Cut Out & Keep

A handy guide TO

CENTRALISED INVESTMENT PROPOSITIONS

for advice firms

Regulatory requirements and best practice clarified

THE LANG CAT

Introduction

Centralised Investment Propositions (from here on in referred to as CIPs) have been at the heart of many advice firms for a number of years. The increased focus on suitability and consistency of outcome as a consequence of the RDR pushed advice firms to adopt this approach and, fast forward to 2023, our most recent adviser research[1] shows 91% of advice firms are indeed running a CIP.

The rationale for operating a CIP is pretty straightforward. The advice firm can devote more time and resources to fully researching each element of the CIP (typically platform, investment manager and underlying funds) to ensure all clients get the best possible solution. This is not only more efficient than repeating the research exercise in full for every client, but it also should also help with the ongoing monitoring and reporting activities. It is far easier to monitor a range of model portfolios vs bespoke portfolios for every client.

While there is very little in the way of regulation directly aimed at CIPs, pretty much everything the FCA has published over the last decade that has been aimed at the advice sector has recognised that CIPs are very much a thing. From RDR through to MiFID and now Consumer Duty, the good practice tips have evolved to become hard and fast rules. For any firm running a CIP, there are a number of things you need to get right.

This paper will set out all of the regulatory requirements for anyone running a CIP. This will cover design, research and due diligence, ongoing monitoring, and the governance framework firms need to adopt. We will look at both the potential solutions (platforms, investment solutions) firms might want to use within their CIP and the technology used to power and support it all.

Much of this will be regulatory necessities – hard and fast rules, or suggested good practice. If there are rules you need to follow, this paper will list them out for you.

As well as ensuring your CIP is fully compliant, there are number of key decisions that your advice firm needs to make. Do you want to insource or outsource your investment proposition? Are you running things on an advisory or discretionary basis? Might a separate Centralised Retirement Proposition (CRP) be appropriate for your firm and your clients? From a regulatory perspective there is no automatic right and wrong approach here. Firms can decide what works best for them. This paper will look at the pros and cons for each, enabling you to make the right decision. We hope you find this guide useful.

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[1] SOTAN – State of the Adviser Nation Wave 5 – Q4 2022, 602 responses

A note about the paper

We are very grateful to Investec Wealth & Investment for their sponsorship, enabling this paper to happen. This is an extensive guide to the regulatory implications of running a CIP and without their support it wouldn't be seeing the light of day. While they have paid us to produce the paper, they have had no input to the final contents.

We have also made no comparison or conclusions regarding any investment solutions – this is up to the advice firm to decide – so we are confident advisers and planners will find this paper free of any bias.

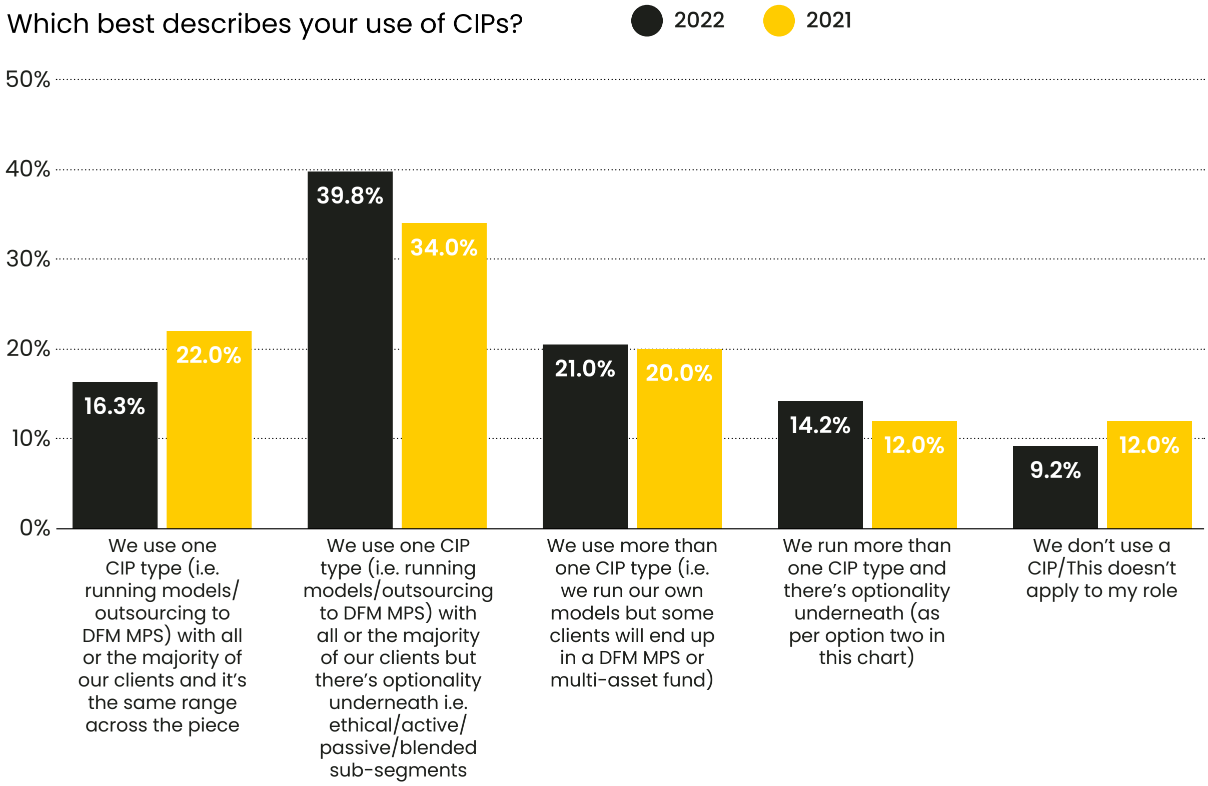
NOTE: The idea of this paper is that it will guide you through the regulatory complexities of running a Centralised Investment Proposition. We've done our best to pull together all the relevant regulation for you (remembering that relatively little regulation addresses CIPs directly), so you've got a good head start in ensuring everything's compliant.

However, we don't know you and we don't know your business. Regulation of advisory firms is complex and interlocking, and no paper like this can cover every possible eventuality. So you must satisfy yourself – and your compliance provider – that the approach you're taking is right for you. You shouldn't rely completely on what you read here.

It's also worth mentioning that the lang cat is an unregulated business and so we can't take any compliance responsibility for what you read here, even if we wanted to, which we don't. So enjoy the paper, use it as a handy input to your own process, but responsibility for staying within the lines is always yours.

Backdrop

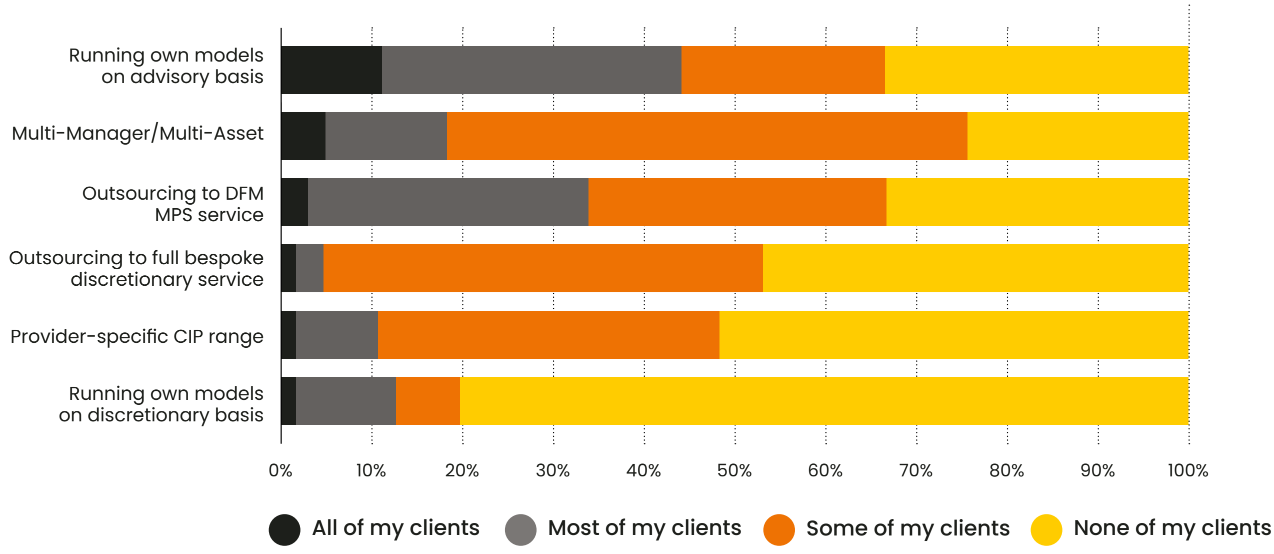
Before we dive into the main course, let's look at the CIP-related nuggets we gathered in our recent SOTAN survey of over 600 advice professionals[2]. This research is illuminating in identifying the progressive use of CIPs as a key element of firms' offerings to their clients.



- 91% of firms use at least one CIP, up from 88% in 2021 and 87% in 2020. 40% of firms have a single CIP with some optionality within that to provide different versions (active, passive, blended) and for specific investment types like ESG. This is up from 34% in 2021. It feels like a natural evolution of firms' CIPs to provide more options for specific clients.
- Firms running their own models on an advisory basis have the largest proportion of clients ending up in them. Understandable, as it's the firm's intellectual property and helps differentiate their service. However, there are also significant (and increasing) flows being placed into outsourced DFM Model Portfolio Services (MPS). This question of whether advice firms want to run their portfolios in-house on advisory basis, or outsource to an external investment manager is a crucial one for firms to consider. We'll return to this later in the paper.

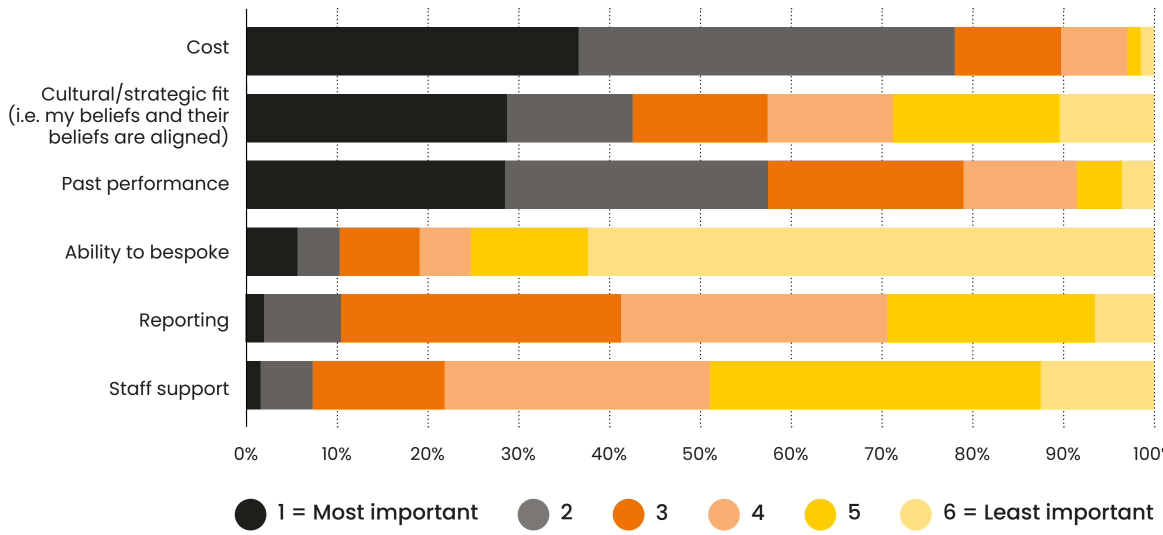
[2] SOTAN – State of the Adviser Nation Wave 5 – Q4 2022, 602 responses

How does your firm use these main CIP types?



Source: SOTAN - State of the Adviser Nation Wave 5 – Q4 2022

Most important factors in adopting or reviewing CIPs?



Source: SOTAN – State of the Adviser Nation Wave 5 – Q4 2022

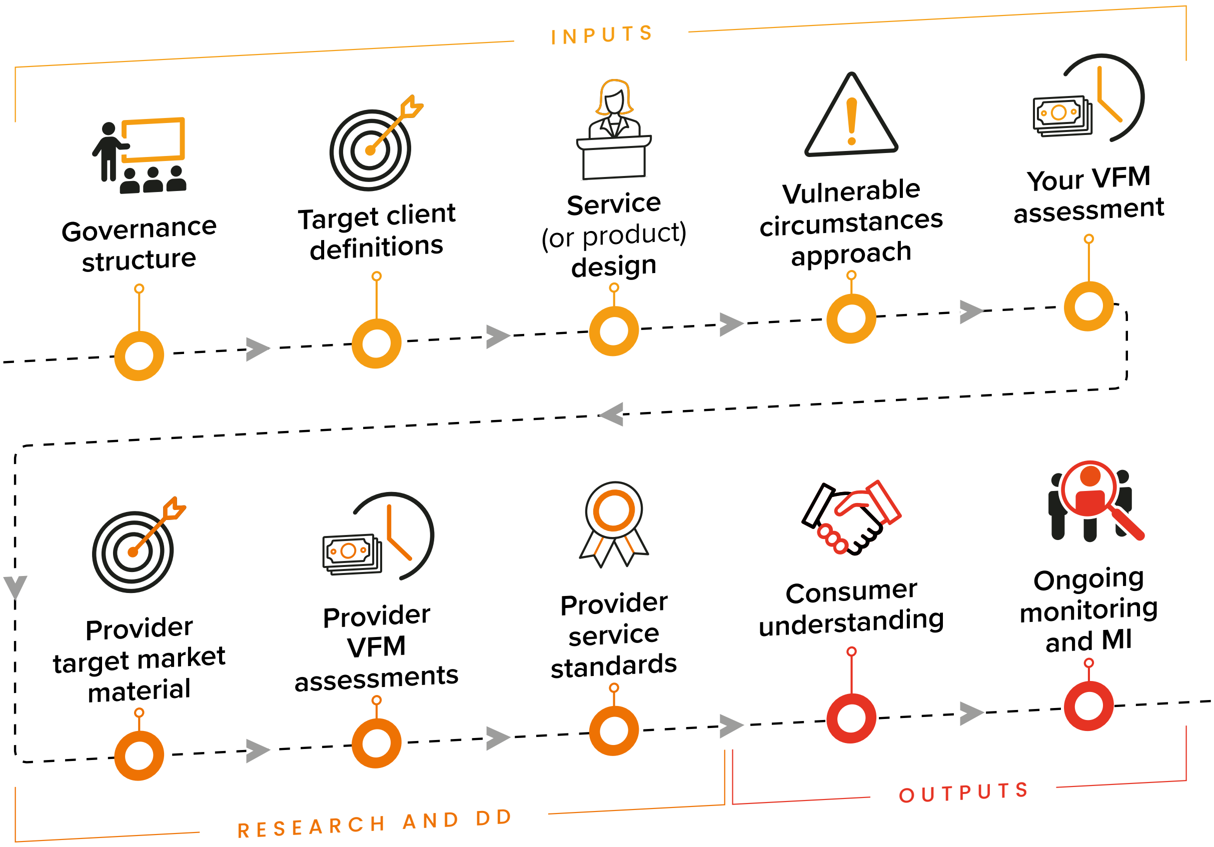
- Cost is overwhelmingly the key factor when adopting or reviewing a firm's CIP, with more than three-quarters rating it among their important criteria. Past performance is also crucial, as is working with a provider reflecting the advice firm's values.

Each advice firm follows its own path and deploying CIPs will naturally vary according to client segmentation as well as adviser preferences. However, as the growing use of CIPs points to firms devoting more of their time to managing valued relationships with their clients rather than managing investments, it's essential and beneficial to both stay within regulatory parameters and follow best practice. This is what we now turn to.

Creating your CIP

Whether your firm is running a CIP or not, you will need to ensure you are operating a robust research and due diligence process, underpinned by appropriate governance and ongoing monitoring. Clearly a proportionate approach will be adopted here by the regulator. FCA figures show that 90% of advice firms have fewer than five advisers, so naturally they will have less in the way of available resources. Larger firms, however, will be expected to have more rigorous processes and accountability, for example a formal Investment Committee.

However your firm is structured, we would suggest the research and due diligence process needs to look something like this:



INPUTS

The first part of our three-stage process covers the inputs. In whatever way your firm is managing or selecting investments, you should have these documents in place.

Governance structure

The starting point is to assign roles and responsibilities. Depending on how your firm is structured, some of these roles might fall under SMCR, but for smaller firms this could end up being one individual wearing several 'hats'. In terms of roles, we suggest assigning clear ownership as follows: the overall governance process within the firm (likely to be a Senior Director and/or Head of Compliance), the Investment Policy and CIP (possibly an Investment Manager) and the research and due diligence process that powers the CIP (possibly a Senior Adviser and/or Paraplanner). Policy documents should be produced, documenting your firm's approach to financial planning, investment management (for example any house views on active/passive, ESG, etc.) and platform selection.

Target client definitions

Building on the policy documents, the next stage is to document your target clients. This is a requirement for all firms under Consumer Duty and advice firms are treated as Manufacturers of their own advice services. As with the policy documents, ownership of these client definitions should be identified at a senior level and the definitions will need to be reviewed on a regular basis to ensure they still accurately reflect your firm's target clients.

Service or product design

Having documented your target clients, and also agreed the policy documents, the next stage is to decide what products and/or services you want to offer your clients. The primary objective here is to ensure said products and/or services meet the needs of your target clients, but provided that is achieved, you can decide exactly what type of services (for example more transactional, relationship focused, etc.) you want to offer.

Vulnerable circumstances approach

The next stage is crucial to get right. Question yourself: how do your services need to be adapted if or when your clients face vulnerability? The FCA provides extensive guidance here, requiring all firms to develop, monitor, analyse and adapt their actions as required.

Value for money assessments

The final part of the input stage is to complete your value for money assessment for any services or products you are manufacturing. Consumer Duty requires all firms to complete an annual value assessment, so your advice firm will need to conduct this for the advice services previously defined. If your firm is also constructing your own in-house model portfolios, under Consumer Duty you will be classified as a Manufacturer, meaning target market and value for money assessments will also be required.

Creating your CIP *continued*

RESEARCH & DUE DILIGENCE

At the core of the research and due diligence process is where you start to align your own target client material, and your clients' wants and needs, to potential product solutions.

Provider target market material

All product providers (Manufacturers) were required to have completed their own target market assessments and published the results by April 2023. As a Distributor in this context, you should review this information to ensure alignment with your own target market and to avoid any potential mismatches where the product might not be suitable for a particular group of clients.

Provider value for money assessments

In addition to the target market materials, all providers also had to complete their initial value for money assessments by April 2023. As with the above, you should review these to ensure the costs associated with the product(s) in question not only represent good value in themselves, but also when considered alongside additional charges that will be incurred by the client, for example any advice fees and platform charges.

Service standards

Finally, as part of wider due diligence, you should consider the service reputation of the potential provider and in particular ensure that they are meeting the requirements of the consumer support outcome of Consumer Duty.

OUTPUTS

The final stage of this three-part research and due diligence process is to turn all this theory into reality and to implement the results in your firm and with your clients.

Consumer understanding

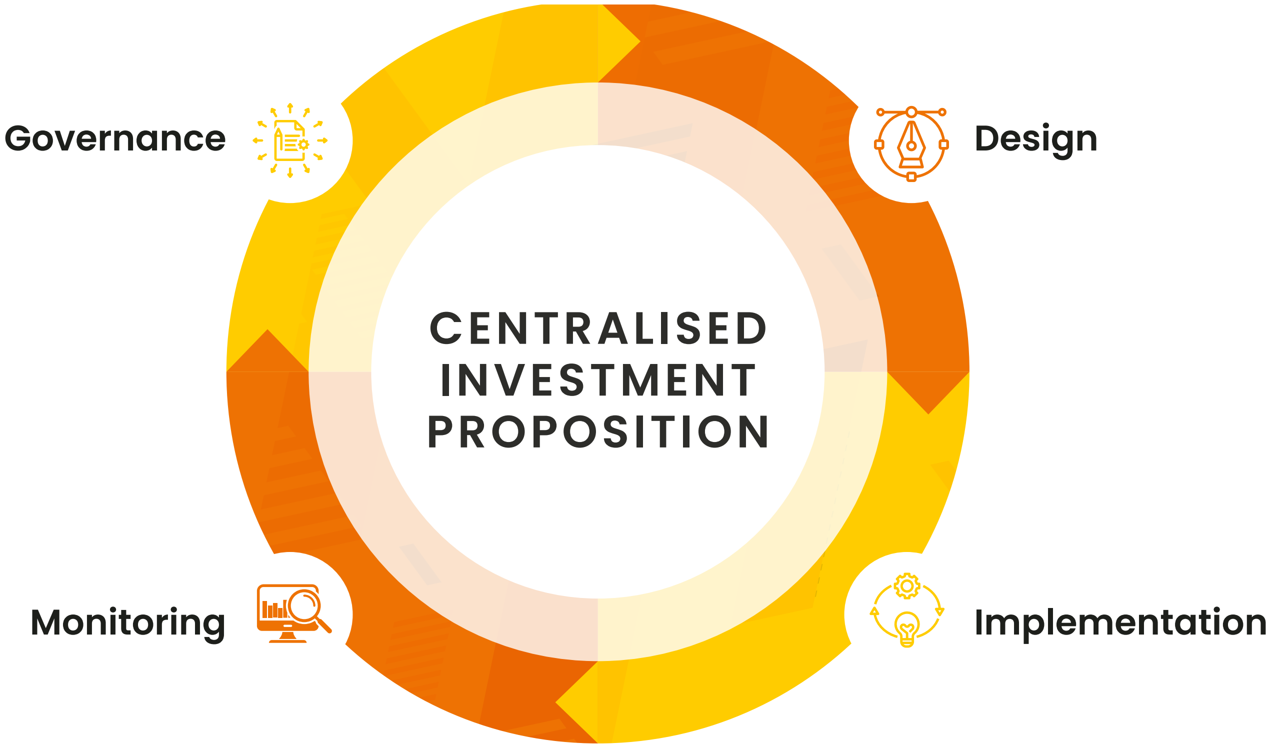
Firms must ensure all client-facing material meets the standards set by the consumer understanding requirements. For your advice firm, this is likely to major on your own documents (client agreements, suitability reports, etc.) but you should also consider the quality of any provider-sourced documents as part of your research and due diligence process.

Management information

Finally, all of this activity should be monitored and reviewed on a regular basis to ensure the required customer outcomes are being achieved. You should pay special attention to ensuring value for money is reassessed on an annual basis, and any clients who might not be receiving good value are identified and managed accordingly.

The four key ingredients of a CIP

The research and due diligence process we've just seen can be applied whether or not your advice firm is running a CIP. For those who are, the CIP both requires and deserves an additional layer of detail. 'Requires' as in there are a number of regulatory requirements that need to be followed. 'Deserves' as the CIP will often play a pivotal role as to the quality of outcomes your firm is generating both for yourselves and, more importantly, for your clients.



We've kept things reasonably high level to this point, but now is the time to dive into the detail. If we are to give our CIP the attention it deserves, all of the rules need to be followed. You can't cherry pick the ones you want to follow. Compliance has to be universal. To help us navigate this detail, we've split our CIP into four main stages. Each stage is important in its own right but will also overlap with the other activities. For the CIP to be operating as effectively as possible, everything needs to be optimised.

This section will set out all of the key rules associated with building and operating a CIP. In the context of CIPs this is an exhaustive list, however clearly there will be additional regulatory requirements your firm will need to follow as part of your wider activities, most notably ensuring individual client suitability. It's also worth noting that while all firms will need to follow these rules, a proportionate approach to compliance is both realistic and acceptable. Larger firms will have access to greater resources, whereas in the smallest firms most roles are likely to fall under the Principal's remit.

So, caveats out of the way, let's get into it...

The four key ingredients of a CIP *continued*

GOVERNANCE

In a sentence
To assign ownership and accountability for designing and operating the CIP.

Key areas of focus:

1 Roles and responsibilities

The starting position is to consider your firm's wider responsibilities under the General Principles. There are a number of rules we could highlight here, however most relevant to a CIP are PRIN 2.1.1.2: "A firm must conduct its business with due skill, care and diligence" and PRIN 2.1.1.3: "A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems".

Your firm's CIP and wider research and due diligence process must adhere to these principles at all times and the first step will be to assign ownership for critical elements such as the research and due diligence process, the investment committee, and the Consumer Duty champion. Depending on the size and structure of your firm, it is possible that some or all of these roles might be classified as Senior Management Functions. In this instance, approval will need to be obtained before individuals can start in their role and a Statement of Responsibilities, clearly setting out roles and responsibilities, will be required.

2 Consumer Duty

Consumer Duty carries a number of additional rules that all firms will need to be following from 31 July 2023. The Duty sets a higher expectation for the standard of care that firms give clients. For many firms, this will require a significant shift in both culture and behaviour, so they consistently focus on customer outcomes. You should ensure that the interests of your clients are central to your culture and purpose and embedded throughout the organisation. With the CIP playing such a key role regarding the outcomes you are generating for your firm and your clients, it is fair to say that most CIPs will be firmly at the heart of Consumer Duty compliance.

The first step is to appoint a Consumer Duty champion, who will be accountable for Consumer Duty within your firm. As with roles and responsibilities, for larger firms this is likely to be a Senior Management Function, and for the largest firms the expectation is that this individual will be at board level, perhaps a Non-Exec Director in a supporting 'champion of the customer' role.

3 Policy documents

Once the roles and responsibilities have been agreed, and the relevant individuals appointed to said roles, good practice would be to produce a number of policy documents, covering off the 'house view' of all relevant subjects. For example...

- **Investment Policy.**
  This document should record any house views on active/passive, ESG, manager selection, etc. It should also document your firm's agreed approach to investment management and whether this is an in-house or outsourced function.
- **Platform Policy.**
  Independent of the actual platform selection process (and results), consider what are your firm's criteria for platform selection? What are your requirements/minimum criteria for ownership, financial strength, pricing, etc?
- **Research and due diligence (DD) approach.**
  Building on the above, set out how your firm will conduct research and due diligence. This will be more task led than the first two policy documents and should cover the criteria for investment solution selection (whether in-house or outsourced) as well as the external tools that might be used during the process. The scope and any weaknesses/gaps these tools might entail should be documented, alongside the training needs for all those in the firm who might be using these systems.
- **Client segmentation approach.**
  How will your firm approach the segmenting of your client bank? While there are no rules that directly require firms to segment, most rules will push firms to adopt this approach. Most notably, Consumer Duty requires all firms to consider and document the target market for their services. In most cases, firms will be serving clients with a range of different needs, for example clients in accumulation vs decumulation. By grouping these clients based on their needs, you have just created two segments, however you might also want to apply additional layers or sub-segments based on age, wealth, employment status, etc. However this is achieved, you should agree both your approach and the subsequent results of your segmentation exercise. These will then need to be reviewed annually to ensure they are still robust and accurately represent the majority of your firm's client bank. However, care must be taken to ensure your clients are not shoehorned into a segment for which they are not suitable. This might require a further 'bespoke solution' segment, or even turning away clients where there is no suitable service or solution available.
- **Vulnerable circumstances approach.**
  The FCA expects firms to provide their clients with a level of care that is appropriate given the characteristics of the clients themselves. The level of care that is appropriate for vulnerable consumers may be different from that of others, and you should take particular care to ensure they are treated fairly. In order to achieve good outcomes for vulnerable clients, your firm should:
  - understand the needs of your target market/client base.
  - ensure your staff have the right skills and capability to recognise and respond to the needs of vulnerable clients.
  - respond to client needs throughout the product/service design stages.
  - monitor and assess whether you are meeting and responding to the needs of your clients with characteristics of vulnerability and make improvements where this is not happening.

You should document your approach to the above, and ensure that the potential vulnerabilities your clients might face have been identified and are considered where relevant, as part of your CIP design, implementation and ongoing monitoring.

The four key ingredients of a CIP *continued*

4 Annual reporting

As well as being responsible for the implementation of Consumer Duty, your Consumer Duty champion is also likely to take on the responsibility of meeting the requirements for annual reporting. Your firm's board, or equivalent governing body, should review and approve an assessment of whether your firm is delivering good outcomes for your clients which are consistent with the Duty, doing this at least annually. As an advice firm, this activity will need to include a value for money assessment for your own advice services, and if your firm is also a Manufacturer of Investment Products or Services (for example, building your own model portfolios) then a similar annual value for money assessment will also need to be completed for this element of your offering.

Key regulations to follow

General Principles

- Principles for business
- Governance and culture

Consumer Duty

- The New Consumer Duty Principle (1)
- The New Consumer Duty Principle (2)
- Culture, governance and accountability
- Consumer Duty champion
- Dear CEO letter re consumer investments

Responsibilities & policy documents

- Assign ownership for critical elements
- SMCR guide
- Statements of responsibilities
- Client segmentation approach
- PROD rules
- Vulnerable customers
- GDPR and data protection
- Consumer Duty Board report

DESIGN

In a sentence
To create and construct your Centralised Investment Proposition, matching investment solutions to the needs of your target clients.

Key areas of focus:

1 CIP build

This stage is about taking the inputs from the previous stage (segmentation approach, investment and platform policy documents, and research and DD approach) and using them to construct your CIP. The policy documents should remain the responsibility of the individuals appointed as part of the governance process, however depending on available resources this stage could be conducted by different staff within your firm. For example, a paraplanner or researcher could conduct the research as specified in the policy documents and then report back to senior management accordingly. Not only does this spread the load in terms of effort, but it can also help encourage a culture of challenge within your firm, empowering all employees to feel involved in the CIP design and able to have input in the final selection.

The first step is to complete the target client assessment for your firm's clients. This should document their wants and needs, and also the advice services you are offering that will (by intention) meet these needs. When using a CIP to help meet these needs, you need to document for whom out of your overall target client assessment the CIP is suitable, and for whom it's not. For the latter, you need to decide how these clients will be handled.

Having identified your target clients for the CIP, the next step is to identify the platform and investment solutions you want to use. If you are outsourcing to external providers, jump ahead to the provider research and DD stage below, however if you are building your own portfolios, stay here.

Under Consumer Duty, if you're building your own model portfolios, your firm will be deemed a Manufacturer. This means you must...

A. specify the target market for the product (model portfolios) at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the product.

B. take account of any particular additional or different needs, characteristics and objectives that might be relevant for retail customers in the target market with characteristics of vulnerability.

C. ensure that all relevant risks to the target market, including any relevant risks to retail customers with characteristics of vulnerability, are assessed.

D. ensure that the design of the product:
   - meets the needs, characteristics and objectives of the target market.
   - does not adversely affect groups of retail customers in the target market, including groups of retail customers with characteristics of vulnerability.
   - avoids causing foreseeable harm to the target market.

E. ensure that the intended distribution strategy is appropriate for the target market.

The four key ingredients of a CIP *continued*

2 Provider research and due diligence

Having now documented your firm's target clients, and the requirements for the CIP, the next stage is to research and ultimately select the platforms and investment products that are needed to complete the CIP. In both instances, this research should be based on the aforementioned policy documents, following the approach agreed in the research and due diligence process document.

Firms will often use external research tools to help them with this exercise. For example, the lang cat's Analyser service can help not only with platform research and due diligence, but also covers over 40 model portfolio providers[3]. Whatever tools you are using, it is important to understand their scope and limitations, and to ensure any limitations are mitigated through the wider advice process.

One good tip for your research and due diligence process is to break it down into more manageable stages. This might involve an initial screening exercise to filter out the providers who don't meet your requirements, resulting in a smaller, more manageable shortlist. You could then conduct more detailed research and due diligence on this shortlist, possibly inviting the relevant providers to pitch for the business. However you approach this, make sure all decisions, both for and against selection, are recorded.

If your firm has delegated the responsibility for the research and due diligence activities to a specific employee, the final stage is for this individual to play back their findings to the governance committee and the people who will ultimately be responsible and accountable for the final selections.

And if you have delegated to a single employee, you should have a process in place for making sure you can still function if that person is unavailable for whatever reason.

3 Value for money assessments

Under Consumer Duty all Manufacturers must...

1. ensure that their products provide fair value to retail customers in the target markets for those products.
2. carry out a value assessment of their products and review that assessment on a regular basis appropriate to the nature and duration of the products.

As per the CIP build stage above, if your firm is running your own model portfolios, these rules will apply in addition to the requirement to ensure fair value for your own advice services.

In order to assess if a product or service provides value, your firm must consider at least the following:

- The nature of the product or service, including the benefits that will be provided or may reasonably be expected and their qualities.
- Any limitations that are part of the product or service.
- The expected total price clients will pay, including all applicable fees and charges over the lifetime of the relationship between your clients and your firm.

[3] Other research tools are available, but they are not as good. Trust us on this one...

Key regulations to follow

CIP build

- Designing or adopting a CIP
- Product and service outcome Chapter 6
- PRIN 2A.3 Consumer Duty: retail customer outcome - products and services
- Inside FCA Podcast: Understanding the Consumer Duty products and services outcome

Research and due diligence

- Research and DD good practice
- Due diligence for adopting a CIP solution provided by a third party

Value for money assessments

- Dear CEO letter re consumer investments
- PRIN 2A.4 Consumer Duty: retail customer outcome on price and value
- Price and value outcome Chapter 7
- Price and value outcome Chapter 7
- Inside FCA Podcast: What is the price and value outcome?

The four key ingredients of a CIP *continued*

IMPLEMENTATION

In a sentence
Moving from theory to reality, taking the CIP from the research stages and adopting it within your firm.

Key areas of focus:

1 Adviser training and competency

Having completed the CIP design and product selection, it is vital that any advisers (and supporting staff, for example paraplanners/administrators) fully understand what type of client the CIP is suitable for and how it should be used. This is especially important for larger firms where the CIP design and product selection activities might have been completed by different individuals.

When deciding on the level of training needed, you should ensure you take into account such matters as:

- technical knowledge and its application.
- skills and expertise.
- changes in the market and to products, legislation and regulation.

The last point is especially relevant as Consumer Duty is implemented across the sector. You need to ensure all your team fully understand the target market definitions for the CIP, and also the platform and investment solutions being used. This is likely to involve a mixture of your firm's own material (target clients for the CIP, and any in-house model portfolios), as well as provider-sourced material (the platform's and investment managers' own target market documents). Value for money assessments should also be part of this training exercise, setting out the acceptable ranges for ensuring good value for money.

As well as the initial training, you should ensure regular refresher updates are scheduled, especially if any changes are made to the CIP. Depending on the nature of the training, this could help contribute to the minimum 35 hours of CPD required annually for all Retail Investment Advisers.

Finally, if any planning tools (risk profiling, asset allocation, cashflow, etc.) are used within the advice process, advisers should be trained in their use. This should focus on the scope of the tools, with any limitations clearly highlighted. Where possible these limitations should be mitigated within the wider advice process.

2 Assessing suitability

This is probably the most important element for your firm to get right. Everything within the CIP and wider business should be driving towards this objective. When providing investment advice or portfolio management, your firm must obtain the necessary information regarding the client's:

- knowledge and experience in the investment field relevant to the specific type of financial instrument, insurance-based investment product or service.
- financial situation including their ability to bear losses.
- investment objectives including their risk tolerance.

Furthermore, your firm must only recommend investment services that are suitable for the client and in particular, that are in accordance with the client's risk tolerance and ability to bear losses.

As mentioned above, this cuts to the heart of an advice firm's purpose and goes much wider than any CIP. From the CIP's perspective there are two key things you must do. Ensure only clients for whom the CIP is suitable end up invested this way and avoid shoehorning all clients into the CIP. The former point is likely to be covered as part of the adviser training and competency activities, with the latter likely to form part of the ongoing monitoring stage.

In addition, you need to consider the issue of client vulnerability at all stages. Your firm should identify where client circumstances might change and make the CIP no longer suitable.

3 Consumer understanding

Finally, you need to ensure all client-facing outputs meet the standards required under the consumer understanding element of Consumer Duty. The FCA wants consumers to be given the information they need at the right time, and presented in a way they can understand, so that when they're making an investment they can understand enough about the product, how it works, its benefits, risks and costs to then be able to make good decisions. Your firm should consider how best to present information to clients, both in writing and verbally, perhaps highlighting key information, signposting to further details, etc. Within the CIP, this should not only cover your advice services, but also include platforms and investment solutions. For these, provider-sourced material might be useful alongside your firm's own documents, but this must also pass the consumer understanding test.

Key regulations to follow

Adviser training and competency

- Training and competence rules

Assessing suitability

- Establishing the risk a client is willing and able to take and making a suitable investment selection
- Assessing suitability - the obligations
- Avoiding shoehorning
- Vulnerable customers
- File checking

Consumer understanding

- The consumer understanding outcome Chapter 8
- The consumer understanding outcome Chapter 8
- Inside FCA Podcast: Explaining the Consumer Duty consumer understanding outcome

The four key ingredients of a CIP *continued*

MONITORING

In a sentence
With the CIP fully implemented within your business, the final stage is to ensure robust management information and oversight are available, so that the ongoing review and reporting activities can be completed.

Key areas of focus:

1 Consumer understanding and support

A key part of Consumer Duty is the need for all firms to assess, test and evidence the outcomes their clients are receiving. You have to be able to identify poor outcomes and take appropriate action to rectify the causes. You must also continuously learn from your focus on and awareness of the outcomes that your clients experience in practice. Your firm's board, or equivalent governing body, should review and approve an assessment of whether your firm is delivering good outcomes for your clients which are consistent with the Duty, and do this at least annually.

Value for money assessments are a key component of these annual reviews (see next column). However, your firm should also pay close attention to the consumer understanding and consumer support outcomes. For the former, a process of continuous learning and improvement is required, adapting your client-facing communications if required. The support that your firm provides should enable clients to realise the benefits of the products and services they buy, pursue their financial objectives, and ensure that they can act in their own interests.

2 Value for money assessments

As well as assessing value at the design stage, you must review value throughout the life of the product or service. These initial assessments should be reviewed at least annually, as part of your firm's wider Consumer Duty reporting. You must take appropriate action where your review identifies that a product or service does not provide fair value. This may include amending the benefits or price of a product or service so that it provides fair value, or withdrawing the product, or providing redress where clients have suffered harm.

Within the CIP, depending on the investment solutions used, these reviews are likely to cover both your advice services and model portfolios. If you are constructing your own in-house model portfolios, an annual value for money assessment will need to be completed. However, if your firm is using an external investment manager, then you can rely on them to complete the assessment.

3 Target client and outcome reviews

Finally, as part of your annual Consumer Duty report, you should ensure the outcomes that the CIP has been designed to achieve are being delivered. Alongside this, the target client definitions that underpin the entire CIP should also be reviewed to ensure they are still robust, and accurately reflect the reality of your firm's client bank.

Key regulations to follow

Consumer Duty

- Consumer support Chapter 9
- PRIN 2A.6 Consumer Duty: retail customer outcome on consumer support
- Consumer support chapter 9
- Inside FCA Podcast: What does the Consumer Duty consumer support outcome mean?
- Annual Consumer Duty statement Chapter 10

Target client and outcome monitoring

- Controls and oversight
- Consumer outcomes and target client validity check - PRIN 2A.9 Monitoring of consumer outcomes
- Management information
- PRIN 2A.10 Redress or other appropriate action

Further considerations

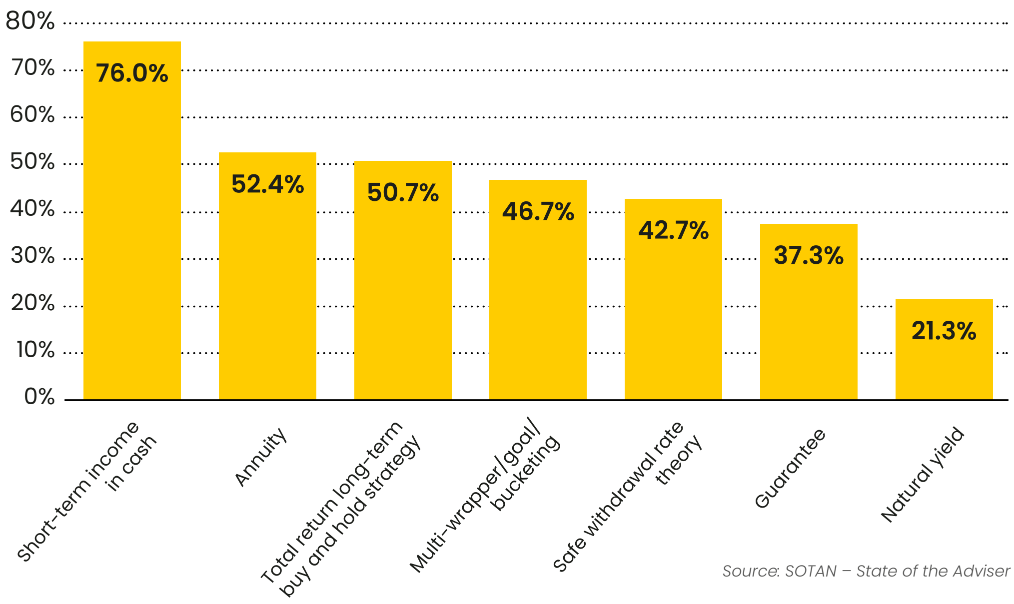
All of the previous pages cover rules, and to put it bluntly they need to be followed. However, when designing and operating a CIP, there are a number of key decisions advice firms need to make that can play a pivotal role as to how the CIP will work in practice. For each of these there are no rights or wrongs; different firms will choose different approaches based on what suits them and their clients. However, the impacts of these decisions should be understood and carefully considered before the final decision is made.

1 CIP or CRP?

So far we've focused our attention on the Centralised Investment Proposition side of things, which is creating a proposition that contains a range of investment solutions, designed to meet the needs of clients with similar needs. Some firms will choose to have a different proposition for their accumulation and decumulation clients. A CIP for the former, and a Centralised Retirement Proposition (CRP) for the latter.

Our research shows that advice firms will tend to use a range of approaches to secure and manage a client's retirement income. Each individual client will have different circumstances, needs and tolerance to risk, so the retirement plan needs to be bespoke. However, opinion varies on the investment element of these overall plans. Some firms will use the same underlying investment solution for at-retirement and accumulation clients, whereas others will have a different investment range for each segment.

Retirement income strategy - Which of the following do you use?



Source: SOTAN – State of the Adviser Nation Wave 5 – Q4 2022

From a CIP/CRP perspective, if a firm decides to utilise different investment solutions, then the processes previously outlined should be followed for both the CIP and CRP. As the chart above shows, in most circumstances it is likely there will be additional or at least increased planning needs for the at-retirement clients. These should be factored into the overall service proposition design, adviser training and competency, and ongoing monitoring. Value for money assessments should also consider the lifetime costs for the overall service, especially important in light of the FCA's thematic review of retirement income advice.

2 Insource or outsource?

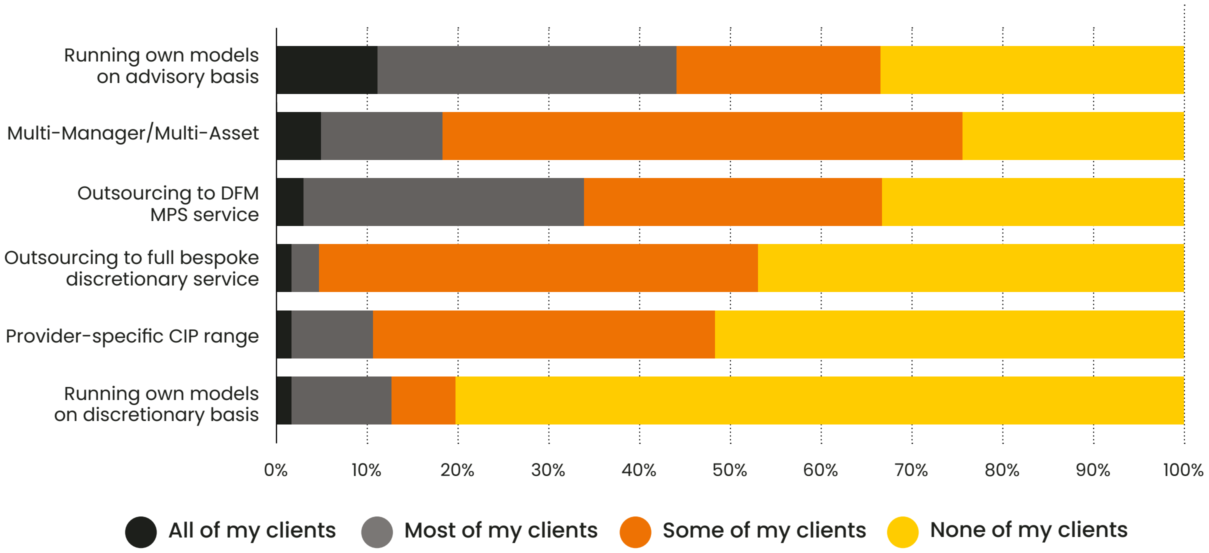
One of the most fundamental decisions an advice firm will need to make is where the investment management activities will sit, either within the advice firm or outsourced to a third-party investment manager. Some firms will take this decision at firm level, with an 'across the board' decision that money should be managed in-house or elsewhere. Other firms will take a different approach for different client segments, for example outsourcing the investments of clients who have more complex needs.

When we look at the type of solutions firms will typically use within their CIP, we can see two of the top three most used ('all' or 'most of my clients') are either advisory models, or outsourcing to a DFM MPS service. We've observed a trend over time of firms migrating from in-house to outsourcing, as the operational and risk pressures of running multiple portfolios in-house start to bite, combined with a more mature and attractive market on the outsourcing side.

We saw above how this decision will have a big bearing on the work needed within the CIP. Most notably, if you are running your own advisory model portfolios, under Consumer Duty your firm will be treated as a Manufacturer, requiring target market and value for money assessments to be completed. Alternatively, for firms who outsource, these responsibilities will sit with the DFM (Manufacturer). The following table shows at a high level how the activities we outlined earlier in the paper might change depending on the approach the advice firm decides to take.

In some instances, advice firms might find themselves being classified as a Co-Manufacturer. This will be where they are not involved in the end-to-end manufacturing of the investment solution, however they are influencing the product design. In these instances, formal agreements will need to be in place between the advice firm and the Manufacturer (DFM), clearly setting out their respective roles and responsibilities.

How does your firm use these main CIP types?



Source: SOTAN – State of the Adviser Nation Wave 5 – Q4 2022

Further considerations *continued*

	IN-HOUSE MPS	OUTSOURCED MPS
GOVERNANCE		
Roles & Responsibilities	Roles and responsibilities should cover both financial planning and investment management.	Advice firm responsibilities likely to be more focussed on financial planning.
Consumer Duty	Advice firm will be treated as Manufacturer for both advice and model portfolio services.	DFM will be responsible for meeting MPS Manufacturer requirements.
Policy documents	Investment policy documents should cover in-house approach to building and running portfolios.	Investment policy documents should be more focussed on manager and provider selection.
Annual reporting	Annual Consumer Duty reporting will need to cover both advice and model portfolio services.	Advice firm will be responsible for annual Consumer Duty reporting for their advice services. DFM will be responsible for MPS reporting.
BUILD		
CIP build	Advice firm should ensure CIP has a clearly defined target market irrespective of the investment solutions used.	
Provider research and DD	Research and due diligence process likely to be more focussed on individual fund (and platform) selection.	Research and due diligence process likely to be focussed on MPS provider selection.
VFM assessments	Advice firm will be responsible for conducting VFM assessments for both advice and model portfolio services.	DFM will be responsible for completing the annual VFM assessments for their MPS range.

	IN-HOUSE MPS	OUTSOURCED MPS
IMPLEMENTATION		
Adviser T&C	Advice firm will need to ensure all advisers understand the target markets for the CIP and the in-house MPS, using their own training material.	DFM target market material and product brochures can be used as part of adviser training.
Assessing Suitability	Advice firm will be responsible for ensuring individual client suitability.	
Consumer understanding	Advice firm will need to develop client facing material to support the MPS and to meet the requirements of the consumer understanding outcome.	DFM client brochures can be used to support the requirements of the consumer understanding outcome.
ONGOING MONITORING		
Consumer understanding and support	Advice firm responsible for evidencing compliance with the consumer understanding and support outcomes.	DFM will be responsible for evidencing compliance with the consumer undestanding and support outcomes.
Value for money assessments	Advice firm will be responsible for conducting VFM assessments for both advice and model portfolio services.	DFM will be responsible for completing the annual VFM assessments for their MPS range.
Target client and outcome reviews	Annual Consumer Duty reporting will need to cover both advice and model portfolio services.	Advice firm will be responsible for annual Consumer Duty reporting for their advice services. DFM will be responsible for MPS reporting.

3 Legal basis

Finally, linked to the above, if your firm is outsourcing to a third party, it is vital that you adopt the correct legal basis for the client agreements, ensuring the agreement with the third party is correctly aligned with your own client agreement. The PFS has produced an in-depth guide to this subject which is essential reading for any firms working this way.

Final checklist

So, that's it. Everything you ever wanted to know about CIP rules and regulations, all in one hopefully useful place. To repeat what we said earlier, most advice firm CIPs play a pivotal role in the outcomes the firm is generating for itself and its clients. An effective CIP shouldn't need to be micromanaged every day, but regular attention to ensure it is operating as smoothly as possible, and is generating the best possible outcomes, will represent good practice from a regulatory and business perspective. We've avoided the obvious engine metaphors up to this point, but like any engine, a bit of regular maintenance is a good way to prevent more costly work down the line.

As a final aid, the following checklist covers off the main points that will contribute towards running an effective and compliant CIP. As you've already seen, there is a lot more detail that needs to be addressed, but while these points don't guarantee your CIP is doing what it needs to be doing, if you can tick them off, you'll be well on the way to ensuring just that.

- ☐ 1. **Roles and responsibilities.** Does your firm have clearly defined ownership for the CIP and the research and due diligence, and have you appointed a Consumer Duty champion?
- ☐ 2. **Policy documents.** Do you have documentation in place recording your approach to investment and platform selection, and how you will segment your client bank?
- ☐ 3. **Design considerations.** Has your firm decided on your approach to CIP or CRP and in-house or outsourced investment management?
- ☐ 4. **CIP target clients.** Have you documented which client types the CIP is suitable for and those for whom it is not suitable?
- ☐ 5. **In-house MPS.** If your firm is running your own in-house model portfolios, are the required Consumer Duty documents (target client definitions and value for money assessments) in place?
- ☐ 6. **Outsourced MPS.** Have you obtained and reviewed target market documentation and value for money assessments from all the external investment providers you have selected?
- ☐ 7. **Research and due diligence.** Have you conducted appropriate research and due diligence on all investment solutions and platforms being used within the CIP, fully documenting the results?
- ☐ 8. **Key staff training and competency.** Have all appropriate staff been trained in how the CIP is intended to operate, who the target clients are and how the products held within the CIP are intended to be used?
- ☐ 9. **Consumer Duty.** In addition to the target market and value for money assessments, how are you evidencing your compliance with the consumer understanding and support outcomes?
- ☐ 10. **Ongoing monitoring.** Has the CIP been reviewed in the last 12 months to ensure the intended outcomes are being generated?

Cut Out & Keep

A handy guide to CENTRALISED INVESTMENT PROPOSITIONS for advice firms

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