Published on *Adam Smith Institute* (http://www.adamsmith.org)

Two regulators aren't better than none [1]

Written by **Dr Eamonn Butler** [2] | Thursday 21 March 2013

I?ve been working recently on the regulation of banks, insurers and financial advisers. I?ve concluded that these industries are over-regulated, and regulated in the wrong way ? which causes more problems than it solves.

There is a strong case for financial services regulation. With many products you can see plainly what you are buying. But buy a pension or an insurance policy and you don?t know if you?ve been sold a pup until it?s time for it to pay out.

Kitemarking ? by independent agencies ? could probably solve that. And you want to make sure that the banks and insurers stay honest, get the Bank of England to do that ? they are close to the market. Then let the Financial Ombudsman Service deal with consumer protection.

We should be regulating the products, not how they are sold. That makes regulation so complicated, with so many tick-boxes, that it strangles the life out of the market. It?s fine to insist that client money must be held in a separate account and suchlike. That?s a simple rule of honesty and probity. But you don?t need much more.

We should recognise that competition is the best regulator. And that brands offer consumers an important guarantee of quality. Trouble, is, if sellers are minutely regulated, then brands make no difference and customers are done a mis-service.

Problems like Libor-fixing and PPI-misselling were caused by regulation. Bank regulation has raised the costs of market entry and killed competition ? it?s so hard to start a new retail bank that only one has been created in the UK in 130 years. If there were proper competition, cartels wouldn?t stick. And PPI was caused by the Financial Services Authority demanding it be offered to mortgage and loan customers, then not checking how it was actually being sold.

Regulators expand their empires by creating more and more rules for themselves to police. If they can pass the cost straight on to the regulatees, as in financial services, there is no cost control at all. And regulations make people feel safe, even when they are not, so people take more risks in what they buy. Regulations undermine competition and brands and everything else that might actually protect customers.

George Osborne wanted to scrap the FSA, which was so mesmerized by its own tick-boxes that it didn?t see the banking crash coming. But as of 1 April we will have two regulators instead of one. That?s bureaucracy for you.

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