FAIRER FINANCE CONSUMER ADVISORY BOARD

Annual Report 2018/19

The purpose of Fairer Finance's Consumer Advisory Board (CAB) is easily defined – it is to assure itself that Fairer Finance itself behaves in a "fair" way, and to report and publish the results of its assessment.

Fairer Finance generates its income from the financial services industry, mostly through its consultancy services. However, it is sometimes critical of that industry, both collectively and at an individual firm level. Furthermore, it ranks the products of firms to help customers choose those most suitable for their needs. Can consumers, and the wider group of stakeholders who have an interest in Fairer Finance's work, be certain that its activities are not influenced, or its comments restricted, by its need to generate income? The CAB is there to put these questions under the spotlight, quiz Fairer Finance executives about them, and make suggestions for improvement where it feels these are merited.

The ways in which we make our assessments have not changed over the past 12 months. Adrian Coles, Chairman of the CAB, continues to attend Fairer Finance Board meetings, and is able to observe the conversation and culture of the firm at the top level. Adrian reports back to CAB meetings. It is very clear that the Board of Fairer Finance, which includes the firm's shareholders, is not motivated by financial return. All shareholders and directors have made a long term commitment to the firm, a profit maximisation culture is absent, and no income or sales targets are set. Within the firm itself there are no staff earning commission, and no individual bonuses based on performance are earned, although there is provision for a team bonus based on overall company performance. Fairer Finance is not a regulated firm. However, financial regulators around the world have emphasised the importance of a good culture as a key component of a successful firm. The CAB has no doubt that the Fairer Finance culture is entirely consistent with its objectives.

As in previous years we issued a questionnaire to Fairer Finance to enable us to assess the likelihood of financial pressures adversely affecting its activities. We also had access to the firm's internal management accounts. These show that income is on a rising trajectory, year-by-year, and that cash reserves are always held within what we believe to be a prudent range, so that the chances of the firm facing an urgent need for additional contracts to generate immediate income are very low.

Our questionnaire also enabled us to examine concentration risk – is Fairer Finance over-reliant on income from one or two firms? Having examined the data we are satisfied that this is not the case. There is also a healthy turnover of clients - the number of clients in 2018/19 who were not clients in the previous year was in double figures. A number of clients request one-off projects, so a loss of clients each year is to be expected. The possibility of Fairer Finance getting to know a firm too well, and therefore losing its objective viewpoint, is reduced as a result of client turnover.

We were also able to assess whether firms sought to link the services they purchased in an inappropriate way. For example would a firm seek consulting advice on its terms and conditions, only if it was promised a prominent place in the product rating tables? We know that there are effective work barriers within Fairer Finance to prevent staff working on the detailed statistical evaluations of products to know which firms are prospective clients. Moreover, we have been presented with examples of Fairer Finance losing business as a result of publishing its objective views of firms' products. In a linked area we have searched for evidence, but found none, that Fairer Finance is kinder in its public comments about firms that are, or were, its clients, or more critical of firms that have refused to become its clients. We know that Fairer Finance has been critical of some of its larger clients, has written positive pieces about firms that are not clients, and criticised firms that later became clients. Fairer Finance assures us that it would never refuse to comment on a story because the firm was a client and we have seen no evidence to contradict that assurance. Companies sometimes wish to commission Fairer Finance to write research reports for them, when it is clear that they just want to generate good PR copy on their activities. Fairer Finance always insists on full editorial control, and will not guarantee conclusions in advance of doing the research. Some firms walk away as a result.

The CAB is alert to changes made by Fairer Finance in the way it calculates its ratings. Do such changes benefit or damage particular firms? Could there possibly be any ulterior motive in making any particular change? The criteria for funeral plans, for example, were changed early in 2019. Fairer Finance noted that one product in the market had a different structure to others and contained a feature disadvantageous to consumers in some circumstances. Taking this into account meant that the product was no longer rated at its previous level of five stars, a product from another firm obtaining this rating. The firm concerned was buying a licence from Fairer Finance to advertise its initial rating on its website, but chose not to after the downgrade. The effect of changing the ratings process, therefore, was the loss of several thousands of pounds of income for Fairer Finance. We choose to highlight this change in some detail, because it is a good illustration of a key feature of the Fairer Finance culture – do what is right, even if this is damaging in a commercial sense.

There was one other minor change across the existing product ratings in the last year with a new assessment of whether telephone charges are clearly displayed in product literature having a marginal impact on ratings. More importantly, a number of new ratings were introduced during the year, including on pre-paid funeral plans, as well as credit card and travel insurance add-on ratings. These are welcome extensions to the Fairer Finance service, and we take the view that the wider the range of activities that that it undertakes, the lower the chance of it being influenced by any individual firm. On the ratings themselves there is sometimes discussion with firms on where the lines are drawn to determine which product gets a gold or silver rating, for example, but the CAB believes that unless firms are able to identify factual mistakes in the tables they are not able to influence the ratings.

The CAB, through the questionnaire, receives details of complaints against the firm whether they be from consumers, clients, regulators or external commentators. In fact, complaints are very rare. We noted nothing to concern us this year.

Looking to the future we have asked Fairer Finance how it expects to develop, and to list the principal risks it faces that might prevent it taking advantage of the opportunities open to it. Fairer Finance is a private company and it would not be right for us to be too open here. However we are content that Fairer Finance's plans for the future do not endanger the reputation that it has developed, its culture or its usefulness to consumers.

The CAB itself continued to evolve over the year. We recognise that our own independent review of Fairer Finance's activities could be compromised by over familiarity, and as in the previous year we recruited one new member – Sue Lewis who had previously been a senior official working in financial services in HM Treasury, and more recently Chair of the Financial Services Consumer Panel advising the FCA. We expect the membership of the Board to evolve further over the next twelve months. The members of the Board remain unremunerated, and do not claim expenses.

It is worth repeating that Fairer Finance obtains its income from the financial services industry. Could Fairer Finance possibly be a firm that promises one thing but is forced by the financial realities of life to deliver something else? We are firmly of the view that the answer to this question is "no". Fairer

Finance celebrated its fifth birthday this year. We believe that the culture of the firm, and the governance arrangements of which we are part, form an excellent environment in which the dedicated staff of the organisation, lead by founder James Daley, can continue their work of improving the functioning of the UK's financial services market for many years to come.

Adrian Coles (Chair)
Laurie Edmans
Christine Farnish
Sue Lewis
Otto Thoresen

8 September 2019