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PR8/MT

Dear Sarah

CP04/3*Reforming Polarisation: A menu for being open with consumers**

This is the Consumer Panel's response to CP04/3***.

Q1: Do you agree with our proposal for firms to give an indication of the cost of advice early on in the advice/sales process?

One of the Panel's conditions for supporting depolarisation, in our response to CP121, was that the FSA's new rules should enable consumers to drive competition by shopping around and making informed choices. Research evidence clearly shows that they do not do so at present. Our answer to this question is, therefore, emphatically 'yes'. We would go further and say that it should be made available before the sales process begins. We see the availability of the menu document as similar to a menu outside a restaurant: consumers should have the information to decide whether to enter into a relationship with an advisor before making any serious commitment of time. We think firms should be under an obligation to make copies of the menu and the Initial Disclosure Document ('IDD') available on request before an appointment is made. Firms should also make these documents available on their websites.

We believe that it has recently been proposed that under consumer credit regulation firms must let consumers have key information to enable shopping around before they enter an agreement. We see this proposal as analogous to the question of when the menu and IDD are made available.

Q2: Do you think that our proposals for enhanced disclosure by way of the menu will add to the time taken to go through the advice/sales process?

If the documents are made available ahead of any meeting this need not be the case. In any case, we do not think it a problem if additional time is needed but consumers at the end understand their choices in the market better.

Q3: Do you agree with our proposals concerning the circumstances in which a menu must, or need not, be provided?

In the case of the firms providing advice only on non-mass market products that are

not one of the specified product groups who are charging for their services on a commission-paid basis only, we believe that advisors should be required (and not merely 'have the option') to make clear the way in which their services may be paid for.

Q4: Do you have any comments on our proposed format of the menu? In particular, we would welcome comments on our use of the 'key facts' logo, the regulatory message and the table of commission information.

We support these proposals and would like to make the following comments on the proposed format:

Section 1 – The FSA: we believe that, to encourage consumers to read important documents, messages should be as compact as possible and not duplicated. As the information on the FSA is also given in the IDD, we question whether it needs to be in both. Indeed, in response to the consultation on the IDD, we said that that some of this regulatory information could be put in the Terms of Business letter.

Section 2 - Our services: while we accept that a small section is desirable here to make clear what service consumers will get, we do not think it should be possible to give it greater emphasis or space than the rest of the information.

Section 3 - What are your payment options?: We think that the use of the term 'product charges' is misleading. There will be product charges in the sense of product provider's costs, even for someone paying by fee. We also question the inclusion of the sentence: ' If you buy direct, the product charges could be the same as when buying through an adviser, or they could be higher or lower.' While this is true it is not clear why this information is being given under the 'paying by commission' heading, nor is it clear what message the consumer is expected to take away.

Section 4 - How much might our services cost?: We would like to find some way of comparing payment by fees with payment by commission. The figure for fees is a proxy only - an hourly figure has to be given even if payment is based on some other formula (e.g. percentage of money to be invested). If this is the case, then some kind of average figure for likely time could also be given. We believe that this is management information that firms will have. It may be approximate, but since they will have to give a figure if asked, we cannot see why it cannot be included in the tables.

We wonder whether some kind of reduction in yield figure (covering both commission and fees) for the product categories would be more useful than the current proposals.

We are not clear why a firm should be allowed to increase the maximum commission or fee rate. This would fly in the face of the purpose of giving a menu - that it should facilitate shopping around.

Q5: Do you agree with our selection of products and product groups?

We support them, but we think that they must be expressed in consumer friendly language. 'OIECs' and 'ITSSs' are not acceptable.

We also applaud the provision of monetary examples to supplement percentages.

Q6: Do you have any comments on either or both methods we propose by which firms with different commission shapes determine which maximum is to be included in the menu?

Our only concern is that consumers reading the information from different advisors should be comparing like with like.

Q7, 8 & 9

We have no comments.

Q10: Do you agree with our proposals for changes to the guidance on the method of calculation of commission equivalence?

We support these proposals. In particular we accept the fact that while full comparability between commission equivalence and commission is impossible, a framework which allows consistent and appropriate disclosure of commission equivalence is highly desirable in enabling consumers to shop around.

Q11: Do you think that our approach to commission disclosure will increase consumer understanding?

We think that the menu will make clear that advice is not free and may lead consumers to question what they are getting for their money. We do not think the proposals will result in immediate improvement in the understanding of all consumers. We do, however, support them as a step in the right direction. The IDD and the menu must go together. We expressed the view, in our response to the IDD consultation, that the FSA should be more open on the face of the document as to why the information is important. We still believe that this can be done without extending the document too much. Indeed we had suggestions as to how it could be shortened in other respects. We are very disappointed that the third element - the Key Facts document - has been delayed by the discussions over projections. We regard Key facts as essential information and do not see that there is any need for making the decision on projections before requiring the Key facts document to be given.


Q12: Does the proposed menu meet the key information needs of consumers?

We think the FSA should consider what they would regard as a successful outcome over time for these proposals. They should research consumer understanding of the independence of their advisors and the cost of advice at present as a benchmark, and then see how it changes in order to measure the success or otherwise of the new form of regulation. They should also undertake a widespread communication campaign, before the proposals come into effect, to tell consumers of the changes and why they are important and to encourage consumers to ask for the menu before any meeting with an advisor takes place. We look forward to being consulted on the campaign planned.

Q13, 14, 15, 16

We have no comments.

Yours sincerely,

A handwritten signature in black ink that reads "Ann Foster". The signature is written in a cursive style with a horizontal line underneath the name.

Ann Foster
Chairman
FS Consumer Panel

cc. The Consumer Panel
Clive Briault
Dan Waters
Anna Bradley
David Severn
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