

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Adair Turner
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27th January 2005

Our ref: PR 8

Dear Mr Turner

Pensions: challenges and choices

Thank you for the opportunity to input into the Pensions Commission's work.


The Consumer Panel believe that any package of measures to close the savings gap must ensure that people have appropriate advice to help them. There is currently a lack of financial planning advice for the mass market, an 'advice gap'. The implication of the Commission's report is that the advice gap will not be satisfactorily filled by the commercial sector because advice for the mass market on individual financial needs is not profitable. The solution must be in the provision of a centrally funded general financial planning service ('generic advice').

Consumers acknowledge their responsibility for financing their retirement and know they face a shortfall¹. They need help in planning how to close it. Consumers are often bewildered by financial services. The Financial Capability Strategy, set up by the FSA, has acknowledged the role of generic advice in helping these consumers identify their financial needs and make, and implement, better decisions. We are anxious to see the advice gap filled in the near future to match the increased need for people to take action to improve their income in retirement. The Panel therefore urges the Commission to include recommendations on the provision of advice in its next report.

We set out our views in more detail in the submission attached. I have also attached the Consumer Panel's response to the FSA's paper 'Building Financial Capability in the UK: the role of advice'.

I hope this is helpful. We would welcome the opportunity to discuss with your our views on the advice gap.

Yours sincerely,



Ann Foster
Chairman
FS Consumer Panel

¹ Our recent research shows that 79% of consumers (aged 18 or over) agree that financial security in retirement is their own responsibility. Yet 44% of consumers (who have not yet retired) are not confident that they would have sufficient income in retirement. For middle income groups the figures for those who said they are not confident are as follows: 53% of those earning £15 500-£24 999; 46% of those earning £25 000-£39 999. By age, it is highest for those aged 35-54: 49% of aged 35-44; and 47% of 45-54. Unpublished research by BMRB for the Financial Services Consumer Panel, fieldwork November 2004.

Financial Services Consumer
Panel response to:
Pensions: Challenges and
Choices, The First Report of
the Pensions Commission

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Financial Services Consumer Panel response to: Pensions: Challenges and Choices The First Report of the Pensions Commission

The Financial Services Consumer Panel ('the Consumer Panel'). The Consumer Panel, set up by the Financial Services Authority (FSA) under the Financial Services and Markets Act, has a statutory obligation to advise the FSA on the interests of consumers. In addition, our remit includes commenting on wider developments in financial services to represent consumers.

How the advice gap relates to other problems in the financial services market

Most commentators agree that problems in the financial services market have led to consumers' reluctance to buy long-term savings products. These problems include: the difficulty for consumers in identifying their financial needs and knowing how to meet them; the over-complexity of products, which can be exacerbated by the tax treatment of products; and a lack of trust in financial services firms. Too little attention has been paid to addressing the first of these which represents problems in the demand-side of the market.

There have been a number of reviews recommending solutions to supply side problems, such as the review by Ron Sandler which recommended a suite of simple products. Simplifying products is necessary and more work is needed to improve the way firms' treat their customers and to build up trust. However, even these measures will not be enough to make this market work well until the majority of consumers can access advice.

The diversity of consumers makes this problem difficult to resolve through any one solution. Furthermore, consumer education and information are limited in their ability to address consumers' need for understanding about their individual situations. Any solution to address problems in the demand side of the market must include financial planning advice that is trusted and tailored to individuals.

The differing financial needs of consumers and the need for advice

Central to the Consumer Panel's views is recognition of the heterogeneity of consumers. The report asks for views on the issue of "adequacy" of retirement income². We agree that this is an issue of judgement and may differ for different consumers. Furthermore, the fact that consumers face a saving shortfall, from that required to provide a comfortable retirement, does not mean that saving for retirement is their most pressing financial need. They may have other financial priorities such as paying off debts or arranging protection for themselves and their dependents in the event that they are unable to work.

So whilst some consumers need to start saving more, others should first pay off debt. Research by B&W Deloitte for the FSA shows that 38% of people have non-

² Page 128, Chapter 8 asks 'The philosophical issue of "adequacy": what responsibility should government take for ensuring adequate income in retirement?'

mortgage debts of, on average, £4600³. Of this non-mortgage debt, which totals £79bn, 21% is from 'rolling debt': credit cards, store cards, catalogue debts and overdrafts. All interest rates on debts, but especially on rolling debt, are likely to be significantly higher than any return on savings. It is important, therefore, that these consumers consider clearing their debts before buying long-term savings products. A vital response to the diversity of consumers is the provision of generic advice. We believe this will help the demand-side problems in the market for long-term savings.

An advice gap?

It is clear that consumers want and need advice. A survey for the Consumers' Association showed that: 13% of respondents don't know whether they are saving enough; 52% don't think they are saving enough and when asked why, 47% of these say it is too expensive to pay for advice about saving.⁴ Even after a consumer has identified saving for retirement as their financial priority, they will often need help understanding how to do this. Consumers find purchasing products complex and often misunderstand the risk attached to types of assets. B&W Deloitte's research⁵ shows that after property, the risk attached to personal pensions and equities are the least understood.

Research for the National Consumer Council⁶ asked people to rank the top three factors for an effective financial service and the most important factors were:

- A clear explanation of everything I don't understand (40%)
- Considers my overall financial situation (26%)
- Completely free advice (18%)

Lower and middle income consumers are not currently getting advice. All consumers need a basic steer on what financial products may or may not be suitable for them, but that advice is costly and there is consequently a disincentive to provide it for low and middle income consumers where a sale is less likely to result. The Government's solution was the simplified selling process for Sandler products which has become the 'basic advice regime' which attracts a lower level of regulatory intervention than full advice. But there are few signs of the industry significantly expanding into this area. The Panel, other consumer representatives and some in the industry believe that the service consumers need to identify their financial needs can not be profitably provided by the industry. Furthermore attempts to cross-subsidise this service through the sale of products, will provide poor outcomes because even if buying a long-term savings product is right for consumers, for most in the mass market this will be at a relatively low level of premiums. A charge sufficient to recoup the cost of advice on these premiums may render the return on a long-term savings product little higher than on a deposit account, if not lower.

Workplace advice is often suggested as the answer. Increasing the provision of workplace advice will help but it is not the whole answer. The trend towards employment in small and medium sized firms and the difficulty in requiring these firms to provide good quality advice suggests that generic advice outside the workplace will continue to be needed.

³ This does not include credit card balances that are paid each month.

⁴ Advice for life campaign briefing, Consumers' Association, May 2002.

⁵ Wealth and Portfolio Choice by B&W Deloitte 2002.

⁶ Consumer Concerns 1999, NCC, November 1999.

The Consumer Panel welcomed the steps that the Treasury took, as part of the FSMA review to expand the scope for giving specific financial advice in advice centres. The Treasury did not go as far as they had first proposed because of concerns on the part of advice agencies. We do not believe that the delivery of financial planning generic advice to the mass public will be achieved through the existing advice agencies.

Who should provide generic advice?

The Financial Capability Strategy is well placed to develop plans for providing generic advice to fill the gap. Its stakeholders all have something to gain from such a service. Both government and firms stand to benefit from the provision of such financial planning advice since it would expand the market for retail savings products and some consumers will become less reliant on state provision in their retirement. As such, there is a case for some taxpayers' money to be spent on the provision of financial planning advice as well as a levy on industry.

To date, taxpayers' money has been used to encourage savings and provision for retirement through tax relief on retail savings products. We believe that this is an ineffective method of promoting savings as those who benefit from the tax relief are primarily a different group from those the Government is trying to target. Furthermore, tax relief greatly increases the complexity of financial products. The Sandler report criticises the current system of tax relief⁷ for retail savings products for being overly complex and concludes that "this compounds consumer confusion and increases the cost of saving, by adding to the requirement for advice and the attendant need for regulatory supervision." The report also calls into question the idea that such tax incentives have increased consumers' propensity to save, especially in the lower/middle income group.

In April 2002, we proposed a scheme to provide free advice to those purchasing an annuity by levying a fee on providers. Currently insurance companies make a deduction from pension savings, in theory to fund, advice on annuities irrespective of whether customers actually take advice. We said that this money could be used for the levy for independent advice. Funding such a generic advice service centrally would have the advantage of deducting the fixed cost of providing advice from the unit cost of making a sale.

In summary, we too want to see those consumers who can afford to close a shortfall, on what they would have to save for a comfortable retirement, make informed decisions about how best to do this. We strongly believe that consumer education and information alone are not enough to help consumers identify their financial needs, and having done so work out how to meet them. The complexity of the financial services market and the tax and benefits system make this problem worse. The market is unlikely to meet the need for the mass market advice, and there are in any event problems of confidence. Consumers need trusted personalised help, generic advice, to identify, and know how to meet, their financial needs.

⁷ Sandler report into long-term retail savings, Page 16 of Summary.

Who is on the Panel?

Ann Foster (Chairman)

Ann is an independent consumer affairs consultant and formerly a Director of the Scottish Consumer Council. She is a past member of Postwatch, the Consumer Council for Postal Services, and of the Health Professions Council. She took over as Chairman of the Panel on 1 November 2003, having previously been Vice-Chairman from January 2001 to October 2003.

Dianne Hayter (Vice Chairman)

Dianne is on the board of the National Consumer Council and was, until 2004, on the board 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 of 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, University of London. She was appointed to the Panel in January 2001.

Yvonne Gallacher, OBE

Yvonne is Chief Executive of Money Advice Scotland, set up in 1989 by the Scottish Consumer Council. She has over 16 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 Financial Capability Group and a member of the NCC Advisory Group. Yvonne is a recent past member of the Scottish Consumer Council. She was first appointed to the Panel in December 1998.

Harriet Hall

Harriet is a solicitor with considerable experience of consumer policy and retail financial services. Currently working freelance, she was formerly the 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 and European consumer legislation. She was appointed to the Panel in January 2001.

Tony Hetherington

Tony has been a financial journalist since 1982. His weekly column responding to readers' letters on financial matters appears in the Mail on Sunday.

He also writes a syndicated weekly advice column which appears in local and regional newspapers.

John Howard

John is a journalist and broadcaster with extensive experience of consumer issues having been the principal presenter of the daily consumer programme on Radio 4 'You and Yours' and numerous other financial programmes on radio and TV. He is a qualified solicitor and is a member of the Mortgage Code Compliance Board. He was appointed to the Panel in October 2000.

Stephen Locke

Stephen is a National Consumer Council Board member and a member of the Committee of the premium rate communications services regulator, ICSTIS. He was previously Director of the Transition Project setting up Ofcom, working on secondment from the Independent Television Committee where he had been the Director of Advertising and Sponsorship. Stephen has also worked at a senior level in management consultancy and in the consumer movement, as Director of Research and Policy at the Consumers' Association. He was appointed to the Panel in March 2004.

Nick Lord

Nick is a consultant in personal finance issues, working with a range of organisations, including Citizens Advice, the Finance and Leasing Association Lending Code Group, and various government departments.

Nick has worked in the consumer advice and advocacy sector since 1983. Much of this time has been within the Citizens Advice Service, both as an adviser and manager, and in senior money advice roles at national level. He has also served as a public interest director of the Mortgage Code Compliance Board.

Nick Pearson

Nick has been the National Debt Advice Coordinator at Advice UK since 1997. He also works as a part time consultant to CPP Group on the development of its financial health product. With a career spent in advice organisations including Citizens Advice, where he was Manager of the Money Advice Support Unit he has particular experience of consumer credit, mortgages, debt and personal finance issues and with vulnerable consumers. He was first appointed to the Panel in December 1998.

Adam Phillips

Adam has extensive experience of market research, including research into consumer financial products. He is Managing Director of Real Research, his own market research consultancy, and is a Council Member of ESOMAR (the world association of market research professionals), also chairing ESOMAR's Professional Standards Committee. He was appointed to the Panel in March 2004.

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. He was first appointed to the Panel in October 2000.

Robert Skinner

Robert Skinner has been Director General of the Money Advice Trust since April 2003. In this role he has responsibility for the running of National Debtline in Birmingham, the Trust's training activities, and its traditional work as a fund-raising charity for the partner agencies working in the money advice field.

Prior to joining the Trust, Robert spent over 25 years working for Barclays Bank, and held a number of senior positions in the Retail, Private Banking and Corporate businesses. He has served as a Director of the Office of the Banking Ombudsman and as a member of the BBA Code of Banking Practice review committee.

He was appointed to the Panel in March 2004.

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. He was first appointed to the Panel in December 1998.

Carol Stewart

Carol Stewart is a generalist adviser with Citizens Advice following her early retirement from UBS where she had been an executive director in Legal and Compliance. She was appointed to the Panel in June 2004.

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 the Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years. He was first appointed to the Panel in December 1998.

How to contact the Panel

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