Chapter 9

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

Sales processes for stakeholder products

This Annex gives *guidance* on the standards and requirements to which a *firm* may have regard in designing a sales process for *stakeholder products* and assumes that *firms* will provide *basic advice* to *retail clients* who have no practical knowledge of investing in *stakeholder products* or *investments*.

General Standards – all sales			
1.	A sales process for *stakeholder products* may allow the *representative* administering it to depart from scripted questions where this is desirable to enable the *retail client* to better understand the points that need to be made provided this is compatible with the *representative*'s competence and the degree of support offered by the *firm*'s software and other systems. A software-based system is more likely to provide an adaptable means of providing prompts and support for *representatives* which may accordingly support a more flexible sales process.		
2.	Questions, statements and warnings provided should be short, simple and in plain language. Questions should address one issue at a time.		
3.	The sales process should enable the *retail client* to exit freely and without pressure at any stage. It should also allow the *representative* to terminate the process at any stage if it appears unlikely (for affordability, mis-match, risk or other reasons) that there is a suitable product for the *retail client*.		
4.	Where necessary the sales process should incorporate procedures to allow uncertainties in the *retail client*'s answers to be addressed before proceeding and should generally reflect caution about proceeding if clarification or further information cannot be obtained during the process (for example if a *retail client* cannot confirm whether he or she is eligible for membership of an *occupational pension scheme*).		
Preliminary - all sales			
5.	The *retail client* should be given the following preliminary information:		
	(a)	the *retail client* will only be given *basic advice* about *stakeholder products*;	
	(b)	*stakeholder products* are intended to provide a relatively simple and low-cost way of investing and saving;	
	(c)	the *range of stakeholder products* on which the *representative* will give advice to that *retail client*;	
	(d)	the *retail client* will be asked a series of questions about his or her needs and circumstances	

		and, at the end of the procedure, he or she may be recommended to acquire a *stakeholder product*;
	(e)	the assessment of whether a *stakeholder product* is suitable will be made without a detailed assessment of the *retail client*'s needs but will be based only on the information disclosed during the questioning process; and
	(f)	the *retail client's* answers will be noted and, at the end of the process, if a recommendation to acquire a *stakeholder product* is made, the *retail client* will be provided with a copy of the completed questionnaire.
6.	Following 5, the *retail client* should be asked if he or she wishes to proceed and, if not, the sales process should cease.	
Affordability - all sales		
7.	If it appears that the *retail client* is unlikely to be able to afford a *stakeholder product*, the sale should be terminated and the *retail client* given an explanation together with a copy of the questions and answers completed to that point.	
Financial Priorities and Debt - all sales		
8.	A *retail client* should be assessed to ascertain other possible financial priorities -for example, does the *retail client* need (a) insurance protection; (b) access to liquid cash to meet an emergency; or (c) to reduce existing debts? If appropriate, the *retail client* should be given an unambiguous warning about the desirability of meeting those priorities before acquiring a *stakeholder product*.	
9.	A stronger warning about the desirability of addressing debt as a priority should be given if it appears that the *retail client* is significantly indebted, especially if there is a strong indication that the debt commitments may render any new commitment unaffordable in the short-term. For this purpose a *firm* should consider using a threshold or indicator to decide whether a *retail client* should be excluded on the basis of affordability. Examples may include where the *retail client* has (a) annual unsecured debt repayments in excess of 20% of gross annual income or (b) four or more active forms of unsecured debt or (c) has consistently reached his overdraft limit. A *firm* should review its chosen indicator or threshold regularly to ensure that it reflects prevailing economic conditions and takes account of industry best practice.	
10.	A *firm* should clearly explain what it needs to know about a *retail client*'s debt and consider using a range of alternative words (eg 'loans', 'student loans', 'borrowing' and 'other forms of credit') to ensure all relevant information is obtained. A *firm* may use a simple reckoner to assess *retail client* debt, but should be conscious of the nature of, and not give the impression that it is providing more than, *basic advice*.	
11.	If a *firm* gives a warning about the desirability of meeting other priorities before acquiring a *stakeholder product*, or about affordability, it should also invite the *retail client* to consider terminating the sales process.	
Saving and investment objectives - all sales (except establishing a stakeholder CTF)		

12.	A *retail client's* savings and investment objectives, including the period over which the *retail client* wishes to save or invest, should be ascertained including whether the *retail client*: (a) may need early access to some or all of the amount saved or invested; or (b) wishes to save or invest for retirement; or (c) wants to accumulate a specific sum by a specific date.
13.	If that information indicates that the *retail client's* objective is: (a) to accumulate a specific sum by a specific date; or (b) to save or invest only for the short term; or (c) early access may be required to the whole of the sum saved or invested; the *firm* should not normally recommend a *CIS stakeholder product*, a *linked life stakeholder product*, a *stakeholder pension scheme* or topping up of a *stakeholder CTF*.
Tolerance of risk - all sales	
14.	If a *retail client* is not willing to accept any risk of the capital value of an investment being reduced then *CIS stakeholder products*, *linked life stakeholder products* and *stakeholder CTFs* should not usually be recommended. However, a *firm* may, if appropriate, explain the effect of inflation on long-term savings especially in relation to pensions and invite the *retail client* to consider his attitude to risk in the light of that explanation.
15.	If a *retail client* is willing to accept the risk of capital reduction in some circumstances but not others then, before any recommendation to acquire a *CIS stakeholder product* or *linked life stakeholder product* is made, the *retail client* should be reminded of the other circumstances in which he or she is unwilling to accept risk to capital.
Stakeholder pensions	
16.	A *stakeholder pension scheme* should not be recommended, and the *retail client* should be advised to seek alternative or further advice, if it appears that the *retail client*: (a) has or will have access to an *occupational pension scheme*; or (b) is likely to view income in retirement from state benefits as sufficient; or (c) already has a pension to which he or she could make further contributions; or (d) wishes to retire within five years.
17.	It may also be appropriate to advise the *retail client* that other courses of action may be more beneficial than buying a *stakeholder pension scheme* (for example joining an *occupational pension scheme*).

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18.	A *firm* designing a sales process for use in the workplace may take account of the benefits offered by the employer. If a *firm* recommends a *stakeholder pension scheme* on the basis of benefits provided by an employer, then it should explain the basis of the recommendation to the *retail client* and suggest that the *retail client* seek *advice* if he or she has any concerns.
19.	A *firm* should design its processes with a view to addressing the risk that *retail client*s will fail to appreciate the significance of questions about their pension provision and should accordingly incorporate a range of questions and information designed to foster the *retail client*'s understanding of the issues and to elicit appropriate information.
20.	*Retail client* should be told that a *stakeholder pension scheme* is life-styled and what this means.
21.	A *firm* may provide a copy of the table setting out initial monthly pension amounts, found within the "Stakeholder pension decision tree" factsheet, available on www.moneyadviceservice.org.uk in accordance with COBS 13 Annex 2 1.8R, but in doing so should also provide and explain the caveats and assumptions behind the table. A *firm* should make it clear that the decision on how much to invest is the *retail client's* responsibility and that he should get further advice if has any concerns.
ISAs	
22.	A *firm* should ascertain whether the *retail client* has already opened a mini or maxi *ISA* and, if so, whether it would be appropriate for the *retail client* to open a non-*ISA* version of the same product.