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Dear Sirs

Financial Sector Resolution: Broadening the Regime

This is the Financial Services Consumer Panel's response to HM Treasury's August consultation paper Financial sector resolution: broadening the regime.

The Panel is pleased that HM Treasury is tackling the question of systemically important non-bank financial institutions and the threat that the failure of such an institution could present to the financial stability of the UK. As recent history has shown, it is individual consumers (and sometimes taxpayers) who bear the brunt of failure in the financial sector.

The Panel is particularly concerned that the insurance sector seems to be lagging behind the banking sector in terms of the resolution processes and powers that should be in place to protect consumers although, as I explain below, there is one particular aspect of retail banking where further action is needed. Our response to the consultation paper focuses on these two areas only.

Insurance sector

We support the Government's overarching objectives that any insurer should be able to exit the market without disorderly impact, and that the interests of policyholders should be appropriately protected. The clear implication of the consultation paper is that the current legal and regulatory framework does not deliver those objectives and seeks views on the most appropriate means of achieving them.

The Panel's focus is always the impact of any policy initiative on consumers. From a policyholder perspective, continuity of cover and payment is essential. For example, the failure of a firm providing motor insurance could leave thousands of individuals unable to drive their cars or commercial vehicles unless the liability was immediately assumed by another insurer or, in extremis, by the Government. As the consultation paper makes clear, the Financial Services Compensation Scheme has a key role to play in arranging and managing continuity of cover although there seem to be a number of operational concerns around this. Similarly where payment is already

being made to a policyholder - perhaps under a critical illness policy – payment should continue seamlessly, as there will be many occasions where the policyholder could be entirely dependent on this income to meet basic living expenses.

We urge HM Treasury to take steps to ensure that these consumer outcomes can be delivered effectively should the need arise.

Banking transactions

Finally we would like to take this opportunity to raise the issue of the importance of transactional banking services. The recent software/operational failure at RBS Group served to demonstrate the impact that this can have on the smooth-running of individuals' day-to-day lives. According to media reports¹ customers were unable to pay bills, wages were not received and property purchases could not be completed. Lord Oakeshott said at the time: "Enough is enough... it is just as unacceptable as having water or power cut off for five days and counting, but without bad weather to blame."

Although banking transactions are not specifically covered in the current consultation paper, we think further consideration should be given to measures to avoid - or at least address effectively - the kind of transactional chaos that can take place overnight when a bank is unable to carry out its transactional obligations.

Yours faithfully

Kay Blair
Vice Chair
Financial Services Consumer Panel

¹ For example Daily Telegraph, 24 June 2012