

Helping retail consumers achieve a fair deal

Introduction

One of our key priorities is to help retail consumers achieve a fair deal. To achieve this aim we focus our work on what we consider to be the four key features of effective retail markets:

- capable and confident consumers;
- clear, simple and understandable information available for, and used by, consumers;
- soundly managed and adequately capitalised firms that treat their customers fairly; and
- risk-based and principles-based regulation.

We have made significant progress in delivering our financial capability strategy. As part of this we re-launched the clear, impartial information we provide to consumers under our *Moneymadeclar* brand.

We have seen some progress on treating customers fairly (TCF); an encouraging number of firms are implementing necessary changes in a substantial part of their business. However, a sizeable number of firms failed to meet our deadline of reaching the implementing stage in their TCF strategy by 31 March 2007. Our thematic work, including our review of the quality of advice and sales processes, supported our overall conclusions on TCF.

Retail distribution review

We launched this review in June 2006 in response to recurrent problems in the **distribution of retail investment products**. We are working with industry and consumer representatives to find solutions that are attractive both to consumers and firms. The review focuses on:

- the sustainability of the sector;
- the impact of incentives;
- professionalism and reputation;
- consumer access to financial products and services; and
- regulatory barriers and enablers.

In our policymaking we have become increasingly principles based, for example in our new conduct of business rules and financial promotions requirements.

There are still some significant and persistent problems in the retail markets for investment products. Our retail distribution review, outlined above, is designed to deepen our understanding of the root causes and help address them. Until these root causes are resolved, only limited progress can be made towards improved outcomes for consumers in this sector.

Capable and confident consumers

National Strategy for Financial Capability

Our financial capability survey, published in March 2006, showed that many consumers lack the

confidence and capability to make effective decisions about their money. We launched a seven-point programme to improve significantly people's levels of financial capability and, together with our partners, we have focused on delivering these priority initiatives. We estimate, on a conservative basis, that this year the programme has reached more than one million people. Improving people's financial capability will enable them to exert a stronger influence in the retail markets, creating more effective and efficient markets and reducing the need for regulatory intervention. We welcomed the publication of the government's long-term approach to financial capability in January 2007, which complements the National Strategy.

In particular this year we delivered real benefits to consumers through the following.

- **Learning Money Matters:** we funded this programme in schools, delivered by the Personal Finance Education Group, which supported 617 schools (against a target of 500) in England to help them provide effective personal finance education.
- **Make the Most of Your Money workplace programme:** we distributed 203,205 packs of educational material (via 126 employers) against a target of 200,000. We delivered seminars to 8,910 employees (at 75 employers) against a target of 15,000. We are looking at ways to increase attendance and are developing a CD/DVD as an alternative way of delivering the seminar. Independent evaluation of feedback provided by seminar attendees has shown that 82% of attendees intended to take positive action as a result of attending the seminar, and that within three months 60% of seminar attendees had already turned their intention into action.
- **Helping young adults make sense of money:** we worked with 19 universities (target of 10-20) to roll out the *Money Doctors* toolkit. We recruited ten further education colleges to adapt the toolkit for their sector and begin to embed personal finance in their curriculum. We also met our target to train youth workers in 12 organisations which work with young people who are not in employment, education or training; just over 700 staff from these organisations attended our training courses across the UK.
- **Parent's Guide to Money:** we developed a guide for new and expectant parents which contains the financial information they are likely to need and explains where they can get more help if they need it. We worked with parents to develop the guide and then tested it with over 1,500 expectant parents, distributing it through a range of employers. Feedback has been very positive.
- **Financial Healthcheck and Debt test online tools:** we have maintained these tools on both the FSA and BBC websites, and 31 partners (including Citizens Advice, the Pensions Service, Directgov, Royal Bank of Scotland, HSBC and HBOS) have added links to our tools on their websites. The number of visits to these tools has doubled, from 54,000 to 109,000 a month.
- **Money advice:** the most effective way for us to deliver money advice is through working in partnership with intermediaries, including building on projects funded through our Innovation Fund. In the last year we funded 12 projects in 12 different sectors including social housing, offender management and disability services. The government has set up a feasibility study to design, research and test a national approach to the delivery of money advice. We seconded two people to the Treasury to work on this study.
- **Consumer communications strategy:** in the last year we received over 2.2 million visits to our consumer website and distributed over ten million copies of our booklets. Our work in this area is outlined in *Clear, simple and understandable information*.

Financial inclusion

Although we have no statutory responsibility for promoting financial inclusion, our work contributes to this issue. For example, we have an important role to play through our leadership of the National Strategy for Financial Capability, our work with credit unions and Community

Development Finance Institutions and our work on customer identification requirements. Through our Innovation Fund we have also funded a number of community projects designed to address financial exclusion.

In our work with **credit unions** we have continued to operate the existing legislative framework as flexibly as possible and to take steps to minimise the potentially adverse effects of European Directives. We also continue to work with the Treasury on its review of cooperative legislation. In addition, we have supported the Community Development Finance Association, the trade body for Community Development Finance Institutions, on the drafting of a Code of Practice for its members. The Code will set some minimum standards which firms will be required to meet as a condition of membership.

Following the collapse of **Farepak**, the Christmas hamper savings scheme, we worked with others, including the Department of Trade and Industry (DTI) and the Office of Fair Trading (OFT), to provide information for consumers about options for saving outside the mainstream banking sector. The DTI has also reached an agreement with the industry to offer better protection to consumers who pay into these schemes.

Sharia-compliant banking plays a major role in the global financial system and contributes to financial inclusion by giving retail consumers access to products that are compliant with Islamic law. We work to promote a level playing field between conventional and Islamic institutions and have participated in a number of expert government and private sector groups. We have also shared our knowledge and experience at international seminars and conferences.

Clear, simple and understandable information

The FSA as a source of clear, impartial information for consumers

In December 2006 we launched our new consumer website, *MoneyMadeClear*. It is designed to be more engaging and more accessible, for example by having relevant entry points such as *retiring soon* or *starting a family*. Consumer testing following the launch of our website has confirmed that it is easier to use and that the smaller chunks of information are easier to digest.

In February 2007 we launched our first advertising campaign promoting *MoneyMadeClear* as a source of clear, impartial information from the FSA, and focusing specifically on insurance. During the campaign we received around half a million visits to the website and our *Compare Products* tables, and 3,000 downloads of the insurance checklist designed to give consumers a head start when buying insurance. For the first time we used radio advertising and audio podcasting to reach our target audience. We are monitoring the effectiveness of our campaign, asking specifically what people have done as a result of using our information.

We have also reviewed the impact and effectiveness of our range of hard copy consumer information booklets and are reviewing and re-launching them under the *MoneyMadeClear* brand. In addition we are exploring new distribution channels, for example through banks, building societies and credit unions, to increase the availability of our booklets.

Information provided by firms to consumers

It is important for firms to give consumers enough information to enable them to make **informed decisions** about whether to buy investment products. Our point-of-sale disclosure requirements are designed to make it easier for consumers to compare products and so promote competition. Following a review of our requirements, we concluded that we can best achieve our aims by focusing on initiatives to improve the quality of existing documents, rather than by introducing entirely new requirements. We have set out proposals to reduce the overall number of disclosure documents that we require, improve consumers' awareness of these documents and encourage consumers to use them.

Financial promotions

Over the last year we have delivered a **substantial improvement in the quality of firms' financial promotions**. We reviewed around 5,000 promotions issued by individual firms and investigated further in 456 cases; in around half of these cases we asked firms to amend or withdraw promotions. In the worst cases we required them to contact customers affected by the promotions to offer redress. We also reviewed a sample of promotions to give us a snapshot of the level of compliance with our requirements; the number of investment advertisements falling below standard was 32%, compared with 52% in 2004.

We also completed thematic work in two areas where we identified substantial non-compliance in advertising – **sub prime mortgages** and **general insurance**. We reviewed several hundred mortgage broker

advertisements and other promotional materials and required more than 200 firms to withdraw or amend misleading advertising. We have started enforcement investigations in the most serious cases. Since we published our findings, our sampling shows around 90% of mortgage broker advertisements in the national press meet our requirements, while compliance among broker websites rose from 52% to 71%. For general insurance, we reviewed press advertisements from 57 firms selling motor, home and travel insurance. More than half of motor insurance advertisements and a quarter of home insurance advertisements with savings claims were either unclear or misleading. We asked firms' senior management to take urgent action to improve standards and our sampling shows a positive response, with only 6% of general insurance press advertisements now being deficient.

Soundly managed and adequately capitalised firms who treat their customers fairly

Our TCF initiative is an important example of our **principles-based approach** to regulation. In July 2006 we set out the **six key TCF outcomes for retail consumers** which we want to achieve. Our overall aim is that all firms treat their customers fairly in all parts of their business and throughout the product life-cycle – product design, marketing and promotion, sales and advice, after-sales information, and complaints handling. Much of our wider thematic and project work is designed to test how far firms are delivering these outcomes.

The following section sets out the progress we have made in our TCF work, including examples of supervision and enforcement case

studies, and outlines some of the project and thematic work we have carried out to improve fair treatment of customers in the areas of quality of sales and advice, complaints handling and unfair contact terms.

Treating customers fairly

We have published a range of materials, including case studies and examples of good and poor practice, to **help firms understand what TCF means in practice**. We have also provided industry training and will continue to engage with the industry through our TCF Consultative Group. In September 2006 we published a Discussion Paper setting out our views on the TCF responsibilities of product providers and distributors. For small firms we have produced a simple self-assessment tool and published a suite of new TCF web pages.

To encourage firms lagging behind in their TCF work, we **set a target for firms** to have reached at least the implementing stage of their TCF work in a substantial part of their business by the end of March 2007. An encouraging number of firms successfully met the deadline, which shows that senior management in these firms remain committed to making progress with TCF. However, a sizeable number of firms failed to meet the March deadline. We can place only limited reliance on the senior management of these firms and will intensify our supervision of them, and will use enforcement action where warranted.

In our submission to the **Banking Code review** we encouraged the Banking Code Standards Board to adopt an overarching fairness principle. This should lead to fairer outcomes for consumers and reduce regulatory burden by reducing the need for detailed rules. We are also

investigating whether banks are handling complaints about charges on unauthorised overdrafts fairly. The OFT is currently investigating whether the level of these charges is fair and have announced a market study into retail bank pricing to assess wider questions about competition and price transparency in providing personal current accounts.

In June 2006 the ABI published a good practice guide to help firms improve standards, transparency and fairness for unit-linked policyholders. We worked closely with the ABI to produce the guide and will take compliance with the guide into account in our risk assessment of firms.

We visited a firm to assess its progress in implementing a TCF strategy. The firm did not have a structured approach to applying its TCF policy, had not carried out a comprehensive gap analysis and had weak TCF management information. Following our visit the firm agreed to appoint a TCF champion, carry out a gap analysis, overhaul its TCF management information and appoint a Group Board member as a TCF sponsor.

In August 2006 we fined Hoodless Brennan £90,000 for **unacceptable sales practices** and failing to treat its customers fairly when selling certain shares to its private customers on 12 June and 25 July 2003. Its sales practices included persuading customers to buy stock when they were not ready to do so and persuading customers to take more stock than they appeared to want. Brokers also used information about a contract that was not in the public domain as an inappropriate sales aid to persuade customers to buy shares. The fine reflects the fact that only a small number of customers were affected and that these customers suffered no actual financial detriment. The fair treatment of customers must be part of a firm's corporate culture; we will not tolerate sales practices that do not pay attention to the interests or needs of consumers.

A large insurance firm had difficulties in ensuring that it was **operating policies in line with the stated terms** and conditions of one of its products. We asked the firm to address the problem and to assure us that it did not indicate wider failings. The firm carried out a review across its product range and found similar problems. The firm is paying compensation to all customers affected and has improved its product development and review processes.

In November 2006 we fined Capital Mortgage Connections £17,500 for failing to treat its customers fairly. The firm generated 85% of its business by **cold calling** and was unable to demonstrate that it gave appropriate pricing information on the accident, sickness and unemployment policies it sold. Most of these policies were sold on a single premium basis and the firm was unable to demonstrate that it advised its customers of the potentially cheaper monthly option. This is the first time we have taken action against a firm for cold calling.

Closed with-profits funds remain high on our supervisory agenda and we continue to monitor the extent to which the senior management of **closed life funds** treat their customers fairly. There has been some progress: some firms have adjusted their investment strategy to better reflect the expectations and promises made to policyholders, generating increased returns for policyholders; other firms are using outsourcing to achieve economies of scale and reduce costs; and we have also seen some improvements in policyholder communications, although the overall standard remains poor. We have also held discussions with firms about their charges for guarantees and their plans for fair distribution of assets in run-off.

Quality of sales and advice

Some firms selling **payment protection insurance (PPI)** are still failing to treat their customers fairly. We have worked with the OFT and trade associations and have carried out further thematic work on sales standards. In October 2006 we published our findings and asked firms to act on them. Where we found continued evidence of poor selling practices, we required individual firms to undertake remedial action and to report progress to us. We also gave feedback tailored to small firms operating in this market, such as motor dealers, through roadshows and our small firms' web pages. In January 2007 we announced a third, extensive review of PPI sales, involving new and follow-up visits to firms and mystery shopping, designed to improve standards in the PPI market. Our *Moneymadeclear* website provides impartial information on PPI and highlights questions which consumers should consider before buying it.

We have taken **enforcement action against nine firms** for breaches in relation to the selling of PPI policies. These fines total £1.6 million but the overall costs to firms of remedial programmes and compensation are significantly higher. Firms are contacting over 1.3 million consumers and, where appropriate, will offer them compensation. We have publicised the findings of our

enforcement investigations to raise awareness in the market of the standards we expect.

We carried out thematic work to assess the extent to which **investment firms' processes** allow them to treat their customers fairly when giving investment advice. We visited a representative sample of 50 firms and carried out mystery shopping on a further 50 firms. We identified several areas for improvement including standards of training and competence, processes for determining customers' needs and risk appetites, systems and

controls for monitoring the advice process, customers' options on paying for advice and suitability letters. We published the results of our work in July 2006, including examples of good and poor practice, and contacted around 10% of our small investment firms to draw their attention to our findings.

In January 2007 we published the findings of our review of the quality of the advice process in over 250 firms active in the **mortgage market**. Only one-third of the firms we sampled had robust processes in place to give customers suitable advice, and we found scope for improvement in all aspects of the advice process. Our findings differed depending on the size of the firm; small firms need to implement robust processes, while larger firms generally have robust processes in place but need to be able to demonstrate that they are using them. We produced good and poor practice guides highlighting key actions for firms and have referred firms with significant failings to enforcement.

One of the findings of our thematic work was that some **single premium PPI contracts** included terms which meant that customers would not be entitled to a refund of premiums if they chose to cancel the policy early. We were concerned that these terms were unfair or unclear under the Unfair Terms in Consumer Contracts Regulations 1999. Working with trade associations, we secured a commitment from the industry that firms will not apply nil refund terms for existing customers and will amend the refund terms in contracts for new customers. We published this agreement in March 2007.

In February 2007 we fined Trigon Pensions Limited £10,500 for **not monitoring the advisers effectively** in its appointed representative, Trigon Financial Services. Trigon's failures mirrored some of the main failings found in our thematic review of investment advice.

In 2006 we fined three **mortgage brokers** (Rainbow Homeloans Ltd £35,000, Best Advice Mortgage Network Limited £7,000 and Home & County Mortgages Limited £52,500) for failings in connection with the sale of regulated mortgage contracts and the handling of customer complaints. In all three cases, as well as paying financial penalties we required the mortgage brokers to pay for reviews of past business to assess the suitability of advice given to consumers.

During the year we carried out thematic work to assess **standards of sales in lifetime mortgages** following improvements we recommended in 2005. We found that problems remained in a number of areas and in January 2007 we published examples of good and poor practice to help firms identify areas for improvement. We also warned firms that they need to ensure their advice meets our requirements, regardless of how few lifetime mortgages they sell. In addition, we updated our consumer factsheet, *Raising money from your home*, to help consumers identify the issues they should think about when considering taking out a lifetime mortgage.

We concluded our investigation into sales of appropriate personal pensions (policies used to contract out of the **state second pension (S2P)**). We found no evidence of widespread mis-selling; however, we identified around 1.5% of sales made to consumers who were above the age parameters set by individual firms. As such sales were generally not typical practice at the time it is possible that these consumers may have been wrongly advised to contract out, although there are a number of reasons why it may have been appropriate for them to do so. We published a step-by-step guide to help consumers who may have been affected, explaining the circumstances in which they may have grounds for complaint and, if so, what to do next. We also committed to continuing to monitor the number of complaints received by the FOS and to follow up with individual firms as part of our continuing supervision.

Complaints handling

In October 2006 we published proposals for new, **principles-based rules on complaints handling**. The new rules focus more clearly on firms' central obligation to treat complaints fairly and promptly.

As part of our thematic work we visited a firm with a large sales force. In the light of our findings the firm is making several improvements to its **lifetime mortgages sales practices**. It is expanding its product range to improve consumer choice and is retraining advisers to improve standards in fact-finding, product recommendations and suitability letters. The firm has also made it compulsory for all administration staff to pass a lifetime mortgages exam to improve their understanding of the market and the firm's procedures.

During a risk assessment of a firm we found evidence of **poor complaints handling procedures** in all areas of its business. We asked the firm to carry out an internal audit review and for assurance from the firm's senior management that improvements had been implemented. A follow-up visit to the firm confirmed the necessary improvements had been made and complaints were being handled promptly and fairly.

During 2006 we took action which led to the withdrawal of authorisation from four firms for **failing to comply with Financial Ombudsman Service (FOS) awards**. Two of these firms referred their case to the Financial Services and Markets Tribunal. The Tribunal decided that the authorisation of two sole traders – Neil Haworth and Abbex Insurance – should be cancelled. Implementing FOS decisions is an important part of TCF and we will continue to take action against firms that refuse to comply.

Complaints returns for 2006 showed that over a 12-month period firms had dealt with over 2.7 million complaints from consumers under our rules, closed 89% of complaints within the target of eight weeks, upheld 45% of complaints and paid, on average, £1,126 in redress per complaint upheld.

We continued to pursue the **mortgage endowment complaint handling** strategy we launched in July 2005, focusing on the speed and quality of complaint handling in the worst performing firms. This work culminated in 14 firms reviewing over 100,000 previously rejected complaints; two thirds of these were decided in the consumer's favour and redress of £128 million was paid. Our work has also delivered wider improvements in handling of mortgage endowment complaints, with a substantial increase in the number of complaints addressed by firms within eight

weeks, and a fall in the number of firms' decisions overturned by the FOS. In addition, in response to the time-barring of complaints becoming more widespread, we reviewed firms' approaches and in most cases found that their procedures were fair. Where they were not, we required them to review relevant complaints. Overall, the industry has reviewed over 1.8m endowment complaints, and paid redress to consumers of more than £2.7bn.

Unfair contract terms

Using our powers under the Unfair Terms in Consumer Contracts Regulations 1999, during 2006 we found **14 cases of unfair contract terms** in standardised customer contracts. We have published details of these unfair terms on our website and all firms should take our findings into account when drafting and reviewing their terms and conditions.

Unfair contract terms

The statement of good practice on **mortgage exit administration fees** we published in January 2007 will benefit millions of consumers. The statement contained a practical solution, endorsed by the Council of Mortgage Lenders, to prevent firms unfairly increasing mortgage exit administration fees. A number of firms have put aside reserves to cover the cost of compensation in relation to these fees.

In September 2006 we published a statement from the **Building Societies Association (BSA)** about a model term which was used by several building societies in their contracts. This term potentially restricted customers' access to their savings accounts. The BSA agreed to amend the term and anticipates that this could benefit about 15m savers.

In September 2006 Scottish Widows Bank plc agreed to amend a term in its **lifetime mortgage contracts** to allow customers (rather than Scottish Widows) to decide what to do with any insurance money received if their property suffered damage. This affected at least 32,000 of their customers. We believe about 30 other providers of lifetime mortgages have similar terms and we encourage them to take this agreement into account.

During a risk assessment visit we identified deficiencies in a firm's **corporate governance arrangements**, its **systems and controls** and its arrangements for **managing conflicts of interest**. A lack of balance on the Board between executive and non-executive directors and weak controls allowed the Chief Executive Officer to exert a dominant influence over the firm. Following our visit, the firm reviewed the structure and membership of the Board and the accountability of the executive directors. The firm now has a much stronger governance and control structure.

In January 2007 we fined W Deb MVL (formally Williams de Broe) £560,000 for breaches of our *Principles for Businesses*. Over a three-year period, failings in its senior management arrangements, systems and controls resulted in **poor accounting systems and poor client money protection**. The failings led to a combined provision of £66.3 million being made in its accounts for 2004 and 2005 for amounts viewed as irrecoverable.

We found **widespread control failings** in a firm which had moved into unfamiliar markets. The extent of these failings meant the firm's solvency position had been weakened and we agreed the firm would stop taking on new business until it improved its systems and controls. In response to an independent expert's findings, the firm reassessed its strategy and improved its risk management. This has strengthened the firm's solvency position.

Soundly managed firms

We continue our work to ensure firms are **soundly managed**. Our information from risk assessments undertaken during the year has shown a decline in the number of significant risks relating to the sound management of firms. We believe this is an indication of the effectiveness of our risk-based supervisory work, with firms increasingly taking positive steps to meet our standards.

Over the last year we have taken a more principles-based approach to our **corporate governance** discussions with firms; we expect firms to be able to show how their governance arrangements deliver effective oversight and scrutiny of their business. Where we have confidence in a firm's governance arrangements we are also placing greater reliance on their senior management to manage regulatory risks, which means that well-managed firms can expect less regulatory intervention.

Through our supervisory work with firms we also seek to gain an understanding of their **strategy**. This helps us to identify the business risks they face and assess the extent to which they have controls in place to manage these risks. It also helps us to understand what impact external events, for example changes in economic conditions, have on their risk profile. We expect firms to be able to demonstrate that they understand their business risks and, where appropriate, have plans to mitigate them.

Small retail firm supervision

About 18,000 of the firms we regulate are small retail firms. In line with our risk-based approach we collect and analyse data from firms and other sources to gain a good understanding of the firm and the type of business done. We analyse and interrogate this information using an innovative set of systems and business processes to prioritise risks (both individual and cross-firm) to our objectives. We use a range of supervisory tools to mitigate these risks by taking reactive action on crystallised risk in individual firms and pre-emptive action on cross-firm risks. Typical supervisory tools include correspondence, field visits, desk-based reviews, project work, and enforcement. A key element to our supervision of small firms is to maximise the impact of our actions using targeted external communications to help them deliver better outcomes for consumers.

Risk-based and principles-based regulation

Improving policy

During the year we made several changes to our rules consistent with our move to principles-based regulation, replacing detailed rules with high-level ones and putting the onus on firms' senior management to achieve desirable outcomes. We also reviewed the effectiveness of our existing general insurance, mortgage, basic advice and depolarisation rules, and the RU64 rule.

In October 2006 we published two Consultation Papers proposing a series of changes to **simplify our conduct of business regime** for investment businesses and, at the same time, to implement MiFID (see *Section one*). Significant

Making it easier for small retail firms to do business with us

We are aware that regulation can pose challenges, both in terms of resource and finance, to small retail firms in particular. We have developed several ways to raise standards and change the behaviour of these firms while minimising the burden on them. For example, we carried out 659 telephone surveys to discuss progress towards the end of the March deadline for implementing TCF and we contacted 400 firms to tell them about lessons learned from our quality of investment advice work.

In addition to our Firm Contact Centre, there are a number of **resources available to small firms** to help them understand our requirements. Our web pages for small firms are visited over 50,000 times a month. We have also hosted roadshows and surgeries for over 2,500 small retail firms and provided industry training to over 1,800. In addition, throughout the year we have published factsheets and newsletters, held focus group meetings, given interviews to the trade press and attended sector-related events and exhibitions.

simplification is being achieved in a number of areas including client agreements, prescribed content of risk warnings, dealing, managing and client reporting. Our new financial promotion rules will give firms greater scope to develop consumer information that explains the features, risks and benefits of a product in a more appropriate, straightforward and understandable way.

We introduced new rules for the **dual pricing of collective investment schemes** in October 2006, allowing it to continue as an alternative to the single pricing method. We set high-level standards of fair pricing, giving firms the flexibility on how prices are calculated and which pricing method better meets the needs of their investors. We believe market forces will drive firms' choice of pricing and this will encourage innovation.

In March 2007 we published CP07/6 on **Funds of Alternative Investment Funds**, proposing to introduce a wider range of retail-oriented investment products into the existing collective investment

schemes regime. These would include, but not be limited to, funds of hedge funds. To make funds of alternative investment funds workable and efficient we are proposing a principles-based approach to product regulation. This places responsibility on the funds of funds managers to carry out appropriate checks on the quality of the underlying funds, rather than applying prescriptive rules-based criteria.

In March 2007 we also published a Consultation Paper proposing changes to the **permitted links regime** for linked long-term insurance. The proposed changes will give firms' senior management a greater role in putting the correct levels of risk management in place to manage their linked business.

In February 2007 we published proposals for a new *Training and Competence Sourcebook*. Our proposed new sourcebook applies only to retail business, is much shorter and is more user-friendly. It gives firms greater flexibility to decide how to achieve the required competence standards.

We continued to work closely with the FOS to ensure that emerging consumer protection issues are identified quickly and that issues and queries are resolved promptly. In May 2006 we published a joint Discussion Paper on its future funding structure. We found broad support for increasing the importance of case fees in financing the FOS and for increasing the number of cases the FOS will consider before a firm starts paying case fees. We will consider what scope exists for moving in this direction when agreeing the FOS's budget for 2008/09, taking into account its current budget and caseload projections.

Financial Services Compensation Scheme (FSCS)

In March 2007 we published a Consultation Paper proposing **new funding arrangements** for the FSCS. The proposals followed a rigorous review and were developed in consultation with an industry advisory group, which included representatives from trade associations, the Financial Services Practitioner Panel, the Smaller Businesses Practitioner Panel and the Financial Services Consumer Panel.

Finding a solution has been difficult, and it has not been possible to devise funding arrangements which have universal support from the industry. However, there was general acceptance that the present arrangements were no longer fit for purpose. We believe the proposed model is more rational, fairer to the various players in the market and is more robust. It will also enable the FSCS to provide an enhanced level of compensation for unforeseeable events. We also announced our intention to consult on a final level of compensation funding to be made available based on wholesale business, which would involve contributions from firms who are not currently required to fund FSCS compensation payments.

Reviewing the effectiveness of our policy

We have made substantial progress in our review of the **general insurance conduct of business regime**. We published consumer research highlighting how consumer experiences and risk of detriment differ across different general insurance products. At the end of March 2007 we published an interim report proposing a differentiated regime, removing detailed rules for the sale of all general insurance products and introducing additional consumer protections for certain products, including payment protection products.

In September 2006 we published the results of the first stage of our review of the effectiveness of our **mortgage rules**. We found that consumers are actively shopping around for their mortgages, and are

using the Key Facts documents to compare mortgages, consider the risks of mortgage products and to decide if a mortgage is right for them. This shows that our rules are beginning to deliver the right outcomes for consumers.

We have completed the first stage of our review of the **basic advice regime**. This regime is designed to provide a simpler, quicker and lower-cost form of advice for consumers buying the government's suite of 'stakeholder' savings and investment products. The results suggest that the basic advice market has not developed as expected and we recently announced a further review to find out why.

We have continued to review the effectiveness of **depolarisation**, focusing on the disclosure requirements – the Menu and the Initial Disclosure Document.

Following consultation with the industry we decided to focus on these requirements because they go beyond what is required under MiFID (see *Section one*). Any changes we propose as a result of this review will take into account the extent to which the information disclosed results in real benefits for consumers and be compatible with our move to more principles-based regulation.

The **RU64** rule requires advisers who sell personal pensions to explain to customers why they consider the product to be at least as suitable as a stakeholder pension. Following developments in the government's pension reforms and careful consideration of the responses to our 2005 consultation, in February 2007 we announced our decision to retain this rule. We concluded that retaining this rule is necessary to secure the appropriate degree of protection for consumers.

New rules following changes to our regulatory scope

We published our final rules for the **regulation of Home Reversions and Islamic law-compliant Home Purchase Plans** in October 2006.

They help older consumers looking to release equity from their homes by extending protection over the whole equity release market and provide fairer treatment for consumers wanting to buy their homes in way that is compliant with Islamic law. We worked closely with the industry, consumer groups and representatives from Muslim communities in designing the rules and preparing for implementation on 6 April 2007. We have also published new consumer education materials to raise consumer awareness of the new rules. We received 437 applications from new and existing firms to carry out these types of business.

From April 2007 all personal pension schemes, including **self-invested personal pension schemes (SIPPs)**, are within our regulatory scope. Following consultation with industry and consumer groups we published new rules in September 2006, giving firms six months to prepare for implementation. Bringing all personal pensions into our scope will ensure that all personal pension policyholders benefit from the same level of protection. We also expect that broadening the range of personal pension providers will increase competition and lead to innovation. We received 143 applications to operate personal pension schemes, including SIPPs, and increased the regulatory permissions of 45 operators of stakeholder pension schemes to cover personal pensions. We also changed the permissions of over 7,000 regulated firms to bring their personal pension schemes business within our scope.

Working with other domestic regulators

The government's proposals on **pension reform** include a national pension scheme which will be treated as an occupational pension scheme. We worked closely with the Department for Work and Pensions (DWP), the Treasury and the Pensions Regulator to advise the government on the regulatory impact of their proposals. We are also working with the DWP on its review of the institutions involved in the regulation of pensions, the scope of which includes the boundaries between us and the Pensions Regulator.

In April 2006 we published a **Joint Action Plan** with the OFT which sets out how we will work together more on matters of shared interest. The Plan aims to reduce the administrative burden on firms, improve the way in which we make information available to consumers and help deliver risk-based regulation. During the year we have worked together in areas such as unfair contract terms and payment protection insurance. We have also taken steps to strengthen our overall liaison and consumer communications arrangements. We are committed to exploiting further opportunities for better joint working, for example in our review of the retail distribution system, and to build on the enhanced communications between the two organisations.

Influencing European policymaking

The European Commission is currently reviewing the effectiveness of the **Simplified Prospectus**, which is widely considered to have failed to meet its objective of providing information to enable consumers to make informed decisions about

investing in collective investment schemes. We have been working with the Commission, other Member States and trade bodies to identify the issues and we co-chair a CESR sub-group responsible for recommending improvements.

We have worked closely with stakeholders to influence developing policy on **mortgage regulation in Europe**. A more integrated European mortgage market may offer significant advantages, but evidence suggests that introducing legislation may not lead to greater integration, and could risk both competition and product diversity. We are encouraged by the Commission's decision to delay the White Paper to allow for further analysis, including a report by mortgage funding experts. We agree with the conclusion of these experts, that market-led mortgage funding improvements can deliver significant benefits.

Through our role in CESR we have contributed to a variety of European work to improve the operation of the **Undertakings for Collective Investment in Transferable Securities (UCITS) Directive**. We made substantial progress in influencing the European debate on the proposals to revise the Directive, and the European Commission's White Paper, published in November 2006, reflects the UK's priorities for change. During the year we also contributed to CESR's work on the rationalisation of the notification procedure for EU cross-border fund sales and jointly chaired CESR's working group on the definition of the eligible assets for UCITS.