LETTERS TO THE EDITOR: Civil servants and regulators have been guilty of short-termist approach to financial services
By Evan Owen
Financial Times; Mar 09, 2005

From Mr Evan Owen.

Sir, I am disturbed by the comment in your editorial, "Leviathan at large?" (March 4): "This [financial services] is an industry, after all, that has behaved in a manner detrimental to consumers repeatedly, from pensions mis-selling to split-capital investment trusts and precipice bonds."

This sweeping statement is a common mis-perception in the media as well as among consumer bodies and the government. I accept that lack of knowledge and hysteria have created the view that everything financial is faulty. However, regulatory bodies and opinion formers, including those sponsored by government, should shoulder much of the blame for this state of affairs. In the past few years over 80% of final salary schemes have been wound up, closed to new entrants or converted to money purchase arrangements; even public sector schemes are being completely rewritten because they have proved unaffordable. Many so-called victims of pension-scheme closures received large top-ups into their personal pensions and are now better off by hundreds of thousands of pounds; others, meanwhile, were reinstated into their occupational pension schemes (OPS) at great cost only to see the investment disappear when the scheme was subsequently wound up.

The government intervened with its pensions review, seeking to win votes by interfering with free-market mechanisms and casting doubt on the veracity of professional advice.

However, the review made little mention of the plight of advisers and providers who had piled money into schemes that the DTI had not ensured were solvent. Surely, the government and the regulators have a case to answer here. After all, the solvency issue was brought on by the government actuarial department's interference in over-funding of OPS (combined with the unforeseen bear market that followed the tech bubble and 9/11). The precipice bonds that you cite were based upon derivatives that the FSA has described as "toxic", although it was the FSA that allowed the manufacturers to produce them and even approved the literature. In defence of financial advisers, very few of these were sold by small IFAs and when they were sold with face-to-face advice, the imminent bear market could not have been foreseen. Clients who bought them and presumably read the regulator-approved literature on them can hardly blame the advisers for their losses; after all, it should have been understood by them that the offer of an income many times higher than the bank base rate could only come with an unavoidable risk to capital.

As for split-capital investment trusts: the FSA classed these as low risk until as recently as 2002, an assumption that failed to take account of the volatility of unit prices in the event of panic in the market. Looking at how some of these funds have recovered, of late it is difficult to see what all the fuss was about. Perhaps the lesson is not to turn short termism and selective recall into principles for governing the market.

Evan Owen, IFA Defence Union, Dyffryn Ardudwy LL44 2EH