

Annual Lecture - 13 October 2009

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“The New Financial World – A Better Deal for Consumers?”

By Adam Phillips, Chairman, Financial Services Consumer Panel

As Graham has just pointed out he asked me to take a broad view of the reforms I think we need if we are to build trust in the financial services industry and encourage people to save more and protect themselves better. If we can do this, it will be good for them but also good for the industry – so that is what I intend to talk about this evening, but I will spend a little time towards the end on my views of the mutual sector and where it might want to be headed.

The last couple of years has been a pretty dreadful time for the financial services industry and for the people who rely on it - which is most of us - since it is virtually impossible to survive in a modern society without a bank account, a credit card, some insurance and somewhere to put savings. And, of course, many of us need mortgages as well.

We have had the benefit of working with the same regulatory architecture for a full business cycle; it's a cycle which covered one of the most sustained periods of continuous growth in the UK since the 1950's, according to Gordon Brown, but which also experienced the worst financial collapse in over 70 years. One of the things engineers do to check the quality of their work is to test their designs to destruction whenever it can be done without dangerous consequences. What has happened in the last two years came close to testing capitalism to destruction and it puts us in a very good position now to reflect on what has worked and what has not. I am an optimist and I think that there are enough intelligent people working on how to avoid a repeat of what has just happened for us to be fairly confident that there will not be another collapse on the scale we have just seen in the near future. Of course there will be some difficult times – we are all going to stop getting richer for a few years and many of us will get poorer. The recession may well be W shaped rather than V shaped and it is quite possible that house prices will drop further, but I think that whichever party wins the next election (and let's hope there will be a clear winner) the financial system will be more stable in future as a result of what has just happened.

So I am not going to spend much time this evening talking about financial stability and systemic risk. This is obviously the single most important aspect of the regulation of the financial system for the industry's customers and for citizens of the UK who are, after all, the industry's underwriters of last resort. But it is not an area where I or the Consumer Panel has any new insights which we can add to the debate. What I intend to do in the next half hour or so is to look at how the regulation has worked from the perspective of consumers and what lessons we have learned that could be usefully incorporated into any future revision of the Financial Services and Markets Act. I am going to look at some trends which will change the

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way the financial services market will operate in the future and I am going to make five broad recommendations which if followed would make a better world for consumers of financial services.

But first I think I should explain a little more about the Consumer Panel since we are not a widely known or well understood body. The panel was established in 2000 by the Financial Services and Markets Act, or FSMA as I am going to refer to it from now on. The Panel had in fact existed since 1998 as the consumer panel of the Personal Investment Authority. The objective of the PIA in establishing a panel of consumers, and subsequently the FSA, was to inject an informed consumer perspective into the deliberations of the regulator and a perspective, which was collaborative rather than adversarial. There are of course a lot of consumer lobbying bodies, but for all of them the financial services market is only part of what they do, and, with possible the exception of Which? They have specific areas of interest and they do not have the resources to engage effectively and at length in discussions about regulation. When I joined the Panel it had already been in existence for six years and I have now been a member for five more. In that time our role has changed from being a “necessary irritant” as a former chairman of the FSA described us to a closely integrated element of the FSA’s governance process. Together with the Practitioner Panel and the Smaller Business Practitioner Panel we not only provide the FSA staff with advice, insight and early warnings at an operational level. But the Panels also help the FSA to broaden their understanding of issues, even if they decide to ignore us in the end.

The Consumer Panel is a varied bunch; there are 13 of us in total, including lawyers, economists, ex-civil servants, consumer advocates, journalists, management consultants, communications and marketing experts, and people who work with social exclusion. My own background is that for most of my professional life I have been a market and social researcher. I know that when I tell people this it conjures up memories of annoying pointless telephone calls and people with clipboards desperately trying to stop you in the street. I apologise if you have had a bad experience with my industry, but professional market researchers as a whole are not like this, and our product, apart from the stunt polls you see in the media, is one which is used by organisations and government to understand and engage with their users and citizens. Personally, I have spent relatively little time actually interviewing people. Most of my career has been about understanding how people make choices and what influences them, a subject which I have recently learned to call behavioural economics. As a member of the Panel I have learned a lot more about the industry and its regulation and I now have a much more realistic view about how regulation can work effectively and the ways in which it wastes money and time for the industry - and frequently for the customer as well. I think the same is true of my colleagues.

So what do I think we need to do to reform regulation to make life better for consumers? The first issue is to agree where we are trying to get to. What would we like the retail financial services market place to look like in an ideal world? Everyone will have their own list based on their personal situation and experience, but you can summarise the sorts of things people come up with when asked about a better world under eight basic headings; first a credit market which is accessible and which treats customers fairly; second a mortgage market which lends responsibly to customers; third products which are presented in a way which is simple and honest and prices that can be easily compared with other products of the same

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type; fourth the widespread availability of competitively priced products that meet key needs (for example planning for retirement), and which “do what it says on the tin”

This sounds reasonable so far doesn't it? But people also need 'good' product innovation, rather than innovation that conceals cost or risk in the pursuit of providing an apparently better price or higher rate of return. Sixth, they need a retail distribution structure that provides real choice for the customer, a structure that operates through different channels and one where competition works effectively to hold down costs while, at the same time, meeting customer needs. Some examples of constructive competition in retail distribution from other sectors are the competition between Waitrose, Tesco, Sainsbury Aldi and Lidl in grocery retailing, or Amazon in books. These are examples of retail business models, which have worked well for both the firms that developed them and for the consumers of the products they sell. In financial services there is a lack of differentiation within the different retail channels, which concentration of ownership is making worse, and therefore a lack of real consumer choice. Seventh people need access to independent advice, free from product, provider and sales bias and they need financial intermediaries who act as agents of the consumer. And finally eighth they need a market that recognises and responds effectively to the needs of more vulnerable consumers, whether due to age, location or ability.

These eight requirements for a better world can be summarised in a single sentence as a retail market where companies treat customers fairly by recognising and responding to their interests as key stakeholders. Good corporate governance is obviously relevant to delivering the ethical and social responsibility, which the industry needs if it is to treat customers fairly and competitive markets should deliver good value and positive innovation. To the extent that these are not happening in an industry, external regulation is necessary. However, I do not think it should be the job of a regulator to try to keep firms honest and fair by designing rules to cover every possible eventuality. Andrew Hill writing in the Lombard column of the FT a couple of years ago about the FSA's attempt to simplify its rule book suggested only one rule was needed “use your common sense”. It is because detailed rules can always be circumvented that the Panel supported the FSA's move to more principles based regulation and in particular to applying the principle of treating customers fairly.

So if we look back over the past ten years what do we see from the consumer perspective? First of all, it is worth considering how regulation has developed over that time. Although the FSA was established in 2000, combining all the activities of seven industry sector regulators and the supervisory role of the Bank of England, it did not take over regulating all savings and investments until December 2001. Then first charge mortgages were added to its responsibilities during 2004 and general insurance, excluding travel insurance, in early 2005. Travel insurance was added last year and the FSA will only impose statutory regulation of deposit taking on banks from the end of this month. Meanwhile second charge mortgages, credit cards and unsecured consumer lending are the responsibility of the Office of Fair Trading operating under the Consumer Credit Act. From the consumer perspective this changing and fragmented regulatory environment is a problem, because consumers are dealing with firms that are working in a complicated world with regulation that is not well “joined up”. Fortunately, consumers can complain to the Financial Services Ombudsman in the last resort. But that should only be a last resort. It is depressing that last year the FOS

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received over threequarters of a million enquiries about how to complain and 127,000 substantive complaints.

The complex regulatory environment builds in inefficiency for firms and it results in confusion and inconsistent treatment for customers. So **my first recommendation** is that the differences between FSMA and the Consumer Credit Act need to be resolved, so that they are better aligned - one example of misalignment being the difference in the rules in relation to arrears and repossessions for first and second charge mortgages, another misalignment being the withdrawal of the Banking Code and its relaunch as a Lending Code with separate Moneydeclared documents for bank accounts and credit cards. The respective roles of the FSA and OFT need to be clarified. Both organisations are trying to work together to provide a joined up consumer experience, and much alignment can be achieved by rule making under FSMA, but the underlying legislation does not make this easy. If legislation is going to be revised this is an area where some small changes could make a considerable impact.

My next suggestion is that It would also make a great deal of sense if the FSA were to take on the regulation of consumer credit for major authorised firms; the FSA supervises deposit taking conduct of business, but not unsecured lending conduct. Unsecured credit is the responsibility of the OFT which does not directly supervise firms. Complying with the rules under which credit is extended has a big impact on the risk of retail firms, so it is important for controlling systemic risk that the risks associated with the extension of all credit is supervised at the micro or individual firm level. Finally, customers are more likely to be treated fairly if business conduct rules require firms to operate in a sustainable way and staff incentives do not encourage mis-selling. Since Northern Rock the FSA has taken steps to strengthen its supervisory approach and focus on outcomes rather than processes. This is a very welcome change and its effect is visible in its latest work on Payment Protection Insurance. So **my second recommendation** is that the FSA should take on the regulation of consumer credit for major authorised firms. Adopting these two recommendations would go a long way towards addressing the first two requirements for a better world; a credit market, which treats customers fairly and is accessible and a mortgage market which lends responsibly customers.

I would now like to look at the way the FSA has approached regulation of the retail market. Regulators tend to be economists by background, at least those that are not lawyers. And most economists believe that markets work best when both sides of market transactions have access to the same information and have the same level of ability to make sense of it. Those of us who know a little about behavioural economics have always questioned this assumption and what has happened over the last two years has caused a lot other people to agree with us. But, until recently, that has been the prevailing model used by regulators. As a result the FSA has tried to address the issue of information and understanding in order to rebalance the consumer market. It has done some very good work on measuring the capability of the population to engage with financial services, on investigating ways to raise financial capability and in providing generic advice to consumers through its Moneydeclared brand and the Money Guidance pathfinders. This work has resulted in a proposal by the Government to establish an independent consumer education and information authority - a proposal which I very much welcome.

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The FSA has also standardised the information provided to consumers at point of sale, examples of this work are the Key Facts sheet which summarises the relevant elements of an insurance policy and the Key Features document which does much the same for investments. The purpose of these documents is primarily to help buyers make better choices by providing relevant information in a standardised way. I see this documentation as playing much the same role as product labelling in other markets, it provides a way of educating the customer in the key features of the product category which differentiate it from other categories and a way of standardising the key performance characteristics of a product which all product providers need to take into account. However the FSA has also done research, which shows that disclosure documents are only properly used by about a third of the population, the rest choose to rely on what they are told by friends and advisers. So disclosure documents will help some consumers make good choices but they cannot be a panacea for dealing with the asymmetry of knowledge and understanding between providers and consumers. Education and disclosure alone will not be enough to ensure that retail financial markets will be sufficiently efficient to deliver fair value to the customer; we also need more and better sources of advice.

The FSA is also doing a lot of work as part of the Retail Distribution Review to raise the professional standards of financial advisers and eliminate provider bias (or bribery by the product provider to get the adviser to sell their product as I see it). I think that if the FSA and the Government continue to follow the path they have announced with consumer education, Money Guidance and the RDR, we will be getting much closer to a market place which will meet my seventh requirement of providing access to independent advice, free from product, provider and sales bias. Of course support and investment by the industry, particularly in the provision of Money Guidance will be needed to make it work

Unfortunately, the majority of people¹ will not have enough money to employ a professional adviser to do the work for them. We therefore need to think about how people who ought to save, but who are not able or willing to pay an adviser, can be provided with savings products that are suitable for their needs and are reasonable value. The key words here are **suitable for their needs** and **reasonable value**. I would like to deal with suitability first.

The ABI and the BBA have been doing some interesting work on the possibility of introducing a fairly standardised approach to advice that will enable people to buy a simplified range of products which will have a high probability of being suitable for their needs and which will be significantly cheaper to provide than full advice. There is an existing regulatory regime for advice called “focused advice” which could provide a framework. The challenge is to develop a process which is engaging for the customer, relatively cheap for the retailer to administer and which has a high probability of giving suitable advice to a wide range of customers. There has to be a wide range of customers if the potential market size is to be big enough to make the investment in developing the system worthwhile. Making simplified advice like this work is going to be a big challenge, but the initial discussions have been reasonably encouraging.

¹ FSA Consumer Research No.73 – Accessing Investment Products

So **my third recommendation** is to progress the development of simplified advice as fast as possible. It would provide a source of product distribution to the kind of people who are expected to use the Money Guidance service. It will provide a route for people who have small amounts of money to save to get some advice and buy suitable products at a cost, which will ensure that the maximum amount of their money is directed into their savings. If we are unable to create the simplified advice channel there is a high probability that many people will start buying unsuitable products directly over the Internet without advice and without any protection from the Ombudsman. Such a distribution channel, with its lower cost of sales and reduced regulatory risk for the intermediary, due to standardisation should also be attractive to new entrants and to retail financial services organisations like building societies, who want to provide a full service to their customers but who are concerned about the investment required and the regulatory risk involved.

This leads on to finding ways to develop products that provide reasonable value and my fourth recommendation. Simplified advice will need “simple”, straightforward products if the products are to meet the regulatory requirement for being suitable after a relatively short and standardised fact find. In this context “simple” means that the characteristics must be easy to explain and the product must do “what it says on the tin”. Of course, no financial product is simple – I am always surprised that equity ISA’s are implied to be the best place for long-term savings without any further guidance. It’s interesting that some organisations now provide them only with full advice or execution only because of the regulatory risk.

Whether or not simplified advice ever gets off the ground, there is a serious need to look again at product design to see if we cannot develop financial products, which are more straightforward from the customer’s point of view. The issue here is that the very unsophisticated ways in which consumers make choices leads to innovation which increases the value of the key variable that influences choice – which in most cases is absolute return or APR – and then finds ways of inserting hidden costs or risks to confuse the customer and cover the cost of this apparent increase in return. That is why you get pages and pages of small print with most financial products whereas with cars and electrical equipment you get a couple of pages of warnings. The rest is done by the equipment using embedded guidance and safety features which tell you when to top up the oil or the tyres in a car, or that disconnects your kettle when it boils dry before it catches fire. I find it hard to believe that we cannot provide the same sort of simplifying approach to product design with financial products.

Inevitably, talking about product design leads on to discussion about product regulation. The history of attempts to regulate financial products has not been good, with CAT standards and Sandler products being examples of regulated products that have not been very successful. For this reason, the Consumer Panel has tended to talk about product design or product scrutiny, rather than product regulation. By this we mean that the parameters of certain classes of products should be agreed so that the opportunity for innovation which confuses the customer or which conceals risk is designed out. One example of this kind of product design is Safe Home Income Plans (SHIP) where the industry has agreed the parameters of equity release as part of proactive self-regulation in order to maintain standards and reduce the risk of a product being launched into the equity release market which would damage consumer trust in these products. Another example is motor insurance, where for legal reasons, the characteristics of the product have to meet certain basic requirements.

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In order not to restrict “good” innovation the rules for product design are probably best written by the industry as part of self-regulation, but I think it is important that there is an independent approval process to ensure that the design guidance sets appropriate minimum standards and limits the scope for innovation which might change the character of the risks for the product category or which might mislead the customer or their adviser. Where product design guidance does not exist, some kind of product scrutiny would be desirable to ensure that the product is likely to perform as claimed. An example of where this could be useful is medical insurance where the exclusions tend to be technical and the risks are hard to gauge for anyone who is not a medical professional. In this particular case the ABI has already done good work by introducing a code of practice. Another example where there is discussion at the moment is the regulation of mortgages. The Panel does not support simple loan to value or loan to income ratios, but industry agreement on how to calculate fees for arrangement and exit, for example, would help to keep the headline APR relatively honest and would simplify the market to the benefit of consumers and their advisers. So **my fourth recommendation** is that we need to find a way to regulate product design which will provide better products that can be described fairly simply and which do “what it says on the tin. If we can develop good product design criteria we will be on the way towards achieving three more of my eight requirements for a better market. That is; products which are presented in a way which is simple and honest with prices that can be easily compared with other products of the same type; ‘good’ product innovation, rather than innovation that conceals cost or risk in the pursuit of providing an apparently better price or higher rate of return, and third the widespread availability of competitively priced products that “do what it says on the tin” We also create a way to produce products which are not generic, or price capped some of which could be safely sold through a simplified process.

This leads me on to the way competition works in retail financial services markets. Regulating product design criteria is a good way to ensure that products in a given sector, which are designed for the mass market, are likely to behave in a relatively consistent way that can be described fairly simply. This is because all products in that sector will have fairly similar underlying characteristics and the scope for misleading innovation will be limited. Doing this makes it easier for the competition to be focused on value in terms of price and overall quality of service. So one way to make competition in financial services markets more effective is to bring in an element of standardisation. This does not mean that markets will become generic because the role of price, customer service and confidence signalled by the brand name will all be elements where the individual product provider or retailer can differentiate themselves.

Some markets are very competitive to the benefit of the customer; motor insurance and mortgages are two examples. Others are very competitive, but to the benefit of the intermediary or retailer, rather than the customer. Examples of this are the market for investment bonds, where large commissions are paid to the intermediary to attract customers at the long-term expense of the customer, or payment protection insurance where the customer is paying much more than they should because of imperfect competition in the market. The lack of effective competition in some market sectors is probably due to the relatively small number of players in the market, but it is also because the customer does not understand the true cost of providing the product and is, in the case of PPI, actually focused on buying something else to which the PPI is a minor extra cost. And then there are

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management charges. As we all know, very few people who are not actuaries can do compound interest calculations in their heads and therefore huge costs can be concealed in apparently small but regular charges. For these reasons competition in some financial markets is driven less by customers' perceptions of cost than by other factors, in particular the return they expect to get, or the headline interest rate, relative to other providers.

One of the primary purposes of regulation is to make competition more effective where structural factors stop that happening. It is clear from what has happened with bank charges and PPI that disclosure is not sufficient to get the market to work. In both cases there has been an overlap between the FSA and the OFT and, in the case of PPI, the Competition Commission was also involved. That may have been necessary, because the sums of money were very significant contributors to the profits of banks, but it would have been better if these products, which were very profitable as a result of market failure, could have been addressed by the regulator before they became so significant. One way to do this is through supervision of conduct of business. It is therefore very reassuring that in the FSA organisation structure introduced this month there is a new division with the specific task of investigating and managing conduct risk. I hope that this new division will be successful in identifying and dealing with problems similar to bank charges and PPI. However, there is no guarantee that the FSA will be empowered in the future to enforce its will in the area of poor product design or unsustainable business models without a clear legal mandate. For this reason we would like to see the FSA's duty to protect consumers in FSMA extended by adding to the relatively short list of issues the FSA has to consider when deciding on the appropriate levels of consumer protection, the need for consumers to obtain value for money. Introducing this change would not turn the FSA into an economic regulator overnight, all the protections in FSMA requiring proportionality and reasonable benefits in relation to costs would still be there, but it would confer a legitimacy on the FSA's declared intention to investigate and if necessary stop the development of unsustainable business models. We think that this change would guarantee the FSA's effectiveness as a regulator in sectors of the market where competition is not working well.

The FSA is the lead regulator for financial services. It is in close touch with the main firms, it is responsible for prudential regulation and is best placed to acquire the necessary deep knowledge of the industry. It therefore makes sense for the FSA to ensure that authorised firms do not become dependent on unsustainable profits from products sold in uncompetitive markets, which offer poor value to consumers. So **my fifth recommendation** is that FSMA should be modified to require the FSA to pay "due regard to value for money" when considering consumer protection, in addition to the short list of other things which it is required to pay "due regard" to. I think this would be a big step in encouraging all firms to treat their customers fairly, since they would be aware that activities which were essentially profitable because of a failure by the customer to be able to understand the costs involved, or the risks or to manage their affairs in a particular way would be discouraged by the regulator.

So far I have talked about what I and my colleagues on the Consumer Panel have observed about the workings of FSMA and the FSA. I have suggested some actions, which I think, would improve consumer protection in areas, which go beyond what can be done now. I have not therefore talked about the need for increased openness and transparency in providing feedback about company performance so that consumers can exercise better

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judgement over where to put their money, or about a more transparent regime for regulating financial promotions which would benefit both consumers and the industry, or about the complex structure of the Compensation Scheme which is confusing, expensive for the industry, and unlikely to provide the reassurance and protection people will need if there is ever another Northern Rock or the failure of a major insurer or provider of pensions. All these are areas where the Panel's views are on record, you can find the information in our annual report and other documents which are on our website, so I am not going to spend any time on them this evening.

Instead I am going to make some observations about the best way to provide consumer protection in financial services. Recent discussion has tended to polarise between those who think that a standalone consumer protection agency with a separate organisation to supervise financial institutions would be more effective than the current structure and those who believe it would be better to integrate both functions in a single body. You will probably not be surprised to learn that I don't agree with either of these rather extreme views. It seems to me that in regulating the consumer market there are two activities. The first is to ensure that the products being sold are fit for purpose, meet the claims being made for them, are transparently priced in a way potential buyers can understand and that are sold by firms which deliver what they promise to their customers. The second is the policing of individual retail establishments to make sure that conduct of business at the point of sale follows the rules. I think that there is a need for both activities. In the case of Food Standards the production and distribution of food is monitored by the other FSA and local standards are policed by Trading Standards. From the consumer perspective at least, the other FSA has been very effective in rebuilding trust in food standards after the BSE disaster. However, the financial services industry is different. As I said earlier, I believe that for large firms it makes sense for the supervision of conduct to be carried out by the same supervisory team that is dealing with prudential risk. Conduct risks can lead to systemic risk and coordinating the work of supervisors from two different organisations is not easy. Policing the activities of individual establishments and small firms is a very different task from supervising the activities of large firms. There are good arguments on both sides about whether consumer protection would be better executed by two independent bodies or if they would be better integrated into a single one. I am afraid I am not going to give you my preferred option tonight. Both could work well and the best solution will depend to a large extent on the details of how it is implemented. But what is apparent to me is that the FSA has raised its consumer protection game recently, as the recent announcement on Mortgage PPI demonstrates. If similar steps had been taken when concerns about bank charges for unauthorised overdrafts began to surface some years ago, the problem might well have been resolved a lot more quickly and cheaply and the Citizens Advice supercomplaint and subsequent court case by the OFT might never have been needed. This would have been to the great benefit of both consumers and the industry.

I would now like to move on from discussing regulation to talk about the changes, which we know are going to happen in the future, the impact these are likely to have and the opportunities for the industry. First there is the disappearance of the defined benefit pension scheme outside of the public sector and the introduction of personal Accounts from 2012. This will create a requirement for people to understand and manage their pension arrangements. It will also create a huge and ongoing need for advice. When people receive

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that advice they will be shocked to learn how much they are going to need to save to produce a reasonable pension. Because of what is happening to defined benefit schemes this knowledge is already becoming more widespread among the public. This will change the dynamics of the advice market, because it will not just be the self-employed who need pensions and savings advice but a much larger section of the population. In this respect we are likely to find our market getting more like the United States where it is common for successful young people to have a financial adviser whom they retain on a fee basis. The Retail Distribution Review will of course support this change. Coupled with explicit charging for advice and Money Guidance, the market is going to look very different in 2012 from the way it looks now, with much more opportunity to build a long term advice-based relationship with customers rather than one based on sales.

As a result of what has happened, there is also likely to be a fairly permanent rise in the savings ratio as people not only realise they have to save more for their retirement, but need to save for a 25% deposit on mortgage, just like when I was young. The Asian nations will continue to save and there will be a need to recycle their money, which may appear as cheap credit and fuel equity release, but I think popular attitudes to spending future wealth will have changed permanently as a result of what has happened. There will therefore be a mass market for savings products related to managing small individual amounts of money.

Finally, given the audience, I would like to touch on the situation of mutuals. I think that the fact that your customers are also your shareholders is something which many people will appreciate better after what has happened. A simple relationship between saving and borrowing is something, which many customers will understand and trust. In a world where mortgages are going to be harder to obtain you can build loyalty and encourage prudent behaviour. I therefore think building societies have a potential advantage in relation to banks as long as you can tap into the opportunity created by a growing need for trusted advice, especially in the middle market. It is essential that we retain diversity in our financial system and that we foster a closer relationship between providers of financial services and their customers. I think mutual organisations have an important role to play in fostering this relationship.

I have covered a number of different topics this evening. Those of you who have been listening closely will have noticed that I have covered all the issues I raised at the beginning as part of my ideal world for consumers with the exception of; a market that recognises and responds effectively to the needs of more vulnerable consumers, whether due to age, location or ability. I have not dwelt on this because my recommendations provide ways to help address this issue and because I believe the regulators already have sufficient tools to do the job.

So to sum up what I have talked about this evening, I think that if we are to improve consumer protection rebuild trust and reduce the regulatory overhead for the industry, there is a need to get a better alignment between the FSMA and the Consumer Credit Act. This will join up consumer protection and make it easier for the FSA and OFT to work together. We should transfer the regulation of consumer credit for major authorised firms to the FSA in order to improve the efficiency of the process, provide more proactive consumer protection and raise the quality and reliability of micro-prudential supervision. We need to find a way to progress the development of simplified advice as fast as possible. And we need to find a

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way to regulate product design, which will provide better products that do “what it says on the tin”. Finally FSMA needs to give the regulator the legal power to pay “due regard” to value for money, in order to ensure that it has legal certainty when pursuing the kind of regulatory actions which it is now finally undertaking with PPI and which would have made it possible to resolve issues relating to bank charges for unauthorised overdrafts before they became so serious. If we can do all these things while delivering on the commitment to provide effective financial education and money guidance and the FSA’s Retail Distribution Review, there is a likely to be a significant reduction in the number of claims to the FOS and a rise in consumers’ confidence that financial firms will work in their interest. This can only be good for the future of the industry. The mutual building society model offers you the opportunity to build a long term and co-operative relationship with customers which I believe will be very attractive to consumers, as long as you are able to clearly differentiate yourselves from banks.

Thank you very much for listening.