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Our ref: WGA/smb

Dear Eleanor

CP 159: Appointed Representatives – Extending the Regime

This is the Consumer Panel's response to CP 159. It deals with the issues raised in the paper rather than the specific questions posed.

Overall Approach

The Panel's main concern about these proposals is how it is to be made clear to consumers exactly who appointed representatives are, who they are responsible to and on whose behalf they act. There is enormous room for confusion and obfuscation in this area. We urge the FSA to undertake extensive and rigorous testing of all disclosure documents before extending the regime. If this is not done the FSA risks creating an area of considerable consumer detriment.

“Appointed Representatives” and “Introducer Appointed Representatives”

In the Panel's experience consumers do not generally use the term “appointed representative”. The role of an appointed representative is to sell products as agent of another company and they should be clearly described as ‘salespeople’. This should be carried forward into the depolarised environment, where proposed changes to terminology are likely to cause further confusion for consumers.

Similarly consumers are unlikely to be aware of the term “introducer appointed representative” and the role of these firms should be explained in plain terms. This is particularly important if the FSA proceeds with its proposal to place no restriction on the number of principals an introducer can have.

Clarity

Although the Panel has no objection in theory to the multiple principal option favoured by the FSA (option 3 in the Paper), we have no doubt that many consumers will have great difficulty in understanding who they are dealing with and where the appointed representatives' responsibilities and obligations lie. This could become even more confusing where the representative acts for a network selling the

products of several competing companies. An added complication will be ensuring that consumers also understand the nature of the service they are being offered – as currently proposed, the same representative could advise or arrange across the whole of the market for some categories of business, but offer the products of just one company in another. The many different types of sales channels are simply too complex for many consumers to understand.

The Panel is not convinced that disclosure on the lines of the KeyFacts documents on which the FSA has consulted separately will be clear enough to ensure that consumers understand exactly who they are dealing with and which service they are getting. For example, it is unclear how appointed representatives of networks will disclose which firms' products they are selling, even though they represent just one network. The KeyFacts document at figure 7.1 in CP 160 refers to "selecting" or "dealing with" products. For appointed representatives this should more accurately state "sell the policies (products) of".

It is vital that the FSA sets aside sufficient time and resources in the consultation period to enable extensive, detailed testing and re-testing of the disclosure proposals with consumers before extending the appointed representatives regime on the basis proposed.

Substitutable Product Categories

The Panel agrees that "lifetime mortgages" are not substitutable for any other kind of regulated mortgage, although in the Panel's view some consumers may be confused by a representative apparently offering mortgages from two different firms. We would like the FSA to take steps to ensure that the distinction is made clear to consumers.

As regards the general insurance/pure protection business categories, the Panel agrees that there is potential overlap between categories – income protection and term and critical illness is one example – and that a 'failsafe' rule should be in place. In addition it is important that new products are categorised speedily and accurately.

Ensuring Compliance

The Panel is not convinced that the FSA's proposals to ensure compliance by appointed representatives – the inter-principal arrangements – would be effective. Reliance on disclosure by the representatives and the "best endeavours" of the principals does not seem to be sufficiently robust. The Panel would like the FSA to introduce a rule that principals must provide the FSA with specific returns/statements that they have ensured compliance by all their representatives (who should be listed) either directly or through another, named, principal.

Cost Benefit Analysis

The FSA has not included a cost benefit analysis of the proposals to the consumer. It is particularly important that the FSA establishes through research how consumers buy insurance and the extent of their understanding of the service they receive. The

impact of these proposals can be assessed and, if appropriate, alternative proposals drawn up.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Colin Brown', written in a cursive style.

Colin Brown
Chairman
FS Consumer Panel

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