

## TheCityUK response to the Financial Conduct Authority (FCA) Supporting consumers' pensions and investment decisions: proposals for targeted support consultation.

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs almost 2.5 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Financial goals change throughout a person's life. Early on, individuals focus on building savings. Later, they save for a home, fund education, plan for retirement or consider leaving a legacy. Each stage introduces new needs and opportunities. To achieve these goals, individuals must use different financial products at appropriate times. Right now, the financial system does not enable firms to match people with the right products as their needs evolve, so we welcome targeted support as a step to steer individuals into the right types of financial products for their needs.

Regulated, targeted support could play a crucial role in helping people navigate the savings and investment landscape with confidence. It bridges the gap between general guidance and regulated financial advice. Providers can deliver targeted prompts to saver groups with shared characteristics, offering timely support during key decision-making moments - encouraging low contributors to increase their savings, guiding them to alternative investment options, warning against poor-value transfers, and recommending sustainable pension withdrawal strategies.

As efforts to enhance financial literacy continue to gain traction—and alongside retail investment and capital markets reforms outlined in the Financial Services Growth and Competitiveness Strategy (FSGCS)—targeted support has the potential to build long-term confidence among retail investors and better outcomes.

While we believe the targeted support regime sets a solid foundation to improve retail participation, several areas require attention to ensure its full effectiveness. These include:

- Lingering uncertainty around the distinction between guidance, targeted support, and investment advice, including ambiguity in the regulatory classification under the Markets in Financial Instruments Directive (MiFID) and the Regulated Activities Order (RAO).
- Further detail on interactions with the Financial Ombudsman Service (FOS).
- Greater clarity on supervisory expectations, particularly for interactions beyond the structured customer journey.

- Reducing ambiguity with existing regimes and ensuring alignment with data protection frameworks such as the Privacy and Electronic Communications Regulation (PECR) and General Data Protection Regulation (GDPR).
- Streamlining the authorisation process and committing to post-launch reviews.

Below, we have elaborated on each of these themes and would be happy to discuss them in more detail with the FCA.

## **The boundary between guidance, targeted support and investment advice**

TheCityUK believe the proposals would benefit from further clarity around the regulatory boundaries between unregulated guidance, regulated targeted support, and regulated investment advice or personal recommendations. Draft rule 9B3.2G(1) suggests that targeted support may involve activities within the scope of MiFID, but it remains unclear whether such support meets the threshold of a MiFID investment service. This ambiguity makes it difficult for firms to understand their regulatory obligations. We believe that targeted support should not be considered a MiFID investment service and would therefore welcome clarity from the FCA on it. The assumption is that targeted support could equate to investment advice, yet it may also fall within the scope of "arranging" under Article 25(2) of the Regulated Activities Order (RAO). Clear guidance from the FCA on whether an activity can simultaneously be regarded as targeted support and arranging would significantly aid firms in navigating this evolving regulatory landscape.

This issue is particularly relevant in the context of the Financial Ombudsman Service (FOS), whose stance on targeted support remains opaque. Addressing the uncertainty and unpredictability generated by the current redress framework will be crucial to the successful launch of targeted support. We welcome the legislative changes proposed by HMT in its recent consultation, but these will not be completed in time for the launch of targeted support. We recommend that the FCA and FOS run a pilot interim redress process for targeted support, in line with HMT's proposals. It should cover:

- A new referral mechanism that allows the FCA to provide guidance on how its rules should be interpreted.
- A change to the "fair and reasonable" test so that actions which follow regulatory rules are automatically considered fair and reasonable.

This approach would ensure that the FCA, rather than the FOS, provides clarity on how the new regime should be applied. It would also help trial the future redress system and lay strong foundations for the targeted support framework from the start. Given the small number of expected complaints in the first year, the pilot would require only minimal resources.

Chapter 6 of the consultation paper focuses primarily on FCA–FOS coordination and voluntary jurisdiction, offering little reassurance regarding FOS expectations. FCA rules should set out that the FOS must assess whether it was reasonably foreseeable to expect the Targeted Support to provide a better outcome (or put the consumer in a better position) when the Targeted Support was delivered. The outcome must be reasonably foreseeable at the point at which Targeted Support is provided. This position gives a clear, known point in time reference that can drive consistency in decision-making. Firms need confidence that the FOS recognises the boundaries of each type of support.

## **Interactions outside the customer journey**

The proposals outline the need to pre-define situations, consumer segments, and ready-made suggestions to deliver targeted support aligned with consumer segments. However, the consultation does not address how interactions outside of this journey will impact the supervisory or regulatory approach. For example, a firm could follow the steps to provide targeted support to its customers using pre-defined situations, segments, and suggestions, but that firm will have ongoing communications with customers outside of that, through their normal contact channels. Therefore, we call for the FCA to set out a clear endpoint for targeted support versus the product sales/account opening journey. In 9B.9.7 of the draft rules, these are currently blurred. We do not believe that firms should have an enduring responsibility for the action taken because of/following the ready-made suggestion received, not least as the customer may opt to take a different action or no action at all.

## **Evidencing suggestions**

To support firms in designing targeted support, we believe the FCA should provide further clarity around the rules to meet the 'common financial support need' or 'common objective'. The FCA should also give greater guidance on what evidence would be appropriate to illustrate this.

In terms of evidencing sufficient granularity of consumer segments (including justifying the assumptions made), further guidance would be welcome. Alternatively, the FCA could consider a mechanism to allow clients to confirm they have the attributes required to be in the consumer segment assigned. The FCA should also consider setting out several case studies across pensions and retail investments, to help define including and excluding characteristics and the minimum and maximum segmentation the FCA considers reasonable. This will help to achieve regulatory clarity and reduce ambiguity created by the FCA's segmentation proposals.

## **Scope and interaction with other regimes**

We are concerned that some proposals in the new targeted Support regime will create new areas of ambiguity and uncertainty in relation to other regimes. The additional 'better outcome'/'better position' test is unnecessary as the Consumer Duty already sets clear expectations for outcomes. This additional standard could create confusion for customers. Further, it is unclear how 'better outcomes' or 'better position' will be interpreted in practice, both from the perspective of firms and consumers. We recommend that targeted support journeys should be assessed against the established Duty standard of delivering "good outcomes."

We believe the FCA should clearly define the regulatory position on Privacy and Electronic Communications Regulations (PECR) and General Data Protection Regulation (GDPR). This will ensure these data protection frameworks do not inadvertently restrict or curtail the availability and delivery of targeted support to consumers, particularly where such support aims to improve access to investment-related guidance without breaching privacy or consent requirements. Legislation should be amended to exempt targeted support communications

from direct marketing rules, or regulators should confirm that targeted support is considered regulatory communication.

In terms of the treatment of existing additional data on customers, we believe that firms should be able to rely on disclosure and assumptions about what data a customer might reasonably expect them to be referring to in the context of targeted support journeys. Firms should not have to review unstructured data they hold on a customer before providing targeted support. The requirement should be proportionate and feasible for providers.

Finally, we would welcome confirmation from HMT and FCA that a firm could provide targeted support on investments, alongside recommendations on savings products (outside the regulatory perimeter) to ensure good customer outcomes. For example, if investing is not appropriate for a customer.

## **Timelines, monitoring and implementation.**

The FCA should provide more information on the timelines for applying for permission to provide targeted support, whether new or a variation. The FCA could also streamline the process by confirming its expectations on what constitutes a ‘complete’ application to ensure timely authorisations for firms to support customers, maintaining the momentum behind the regime. This could be achieved by the authorisations team focusing on the framework, process and controls a firm will operate in relation to targeted support, rather than focusing on every use case that a firm might adopt.

Due to the staggered rollout of targeted support across providers, we recommend the FCA conduct a series of post-implementation reviews during the first years of activity. The FCA should publicly share the findings to encourage best practice and the evolution of the service. The FCA could also develop voluntary principles of good practice in partnership with trade associations to prevent wide variability in the suggestions from firms, which could further confuse individuals.

Regarding firms' monitoring of outcomes, we believe that firms should only need to monitor a sample of customer outcomes post-targeted support to improve a provider's offering over time. We would welcome clarity from the FCA on whether the ongoing review of outcomes applies to targeted support services for a specific segment or to individuals. The requirement should be proportionate and feasible for providers.

We believe that, as currently drafted, the guidance in the general monitoring section risks turning targeted support into an ongoing relationship. The FCA should remove the guidance 9B.9.4R, which is replicated elsewhere in the rules. Without removal, it could create an expectation for monitoring of future outcomes.

Targeted support scenarios are well-placed to harness innovation through Artificial Intelligence (AI) and other digital tools, offering significant potential to improve consumer outcomes. For example, AI can be used to analyse large datasets and automate quality assurance, enabling firms to deliver more accurate and tailored group-based financial support, while identifying emerging consumer risks in real time. We welcome the FCA's continued focus on regulating AI within the existing framework. While we do not support further regulatory guidance on AI at this

stage, as targeted support is adopted, the FCA should work with the industry to highlight emerging use cases and share best practices for AI in targeted support. This will support confidence and responsible AI adoption and innovation, and ensure the UK develops a competitive and future-looking targeted support regime.

## **Public narrative**

The FCA should carefully manage the public narrative around targeted support, in coordination with the government and industry, to prevent expectations around it from overtaking what the regime permits. Targeted support will not resolve the advice gap in totality. The cost-benefit analysis forecasts that between 0.9 million and 13.8 million individuals—1.5% to 20% of the UK population—could act after receiving targeted support. This is an impressive number, but there is still more work to be done to deliver a bigger impact on a wider range of individuals' ability to manage their finances. We look forward to the forthcoming review of the Perimeter Guidance Manual (PERG). This should be ambitious and consider how firms can provide financial guidance more holistically rather than product-by-product.

## **Conclusion**

The proposals for targeted support represent a meaningful step toward improving consumer engagement with financial services, yet critical regulatory uncertainties remain. The blurred lines between unregulated guidance, regulated targeted support, and investment advice complicate firms' compliance responsibilities, particularly where support activities may fall under MiFID or the Regulated Activities Order. Clear, explicit guidance from the FCA - and coordination with the FOS - will be essential to help firms navigate these boundaries confidently and avoid inadvertently breaching rules. Moreover, firms need clarity on how to manage customer interactions outside the defined targeted support journey, as the regime currently does not address ongoing communications through everyday service and sales channels.

To ensure successful implementation, the FCA must address operational and regulatory overlaps, including alignment with PECR and GDPR, which may otherwise hinder Targeted Support delivery. A streamlined authorisation process, paired with public transparency and post-implementation reviews, will be key to sustaining momentum. Voluntary principles of good practice, and a reconsideration of excluded products like annuities and pension consolidation, could further enhance the regime's reach and effectiveness. Targeted support holds promise, not only for those already engaged but for expanding inclusion and engagement across society.

Helping more people invest is a generational shift that needs a joined-up approach. The UK needs a clear framework that guides people from basic financial literacy to building long-term financial resilience and wealth. Targeted support is a critical part of that journey, but should be considered alongside other reforms, and with the necessary success measures to ensure it is truly impactful.