

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Ms Samosa

Consultation Document: Financial Services Strategy

This is the Financial Services Consumer Panel's response to the Office of Fair Trading Consultation Document – Financial Services Strategy.

Overall strategy

Q1: Do you agree with the OFT's proposals to focus on the two key priorities of:

- ***Fairness and responsibility; and***
- ***Advocacy for strong competition and open markets (within a context of appropriate prudential regulation)?***

We agree that the OFT should focus on these two key priorities in the banking, credit and leasing markets. The fair treatment of consumers is an entirely appropriate objective. Fair treatment cannot be achieved unless firms take responsibility for delivering what consumers need in as transparent and competitive market as it is possible to achieve. This kind of market environment should not, however, in any way give rise to the transfer of responsibility from firms to consumers beyond the established legal position.

We welcome the work that is being done to improve financial capability and provide a money guidance service; however, this alone will not be enough to address the asymmetry of information about the characteristics of financial products between the provider or retailer and the consumer. For there to be

effective competition regulatory intervention is likely to be necessary in order to make it possible for the consumer to make realistic cost and value comparisons.

Competition in financial markets appears to have led to some firms under pricing risk. This is not just a prudential issue but relates to irresponsible lending which is a conduct of business issue. It is important that this is appropriately regulated if market competition is not to lead to the creation of hidden prudential risks.

Fairness and responsibility

Q2: Do you agree that the OFT's focus should be particularly on credit markets and debt recovery?

We understand that the OFT will wish to prioritise, at least in the short term, the interests of distressed consumers and businesses who have been particularly badly affected by recent financial and market developments.

Q3: Are there other markets or issues within financial services, other than those mentioned above, that you think we should monitor or pay particular attention to in the short term?

No, but we would not wish to see the OFT stand back altogether from other important areas. In this context we are pleased to see that the OFT is launching a review of the unsecured consumer credit sector as a whole.

Q4: Are there any key aspects either in relation to consumers or business, that we are missing and that might be relevant to the work of the OFT?

We do not think there is anything missing as such, but we are concerned that the split of regulatory responsibility for financial services between the OFT and Financial Services Authority presents significant challenges that need to be addressed. In the banking sector, the implementation of the Payment Services Directive and the introduction of the FSA's Banking Conduct of Business Sourcebook in November will herald a significant change to the current regulatory model. The strategy document confirms that the OFT will be continuing to place a strong emphasis on working with partners, including the FSA, but urge the OFT to ensure that it works effectively with the FSA on a detailed operational and policy level, where regulatory gaps and overlap can cause potential risks for consumers. There is also a need to ensure that the regulation of second charge mortgages is aligned with MCOB.

Competition and open markets

Q5: Are there any areas of financial regulation that pose a particular risk in relation to their impact on competition? We are particularly interested in regulation that creates significant barriers to new entry.

None we are aware of.

Q6: We would welcome thoughts on some of the trade-offs the OFT will have to address in advocating the benefits of competition. For example, what, if any, are the trade-offs that need to be made between competition and financial stability?

We do not think that there are trade-offs between financial stability and competition as long as risk can be appropriately priced. It has become clear in the recent banking crisis that competition can lead organisations to underestimate risk. We are not in a position to comment on the extent to which competition needs to be restricted by regulation in some market sectors because it is impossible to get realistic pricing of risk.

General

Do you have any additional comments to make on the strategy?

No.

Yours sincerely,

A handwritten signature in black ink that reads "Adam Phillips". The signature is written in a cursive style with a long horizontal stroke at the end.

Adam Phillips
Acting Chairman
Financial Services Consumer Panel