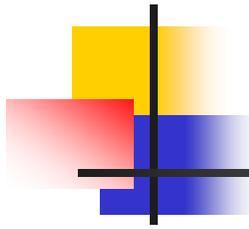


# What would I be doing if I were on the FSA Consumer Panel?

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FSA Consumer Panel Dinner  
23<sup>rd</sup> September 2004

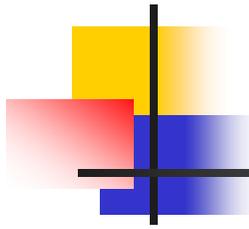
**Dr. Ros Altmann**



# Who are we looking after?

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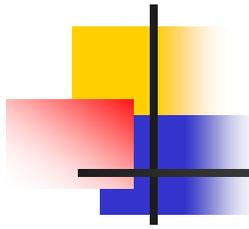
- What's in a name? - Economists would call this 'non-consumer Panel'!
- Two distinct groups
  1. 10-15% of population
    - who pay higher rate tax, wealthy, cash to spare
  2. Rest of the population
    - for whom saving not easy, requires sacrifices
- Policy so far helped first group, maybe made things worse for the others!



# How have we helped so far?

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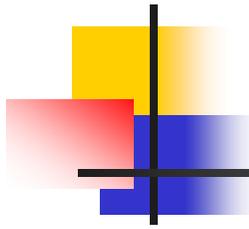
- Policy focussed on supply side
  - Cheaper, simpler products, stakeholder, charge caps
  - Decision trees, leaflets
  - Generic advice
  - Consumer education?
- Increased regulation – FSA, compensation for mis-selling
- This not enough for the mass market
- Proactive, not reaction. Prevention rather than punishment and penalties



# Policies benefited top income groups

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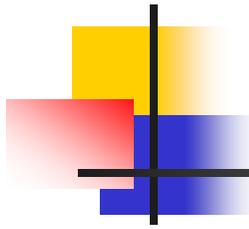
- Most people do not understand investment, need help
- Advice better regulated
- Those who can get advice, or afford advice, do benefit
- Stakeholder pensions have driven down charges across whole market
- Compensation if things go wrong
- But...charge caps lock those with modest saving power out of advice process



# Begin by considering 'mass market'

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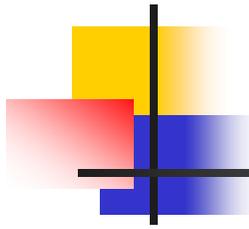
- How can we make work of this panel beneficial to the majority of the population?
- Think about demand, not just supply side
- Bottom 20% not save
- Top 10-15% OK
- Rest don't understand finance at all
- At the moment, they get no help



# Reform of Advice process

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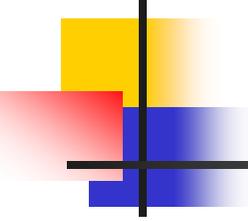
- Sandler analysis brilliant – advice too expensive to deliver to mass market, lack of buyer power
- Sandler conclusion wrong way round – regulate product and don't give them advice!
- What we need is to find ways to make advice process cheaper to deliver
- Economies of scale



# Most People Must Have Advice

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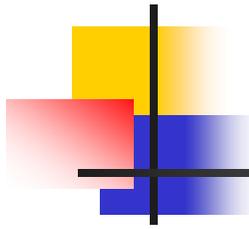
- Advice is not expendable, it is essential!
- FSA should re-think advice process
- Suitability cannot be self-assessed by most people
- Sandler solution could make things worse
  - - mis-buying worse than mis-selling, no comeback!
- Financial planning more important than product sale
- Encourage FSA to consider delivery of advice in groups
- Use of specialist advisers, not 6-hour full fact find



# How could specialist advice work?

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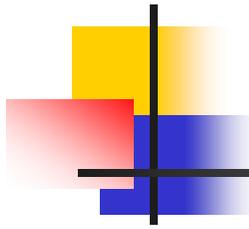
- Specialist advisers for biggest investments and people without complicated financial circumstances
  - Pensions, annuities, mortgage, life assurance
- Independent advisers go into workplace, or other affinity groupings (regional, professional, health clubs...?)
- Employer to pay fee for time?
- Group advice with specialist adviser for each item
- Finally, one on one session to decide best product



# Start With Annuities Now

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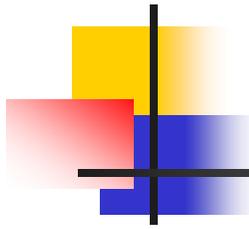
- OMO not working properly
- Once bought, can never change
- Government requirement
- Pay for advice anyway - >1% deducted from pension
- Specialist adviser: best annuity, best rate, if no complicated financial circumstances
- Must sign before buy – considered vital issues
- 6-8 basic questions
  - Impaired life, spouse cover, indexation, guarantee



# Other Changes to Consider

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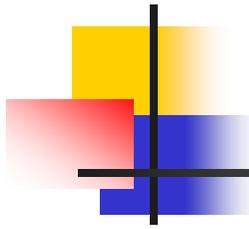
- Try to understand what mass market understands
- Encourage plain English – own FSA kitemark?
- Encourage standard forms
- Mystery shopping
- Look out for misleading adverts and products
- Look out for hidden charges
- What might consumers mis-understand



# And finally on pensions...

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- Think clearly about suitability
- The panel is constrained and much work is dictated by statute - BUT
- Current government policy is making pensions an unsuitable product for most people
  - Pension credit undermines pensions for mass market
- They may not find out for decades – mis-buying writ large
- Over 75% will lose at least 40% of pension in the means test. Most people probably shouldn't bother



# Summary

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- Focus more on the mass market
- Find ways to deliver specialist advice more cheaply
- Financial planning, not just product sale (fees?)
- Test out products with mass market mindset
  - Providers to standardise forms and wording
  - Look for misleading statements, hidden charges
- Don't forget suitability – pensions and annuities
- If policy is damaging groups of investors, say so!