



FCA portfolio letter highlights FCA priorities for the next 2 years for the financial advice sector

08 October 2024

Yesterday the FCA issued a portfolio letter outlining its priorities for the next 2 years for the finance advice and investment intermediary market. Those priorities are - reduce and prevent serious harm, monitor and test higher industry standards under the consumer duty and enable more consumers to pursue their financial objectives through the advice guidance boundary review. Highlights include (1) retirement income advice, ongoing advice services and "polluter pays" are specifically referred to when it comes to reducing and preventing serious harm and (2) continued focus on the expectations around the consumer duty. The letter also confirms that we can expect a further update from the FCA on its review of the retirement income advice market in the first quarter of 2025 and an update on ongoing advice services later this year – we wait to see if this means the FCA puts pressure on firms in relation to any regulatory exercises.

The FCA notes in the [letter](#) that it expects firms to continue to evolve, citing developments in the market such as the transfer of wealth, the shift from defined benefit to defined contribution pension schemes, interest rates, regulatory requirements and industry consolidation. When it comes to its three priorities for the next two years, the letter explains (1) what these priorities are underpinned by and (2) what it means when it comes to reducing and preventing serious harm – i.e. the focus on retirement income advice, ongoing advice services and "polluter pays".

The three priorities are said to be underpinned by (1) increased industry engagement with the FCA noting it intends to increase engagement across the country through in-person events and key-note speeches and (2) a forward-looking and data-led approach, where the FCA acknowledges that the data it holds puts it in a unique position given its access to data across the industry and that it will seek views on which data to share. On data, the FCA intends to issue a survey next year with a view to reducing the data burden on firms.

When it comes to areas of priority the two key ones are the retirement income advice market and ongoing advice services. First, retirement income advice. The FCA notes its March 2024 published findings from its thematic review into the retirement income advice market and that all firms should use the findings to review and update how they work. The FCA says it is following up its findings and carrying out further work to explore the scale of any issued identified and "*tackle any harms*" with the intention to publish further commentary in the first quarter of 2025 – so not for another 8 months or so.

The FCA also refers to "ongoing advice services" and that its analysis indicates that 90% of new clients are placed into arrangements for ongoing advice which now represents around 80% of firm revenue. The

letter refers to concerns that "*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*" – an issue that's got some headlines following the implementation of the consumer duty and the fair value outcome with firms identifying charges to consumers for services not in fact provided. The FCA expects firms to ensure services are appropriate, offer fair value and are delivered in accordance with engagement terms – again cornerstones of the consumer duty. The FCA notes that it wrote to firms earlier this year about the delivery of ongoing advice and expects to provide its findings from that request later this year.

The letter also reiterates the FCA's expectation that firms have better resources to meet potential redress (so the "polluter pays") and that the FCA intends to set out its next steps in this area before the end of the year. The FCA intends to undertake multi-firm work to review consolidation within the market. The FCA's three priorities does not mean it is turning away from other areas and the letter specifically notes that its other areas of work include – ensuring effective appointment representative oversight, ESG priorities and the future disclosure regime for consumer composite investments.

By the time of the next FCA publication in the retirement outcome advice area we will be over 10 years from the introduction of pension freedoms in April 2015 – the FCA continues to evidence nervousness around this area and so we wait to see what comes out of its next publication. Ongoing advice services is an area arguably highlighted by the consumer duty given the fair value outcome and so its not surprising to see a focus here – arguably a low hanging fruit for the FCA when it comes to implementation of the consumer duty. As always, it's a watch this space.