Financial Conduct Authority

FCA Second Annual Public Meeting

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The QEII Conference Centre, London

Martin Wheatley, CEO, Financial Conduct Authority

Outstanding Achievements: 2014–2015

Opening remarks

Thank you, John, for those comments. Welcome everybody again to our Second Annual Public Meeting. What I would like to do is to spend a few minutes taking you through some of the highlights of our last 12 months, some of the significant changes that we have had to cope with, the different changes to responsibility, the large number of firms, changes to the pensions landscape where we have seen new legislation introduced, the use of our competition objectives where we have increasingly started to use market studies as tools to shine a focus on different elements of the market. Then finally, I will say a couple of words on my departure at the end, as befitting a day like today.

Accountability

Let me start with one of the big topics: accountability. Since the FCA was created, there has been no doubt that the issue of conduct has gone from being an optional extra to being top of the agenda for CEOs and chairmen across the financial sector. They understand that to win back the trust of consumers, they need to demonstrate that they get the need for good conduct to be at the heart of everything that they do, and with that comes clear and consistent accountability.

Accountability reforms

After the financial crisis we worked very closely with the government to bring in reforms to make individuals in firms more accountable to protect consumers and markets in the UK. This led to a series of changes that we have grouped under the broad banner of accountability. However, this obviously includes the introduction of the Senior Managers Regime, the Certification Regime that goes with that and a new set of Conduct Rules.

The Senior Managers Regime will focus on individuals who hold key roles or who have overall responsibility for a whole area of a bank or a systemic investment firm. These are the people we will approve individually.

The Certification Regime applies to anyone who could pose a risk of significant harm to the firm or to any of its customers, for example staff who give investment advice or administer benchmarks. We will not pre-approve these people in the way that we did under our Approved Persons Regime. Instead, firms will certify that they are fit and proper for their roles on an ongoing basis, formally confirming this annually.

The Conduct Rules are essentially high-level standards of conduct that will apply directly to everyone. They seek to make explicit the common-sense standards that many firms already have in place – the standards like acting with integrity and observing proper standards of market conduct. These changes will become enforced fully on March 2016. However, we also have worked quite hard to make sure that the regime is proportionate. We have tailored it to allow for proportionality for smaller firms, including credit unions.

Culture change and consumer vulnerability

Culture change begins at the top, and to drive this we must make sure senior individuals in positions of responsibility are held accountable for the decisions and behaviour carried out by themselves and the people that they are managing.

One of the pieces of work I was particularly proud of this year was a paper that we produced on consumer vulnerability. It is an example where regulators and firms we work very closely with in the market come together to look at a particular issue and consider how best to address it. It is an issue that will affect all of us in one shape or another, whether it be through illness, bereavement, old age or illiteracy.

There is a range of factors that can impact on an individual's ability to get the service or the product that they need from financial institutions. Dementia is just one example. It may surprise you to know that in 2013 dementia affected one in six people over the age of 80. There are currently 800,000 people in the UK living with dementia. Research by Age UK predicts that that will double over the next 40 years.

Our review looked at all aspects of how firms are set up to help consumers. We found that many firms did not have an overarching strategy on the issue. As we move ever faster into an age of digitalisation, how do we ensure that the vulnerable people are not left behind? We did find some examples of good practice, with some firms employing dedicated support teams to look specifically at issues like bereavement and power of attorney. Surprisingly, there was often a difference between what the largest firms could offer to what the smallest firms were able to offer. We did find that generally there was a genuine desire to get this right. We will be working with firms to develop best practice and implement the strategies that would lead to better results for consumers.

Over the past year, we have made important progress in promoting competition in the interests of consumers. For example, we completed a number of market studies, including those that we had committed to in last year's Business Plan on credit cards, cash savings, retirement income, as well as looking at the current account switching service. For example, in the cash saving space, we recommended giving consumers clear targeted information so that they are able to quickly compare their accounts and that providers should be more transparent when reducing interest rates on variable rate savings.

Competition is not just about the current incumbents in the market competing with each other in delivering services. We developed and demonstrated our approach as a forward-looking, listening regulator by establishing our Innovation Hub, which aims to be a powerful driver of effective competition. We supported 100 firms in the year, of which 20 are already in our authorisations process.

One example is a firm called Aire, whose business seeks to provide an alternative credit scoring system for consumers. In an era of mobile workforces, people moving to different countries in the EU may not have a credit history. What Aire has done is to give you a credit score based on a whole range of things such as consumer's academic background, social media activity or salary – a different range of metrics to paint a richer picture of a consumer's ability to repay. Just one example of the many firms that we have supported through the Innovation Hub, but which offers genuine improvements to the industry.

We continue to work with the PRA to produce the barriers to entry and expansion in the banking sector. This is to enable increased competition or competitive challenge to the existing banks. Since April 2013, 13 new banks have been authorised. We have provided a three-fold increase in the number of pre-application meetings we hold with potential banking applicants.

As well as competition, we have our enforcement powers to present credible deterrence to people in our markets. It is an important part of our toolkit. Everyone will be familiar with our work in LIBOR and foreign exchange markets manipulation. The issues underpinning FX, the failures to manage conflicts, uphold culture, a failure to think about the big picture, mirror many of the findings that we found in our LIBOR investigations.

As a result of the FX investigations, there were fines of £1.1 billion against five banks for failing to control business practices in their G10 spot FX trading office. That undermined confidence in the UK financial system and put its integrity at risk. The FX issue was disappointing; disappointing because it arose after LIBOR. However, what our actions showed is that, where we find bad behaviour and poor conduct, we will act. It is in the interest of the UK's financial system that we do so, that we help firms to drive up standards so that the culture of the trading floor matches that which the CEOs and chairs of firms across the city are saying that they want to see.

We are really pleased that firms have reacted very positively to the findings from Cycle Two of our Retail Distribution Review – our RDR work. Our post-implementation reviews showed that financial advisers are offering investors an increasingly professional service tailored to their specific needs, particularly around disclosure of costs, scope and nature of services. Our consumer research highlighted the importance that many consumers place on the ongoing service environment of financial advice. The majority of consumers across all sorts of different levels are satisfied with their ongoing advice service and its value which acts as an important motivator in their decision to pay for financial advice. That is good feedback. However, we also know that RDR has not solved all of the problems, and that there is further work that needs to be done in this area.

Policy development

In terms of policy development, there have been few areas that have seen more radical change than the pensions landscape. In a relatively short period of time, how people think about their pension and use their savings has changed dramatically. The pensions sector is a priority area for us. We have worked closely with the Treasury, the Department for Work and Pensions and The Pensions Regulator to introduce a range of reforms providing consumers with greater protection when saving in pensions and freedom to use their pension savings after the age of 55.

For example, data from the Association of British Insurers (ABI) shows that since the pension reforms have come into place, savers have taken out over £1 billion in cash withdrawals from their pension pots. It is an area of work that will grow in importance over the coming years.

The challenge is to ensure that consumers have the right information that allows them to make what is one of their most important financial decisions.

That is why, in the last year, we have undertaken a number of pieces of work. We are monitoring the government's Pension Wise guidance service, which was introduced at the same time as the pension reforms and which will go some way in supporting consumers in their decision-making at retirement. We are now consulting on our policy for making recommendations to government or those providing Pension Wise to take action if they think consumer protection issues have arisen.

We published our retirement income market study which looked at how the market functions and is likely to develop, and the review found that the market is not working as well as it could for consumers. Many consumers miss out by not shopping around for an annuity or by switching providers. They are deterred from engaging with their options by the complexity of the wake-up packs.

We have proposed a number of remedies – requiring firms to provide annuity quotation ranking, redesign and behaviourally trial the information that consumers receive from their providers, such as wake-up packs in the run-up to retirement and in the long term creating a pensions dashboard which will allow consumers to see all their pensions in one place. Also, by setting up a major national campaign called ScamSmart, to warn investors of the dangers of unauthorised business which coincided with the increase in pension freedoms.

Mortgage Market Review

Now, if the decision about your pension constitutes one of your most important financial decisions, your mortgage is probably the other. Last year, we implemented the Mortgage Market Review. Unsurprisingly, this has provoked a lot of interest and comment. However, at its heart, the MMR is designed to ensure that the marketplace for mortgages is sustainable, delivering affordable mortgages for consumers and avoiding what we saw back in 2007, where too many people found themselves in severe difficulty when the economic environment changed.

In September we will hold our first FCA Mortgage Conference where we will focus on the current issues affecting the marketplace: affordable housing, the challenges of an aging population, over-indebtedness and the future of the mortgage market. We want to encourage debate and recognise that we all have a role in making the markets safer and more effective for consumers.

We published our final rules relating to the Mortgage Credit Directive. This introduces an EU-wide framework of conduct rules for mortgage firms and is largely aligned with the UK's existing mortgage regulation. This means that our implementation approach is intended to cause the least possible disruption to the market while ensuring consumers are appropriately protected. We continue to monitor the interest-only maturity risk. We want to see firms work with consumers to ensure that they understand the need to have adequate strategies in place to repay the mortgage at the end of its term.

Insurance

We conducted our first FCA market study in the insurance sector, looking at five add-on markets like travel, gadget insurance, GAP insurance for the motor industry, home emergency, personal and accident add-on insurance. We reviewed the experiences of over 1,000 consumers. What we found was a lack of competition, a lack of information at point of sale, all of this preventing consumers from making comparisons and informed decisions about products. That led to a low level of claims and consumers potentially being overcharged by up to £200 million each year for products that they may not need or even use.

From 1 September, firms will be required to impose a break before the sale of GAP insurance can be completed and provide certain key information to help consumers decide whether they really need the product; if they do, give them a chance to shop around. We are also looking at an outright ban on opt-out selling, so pre-ticked boxes for all add-ons. We are looking at improving the provision of current and timely information to consumers when selling add-ons, for example displaying the annual price of add-ons, requiring firms to publish measures.

Consumer Credit Regime

This time last year we were a couple of months into the Consumer Credit Regime. As John mentioned, we have seen a considerable jump in scale and variety of firms, but also a challenge for us to ensure that these firms could be authorised and brought on board in a sensible and managed fashion that made sense for the industry and all of us. From April 2014, just under 50,000 firms registered with us for interim permission. Since October, we have been assessing their applications for authorisation. By the end of March this year, we have authorised over 11,000 firms, including nearly 5,000 new firms who were previously unregulated.

The challenge for us is clear: to ensure that this market works well and that consumers can have confidence in the products that they use. Our authorisations teams are looking at firms more closely than under the old regime, and that is necessary to protect the integrity of the market. However, it is not about closing down the market. We want credit firms to respond positively to our rules and guidance.

Key achievements in the year in this space

Payday loans

In terms of key achievements in the year in this space, we placed a price cap on short-term credit including payday loans, so that no borrower will pay back more than twice what they borrowed. Citizens Advice has reported a 53% drop in payday loan problems since the FCA started regulating the sector last year. The price cap requires that borrowers must never have to pay more in fees and interest than the original amount borrowed, that the interest and fees charged must not exceed 0.8% per day of the amount borrowed and default fees must not exceed £15. We found evidence in the market that some brokers were taking fees without informed consent or explaining what the fees were for, and were then passing on customers' bank details to other firms who could also charge fees, so we swiftly introduced new rules to better protect consumers.

National campaign launched

Building on our focus on scams, we launched a national campaign to warn people about investment fraud and how to spot a potential scam using funds recovered from the proceeds of crime. Now, these scams are difficult to spot. They are designed to look like genuine investments. The average investor loses around £20,000. We receive about 5,000 calls a year about suspected investment fraud. We ran a campaign designed to offer simple, straightforward advice to consumers: reject cold calls, check our warning list, and seek impartial advice before making an investment.

Pension freedoms

I am pleased that we have been doing more work in this area, especially with the pension freedoms that is coming into force. It is important that consumers, who may not be used to having such a lump sum to invest, are aware of the issues that could put them at risk. They are just some of the features of our work over the course of the year. There is much, much more that I have not had the opportunity to cover. We have achieved a significant amount, but there is still more work to do to make us as effective as possible. We have a restructure underway. It is imperative for the FCA to continue to implement the results of the Davis Review.

Are we and the industry there yet? There is still work to be done, but I am more convinced than ever that conduct is at the top of firms' agendas. It is no longer an afterthought; that firms understand that good conduct means consumers have confidence in the products they buy and the services that they use. We are not in regulation to regulate for the sake of it. We are here to help firms raise their standards, to ensure that markets work well for firms, for consumers and for the UK economy. I am confident that, working together, we can make considerable progress.

Remarks on leaving FCA

Finally, as you know, it has been an interesting few days for me and for the organisation. This will be my last Annual Public Meeting. I will make a couple of remarks in relation to the announcements on Friday, but I hope you will appreciate that that is all I intend to say. I will step down as Chief Executive with effect from 12 September, and then I will advise John and the FCA Board until the end of January next year.

I want to put on record, first of all, my pride at being able to lead this organisation and help it develop into a world-class regulator. I have no doubt that under Tracey and my colleagues on the Executive Committee the FCA will continue to excel in its very demanding role. We have undertaken a lot of important work, from putting conduct at the top of the agenda for financial firms across the country, the work to bring in the Consumer Credit Regime, to leading the international response to the forex scandal.

People expect financial products and markets to work well and for us to take the action required to preserve their integrity while promoting effective competition. I think the financial sector is now aware that this is essential to win back the trust of the public. Looking ahead, there is still much to do. We set out in December how the organisation could sharpen its focus to meet the challenges ahead of us. The FCA is looking at ensuring competition is working effectively, influencing behaviour and becoming a driver of innovation in the financial sector, helping new firms and entrepreneurs with the ideas and the creativity that will keep the UK as the world's financial centre, but also providing consumers with the products that they need and want in the future.

Frankly, I am disappointed to be moving on, but I do so with a sense of unfinished business. However, I have no doubt that under John's chairmanship, the Board and the Executive Committee with the new appointments that will be joining in the autumn will continue to push the organisation hard to build on the successes of the last two years and to continue to evolve to meet the needs of a fast-moving industry. Thank you very much.