

Treasury Committee

Oral evidence: Consumer finance, HC 359

Wednesday 24 June 2026

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Bobby Dean; Jim Dickson; John Glen; John Grady; Dame Siobhain McDonagh; Ms Julie Minns; Catherine West.

Questions 1-71

Witnesses

I: James Daley, Managing Director, Fairer Finance; Rocio Concha, Director of Policy and Advocacy and Chief Economist, Which?; Anne Pardoe, Head of Policy, Citizens Advice; Janine Rennie, Chief Executive, Money Advice Scotland.

Examination of witnesses

Witnesses: James Daley, Rocio Concha, Anne Pardoe and Janine Rennie

Q1 Chair: Welcome to the Treasury Committee on Wednesday 24 June 2026. We are here today to talk about consumer finance—an area of interest to the Committee and a lot of people out in the country. I am delighted to welcome four experts on consumer finance. I should say that the feedback and input that we get from witnesses helps us to question the Government on its policies in a number of areas relating to consumers.

I am delighted to welcome James Daley, the managing director of Fairer Finance, and Rocio Concha, the director of policy and advocacy and chief economist at Which?, the consumer organisation, both of whom are here with us in the room. Online, we are joined by Janine Rennie, the chief executive of Money Advice Scotland, and Anne Pardoe, the head of policy at Citizens Advice. A very warm welcome to you all.

Before we go into some of the other areas that we hope to discuss, it is quite timely that you are with us today, because we received a letter from the Chancellor yesterday about the proposed changes to ISAs following on from last autumn's Budget, when the Government announced that it is changing the cash ISA allowance from £20,000 to £12,000—keeping the £20,000 envelope but, if you reach the top of that envelope, £8,000 has to be in an investment ISA. There has been a lot of discussion about how that would work. The Chancellor set out in her letter the detail of how that would work. What do you think about this issue—cash-like investments, stocks and shares, and the proposal to introduce a charge on interest paid in them—and what conversations have you had with the Treasury on this? I will start with Janine Rennie.

Janine Rennie: Obviously, as part of financial inclusion, savings and having appropriate savings levels are really important to consumers. One of the important things for the people we support is having access to their savings, at short notice if need be. That is why cash ISAs can be really attractive for consumers.

Obviously, I understand the proposal on stocks and shares ISAs, because there is more risk but potentially more return too. There will be more incentive for people to go into a stocks and shares ISA because they will be able to be put more into that in the future, but one of the issues is that they will be left in a stocks and shares ISA as if it were a cash ISA, and potentially subject to tax on interest.

A lot of self-employed people use ISAs and stocks and shares ISAs to plan for their retirement, and this may lead to them not doing that. I can see the benefits, in terms of ensuring that people gain the maximum amount from their savings. Obviously, that is something that we want, but financial circumstances change all the time—we see that constantly—and people may need quick access to their money. That includes



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businesspeople who are self-employed, who quite often need fast access to their money.

- Q2 **Chair:** The Chancellor says that this does not prevent “normal investor practices, such as holding cash to pay account fees or cash awaiting investment, as the rules will continue to allow cash to be held in a non-cash ISA.” Does that give you any reassurance?

Janine Rennie: Yes, it is reassuring that the non-cash ISA is still there without taxation. I think the changes are that, from 2027, less will be able to be invested into a cash ISA and more into a stocks and shares ISA. It has gone down to about £12,000 that can be put into a cash ISA, so there is potentially less incentive there for people to invest. That is the main concern: there are more incentives to go into a stocks and shares ISA, where there is increased risk.

- Q3 **Chair:** Do you know how many people in Scotland—because that is within your purview—invest more than £12,000 in a cash ISA?

Janine Rennie: I do not have those figures, sorry.

- Q4 **Chair:** Okay, that is fine. I was wondering because you mentioned self-employed people using it. Mr Daley, do you have any figures for the number of people who invest up to the limit, or up to the new limit, in cash ISAs?

James Daley: I do not have those figures to hand but, if I might, there are a couple of points I wanted to make about these changes. First, they introduce new complexity into the system, which I think is always a bad thing. You can now only have cash-like investments up to a limit—I think 95%—and you are going to be taxed on interest. All of this creates an extra burden on consumers, who already struggle to understand financial products and the system, so any additional friction is not a good thing.

The other important thing is that most investment platforms do not pay a reasonable amount of interest on the cash held in accounts. Of course, it is all the more important, if you cannot transfer your cash from a stocks and shares ISA into a cash ISA, that you are getting a reasonable return on the cash that is in there. It is normal behaviour to take some of your money out of the market at certain times. You might decide that this is a volatile moment and want a higher holding in cash but then you cannot take that out. Most investment platforms are not paying much interest; some are paying no interest at all.

If the Treasury is going to add this taxation charge and create these restrictions, it is really important that investment platforms are leaned on to pay reasonable interest rates. This was something that the FCA was looking at in December 2023, but it just dropped it.

Chair: We have the FCA coming in front of us in the next few weeks, so thank you for that. There is a lot more we could go into here, but we have only recently had the letter—I think some of you received it yesterday—so we will digest it. Hopefully, we will be able to put some of these points to the Minister too. There are also some interesting questions around the

lifetime ISA, which we have looked at on this Committee.

- Q5 **Bobby Dean:** May I push you on a couple of the points you raised just now? The first is about the complexity for the consumer. Presumably, if you are getting a stocks and shares ISA, you are handing over a degree of control to whoever manages that fund anyway. Is that complexity really for the consumer, or is it for the fund manager?

Secondly, on not being able to take cash out, of course consumers can do so, but they will not get the same tax benefit, because the idea of this is to create incentives to save in different ways. The Government now want to create greater incentives towards saving via stocks and shares than they did in the past. I just wanted to give you the opportunity to come back on those two points.

James Daley: First, a stocks and shares ISA is just a wrapper. What you put in it is up to you. Some people may hand it all over to a fund manager, who will change the asset allocation. Other people will decide to put some in this fund, some in that fund, some directly into stocks and shares, and keep some of it in cash.

You are right that it is up to the Treasury to decide how it wants to tax interest on cash. The difficulty is that if you remove money from a stocks and shares ISA, you lose that tax shelter forever. As things stand, you can move your money from a stocks and shares ISA into a cash ISA and retain that allowance. You get your allowance every year, but if you withdraw money, you cannot replace it. That is the issue.

- Q6 **Bobby Dean:** I will move on to the first-time buyer ISA that is proposed to replace the lifetime ISA. The main change seems to be the decoupling from a pension savings product. We do not yet have full details—we do not know about the property cap or how much bonus will be paid— but what do you make of the proposed changes so far?

James Daley: I do not have anything to say on that specifically.

- Q7 **Bobby Dean:** Does anyone else have comments on the first-time buyer proposal?

Witnesses indicated dissent.

Bobby Dean: We can come back to that; it is very fresh.

- Q8 **Chair:** It was very recently announced. I want to move on to the Financial Services and Markets Bill, which is in front of the House of Lords at the moment. We will do a quick round robin: which bits of the Bill worry you?

Anne Pardoe: Thank you for inviting me here today. I have a couple of overall reflections on the Bill. We at Citizens Advice support the Government's ambition to strengthen the UK's financial services sector and ensure that regulation is supporting growth. We do not think that consumer protection and growth are competing objectives, and we believe that the Financial Services Bill in its current form risks shifting the balance between industry and consumers too far in favour of the industry; there is very little in there for consumers in terms of improving their protections

and experience. We believe that, overall, the package reduces protection and access to redress for consumers.

That is important for two reasons. One is that we know that trust in financial services markets alongside other essential services markets is already low. Our new research shows that the public see a clear imbalance of power when ordinary consumers have to challenge large companies. The Financial Services Compensation Scheme found that only a quarter of consumers trust that financial services firms act in consumers' best interest. The second reason is that we see a significant amount of harm in the market. CMA's research found that consumers suffered £6.5 billion of financial harm in financial services markets in the year up to April 2024.

The other thing I would say about the financial services market is that people do not have the same level of access to free and trusted impartial advice as they do in other essential markets; nor do they have a statutory consumer champion in their corner, which means that, when it comes to big moments like the Financial Services Bill, the voice of industry massively outweighs the voice of consumers. To pick out certain areas in the bill, we are most concerned about the changes to the Financial Ombudsman Service, and we also have some questions about the impact of the Consumer Credit Act reforms—perhaps we will get into those in a bit more detail.

Q9 **Chair:** Certainly, we will come to those points. Thank you for that round-up.

Rocio Concha: I fully agree with Anne about the overarching Bill. It will benefit the financial services sector; there is very little here for consumers. Some of the changes that the Bill introduces are quite fundamental for consumers. Our concerns also centre on the Financial Ombudsman Service and the Consumer Credit Act. The two changes there are worrying us a lot, and we welcome the opportunity to discuss them in more detail.

Q10 **Chair:** We have some quite strong views, as you might know, about the Financial Ombudsman Service. Mr Daley, is there anything you wanted to say?

James Daley: For me, this is the culmination of a change in direction in the Treasury since around November 2024, when the Chancellor started to make the case that the main thing standing in the way of growth is over-regulation. I might agree with her in sectors other than financial services, but I fundamentally do not agree with her in financial services. We have ended up with a laundry list of the financial lobby's wishes in the Financial Services and Markets Bill.

We started off with the Chancellor saying that the ombudsman service was writing regulation through the back door—that is a 20-year-old line that has been pushed out by the finance lobby. There was then a series of measures to direct the Financial Conduct Authority to focus its efforts on promoting what is meant to be its secondary objective, to support growth, and effectively making it the primary objective. That has had an enormous

impact in terms of redirecting the FCA's emphasis and sucking the life out of some of the really good consumer policies, such as the consumer duty, that have been implemented.

We will get into the detail of the ombudsman reforms and the Consumer Credit Act. Some of it is fine, in my view; a lot of it is really a waste of parliamentary time. Many more pressing things could have been done, and certainly in the case of the ombudsman reform, we just do not think it is necessary.

Janine Rennie: From Money Advice Scotland's point of view, the areas of greatest interest are the reform of the Consumer Credit Act, the changes to the Financial Ombudsman Service, access to affordable credit, and ensuring that customers continue to receive effective support and redress as financial services become increasingly digital.

The key test for all the reforms is whether they improve outcomes for consumers in practice. One of the things about the consumer duty is that we are supposed to see improved outcomes, but the consumer duty in itself is very new—it has only been implemented fully since 2024—so we have yet to see whether the intended outcomes are being achieved.

We will come back to the changes to the Financial Ombudsman Service, but to us its independence is vital. We are still very much in a changing situation in respect of the different ways that consumers are being supported. There is a lot to be considered, and there is a lot in there for Money Advice Scotland. How vulnerable consumers are supported is a huge issue for us. I suppose my main theme today is probably how we support vulnerable people.

Q11 **Chair:** I think you will hear the voices of some on the Committee who are in a similar place on that.

Before we move on to the detail of the Financial Ombudsman Service reforms, what would you like to be added to the Bill? There is still a chance—it is still going through the House.

James Daley: We have been fixated on the general insurance markets. We think there was an opportunity to get stuck into issues such as the affordability of motor insurance and to look at whether some of the existing statutory regulation on insurance is fit for purpose. I think there were missed opportunities there, particularly in terms of pricing.

The reform of the Consumer Credit Act needed to happen, but that was happening anyway, right? It just got rolled in with the Financial Services and Markets Bill at the last minute. A lot of the other things that we think need to happen are within the gift of the FCA to do. It is really more about what I would like not to have happened.

Chair: Okay. So some of the things you would like to see do not need legislation.

James Daley: They do not necessarily need legislation, no.

Rocio Concha: There are similar issues with the insurance market. There is a lot to clarify. In our super-complaint, we put forward two cases where the legislation has to be clearer about what is expected from consumers when they have to claim on a particular case. There was also an opportunity to give the FCA direct powers in enforcing consumer protection. The FCA has a role in enforcing consumer protection, but it does not have a direct power; it has to go to the courts. The question is why the Bill does not do that.

Anne Pardoe: I touched on this in my opening comments, but I feel like consumer representation and advice in the financial services sector is really lacking at the moment. We have the experts around the table today, but I think everyone will agree that it can be difficult to be across all the many developments in the financial services sector and to provide a really strong voice for consumers. With some of the changes coming down, these complex markets will become more difficult for people to navigate. People really need access to independent, trusted advice so that they can find their way through their problem and access redress where that is needed as well.

Janine Rennie: I entirely agree with Anne about the need for trusted advice. Our survey said clearly that our consumers do not understand what the consumer duty is—they have no idea. They do not know how to exercise their rights, so they need somebody to support them in that. Everybody knew what the Financial Ombudsman Service was and trusted it to provide free advice; now, they do not know what all the different processes are and how their rights will be upheld.

A measure is needed in the Bill setting out how people will be supported to understand all the changes. There also needs to be a strong link to the financial inclusion strategy, because that is a key strategy as well and I know this Committee has considered it. I think the links to that would have been really important within the Bill.

Q12 **Chair:** Some people in the sector might say that consumer duty means that that they are doing their job to protect consumers, and they do not need all these things. Will each of you say—because clearly you do not think that that is the case—why you think that is? What would your answer be to someone who says that?

Anne Pardoe: Is the question why doesn't the consumer duty make it simpler?

Chair: The consumer duty is there, but players in the sector will say, "Well, we have the consumer duty, so that means we have to do all this good stuff for consumers. Why do we need the rest of it?" Tell us why.

Anne Pardoe: At Citizens Advice, we are strong supporters of the consumer duty. If it is rolled out correctly, it should lead to better outcomes for consumers and make it easier for the regulator to clamp down on that. I would say that regulators are not always super-quick to act, and the FCA is an example of that—and even within that, people will

still have problems and still struggle to resolve them before the consumer duty kicks in.

Maybe I am being unfair, but although we have seen some shifts in the way industry is approaching things in the context of the consumer duty, we know that firms do not always act in the best interests of people. We therefore need strong advice for people to help them to navigate and solve their own individual problems. Then we get the intelligence and data from those interactions—which often appear earlier for us than they do for regulators and in their firm’s own data—shining a spotlight on those. Also, frankly, we need to hold regulators and the Government to account when problems arise and are not fixed.

Buy now, pay later—which I think we might talk about a little later—is an excellent example. Consumer groups were shouting about it and shining a spotlight on it for a very long time, and then Government decided to act, but it still took a couple of years. Those regulations are coming in now, which is great, but in that time we have seen a massive rise. The consumer duty is great, but it does not solve the need for strong advice and representation for consumers.

Chair: That is very clear, thank you. Rocio Concha.

Rocio Concha: We are also supportive of the consumer duty and what it is trying to achieve, but regulation does not achieve anything if there is no credible threat that it will be enforced. We are not seeing the FCA doing a lot of enforcement on the duty; if you do not do that, the companies will not comply. The other thing to say is that regulators are here to look at systemic issues. They look at systemic problems. We will still need an independent organisation—in this case, in this sector, the Financial Ombudsman Service—to look at the individual cases, so the role of the FOS is also important. Just having the duty out there does not resolve it all.

Chair: James Daley, anything to add?

James Daley: From my perspective, the consumer duty sets a higher bar, and most of the financial services industry is operating below that. The idea was that the FCA would slowly raise the bar by doing sector-by-sector thematic reviews, or cross-cutting reviews that looked at some of the themes of the duty. It started off very firmly; you will remember the way it dealt with problems in the GAP insurance market, which was a niche market. It gave a warning to the sector, the sector did not respond and the FCA shut the market down while it got the sector to pull up its socks.

I mentioned cash interest rates on investment platforms—that was something that the FCA talked to the sector about in the name of the consumer duty but, once it was asked to redirect its attentions towards supporting growth, that sucked all the air out of the consumer duty. To me, there seems to be a timidity by the FCA about upsetting the industry. That combined with the ending of the name-and-shame proposals means

that it is using voluntary requirements a lot more and doing its enforcement behind closed doors.

Chair: Janine Rennie, do you have anything to add to what the other three have said?

Janine Rennie: I have great respect for the FCA, which engages with our organisation to quite a large extent. We were speaking at their conference a couple of weeks ago, and some of their team have said that they will come and shadow in our organisation, which is really positive. The challenge is that the consumer duty is still very new, and the pillars are going to be really difficult to achieve. Particularly in the age of AI—I am sure we will come on to that—how can you gain customer understanding under AI to the full extent? How can you ensure you are doing customer support properly through AI? With the growth of AI, that is becoming a considerable issue, so there are other complexities out there that are making it more difficult.

Q13 **Chair:** Thank you for that. I want to move on to the Financial Ombudsman Service, which this Committee has looked at before. This is the final question from me before I pass to Mr Grady. Who do you think will be the main losers from the reforms or changes—whatever you want to call them—proposed to the Financial Ombudsman Service, as outlined in the Bill?

Rocio Concha: Consumers, clearly. Think about the reforms proposed in the Bill, starting with the fair and reasonable test. What is in the Bill removes the ability of the FOS to make impartial decisions. In clause 8, the Bill makes the FOS's default decision against the consumer. According to that clause, the FOS will only be allowed to find in favour of the consumer, if it finds that the company has breached a rule or there are no rules.

The reform also puts such a high administrative burden on the FOS that it will be very worried about potential judicial reviews of the process. Somehow, the Treasury has made the decision that individual consumers are far too powerful for financial services, and that financial services need protection. As someone has already mentioned, the risk of harm in this sector is very high. We are talking about complex products.

We still do not know how much AI is embedded into the sector and whether our rules are fit for purpose. Despite that, they decided that this change was necessary. What is their evidence? There is nothing in the public domain. You may have received some private evidence, but we have not seen any evidence in the public domain that this change is necessary to fix any problems in the FOS, so this is bad policy making. I should say that I have been working at Which? for eight or nine years, and I have had discussions about different sectors, and this is probably the most anti-consumer change that I have seen.

Q14 **Chair:** In the interests of time, I will not ask you all to repeat what Rocio Concha said, if you agree. Mr Daley, do you agree with that analysis?

James Daley: I do agree with that.

Chair: Is there anything brief that you want to add?

James Daley: Ultimately, there is going to be a referral mechanism, as you know. The great worry is that every time a principle is relied upon, the FOS has to refer that up to the FCA. Obviously, the FCA is moving to a more principles-based approach with consumer duty, so this idea of certainty that the industry is looking for does not exist.

The other thing that is really important to say and that Rocio did not mention is that the 10-year time bar is a significant undermining of consumer protections. The nature of financial services means that some people are unaware. That is why we have the rules that we have now, which say, "Within three years of when you become aware."

Q15 **Chair:** Janine Rennie, do you have anything brief to add, or do you agree with what the others said?

Janine Rennie: I agree, and I also think that consumer confidence is extremely important. They have to be confident in the independence, and I think that will be really compromised. I know the Government wants to create growth. To create growth, people need to be confident in the sector. If they do not feel that there is an option for them to gain independent redress, that will address that.

Q16 **Chair:** Thank you. Anne Pardoe, do you have anything brief to add?

Anne Pardoe: I agree with all the areas outlined. There are two pieces of evidence that I would throw in. One is that the FCA's financial lives survey found that 57% of people attempting to complain found it difficult or were unable to complain at all within the financial services sector. As Rocio says, there is very little evidence in the public domain about why there was a problem with FOS in terms of consumers having too much power. If you balance those two, I am also unclear why we have ended in a place where we are reducing consumers' access to redress and not making it easier.

Q17 **John Grady:** Briefly, because I think you have covered it all, just answer with a yes or no. Do you feel that the Treasury has engaged effectively with consumer groups on reforms to the FOS? I will start with Ms Pardoe and then work my way round. Just a very brief answer, please.

Anne Pardoe: Yes, they have engaged in terms of volume of conversations, but I do not feel like they have listened.

John Grady: Thank you. Ms Rennie?

Janine Rennie: We have had engagement in terms of responding to consultations. Other than that, there has been none.

John Grady: Ms Concha?

Rocio Concha: No. It has been very poor.

John Grady: Mr Daley?

James Daley: No.

- Q18 **John Grady:** Ms Rennie raised the question of the independence of the FOS and the chair, so I am picking up concerns about the strength of the chair's independence. On the proposal to give the chair more independence and for the chair to be demonstrably independent, what would you do? Do you think it is a good idea that this Committee has some form of veto or approval on the appointment of the chair? I will start with Ms Concha.

Rocio Concha: Yes, absolutely. I think that that is something that should happen. First, it was not part of the consultation, which is also very telling, so we do not think that the Treasury should appoint the chair without the scrutiny of Parliament. Parliament has to have a role.

- Q19 **John Grady:** If there is no scrutiny role for this Committee, what conclusions do you think consumer groups and consumers would draw about the independence and robustness of the chair?

Rocio Concha: If you in Parliament do not have a role, that is not an independent process.

- Q20 **John Grady:** Briefly I will go round the panel, because time is marching on. Mr Daley, do you have anything to add to that?

James Daley: Yes. If this becomes a political appointment, we saw what happened with the chair of the CMA. The Chancellor made a virtue of the fact that she fired him for not being pro-business enough when he was an incredibly moderate and professional candidate. I do not think we need a political appointee for the ombudsman. It is meant to be a representative for consumers and industry, but not a patsy of the Government.

John Grady: Ms Rennie, back up to Scotland.

Janine Rennie: We absolutely agree with that. It is essential that this Committee is involved in the appointment. Consumers already feel that the Government is not on their side in a lot of cases. I think there needs to be that level of independence to ensure there is nothing happening to affect their outcomes in the redress. That is not being completely scrutinised and looked into, which is really important.

John Grady: Finally, Ms Pardoe.

Anne Pardoe: I have nothing to add—I am in total agreement.

- Q21 **John Glen:** I want to turn to the Consumer Credit Act and what should be reformed there. I declare I was Economic Secretary for a while, and even back in 2020-21 Treasury officials were bringing me plans to look at this. In Sarah Pritchard's evidence to the Committee recently, there was a suggestion that this legislation, which was formed originally in 1974 and has had lots of different changes to it, is out of date and does not reflect changes in consumer behaviour and in the market and technology. In May '26—last month—the policy statement of the Government and the

Treasury said that it repeals the “statutory information requirements” and recasts them into “flexible and outcomes-focused” FCA rules.

Does that seem a reasonable way of coming to terms with the fact that this legislation has gone through lots of iterations and amendments in different Acts since 1974, but the world of consumer protection has changed considerably? We know that when we buy a product and scroll through loads of stuff and just click it, it is all a bit meaningless. For me, this sounds like a sensible way forward. What are your views on the reforms proposed? If you are apprehensive about it, please explain as specifically as you can why you are concerned.

Rocio Concha: I completely agree that this is an area for reform. The problem we face is that at the moment the Bill says, “Well, we are taking this from primary legislation and putting it in the rules.” But we have not seen how these rules will be in secondary legislation. There has been no consultation about that, so it is impossible to feel comfortable with the change when you do not know what will be in the rules.

There is another area, which is the sanctions. As you know, there are automatic sanctions that protect consumers—maybe if they have not received the right information, the credit agreement is not enforceable. The Treasury could have put in the Bill something a little bit more proportional that says, “Protect the principle and leave the details to the FCA, so that the details can be updated as necessary as things evolve.” But at the moment it is a blank cheque, because you do not really know which rules will be implemented in secondary legislation.

Q22 **John Glen:** It is not necessarily a disaster, though, if that detail emerges in due course. Is that right?

Rocio Concha: Exactly, but you do not know, and that is the issue.

Q23 **John Glen:** But do you agree with the principle of what the Government are doing?

Rocio Concha: The principle that this legislation needs reform, yes. But there are two areas in the Bill. One is about the specific requirements that will go into the rules in some way or form, but the sanctions are not going into the rules. The sanctions will disappear.

Q24 **John Glen:** So it is the statutory protections going that you are anxious about?

Rocio Concha: Yes.

Q25 **John Glen:** There has been a lot of commentary we get from industry. They say, “Look, if we are really going to experience a level of growth in this industry, we need to reset the balance of responsibilities in society. People need to take more responsibility for risk when they buy consumer products.” You have discussed in your previous answers the ambiguities remaining in the way the FCA does the consumer duty. How do we ever get to that point if all the time we are seeking to bring another realm of very detailed prescriptive rules, rather than a principle-based approach? Is



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it possible—or do you not think it is desirable—to reset the responsibilities to the consumer a bit in terms of taking ownership of risk-based decisions with financial products?

Rocio Concha: This is a complex sector. All these financial services products are quite complex. I honestly do not think that the consumers are over-protected. I do not see that. Do I agree that consumers have to take responsibility? Yes, but in order to take responsibility they have to have access to accurate information. I agree that in some areas the regulation has to be principle-based. I said that I am happy with a consumer duty, but it has to be enforced.

Q26 **John Glen:** I think you are contradicting yourself a bit. You are saying you are happy with the principle-based consumer duty, or the principle-based approach, but then immediately you have anxiety over the lack of comprehensiveness of what that means. The alternative is we go to a French system, where every single thing will be codified into law, and then we will have more and more legal challenges, which presumably the industry will not like. How can you honestly say that you can have those two things together? I mean that very respectfully; I am just trying to get to the bottom of it.

Rocio Concha: That is fine; I am probably not explaining myself. The point I was making is that in relation to the Consumer Credit Act, yes, it makes sense to take some of what is in the Act into the rules to give them more flexibility. How those rules will look I do not know, because there has not been a consultation or a debate on it. However, there are certain things that you cannot put in the rules—legally you cannot—which is the full sanctions.

John Glen: That's fine, thank you.

Anne Pardoe: I do not want to repeat too much of what Rocio said, but similarly we broadly support the decision to move away from the outdated prescriptive rules in the Consumer Credit Act and move them into FCA regulation. It makes a lot of sense, but similarly to Rocio we are concerned that we cannot replicate some of those things within FCA regulation, even if the FCA then decided that they were needed. There are also lots of areas like early termination rights that are important protections for consumers, which we are open to them changing within the FCA regime, but we do not know what those look like, so it is quite hard to be able to confidently say that we are comfortable with these being removed from legislation until we know what they are being replaced with.

The final thing I would say is that we were really relieved that the Government decided to postpone phase 2, where some of the other protections that are really key to consumers are. Overall, we are supportive, but there are some really key areas where we are worried.

Q27 **John Glen:** Thank you; that is very helpful. Would Ms Rennie like to come in on this subject and say anything additionally?



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Janine Rennie: We just want to express how pleased we are. When we responded to the consultation, there were various areas that we wanted covered. We absolutely think that this should change and that we should move across from an old Act that is severely outdated to new processes. Some of our concern was about the gap between the old way and the new way, and when I read the paper I think I read that we had looked at addressing that gap.

That was a key area that we were really concerned about, as well as section 75 and 140 not being addressed at this point, which were two of our major concerns. I could have that completely wrong—I can see you are looking at your paper—but I think those were the numbers. They are not being tackled at the moment. I think also the aspect of where there is criminality, that is still remaining where it should be at the moment. That is not to say they will not be addressed in the future, but I guess I am more positive, because I saw everything in our consultation response being dealt with within the proposals.

Q28 **John Glen:** Mr Daley, is there anything you would like to add on this? You were talking about the consumer duty before, and the FCA have obviously got quite a significant supervisory toolkit. Would you like to comment on where that sits alongside this reform and how you see them working together?

James Daley: I am more optimistic about where this is headed. We have had some dialogue with the FCA and firms, and the Consumer Credit Act has been quite unhelpful: particularly in terms of what it mandates firms to disclose to customers, it makes it very clunky and difficult. So I think that moving to more of a principles-based consumer duty regime should give consumers all the protections they have and remove the two-tier system. So, broadly, I am in support of that, but if we are going to have that, that just underlines the importance of the ombudsman being robust, because if we are going to lose some of those protections that sit on the statute at the moment, the ombudsman does need to be ready to step in to be able to provide fair outcomes for customers when things go wrong.

Q29 **John Glen:** But on your point about the way it has worked hitherto with the ombudsman, in essence individual decisions are made and they are seen to give precedence—even though they are supposed to treat them all individually—and they actually store up lots of unresolved matters for certain sections of the industry. Is that not the reality of what has happened hitherto?

James Daley: No, I do not see it that way at all. I think each case turns on its facts.

Q30 **John Glen:** I could speak to any of at least half a dozen CEOs of financial services firms who would express it exactly as I have said.

James Daley: I know, and they have clearly been speaking to the Chancellor, but—

Q31 **John Glen:** So they are not right—they are mistaken?



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James Daley: Yes, I think they are mistaken. First, firms overanalyse each ombudsman decision. I do think one of the positive things to come out of this—it did not need legislation—is that there are going to be more thematic reports from the ombudsman talking about trends that are emerging. Hopefully that will stop people overanalysing each decision. But two or three decisions can look quite similar and have small nuances in them that might indicate to an ombudsman that this customer was not treated fairly and reasonably. Now, we are going to be caught in this strange referral mechanism, and as we have discussed—I think it was before you came in—we worry about where that is going to end.

Rocio Concha: Yes, and what evidence have CEOs provided that there is an issue?

Q32 **Dame Harriett Baldwin:** For consumers, one of the most important things that they have had to deal with over the last few years has been their mortgage. With so many low-rate, fixed-term mortgages having come to an end, they are now having to pay much higher rates. Starting with Anne Pardoe, do you think there is anything in the Bill that will help people who pay mortgages?

Anne Pardoe: If I am honest, mortgages is not an area that we have done a huge amount of work on. Other panel members may have more to say.

Dame Harriett Baldwin: Okay. Rocio?

Rocio Concha: We have not looked at the Bill front to back, but I do not think that there is anything in it that deals with mortgages.

Q33 **Dame Harriett Baldwin:** Does anyone have anything to say on consumer finance and mortgages?

James Daley: Generally, the direction of travel is to allow consumers to take more risk. That has been the direction from Government to the FCA, and we have seen a loosening of the rules. Consumers are being encouraged to take more risk at the moment. There is nothing in the Bill that addresses that. There was a voluntary industry agreement called the mortgage charter that has now been withdrawn. It was there to ensure that lenders provided some forbearance to customers when they struggled with rates going up.

Q34 **Dame Harriett Baldwin:** Did it do the job at the time?

James Daley: I am not sure that it was massively impactful. But if we are going to try and inject more risk into the system, then we must accept that there are going to be more defaults and repossessions. We have to question whether that is desirable and whether we want to do that. We have been quite fortunate to have very few repossessions in this country over the last 20 years.

Q35 **Dame Harriett Baldwin:** Do you see the ringfencing changes as potentially having an impact on the mortgage market?



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James Daley: I am not sure about that. I am not a prudential regulatory specialist, but I have certainly followed some of the commentary raising questions of whether undoing protections that have been around for less than 10 years and were put in to try and prevent another financial crisis is the right thing to do. That has been raised by people including the CEO of Barclays.

- Q36 **Dame Siobhain McDonagh:** One of our concerns in this Committee has been the accessibility of mortgages to first-time buyers. To your point about relaxing some of the regulations, the Committee has been actively involved in talking to the PRA about relaxing the loan-to-income flow limits to allow more flexibility for first-time buyers. Would you see that as a good thing?

James Daley: There are places at the margins where people probably did not neatly fit the box and so they were not getting access to credit that they probably should have been given access to. That is fine and there has been heavier pressure than that from the Treasury to try and allow people to borrow more where perhaps it is not advisable.

If we do not see the kind of house price inflation that we saw over the last 20 or 30 years, you end up with people in negative equity, unable to move and potentially a rise in repossessions. The rules we have were put in place—we did not experience the financial crisis in the same way that the US did, and we tightened our rules to ensure that we do not when the next one comes around. I worry about allowing first-time buyers to borrow more and more. There is a housing supply problem, and that is what we should focus on if we want more people to get on the housing ladder.

- Q37 **Chair:** Some first-time buyers will be paying more in rent than their mortgage would be, so they are having to pay that in rent anyway.

James Daley: Renting is not a one-way street, is it? You still have your costs covered and there are significant additional costs that come with owning a home. But yes, sure, for some people there may have been barriers in terms of the restrictions on affordability that prevented them from securing a mortgage. The FCA has tried to make sensible tweaks there. I do not think that we have seen a massive shift yet, but I worry about some of the rhetoric coming out of the Treasury that suggests that it might want the FCA to go further. I think that the chief executive of the FCA has pushed back to the Treasury and said, "Well, how much risk do you want us to take, because there will be casualties." I would reiterate that.

- Q38 **Dame Siobhain McDonagh:** Do you think that the concentration of the mortgage market might also be a problem? The six largest lenders account for over 80% of lending to homebuyers. First-time buyers take longer and present more risk. Would a more diversified market be better for them?

James Daley: I am not sure that I have anything to add on that. Maybe it is a question for the Committee to look at in more detail.

Chair: I think we will leave it there then. Dame Siobhain, we can always

pick that up with the FCA and others.

- Q39 **Bobby Dean:** The FCA recently released its strategy, which includes a section about helping consumers. It has stated some priorities about access to credit, debt support and redress. I just wondered what you made of the strategy and priorities and whether anything is missing.

Anne Pardoe: We welcome the FCA's new strategy. There are good things in there. Overall, as we have touched on throughout, particularly James, it reflects the Government's priorities around innovation, resilience and savings. Support from firms is also in there. The strategy definitely reflects the Government's current priorities. There is not a whole lot in there around acting quickly in the face of harm being caused to consumers. We are not against more risk being taken in areas where it is safe, but more risk comes with more risk of harm to people.

In executing this strategy, we want the FCA to be really nimble and use the consumer duty to make sure that it delivers improved outcomes for consumers. A risk with the consumer duty is that it is too focused on management information reports and board discussions. We need to make sure that the FCA really has its eye on whether the market is delivering good outcomes for consumers in its operation and acting quickly where there is emerging harm.

We would like to see the FCA focus on areas where consumers are quite exposed at the moment, such as scams—it has previously done work on scams and we would like to see that continue—complaints and redress, and arrears. Citizens Advice are worried about the impact on the cost of living of the conflict in Iran. We will see that coming through, so it will be important that the FCA is on top of making sure that firms are doing everything they can to support their customers through that and come out the other side. Overall, there is quite a lot of focus on helping confident consumers to participate, increase their savings and take more risks, but there are more gaps in there around consumers who are in difficulty now and really need support. There is a balanced picture on the FCA strategy.

- Q40 **Bobby Dean:** It sounds a bit like they are talking the talk, but you are worried about whether they will be able to walk the walk. Ms Concha, I think it was you who made the point earlier about where the consumer duty sets the bar versus where they are missing it. Nikhil Rathi has said to the Committee that part of the reason the FCA is not able to respond to emerging harms is because a lot of it relies on legislation, so the FCA feels like it cannot act quickly enough. Buy now, pay later, which I am sure we will go into detail on later, is an example of that. Do you buy that, or do you think there are already powers within the consumer duty that they need to act more swiftly on?

Rocio Concha: The FCA has enough power in the consumer duty to do far more proactively—to actually look at the harms proactively rather than reacting to problems in the financial service. There are definitely constraints. For example, buy now, pay later took ages. The regulations on that are coming. The FCA is doing a lot on scams, for example, but it does



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not have the powers to deal with a lot of other problems that are related to what it is doing, which are about big tech. A lot of these scams start on social media. It is for Ofcom and the Government to make sure that the right regulations are in place. There is plenty out there for the FCA to do with the current powers, yet there are some areas where it does not have the power, for example scams, because the power is with other regulators or the Government to take a more holistic approach on all this.

Q41 Bobby Dean: Mr Daley, I see that you want to come in on that. Could you also reflect on how you think things have changed since the consumer duty has come in? Has the FCA's behaviour changed, or are we still waiting for that change to happen?

James Daley: There was certainly a lot of activity when the consumer duty came in. A lot of firms have done some of the work. They have improved some of their communications and improved the clarity of information they are giving to consumers in some markets. However, there are much broader and bigger industry-wide issues where everybody is still acting the way they were before and waiting to see whether the regulator says, "This is on the wrong side of the line when it comes to consumer duty."

The credit card market would top of my list as an example. Ultimately, 0% credit cards are paid for by the least financially resilient households who end up paying APRs of 25%-plus. The balance transfer fees that are paid by everybody do not cover the cost of that loan, so they need the least financially resilient customers to lapse at the end of their credit card deal and then carry on paying interest at very high amounts. That is how the model works. I do not think that meets the FCA's fair value rules, but the FCA have chosen to say that it is a social issue and something for the Government to discuss.

I do not think it is a social issue. The FCA decided to intervene on overdrafts because they felt that unauthorised overdraft fees were disproportionately hitting the least financially resilient households. I think they are thinking, "The Chancellor is telling us to go easy on industry right now, so we are not going to open this can of worms." There are a million examples like that—insurance pricing is another one. They say it is a social issue, but they could look at it. The head of insurance referred to premium finance as a tax on the poor, and then when they concluded their market study they did nothing. There has definitely been a change in emphasis driven by the Treasury. I do not think I have noticed that at any other time since the FSA or FCA has been around.

Q42 Bobby Dean: Ms Concha, I can see you want to come back in. Do you think there has been a change since the change in Government, or at least since the Chancellor stated her intention to get the boot of the regulators off the necks of industry? Do you think there has been a stark change in the FCA's attitude from that moment, or has it always been like that?

Rocio Concha: The narrative message sent to the regulators has been, "Be careful about enforcing regulations and upsetting industry." That has



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definitely constrained the appetite of many regulators, including the FCA. We have absolutely seen that. There have been plenty of opportunities for the FCA to apply the consumer duty in the examples that James mentioned, and they have not done it. They have not done it because of that pressure and that message of, "Don't overstate." You saw what happened with the CMA. There is a clear message of, "Don't be too ambitious in delivering your duty as a regulator."

- Q43 **Dame Siobhain McDonagh:** Mr Daley, you have done quite a bit of campaigning about the people who were victim to the collapse of their funeral plan companies. What could the Government do for the people who were affected by that collapse?

James Daley: There was a failure in the way the protections were written back in the original Financial Services and Markets Act. They were meant to protect consumers. When Mr Glen and his colleagues legislated to bring the funeral plan market into full statutory—

John Glen: You wanted that!

James Daley: We did want that, and it was the right thing to do, but it inevitably led to the collapse of some of the bad actors in the market. There is some failure that sits in Government in the way those original rules were written. Many of the victims are now dying without the funerals they paid for, and they never really had their day in court. I know there is an ongoing Serious Fraud Office investigation, but it is something for a Committee like this to look at to really understand what happened and how so many tens of thousands of people never got the funerals they paid for. I would very much like to see the Committee look at that in due course.

- Q44 **John Glen:** Can we turn to motor finance? The motor finance redress scheme is projected to cost £9.1 billion. Say a consumer agreed a monthly payment that met their needs and they received full use of a vehicle, and they carried on doing that for 10 years. How do you reconcile that reality where they did not express any anxiety—they made a decision over the trade-off between the interest, the monthly payment that they could afford and the deposit—with the concept of consumer harm? I accept that, in legislation, that is what is deemed to have happened here, but was there no responsibility on the consumer? Presumably they could have asked questions about what made up that payment. Do you not think something has gone wrong here, given the impact this will have on instability in some of those institutions? Mr Daley, I can see that you are relishing the idea of saying no.

James Daley: No. You know what, I actually agree with you—it is not a popular view—but the fact is that there was a failure under the eyes of the law, so there now needs to be redress. The matter is now well socialised, and most of the people who were victims of that are aware of it. I agree that there has to be an element of consumer responsibility; in this case many consumers were free to take another choice and did not. That is why

I think we need to clear up the ambiguity between the statute and the regulator to ensure that we do not have this kind of thing again.

John Glen: That is really helpful. I will pass on to Bobby Dean, because this is his specialist subject.

Q45 **Bobby Dean:** I hold a different view on it. Ms Concha made a point earlier about consumers being able to take responsibility if they have good information, and that if they get bad information, that is where the harm is being done. I will not open that whole can of worms, but I want to reflect on where we have gotten to and the latest delay. What do you think the impact of the delay to the scheme being rolled out means for consumers? I am not sure if any of you has a special interest in this and wants to come in on it, but can you comment on the delay to the FCA scheme?

Rocio Concha: The impact is delays. I think that the FCA put forward a proposal to deal with this issue, which is systemic. Now, because there are challenges on both sides of the argument, we are facing more delay. From our perspective, we want what the FCA proposed to be put in place and for consumers to get their money back.

Q46 **Bobby Dean:** So you think the priority for most consumers is that they get their money back in a timely fashion? There are two sides of the debate, as you said: some motor firms—not some of the bigger finance providers, but some of the firms—are challenging, as is a consumer group on the basis that they can get more money from the court. Are you saying that most consumers would prefer to get their money quickly rather than wait for the possibility of getting more?

Rocio Concha: It is difficult to answer that question on behalf of consumers. We have not asked consumers in a survey, “What do you prefer?” With this challenge on both sides, we are facing more delay for—

Q47 **Bobby Dean:** A delay in justice.

Rocio Concha: Exactly—for justice.

Bobby Dean: Mr Daley, did you want to come in?

James Daley: I agree. I think that the consumer group—it is a legal group—is ultimately fighting the other side a bit because there is money to be made there as claimant lawyers. The fact that there are two sides fighting probably makes the point that this redress scheme is pretty fair. Consumers may or may not get more, and the worst-case scenario here is that there is no scheme and we end up with total chaos where it costs the industry more money and becomes much harder for consumers to get their redress. I do not think that that is in anybody’s interest.

Q48 **Bobby Dean:** I will come to the other witnesses, but I want to ask you one more question about the claims management firms that you mentioned. There are lots of bad operators out there in the market at the moment, which has been highlighted by the FCA. Some claims management firms will say that if it was not for them, this issue would not

be in the public domain in the first place, because they got consumers together. What do you think about the FCA's focus on claims management companies, and how do you think the industry needs to change to work better for consumers?

James Daley: I agree with its focus on claims management companies. I am glad that the ombudsman has reduced the case fee for them, because I think they were clogging up the system. I understand that there is a legitimate use for claims management firms for consumers, because they can help people get redress where they might not have otherwise, but the vast majority of people are able to use services like the ombudsman for free. Claims management firms take fees that I think are disproportionate to the effort they put in, so I certainly welcome the FCA's market study—let us see what comes out of it.

Q49 **John Glen:** Can I come in on that point? It is estimated that up to 36% of this £9.1 billion is going to go to the claims management firms, despite Nikhil Rathi saying to us that there is no need for any intermediary cost. Do you not think that there needs to be a bit more robustness from the FCA in dealing with these CMCs?

James Daley: They are being pretty robust. The industry is—

Q50 **John Glen:** Well, by my simple calculation, that is £3.5 billion or £4 billion that is going to go to CMCs for something that is completely unnecessary.

James Daley: They have opened a market study, and the industry feels like it is being victimised. The FCA is obviously sympathetic to your concerns and it is making the right noises.

Anne Pardoe: I will be very brief—I do not have much to say on the motor redress scheme. I agree that one of the impacts of the delay is the predatory behaviour of claims management companies, and the FCA is absolutely right to look into claims management companies in more detail.

Within that review, it is really important that it looks at the whole customer journey, not just advertising or the digital journey. One thing we have seen is people being drawn in with an advert that says, "Free eligibility check", but they do not realise that they have then progressed into a paid consultation, so there are so many issues here. We really support the FCA's action on them, and we will encourage them to take strong action. What I would say is that the proliferation of claims management companies is also a symptom of people feeling it is too difficult to make a complaint on their own.

Janine Rennie: I concur with what everybody has said about the claims management companies. People are probably getting this on their feeds constantly, so the reason this needs to be resolved as quickly as possible is the amount of people who are falling into risk, because they are now looking for the money down the line and saying, "Well, I need to pursue something."

If you actually went on to Google and just keyed in something relevant to this, you would be hit with about 40 different companies that are trying to

sell you claims management. It is really important that this is properly regulated and looked into, but one of my biggest concerns is that the public are actually getting their advice on this issue through the media, when it should actually be coming directly from those who are expert in this area.

A lot of people do not realise that they do not need to go through a claims management company, unless they have watched that in some particular area of the media, and I think that is where we need to get the message out to people not to rush. They should wait and hold back, rather than just rushing—it is not going to make it go any faster. If you go to a claims management company, we still have to follow through this process.

Q51 John Glen: Can we turn to the issue of targeted support and simplified financial advice? This is a complex area where there is clearly financial harm from people putting too much money in the wrong places, as there are obviously risks associated with that.

It occurs to the Committee that we have financial advice, financial guidance and targeted support—I think Sarah Pritchard also said that she is working on simplified forms of advice. What is your view on the complexity of this landscape? PIMFA research shows that 63% of financial firms do not plan to offer targeted support, so specifically on targeted support, where do you think this is going to add some value? Where is it still going to leave some gaps?

James Daley: Broadly speaking, we are in favour of the concept, because there is clearly a big advice gap. At the moment, you have guidance on one side and advice on the other, and a lot of people are not getting the support they need. These seem sensible ideas to try to plug that gap, but I am not sure that actually getting people to redirect their cash savings into investments is the most pressing priority. It may be a priority for the Treasury, but there are lots of other areas where targeted support could be really helpful, including protection and general insurance, and I look forward to seeing it rolled out in those areas.

I take your point about the different tiers, and I have already said that complexity is a barrier in the context of the ISA reforms. If we can find a way to simplify this, that would be great, but the important thing is that all of this is going to be a waste of time if consumers do not trust it. We need to make sure that it is implemented in a way that allows consumers to understand what is happening in the black box that tells them, “This is a good idea for you.” Obviously, we are still very early days; we have not really seen any of these out in the wild, but we are talking to some firms to try to help them with creating a trusted journey.

Q52 John Glen: Do you think it offers any meaningful hope? If you look at AI, the Investing and Saving Alliance tells us that a surprising number of people put their details into an AI tool to secure advice and direction on what to do with their money and there is no regulation of that. We seem to be anxious about regulating AI because we want to harness the value of it, but in this particular area, do you see any evidence of harm? Perhaps

the online panellists wish to come in on that.

James Daley: There is plenty of harm from AI as it stands at the moment. Ideally, it would be brought within the regulatory perimeter, but in practice that is going to be difficult to do if OpenAI or Anthropic do not want to have conversations with our financial regulators.

As you know, Sheldon Mills is going to be publishing his report on AI on Monday week. We will be interested to see what it says, but my instinct is that, in the short run, the onus is going to be put on firms to continue to validate that they are delivering good outcomes, regardless of where customers have come to them from. In the long run, we need to find a better way of regulating this so that we can harness the power of AI to close the information asymmetry gap between consumers and firms.

Q53 **John Glen:** I feel I am neglecting the panellists online. Ms Pardoe, would you like to come in on this point, in terms of what you see as the good and bad of targeted support?

Anne Pardoe: Not particularly on the good and bad of targeted support, but I will come in on the AI point. AI offers enormous benefits for people by simplifying information that they can get at their fingertips, but we are certainly already seeing emerging causes of harm.

It is one thing people asking basic advice about how to budget better, but we are seeing people making really risky inquiries of AI and then acting on that. For example, one client asked a chatbot for debt advice and as a result, he filed for bankruptcy. When he came to us for advice it was clear that bankruptcy was not the best option for him whatsoever, but it is not reversible.

The flip side of that is that after taking advice from AI chatbots, people are less trusting of the advice that we give them. If they have been told some really optimistic advice by a chatbot and then they come to use and say, "We have heard we can have this", it is then on our advisers to explain the reality and nuance of the situation. That creates challenges for trusting our advice and encouraging people to act on it.

We are not anti-AI; we are using it safely in our own service in terms of helping our advisors to advise people, but we need to make sure that we have the right regulatory framework and accountability. As James said, that is not easy.

Q54 **John Glen:** I have heard what you have said about AI and that is helpful evidence. On the issue of targeted advice, by allowing firms to essentially offer ready-made financial suggestions to some consumer groups, they are giving potentially better outcomes for consumers who otherwise hitherto would not have got them. If 63% of firms are not going to use it, I am still apprehensive about whether they are going to still be subsequently vulnerable to challenge if it did not work out the right way. When you see that dynamic, do you have any concerns about the effectiveness of where this has got to?

Rocio Concha: Is your worry that companies will not provide this because they are worried about the regulatory challenge?

John Glen: Yes.

Rocio Concha: The FCA have been quite clear about what the targeted support is and how it should be applied. We are seeing slow take-up; the question is why. It may be that the market is not so attractive commercially. We need to talk to firms and ask, "Why is there not that take up?"

James Daley: But also PIMFA are financial advisers, right? You wouldn't necessarily expect financial advisers to be the people who are bringing targeted support to the market. The Government wants the big firms. As you know, for the last 20 years the banks have basically stayed out of investments, certainly in terms of financial advice, because of the fines that they received in the 2000s. I think the idea is that those people who have major relationships with consumers—

Q55 **John Glen:** Will be the ones who take it up?

James Daley: Yes.

Q56 **John Glen:** Ms Rennie, you had your hand up just now. Is there anything you wanted to say on this subject?

Janine Rennie: Yes. It is really important from the financial inclusion strategy point of view, where we are trying to make sure that people get access to good financial advice. The challenge is that it is expensive for most people and therefore having another option would be really positive. We would support that, but only if, when it came to a point where there were specific real concerns and more targeted advice was required, specialist support was there and available.

One of the ways that we are looking at this in Scotland in terms of the financial inclusion strategy is that we have a financial wellbeing forum. We meet to look at ways to get advice and support out to consumers on issues like this, to ensure that we are complying with the financial inclusion strategy.

Although we are not a regulated body and we do not provide regulated advice, organisations like the Money and Pension Service are putting modules up online, so that people can get some form of advice they can follow.

Q57 **John Grady:** Ms Rennie, that has taken me to exactly where I wanted to wrap this section up, which is that a lot of these reforms are targeted at pension savings and things like that. However, in my constituency of Glasgow East and in other cities in Scotland, people need basic help with things like insurance, current accounts, savings accounts and affordable small-scale credit. They need advice on those things. Do you think that we are getting any closer to a point where people can walk in and get that advice in a local community institution, like a credit union, or do you think



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that we still need to work much harder at that side of things?

Janine Rennie: You mentioned credit unions and they are absolutely essential to small communities in Scotland. They are able to give really good advice. I live in Clackmannanshire; we have a small credit union. There are credit unions in the Western Isles and other areas that are able to support the communities in those areas in a really strong way, and are of great benefit to them.

There are areas where people can receive good advice; we are moving forward towards that. However, you are probably in a postcode lottery; whether you are able to get that support in your own community depends on where you are.

Q58 **John Grady:** Do you think the Government need to focus on reforms to enable that cohort of consumers—the poorest cohort of consumers—to get access to better advice?

Janine Rennie: Absolutely. We are in a situation where a lot of consumers will not even take out insurance; insurance is seen as a luxury by a lot of consumers.

We had a situation in my local area where houses have started moving, and people have all been moved out of their homes, and they were uninsured. A lot of them did not have insurance, because they were unable to afford it and they saw insurance as a luxury.

In some of the high SIMD areas, we really need to make sure that there is appropriate support for people to be able to access advice, to make advice more affordable for those people within those areas.

Q59 **John Grady:** Thank you. We will move on to insurance. I do not know who wants to go first in outlining briefly where they see the main harms in the insurance market to consumers at the moment.

Rocio Concha: James mentioned premium finance earlier. We are still seeing very high interest rates for people who are paying for their insurance monthly. The FCA did a review—not much change. Actually, we published numbers—I think it was last week—that show we still see many companies charging around 29% more.

The people who pay, for example, for motor insurance—which by the way, is not a luxury because many people use their cars for work—pay monthly because they cannot afford to pay annually and they pay a lot more than you pay annually. That does not make sense. It is something that the FCA have an opportunity to do more about, but they have not done that, so it is one critical area.

Q60 **John Grady:** Do you think the FCA are wrong on this? Do you have evidence that the basis on which the FCA have reached their conclusion so far is wrong—from, say, economists or experts?

Rocio Concha: When you read what they produce to justify not intervening more, there is actually not a good rationale not to do that. I

think that this was probably about, again, the FCA's lack of appetite to intervene in a market because of the whole narrative about being careful, because of the need for growth and not to upset the market. I think that it is critical to address this, because these are the people who cannot afford it and they are the people who end up paying more. It does not make sense.

Q61 John Grady: I think it would be helpful if you wrote to the Committee after this hearing, over the next week or two, and set out why you think the FCA's rationale is wrong, because we can then consider that. Mr Daley, where do you see the main harms to consumers in the insurance market at the moment?

James Daley: I totally agree with Rocio and I think there is a double penalty for those on the lowest incomes, because insurers also price them higher because of their higher propensity to claim. That does not mean they are higher risk; it just means that if you have less money, you are less able to pay for a small claim out of your pocket, so you then get priced higher for that as well. So the lowest-income households are paying the most for insurance. In the worst cases, that means they are unable to have a car, because they cannot afford to insure themselves.

More broadly, and related to that, we need to think about the fairness of insurance pricing in a more data-heavy world. Insurers already use over 400 data points to price on. There is no transparency around that. But we see more pockets of consumers who are priced out of the market because they are deemed too high a risk or they are uninsurable. This is a social debate we need to have. We all accept the NHS as part of the fabric of our society. We can live whatever lifestyle we decide to and still have the healthcare tab picked up. But in the private insurance market, you are asked about every element of your lifestyle, and there is no ability for you to experiment with the risk factors. I could name my career in six different ways, but if I start to try to experiment on comparison sites, I get flagged as a fraud risk. So there are loads of problems there.

From your perspective, we need a review of the Consumer Insurance (Disclosure and Representations) Act, where there are some quite un-consumer friendly terms allowing insurers to just walk away from policies where you gave the wrong information and they would not have covered you.

Q62 John Grady: On that point, it would be helpful if you followed up in writing—I'm sorry I'm dishing out homework. On insurance generally and people becoming uninsurable because insurance is more data rich, does that take you to the point where you feel there should be some sort of basic insurance product that people can access in the market as a matter of course, just as they are able to access basic bank accounts.

James Daley: In terms of the poverty premium, how are we going to sort this out? If insurers know that this customer group is more expensive for them in terms of claims, that is an economic reality, so there has to be some sort of subsidy in there. But the motor insurance taskforce was



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meant to get stuck into this. Because of the narrative we have talked about coming out of the Treasury and the fact that there was a revolving door in the Economic Secretary's office—I think it was the Transport Minister who had tabled this, and she also left her post—the final report did absolutely nothing. In terms of premium finance, the motor insurance taskforce says, "We can't look at that, because the FCA is looking at it." And then the FCA said, "Well, we're not going to do anything."

Q63 John Grady: Thank you. Briefly, Ms Rennie, because time is marching on, do you have anything to add to what Mr Daley and Ms Concha have said?

Janine Rennie: Unfortunately, this restricts people from making their lives better. For example, young people find it impossible to get affordable insurance. That is a huge issue. Then, if they are unable to get insurance and unable to have a car to access work—particularly in rural areas, where they do not have access to decent transport—that restricts them from entering the job market, so the issue is wider than just the insurance aspect. For any young person who is trying to get insurance, it will probably be about 10 times as much as for somebody in other age groups. It is a challenge; it is exclusive, rather than inclusive, in letting people improve their lives.

Anne Pardoe: I have nothing to add; I am in total agreement. We have done quite a lot of work in the motor insurance cost space. I am volunteering my team for homework here, but I am very happy to send that over.

John Grady: Thank you very much—it is very good to have a volunteer for homework.

Q64 Bobby Dean: You have talked about particular groups being judged because of their characteristics. With the emergence of, yes, AI, but also other technologies such as wearable tech and so on, they are going to be able to get quite granular and sophisticated about the types of profiles that they are insuring. Are you concerned about the impact that hyper-personalisation could have on the insurance market?

Rocio Concha: They will have so much information about you and they may decide that you are uninsurable, or they will charge you a premium that makes you de facto uninsurable. There is definitely a risk there.

James Daley: To look at that from a positive side, we already have telematics. That is not very popular and people don't like the idea of this box monitoring their driving behaviour, but actually it can reduce accidents. At the moment, there is no transparency around how different insurers calculate your driving score. There is no portability. If I drive really well and get a great driving score, I can't then take that to another insurer and get a lower premium.

The case I am making is not that we say to insurers, "You can't use different datasets to price," but we need to be really clear about what datasets they can use and how transparent they are about them. We can then make the market work more fairly and also be honest about the



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areas where some people are actually just high risk and we are going to have to think about a social solution to ensure they have protection.

- Q65 **Chair:** Do you think there is a difference in the behaviour of someone who drives well and who drives recklessly? You could say they have a choice about how they do it. When we have looked at, for example, health insurance—some of you helped us on that—mental health conditions or other health conditions can lead to an increase in insurance. You can't do anything about that—that is just something about who people are. Are you worried that we are losing the pooling of insurance and that we are just going to see a very divided market?

James Daley: We are, absolutely. We have moved from a world where insurers were fairly blind to everybody's individual risks and insured on a small number of factors to a world where they don't even understand the pricing themselves. Now there are so many things going in there and they can't really tell you why.

The FCA wrote a blog looking at the ethnicity premium and basically said, "We don't know why it is happening. It does seem to be happening in Luton. We have no explanation, but that is just what happens in a world where pricing is complex."

I personally do not think that is good enough. I think insurers need to be able to justify their pricing and we need to be able to check that it is delivering socially fair outcomes.

Chair: For the record, Ms Pardoe and Ms Concha are nodding. We will take that as agreement. Thank you.

- Q66 **Jim Dickson:** Buy now, pay later, which we were talking about earlier, is a sector that has grown hugely from under £1 billion in 2017 to £13 billion in 2024. Regulation is long overdue. It has already been said that it took too long for the FCA to take it over, which it is doing on 15 July.

Starting with Ms Pardoe, could I ask how you are going to measure the outcomes of that regulation? What will you hope to see if it is going well, and what should the Committee be looking at?

Anne Pardoe: We welcome those regulations. In April 2022, we helped 100 people with a buy now, pay later issue. In April of this year, that went up to 900. It is definitely well overdue and will be very good for our clients and for financial services customers as a whole.

We certainly hope that the new rules will be successful in reducing the number of problems. We will monitor our data to see what the impact is—the number of calls and the types of calls that we are getting—and we can pass that on to the regulator as well.

One thing that might make it a bit difficult to monitor, potentially, is that, as I mentioned, the ongoing living standards crisis might also leap up another gear, as we see the impact of the conflict in Iran feed through more to household costs. There is a risk that we do not quite see the drop,



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but things are better because they are not as bad as they were. It is not wholly linear; it also depends on people's financial situations. One thing that we thought might be quite good to look at is FOS complaints, because previously people were not able to go with buy now, pay later complaints. Now they are, so you can be certain that anything coming through there is post-regulation. We definitely think there is monitoring that we can do, but it is not going to be super-straightforward.

Q67 Jim Dickson: That is very helpful. Did anyone else want to come in on what the positive outcomes might be?

Janine Rennie: It is going to be absolutely essential for our sector. Money Advice Scotland support a large number of organisations working in the free money advice sector. This has been the most prevalent area that we have seen among our client group in terms of people who are using buy now, pay later just for essential goods. It is not just for luxuries; it is for essential goods as well—for food and survival.

It is becoming such a huge part of everybody's lives. We have a module called base camp within our service where the free money advice sector discusses the cases that they see coming through on a daily basis. Buy now, pay later represents by far the largest number of cases that we see coming through. It is a daily occurrence. If I was to go in now, three would probably pop up. Money Advice Scotland would certainly be very keen to feed back on this. We will look to see if there is any difference when July comes. We would be happy to see if it improves and changes the amount of inquiries that we have.

Q68 Jim Dickson: Some people have attributed the increase in the buy now, pay later sector to the strong regulation, or stopping altogether, of other forms of short-term credit, such as payday loans and other areas. That is why they say there has been the focus switch to buy now, pay later. Do you see a possible effect—an unintended consequence—of people using other forms of unregulated credit because they can no longer use buy now, pay later?

Anne Pardoe: Absolutely. It is something that at Citizens Advice we call regulatory whack-a-mole. It takes quite a long time to whack down on the problem, and then by the time that you have, it has moved on. There is definitely a risk that we will see a new, slightly different sector emerging. It is really important that the FCA and the Government are really on top of that and listening to consumer groups this time when we are telling them that there is a problem.

Also, the underlying issue is that we have a huge living standards crisis. That is why people end up being driven to these things. The amount of household debt that people have is going through the roof. Arrears on essential household bills are reaching really unsustainable levels. We are never going to tackle the problem of the high-cost credit market until we tackle that broader affordability issue, which is a much bigger societal question, probably for another day.

Q69 Catherine West: On that point, is any monitoring going on through



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Citizens Advice around the impact of families with lots of children, because obviously, in April, the new benefit rules came into place? If you are in debt, that will not show up for several months. Over time, I think a lot of us in this room would like to see the end of families using food banks, for example, by the end of this Parliament. It will not be immediate, but after several years, and with uplifts in line with inflation, there should surely be fewer families using food banks, though I think there will always be single adults. Anne Pardoe, what monitoring is the CAB doing so that we have really good data in 12 or 24 months' time about the impact on poor families?

Anne Pardoe: Absolutely. This is a change we hugely welcome. We believe it will make a real difference for the families affected. You are right that it is too early to see this in our data, but we carry out extensive monitoring of our data in terms of who we are seeing and issues including debt levels. As that starts to come through, we will definitely be able to monitor that within our dashboards. It breaks this down by household type, so we will be able to see the impact. All of that is available on our website, but any time anyone wants it, we are always happy to talk through our data and what we are seeing.

Q70 **Catherine West:** This is a technical question for anyone on the panel who wants to pick it up. Existing debt with buy now, pay later will remain unregulated after July. When it comes to assessing the risk of consumer confusion over which bit of the debt has FOS protection and which does not, will there be training for the advisers on which bits are regulated in which way, or is the information sufficiently clear?

Janine Rennie: Certainly, whenever any situation changes on the financial side, we add it to our training programmes. We will certainly make sure to provide training to the free money advice sector, so that they can cascade it on to the clients.

Q71 **Catherine West:** Do the rest of the panel have anything to add?

James Daley: I would not anticipate it being a problem because of the short-term nature of these agreements. Most of them will end pretty quickly.

Chair: I thank our witnesses for their time: James Daley, the managing director of Fairer Finance; Rocio Concha, the director of policy and advocacy and the chief economist at Which?; Anne Pardoe, the head of policy at Citizens Advice; and Janine Rennie, the chief executive of Money Advice Scotland, who joined us online. Thanks to our colleagues at *Hansard*, the transcript of this session will be available on the website uncorrected in the next couple of days.

I thank our colleagues at Bow Tie and our witnesses for attending, whether virtually or in person, on this very hot day. We have had a very good canter around a lot of the topical issues on consumer finance, which the Committee will continue to keep a close eye on, especially with the Bill going through the House of Lords. I thank you very much indeed.