PATHLIGHT
ASSOCIATES LIMITED

Skilled Person Learnings for Consumer Investments Firms #3

Advisory and Sales Practices - Aligning Investment with Strategy

Skilled Person (FSMA s166) reports continue to drive up costs for firms, increase regulatory scrutiny, and cause reputational damage. There is no sign that they are reducing in number. Although a lack of proactive engagement with the FCA often contributes to a Skilled Person report being mandated, we often find weaknesses in critical, embedded controls.

This is the third in a series of articles which share practical 'lessons learned' insights from our Skilled Person and advisory work covering:

1. CASS
2. Financial crime
3. Advisory and sales practices
4. Portfolio and fund management
5. Product governance

We aim to provide actionable takeaways for firms. If you would like a healthcheck or simply a discussion about the application of these areas to your business, please let us know.

Top Ten Actionable Learnings from our Work

Consumer Duty is a clear top priority for the FCA, and one of the easily avoidable Duty failures should be aligning customer communications with investment strategy. All too often we work with firms that have attracted FCA attention because their investment strategy - and/or practice - are misaligned with messages being given to customers. Sometimes this is through miscommunication within the firm itself, more often third party agents have "reinterpreted" their principal's advice inappropriately. Inevitably the principal is held accountable for failing to spot or correct the misinformation.

1. **Poor advice offered to customers** - where customers are invested in or advised to invest in instruments or portfolios based upon wealth rather than personal circumstance and/or customers not being clearly assessed for vulnerability due to their wealth.
2. **Vulnerability not considered in the sales process** - either through developing overly complex strategies that are ill-defined and/or through weaknesses in the controls around the investment management processes that do not consider vulnerabilities or proper targeting.
3. **Complex sales processes** - where information provided to customers is confusing, overly complex and/or where the sales process is difficult to navigate and/or is not clearly signposted for customers.
4. **Fees levied for poor or no advice** - with charges disproportionate to the nature and level of advice offered to customers.
5. **Unclear customer communication** - which is not targeted at the specific audience and throughout the customer journey, including at point of sale and then on an ongoing basis.
6. **Complexity of distribution channels** - which are inappropriate for the target market and the nature of the product, including complex products being distributed through online mechanisms with poor explanations as to risks and benefits.
7. **Weak controls over third party distributors** - including where principal firms, with Appointed Representatives, have weak governance and oversight arrangements and firms using third party distributors who are not clear on the nature of the product / service, its risks and its target market
8. **Weak governance driving inappropriate sales practices** - where there is inconsistency between the messages issued from the top of the firm and the messages / empowerment provided internally to customer facing personnel, leading to inconsistent and often inappropriate, sales practices.

9. **Target market extension** - where target markets, agreed at product design stage are compromised through gradual extension, leading to customers, for whom the product or service was not designed, having access.
10. **Untrained sales personnel** - where customer facing staff are not properly trained to handle different customer needs and backgrounds and may not be able to identify situations where customers are either vulnerable and/or do not fully understand the product or service for which they are applying.