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16 June 2008

Dear Mr Waters,

Retail Distribution Review – Interim Report

There is much to praise in your Interim Report but we believe that it still suffers from a fundamental omission, which we want to highlight before you go too far towards the proposed October Feedback Statement: **nowhere in the report is there any acknowledgement that a consumer's best needs might be met without buying products at all.** Paragraph 1.2 of the Interim Report says that your aim is for consumers to have sufficient confidence in the market to use its products and services more often. This aim - in effect to promote the sale of products at the expense of direct savings and investments - is one that the industry is well able to address on its own and we cannot believe that such was your intention.

Taking the report overall, we are greatly encouraged by the flexibility that has been shown in recognising the weaknesses of some of the earlier proposals. In particular we are delighted to note the clear distinction proposed between sales and advice. We have long argued that this is a necessary first step towards a regime that allows financial products to be marketed without detriment to the consumer.

Our own suggestion as your prime objective for savings and investments would then be to see the volume of savings by the general public increased to levels appropriate to their individual needs, and invested in those ways that are most suited for them. This outcome would be pursued without regard for the range of contracts at present being promoted by the market.

We recognise that a level playing field between products and non-products will be extremely difficult to achieve, when starting from a position where most advisers are paid by the industry. Rightly, you want to move to a situation where the product providers have no part in fixing adviser remuneration, but it seems that you still envisage the source of that remuneration to be charges within the product. This obviously implies that only products capable of generating such remuneration will be sold, thereby eliminating National Savings, simple savings accounts and other contracts not able to pay commission. We suggest that no system with that outcome could possibly deserve the confidence of the consumer.

The Interim Report says at para 2.10 that not all respondents have thought through the implications of the separation between advice and sales and we agree that this will be a challenge for the industry. Ideally consumers would pay directly for advice. We note with approval the recommendations of the Thoresen review for a national system of *Money Guidance*, but this provision must dovetail with the FSA's own proposals so that it does not inhibit the development of a commercial advice market separate from sales. If *Money Guidance* were to direct consumers to the type of investment they need before encountering the commercial sales process this would go some way to meeting our reservations.

We are glad that the FSA is to be joint leader of the pathfinder programme for *Money Guidance* so that the two advice development streams can be kept in line. However, in the light of para 8.10 of the final Thoresen report, we must press you to see that representatives of the ordinary retail investor are fully involved in the programme. The outcome must meet the needs of the consumers it seeks to benefit, and be seen to do so.

We appreciate that the time required to run and assess the pathfinder will regrettably delay full implementation of the RDR on the lines we envisage but cannot see how this can be avoided.

There are various other places in the Interim Report where we were tempted to comment but, as you are not seeking formal feedback, we have confined ourselves to the few key issues addressed above. We should, of course, be very happy to join in any further discussion or provide more comments if that could be helpful to you. If you wish to take us up on this would you kindly contact either of my colleagues Roy Colbran (020 8654 0314) or John Hunter (01689 855774).

Yours sincerely

Martin White
Chairman