



Investment advisers' and authorised firms' responsibilities when accepting business from unauthorised introducers or lead generators

This alert highlights some of the risks arising from authorised firms accepting business from unauthorised introducers/lead generators and/or other authorised firms (the 'introducer').

An authorised firm which accepts business from an introducer must meet its regulatory requirements. If customers are given unsuitable advice by an introducer, the authorised firm may be held responsible for this and subject to regulatory action.

Many authorised firms receive customer introductions from introducers. We are very concerned at the increase we have seen in cases in which the introducer has an inappropriate influence on how the authorised firm carries out its business, in particular where the introducer influences the final investment choice. We also have concerns where the authorised firm delegates regulated activities, for example by outsourcing their advice process to unauthorised entities or to other authorised firms that do not have the relevant permissions, or are not their appointed representatives.

Many authorised firms we have visited do not have adequate input or control over the advice they are ultimately responsible for giving to customers. This has been particularly evident in relation to advice on switching and transfer/conversion of pension benefits. We have specific concerns where this advice involves movement of pension pots to unregulated, high risk, illiquid products, whether they are based in the UK or overseas.

Areas of concern identified

1. Some introducers will use authorised firms' firm reference numbers (FRN) in obtaining consumer policy information, requesting the information is sent direct to them as an 'administration office'. This can result in policy information being passed to persons with no right to it and the authorised firm having no control over how that information is used.
2. Some introducers will present the referral to an authorised firm with a completed fact find, attitude to risk questionnaire, application/transfer forms along with a clear investment desire expressed by the customer.
3. Some authorised firms will provide a simplified or limited advice process for customers referred to them to facilitate their desired outcome, often with no direct contact with the customer themselves.
4. Often the simplified or limited advice process is designed by the introducer, including the creation of heavily templated pre-prepared suitability reports provided to the authorised firm with reassurance that the process meets regulatory requirements.
5. Many of the investment outcomes facilitated by the introducer are without Financial Services Compensation Scheme and Financial Ombudsman Service protection and therefore in our view not suitable for retail clients.
6. Some of these investments are closely linked to or controlled by the introducers and are badly run, while others may be outright scams.

Warning signs

If you or your authorised firm are accepting customer introductions from introducers, consider these questions:

- Do the introducers obtain, on your behalf, authority from the consumer for you to access their existing investment(s)?
- Do the introducers have any input in completing fact find and/or attitude to risk questionnaires?
- Do you delegate any of your regulated activities to an unauthorised third party or to another authorised firm that does not have the required permissions or who are not your appointed representatives?
- Do the consumers introduced to you have a pre-determined investment in mind?
- Does the introducer influence the final investment choice?
- Does most of your business from the introducer go into the same group of investments?
- Does the introducer directly benefit from the resulting investment?

If any of these scenarios are applicable to you then the below information will help you to protect both your customers and your business.

Regulatory requirements

Introducers who introduce customers to you with a view to those customers purchasing investments may only be able to do so if it is for the provision of independent advice. 'Independent' in this context means that you are independent of the issuer of the investment.

It is essential that at all times you maintain full and complete ownership of the advisory process between yourselves and your customer, and any regulated advice you provide must meet the requirements set out in our Handbook.

What you should do next

- Carry out robust due diligence on the introducers you transact with.
- Have in place a robust vetting procedure to ensure the introductions have been sourced legitimately.
- Regularly review and ensure your systems and controls are adequate to demonstrate you have full and complete ownership of the advice you are providing.
- Only recommend products you understand fully - how it works, the risks involved and undertake adequate due diligence.
- Provide independent advice, as outlined earlier, to customers introduced.
- Don't allow another entity - regulated or not - to use your FRN on your behalf unless you are satisfied they are doing so appropriately.
- Only delegate the performance of regulated activities to other authorised firms that have the required permissions or who are your appointed representatives, with appropriate monitoring.

Be aware

We are co-ordinating our intelligence and supervisory activities on pension scams and unsuitable advice, and will take action as necessary.

Providing a simplified or limited advice process to consumers to facilitate investment into unregulated, high risk, illiquid products, whether they are based in the UK or overseas, or delegating regulated activity to an unauthorised party will **not** mean that the firm can avoid liability or regulatory action for unsuitable advice (or lack of advice). Following supervisory intervention, firms have varied their permissions so they can no longer operate a business model where there is an inappropriate influence by the introducer.

It will be you and your firm against whom regulatory action will be taken, and there is also a risk that you may become involved in an illegal scheme.

All authorised firms should report to us instances of where they have been approached or been subject to this type of influence - you can do this by contacting us on 0300 500 0597.

If you are aware of money being lost to an investment fraud, you should report it to Action Fraud on:

- **0300 123 2040**
- www.actionfraud.police.uk [3]

You should also consider whether a Suspicious Activity Report should be submitted to the [National Crime Agency](#) [4].

Read the relevant links to FCA final notices and FOS decisions:

[FCA bans partners of firm that failed to consider customer SIPP suitability](#) [5]

[FCA bans and fines two individuals for pension advice failings](#) [6]

[Financial Ombudsman Service Decision](#) [7]

[Financial Ombudsman Service Decision](#) [8]

Further information and related bulletins

[Advising on pension transfers – our expectations](#) [9]

[Pension scheme operators are at risk from smarter scams](#) [10]

[Advising on pension transfers with a view to investing pension monies into unregulated products through a SIPP](#) [11] (PDF)

[Pension transfers or switches with a view to investing pension monies into unregulated products through SIPPs – Further alert](#) [12]

[Improper delegation of authorised activities – a notice for financial adviser firms and their advisers](#) [13]

[Pension scams](#) [14]

[ScamSmart](#) [15]

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Links

- [1] <https://www.fca.org.uk/print/news/news-stories/investment-advisers-responsibilities-accepting-business-unauthorised-introducers-lead-generators>
- [3] <http://www.actionfraud.police.uk>
- [4] <http://www.nationalcrimeagency.gov.uk/contact-us>
- [5] <http://www.fca.org.uk/news/fca-bans-partners-of-firm-that-failed-to-consider-customer-sipp-suitability>
- [6] <http://www.fca.org.uk/news/press-releases/fca-bans-and-fines-two-individuals-for-pension-advice-failings>
- [7] <http://www.ombudsman-decisions.org.uk/viewPDF.aspx?FileID=111376>
- [8] <http://www.ombudsman-decisions.org.uk/viewPDF.aspx?FileID=118110>
- [9] <https://www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations>
- [10] <https://www.fca.org.uk/news/news-stories/pension-scheme-operators-risk-smarter-scams>
- [11] <http://www.fca.org.uk/your-fca/documents/fsa-alert-pension-transfers>
- [12] <http://www.fca.org.uk/news/sipps-further-alert>
- [13] <http://www.fca.org.uk/news/firms/improper-delegation-of-authorised-activities-financial-adviser-firms>
- [14] <http://www.thepensionsregulator.gov.uk/pension-scams.aspx>
- [15] <http://scamsmart.fca.org.uk/>