

Financial Services Consumer
Panel response to:
*'The FSA's approach to the
regulation of the conduct of
stakeholder pensions
business', a discussion
paper*

Stakeholder pensions

Financial Services Consumer Panel response to:
'The FSA's approach to the regulation of the conduct of
stakeholder pensions business', a discussion paper

Contents

Overall comments	2
Minimum product standards for stakeholder pensions	3
Risks and judgements for the regulator	3
Decision trees	4
Appropriate conduct of business regime	6
Training and competence regime	7
About the Financial Services Consumer Panel	9

Overall comments

1. This document sets out the Consumer Panel's (the Panel) response to each of the eleven questions posed by the discussion paper. However, before we address these questions we have some general points we would like to make.
2. The Panel's concerns are focussed on the most vulnerable and thus on a minority of the target market for stakeholder pensions. However, the gap between the bottom end of the target market and the benefits system is worryingly small. This group at the margins of welfare benefits could suffer double detriment in terms of tying up money long term that they may need to meet current needs.
3. We have concerns about the proposed approach particularly regarding the scope of the decision trees, and workplace presentations that have not been addressed.

4. The worry with workplace presentations is that a company representative may use the presentation to major on the advantages of their stakeholder scheme and downplay or ignore the decision tree as a means for the individual to come to a decision as to whether they will join.
5. The training and competence proposals reflect the lower risk from this product. The FSA should monitor the effectiveness of this approach to decision-trees to ensure those assisting customers in completing the trees do not give advice.

Minimum product standards for stakeholder pensions

Question 1 – Do you agree that the government’s minimum standards for SHPs will reduce or eliminate some of the risks that consumers face when buying a more traditional personal pension and if so, to what extent compared with personal pensions?

6. The Panel agrees that the minimum standards will reduce or eliminate some of the risks that consumers face. The minimum standards will ensure transparency and comparability between products, a particular problem with personal pensions. Also the 1% maximum management charge combined with the ability to stop and start contributions at any time and no transfer charges will mean that consumers will only face a low cost of getting out of the product if it is subsequently found not to suit their circumstances.

Risks and judgements for the regulator

Question 2 – What do you consider to be the consumer risks to which the FSA should respond in developing appropriate conduct of business and training and competence regimes for SHPs?

7. Firstly, the Panel accepts that there should be some “regulatory dividend” to firms that reflects the inherent safeguards built-in to stakeholder pensions. If this is not achieved it could be argued that firms are either being over-regulated for stakeholder pensions or under-regulated for other financial products.

8. The Panel considers that there are two risks which affect all consumers but particularly those within the stakeholder target group and below. The first is the risk that some may incorrectly decide that long term benefits such as retirement saving have priority over more immediate financial needs such as life cover, regular savings etc. The second risk is one of affordability, i.e. some consumers might purchase a stakeholder without necessarily understanding the commitment they are making and over-estimate what they can afford to save and either fail to contribute enough or get into other difficulties as a result of keeping up payments. Our concern is that for some in the target group the financial benefit of saving for retirement, and probably foregoing many other things along the way, may not be significantly more (or indeed it could even be less) than what is provided by the State via the minimum income guarantee. In effect they will have saved and perhaps gone without for nothing.

Decision trees

Question 3 – Do you consider that the FSA has adequately addressed consumer risks in the design of the trees, including the accompanying text?

9. The current trees (including the accompanying text) address some of the consumer risks but do not adequately address the affordability issues that are mentioned in our response to questions 2 and 4. In any case we would expect the design and content of the trees to be continually monitored and developed in light of actual consumer usage. We look forward to hearing from the FSA how this will be done. Following from this, the Panel suggests that the version number or date of the tree needs to be highlighted in the “live” versions so consumers have some idea of how current the information they contain is.
10. The accompanying text also gives rise to a practical problem with the telephone handling of stakeholder enquiries. Some of the most important information, e.g. the level of the Minimum Income Guarantee (MIG), is contained within this text and it is imperative that consumers read it. The

Panel feels that it is unrealistic to expect a telephone caller to have 9 pages of text read out to them. There has been a suggestion that the first call to a telephone centre would result in a decision tree pack being sent to the caller so that they did have the opportunity of reading the text before they called again. This process will need careful thought as it may discourage consumers from proceeding.

Question 4 – Is there any further information that consumers should be given before using the trees or during their use?

11. Some consumers would not need any further information. However, the Panel is concerned that the most vulnerable and financially unsophisticated consumers, i.e. the stakeholder target group and below, would need extra help and information particularly in order to form a sensible view of affordability. There is a whole host of contextual information such as level of savings, level of indebtedness, expected future earnings patterns that probably couldn't be included within the decision trees themselves but should be included and highlighted within the accompanying text. The trees also bring into sharp relief the gap that currently exists between the need for financial advice and the availability of that advice. The decision trees point users towards individual advice where there are problems or difficult decisions and this is quite correct. However, in reality the target group will be amongst the least likely to have access to this advice.

Question 5 – Do you have any comments on the assumptions underlying the illustrative pension figures shown in the decision trees? Do you have any views on the alternative referred to?

12. The Panel is content with the assumptions as set out and accepts that the final decision on this will depend upon the basis adopted by the DSS for the single pension illustrations.

Appropriate conduct of business regime

Question 6 – Do you agree that the first option would be the most appropriate? What additional safeguards might as an alternative, be appropriate and practical?

13. The Panel agrees that the first option is the most appropriate but only on the assumption that it will also “capture” IFAs who are only taking consumers through the tree, i.e. operating in a non-advisory capacity.

Question 7 – Do you agree that it is appropriate to adapt (please refer to Annex B) conduct of business rules in the areas discussed? Are there any other adaptations you would favour, and if so why?

14. The Panel is unclear how firms will determine whether or not the customer can afford the necessary contributions (COB 5.2Gb) on the basis of the current decision trees. We are also unclear how this can be achieved by off-the-page advertising and would expect most if not all advertising to be of the “phone this number for an information pack” variety rather than a one stage sale. On a different point, the example wording given in paragraph 5.14 would also need to be amended to reflect the fact that the 1% is a recurring annual charge to read “If your investment is worth £500, this means we will deduct £5 *that* year.”

Question 8 – Do you consider that decision trees should be prescribed by the FSA in their entirety and that they should form part of the key features documentation?

15. The Panel fully supports the proposal that the FSA prescribe the content of the decision trees and that they form part of the key features documentation.

Question 9 – Are there other processes for completing business, other than those referred to, which might be influenced by the introduction of decision trees?

16. As far as the Panel is concerned the discussion paper covers all of the possible processes for completing business.

Training and competence regime

Question 10 – Do you think the suggestions made would provide an appropriate regime for the transaction of SHP business?

17. The proposed approach to T&C appears to be a significant move away from the current T&C regime reflecting the lower risk associated with Stakeholder pensions. As such, it may pose a risk to the FSA's regulatory objectives. We accept the principle that people should be able to be assisted in completing the decision trees by people in advice agencies as well as sales staff, and that these people require a different form of training appropriate to the role. We are, however, concerned that customers will not understand the distinction within a regulated firm between someone whose role is solely to assist in completing the decision-tree (in effect acting as an introducer) and 'an adviser'. The FSA should monitor and report publicly on the effectiveness of this approach.
18. The introduction of minimum T&C requirements has taken many years and for those actually giving advice these requirements should be strengthened as we have indicated in our response to CP 34 (Training & Competence Sourcebook). We are also concerned about gaps in the knowledge of existing advisers and whether revisions are being made in the examination syllabus now, for those under training. Stakeholder pensions are presented as simple products. The tax and benefit context in which they are bought and sold is, however, extremely complex. Those who seek advice should be able to rely on the competence of those who give it. The FSA should ensure through its T&C regime that the necessary arrangements are in hand to ensure that advisers in regulated firms are competent to advise on this product when it is introduced. We remain very strongly of the view that workplace presentations should only be given by qualified advisers because of the sales pressure in the workplace and the financial incentives to employers to encourage take-up.

Question 11 – What standard of supervision would be appropriate to remote business?

19. The Panel is of the strong opinion that there should be a regulated standard of supervision for remote business even if it is not the same as that for call centre staff. The inherent difficulties of monitoring remote business and the resulting higher potential for supervisory lapses should logically mean that the standard of supervision should be more onerous. We would be happier if the proposed changes are restricted to those working in call centres who are more easily directly supervised and more able to be tied to a script than those in other work settings.

About the Financial Services Consumer Panel

The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) to advise the FSA Board on the interests and concerns of consumers and to report on the FSA's effectiveness in meeting its consumer protection and public awareness statutory objectives. There are ten members of the Panel representing a broad range of consumer interests. The Panel is independent of the FSA – it can raise its own concerns, initiate its own research and publish its own reports.

Who is on the Panel?

Barbara Saunders (Chairman)

Barbara is a public interest member of the PIA Board. She is an independent consumer consultant and past Chairman of the Council of the Insurance Ombudsman Bureau. Among other public and professional appointments she is a Non-Executive Director of the West Hertfordshire Hospitals NHS Trust and a member of the Architects Registration Board.

Colin Brown (Vice Chairman)

Colin is an independent consultant specialising in consumer affairs. Previously Deputy Director of Research at Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 20 years' experience of social and consumer research.

Jean Gaffin

Jean was Chairman of the Advisory Committee on Telecommunications for Disabled and Elderly People (until 31.12.1999) that provides advice to the telecommunications regulator, OFTEL, and is a Non-Executive Director of Harrow & Hillingdon Healthcare NHS Trust. She has extensive experience of working on behalf of vulnerable consumers. Previous positions include: the Executive Director of the National Council for Hospice and Palliative Care Services and Chief Executive of Arthritis Care.

Yvonne Gallacher

Yvonne is Chief Executive of Money Advice Scotland, which was set up by the Scottish Consumer Council. She has over 10 years experience of consumer credit/money advice issues and of working with vulnerable consumers in a variety of roles, including debt counsellor, trainer and manager. She is Co-Director and Secretary of the Government funded Lead Body for Advice, Guidance, Counselling & Psychotherapy (CAMPAG). Yvonne is a member of the Scottish Consumer Council.

Joan Harbison

Joan is Chief Commissioner of the Equality Commission for Northern Ireland. She was Chair of the Commission for Racial Equality for Northern Ireland since its inception in 1997 and is a former Chairman and member of the Executive Committee of the Northern Ireland Association of Citizens' Advice Bureaux. She has held a number of public appointments including being Vice Chairman of the Eastern Health and Social Services Board and the Northern Ireland Standing Advisory Commission on Human Rights and was a founding member of the Human Fertilisation and Embryology Authority.

Gerald Lanchin

Gerry is a Vice President of the National Federation of Consumer Groups. He is a former Under Secretary of the Consumer Affairs Division of the Department of Trade and Industry and author of "Government and the Consumer". His involvement in consumer protection includes being a former Council Member of Consumers' Association and of Consumer Congress Committee. He was the first chairman of the Direct Mail Services Standards Board and a member of the Data Protection Tribunal for 10 years.

Nick Pearson

Nick is the National Money Advice Co-ordinator for the Federation of Independent Advice Centres. A career spent in advice organisations including the National Association of Citizens' Advice Bureaux where he was manager of the Money Advice Support Unit, he has particular experience of credit, debt and personal finance issues and of working with vulnerable consumers.

Richard Smethurst

Richard is Provost of Worcester College, Oxford University; he chairs the Training Standards Panel of IMRO, of which he is a non-executive Director. He has served as an economic adviser in Whitehall, and the Monopolies and Mergers Commission, where he was Deputy Chairman. Richard lectures widely on financial and economic topics to businessmen and adult education groups. He is President of the National Institute of Adult Continuing Education.

Jane Vass

Jane is an independent consumer researcher specialising in financial services. She was previously Head of the Financial and Economic Research Group at Consumers' Association and is still author and editor of a number of Consumers' Association publications in addition to other research, including work for the National Consumer Council. Her current committee memberships include: Council of the Ombudsman for Estate Agents, the Inland Revenue

Tax Law Rewrite Project Consultative Committee and the FSA Training Advisory Panel.

Dave Watts

Dave is a partner in a media business which is involved in publishing, editing and journalism - personal finance plays a large part in this. He is a former editor of "Which?" and "Money Which?" and former Assistant Director of Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years.

How to contact the Panel

Financial Services Consumer Panel
25 The North Colonnade
Canary Wharf
London
E14 5HS

Tel: +44 (0) 207 676 9346
Fax: +44 (0) 207 676 9712
Email: enquiries@fs-cp.org.uk
Website www.fs-cp.org.uk