TISA

Response by TISA to FCA's discussion paper on expanding consumer access to investments (CP25/3)

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270-member firms involved in the supply and distribution of savings and investment products and associated services. Our members include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on four key workstreams that best support the consumer and UK financial services, TISA has become a leading industry voice and ally for delivering consumer focused initiatives.

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members and our industry. From improving financial education, inclusion and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **four distinct workstreams**:

1. **Consumer Protection**
   Protecting the best interests of UK consumers in their financial journeys.

2. **Consumer Access**
   Considering issues that could directly impact access to financial products.

3. **Effective Products**
   Examining key considerations and legislation relating to products across the investing and saving landscape.

4. **Corporate Responsibility**
   Exploring issues that directly impact society, the environment, and the economy.

All groups focus on both strategic and technical elements of policy/regulation. Key outputs from our workstreams can include recommendations to government and regulators on developing a financial services framework that protects and benefits UK consumers, finding solutions to operational/infrastructure challenges and developing standards of good practice on the interpretation and implementation of new regulation.

We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government and regulators.

Find out **more about TISA here:** **https://www.tisa.uk.com/about-tisa/**

TISA Response

TISA welcomes the opportunity to respond to the FCA's consultation on expanding consumer access to investments.

A pivotal time for the FCA to undertake a holistic review of the retail investment framework to drive consumer understanding and informed decision-making

There is an enormous amount of regulatory and legislative change in relation to retail investments; for example, the outcome of the Advice Guidance Boundary Review, the creation of the new Targeted Support regulated activity, the new pre-sale disclosures rules for CCIs and changes to the S&S ISA rules. Firms are also grappling with sweeping changes to the pensions landscape. We welcome the strategic nature and intention behind DP 25/3 and recommend that the current environment provides an opportunity to reflect and undertake a root and branch review that puts the consumer at the heart of the regulatory framework for retail investments.

As DP 25/3 recognises, the FCA has often taken targeted action in relation to a particular investment type, or asset class. This has often been done in response to live concerns and under time pressure. The discussion paper asks about inconsistencies and complexities in the existing regulatory framework. We agree with the FCA that there are many. There are now several different approaches to customer and product classification and categorisation under the regulatory framework (basic, informed, advanced, complex, suitable with or without an appropriateness test, RMMI, PICES, progressional client etc.). Addressing these cross cutting issues by adopting yet more bespoke, fragmented rules that are asset class or issue specific will only make things worse. Now, the FCA has the opportunity to conduct a comprehensive review of the regime that leverages the Consumer Duty and the FCA's emphasis on outcomes-based regulation. We recommend that a new framework is created, a framework that is holistic, drives consistency and reduces the likelihood of consumer confusion and uninformed decision making.

Tweaking elements of the regulatory framework is insufficient and is instead likely to increase prescriptivism and fragmentation. This in turn is likely to lead to fragmented customer experiences, increased levels of disengagement, confusion and poor decision making. Instead, we recommend that the FCA conducts a strategic review and implements a holistic, principles based and outcomes focussed framework that applies to all retail investments. The framework should identify key principles that increase risk (e.g. complexity, diversification, volatility, leverage, liquidity, extent of regulatory oversight), and require increasing levels of controls and disclosures depending on the risk posed by the specific investment. For example, a balanced portfolio fund is an entry level product. It should have the lowest set of requirements (please note that we are not advocating for deregulation, we would continue to recommend that CCIs disclosures should apply). In contrast, much higher levels of controls and disclosure requirements should apply to margin lending given the product's complexity, volatility, exposure to leverage and level of regulatory oversight. Simple, starter investments should have the least friction and requirements, with products that presenting increasing levels of risk needing to comply with increasing levels of requirements. The regime should aim to direct most consumers to entry level investments. Riskier products will be suitable for some consumers, but should require higher hurdles in order to appropriately balance consumer access and consume protection. We also note that Barclays has produced a paper which also considers ways in which the FCA could support consumers to identify entry level investment products.

By adopting a principles, outcomes based framework, the FCA would future-proof the retail investments regulatory regime, rather than having to create new, bespoke rules every time there is a market innovation. Our recommended approach would encourage responsible innovation, leverage the Consumer Duty and drastically improve consistency in the information that consumers receive, thereby increasing their levels of engagement and understanding. We would also encourage this approach being adopted in respect of investments held in pensions. As a starting baseline, we would recommend a regulatory regime that drives consistency in disclosures irrespective of whether the investment is held in a S&S ISA, GIA, SIPP or workplace pension. Ultimately consumers should receive consistent information and experiences and should not be hostage to the division of responsibilities between official sector bodies. We recommend that the FCA puts consumers at the heart of the regime, considers the decisions they are trying to make and how best to support them in making informed decisions.

Both DP 22/6 and DP 25/3 recognise the trend towards online investment and digital disclosure and the need for the regulatory framework to be fit for the future. Since 2022, we have seen an exponential increase in the availability of LLMs and AI chatbots which consumers are using to receive financial information. The current regulatory framework operates on the basis that regulatory firms create disclosures within the parameters of the regulatory regime, and consumers then receive, read and understand those disclosures. However, the widespread consumer use of LLMs, such as ChatGPT, and social media, means that consumers are not receiving information from these regulated sources. ChatGPT determines what disclosures a consumer receives. ChatGPT determines what information can be cut and what information should be shown. The regulatory framework does not cater for this. This is another reason for the FCA to take a more strategic, holistic approach to reviewing the retail investment framework. We agree with the FCA's statement in DP 22/6, that the FCA should "develop a new regulatory retail investment framework which safeguards consumer interests through a proportionate and flexible disclosure regime."

The current approach taken in DP 25/3 and the questions raised continue to address issues in a piecemeal, prescriptive fashion. We do not agree with this approach, and given the 3 year+ time horizon available to the FCA, we instead recommend that they take a far more holistic approach and addresses cross cutting concerns around consumer access, consumer protection, consumer understanding & wellbeing. By taking a strategic approach, the FCA can simultaneously address concerns about disclosures in trading apps, the rules that apply to fractional investments, MPS, speculative products, P2P lending, financial promotions and the appropriateness test. The FCA can also future proof the regime in relation to new products and innovations.

Decision-useful risk information

The information presented to consumers is not decision useful and does not directly address consumers' concerns and current assumptions about the risks associated with investing. TISA has long advocated for a consumer-focussed approach, that leverages the Consumer Duty and ensures consumers are presented with decision-useful, accessible information. This is aligned with the underpinning policy objectives of the Leeds Reform and in order to further these objectives, we recommend that the FCA thinks holistically about the risk information that is presented to a consumer throughout their pre-sale journey and whether it supports informed decision making.

Currently, we have risk warnings that tells consumers their capital is at risk. We then cut to a 1-7 risk score that is based on volatility risk. Under the new CCIs regime, the 1-7 risk matrix will shift to a 1-10 model. These pieces of risk information do not enable consumers to frame and understand the risk and reward associated with investing in general, investing in a particular market, or investing in a particular investment.

TISA and Oxera's research found that all consumers (including those with S&S ISA) considerably overestimated the potential for loss when investing in equities. People holding savings in cash estimated the probability of loss to be over 30% over a ten year period. Based on historical data, the probability of realising a loss from investing in the FTSE 100 over a ten-year period is 3.5%. We need to be able to help consumers better frame capital and volatility risk, so they can make informed financial decisions about the type of investments that are suitable for them.

TISA has conducted research which demonstrates the impact that contextualised, balanced risk warnings can have on consumer choice. Balanced, contextualised risk warnings can provide an initial overview of the risks associated with investing, and we recommend that the FCA amends its guidance on financial promotions to facilitate an industry-wide adoption of balanced risk warnings. The CCIs 1-10 score provides an indication of the volatility risk of investing in a specific investment. The key missing element is providing the crucial market context that helps a consumer understand the risk associated with different investment types. There should be a standard risk disclosure that helps consumers filter investments and put capital and volatility risk into context.

We would like to see 3 separate pieces of risk information being presented to consumers:

1. Contextualised, balanced risk warnings in financial promotions.
2. A market risk statement that outlines a good and bad , 5 and 10 year return when investing in a particular fund sector. This should be stated as a pounds and pence figure, and as a %. All figures should be rounded.
3. The existing headline risk and reward volatility based score in the specific CCI's product summary.

In relation to the second, piece of information, we propose that a condensed version of IA's Fund Sectors is used to segment investment types. Each sector will have an agreed, centrally produced set of numbers. These numbers shall be good and bad returns for a 1, 5 and 10 year investment period. The numbers shall be in % terms and also given in pound amounts, using a £10,000 investment illustration. This is consistent with other illustrations in the CCIs regime. Pound numbers should be cumulative, and percentages should be annualised to correspond with figures consumers are most familiar with, such as interest rates on savings accounts.

The aim is to drive a consistent methodology and set of numbers, but retain flexibility for firms to innovate as to how best to display this information to consumers during a pre-sale journey. Given this information would be decision useful for consumers, we think that consumers must be shown this information pre-sale. Again, firms should be given the discretion to design innovate customer journeys and can determine where best to place this information.

We would also hope that the numbers would be fairly static and that updates could be implemented during any regular (e.g. annual) reviews of pre-sale disclosure information. The FCA could play a central role in convening and encouraging adoption of this proposal, which seeks to increase financial capability and ensure consumers can make informed investment decisions.

We would like to thank FCA for the opportunity to respond to the discussion paper and would be happy to discuss the recommendations we have made. We appreciate that we are asking the FCA to undertake a largescale review, but we believe this is essential to ensuring the regulatory framework aligns with the FCA's stated policy approach and is fit for the current world in which consumers live. We look forward to FCA progressing its work on expanding consumer access to investments and we stand ready to engage, collaborate and lend out support to help achieve the policy objectives.