

AEGON's response to CP08/3: Simplifying Disclosure

Information about services and costs

19 May 2008

1. Introduction

AEGON supports the FSA's aims of improving the documentation that firms can use to explain their services and costs to customers. We acknowledge that the latest proposals are the results of a complex pathway of development over a number of years.

In the current environment, in the wake of MiFID, and as proposals are being developed under the Retail Distribution Review, we have a unique opportunity to rethink what all the stakeholders – customers, advisers, providers and not least regulators – want from such documentation.

In the long run, what is right for the customer is right for all the stakeholders, and this response will attempt to comment from that perspective.

2. Options for disclosure

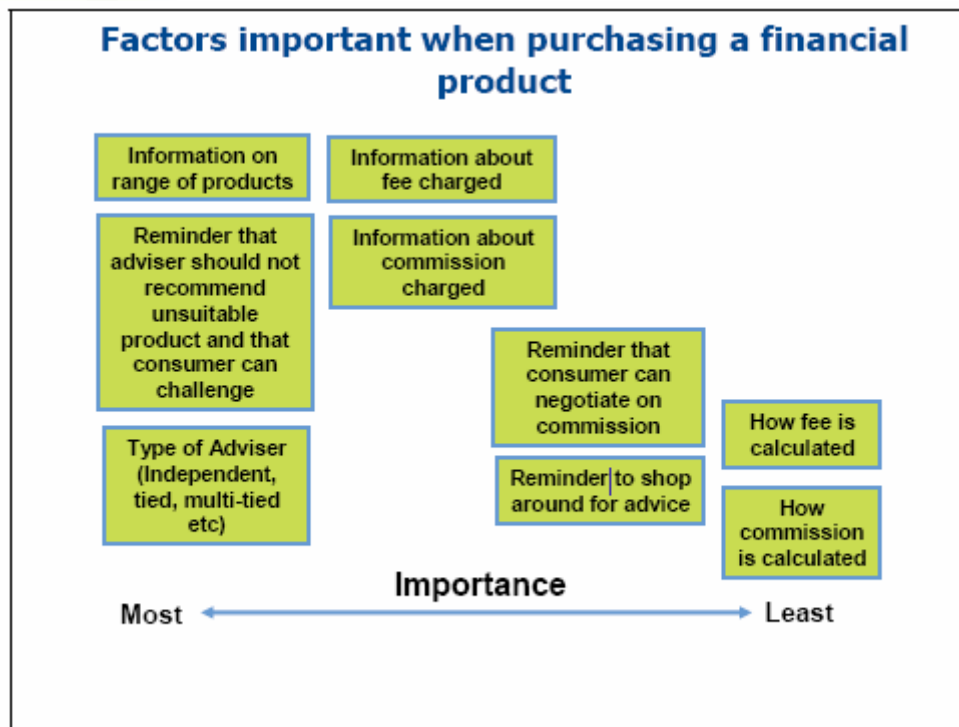
The challenge of creating appropriate disclosure documentation of all types is to reconcile a number of often contradictory needs. These needs can be summarised as:

- Sufficient information for customers to make an informed choice, without overwhelming them with detail which will not be used.
- Information which is clear, fair and not misleading (in line with Principle 7), and which has no gaps in coverage.
- Signposts which point the customer to further information, should they require it.
- A document which can easily be created by an adviser, and which is flexible enough to describe different business models.
- A set of principles which can be adapted to meet the requirements of the Retail Distribution Review, once these have been finalised.
- A set of principles in line with European regulations, or which, if they differ from such regulations, can be justified in the context of the UK environment. In the longer term, the objective should be to influence European regulations so that they follow the same principles as we are attempting to follow here.

2.1 Customer preferences

The research carried out for CP08/3 has, to a certain extent, investigated what factors consumers find important when purchasing a financial product. The diagram below, reproduced from the research¹, shows that there is a distinct ranking in the importance of such factors. Information about the product and the adviser's type, and the amounts of remuneration paid, are ranked more highly than details, for example, of how fees and commission are calculated.

¹ *Services and costs disclosure: Qualitative research with potential and recent purchasers of financial products.* BMRB Social Research for the FSA, February 2008



However, having established these preferences, the proposals in CP08/3 are limited in the way they have used them to develop the suggested Menu/IDD replacement document. The proposed document contains the following sections, in the following order:

1. The FSA
2. Whose products do we offer?
3. Which service will we provide you with?
4. What will you have to pay us for our services?
5. Who regulates us?
6. Loans and ownership
7. What to do if you have a complaint?
8. Are we covered by the FSCS?

Although these sections are all valid examples of information customers might want, or need, to know, they don't reflect the research into the order of the customer's priorities.

2.1.2 Recommendation

Therefore we would recommend a reordering of the sections as follows, based on the principle 'what are the key things people want to know when they meet an adviser?' An example of what such a document might look like is attached in the Appendix.

what are the key things people want to know when they meet an adviser?**a. What service will you provide?**

- What kind of an adviser are you (independent, multi-tie, whatever options exist after RDR)?
- Whose products do you consider in your advice?
- Possible conflicts of interest including loans, ownership and platform usage
- Qualifications

b. What will I have to pay you for your services?

- Fees, commission or description of CAR.
- How can I tell if this is competitive?

c. Who authorises you to do business and how can I check?

- a. About the FSA
- b. Authorisation and regulation information

d. What happens if something goes wrong?

- a. What to do if I have a complaint
- b. Are you covered by the FSCS?

a. What service will you provide?

This section would give the adviser the opportunity to explain the essentials of what they do. What kind of an adviser are they, and on how wide a range of products can they advise? In a post-Retail Distribution Review environment, it will also help advisers to focus on the service, rather than the products, they consider in their advice. At the same time, it can be used to explain any potential conflicts of interest, such as loans or ownership details, or use of certain platforms.

Research carried out into the role of financial advisers² has shown that if there is to be any change in the types of adviser on offer, it will be vital that a clear labelling and communications programme is established to explain to the consumer what the different levels mean. This should include an indication of the levels of qualification held by the adviser(s).

On the subject of conflicts of interest it is important that all financial payments and incentives are declared. This would include 'other' incentives that have a monetary worth - so the current 'indirect benefit' rules would remain and potentially be strengthened.

² 'How to make your dreams come true', Research paper for Middlesex University, Peter Williams, Head of Industry Development, AEGON. September 2007.

This should include training on the use and its operation of any platform or wrap as these are administration tools that are primarily of benefit to the business. This is in contrast to technical financial planning subject training that is primarily of benefit to the client, which should be encouraged by the FSA.

Included in 'all financial payments and incentives' would be:

- Loans from providers
- Shares held in ownership of the advisory firm or associated individuals/firms by providers
- Cheap assets (provided to the firm/individual at discounted rates etc)
- Wraps & platforms - **all** financial benefits the adviser firm can receive must be clearly disclosed
- Ownership interests by the advisory firm in a platform or wrap.

Guidance could be used to explain the regulations and to also provide information on any new developments.

b. What will I have to pay you for your services?

The research for CP08/3 shows that although consumers want to know what they will have to pay, they are relatively uninterested in how this will be calculated. Therefore the suggested text in the consultation paper is more likely to be understood than the complex requirements of the Menu. At this early stage a simple indication of typical advice costs may be all that is required.

The proposals as they stand do not include the provision of a comparative figure, once the market average figures are no longer in use. However, research carried out for AEGON³ indicates that consumers want information to be more straightforward, specifically in order to be able to compare between products and providers. Further consumer research⁴ indicates even more strongly that for consumer confidence in CAR to be established there will need to be some kind of benchmark.

In our response to DP07/1⁵ we proposed the inclusion of such a benchmark figure for the advice costs against the market. We still believe this should be available to customers in the form of an example range of advice costs for different product areas, for one-off or ongoing advice, but at level much less detailed than that of the Menu. This need not be included in the document itself – our example below uses a signpost to an FSA site. The use of such a site has the dual advantages that it would be an independent source of information, and that it would not require the literature to be changed if the ranges were recalculated.

c. Who authorises you to do business and how can I check?

This gives customers comfort that the firm is authorised, and where to find further information if they wish to find out more.

³ AEGON UK Distribution & Financial Advice Consumer Research, Opinion Leader Research for AEGON, March 2007

⁴ Williams, op. cit., p 40

⁵ <http://www.aegon.co.uk/downloads/pdf/RetailDistributionReview6.pdf>

d. What happens if something goes wrong?

This explains in plain language where to go if the customer has a complaint. As the proposals are intended to be guidance, rather than rules, there is of course nothing to prevent advisers using their own format – however, in order to use the Key Facts logo, they would have to adhere to the FSA template, therefore it's important to get this as close to consumer needs as possible.

2.2 Implications of Retail Distribution Review interim report

Although CP08/3 was published before the April interim report on the Retail Distribution Review and its proposals for a simpler future distribution landscape, we have taken these proposals into account in our response.

If implemented as proposed, and a clear distinction is drawn between 'advice' and 'sales', there is a strong argument for different documentation for each channel. The proposals in AEGON's response would relate more directly to the advice channel, but an equivalent document would be required for the sales channel.

The principles for creating the sales channel document would be the same as for the advice channel – identifying consumer needs and communicating the information clearly – and it's likely that the headings would be similar, but there are areas where the content would differ. For example, the 'what service do we provide?' section is likely to be simpler, as is the cost section for a channel which is unlikely to be using Customer Agreed Remuneration.

2.3 Tailoring information

The first of the principles of disclosure suggested above is arguably the most difficult to crack – providing sufficient information for customers to make an informed choice, without overwhelming them with detail which will not be used. Research by the NCC⁶ has shown that customers who receive too much information, in too much detail, can become confused, or switch off entirely. The NCC makes five recommendations on tailoring the provision of regulated information to meet the needs of your audience:

- Make clear who the information is aimed at;
- Ensure language is accessible to the lowest ability group likely to access it;
- Minimise volume to maximise impact;
- Identify and overcome sources of competition for your attention
- Consider using visual tools to guide choices.

Clearly, there are two competing objectives for documents which will be used by a wide variety of customers – from inexperienced customers being advised on simple products, to financially sophisticated customers who may have complex questions about remuneration options. There will also be differing levels of adviser interaction, from the basic commodity product sale to the highly complex lifestyle management option.

⁶ 'Warning: too much information can harm', Better Regulation Executive and National Consumer Council, November 2007

2.3.1 Layering of information

Our recommendation is therefore that the FSA considers a layered approach to the provision of information in the services and costs document. The FSA research⁷ has shown that customers have relatively lower interest in how remuneration is calculated. This is likely to have contributed to the problems of the original Menu, which gave very complex information in this area.

2.3.2 Recommendation

Therefore we would recommend that the description of what a consumer might pay is kept to an example of what a typical customer might pay for advice on a small selection of common product types (eg a lump sum product and a regular contribution product) or an outline of common fees charged. More detailed information, including comparisons to ranges of advice costs charged across the industry, should be available by accessing an FSA website or contacting the adviser for more information. An example of what this might look like within a CAR environment is included in our attached illustration.

⁷ *Services and costs disclosure: Qualitative research with potential and recent purchasers of financial products.* BMRB Social Research for the FSA, February 2008

3. Answers to specific questions

Chapter 3 – Options for disclosure

Q1: Do you agree with our proposal to introduce an IDD-style document into guidance in COBS to replace the existing IDD and menu guidance? Please give reasons.

- We agree that there is scope to improve the documentation provided to customers on services and costs.
- We would emphasise that the starting point for the design of this documentation should be the needs and requirements of the customer, rather than attempting to 'reverse engineer' existing documents into a more workable framework.
- The research carried out for the consultation⁸ is a good starting point for identifying what factors consumers find important when purchasing a financial services product. This can be used as the basis for designing appropriate literature, which is likely to contain many of the features in the proposed 'services and costs disclosure document'.

Q2: Do you believe there is scope for industry guidance in this area? If so, what do you envisage?

We have no comment.

Q3: If you are interested in developing industry guidance, please describe what you envisage (e.g. whether it would build on our IDD-style document, what areas it would cover) and the likely timeframe.

We have no comment.

Q4: If you think industry guidance is more appropriate than FSA guidance, what guidance if any, should be provided in the interim while industry guidance is being developed?

Not applicable

Chapter 4 – Our proposals

Q5: Do you have any comments on our services and costs disclosure document?

- We agree with the objective of simplifying and shortening the set of documents firms need to give out before, and after, the point of sale.
- It is very important to bear in mind that far from more information being better, more information can result in confusing the customer, or in the documentation not being read at all.
- In fact, we believe that this could go even further than the proposals put forward in the consultation, by including only answers to the key questions consumers may have, in a very simple document.

⁸ *Services and costs disclosure: Qualitative research with potential and recent purchasers of financial products.* BMRB Social Research for the FSA, February 2008

- We consider these key questions, in order of importance to the customer, to be:
 1. What service will you provide?
 2. What will I have to pay you for your services?
 3. Who authorises you to do business and how can I check?
 4. What happens if something goes wrong?
- The order of the questions is important, as they reflect the customer's priorities.
- Further information for customers who require more detail, could be made available, and would be clearly signposted.
- Although firms will be free to design their own literature, it is likely that many will use the FSA template, either for simplicity, or in order to be able to use the Key Facts logo, or both. Therefore the order and content of the template should reflect consumer priorities as closely as possible.

Q6: Do you agree that firms conducting designated investment business for a retail client in relation to non-MiFID packaged products should give the client information about the firm and its services and costs and associated charges, before providing services?

As we believe that this reflects what firms are already doing in practice, we agree.

Chapter 5 – Cost benefit analysis

Q7: Do you have any comments on our CBA?

In any CBA, the FSA should carefully consider the potential for further changes to these documents arising from the Retail Distribution Review. This might mean the shelf-life of the documents is limited, with implementation costs having to be compared with only a short time period of 'benefits'. For example, a multi-tied firm which becomes defined as a 'sales' business is likely to have to redesign its disclosure fully if the suggestions in the April feedback statement are implemented.

About AEGON

AEGON has assets under administration of £53.2 billion and employs around 4,900 staff. AEGON is part of the AEGON Group, which is one of the world's largest listed insurers and has assets around €371bn (£272 billion).

Contact

For further information, please contact Alison Gay, tel 0131 549 3702

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Appendix – example of a disclosure document



about our services and costs

123 Any Street
Some Town
ST21 7QB

1. What service will you provide?

We will carry out a full factfind on your personal situation, taking into account your existing financial commitments and assets, as well as your attitude to risk and your goals for the future. Based on what you tell us, our advisers will be able to make recommendations for actions to help you achieve these goals.

We offer a full financial planning service, or alternatively can provide specific advice on:

- Savings and investment;
- Protecting yourself and your loved ones in the event of death, serious illness or disability;
- Retirement planning.

All our advisers hold the Financial Planning Certificate. All our directors are qualified to Chartered Financial Planner level.

In making our recommendations, we offer products from the whole market.

Loans, ownership and other interests

- 50% of our share capital is owned by XYZ Financial Services.
- We own a 20% share of the UVW Wrap Platform.

2. What will I have to pay you for your services?

Not all firms charge in the same way. We will discuss your payment options with you and answer any questions you have. We will not charge you anything until you have agreed how we are to be paid. We offer two options:

Paying by fee. Whether you buy a product or not, you will pay us a fee for our advice or services. We will not accept commission from any product provider.

Paying by product charges. If we sell you a financial product, we will arrange to receive payment from the product provider. The amount of the payment is agreed between you and us and will be the same whichever product or provider we choose. Although you pay nothing up front, that does not mean our service is free. You still pay us indirectly through product charges. Product charges pay for the product provider's own costs as well as our charges. These charges reduce the amount left for investment.

If you choose the fee option

We will agree the rate we will charge before beginning work. We will tell you if you have to pay VAT.

Our typical charges are:

Principal/Director/Partner	£150-200 per hour
Financial adviser	£100-150 per hour
Administration	£25 per hour

You can ask us for an estimate of how much in total we might charge. You can also ask us not to exceed a given amount without checking with you first.

If you choose the product charges option

The amounts vary according to the type of service you engage us to provide, eg whether you choose one-off advice or an ongoing service. We will confirm the actual amount to you before arranging a product for you. For example:

- If you make a £10,000 payment into a Collective Investment (eg a unit trust) or into an Investment Bond, we might ask you to agree to us receiving £500 for one-off advice, or £400 + 0.5% of the investment value for an ongoing service.
- If you pay £200 per month into a Personal Pension scheme, we might ask you to agree to us receiving remuneration of £600 for one-off advice, or £500 + 0.5% of the investment value for an ongoing service.
- You can compare our charges to a range of others in the market by checking the FSA website at www.fsa.gov.uk/xxxxxx.

3. Who authorises you to do business and how can I check?

We are authorised and regulated by the Financial Services Authority (FSA). The FSA is the independent watchdog that regulates financial services. You can look us up on the FSA's Register by visiting their website <http://www.fsa.gov.uk/register> or by contacting them on 0845 606 1234. We are registered as:

ABC Financial Services
123 Any Street
Some Town
ST21 7QB
Our register number is [xxxx].

4. What happens if something goes wrong?

We hope you will find working with us a positive experience, but if you wish to register a complaint, please contact us:

- ...in writing Write to [XYZ Financial Services], [Complaints Department, 123 Any Street, Some Town, ST21 7QB]
- ...by phone Call [0121 1001234]
- ...by email email complaints@abcfinancial.co.uk

We are covered by the Financial Services Compensation Scheme (FSCS). You may be entitled to compensation from the scheme if we cannot meet our obligations. You can find out more about the FSCS by contacting them at :
Financial Services Compensation Scheme ,7th floor, Lloyds Chambers, Portsoken Street,
London E1 8BN Email enquiries@fscs.org.uk.