

Telephone: 020 7066 9346
Local fax: 020 7066 9728
Email: enquiries@fs-cp.org.uk

Verena Ross
Director
Strategy and Risk Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

25 June 2007

Dear Verena

Benefits of Regulation

At our last Panel meeting earlier this month, we were presented with an overall analysis of the work the FSA has undertaken on the benefits of regulation focused on particularly "high cost" requirements including the Menu and the Initial Disclosure Document (IDD).

We are concerned that in this case the FSA seems to have measured only selected benefits of regulation and only those directly measurable in economic terms. It has then used these results as the reason for dropping some key consumer protections, in the form of the price menu and IDD.

This decision causes us to question the FSA's assessment of the consumer benefits of regulation and we would urge the FSA to take broader aspects of consumer benefit into account when making decisions about costs versus benefits in future.

On the specific decision on the Menu and IDD, we have the following comments to make:

- The documents have been in use for just two years, and this is not enough time for consumer purchasing to change so significantly – the FSA itself has said it will take a generation to turn around financial capability
- Taking the decision to drop the menu and IDD assumes that the documents are in the best possible form for communicating these messages. But it may be that the documents themselves can be improved rather than being scrapped altogether.
- It is quite possible that consumers benefit indirectly from these documents. The information requirements may be important in terms of modifying adviser behaviour in the consumer's interest, and that results in greater consumer awareness and knowledge

- The FSA has only considered economic outcomes when deciding if these documents are useful. We believe that when measuring consumer benefits of regulation, a major measure should be consumer confidence, which may not be capable of quantification in pounds and pence (see below).

We think that consumer benefits of regulation here should be considered in terms of whether consumers understand:

- a) how the advice is being paid for and how this payment compares with the rest of the market;
- b) the status of the person giving the advice;
- c) the whole advice process and how it works.

This information may not change consumer behaviour immediately, but consumers are learning how the system works and the information asymmetry is being reduced. If the consumer has a better understanding of these things then this should lead to greater consumer confidence, which has a huge overall benefit to the financial services industry.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'J. Howard', written in a cursive style.

John Howard
Chairman

Cc Dan Waters, Director of Retail Policy, FSA