

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Ted Hart
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Savings and Investment Products Team
HM Treasury
1 Horse Guards Road
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20th September, 2004

Our ref:PR8/PR5 (DB)

Dear Mr. Hart

Consultation on "stakeholder" saving and investment products regulations

I am writing on behalf of the Financial Services Consumer Panel (the Consumer Panel) in response to HM Treasury's consultation on stakeholder products regulations.

D.3 Comments are invited on the change to the interest rate margin on the cash deposit product.

We are pleased that the Treasury is proposing to increase the minimum interest rate on cash ISAs to within 1% pa of base rate. This is unlikely to have an adverse affect on industry as it reflects most firms' current practice.

D.6 Respondents are invited to consider whether the proposed regulations provide sufficient clarity to achieve the policy intent.

Regulation 7(1)(c) requires the fund managers to have regard to the suitability for the purposes of the scheme of any investment option proposed. We suggest that in assessing what is suitable, it would be useful to have regard to how the scheme/product has been marketed to consumers.

D.7 Respondents are asked whether these information requirements for the smoothed investment fund are sufficient to enable consumers to understand the product they are buying.

There is a greater degree of discretion for firms, in the design of the smoothed product, than we think is appropriate for these products (which we discuss further in answer to D8 and D11). Whilst there are limits to the effectiveness of disclosure, the lack of Government control in key areas makes disclosure, and comparable disclosure, particularly important.

We note that the Treasury does not propose to require consumers to be given the consumer friendly versions of the PPFMs, in contrast to current FSA proposals which

will require firms to automatically give consumers of non-stakeholder with-profits products a consumer friendly version of the PPFM document. Whilst we understand the issue of overloading consumers with too much information, we would like to know what the Treasury's rationale is for departing from the FSA's approach which was developed on the basis on consumer research¹. If the Treasury accept our recommendation to define the parameters of smoothing for stakeholder smoothed investment funds then supplying consumers with PPFMs becomes less important.

On the issue of disclosing smoothing charges to consumers, we again note that it is important that consumers are able to compare charges across different providers. Therefore we recommend that firms are required to express the charges in a uniform way. We also think that the Treasury should consult the FSA's research in this area in understanding the best way to communicate charges to consumers.

D.8 The precise requirements of smoothing and of target ranges for payouts have not been specified in the regulations to allow providers to adopt their own policy and to explain it to consumers. We have decided not to impose a single smoothing model. Do respondents support this approach or should the parameters of smoothing be more tightly defined?

We believe strongly that the parameters for smoothing should be clearly defined. One of the key concepts behind stakeholder products is that the Government should define product features because consumers have difficulty in understanding the vast and complex options on the market. We know from consumer research that many consumers do believe that the Government has a role in 'backing' these products². Indeed, the belief that products features have been controlled by the Government may be important in reducing the barriers that these consumers have in entering the market. It would appear odd, therefore, that the Government is giving the industry this degree of discretion in an area that will be incomprehensible to the vast majority of consumers. We do not think that disclosure of a firm's smoothing parameters is likely to be meaningful to the vast majority of consumers, particularly the target market who are inexperienced consumers. It is hard for consumers to tell whether a target range is good in comparison to the rest of the market or not.

D.11 Respondents are invited to comment on the status of costs outside the charge cap.

The consultation document states that the Government expects firms to charge within or below a range of 0.1% to 0.2% for smoothing but it does not set out how it expects to achieve this without regulations. We point out that competition will not be effective in achieving this because consumers have difficulty in understanding charges, and disclosure is not effective enough in helping them to do so. We would like to know how the Government intend to ensure firms charge within or below this proposed range.

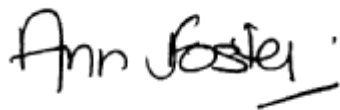
¹ FSA Consumer Research 31: helping consumers understanding of with-profits policies, August 2004.

² FSA Consumer Research 28: consumer testing of a filter questions approach to selling stakeholder products – stage 2, June 2004.

We have been, and continue to be, heavily involved in the FSA's development of the regulatory regime for stakeholder products. We also believe that the overwhelming factor in the success, from a consumer point of view, of the new products and regime will be the way firms set up and implement their systems for selling these products. For example firms must ensure that their remuneration systems incentivise good, and disincentivise poor, quality sales. The FSA's supervisors will have a key role to play in discussing with firms what they are doing to ensure their customers are treated fairly. In addition to making these points to the FSA, we have asked the FSA to plan for a programme of mystery shopping to see how well the new products and regime are working.

We hope this is helpful.

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. Financial Services Consumer Panel
John Tiner, Chief Executive, FSA
Clive Briault, Managing Director, FSA
Dan Waters, Director, FSA