

## **Consumer Panel response to the Commission's Green Paper on Financial Services Policy (2005-2010)**

### **Introduction**

The Consumer Panel was established under the Financial Services and Markets Act 2000 by the Financial Services Authority to represent the interests of consumers. The Panel is independent of the FSA. The main function of the Panel is to provide advice to the FSA, but it also looks at the impact on consumers of activities outside the FSA's remit. The Panel represents the interests of all groups of consumers, including those who are particularly disadvantaged in the context of financial services and consumers who have little or no access to financial services.

### **Overview**

This is the Panel's response to the Commission's Green Paper on Financial Services (2005-2010). We have chosen to focus on key issues for consumers rather than provide a response to all the questions raised in the Paper.

As the Commission turns its attention to retail markets, we want to stress certain critically important core issues.

- We agree on the importance of evidence based policy making. What is notable is the remarkable absence of evidence about the ways in which retail markets within the Union actually operate; how competitive they are, how well consumer needs are met, what problems consumers face and how effective consumer protection measures are. This absence is extremely worrying as it is a severe hindrance to good policy making.
- The financial services industry is very well organised and resourced and very influential. Consumer bodies are not. We welcome developments such as Finuse and understand the difficulties and frustrations that Commission Officials face in seeking consumer inputs. However it is essential that the real needs of consumers for both efficient and effective competitive markets and for efficient and effective consumer protection are properly understood by policy makers at all levels. This will involve radically different methods of consultation and analysis from what has gone before.
- The nature of the retail market and key issues such as consumer confidence may well limit the extent of cross border business, but a single retail market is a far broader issue than cross border business. We fully share the need for rigorous use of competition and other powers to open up markets and stop the abusive use of the "General Good" provisions of the Treaty.
- However we utterly reject arguments that consumer protection measures are barriers to a single market and should be removed or limited. Effective consumer protection and consumer confidence go hand in hand.

Put briefly, the Commission needs much better evidence about how retail markets across the Union actually work and better links with consumers and consumer bodies. This would bring a shared understanding of the need and role for consumer protection measures.

## Questions

*Do stakeholders agree with the overall objectives of the Commission's policy over the next 5 years?*

*Do stakeholders agree with the key political orientation described in the Paper?*

Whilst we agree generally with the overall objective and the key political orientations of the Commission, we strongly believe that that the approach to the retail market should focus on the needs of consumers as the key starting point.

*Do stakeholders agree with the priority measures identified?*

*Which additional measures should be taken to foster consistent application and enforcement of European legislation?*

We generally agree with the priorities listed, subject to three points. We do not see a clear case for what would be a huge and complex task to consolidate national and Community rules for the retail market. Second, policy making and consultation mechanics require significant improvements, as explained above. Third, the better regulation agenda should recognise the central role of effective consumer protection and not just focus on reducing industry costs.

One issue raised here is the evaluation of what has been put in place already. May we make a suggestion of a candidate for rapid re-organisation, namely the simplified prospectus under the UCITs regime? Instead of being clear and helping consumers understand what they are being offered, it is far too long, complex and impenetrable. It is a model of what consumer information should not be.

*Do stakeholders agree with the identified measures where the Commission might decide to take no action, or if there are other concrete areas where the Commission should not bring forward proposals presently in the pipeline or, indeed areas where the Commission should consider withdrawing?*

*Do stakeholders believe the existing regulatory and supervisory framework is sufficient to tackle the supervisory challenges in the years ahead, what are the gaps and how can these be filled most effectively?*

*What are the objectives, sectors to be covered and the priority areas in regulatory and co-operative activities on a global scale?*

We see it as a key objective to establish an efficient, fast and cheap payment system across Europe, not simply in the euro zone. It would be very difficult to promote consumer buy-in to a single market without demonstrable achievements in this area.

We fully support the current Lamfalussy structure and attempts to foster greater co-operation between supervisors.

We fully support action to promote cross border investments and competition.

*Do stakeholders agree with the new identified priority areas?*

*What are the (dis)advantages of the various models for cross border provision of services, whether there is a business case for developing a 26<sup>th</sup> regime and which business lines might benefit?*

*How to enable consumers to deal more effectively with financial products and whether this means more professional and independent advice, improved education or financial literacy training are needed?*

*Do stakeholders agree with the issues identified in the above list of retail products, or if they would suggest other areas where additional action at EU level could be beneficial?*

On retail financial markets, we have set out above certain hesitations that we have which flow from weaknesses in evidence, consultation machinery and understanding of real consumer needs.

We see proposals such as the 26<sup>th</sup> regime as posing certain dangers. It would raise new higher barriers to consumers understanding their rights in the retail market. This would be a bad thing in itself. We fear that with the imbalance in power and understanding between consumers and the industry, the end result of a choice between the domestic and the 26<sup>th</sup> regime would result in lower protection for consumers.

We certainly do not oppose establishing Forum Groups for particular products, but given the imbalance between available industry and consumer experts, the number established at any one time may need to be moderated to ensure proper consumer involvement. The Mortgage Forum was a much more balanced body than the four post FSAP groups whose conclusions strongly reflected industry priorities.

We have no view on the proposals on financial mediation because the Green Paper itself does not set out the reasoning behind it. We certainly have no wish to erect or defend barriers to market access, but it seems to us natural to look to intermediaries close at hand for advice, in the context of eg local tax or social security requirements.

Finally the Green Paper raises a nexus of major issues: consumer capability, the role of advice, education and financial literacy. Very briefly –

- Consumers vary massively in their capabilities.
- There is a need for clear and comprehensible information about products and services which are themselves clear and straight forward. This is as much about industry culture as regulation.

- Issues like remuneration systems for salespeople and advisers almost always encourage mis selling and put a question mark over the advice they offer. There is a strong argument in favour of more general advice being available to consumers from sources which are not under such commercial pressures.
- Work on education and literacy may in the very long term bring noticeable benefits, but that is no reason for removing current consumer protections or for not seeking to press the industry to change its culture and to raise its overall standards.

Financial Services Consumer Panel

1 August 2005