

Chapter 9

Suitability (including basic advice) (other than MiFID and insurance-based investment products)

9.4 Suitability reports

Providing a suitability report

- 9.4.1** **R** A *firm* must provide a *suitability report* to a *retail client* if the *firm* makes a *personal recommendation* to the *client* and the *client*:
- (1) acquires a holding in, or *sells* all or part of a holding in:
 - (a) a *regulated collective investment scheme*;
 - (b) an *investment trust* where the relevant *shares* have been or are to be acquired through an *investment trust savings scheme*;
 - (c) an *investment trust* where the relevant *shares* are to be held within an *ISA* which has been promoted as the means for investing in one or more specific *investment trusts*; or
 - (2) *buys, sells, surrenders, converts or cancels rights under, or suspends contributions to, a personal pension scheme or a stakeholder pension scheme*; or
 - (3) elects to make *income withdrawals, an uncrystallised funds pension lump sum payment or purchase a short-term annuity*; or
 - (4) enters into a *pension opt-out*.
- 9.4.2** **R** If a *firm* makes a *personal recommendation* in relation to a *life policy*, it must provide the *client* with a *suitability report*.
[Note: first and third paragraphs of article 20(1) of the *IDD*]
- 9.4.2A** **R** If a *firm* makes a *personal recommendation* in relation to a *pension transfer or pension conversion*, it must provide:
the *client* with a *suitability report*; and
(except where the only *safeguarded benefit* involved is a *guaranteed annuity rate*) a one page summary at the front of the *suitability report*.
- 9.4.3** **R** The obligation to provide a *suitability report* does not apply:
- (1) if the *firm*, acting as an *investment manager* for a *retail client*, makes a *personal recommendation* relating to a *regulated collective investment scheme*;

		<div>(2) if the <i>client</i> is habitually resident outside the <i>United Kingdom</i> and the <i>client</i> is not present in the <i>United Kingdom</i> at the time of acknowledging consent to the proposal form to which the <i>personal recommendation</i> relates;</div> <div>(3) [deleted]</div> <div>(4) if the <i>personal recommendation</i> is to increase a regular <i>premium</i> to an existing contract;</div> <div>(5) if the <i>personal recommendation</i> is to invest additional single <i>premiums</i> or single contributions to an existing <i>packaged product</i> to which a single <i>premium</i> or single contribution has previously been paid.</div>
		<div>Timing</div> <div></div>
9.4.4	R	<div>A <i>firm</i> must provide the <i>suitability report</i> to the <i>client</i>:</div> <div>(1) in the case of a <i>life policy</i>, before the contract is concluded;</div> <div>(2) in the case of a <i>personal pension scheme</i> or <i>stakeholder pension scheme</i> that is not a <i>life policy</i>, where the <i>rules</i> on cancellation (■ COBS 15) require notification of the right to cancel, no later than the fourteenth day after the contract is concluded;</div> <div>(2A) in the case of a <i>pension transfer</i> or <i>pension conversion</i>, in good time before the transaction is effected; or</div> <div>(3) in any other case, when or as soon as possible after the transaction is effected or executed.</div> <div>[Note: first and third paragraphs of article 20(1) of the <i>IDD</i>]</div>
9.4.5	R	<div>[deleted]</div>
9.4.6	R	<div>In the case of telephone selling of a <i>life policy</i>, when the only contact between a <i>firm</i> and its <i>client</i> before conclusion of a contract is by telephone, the <i>suitability report</i> must be given in accordance with ■ COBS 7.4.</div> <div>[Note: article 23(7) of the <i>IDD</i>]</div>
		<div>Contents</div> <div></div>
9.4.7	R	<div>The <i>suitability report</i> must, at least:</div> <div>(1) specify, on the basis of the information obtained from the <i>client</i>, the <i>client's</i> demands and needs;</div> <div>(2) explain why the <i>firm</i> has concluded that the recommended transaction is suitable for the <i>client</i> having regard to the information provided by the <i>client</i>;</div> <div>(3) explain any possible disadvantages of the transaction for the <i>client</i>; and</div>

- (4) in the case of a *life policy*, include a personalised recommendation explaining why a particular *life policy* would best meet the *client's* demands and needs.

[Note: first and third paragraphs of article 20(1) of the *IDD*]

9.4.8

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A *firm* must ensure the details are modulated according to the complexity of the transaction or the proposed *contract of insurance* and the type of *client*.

[Note: article 20(2) of the *IDD*]

9.4.8A

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Where a *friendly society* has given a *personal recommendation* on a small *life policy* in ■ COBS 9.2.9R(2), the *suitability report* must include, at least, the information required by ■ COBS 9.4.7R(1) and (4).[Note: first and third paragraphs of article 20(1) of the *IDD*]

Means of communication (life policies)

9.4.9

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If a *firm* is providing a *suitability report* in the course of *insurance distribution activity*, the information must be in accordance with ■ COBS 7.4.

[Note: article 23 of the *IDD*]

Additional content for income withdrawals

9.4.10

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When a *firm* is making a *personal recommendation* to a *retail client* about *income withdrawals* or purchase of *short-term annuities* or making *uncrystallised funds pension lump sum* payments, explanation of possible disadvantages in the *suitability report* should include the risk factors involved in entering into an *income withdrawal*, purchase of a *short-term annuity* or making *uncrystallised funds pension lump sum* payments. These may include:

- (1) the capital value of the fund may be eroded;
- (2) the *investment* returns may be less than those shown in the illustrations;
- (3) annuity or *scheme pension* rates may be at a worse level in the future;
- (4) the levels of income provided may not be sustainable; and
- (5) there may be tax implications.

Additional content for pension transfers and conversions

9.4.11

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- (1) A *firm* must include a one page summary at the front of the *suitability report* when making a *personal recommendation* in relation to a *pension transfer* or a *pension conversion*, except where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.
- (2) The one page summary must include the following:
 - (a) a summary of the *personal recommendation*;

- (b) a statement as to whether the recommendation is in relation to *abridged advice* or *full pension transfer or conversion advice*;
 - (c) information about the ongoing advice and/or services (if any) the *firm*, or any other *person*, proposes to provide to the *client* after the execution of the *pension transfer* or *pension conversion*;
 - (d) the risks associated with *pension transfers* or *pension conversions* as set out in ■ COBS 19.1.6G(4)(b), and an invitation to the *client* to consider whether they fully understand those risks and, if so, sign the one page summary to confirm that;
 - (e) all of the ongoing advice charges, all other ongoing charges and any additional charges expected to be incurred by the *client* if they proceed with the *pension transfer* or *pension conversion*, together with a comparison to the charges and revalued monthly income in the *ceding arrangement* and to the charges in any *default arrangement* in any available *qualifying scheme*; and
 - (f) information about the amounts payable (in *cash terms*) in relation to the initial advice on the *pension transfer* or *pension conversion*, and the number of months (rounded up to the nearest whole month) it would take to pay that amount out of the revalued monthly income the *client* would receive from the *ceding arrangement*.
- (3) Where the *firm* only gave *abridged advice*:
- (a) the information in (2)(c), (d) and (e) is not required;
 - (b) the information in (2)(f) must clearly state that this is only relevant if the *client* wishes to obtain *full pension transfer or conversion advice*; and
 - (c) the one page summary must also set out:
 - (i) that the *firm* has not given *full pension transfer or conversion advice*, and provide a summary of the difference between it and *abridged advice*; and
 - (ii) that where the *full pension transfer or conversion advice* is within the scope of the requirement in section 48 of the Pension Schemes Act 2015, no *firm* can arrange a *pension transfer* or a *pension conversion* unless the *client* receives *full pension transfer or conversion advice*.
- (4) The summary in (2)(a) must:
- (a) set out whether the recommendation is to effect a *pension transfer* or *pension conversion* or to remain in the *client's* current scheme or arrangement;
 - (b) set out where in the *suitability report* the *client* can obtain a more detailed explanation of the recommendation;
 - (c) invite the *client* to consider whether they accept or do not accept the recommendation and, if so, sign the one page summary to confirm that; and
 - (d) where the *firm* provides *full pension transfer or conversion advice* and any *advice on investments* (whether by the *firm* or any other *person*) in connection with the *pension transfer* or *pension conversion*, set out the summary of the advice given by the *firm* and/or any other *person* for both services.

- (5) The information in (2)(c) must:
- (a) set out that the *client* is not required to accept ongoing advice and/or services proposed (if any);
 - (b) explain that the *client* can opt out of receiving ongoing advice and/or services at any time;
 - (d) set out, in *cash terms*, the monthly and annual charges associated with receiving ongoing advice and/or services whether by the *firm* or any other *person*;
 - (d) where the *firm* proposes that it or another *firm* offers ongoing advice and/or services to the *client*, invite the *client* to consider whether they wish to receive this ongoing advice and/or services proposition, and whether they agree to the associated charges, and if so, sign the one page summary to consent to receiving the ongoing advice and/or services, and agree to the associated charges; and
 - (e) where the *client* declines to sign the one page summary for any of the proposals in (d), set out that the *client* is not required to accept ongoing advice and/or services, and explain that additional charges and/or other amounts may be payable by the *client* if they wish to receive ongoing advice and/or services from another *person*.
- (6) The summary of the anticipated charges associated with the *pension transfer* or *pension conversion* in (2)(e) must include the anticipated first-year charges after the *pension transfer* or *pension conversion* and be set out:
- (a) in *cash terms*;
 - (b) alongside any charges associated with the *client's ceding arrangement* (and presented as nil if there are no charges); and
 - (c) alongside any charges associated with any *default arrangement* in any *qualifying scheme* available to the *client*, if the *client* chose to transfer to that scheme.
- (7) The revalued monthly income in the *ceding arrangement* referred to in (2)(e) must:
- (a) (where the *client* has not passed the normal retirement age) be calculated by:
 - (i) revaluing the *future income benefits* to the date the *client* would normally be paid in accordance with ■ [COBS 19 Annex 4B 1R\(1\)\(1\)](#); and
 - (ii) discounting the value of the *future income benefits* to the calculation date in accordance with the assumption in ■ [COBS 19 Annex 4C 1R\(4\)\(d\)](#);
 - (b) (where the *client* has passed the normal retirement age) be calculated in line with the current income in the *ceding arrangement*.

9.4.12

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- (1) If the *personal recommendation* to the *client* is to remain in the *ceding arrangement*, and the *client* declines to sign the one page summary to confirm that they intend to accept the *personal recommendation* in accordance with ■ [COBS 9.4.11R\(4\)\(c\)](#), the *firm*

should follow the insistent *client* guidance in ■ COBS 9.5A (Additional guidance for firms with insistent clients).

- (2) If the *client* declines to sign the one page summary of the advice to confirm their understanding of the risks in ■ COBS 9.4.11R(2)(d), the *firm* should take further steps to establish whether the *client* has fully understood the risks, and if not, consider changing its *personal recommendation*.
- (3) The other ongoing charges in ■ COBS 9.4.11R(2)(e) include (but are not limited to):
 - (a) ongoing product charges, including those in relation to *investments* within the product;
 - (b) discretionary fund management charges; and/or
 - (c) platform charges.
- (4) The additional charges in ■ COBS 9.4.11R(2)(e) include initial product charges, charges associated with accessing existing funds or moving funds to a different scheme.