## The financial watchdog is barking [1]

Written by Tim Ambler [2] | Monday 15 October 2012

We are used to sabre rattling by financial regulators. The last one told the industry to be very afraid of what the Financial Services Authority would do to them but, in the event, the only fearful thing was the FSA?s incompetence. Martin Wheatley, CEO-to-be of the new watchdog, the Financial Conduct Authority, is barking similarly likewise. According to the Independent on Sunday, he told the Association of British Insurers that he ?will punish insurers and banks that make "excessive" profits?.

Quite how anyone, let alone a long-term financial bureaucrat, with little or no business experience, can determine what is or is not an ?excessive? profit beats me and I?ve been teaching marketing for 40 years. Perhaps RBS will be punished if it makes enough money for the government to sell off its stake.

But this is only one of the four all-seeing powers he expects to utilise. The other three are ?are making sure that firms develop new products, that they strive to offer better services than their rivals, and that the most successful banks or insurers are those that respond best to consumer demands.?

Wheatley should study the words of Adam Smith and seek greater understanding of how competitive markets work. It would seem that he has little idea of brands or marketing or how consumers make choices and spend their money. Wheatley?s apparent intention to tell suppliers how to do business would be ambitious if it were not ludicrous.

His insight that the most successful banks and insurers will be those that respond best to consumer demands runs the risk that they will thereby make excessive profits and need to be chastised by Headteacher Wheatley. No doubt he will keep a cane for that purpose behind his door.

How exactly will he ensure firms develop new projects, especially when they are threatened with the cane if they succeed?

Wheatley?s reference to the payment protection insurance imbroglio is misleading. Like so many disasters it was an unintended consequence of the government?s own policies. The original concept was, and is, fine; the problems arose from the mis-selling. The reason it became a disaster was that the regulator, then the General Insurance Standards Council, watched the mis-selling arise and did nothing about it. Once again, the regulator either did not understand the industry or was too incompetent to move in promptly. If the regulator had moved in swiftly, there would have been no disaster. The FSA took over as the regulator in 1997 but 13 years passed by before, in December 2010, they addressed it with regulations for selling PPI. The banks appealed the retrospective aspects of the new regulation to the courts.

Consumer complaints had been pouring in from 2007 so it was at least three years of FSA inattention. In any case, there was no need to wait for the issue to be dragged into the courts as the FSA has quasi-judicial powers to discipline banks directly.

If Wheatley restricted himself to saying that the FCA would do their best to ensure fair trade in competitive financial markets, we would all cheer. A regulator should seek to establish a culture which makes interventions unnecessary. Consumers, if they are dissatisfied, can and do complain to the Financial

Ombudsman Service. If trends in such complaints indicate that external correction is needed, the Competition Commission and/or Office of Fair Trading (from April 2014 the Competition and Markets Authority) can wade in.

An ASI Briefing Paper to be released soon will show that we do not need the FCA at all and the unworldly barking by this new watchdog support that conclusion.

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