

Competition

Annual Report 2018/19

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1 Introduction

This report updates on how we are delivering against our competition objective across financial services. It covers the period 1 April 2018 to 31 March 2019. It's structured around our decision-making framework as set out in the [FCA's Mission](#). You'll find sections on identifying potential harm, diagnosing the cause of harm, choosing remedies to address harms and measuring our impact. This report draws on specific examples of our work and complements the wider FCA Annual Report for 2018/19.

Previous years' competition reports are available on our website. Our work on competition, and our work with other concurrent regulators, is also described in the Competition and Markets Authority's (CMA) [Annual report on concurrency](#). In October 2018, after consulting, we published our final [Approach to Competition](#). This was informed by the consultation responses, which are in the Feedback Statement.

Our competition objective

When competition works well in financial services markets it leads to good outcomes for consumers and improves economic growth. The FCA's strategic objective is to ensure that relevant markets function well. We also have operational objectives to:

- promote effective competition in consumers' interests
- secure an appropriate degree of protection for consumers
- protect and enhance the integrity of the UK financial system

Promoting effective competition is an integral way in which the FCA ensures relevant markets function well.

We also have a competition duty, which states that we must, so far as is compatible with acting in a way which advances the consumer protection objective or the integrity objective, discharge our general functions in a way which promotes effective competition in the interests of consumers.

We have a range of tools to achieve our competition objective under the Financial Services and Markets Act 2000, Competition Act 1998 (CA98) and the Enterprise Act 2002.

What we've done

Our [Approach to Competition](#) sets out that we want to see in all markets:

- **Confident consumers able to exercise choice.** For example, following our [High-cost Credit Review](#) we took action to help consumers better understand and engage with their overdraft use.
- **Firms treating customers fairly.** For example, this year we published discussion papers on price discrimination in the cash savings market and on the fairness of certain pricing practices in financial services. We also launched a market study into general insurance pricing practices.
- **Firms that can enter and grow without facing undue barriers or costs.** For example, this year we explored how [Digital Regulatory Reporting \(DRR\)](#) - which has the potential to fundamentally

transform how the industry understands, interprets and reports regulatory information - could help lower barriers to entry by reducing the cost of compliance for firms.

- **Firms that have the freedom and flexibility to develop new products and services and a regulatory framework that adapts to keep pace with change.** For example, in November we held a Pensions TechSprint in Edinburgh, in conjunction with The Pensions Regulator, to encourage innovation in the way firms engage with their customers on the decisions they must make when accessing their pension savings. We also continued to support innovation and new entry for the benefit of consumers through our Innovate programme.

This year we issued our first formal CA98 enforcement decision. This shows our commitment to ensuring that competition is integral to our work to make markets function well. We also opened a new investigation under CA98. Through these investigations, we aim to promote a 'culture of compliance' in which firms in the financial sector know that they must abide by competition rules or face legal consequences.

More information

We hope this report provides a useful account of our work this year to drive effective competition in consumers' interests. If you would like more information contact us at www.fca.org.uk/contact.

2 Identifying harm

No single benchmark can measure how effectively competition is working. But there are a range of market characteristics that may indicate harm. These include commercial arrangements that lead to conflicts of interest, consumers paying consistently high prices, poor quality products, barriers to consumers switching and barriers to entry or lack of innovation. These characteristics will likely raise concerns for us that competition is not working well for consumers and may lead to further investigation. Identifying characteristics that might indicate consumer harm involves close coordination between different parts of the FCA to capture intelligence gained through, for example, our interaction with firms in our supervisory and authorisations work. See, for example, our [Sector Views](#), which bring our collective intelligence together, including competition considerations, and give an overall FCA view of how each sector is performing. We also use findings from our [Financial Lives Survey 2017](#).

In this section we set out how, this year, we have opened up the debate on price discrimination within financial markets and whether this is always fair. We also explain how our Strategic Review of Retail Banking Business Models takes a strategic approach to looking at markets and how this is delivered by a cross-FCA approach.

Fairness in pricing practices

Our work aims to ensure that competition is effective in delivering quality and value to all consumers of financial services.

In most markets, firms will offer a range of products and services at different prices or price points. In certain financial services markets, intelligence and information gathered through our supervisory activity and working with the CMA on the Citizen's Advice super-complaint has highlighted issues with so-called 'inertia pricing'. This is where firms charge existing customers higher prices than new customers for the same product. The fairness of pricing practices is a key area as we seek to ensure that consumers get fair value for financial services products and services while seeking to ensure that competition and innovation drive further benefits to consumers and the economy. Our competition objective enables us to contribute to the debate and ensure that our work takes account of these aims.

Case study: Fair Pricing in Financial Services Discussion Paper

Our [Fair Pricing in Financial Services Discussion Paper](#), published in October 2018, sets out our thinking on how we should judge the fairness of certain pricing practices. We want to make sure that not only are firms competing, but that this competition is working in the best interests of consumers. In most circumstances, it will be fine for a firm to offer products and services at different prices. However, we are concerned that some pricing practices could significantly disadvantage some consumers, in particular the most vulnerable and least resilient consumers, specifically:

- firms charging different prices to different consumers based solely on differences in consumers' price sensitivity
- inertia pricing

Judging whether these pricing practices are fair is often not straightforward. For example, it may involve trade-offs between those who may benefit and those who may lose out from a particular form of pricing, with vulnerable consumers potentially falling in either group. As part of the debate, we hosted a stakeholder event in January 2019, with attendees from consumer groups, industry, academia and the broader regulatory community. The insights from the event and responses to the Discussion Paper will form the basis of our Feedback Statement, which we plan to publish in July 2019. This debate will inform how we deal with pricing practices in the markets we regulate and will feed into our [General Insurance Pricing Practices Market Study](#) launched in October 2018.

A strategic approach to markets

A cross-FCA approach is the most effective way to deliver strategic thinking about a market and its opportunities and challenges. Our **Strategic Review of Retail Banking Business models** demonstrated this. In this review, our economic and competition teams worked alongside our supervisory teams to analyse and understand how a major financial services market, retail banking, works.

This analysis informed our view of emerging scenarios in retail banking and their impact on business models and consumers. In December 2018, we published the [Final Report](#). This found that, historically, personal current accounts are an important source of competitive advantage for major banks. Major banks also benefit from advantages in lending activities, where they generate higher yields and enjoy relatively low levels of capital requirements. Looking forward, regulatory initiatives and technological developments may cause unprecedented change to business models, and increased competition could improve outcomes for consumers but progress is uncertain and may take time. In particular, access to financial services, use of data, and system resilience and effective prevention of financial crime and fraud may require coordinated action to ensure a banking sector that works well for consumers.

This integrated approach allowed us to establish a framework to consider future issues in the sector and the baseline from which changes to competition and conduct in the future will be evaluated. This will enable us to act swiftly and decisively when required.

3 Diagnosing the cause of harm

In our Mission framework, once we have identified harm, we use diagnostic tools to gather evidence to assess whether markets are working well for consumers. We have a range of tools available to us. These include thematic reviews, market studies and CA98 investigations. We also have a range of supervisory tools which we can use in this diagnostic stage and we ensure that, where relevant, competition knowledge is available to support the development of our diagnostic work.

We describe here our work to investigate fair pricing for consumers. This includes how we worked with our partner, the CMA, on the [Citizens' Advice](#) super-complaint on loyalty penalties, or inertia pricing. We also give examples of where we consult widely with stakeholders during the process of scoping and carrying out our reviews and explain how we used our powers under CA98 to investigate potential anti-competitive conduct.

Our market study tool is a means to investigate and understand how competition functions in a market and to explore whether markets are working well for consumers. If we identify harm, where appropriate, we also take action to remedy or resolve that harm. Examples of our actions are set out in Chapter 4. In the table below, we set out the key milestones for a range of our market studies and reviews for 2018/19. It reflects our varied portfolio of market-based activity and our focus on achieving good outcomes for consumers.

Project	Publication type	Timing
General Insurance Pricing Practices Market Study	Terms of Reference	31 October 2018
Retirement Outcomes Review	Final Report and Consultation Paper; Policy Statement	28 June 2018; 28 January 2019
Strategic Review of Retail Banking Business Models	Progress Report; Final Report	27 June 2018; 18 December 2018
Wholesale Insurance Brokers Market Study	Final Report	20 February 2019
Investment Platforms Market Study	Interim Report; Final Report	16 July 2018; 14 March 2019
Asset Management Market Study remedies	Consultation Paper; Policy Statement	5 April 2018; 4 February 2019
Mortgages Market Study	Interim Report; Final Report and Consultation Paper	4 May 2018; 26 March 2019
Motor Finance Review	Final Report	4 March 2019
High-cost Credit Review: rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit	Consultation Paper; Consultation Paper (rent-to-own and alternatives to high-cost credit); Consultation Paper (Buy Now Pay Later offers); Policy Statement (rent-to-own)	31 May 2018; 22 November 2018; 18 December 2018; 5 March 2019
High-cost Credit Review: overdrafts	Consultation Paper; Consultation Paper and Policy Statement	31 May 2018; 18 December 2018

Case study: Wholesale Insurance Broker Market Study

Our Wholesale Insurance Broker Market Study was launched in late 2017 in response to questions on the evolution of this market and its impact on competition. The market study focused on how brokers of 'wholesale insurance' operate on the London Insurance Market, one of the largest wholesale insurance markets globally.

Before launch, we engaged with various stakeholders including industry and relevant trade bodies to get a good understanding of the market. This engagement informed our [Terms of Reference](#), which were well received by the market. We also surveyed end clients to understand how those on the demand-side of this market approach it and their ability to constrain brokers. We also sent a detailed qualitative and quantitative data request to a large number of insurers and brokers.

Overall, we did not find evidence of significant levels of harm to competition that merited the introduction of intrusive remedies. So, we decided to close the market study and, instead of publishing an interim report, published our [Final Report](#) in February 2019.

We did, however, identify some areas which warrant further action, in relation to conflicts of interest, the information firms disclose to clients and certain specific contractual agreements between brokers and insurers. We will address these areas through our usual supervisory processes and/or competition law enforcement processes, if appropriate.

Investigating whether the retail general insurance sector is working in the interests of consumers

Our [thematic review on pricing practices in the retail general insurance sector: household insurance](#), published in October 2018, provided evidence of consumer harm arising from differential pricing in the retail general insurance sector. It also provided evidence of firms failing to have appropriate and effective strategies, governance, control and oversight of their pricing practices and activities.

As well as using our supervisory powers to require firms to tackle evidence of harm at an individual firm level, building on this initial diagnostic work we opened a [General Insurance Pricing Practices Market Study](#) in October 2018. This focused on pricing practices for home and motor insurance.

Our initial diagnostic work found that some long-term home insurance consumers pay much higher prices than those paid by new consumers. Our market study will consider whether pricing practices are leading to competition working well in these markets and if they deliver competitive and fair outcomes for all consumers.

We aim to publish our interim market study report in summer 2019, and our final market study report by the end of 2019.

Working with partners to improve consumer outcomes across markets

We are one of a number of UK regulators who have a competition objective and who are able to exercise competition powers. We work with our fellow regulators to

share information and expertise and to tackle cross-sector issues, including through participating in the UK Competition Network and the UK Regulators Network. This year we have also worked closely with the CMA on its response to the Citizens' Advice super-complaint on so-called 'loyalty penalties' across mobile, broadband, home insurance, mortgages and savings. In December 2018, the CMA published a series of recommendations in response to the super-complaint. This included some specific to the FCA, for the cash savings, insurance and mortgages market. We are taking forward a number of these market-specific recommendations through our existing market studies and ongoing work in these areas. Further details of how we have worked closely with the CMA on the super-complaint and other matters can be found in the CMA's Annual report on concurrency.

We also worked with the CMA on its market investigation of investment consultancy and fiduciary management services. The CMA undertook this investigation following a reference we made as part of our asset management market study in September 2017. We made the reference because we had identified competition concerns in both markets. Investment consultants advise on £1.6trn of pension scheme assets in the UK and fiduciary management providers manage over £110bn of assets in this fast-growing market.

The CMA published the Final Report in December 2018. It found competition problems in both the investment consultant and fiduciary management markets. The CMA have designed a package of remedies to address issues identified.

In particular, we helped the CMA to gather data efficiently and in discussions over the proposed remedies. We will continue to work together with the CMA on the design of remedies and their implementation.

Investigating anti-competitive conduct

We have a strong continuing programme of competition enforcement work in financial services. This includes active enforcement, on-notice and advisory letters to firms on their conduct and encouraging compliance with the law.

This year we concluded a formal investigation under CA98, issuing our first competition infringement decision. We also opened a new investigation in March 2019 into suspected anti-competitive arrangements in the financial services sector under Chapter I of CA98 and Article 101 of the Treaty on the Functioning of the European Union.

In addition to our formal investigations, between 1 April 2018 and 31 March 2019 we issued 11 'advisory' letters to firms. We use these where evidence suggests competition law has potentially been infringed, but where our other priorities mean that we are less likely to open an investigation.

Case study: FCA issues its first decision under competition law

In February 2019, we concluded a formal investigation under CA98 in which we found that 3 asset management firms breached competition law. We found that the competing firms shared strategic information, on a bilateral basis, during 1 initial public offering (IPO) and 1 placing, shortly before the share prices were set. IPOs and placings allow companies to issue new shares to investors and so raise equity capital, which they can use to fund investments. IPOs and placings therefore support the development and growth of new, innovative and growing firms in the UK economy. This means that achieving a competitive share price at listing is important. Unlawful information sharing during the process could increase the cost of related investments or even make them unviable.

The firms disclosed and/or accepted otherwise confidential bidding intentions in the form of the price they were willing to pay and sometimes the volume they wanted to acquire. We fined 2 of the firms; the third was given immunity under the competition leniency programme. These were the FCA's first formal decisions using its competition enforcement powers.

Leaving the EU will change the framework under which UK competition authorities, including the FCA, exercise their powers. We expect that these changes will lead to more UK competition cases, including in financial services. During the year we continued to prepare for a range of withdrawal scenarios and liaised with other members of the UK Competition Network, in particular the CMA as it led on work with Government about the possible implications of withdrawal for the competition regime. Read more about the CMA's role after Brexit.

4 Remediating harm

Our competition objective is forward looking. We encourage entry into and innovation in markets as a catalyst for change that will deliver price, quality and choice benefits for consumers. Sometimes however, markets, for a variety of reasons, do not deliver value to consumers and there may be times when we need to intervene directly.

In this section, we talk about the role of entry and innovation. We give examples of where we intervened to support consumer choice and where we intervened with supply side remedies to protect vulnerable consumers. We also talk about how we ensure that we are taking the right approach and are acting proportionately to the issues identified, including by consulting widely with stakeholders. Additionally, we describe how we design our remedies around real-world behaviours.

The role of entry and innovation

Our Annual Report sets out FCA Innovate's work, including our Sandbox programme. It also talks about our participation in the [Global Financial Innovation Network](#) that was launched in January 2019. This seeks to attract innovative ideas globally by supporting firms as they navigate between multi country regulatory frameworks.

Advancements in technological innovation can transform the competitive environment and can affect consumers both positively and negatively. The work that we do, for example, with our [research agenda](#) helps ensure we have the information to act when necessary and ensure that we focus on the areas of greatest risk.

In October 2018, we published a Discussion Paper on [Climate Change and Green Finance](#). We believe that innovation in financial services, particularly 'green finance', will help the successful transition to a low carbon economy while maintaining the UK's attractiveness for international businesses and finance. In the Discussion Paper, we also outline the work our Innovate programme has carried out in supporting firms that want to provide innovative financial products, business models and services in the green finance and social investing space.

Technology can also help us come up with innovative solutions to the problems we identify in markets. For example, in our [Retirement Outcomes Review Final Report](#) (discussed further below) we found that many consumers struggled to understand and engage with their pension products and investment decisions. In November 2018, along with The Pensions Regulator, we held a [Pensions TechSprint](#) in Edinburgh. This challenged tech providers and industry to come up with innovative approaches that could have an impact on consumer engagement and effective decision-making. We held follow-up workshops in March 2019 with interested participating teams and our Behavioural Economics and Design Unit to discuss the feasibility of further developing and testing their solutions.

Market intervention to deliver better consumer outcomes

Our interventions or remedies are designed on a case-by-case-basis around the particular circumstances of the market and the harms identified. Depending on what we find our package of remedies could include 1 or a combination of measures that look to:

- bring about behavioural change (eg by making it easier for consumers to choose between products by simplifying product comparisons or by nudging consumers to make decisions at appropriate times such as at insurance renewal)
- change the incentives on the supply side (eg where we have found conflicts of interest that might act against the interests of the consumer by encouraging retailers to sell products or services that may not be best suited to the customer's needs)
- open markets (eg reducing switching costs giving consumers the choice to leave their current supplier)
- direct outcomes (eg price controls or taking direct supervisory action against specific firms)

Supporting customers to exercise choice

In the retirement income market, drawdown customers are usually not locked in to the product they use for income withdrawals, and can move to a different product. However, our **Retirement Outcomes Review Final Report**, published in June 2018, found weak competitive pressure and low levels of switching in the non-advised drawdown market. Multiple factors contributed to this weak competitive pressure, including consumer inertia and drawdown charges that can be complex, unclear and hard to compare.

So, we consulted on a series of proposed remedies. For example, requiring drawdown providers to offer non-advised consumers a range of investment solutions - with carefully designed choice options - to help consumers choose investments that broadly meet their objectives. We also consulted on requiring drawdown providers to ensure that consumers invest in cash, only if they make an active decision to do so.

We believe that, to ensure a competitive drawdown market, consumers should also see and understand the charges they will pay. We proposed amending our rules to improve how key information in the Key Features Illustration (KFI) is presented. For example, we consulted on including a summary showing key information at the front of the document that consumers receive, including a one-year charge figure in pounds and pence (in 'cash terms') which is comparable across KFIs. In January 2019, we began implementing these rules and believe that these changes should facilitate shopping around and increase competitive pressure on firms, which in turn should lead to lower charges.

Showing a consumer the charges they will pay is not itself enough to increase competitive pressure. Consumers need to be able to compare the charges they may pay with those they might pay for other products. We are working with the Money and Pensions Service and the Association of British Insurers to help deliver a drawdown comparator tool to help consumers.

We continued work to deliver the revised **Payment Services Directive (PSD2)**. We have authorised over 200 new firms under PSD2 since it was introduced in 2018. Many of these have been approved for activities related to '**open banking**' services. These are services where customers allow FCA regulated firms to access account data or payment

functionality (known as Account Information and Payment Initiation Services). This will enable customers, for example, to manage their accounts with multiple providers through a single digital 'app', to take more control of their funds (for example to avoid overdraft charges and manage cashflow) and to compare products based on their own requirements.

We consulted in September 2018 and issued a Policy Statement in December 2018 confirming rule changes to implement EU Regulatory Technical Standards on strong customer authentication and common and secure open standards of communication. We also continued to sit as an observer on the Open Banking Implementation Entity that was set up as one of the CMA's retail banking remedies.

Case study: Making overdrafts simpler, fairer, and easier to manage for consumers

As part of our High-cost Credit Review we took action to address the harm we identified to consumers. Our review found that complex overdraft pricing structures are both a driver of and a result of poor competition. Complex pricing models and high fees and charges for unarranged overdrafts lead to significant harm, disproportionately affecting vulnerable consumers.

In December 2018, we brought in measures to make overdrafts easier to manage for consumers. These remedies aim to improve transparency and low engagement. The rules, which will be implemented by December 2019, seek to:

- remove barriers to switching by requiring firms to provide online overdraft eligibility tools
- enable consumers to calculate the cost of borrowing by requiring all firms to have online overdraft cost calculators
- address the unexpected use of overdrafts by requiring firms to automatically enrol their customers into overdraft alerts
- help consumers understand how overdrafts work by requiring firms to improve the visibility and content of key information about overdrafts and clearly presenting overdrafts as a form of debt

These rules form part of a package of remedies. In June 2019 we introduced rules to radically reform overdraft pricing:

- firms will no longer be allowed to charge higher prices for unarranged overdrafts than for arranged overdrafts
- the pricing for each overdraft will be a simple, annual interest rate – no fixed daily or monthly charges, or fees for having an overdraft
- firms will be required to advertise arranged overdraft prices in a standard way, including an Annual Percentage Rate (APR) to help customers compare them against other products

The new rules will come into force in April 2020.

Our **Mortgages Market Study** examined whether customers face challenges in making effective decisions in the mortgage market. It also explored whether current commercial arrangements between firms are leading to poor consumer outcomes. Our Final Report in March 2019 largely confirmed our Interim Report published in May 2018. We have found that the market works well in many respects but we would like to see certain improvements, such as:

- increased lender participation in the tools the market is developing to help customers identify which mortgage products they are likely to qualify for
- more innovation in distribution channels for mortgage products (which we aim to support by refining our mortgage advice rules)
- more help for mortgage customers who cannot switch to a better deal (sometimes referred to as 'mortgage prisoners')
- further in-depth analysis to understand why some customers who would benefit from switching to a new mortgage provider, fail to do so

Alongside our Final Report, we published a [Consultation Paper](#) aimed at helping mortgage prisoners. In May 2019 we published a second Consultation Paper with proposed changes to our mortgage advice rules and guidance.

Together these enhancements could help consumers save money on what is typically one of their largest financial commitments by making it easier for consumers to find the best value mortgage and (for a small number of consumers) helping them switch away from a high reversion rate (the interest rate payable once an introductory rate ends).

Direct supply side intervention

In our Mission, we made clear that we will prioritise the needs of the most vulnerable and least resilient groups of consumers. This year we intervened in the **Rent-to-Own (RTO) market** because a highly vulnerable group of consumers were paying too much for household goods. In March 2019, we published a [Policy Statement](#) that confirmed that we would:

- set a total credit cap of 100%, meaning consumers do not pay credit costs that are higher than the price of the product
- introduce a requirement on firms to benchmark base prices (including delivery and installation) against the price charged by 3 mainstream retailers
- prevent firms increasing their prices for associated products such as extended warranties to recoup lost revenue from the price cap

We recognise the risk that our proposed cap in the RTO market may lead to a reduction in competition. This may be caused by firms who are unable to compete exiting the market. However, we understand that relatively few consumers refer to other RTO firms for an alternative product. So, even if firms do exit, we would not expect there to be a significant impact on competition between the remaining firms.

Further, we believe that any adverse impact on competition is justified by our need to protect vulnerable consumers. We estimate the proposed cap could deliver net consumer benefits of up to £22.7m per year.

In July 2018, we issued a [Discussion Paper](#) which set out a range of alternative options to address the harm identified in our 2015 market study into the **cash savings market**. This was particularly for consumers who stay with the same provider for a long time, who generally receive lower interest rates. One of these options was the introduction of a basic savings rate (BSR). This is an interest rate that providers would set themselves but would be required to apply to all easy access cash saving accounts and easy access cash ISAs after they have been open for a set period, such as a year.

In our Discussion Paper, we set out how we believe the proposed interventions to be consistent with our competition objective. In this case, we believe the BSR could improve competition for smaller suppliers by way of greater transparency and increased switching. It would also be less restrictive to competition than alternatives such as a ban on price discrimination.

We are considering responses to our Discussion Paper and we intend to publish either a Consultation Paper or Feedback Statement in the second half of this year, which will outline the feedback received and our next steps.

Motor finance has grown significantly and now accounts for most purchases of new cars. It is also becoming popular for used cars. Our motor finance work found that the way commission arrangements are operating may be leading to consumer harm on a potentially significant scale. The widespread use of commission models which link the broker commission to the customer interest rate, and allow brokers wide discretion to set the interest rate, can lead to conflicts of interest. These conflicts are not being controlled adequately by lenders. This can lead to customers paying significantly more for their motor finance. For firms in the FCA's sample (representing around 60% of the market), this could be costing customers £300m more annually.

We also found that where pre-contract disclosures were given during a mystery shopping exercise, these were not always complete, clear or easy to understand. As a result, consumers may not be given sufficient information and explanation to enable informed decisions. We had significant concerns about disclosure of commissions by brokers.

We are following up with individual firms where failures in complying with existing rules were identified. We are also assessing the options for intervening in the market. Subject to a cost benefit analysis this could involve consulting on changes to FCA rules, to strengthen existing provisions, or other policy interventions such as banning types of commission model or limiting broker discretion.

Case study: Designing remedies in the real world

It is important that our remedies are designed for 'real-world' behaviours. Analysing the impacts of our interventions sits at the heart of the FCA's policy design. In particular, we use cost benefit analysis to help us to quantify the impact of our remedies and to use our rule-making powers appropriately and proportionately. To this end, we often test how our proposed remedies influence consumer behaviour in practice and how effective they are at addressing the harms identified.

One of the ways we do this is by testing remedies using behavioural economics. We use a range of empirical techniques, from focus groups to lab and field trials. This helps us to understand and test the potential impact of the remedy and refine as necessary. This is particularly important when designing remedies to help consumers engage in markets.

This year we published the results of a series of online experiments with consumers. The experiments aimed to identify the most effective messages for a series of prompts designed to encourage greater engagement with their current account and to encourage customers to consider switching. Consumers were presented with, and compared, different types of prompts, and were asked about their perception of them and which would most likely make them switch or review their account. These online experiments together with a series of pilot experiments, in which we worked with current account providers, helped us to further understand designing prompts to help engage consumers. We hope this will help firms to design effective prompts that work.

A tailored approach for the best outcome

This year we completed our **Investment Platforms Market Study**. It explored how investment platforms compete to win new customers and retain existing ones. This helped us assess how we can improve competition within this market and develop better consumer outcomes.

Our Final Report was published in March 2019. We found that while competition is generally working well, some consumers and financial advisers can find it difficult to shop around and switch to a platform that better meets their needs. Consumers can find it difficult to switch due to the time, complexity and cost involved – driven in part by the exit charges they incur and difficulties switching between unit classes.

Since publishing our Interim Report in July 2018, we saw firms and the industry acting to improve the provision of information about costs and charges, helping consumers shop around. As a result, in our Final Report we decided not to propose new rules but will review the progress made by the industry in 2020/21, and consider if further action is necessary. To address other harms we identified, we are consulting on rules to allow consumers to switch platforms and remain in the same fund without having to sell their investments. We are also proposing to restrict exit fees.

We also think carefully about how our own interventions could affect competition and innovation. In July 2018, we published a Consultation Paper on loan-based ('peer-to-peer') and investment-based crowd funding platforms. Our proposals sought to prevent harm to investors, by providing for a proportionate regulatory framework that would not stifle innovation in the peer-to-peer sector. In June 2019, we published our related Policy Statement, which sets out the package of rules and guidance we are introducing to improve standards in the sector. We have tried to find an appropriate balance between advancing our policy objectives and enabling future innovation in products and services.

Promoting effective competition in the interests of consumers

Where we do intervene, it is important that we consider the impact on all of our operational objectives. The aim of any remedy package is to improve outcomes for consumers. While this may affect the way competition takes place, we seek to measure this against the overall impact on consumers as a whole.

In the retail **Contracts for Difference** (CFD) market, for example, we have seen an increase in the number of UK firms offering CFDs to retail consumers. This increase in competition has not necessarily been in the interests of consumers. Firms have increasingly offered CFD products to consumers who may not understand the risks of these products or be capable of bearing potential trading losses. For example, firms have offered 'bonus' promotions as well as lower margin requirements to attract less experienced retail consumers. In December 2018, we published a Consultation Paper which set out proposed rules to restrict how CFDs and CFD-like options are marketed, distributed and sold to retail consumers. This included requiring firms to stop offering inducements to encourage retail consumers to trade and applying minimum margin requirements (leverage limits). These proposed policy measures aim to ensure that UK firms compete in the best interests of retail consumers, rather than by lowering conduct standards or by potentially exposing retail consumers to harm by offering inappropriate products. We published our Policy Statement and final rules in July 2019.

5 Measuring our impact

Evaluating the impact of our work is a critical part of getting our interventions right and helping us improve our performance as a regulator. As part of delivering against our Mission's decision-making framework, we committed to carrying out ex post (after the event) impact evaluations of some of our most significant interventions. We want to understand how effective our interventions have been and how much of an impact they have had. This evaluation work will feed back into our decision-making and how best to use diagnostic and remedy tools. In this section, we talk about our Ex post Impact Evaluation Framework. We also set out our findings from an evaluation of our add-on GAP insurance interventions; and an evaluation into the effects of the 2013 review of requirements for firms entering the banking sector.

Developing a framework for evaluation

In December 2018, we published our [Ex post Impact Evaluation Framework](#), which sets out why and how we evaluate the impact of our interventions, and how we intend to embed a culture of measurement of impact. Alongside the framework, we published a [Feedback Statement](#) that provides an overview of the views received and the responses to our questions, our response and planned next steps.

In our [2018/19 Business Plan](#) and our evaluation framework, we said that we would conduct 3 pilot evaluations to measure the impact of past interventions in a way that controls for factors that may have influenced the market. All 3 pilots were completed this year.

Case study: Evaluating our intervention in the GAP insurance market

In July 2018, we published the first in a series of pilot ex post impact evaluations, which measured the impact of our add-on guaranteed asset protection (GAP) insurance interventions. In September 2015, we [intervened](#) in the add-on GAP insurance market with 2 measures to address harm identified in our general insurance add-ons market study. We required firms to provide customers with prescribed information to help them shop around and be more engaged when making decisions about purchasing the product, and to introduce a deferral period, which means GAP insurance cannot be introduced and sold on the same day. We believed that these measures together would help consumers to better assess whether they need GAP insurance and, if they do, to shop around. This would address the harms identified.

Our [ex post impact evaluation](#) found that our intervention had a positive impact on the market. Consumers now engage more with the decision-making process, with shopping around more than doubling. For those consumers for whom the product was a suitable purchase, add-on prices are 2-3% lower than they would have been had we not intervened, albeit this impact is not as large as we had expected before intervening. Significantly, our intervention has benefited consumers who do not want to buy GAP insurance as an add-on, or indeed at all. Add-on GAP insurance sales are 16%-23% lower than they would have been had we not intervened.

The evaluation sets out lessons learned that we will look to apply when considering similar types of remedies to address harm. For example, we've learned that this type of intervention appears to have a larger impact on sales than on prices.

Case study: Measuring our impact in reducing barriers to entry in banking

In December 2018, we published our third pilot ex post impact evaluation. This was an evaluation into the effects of the 2013 review of requirements for firms entering the banking sector. We expected this intervention to make the authorisations process cheaper and quicker for potential new banks and reduce barriers to entry. This would lead to an increased competitive challenge to existing banks and benefits to consumers across a range of products.

The evaluation found that since the intervention:

- the authorisations process has become quicker and more efficient
- the rate of entry into the UK banking sector is higher
- that many of these new entrants are offering clear benefits to consumers through their product offerings

However, it also found that in the 4 years since the intervention, new entrants have only gained a small share of the market and the overall impact of entry on competition has not been substantial.

From this evaluation, we have identified lessons that we can apply to current and future work. Particularly, ease of entry is a necessary but not sufficient condition on its own, for healthy competition. Significantly, we learned that it takes time for lowering barriers to entry to affect market shares in the banking sector in a significant way because there still may be barriers to expansion. Small scale or niche entry may not be enough to force incumbent banks to compete harder to protect market share.



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