

Telephone: 020 7066 9346

Email: enquiries@fs-cp.org.uk

Rob Muskett
Investments Policy Department
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

9 August 2012

Dear Mr Muskett

CP12/12 Payments to platform service providers and cash rebates from providers to consumers**

This is the Financial Services Consumer Panel's response to the proposals in CP12/12** payments to platform service providers and cash rebates from providers to consumers.

The Panel strongly supports the proposals in the Paper to prohibit platforms from being funded by product providers in both the advised and non-advised sectors and to proceed with earlier plans to ban the rebate of product charges in cash to retail clients, again in both advised and non-advised transactions. We do not think any other approach would provide the necessary level of consumer protection or deliver the right consumer outcomes. The research¹ commissioned by the FSA since last year provides independent evidence that supports the FSA's approach.

In our response to the FSA consultation paper CP10/29 (delivering the RDR for platforms and nominee-related services) we said that we wanted to see a competitive market where choice, access and value for money were critical components. The banning of payments by product providers and fund managers to platforms, together with the prohibition of cash rebates to customers, are important stepping stones in achieving such a market in the platforms sector.

The Panel was the only consumer representative body that responded to the FSA's original platforms proposals and this may well be the case again with CP12/12**. If so, or if consumer focused responses are a small minority, we would urge the FSA to ensure that due weight is given to views and comments presented on behalf of consumers. I will be happy to discuss the Panel's policy on platforms further with the FSA, if that would be helpful.

Our responses to the specific questions within CP12/12** are set out below.

¹ CR87 The platforms market: consumer interaction by NMG Consulting, June 2012, and Analysis of the introduction of rebate bans on the platform market by Deloitte, February 2012, both at www.fsa.gov.uk

Chapter 2 Payments to platforms and consumers

Q1: Do you agree with our proposal to require a platform service to be paid for by a platform charge disclosed to and agreed by the client?

Yes, we strongly endorse this proposal. It is entirely consistent with the principles of the Retail Distribution Review and should remove any bias from the service.

The FSA confirms in CP12/12** that “a number of product providers ... view the payments they make to platforms as a distribution payment”. CP12/12** also states that according to the research findings, when a platform had been able to negotiate a higher rebate from a fund manager for a particular fund, this was often linked to greater marketing activity being carried out for the fund, with more prominence given to the fund by the platform. But non-advised customers in particular make use of, and in some cases rely on, the fund and investment information provided by the platform. Some consumers thought that the platform carried out an additional layer of investment management, such as identifying the best funds. This can only be positive for consumers if the platform service is entirely unbiased. Clearly, with rebates to platforms being considered “a distribution payment” this is simply not the case. The range of funds available on a platform and the prominence of particular funds can have a direct impact on consumer choice and should not be influenced by which fund was prepared to negotiate the biggest rebate to the platform.

The FSA-commissioned research into consumer interaction with the platforms market showed, amongst other things, that few consumers were aware of the charges they paid for platform services and some direct (as opposed to advised) consumers erroneously thought that the service was free. Yet the platform charges actually presented to consumers in the course of the research were generally considered to represent good value for money. We see this as confirmation that once the basis and amount of a charge for platform services are made clear to consumers they will assess its value and, once satisfied, will be prepared to pay. We see no logical argument for bundling charges and obfuscation of cost.

Q2: Do you agree without proposal that cash rebates to consumers for non-advised business should be banned as well as those for advised business?

Yes, cash rebates for direct consumers as well as advised consumers of platform services should be banned.

CP12/12** refers to the findings of the Deloitte research, which predicted that overall rates of growth in non-advised platforms’ assets under administration were likely to be higher than for advised assets under administration, at a compound annual growth rate of 71% from 2011 to 2014. It is vital therefore that the FSA takes steps now to ensure that adequate protection is in place for non-advised consumers. Importantly non-advised consumers are unlikely to be able to find out how much the fund manager/product provider pays to the platform and, therefore, whether this represents value for money for them.

We agree with the FSA that there should be common standards for advised and non-advised business “wherever appropriate” and that it is appropriate in this case.

Q3: Do you have any comments to make on the proposed date for implementation of 31 December 2013?

We think this is a sensible and achievable implementation date. The FSA's intentions were made clear in earlier consultations and policy statements and the platforms debate has been running for some years. We do not think consumers should have to wait beyond 31 December 2013 for the regulatory protection set out in this Paper to be put into effect.

Q4: Do you have any comments on the possible read-across of platform rules on payments for services to non-platform markets?

We would not wish to see the development of platform 'look alikes' designed to circumvent regulatory requirements, but we recognise the distinction between platforms and other distribution channels, such as execution only brokers, which cannot be used instead of a platform to deliver the same services. On balance we believe that this is an issue that merits further consideration and, if consumer protection appears to be inadequate, we would urge the FSA to apply the platforms regulatory regime to other distribution channels.

Q5: Do you have any comments on the draft rules in Appendix 1?

We are not in a position to comment on the detail of the draft rules.

Chapter 3 Cost benefit analysis

Q6: Do you have any comments on the cost benefit analysis?

We do not have any comments on the Cost Benefit Analysis.

Yours sincerely

Adam Phillips
Chair
Financial Services Consumer Panel