

Savings industry wakes up to need for radical change

By Sundeep Tucker

The savings industry has recognised that it cannot go on as it has been. On Monday night it emerged that a new forum designed to restore consumer confidence in savings was to be kick-started by John McFall, a Labour MP seen as close to Gordon Brown.

The move is a sign the industry has realised radical action is needed.

Adair Turner's warning last month that about 10m people - more than a third of the workforce - were saving too little for old age made gloomy reading.

One solution, said the chairman of the government-backed pensions commission, was for the state to take the initiative to boost savings. That is no easy task when consumer confidence in the long-term savings industry has been rocked by a series of scandals.

The long list of product failures includes endowment mortgage policy shortfalls, the mis-selling of split capital investment trusts, precipice bonds and personal pensions. More than £11bn has been paid out in compensation for the last of those alone. One attendee at a London conference on savings this week ended his attack with the words: "I now prefer to keep my money under my mattress." Many in the audience clapped in agreement.

Mr McFall, the chairman of the Treasury select committee, revealed that he was to be the interim chairman of a forum that would bring together representatives from industry trade groups, regulators and the consumer lobby.

The Dumfries MP is well aware of the scale of the problem. The committee recently published its own report into the crisis in long-term savings.

Mr McFall plans to chair the first two or three meetings, before handing over to an independent chairman. He has written to 23 organisations seeking their views on the need to establish a "common aim, purpose and agenda" for the forum. It will take an impressive juggling act to satisfy both disgruntled consumers and a defensive industry.

In June, Tomorrow's Company, a business think-tank, issued a mammoth report entitled "Restoring Trust" following an inquiry chaired by Sir Richard Sykes, rector of Imperial College London.

It proposed a forum be established to foster dialogue between the industry and consumer groups, and issued 52 recommendations, including the introduction of an industry standard equivalent to the Hippocratic oath in the medical profession.

It was met with a cool response by industry trade bodies, wary of its simplistic message. Consumer groups are now worried that Mr McFall's forum could be a puppet of the industry.

Sir Richard said yesterday that the forum must have a credible set of principles and standards that people adhered to. He said: "It must have the power of expulsion otherwise it will just be a talking shop."

Mark Goyder, a director of Tomorrow's Company, said if the savings crisis were to be averted, the industry must change radically to put consumer interests first. He added: "There is a danger that the trade associations will adopt a defensive position. But we will argue that the forum should adopt a principles-based approach that is not narrow and cosy. Who gets appointed chairman is crucial."

Chris Kenny of the Association of British Insurers believes that the forum will build trust between the industry and consumer groups and help end the "megaphone diplomacy".

The ABI and other trade bodies will push for the agenda to focus on what they can achieve in practice and not theory. However, he added: "The forum is an idea whose time has come. It will be an important part of the architecture."