

Treasury Committee

Oral evidence: Work of the Financial Conduct Authority, HC 417

Tuesday 3 December 2024

Ordered by the House of Commons to be published on 3 December 2024.

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1-94

Witnesses

[I](#): David Postings, Chief Executive, UK Finance; Miles Celic, Chief Executive Office, TheCityUK; Hannah Gurga, Director-General, Association of British Insurers; William Wright, Founder and Managing Director, New Financial.

[II](#): Helen Charlton, Chair, Financial Services Consumer Panel; Mick McAteer, Co-Director, Financial Inclusion Centre; Rocio Concha, Director of Policy and Advocacy and Chief Economist, Which?; and Julie Hunter, Member, Financial Services Consumer Panel.

Examination of witnesses

Witnesses: David Postings, Miles Celic, Hannah Gurga and William Wright.

Chair: Welcome to the Treasury Committee on Tuesday 3 December 2024. Today we have two panels in front of us looking at the work of the Financial Conduct Authority, which will be in front of us next week. I am delighted to welcome, first of all, witnesses from the industry. We have Miles Celic, who is the chief executive officer of TheCityUK; welcome to you. May I check the pronunciation of your name?

Miles Celic: That is fine; thank you.

Chair: He is joined by Hannah Gurga, who is the director general of the Association of British Insurers, often known as the ABI. David Postings is the chief executive of UK Finance, and William Wright is the managing director of New Financial. He is also a former editor and member of the founding team at *Financial News*, a specialist publication that looked at these issues.

We have about an hour for our questions. Before we dive into them, I will just say that if one of your colleagues answers a question and you completely agree with them, you do not need to repeat the answer; you can just completely agree with them. If you do not, please wave to me if there is something you wish to add.

Before we begin, I want to repeat a statement made by the Deputy Speaker yesterday, on behalf of the Speaker of the House, about a matter that is sub judice. I will just quote what she said yesterday to the House: "I understand that the Court of Appeal has recently handed down a judgment on three cases relating to motor finance. Since the lenders involved have sought permission to appeal those cases at the Supreme Court, they remain sub judice. Mr Speaker is exercising his discretion to allow reference to those cases now and in future proceedings where necessary, as they concern a matter of national importance."

I am sure that our panel are fully aware of that matter of national importance. On that matter, I will turn straight away to Bobby Dean MP.

Q1 **Bobby Dean:** I will kick off with the motor finance commission issue and the Court of Appeal decision that we have had recently. Could you explain to me how significant and widespread the impact of this will be on the industry? Perhaps we can start with you, Hannah.

Hannah Gurga: Thank you. I am Hannah Gurga, director general of the ABI. It is a pleasure to be before the Committee today. This particular judgment by the Court of Appeal does not affect my members. As I understand it, the decision relates to motor dealers acting as credit brokers, and the court found that the credit brokers effectively owe a disinterested duty and a fiduciary duty to their customers, which sets a

higher bar around commission disclosure than was required by the FCA at the time.

I am aware that the decision has generated a lot of interest, but my reading of the judgment suggests that it is specific to the facts of the three motor finance cases before the court and, as such, my sense is that is unlikely to have a direct read-across to other types of intermediated financial services.

I understand that this is also subject to permission to appeal to the Supreme Court, so the position will not be settled until well into 2025. It is something that we are monitoring, but at this stage, it is not an issue that is particularly affecting the ABI or our members.

David Postings: I am David Postings, chief executive of UK Finance. It does affect some of our members, but I agree with what Hannah has just said. We would really like to wait until the Supreme Court has looked at it so we can understand whether there is read-across to anything else.

Q2 **Bobby Dean:** I understand there is widespread conversation about that already, and we have a mission to talk about it more broadly today. Do you think there are any particular elements of financial services that could be affected if the decision were to be upheld?

David Postings: It would be wrong to speculate on that. I think the Supreme Court needs to look at the case first in order to understand whether there are or not. The ruling appears to be subject to different interpretations, so it would be wrong to try to speculate.

Q3 **Bobby Dean:** Talking about mass redress events more broadly, what is your view on the current regulation of them, and is there a need for reform?

David Postings: I am not quite sure what you mean.

Bobby Dean: There has been talk about reforming the Financial Ombudsman Service, for example, and there has been a lot of speculation about whether or not mass redress events need to be handled differently. This is an example, potentially, of one of them. Could you talk more broadly about mass redress events and whether you think that the current system of regulation is sufficient?

David Postings: It is difficult to talk about mass redress events specifically, but the ombudsman service operates with an eye to regulation, taking into account regulation and the law. However, it has the powers to be what it describes as "fair and reasonable", so it can set broader precedents, which is one of the reasons why a review of its remit is welcome. The review that the Chancellor referred to in the Mansion House speech is very welcome.

Q4 **Bobby Dean:** Do you not accept that some people might see a review of those mass redress events as watering down protections for consumers?

David Postings: The ombudsman service provides a very useful dispute resolution service. The caseload is quite significant and has been rising recently. There is no sense, I do not think, of watering protection down for consumers, but the review of what the ombudsman service does should help in trying to align regulation and its judgments so that it is easier for firms to know where the rules really are. That is because, in some respects, it acts as a sort of regulator because it has, on occasion, set precedent, which is difficult for firms to anticipate in advance.

Hannah Gurga: I agree with David that we are at an interesting inflection point in the regulation of financial services in the UK. The Government set out their growth mission, and they said that is their primary mission. We have heard welcome words from the Prime Minister, the Chancellor and the Economic Secretary about the need to regulate for growth.

Chair: We are talking particularly about motor finance here.

Hannah Gurga: We are talking about the Financial Ombudsman Service. Looking at it in the context of the regulatory ecosystem, what we have is an ecosystem that has evolved over years. Effectively, there is a ratchet system that only operates in one direction, so all parties within the ecosystem are effectively incentivised to add more regulation to that system, and each body has a slightly different remit. That is the challenge with the FOS. The FOS plays an important role in that ecosystem, but its remit allows it to take decisions that are broader than those of the Financial Conduct Authority. On occasion, that means there can be challenges for firms when they get a judgment from the FOS that is beyond what might have reasonably been expected of them by the regulator at the time.

I agree with David. The call for input that the Chancellor announced to look at mass redress events is important, but they need to be looked at in the context of the overall regulatory framework. We need to look at how we can, collectively, make sure that we have the right balance within the system, so that we have appropriate consumer protection and an appropriate focus on market integrity and stability, but also growth and innovation.

Q5 **Bobby Dean:** Would you be able to comment on the role of claims management companies?

Hannah Gurga: The role of claims management companies can be important for some consumers, but as the FOS itself has recently announced, it is now looking to charge fees on CMCs. We welcome that, because it will hopefully lead to a reduction in the number of poor-quality cases that are sent to the FOS by CMCs. If you look at the data, you can see that individuals are more likely to get a judgment in their favour if they go directly to the FOS than if they use a CMC, so we think that is a positive development.

David Postings: I will just add that it is free for consumers to go directly to the FOS, but it is not necessarily free to go through a CMC, so it is in



their interests to go direct. It is positive that the ombudsman service has now put in place a process meaning that CMCs must have explicit consumer permission to put forward a case, because that will stop egregious cases going forward. The impact on some businesses is that the cost of dealing with those complaints, even if they are not upheld, is so high that it is causing them big financial issues.

Q6 John Glen: Can we focus in on the growth and competitiveness objective? As I see it, the previous Government legislated to institutionalise, in our country, a secondary growth objective for the regulator. At the same time, there is a call for higher standards of consumer care. When I was the Minister in this area, I always felt that there was a disconnect between what some of your organisations' members would tell me about the regulatory burdens that came from the FCA, and the fact that the secondary objective was never properly enabled.

In the context of the new Government's clear statement, which I think the whole economy absolutely needs to operationalise, I want to understand how we can reconcile the enactment of the secondary objective, which all Members really want to happen, with some of the issues that Mr Dean was talking about around consumer care and so on.

Mr Wright, you have written a report and you have set out a number of objectives. As a former Minister in this area, I can tell you that what happens in the end is that this consumer scandal overrules the FCA's resolve to assert what those measures should be. Could each of you tell us what you and your members would like to see from the regulator to make the secondary objective real? What does that look like, and how can we measure it? I don't mind who starts.

Chair: We will start with Mr Wright.

William Wright: Thank you for the opportunity to be here and give evidence. I may have a slightly different perspective from my fellow witnesses, because I do not represent a trade association. Our focus in the whole debate on the balance between regulation, risk, growth and consumer protection is on better outcomes for the wider UK economy, for companies and for millions of individuals in every corner of the country. Better outcomes for the industry would be a happy consequence of that.

Your question gets to the heart of the challenge: the FCA, and to a lesser extent the PRA, have a near-impossible job in balancing the three core elements of their statutory objectives—appropriate consumer protection, market integrity and stability, and competition. There can be a tendency in the media and, dare I say it, political scrutiny of the industry and regulators, to default to consumer protection in much of this debate. In the debate specifically on the secondary objective of competitiveness and growth, the argument is that because it is only secondary, it will always be trumped, if you will, by the primary statutory objectives, particularly consumer protection; but that if you were to make it a primary objective, you could end up, in seeking to adjust the balance between risk, growth and stability, going way too far.



HOUSE OF COMMONS

When we are thinking about this debate on risk, I think it is really important to remember that regulation is not some sort of bogeyman or singular barrier to growth in the UK, and therefore it equally is not a magic wand that you can wave that is suddenly going to catapult UK economic growth back to the top of the G7. But you can identify—I think this relates to the process that the FCA has been going through and the thinking of the previous and current Governments on this objective—in the regulatory framework specific examples of where regulation acts as a brake on or impediment to activity that may contribute over time to growth: capital raising, investment and so on.

We can track that decline in investment among UK companies. We can track the decline in investing among the UK population. The share of household financial assets—broadly speaking, people's wealth in this country—that sits in bank deposits has gone from a quarter to a third in 10 years. We have gone backwards.

- Q7 **John Glen:** So what do we need to do to stop that? Your commentary is not in dispute; I am sure your colleagues this morning would share it. I understand that in your report you put a number of recommendations about 10-year horizons, clarity and all the rest of it. That means resisting some of the calls to intervene and give compensation—in ways that I probably didn't all the time when I was a Minister. What can you say specifically, Mr Wright, about what you would like to see?

William Wright: It does involve a degree of courage, certainty and consistency that has been lacking, certainly over the 10 years for which I have been looking specifically at this issue. The constant changes in priorities from Government, the constant additional remits—I won't read them out now; we probably have not got time, but looking at the additional remits that have been layered on top of the regulators over the past decade by previous Governments, we see that they are always added and they are never taken away. We find ourselves in the unusual situation where a Government Minister might complain about a particular focus of the FCA, only to find that three or five years earlier it was given to the FCA by that Government.

- Q8 **Rachel Blake:** Can you suggest any particular remits that you think should be withdrawn? I share and am always interested in this critique of Government policy: things are always added and never taken away. The Committee is really interested to know whether there are specific remits that you would take away.

Chair: We will go along the panel for quick answers—a quick-fire round.

William Wright: I would not want to zoom in on any individual remits. There is a very long list, and I would be happy to share it. I think there could be a process of rationalisation. For example, just on sustainable finance, we have greening the financial system, climate change, the transition to net zero, and energy security. I think they are the only four on that. The suggestion is not to take any of them away; it is just,



HOUSE OF COMMONS

perhaps, to adjust, to rationalise and to concentrate things into a smaller number of key areas.

Chair: Mr Postings?

David Postings: I don't particularly want to comment on remit rationalisation, but I want to respond to John's—

Chair: Have you got anything to say about remit rationalisation for your members? Have you got no views at all?

David Postings: Not specifically, no.

Q9 **John Glen:** I think it would be worth going back to the original question, because this is the core issue you face as representatives of the industry.

David Postings: I think that if the FCA were to look at each new piece of action they take through the lens of competitiveness and growth and be willing to be objective about that, that would help, because it would temper some of the imbalance that we sometimes see. An example of where they have done that recently is the listing rule changes. There is pressure on both sides, but they found a way through that allowed for a sort of mature regulation that did try and get the balance between consumer protection and investor protection and allowing entrepreneurs to want to list here. That should be encouraged.

The point I would make is that we get the regulation we ask for because of the pressure that comes from Government and other areas such as the media, perhaps in response to a crisis or an issue. When they are put under pressure, there is very little upside to resisting and there are lots of downside risks. So they tend to tighten, and then the firms that they regulate also tighten. Within the firms, they tighten as well.

The thing that we all ought to pause and think about is that we talk about consumer protection as if it is a singular thing, but actually the more that you see risk aversion manifesting itself in the regulation, the more it results in financial exclusion, because products get withdrawn and people have less access to finance. In the end, a different risk crystallises, and consumers are often less protected as a result of these changes. I think if they were able to have an overt, explicable debate that showed that they had been considered every time a regulatory change was made—for instance that they are going to look at the overlap between consumer duty and their own existing regulations—that would be a really positive way of approaching it, so that they can attest that they have thought about it and in a balanced way.

Q10 **John Glen:** In some of our conversations previously, some of your members were probably the most assertive about wanting a primary objective. In the end, the Government at the time settled for a secondary objective. Would you like to describe where your members are now in terms of what they think needs to happen to realise the objectives behind this Government and the previous Government's secondary competitiveness objective and how they can make it real for you?



HOUSE OF COMMONS

Hannah Gurga: You are quite right. We did call for a primary objective, and the focus there for us was around growth rather than competitiveness. I think what we have seen since the secondary objective was implemented is positive progress. Both regulators have produced reports. My personal view is that the PRA seems to be a bit more rigorous. It has had that independent evaluation of how far it has progressed, and that seems to be being drilled down throughout the culture of the organisation.

I think what David is saying is correct. There is a need now. Even if you look at some of Nikhil Rathi's speeches recently, he has spoken about this. We need to have a mature conversation now around how we collectively—Government, Parliament, industry, regulators and consumer groups—strike the appropriate balance between all these different objectives, as articulated in the remit letters. It is not easy. That is why we are not able to give you a single-bullet solution, because it requires collective conversation. What I take as quite positive is the fact that all the stakeholders seem to be coalescing around the fact that the balance at the moment does not seem to be quite right.

I will go back to the point about the FOS. The relationship between the FCA and the FOS is incredibly important. What we are seeing is firms becoming cautious because they are anticipating how the FOS might interpret FCA guidance, FCA "Dear CEO" letters, and even FCO speeches. They are anticipating that that might, down the line, be something that they are assessed against. I think this is an opportunity for us to collectively reflect on what is the appropriate remit for financial services regulators, and what is the right way of creating incentives so that the regulators are not finding themselves in a position where they are being called on to react whenever there is an issue in the media.

Q11 John Glen: Thank you. Mr Celic, could you tell us what your members are saying? This is a topic that again has been discussed for most of the last five years. Do you think progress is being made? Is there a risk that we are once again avoiding some difficult challenges? We have one bad conduct thing, and there is always a call for tightening of rules, which has this manifest effect. Is that still what is happening, or is there any sort of positivity on the horizon?

Miles Celic: I think, Mr. Glen, you hit the nail on the head in the question. I think the problem is that we actually live in a wider regulatory culture. This is wider than just financial services. And that is why I think the Chancellor's comments at Mansion House were extremely welcome. We are in a country that regulates for risk and not for growth, and I do not see how the Government's mission to deliver the fastest growth in the G7 can be achieved under the regulatory culture—

Q12 John Glen: I am not sure that is still the mission.

Miles Celic: Well, the ambition to be a faster-growing economy, either way, is going to be impossible to deliver without the regulators leaning in behind it. As some of our members have put it to us, for all the



HOUSE OF COMMONS

consultations from HMT, DBT and so on that are going on at the moment, the industrial strategy—

Q13 **Chair:** Ms Gurga talked about ratcheting up—I think we will go with that.

Miles Celic: I think the single most important thing in delivering growth at the moment is not any of those consultations. It is the five-year strategic review that the FCA is conducting, because that is where the execution happens.

Q14 **Chair:** We recognise that there is a tension, as Mr Glen has helped to play out well. Ms Gurga talked about ratcheting up regulation after a consumer crisis. Is one of the answers to this that the industry must be better prepared, to prevent those consumer crises?

Miles Celic: I think the industry has done a huge amount on that: it has worked with the regulators, and the regulators need to be congratulated and credited on what they have done on that. But the point here is that every time something goes wrong, the media pressure, the political pressure, the pressure from Committees such as this one, is to try and figure out what has gone wrong and to act—to move some kind of legislation or inquiry or whatever it may be. The regulators need to be given the support. If we are telling them, as a society, to allow more risk in the system, then back them. That is the critical point here.

Chair: There is an interesting question about balance of risk, given that consumers still have to be protected.

Q15 **Dr Sandher:** Mr Celic, I want to pick up on something you just said. I agree that we need to regulate for growth—the charter set out. I think there is cross-party agreement on that. We have seen the amount that we are now investing in bonds, in safe assets, as opposed to equity. We are seeing lower rates of return as a result. You spoke about the FCA's review. What reforms would you like to see the FCA bring forward to ensure that we are investing in higher returning assets?

Miles Celic: There is a variety of factors here. The pensions review, and how that plays out, is going to be important. Again, there is a cultural point here. We can look at structure, we can look at individuals, we can look at strategies: all of those are downstream of culture. So, there is a challenge here in making sure that, when the FCA looks at encouraging people to save for their retirements, to invest for their retirements and their futures, you are looking at this from the point of view of where you are going to get your best returns. There is a reason why Canadian and Australian pensioners tend to get better returns on their savings, and that is because there is less of a detrimental, and a negative, approach taken towards equity investing versus towards, say, bonds and so on.

I have had the “joy” of spending the last 15 years working on Solvency II, or Solvency UK, in one form or other. Here is another example of a massive ratchet back. At one point, when Solvency II was being pulled together, we were being told that the only safe thing to invest in for people's futures was Government debt. At that time, that included Greek



HOUSE OF COMMONS

Government debt: it was around the 2012 crisis. So, there is a sort of unthinking reaction in a lot of this to try and move towards safety, to try and protect customers. However, as one of our members put it, that is a risk of reckless prudence. We are creating too much prudence in the system, and that creates a risk in terms of the sorts of returns that customers and clients will get over the long term.

- Q16 **Dr Sandher:** What needs to change, then? Is that a change from the FCA side? Is that a change from the pension fund side or those future—or, I suppose, current and future—pensions themselves? Who needs to change, and what needs to change? Surely, every pensioner wants a higher return: I know that I do.

Miles Celic: We will see what comes from the pensions review. It is partly the mandate and the direction that is set by the Government, the expectation set by the Government, and how they want to see the regulators operate and put that in place. This goes back to my point about the five-year strategic review at the FCA, being how a lot of Government ambition will be delivered.

When you look at the Financial Services and Markets Act—Mr. Glen may have views on that, given that he conducted the 40 consultations also that led to this—I would argue that that has not landed in precisely the way the Treasury expected it to do at that time, because the implementation and the expectation when you get to the supervisory teams, when you get to the regulators, is that they add a layer of risk aversion to it. Internally, I have seen this in companies I have worked at. The internal team—the chief risk officer, the chief regulatory officer, the general counsel—will add a further layer of risk aversion. This is a point that Mr Postings raised. You get this margin that is built in on top, all of which is about avoiding risk, because the system as currently built is about avoiding risk. The scrutiny that Committees such as this, debates in Parliament including Westminster Hall, and the media provide is about avoiding risk.

- Q17 **Dr Sandher:** On competition, I would have thought that you would compete among funds and the one that would do well is the one that has the higher returns. The FCA is adding in something, the culture is there and that also impacts internally and therefore we are adding another premium of risk aversion, I suppose. Why is the competition not competing this thing away? Why, for firms that are not adding in this extra level of what you think is imprudent saving, is it not leading to higher returns?

Miles Celic: Because internally, it is all downside risk. You will be penalised if something goes wrong. You are seldom—and this includes the regulators—rewarded for something going right. If you are a regulator at the moment—and I have every sympathy for them on this—you are not recognised or rewarded. You do not get a bonus if something goes right. You do not get a bonus for building innovation. There is a reason that the last time the FCA did anything innovative was 10 years ago, and it was the sandbox. You are rewarded for things not going wrong.



HOUSE OF COMMONS

Dr Sandher: So the incentive system is wrong, both for the FCA and within targets.

Miles Celic: Absolutely.

- Q18 **Yuan Yang:** You talk about this idea of reckless prudence. I understand that there has been a concern expressed by many panellists that we have now ratcheted up the amount of regulation. How would you say that the Government could avoid a business cycle of regulation where, once we start to remove that regulation, more risk is borne by the sector and more consumers bear the harms of lower regulation?

Miles Celic: I would say that consumers are currently bearing the harms of excessively risk-averse regulation, because they are not getting the returns. This is really a conversation about where we as a society want to place the dial. As a personal anecdote, I despair every time I walk into a bathroom and there is a sign over the hot water tap saying, "Caution: may contain hot water". We need to be much more realistic about allowing people to make decisions and equipping them. That requires a full spectrum approach, so we need to equip people with financial literacy and financial capability. There is a huge amount of evidence suggesting that the more capable people are, the better equipped they are to make decisions. The better equipped they are to make decisions, the less likely they are to be a demand on the taxpayer later on in life because they have made poor decisions.

Equally, we need to recognise that people will make poor decisions. That is just the reality. It does not mean that automatically, somebody needs to be hauled in front of a committee or that compensation needs to be paid. The reality is that people in full possession of the facts available to them will sometimes make bad decisions, and we just have to accept that.

- Q19 **Chris Coghlan:** Mr Celic, I agree with significant amounts of what you are saying. I disclose that I spent five years working in investment management, 10 years ago. There are definitely issues around the regulator or Government incentives, but in my experience, there are significant issues around the industry as well—the fee structure and the incentives in the wealth management industry and the active investing industry. Given that ETFs—passive investments—have generally much higher returns over the long run than active fund managers or wealth managers, the industry has a disincentive to recommend these products to consumers because it results in them being disrupted and loss making as a result. I fully agree that equity investing is the way to go over the long run, but is there not an embedded disincentive in the industry to actually recommend to consumers the best products?

Miles Celic: I am not sure that I recognise that. From my perspective, if you look at the proportion—this is a point that Mr Wright has already made—of UK household assets that are in equities, for instance, it is not just lower than the United States, but lower than Germany and France. It is heading to unusually low levels. There are a variety of reasons behind that, and a variety of potential solutions around it. What is broadly



HOUSE OF COMMONS

accepted, which you will know from your own background, is that over a longer period, the returns from a more equity-based investment portfolio will be better. My argument would be that we ought to be equipping people and encouraging them, and not being in a situation where we are somehow seeming to suggest that equity investing is like gambling.

- Q20 **Chair:** You are talking about a very long programme here, Mr Celic. You are talking about an ideal world, in your world. You are talking about taking schoolchildren today—

Miles Celic: Yes, but this is why we need to be looking at longer-term solutions rather than simply short-term solutions. My background is both as a banker and an insurer. I can tell you, from the point of view of life insurance, you are making a 40-year promise to somebody.

- Q21 **Chair:** What others would say—possibly the FCA themselves—is that if you change regulation and weaken protections for consumers, maybe 95% of people could get some greater return over a long period of time, but 5% could be badly hit. What do you think about that?

Miles Celic: I am not sure that I would look at this as weakening customer protections. I do not think that the market would benefit. I do not think market participants would benefit. A successful market is based on trust and confidence. A critical element of that is consumers being confident in that market, so, I do not see it as weakening customer protections. I see it as achieving a better balance between customer outcomes and a wider societal outcome of encouraging growth and investment.

- Q22 **Lola McEvoy:** It is interesting that you mention taxpayers footing the bill, because it is something that I am interested in, particularly in my constituency of Darlington. We are talking to people about their contributions in the round, instead of looking at contributions in isolation—such as that one pay cheque or that one service that they use. It is about their lifetime contribution and how we can make sure that the whole economy benefits from that.

You talked about taxpayers footing the bill when people do not invest and make good returns. The flip side of that is that taxpayers might have to foot the bill if there is an increase with too much risk and people are left in financial trouble. Are there any global examples of getting the balance right, without seeing huge repercussions of people in financial straits?

Miles Celic: The ones that immediately leap to mind are Australia and Canada. That is partly because they run slightly different systems—Australia has superannuation. But you are right, there are risks on both ends of the spectrum. I think the clear thing established by a lot of the research in this space for a long time is that, ultimately, if people do not get better returns than we are currently managing in the UK, then the taxpayer will foot the bill—because we have impoverished a group of people as they approach later life. In a time of a demographic challenge for the UK, that becomes enormously problematic. This is something that we need to face up to as a society. This is a decision that we have made.



HOUSE OF COMMONS

These are the outcomes of decisions we have made as a society that we have asked the regulators and an industry to implement. It strikes me as entirely possible that we can take a different decision as a society.

- Q23 Lola McEvoy:** It is interesting that you make the later life point, because I see people living longer as progress and the result of spending hundreds of millions of pounds of taxpayer money on making people live longer and do well. So, we need to tackle those issues head-on.

If we were to take some best practice from the Australian and Canadian systems, what would you suggest? What do you think the best practice is? What are they using? How would we adopt that here?

William Wright: I think the first point to make on looking at comparable systems is that they are all different. We are fond of comparing outcomes in other pension systems around the world. We are not so fond of looking at the inputs and the decisions that went into those. Often those decisions were taken 20, 30 or 50 years ago to build the systems that we see today. But the single most important element of the Canadian public sector system, the Australian system and in systems closer to home—such as Denmark, Sweden, Finland, and the Netherlands—is scale and consolidation. I think that is the driving force behind the Government's—or the previous Government's—push on consolidation and the acceleration of that consolidation outlined in Mansion House.

All the evidence suggests that bigger funds can invest in a wider range of assets at a lower cost overall and in the long term, generate better returns for their members. The other big element, common to all the systems that we have mentioned, is contributions. The inconvenient truth around UK pensions, is that contributions to them are simply not high enough at 8%. This is 3% employer and 5% employee minimums—roughly half where most comparable systems sit. In Australia, they are just moving to a minimum 12% of salary contribution by employers alone. In the Netherlands, Sweden and Denmark, you are talking in the high teens to low twenties in terms of total contributions.

If we want to really emulate and generate the same sort of outcomes for millions of people in the UK, structural reform is hugely important—we have the most fragmented system of pensions of any system that we have looked at—but we really need to accompany that with some very difficult political decisions. Mr Celic was talking about long-term decisions. It is very difficult for any Government to take that step on increasing contributions over time. It is a big decision for which any current Government is not going to receive any political reward.

- Q24 John Glen:** I was going to ask that question specifically. The Prime Minister is reportedly going to focus on disposable income, but if you increase from 8% on a ratchet to about 10%, 12% or 13%—where Australia is—that will have an impact on disposable income. Is he wrong to do that? We have a direct conflict here, between a fixing-the-foundation, long-term decision—getting people to save more—and his short-term objective. It is a hard choice and, arguably, previous



HOUSE OF COMMONS

Governments have not taken it, with the cost of living crisis.

Chair: We have already seen, when we have looked at good, gold-plated public sector pensions, that some people are not paying into those because they have heavy rents or mortgages to pay. They are opting out.

John Glen: We are going to hear from a consumer panel afterwards that will tell us about the poorest in society being excluded from many of these things, so it is an unrealistic aspiration, yet from a macroeconomic point of view, it is desirable. How do we reconcile that?

William Wright: That is literally the multitrillion-pound question. The first point is that any increases must be made over time. When auto-enrolment was introduced and first outlined nearly 20 years ago, there was a delay to its introduction and then a staggered introduction of contribution rates. Lord Turner's original ambition in the Pensions Commission was that that would continue up to about 12% or 15%, but it stopped at 8% about five or six years ago—I do not remember the exact year. You would stagger it over, probably, the next decade; the ABI and others have produced road maps for how to do that.

Secondly, the UK is also an outlier in that the minimum contributions required from employers are significantly lower than those required from employees. When we look at public sector pensions, unfunded public sector pensions and local government pensions, and in most defined benefit pensions in the UK, it is the inverse: it tends to be two thirds of the contribution—

Q25 **John Glen:** Sorry to interrupt, but in the context of the increase in national insurance contributions, it is unrealistic to expect that to be added in the short term. Basically, you are saying that we should have a 10 or 15-year plan, with the changes in pension age, for example, so that industry is certain about those milestones over the next 15 years or a generation on both sides, to give clarity and certainty to markets. Is that basically it?

William Wright: Yes. We cannot magically deliver the outcomes that we see in Australia, Canada, the Netherlands and other markets without going through the long-term thinking and processes that they have implemented. This is a 10 or 20-year project.

Chair: We began to see that with auto-enrolment on a small scale.

Hannah Gurga: To build on that, Mr Glen is right that the ABI has produced a report that we would be happy to share with the Committee to set out what we see as a feasible plan to increase those contributions over time. What we would like to see from the Government in phase two of their pension review, where they are looking at adequacy, is a focus on the implementation of the 2017 recommendations around the automatic enrolment review, which were enshrined in legislation through the Pensions (Extension of Automatic Enrolment) Act 2023. That would effectively mean that people could start saving into their pension from the



HOUSE OF COMMONS

age of 18, from the first £1 earned. We all know that the earlier you start saving into your pension, the better the returns.

There are mechanisms that are being considered where you could have flexibility, such as the so-called sidecar model or the rainy day savings model, where in certain circumstances individuals might be able to draw down a small amount from their pension. But I think the key focus now, from a consumer point of view, is getting people to engage with their pensions. There are £30 billion-worth of so-called forgotten pensions—pensions that people have fallen away from as they have changed jobs. We really need to make sure that people are reconnecting to those. On average, they are worth about £10,000. That is not insignificant to people's financial futures.

Chair: Absolutely. I sense that we will probably be doing further work on pensions.

- Q26 **Yuan Yang:** Mr Wright, you spoke previously of the constant change in regulatory priorities over the last decade. How confident are you after hearing the Chancellor's and other Ministers' speeches on this topic that there will be more stability for the industry over the next 10 years?

William Wright: That almost sounds like a trick question. I would think about it more as a continuum. This is a process that started five years ago, in rethinking how far the pendulum—the balance between risk, growth, stability—has swung. The previous Government started thinking about this probably around 2017 or 2018. There has definitely been progress along the way.

The real challenge is to clarify—let me restart. There will be tension for the current Government between their stated ambition for the industry as an important lever and driver of growth and competitiveness across the UK, and the Government's very clear commitment in their financial services strategy and manifesto towards consumer protection.

We would be in a better position to answer your question if we fast-forward a year or two and look back on the response by Government, by this Committee and other Committees if and when there is some sort of event where people either directly or indirectly—consumers—have been affected by that.

I am not sure if I have fully answered the question. I don't think it is a moment in time; I think it is much more about looking at where it sits on the continuum.

Miles Celic: I think what will be really important is what comes out of the Government's financial services industry strategy. We are delighted that financial services is one of the eight industries that has been identified for the Government's overall industry strategy. That will set the tone, together with the five-year strategic review from the FCA.



HOUSE OF COMMONS

That goes back to the point that Mr Wright has raised, quite rightly. In those moments where the ship gets buffeted by tough winds and bad seas, how do we react?

- Q27 **Yuan Yang:** Just to be clear, to Mr Wright, in those cases, if they were to happen in the next year or so, is your preference that there would be an attitude from the Government and regulators that some people had fallen victim to those problems?

William Wright: I am not suggesting for a moment that consumer protection should be cast aside in this debate; quite the opposite. I think we just need to see how we can come to a wider and more nuanced appreciation of the competing objectives that regulators have.

Some recent work has zoomed in very much on consumer protection, and apparent failures in consumer protection, to paint the FCA as incompetent and having failed, which is not a picture that I recognise at all.

There was a very good speech a couple of weeks ago by an SEC commissioner, which I would be very happy to forward on to the Committee, talking about risk. She was presenting at the Ethiopian Capital Market Authority—that is a market that is just beginning its development as a market.

Her point was that we take risk every day in our lives—choosing a job, choosing a university, buying a house, renting a house, choosing a partner—and yet when it comes to investment and money, we sort of freeze up and we don't think about risk, and regulators are too focused on protecting consumers from normal, everyday risk that is an essential part of investment, an essential part of a growing economy, without which companies and economies stagnate.

One can argue, if we look back over the last 10 or 20 years, that that is precisely one of the contributing factors to the performance of the UK economy.

- Q28 **John Glen:** I want to follow up on one thing you said about the reforms at Mansion House. We have always said that this whole aspiration of pooling pensions funds is the right thing to do, starting with local government. Mr Celic, you talked about culture. Are the Government being robust enough in placing hard stops here to say, "Look, if this doesn't happen, we are going to have to do it"? With the picture you paint—I get the contrast between outcomes and process in Canada and Australia—have the Government got to the right level of intervention to induce the behavioural change to encourage pooling and create that macroeconomic advantage? My concern would be that we are not moving quickly enough, and arguably the previous Government did not either. I would just like to get your assessment of this risk and reward for the economy as a whole. Are we going far enough, or will you say that it depends on what is in the strategy?

Miles Celic: I would say that the mood music so far is very positive. What we have heard from the Prime Minister, the Chancellor and the Business



HOUSE OF COMMONS

Secretary is very encouraging, but you are right to say that that now needs to turn into hard, specific action. I think it is a little early to get to that. Obviously, the initial findings that we are seeing on the pensions review—obviously there is a second phase coming up—are encouraging. Mr Wright has already raised some of the key questions that we need to see answered on that. The industrial strategy is out for consultation, and we also have the FCA's strategy.

On the strategy for trade, I think it is important to look at the trade strategy and the industrial strategy for both financial and professional services together. I would say that the start is encouraging, but the culture is really important here, as is the tone from the top and the mood music that it sets. My concern is that the first time the regulators run into difficulty, we all jump up and down on them. The impression they get given is that—again, to the question raised earlier by Ms Yang—we are basically saying, “We’re going to push all risk out of the system. Don’t do as we’re saying. Do as we do, or another interpretation of that. What we are all about is some binary choice between economic growth and customer protection”, and I do not see it in that way.

- Q29 John Glen:** One thing that has been cited in the conversation this morning is the negative consequences for consumers of being dependent on cash—“safe”—savings and low-risk products, and not defaulting to others. My experience of the consumer protection narrative is that—if I think of Mr Postings and some of his members—there is absolute paranoia around offering safe pathways to equity-based savings products for fear of being accused 10 years down the line of consumer detriment, and being liable for that. Would any of you want to comment on that?

Chair: Mr Postings might want to say something on that.

David Postings: I think it applies in investment—you are quite right. That is why there is little or no advice given any more. It applies in other product areas as well. For example, the consumer duty is very well-meaning, but because the life of a product could be 30 years and people's circumstances can change, such as their employment, and the economy can change, what looks good today can look less good in 10 or 15 years' time.

- Q30 John Glen:** And your members would be liable for then apparently making a bad judgment in year one.

David Postings: Potentially, absolutely. It drives caution and risk aversion.

- Q31 Dame Harriett Baldwin:** I want to move from the philosophical down to two specific examples. Mr Postings, on the consumer duty that was just raised, could you describe how your members have used that to implement this issue, on which the predecessor Committee pushed on quite hard when the Bank of England was raising rates? That is how much banks drag their feet in increasing the rates they were paying to savers. Can you describe how your members have changed their behaviour, now that we have this principle-based consumer duty, with regard to savings



HOUSE OF COMMONS

rates?

David Postings: On savings rates, we had the highest pass-through of any country in the EU even before that issue was raised. We then moved to roughly about 100 basis points above any comparable EU country.

Q32 **Dame Harriett Baldwin:** You are comparing apples with oranges there, aren't you, because that is a different currency and a different interest rate?

David Postings: No, I think it is comparable, and we are talking about short-term, instant-access savings, because the rates for term savings were already pretty strong. There was some reflection and pressure from regulators on that point, so rates did go up.

I don't think that has helped the competitive environment particularly, because it has made it much more difficult for smaller banks to raise deposits because competition has been artificially impacted—

Q33 **Dame Harriett Baldwin:** Did you just say that it took action from the regulator for you to improve savings rates for consumers?

David Postings: The regulator did have conversations with some of the banks, yes.

Q34 **Dame Harriett Baldwin:** Was that aligned with the consumer duty? Would you say that that was the consumer duty changing your behaviour, or it was specific action that the regulator took to make sure that our constituents got a better rate on their savings when the Bank of England was raising rates?

David Postings: I have a concern that the regulator got involved to some degree with pricing and it impacted the market. I do not think that it was necessarily that overt, but discussions were had. I was at a roundtable where it was discussed. I think that each individual organisation took its own view, based on whether it needed to raise funds and its own pricing strategy in the round.

Q35 **Dame Harriett Baldwin:** Have any of your members changed their behaviour as a result of consumer duty specifically?

David Postings: Generally speaking, yes, absolutely.

Q36 **Dame Harriett Baldwin:** With regard to savings rates? We are drilling down into that issue at the moment.

David Postings: I do not have specific examples where they have told me that that is what they have done, but the consumer duty has had a massive impact on how they view all products.

Q37 **Dame Harriett Baldwin:** In the interests of time, I will move quickly on to another issue, which is the consultation that is under way jointly with the Treasury and the FCA on the advice/guidance boundary. One of the things that we have raised philosophically is the fact that consumers probably are not taking enough long-term risk in their long-term savings,



HOUSE OF COMMONS

and that one of the barriers for consumers seems to us, or certainly to me, to be that very few of them access financial advice. Only 7% of consumers access financial advice.

We have made financial advice so expensive and inaccessible that the vast majority of our constituents cannot get any help with some of these decisions that they are now being asked to make. Do any of you have any strong views on that consultation and any change that should be made?

Hannah Gurga: We at the ABI and our members are very supportive of the advice/guidance boundary review. It is something that we have—

Q38 **Dame Harriett Baldwin:** Where do you want it to change to?

Hannah Gurga: We want to be able to address the problem that you rightly call out, which is that less than 10% of people are now getting any kind of advice or help as they are taking financial decisions.

We have engaged very closely with the FCA on this. We are pleased with the direction of travel that the FCA is taking around so-called targeted support, because we think that is a mechanism through which customers can be supported in taking decisions that will affect their long-term financial future through retirement potentially, or other types of investments. We are supportive and engaging with that. We think that is a very positive development on the part of the FCA.

Q39 **Dame Harriett Baldwin:** You favour it. Does anyone else have a different view?

Miles Celic: I will simply add that where we are is the result of regulatory over-reaction last time. The retail distribution review is a large part of the reason why we are where we are today. It is a decision we have taken, as a society, to cut the amount of financial advice—

Q40 **Dame Harriett Baldwin:** Where do you want it to change to?

Miles Celic: I want to see what comes out of the review, but I also want to see more people getting financial advice.

Q41 **Dame Harriett Baldwin:** Where do your members want it to go to?

Miles Celic: To a number greater than 7%—absolutely. If it goes lower than that, I think we are in a pretty bad shape, surely.

Q42 **Dame Harriett Baldwin:** Does anyone have a different opinion on this subject? I am not seeing any of you catch my eye on it. I will go to Mr Wright. You mentioned bad winds earlier. Where are these bad winds coming from? Can you elaborate on what you see out there?

William Wright: I am not a geopolitical or macroeconomic strategist, but there are a lot of challenges out there.

Chair: Forgive me; I think it was Mr Celic who talked about the bad winds.



HOUSE OF COMMONS

Miles Celic: I think I talked about tough winds. I was thinking that from any direction, this could come from increased regulatory fragmentation, globally, increased protectionism, economic slowdowns—a variety of areas. Basically, anything that ultimately impacts on consumers that may result in the FCA having to take an intervention of some form or be criticised for people losing money in some form.

- Q43 **John Glen:** Previously, we moved from a situation where you had commission for advice. There was more transparency, then the cost of it was too high and people could not afford it, and now nobody does it. If you want to have more than 7% of people taking advice, how is that paid for? It seems to me that if you go to the money advice service or the online thing, you get quite generic advice. That is not deemed to be rich enough to make an investment decision. But if you have a level of understanding of financial services and products, you have a level of embedded risk aversion. How do you avoid that? For the average consumer or the average household that has no financial education, even if we might aspire to change it, haven't you got a really difficult problem of how to solve this for the mass market, not well-educated middle-class people?

Miles Celic: That is absolutely right. One of the challenges is the pressure on costs. We have a lot of pressure on costs from regulators and so on. So how do we address this? I would look both to the past and the future. The reality is that millions of people used to get their financial advice every week from the man from the Pru. I should declare an interest—I used to work at the Prudential. I was the man from the Pru for a while. Literally every week people would turn up, take their premiums, talk to people about what their income was, what their outgoings were and so on. Obviously we cannot go back to those days; that world has passed. But what is interesting—there is some really interesting work happening in the United States on this—is the extent to which a pot becomes economically viable for financial advice by utilising AI. I am not saying that AI is a magic bullet here, but it could be part of the solution. Again, we need to make sure that the regulatory structure around that is in a better place than it is at the moment.

- Q44 **Rachel Blake:** We have spent much of this session talking about the balance between risk and the impact on consumers. Earlier this year we saw the decrease in the maximum liability for repayments from £415,000 to £85,000. There was some discussion about what was driving that decision. Can you elaborate more on the trade-off between innovation and the risk to consumers?

David Postings: Are you talking about authorised push payment fraud reimbursement limits?

Rachel Blake: Yes.

David Postings: The £85,000 limit covers about 99% of all claims and is in line with the FSCS limit. But I think your question was about innovation.

- Q45 **Rachel Blake:** This has been driven by a sense that fintech companies



HOUSE OF COMMONS

would be disadvantaged by the £415,000. On the number of claims, you have alluded to 99% being covered by the £85,000. So how do you think that change will balance innovation and risk taking?

David Postings: I think it is a sensible change. It brings it in line with the FSCS limit for deposits, which means you do not get more protection on payments than you do on your actual bank account. The 50:50 reimbursement that was brought in under the PSR changes will help significantly, because it means that all participants are now subject to this, rather than just those who volunteered. And it means that the receiving bank has significantly more skin in the game. That should therefore help innovation when it comes to fighting economic crime. The burden was falling purely on the sending bank and a small subset of those in the past.

Q46 **Rachel Blake:** Can you elaborate on your final point about deterring financial crime and protecting against it? What might this do to the people trying to commit fraud?

David Postings: Reimbursement in and of itself does not really impact that, except for the point I made about receiving banks now having to be quite thoughtful about the sort of accounts they open and maintain, because they are now liable for 50% of the reimbursement. That goes not just for banks but payment institutions. The fight against authorised push payment fraud and economic crime in general is much broader than that and should involve the tech companies and the telcos. I was delighted that the Chancellor and the Home Secretary wrote to them recently, starting the process of bringing them into the fold. Bringing crypto exchanges into regulation, which is what the FCA is proposing, will help, because that is where they often cash out. Having a whole ecosystem approach to push payment fraud in particular will be really helpful. It could go further. I would not want to tar them all with the same brush, because some are working very hard, but some tech companies could do more. They have a big part to play in trying to stop this crime at the source before we get to reimbursement. That is where the focus should be, and that is where the innovation really needs to be.

Q47 **Rachel Blake:** What would that look like?

David Postings: Using their data to close down sites more quickly and actually going through some sort of KYC and AML process for opening accounts. For example, eBay worked pretty hard on that but others less so. If they adopted similar processes to eBay, we would probably have less crime.

Q48 **Chris Coghlan:** We have spoken quite a lot today about the competitiveness of the UK regulatory market. I am interested in how you think the second Trump presidency could play into that. If the US starts to swiftly deregulate and we have a race to the bottom, how should the UK respond?

David Postings: We are not advocating deregulation. What we are advocating is a small shift in the pendulum to get more of a balance between risk and protection. I think we should stick to that and not fight



some deregulatory downward spiral. That in itself will be anti-competitiveness, if you like. Having high standards of regulation is a good thing, but in attempting to protect consumers at all costs, we end up with different risks materialising, which causes them problems in other parts of their lives, such as access to credit. We can see the same with SMEs. Getting that balance right is what we need to do. I do not think we should fight some kind of deregulatory battle with anybody else.

Chair: Thank you very much to our witnesses. We have had an interesting discussion, teasing out the difficulty in balancing the different objectives of the regulator, which we thought we might, and it has certainly been a punchy conversation at times. The panel has also raised the question of the balance of risk and the growth that may come from it. We may get a slightly different perspective from our second panel. The industry is claiming that risk aversion is being added at each layer of regulation and additionally on the firm side from compliance, and that serious questions also exist about how prepared consumers are prepared to take on the risk. Obviously, we strayed into the areas of pension and pension investment, which is a little bit beyond this session, but we will be looking at that in future. I thank our witnesses very much indeed for their time. We are going to break before the next session.

Examination of witnesses

Witnesses: Helen Charlton, Mick McAteer, Rocio Concha and Julie Hunter.

Chair: Welcome back. We have in front of us consumer representatives to discuss the work of the Financial Conduct Authority, following on from our session with industry representatives. I am delighted to welcome Helen Charlton, the chair of Financial Services Consumer Panel, Mick McAteer, the co-director of the Financial Inclusion Centre—a very important organisation—and Rocio Concha, the director of policy and advocacy and the chief economist at Which?. My children will be pleased that you are in front of me, as they are big fans of Which?—I have to get my little moment in that makes them think this job worthwhile. I am also delighted to welcome Julie Hunter, who is a member of the Financial Services Consumer Panel. There is an array of great expertise in front of us. We will kick off with Mr Bobby Dean.

- Q49 **Bobby Dean:** Many of you were listening to the last panel. Industry put it a little more delicately than I am about to, but I think I heard them say that politicians and the media, and by extension consumers, overreact to moments of consumer harm, and that we need to accept harm as a consequence of risk. Who has a view on that?

Rocio Concha: I am happy to start. I disagree. To clarify something: the panel before said that there was agreement that the balance of the FCA had gone too far on consumer protections, and they actually mentioned consumer groups. That is not true. We do not agree with that. I also do not agree that it is a trade-off between growth and consumer protections, and I will explain why. That is why we were not fans of putting in a secondary objective here. For growth, you need competition. That is in the



HOUSE OF COMMONS

primary objective of the FCA. For competition, you need the supply side, which is super-important—you had the supply side on the panel before—but you also need the demand side. You need the consumers to go for new innovations and move from the incumbent, which will require some risk. For that, you need consumer policy and protection.

Let us be clear: we talk about consumer protection in general terms, but what is consumer protection? It is ensuring that you have access to the right information—that honest information is accessible to you. Consumer protection is about ensuring that if something goes wrong on the basis of the information that has been provided to you—because that information was wrong—then you also have protection. That gives you confidence. You need to ensure that when you have the information and you decide to move providers, you are able to move without unnecessary cost.

If we are talking about sustainable growth, I do not think that there is a trade-off. By the way, as a consumer organisation, we are super-supporters of the Government's growth mission. We need to focus on that, because it will benefit consumers. The Government said that "growth has to be felt in every part of the country, and make everyone, not just a few, better off." We cannot achieve that without well-designed consumer policy. We can have short-term growth; an example would be payday lending—and we know how that ended. But if you want trust, if you want consumers to engage, and if you want industries to thrive, then you need to ensure that you have the right consumer policy in place. That is my view.

Mick McAteer: I must say that I did not recognise the trade-off that the industry trade bodies were advocating. The FCA and regulators have previously tried to address every single episode of mis-selling, and on no single occasion was every single consumer given redress. There was an acceptance in every single episode of mis-selling that we could not have perfect redress. All the regulators and consumer groups in the past—I speak as an ex-FCA and ex-FSA board member—have never, ever claimed that there has to be 100% success. We have never asked for or expected a zero-failure regulatory regime, so I am afraid that I just do not recognise the characterisation of the trade bodies' arguments.

There is this idea that we live in a risk-free society. We have just seen one of the biggest transfers of risk in the pensions market, from defined benefit or final salary pension schemes to defined contribution pension schemes, where individuals are now expected to take on more personal risk to meet their retirement expectations. Not only have we seen a real individualisation of risk in the pension market, but we have one of the weakest social security systems in the western world. Individuals are actually exposed to more risk in this country than their counterparts in most of northern Europe.

There was a lot of talk about encouraging a risk-taking society and to use other examples in other countries, but those countries have the really strong foundations of a decent state pension system and a decent social security system, which actually encourage individuals and companies to

take risk, because if people know that there is a good safety net or protection there, they are more willing to take risk. I am afraid that I just do not accept the characterisation of the industry on this.

- Q50 Bobby Dean:** I want to pick up on something that both of you have touched on. Ms Concha, you spoke about how we need to give confidence to the demand side for growth, and you mentioned some of these mass redress events as well. What impact have things such as PPI and the potential ruling on motor finance had on consumer demand?

Rocio Concha: One difference is they demonstrate that there was harm for those consumers. When you have an event like this, as a consumer you lose trust in the financial service. That is the impact that it has. The focus should be on making sure that we are not ripping off consumers, because when those big harms then materialise, consumers lose confidence.

Helen Charlton: Thank you very much for the opportunity to come here today. Trust and confidence were mentioned briefly this morning. To reinforce the point that was just made, we must remember that trust in the financial services sector is low. The FCA's own financial lives survey says that only 41% of UK adults have confidence in the UK financial services sector, and 36% disagreed that financial firms are honest and transparent. There were very low trust levels, which inevitably will be worsened by the scandals and mis-selling that are publicised. We have to bear that in mind. I do not think consumers are going to take risk if they do not have confidence in the sector.

It is also important to point out that the consumer duty deals with foreseeable harm. The Act actually requires consumers to take responsibility for their own decisions, so the portrayal that there is too much risk protection needs a bit of a balance.

- Q51 Bobby Dean:** If trust is so low, what do you think we need to see come out of the potential reforms to the Financial Ombudsman Service? We have seen these reforms spoken about in the context of—

Helen Charlton: On the redress side, there needs to be a fair, impartial, consistent outcome for consumers. There is a characterisation of this risk for firms around the Financial Ombudsman Service, which is impartial. It is a fair, reasonable decision in all circumstances, and arguably that is needed for consumers to feel that, importantly, they have an impartial result from a third party, rather than the FCA applying its own approach.

On mass redress versus the cases going through the FOS, there is a question around how long a redress scheme might take, because consumers arguably just want things sorted out quickly. They want that redress quickly; even if it is not 100%, maybe they would prefer just to get the main bulk of it sorted quickly so that they can get on with their lives. There are questions to be considered around how mass redress works in that way. By the way, we are still thinking through our response to the consultation; it is not due until January, so we are still reflecting on that.



Rocio Concha: There is definitely an opportunity for the FCA and the FOS to look more at the data that they are getting. There is a wealth of information on the decisions that the FOS have taken. We recently did a piece of research on that using LLMs—AI—to read a lot of information on those decisions. That uncovered a lot of harm, in particular in the insurance market. We have shared this with the FCA and FOS. There is lot of information there that is not being used to anticipate issues in a particular market, for example. It is a conversation that the FOS and the FCA have to have. We are seeing a particular company or a particular industry where a lot of decisions are being upheld; there is an issue there. There is an opportunity to intervene early before the issue must be addressed.

- Q52 **Bobby Dean:** Ms Charlton, you said that it is in consumers' interests for the process to be sped up, even if that means that they do not necessarily get the full redress that they could have got otherwise. Do you have anything to say on the FCA's pushing back of the time for complaints to be submitted, read and heard in relation to motor finance?

Helen Charlton: At the moment, it is so uncertain. We have to be very careful. We just do not know what the outcome of these court cases is going to be, so I think it is very difficult for the FCA to come to a firm decision on what it will do and when. We are quite concerned that it should not be too long. I cannot remember what the submission date is. Our submission has just gone in on the date that we want, and I can certainly give you the response that we have put in. We recognise that, on the motor finance cases, it is very uncertain.

- Q53 **Lola McEvoy:** I wanted to come in, because I ran out of time on the last panel. I thought you would be well placed to answer about the trust point, because nobody mentioned trust—I missed it if they did—on the last panel. You have all mentioned it individually. One of the big problems we have in our growth forecasting is around people having trust to spend their money and to invest it with a more risky mandate, which is fine. Industry has made it clear that they want less regulation. In that case, what do you think they can do to build trust in them and their products?

Mick McAteer: I found this debate about the boundary between the responsibilities of consumers and the industry interesting. The perception left by the trade bodies was that regulation prevents the industry from giving consumers advice on risky financial products, but it really does not. The way they characterised it made it sound as if they are unable to give people targeted support. The rules actually say that there is nothing wrong with firms identifying a narrow target market and communicating with them to inform them about different types of choices.

Indeed, the FCA, the Pensions Regulator and the Information Commissioner's Office recently put out a letter explaining to firms yet again that there is nothing wrong with targeting consumers and saying, "Look, you do realise that you might not get enough income in retirement unless you take action." They are not actually prevented from doing that. The trade bodies are very smooth and very well resourced, and they



HOUSE OF COMMONS

present a great case about regulation as stifling innovation and causing financial exclusion and so on. That is what they are really after here, as part of the FCA's call for input on streamlining its rules and so on.

The number of rules in the rulebook does not actually create the majority of the regulatory costs for firms; what creates the costs for firms is having to employ compliance officers who are risk specialists—lawyers—because they cannot trust themselves to interpret high-level principles. The reason why we have such a thick rulebook, in my experience as a campaigner of 30 years, is that the industry could not trust itself to interpret high-level principles. They are the ones who have driven the demand for greater clarification, more guidance and so on, because they could not interpret what the legislation, Parliament and the regulators intended. That is where the big drive for the size of the rulebook has come from.

There is nothing stopping firms developing clever AI-driven, tech-driven or data-driven models for more sophisticated target consumers to make recommendations. What they want is a clarification. They want to redraw the boundary of responsibility so that, if something does go wrong, the liability for redress is no longer with them; it is transferred to the consumer. That is an attempt to reduce the likelihood that they will pay redress for giving poor advice. I think that is what it is really all about.

- Q54 **John Glen:** If the chair of the FCA says that there are 13 million consumers who have basically got £430 billion in cash, you have said there is nothing preventing the market from giving tailored advice. Given the economic advantage, presumably, to those companies of giving that advice, why is that not happening? They would do it if they thought they could make a profit out of it, wouldn't they?

Mick McAteer: Because they do not trust themselves.

- Q55 **John Glen:** They do not trust themselves.

Mick McAteer: When it comes to trust and confidence, I believe that the issue is the industry trusting itself to make the right decisions when engaging with low to medium-income households. Maybe I am cynical after 30 years of campaigning, but I suspect that the advice/guidance boundary review, certainly from the banking sector's point of view, is intended to allow banks to more easily target people with sizeable deposits, to then upsell them to investment products that generate higher fees. That is my cynical interpretation. They can use AI technology and targeted interventions to go after them and communicate.

- Q56 **Chair:** You say "cynically". I would put points from the previous panel. They would say that you could get better returns. There is a lot of talk about lazy capital.

Mick McAteer: You could do—absolutely.

- Q57 **Chair:** If you are cynical, what drives your cynicism? If it works, as some in the industry might want it to, people get better returns and everyone is happy. Where is your cynicism coming from?



HOUSE OF COMMONS

Mick McAteer: The golden prize for the sector is about the boundary of regulation. It is a very hard boundary to draw, because it does not actually exist; it moves over time. The essence of their lobbying efforts at the moment is to shift the boundary towards consumers. So, if there is mis-selling, they will have less redress liability, because the rules change. I would like to see more consumers investing for the long term—I really would actually.

Q58 **John Glen:** That is a massive consumer detriment at the moment, isn't it?

Chair: That is my point.

Mick McAteer: Absolutely. It is a huge detriment, a massive detriment. I would love to see that; you are absolutely right. But there is nothing preventing the industry from using technology to encourage those choices. What they want is to be able to do that on a mass-market level, by reducing the liability for redress. That is the game plan for the industry.

Rocio Concha: We have not done proper research—I mean the system—to know what the barriers are and why people are keeping so much in cash. We just know that a lot of people are keeping cash, and are not investing. The statistics and analysis do not explain why, or what barriers consumers are facing. Is it the lack of advice, the particular circumstances or distrust in the system? What is it? There are products out there that are very cheap. I think NatWest has a product that is £10 to get advice on, but still there is not enough take-up of that. Why is that?

Q59 **John Glen:** Isn't the reality that the poorest consumers have a lack of pathways? Mr McAteer suggests that that is because the banks and financial institutions are not using the opportunities of AI to create products and pathways, but consumers are losing growth in their cash, if they put it in equities. More than that, they are going on TikTok and buying bitcoin and other products where the risk levels are completely different. What I am trying to get at is that there surely needs to be a meeting of minds here, because we need to have some compromises. As a Minister for four and a half years in this area, when I spoke broadly to your sector it was to say, "You need to go further," and when I spoke to the industry sector, it was, "You're going too far." We would end up in a situation where nobody was satisfied; we have to find some pragmatic solutions.

I just want to say two other things, if I may. Clearly, things evolve over time. There was a market failure with funeral plans, so we asked the regulator to put measures in. Then we were exposed because some firms went bust because they had been operating under a false prospectus. For London Capital and Finance, we got Dame Elizabeth Gloster to do a review. We ended up within a year paying out £100 million. Within that, there were quite wealthy people who were getting paid 80p in the pound for investing in Dominican property products. Surely you are in a situation there where, to the point of the previous panel, those risks were reasonable risks that well-informed people were taking, but there were



also people who were caught up in that—poorer consumers who needed redress. To go back to this issue of risk, we have surely got to be much more willing to segment consumers. I am most concerned about the vulnerable ones missing out on growth in their cash, because it is not just self-certified people with a high net worth who can go into these things. Are we in the right place with all of this?

Rocio Concha: On the discussion of risk, we absolutely need to segment more people. We need to ask ourselves, what is the risk that we are talking about? What is the risk we want individuals to take? Who is going to take this additional risk? What are the types of segments for individuals? Who are the people that we are going to put in them? Do they have the capacity to bear that risk? It is very difficult to be having this discussion in an abstract way. We need to have a very specific discussion and say, what are the risks? Where do we want individuals to take more risks, and which individuals do we want to take those risks? Then we need to ask whether those individuals understand the risk that they are taking and have the capability to actually bear it. Unless we are going to talk specifically, we will always be having these hypothetical discussions.

Julie Hunter: On the conversation about responsibility and risk, it is obviously all tied together, but I agree that the right balance must be found. Although consumers have to act responsibly and make decisions, there is a really important prerequisite here, which is that firms must be giving consumers the right information at the right time so that they can understand the terms, risks and protections—those kinds of things. That helps them weigh up the facts and take a calculated risk or make an informed decision.

When we were having the risk discussion, it is not that we are anti all risk taking. Yes, consumers can choose to take a risk, but they must be well informed first. That is what the consumer duty pillar of understanding is there for: to make sure that firms have a responsibility to provide consumers with the right information. In fact, in past consultations we have advocated for the consumer responsibility principle in the Financial Services and Markets Act to be amended to take into account that consumers should only be deemed responsible for decisions where firms have met their obligations under the consumer duty. I want to make the point that it is about informed decisions.

To build on Rocio's point, it should be evidence based. Coming back to the trust issue, firms need to be learning about what foreseeable risks of harm are, so they can mitigate them. They should be learning from them so that they can prevent future harm to consumers. That comes from evidence-based complaints data and talking to customers and consumer stakeholders to understand what the real risks are.

Q60 **Chris Coghlan:** On the subject of risk, I fully think there is an issue with the fee structure in the industry, and I would like to disclose that I used to work in investment management. Is there an issue with understanding the realities of equity investing? If you invest in equities, there is a very good chance that you are going to lose 30% of your money in the next



HOUSE OF COMMONS

year. If you hold it for 10 years, you will probably make a pretty good return, but there is chance you will make zero. If you hold it for 15 years, you will almost certainly make a fantastic return. Is it an issue that your average consumer will find it very difficult to hold their nerve?

John Glen: After year one.

Chris Coghlan: Exactly, after year one, if they lose 30% of their money. Firms are maybe scared of recommending that, which goes to your point about consumer education or understanding, because of the psychological impact of that loss. I am thinking specifically about the collapse of Neil Woodford's fund recently. To be clear, I do not know the specifics of the case, but I know that Neil Woodford was a highly reputable fund manager prior to this incident, and that 5,000 retail investors are now suing Hargreaves Lansdown off the back of it. To be clear, I have no comment other than one might think about how that plays into overall trust. You could construct an argument that he was a highly reputable fund manager and that things sometimes go wrong, yet this has obviously massively damaged trust in the industry.

Chair: Obviously we cannot talk about individuals, just to be very careful.

Chris Coghlan: It was just a general example.

Julie Hunter: Obviously things will happen, but it is about taking the steps, and it is about due diligence really. Looking at product safety as an example, if there was a brand of car on the market, and you knew that the brakes were failing all the time, you would take steps to make sure that that was addressed. Things can happen, but it is about learning from those mistakes and being agile and responsive to address the consumer harm.

Helen Charlton: It is also important to say that consumer inertia may not be for risk reasons. There may be an issue around understanding or, going back to the duty, the sheer amount of information that is there. I think firms need to do more to understand that consumer inertia is not just an aversion to risk. When we put in our response to the FCA on the advice/guidance boundary review, we said that it had started from completely the wrong end. It had started with the solution rather than by asking, what does the regulatory system do now for consumers? What support do they need? What are the barriers to them getting help and support? Therefore, how should we as a regulator and an industry overcome those? That is part of the problem, which goes back to Mick's point about going to a straight solution, and we were really concerned about that.

Q61 **Yuan Yang:** It is fair to say that this panel has some differences in view from the previous panel of industry representatives. How well matched do you feel in lobbying power and getting the ear of the regulator, compared with those industry lobbyists?

Mick McAteer: That is a really good question, and I am glad you asked it. Before I came here, I was looking at some evidence from an organisation



HOUSE OF COMMONS

called Positive Money, which a few years ago looked at the size of the finance lobbies. There are 18 financial trade associations with a turnover of more than £1 million, and these bodies have a combined turnover of £145 million. If we compare that with the combined resources we have in all the consumer groups put together, we come nowhere near. The Positive Money research also found that, two years ago, one third of meetings with Treasury Ministers were with representatives from the financial sector as well, which is more than any other industry, given its size and importance. From memory, whenever I used to have time to analyse consultation responses to the FCA, something like 90% would come from industry groups, individual firms or trade bodies. We are massively outgunned in representation at every single level of the decision-making process.

Helen Charlton: For the two and a half years I have been in my post as chair of the panel, the panel has consistently made the point to the FCA about the imbalance between the industry voice and consumer stakeholders. Reference was made to the number of consultation responses that the FCA receives from the industry versus consumer stakeholders, and that is because consumer stakeholders are so under-resourced. For example, a recent consultation had 83 responses, but only one from a consumer organisation, which was us on the panel. There is a real problem there.

We have made suggestions to the FCA as to how it could be more proactive and strategic and facilitate engagement more. We have also insisted that the FCA must be much more transparent in its decision making and on how much input it has had from consumer organisations—how it takes that into account and how that influences its final decision. It needs to make that very clear in its feedback statements on its policy proposals. I hope that, in its next strategy, the FCA will take that into account and will promise more transparency, and that there will be progress on engaging with consumer organisations and on how it goes about getting that consumer voice into its thinking.

- Q62 **Yuan Yang:** To get into the particular example of the lowering of the limit for authorised push payment refunds for consumers—for those who have transferred money to fraudsters, essentially—that has now been taken down to about a fifth of what it was, with the limit now £85,000. Does anyone want to comment on that process?

Rocio Concha: By the way, I endorse what was said about resources and access. It is about not only the consultation process but outside consultation, and this is the perfect example.

The APP case and the level of reimbursement were properly consulted on, with the evidence put there by all the parties and a decision taken. In the next few months after that, the decision was changed, on the basis of no additional information but just because of pressure from some parts of the industry that did not provide—at least not to the rest of us, the consumers—additional evidence to reduce the level of reimbursement.



HOUSE OF COMMONS

That is an actual case of when we think that the regulator was listening more to the industry—and to politicians, by the way; there was quite a lot of political pressure as well. There was definitely an imbalance. To this day, we have been asking for the additional evidence and we have not seen it.

- Q63 **Yuan Yang:** On the broader point about how the industry affects lobbying, do you see any difference in the way that the Government—you mentioned politicians, Ms Concha—and, on the other hand, regulators listen to consumer concerns?

Rocio Concha: In what sense the difference?

Yuan Yang: In the way politicians and the Government respond to, for example, constituents or consumer concerns expressed by groups like yours, versus the way that the FCA and other regulators deal with those concerns. Do you see much of a difference in those two areas?

Mick McAteer: That is interesting. Speaking as someone who has been on the inside and the outside of the regulators, I do not recall a time in the past when, as a board member of the FCA, we ever felt overly influenced by Ministers. There was a very clear division—a real understanding of the respective responsibilities of Parliament and regulators. I have always understood that it was Parliament's job to determine what society expected of regulated firms, and that it was the job of the regulators to implement those expectations through rules, guidance and what have you. In the past, I never felt that the Government were overly influencing the direction of regulators.

At the moment, however, I think that this secondary growth and competitiveness objective is in danger of almost becoming a de facto primary objective. I think Helen made the point before. It is not just the FCA that is under pressure here; we have had the deregulation of Solvency UK—a lot of our big insurance companies are much stronger than they look, due to how Solvency UK is structured. We have had the advice/guidance boundary review, which we talked about, the weakening of the workplace pension charge cap recently, and the value-for-money framework, which is trying to drive more money into UK industry, which may or may not be a good thing, depending on the cost of the capital and its nature. We have had things like the authorised push payment fraud thing. All these things are building up.

It seems now that, in relation to every sector, every sub-sector and every regulatory initiative, the secondary objective of growth is really starting to impinge on the freedom of the supposedly independent financial regulator. I recognise that that is my view.

- Q64 **Chair:** Can I get other points of view from the panel, because this is quite different from what we heard before?

Helen Charlton: As a panel, we do not have a scrutiny role with the FCA; we do not hold the FCA to account. Our role is to keep the FCA to its consumer protection objective.



HOUSE OF COMMONS

The secondary objective is what we see, as a panel, as the top risk for consumers. We are constantly saying to people—mainly to the FCA, but we would urge the Government and, for that matter, anybody speaking on this topic to do the same—to remember that consumer protection is a primary objective and, for the reasons that were given at the outset, this should help growth; it is not an anti-growth point.

The consumer protection objective sits with the others as a primary. Loose language about balancing and trade-offs between the secondary objective and the primary objective are very damaging, so we have urged the FCA that it must keep to its primary and secondary objectives and be very careful to do so. I really wanted to make that point.

Rocio Concha: You had the industry here, and some of you said to them, “Give us examples of where there is a trade-off.” I did not hear any examples. If we are going to look at this seriously, we need to look at the evidence and ask the industry, “Where are the areas of consumer protection that are preventing you from innovating? What innovations are you unable to do?”

Q65 **Chair:** To be fair to Mr Wright, he did say that we have lots of regulations that are very similar and perhaps they could be amalgamated and made simpler. Do you agree with that?

Rocio Concha: How do you approach that? What does that mean—the removal of stuff to make things simple? I think that what we need is to have a proper conversation: “What are the things that are actually in that group of regulations and preventing you? Where is this group of things that are stopping you, and what is this group of things stopping you doing?” Then we need to ask, “If we consider removing it, what does that mean for consumers?”

Chair: On the subject of consumer risk, I am going to bring in Dr Jeevun Sandher.

Q66 **Dr Sandher:** I want to pick up on some of the stuff around risk, although it is very interesting that there may be a happy agreement or some agreement in the industry itself that not enough risk is being taken. There is £430 billion in cash savings; do the panel agree that that is too much money in cash that consumers should be investing elsewhere? If so, why are they not?

Helen Charlton: It goes back to the point I was making earlier: you have to ask consumers. The evidence base around that isn’t there. The inertia and the barriers to wanting to take risks are huge. I just do not think that evidence base—going back to the points made earlier—has really been amalgamated.

Before today your Clerks referenced a speech that was given by the chief operations officer at the FCA about consumer resilience. Again, I think we need to be really careful about the terminology, because financial resilience, as I am sure Mick would say, is the ability of a consumer to withstand shocks—we are talking about death, bereavement, losing your



job, critical illness. I am worried that the narrative about consumer resilience, especially in the industry, could be skewed a bit towards resilience to risks in the system, as we hear. Again, it is a question of language. We need to be really careful about what we are talking about when we are talking about consumer empowerment to take decisions and to take risks, and financial resilience, which is the ability to withstand a shock to your finances.

- Q67 **Dr Sandher:** On the cash savings in particular, I am interested in comparisons both internationally and over time. Are we holding more cash than usual and are we holding more cash than other countries?

Helen Charlton: I do not know the answer to that statistically.

- Q68 **Dr Sandher:** What is interesting to me at least is that we are all agreed that more cash should be being invested, but it is not being invested at the moment. Actually, it could just be a default option—that no one is quite getting there—and it is about not regulation but default options. Mr McAteer, you might want to comment.

Mick McAteer: It is interesting. It depends how you define holding too much cash—sorry for being a policy nerd. We did some analysis on this quite a while ago, and the UK had quite a low savings ratio compared with other countries, but once you added back in the imputed benefits of defined benefit pension schemes, our savings ratio was actually quite high. But a lot of that was down to how you calculated the benefits of final salary pension schemes.

I represent the Financial Inclusion Centre. We are particularly concerned about people who are excluded, as well as the underserved. A lot of this conversation is about how you get people to invest their savings in higher-return products, but 48% of households have less than £1,500 of savings. For them, the idea of investing in high-risk products for long-term growth is a bit of a pipe dream at the moment. In places like Northern Ireland, 43% of Northern Irish pensioners rely on the state pension for their primary source of income, compared with 33% in Great Britain. For a lot of the population, we are a long way off from this kind of conversation.

Above that excluded group there is the underserved group, which I think is really what the conversation around risk-taking is about: this supposedly underserved market. The retail distribution review exposed the fact that the financial services industry could not provide regulated financial advice on terms that made sense for the industry and for large parts of the mass market. It did not cause an advice gap; it just exposed the fact that they could not really serve it on economically viable terms.

But look, if we can get more people investing more for the long term, that has got to be a good thing. This £430 billion figure should be converted, or at least some of it should be converted, into more productive savings—I absolutely agree with that—but the question is what it takes to actually do that.

Julie Hunter: I want to respond on your point about cash savings, but this is also relevant to the fraud app scam thing as well. It brings us back to the consumer stakeholder voice and gathering the evidence needed before making decisions. We have talked about how the consumer stakeholders are really under-represented and under-resourced. Of course, the FCA has the panel, the consumer network and the financial lives survey—that takes two years turnaround, pretty much—but we have been advocating for ad hoc surveys, and speaking to consumers on specific topics, so that they can be agile and responsive to emerging harms, because we know that things are moving very quickly.

In terms of cash savings, this is an example of where more targeted research is needed to bulk up the consumer stakeholder voice. If you do not understand what the impacts are, then go out and ask people who are being affected by those impacts or those harms, rather than just saying, “Well, we do not have the evidence there, so we will make a decision based on what other stakeholders are telling us.”

Dr Sandher: As a former academic, I am very much in favour of more research.

- Q69 **Dame Harriett Baldwin:** Parliament set out the consumer duty—that was the request from Parliament in terms of legislation. As consumer experts, can you point to some specific examples of where the implementation of consumer duty has made a difference and an improvement for consumers? Has anyone got any?

Julie Hunter: I will not start with any specific examples, but I would like to give a bit of background as to where we think it is working and where more work needs to be done. It is a pioneering initiative with very clear objectives. It sets high, clear expectations for firms and, I think, demonstrates the FCA commitment to consumer protection. But we need to understand that it is really early days. Setting out your aims and your principles is all very good, but there are two more really important steps, which are implementation and impact. At the moment, it is really difficult for us to assess how that is being implemented by firms. We can only hear the case study stories of what is going on behind the scenes. For successful implementation, we need the consumer duty to be really embedded into firms’ mindset, policies and practices.

- Q70 **Dame Harriett Baldwin:** Don’t you think you should have been able to spot a difference by now?

Helen Charlton: There was a mention this morning of the FCA being a pricing regulator. It does not set prices—it is not a pricing regulator in that sense—but it should have a legitimate interest in making sure that consumers are getting value for money; there is a fair value test under the duty. To be fair, the FCA is pushing down that route and we are beginning, slowly, to see that change. Think about what happened: the day the duty came into force, the FCA pushed on savings rates. We are now a year and a bit beyond that and I do think they need to keep their eye on that.

- Q71 **Dame Harriett Baldwin:** But can any consumer see any difference from



HOUSE OF COMMONS

any of their financial services providers that you have noticed?

Helen Charlton: I can tell you one thing: cases going through the FOS, for example. To go back to the consumer understanding and in particular the consumer support angle of the duty, the FOS has picked up that firms are not doing enough on consumer support, which can be anything from making sure they answer the phone properly and give answers to queries, to much deeper support. The FCA are picking that up and I am hoping that—as Julie says, it takes a while; it is a slow process—

Dame Harriett Baldwin: You would think there would have been something noticeable by now.

Helen Charlton: If complaints are going to the FOS and the FOS is picking this up and reporting on it, then slowly but surely—

Q72 **Dame Harriett Baldwin:** You have to have failed to go to the ombudsman, so that does not sound very optimistic. Has Which? been able to pick up any differences?

Rocio Concha: No. We decided to look at a market where we were seeing a lot of complaints and issues, to see how the consumer duty was going to make a change: the insurance market. That is a market where we will see the consumer duty making a huge difference.

Dame Harriett Baldwin: We will get to insurance in a moment.

Rocio Concha: But you asked me, “Do you see a change?” In that market, we are not seeing a change.

Q73 **Dame Harriett Baldwin:** Do our constituents see any change at all?

Rocio Concha: The change will come from the specific financial services. That is how you see a change. You do not see a change in general.

Dame Harriett Baldwin: I just wondered if you had seen any that you could report to us specifically.

Chair: Pick up on the insurance industry; that is well documented.

Q74 **Dame Harriett Baldwin:** We are going to come to insurance in a moment. Last week, the FCA reported that 7 million UK consumers have now bought cryptocurrency of some kind. Whose fault is that?

Chair: Ms Charlton? Is it the online companies?

Helen Charlton: It is online harm, basically, where there is a difficult overlap between one regulator and another. It goes back to why consumers are taking advice on TikTok rather than going to a firm. What are those behavioural factors?

Chair: It is free and in their hand, presumably.

Helen Charlton: To go back to the boundary and what comes within the FCA, consumers will have to understand the risk they are taking around crypto, and firms will have to explain that to them.

Q75 Dame Harriett Baldwin: We seem to have regulated any sort of actual help for consumers into such a space that not enough of them are getting it.

Mick McAteer: I honestly believe that even if you change the advice/guidance boundary to the degree the industry wants, that would not prevent so many millions of people investing in cryptocurrency. That is a different cause and effect, because the same people who are attracted by cryptocurrency are not going to be the people that could be benefited by any supposed reform to the advice/guidance boundary.

This is an area where there really is a need for good research and analysis, because we are now in the era of embedded finance. There is regulated embedded finance—buy now, pay later will be regulated, thankfully—but this intersection between technology and finance is causing the real harm. I am afraid that regulated financial services are unable to protect against that.

Q76 Dame Harriett Baldwin: But you all agree that the consumer duty has not managed to improve things for consumers.

Mick McAteer: No, sorry, I don't think so. I think it is absolutely right: it will take some time before we see the outcomes changing. One of the criticisms we had of the consumer duty is that the FCA has not mandated a standard reporting format for firms, so it is going to be difficult to measure the outcomes. Nevertheless, it is quite clear that that firms have taken action, because the FCA has published a series of reviews of the implementation of the consumer journey, and action is happening.

Chair: It is a fair challenge that Dame Harriett is making. Ms Hunter?

Julie Hunter: I just want to make a point about the stages of the progress. After the publication, we have seen evidence that the FCA is now using the consumer duty, in terms of the way it interacts with us—the panel—and the way it is having early contact with us on key areas of policy. The consumer duty is front of mind, I would say. When teams come to speak to us, the consumer impact is front of mind.

So we have that first, but then we also have the firms embedding and implementing it. We know that lots of them are, but it is very inconsistent—lots are not. Further down the line is the actual positive impact on consumers' everyday lives, and that is the bit we have not seen. On your point, we are seeing evidence that it is having an impact, but we are not yet at that final stage of the journey.

Q77 Chair: When do you think we will get there?

Julie Hunter: We would like to see it ASAP, obviously.

Rocio Concha: But you also need to see the regulator taking action on the firms that are not complying with the consumer duty, because otherwise the rest that are compliant will say, "Why do we bother?"

Q78 Chair: Do you think the FCA is not doing enough of that at this point?



HOUSE OF COMMONS

Rocio Concha: My view is that the FCA is not doing enough about that.

Q79 **Chair:** Can I turn to the work you have done on insurance? You do not need to detail it, because we have been briefed on it, but do you think that the consumer duty will help the FCA in dealing with the concerns about insurance?

Rocio Concha: If it is properly enforced, absolutely.

Q80 **Chair:** Can you cite any good examples where it has been enforced?

Helen Charlton: We do not see any examples of enforcement, but we hear that during supervision discussions with firms the FCA is able to lever the duty to secure an improvement during the supervision process, which stops enforcement and secures an improvement earlier.

Rocio Concha: Again, this is the asymmetrical information that we face. We are being told by the FCA that it is having discussions with companies and reminding them about the duty, but we do not see the evidence; we just have that statement.

Q81 **Chair:** Specifically with insurance, it is not quite the same as motor finance, but you have a third party involved. You have the company you buy your insurance with, and then the loss adjuster or the third party that is part of that process. A lot of the things you raised were about that third party.

Rocio Concha: Not everything.

Q82 **Chair:** Well, no, but do you think the consumer duty will help with that third party? The regulated body is sometimes where the problem lies, but not always.

Rocio Concha: Yes, because the provider of the insurance service is still responsible for complying with the consumer duty—absolutely. But again, it has to be enforced.

Q83 **Chair:** Do you have any confidence that there will be a step change because of the consumer duty?

Rocio Concha: I hope that there will be, but again, I am talking in hypothetical terms. We wanted to spend a lot of our resources in the insurance market to uncover whether the duty was making a big difference. What we have uncovered is a lot of harm and inconsistency with the consumer duty, so what we need to see is the regulator taking action.

Q84 **Chair:** Mr McAteer, you talked earlier about the strata of people who have been financially excluded—those who are just about managing, to coin a phrase—but there are also people with definite protected characteristics: vulnerabilities, learning disabilities and so on. How well do you all think the financial services are dealing with that? I remember having a session with a load of regulators who all dealt with their vulnerable customers differently and identified them differently. This is our chance to find out how well you think the FCA is doing at keeping firms on point.



HOUSE OF COMMONS

Mick McAteer: This is a really interesting challenge, because the FCA estimates that 47% of adults have one characteristic of vulnerability. That is a lot of people. I have to say—this is just a personal view—that I am not sure that that estimate helps us to identify which people need the most support. I hope that the new national financial inclusion strategy, which I am so pleased the Government have committed to, will focus on the people who really do need the most support. For example, black adults in this country are two times more likely to be in financial difficulty, twice as likely to have high-cost credit and much more likely to be struggling with their day-to-day bills. People in Northern Ireland are also much more likely to be in financial difficulty than people in GB.

I hope that the regulators and whoever co-ordinates the financial inclusion strategy focus on the most vulnerable groups, because large numbers like that conceal where the real harm is. The FCA will now have regard to financial inclusion, thankfully, because of the intervention of the Government. That should make a difference, but I really hope that it is not a Trojan horse for more deregulation. If you listened to the trade bodies today, they were making claims like “regulation is causing exclusion” and “regulation is stifling innovation”. I am really pleased that there is a strategy and really pleased that there is a “have regard”, but it should not be a Trojan horse for deregulation.

Q85 **Chair:** Are there any quick comments from the rest of the panel?

Helen Charlton: The only thing I would add is that I could not agree more about the inconsistency between regulators’ definitions of vulnerability. I think the FCA is doing a good job in focusing on vulnerability and the guidance it has produced. That statistic on vulnerability is in reference to people moving in and out of vulnerability, for example because of a death or bereavement. It seems a very high number, but from what I see, I think the message is landing with firms and they are taking it seriously.

Q86 **Chair:** With bereavement, there is a moment in time when someone rings up their financial provider. They are usually ringing for that reason, so there is a moment to identify a vulnerability. Are there any other temporary vulnerabilities that you would highlight?

Helen Charlton: Having a child.

Julie Hunter: Mental health, because that could be transient; it could be sporadic.

Q87 **Chair:** And people might not declare it. Do people need to be better trained in picking that up?

Julie Hunter: Yes, definitely. I would say that the vulnerability guidance was good but could be improved; it is being reviewed, and we have submitted significant comments on it. One area that could be improved is about broadening the understanding of vulnerability. The current guidance does not mention any external factors. Things like the pandemic, the cost of living crisis, the economy and how financial services firms are behaving

are really important: they can create or exacerbate vulnerability, so they need to be taken into account.

We have also said that firms should be focusing more on the difficulties that someone is facing and how they can support them. It is about disclosure, because people find it very difficult to disclose something like a mental health issue. Staff need to be trained to create an environment, whether that is online, in person or on the phone, in which consumers feel able to disclose the challenges that they are facing and what they need. Within that figure of roughly 50%, lots of people will feel that they do not need additional support, but some will.

Chair: Someone might be ringing up because their bereavement is related directly, but it could also be indirectly related.

Julie Hunter: Yes. It is about needs. You can be at risk of vulnerability; the 50% is “at risk of vulnerability”.

Q88 **Chair:** It is quite a challenge, on the other side of the coin. I am sure that most firms would want to do this, but it is quite challenging to get people trained.

Helen Charlton: It is a challenge. I have seen an example of software that monitors various words on a call and indicates to the call handler that there could be a vulnerability on the part of the consumer. I am pleased that progress is being made. As Julie says, it is an imperfect world, but I think—

Q89 **Chair:** Do you think that financial resilience, or the lack of it, is identified properly by companies as a vulnerability? Is it possible to do that with data? Well, we will perhaps come back to data at the end. You are hovering there, Mr McAteer.

Mick McAteer: It is such a big question, and such an important one. The thing that strikes us, in the work that we do, is that if you look at buy now, pay later products, 44% of the most frequent users were already over-indebted—

Chair: And indeed there is the insurance on some of those products—including from an unnamed shop, which is now closed, in my constituency—where people were often encouraged by housing providers to go and buy their furniture.

Mick McAteer: It is great that it is going to be regulated. We are really pleased about that—along with the “have regard” and the financial inclusion strategy—but over-indebtedness really does undermine financial resilience in the long term, because if you are overindebted, you cannot afford to save. There has to be that kind of holistic thinking.

Chair: Yes, and we are definitely talking about different layers. Only moments ago, we were talking about people with lazy capital to invest, so we are talking about quite opposite ends of the scale here.

Q90 **Rachel Blake:** We have been talking a bit about resilience, and one of



HOUSE OF COMMONS

the vulnerabilities outlined by the FCA is about capability. Where do you think the real responsibility lies for tackling that vulnerability in capability, in terms of financial education and awareness?

Helen Charlton: To go back to what Mick was saying, the FCA does not have a financial education role. We have to be aware that its role is to regulate firms and protect consumers. In the same way that the FCA is saying that we must have a candid conversation about the secondary objective and what it means, we also need to think really carefully about what the FCA should be doing around that and what it needs. It should be very clear about the powers it has, what it can do and how it uses them, and the convening role that it has elsewhere.

Q91 **Rachel Blake:** And if it does not have that role, where do you think that responsibility should lie?

Helen Charlton: There is MaPS, the Money and Pensions Service, which no one has mentioned today. That is a public body with a public information responsibility.

Julie Hunter: There is a big crossover between financial education and the consumer understanding that we were talking about, because there is information that people need to be given at the right time and in a format they can understand. I would say that the two are quite closely linked, even though the FCA does not have a remit for financial education; firms, obviously, should be responsible for the quality of information that they are providing to consumers. You talk about capability: hopefully that is something that could be picked up through conversations with firms, or it could be a case of signposting, as Helen mentioned, to MaPS or to relevant firms that can provide that financial education and more detailed information independently.

Q92 **John Glen:** In reality, a step change in the level of financial knowledge and awareness among the poorest in our society will not happen immediately. I am not saying that there are not things that can be done—I think we could all find a way of doing that. However, notwithstanding the point about not doing enough research, if people are ignorant, have never had any exposure to financial choices and have very little money in the first place, there surely needs to be an emphasis on finding solutions, pathways and nudges to things like Help to Save and the no-interest loan scheme that I hope will be in the financial inclusion strategy. With Help to Save, the Government give £600 to those who save up to £50 a month for two years, but nobody knows about it.

The real issue is the segmentation you have mentioned, but does the FCA not have a role in proactively asserting some market direction? It writes "Dear CEO" letters, in the same way that we have "Dear colleague" letters. Is there not room for you to come together with market actors and say, "How can we find some real solutions for those who are poorest?" Yes, we can address what Stella Creasy and others have been doing about buy now, pay later, but it is also about proactive solutions. I am struggling to understand, in what can somewhat be perceived as an adversarial conversation, how we get to a solution.

Chair: We will take quick comments—keep them short, please.

Mick McAteer: There are two things that I would dearly love to see in the financial inclusion strategy. They are small changes that could have a big impact; we do not need to reinvent the whole process.

The first thing is workplace payroll savings schemes. In all the research that I have done over the past 30 years, I do not think I have ever seen such compelling evidence that a particular intervention can change consumer behaviours. A lot of consumers are still very passive and need persuasion. The right intervention by trusted intermediaries such as employers can make such a difference.

Secondly, why are StepChange and other debt advice charities not allowed to refer people to credit union savings accounts after people come off their debt repayment plan? That slight amendment to the Regulated Activities Order could make a big difference.

Helen Charlton: That goes straight to my point about facilitating the FCA being clear about the powers it has and what else it can do in this space. I could not agree more.

Julie Hunter: I will just say that the FCA has lots of valuable information, but it needs to be directing some of its messaging specifically to a consumer audience. Consumers are not going to look at the FCA website, even though there is a consumer section with consumer pages. You need ways for that information to reach consumers in their everyday lives.

Q93 **Chair:** TikTok, maybe.

Julie Hunter: We have done some research into where people go for advice, help and information, and social media is way up there. Alarmingly, it is highest for things like crypto, probably because there is not advice from anywhere else.

I will just give one example. We did some research recently on basic bank accounts. I cannot remember the exact stat, but about 52% of people who had a basic bank account had to ask for it themselves because it was not being proactively promoted to them. They were not aware of it; it was not made visible to them. Although you talk about the FCA role, I think there is also a big role for firms in helping consumers to understand what is available to them.

Q94 **Chair:** The direct debit guarantee is often a worry for my constituents. Ms Concha?

Rocio Concha: There is a role here for pulling together the consumer groups, the companies, the regulator and the Government to make sure that we are using and looking at all the channels to address the problem, because it is a complex problem.

Chair: We could go on for ever, but thank you very much indeed. In summary, we have had some disagreement played out in both panels between the industry and the consumer side, particularly about the



HOUSE OF COMMONS

secondary objective. We have heard real concern from this panel about how the secondary objective poses a potential risk to the primary consumer objective. That is a tension that we will be questioning the FCA about when it appears before us next week.

The panel also noted the imbalance between the industry and consumer groups and the resources for lobbying. We particularly referred to the reduction in push payment compensation. The other things that I have picked up very clearly—particularly from Ms Concha, but Ms Hunter mentioned them as well—are about use of data, targeted research and consistency in the language that is used. Those will all be interesting areas for us to pursue with the Financial Conduct Authority next week. Thank you very much indeed for your time.