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

RETAIL DISTRIBUTION REVIEW

THE FINANCIAL SERVICES CONSUMER PANEL RESPONSE TO THE INTERIM REPORT

24 September 2008

This is the Financial Services Consumer Panel response to the FSA’s interim report on the Retail Distribution Review published in April 2008.

Executive Summary

The Consumer Panel welcomes the development in the FSA's thinking on the Retail Distribution Review (RDR) between its consultation papers of last October and this April. We support the proposed move to a simpler landscape that is more intuitive for the consumer. In particular, we are pleased that commission-bias of advisers is to be tackled, and that a simple yet meaningful distinction between sales and advice is to be introduced. We believe the direction of travel is positive and are supportive of many of the FSA’s proposals.

We agree with raising professional standards and are encouraged that so many stakeholders have approved this proposal. To reach a situation where consumers value and are willing to pay for advice is dependent on the provision of high quality advice from suitably qualified professional advisers.

So long as it is clearly labelled "sales", we can see room for an expansion of the sales process to enable simple products to be marketed on the back of relatively straightforward customer information. Such proposals, however, have not yet been fully developed and various issues remain which need to be resolved.

We remain concerned that the proposed structure will under-service a large and important group of customers who require more than Money Guidance but who cannot or will not afford full IFA advice. Many consumers do not yet trust financial advisers and do not put a value on the service or advice they might receive.

In the light of past difficulties in this area, and given the long saga with polarisation, we urge the FSA to take sufficient time to finalise proposals to ensure the right outcomes are achieved. While we acknowledge that the FSA has delayed its timescales with November now planned for further feedback, we continue to believe it is more important to get it right than to get it quickly.

To work effectively as a new retail distribution model, many strands have to come together. We are encouraged that the FSA is fully committed to the complex work involved in reshaping the model and trust that it does not feel compelled to opt for quick wins which might not deliver significant consumer benefits.

Key points

Independent Financial Advice

- We welcome the acknowledgement that commission does not work in the consumer interest and that the top tier of independent, whole of market financial advice should be fee-based and free of bias.

- We remain of the view that provider, product and sales bias should be removed from remuneration. For this reason, we remain concerned about 'industry workarounds' or a principles-based approach that may allow providers to retain influence over advice outcomes. In our view, the prime relationship is between the adviser and the customer and remuneration should be based solely on the nature and value of advice and what the customer agrees to pay. We think it essential that the FSA understands and effectively addresses bias in the various business models it is considering. Only by doing so will the consumer truly benefit from the proposed changes.

- We note that Customer Agreed Remuneration (CAR) has caused concern, partly because so many different interpretations have been put on it, and we are aware that the FSA has decided not to use this particular term. For clarity, the Panel defines CAR as the payment for advice and services which the consumer has negotiated/agreed via a transparent charge included in the product. This charge can be paid over time. For the purposes of this Paper, when we refer to CAR, this is what we mean.

- We understand that the FSA is currently conducting further research designed to identify bias and understand how the concept of CAR may be open to influence and manipulation. We think the results of this research will be critical to ensuring CAR – whatever it is named – works in the consumer interest. While measures such as CAR may be a necessary option to help consumers pay for advice, we have significant concerns that it may still be distorted and open to provider and sales bias. It will also have to be explained effectively to consumers who are unfamiliar/uncomfortable with negotiating/agreeing fees.

- We think certain products (such as retirement products, including personal accounts and defined contribution pensions) require in-depth advice and would like to know how consumer needs for advice/guidance will be met in these product areas.

- We are interested that focused advice may be an option within the independent advice arena. We understand that the IFA community has, in the past, been disinclined to offer focused advice, because it believed this was uncharted water which might leave IFAs exposed without more guidance and assurances from the FSA. We hope the FSA can provide more reassurance on this area so that it might become a feasible option.

Engaging the market/fostering trust

- We are concerned that a large section of the middle market who are reluctant or unwilling to pay fees, at least in the short to medium term, for advice may not engage effectively with the market. It is important to ensure that measures designed to increase clarity and transparency do not have the unintended consequence of turning customers away from advice services which they might value; and of leading to their under-investing in appropriate financial services products as a result.

- Nevertheless, it may also be that CAR (as we have defined it) could result in more consumers being receptive to the idea of obtaining advice than is the case at the moment. Currently, it is difficult to judge whether this might be the case.

- While recent research presents conflicting reports of consumer trust in financial advisers, we remain concerned that a significant change in consumer attitudes and quality of advice is required to persuade the middle market to pay for advice. Research commissioned by the Panel ("Exploration of consumer attitudes and behaviour with regard to financial advice and the implications of RDR proposals" by GfK, published on the Panel's website) found that consumers generally perceived financial advisers in a negative light. The trend towards cynicism and distrust is exacerbated by recent experiences and media stories such as credit card and overdraft charges, and also the recent problems with Northern Rock. This negative view is compounded by the FSA's own August 2008 Report "Investment Quality of Advice Processes II", published on the FSA's website, which found that only 22 out of 50 firms visited could consistently demonstrate a fair and adequate recommendation process; 35 out of 50 failed to produce adequate suitability letters; and four-fifths of the firms that provided "focused advice" failed to make their customers adequately aware of the implications and consequences of receiving such advice.

Professional Standards

- Not surprisingly, we welcome the call to raise minimum professional standards (including skills and behaviours, as well as knowledge) and the enhanced role for professional bodies in raising standards. We believe that the threshold for entering the advice arena has been too low for too long. Raising professional standards will help the industry position itself as a service which has a value and is worth paying for.

- We believe new IFA entrants should be at graduate or equivalent level as is required in similar professions.

Sales/Advice Split

- We support the sales/ advice split with tied/multi-tied outlets/channels being labelled as 'sales'.

- We do, however, stress that the labels adopted by the industry have to be meaningful and understood by consumers. This will require significant marketing/educational programmes to ensure consumers understand the differences in the proposed advisory/sales landscape and therefore behave as expected.

- In our view, remuneration structures in tied/multi-tied outlets have to be based on relationship building rather than sales incentives. This will require a significant culture shift and will not, at least in the short term, be addressed by the implementation of Treating Customers Fairly (TCF). We think a change in remuneration structures is essential to making sales in the tied arena work in consumers' interests.

Guided Sales

- We think guided sales may help deliver an acceptable solution for the middle market and are supportive of the FSA's moves to find acceptable options, but we require reassurance on the suitability of sales and on the adequacy of safeguards to ensure the 'wrong' type of product does not enter the system. For example, the Panel is not persuaded that managed funds should be included in the range of products sold in this way.

- Given that there may be no charge caps on potential products, we are anxious that the industry may push products on consumers which turn out to be inappropriate or poor value for money.

- We believe there are more challenges in a simplified sales arena than might be first thought. Even with more basic product sales scenario, how far do you go in taking aspects like dependants, retirement issues, housing/job/family issues into account?

- We believe that the above sales process can enable simple products to be marketed on the back of relatively simple customer information, though we believe more work needs to be undertaken to assess regulatory/MiFID implications, product range and customer demand. The process needs to meet the legal test of providing customers with suitable products, which we think means simple, clear and easily understood products with administrative costs and risks to capital that are clearly explained in a way which allows consumers to compare different products in the same category. We urge the FSA to research such aspects thoroughly.

- In particular, the lessons learned from previous attempts to introduce more basic products must be taken into account when considering the intended landscape.

Money Guidance

- We are enthused by Money Guidance and the current Pathfinder developments. The opportunity to extend the reach of financial guidance to significantly more than the status quo is exciting. However in the light of the FSA's recent research into financial capability and emphasising our previous views, believe the service needs to push barriers to ensure it gives meaningful guidance to consumers e.g. goes beyond merely signposting to recommendations on product types for certain types of situations and customer profiles.

Consumer Behaviour

- We think it dangerous to assume that consumers will necessarily always act as anticipated in relation to the proposed new landscape eg they will not always enter the appropriate tier of guidance/advice at the appropriate stage in their lifetime. Therefore, the FSA needs to consider what safeguards are required to protect consumers at all levels.

- We are concerned that people may decide to avoid advisers and salesmen and turn to execution only purchasing without realising the potential risk they may be taking. This is a particular concern with the growth of purchasing via the internet. We would like to see work undertaken on ways that online sales might be regulated to mitigate consumer detriment that may arise as consumers migrate to this channel.

Other

- We believe the proposed RDR changes should apply to the mortgage and insurance markets. While there may be some differences between the sectors, we believe these are not significant enough to deter a more consistent approach to the entire market. For consumers to engage effectively with the market, the use of consistent terminology is essential.

Main section

1. Why we are responding to the interim report

While the FSA's interim report does not call formally for responses, we want to take this opportunity both to reiterate some of our previous views given in our response to the FSA's discussion paper 07/1 – A Review of Retail Distribution - and to comment on developments that have arisen subsequently.

Like the FSA, we are keen to see changes in the retail market which will result in more consumers getting a fair deal, and having more confidence in the products they buy and in the advice they are given. We need an industry that acts more clearly in the best interests of its customers and treats them fairly.

We welcome the FSA's view that a more simplified landscape is required and applaud your desire to engage the industry further in developing a fairer model. However, more work needs to be done to test the assumptions in more detail and to ensure that subsequent changes in the retail model deliver the intended outcomes.

We are pleased that the FSA has extended the RDR timetable as the Panel and others had requested. As we explain later, we do feel some of the emerging issues, such as the practicalities of the sales/advice split and the complexities both of fair charges and fair remuneration structures, require detailed analysis and testing before definitive conclusions about the future market model can be drawn. It would be disappointing if the momentum for change itself was to jeopardise the long-term viability of the new model. We would like to see a future market which really does work for consumers in general. We do not want to see a perceived need for urgency drive the FSA into creating a model which precludes swathes of consumers from financial advice or which creates serious new complexities which subsequently have to be addressed.

We adhere to our previous views and do not intend to rehearse our arguments again. We are however, taking the opportunity to explore some specific issues and challenges we see emerging from the proposed landscape. We have divided our comments into the following areas:

- Raising the bar/improving qualifications
- Nature of the market
- Advice tiers: independent; tied/multi-tied; Money Guidance
- Wraps/ platforms/enabling technology;
- execution only

2. Raising the bar/improving qualifications

We welcome the call to raise minimum professional standards (including skills and behaviours, as well as knowledge) and the enhanced role for professional bodies in raising standards. We believe that the threshold for entering the advice arena has been too low for too long. Nor, as we stated in our original response, do we think it inevitable that there will be significantly higher costs in providing a more professionally based independent financial advice service and we understand that there is industry research to suggest this additional cost would not be excessive.

We believe that most respondents to the Interim Feedback share our desire to see higher standards generally. Not only will this offer the possibility of a higher quality of advice, it will also serve to raise consumer confidence in the professionalism of the advice sector. This is an important factor in reinforcing the sector's value and could, over time, encourage more consumers to realise that good financial advice has a value and comes at a cost.

While we do not feel equipped to comment on the exact nature of qualifications, we do think it essential that the FSA consider the extent/scope of qualifications within firms and how improved qualifications are applied at a firm/individual level, including provision for a programme of Continuing Professional Development. We think it fair that in future entry should be at graduate or equivalent level – there is no professional group currently which requires less.

3. Nature of the market

- **Potential market size**

Market size needs to take account of the trend from Defined Benefit (DB) pensions to Defined Contributions/Money Purchase (DC) pensions. While investors in the former do not generally require advice before the run up to retirement, investors in the latter arguably need on-going advice about the level of contributions and investment options throughout their working lives.

- **Market economics**

We support the FSA's aim to gain a better understanding of the economics of retail distribution as this is essential to achieving the RDR's desired outcomes. Transaction costs, for instance, appear relatively high and do not seem to be reducing though competition. As a result, value for money in equity-based investments can be hard to achieve.

- **Consumer behaviour**

The proposed new landscape of advice offers many attractions. Yet, it must be remembered that consumers do not always act as anticipated. Recent research by

Deloitte[1] found that while 47% of respondents said that they were confident in financial matters compared with 19% in 2002, this was not matched by a similar increase in consumer understanding of product risk. The number of consumers using an adviser has nearly halved in over six years, but the need for advice does not appear to have reduced – more people feel there is insufficient information to make their own financial decisions.

While Money Guidance will offer an attractive first level of information and guidance, not all people who might fall into the suggested user category, will opt to enter at this level. Likewise, those who should logically opt for another advice channel, may decide to take a contrary route for other rational reasons. This makes it essential that safeguards are built into the system, where practical, to help ensure consumers are protected.

For example

- where consumers should pay off debt rather than buy a product, it is imperative that their advice route highlights that option. (While bancassurers tell us this is common practice, we remain unconvinced.) It would also be helpful for any advisory/guidance service to ensure appropriate interaction with the benefits system. Given our concerns about the relevance of personal accounts to the low paid and older workers, individual advice will be critical.

- where consumers' requirements point to a need for whole of market, or independent advice, that hand-off procedures are put in place to ensure tied/multi tied outlets recognise and adhere to the limitations on their service.

- some product types – indeed most – are so complex that they require to be advised on, rather than sold e.g. personal accounts, personal pensions, DC pensions, managed funds etc. We would not like to see a guided sales process encompass products which are clearly unsuitable for a simplified sales approach. Many products are now so opaque and complex (even to the industry) that it is no surprise that consumers need advice.

- **Market challenges**

There is little doubt that consumers find the current advice framework/system confusing. Consumers neither understand nor are motivated by the current labels given to the various advice sectors operating in today's market[2]. Labels which are used and understood by the industry are not always meaningful to consumers.

[1] Wealth of the Nation 2008
[2] Exploration of consumer attitudes and behaviour with regard to financial advice and the implications of RDR proposals, GfK, January 2008.

We welcome the almost universal approval to the FSA's desired objective of separating advice from sales. In our view, advice must be independent, impartial and commission-free, with the adviser acting unambiguously and solely in the interests of their client. All other intermediation in the sales process should be described as selling. This is a principle we support.

Yet, we also recognise that implementing this principle poses certain challenges

- Independent advisers' advice will often lead to the consumer agreeing to purchase

- Sales people will, in order to sell products, have to undertake some sort of fact find to ascertain suitable products, albeit from a limited range

- Consumers may not understand the subtleties between advice and sales and will need to be alerted to the differences and the implications

4. Advice tiers

- **Independent**

In our view, to merit the title of independent financial adviser, an adviser needs to demonstrate suitable expertise and knowledge. This, we hope, will result from the current move towards increased professionalism, improved standards and an ongoing commitment to continuing professional development. We also believe that this level of advice requires total independence and that it requires coverage of the whole of the market. As the FSA's Interim Report acknowledges, further clarification is needed of the meaning of 'whole of market'. We believe that the correct approach here is to consider what consumers are entitled to expect in terms of the range of products from which a truly independent recommendation could be made. There should be no other factors influencing product selection, both in terms of the range offered and the selection of products from within that range.

Importantly, this level of advice in the proposed new landscape must be free of bias – from provider, product and sales – and needs to be fee-based. Commission should no longer operate as a valid means of payment.

While this may be a step change for some advisers, we do believe that the market has been moving in this direction for some time, and that the positive responses to the RDR from the ABI[3] and AIFA[4] demonstrate a widespread desire to put independent financial advisers on this footing.

[3] Paragraph 133, ABI response to DP07/1 - A review of Retail Distribution

There will, no doubt, be significant challenges and potential barriers to be overcome at this level. We believe that the industry will need to market this new positioning to existing and potential customers to reinforce the value in the services on offer. Given many consumers' reticence to engage in financial services and the reluctance which many have to pay for top tier financial advice, we believe it may take some time for consumers fully to appreciate and pay for this tier of professional financial advice. According to Deloitte's "Wealth of the Nation" Report significantly fewer consumers believe they need or want a financial adviser today, than in 2002, and more than a third of respondents said they would never pay a fee for financial advice.

We also recognise, of course, that the new remuneration arrangements could mean that more consumers would be receptive to the idea of obtaining and paying for advice than is the case at the moment. However, it is also possible that a large section of the middle market who are reluctant or unwilling to pay fees, at least in the short to medium term, for advice may not engage effectively with the market. This would be an unwelcome and unintended result of the Review and one that should be guarded against.

Without doubt, many consumers perceive financial advice to be 'free'. They may not understand that commission payments are taken from the value of their investment in the form of charges. We want to see greater clarity around charging structures. It is essential for consumers from the outset to understand the cost of a service, the amount an adviser is being paid for the advice given, and any ongoing charges that may arise from the provision of a service/product.

While those with larger pots of money may be more amenable to fees, those with smaller amounts may forgo paying fees for advice before they know what concrete advantages (if any) it may bring them.

We are also concerned that consumers will be reluctant, at least in the short to medium-term, to engage in any negotiation with advisers over fee levels[5]. Currently, it would be very difficult for large numbers of consumers to form a judgement about an appropriate fee level.

Customer Agreed Remuneration (CAR) – by which we mean the payment for advice and services which the consumer has negotiated/agreed via a transparent charge included in the product and which is payable over time - has been mooted as a potential solution to customer reluctance to pay fees and we have been supportive of this mechanism in the past.[6] Like the FSA, who are currently researching CAR, we remain sceptical of the term (particularly given its numerous

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[4] Paragraph 10f, AIFA response to DP07/1 - A review of Retail Distribution
[5] Exploration of consumer attitudes and behaviour with regard to financial advice and the implications of RDR, GfK, January 2008
[6] Financial Services Consumer Panel response to DP 07/1 – A Review of Retail Distribution

interpretations) though reasonably receptive to the concept, providing inappropriate influence and manipulation can be detected and driven from the system. We believe it may be an acceptable interim measure, but would like to see regular testing of it working in practice, to ensure it is being operated as intended.

In particular, we remain concerned that CAR could be open to distortion and potentially there are a number of factors which could result in provider bias. This might include, for example, the impact on advisers of more opaque or indirect marketing and/or other commercial pressures and a lack of transparency in product pricing. Fees might simply be set too high, with comparison against the true cost to the consumer under the current payment arrangements being virtually impossible.

- **Tied/Multi-tied**

In the new landscape, all those working in tied/multi tied will be labelled as sales people. We approve of this development, as it is essential for consumers to appreciate that when they opt for a tied/multi-tied outlet, they are clear that this will not offer independent advice and will not sell from whole of market. In other sectors of the market, consumers are comfortable with and understand the concept of sales; though we appreciate that financial products cannot always be explained with the simplicity of other retail products.

Yet, there are considerable challenges in this arena:

- Sales people will, quite rightly, wish to find out certain facts about customers before making a recommendation. This, in our view, is only reasonable. But we continue to doubt that it will be possible to establish that anything other than the most straightforward financial products are suitable for a consumer without a basic fact-finding exercise conducted by a qualified financial adviser.

- We are aware of the current debate the FSA has been having with the ABI and BBA on guided sales and how it might help deliver an acceptable solution for the middle market. Reassurances will be required about the suitability of sales and this tier will need adequate safeguards to ensure the 'wrong' type of product does not enter the system. Even in a simplified product scenario, complex issues such as inheritance, retirement options, housing, tax and family aspects can be important and require to be assessed.

Yet, we do feel guided sales could work, with certain caveats. For instance, some of the following criteria may be useful:

- Very little recourse to FOS expected with low probability of complaint to FOS

- Perceived good value for money (against certain criteria) even when cashed in early, thus minimising concerns about ‘suitability’. The NS & I portfolio is a good example of a successful product range whose purchase involves few regrets or complaint to FOS and which are reasonable value for money.

As a possible solution to selling in the tied/multi-tied arena, some have mooted the option of restricting the range of products that can be sold. This, on the face of it, looks like an appealing solution. We note that some bancassurers have already moved in this direction and offer their customers a fairly simple suite of products where many products are price neutral, processes are automated and charges low.

In our view the FSA needs to assess and address:

- The product selection and review process.

- The regulation of these products.

- Records of sales/fairness.

- Their appeal to consumers.

- The lack of success of Sandler and CAT products. Our understanding is that low margins and industry concerns about liability, coupled with low consumer take-up, effectively limited the market. While no price cap is envisaged so far on guided sales, the lessons from Sandler/CAT products on margins and liability must be taken into account.

The Panel believes that nevertheless there is consumer appetite for a simplified sales process for certain products.

The remuneration structure within tied/multi-tied outlets needs to be reviewed. Currently, sales incentives and bonuses reward successful sales activity. Bias is written into procedures so that quantity rather than quality of sales is rewarded. This is clearly unfair to consumers.

While some retail outlets have advised that they are moving more to incentives around relationship building and that the application of Treating Customers Fairly (TCF) initiatives will address this issue, we remain unconvinced. To change to incentives around relationship building in a mass market where sales drive success requires a massive step change in culture. The effective application of TCF is, in our view, not sufficiently apparent to think that it could provide a solution in the short to medium-term. We do not believe that TCF will deliver the intended outcomes.

Clarity of charges/fees must also apply to branch-based sales where we want to see bancassurers separating the cost of advice from the cost of a product and disclosing the associated fee.

Without answers to these challenges based on solid evidence, we remain concerned that a large section of the middle market will either disengage from saving/investing; resort to execution only on the basis that it is an attractive option; or fall prey to sales-incentivised activities which do not always have their best interests at heart.

- **Money Guidance**

We welcome the proposed Money Guidance service and look forward to the results of the Pathfinder pilot. We support the concept of a service which offers free, impartial information and guidance on money matters, though we also acknowledge that an improvement in the level of financial capability requires a long-term change in attitudes, habits and behaviour towards money. Recent research by the FSA[7]into the likely behavioural impact of financial capability initiatives argues that more conservative estimates are required and that, although the impact will be positive over time, it will be modest.

With this in mind, and drawing on our previously expressed view, we do think that any new Money Guidance service has to be sufficiently resourced to give meaningful information and guidance and has to be beyond merely signposting consumers to another layer of advice. The AXA Avenue experiment[8] highlighted the importance of personal guidance. In our response to the DP[9], we stressed that generic Money Guidance advisers should be able to recommend product types, following which consumers could purchase particular products via focused advice from an independent financial planner or via a regulated sales process. Portable fact finds compiled by generic advisers could assist this process.

We remain unconvinced that the proposed Money Guidance service can give the level of detail and insight that will be required for retirement planning and, in particular, on Personal Accounts. Whether to opt in/opt out of personal accounts will vary according to each individual and is a relatively complex assessment. We feel it would be unwise for Money Guidance, as presently proposed, to embrace this aspect of financial planning. In this particular area more work needs to be done in identifying the scope of services provided by organisations such as

[7] FSA Consumer Research 69: Financial Capability: A Behavioural Economics Perspective
[8] AXA Avenue – Research and Conclusions – AXA 2006
[9] Financial Services Consumer Panel Response to DP07/1 - a review of Retail Distribution

PensionsForce and The Pensions Advisory Service, where gaps remain and how these are to be addressed.

Clearly, the remit and scope of Money Guidance will have a direct bearing on other tiers of advice and how consumers will engage with the retail market, but there will be areas where reliance on Money Guidance would be inappropriate.

We are hopeful that focused advice may be an option within the provision of regulated advice, as this may cover some of the areas in which Money Guidance could not meet consumer needs.

5. Wraps/platforms/emerging technology

The emerging use of wraps as an enabling technology and as a means to more holistic financial planning has been well documented. The development of these new distribution channels impacts significantly on the RDR, particularly where our concerns focus on consumer protection and issues such as transparency, bias and fair charging. As we stated in our response[10] to Discussion Paper 07/2: Platforms: the role of wraps and fund supermarkets, the rapid development of this complex market poses considerable challenges for the FSA to develop an appropriate regulatory framework that correctly identifies and addresses risk. We also sought effective consumer protection, no matter the platform used and were keen to ensure that the responsibilities of product providers, platform providers and distributors/advisers were effectively assessed in terms of Treating Customers Fairly.

It has been argued that platforms may provide opportunities for the development of better, longer-term relationships between advisers and their clients. Again, with those potential benefits come a number of potential risks which need to be addressed. For example, there needs to be an appropriate level of consumer protection in place, including the elimination of bias at all stages of the sales/advice process. There are important questions to be answered too in relation to the adequacy of disclosure and the transparency of overall and platform-related costs.

We also have concerns about the level of protection that will be enjoyed by consumers using platforms on an unadvised basis.

6. Execution only

There is research evidence that people are becoming more confident in their ability to purchase financial products, without there being any sound basis for this increase in confidence. BMRB's TGI[11], a large continuous survey tracking consumer attitudes, shows a steady increase in agreement with the statement "I

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[10] Financial Services Consumer Panel response to DP 07/2 Platforms - The Role of Wraps and Fund Supermarkets, October 2007

[11] Source TGI 1998 – 2007 – Based on a sample of 25,000 GB adults each year

feel fairly knowledgeable in the financial field". Over the same period, Deloitte's research[12] shows an increase in people claiming to be confident in "dealing with all their personal finances (e.g. which products to buy, managing debt)" from 66% to 85% while their understanding of product risk across 13 product/asset types "did not reflect the quantum leap in financial confidence".

The Retail Distribution Review has so far focused on improving the current system of providing financial advice and selling savings and investment products. It has largely ignored execution only purchasing. There is a trend in all markets for consumers to want to exercise their right to decide for themselves and to treat intermediaries with caution. The rapidly increasing use of the internet for shopping will inevitably lead to an increased demand from consumers for savings and investment products to be made available on the web for execution only purchase. The Panel is concerned that the FSA may not be taking sufficient account of the likely growth of this sector in the near future. People may decide to avoid advisers and salesmen and turn to execution only purchasing without realising the risk they are taking.

It is possible that whatever models are developed for guided sales could also be applied to some types of web-based purchase and that this would provide a safeguard for consumers who did not appreciate the potential risks of purchasing execution only and an opportunity for distributors of savings and investment products. We would like to see work done on ways that internet sales might be regulated to mitigate consumer detriment that might arise as consumers migrate to this channel.

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[12] Deloitte & Touche – Wealth of the Nation 2008 – 3000 GB adults