

## PRESS RELEASE

Date: **EMBARGOED TO 0001 HRS, WEDNESDAY 19<sup>TH</sup> SEPTEMBER 2007**

Ref: 07-18

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## **8 million policyholders unable to get advice on their closed funds says research from Consumer Panel**

Around 8 million<sup>1</sup> people can't get essential advice about whether they should keep or transfer out of their closed with-profits policies because they can't afford to pay for fee-based advice, while commission-based advisers are reluctant to take them on for fear of future reprisals from the FSA.

This is one of the main conclusions from the Financial Services Consumer Panel's report entitled "Are customers in closed life funds being treated fairly?"<sup>2</sup> Other areas of concern focus on delays that customers and advisers experience when they request information, incomprehensible documents and the lack of a truly independent voice to represent policyholders' interests in the management of funds.

Many closed funds have performed quite well, but as funds close or approach closure to new business, policyholders need advice on whether to stay or move to another investment. The report found that advisers may be reluctant to take on these policyholders because their policy values are too small<sup>1</sup> to generate a worthwhile commission in return for the complex review process required. Moreover, they fear that advice on such complex products may trigger potential misselling claims.

The report also says that communications from with-profits companies often fail to set out options for policyholders clearly. There may be exit 'penalties'<sup>3</sup> and even when

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<sup>1</sup> See notes to editors 1 and 2 for statistical background

<sup>2</sup> "Are customers in closed life funds being treated fairly?" Report for the FSCP, prepared by The Pensions Institute, Cass Business School and IFF Research Ltd

<sup>3</sup> The 'market value reduction' (MVR) reduces the 'face' value of the policy to the value of the 'asset share' where this is lower.

'penalty-free' exit dates are available, companies often fail to communicate these effectively to policyholders.

There is a particular concern that proprietary companies<sup>4</sup> running closed with-profit funds may not always act in the best interests of their policyholders. Although since 2004 the FSA requires an independent voice to represent policyholders, such as a with-profits committee, the Panel's research showed that 60% of these committees have no independent members but use directors of the main board of the company or individuals closely associated with the company, for example non-executive directors and former directors. The Panel would like to see these committees with a majority of members entirely independent of the board.

The report also questions whether the with-profits fund is always being used in the best interests of policyholders. The research found that companies could use this capital to fund new business development, pay shareholder tax and settle mis-selling claims.

The Consumer Panel has sent its research to the FSA and relevant trade associations to urge them to do more to help policyholders, as many of the actions taken by companies running closed with-profits funds do not appear to fit with the FSA's principle of Treating Customers Fairly.

The Panel is calling for the following action:

- On the provision of advice, the FSA and industry should work together to provide some form of limited or focused advice on with-profits policies through companies or trade associations assisted by life companies. They could also provide with-profits review tools on their websites for advisers to use;
- Communications from companies should not assume that policyholders have access to independent advice and should include all material facts written clearly so policyholders can understand and act on the information;
- A truly independent with profits committee seems to be the right mechanism for proprietary companies to achieve fair representation of policyholders' interests. More research is required in this important area;

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<sup>4</sup> Companies with shareholders, as opposed to mutuals, which are owned by members.



2. A policy value of £5,000 or less is considered 'small', particularly if there are no other assets on which the adviser can advise and be remunerated. If an MVR is applied this would reduce the fund value and the commission further. Typical initial commission for a new unit linked policy is about 3%, and therefore worth £150 for a £5,000 transaction. Many policyholders have funds of £1,000 or less so commission for a sale would be about £30. Importantly, the commission is only paid if the (complex) with profits review process reveals that the customer would be better off transferring – if the customer stays put, the adviser receives no remuneration for the work.
3. The FSA established the independent Financial Services Consumer Panel in December 1998 to advise its Board on the interests and concerns of consumers and to report on the FSA's performance in meeting its objectives. The Consumer Panel has statutory status.
4. The emphasis of the Panel's work is on activities that are regulated by the FSA, although it may also look at the impact on consumers of activities outside but related to the FSA's remit. More information about the Panel's work is available on our website – [www.fs-cp.org.uk](http://www.fs-cp.org.uk).
5. The Consumer Panel brings together a wide range of relevant experience. This includes financial services regulation, working with vulnerable consumers, consumer protection, consumer education, front-line money advice, legal expertise, competition policy, public policy analysis, market research and media.
6. There are currently twelve members of the Panel as listed below (for further information on individual members, see the Panel's website – [www.fs-cp.org.uk](http://www.fs-cp.org.uk))

John Howard (Chairman)  
Adam Phillips (Vice Chairman)  
Kay Blair  
Michael Chapman

Stephen Crampton  
Caroline Gardner  
Jenny Hamilton  
Tony Hetherington

Nick Lord  
David Metz  
Lindsey Rogerson  
Carol Stewart