

Consumers deserve a better deal from financial regulation. The Financial Services Bill provides a golden opportunity to ensure consumers receive the protection they deserve.

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*Financial regulation is once again under the spotlight as the Treasury Select Committee take evidence on what type of regulator should follow the Financial Services Authority. **Dominic Lindley** outlines the view of consumer organisation Which?, based on its experience that good regulation design leads to good service for consumers.*



The government is proposing to replace the existing regulator, the [Financial Services Authority](#) (FSA) with a 'twin-peaks' system dividing prudential and conduct regulation between two new bodies, the [Prudential Regulation Authority](#) (PRA) and the [Financial Conduct Authority](#) (FCA).

If we're honest, financial regulation reform is unlikely to rouse public debate. However, it is extremely important. It affects every single one of us from the interest rates we receive on our savings accounts to the advice we receive from our banks. Which? regularly sees the impact that poor financial regulation has on consumers. Our mystery shopping reveals unacceptable standards in financial advice, our money research team comes across numerous badly designed products, and our money helpline hears from a plethora of people who've suffered financially and emotionally as a result of poor products and services.

On 2nd November I gave evidence in Parliament to the Treasury Select Committee alongside our Chief Executive, Peter Vicary-Smith. It is sad to say but the truth is that the FSA did not do a great job when it came to conduct regulation and this bill presents a fantastic opportunity to right the wrongs of the past. We need to ensure the legislation creates a regulator which delivers the Government's promise to put consumers at its heart.

The FCAs proposed objective is "protecting and enhancing confidence in the UK financial system". They will be the regulator that will monitor the products you buy and the service you get. However, in order for FCA to put consumers at its heart we think the proposed objective needs to be completely rethought.

It is vital that the legislation sets the FCA a workable strategic objective. This objective will give the regulator its mandate, shape its culture, and set the terms by which parliament can hold it to account. I do not believe the current objective of 'protecting and enhancing confidence in the UK Financial System' is fit for purpose. A regulator should never be focused solely on trying to protect and enhance confidence. The best way of protecting confidence is never to tell anyone when something goes wrong!

Furthermore, it is very difficult to identify what is actually meant by the objective. It fails the test of setting the FCA a clear mandate and enabling Parliament to hold the FCA to account and it sends the message that the regulator is more concerned about the perception of confidence than the reality of protection. Confidence is vital as without it consumers won't interact with firms, but confidence is a by-product of good service, good products and good regulation. If you get that right, confidence will follow.

This point was perfectly illustrated by John Kay, in a recent Financial Times piece, that described the current objective of the FCA as more appropriate for a trade body of an industry rather than its regulator. If you can get behind the paywall, it makes for a [fantastic read](#).

We believe that an objective of 'ensuring a fair and transparent market in financial services' would be far more appropriate. This clear and understandable objective should hardwire the right culture into the organisation and provide an unambiguous purpose for the staff of the regulator to follow when making operational decisions.

With an effective objective in place the new regulator should have the culture and ethos that leads to enhanced consumer protection. If you get the objective of the regulator right from the beginning then it becomes much easier to tackle information asymmetries, product complexity and poor sales practices that are endemic in the financial services industry. Consumers deserve a better deal. We hope Parliament will ensure the FCA delivers one.

