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PR8/MT

Dear Nisha

CP 207: Treating with-profits policyholders fairly

This is the Consumer Panel's response to CP207.

Q2: Do you have any comments on our proposals on the determination of amounts payable to policyholders, in particular the introduction of target ranges?

The Panel supports the introduction of target ranges. We hope this will help policyholders to assess what they could receive if they hold their investment to maturity or if they withdraw it early, as well as helping with comparisons for purchasers.

Q4 Do you have any comments on our policy approach to the distribution of surplus or the draft Handbook text that reflects this?

The Panel supports the approach.

Q5: Do you agree with our proposals for dealing with the issues surrounding surrender penalties and MVRs including for closed funds?

The Panel supports this approach. The Panel believes that the with profits actuary should report on the fairness of an application of an MVR in his annual report. Since the application of an MVR, even if fair, is likely to come as an unpleasant surprise, we think that consumers need to be told regularly that money that they think of as 'banked' can be reduced if they want to exit early. We said in our earlier response that the annual statement should show how much the current reduction would be, even if it is regularly shown as 0%.

Q6: Do you have any comments on our proposals on charges to with-profits funds?

The Panel fully supports the FSA's proposal to introduce a rule on the payment of compensation or redress. In addition on the question for charges generally the Panel would encourage the FSA to carefully examine the findings and

recommendations made by the Treasury Committee in their report 'Restoring confidence in Long-term savings: Endowment mortgages on the question of aligning the interests of savers and product providers.

Q7: Do you have any comments on our proposals on new business?

The Panel agree with the FSA's proposed guidance in this area. However we also think there is an issue of fairness to new policyholders. One of the lessons of the Penrose report appears to be that returns to existing policyholders were maintained at the expense of new policyholders.

Q8: Do you have any comments on our proposals for requiring the preparation of a run-off plan when a fund closes to new with-profits business, and for clarifying what information should be given to policyholders?

The Panel look forward to seeing the FSA's response to the Treasury Committee's suggestion that the FSA should examine the case for a regulatory requirement that solvent companies closing the with-profits element of their operations to new business should, on request, transfer their customers without penalty to another supplier offering a product broadly similar to the one the customer originally bought. We appreciate that there are issues of fairness to those who are 'not in the picture' and are left in the fund.

Q9: Do you agree that material on communications with with-profits policyholders should be included in COB 6.12 pending completion of our point-of sale and post-sale disclosure reviews?

The Panel support the inclusion of these materials in to these reviews.

Q10: Do you agree with our proposal to require the with-profits actuary to take these rules and guidance into account in his annual report to policyholders?

The Panel supports this proposal.

Q14: Do you have any comments on our proposals for firms to produce consumer-friendly information from the full PPFM and for the format of this?

The Panel have emphasised the importance of clear and concise information for consumers and support consumer research being conducted on proposed formats to test their suitability for the purpose. The Panel suggest that target ranges should be consumer tested to ensure that they are understood by consumers. If consumers understand the meaning of target ranges, the Panel believe that this information should be included within the information contained in the consumer friendly-PPFM.

The Panel suggest that the FSA should consider using a creative design agency to produce some of the consumer-friendly PPFM's for testing and when considering the appearance of the document so that new formats and appearances can be considered. We are concerned that relying on consumer friendly PPFMs produced by firms will not necessarily test the best format and wording.

Q15: Do you agree that firms should provide consumer-friendly information from the PPFM on request instead of automatically?

If the consumer –friendly PPFM emerges as a short consumer friendly document the Panel believes that it should be automatically sent to all consumers.

Q16: Do you have any comments on our proposals for sign-posting of PPFM?

The Panel supports the proposals.

Q17: Do you agree with our proposal to remove the requirement on firms to produce with-profits guides?

The Panel believes that a single consumer friendly document should contain all of the relevant information for consumers. Asset distribution should be included within the consumer-friendly PPFM as well as factual data such as asset distribution, solvency ratios, the amount of expenses and past performance returns.

Q19: Do you agree that the implementation of our current proposals to improve the regulation of with-profits business, when taken together, adequately address the concerns about the operation of such business raised by the Sandler Review?

The Panel question the inclusion of with-profits policies with the Sandler suite of products. Research by the Panel shows that consumers with fairly limited amounts to save rarely save for the medium term. We find it difficult to believe that these products could be classified as 'safe products' to be sold with limited advice.

Following the publication of the Penrose Report on the Equitable Life and the Treasury Committee's Report on Restoring confidence long-term savings: Endowment mortgages, the Panel question whether medium-term savings products could ever be a suitable product for a simplified sales process.

Yours sincerely,



Ann Foster
Chairman
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cc. The Consumer Panel

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