Election 2010: The Wisdom of Crowds?

Hopes and fears for financial services ahead of the general election

A CII special report

CII

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INVESTORS IN PEOPLE

Foreword

As part of the CII's engagement on issues of importance to the industry and the public , we commissioned a variety of individuals from across the sector and beyond to set out their hopes and fears for financial services and insurance ahead of the general election. This is a crucial time to ensure politicians – soon to be election candidates – are discussing and debating the key issues facing the sector and consumers. Inevitably there will be issues like education and health which will dominate the election debate but it is vital that financial services issues are not neglected.

The banking crisis has let loose a debate over financial regulation (in the UK, the EU and globally) and it is important to get regulation right, even in the face of febrile public opinion. The CBI asks whether the international consensus and collaboration which typified the early days of the crisis will hold. There needs to be a fix for the future rather than attempt for retrospective infilling reforms and, as Andrew Hilton suggests, we need a debate on what constitutes smart regulation. In reforming the FSA let us not forget the other parts of the sector which are not banking, says BIBA's Eric Galbraith. We already know that the three main parties are setting out differing options on what should happen to the FSA.

Contributors raise other issues of importance: maintaining the skills base in the face of a recession; rebuilding the UK long term savings culture; developing a tax environment that allows the UK to maintain its reputation as a good place to do business; and the thorny issue of paying and providing for long term care.

Savings is a central concern of many. Can we agree a workable consensus around a flexible saving vehicle that promotes saving? asks Dr Patrick Nolan of Reform. Others point to the importance of public confidence in saving as a worthwhile activity. The key role of NEST (formerly known as Personal Accounts) – for good or ill – will also be a key talking point for this election.

Fundamental to the CII's approach is promoting better standards across the sector. This includes standards of behaviour, knowledge and competence of demonstrated by professionals our industry. It is also reflected in the requirement for more consumer focused activity by firms in a competitive market place, and improving financial capability and education for consumers themselves. All of this can help promote professionalism which results in improving trust and confidence of the public. Whatever the proposals debated during the election, it is important that the policies implemented in the aftermath produce a supportive public policy culture for a more confident and engaged consumer. Let us hope that in the frenetic pace of the election, this ultimate objective is not neglected.

David Thomson
Director of Policy & Public Affairs
The Chartered Insurance Institute

1 April 2010

A fillip for savings

Iain Anderson, Director and Chief Corporate Counsel, Cicero Consulting

The last few weeks before a General Election provide a final opportunity to focus policymakers on the fundamental changes they need to enact before they face the electorate and the loving arms of ‘Sir Humphrey’ and the civil service machine wrap themselves around new ministerial teams.

So what should the wishlist look like for the financial sector.

Firstly let’s take the opportunity to join up financial sector policy once and for all. For long term savings this should mean placing all policymaking around long term savings in one place – and the best place should be HM Treasury.

> **“For far too long the divide between DWP and Treasury has resulted in elongated debate, ‘divide and rule’ and lack of traction on much policy.”**

For example the opportunity to create a single set of incentives for a lifetime savings regime has not been grasped in recent years – despite the opportunity to do so. A single set of policymakers should streamline decision making.

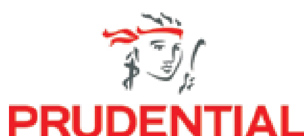
Secondly, let’s use the opportunity to create that single lifetime wrapper to allow consumers to make sense of all their savings, protection and decumulation needs. That will require imagination from policymakers at all levels and a commitment from HMRC to deliver that cradle to grave opportunity.

Thirdly, it would be encouraging to see the parties drop their bickering on long term care. There is little chance of this in reality before the Election but there is a desperate need to forge consensus following the poll.

Finally, the most significant policy before the electorate remains the Conservatives’ plans to scrap the FSA and create a Consumer Protection Agency. Since the launch of this policy in July 2009, there has been significant consultation by the Tory front bench team and HM Treasury officials have had the opportunity to develop the implementation plans for Tory ministers if elected.

Placing a Treasury minister more permanently in Brussels makes lots of sense. For the UK needs to sharpen up its act and not just look to influence EU policy but actually set out to shape it before our European partners get to the table. Then we might get the framework right more often for the UK financial sector.

Whoever wins the election – let’s make sure any change and provides the step change in regulation and the fillip for savings that everyone must desire.



Cassandra or Britannia?

Miles Celic, Director of Group Public Affairs & Policy, Prudential

There have been times in recent months when one would be forgiven for thinking that Cassandra had replaced Britannia as the personification of Great Britain, such was the depth of pessimism about the UK in some quarters.

While there can be no complacency about the recovery, Britain has numerous important advantages. Among those is our world class financial services industry. The challenge for Government is to avoid inadvertently throwing that advantage away via ill-considered regulatory reform, either in the UK or in Brussels.

There is no question that sensible changes to banking regulation are needed. It is a point persuasively made by people like HSBC Chairman Stephen Green. But these reforms must be proportionate and targeted. They should not increase regulatory authority for the sake of it.

Critically, they must not take an indiscriminate approach to the different elements of the financial services sector. Regulation that is appropriate to banking might not suit insurers. Indeed, it might have the opposite effect intended.

The insurance industry has stressed with Government and the Opposition that banking and insurance are different and must be treated differently. Insurance was a source of stability through the crisis. The nature of the industry means that there is a far closer match between assets and liabilities.

The insurance industry also plays a vital role in the wider economy. It is one of the foremost purchasers of Government debt, a leading investor in British businesses and an important source of retirement income.

> **“The next Government must therefore ensure that a great British – and European – success story is not needlessly damaged.”**

This will need reforms that are:

Focused: regulatory intervention should address only identified shortcomings relevant to a particular part of the financial services sector.

Considered: the debate around regulatory reform must be measured and avoid “knee jerk” responses.

National and global: there is unquestionably a need for global cooperation and the avoidance of regulatory arbitrage, but this must be built on a foundation of effective and high-quality national supervision.

Proportionate: it would be too easy – and all too damaging – to default to an excessively prudent regulatory approach. Any changes must be appropriately calibrated and, where necessary, provided with sufficient transition periods.

Competitive: the UK needs regulatory – and tax – systems that are transparent and predictable, which will act as an important competitive tool.

Government must also engage constructively in Brussels. For insurance, much of the reform agenda will be driven from the EU and a positive outcome to Solvency II will be essential to maintaining Europe’s position as a global leader in this area.

The jobs, investment and services directly or indirectly provided by the insurance industry are an enormous – and too often unsung – asset for UK plc. Shaping a regulatory framework that supports and enhances this must be a priority for the next Government.

The Advisers' view

Chris Cummings, Director General, Association of Independent Financial Advisers

AIFA strongly believes the challenge of the next government should be to encourage UK citizens to re-engage with their own long term financial well being, and make more, and better, provision for themselves. The UK has a widely recognised savings and protection gap and the reasons for this are well-rehearsed: the combination of policy, lax credit regulation, and the rise of the consumerist society fed an emerging appetite and led to a nation over-borrowed and under-saved.

> **"We therefore need to see the next decade become focused on the 'enfranchisement of savings' and a return to thrift and prudence."**

The events of the past two years have certainly woken up the UK public to the reality and importance of being financially sound. The issue of savings is now therefore in people's consciousness and at the forefront of their minds, meaning that acting immediately is likely to have a significant effect.

Today's regulatory system has often been criticized for being a "middle class regulator" i.e. concerned with "protecting those who should know better and helping them get a better deal". However it stops short of objectives which would yield significant social benefits such as endeavouring to nudge outcomes that would close the savings gap, socially reinforcing positive attitudes to saving and buying protection products, or managing credit through education about its risks.

We therefore believe a new government approach is needed which:

- Treats people as "human beings not econs" and building a regulatory structure which nudges people into positive behaviour;
- Recognises that people are more influenced by their peer groups than by traditional hierarchies;
- Utilises technology to deliver the convenience, speed, and lower costs that people now take for granted in other markets;
- Recognises that spending delivers positive-gratification immediately while saving is gratification-delayed (though is simply deferred spending!);
- Learns from the techniques used to sell credit: simplicity, ease of access, positive reinforcement;
- Builds on the financial capability work conducted to date by FSA;
- Tasks the education system with teaching practical financial management from primary school.

The benefits of restoring a savings culture to the UK should not be underestimated. Not only are there the numerous and obvious benefits to the individual, there are also significant societal benefits in terms of an increased tax take, a reduced need for benefit payments and the beneficial effects to the economy of a more financially sound population.

Rising to the Savings Challenge

Howard Davies, Head of Public Affairs, Standard Life plc

While every new government is faced with its own unique set of challenges, the issues which will need to be resolved by the next administration are particularly daunting. Without any question the domestic agenda will be dominated by one issue - managing a sustained economic recovery.

> **"However, a robust recovery cannot be secured through consumer debt, as in the past. Consequently, one of the biggest challenges facing the next government is the need to encourage a behavioural shift from borrowing to saving. As a nation, we need to save more especially for the long-term to help people achieve their goals in life and also reduce reliance on subsequent generations."**

To some extent, the building blocks are already in place to achieve this transformation. From 2012, employers will need to automatically enrol the majority of their staff in a pension scheme and make a contribution for those who remain members. This will particularly help millions of low to medium earners who previously had no access to a workplace pension scheme.

But more will be needed as there is still too much complexity in our savings regime and a bold effort is required to tackle this. Two key priorities emerge. The first step for any incoming government should be to clear away the thicket of tax rules and regulation, and put in its place a simpler and more flexible savings regime and so make it easier for people to save, especially for the long-term. And given the demographic and economic changes our nation is facing, it is equally important that people are able to access any retirement funds in a flexible way that meets the new challenges which tomorrow's pensioners will face. Second, people need to be better equipped to make confident and well informed choices. This means sustained investment in improving levels of financial literacy at all levels of society, but particularly the young, so that we equip them to make well informed key life decisions over their finances.

Restoring a savings culture is never going to be easy, particularly after so many years of plentiful "buy now, pay later" credit but the health of the economy – and the financial security of the nation depends upon it.

The Journalists's view

Richard Dyson, Deputy Personal Finance Editor, the Mail on Sunday

CONSUMERS must save more, everyone says, but why would they when the financial industry has done so much - over so long - to demolish trust?

The next Government needs to use every available policy tool to encourage saving. But it has to go further, and force a cultural change within financial firms. It will take a Government to act because the industry does not seem able to improve on its own. For two decades the providers of long term savings products - insurers and banks, primarily - have been at the heart of virtually every scandal that has resulted in consumer detriment.

Analyses of the financial crises have drawn a link between banks' appalling contempt for customers and their failure to manage corporate risk. The culture that treats customers as mere sources of short-term profit-growth, goes the theory, is the same culture that pursues expansion at any risk. Amazingly, even after this cataclysm, retail banks remain in denial. When it comes to shoddy treatment of consumers, they're back to business as usual.

> **"Banks' mouthpiece, the British Bankers' Association, is so comfortably ensconced in its parallel universe that it still maintains opaque charging structures are acceptable and that mis-selling was some sort of customer fantasy."**

But banks and insurers have not always abused customers. Older generations can remember good service, advice, and help. This is the culture that can encourage saving and moderate borrowing. Government can bring about the cultural change, through careful but confident regulation - and would be supported in doing so by many stakeholder groups including customers, trades unions and, ultimately, shareholders.

Which political party would best achieve these goals?

Both big parties make unconvincing champions of the financial consumer. The Tories have said less about improving financial education in schools, for example, than they have about raising the inheritance tax threshold to £1 million. And how will dismantling the Financial Services Authority – for all its shortcomings - help consumers? But Labour's record is also tarnished. Its policies penalised savings and permitted, even encouraged, the overborrowing that has destabilised households' finances as badly as banks'. It's not all bad news. The financial crisis has left consumers more alert and better informed when it comes to their finances than I can remember. And, hopefully, consumers will be more demanding and discerning when it comes to the financial policies of the future Government - whatever form that Government may take.

The Insurance Brokers' View

Eric Galbraith, CEO, British Insurance Brokers' Association

The British Insurance Brokers' Association is greatly concerned about the cost and complexity of regulation for insurance intermediaries and is monitoring what the political parties are promising with regards to financial services regulatory reform. Regulation has a major influence on our sector and in recent years insurance intermediaries have seen its costs increasing steadily with little return on this enforced investment in the form of improved supervision or interaction with the FSA.

This year is no exception. The FSA has proposed an increase of 9.9% in its annual funding requirement to £454.7m for 2010/11. Intermediaries are bracing themselves for the Financial Services Compensation Scheme's (FSCS) levy which is estimated at £50m in 2010/11, up from £8m in 2009/10. There is also the potential for a £20m shortfall in the FSCS levy for 2009/10, which intermediaries will have to meet. This increase is largely driven by the collapse of firms selling payment protection insurance – a product that few general insurance intermediaries have dealt with. While BIBA agrees that consumers should be compensated if a firm fails financially, the FSCS funding arrangement with its element of cross industry subsidy is unfair and out of line with what is happening elsewhere in Europe.

> **"BIBA wants the next government to develop a more cost-effective, appropriate and proportionate regulatory regime that truly reflects the low risk nature of general insurance intermediaries' activities."**

A more suitable and proportionate regulatory regime would allow intermediaries to concentrate on their core business objective of providing professional advice and guidance to businesses and individuals, playing an important role in the identification, measurement, management, control and transfer of risk. In doing so, insurance intermediaries help maintain a competitive and leading environment for new and changing risks – which is great for UK plc.

It is vital that individuals and businesses have continued access to professional advice and guidance on insurance if they are to purchase the most appropriate and competitively priced cover. We want any government to take a much stronger lead on this, promoting the value of insurance and helping customers to get advice from intermediaries more easily through various initiatives including signposting.

We would also make The Geneva Association's special report analysing the role of insurance in financial stability and its systemic relevance compulsory reading for all politicians. They should be made to commit to memory and act accordingly on the report's key conclusion that the core activities of insurers and reinsurers do not pose systemic risks to the global financial system because of the specific features of the industry. We are not banks. It was not a financial crisis. It was a banking crisis and we believe that an insurance regulator, which understands and is focused on the industry, would be more appropriate than a financial regulator.

Relevant and proportional regulation

Phil Hickley, Senior Public Affairs Manager, Axa

Of all the emerging party pledges relating to financial services, the most significant is the future regulatory framework for financial services.

The Government wants to strengthen the tri-partite system – and has already embarked on this journey through primary legislation, while the Conservatives intend to abolish the FSA, give the Bank of England micro and macro supervisory powers and establish a Consumer Protection Agency (CPA) if they are asked to form the next Government. The Liberal Democrats, on the other hand, would retain the FSA as the unitary regulator alongside a Financial Stability Committee – to be chaired by the Governor of the Bank of England.

> **“Regardless of the result of the general election – and we shouldn't ignore the impact of a hung parliament – regulatory change is on the way.”**

No one can dispute the need for a pretty thorough overhaul of our regulatory architecture given the near-meltdown of many systemically significant financial institutions here in the UK. However the regulatory review must have regard to the emerging situation on Europe and beyond, and recognise the nuances of our own financial services marketplace - the most important distinction being that insurers are not banks and do not present the same risk. (The Geneva Association's systemic risk working group report [March 2010] into systemic risk in insurance is a valuable contribution here.)

Above all, the guiding principles that should be adopted are that we need relevant and proportionate regulation which protects the wider economy from systemic failure. At the same time financial institutions need to be allowed to develop innovative solutions for customers who will receive a commensurate level of protection if anything does go wrong. This is a difficult balance to strike, and it is imperative we get it right.

Defining when that consumer protection needs to kick-in should be given careful consideration. We need to do more to ensure that customers are financially capable so that they are in a position to make appropriate financial decisions; however, we should never completely remove the moral hazard principle. So, whether consumer protection needs to be delivered by an existing institution or through a new body altogether is something policymakers will have a view on – but we'll all have to wait until election night before we learn which direction we are headed.

The case for smarter regulation

Andrew Hilton, Director, Centre for the Study of Financial Innovation

I am (slightly) reluctant to bite the hands that feed me – and the hands that feed the CSFI are mostly those of City institutions that consider regulation the work of the devil, and want as little as possible. Sure, they recognise that the banks were not blameless in the recent unpleasantness, and they accept that there will be more – and more intrusive – regulation. But – while they are prepared to accept more capital, new liquidity tests and more frequent visits from the FSA's pimply adolescents – what they don't want is anything that really changes the game.

In particular, they don't want anything that focuses on the structure of the financial services industry. They don't want (pace Mr Volcker) to reopen the split between retail/commercial and investment banking; they don't want the 'shadow' banking system clobbered with the same rules as the mainstream banks; and they don't want politicians messing with their remuneration policies, or telling them who they can and cannot lend to.

The problem is that all the evidence suggests that the banks, as they stand, are essentially unregulatable. HSBC has over 300,000 employees; the FSA (its home regulator) has 2,800. If Hector Sants's successor decides to allocate half a dozen more full-time supervisors to make the bank's life a misery, HSBC will just hire 20 more lawyers to find 50 more loopholes.

It is unclear to me why politicians (of any party) don't get this.

Banks today are sophisticated, complex institutions, far more capable of gaming the system in the perceived interests of their shareholders than the regulators are of stopping them. What we need – but what we seem unlikely to get from any of the major political parties – is a new approach.

> **"We don't need more regulation; we certainly don't need more dumb regulation. We either need smart regulation – regulation that goes with the flow of the markets – or we need a restructuring of the banking/finance industry so that it doesn't really demand the kind of microprudential regulation that the FSA is so keen to provide."**

Smart regulation? Well, examples are few and far between. Personally, I like the idea of leaving the CEO's eldest son in a vault under Canary Wharf, with his right hand to be severed if daddy punts the bank – and loses it. Less contentious ideas might include a tap issue of preferred stock, to provide a real-time barometer of market sentiment on a particular institution. Or, at the least, a requirement that the originator of any fancy piece of financial engineering should keep 20% of the issue on its books until maturity. There must be other ideas; we need a debate.

No regulation? Well, that's the "narrow banking" idea. If retail/commercial banks can be kept to utility-type banking (perhaps including residential mortgages and SME loans), we don't need much more regulation than that provided by the SFO and the Ombudsman. If we can somehow (not easy, I grant you) break up the Goldmans and the Morgan Stanleys of this world into bits sufficiently small that their failure would not jeopardise the system as a whole, who would care what crazy schemes they dreamed up? The wholesale markets are, after all, populated by allegedly intelligent, consenting adults. Again, we need a debate.

The problem is that, while bank-bashing is only just behind football as a national obsession, there seems to be no stomach among any of the major parties – not even from St Vincent de Cable – for intelligent debate. Just dumb bloviation by those who should know better.

Reform of financial services needs better coordination

Jon Hogan, Head of Financial Services CBI

Rule-makers are failing to properly coordinate the reforms being planned for financial services, so risk undermining the effectiveness of measures and causing significant unintended impacts on businesses.

Discussions with banks, insurers and investment managers highlight that proposals being debated in London, Brussels and Washington present not only practical challenges in terms of implementation, but more worryingly will limit their ability to support their customers.

It seems sensible that those responsible for developing new rules and legislation should consider the wider impacts, as a balance needs to be struck between the scale and pace of reforms and support to economic recovery. Rules should be targeted to specific problems and cost-benefit analyses should be coordinated so that cumulative effects across rules are understood.

Currently being planned are far-reaching proposals to increase capital, force break-up of banks, change regulatory and supervisory structures, impose new taxes and size limits, and control the remuneration of employees. All being debated by rule makers in international, European and domestic institutions and bodies.

> **“Firms are understandably concerned that they will have to implement multiple measures in different jurisdictions, the cumulative impacts of which will leave them unable to offer the products and services businesses tell them they want.”**

A positive outcome of the crisis was the initial spirit of collaboration by countries to ensure measures implemented nationally were coordinated so as to be effective and ensure the overall financial system was strengthened. Overly political responses to the problems that caused and emerged from the crisis risk limiting the positive impact reforms will have. Businesses need rule-makers to work together to strengthen the system without imposing limitations on economic growth.

hanover

Saving the Savings Agenda

Charles Lewington, Managing Director, Hanover

If the Conservatives win the forthcoming General Election they will be faced with the conundrum of how to cut spending while simultaneously nurturing a savings culture. The current Government's record on savings has long been lambasted by HM Opposition; transforming the UK economy from one built on debt, to one built on savings has been a key plank of the Tories' economic mantra since the crisis. This is easier said than done though when current priorities focus on reducing the public deficit and maintaining relatively low interest rates. There will be little room for manoeuvre in realising meaningful reform to savings policy.

The Party's savings and pensions policy is by no-means set in stone, indeed it is sometimes blurred as to where the responsibility for policy development lies between Mark Hoban MP's and Theresa May MP's offices. A public communications campaign highlighting the need to save, a tax simplification agenda and a Government-driven ISA have all been mooted as possible proposals, the latter posing potential competition to industry alternatives. As for pension reform, the Conservatives remain largely on board with thrust of the Turner proposals, namely the introduction of auto-enrolment, the linking of state pensions to earnings and increasing the state pension age, although their priorities are not clear-cut. While they are keen to at least propose speeding up the process of raising the state pension age, the "big-bang" effect of the National Employment Savings Trust (NEST) coming into force does not sit so easily with the Party. It is unlikely that the scheme will be shelved altogether given that so much political capital has been invested into its development.

> **"There are however major concerns around the issues of potential mis-selling, levelling-down and the threat of means-tested benefits. The timing of the review of NEST, which the Conservatives have committed to after the election, politically allows them to criticise the proposals in the run up to elections while not committing themselves to specific reforms."**

Beyond the election however, it will provide an outline of what they feel can stay and at what speed it should implemented. It is likely to draw a distinction between personal accounts and auto-enrolment, the latter being prioritised ahead of current schedule.

Importantly for the insurance industry, there is still the opportunity to radically shape the savings agenda of a future Conservative Government, not least for those with suggested policy which is revenue-neutral. The case for the insurance industry to play a greater role in both helping ease Government coffers and improving savings was made by the Insurance Industry Working Group last year. It is essential that the industry continues to make this case and that the Conservatives do not let the Group's findings wither on the vine. The Party's economic chapter of its manifesto, which is expected to be the last in its series of publications, is unlikely to provide much more detail than we have already seen in its White Paper from last summer. Even so, do not panic if immediate action on savings appears secondary to other areas; it remains a core issue for the Party and indeed when the public purse allows, incentivising savings will mark one of the first signs of economic recovery.

Charles Lewington is Managing Director at Hanover and a former Press Secretary to John Major. Hanover is opening its Brussels office in April, for more information please visit: www.hanovercomms.com

Advice is the key to restoring consumer confidence

Francis McGee, Head of Corporate Affairs, AEGON UK

The next government needs to lay the foundations for sustainable economic growth based on long-term investment. The bedrock of that has to be moving away from the debt-fuelled culture of the last 20 years or more, and towards a society which understands the value of saving.

Financial capability is key here – so whoever is in government should press ahead with national roll-out of the FSA 'Moneymadeclear' service, so that consumers have access to impartial information and guidance.

People need confidence that it pays to save. An immediate step is to give a clear signal that recent erosions in the tax relief on pensions contributions are in principle reversible - and that at the very least they represent the end and not the beginning.

In the longer term there should be a thoroughgoing review of what gets people to save more. This should take in behavioural elements beyond straight financial incentives, so that it's easier for people to start the savings habit, and then stick to it.

Behavioural research indicates that people are powerfully influenced by societal norms; the success of government-led campaigns around issues such as drink-driving provides concrete evidence of this. The 2012 pensions reforms present an opportunity to deliver a strong message that saving for your retirement is the normal thing to do.

To back this sort of campaign up, employers need to be kept onside. Engaged employers are one of the best ways to get people doing more than the bare minimum. To this end, the regulations around automatic enrolment need to be revisited and made far easier for employers to operate.

To cap all this, regulation needs to be sensible and proportionate. Insurers need to be on a rock-solid financial footing, of course; but the emerging Solvency II rules mustn't end up tying up the very capital needed to drive investment and, in the process, undermine the European insurance sector.

On the home front, too, the FSA's Retail Distribution Review and the Treating Customers Fairly initiative need to be followed through vigorously, but with a deft hand on the tiller to avoid unintended consequences for important parts of the market.

> **"There's a huge amount of uncertainty about financial matters at the moment, to which pensions reform can only add in the short term, so it's important that people have access to the sort of advice they need to navigate them through potentially choppy waters ahead."**

REFORM

The insurance opportunity

Dr Patrick Nolan, Chief Economist, Reform

Restoring the public finances will be central to the agenda of any incoming government and – as the largest area of spending – reducing the welfare bill will be at the heart of this. A recent joint report by the Government and the insurance industry highlighted the growing demand for public private partnerships on welfare. The Insurance Industry Working Group, co-chaired by the Chancellor of the Exchequer, the Rt Hon Alistair Darling, and Andrew Moss, Group Chief Executive of Aviva, argued that there were opportunities “for the industry to act in partnership with the Government to increase savings and protection provision, where appropriate, and help consumers manage financial distress caused by accidents, ill-health or old age.”

As Reform has highlighted, key areas where there could be greater opportunities for collaboration between the public and private sectors include disability insurance, unemployment insurance and savings (including pensions). As one example, private disability insurance has become an important part of welfare provision in many countries. In the Netherlands, the introduction of experience-rated premiums for public disability insurance was a key factor in explaining the recent sharp fall in the rates of inflow onto disability benefits.

> **“These positive effects reflect the financial incentives facing private providers to avoid the liability from people becoming unwell and, if they do, not recovering as quickly as possible.”**

Quietly, and rightly, the UK has begun to increase the level of welfare risk borne by the private population rather than the government. The introduction of personal pensions in 1988 was an important step in this direction, as was the introduction of student loans in 2000. But the existing welfare state remains highly rigid. With individuals taking a new approach to work, family and retirement, more flexible forms of support are required. From the individual’s point of view, what would be ideal would be a flexible product which enables saving towards all kinds of life events – including education, healthcare, short-term unemployment and retirement.

The financial services industry has been slow to bring forward these products, partly due to a lack of initiative from companies and partly due to an increasing weight of regulation. The greater use of private insurance has the potential to fundamentally improve the welfare system. The need to cut public spending is an opportunity for the insurance industry to take a lead role in creating a welfare system fit for the 21st century.

A return to personal responsibility

Karl Snowden, Consultant

> **"The next government should reintroduce and reinforce personal responsibility in financial services. For too long now financial regulation has protected "fools from their folly."**

Initially introduced to prevent actual financial detriment, regulation moved inexorably to protect against potential detriment and more recently to try to ensure the consumer gets the 'best deal'. This is counterproductive. The industry works best when consumers are informed, interested and, most importantly, involved. The financial decision-making process only produces optimal results when consumers are fully engaged and accept some responsibility for it. With the current 'blame culture' there is no apparent downside to making a foolish or greedy decision. So consumers have no incentive to taking any responsibility for their actions.

Could such an incentive exist? Well, if regulation really is not a zero default game, the new government could go further than saying what it will do for consumers, such as protect bank deposits. It could say what it won't do: for example, pay compensation to investors in products or companies where expert contrarian information already existed, or where 'too good to be true' should have applied.

By extension, the new government could demand of the regulator a clear stance on products and services. When too complex - failing a regulatory 'granny test'- they couldn't be sold, simple as that. The government could then restrict consumer access to certain products. In this approach, modelled on GPs and prescription drugs, such products would only be available through an appropriately qualified adviser.

In return for putting well-qualified advisers in this powerful position, the new government would require the industry to embrace, not just RDR proposals, but further changes requiring advisers to acknowledge and move beyond their sales-driven 'men-of-straw' stereotype. They would have to become well-structured 21st century businesses, capitalised well beyond the proposed £20000, encapsulating a broad range of qualifications and expertise and remunerated more through service delivered than sales made.

In the 2010 election, only the Conservative Party's general philosophy promotes personal responsibility. But even they have a Consumer Protection Authority – which has me in a cold sweat. Please, can't we have a Consumer Responsibility Authority and give back to individuals the rights - and responsibilities - flowing from their decisions.

Getting the best for later life

Jane Vass, Financial Services Policy Adviser, Age Concern

Age UK is the new force combining Age Concern and Help the Aged. We are working for a better later life today and tomorrow. To achieve our aim of financial security for all in later life:

The new Government should press ahead with the introduction of pensions auto-enrolment from 2012, and with setting up NEST (the National Employment Savings Trust) as a low-cost pensions scheme targeted at people on low and modest incomes and with interrupted working lives.

> **“To keep pension reform on track, by 2015 we want to see a review of progress so far to assess whether more private pension provision is required over the long term.”**

Government and industry together should work to ensure that people can get the best value from their pension savings; no-one should be left with a ‘stranded pot’ that is too small to be annuitised and that cannot be drawn in cash without penalty.

Regulators should have greater powers to step in early to prevent problems, and to order firms to review past business and compensate customers if necessary. Collective legal actions should be permitted, with the power for Courts to order firms to compensate all consumers affected.

The Government should end forced retirement by scrapping the default retirement age, and the financial services industry as a whole should rethink its attitudes towards age. Serving the needs of people in later life should be a mainstream consideration in the design of financial products and not about special needs for the minority. We are not calling for ‘nannying’ but the removal of automatic age limits and the development of systems that allow people in later life to manage their own money, rather than forcing them into dependence on others.

We want to see a continued focus on financial inclusion and financial capability, and adequate funding for a money guidance service.

The Mortgage Lenders' view

Michelle Vosper, Public Affairs Manager, Council of Mortgage Lenders

What happened in the financial markets over the past couple of years was unique, and the shocks to the system reverberated across the globe. The mortgage market was, and remains, dysfunctional. Although there have been definite signs of improvement, housing market activity is still much lower than what might be considered 'normal'.

Funding conditions for lenders remain difficult, a weak labour market and equity constraints on borrowers has resulted in the number of housing transactions falling from 1.6 million in 2007 to an estimated 810,000 in 2009. With limited ability and little incentive for borrowers to refinance, overall lending volumes are totalling less than half of the levels seen a couple of years ago. And while exceptionally low interest rates has made it easier for many borrowers suffering payment problems to manage their situation, the weak labour market will continue to put pressure on the level of mortgage arrears and possessions.

> **“Against this challenging backdrop, it is important that policy initiatives reinforce financial stability and do not undermine the tenuous recovery within the housing and mortgage market.”**

So that when 'normality' returns we will still have the sort of competitive mortgage market, serving borrowers' needs at different stages of their lives, that was once the envy of the world.

We call on the next government to:

Regulate for the future...

- avoid knee-jerk regulatory reactions to the problems in the banking system and mortgage market developments during the recession.
- make sure all of the positive features of the UK mortgage market are retained – a vibrant and competitive market, encompassing different business models, catering for a wide range of customers, and having the ability to innovate and adapt to changing circumstances.

Improve market participation and funding...

- increase the range of active lenders, and funding capacity in the market overall, to meet consumer needs and enable a return to a normal functioning market.
- avoid putting in place unnecessary controls and restrictions on firms, or by regulating the market in a way that deters new firms from entering it.

Support people in financial difficulties...

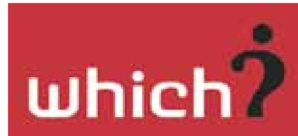
- make access to support for mortgage interest (SMI) more widely available at the point of need by households, offset by taking a second charge on the property.
- calculate the payment of SMI based on the rate charged on the claimant's mortgage, rather than at a standard rate.

Help the market to transact...

- reform the existing 'slab' structure of stamp duty in favour of a graduated tax structure similar to income tax.

Simplify low-cost home-ownership...

- expand and simplify low-cost home-ownership to increase potential lending volumes and provide more long-term funding commitments.
- discourage local authorities from imposing onerous restrictions on the occupation of low-cost homes, which deter lenders from participating.



Restoring consumer confidence

Tori Watson, Economic Advocacy, Which?

Whichever party wins the general election, it is clear the next Parliament will play a vital role in re-moulding financial services policy. The financial crisis has shaken consumer confidence in the system and has created a situation which is bad for consumers, the industry and the economy as a whole.

> **"As politicians review how financial regulation can be made to work better in the future, changes are needed to ensure consumers receive the stability and the fair treatment they need."**

Regardless of any changes to the regulatory structure that may occur, Which? would like to see major non-structural changes to ensure conduct of business regulation is fit-for-purpose. We believe the financial services regulator should operate a more diverse board than has been the case in the past, and should be made more accountable both to Parliament and to the public as a whole – one idea we would support would be a monthly question time where senior figures are required to take questions from key stakeholders.

We also believe if steps are taken to increase regulatory transparency this could have a powerful effect in incentivising firms to improve their practices. Finally we hope that the improvements to the redress system proposed in the Financial Services Bill, and the current willingness to consider product regulation, will translate into action.

Away from changes to the regulatory approach, there are two specific issues we would like to see the next Parliament tackle. Firstly, action needs to be taken to address the issue of unauthorised overdraft charges in the wake of the Supreme Court judgment. We do not believe a voluntary approach goes far enough in tackling the issue and would like to see an increase in the Office of Fair Trading's powers so that the level of unauthorised overdraft charges can be assessed for fairness going forward. Secondly, further action is necessary to restrict irresponsible lending, and would like to see the changes proposed in the recent consultation by the Department for Business, Innovation and Skills brought into place in order to help ensure consumers can exert more control over their finances.

With financial services likely to remain at the top of the political agenda during the next Parliament, we would urge whichever party wins to ensure they put the consumer at the heart of their plans for financial reform.

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