

## **T&C Guidance on suitability reports**

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The matter of suitability letters/reports has exercised the minds of advisers over the years. For some, they are a necessary evil to satisfy compliance. For better advisers, they are a means of informing the clients about the financial planning arrangements that are being made and why the client will be better off after following their advice.

Suitability letters have evolved over the years. Originally, they were letters advising clients about the policies that they had bought. However, they evolved into a means of covering every element of a product, whether discussed or not, as a means of showing that the customer has received full advice as a back-covering measure against possible complaint or a review by the Financial Conduct Authority (FCA).

These types of letters are still produced by networks and advisers that do not really know what they are doing in the erroneous view that these letters will protect them in the case of complaint or review. The Financial Ombudsman Service (FOS) and the FCA have moved towards a view that these long letters are not “Treating Customers Fairly” as customers cannot be expected to read and understand all the technical terms of the letters and therefore they could not be relied upon as defence against complaints.

There is some concern that over the years, the FCA and FOS have not been entirely in line with their views on suitability letters. The FCA focussing on treating customers fairly and the FOS focussing on whether the information provided was misleading, incomplete or open to misinterpretation by the customers.

It is a tricky balance between providing the client with a letter confirming a financial arrangement that has been made in a language that they can understand and producing a document which contains sufficient information to ensure that nothing important has been missed.

### **Basically**

The main issue with suitability letters is that they need to provide an explanation to the client of the arrangements that have been made in a manner that is understood by the clients.

### **Practically**

The problem is that financial services products can be complex. Even products that are considered to be relatively simple are still not easily broken down into easily understandable points. Financial services business is full of specialist terms (jargon) that are like a foreign language.

Also since the FCA and FOS place different emphases on suitability letters, the letters then become a hotchpotch of details and ideas trying to do too many jobs all at once.

In order to include all the details about a product, suitability letters can run to more than 20 pages. This brings about the issue of whether this is treating a customer fairly to expect them to read all the way through that length of letter and understand all the contents. Some firms get clients to sign declarations that they have read and understood the documents. Over time this practice has not proved to be any defence with the FOS.

### **The way forward**

In order to try to make suitability letters fit for all their purposes, we need to make them simpler to read and understand. This can be achieved with a bit of an overhaul of the design of the letters.

Clients need only understand what has been arranged and how they will benefit. Anything else that advisers feel that they need to include for their own protection is superfluous to the clients' requirements.

So, in order to deal with the clients' needs first – the suitability letter needs to confirm what has been arranged and how it will benefit them. This could be an advice summary, which may only be a page or two.

Then advisers need to give a full description of the product, the research undertaken to choose the product, the provider, the investment funds etc. This may also include a comparison between an old product and the new product to show any benefits lost or the different charging structures. This part of the letter would be appendices to the executive summary.

Then possibly finish off with a glossary of terms to explain the jargon and any specialist terms used in the letter.

So the table of contents for a personal pension transfer may appear as follows.

Section 1 - Advice Summary

Section 2 - Current pension product

Section 3 - Research - Comparison of pension products and providers

Section 4 - Research - Comparison of benefits from ceding scheme against new scheme

Section 5 - Details of new provider and product

Section 5 - Glossary of specialist terms used in the suitability letter

The onus should be on the client to read and understand the executive summary. All the other information will be available as background in the decision-making process to reach the solution for the client and provide the full rationale for the advice given.

The advice summary could simply be a series of bullet points.

- You are age 56 and you intend to retire at age 62.
- You have a personal pension plan with Abbey Life with a fund of £50,000 invested in the Managed Fund. You are not contributing to the scheme at the moment.
- The charging structure is an annual management charge of 1.5% and monthly policy fees of £20 per month with a bid/offer spread of 5% for contributions. Additionally, the fund has annual management charges of 1.2%
- There are no guaranteed minimum pension benefits, guaranteed annuity rates, enhanced tax free cash or death benefits within this plan.
- There are no penalties for moving the fund to another provider.
- The new plan with Old Mutual Wealth has an annual management charge of 0.5%. The fund portfolio has an overall annual management charge of 1%.
- The new plan allows pension freedom facilities including flexi-access drawdown.
- This firm will be paid adviser fees of 2% on this transfer, based on a fund of £50,000, this amounts to £1,000. Ongoing service will be covered by adviser fees of 0.75% per year, which amounts to £375. The ongoing charge will rise and fall in line with the fund value. These fees will be paid by the provider from your fund.
- There is no guarantee that this arrangement will provide better benefits than the current plan.
- All other background information is contained in the appendices.

## **Summary**

As you can see, the salient points for the client are covered in a straightforward single page of information. Then the technical information about the products, the platform, the back performance of investment funds can all be in appendices to the report.

This is a shift away from the back-covering detailed reports that have been produced over the years to a much more client-friendly, readable, understandable report that the clients are likely to read and understand and value.

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