

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

Charging Consultation Co-ordinator
Personal Accounts Delivery Authority
(PADA)
New Court
Room 567
48 Carey Street
London WC2A 2LS

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Our ref:PADA

Dear Sirs

Building personal accounts: choosing a charging structure

This is the response of the Financial Services Consumer Panel to the Personal Accounts Delivery Authority's consultation on choosing a charging structure.

The Financial Services Consumer Panel was established under the Financial Services and Markets Act 2000 by the Financial Services Authority to represent the interests of consumers. The Panel is independent of the FSA. The main function of the Panel is to provide advice to the FSA, but it also looks at the impact on consumers of activities outside the FSA's remit. The Panel represents the interests of all groups of consumers.

The Panel is not in a position to respond in detail to all the questions posed in the consultation paper. However we would like to make some general comments about the options for charging structures.

We believe that an annual management charge is the most appropriate charging structure for personal accounts. Our assessment is based on discussion of the various charging structures highlighted in the consultation and on information we have received to date.

Each of the suggested charging structures has a different impact on the various groups of consumers and it can be argued that no single charging structure is fair to all participants. We believe, however, that the annual management charge is the 'fairest' of all the presented options. We are of the view that consumers will understand the operation of an annual management charge more readily than any of the alternative options. Indeed, we note that the annual management charge was felt to be the charging structure that could be communicated successfully to consumers in research conducted on PADA's behalf.

In particular we are concerned that a combination of the charging structures would be too complex and difficult for consumers to understand. We would not like this complexity to dissuade consumers from engaging with personal accounts.

In relation to the option of a contribution charge, we believe that such a charge would have a disproportionate effect on consumers who contributed to personal accounts for a short period of time, such as personal account holders nearing retirement. We also think that some of the other suggested options could disadvantage those with disrupted working histories or with small pension pots.

Specific questions

Chapter three: In relation to our evaluation criteria:

7. Are these evaluation criteria appropriate?

The Panel agrees that all these evaluation criteria seem appropriate.

8. Which evaluation criteria do you think are most important for personal accounts, and why?

The evaluation criteria relate to three themes; ensuring fair outcomes for members, encouraging levels of participation in personal accounts and sustainability. All three of these themes appear key to the Panel and we are not able to identify specific evaluation criteria within these that might be of lesser importance.


9. Are we missing any criteria that might be relevant?

The Consumer Panel is also concerned about the potential impact that any charging structure adopted for personal accounts might have on structures that prevail in the wider financial services market. For example, choosing a structure with a high element of 'upfront' charges might act as encouragement for financial services practitioners to re-adopt this out-moded style of charging (where significant portions of early premiums could be 'eaten up' by charges).

We would point to the impact of charge caps set for stakeholder products on charge levels in the wider market as an example of the potential 'contagion' of charges for high profile products.

We hope you find these comments useful and look forward to receiving more feedback in due course.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Adam Phillips', with a long horizontal flourish extending to the right.

Adam Phillips
Vice Chairman