

Collective Consumer Protection and Financial Supervision

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Prudential regulation in the UK

- ❖ Since 2013, the UK has had a dual regulatory structure, with separate conduct and prudential regulators (FCA and PRA – part of the Bank of England)
- ❖ Prudential regulation in UK does not focus on consumer interest (as in Germany)
- ❖ The Prudential Regulation Authority has two objectives:
 - ❖ promote the safety and soundness of firms
 - ❖ secure an appropriate degree of protection for insurance policyholders

Consumer representation in prudential matters

- ❖ The Prudential Regulation Authority does not have a dedicated Consumer Panel
- ❖ The FCA Consumer Panel and other consumer groups can make representations to PRA, but the PRA has no obligation to consult consumer representatives or to take account of consumer interests
- ❖ The Panel argued prudential regulation should take full account of consumer interests but the UK Parliament did not agree

Prudential regulation and the consumer interest

- ❖ Prudential matters are as valid a subject for direct consumer input as conduct of business issues, e.g. deposit & insurance guarantee schemes
- ❖ Profits derived from consumers play a critical role in rebuilding bank balance sheets
- ❖ There can be conflicts of interest between retail investors and prudential objectives (eg Co-operative Bank retail bondholders)
- ❖ In the UK, the PRA is responsible for implementation of the Deposit Guarantee Schemes Directive

Impact of conduct breaches on capital reserves

- ❖ Consumers should always have access to redress and compensation
- ❖ If prudential regulators ignore consumer interest at an early stage of misconduct which has a small but positive impact on balance sheets, they may end up facing much larger sums in redress later on with a much more significant impact on capital reserves

Case study: Payment Protection Insurance

- ❖ PPI was often mis-sold to borrowers in the UK alongside credit product to help repay their borrowing if they lost their income for a period (eg through unemployment or illness)
- ❖ Since January 2011:
 - ❖ Firms have handled **14 million** PPI consumer complaints
 - ❖ **70%** of complaints have been upheld
 - ❖ **£17.3bn (€23.7 bn)** compensation in compensation has been paid out

Case studies (cont.)

- ❖ Other examples of UK mis-selling scandals with prudential impact:
 - ❖ Personal pensions: **£12bn (€16.5 bn)**
 - ❖ Interest-rate hedging products for small firms: **£1.8bn (€2.5 bn)** so far

Long-term v short-term perspective

- ❖ Tolerating business models that strengthen current and near future balance sheets of financial services organisations carries prudential risks as well as conduct risks
- ❖ If misconduct is allowed to develop over a period of years, ultimately the adverse effects on the overall health of the system will be much larger