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Our ref: PR8

Dear Samantha

Projections review – The case for change

This is the Consumer Panel's response to discussion paper 04/01.

Before we respond to the questions posed in the discussion paper, we would like to emphasise that the projections for all investment and savings products should be treated in the same way. It is difficult to understand why projections for life policies and collective investment schemes are different and structured and other products are not required to have projections. We question how consumers can be expected to compare products when the basis for calculating the projected potential returns differs. The FSA must also consider a separate way for consumers to compare charges if projections are not done on a comparable basis.

Q1: Have we provided a fair summary of the strengths and weaknesses of the current system?

The Panel believed that a fair summary of the strengths and weaknesses has been provided in the paper.

Q2: Do you agree that neither of the extreme options is appropriate. That is: withdrawing from regulation of future returns, nor prohibiting such information entirely?

The Panel agrees that neither of the extreme options is appropriate.

Q3: For which products or circumstance do you consider it is appropriate or not appropriate to provide information about potential returns?

The Panel believes that products which will be held for more than three years should provide information on potential returns.

Q4: Should structured products be brought within the projections regime

Yes.

Q5: Would a shift to a more explicitly circumstance-based regime be more appropriate?

In certain circumstances such as pension's savings, schemes intended to pay off a mortgage and savings for school and university fees a more explicitly circumstance-based regime would be more appropriate, however such a regime should not be used as an alternative.

Q6: What sort of information of information (general, product-specific, investor specific) should be provided in what circumstances, or for what purpose?

We believe that general and product specific information should be given to all consumers, as part of the advice process, to enable some understanding of the product to be obtained.

Q7: When should real return illustrations be given?

Real return illustrations should always be given with medium and long term investments. These should be consistent with the assumptions required by the DWP for statutory projections for pensions

Q8: Do you agree that providing layered information is an approach worth developing further?

We agree that providing layered information is an approach worth developing further. However consumers should be aware that the figures are not a projection but a hypothesis to help consumers to purchase the right product.

Q9: Are there better formats for providing consumers with information about prospective future returns than are prescribed under our current rules?

We believe that there are better formats for providing information about prospective future returns than the current prescribed rules.

Q10: What ways of providing this information would you suggest?

We strongly believe that much more information and account has to be taken of risks, the effects of inflation and the possibility of negative returns. We believe that the FSA has made a good start to this work, demonstrated by the illustrations in annex 5. These should be consumer tested to ensure that they are effective.

The Panel believe that the FSA should consider publishing this information as advice sheets available as stand alone documents which could be handed to consumers as part of the advice process. The information is needed as part of decision-making, not at the point where a sale is being confirmed.

Q11: To what extent do you consider illustrations should take account of the variations between products?

Illustrations should clearly explain the range of hypothetical expected risks and returns for the product. The Treasury Committee's report 'Restoring confidence in long-term savings' recommended that there should be an information box for each product class. Whilst we are aware that the FSA believes that this suggestion would be difficult to implement, we believe that the benefit to consumers of such information would be considerable. The box should make clear whether the particular product is more or less risky than the general product class e.g. a technology unit trust is more risky than unit trusts in general, a Japanese technology trust would be even more risky.

Q12: Are there areas of the projections system in which greater flexibility should be allowed to firms? What would be the costs and benefits and the effect on competition of doing so?

If consumers are to be expected to take decisions on the level of risk with which they are comfortable, it is vitally important for the 'real' risk of the product in question to be evident from the projections. The Panel believes that greater flexibility should only take place within strict parameters laid down by the FSA, which should include explanations of risks and the possibility of neutral or negative returns (to be shown by a negative projection rate). Any wider flexibility would also have the disadvantage that consumers would not be able to compare different products.

Q13: what limits do you believe should be set to the discretion allowed to firms in the provision of information about future returns?

See above.

Q14: Would it be beneficial to require providers to provide all assumptions they have made in projections calculations to allow advisers to make further calculations?

Yes.

Q15: Would it be appropriate to give customers the right to require a reprojection at any time?

Yes.

Q16: Would it be appropriate to require providers to provide reprojections at set intervals?

Yes, when assumptions or the contributions are changed during the financial year.

Q17: Is there a minimum set of assumptions that must be prescribed for firms? What does it contain?

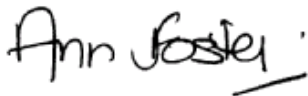
See our reply to question 12.

Q18: What is the best way in which that minimum set of assumptions can be arrived at?

The Panel believes that a comprehensive rather than a minimum set of prescribed assumptions is needed. These assumptions could be set by an independent group of experts agreed by the FSA, industry and consumers. The prescribed assumptions should include risk factors and negative returns.

The Panel believes that the charts in Annex 4, plotting annualised return against probability, would be more helpful to consumers if the annualised return were plotted on the vertical axis, with positive returns at the top. But, in accordance with the Panel's constant refrain, such consumer information needs to be tested on real consumers before it is adopted

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.

Chairman
FS Consumer Panel