

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Summary of 1999 Annual Report

This is a summary of the work we have done in our first year. You can find out more in our 1999 Annual Report which can be found on our web site (www.fs-cp.org.uk) or ordered by phone. Our contact details can be found at the end of this document and the report is free of charge.

About the Consumer Panel

Legislation will soon establish the Financial Services Authority (FSA) as the new regulator for the financial services sector. This will require the FSA to set up a consumer panel to represent the interests of consumers. The FSA appointed the Panel in November 1998, ahead of the implementation of this legislation.

The FSA appoints the Panel, provides its budget and staff support and agrees its terms of reference. The Panel's work and views are, however, fully independent of the FSA.

Our terms of reference are to represent the interests of consumers by:

- advising the FSA on its policy and practices;
- monitoring the effectiveness of the FSA in meeting its statutory objectives;
- keeping market developments under review; and
- being accountable through public reporting.

We also continue to advise the Personal Investment Authority's (PIA) Board, which will cease to exist following enactment of the new legislation.

Following an open recruitment process the FSA appointed 11 members to the Consumer Panel. The budget for work we commission, our fees and expenses and FSA staff support was £538,000 for the 13 months ending 31 December 1999. Our actual expenditure was £334,000.

Influencing policy

We have provided much 'behind-the-scenes' policy advice to the FSA's Board and staff before the FSA embarks on full public consultation and before it reaches final decisions. In addition, in 1999 we made 19 formal responses to consultations by the FSA, Government, Parliament and trade bodies. We publish all our responses and research results, available as above.

We commission consumer research to keep ourselves informed of consumers' attitudes. In 1999 we commissioned research on mortgages, a major survey of consumers' attitudes and behaviour and research on new ways of buying financial services.

If the FSA is to protect consumers effectively it needs the right legislative framework. We have therefore taken an active interest in the **Financial Services and Markets Bill** and some of the secondary legislation made under it.



We called on the Government to bring **mortgages** into the FSA's scope and supported Government proposals that the financial aspects of **pre-paid funeral plans** should be regulated by the FSA. We are disappointed that the Government decided to regulate mortgage lenders and information disclosure only. This is a partial response to the problems consumers face, and will not address the serious problem of poor advice. It is important that the Government gets the policy framework for **stakeholder pensions** right if the FSA is to regulate the sale of these pensions effectively. We have therefore taken an interest in the Government's proposals and responded to many of its consultations on stakeholder pensions.

We have provided informal advice to FSA staff on a vast range of issues. In addition, we have responded formally and publicly to the following FSA consultation documents in 1999:

- enforcement;
- consumer education;
- consumer compensation;
- review of free-standing additional voluntary contributions (FSAVCs); and
- regulation of approved persons.

More recently we have responded to FSA consultations on proposals for comparative information on financial services, the regulation of professional firms, complaints and the Financial Ombudsman Service and training and competence requirements for staff working in financial services companies.

Effectiveness of the FSA

Our approach to assessing the FSA's effectiveness recognises that it is early days to judge the FSA's success, as the legislation that will establish its scope and remit does not exist yet. Where it appears to us that there is still joint responsibility between the FSA and PIA, we have included the PIA in our assessment.

We have assessed the extent to which the FSA is achieving the following objectives:

- establishing an effective regulatory framework;
- providing appropriate consumer protection;
- promoting public awareness of the financial system; and
- being an open and accountable regulator.

Is the FSA establishing an effective regulatory framework?

The FSA has made significant progress towards the establishment of a coherent regulatory framework and a 'one-stop shop' for consumers

It is the Government rather than the FSA that is responsible for determining the FSA's duties and powers and what activities are subject to FSA regulation.

The new framework which will bring the nine existing regulators together will be more coherent for consumers. However, we are seriously concerned that the complexity of the framework that the Government is creating will not be understood by consumers.

The FSA has made good progress in establishing a 'one-stop shop' for consumers by:

- merging the public enquiry services of the nine existing regulators into a single consumer helpline;
- establishing the new Financial Ombudsman Service that brings together existing dispute resolution schemes; and
- establishing the framework for a single Compensation Scheme that will bring together existing schemes.

We reserve judgement on the effectiveness of these arrangements until the new schemes are up and running.

Is the FSA providing appropriate consumer protection?

The FSA is taking action to make regulatory performance more effective than under previous regimes

We have been impressed by the action taken in the following areas:

- the completion of the review of most priority cases in the Pensions Review. The FSA needs to sustain pressure on those sectors of the industry where there are problems;
- the innovative and high profile public awareness campaign for Phase 2 of the Pensions Review; and
- substantial use of consumer research in its policy-making.

The FSA must work even harder to consolidate its consumer protection regime

We think the FSA needs to do more work or adopt a different approach in the following areas to:

- ensure that in developing consistent standards across industry sectors it is not diluting existing standards of regulatory protection in some areas. For example, there is a potential danger that the less prescriptive approach to training and competence proposed by the FSA may lead firms currently regulated by the PIA to reduce standards of competence and compliance;
- tackle the continuing problem of poor record-keeping by firms which inhibits effective regulation; and
- identify and measure the consumer benefits when it carries out cost benefit analysis on any regulatory changes it is proposing.

While we warmly welcome the publicity given by the FSA to urgent consumer problems, it must tackle emerging consumer problems more swiftly and sustain pressure to improve standards within the industry

We are disappointed that there has been some delay in the FSA and PIA taking forward consumer protection work in the following areas:

- the delay in the PIA publishing the results of its mystery shopping pilot exercise and in the FSA and PIA adopting mystery shopping as a regulatory tool. We are pleased that this is now changing;
- the mis-selling review of the sale of free-standing additional voluntary contributions (FSAVCs) to consumers in occupational pensions schemes;
- reviewing mortgage endowment selling practices; and
- addressing the training and competence problems with Individual Savings Accounts (ISA) sales.

The FSA needs to be seen to be acting publicly on problems that arise from market developments

We are pleased that in many areas the FSA is taking prompt action publicly. For example, it has provided consumer information about personal pensions in the period before the introduction of stakeholder pensions. However, we think the FSA should be alerting the Government publicly about the regulatory problems that arise from the sheer complexity in the design of ISAs.

Is the FSA promoting public awareness of the financial system?

The FSA should aim to establish itself as a brand known in ordinary households, proactively seeking awareness of its role, and be capable of meeting its awareness obligation by providing information and help when people need it

The FSA needs to raise consumer awareness of its existence and understanding of its role. Compared with previous regulators the FSA has made a good start on this, but awareness is still very low. The FSA needs to devote significant resources to this task if it is to have any real impact on the public's understanding of financial services.

The FSA also needs to do more to raise consumers' awareness of their rights and responsibilities.

Consumer education is vital. We welcome the FSA's strategy and hope that it will play a leading, and well-resourced, role in co-ordinating consumer education and information on financial services

We welcome and endorse the work the FSA has done to date on developing a consumer education strategy, publishing booklets and factsheets for consumers, getting personal finance education integrated into the National Curriculum and consulting on proposals to establish a comparative information scheme for financial services.

There is still work to be done by the FSA to:

- target information and advice at consumers when they are making financial decisions;
- make the design and format of its publications more consumer friendly;
- make itself accessible to consumers by working with partners based at the local level;
- show leadership by urgently developing comparative information in a variety of simple formats; and
- make use of new technology to develop comparative information on financial services that consumers can tailor to their own requirements.

Is the FSA an open and accountable regulator?

The FSA is making progress in publicising its activities

We welcome the FSA's openness in many areas, but regret the delay in the PIA publishing the findings of its mystery shopping pilot exercise and the FSA publishing its work on the price of retail investing.

The FSA has established good communication mechanisms with the Panel and we welcome its practice of seeking our views on policy matters before formal public consultation. There has, however, been the odd occasion where we have been consulted at too late a stage to have an impact.

The FSA is improving its consultation process, but should make consultations more accessible to consumers' representatives, take such representations more seriously and demonstrate this attitude publicly

The FSA has overall adopted an open and consultative approach to policy-making. However, in many consultation papers covering technical and complex matters it is very difficult to identify matters of interest to consumers. We would like to see the inclusion of a consumer impact statement or a summary of the key issues for consumers.

Feedback on consultations has not always been presented clearly and in particular there are significant issues which consumer groups have raised in response to consultations that do not appear to be adequately addressed. We feel that at times the FSA has focused on dealing with the industry arguments. Over the next year we expect consumer bodies' representations to be reflected more clearly in FSA policy making.

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