Consumer Duty and your investment advice

It goes without saying that when it comes to providing investment advice, every financial adviser is already trying to deliver 'good outcomes' for clients. Given that is the key principle of the Consumer Duty, many may be thinking that they don't have anything to worry about.

As with most regulation, however, it might not be quite that simple. Recently the regulator has been quite clear that the Consumer Duty provides a 'new lens' through which to look at your investment proposition.

The Consumer Duty regulation is clear and advisers will need to understand exactly what that means for their propositions and how they can ensure that they meet the new requirements.

The good news is there is practical guidance advisers can lean on to ensure that you meet the new requirements. The Consumer Duty has been built around three 'cross cutting rules' and four outcomes. So, one approach you could take is to consider each of the four outcomes and how you might meet them in relation to your investment proposition:

> *If you provide advice to families, you may find different generations have different needs and preferences*

The four outcomes

1.The governance of products and services

The aim of this outcome is for you to provide evidence that your investment proposition is appropriate for your target market. You may want to consider these areas:

Firms must ensure that:

- Build a target market statement if you have not already done so, taking into account factors like age, investment term, objectives or level of financial sophistication.
- You may have more than one target market – for example, if you provide advice to families, you may find different generations have different needs and preferences. In this case, consider a statement for each target market.
- Speak to the investment managers you use about their own target market information and who their funds or portfolios have been designed for. This is clearly more complex if you create portfolios of funds, as opposed to a single outsourced solution, but nonetheless it should be addressed.
- Ensure that the investment manager's target market matches your own
- Review your investment proposition regularly to ensure it remains appropriate.

2. Price and value

This outcome requires that you demonstrate that investments represent good value. In considering this, focus on what the client is paying for. A cheap but poorly diversified income solution is equally as likely to fail the value test as a more expensive active solution. Here are some points to think about:

- Assess what your clients receive in relation to what they pay (index exposures, manager skill, diversified strategic asset allocation, tactical asset allocation, breadth of investment universe, operational and investment due diligence, fund selection, cost/quality of investment componentry etc).
- Are your clients' investments delivering on their stated objectives? Where you consider performance, are you measuring it against an appropriate comparator or benchmark? What is the total cost of ownership, i.e. platform plus investment plus advice fees?
- Consider hidden benefits/costs such as the value of pre-funding when dealing or the need to maintain cash to fund fees (rather than stay invested). Is the client getting value from all of these areas? It is not just the underlying investments you need to consider for this outcome.

3. Consumer understanding

The information you provide to clients should be 'effective, timely and properly understood'. This means:

- You should provide regular, ongoing investment reporting covering what clients need to know – e.g. performance reporting against a relevant comparator, costs information and (if appropriate) ESG updates.
- Put yourself in your clients' shoes - will they understand the information that is being sent to them? If you are unsure, then test your proposed communications with someone of a similar level of financial education to the intended recipients.
- Address client preconceptions wherever possible. Clients of fixed asset allocation strategies, for example, may expect activity that is not part of the product design.
- At outset and on an ongoing basis, you may also wish to explore a means to explain the potential effects of poor investment returns to your clients. Recent market returns have provided the opportunity to test this process!

4. Consumer support

To fulfil this outcome, you need to provide support that meets your clients' needs. For example:

- Consider the ongoing support you are providing in relation to your investment advice. Typically, this will be regular communications, updates, and suitability reviews.
- The regulator has stated that they expect clients to be able to make informed decisions with the onus on the service provider to make sure relevant information is provided in a manner clients are able to consume.
- Client support must be part of any service clients are paying for – so, think about the suite of support you provide and the information it conveys, monitor clients' reactions to the support you provide, and use feedback to continually enhance the understanding.
- Consider vulnerable clients who may require additional levels of support.

Looking at these outcomes, you may conclude that you are already meeting the new requirements, and that you don't need to conduct a major overhaul of your advice process. You're probably right, but there are some specific areas that you may need to act on to ensure you meet the new rules.

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The unresponsive client

Let's look at an example of where you may want to take some action. There are investment propositions that require clients to accept regular, ongoing recommendations to change the shape of their investments. For example, some advisers run advisory portfolios with a regular rebalance, perhaps every quarter or six months. That is a great way to demonstrate value (outcome 2 – price and value) and a good process for ensuring that clients are in your latest selection of funds (outcome 1 – products and services).

The challenge is a result of clients being required to accept a rebalance instruction (ideally in writing) before any changes can be made. Clients who respond are fine, but those who have not responded to rebalance advice are a problem. Over time, this can create a group of clients who are sitting in old versions of advisory portfolios. Your investment platforms should be able to provide technology that gives excellent visibility on what you're facing and exactly which 'old portfolios' your clients may still be exposed to.

There are two concerns. The first, most obviously, is based on the cross-cutting rules. A client in an 'old' portfolio does not 'avoid foreseeable harm', as the client is in a selection of investments you may no longer deem to be appropriate. The second is that the client may be considered 'vulnerable' – they may not be responding to rebalance advice requests because they do not understand the information being provided to them, or they may have developed a health condition that prevents their response. That may fall foul of the requirements under outcome 4 (consumer support).

This is a red flag – one that should prompt action. Work with your platform provider to identify who these clients are and work to resolve this issue. You may, for example, wish to consider an appropriate outsourced solution that meets these clients' needs. Also, review your communications and customer support to make sure you can confidently say that your clients understood the advice you were giving and the consequences of not responding.

Many advisers are likely to be doing much, if not all, of this for their clients. However, doing it alone is not enough. The regulator is clearly going to want to see the steps you have taken being evidenced. Therefore, it is vitally important that financial advisers carry out assessments based on these four outcomes, discover where any weaknesses may lie and seek to take appropriate action so that you can demonstrate that you continue to deliver good outcomes to your clients.

To help you understand more about the Consumer Duty and prepare for it appropriately, Quilter has created a Consumer Duty Support Hub: ***www.quilter.com/help-and-support/consumer-duty***

Important information

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