

**Financial Services Consumer
Panel Report:
Financial Reviews**

February 2004

Financial Services Consumer Panel

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Introduction

At a time when there is much debate about the provision of generic financial advice to consumers, the Panel has been struck by the number of High Street banks advertising financial reviews. We decided to look into what was on offer for consumers and last summer we commissioned a small mystery shopping exercise to test the quality and accessibility of these reviews. The results of this research are contained in chapter three of this report. In the light of these findings we went on to commission an expert commentary on five recommendations made to the evaluators, which is contained in chapter four.

We are grateful to the evaluators, to BPRI and to Nick Conyers at Pearson Jones plc for taking part in this exercise.

Ann Foster

Chapter One

Financial Reviews: Assessment by the Consumer Panel

Over the course of the last year the Panel has become increasingly aware of the number of banks offering to review the financial affairs of their customers (and in some cases non-customers) free of charge, sometimes holding out the incentive of savings for the consumer by reorganising their finances or a guaranteed payment if savings cannot be achieved. Our own desk-based research among a selection of High Street banks showed that they were each offering a range of financial reviews – some targeted and others more general – which, at first glance, looked useful for consumers. We decided to test the scope, quality and accessibility of these reviews by commissioning a small mystery shopping exercise, which was undertaken by BPRI. Their summary report is included in chapter three of this report. We went on to ask Nick Conyers, an Independent Financial Adviser with Pearson Jones plc, to review five particular recommendations made to evaluators. His commentary is contained in chapter four of this report.

What is a "financial review"?

The research findings show that the term "financial review" encompasses a wide range of services which, unsurprisingly, vary from bank to bank. Most banks offer a service tailored to different groups of consumers such as their wealthier customers, or those perceived to have debt problems. All but one of the banks offers a financial review service to non-customers. With the exception of the specialist reviews, the objective of the financial reviews (according to available literature) is to assess the consumer's current banking arrangements, borrowing and savings and if appropriate to identify suitable products to meet their needs.

What happens when someone asks for a financial review?

In all 36 people had a review. It was disappointing that two of the evaluators (mystery shoppers) were unable to have a financial review simply because the branch concerned never contacted them. More generally accessibility to the reviews was not affected by whether the evaluator was a customer of the bank or not. However there were examples of inconsistencies within an individual bank, with some non-customers being given an appointment for a review and others being turned away because they were non-customers. However the biggest obstacle to obtaining a full financial review was the failure of branch staff to understand what the evaluator was looking for and/or their lack of knowledge about the financial review services offered by their bank.

What was covered in the reviews?

All the evaluators taking part in the exercise went to the banks with a clear request for a "full" review of their finances. Of those that were successful in arranging an interview, less than half actually received a full financial review. What they got was a limited service of some kind or another, with almost a quarter of evaluators being asked about only one area of their finances. Yet only a small minority of interviewers explained that areas of finance such as pensions would not be covered in their discussion. Where a 'fact find' was completed only one evaluator was given a copy. One was told that it would be posted (it has never been received) and two advisers said that they would keep the 'fact find' on file.

Recommendations were made by just over one third of advisers, including changing current or savings accounts to one with a better rate and taking out critical illness cover. Most, but not all, interviewers explained their recommendations although less than half the evaluators actually received a quote/illustration or a Key Features Document.

How good were the recommendations?

The view of Nick Conyers, an Independent Financial Adviser with Pearson Jones plc, is that the five recommendations he assessed could have some merit, although he found evidence of possible churning (dealing not justified by the individual's circumstances) and he was concerned about the limited scope of the reviews.

What Now?

It is clear to the Panel that some consumers could benefit from a review of their personal circumstances and finances, delivered by competent staff. But banks should be absolutely clear about what service is being offered and must deliver what they promise. To support this service we believe that banks should agree a set of Minimum Standards which should include:

1. Producing a single leaflet setting out the purpose of the review and the areas to be covered, which should be handed to the consumer before or at the time the interview is arranged. This should also set out the information and documentation the consumer should bring to the interview.
2. The interviewer should introduce him/herself to the consumer, explaining his/her professional qualifications and position at the bank. The interviewer should also set out what will be covered in the interview. The interviewer should take steps to ensure that the consumer understands the limits of the advice to be given, eg whether the interviewer is only able to give generic advice.
3. At the end of the review the interviewer should provide the consumer with a summary of each of the areas covered in the interview,

together with any recommendations made. The interviewer should take steps to ensure that the consumer understands the summary and how to act on it.

If banks wish to offer a "full" financial review, they should deliver just that. Our view is that this would have to cover debt management; eligibility for State benefits/tax credits (or reference to a local service where such information would be available); insurance; mortgages; and savings (including pensions) and investments for the short, medium and long term.

Most of the banks included in the Panel's research have some way to go to meet the standards we would like to see for delivery of a financial review service to meet consumers' needs. However, given that the structure for this is already in place, we would hope that the cost to banks of meeting the Panel's suggested Minimum Standards would not be prohibitively high. The Consumer Panel would like the banks to give serious consideration to this research and to our proposal. We look forward to discussing our report and conclusions with the British Bankers Association and the Banking Code Standards Board at an early opportunity.

Chapter Two: Summary of Desk-Based Panel Research

Bank	Name of service	Debt Management	Eligibility for Tax credits	Eligibility for State Benefits	Identification of Suitable Products	Limits on Availability	Comments
A	Review 1	Y	N	N	N/A	Customers only	Includes referral to CAB or other specialist
A	Review 2	N	N	N	Y	None	
A	Review 3	N	N	N	Y	Customers only	
G/H	Review 1	N	N	N	Y	None	One Bank H brochure requests details of any social security benefits & allowances customer is entitled to as part of review
G/H	Review 2	N	N	N	Y	Current and potential premium relationship customers only	
B	Review 1	N	N	N	Y	None	Credit cards included in review
B	Review 2	N	N	N	Y	None	
F	Review 1	N	N	N	Y	Customers only	
F	Review 2	N	N	N	Y	None, service available on demand	
F	Review 3	N	N	N	Y	Customers only	
F	Review 4	Y	N	N	N/A	Customers only	Includes details of income, expenditure & current commitments
C	Review 1	N	N	N	Y	Customers only	Coverage of borrowing is included in review. Products may be discussed after rather than at the time of the review
C	Review 2	N	N	N	Y	Customers only	
D	Review 1	N	N	N	Y	None	Income & expenditure form includes State benefits received
D	Review 2	N	N	N	Y	None	
E	Review	N	N	N	Y	None	

Chapter Three

FINANCIAL REVIEW MYSTERY SHOPPING SUMMARY REPORT OF THE FINDINGS

OCTOBER 2003



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Introduction

The Financial Services Consumer Panel has proposed that free financial planning advice should be accessible to all consumers. It believes that this should include elements such as debt management and eligibility for tax credits and state benefits, as well as recommendations of suitable financial products. The Panel's proposals also called for the Government to undertake a feasibility study for a centrally funded financial planning advice service that would be available to all consumers and help them identify their financial needs.

The Panel wished to commission some mystery shopping research to investigate the nature and content of Financial Reviews offered by high street banks. The findings from the research will enable the Panel to assess further any gaps in the accessibility and quality of the reviews offered.

BPRI has extensive experience of designing and carrying out mystery shopping programmes in the financial services sector, with a field force of approximately 2,000 mystery shoppers who have the necessary skills to carry out complex financial mystery shopping enquiries.

A full set of presentation charts has been provided containing detailed results of the review process. This report highlights the key findings from the research.

Fieldwork was carried out in June – August 2003.

Objectives

The three main objectives were as follows:

1. To inform the Panel of the quality and accessibility of the financial reviews offered by banks
2. To assess the extent to which the services offered delivered what is suggested in the marketing material
3. To determine whether or not the Panel's concerns about the services are justified (i.e. to investigate whether or not consumers are put under pressure to buy products and to establish whether or not some banks are not interested in providing financial review services to consumers who appear unlikely to take out a product, particularly those on low incomes and non-customers)

More specifically, there was a requirement for the research to achieve the following:

- ▶ Assess the ease of access to financial reviews across a range of potential customers
- ▶ Assess whether or not there are any barriers to customers and non-customers accessing the service, in particular those on a low income
- ▶ Assess whether or not clear explanations are given about the financial review service and what it entails
- ▶ Assess the range of advice/help available in the service
- ▶ Build up a picture of a typical review discussion (e.g. whether this is focussed on identifying the consumer's financial needs or centred around products)
- ▶ Obtain details of what was recommended and reasons for the recommendation(s)
- ▶ Determine whether or not shoppers felt under pressure to buy a product
- ▶ Obtain an indication of whether or not the reviews result in recommendations that do not result in commission/high profits to a firm (e.g. swapping to a bank account with a better rate of interest)

Methodology & Scenario

Mystery shopping was chosen as the most appropriate method to meet the Panel's requirements. This technique is an objective way of assessing the consumer experience, as the mystery evaluators stand back from the process and do not let their subjective views and thoughts influence the information that is gathered.

There were two stages to this research. In stage one, 199 mystery shopping enquiries were carried out. Evaluators were required to set up an appointment to have a full financial review. One third telephoned their allocated branch to arrange the appointment, and two thirds visited their branch.

The sample was split in a number of ways. Eight high street banks were assessed, spread across England, Scotland and Wales, in towns/cities and rural areas.

In stage two, 36 of the 199 evaluators went on to have the review at the branch. These 36 evaluators were chosen prior to starting fieldwork, not based on whom they set up an appointment with. The remaining 163 cancelled their appointments.

Evaluators were to fit into one of five different life stages:

- ▶ Starting work; Buying a house; Thinking about having children; Children leaving home; Approaching retirement

Further to this, there were three different income bands: under £15,000; £15,000-£25,000; over £25,000. It was also a requirement that some of the evaluators had debts (aside from their mortgage) and were eligible for state benefits or tax credits.

Opening line: *"I'd like to see someone to have a full review of my finances."*

In order to establish WHOM the appointment was with (without asking for a job title), evaluators were instructed to find out WHAT the appointment would cover. If it became apparent that the member of staff would only be talking about current/savings accounts, the evaluator would explain that they wanted to cover other things as well (and could give examples such as pensions, investments etc. if necessary). This would ensure the member of staff arranging the appointment was given ample opportunity to arrange it with a Financial Adviser (who is regulated to give advice) as opposed to an introducer/unregulated member of staff (who would not be able to advise on regulated products).

Key Findings

1. Accessibility

The findings show that ease of access to financial reviews is not influenced by:

- ▶ Whether the person is a customer or non-customer of the bank. In fact, the number of non-customers arranging appointments with Financial Advisers was slightly higher than for customers
- ▶ What the evaluator's income was (only 1 in 10 were asked for income details at the appointment making stage)
- ▶ Whether or not the evaluator had debts (only 3% were asked about debts at the appointment making stage)

The following table shows with whom customers and non-customers set up their appointments (based on those who made an appointment in advance):

APPOINTMENT WITH FINANCIAL ADVISER?	NUMBER OF APPOINTMENTS MADE BY TELEPHONE (56)		NUMBER OF APPOINTMENTS MADE VISITING BRANCH (127)	
	Customer (34)	Non-customer (22)	Customer (96)	Non-customer (31)
Yes	17	12	43	16
Yes, at 2 nd appointment	-	1	4	1
No	12	7	32	8
Cannot tell	4	2	17	5
Other	1	-	-	1

Note: small base sizes, so splits are indicative only.

In spite of non-customers being on more or less equal footing with customers, the table above highlights that getting an appointment with a Financial Adviser is quite difficult.

Some banks **appear** less accessible than others in that evaluators were told an appointment was not needed and they could come in 'off the street'. This was more likely to happen at one of the banks than any other. Not only is accessibility an issue, but this also implies that the member of staff is misunderstanding the customer's need and the appointment would take place with an unregulated member of the branch staff (to discuss banks accounts and other bank products) as opposed to a Financial Adviser. However, it should be borne in mind that (potential) customers might not consider the offer of walking in 'off the street' a problem, as they are still able to get the service.

Very few evaluators (10 out of 199) were **not** offered an appointment, two of which were never re-contacted by the branch after their initial enquiry. Three evaluators were unable to make an appointment, as they were non-customers. However, this is not true of all non-customers visiting the **same** bank. Again, this implies that where non-customers are getting an appointment, it is because the member of staff is misunderstanding their request and setting up a meeting with an unregulated member of staff.

It is clear from the above two points, that a barrier to accessibility was caused by members of staff not always picking up on the type of review that the evaluator was looking for (i.e. a full review of all their finances). This is highlighted by the fact that three out of five members of staff required further information from evaluators about what they wanted – either the evaluator had to reiterate their desire for a financial review or had to explain what they wanted to cover during the appointment. This indicates that there is no formal process in place to deal

with requests for a review. If there were, staff would be making more appointments with Financial Advisers, and would give more information to the customers about the review process.

In terms of physical accessibility, only two evaluators were offered spontaneously an appointment at home.

2. What is it and does it 'do what it says on the tin'?

Evaluators were instructed (where appropriate) to ask for information on what the review would entail if this information was not given spontaneously at the appointment making stage. If it became clear that the review was based around bank products (current/savings accounts), the evaluator would prompt the member of staff and explain they wanted to cover more than just these basics.

Only 30% of staff gave information spontaneously on what would be covered during the meeting (e.g. establishing needs, explaining general financial options, going through the bank's products). This left the remaining evaluators having to ask for information, not something a real life customer would necessarily do.

The second stage of the research involved 36 'evaluators' attending a review. According to the desk research, produced by the Consumer Panel (a summary of which is on page 7), most banks do not offer more than identification of 'suitable products'. Most do not offer debt management (if they do, this type of review is only available to customers), or eligibility for tax credits or state benefits. Indeed, the findings from the 36 evaluators who undertook a review show, in general, that 'suitable products' were being offered.

However, and as noted on the previous page with the findings from the appointment making stage, some reviews were wider than the pure identification of suitable products. For instance, there **was** an attempt by some staff at debt management, even though they are not required to provide this as part of the review. Having said this, suggestions they were making to the evaluator could be seen as not altogether altruistic. Where a member of staff suggests re-mortgaging a property for a better interest rate, this could result in the mortgage being moved to the bank in question (and more profit for them). Nonetheless, this is being carried out by some staff.

The areas covered during the review vary widely indicating a lack of consistency. Discussions were categorised as follows, spread across all five categories but with a higher proportion achieving a full review:

- a full financial review;
- asked some questions but did not find out everything;
- asked questions about banking but not other areas;
- talked about current and savings accounts only;
- focussed on one area of finances.

These results are somewhat driven by what 'lifestage' the evaluator is at. Those evaluators who were 'thinking about having children' were more likely to have a full review than their counterparts. Conversely, advisers/staff who had appointments with evaluators 'starting work' or 'approaching retirement' were more likely to focus on one area of their finances (please note that sample sizes are small). The results are also influenced by whether the evaluator saw a regulated member of staff (who were more likely to carry out the full review, or focus on one area of the evaluator's finances). Whilst banks do offer a range of services, all our evaluators asked for 'a general review of their finances' and most did not receive this.

The results also seem to indicate that financial advisers do not respond as well to a customer wanting a 'general' review of their finances, as to a customer wanting to fulfil a particular need. Although the latter still requires a full fact find (to identify and prioritise all needs), this does not seem to translate as well across the 'general' review scenario, where full fact finds

were not always carried out. The implication is that staff and financial advisers need something more concrete to work with.

3. A typical review?

It is difficult to identify a typical review discussion. This is partly due to the diversity in the evaluators' backgrounds. In spite of this, our findings suggest that there is no typical review discussion and we saw no evidence of procedures to ensure a 'general review of finances'. Moreover, none of the evaluators received any documentation or literature pertaining to a financial review service that was branded as such. Although some evaluators had a full review of their finances, this is because the staff/adviser picked up on what they wanted and thought an appointment with a Financial Adviser appropriate for their circumstances.

There is something in place for **account** reviews in all the banks, and this is what contributes to some staff mistaking the evaluator's requirement for a full review of their finances.

4. Recommendations

There is a huge variation in the recommendations, which are based on individual circumstances and whether or not the member of staff seen was regulated to give advice.

The recommendations made appear to be in line with the evaluators' needs. Where regulated products are recommended, these are generally after a full financial review or where the focus has been on one particular product.

5. Customer need focus vs. product focus

Evaluators were spread amongst those who thought that the focus of the interview was on: identifying their financial needs; on selling them products; and on both. A further group said that the focus was on 'neither' of these things, this is mainly where staff were not financial advisers. Some of these also went on to say that the staff/adviser did not have a full understanding of their needs.

Of particular concern to the Financial Services Consumer Panel was that customers may be put under pressure to sign up for products. There is little sign of this in the mystery shopping results. Very few of the evaluators felt under pressure to sign up for a product.

Summary

Four things need to be borne in mind when looking at the results from the research:

- ▶ That full versions of financial reviews offered by banks tend to be reserved for customers
- ▶ That financial advisers are more likely to respond to a customer that has a particular need, as opposed to someone who wants to review everything.

It may also be the case that customers are more likely to go to their own banks for reviews, as opposed to competitor organisations; and the general public is more likely to go to a bank for a specific need than for a general review of their finances.

So, in testing the reviews offered by banks, a somewhat artificial situation has been created. However, this does not detract from the fact that if banks offer financial reviews there is a need for them to live up to their claims by providing a minimum level of information and advice. It is clear from this research and other studies, that customers (in this case in the form of mystery evaluators) are unaware that they may have a financial need. If marketed and dealt with in the correct way, the availability of general financial reviews could be of real benefit to consumers, regardless of whether or not they decide to go ahead with any recommendations.

Chapter Four

***FINANCIAL SERVICE
AUTHORITY
CONSUMER PANEL***

***OVERVIEW AND SUMMARY
OF
MYSTERY SHOPPING
EXERCISE***

***prepared by Nick Conyers
13 November 2003***

BACKGROUND

Financial Services Authority Consumer Panel

I have been asked to comment on a Mystery Shopper research exercise arranged in conjunction with the BPRI Group with regard to assessing customer needs.

Following the initial research exercise, I have been provided with information in respect of each shopper as listed and have conducted my own telephone interview with each of them in order to establish their needs and what might be a satisfactory solution. In any review of this nature, the final recommendations from each will always be subjective but they should follow a theme so that there is no considerable disparity between the different proposals.

The original interviews were conducted in the summer and in two cases there has been a change in circumstances but my observations are based upon the detail prevailing at the time of the original interview.

“MR & MRS A”

The information supplied to me in respect of this couple was a personal financial report together with copy illustrations from “Bank D” and illustrations for a Decreasing Term Assurance and a Term Assurance protection from “Bank A” but without any other supporting documentation.

Mr & Mrs A are approaching age 40 and have a son aged 3 and at this point in time there is no intention to have further children. Mr A at the time of the interview was employed as a delivery driver although he has now subsequently become self-employed. Mrs A is employed as an accounts clerk and their earnings total £25,000, split as to £17,000 Mr A and £8,000 for Mrs A. They have capped rate repayment mortgage of £58,000 on a property, currently valued in the region of £140,000, with 21 years remaining. There is life insurance cover for a mortgage taken out on a Decreasing Term basis. Mrs A has no pension arrangements other than a previous paid-up pension that needs to be investigated further and Mr A pays into a personal pension arrangement currently at the rate of £65 per month. Mrs A is a very light smoker and other than a small amount of savings totalling £3,250 in a Cash ISA and a Children’s Bond for their son, they have no other investment nor any life insurance protection. The only other liability they have is an outstanding car loan that has about 12 months to run before it is repaid.

In terms of their overall budget, they tend to live up to their income and this point will have to be considered with their desire to move house.

Their priorities, as stated to me, are to look to moving house and taking on a bigger mortgage together with providing adequate life assurance cover for the family.

“BANK A”

There appears only to have been very limited fact find information sought and only two illustrations provided. The suggestion from these is that there is a proposal to cancel the existing satisfactory cover and replace it with one that includes critical illness thus generating a substantial amount of new business income. Being a tied adviser, there is of course no option to investigate an existing policy to see whether any addition can be made to it and the existing policy is likely to be offering competitive terms and most probably has extension options that should be explored.

Life Insurance cover for a further £120,000 was proposed including a terminal illness cover and whereas the mortgage cover related to the term outstanding on the existing

mortgage, there is an arbitrary 20 year term proposed for the life cover when Mr & Mrs A will be approaching age 60. As neither will qualify for State Pension at this age, there does seem to be a shortfall between then and age 65.

On the basis of the information provided, therefore, the attention to detail seems to be very limited. There is the suspicion of switch selling and Mr & Mrs A's circumstances do not seem to have been fully taken into account.

“BANK D”

In this instance, a financial planning report together with illustrations were provided. However, as with Bank A the full needs have not been addressed.

The report provided was a little confusing in that there seems to have been quite a significant amount of information obtained about Mr & Mrs A's circumstances, however, included in the report is a paragraph stating that not all information was provided and might not be fully appropriate, which is a good option negating the requirement to complete a thorough job.

It is also of note that on the one hand, half of the report relates to providing mortgage cover and critical illness and then the summary at the end says that “no recommendations are needed for protecting against critical illness”!

Recommendations were to lapse the existing policy on the basis that it could not be amended to include critical illness [I believe this may be untrue] and that the cover be substituted with a new policy with Bank D's life arm who do, of course, provide the host arrangement and there is no ability to shop around for the most competitive terms. Having covered the current mortgage protection requirement, additional cover is suggested for a further £62,000 possibly for an increase to their mortgage. This is only for an 18 year term which leaves a considerable shortfall between ages 58 and 65. The report did highlight the need for satisfactory income replacement and also credit should be given for the highlighting of a need to place cover under a suitable Trust arrangement. The issue of pensions was dismissed as they were to concentrate upon family protection.

NCC OPINION

Having spoken with Mrs A and looking at the information, it is very clear that there is a need for adequate protection to be implemented, working within a tight budget, and it is a case of shopping around so as to eek out the budget as far as possible and maximise the cover. Critical illness combined with life cover is a “belt and braces” approach to protection but comes at a price. With what I suspect to be quite modest premiums for the

existing cover that provides for the mortgage to be repaid in the event of early death, there remains a priority to insure Mr A as the major breadwinner for ideally 12x to 15x income to age 65. For Mrs A, a very inexpensive form of cover is Family Income Benefit that would pay an amount per annum and I would envisage a 12/13 year term with cover at, say, £10,000 per annum, sufficient to provide care for their son until such time as he is reasonably able to fend for himself. Having established the basics then the other options can be considered and an individual preference should be established for either income replacement or critical illness.

The next area of the focus is an immediate build up of additional savings, mindful of thoughts as to house move and really consider pension requirement by obtaining forecasts to age 65 and relating these back in today's terms to establish an objective as to the level of savings required to meet future needs.

I do have concerns over the readiness to switch/sell an existing contract and the figures do highlight, as I have said, the difficulties of relying upon an adviser tied to one office as there can be a wide discrepancy in premium payment noting how for broadly the same cover there is a marked difference between Bank A and Bank D's.

“MR & MRS B”

Mr & Mrs B at the time of the initial interview were expecting their first child and they now have a son born in August. Mrs B is obviously on maternity leave at the present time from her role as an Accounts Assistant with a local firm of Travel Agents and she expects to return to this employment in 12 months time. Having been made redundant last year, Mr B has joined X Limited and is a member of their pension and life insurance scheme although he is currently only paying 4% to the pension arrangement. Following their wedding last year, the honeymoon was paid for by credit card and there is £5,000 outstanding. Since the original interview, they have decided to move house but this information was not supplied to Bank A originally. Their mortgage arrangements are with Bank B on a standard variable rate arrangement with a £65,000 loan on a property worth approximately £185,000 and the mortgage has 20 years to run. Mr & Mrs B have no savings nor any life insurance cover other than that provided by Mr B's company.

Mr B appears to have a limited understanding of the nature of his pension arrangement and the 10 x salary life cover that he refers to will, of course, be 4 x salary paid as a lump sum with the balance providing a widow's pension of two thirds salary in the event of his untimely demise.

In terms of priorities Mr B established that the aspect of life insurance, critical illness and establishing savings are the main areas of priority.

“BANK A”

Bank A provided a fairly cursory report which did focus on the main issue of providing protection, however, it is surprising that for a branch based where there must be a good number of customers employed by X Limited, that local knowledge was not put to use in terms of the pension and life cover arrangements. This error in fact finding immediately throws all the calculations out and the assumed shortfall in life cover is completely different due to widow's pension and a higher lump sum.

The issue of life cover for the mortgage was dealt with cost effectively and mention was made of life cover for Mrs B. The report did cover the position with regard to writing any policies in Trust. Possible savings with the mortgage were mentioned but no mention was made of the other loan and lack of savings.

NCC OPINION

The arrival of a child is always a critical time for financial plans and also presents a strain on resources with reduced income under maternity leave. Mr & Mrs B clearly have a priority to have adequate cover in place for the mortgage arrangements and at this point in time, Mr B has reasonably sufficient life cover in place whilst in his current employment. What is essential, however, is that the cover is implemented for Mrs B and here the cheapest form of cover would be a Family Income Benefit where I would look at a 15/16 year term, whilst their son remains dependent, and that it is structured to provide £10,000 - £12,000 per annum. The term could be slightly longer if further children are envisaged. I believe that there is the opportunity for additional planning at this stage, specifically surrounding the mortgage where current discounted offers could bring considerable savings. At the same time, with credit card loans being prohibitively expensive, consolidating the outstanding debt into the mortgage might well help the cash flow situation at the present time. Any savings thus made could be used to build up a cash reserve and obviously a cash style ISA is the most tax efficient.

“MISS C”

Miss C is single and lives with her mum. Her salary is derived from employment with a number of market research consultancies for whom she undertakes research tasks and from what I understand, she is contracted to these companies but is expecting more settled longer term employment. As someone just starting out on a career, she is in the typical situation of having had very little exposure to savings and investments, with no emergency funds or life cover. Her principal outgoings are the £55 per week rent that she pays to her mother, the £80 per month incurred with phone expenses and having admitted to being a heavy smoker, this is no doubt an area where some savings could be made. In terms of surplus income, Miss C estimates that she has £80 to £100 per month available in excess of her expenses but any savings that have been made in the past have been used for major items of expenditure such as holidays.

Although admitting to not being particularly good with her overall finances, Miss C is unwilling to take on loan/credit card debt, she is excellent at avoiding the very many offers she is on the receiving end of each week as indeed we all are.

“BANK H”

In terms of the actual recommendations made, it is unclear what was conducted by way of a fact find, however, they have identified that there is no specific need for life assurance cover at this stage and that the actual recommendation was for income replacement cover based upon the maximum level of benefit after taking into account of State benefits. This type of cover obviously does fulfil a need and in itself is not inappropriate.

What is interesting is the information that is not covered in the actual recommendation and Miss C advises me that she actually had interviews with two people at Bank H. She approached them for general advice on savings and investment.

The first meeting was with ‘a helpful lady’ who apparently provided some good general assistance in respect of overall savings and investments. However, there were no firm proposals and Miss C seems to me to have been guided as to a suitable course of action and I am of the opinion that a Cash ISA would meet the requirement.

The second interview was with an authorised representative and from what I can understand he was less than helpful but was instrumental in the issue of the income replacement illustration. It seems that the two stage interview process is one where

generic advice is given and, using a filter process, there is then a qualified lead passed to the representative who will then endeavour to maximise the remuneration prospects and in this case has not really helped with the wider objectives. I may be entirely wrong in this observation but this appears to be the course of action that Miss C was subjected to.

NCC OPINION

As I have commented upon, Miss C is sufficiently self-disciplined not to have succumbed to taking on any debt, however, she does need to adopt a structured approach to money matters with a view to planning her finances for the future. Miss C has identified her surplus income and could perhaps look to additional savings through a more competitive phone contracts and trimming back the cost of smoking.

I do not see any need for life assurance cover unless her mother is particularly dependent upon the input towards the rent but this is, of course, down to her rather than Miss C. The concept of income replacement is an excellent arrangement for peace of mind but I wonder whether Miss C would wish to devote some of her available budget to this at the present time. She has as her objectives to build up short and medium term savings and would welcome the discipline of having a regular savings plan where the money is not easily available. My suggestion would be that she should look to build up an emergency reserve through such as a Mini Cash ISA which could be accessed in the event of an emergency. Also for, say, £30/£50 per month, she looks at a Unit Trust Savings Plan where there is a longer term horizon without a long term contractual commitment but like a mortgage/rental payment, over time the sum is not missed and capital value can be established.

Having looked at the shorter and medium term objectives, the issue of pension planning cannot be overlooked and I believe was touched upon by Bank H. I was unable to clarify during our discussions the position with regard to her various employers but again the impression that the major part of her earnings are derived from one company and at very least there should be a Stakeholder plan available for her to consider. This is obviously an area where she needs to research further.

“MISS D”

Samantha is employed as an Accounts Assistant for Y Limited where she has been for 3½ years. She owns her own property on which she has a mortgage of £50,000 (she is currently looking at a remortgage but this was not part of the discussion with Bank C) and the only other liability is in relation to a £5,000 credit card debt.

Miss D is a member of her employer's pension scheme and other than paying a 4% contribution but does not know what the scheme entails, nor whether it includes any life cover. This is not untypical and highlights the issue of how difficult to get the pensions message across to individuals.

Miss D has no investment other than £1,500 in Premium Bonds and is desperately now trying to reduce the outstanding balance on her credit cards. She is fortunate in that she has had parental help in repaying debts incurred whilst at University and that she was at University prior to the introduction of tuition fees/student loans, which I suspect would have made things even worse. She has cut up all her existing credit cards but for emergency purposes does have a jointly held card on her father's account so that he can be repaid in the event of monies being needed in an emergency.

Miss D has no Will and as her partner has moved into her home but is not paying towards it, this aspect is a priority.

“BANK C”

From the nature of the interview, as described by Miss D, there was no attempt to assist with an overall financial plan or the provision of even any generic financial advice. The priorities established by the adviser related merely to protecting income against long term sickness and also a mortgage arrangement and it is interesting to note that the summary and recommendations goes straight to the areas where a policy could be sold and provides so many get out clauses that the Bank C would be entirely covered in the event of a complaint arising. In particular, on page 3 of the Agreement, the third paragraphs under 'your agreement with us', is an excellent way of denying any responsibility or liability should a problem occur in the future. Clearly this situation is less than helpful in dealing with Miss C's financial needs.

NCC OPINION

From my discussion, it is apparent that with Miss D's partner moving in with her, the contribution that he is making towards the household bills is improving the cash flow position but that the main budget priority in the short term remains one of settling credit card liabilities and arriving at a financial straight edge before further planning takes place. In terms of Miss D's security, she therefore has an interest in insuring her partner's life to the extent that his financial commitment is important to the overall household bills and a Family Income benefit policy would be a cost effective option in this respect. There is ASU cover on her mortgage which although not a full solution to the issue does at least provide in the short term some element of cover and whilst an Income Replacement policy for at least the term of the mortgage would make some sense, the recommendation is for what appears to be a renewable policy and as such, is not particularly attractive. On the issue of life cover for the mortgage, just at present it is arguably her partner that has a greater need to provide for "a roof over his head" in the event of Miss D's untimely demise but with some expectation of having a family, at the very least the mortgage would need to be covered and with the arrival of a child there should be a significant extension to the amount of life cover in place for both parents. The future, therefore, depends primarily on the ability to whittle down the outstanding credit card balance and once this has been achieved then building up a financial reserve becomes the focus of priority as well as insuring protection issues are dealt with at the appropriate time.

SUMMARY OF RECOMMENDATIONS

Looking at the exercise overall, each individual has received some recommendations that might be seen to fulfil individual requirements. What is very obviously apparent is that each of the shoppers went in with a specific brief and were looking for help and guidance for their overall financial needs and because the most suitable contract from the wider range of options would provide little or no revenue to the adviser, then no advice was given. Clearly, this is denying the individual access to a full financial planning exercise and highlights the gap between having an informed investor to one who remains in blissful ignorance and wider discussions on consumer education are timely.

There is evidence of some questionable advice relating to churning which is a concern with no apparent willingness or ability to investigate matters further. Would this prevent a sale?

The other feature that should be commented upon is that in all cases, the advice has been provided by company representatives and there are no comparisons with other products particularly those of a rate sensitive nature. Whilst the result of this is not misselling, how can the consumer know that they are obtaining the most competitive rates and could they be saving money to assist with the household budget?

The results highlight how dependent individuals are relying upon an individual with supposed expertise to provide them with guidance in financial matters but how in reality they may not have ready access to the most appropriate recommendations.

N.C. Conyers MSFA

30 January 2004

Chapter Five

Who is on the Panel?

Ann Foster (Chairman)

Ann has over twenty-five years experience in the consumer movement. During that time she has worked at the National Consumer Council and has been a Director of the Scottish Consumer Council. She has also served on various government advisory and expert groups on a range of subjects. Recently Ann has been a member of the Health Professions Council and of Postwatch, the Consumer Council for Postal Services. She is also a Council Member of the Royal National Lifeboat Institution and a member of its fundraising committee.

Yvonne Gallacher, OBE

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 former legal officer with the National Consumer Council, where she 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 (Vice Chairman)

Dianne is on the board of both the National Consumer Council and of the 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 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 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.

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.

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 Barnet Primary Care Trust and a 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.

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 Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years.

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