

11 January 2010  
Mr Mark Hoban, MP  
House of Commons  
London  
SW1A 0AA

**UK Shareholders Association**  
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Dear Mr Hoban,

### **Financial Services Bill – Understanding of Financial Matters**

We in UKSA have been following Clause 6 of this Bill closely and have read the debate in Committee with interest, noting particularly your own contributions. We sympathise with many of your concerns and are disappointed that the Minister was not prepared to go further than just give assurances rather than accepting some of the amendments.

We believe that the educational efforts of the FSA in the field of savings and investment have to date been misdirected and in some cases plain wrong – equating as they do the process of investment to a choice between ‘products’. This is easily demonstrated by looking at Moneymadeclear where the option of direct investment in shares is briefly introduced followed immediately with the information that pooled investments would be better for the individual, for reasons some of which are in fact wrong. In the FSA’s Financial Capability material on the web we cannot find one single reference to direct investment in shares. Nor can we find any explanation of the effect of costs. We also draw your attention to the FSA’s own summary of its ‘financial capability’ brief under five headings: ‘making ends meet’; ‘planning ahead’; ‘keeping track’; ‘choosing financial products’; and ‘staying informed’. We suggest that there could be no clearer illustration of the inadequacy of the FSA’s understanding of the savings and investment process than its description as ‘choosing financial products’.

The result has been a lack of focus on basic understanding of investment principles that would allow savers to choose simple methods such as deposit accounts, cash ISAs, National Savings and investment trusts. For many people these would be far more appropriate than the “products” developed by insurance companies and investment houses. They also avoid the charges involved in such products but are not recommended by IFAs since they do not pay commission.

You will find, if you have followed the FSA's papers on consumer protection and consumer education as we have done, that the equation of investment with 'buying products' has been a persistent theme from inception. To some extent this derives from a combination of Sections 5 and 138 of the Financial Services and Markets Act 2000 whereby a "consumer" is defined as someone using regulated services rather than a saver or investor in general. This has provided a rich field for ambivalence, whereby the word 'consumer' can appear to be a synonym for 'everyman' while in fact being used in the sense in the Act. We wonder whether this has been true of some of your debates in committee, particularly those involving the Minister.

We believe that the wording of Schedule 6A to be incorporated in the 2000 Act reinforces this attitude. We submitted a paper to the Committee including a possible amendment but no reference to it was made in the debate. (I am repeating the amendment at the end of this letter.)

This aspect deserves an airing somewhere in the passage of the Bill and we wonder if it could be raised on Report. If that is not possible presumably the best prospect would be if it could be raised in the Committee stage in the Lords. We would very much welcome any guidance you feel able to give us in this respect. When the Companies Act 2006 was going through the parliamentary processes we submitted various papers and draft amendments to Lord Hodgson and several of the latter were put down and debated. We are hoping that maybe the same process can be followed here but we have not so far been able to ascertain who might lead for the Opposition in the Lords.

If you are able to assist at all a quick telephone call or e-mail to my colleague John Hunter, or to me, would be most useful. He is at 01689 855774 or johnheather60@aol.com

Yours sincerely,

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**Suggested Amendment**

Clause 6, page 4, lines 26 to 30 delete existing text\* and replace by

- (a) promoting an understanding of the basic principles of personal financial management, including management of debt, control of spending, living within an income and protection against disaster
- (b) promoting an understanding of the basic principles of planning for the future, including the process of saving to meet financial objectives

[\*existing text is:

- a) promoting awareness of the benefits of financial planning;
- (b) promoting awareness of the financial advantages and disadvantages in relation to the supply of particular goods and services;]