

Financial Services Consumer  
Panel response to: Chapter 5  
– complementary initiatives  
in the retail market place,  
from CP 121: reforming  
polarisation

## **Polarisation and complementary initiatives in the retail market place**

Financial Services Consumer Panel response to:  
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from CP 121: reforming polarisation

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### **Summary**

In order to thrive in a world of increasing individual financial responsibility, consumers will need a better understanding of their financial needs, of financial products and of the adviser’s or salesperson’s role. To help them they will need better access to advice, more transparent and appropriate products and more effective disclosure of information. The Government and the FSA will have to work together to provide access to advice and consumer protection for a wider range of consumers than at present. We make a number of recommendations which we believe will help achieve this.

#### Enhanced disclosure

- a. The FSA should develop disclosure of adviser status that gives a real-life description of the commercial affiliations of a firm.

- b. Consumers are bombarded with information and for it to be useful, the FSA must concentrate on consumers getting the key messages and find ways of making them meaningful to their situation.

#### Improving access to advice

- c. As the Government requires individuals to take more financial responsibility for their futures, financial planning advice will be vital to enable consumers to meet this challenge.
- d. Whilst consumers need some basic steer on what types of products may or may not be suitable for them, there is a disincentive for commercial advisers to give financial planning advice to those who may not buy products. One way to resolve this is to provide generic financial advice via a separate service and to link this with the selling of safe-haven products.
- e. The provision of generic advice, in the form of a financial health check, should help consumers understand their needs whether these are saving more, paying off debts or taking out a life protection policy. It would play a part both in closing the 'savings gap' and in ensuring that people have financial arrangements that are suitable to their circumstances.
- f. The Government and the FSA should undertake a feasibility study into various models of providing generic financial planning advice, a financial health check, and should assess these models against criteria including the need for accessibility and highly trained staffed.
- g. A feasibility study should examine what level of detail knowledge of the individual is necessary to be able to provide appropriate advice.
- h. Since Government and industry will benefit from consumers getting financial planning advice, with some saving more, there is a case for joint financing of the provision of such advice.
- i. Financial planning advisers for the mass market must have an in-depth knowledge of factors that particularly affect these consumers such as tax

credits, benefits and debt. These advisers should not, therefore, be envisaged as a 'lower tier'.

- j. The requirement on firms to provide post sales information is a key consumer protection measure and we are not convinced that its abolition would provide significant savings to the industry. We can not understand why the FSA is proposing to abolish this rule whilst so much is still to be decided about the future of advice.

## Introduction

1. Chapter 5 of CP121, 'Complementary initiatives in the retail marketplace', discusses some of the most crucial issues for consumers in the foreseeable future. In order to thrive in a world of increasing individual financial responsibility, consumers will need a better understanding of their financial needs, of financial products and of the adviser's or salesperson's role. To help them they will need better access to advice, more transparent and appropriate products and more effective disclosure of information. Our response discusses these issues.

## Enhanced disclosure

### Improved disclosure about types of adviser

**Q13: do you agree that the FSA should be considering the wider issues arising out of disclosure of adviser status at the same time as the reform of polarisation?**

2. Yes. It is important to look at disclosure of adviser status alongside the reform of polarisation.
3. The disclosure of an adviser's status needs to give a real-life description of the commercial affiliations of a firm, rather than an abstract classification of status such as the one suggested in the consultation paper.

**The FSA should develop disclosure of adviser status that gives a real-life description of the commercial affiliations of a firm.**

**Q14: would there be an increase in consumer confidence and decrease in consumer detriment if the FSA developed an approach combining consumer awareness campaigns with improved status disclosure at the start of the advisory process?**

4. We believe that a consumer awareness campaign drawing consumers' attention to the relevant documents to 'look out for' would be essential to underpin the usefulness of status disclosure.

5. In our response to the rest of CP121, we have drawn attention to the increased consumer protection needs that would result from the liberalisation of polarisation. One way in which to make disclosure more meaningful and to increase consumer protection is to disclose where the adviser's product range fits into the market. That is, a customer of a distributor firm would have to be told, for example, 'I can sell you two equity ISAs, there are x equity ISAs on the market and if you want to see the range, you can look at the FSA's comparative information tables.'

## **Changes in how remuneration is disclosed**

### **Q 15: do you agree that the costs of advice should be separated from the costs of the product and clearly disclosed to consumers?**

6. Yes we agree that costs should be separated, whatever the status of the adviser or salesperson.

## **Other disclosure requirements**

### **Q17: do you agree that it could be helpful to mandate disclosure of other key information not currently covered in key features or outlined above? When in the buying process might it be most helpful to consumers for such information to be disclosed?**

7. The consultation paper floats the idea of enhancing the disclosure of: whose products are on offer; who is responsible for advice and conduct; proprietary interests in an advisory firm; complaint handling arrangements; and adviser qualifications. We are worried that consumers are bombarded with information and find it hard to tell which are the most important points. The FSA should concentrate on ensuring that consumers get the key messages and can easily find the other information should they need it. We suggest that the FSA should aim to get consumers to take on board 'whose products are on offer' and the 'the proprietary interests in an advisory firm'. Other information should be clearly available should the consumer want to access it.

### **Consumers are bombarded with information and for it to be useful,**

**the FSA must concentrate on consumers getting the key messages and find ways of making them meaningful to their situation.**

## **Improving access to advice**

8. The consultation paper talks about the importance of face to face advice for lower income consumers and their need for 'good quality, basic financial advice'. Advice should, it says, help people understand their financial needs, identify where action is required and review the products they already own. We agree that person-to-person advice is vital. Increasing access to good quality non-sales driven advice must be a key objective of the Government if it is to encourage more people to save when appropriate. It must also be of considerable concern to the FSA, as good quality advice is the most important consumer protection measure for those in danger of buying unsuitable products.

**As the Government requires individuals to take more financial responsibility for their futures, financial planning advice will be vital to enable consumers to meet this challenge.**

9. There are two aspects to improving access to advice discussed in the consultation paper – the provision of generic advice and increasing the commercial viability of providing advice to a wider range of consumers. These are linked. All consumers need a basic steer on what financial products may or may not be suitable for them, but that advice is costly and there is consequently a disincentive to provide it to low and middle income consumers. One way to resolve this problem would be to establish a separate, centrally funded service to deliver generic advice.
10. Funding such a generic advice service centrally would have the advantage of deducting the fixed cost of providing advice from the unit cost of making a sale. The fixed cost of a fact find on every customer encounter has been the traditional reason why commercial advisers seem unwilling to provide financial advice to low and middle income consumers where a sale may not result, or the transaction is likely to be of low value.

11. The outcome of generic financial advice could be:

- a fact-find which consumers could then take to a firm to buy a 'safe-haven product'. In this scenario, the firm would still be responsible for making a recommendation of a generic product type based on the information in the fact-find and would therefore be liable for redress should they have made an inappropriate recommendation. This would cut the costs of giving advice and enable more people to access independent advice; or
- a recommendation of a generic product type. In this case, the responsibility would be with the generic adviser and any redress would be sought through them.

**Whilst consumers need some basic steer on what types of products may or may not be suitable for them, there is a disincentive for commercial advisers to give financial planning advice to those who may not buy products. One way to resolve this is to provide generic financial advice via a separate service and to link this with the selling of safe-haven products.**

**Q. 18: What would be the effect on consumers and the industry if the portable financial health check is introduced and how best could this concept be financed?**

12. The Panel believe that increasing access to advice is essential and that introducing a portable financial health check would be an important component of a strategy to achieve this. We believe that such generic advice would need to be appropriate for the majority of the population. Those with no private sector financial products and with debt problems may receive a better service from a debt advisory centre, and those with complex investment strategy needs are likely to receive more appropriate advice from an IFA. But we would expect a service providing a portable financial health check to be appropriate and available to the rest.

13. There are many consumers who are not currently saving who should and could be, and those who should and could be saving more. A portable financial health check would help these consumers understand their needs

and help to close the 'savings gap'. Equally important, a portable financial health check would also help those for whom it is not appropriate to save. It would highlight their need, for example, to pay off debts or take out a life protection policy.

**The provision of generic advice, in the form of a financial health check, should help consumers understand their needs whether these are saving more, paying off debts or taking out a life protection policy. It would play a part both in closing the 'savings gap' and in ensuring that people have financial arrangements that are suitable to their circumstances.**

14. There are many possibilities for delivering such a service and we believe that the Government and the FSA should undertake a feasibility study into the different options against various criteria and pilot the more promising models.

15. Such a study should look into:

- the options for what such generic advice would look like, e.g. – a fact-find or a recommendation of a general product type.

The FSA or Government needs to investigate issues such as what level of knowledge about the consumer is necessary to give appropriate generic advice;

- various models for providing the service. Should it have a high street presence and develop brand awareness of the service? This may include having separately staffed and distinct kiosks in banks. Is there scope for utilising current services such as the Community Legal Service and Citizen's Advice Bureaux? Should there be a tiered service that starts with a telephone helpline and offers referrals for face to face advice?

16. The study should look at these options against the following criteria:

- how to make the service accessible to, and used by, the mass of consumers;

- how to ensure that the advisers are highly and appropriately trained; (We note that volunteer turnover is considerable in the advice sector and the training required to give generic advice would not be inconsiderable.)
- how a service would interact with different part of the regulatory regime and different products; and
- costs, including those of premises and training of staff.

17. The feasibility study should examine what constitutes an appropriate factfind, and the costs of undertaking one. It is not clear how much of the information gathered by commercial advisers is necessary for the advice or to assist with future marketing.

**The Government and the FSA should undertake a feasibility study into various models of providing generic financial planning advice, a financial health check, and should assess these models against criteria including the need for accessibility and highly trained staffed.**

**A feasibility study should examine what level of detail knowledge of the individual is necessary to be able to provide appropriate advice.**

18. We would then expect the Government to pilot some models in the same way that they are piloting options for delivering the Savings Gateway.

19. Both Government and firms stand to benefit from the provision of such generic advice as the market expands and some consumers become less reliant on state provision in their retirement. As such, there is a case for some taxpayers money to be spent on the provision of generic advice as well as a levy on industry. Furthermore, there are precedents for using public money to change savings behaviour. Tax relief is used to encourage people to save, and the benefits of this subsidy mainly accrue to the well-off. A subsidy delivered via the funding of an advice service would benefit a much larger proportion of the population.

**Since Government and industry will benefit from consumers getting financial planning advice, with some saving more, there is a case for**

**joint financing of the provision of such advice.**

**Q19 & Q20: what criteria should be set for the products able to be sold by the lower tier of adviser in any differentiated advice structure? And what would be the effect on the volume and quality of sales if a differentiated advice structure were introduced?**

20. Those who advise lower-income consumers should have in-depth knowledge of financial needs likely to affect these people and so it would not be appropriate to have a lower tier of adviser for these people. However, it may be true to suggest that these advisers need not have in depth knowledge of complex investment strategies and products suitable for high net worth individuals. Rather, these advisers would have to have an in depth knowledge of tax credits, state benefits, some aspects of debt and other factors that particularly affect the mass market. We acknowledge that requiring this type of adviser to have this broad knowledge will not necessarily result in lower training costs than requiring them to have an in-depth knowledge of products suitable for high net worth individuals.

**Financial planning advisers for the mass market must have an in-depth knowledge of factors that particularly affect these consumers such as tax credits, benefits and debt. These advisers should not, therefore, be envisaged as a 'lower tier'.**

21. We also acknowledge that a lighter touch regulatory regime could be one component of a strategy to increase access to advice in the context of a set of 'safe haven' products.

22. We suggest, above, that a saving in the regulatory burden for those advising the mass market can be found from using the outcomes from a generic financial advice service to remove the burden on commercial regulated advisors in having to undertake a factfind. The outcome of a generic advice service could be to provide consumers with a financial commercial world translation of their needs, which they could take to retail outlets (whether tied firms, distributor firms or independent advisers). If the retail salespeople or advisers recommend a product from a range of safe-

haven products, they would not have to fulfill the FSA's 'know your customer rule', i.e. – complete their own factfind, to fulfil their regulatory requirements.

## Post sales information

23. The consultation paper proposes the abolition of the requirement on firms to send information about the product purchased to consumers following the sale. We protest against this proposal on two grounds:

- Post sales information is a key consumer protection mechanism. Pre-sales information is used for comparing products and it is post sales information that is kept.
- It is odd to propose abolishing the post sales information requirement before the rest of the regime is decided.

24. We do not believe that abolishing the post sales information requirement would give a significant cost saving to the industry. The figure quoted in the consultation paper of a net saving to firms of £37.3m includes £30m of costs attributed to 'stationery etc.' which contains no further explanation. Given the requirement on firms to send a post sales notice to customers which signifies the start of the cancellation period, at the same time as they would be sending this post sales information, we do not understand how this figure is arrived at. We also point out that this is an estimation of the costs and not a cost-benefit analysis. At the time these costs were estimated, the FSA signalled their intention to assess any detriment to consumers of abolishing the requirement as part of their programme of consumer research (Annex C of CP45a, paragraph 7.1). To our knowledge this has not been done.

**The requirement on firms to provide post sales information is a key consumer protection measure and we are not convinced that its abolition would provide significant savings to the industry. We can not understand why the FSA is proposing to abolish this rule whilst so much is still to be decided about the future of advice.**

## 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 a consultant specialising in consumer affairs, working with consumer organisations throughout the EU and in Central and Eastern Europe. Previously Deputy Director of Research at the Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 25 years' experience of research and development in social and consumer policy. He was appointed to the Panel in December 1998 and appointed Chairman in January 2001.

#### Ann Foster (Vice-Chairman)

Ann is an independent consumer affairs consultant and a formerly Director of the Scottish Consumer Council. She is a member of Postwatch, the Consumer Council for Postal Services, and a member of the Health Professions Council. She was appointed Vice-Chairman of the Panel in January 2001.

#### Jean Gaffin, OBE

Jean chaired OFTEL's Advisory Committee on Telecommunications for Disabled and Elderly People until 31 December 1999 and is currently Chair of Brent Primary Care NHS Trust. She has extensive experience of working on behalf of vulnerable customers. Previous positions include: the Executive Director of the National Council for Hospice and Palliative Care Services and Chief Executive of Arthritis Care. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

#### Yvonne Gallacher, OBE

Yvonne is Chief Executive of Money Advice Scotland, set up in 1989 by the Scottish Consumer Council. She has over 13 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. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

### **Harriet Hall**

Harriet is a solicitor with considerable experience of consumer policy and retail financial services. She is a former 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. She was appointed to the Panel in January 2001.

### **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). Before that she had periods as the Director of Corporate Affairs of 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 union research officer. She is a member of the Labour Party and on their National Executive Committee. She is currently also a research student at Queen Mary College, London. She was appointed to the Panel in January 2001.

### **John Howard**

John is a solicitor with extensive experience of consumer issues as a 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 programmes. He is a member of the Mortgage Code Compliance Board. He was appointed to the Panel in October 2000.

### **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 a member of the Consumer Liaison Group of the Medical Research Council. He was appointed to the Panel in October 2000.

### **Nick Pearson**

Nick is the National Money Advice Co-ordinator for the Federation of Information and Advice Centres. With 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. He was appointed to the Panel in December 1998 and re-appointed in January 2002.

### **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. He was appointed to the Panel in October 2000.

### **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. He was appointed to the Panel in December 1998 and re-appointed in January 2001.

### **Jane Vass**

Jane is an independent consumer researcher specialising in financial services. She is a former Head of the Financial and Economic Research Group at the Consumers' Association. Her current committee memberships include Council of the Ombudsman for Estate Agents and the FSA Training Advisory Panel. She was appointed to the Panel in December 1998 and re-appointed in January 2002.

### **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 the Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years. He was appointed to the Panel in December 1998 and re-appointed in January 2001.

## **How to contact the Panel**

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