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Time for a Change: Restoring and Maintaining Consumer Confidence in the Financial Services industry: Which? in partnership with the industry. A new look at consumer governance

Thank you for giving IMA the opportunity to comment on your consultation paper "Time for a change." The IMA is the trade body representing the UK asset management industry. IMA Members include independent fund managers, the asset management arms of retail banks, life insurers, investment banks and occupational pension scheme managers. They are responsible for the management of approximately £2 trillion of funds (based in the UK, Europe and elsewhere), including institutional funds (for example, pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, our Members manage 99% of UK-authorized investment funds.

General comments

We welcome the consultation paper as a contribution to the ongoing debate on consumer confidence in financial services and agree that it is important to maintain and improve confidence in the industry as a whole. We are also pleased that Which? is advocating a partnership approach and consulting with the industry.

In any discussion about consumer confidence in the financial services industry it is important to note that the financial services industry is not one indistinguishable sector but a sector made up of many different types of financial services providers governed by differing regulatory regimes. As many proposals in the consultation paper are not relevant to the fund management sector this response deals only with those of relevance to our industry.

Fundamentally, we do not believe that there is any evidence for the proposition put forward that there is something wrong with the governance of firms. So far as funds are concerned, IMA recently conducted an extensive review of the governance arrangements for collective investment schemes, which led to a number of recommendations for strengthening the already strong in-built safeguards for consumers in these products. It is also the case that not all products are suitable for everyone and it is important to have an advice process able to distinguish which

products are appropriate for which investors. This should help to steer unsophisticated investors away from those products without appropriate investor safeguards in place.

As acknowledged in the consultation paper, companies are legally responsible to their shareholders and cannot therefore be accountable to a parallel body at the same time. The beneficial owners include many millions of ordinary savers and members of pension schemes, and it is right that companies should be run in their interests. In addition, it must be remembered that shareholders too are consumers.

In our view, restoring confidence can best be achieved in ways other than suggested in the consultation paper. Key to this is product transparency, so that investors know what they are getting into, and access to advice. Many features of fund management products work in the interests of consumers, for example:-

- Investment funds are transparent products with clear information on charges; the disclosure requirements for investment funds, as dictated by regulation, are very comprehensive;
- Risk assessment is central to fund managers' business operations;
- As an industry we are in favour of improving information for customers and are very involved in the FSA's financial capability strategy as well as constantly striving to improve on our own investor education;
- Fund managers have a strong focus on customer service with high standards of training and complaints handling and IMA has proposed a customer service qualification.

Comments on specific proposals

- *A consumer constitution setting out a firm's guiding principles and practices with respect to consumer interests and independent monitoring to assess how firms have fulfilled their promises.* This goes beyond FSA regulation and builds on TCF but we would question the practicality and usefulness of having another layer of inspection beyond the FSA.
- *Board representation from consumers.* We believe it would be difficult in practice to find appropriately qualified representatives. The question also arises as to which body would determine who is a suitably qualified representative and the danger always exists that such representatives come from a small pool of "professional consumers".

In any case, the concept of a board director representing consumers cuts directly across the fundamental tenet of the unitary board. The job of directors is collectively to direct the affairs of the company, not to represent particular constituencies, as reiterated most recently in the Higgs Report. It is not obvious why one particular constituency – consumers – should be singled out ahead of any other.

- *The provision of additional information in the Annual Report and Accounts.* We would be interested to see any research on the type of additional information consumers would find useful. Given the amount of information required by regulation we are sceptical that even more would prove useful.

- *Financial incentives for directors to be rewarded relative to how well a firm treats its customers.* Customer service is integral to successful business and may be expected to be a factor in executive remuneration. We consider the criteria for rewarding and incentivising directors should be a matter for a company's board.
- *Fees not commissions to reward sales.* In the new de-polarised world all independent financial advisers have to offer a fee option so consumers should shop around to find a payment solution that suits them.
- Finally, TCF already covers the proposals in the consultation paper for better redress and complaints handling and a commitment to professional training.

While we remain committed to helping improve and maintain customer confidence we are keen to do so in a way which avoids unnecessary duplication and complements the wide range of work already going on in this area.

We would be pleased to discuss these views further with you.

R B Saunders
Chief Executive