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Christopher Woolard

Director of Strategy and Competition

Financial Conduct Authority

25 The North Colonnade

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10th July 2017

Dear Mr Woolard

**Re: Simplifying point of sale disclosure requirements**

AJ Bell was established 21 years ago and today we manage over £36bn of savings for both advised and non-advised customers in the UK. Given both the scale and scope of our business, we have significant experience of the information investors receive from providers.

It has become increasingly clear to us that the current disclosure regime has become so complex that it is confusing for consumers and is not helping them make informed decisions. Ultimately it could result in consumers ending up with products that they don’t fully understand or, worse, are not the best product for them.

**The problem**

People choosing a financial product currently receive a bewildering array of information designed – in theory at least – to help them make an informed decision.

In reality, behavioural economics tells us many people who are handed a huge pile of documents get blinded by the detail and hence do not engage with it. The current disclosure requirements mean savers often receive over 30 pages of information.

So, while in theory savers might have been told everything they need to know, the sheer volume and complexity of the documentation providers and advisers are forced to issue means many will learn nothing.

The problems surrounding point of sale disclosure are well documented and have been the subject of numerous consultations. However, each of these seems to only tackle one part of the problem at a time. The basis for Key Features Illustrations has been debated at length over the years, the FCA’s Smarter Consumer Communications initiative removed the Initial Disclosure Document templates, the FCA’s Assessing Suitability Review looked at suitability and disclosure documents and the FAMR is also looking at improvements to suitability reports and the information required with fact find documents.

However, all of these reviews are trying to tackle the same problem – providing clear and easy-to-understand information to consumers that enables them to make informed decisions. Looking at the various elements in isolation is unlikely to result in a good outcome. Now is the time for a root and branch review of point of sale disclosure as a whole, with the objective of radically shortening and simplifying the information consumers receive when they are purchasing a financial product.

To put this in context, we have briefly summarised the main documents that investors will receive at the point of sale.

1. **Suitability reports**

**Who receives them?** Anyone receiving regulated financial advice.

**What is the purpose?** To explain to investors why the product being recommended by the adviser is suitable to their needs.

**Problems?** The results of the FCA’s Assessing Suitability Review showed suitability requirements were met in the vast majority of cases. However, it also found some suitability reports were too long and/or complex and initial disclosure of charges did not meet expectations in 41.7% of cases.

1. **Key Features Illustrations (KFIs)**

**Who receives them?** Anyone starting a packaged investment product.

**What is the purpose?** To enable people to understand the impact of charges on their investment and give them an idea of how much they might get back.

**Problems?** The one thing you can be fairly sure of is that KFIs won’t show you what you will get from your pot and hence the impact charges have had on that figure. The assumed growth rates are standardised and bear little relation to the customer’s underlying portfolio. Given this, we question the rationale for providing customers with information that, in all likelihood, will turn out to be wrong. It is also questionable whether KFIs successfully articulate the impact of charges in a way that the customer will understand.

1. **Key Investor Information Document (KIID)**

**Who receives them?** Anyone investing in a UCITS fund.

**What is the purpose?** To provide a consistent disclosure framework for investment funds sold to retail investors through the EU. It enables funds authorised in one member state to be marketed in another member state using a passporting mechanism.

**Problems?** KIIDs are a regulatory requirement but investors are also often presented with a separate fund factsheet. The two documents can present charging information, performance and risk level on a different basis. For example, KIIDs use a risk scale of 1 – 7, whereas factsheets often use a different scale, such as 1 – 10. There is also a confusing mix of AMCs, TERs and OCFs to show fund charges.

1. **Transfer Value Analysis (TVA) or new Transfer Value Comparator (TVC)**

**Who receives them?** Anyone who receives advice on transferring from a Defined Benefit (DB) to a Defined Contribution (DC) pension scheme.

**What is the purpose?** To ensure anyone transferring from a DB scheme is aware of the value of the benefits they are giving up.

**Problems?** The recent consultation on advising on pension transfers proposed the current Transfer Value Analysis Service (TVAS) be replaced by something called ‘Appropriate Pension Transfer Analysis’ (APTA) – which will allow advisers more flexibility to model potential income scenarios. However, the APTA must still include a Transfer Value Comparator (TVC) which shows the estimated cost of matching the benefits being given up by purchasing an annuity.

In these days of ‘pension freedoms’ and with the growth of income drawdown, it appears the proposed TVC shares the same flaw as the current TVA. They both have annuity rates at their core when annuities are not relevant to what the customer is trying to achieve. If they wanted a guaranteed income they probably wouldn’t be considering a DB transfer in the first place.

**The case for a broader review**

We have only scratched the surface of the mountains of documentation retail investors receive from providers and advisers. In addition to the above, people are also likely to receive product documentation, risk warnings, terms and conditions and charges schedules.

Many will be capable of separating the useful from the not-so-useful and making an informed decision. But others will be left confused by the piles of documentation they are sent, increasing the risk of disengagement and, potentially, poorly informed investment and retirement choices.

The case for carrying out a wide-ranging review of all the communications sent to customers at the point of sale is clear. Only by doing this can the regulator, in partnership with the industry and advisers, begin to scope out those bits of information that help consumers make a decision and those bits that do not.

The overarching aim of this project should be simplification. Ideally we would like to see a reset of the regulatory approach to disclosure so that, rather than adding layers to a broken model, the FCA builds a new framework that savers can really engage with.

In doing this, the FCA should be bold. Can we, for example, get the majority of information a retail investor needs onto a single page document? Clearly this would be a challenge and people should have access to additional information should they want it, but for the majority of people we believe this radically simplified format would suffice.

We appreciate the regulator’s role must strike a balance between informing consumers and protecting them. But the current disclosure rules were created in a different era and without serious consideration of how they interact with each other. The pension freedoms have redrawn the retirement landscape, and Brexit has the potential to give the UK greater control over setting its own rules in some areas.

This feels like an ideal catalyst to look at all the information retail investors receive at the point of sale so we can build a system that is fit for purpose today and will help deliver better consumer outcomes.

I look forward to hearing your thoughts on this matter.

Kind regards



Andy Bell BSc. FIA

Chief Executive