

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Working & Saving for Retirement
Consultation

27 March 2003

Department for Work and Pensions
Pensions Strategy Team
3rd Floor
Adelphi
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London WC2N 6HT

Dear Sir/Madam

Working and Saving for Retirement

This is the Consumer Panel's response to the Green Paper on Simplicity, Security and Choice: Working and Saving for Retirement.

Overall approach

Although the Panel welcomes many of the proposals in this paper, we feel it could have done more to provide the much-needed boost to consumer confidence in the financial marketplace and saving for the future. The poor performance of the markets and the knock-on effect on existing savings, together with continuing concerns about mis-selling of products such as endowments, have had a profound effect on consumer confidence.

The Panel supports simplification, but simplification in itself does not significantly reduce the risk to consumers. If consumers are to be won over they need incentives to save and free, independent advice to help them make their choices.

In the context of an environment of dented consumer confidence, the Panel welcomes many of the measures proposed, although there are some key issues on which we differ.

This response deals principally with Chapters 3 and 5 of the paper as being the most pertinent to the Panel's remit.

Generic advice

One of the most crucial issues for consumers is the need for easy to understand, generic financial advice and the Panel is pleased to see that the Government recognises this. No amount of simplification will obviate the need for consumers to be given plain and unbiased advice about savings and pensions. These are important decisions which will affect the rest of the individual's life. It would be

wrong to rely on what is effectively the presentation of information about various options from which the individual must choose. Furthermore, it is important that the advice given to consumers is impartial – in our experience the distinction between “sales” and “advice” in the financial services industry can often be blurred. The Panel notes with some concern, therefore, that the Paper refers only to the opportunity for producers and distributors to develop a market for generic financial advice. The Panel feels strongly that independent generic advice can best be delivered by a centrally funded national service.

Consumer Confidence

This is an area of great concern to the Panel. A combination of factors including poor performance in the markets and continuing public concerns about mis-selling of endowments and other products, have eroded public confidence. We agree that the FSA has made significant progress in pursuing its statutory objectives, but for the reasons already set out there is still some way to go before consumers will have a better understanding of the markets and the financial services industry, and the motivation to plan and save for the future. The Panel also has some concerns that consumers might not have taken on board the significance of the FSA's non-zero failure regime and that unrealistic expectations will lead to further erosion of consumer confidence in the future.

Access to Information

The Panel welcomes the proposals to make new information tools available to consumers, including telephone and website information services and by way of interactive digital television. We also support the FSA's work in developing interactive tools to assist consumers. The Panel agrees that targeting consumers around 'life events' would be an effective way of getting the message across about the need for financial planning for the future, but it is essential that consumers are persuaded to be proactive rather than reactive in relation to their savings. We look forward to hearing practical proposals on this point.

The Panel agrees that personalised pension forecasts are an invaluable source of information for all consumers – whatever the type of pension they have – but only if they are plainly worded and easy to understand. The example used in the Emap plc pilot seems well laid-out and the figurework seems clear, but the Notes which formed part of the forecast do not appear to be included. Without these it is difficult to assess whether the forecast document would satisfy consumer needs.

Moving from Work to Retirement

The Panel is pleased that the Government proposes to allow schemes to offer full, flexible retirement, enabling people to reduce their working hours later in life and to make up for the loss of income by drawing on their pension savings.

Annuities: shopping around and advice

This is one of the most important financial decisions consumers have to make and we are strongly in favour of compulsory, independent financial advice for all those buying an annuity. The need for advice will be even greater if the Government proceeds with the proposals in the Paper for more kinds of annuities to be available. For those unfamiliar with financial matters, greater choice often means greater complexity and more difficult decisions.

Many consumers do not understand what is meant by the term “annuity”. The Panel believes that the term “pensions income” would be more meaningful, similarly the term “pension savings” should be used to describe funds paid into a pension plan.

The Panel agrees that consumers should be encouraged to shop around for the best product for them and we are pleased with the work which has been done so far to achieve this. In particular the Panel has always supported the expansion of the FSA’s comparative tables to include products such as annuities, but we have been disappointed by the low use of the tables by consumers. We would like their use to be more actively promoted and reference to the tables included in literature produced for consumers by firms.

The Panel does not believe that proposed reforms to the market for financial advice and sales will afford consumers adequate protection when choosing an annuity.

Home reversion schemes

The Panel sees no rationale for the exclusion of home reversion plans from regulation. Given that reversion schemes pose comparable risks to lifetime mortgages, which will be regulated, it seems absurd that consumers opting for home reversion schemes will not be offered the same regulatory protection as those who have been sold lifetime mortgages.

The Panel is aware that the FSA has the power to impose requirements on all business conducted by firms authorised under the Financial Services and Markets Act 2000, whether or not particular products/activities fall within the regulatory scope. In the context of home reversion schemes, this means that regulated firms who also conduct (unregulated) home reversion schemes may be subject to certain regulatory requirements in relation to that business, whereas unauthorised firms conducting home reversion schemes would not be subject to any regulatory requirements at all. This disparity could lead to a distortion of the equity release market and greater risks to consumers. There is also the possibility that authorised firms would move their home reversion business into separate, unregulated companies outside the ambit of FSA regulation. The Panel strongly supports the amendment/expansion of the scope of FSA regulation to include home reversion schemes.

Simplification: products

The Panel welcomes the simplification of products as a benefit to consumers, although simplification in itself does not necessarily enable consumers to make the right choice. The Panel believes that there is still confusion and uncertainty amongst consumers about stakeholder pensions, CAT marks and ISAs. Recent research conducted on behalf of the FSA (not yet published) found that some 41% of stakeholder buyers felt that there were no risks in the stakeholder pension product. Of those, 25% said that they thought the pension was backed by the Government and a total of 14% thought that either they were guaranteed to get back what they had paid in, or that the amount they would receive was guaranteed.

Pensions Commission

The Panel understands that no consumer representatives have been appointed to the Pensions Commission so far. Given the importance of its remit we urge the DWP to ensure that adequate consumer representation is built into the Commission's work.

Simplification: tax

The Panel supports the simplification of the tax regulations relating to pensions, including a single regime for all pensions.

The Panel looks forward to participating in the continuing debate on the issues raised in the Green Paper.

Yours sincerely,



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