing service
- **Control Frameworks** – allocate responsibility; up to date & accurate advice registers



“We judge each case on whether we can add value to the client”

- Under Consumer Duty, firms are ‘manufacturers’ of their advice services
- You are required to have a defined target market
- Customer demographic, income objectives, level of experience, minimum assets value required, what the customer wants from the service
- Be able to articulate your negative target market, i.e., customers would not receive value from the services you offer



“Investment Selection”

- Do not forget about annuities when talking about investment selection
- What has the firm and its advisers done to refresh on annuity market offerings
- Surge in cases being reviewed by the AQT team – up 87% on 2023
- Clear risk disclosures where annuities are discussed but not recommended:
 - potential for annuity rates to be worse in future
 - the risk of capital erosion
 - income levels might not be sustainable



“N/A” - *When asked how the firm manages any potential conflicts*

- Does the firm factor aspects, other than sales performance, into remuneration?
- Do Senior Managers or Shareholders have links to other firms?
- How does the firm guard against product bias?
- Does the firm have a conflicts of interest policy in place?
- Conflicts should be monitored by Senior Managers at the firm



Potential outcomes from the FCA Information Request

- Firm required to share the findings with the firm's Senior Management
- Put action plan together to address areas for improvement
- Review advice files and provide redress where required
- Worst case scenario - a 'VREQ'

Effective since	Requirement
[redacted] 2024	<p>The firm has applied to restrict its ability to give retirement advice for new customers. Advice to its existing decumulation customers must be reviewed for suitability before the firm proceeds with any transactions.</p> <p>The Requirements 1. [redacted] must not, without prior written consent of the FCA, provide any retirement income advice (as defined below) or arrange any pension decumulation transactions for any new customers. 2. [redacted] (...)</p> <p>More information ></p>



How to strengthen your decumulation advice process

- We have created two new templates to support your reviews:
 - A self-assessment checklist to record your review and identify weaknesses
 - Your Retirement Income Advice Model – a summary for your firm and advisers

Self-Assessment

Firm name has considered FCA findings and document below how we have taken appropriate steps to meet FCA requirements on retirement income advice, including the Consumer Duty. Where action is required as a result of our review, this has been noted in the 'Actions taken in response to Findings' section at the end of the assessment.

Completed by:

(SMF responsible for decumulation advice)

Date completed:

Summary of key finding

The Senior Manager responsible for oversight of the 'other responsibilities' section of the firm's business plan is not updated in the 'other responsibilities' section of the firm's business plan.

Responsibility for oversight of 'other responsibilities' is held by the Senior Manager responsible for oversight of 'modelling/outsource investments'.

The firm can evidence that the

- Resource Model
- Quality Assurance / KPIs /
- T&C Results (performance)
- Complaints received and u
- Performance of Ongoing S

Firm Name

Our Retirement Income Advice Model

Description of advice model

A description of the firm's decumulation advice business model

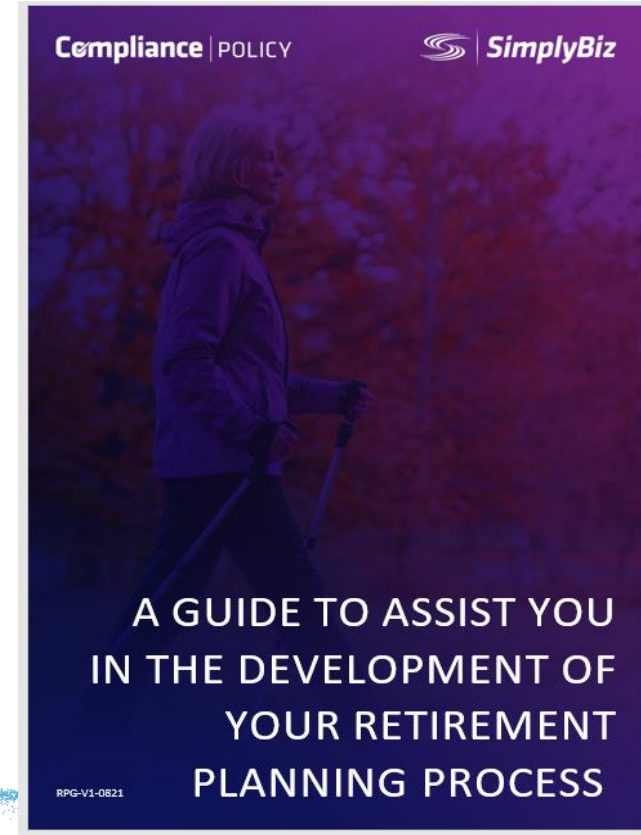
- Size of the firm
- Number of advisers
- Client type – retail or professional (note this is likely to be 'retail')
- Whether advice is independent or restricted (if so provide details)
- Confirm the activities of the firm in the retirement advice space, this is likely to be initial and ongoing pension and investment advice
- A high-level summary of the customer journey, e.g. discovery meeting, disclosure of services and costs, fact-finding including vulnerability assessment, product and solution research, provision of a suitable recommendation and report, ongoing service (as required)
- Summarise the advice process for 'at retirement' customers, e.g. full review of 'retirement' objectives, current and future income requirements including full breakdown of clients income and expenditure needs as well as lump sum requirements, consideration of existing pension assets and other investments/assets, Attitude to Risk, Capacity for Loss and Knowledge & Experience assessment, which leads to product research, cash flow modelling, and recommendations on solutions to meet the client needs.
- Summarise the advice process for 'in retirement' customers receiving ongoing advice e.g. how often the adviser revisits objectives, current and future income requirements, Attitude to Risk, Capacity for Loss, cash flow modelling, additional rebalancing recommendations and the ongoing suitability of recommended solutions.
- Confirm the types and range of products the firm advises on (this should correlate with your advice register). Do you provide advice on a range of solutions to meet retirement income needs including all Annuity options, Flexi-Access Drawdown options, Blended approach, UFPLS, small pots, income from other investments or other asset sources, equity release/lifetime lending (if appropriate).
- If you have a core investment proposition, give details and state what research and due diligence has been done as part of its selection (summarise, as more detail is required later)

1



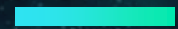
Your Retirement Planning Process Guide

- Supplementary Fact-find focusing on your wider family circumstances, history and your need for future income
- Attitude to Drawdown Risk to assess the client's knowledge and awareness of their retirement options and risks
- Checking the client understands the risks and disadvantages





Emerging Regulatory Themes



The second half of 2024



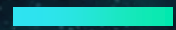
New government focus

1. Artificial Intelligence
2. Sustainable Finance
3. Streamlining the regulatory rulebook





Artificial Intelligence



The current regulatory system



Discussion point:

Has anyone started using AI within your business?

What has been your experience?



Benefits and risks

- ✓ Save a firm time
- ✓ Cut costs for consumers

!! Data protection – how secure is client data

!! Responsibility for content and accuracy

The FCA's approach to AI



"In 2023/24 ... the UK became home to over 1,300 AI companies."

**AI firm to help advisers
build suitability letters
in five minutes**

**'First in the market' tool launched to
automate suitability letters**



AI is not directly regulated

... HOWEVER it is indirectly regulated using existing frameworks

Principles
for Business

Threshold
Conditions

SM&CR

Consumer
Duty

Rule
breaches

Data
Protection



Due Diligence

- How will it improve efficiency and increase productivity?
- How it can be adopted safely, and does it offer accurate outputs?
- Whether it is compatible with existing data protection
- How it will integrate with other technology, e.g. back-office systems

Guidance on the regulation of AI for financial services intermediaries

Overview

Artificial intelligence (AI) is becoming increasingly prominent in financial services. It has the potential to transform the way firms serve their customers. As always, it is important to understand the existing regulatory requirements. This document provides a non-exhaustive list of due diligence considerations for a firm might be:

- How it will improve efficiency and in
- How it can be adopted safely and do
- Can it help the customer understand
- Whether it is compatible with existin
- How it will integrate with other tech

AI won't replace a paraplanner, adviser or im role and give them more time to use soft skill tools and have no 'emotional' intelligence.

Regulation

There is no direct regulation of AI as it stands regulatory frameworks, for example through identified the following principles around reg appropriate transparency and explainability; contestability and redress.

Existing FCA regulatory framework relevant

Firms are already subject to the following rec

Principles for Business	Firms must condu (Principle 2) and t responsibly, effect (Principle 3). Firm accuracy and qual
Systems and Controls	A firm is required mitigate risks that relating to busine
Threshold conditions	A firm's business i the consumer. Th senior managem understand the to
Consumer Duty	The tool should d products and serv consumer support which is character consumers (see PI Management Info outcomes experie

AI related due diligence

A non-exhaustive list of questions for the adoption of a third party AI tool

How does the tool work? (i.e. a description of the tool's functionality)

How client data is used and owned? Is client data locked within the tool and owned by your firm?

What data analysis does the tool perform? Can client data be processed externally by the AI model and processed in ways the client would not expect?

What methods does the tool employ to improve its output?

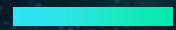
Where is the data stored? Data cannot be stored outside of the UK unless there is an adequacy decision or safeguards in place.

Where applicable, how does the system integrate with other systems such as back-office systems, video-conferencing systems, ID verification checks etc.?

Can the system be customised to the needs of the firm and its clients?



Sustainability Disclosure Requirement



Latest update



Labelling regime commenced on 31st July 2024

Fund managers can start to place 'labels' on investment funds that have a specific environmental or social goal and meet specific criteria



What does this mean for Advisers?

- When recommending a labelled fund, you must provide the client with a copy of the ‘consumer facing disclosure’.
- Where you provide an ongoing service, you must keep clients that have a labelled fund up to date with any changes that the fund manager makes to a label or the disclosure.



SDR Guide and update

- SDR Guide available
- Bulletin issued with latest developments on 31st July 2024
- Fact-find updated to align with new terminology
- Adviser's Sustainability Working Group to feedback in H2

<https://advisersustainability.sites.pimfa.uk/good-practice-working-group-request-for-feedback/>

The image shows a screenshot of the Advisers' Sustainability Group website. The page is titled "Good Practice Working Group - Request for feedback". It features a navigation menu with links for Home, Group Members, Meeting Notes, Resources, Working Groups, and Share Your Views. The form includes fields for Name, Company, and Email. Below these fields is a section titled "Know your client" with a question about the proportion of new or existing clients interested in responsible/ethical/sustainable investments. The form also includes radio buttons for "Yes", "No", and "Other" and a text area for further information.

Compliance | Policy | SimplyBiz

Advisers' Sustainability Group

Home | Group Members | Meeting Notes | Resources
Working Groups | Share Your Views ▾

Good Practice Working Group - Request for feedback

Requesting your opinions and suggestions

Name *

Company *

Email *

Know your client

What proportion of your firm's new or existing clients say that they want to explore the use of responsible/ethical/ sustainable investments or are generally concerned about such systemic risk issues as climate change or biodiversity loss?

Does your firm have a new client fact finding process to identify and support such clients if they do not raise the subject themselves?

Yes No Other

If you selected other, please provide further information

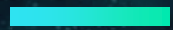
Does your firm have a regular review process to identify and support existing clients if they do not raise the subject themselves?

Yes No Other

If you selected other, please provide further information



FCA Call for Input

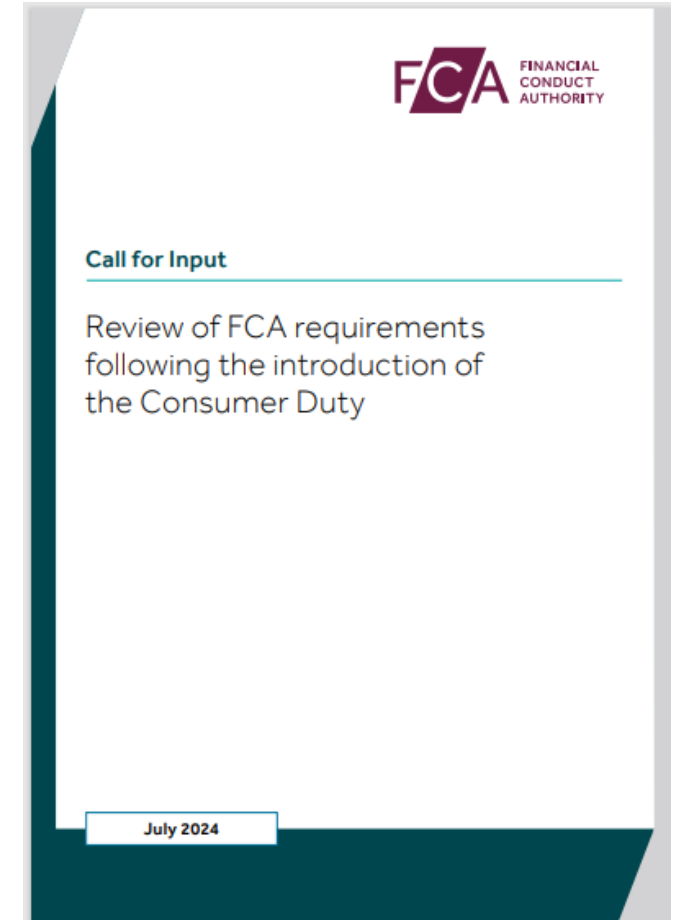


Rulebook clean up



FCA want to simplify their rulebook

- Address potential areas of complexity, duplication, confusion, or over-prescription
- Which detailed rules or guidance could be simplified to rely on high-level rules, or have interactions with other rules which could be clarified
- Getting rid of Consumer Duty not in scope!
- Feedback open until 31st October 2024





Opportunity to shape existing regulation

What regulatory rules do not work well for consumers?

Where do you see over-complexity?

rulebookcleanup@simplybiz.co.uk



New Services



Supporting your needs



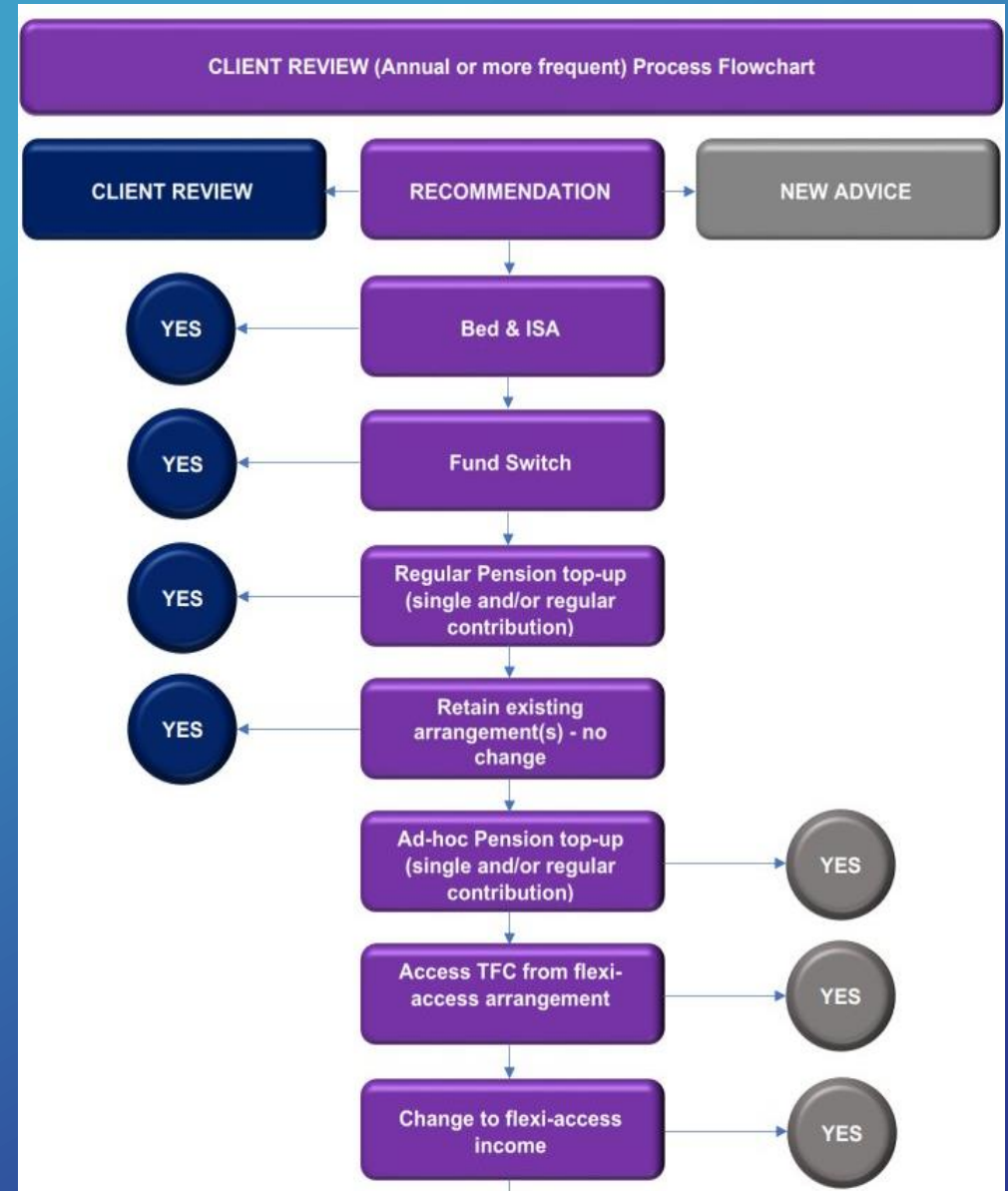
Annual Review Assessments

In December 2023 the FCA stated consumers may be paying for a service but were either not receiving it - or not receiving it to the **standard expected**.

How are you checking that your ongoing annual review files meet current FCA requirements?

- ‘Annual review’ assessment checks that your annual reviews are suitably documented to meet regulatory expectation.
- In-depth review of the file with detailed feedback aligned to the FCA outcomes.

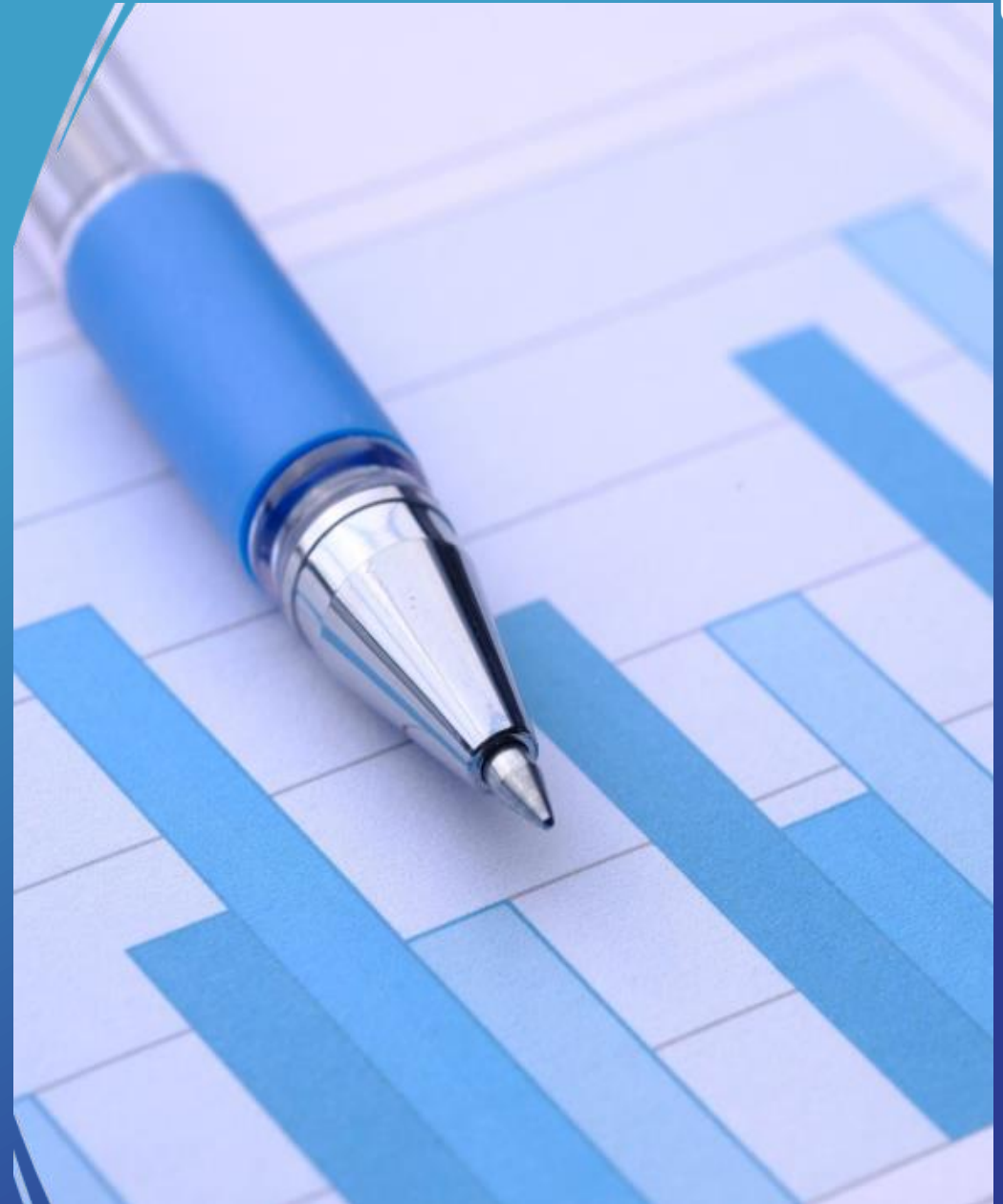
Easy upload using our secure specialist services portal.



'Check The Checker' Reviews

How can you demonstrate that your internal file checking process is aligned to FCA expectations?

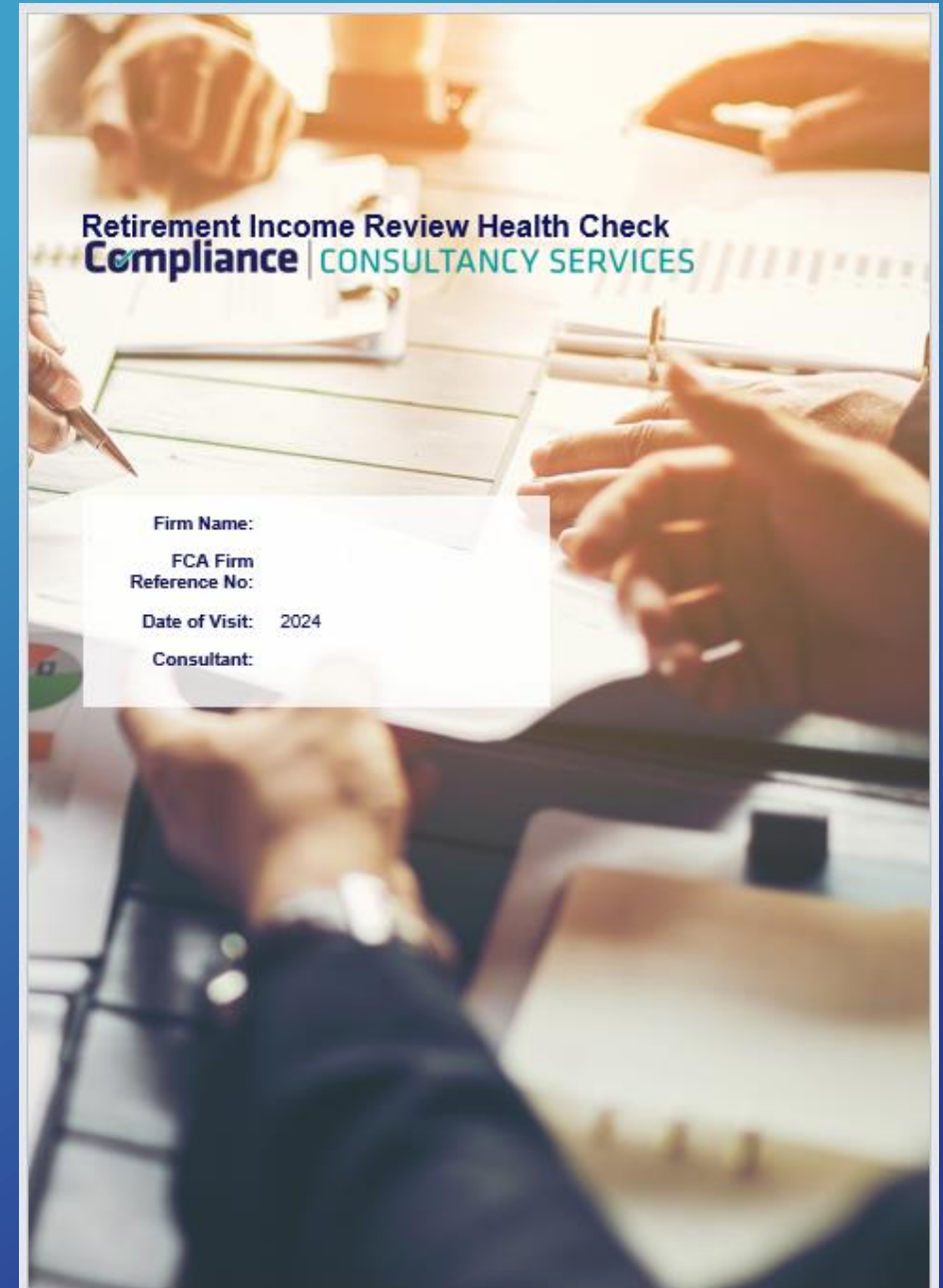
- 'Check the Checker' file assessment reviews client file and internal file review output
- Determines whether internal process is suitably robust
- Identifies any trends, training needs or areas for improvement
- Detailed feedback to identify any gaps in your assessing standards to improve the quality of your existing internal file assessments.
- Easy upload using our secure specialist services portal.





Retirement Income Health-check

- In line with FCA findings and published papers
- Half day remote health-check
- Includes:
 - Review of current firm processes
 - Feedback on key areas from thematic review
 - RAG rated report
 - Action plan





Learning Outcomes

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Identify emerging regulatory themes and risks for the second half of 2024