

Financial Services Consumer
Panel response to the HM
Treasury consultation paper:
*Delivering Savings and
Assets - The Modernisation
of Britain's Tax and Benefits
System (No. 9)*

February 2002

Delivering Savings and Assets

Financial Services Consumer Panel response to HMT consultation paper: Delivering Savings and Assets - The modernisation of Britain's Tax and Benefits System (Number 9).

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Panel response to HM Treasury's Consultation Paper: Delivering Savings and Assets

General Comments

1. The Consumer Panel welcomes the proposals in this consultation but we are concerned about some of the points of detail. We believe that the document gives insufficient attention to the need for consumer protection, particularly as the products are aimed at the financially excluded, 'entry-level consumers' who are likely to be least financially aware and particularly vulnerable to misselling. It is vital that the products are fit-for-purpose for those consumers, regardless of whether other consumers also take advantage of the products. If the product is inappropriate for the financially excluded, this could result in misselling, and losses that the financially excluded, in particular, cannot afford. This would make them mistrustful of financial products in future, cementing their financial exclusion and achieving the exact opposite of the Government's objective.
2. The Panel provides detailed comments below but its response does not suggest that the Treasury adopt a specific approach or product type, rather it sets out certain tests by which that any proposed policy should be measured.
 - a) The Government should recognise the limitations of consumer education and information and back it up with consumer protection measures. The market for these products is huge and both in terms of product design and regulation, the risks of mis-selling must be borne in mind.
 - b) The products should not expose consumers to inappropriate levels of risk. There should be no risk to capital in the Savings Gateway, and only low or medium risk for the Child Trust Fund.
 - c) The products should be accessible to financially excluded consumers.
 - d) The products should offer fair access, terms and charges. In particular consumers should not face onerous charges either for advice or for a product, and should be well informed about any charges that will be incurred throughout the life of the product.
 - e) Consumers of these products should have access to free and accessible independent advice and should be encouraged to take advice.
 - f) Products should be simple to understand and simple to use.

- g) Consumers should be informed of all the risks and drawbacks of the products, not just the risks and restrictions inherent in the investment. For example, the Child's Trust Fund allows 18-year-olds access to large amounts of money with few controls, and it could be risky to borrow against a Child's Trust Fund.
- h) The Government should take account of the possibility that over an 18-year period, there may be changes in Government policy, or in economic or market circumstances that could affect a Child's Trust Fund.
- i) Consumers should be informed that these products might not be suitable in all circumstances e.g. if an individual has debts to pay off or insurance needs.

Child's Trust Funds

- 3. The Panel continues to be concerned that the consultation paper does not explain how the Government will prevent people taking inappropriate investment decisions, except through financial education. The Panel recognises the importance of financial education, but also its limitations. Financial education needs to be coupled with consumer protection measures to be effective, particularly in the case of vulnerable and less educated consumers.
- 4. The consultation paper invites comments on possible delivery options. The Panel questions whether open competition would be effective in this context, because these consumers are not in a strong position to influence the market. Indeed, there is a risk of mis-selling as this is a huge potential market for providers. Instead, the Panel believes that there should be a minimum compulsory standard for the product, which will meet the needs of the 'entry level consumer'. Stakeholder pensions could provide a model. If there is such a standard, the question of how the products are delivered becomes a purely pragmatic one.
- 5. The consultation proposes investment in a wide range of investments. The Panel believes that investment should be limited to low and medium risk vehicles only. A higher level of risk is inappropriate for entry-level consumers, and providers should be required to avoid higher risk investments.
- 6. If medium risk vehicles are permitted, consumers should be made aware of the level of risk they are running. This will require a comprehensive and reasonably reliable system of risk rating, and a low-risk default option for people who do not feel able to make their own decisions.

7. Paragraph 3.26 suggests that providers may compete on 'investment performance'. This appears to run counter to the FSA's stated view that past performance is not an adequate guide to future performance, and raises the further question of how consumers are to be expected to decide on the appropriate point on the risk/reward spectrum for them.
8. It is particularly important that charges are reasonable and explained to consumers early in discussion, to avoid the benefits of equity investment being outweighed by charges. For example, the FSA's comparative tables show charges for an index-tracking ISA ranging from £264 to £68 – with both extremes being available from high-street banks.
9. Providers must be easily accessible, using existing advice channels where necessary, as financially excluded consumers are unlikely to have the capacity to shop around or have easy access to a range of providers.
10. The Panel also notes that the paper does not address what investors will do when the fund matures at 18 years old. In relation to the Saving Gateway, the paper suggests that the funds may be put into an ISA or stakeholder pension; this should also be possible for the Child's Trust Fund. It is possible that 18 year olds may choose not to spend their Fund immediately (if the Government's objective to encourage saving is successful), in which case there should be facilities to enable young adults to make informed choices about how to invest their fund when they reach 18.

Saving Gateway

11. The Panel welcomes the idea of a savings gateway but notes that there is nothing in the proposal to prevent an individual being asset rich but debt poor. The Government's proposals need to recognise that people may have priorities, such as debt repayment, before saving.
12. The Government's proposals must reflect and use the circumstances of the target population. For example, the proposals should include a role for the post office and the credit unions, as these institutions are likely to be more accessible for the disadvantaged. In addition, the Panel notes that people on low incomes usually plan their income on a weekly, fortnightly or daily basis rather than monthly. The proposals should be similarly structured if the low-income groups are to take advantage of the scheme.

Financial Education

13. The Panel believes that it is important not to overstate the ability of consumer education and information to provide consumer protection. The Panel does not believe that it is reasonable for the government to expect consumers to undertake the cost benefit analysis themselves. The Panel is therefore particularly concerned that the paper makes no reference to the need for advice. If the Government is proposing to invest resources in developing these products, it should also recognise that some resources must go towards ensuring that taxpayers' investment is used wisely.
14. The Government should consider how consumers could get accessible and affordable advice on Child's Trust Funds and Savings Gateways. Furthermore, consumers who may take advantage of these products are likely to need comprehensive advice on financial planning, spanning credit and debt as well as saving. The Panel recommends that there should be free generic advice available. The Panel suggests that the Government should work with groups such as Citizen's Advice Bureaux, Money Advice centres, community legal services, consumer support groups and local authorities to consider how to provide this advice to consumers. However, the government will also need to consider whether giving advice on these products could be considered a regulated activity under The Financial Services and Markets Act. Advisory groups will need guidance on what type of advice they can give.
15. The Panel believes that the Government will need to set up and sustain a high profile campaign to promote the schemes. These campaigns will need to be carefully targeted as it is likely that, as with stakeholder pensions, the better-off rather than the financially excluded will take advantage of the Child's Trust Fund opportunity. This publicity will need to identify the all the benefits and the drawbacks of the schemes.

About the Financial Services Consumer Panel

The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) in December 1998 to ensure that consumers' interests are represented in the development of the regulation of financial services. The Panel is independent of the FSA so that it can: advise the FSA on policy as it evolves, monitor the FSA's effectiveness in meeting its statutory objectives towards consumers, review developments in financial services where they impact on consumers, and publicly report its findings and recommendations. It can raise its own concerns and has resources to carry out its own research.

Who is on the Panel?

Colin Brown (Chairman)

Colin is an independent consultant specialising in consumer affairs, working with consumer organisations throughout the EU and in Central and Eastern Europe. Previously Deputy Director of Research at Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 20 years' experience of research and development in social and consumer research.

Ann Foster (Vice-Chairman)

Ann is a former Director of the Scottish Consumer Council and has over twenty years' experience in the consumer movement. She is also a member of the Health Professional Council and a member of Postwatch, the Consumer Council for Postal Services. She is also a consumer consultant to Oftel.

Jean Gaffin

Jean chaired OFTEL's Advisory Committee on Telecommunications for Disabled and Elderly People until 31 December 1999 and is currently Acting Chair of Harrow & Hillingdon Healthcare NHS Trust. She has extensive experience of working on behalf of vulnerable consumers. Previous posts 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, set up in 1989 by Scottish Consumer Council. She has over thirteen 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 has also lectured and co-authored a Guide to Money Advice in Scotland. Yvonne is presently a member of the FSA Consumer Education Forum and Credit Union Consultation Panel. Yvonne is a member of the Scottish Consumer Council.

Harriet Hall

Harriet is a solicitor with considerable experience of consumer policy and retail financial services. She is a legal officer with the National Consumer Council, where she has worked on the needs of low income consumers, banking, credit, mortgages, regulation of equity release and long-term care insurance, the Financial Services and Markets Bill and the proposed EU directive on distance selling of financial services.

Dianne Hayter

Dianne is on the Board of both the National Consumer Council and of the newly established National Patient Safety Agency. She was formerly the Chief Executive of the Pelican Centre (a cancer charity) and prior to that was Director of Corporate Affairs for the Wellcome Trust, Chief Executive of the European Parliamentary Labour Party, Director of Alcohol Concern, General Secretary of the Fabian Society, a journalist and trade unions research officer. She is currently also a research student at Queen Mary College, London.

John Howard

John is a solicitor with extensive experience of consumer issues as a former presenter of the daily consumer programme on Radio 4 'You and Yours'. He is currently a freelance broadcaster and his work includes presenting personal finance television programmes. He is a member of the Mortgage Code Compliance Board.

Vinod Kumar

Vinod is a social scientist with market research skills and extensive voluntary and public sector experience of policy analysis and research. Until recently, he was Head of Policy and Research at the Royal National Institute for Deaf People and he has previously worked for the Commission for Racial Equality. Now retired, Vinod is currently a Non-Executive Director of the Barnet Primary Care Trust and member of the Consumer Liaison Group of the Medical Research Council.

Nick Pearson

Nick is the National Money Advice Co-ordinator for the Federation of Information and 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.

Paul Salvidge

Paul is a former senior civil servant with experience of regulatory work, employment law, competition, consumer protection, telecommunications, financial services and company law. He was previously Competition Policy and Consumer Affairs Director at the Department of Trade and Industry.

Richard Smethurst

Richard is Provost of Worcester College, Oxford University; previously a non-executive Director of IMRO, he chaired their Training Standards Panel. He has served as an economic adviser in Whitehall, and on 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 Her current committee memberships include: Council of the Ombudsman for Estate Agents and the FSA Training Advisory Panel.

Dave Watts

Dave is a partner in a media business that 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.

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