SICSIC ADVISORY
FINANCIAL SERVICES RISK & REGULATION

The FCA's targeted support regime in pensions and retail investments

A ROADMAP TO READINESS

July 2025

A LANDMARK OPPORTUNITY TO RESHAPE THE MARKET

The Financial Conduct Authority's (FCA) Consultation Paper CP25/17 is not merely another regulatory initiative; it is, as the regulator itself states, a "once in a generation chance to deliver substantive change" in pensions and retail investments. It represents the most significant move yet to address the UK's persistent advice gap, with the FCA estimating potential annual benefits of £785 million to consumers, firms, and the wider market.

For firms, this is a strategic inflection point, presenting a landmark opportunity to engage a vast, underserved market segment but demanding careful navigation of new risks and significant operational investment.

The core proposal introduces a new regulated activity, 'targeted support', enabling firms to provide, free of charge, specific product suggestions to groups of consumers in the pensions and investments space. This is designed for example, to help the 7 million adults with £10,000 or more in cash who have not received advice and the 12.5 million people under-saving for retirement.

These proposals are the clearest demonstration yet of the 'New FCA' in action. The approach is characterised by:

- **Collaboration:** Developed via a 'policy sprint' with industry.
- **Flexibility:** Moving away from prescriptive rules (e.g., dropping the mandatory annual review) in favour of an outcomes-focused framework underpinned by the Consumer Duty.
- **Pragmatism:** Acknowledging the risk of consumer inaction and a clear statement that firms' actions will not be judged with hindsight.

While the opportunity is significant, the path to implementation is complex. Key strategic questions for boards include:

- **Execution risk:** How do they manage the two critical uncertainties outside the FCA's direct control: the approach of the Financial Ombudsman Service (FOS) and the unresolved direct marketing (PECR) barrier?
- **First-mover advantage:** What is the right balance between being a first mover and a "wait and see" approach while these uncertainties are resolved?
- **Operational readiness:** Do they have the data, technology, and governance capabilities to deliver a compliant and commercially viable targeted support proposition?

Firms can respond to the consultation up to 29 August 2025.

This briefing provides our expert analysis of the proposals and a practical roadmap to readiness.

WHO IS IMPACTED BY THE PROPOSALS?

- Pensions and investment firms, including fund and wealth managers, platforms and SIPP operators.
- Pension trustees and trust-based pension schemes.
- Banks, building societies and other firms such as friendly or mutual societies.
- Financial advice firms.
- Trade bodies, professional and consultancy firms.
- Consumers, groups representing consumers' interests and those who support consumers with their decision-making.

WHAT IS TARGETED SUPPORT?

Targeted support would allow firms to make specific recommendations designed for groups or cohorts of consumers, allowing them to direct people to products that would deliver better outcomes for them.

DECONSTRUCTING THE TARGETED SUPPORT FRAMEWORK: FROM THEORY TO PRACTICE

The FCA has outlined a detailed framework for targeted support. Understanding the nuances of each component is critical for designing a compliant and effective service.

The core mechanism: a four-step process

The framework is built on a four-step process: defining Situations, creating Consumer Segments, developing Ready-made Suggestions, and ensuring compliant Delivery. This requires an iterative and integrated design process. The choice of a 'Situation' (e.g., consumers with large cash balances) will dictate the necessary 'Segment' granularity (e.g., by age, risk appetite), which in turn limits the scope of a suitable 'Suggestion' (e.g., a specific multi-asset fund). Firms must think about this holistically from the outset to ensure the end-to-end journey is coherent and defensible.

Step 1: The 'better outcomes' test and defining 'Situations'

The entry point for providing targeted support is to provide a "better outcome" for consumers than if it was not provided. ' Situations' are a common set of identified circumstances in relation to a firm's clients' financial support needs or objectives (such as approaching retirement or holding large cash balances) that can be met through targeted support.

The test of "better outcomes" is a comparison against the counterfactual of how a consumer may act without targeted support. This represents the FCA's rebalancing of risk, acknowledging that some support, even if not fully personalised, is better than no support for many. The FCA will mainly rely on the provisions of the Consumer Duty which include helping customers to achieve their financial objectives and avoid foreseeable harm.

Step 2: The art and science of 'Consumer Segments'

Once a situation is identified, firms must design 'Consumer Segments'. This involves a careful balancing act: segments must be "sufficiently granular" so that a suggestion is suitable for everyone within the group, but not "overly individualised" to the point where it could be mistaken for personal advice.

This process requires firms to define 'including characteristics' (e.g., age over 50, cash balance over £20,000) and 'excluding characteristics' (i.e. characteristics which are likely to render a ready-made suggestion ineffective, inappropriate or unduly risky). The latter is a key risk management tool; for example, a segment for a drawdown suggestion based on average life expectancy should explicitly exclude consumers with significant health issues that could shorten their life expectancy.

To avoid collecting overly personalised data, firms can use "reasonable assumptions" about factors like risk tolerance or investment time horizon. However, they must then carefully consider whether it is appropriate to communicate these assumptions to the consumer to ensure understanding.

The concept of "sufficiently granular" will be a key area of regulatory scrutiny. The FCA's own behavioural testing showed that replaying the data points used to form the segment was critical for consumer understanding and confidence. Yet, using too many or too complex data points risks crossing the regulatory boundary into Simplified Advice. This tension demands a sophisticated data strategy and a robust governance framework to justify the segmentation approach – an area where Sicsic Advisory's expertise in business model analysis, governance and risk management is critical.

Step 3: 'ready-made suggestions' and product governance

For each consumer segment, firms will pre-define a 'ready-made suggestion'. This could be a recommendation to take an action (e.g., increase pension contributions), purchase a new product, or even a recommendation not to do something (e.g., not to fully encash a pension pot).

The FCA has set clear and firm boundaries around the scope of these suggestions, reflecting a cautious approach in areas of high potential consumer harm:

- Annuities: Firms are prohibited from suggesting a specific, named annuity product. They can, however, suggest annuity features (e.g., an inflation-linked annuity). Crucially, after making such a suggestion, the firm must signpost the consumer to the MoneyHelper comparison tool and enforce a "sufficient break" in the journey—the FCA suggests at least two weeks—before a firm can send any further annuity related communications to consumers to whom they have already recommended ready-made suggestions. Referrals to commercial annuity brokers are also banned. This creates a significant operational hurdle that must be designed into the customer experience.
- Pension consolidation: Firms cannot use targeted support to suggest that consumers consolidate pensions into or out of a particular product. This is an important boundary, meaning the regime cannot currently be used to directly address the "small pots" problem, a key area of government and industry focus.
- High-risk investments: Products that are subject to FCA marketing or distribution restrictions (e.g., Non-Mass Market Investments (NMMIs), Restricted-Mass Market Investments (RMMIs)) are excluded from the proposed regime. An exception may apply for a mainstream diversified fund that has a small, appropriate allocation to a restricted asset class, like a Long-Term Asset Fund (LTAF).

Step 4: Authorisation, prudential, and delivery rules

The new regime brings with it a robust gateway and ongoing requirements.

- Authorisation: Firms will need a new Part 4A permission for the activity of "providing targeted support." For existing authorised firms, this will require submitting a Variation of Permission (VoP) application.
- Exclusion of Appointed Representatives (ARs): The FCA is consulting on the basis that ARs will not be permitted to provide targeted support. This decision stems from concerns that many ARs may lack the required capabilities in systems, controls, testing and monitoring required to deliver the service safely. This signals the FCA's view of the activity's inherent risk and complexity.
- Prudential requirements: A new, absolute minimum capital requirement of £500,000 will apply to all FCA-prudentially regulated firms that deliver Targeted support.

The £500,000 capital floor and the exclusion of ARs are significant barriers to entry. This will likely consolidate the market around larger, well-capitalised firms and may prevent smaller, innovative players from entering independently. This reinforces the view that the regime, while promoting consumer access, may favour incumbents. This is a critical strategic point for smaller firms considering their options.

STRATEGIC IMPLICATIONS: NAVIGATING THE OPPORTUNITIES AND RISKS

The targeted support framework presents a duality for firms: a significant commercial opportunity coupled with significant execution risks if not implemented correctly.

Commercial opportunities: a new frontier for growth

Targeted support offers a compliant pathway to re-engage with a firm's entire back book of customers, many of whom are currently inert and uncontactable for marketing purposes. It provides a powerful customer retention tool and can act as a "stepping stone" to higher-margin simplified or holistic advice as a customer's wealth and needs evolve.

There is a clear first-mover advantage for firms that can establish a trusted, effective targeted support proposition, potentially capturing significant market share from underserved populations, such as the 12.5 million people who are under-saving for retirement.

Navigating the key risks: the 'known unknowns'

While the opportunities are clear, boards must contend with several major risks and uncertainties.

- The FOS liability question: This remains the industry's number one concern. The consultation paper confirms that the Financial Ombudsman Service's (FOS) Compulsory Jurisdiction will apply to complaints about targeted support. The FCA and FOS have stated they will work closely and that the FOS, when assessing complaints, will not apply the suitability standards required when delivering regulated financial advice . This provides some comfort, but it does not resolve the fundamental issue. The FOS's statutory duty is to decide what is "fair and reasonable in all the circumstances," a remit that can extend beyond a firm's adherence to specific FCA rules. Firms rightly fear being judged with "hindsight" on whether a suggestion designed for a group was suitable for a specific individual who later complains and suffers a loss. The FCA's statement that firms' initial journeys will not be judged with hindsight is welcome, but it is often the FOS's interpretation that dictates redress outcomes. Until there is legislative change to the FOS's remit or a binding commitment on how it will handle these cases, this will remain a significant deterrent for some firms.

- The Direct Marketing (PECR) Hurdle: The paper explicitly acknowledges that the Privacy and Electronic Communications Regulations (PECR) could "significantly hinder the delivery of targeted support," especially for proactive communications sent to customers who have previously opted out of marketing. This is not a minor detail; it is a potential showstopper for the policy's primary objective of reaching the most disengaged consumers. The success of using targeted support to nudge the 61% of adults with over £10,000 in cash, depends on firms being able to contact them proactively. The paper states the FCA is "working with the ICO and government to consider how these challenges could be addressed" but provides no timeline or certainty of a solution. This makes any significant investment in proactive journey design a calculated risk for firms.

- The operational lift and cost: The regime demands significant investment. The FCA's cost-benefit analysis estimates one-off implementation costs of £44 million and ongoing annual costs of £25 million, in total, for all of the firms expected to adopt the regime. These costs, combined with the £500,000 prudential capital requirement, will be prohibitive for many smaller firms. The regime requires a level of data infrastructure, analytics capability, customer journey design, and governance that will favour large, vertically integrated players. This creates a strategic choice for smaller firms: invest heavily to compete, find a niche where they can add value, or partner with technology providers. This dynamic is likely to be a key driver of M&A activity, an area where Sicsic Advisory can provide expert due diligence support.

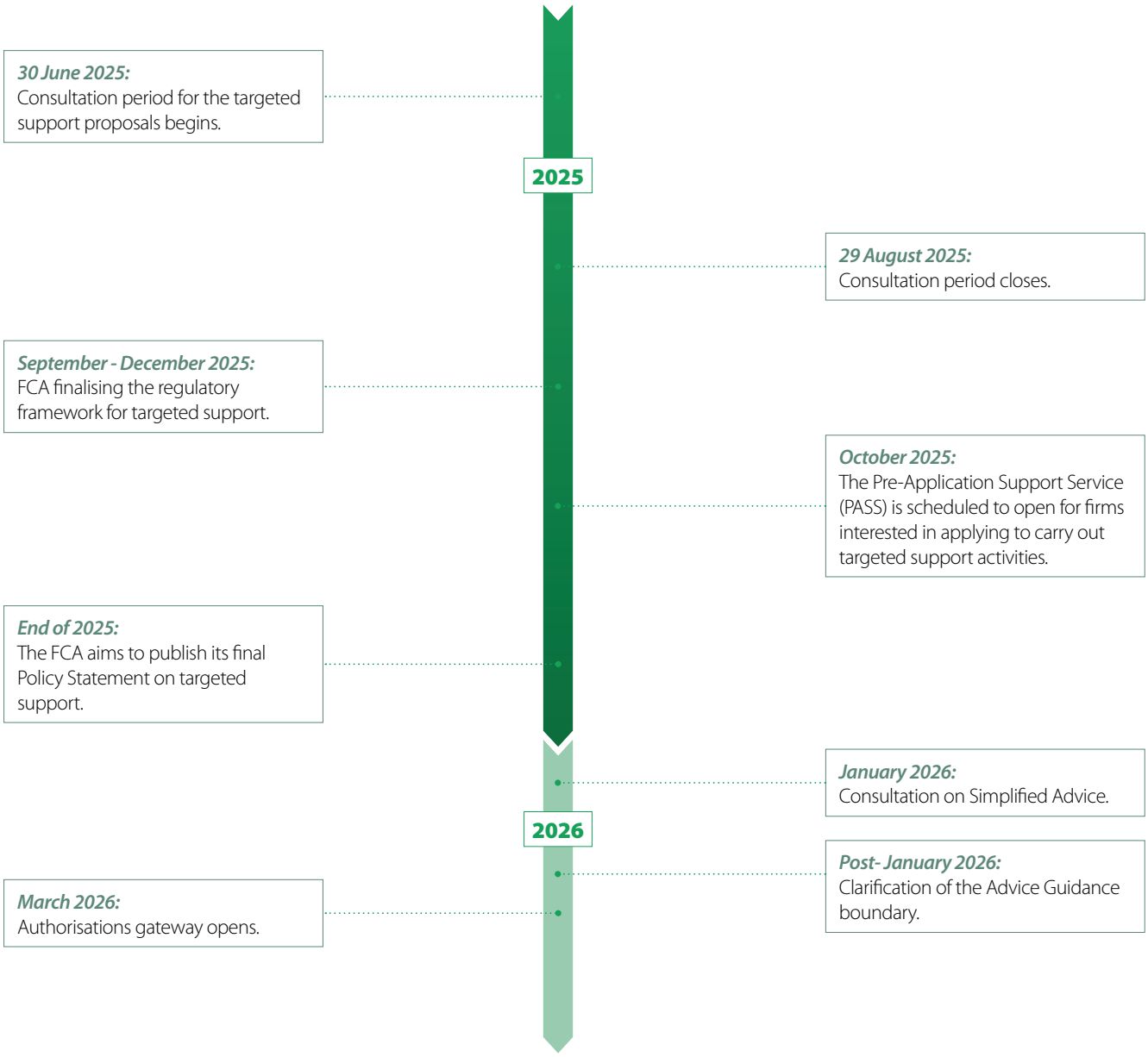
THE BROADER REGULATORY TRAJECTORY: A NEW CONTINUUM OF SUPPORT

Targeted support does not exist in a vacuum. The FCA is simultaneously planning to consult on a clearer, more commercially viable simplified advice regime by reviewing COBS 9/9A, and to further clarify the advice-guidance boundary.

Together, these proposals provide a "continuum of support". Targeted support pushes up from guidance, offering scalable, low-touch, group-based suggestions. A revamped simplified advice regime will push down from holistic advice, offering a more affordable, focused, but still individualised, recommendation.

This pincer movement could fundamentally reshape the market by putting a "strategic squeeze" on traditional, high-cost, one-off advice models for clients with straightforward needs. Firms must develop a coherent strategy that addresses this entire continuum, deciding where and how they want to compete, rather than viewing targeted support as an isolated initiative.

TIMELINE



YOUR ROADMAP TO READINESS: HOW SICSIC ADVISORY CAN SUPPORT YOU

The timeline is ambitious, with final rules expected by the end of 2025 and the authorisation pre-application support service (PASS) opening in October 2025 before then to allow firms to prepare. Firms wishing to be first movers must begin preparations now. We propose a phased approach to readiness.

As a strategic regulatory and risk consultancy with deep expertise in navigating regulatory change and embedding the Consumer Duty, Sicsic Advisory is uniquely positioned to help you turn this regulatory challenge into a commercial opportunity.

	Activities	***Sicsic Advisory support***
Phase 1: Strategic assessment and gap analysis *(now - Q4 2025)*		
1	Assess the commercial opportunity and strategic fit for your business. Conduct a detailed gap analysis of your data, technology, governance, and prudential capabilities against the requirements outlined in CP25/17. Develop a high-level business case and risk appetite statement for board consideration and approval.	We can facilitate board-level strategy workshops to navigate these complex decisions. Our team can conduct a comprehensive Business Model Analysis to assess commercial viability and identify conduct risks and perform a prudential and conduct health check to benchmark your current framework against the new requirements and identify critical gaps.
Phase 2: Framework development and authorisation support *(Q4 2025 - Q1 2026)*		
2	Design the detailed operational framework, including your segmentation methodology, product governance processes, risk and compliance controls, and the MI and monitoring plans needed to evidence "better outcomes." Prepare the Application for Authorisation and Variation of Permission (VoP) and all supporting documentation for submission to the FCA, or PRA for dual-regulated firms.	Our hands-on team, which includes former senior regulators, can help you develop a robust regulatory business plan, build robust Governance frameworks, ensure the Consumer Duty is robustly embedded into your designs, and provide expert support throughout the Regulatory Authorisation process from the point the Pre-Application Support Service opens in October 2025. This includes preparing key individuals for managing interactions with the regulator.
Phase 3: Implementation and pre-launch testing *(from Q1 2026)*		
3	Build and test the technology platforms and end-to-end customer journeys. Develop and rigorously test customer communications to ensure they meet the FCA's high standards for clarity and understanding, as informed by their own behavioural research. Train all relevant staff and prepare for launch. Develop robust Outcome Testing and MI.	We provide independent review and challenge of your customer journeys and communications, ensuring they are not only compliant but also effective in mitigating consumer misunderstanding. We can help you build your ongoing monitoring and reporting framework to provide the evidence needed to demonstrate "better outcomes" to the regulator over the long term.

TARGETED SUPPORT IMPLEMENTATION CHECKLIST

Requirement/Activity (from CP25/17)	*Key considerations for your firm*	*How Sicsic Advisory can support you*
1. Develop business case and strategy	Commercial viability, risk appetite, first-mover vs. follower, resource allocation, board approval.	Business Model Analysis: Assessing sustainability and conduct risks. Facilitating board-level strategy sessions.
2. Prepare authorisation or VoP application	Meeting FCA Threshold Conditions, robust business plan, demonstrating adequate systems and controls, SMF accountability.	Regulatory Authorisation Support: Guiding you through the entire application process, from drafting to managing FCA interactions.
3. Design consumer segments	"Sufficiently granular" test, defining including/ excluding characteristics, use of data and assumptions, avoiding "overly-individualisation".	Enhancing Governance & Managing Risk: Support in designing and documenting a robust and defensible segmentation methodology compliant with PROD and Consumer Duty.
4. Develop ready-made suggestions	Product governance (PROD) compliance, fair value assessments, managing conflicts of interest (especially for in-house products).	Product Governance & Fair Value Expertise: Assisting in the design and review of your product suite and pricing to ensure it delivers fair value.
5. Build customer journeys and communications	Clarity, fairness, not misleading. Ensuring consumers understand it's not personal advice. Disclosing data points used. Testing effectiveness.	Embedding Consumer Duty: Reviewing and testing customer communications and journeys to ensure they meet the consumer understanding outcome.
6. Establish monitoring framework	Data collection for outcomes monitoring, regular reviews of the service, tracking product changes and their impact on past suggestions.	Monitoring Outcomes: Designing and implementing monitoring dashboards and MI to evidence "better outcomes" and compliance.
7. Address key risks (FOS/PECR)	Develop a clear position on the residual FOS liability risk. Design processes to manage proactive communications within PECR constraints.	Navigating the regulatory landscape: Providing strategic advice on managing these uncertainties and engaging with industry bodies on potential solutions.

ABOUT SICSIC ADVISORY

Sicsic Advisory is a strategic regulatory and risk consultancy. We work with financial services boards and senior managers to deliver sustainable business models by helping them achieve commercial, operational, and financial resilience.

We operate across the UK, Ireland and Gibraltar with six hubs.

Our team of 25+ senior consultants has a combination of expertise gained through direct experience as ex-regulators, lobbyists, consultants, and industry practitioners. We get to know your business and work alongside you as trusted advisors, expert interpreters, and a hands-on extension of your team.

Sicsic Advisory was founded in 2019 by Michael Sicsic, a senior executive in the field of risk and regulation and former head of supervision for the UK general insurance retail sector at the Financial Conduct Authority (FCA). He built a consultancy with the vision to provide firms with expert regulatory insight, senior-level industry experience and honest, collaborative delivery.

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References

Consultation Paper CP25/17 Supporting consumers' pensions and investment decisions: proposals for targeted support

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