

Smarter Consumer Communications Discussion Paper Team  
FCA  
25, The North Colonnade  
Canary Wharf  
London E14 5HS

24<sup>th</sup> September 2015

Dear Sir/Madam,

**SMARTER CONSUMER COMMUNICATIONS – SMALLER BUSINESS PRACTITIONER PANEL RESPONSE**

The Smaller Business Practitioner Panel has been actively engaged with the development of better communications, and we support the general aim of the Discussion Paper to consider how to provide quality, appropriate information to help customers understand the product or service they have or plan to buy. In particular, we support the use of good practice and innovation from industries other than financial services to improve the experience of financial services customers.

*Q1: Examples of proven and effective approaches to consumer communications in other financial and non-financial markets (UK and international).*

The Panel believes that the quality of information available to investors and potential investors in retail funds has improved significantly in recent years. One reason for this is the development of fund fact sheets, which makes fund performance relatively easy to compare across providers, at least for financially aware investors.

We believe further progress in the clarity of disclosure of investment costs is being made with the implementation of the additional disclosure requirements contained in the Investment Association's SORP "Financial Statements of UK Authorised Funds" for all funds publishing annual report and accounts after March 2015. We would wish to see the impact of this, and the new requirements on cost disclosure under MIFID II, before significant further changes are introduced.

We recognise that there is further to go to improve the understanding of fund performance by less financially aware consumers, but we believe ensuring financially aware consumers have all the information they need to compare performance, costs etc. relatively easily is an important step. It helps them drive better terms, which will in turn benefit all consumers.

We also recognise that the industry has further to go in the area of financial advice, where we believe the adviser status disclosure (independent or restricted adviser) is binary, overly simplistic and insufficient to help consumers choose good advisers. A bigger issue than adviser status is there is often a lack of clarity about how advisers will charge. This is a particular issue for consumers looking for a new adviser.

As mentioned in the DP, the Panel has looked into the use of Monroney stickers in the US automotive industry and suggested this concept could be transferred across to the financial services industry to lessen the information asymmetry between consumers, advisers and product providers, particularly when consumers are deciding on an adviser. The concept of the sticker has already been transferred from the automotive to the medical sectors:

*"In the 1950s, the American automobile industry was rife with information asymmetries, leaving prospective buyers at the mercy of the dealer. Rarely would a buyer know the full price of a new car until after he or she had committed to buying it. Rarer still would that buyer know anything about the quality of the vehicle he or she had decided to purchase. And while every new Ford and Chevy came with a manufacturer's suggested retail price (MSRP), and various quality and safety metrics, none of that information was required to be disclosed prior to a sale. Exorbitant shipping charges and phony "preparation fees" were frequently tacked on without the buyer's knowledge. Price disparities from dealer to dealer were exceedingly vast. The result in the mid-20th century was a broken automobile industry that stuck American families with unnecessarily high bills.*

*In 1958 Congress passed the Automobile Information Disclosure Act, sponsored by Senator Monroney. The Act required all car dealers to affix essential pricing information to the window of every new car sold in the United States. Since then, the Monroney sticker has become an indelible part of the car buying process and a catalyst for other ways to educate consumers. Independent quality evaluations, like the 'Consumer Reports' annual automobile issue, have proliferated."*

*Source: Adapted from JAMA Intern Med, 2013; 173(6) 432-434*

The concept of standardized information not only directly clarifies the information available to consumers themselves, it encourages the use of information by third parties to provide comparative data, creating a second level of information and encouraging further understanding of the product on offer. The Panel members remain keen to work with the FCA and other trade bodies to develop the idea.

We believe the development of a common approach to disclosure of charges would be welcomed by good advisers as it would benefit the best parts of the industry as well as consumers.

*Q2: Evidence of effective approaches to customer communications that you have already developed and tested.*

The concept of developing the equivalent of the Monroney sticker for financial advice has been widely welcomed by those who have seen examples. Several firms connected with Panel members have produced prototypes. We are happy to share these with the regulator with the aim of taking the best idea(s) forward.

*Q3: Evidence that any information provision requirements contained in the FCA Handbook prevent or inhibit firms from effectively communicating important information to consumers. If so, which rules and how?*

If real progress is to be made, it is likely a common basis for the stickers will need to be agreed by the industry, but it will need to be clear that this is acceptable in principle to the regulator (and the FSCS). This is not down to one specific Handbook rule. However in the current environment there is (rightly or wrongly) caution about showing new document approaches to end consumers without some comfort they are in line with the regulator's thinking. We have encountered some concerns about the concept of the stickers. This has tended to be the view that although the FCA states it wants smarter communications now, this could be forgotten if (for instance) something goes wrong many years down the line. In such an example the Ombudsman (or the courts) could look at the information the consumer receives, and rule that there was a lack of full risk disclaimers or other legal protection.

*Q4: Suggestions for making information more effective and engaging specifically for consumers of the asset management industry.*

No additional comment.

*Q5: Examples of any other approaches to customer communications that you are currently developing and/or testing.*

We are focusing the Panel's resources on the issue of disclosure of adviser charges.

In relation to the specific industry issues discussed in the 'Areas for industry to drive change' section:

*Q6: Do you agree there is a role for industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?*

We believe that the industry is well placed to address the issues identified and the examples of good practice given in the Discussion Paper illustrate how many firms are already taking an innovative and thoughtful approach to improving communications with customers. Smaller firms with a smaller customer base in particular can be closer to their customers and therefore can tailor their communication accordingly. There is, however, a limit to the amount of developmental work which smaller firms can do in this area, particularly when faced with the current significant pressures of complying with existing regulation. They do not have the same volume of dedicated resource available to larger firms, and if faced with a choice between ensuring they are compliant with current rules or developing new communication strategies, innovation is likely to take second place.

*Q7: Do you have any views on the ideas we set out in this discussion paper and can you suggest other approaches that would achieve similar outcomes or objectives?*

No additional comment.

*Q8: Do you have any evidence that other areas in the financial services market require specific improvements in consumer communications?*

We would like to highlight the excessive complexity of pension maturity / open market option packs. We believe this contributes to the high number of customers who elect to buy an annuity with their existing provider, and who are put off the process of switching to an alternative provider by the volume of paper and perceived complexity of the process.

We would be happy to discuss anything in this response further if required.

Yours faithfully,

A handwritten signature in black ink that reads "Clinton Askew". The signature is written in a cursive, slightly slanted style. Below the name, there is a long, horizontal, slightly wavy line that extends across the width of the signature.

CLINTON ASKEW  
*Chairman, FCA Smaller Business Practitioner Panel*