

## Press Release

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## UKSA Rejects Conclusions of the Financial Services Authority in its Review of Retail Distribution

The UK Shareholders Association (UKSA) has rejected the conclusions of the Financial Services Authority (FSA) in its discussion paper entitled "A Review of Retail Distribution" (Discussion Paper 07/01).

In July the FSA published yet another review of the way that financial products are sold in this country. In its response UKSA says that the Review once again fails to face up to the scandal of a system where product salesmen on commission are allowed to describe themselves as Independent Financial Advisers. This allows a vast range of expensive and unsuitable financial products to be sold to ordinary people who are unaware that what they thought was advice was in fact a selling process. A recent UKSA survey of its members has confirmed earlier findings with significant evidence of poor advice and absence of confidence in advisers.

To its credit the FSA analyses the ongoing problems of this market with remarkable frankness. Unfortunately they chose to look for solutions through the medium of five Working Groups dominated by industry members. Representatives of the Financial Services Consumer Panel, the body statutorily charged with representing the interests of consumers, were only allowed to attend as observers. The "solutions" of the working groups predictably consist of ideas designed to give the appearance of action while preserving the status quo.

The FSA has frequently attempted to tackle the problem that consumers appear unwilling to pay for good independent financial advice, and the Discussion Paper once again addresses this. It seems unaware that this is an inevitable consequence of the apparently free provision of advice by people who are not in fact advisers. The Working Groups' proposal to introduce yet another tier of advice (called 'Primary Advice') would only overburden an already-confused consumer.

UKSA believes that the emphasis on financial 'products' (as created by insurance companies and investment institutions) within the Review is a mistake. The aim should be to help individuals to understand the basic principles of personal financial management, through advice, education and self-help. Only by this means can the consumer be put in a position to evaluate whether a 'product' meets his needs, and to submit to the selling process. It is to be hoped that the Thoresen Review of Generic Financial Advice, which published an interim report in October, continues down this path.

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In setting up this review the FSA has created a great opportunity. If the solutions in the Review are accepted the opportunity will have been thrown away. The FSA needs to be brave enough to follow its analysis through to its logical conclusion, which would give significant benefits to the UK economy through a release of misdirected resources, better allocation of capital and increased private savings.

### **For further information, please contact:**

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### **Notes for editors:**

#### ***Sources***

1) The FSA's first paper in its review of Retail Distribution was published in June 2007 as a Discussion Paper DP07/01 [http://www.fsa.gov.uk/pubs/discussion/dp07\\_01.pdf](http://www.fsa.gov.uk/pubs/discussion/dp07_01.pdf)

The FSA analyses the ongoing problems of this market in paragraphs 3 and 4 of the Overview (pages 3 and 4).

2) Thoresen review of Generic Financial Advice: Interim Report October 2007: [http://www.hm-treasury.gov.uk/media/8/3/thoresenreview\\_interim\\_221007.pdf](http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_interim_221007.pdf)

#### ***For Information on Bias***

A priori, advice tied to the sale of products on commission is bound to be biased. The extent and depth of this bias is evidenced by:

1) Survey of UKSA members, November 2007. 64% of those responding did not use IFAs. Of these, 4 out of 5 gave negative reasons for not doing so. Of the remaining 36% that used or had used an IFA, less than 4 out of 10 were fully satisfied and one quarter were very dissatisfied.

2) Which? mystery shopping exercise : "Financial Advisers in the Spotlight" - *Which?* October 2007(p34) 15 out of 40 advisers failed to enquire about consumer debt.

3) FSA Consumer Research 52. "Quality of advice process in firms offering financial advice: findings of mystery shopping research": <http://www.fsa.gov.uk/pubs/consumer-research/crpr52.pdf>

Para 3.3.1, page 14: "Due to the inadequate assessment of customer attitude to risk, the lack of depth in the fact-finding process and advisers not explaining the implications of restricting their advice to the customer's objectives, just under two-thirds of shops in the sample (29 out of 50) were not able to fully demonstrate a full and fair recommendation process."

4) "Study of Intermediary Remuneration: Report for the Association of British Insurers", Charles River Associates, February 2005: [http://www.crai.com/pubs/pub\\_4152.pdf](http://www.crai.com/pubs/pub_4152.pdf)

Para 3.3.4, pp56/57: 22% of commission-based advisers did not advise repayment of credit card debt about which they had been specifically informed. Note that this report was commissioned by the ABI.

Advice on consumer debt repayment is a key indicator of bias because there are very few circumstances for any individual in which any form of investment could be preferable to repaying consumer debt. Advice to the contrary usually indicates an intention to maximise sales against the interests of the customer

***The market for advice:***

The FSA has come up with a three-tier approach to financial advice which, combined with a generic advice system from the Thoresen Review will, in our view, lead only to confusion. Any solution that UKSA would consider adequate must ensure that non-commission paying products would be put forward with at least equal prominence as those currently sold by IFAs. At the moment the only likelihood of this being possible would seem to come from the Thoresen review coupled with further consumer education.

***Industry influence:***

The Chief Executive of Which? is the only identifiable consumer representative on the five Working Groups. Representatives of the Financial Services Consumer Panel, the body statutorily charged with representing the interests of consumers, were only allowed to attend as observers. The Discussion Paper does not, in general, present minority views.

***UKSA's Full Response:***

The UK Shareholders' Association's full response to the Discussion Paper is available on our web site at the foot of the following page:  
[www.uksa.org.uk/Regulation\\_and\\_Enforcement.htm](http://www.uksa.org.uk/Regulation_and_Enforcement.htm)

**About the UK Shareholders Association (UKSA)**

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.