

Eleanor Linton
With Profits Review
The Financial Services Authority
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15 March 2002

Dear Eleanor

With-Profits Review: Issues Paper 3 Disclosure to Consumers

I am responding on behalf of the Consumer Panel to the questions raised in Issues Paper 3; I apologise for the delay in so doing.

Q1 Do you agree with the description in paragraphs 14 to 28 of the issues arising over the disclosure of information on with-profits products?

Yes.

Q2 Are there any other issues arising besides those mentioned in paragraphs 14 to 28?

A particular issue for the Panel is the strong influence of advisers. As the FSA's research demonstrates, in a typical situation it is the adviser who sells the consumer a financial product rather than the consumer who buys one. As stated in paragraph 16, a heavy reliance is generally placed on advisers and the reputation of the provider in offering reassurance over product choice. Partly because of this intrinsic trust that consumers are prepared to place in advisers and partly because of a failure to understand the documentation provided to them, the tendency is for consumers to pay little attention to the contents of key features documents.

Q3 Do you have any relevant research on with-profits policyholders that the FSA should consider?

No.

Q4 Should standardised, and simpler, terminology and explanations of with-profits features be developed for use across the industry?

Yes. From the consumer perspective, more straightforward terminology and explanations are an essential pre-requisite to greater understanding of with-profits products. If terminology and explanations can be standardised across the industry, so much the better. We believe that terms used (eg guarantee and bonus) should have their ordinary dictionary meaning applied.

However, we feel that standardisation and simplification of documentation should go hand-in-hand with a requirement for advisers - given the influence they exert - to help consumers understand documents. One way of ensuring that advisers did this, perhaps, might be to require them at the point of sale to obtain a signature from the consumer confirming that they had had the relevant documentation explained to them by their adviser. Of course, this would not guarantee consumer understanding of the relevant documentation. We do not advocate going as far as requiring consumers to confirm that they have understood it; indeed, we would not be in favour of consumers signing anything if, by so doing, they prejudiced their rights to compensation in the event of a mis-sale. However, if advisers had to obtain a signature confirming that they had explained the relevant documentation, it would be incumbent on them to make a direct link between the documentation and the advice they provide as to an appropriate product for the consumer to purchase. They would also be making a valuable contribution to the promotion of public understanding of the financial system.

Q5 Do you agree that the same principles of disclosure should apply to both new and existing business? In what circumstances should a different approach to existing business be considered?

As a general principle, yes. We note the suggestion made in paragraph 28 of the paper that there may be some small closed funds where the costs of providing the information outweigh the likely benefits to the consumer. However, in the absence of further information on what is meant by 'small closed funds' we are sceptical about allowing any exceptions.

Q6 Do you agree that the information in paragraphs 33 and 34 is that which would be necessary to ideally provide a reasonably full explanation of the mode of operation, benefits and risks of with-profits products? If not, what information do you think is missing, or not necessary?

Yes. If consumers were provided with this information, they would stand a much better chance of understanding the nature of the product they had invested in (or were about to invest in). However, please see our response to Q7 below.

Consideration might also be given to providing consumers with decision trees and with a list of questions that they might typically want to ask themselves or raise with the person selling them the product.

Q7 What are the most important pieces of information to convey pre-sale and post-sale?

It is difficult to identify the most important information – all the information listed in Tables 1 and 2 of the Issues Paper is important in its own right.

Pre-sale, the Panel's inclination would be to place greatest importance on information relating to the nature of the product, the risks to which consumers would be exposing themselves if they went ahead with a purchase and the penalties they would incur if they subsequently decided to withdraw. In a post-sale situation, the Panel believes that consumers place most importance on having information about the amounts they have paid in so far, how their investment has performed and what they could expect to receive if they allowed the investment to run to maturity (or if they withdrew now). However, the Panel recommends that identification of the most important pieces of information should be subject to consumer testing, with consumers being invited to choose what is important to them from a list of core information (eg that listed in Tables 1 and 2). An important point that the Panel believes worthy of reiteration in the information provided post-sale is the fact that past performance is not necessarily a guide to future performance.

The Panel endorses what the Issues Paper says in terms of information overload. We think it is very important to strike a balance between providing consumers with enough information to help them understand the product they are about to buy (or have bought), but not to overload them with information. Subject to the outcome of any consumer testing, our inclination would be to restrict the documentation to three or four pieces of key data. We also suggest that post-sale documentation should be accompanied by an invitation to consumers to contact their adviser if they have any queries.

Q8 Are there any other sources of profits (or losses) other than those listed in paragraph 33(c) which policyholders may participate in?

Not to the Panel's knowledge.

Q9 Do you agree with the FSA's view on how customers should use the information?

Yes.

Q10 How might the transparency and consistency of the price disclosure for with-profits policies be best improved?

The Panel believes that the best way of improving the transparency and consistency of the price disclosure for with-profits policies is to provide consumers with key information on prices in a clear standardised form at the point of sale and regularly thereafter. It is important that the information is standardised to facilitate comparisons between the performance of different funds.

Q11 How should information be tailored to take account of the different needs of different audiences? How could information overload best be avoided?

The Panel agrees that different audiences have different needs and, in the case of consumers, it is important to avoid information overload. The two-tier approach proposed in the paper seems to us to be a very sensible way forward. However, the Panel suggests that the FSA should examine the ways in which other complex goods are explained and described to consumers

Q12 Do you agree with the analysis in paragraph 36 of what might form 'core' and 'supplementary' information? If not, what information do you think should be provided to all customers as standard?

The basis of the distinction as described in paragraph 36 seems appropriate and most consumers would, we think, find that the core information provided them with what they needed. It would of course be important to make clear to consumers that the supplementary information is available and can be supplied to them on request. That said, as mentioned above, we suggest that identification of core information should be the subject of consumer testing.

Yours sincerely,



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Chairman

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