



Treasury Committee

Oral evidence: [Treatment Of Financial Services Consumers](#),
HC 631

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Members present: Mr Andrew Tyrie (Chair); Steve Baker, Mark Garnier, Mr Andrew Love, Mr Pat McFadden, John Mann, Mr George Mudie, Jesse Norman, Teresa Pearce

Questions 1 - 67

Witnesses: **Sue Lewis**, Chair, Financial Services Consumer Panel, **Gillian Guy**, Chief Executive Officer, Citizens Advice and **Professor Philip Booth**, Editorial and Programme Director, Institute of Economic Affairs, gave evidence.

Q1 Chair: Thank you very much for coming in to give evidence this afternoon. We are starting very promptly because we will almost certainly have a vote at 4 pm, so it is a good idea to get on with business. Could I start with you, Professor Booth? If we had a much more competitive retail banking market, would there be any need for all this regulation?

Professor Booth: I do not think there would be a need for all this regulation. If you go back to before regulation was extended to the mortgage markets and to certain types of consumer financial products more generally, international comparisons between the UK and other banking markets suggested that the UK was both transparent and relatively cheap. There are several problems with regulation. One of those problems is that it removes the need—and there is quite a bit of academic work on this issue—for financial services providers to use reputation as a marketing tool, and this applies not just to banking but to all financial services. If you go into McDonald's, it has a certain reputation for clean lavatories, quick service and rather mediocre hamburgers. If you go to an alternative, such as Gourmet Burger Kitchen, you get better quality hamburgers and a different package that is rather more expensive, and that is communicated by the brand. I do not think that happens effectively within financial services.

Of course, the other thing that regulation does is raises costs and raises barriers to entry and therefore prevents the dynamic process of competition that you would normally expect to see in properly functioning markets.

Q2 Chair: The argument has been put, and it has been apparently borne out by what you see in the marketplace, at least to some degree, that there is so much difficulty in getting an adequate level of competition, not least the nature of the product and asymmetric information. You talked about hamburgers, but people find it quite easy to judge the relative qualities of those. There is a lot of regulation, by the way. Of course it is the food regulation to prevent people from being poisoned by these hamburgers, but anyway—

Professor Booth: I do not think McDonald's would poison people routinely.

Chair: I will pass over that point, but we have the regulations in place anyway even though there may be reputational risk for them. Given all those points, is it going to be realistic to get competition in and, if so, what is required that is not being done already?

Professor Booth: Regulation has increased dramatically since 1986. Until 1986 there was barely any consumer financial regulation at all except that which related to very specific Acts of Parliament that had relatively limited scope. That consumer financial regulation has expanded dramatically and has then been expanded to the mortgage market in recent years, to general insurance products I think seven years ago. These markets were functioning pretty well without regulation. The danger is, you look at a market—and this is the way I think the FCA behave, and sometimes politicians do—and you compare it with the first-year level economic textbooks and see these market failures, which can be somehow eliminated by regulation or the promotion of information provision, and you end up swamping a market with information, detailed regulation and so on, and prevent the dynamic process of competition that leads to general improvements.

I was looking at the FCA handbook just before I came. You cannot download the whole thing to see how big it is, but if you look at the glossary, just letter A is 16,000 words long. That is just the glossary, letter A, of the FCA's handbook, never mind the rest of it. This creates barriers to entry into the advice market as well. It prevents tacit knowledge flowing, but instead consumers are overwhelmed with large amounts of paperwork that they probably do not understand, which explains details of the products that are in a degree of unnecessary detail.

Q3 Chair: I am going to ask the two other witnesses to comment on the same initial question that I asked and see what they have to say. Sue Lewis and then Gillian Guy.

Sue Lewis: Competition relies on consumers knowing what they are buying. It does rely on some basic hygiene. You want to know that what you are buying is not going to poison you; you want some idea about who you are buying; you want some idea of what the price is; and you want to know that the costs of getting it wrong are quite relatively low. Of course none of those things apply in financial services because costs are very often not transparent. You often do not know whether you have been poisoned until 20 years after the event, when you suddenly find out that the pension you were sold 20 years ago you were actually mis-sold when regulation was not as strong as it is nowadays. So there are huge information asymmetries.

I have to say competition would work better and consumers would be better off if banks and others behaved a little bit better, then there would not need to be quite so much regulation, and it is very obvious that they don't. We see long lists of fines for mis-selling. We see long lists of fines for poor advice and so on. Then consumers need to come to that

market with some idea and some capability. It is often argued that increasing financial capability is no good because banks are smarter, but these things have to meet in the middle for a competitive market. So you need more transparency and then you need consumers to understand what it is that they are broadly getting.

Gillian Guy: I think there are two issues around competition. One is that in most markets it is very difficult to get perfect competition, and I think that is the only thing that operates in the way that Professor Booth has just described. The second thing is that competition is not the whole answer for consumers, because they are not in an equal bargaining position, particularly in this market.

Chair: This is the point that Sue Lewis has just been making, really.

Gillian Guy: There is that imbalance; there is a lack of transparency and a complexity around the goods and services that are being offered here. There is also the detriment that can ensue from mis-selling or from getting these things wrong, which people only discover after the event. There is inertia in the market. There is the point as well that enforcement being there is also a deterrent to bad practice, and I think that the ability to have regulation also leads to greater confidence in the market, which assists that market and aids competition itself and also growth within it.

Q4 Steve Baker: Sue Lewis, you were talking about banks' appalling behaviour. Of course you are right, there has been appalling behaviour, some of it criminal, but hasn't that taken place during a period of intense regulation? You also mentioned the point about mis-selling perhaps going back 20 years. Again, of course you are right about the possibility, but has there been, or could you name, a specific instance where we have had a mis-selling scandal that predates the rise of regulation?

Sue Lewis: The SSP pensions in the 1970s and 1980s. Of course, the problems with Equitable Life were—

Steve Baker: That was the state. It was state intervention that made that.

Sue Lewis: There were some successful mis-selling cases. We could spend days talking about Equitable Life, but the point about Equitable Life is it was very lightly regulated.

Professor Booth: Could I bring up a very important paradox here? Before the regulation of consumer financial services—and for that matter the regulation securities markets—often you had providers combining together in arrangements that looked rather like cartels in order to enforce standards on their members, and you could either be a member of that cartel or not. One example of that was the way the life offices got together and restricted commissions, so that they would not compete by raising commissions so that brokers would recommend the products of the company that raised commissions. Those cartels were bust up as a result of Office of Fair Trading inquiries, but they were quite effective market-generated ways of enforcing good behaviour. On the other hand, in some senses they also limited competition. Of course, the way the stock exchange was organised pre-big bang is another example of that type of market-generated way of producing rules that work in a very orderly way but can inhibit competition as well. So it can be a bit of a paradox anyway, I think.

Chair: There are some very interesting controversial points coming from all three witnesses, none of which I am going to seek to ask supplementaries on, in the interests of time.

Q5 Jesse Norman: Ms Guy, I want to turn to the issues of the Money Advice Service. It has been a preoccupation of this Committee over a period of time. We looked at it in some detail in 2013 because of the evidence that we had been given that large amounts of its budget had been spent on marketing, that it had low productivity, that its services were poorly targeted on need, that there was a great deal of duplication of existing work in the private charitable sectors and that the chief executive's compensation was excessive for the work he was being asked to do. Obviously, having done a report on it, we have been hopeful that the Money Advice Service would improve. Is it your view that the Money Advice Service has improved since our report?

Gillian Guy: One of the things I ought to mention straightaway is that there is an independent review, obviously under the auspices of the Government, going on at this moment, which we have all contributed to. I think it is fair to say that we have tried to work very hard with the Money Advice Service, who have returned that as well, to try to improve the way in which their resources have been deployed.

Q6 Jesse Norman: You have been a subcontractor of theirs, have you not, through Citizens Advice?

Gillian Guy: Yes, we are a subcontractor as well. I think we have seen quite a shift, and that shift is in relation to a few things. One is that I do not think that the Money Advice Service do wish to duplicate services that are provided elsewhere under very strong brands indeed, such as Citizens Advice. We continue to discuss what that duplication amounts to; we continue to agree to differ on the separation of brand and the promotion and expenditure on the promotion of that brand, although the expenditure has decreased following pressure from the conversations that were being had at the time that you refer to.

Q7 Jesse Norman: Which is a kind way of saying they are still spending too much money promoting a brand that has no real traction in the retail market.

Gillian Guy: Given that we do not think they need to promote a brand at all, we will always think there is too much being spent on that. I would say they are spending less, but we still think that should go to the front line. We have also tried to work with them on things we think they really can add value on, which they are trying to do, such as being very strategic, trying to bring the advice services sector together, making sure there is quality throughout the advice services sector, and taking that kind of umbrella approach to what is going on.

I think when we look at the unmet demand there is for debt advice, and the fact that we find it very difficult to even skim the surface of that, we also have to disagree on a point of principle, which is about the bringing together of money advice, financial capability work and debt advice, so that we treat and deal with people as we see them and not try a blanket approach to that. We need to keep concentrating on getting all the resource we can to the

front line to make sure that advice is being given so that we can meet the increasing demand.

Q8 Jesse Norman: As you may know, we have an outstanding CAB in Herefordshire, in Hereford and also in Ross, and I have been very struck by the extremely high levels of need. What you are really saying is that, even though there has been an improvement, as an institution you are still highly critical of these core structural facts and features of the way in which it is operating.

Gillian Guy: That is not exactly what I said, but what I—

Jesse Norman: Sure. I am just trying to agree. You have been courteous and kind, as you might expect a subcontractor to be, and I am being a little bit less—

Gillian Guy: I certainly play back to you that we still have differences of opinion, and we will continue to make those known, and we will do that through the review as well, but our core line is that there should not be duplication. There is no need for another brand, and we need to get all our resources to the front line because we cannot meet the demand we have and it is growing.

Q9 Jesse Norman: Okay. That is pretty straightforward. Ms Lewis, did you want to comment on this at all?

Sue Lewis: We have a role in looking at MAS's business plan, so we work with them quite closely on that. We believe very strongly that they should do what their statute says they should do, which is to raise awareness and financial capability. So we are interested in the strategic level—

Jesse Norman: Just to be clear, you do not think they are at the moment, or not adequately.

Sue Lewis: Again, they are under review. This plan has been pulled up a few times to see if it is growing. So they are under review; they are on the point of producing a strategy. We also have a concern—and this is public because we said so in our response—about the overlap with the FCA and the FCA's consumer-facing, which again we feel is quite confusing for consumers.

Q10 Jesse Norman: So there is a lot of overlap between the FCA on one side and the CAB on the other side?

Sue Lewis: There seems to be some overlap, indeed, and hopefully the review will look at and make recommendations on that.

Q11 Jesse Norman: That is interesting. Professor Booth, is this a case of Government action squeezing out private sector behaviour? What do you think? Have you looked at the Money Advice Service at all? Do you have a view on its activities?

Professor Booth: I haven't really looked at it, no, but in principle, given the range of state activity in this area, the state providing things like debt advice to people in need is right at the bottom end of the scale of things I would be interested in undermining. I say this not as an academic but as a citizen: I do think the Citizens Advice Bureau is a brand that people understand and respect much more than they understand and respect financial regulators, the Financial Services Authority and the FCA. Insofar as the state does finance and assist them as well, I think these things should be done in a way that helps promote rather than crowd out alternative providers of advice, whether it be churches—and a lot of the churches are very good at giving debt advice—or other providers.

Q12 Jesse Norman: Yes. So, from what you are saying, you would be sceptical of a state activity that had the effects that were being described, in terms of competing in brand terms and in cash terms with an already existing provider or set of providers.

Professor Booth: Yes. I think that is what you have to be careful of, but in my list of concerns, which is a very long one, it is very close to the bottom.

Sue Lewis: Could I raise a point on that?

Jesse Norman: Yes, of course.

Sue Lewis: The Money Advice Service is funded by a levy on the industry and not by the state. I just wanted to correct that. Its effect, you can argue, is a tax, but it is a levy on the industry.

Gillian Guy: It is actually a combination, just to be clear.

Sue Lewis: Well, your side of the—

Gillian Guy: Yes.

Jesse Norman: That may be so, but it is a creature of statute. It has that feature.

Sue Lewis: It is, yes.

Q13 Jesse Norman: To ask a further question on that, coming back to you, Ms Guy—I have you asked this question before, and I do not necessarily expect you to be any more direct than you were then—do we need the Money Advice Service?

Gillian Guy: I think there is a role for an organisation to undertake some kind of central co-ordination and some kind of quality control, potentially undertaking some research and producing tools that the whole of the sector could use. That could be the Money Advice Service.

Q14 Jesse Norman: It would be of a very different character to the institution as it presently exists.

Gillian Guy: It would be right back to its statutory role and not wanting it to get into promotional activity when we have organisations on the ground that can do that. I would

just mention that although the funding comes from Government and also from the levy, it comes as a levy from those organisations that we and other advice organisations would also look to for funding to help with such advice and financial capability.

Q15 Jesse Norman: Yes. So the danger of crowding out is clear, from that perspective.

Gillian Guy: It is an issue.

Q16 Jesse Norman: Did you want to add anything to that, Ms Lewis?

Sue Lewis: The role that Parliament set out for the Money Advice Service is just as urgent and important as it was then. People need greater financial capability. There is no doubt about that.

Q17 Jesse Norman: Yes. I suppose the question is whether this is the right means of meeting it, given the other comments that have been made.

A final question on a quite different subject for you, if I may, Professor Booth, possibly further up your list of priorities. We have just been discussing in another context the underwriting market for equities, which of course does have a knock-on effect to consumers if they are purchasers of those equities. Do you share the view that has been expressed that a lot of this so-called price tensioning is really paying a lot more money for what used to be delivered at a lower price a few years ago, without noticeably less efficiency?

Professor Booth: I am afraid that is not an area I have looked at, at all.

Jesse Norman: You have not looked at it?

Professor Booth: No, absolutely not.

Jesse Norman: Thank you very much.

Q18 Mr Mudie: On the review that has started, have they put out any document, or have they asked you for your views on MAS?

Gillian Guy: In terms of the independent review, we have been asked to submit comments in writing, which certainly my organisation has done. I believe the—

Sue Lewis: Yes, we have done.

Gillian Guy: Yes, the Consumer Panel have, so have Money Advice Trust and so have StepChange, to my knowledge, and others also I believe.

Q19 Mr Mudie: You see, what concerns me is—and Jesse has reached the nub of it—are they commissioning, are they regulating or are they a delivering body? But when I see the Government's response to us, and see the new Minister's approach, that does not seem to

be on the agenda. Is it on your agenda in terms of replying? That is key. There is, I don't know, £80 million being spent in this area, and from memory £20 million of it was going on marketing themselves, when debt advice is desperately needed. Are you being asked what their role is? Sue, you said it is raising awareness. I wish it were raising awareness. I would give them £1 million and say, "Raise awareness". They are spending £20 million of debt advice and other financial advice on marketing themselves, raising awareness of themselves. As I say, I wouldn't mind £1 million for raising awareness of themselves, but as what kind of body? Not commissioning; regulating, perhaps? Delivering? Why should they be delivering?

Gillian Guy: Certainly the promotional activity I have seen has been around raising awareness about finances and the issues around financing and their own website. That is what it seems to be about. It is not for me to speak with authority about their budget, but I think the £20 million has come down to something like £12 million in terms of advertising, which was as the result of pressure. If I can put that in context—

Chair: After they came to see us, yes.

Gillian Guy: If I put it in context, we could put about 300 advisers on the street with that money and be seeing a hell of a lot of people with debt advice, and that is how we see things like that, inevitably, because of the demand. In terms of the review and whether we are talking about the roles that they perform—and there is some contradiction in being a commissioner and a regulator at the same time—then we are not only asking questions that we have been asked but we are putting forward our views on all of those matters.

Chair: Excellent. Sorry, I should not have said that, really, but, excellent, I am very pleased you are, because the terms of reference look too tightly drawn to this Committee.

Q20 Mr Mudie: Yes, absolutely. You say that, and those are comforting and polite words again, but are either of your organisations saying what you feel they should do? Should they be commissioning? Have you passed a comment on that? Should they be a regulation or a co-ordinating body, in terms of behaviour? Should they be a delivering body? Have you specifically said that on those three areas? They are doing them all.

Sue Lewis: We haven't expressed a view as such, but we have simply said they need to sort out those things. They need to decide when and whether they are doing them, but they also need to demonstrate the link between those activities and the statute that Parliament set out for them.

Q21 Mr Mudie: But Jesse has raised it, and I have raised it—I think you should be a bit more proactive and targeted in your response on those. After being knocked around in here, they could put their budget down. They minimally lowered the chief executive's salary, but from memory it is still above the Prime Minister's. They have staff—how many staff?—and an £80 million budget, and they pay themselves a six-figure sum. So they can improve their behaviour, but those are side issues. The point is the issue of what they are doing to delivery in the field of a much wanted resource. I would hope you would think of that.

Gillian Guy: I think we have been very clear for a number of months and years now that we think that the budget and the role of the Money Advice Service should be concentrated on that which adds value to the sector, and that which adds value is around the regulation

of quality and the pieces that we cannot do as a sector together. That does not necessarily relate to commissioning and it certainly does not relate to the extra brand.

Q22 Mr Mudie: I have made my plea, and I just want to ask you a question on the effectiveness of current disclosures. The FCA and the industry seem to be preparing to weaken product sale disclosure. You fully support doing away with that. What would be the effect, Gillian, on the people who queue up to get into a CAB office if that happened? Sue, as a consumers panel, does your organisation have a view on this, and are they of the mind to put an alternative view as to the destination that the FCA and the industry want to go to; in other words, minimise it?

Sue Lewis: The problem with disclosure, of course, is there is too much of it. Martin Wheatley himself says that a lot of disclosure documents are longer than “Macbeth”. This is true, and nobody reads them. So the thing we have to think about is: what is meaningful disclosure for consumers? Clearly it is not something as long as “Macbeth” with little twists and turns hidden on page 42. It needs to be simpler and in a language that consumers understand, so less of it in volume, yes, but more of it in terms of what is comprehensible to people.

Gillian Guy: I would have to endorse that on behalf of the consumers that we see, certainly. They need clarity around disclosure, but they do not need to be swamped by it, because that just leads to confusion and does not get to the original objective.

Q23 Mr Mudie: Philip, you do not want it at all. You just want people to be better educated and to go to firms with good reputations. Of the major banks, which one fits the description that you would clearly say it has a good reputation and consumers can freely and happily go to them for financial products?

Professor Booth: Let me put that at the end, because you have sort of answered the question for me. I would argue that the continual regulation that we have had over the last 30 years, which has been designed to create the perfect market—which I do not believe in, but I think it is what regulators try to create, with perfect information in front of all consumers—I do not think has made things materially better than they were in 1986. We have had yet another retail distribution review in order to try to remove the incentives that may face salespeople in order to sell particular products on the basis of commission rather than their suitability and so on. We are still trying to tackle the problem, and it is not obvious we are any further forward in tackling it than we were 30 years ago. There is a lot of bad stuff that comes with regulation, not just crowding out reputation as a simple indicator to customers—

Q24 Mr Mudie: No, you said that was the worst thing of all—“Why don’t they go to firms with a good reputation?” That was worst thing they did, that that they didn’t go to firms with a good reputation.

Professor Booth: There are two things; it is not just that. It is the removal of all the sources of tacit advice as well, which you get in other markets.

You asked me the question which bank I would tell consumers to flock to. The problem is that they no longer compete on the basis of the kinds of things that are regulated. Their most important relationships are with the regulator and not with the consumer. For example, you see that with the implementation of money laundering checks—we were just talking about it before we came in—which are gold-plated by the banks not because they have to do these things but because they fear retrospective action by the regulator.

By the way, I would be quite happy to recommend consumers go to the bank that I have been with for the last 30 years, and that is Lloyds, which seems to have done me a pretty good service, as I say. If you read the research from before mortgage and other banking products became regulated, which I think was in 2009, you will see that our market performed pretty well, indeed probably at the top end of most international consumer banking markets.

Q25 Mr Love: Can I turn to the unbanked and basic bank accounts? Let me start off with some concrete figures. According to the last report of the Financial Inclusion Taskforce, the numbers of unbanked were roughly just under 2 million, but a recent report, which came out earlier this year, suggested that the figure was closer to 3 million. Do you have any views about the accuracy of these figures that are being bandied around? The implication seems to be that the numbers are going up. Is that something that in your experience is happening, and why it is happening?

Sue Lewis: This is not something the Consumer Panel tracks, I am afraid. We don't have data on unbanked. We have views about access and the principles of access, but we don't—

Mr Love: I will come to them but do you have any views about whether the numbers are increasing?

Sue Lewis: I am sorry, not in the data. I am afraid not.

Mr Love: Gillian Guy, you have people coming through your door. Are the numbers who have problems related to being non-banked going up?

Gillian Guy: Certainly what we see is an increase in people with debt and income issues, and where they have those we also see that they are not qualifying for standard bank accounts. That is the issue with the universality of the offer from the financial institutions, which comes on to the question of where we make them give access to those people. So our increases are about the type of advice we are giving. We think the knock-on effect is that they are less likely to qualify for those standard bank accounts. Where they do qualify, of course, charges accrue and that makes their situation worse.

Q26 Mr Love: Could I ask you both your views about the disadvantages of being unbanked? A lot of people think, "Well, it's people's choice. They don't need to be banked". What are the implications of not having a bank account in this day and age, especially since benefits look as if they are only going to be provided through some sort of bank account?

Sue Lewis: The benefits of having an account are you that tend to save money from direct debits and standing orders, because you do them regularly. As Gillian has alluded to, this

often gives a big disbenefit for people on low incomes because they perhaps slip into an overdraft and then they start building up debt. In fact, I think probably what we are seeing is that a lot of people are debanking themselves because the disadvantages are outweighing the advantages. For example, we know that last year the Financial Ombudsman Service saw a big increase in complaints from people on lower incomes, disadvantaged people who felt they were being treated unfairly by their banks. So I think what happens is people think, “Well, this is not for me. I’ll go back to dealing in cash”.

Q27 Mr Love: Gillian Guy, is that your experience?

Gillian Guy: I think it is often the case that people cannot afford to be banked, but I do not think they see it as more advantageous not to be. Fundamentally, that takes them out of a working society. It means they cannot receive money. They cannot receive it from the Government in the future. They will not be able to make payments in the way that others do. They don’t get discounts for paying bills on direct debit, so they are disadvantaged yet again. They cannot build up a credit history, so they find it almost impossible to get credit when they need it, except from those people who will take advantage of them through payday lending, for example. Generally they are taken out and excluded from society, not just from banking.

Q28 Mr Love: I would like to come now to whether or not the basic bank account offers an improvement for people who have previously been unbanked. Professor Booth, in your submission to the Commission on Banking, you suggested that we should do away with basic bank accounts and that we should rely on competition and innovation to deliver the goods. Having read through your submission, there is an issue about how long it would take for that competition to have an impact. Do you think that is a rational, sensible suggestion?

Professor Booth: I think it is a rational, sensible suggestion. There is a second way—or third way, you might say—which I will come to in moment, which might be more satisfactory to all parties. I think there are three options here. One is that you could do nothing and rely on competition. For that, as I said earlier, I think you need a diminution of regulation, because regulation creates barriers to entry. There are many under-developed countries where very poor people are able to transfer money very cheaply using new technologies, which have simply not taken off in the UK.

The way basic bank accounts operate at the moment simply will not take off. This is a solution of pushing water uphill. The reason for that is that there are huge cross-subsidies inherent within current accounts. Those who have overdrafts cross-subsidise those who do not. Those who have large balances cross-subsidise those who have small balances, and nobody pays for the actual transactions, yet the actual transactions do cost a lot of money. That is perhaps not unique in the world, but it is unusual in the world. I know the Committee has been concerned that the banking cartel may have given rise to that, but I also think a lot of consumers happen to like it.

In that environment, it is going to be very difficult to get banks to market basic bank accounts, which is what is needed. If the Government wants to do something, I think it should bite the bullet and franchise a preferred provider—which could be the Post Office or whatever—and subsidise the provision of these accounts that would otherwise be loss-

making for banks. It is extremely difficult to force, by regulation or arm-twisting or whatever, a commercial company to provide something on a mass scale that is paid for by a cross-subsidy from another product; just bite the bullet and have the Government subsidise them if that is what you want to achieve.

Q29 Mr Love: You mentioned some of the cross-subsidies that currently exist. According to the Competition Commission, the banks make something of the order of an £8 billion profit on chequing accounts. The recognised costs of basic bank accounts for all banks would be in the order of £0.5 billion. What is wrong with cross-subsidising that?

Professor Booth: What I am saying is that in practice you can force a bank to offer a basic bank account, but you cannot force a bank to market it sufficiently effectively that people will take it up. It is not the total magnitude of the profit but the profit margin that indicates whether or not something is excessively profitable as a result of lack of competition. If you believe—and I know there are views about this on the Select Committee—that the cross-subsidy and free-in-credit current account banking and that type of thing exists because of the cartel and the way in which the payment system works, then those issues should be addressed at source. I have a hunch that it is actually because consumers just like it and it is very difficult for a bank to be the first mover. But if you want mass provision of basic bank accounts, I don't think you are going to get it by arm-twisting.

Q30 Mr Love: Can I ask the other two of you what your opinion is of the efficacy of competition in delivering a service to the unbanked and people with basic bank accounts?

Sue Lewis: The payment accounts directive is going to force the UK to have basic bank accounts soon—

Mr Love: I am going to come to that in a moment. I wonder whether you have any thoughts.

Sue Lewis: In fact, the panel is about to publish a big piece of work on cross-subsidies next week, so this is something we have been looking at quite closely. Certainly it is a policy option to choose to cross-subsidise basic accounts, if indeed they do make a big loss, and actually no bank seems to be able to tell you what it costs to run a current account. I think it was this Committee that was quizzing the banks before—no, it was the PCBS, I beg your pardon—and none of them could tell you what it costs to run.

Mr Love: They actually told us they weren't making any money out of it, but the Competition Commission came out clearly telling us that collectively they make significant sums.

Sue Lewis: But they cannot tell you what they make out of individual accounts. So certainly that is one option. Basic bank accounts will come. How they are going to be provided is another matter. Some banks do all they can to deter customers from taking out basic bank accounts by putting onerous requirements on them if they want to apply. It seems to me that this is just another example of the banks not treating people fairly.

Mr Love: Do you have anything to add, Gillian Guy?

Gillian Guy: I could just make a comment. Competition at the moment doesn't result in basic bank accounts being offered other than by a very small minority of banks. I think part of their reluctance to engage in some of this debate has been that there is not an equal market share and that is not transparent. The other thing to say is that there is cross-subsidy going on now, so that would not be as a result of basic banking. I do not think it is beyond the wit of the banking industry to come up with something that does not have one unacceptable option or another unacceptable option but actually finds a way through this.

As is the fashion at the moment, we at Citizens Advice have issued our own manifesto and, as part of that, we are asking for a universal service that is offered to everybody, but we are also asking for movement within basic bank accounts and other banking to make sure there is flexibility and that we can get to the whole of the banking population, not just the current unbanked, and also make that workable and sustainable for the banking industry as well.

Chair: I am going to have to move on unless you have a very pressing question, Andy. It is just that I have four more colleagues to get in if we are going to finish at 4 pm.

Q31 Mr Love: One very important question: the Parliamentary Commission on Banking Standards recommended a voluntary arrangement and asked the Government to set that up and set in train the negotiations. That was a year or so ago. We suggested that they look to impose a settlement if they couldn't reach any agreement. There does not seem to be much progress in the discussions. I wonder whether you could alert this Committee, which has taken on the recommendations of the Banking Standards Commission, as to whether or not progress is being made and whether you have confidence that they will come up with a voluntary solution to basic bank accounts.

Chair: Perhaps you could do that in writing if that is possible, so that we can expedite today's oral hearing.

Sue Lewis: Happy to do so.

Q32 Steve Baker: On this point about payment systems in poorer countries, the only one I could think of was M-Pesa, which I think Vodafone operate. I checked, and you can apparently only charge it up from their website if you have a bank account, because you can do it with a debit card or a credit card or a transfer. Could you give us an example of where there is one of these payment systems in poorer countries that don't require you to have a bank account in order to use them?

Professor Booth: I think I would have to respond in writing, too, I am afraid. My understanding is that many of them work using cash top-ups and then transfers through mobile phones.

Chair: We will take it in writing.

Q33 Mark Garnier: There is a card system; you get a top-up card and you can use it as a bank—

Professor Booth: Yes, in Uganda/Kenya, I thought that was the general way of things that they operated.

Q34 Mark Garnier: Gillian Guy, I will address most of my question to you, but if anybody else wants to leap in, please do. Household debt is a subject I find fascinating and of concern. You are well aware that the household debt stands around £1.47 trillion, and about £1.2 trillion of that I think is mortgage debt, and that the bulk of that, to within £10 billion or so, was created prior to the financial crisis and it has been more or less resolutely stuck at that level since then. What I am particularly interested to hear from you is: what are the dynamics that are going on at the moment with household debt? Clearly, some households since 2006-07 will have paid back some of their mortgages, others will have taken on mortgages, but what I am particularly interested in hearing from you is what is happening at the margins, where you have households that are falling into debt for one reason or another. What is happening there and, in particular, what is the size of the problem?

Gillian Guy: It is one of the biggest issues that we deal with at Citizens Advice. The scale of it is that we see 2 million people every year with about 7 million issues, we have 14 million hits on our website and debt features very heavily there. Our demographic shifts somewhat, because many more people are getting into that margin where they can fall over the edge and be in significant difficulty. The environment that surrounds all of that—apart from the financial situation generally—is that the things that impact are wages being held or reducing, employment sometimes being for much reduced hours and often not secure; and things like zero hours contracts, the kinds of things that have grown up in time, so there isn't a steady income coming into the household. We have the whole of welfare reform and some of that is biting currently, which has reduced some of the income for some households, and we have costs continuing to rise, particularly around essential items. The fact that fuel and food and those bills are continuing to rise—and rent also—means that people find that equation more and more difficult to balance with their income and expenditure.

We also see lots of people being tipped over the edge on the costs of childcare, for example, when they are making decisions about employment and whether they can afford the childcare. We have just released a study about the cost of school uniform, which is one particular financial issue for this part of the year particularly. Families have said, “We even choose our schools by how much we're going to have to spend on that, because it is a critical issue for us”. Then we have the spectre of interest rates. We are waiting for that to come—not with any great optimism because people who are on a knife edge when they start to see they cannot make repayments are also going to come into all sorts of difficulties around housing and possessions of homes. That leads to health bills as well as a result of all of that, and employment issues.

We see that there needs to be a concerted effort to get people out of situations, and it is not, as we keep saying, about getting them higher and deeper in credit in order to deal with those situations, which is often the solution that is given to them, because they just get into a spiral of debt. We saw the study from the Money Advice Service last November, which talked about 8.8 million people already being over-indebted. In terms of the contract that we get on a three-year commitment from the Money Advice Service, we can see 166,000 people a year and that just skims the surface, as I say.

So we need to offer more. For example, we think that a basic bank account ought to have with it debt advice, a money advice offer that people ought to take up. We think that there ought to be more signposting and resources available for free advice, particularly free money advice and free debt advice together, and we think that there ought to be more channels open so that people can access, through whatever means works for them, the kind of advice that they need. As organisations, we have a responsibility to join up more and make sure that this is a concerted effort.

We are currently in the midst of our own campaign—having reached 75 years—which is about advice for the future, and really saying that there is a dangerous gap coming between the demand and the supply. As well as local authorities needing to get a strategy for keeping that advice in place, we also need nationally to recognise that there is a right to free and impartial advice.

Q35 Mark Garnier: Is this problem getting worse or staying the same or easing? If you were to look back over, let's say, a six-year period going back to the depths of the financial crisis, do you see any change in the gradient of the graph on this?

Gillian Guy: It is different and getting worse. The difference is that point about trigger points that send families into quite desperate situations, and individuals as well, as opposed to a slow progression towards a precipice that has happened over a period of time and sometimes through actions that people have taken. This takes families by surprise. It concerns them deeply and it has costs that impact not only on housing but also on health and other public services because they are unable to cope.

Q36 Mark Garnier: If you were to try to attribute a value to this—I appreciate the numbers you have given me but they are slightly picking numbers out of the air—and to say of that £1.47 trillion worth of debt how much of that do you think is non-mortgage-related problem debt, and how much is mortgage-related problem debt?

Gillian Guy: We think about just over £1.5 billion is unsecured debt.

Q37 Mark Garnier: That would be the bit that you would be particularly worried about?

Gillian Guy: Particularly, but of course interest rates—

Mark Garnier: No, no, I wholeheartedly agree with you.

Gillian Guy: —don't only hit people with mortgages of course, they hit people with landlords.

Mark Garnier: Of course they do. Yes, absolutely because the landlord has a debt and they pass it on.

Gillian Guy: Because they have the debt and then they pass it on through the rent, yes.

Q38 Mark Garnier: That is absolutely right. You have come up with a few suggestions about what we can do with it, in terms of more advice, but in any real sense is that going to deal with the problem? They can advise people as much as they like but if you have hit a buffer what is the solution? If you have a large mortgage or you are a tenant, you have the prospect of your household bills going up for one reason or another, part of which will be interest rates, part of which could be rising fuel costs, food costs or whatever, and a lot of which is outside the ability of anybody to be able to determine what it is. Nobody can intervene on the international commodity markets, be they food commodities or fuel prices. What practical resources are there to improve the cash flow of a household that is struggling badly in debt?

Gillian Guy: I think there are a whole raft of things, and some of them are quite small and some of them are much larger. I do appreciate that it is all well and good to keep talking about having advice, having financial capability increase, but unless you can throw money at a family sometimes that does not appreciably change their situation. However, it does have impact, so it is about taking the problem and breaking it into pieces: is someone maximising the income they can get through the door? Very often that is not the case. Sometimes they are not claiming for things they are entitled to. Are we able to help them with their expenditure planning? That is another issue. Also, can we reduce their expenditure? For example, if we are getting into households to reduce expenditure on heating and lighting and fuel bills, that does make a difference to a household's income.

We also had, of course, crisis loans, which are not necessarily available anymore, but those kinds of safety nets are very important for families and we need to make sure that they are there. We need a whole raft of things around employment to make sure there is far more security and that people are clear about the kind of hours they are working, how much income they can expect to have. It really is the whole spectrum and taking it right the way through, but ultimately there are many people facing situations where they feel they have no option but to turn to people like payday lenders. Actually they could have arrangements with creditors and be in a much more measured approach that is not a crisis but is a way out of the situation they are in and, from our point of view, what we want to do is not build crutches for people but give them some power take control back.

Q39 Mark Garnier: In terms of the household budgeting, do you find many people just make peculiar choices on where they spend money, where they could get rid of the Skybox in order to make savings, or is that too trite a response to that?

Gillian Guy: I think it is dangerous to impose on people what we might do in a rational situation in order to balance the books because we are not living those people's lives. Their priorities might be different to the person having a look in. From our point of view it is not about making judgments; it is about showing options and giving people the wherewithal to make the choices in an informed way.

Q40 Mark Garnier: Sue, do you want to add to that?

Sue Lewis: I was nodding there because one of my other hats is on the board of StepChange. I have listened to calls with clients at StepChange and the questions are about, "What do you spend money on?" Somebody says, "Well, I spend this money on my dog" and you think, "The dog?" and then you realise that that dog is incredibly important

to that person, and while you or I might say, “Okay, we don’t need to spend money on the dog” that is not our lives, as Gillian says. So you cannot make those judgments. I feel that is really important.

Q41 Mark Garnier: That is fair enough. Gillian, going back to the rising interest rates, have you made any estimate as to what is going to happen to households when interest rates start to rise as the economy is recovering? A factor of a recovering economy is you have to have a tighter monetary policy. What effect do you think it is going to have?

Gillian Guy: We do not have the crystal ball that tells us exactly what is going to happen. What we are looking at is the situation of people who come to us right now and seeing that, for example, if their rent goes up, as a result of their landlord’s mortgage or debt going up, that is going to tip them over the edge. We see people who are living right at the edge of their mortgage repayments and that could tip them over the edge, and we certainly need to be, and are, currently talking with mortgage providers, for example, to talk about forbearance and how we manage the transition from an interest rate through to those higher rates and the consequences.

Q42 Chair: Do you have a percentage of this debt base that you think is going to get drawn into very serious problems for each 0.5% or 1%—

Gillian Guy: I do not have that to hand, but I can certainly see what I can provide the Committee with.

Q43 Chair: You are in a unique position to be able to provide information on the basis of your client base. Do you want to add anything?

Sue Lewis: I think the Resolution Foundation did some work on that. Can I just raise a point about the other side of debt and the regulation? That is, of course, that now regulation is intended to at least help people by stopping them taking on debt that they cannot afford. No amount of regulation will help if someone does not have enough income to cover their expenditure, but it will at least help people with that decision about whether they should be taking on debt or not.

Professor Booth: Just a very tiny point: you do create the conditions for a large amount of debt if you have a period of rapidly rising incomes, which people expect to continue, a financial crash, stagnant incomes and then also big shocks to the prices in certain markets. I realise it is peripheral to the interests of this Committee but there are areas, such as planning liberalisation, problems with energy markets regulation, childcare and a whole host of other areas, where the poor are impacted most. Also, for that matter, excise taxes on things that are bought disproportionately by the least well off. I realise they are peripheral but they are very important in understanding debt dynamics when people have those shocks.

Q44 Teresa Pearce: I want to ask about the changes to pensions but, before I ask that, with StepChange and CAB you touched on about when people are in debt one of the things is to look at their budgets and help them budget and plan. How difficult is that with the

rise of zero hours contracts, when people don't know what their income is going to be? Has that made it much harder?

Gillian Guy: It is almost impossible.

Q45 Teresa Pearce: Okay. Thanks. Pension choices. People are going to have more pension choices going forward, and the Government has announced that independent organisations will be available to give guaranteed guidance on pensions. They have said that this should be given by independent organisations rather than the industry. Gillian, do you have a view on who should give that guidance?

Gillian Guy: First of all, I should say we welcome the reform because it does give people a bit more control and flexibility, especially given what we have just been talking about. There are massive risks inherent in that, of course, and so we do think that impartial advice is very important. I do emphasise "impartial" because it must not have any vested interest in it. It has to be about the individuals concerned and what is in their best interests.

Q46 Teresa Pearce: For instance, if it was decided the body that would be best to give that guidance would be the CAB, how would you be placed to be able to do that? Would you have enough people? Would you need a longer lead-in time to do that? Would it be an impossible challenge?

Gillian Guy: I don't think it is impossible, and as a voluntary organisation you might expect me to say that. We don't admit to things being impossible. There is a logistical issue, which we need to get sorted very quickly, as to who is going to be providing what under the guidance guarantee so that we can gear ourselves up, because it all has to be up and running for next April. We also ought to be piloting almost from next month I would say. We would need resources. We cannot soak everything up as an organisation in order to make sure that we have the right advice in the right places, as indeed would any organisation, except of course that we have a body of volunteers ready and willing across England and Wales.

Q47 Teresa Pearce: Given that it will be guidance, are you confident that consumers will understand the limits of guidance? When I knock on doors and talk to people and say, "What do you want from your pension?" they say, "I want one like yours". Will they understand that guidance is not advice? Do you think there is confusion there for the public? They will come to whoever is giving that and say, "What should I do?" and you cannot tell them that with guidance. Do you think there needs to be more done to explain to people the limits of guidance?

Gillian Guy: The first thing is we don't think guidance happens at one moment under the guidance guarantee. It has to happen much earlier and also carry on after the event so that people do not feel they have been abandoned to their choice. It is something that we deal with day in and day out, the understanding of the boundaries of the advice, guidance and support that we give. It is a complicated issue and we have to be very clear about that. We are quite skilled in doing that. What we are also clear about is that we do not give regulated advice, so there will need to be people to whom we could hand over for that advice that goes further.

Q48 Teresa Pearce: On the Finance Bill quite recently, the Minister—it was quite clear from what the Minister said—seemed to think that the guidance would just be, “Go and get some advice”. That would not be enough, would it?

Gillian Guy: I would be very surprised if we found that satisfactory. I doubt we would.

Q49 Teresa Pearce: One of the other things we have heard a lot about—given that this is a big change and gives people a lot of choice—is that there will be what the industry calls “product innovation”. How big do you think the potential is for consumer detriment caused by product innovation following the pension reforms? Is the industry concerned about that? The last thing we need is people to have another mis-selling something or other. Sue, what do you think on that?

Sue Lewis: We, too, welcomed the reforms and the guidance guarantee, and we are very much on the whole independence, more than one conversation, but for us the big risk is that these new products will emerge and people will not understand what they are getting into. We have already seen the pensions liberators at work, so if you Google “pensions advice” you will get half a dozen pensions liberators there. So, yes, it is a very big concern.

Q50 Teresa Pearce: The FCA has been given powers to intervene early if detriment occurs. How confident are you that it is up to that challenge?

Sue Lewis: They can do it. We are urging them to do it. This is such a good opportunity for the FCA to show its proactive approach to consumers by scanning the marketplace, seeing what is on there and just stopping it if it is going to cause widespread—

Q51 Teresa Pearce: For this pension and annuity reform to come in—which I also welcome—at the same time as we are trying to get the entire country to auto-enrol, if there is a mis-selling or something then it will have a bigger effect than just on those individual people because it will put people off the whole idea of saving and the whole idea of pensions. Do you not think that is—

Sue Lewis: Yes. There is a big disconnect, isn’t there? Auto-enrolment is about people essentially doing something in their sleep almost. Most people go to the default fund, and then suddenly, 10 to 20 years later, there are a whole lot of complicated choices to make that they have never seen before. They have a whole bunch of products they have never seen before. They probably have a house, so there may be options that are not just to do with their pension pot but may be to do with other assets as well. So this guidance needs to be pretty damn good.

Q52 Teresa Pearce: You talked about early guidance. How early would you think would be best?

Gillian Guy: We like to get in as quickly as we can. Seriously, if someone is coming for debt advice we would want to talk to them about if they have any pension provision, no

matter what age they are, and what they are thinking about their plans for that and how they might factor that in.

Going back to your earlier point, there is a real role for whoever does give this guidance to be vigilant about the products that are coming forward, because there will be some eyes and ears on the ground and we need to be putting pressure on the regulator to make sure that that is taken account of.

Q53 Mr McFadden: There is one issue I would like to ask you about. I will start with you, Gillian Guy. A few months ago it was uncovered that Wonga had been sending letters to customers, which purported to be from an independent solicitor's firm but were actually part of Wonga's own debt collection process. It was subsequently exposed that they were not alone; a number of other organisations had been doing this. In fact, in July, we had an evidence session involving a representative of Lloyds Bank. We had the chairman and some of us questioned him about a letter with somebody saying, "We're acting for Lloyds" when they were part of the in-house debt collection process. Do you think that is straight dealing or something that is trying to communicate something that is not actually true to the consumer?

Gillian Guy: I think whether this is technically correct or not, in my book it is misrepresentation because it is trying to say that something has been escalated to a collection agency that will pursue it in a different way and will have different motivation for doing so. We have seen the results of that in people coming in quite distraught, having received such letters, and not realising that things had reached that state and not knowing what to do as a result, and that brings about different reactions. Some people try to deny that anything is going on and it gets worse and, as I say, others have come to us in quite a distraught state. It is not straight dealing in my book. That does not make it illegal technically, but I think whenever there are recovery procedures they have to be straight and also have attached to them that people might need advice on how to deal with their debt, rather than put more and more pressure on them and send them into the hands of lenders who will treat them in an even worse way.

Q54 Mr McFadden: Subsequent to the evidence session, the Chairman wrote to most of the high street banks. I am sure he will correct me if I am wrong in paraphrasing. Some of the replies were along the lines of, "We used to do something like this. There was absolutely nothing wrong with it but we have stopped it now". That is what most of them said. Do you see the fact that they have stopped it now as an admission that they themselves recognise it is not straight dealing?

Gillian Guy: I can't make an admission on their part and I guess they were seeking not to make an admission, but I think that they—

Mr McFadden: No, none of them made an admission but they all say they stopped it.

Gillian Guy: They obviously do not think it is acceptable behaviour and I would agree with them.

Sue Lewis: It is not treating customers fairly, end of.

Q55 Chair: Certainly not straightforwardly because we asked for sample letters and the letter purports, at first glance, to be from one person or one firm when it is actually, if you look extremely carefully at it, from someone else.

Sue Lewis: If they read the FCA's principles they would see that it was not straight dealing and not acceptable.

Professor Booth: As the regulation sceptic here, perhaps I can say that not only is it unacceptable behaviour, in my view it is the type of behaviour that I think is borderline illegal, misrepresentation, and if this caused some detriment then I think there is potential for a civil case. I would like to see a lot of regulation replaced by an enhanced ability for class actions to be taken in this very type of case, where I think something is potentially borderline illegal, and damages would be appropriate and the reputation of any company involved then would be destroyed.

Q56 Mr McFadden: Can I ask you a bit more about this? You have written on the ConservativeHome website calling for a regulation revolution, meaning less not more, alongside other pieces that you wrote entitled, for example, "Tax havens are good - let's make Britain one" and "Christian objections to the NHS". On this point about these letters, in a world where the FCA did not exist and there was no regulator that customers receiving this letter could go to and say, "It doesn't look like straight dealing to me", how would those letters be prevented or remedied?

Professor Booth: It is interesting, of course, in a world where the FCA does exist, that those letters not only appeared in the case of Wonga but it seems that it has been common practice for a long period of time. My view—and I am not a law academic—is that this is misrepresentation and I think our legal system dealt better with this type of thing before we had statutory regulation. It would be even better if you had the ability of consumers to take class actions so that they could divide the cost. Somebody pointed out to me that that type of legal process was quite effective in the case of the Equitable, which of course went to the House of Lords and the House of Lords found against the Equitable, but then most of the Equitable's customers were lawyers. So I would like to see it made much easier for legal cases to be taken where that isn't the case.

Q57 Mr McFadden: Gillian Guy, legal action or an appeal for the people who walk in your door facing this kind of problem?

Gillian Guy: I think legal action on borderline legal issues is very expensive and often does not come to a conclusion. I don't see that the onus ought to be on the consumer in this particular instance. I think it is right that there was a champion who just went out and said, "This is not acceptable and stop it".

Q58 Steve Baker: Professor Booth—Philip—we have spoken many times. I think you know I am pretty pro-market. If we turn to a market mechanism to promote competition, which is price comparison websites, the FCA found that these websites did not always ensure

that consumers were given the appropriate information to help them make informed decisions. Are these price comparison websites a good market mechanism to promote competition? Are they a good way to shop around, or perhaps the best way, or are they flawed?

Professor Booth: I do not think they are intrinsically flawed. This is another area where the pursuit of the perfect can become the enemy of the good, and that sort of policy has led to the complete elimination of our defined benefits pension sector. I think price comparison websites are intrinsically good because they provide more information. Interestingly I think the FCA found that those that were sponsored by companies and so on did not lead to any detriment to customers, even though it was not clear that they were sponsored by companies, but then there are other price comparison websites that were not doing their job properly. I think we need more information in financial markets, but we have to accept that information is not—like the A-level textbooks—something objective and scientific where you can plonk it into the market and everybody will be perfectly informed. A lot of information is tacit. Some people will make mistakes; people will learn from those mistakes; and a market is a dynamic entity where you expect to see improvements in outcomes not a perfect outcome at any particular time.

Using a financial regulator to try to achieve this, if you project forward the number of financial regulators for the next 60 years at the same rate of increase that we have had since 1986 when the financial regulator was founded on its current basis, you will have more financial regulators than people working in the financial industry in total, and that excludes compliance officers that work in the private sector. Where is this going to end? When are we going to be satisfied?

Q59 Steve Baker: I am conscious of the time and the approaching vote, so I just want to pick you up on two further points, if I may. First, you mentioned there being no detriment despite these sites being owned by providers. Do you think it is a problem, in principle, that they do not declare adequately that potential conflict of interest?

Professor Booth: Yes, I certainly think it is wrong ethically not to declare a conflict of interest in general. I am an actuary by profession and I believe strongly in an ethical code where people declare conflicts of interest. To what degree the regulator should intervene, I do not really know but, compared with where we are, it seems to me to be a relatively low level of regulation to say that a conflict of interest must be declared on a price comparison website.

Q60 Steve Baker: Something else I would like to pick up on is that you made a very strong point earlier on about reputation and regulation, in an environment with strong reputation—I am not going to try to quote you but you made a very strong statement about it not being needed. But one of the other things that the FCA found was that consumers focus on headline price and brand when using price comparison websites. They were concerned this distracted from crucial product features such as policy, coverage and terms. Although haven't the FCA found that, despite all the regulation, in practice consumers are relying on brand? In other words, they are relying on reputation in practice.

Professor Booth: Yes, but also price rather than suitability. That kind of finding is a double-edged sword, isn't it? After 30 years of regulation consumers are just comparing

on the basis of price but also brand, in terms of what is that brand communicating to the customer? Is it communicating anything meaningful? We do not know that.

Q61 Steve Baker: What you seem to be arguing is that the brand has become disconnected from the services that are provided because there is so much regulation; is that right?

Professor Booth: Yes. The concept of the brand communicating quickly an important package of a combined set of information such as, “We provide a good service” or as in, say, Sports Direct, “We provide a cheap and cheery, not very helpful service but you can get everything you want very cheaply”, has essentially disappeared within the financial services industry.

Steve Baker: So it has become noddling dog versus meerkat rather than substance?

Professor Booth: Yes.

Q62 Steve Baker: Just finally, do you think that the FCA is doing enough or too much to help these websites meet both their consumer protection and competition requirements?

Professor Booth: I would like a lot of these problems to be resolved where you have regulation by disclosure, for example when we had polarisation and you had to either provide independent advice on every possible product and then people earning under £50,000 a year could not get independent advice, or you were tied agents. Of course that has all changed as a result of the retail distribution review, because that did not work and none of the other reforms worked. I think what is important is there is disclosure of the extent of the conflict of interest, so I have no objection to a price comparison website to be required to put, “We are owned and controlled by Direct Line” or whoever it might be.

Q63 Steve Baker: So you have found somewhere where you would like the FCA to do a little more?

Professor Booth: I am just saying—starting from where we are—that this is a minimal, non-intrusive approach that may well be helpful. It is odd that we have all this regulation and yet it is possible to have a price comparison website owned by a provider when that is not communicated.

Q64 Steve Baker: Thank you. Sue Lewis, you were mugging there. Do you want to add something on this?

Sue Lewis: A comparison website only matters if it matters. People shopping on price, that is fine, that is their prerogative, but if there is then serious detriment—and these products are not burgers—the question comes, “How do you make people aware that it is fine to do that?” But there are risks. They may not be covered for insurance eventualities they think they are covered for if they just buy by price alone.

Q65 Steve Baker: What would you like to see change?

Sue Lewis: Once you get into disclosure there is always too much of it, but I would like to have a set of key features of the insurance product, “You are covered for X, Y, Z. Here are the prices. If you want more whistles and bells then go and look somewhere else or delve down a bit”. Most people have fairly straightforward insurance needs and so it is about comparing on a like-of-like basis for most people’s needs. I do not understand why industry waits for the regulator to regulate instead of just doing it. That is my key message.

Q66 Steve Baker: Gillian Guy, is this something that has come up for the Citizens Advice Bureau?

Gillian Guy: To the extent that we certainly think there has to be a match between what is delivered and the expectations that are created, setting themselves up as price comparison websites that can be trusted to make value judgments about things is very dangerous and needs a health warning attached to it. We are not after perfection but we do believe there could be continuous improvement and there is a lot to go.

Steve Baker: Thank you very much.

Chair: This is the sort of hearing where everybody feels they have had less than half a loaf, but that is because there are so many very important subjects that we are trying to cover in such a short space of time. We apologise for that, but what we have heard has been extremely interesting. We are very grateful to you for giving evidence. One or two of you have said you are going to put something in writing to us as well; in fact, I think all three of you on various subjects. If there are things that we have not covered, which you think we should be looking at carefully, will you please add those to what you have said to us? Thank you very much indeed.