

## Consumer Focus Board

<b>Paper 5.1</b>
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**Title:** Consumer Focus work on financial services

**Purpose:** For decision

**Date of meeting:** 16 March 2009

**Responsible officer:** Ed Mayo

**Prepared by:** Steve Brooker

**Attachments:** None

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### **A Overview**

1. Last year, the Board took the strategic decision not to include much on financial services in our current workplan, reflecting the role of the Financial Services Consumer Panel and other civil society organisations with established expertise in this area. We have a continuing interest in matters around financial inclusion, and we cover financial services as part of cross-cutting work, for example our recent 'Rating Regulators' report which included an assessment of the work of the Financial Services Authority (FSA). However, the Board decided that others are better placed than us to engage with the detailed operation and regulation of this sector.
2. Consumer Focus must nevertheless have the agility to respond effectively to unexpected events that have an impact on consumers. This was clearly demonstrated as soon as we started work in the first week of October 2008, when the banking crisis was at its height. We made some press comment at the time and engaged with regulators and civil society organisations.
3. The sustained nature and depth of the issues in the banking sector mean that the Board now needs to take a strategic decision about our ongoing approach to this sector. The banking crisis is, we believe, too big an consumer issue to ignore, but careful thought is required about the type and scale of our intervention, so that we advance the consumer interest in a way that is timely and builds on, rather than replicates, the work of others.

4. This paper, which follows informal soundings with Board members with expertise in financial services and regulation matters, sets out the following options:
- Option A – Do nothing
  - Option B – A limited response to external reviews and consultation exercises resourced from within the current staff team
  - Option C - Commission an independent external inquiry to report to Consumer Focus, chaired by a high-profile individual with acknowledged relevant expertise and supported by an external policy secretariat
  - Option D – A short-run ‘think tank’, supported by an advisory group. This would probably involve commissioning a series of essays from leading thinkers and practitioners across a range of perspectives, as well as a small number of roundtable events.

Our preferred approach is Option D.

## **B Action for the Board**

5. To decide the approach Consumer Focus should take based on the options set out in the Proposal section of this paper.

## **C The key issues**

6. Consumer Focus started life in the midst of last year’s dramatic events in financial markets. Our first step was to run a breakfast roundtable to tease out key issues and find out what other civil society organisations were doing so as to identify where Consumer Focus could best add value. This meeting and subsequent discussions have identified a series of possible modes of intervention:

- Advocacy to ensure effective emergency measures are in place to assist financially vulnerable consumers, for example those in immediate threat of repossession – our conclusion is that organisations such as Citizens Advice and others are already very active in this space and currently have better access than us to immediate on-the-ground intelligence about consumer needs. We are probably best placed to contribute when necessary, rather than seeking a leadership role.
- Advocacy around personal finance matters – our conclusion is that this is a crowded field (e.g. Which? and price comparison websites) in which it would be hard to add value. Consumer Focus does not presently have the in-depth expertise to contribute here, and focusing on this topic would require a significant reorientation of resources which are presently targeted at other areas of detriment.

- Respond to FSA and other Government consultations on financial services issues – our conclusion is that we may need to respond to a limited number of major reviews (e.g. the forthcoming White Paper), but generally the Financial Services Consumer Panel is best placed to respond on the complex detail of financial services regulation.
  - Take a ‘cold towel’ look at the implications of the banking crisis on the future reform of financial services regulation and how financial products and services should ideally work for consumers. Our conclusion is that this is where Consumer Focus can best add value. This is for two main reasons: we have cross-sector expertise in issues around markets, competition and regulation; and our think tank advocacy style (as one of a range of advocacy styles) is well suited to the need to think strategically and systematically about these issues from the consumer perspective. While there are many commentators seeking to learn the lessons of the banking crisis, Consumer Focus is perhaps uniquely able to consider the full set of issues from a resolutely consumer point of view to aid the development of workable longer term solutions.
7. If the Board shares this view of our strategic approach to this sector, the question then becomes how this aspiration can best be delivered and resourced. The following factors have formed part of our thinking to this end and we have used these to help us assess the merits of the different options that we have developed:
- **Timely** – the outcome we want to achieve in simple terms is that key decisions about the future direction of financial services regulation take proper account of the consumer perspective. Some decisions will be taken in the short-term following the Turner Review of the FSA later this month and the anticipated HM Treasury White Paper due to be published alongside the Budget in late April. However, it is also likely that a new government will take a fresh look at a potentially wider set of issues and so the timing of the general election is relevant. The external timetable is not predictable and is fast-moving, so having flexibility is important - our approach should therefore ideally be capable of adapting to and working with the grain in terms of the policy timetable.
  - **High impact** – there is competition for attention both from the reviews described above and the great many commentators offering their views. Further, as a new organisation Consumer Focus is still building its reputation and profile, and we did not inherit a strong recent track record on financial services market issues from our predecessors. Therefore, any work in this area will need a ‘wow factor’ in order to ensure that individuals and organisations are prepared to engage with our activities and that our contribution is recognised.

- **Deliverable** – Consumer Focus does not currently have in-house expertise on detailed financial services issues, and developing this could not be done overnight. If we are to undertake more work in this area, we will need to identify and secure dedicated expert resource, plus resource to coordinate and manage this activity, for a time-limited period.

## **D Proposal**

8. The Board is asked to consider the following options:

- Option A – Do nothing
- Option B – A limited response to external reviews and consultation exercises, resourced from within the current staff team
- Option C - Commission an independent external inquiry to report to Consumer Focus, chaired by a high-profile individual with acknowledged relevant expertise and supported by an external policy secretariat
- Option D – A short-run ‘think tank’ supported by a steering group that might involve commissioning a series of essays from leading thinkers and practitioners across a range of perspectives

9. We suggest discounting Options A and B. We consider that doing nothing is not a viable option given the scale of the banking crisis and its impact on consumers – it is too big for us to ignore. As far as Option B goes, we already plan to engage with high profile reviews to some extent, but we are not well placed to respond to detailed financial services policy issues, and we consider that this piecemeal approach is not suited to the current circumstances of the sector.

10. We consider Options C and D in more detail below.

### ***Option C***

11. The inquiry would have a wide scope to consider the strengths and weaknesses of financial services regulation from the consumer perspective and make recommendations on such changes as may be desirable. It would be conducted by a chair or co-chairs supported by a small number of assessors who would be responsible for the content of the report on the inquiry. The inquiry would gather written and oral evidence from individuals and organisations culminating in a written report. The inquiry would likely run over a twelve-month period and we estimate it would cost in the region of £150,000.

12. We have considered Option C against the success factors identified above:

- **Timing** – the extended timetable allows a full opportunity to gather and reflect on views submitted to the inquiry. There is also potentially an advantage in stepping back from the frantic pace being set by external reviews and taking a measured approach. However, the nature of an inquiry, which involves fixed periods of consultation, lacks flexibility and there is a risk it could be overtaken by events.
- **High impact** – an inquiry should position Consumer Focus as a serious player in the debate from a low starting point and is likely to have a wow factor. The report on the inquiry would offer an authoritative analysis of the issues and should have a long shelf-life in terms of ongoing advocacy. However, the success of the inquiry will depend in large part on the willingness of stakeholders to contribute views and there is a risk this might not be forthcoming due to competition from other reviews and because the profile of Consumer Focus is still being built. The standing amongst opinion formers of the inquiry chair would clearly be critically important. The inquiry would have to be positioned as independent but supported by Consumer Focus, with agreed terms of reference. This could conceivably raise some challenges for us, in terms of ‘owning’ the recommendations as well as benefiting in terms of reputation from the success of the initiative (as the ‘Hooper Review’, ‘Bichard Inquiry’ and others demonstrate, such reviews tend to be associated with their chairs rather than sponsoring bodies).
- **Deliverable** – the inquiry would be led by a chair supported by an expert policy secretariat, and so the Consumer Focus staff commitment would be relatively small. However, running an inquiry would involve a substantial financial commitment, in terms of paying the chair and secretariat as well as the cost of events and publications.

#### ***Option D***

13. This is a new idea following informal discussions with some Board members at the start of the month. The detail needs further development, but our initial thinking is to secure short-term expert staff resource to deliver a focused think tank approach. This could involve one or more of a series of activities, including commissioning a series of essays from leading thinkers and participants across the community of interest on financial services and running a series of seminars or other events to bring people together and create new thinking. We might run this alone or in combination with an established think tank. An advisory group would be set up to support this work.
14. We have considered Option D against the same success factors:
  - **Timing** – the key advantage of a think tank approach is its flexibility and capacity for spontaneity as once the set up phase is complete we can

organise events or other initiatives quickly and make them relevant to current issues. A substantial collection of essays would take time to commission, compile, edit and publish – this should be achievable within a twelve-month timescale – but a series of outputs could offer greater flexibility and timeliness than a single publication.

- **High impact** – a short-run think tank could provide an attractive focal point for commentators and policy-makers wanting a fresh perspective on the issues. An advantage of this approach over an inquiry is that as we would commission the essays we would not be so dependent on the voluntary contributions of external stakeholders, although we would still need to engage decision-makers and other key players. Clearly it would be imperative to commission people of acknowledged expertise and standing. Managing written contributions from such people is not always easy, particularly in terms of getting them to deliver in a timely way, although paying contributors might help, as would producing a series of outputs rather than, say, a single set of papers.
- **Deliverable** – the financial investment is difficult to estimate, but to some extent a think tank approach allows us to cut our suit according to our cloth. This option would require recruitment of a member of staff on a fixed-term basis to run the think tank.

## **E Resources**

15. The expenditure involved for Options C and D is significant. Depending on what is decided, there may be a need to reallocate staff resource from within the organisation or to defer or remove some work plan commitments.

## **F Next steps**

16. Should the Board decide to proceed with the proposed approach, this work would be led from the Fair Markets team. We would undertake further development work with the intention to time an announcement for mid-late April, to tie in with the Budget.