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

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Our ref: CP11/3

Dear Ms Flannigan

CP11/3 Product disclosure**

This is the Financial Services Consumer Panel's response to CP11/3** Product disclosure.

Overview

We support the overall approach set out in CP11/3** and, if applied correctly, we believe the proposals should go some way towards ensuring that consumers have the information they need to help them to make the right decisions in this complex area. We welcome in particular the FSA's plans to conduct consumer testing of options for moving the current projection basis for pensions to one more consistent with the Statutory Money Purchase Illustration requirements.

It may well be that the European initiative on Packaged Retail Investment Products will lead to further changes to the investment (but not pensions) disclosure regime. These further changes could not only create additional cost for firms and consumers, but also a degree of confusion amongst consumers trying to track and compare the likely cost and performance of different products. It is essential therefore that the FSA puts in place a medium term programme of monitoring compliance with the new disclosure requirements and testing their effectiveness from a consumer perspective.

We have set out below our comments on the key questions contained in the paper.

Detailed questions

Q1: Do you have any comments on the proposed new 'effect of charges' format for personal pensions, where providers choose not to facilitate payment of adviser or consultancy charges?

The new format seems appropriate and we have no additional comments to make.

Q2: Do you have any comments on the proposed new 'effect of charges' format in COBS 13 Annexes 3 and 4 for investments and personal pensions

where providers choose to facilitate payment of adviser or consultancy charges and will need to show the effect of these charges as well as product charges?

We agree that this is the correct approach.

Q3: Do you agree that a generic KFI will not be appropriate for individual pensions where the product provider facilitates payment of the adviser charge, and our proposal to add a rule to this effect?

It is important that consumers are provided with information that will actually help them to make a reasoned decision about a financial product. Anything else creates the risk of 'information overload' that could result in consumers not focusing on the key features of a product, including the cost. Consequently we agree that a generic KFI should not be provided where the product provider facilitates payment of the adviser charge.

Q4: Do you have any comments on our proposal that, where personalised illustrations are provided for prospective members of GPPs, they should be set out in the same way as for individual personal pensions?

We agree with this proposal and see no argument for any alternative approach.

Q5: Do you agree with our proposal to add a rule to say that generic projections for GPPs will only be appropriate where any consultancy charge is structured such that its effect is consistent across the group of individuals being given the generic projection?

and

Q6: Is there a need to allow generic projections for GPPs in these circumstances and are there any other circumstances in which you consider that generic illustrations should be permitted for prospective GPP members?

In principle we agree that generic projections for GPPs could be used when the impact of a consulting charge is consistent across a group of individuals but, as is indicated in the Paper, it is unclear how often this would be the case. There is a risk that prospective members of a GPP could be misled by generic projections and if responses to this consultation show little demand for this option, we would prefer to see them not used at all.

Q7: Do you agree that we should remove the requirement for a KFI for structured life products? If so, does our proposed rule in COBS 13.1.3R(3) (b) satisfactorily exclude such products?

We agree that the requirement for a KFI for structured life products should be removed because, as is noted in the Paper, the information it provides in these particular circumstances is unhelpful.

Q8: Do you have any other comments on the draft rules in Appendix 1?

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

Q9: Do you have any comments on the proposal that Moneymadeclear comparative tables should contain only product charges after the RDR rules come into force?

The FSA is specifically seeking feedback from firms on this question so we are not in a position to respond, although we support the approach. We were pleased to see that the FSA is in discussions with The Money Advice Service about the comparative tables, which we regard as a valuable but under-used tool for consumers. We would like to see The Money Advice Service and the FSA taking the opportunity presented by the changes to be made to promote the tables more widely.

Q13: Current pension projection requirements, where they apply, are mandatory. Do you agree with this? As an alternative approach, do you think there is merit in considering making pension projections optional, in line with MiFID standards, and only applying certain disclosure requirements when projections are provided? If so, please explain why you think this approach would achieve better results for consumers.

We support the mandatory provision of pension projections on the current basis. Consumers and their advisers have access to the information provided which, although to some degree speculative, is still a valuable indicator of possible outcomes and a useful planning tool in terms of the level of contributions required. We do not think that making projections optional would serve any useful purpose for consumers.

Q14: Do you agree that firms should disclose whether or not they receive commissions or retain bank interest earned on cash held in SIPP wrappers? If so, do you agree that firms should be required to disclose this information alongside information about interest rates payable to, and costs and charges payable by, scheme members?

Yes, it is essential that firms should disclose this information. We agree that it will be appropriate to include this alongside other information about interest, costs and charges.

Q16: Do you agree that we should be seeking to consult on moving our projection basis for pensions to be more consistent with the SMPI requirements?

Yes, we agree that there should be public debate on this issue. The differing bases on which projections and SMPIs are produced can be confusing and we welcome the FSA's plans to test different approaches with consumers.

Yours sincerely

Kay Blair
Vice Chair
Financial Services Consumer Panel