Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Mr Cranswick

CP12/10 Product projections and transfer value analysis**

This is the Financial Services Consumer Panel's response to the proposals in Chapter 4 of CP12/10** Product projections and transfer value analysis. The Panel has no specific comments to make on the proposals in Chapters 2, 3 and 5 of the CP.

The Panel agrees that the projection rates in COBS 13 Annex 2 should be revised and is satisfied with the lower rates proposed in CP12/10**, which reflect the findings of the PwC report on Rates of return for FSA prescribed projections (April 2012). We support too the FSA's changes to the wording of the requirement on firms to use appropriate projection rates.

What the CP does not cover – and what we consider to be a crucial issue – is the matter of communications with consumers about the rate change and the consequent likely reduction in the amount expected to be generated by their investments. We will be writing separately to the FSA on this issue.

Our responses to the specific questions in Chapter 4 of the Consultation Paper are set out below.

Q7: Do you agree that this change of wording provides sufficient additional emphasis for providers regarding our longstanding requirements that they use appropriate projection rates?

The thematic work referred to in paragraph 4.7 of CP12/10** provided ample evidence that providers often failed to comply with the FSA's requirement to use projections that reflected the likely return on investments – an example given was using the so-called 'standard' rates of return (5%, 7%, 9%) to project for cash funds. We welcome action by the FSA to re-emphasise the requirement to use appropriate projection rates. The proposed wording is suitably clear, but in the light of the levels and seriousness of non-compliance in the past we would like the FSA (or FCA) to conduct further thematic work/research to assess the effectiveness of the revised rule once in place. Further failure should be addressed by swift enforcement action and/or, if needed, further revisions to the relevant rule.

Q8: Do you agree that the proposed changes to these assumptions are appropriate? If not, what changes would you propose? Please explain why you would make other proposals.

The Consultation Paper sets out a clear assessment of the findings of the PwC report and we concur with the FSA's views. We agree that the proposed changes to the assumptions are appropriate.

Q9: Do you agree with the cost benefit analysis for our proposals in Chapter 4?

As is noted in the Paper, there will be no significant costs for firms as a result of the proposed changes as appropriate systems should already be in place to take account of differing projection rates. In addition, the requirements of COBS 13 Annex 2 R2.4 have been clarified rather than changed. In contrast the benefits for consumers will be significant but, as I indicated earlier, careful thought needs to be given to ensuring that the right messages are delivered to consumers who for the first time may be seeing a realistic projected return on their investments. We will be raising this separately with the FSA.

Yours sincerely

Adam Phillips
Chair
Financial Services Consumer Panel