

RESPONSE FROM SCOTTISH FINANCIAL ENTERPRISE TO THE HM TREASURY CONSULTATION - EXTENDING EMPLOYERS' FEEDOMS: A CONSULTATION ON FACILITATING FINANCIAL PROMOTIONS IN THE WORKPLACE (MARCH 2006)

1. Introduction

1.1 Scotland has a distinguished history in financial services that dates back over 300 years. It is now one of Europe's leading financial centres and the second largest financial hub in the UK next to London. The international financial services industry based in Scotland has a long-held reputation for innovation and excellence, and provides financial products and services to businesses, private and public organisations and individuals across the world.

1.2 The financial services industry is of major importance to the Scottish economy. In the last five years (2000 to 2005) financial services in Scotland grew by 36% while the overall Scottish economy grew by 9% and the whole of the UK financial services industry grew by 15% in the same period. The financial services industry accounts for one in 10 Scottish jobs, with over 113,000 people directly employed in the industry and over 100,000 more employed in support services.

1.3 Scottish Financial Enterprise (SFE) is the independent organisation, formed in 1986, that supports and represents the interests of Scotland's financial services industry. Our members encompass all sectors of the industry including banks and building societies, general insurance, life assurance and pensions, investment managers, asset servicing, corporate finance and broking services, professional advisors and support services.

1.4 In today's society, the workplace remains a key conduit for communicating important information to individuals about health, well-being, wider non-work related opportunities and many other important messages. In the context of the UK's savings gap, SFE is supportive of any financial promotion in the workplace that will enable people in the UK to save more for the future.

1.5 Several pieces of research confirm the workplace as a forum for financial inclusion, financial education and greater participation in retail financial services by consumers. A recent survey of nearly 6000 consumers conducted by Scottish Widows confirms that consumers have greater trust in employers than in other leading institutions such as 'Government', 'Trade Unions', 'media', etc. Further research in the same survey also confirms that when it comes to taking advice on financial matters, the employer ranks third after family/friends and independent financial advisers as a source of advice. A 2004 report by the Financial Services Authority on delivering financial capabilities through schools and workplaces shows that 35% of people have either learnt 'a fair amount' or 'a lot' at work.ⁱ However, the balance reported learning 'nothing at all' or 'just a little.' This was not for lack of appetite. Seventy two per cent of those who admitted to being poor at money management thought that workplace learning would make them more confident. While SFE recognises that there is a distinction between this kind of generic financial education and financial promotions specified in the consultation, there is significant scope to effectively deliver them together. This would enable employees to better understand financial products, assess their needs and take action in a time-efficient manner that thwarts the apathy that so many report as a cause of ill-preparedness.

1.6 Financial promotion in the workplace is an important business issue for Scotland's financial services industry. Many of our members have pioneered distribution and administration of financial products in the workplace and subsequently conduct group personal pension schemes, contracts of insurance and employee share schemes through employers.

2. Pensions Promotions to Employees

2.1 Scottish Financial Enterprise strongly believes that the Article 72 exemption for employers should be extended to third parties providing services to firms. Often these firms and their designated intermediaries are best placed to deliver the highest quality of guidance about their products, services and offerings to existing and potential scheme members. By allowing third party representatives to fully explain their products (in a manner consistent with the exemption already granted to employers), the burden on employers to have a mastery of the detail and minutiae of these offerings is significantly lessened.

2.2 This makes sense from the perspective of the employer, employee, financial service provider and any designated intermediary/adviser/company representative. In this arrangement, the financial service provider, their representatives and the employer need not invest disproportionate time transmitting vast amounts of technical details and knowledge between parties. From the employee perspective, direct contact is able to be had with the company or someone familiar with their offering, thereby enabling a more immediate and authoritative answer to any queries about the specifics of the schemes on offer.

2.3 Whether the burden upon employers to ensure competence of third parties is statutory or simply achieved through guidance is up to the discretion of the Treasury. In this area, the use of guidance in close consultation with employers and third parties may ultimately prove more flexible for providers and HM Treasury officials.

3. Promoting Insurance Products

3.1 The workplace promotion of insurance products and the communication of details about them are important for many providers based in Scotland. Scotland has a vibrant insurance industry that provides a wide range of vital protection for employers and their employees. Among the work-based products sold by companies based in Scotland are:

- Income protection
- Critical illness cover
- Group life insurance cover
- Private medical insurance

3.2 SFE welcomes the clarification with regard to the promotion and communications of insurance products in the workplace. The proposal to make a new exemption that covers both non real-time and real-time promotions is sensible. Additionally, it seems most straightforward from the point of view of the employer and the provider to make all insurance contracts exempt. This will also ensure that the new regime copes with innovation and evolution of the protection market. It seems wholly reasonable that employers should not receive commission and that employees should be reminded of their right to seek financial advice elsewhere either about the suitability of the scheme in question or about their individual circumstances. The conditions set forth in the consultation seem sufficient to achieve the desired objective, but durable enough to sustain into the future.

4. Employee Share Schemes and Plans

4.1 Companies based in Scotland are involved with the administration and conduct of employee share ownership plans. We consider the current exemptions to be adequate and successful in allowing these to be successfully promoted and administered.

Further Comment

Scottish Financial Enterprise would be pleased to provide further comment on any of the issues we raise in this response and to facilitate engagement with our member companies. Please contact:

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For more information about SFE and Scotland's financial services industry, please visit our website at www.sfe.org.uk

¹ FSA Publication: Consumer Research 27, May 2004, p. 9.