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Our ref:

Dear Neely

## **CP 05/08\*\*:** Suitability Standards for advice on Personal Pensions

As you know, the Panel wrote to Mary Hollinshed in November last year opposing the proposal to revoke COB 5.3.16R(3). Our views have not changed since then and this letter, to some extent repeats them. The rule exists to prompt advisers to justify recommending a personal pension when a better value product, a stakeholder pension, exists to meet the same financial need. We do not believe that the FSA should be attempting to revoke this rule and do not accept the argument that revocation would be in the interest of consumers.

The First Report of the Pensions Commission, Pensions: Challenges and Choices (see page 224) asked 'whether there is a segment of the market (lower income savers and people working for small firms) to which a free market will never be able to sell pension products profitably except at RIYs which make saving unattractive.' The analysis behind this question uses RIYs on stakeholder products. These consumers should not be stripped of the protection which the rule currently gives.

We note that the consultation paper puts emphasis on the benefit of an increase in purchase of small policies (see para 3.9 for example), but it is exactly these policies that are most vulnerable to the effect of higher prices which may make them unsuitable for those who buy them. Pensions are very different in nature from many other products. The length of the investment term and therefore the cumulative effect of charges on fund value make a differential in charges particularly important.

We believe that there is no evidence that the drop in pension sales is related to this rule. There has been a drop in sales across the board for equity based products which coincided with the introduction of stakeholder products.

Whilst we acknowledge that there is a group of consumers with complicated circumstances who require full advice on pensions and so should be filtered out of decision trees and the basic advice process, there is no evidence to suggest that these people have been unable to receive the required advice. We are disappointed

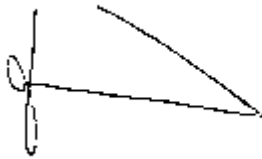
that the FSA did not act on our suggestion to conduct consumer research to ascertain the reasons why consumers are not purchasing personal pensions and test the premise that full advice is not available to those consumers who need it. The results of such research would have informed this debate. At the very least we challenge the industry to produce evidence that consumers are not able to access full advice.

We are concerned that the factors identified by the FSA which could mitigate excessive increases in charges on personal pensions contracts, such as the Menu, have either not yet come into effect or have yet to be demonstrated to be effective. Key Features Documents have not been shown to be effective as consumers usually look at them, if at all, after they have decided on their purchase.

The rule itself is not a price control. It requires an adviser to point out that a plain vanilla product exists and that for higher charges a product with bells and whistles is available. If advisers are finding it difficult to justify selling non-stakeholder products, perhaps this is for a good reason.

While there may well be a case for removing the rule at some point in time, we are strongly of the view that now is not the time, given the potential for radical changes to the pension regime arising from the Pension Commission's report.

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line extending to the right, and a diagonal line extending upwards and to the right from the end of the horizontal line.

John Howard  
Chairman, FS Consumer Panel