COMPETITION OR REGULATION?

An alternative approach to investor protection

by Simon Read

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1. The balance of regulation

Introduction and scope

The regulation of the UK financial services industry is in a state of transition. The government has announced its intention to replace the self-regulatory regime with a statutory system, and has set up the Financial Service Authority (FSA) which will eventually oversee the entire industry. There is as yet no sign of the legislation which will create the new framework.

Few will mourn the passing of the system set up by the 1986 Act. Consumer groups claimed it was ineffective. The industry argued it was bureaucratic and costly. Politicians perceived it to have had too many failures, in particular its handling of the alleged mis-selling of personal pensions. Unfortunately, replacing one system with another does not guarantee improvement. We need a radical re-think of what level of regulation is required and how this should be delivered. The delay in legislation provides a window of opportunity to ensure that – this time – the government and Parliament get it right.

The FSA replaces nine bodies regulating everything from merchant banks to insurance companies. No single system will be appropriate for each activity: so this paper will deal only with the regulation of individual pooled savings and investment products. This includes insurance-linked investment plans, personal pensions, free-standing AVCs, unit trusts, investment trusts, PEPs, and ISAs.

The regulation of these products it particularly important because they will become much more widely held in the next ten years as individuals increase their savings to compensate for the decline in universal welfare provision. For many consumers, the FSA will be judged entirely on its effectiveness in regulating these plans.

Why have regulation?

The primary aim of financial regulation is to protect consumers. Only if some such protection is in place are many people likely to have the confidence to invest their money. A sound regulatory system is therefore essential to the future well-being of the financial services industry, as well as the public.

At its most basic, investors must feel confident that no one will run off with their money; that they will be given a truthful account of their investment and its propects; and that if a company or intermediary collapses they will be able to get back their money quickly and easily, without having to prove negligence.

Whilst some regulation existed before the 1986 Act, the main change brought about by it was the concept of *authorisation*. This meant that everyone engaged in the investment industry, from a major insurance company to a sole trader, had to meet strict financial and competency standards before they were allowed to transact investment business. The regulator constantly monitors such organisations, and its ultimate sanction is the power to withdraw authorisation. Consumers know that if they deal with an authorised body, they have protection against it defrauding them.

This does not mean that customers will never lose money, since there is always an inherent risk element in any investment. The key question is whether the consumer needs any further protection against this risk, and if so, what form it should take. Should it simply be a case of *caveat emptor* or should the seller owe a special duty of care to the buyer? Agreeing a fair balance of responsibilities between buyer and seller is the central issue in any debate on regulation.

Getting the balance right

For many or most of the things we buy, we do accept the principle of *caveat emptor*. Sometimes we make a poor bargain, but it can usually be put down to experience.

But many people argue that investments are different from other products. When someone buys a car it is easy to assess its quality and compare it with other models. With an investment, what is being offered is the prospect of getting more money back in the future. This means the merits of the investment can only be assessed in perhaps ten or twenty years' time. If it then turns out to have been a poor investment, it may then be impossible to rectify the situation. Moreover, investment is complex and without strict controls on the way products are sold it is all too easy for the public to be sold unsuitable products.

This is essentially the position taken by the Act. It regulates the sales and advice process, making sellers responsible for the advice they give. It says that only those products which are deemed suitable or appropriate for the customer should be sold. If customers suffer a financial loss as result of being offered an unsuitable product, the Act offered the prospect of getting compensation.

It all seems simple and straightforward; but the reality is much more complex. To understand why, we must ask what makes a product "inappropriate", what is "bad" advice, and even what is meant by "advice".

2. Advice and information

The myth of advice

Advice is seen by almost everyone as a "good thing". Companies with high charges justify them on grounds that it enables them to give advice on these products. The definition of this advice is vague, but there is a subtle implication that it can reduce or eliminate risk.

Yet this definition will not do. The regulators have always accepted that market risk cannot be eliminated, because no one can forecast the future. Someone who was recommended to invest heavily in Far East unit trusts in early 1997 does not necessarily have a case for compensation, even though the investment may have halved in value. This must be puzzling for the investor who may well question exactly what is meant by advice.

Another example of this thinking is the controversy over tracker funds. These offer very low charges and turned in a good performance as the index rose to record levels in the first half of 1998. Most companies which offer them do not give advice: the investor just sends off a cheque. Companies which do give advice argue that you only get what you pay for. By paying more, you can get advice about what investments to choose, but with a tracker fund bought off the shelf, things could go wrong and then you are on your own.

Of course things *can* go wrong and there are definite benefits in getting advice. An adviser can explain the product, assess the customer's attitude to risk and ensure it matches the risk profile of the product. There is, however, often an implication that by getting advice you will be directed to a fund which will perform better than the tracker. But this is the myth of advice. Advice can offer significant benefits to investors, but it cannot guarantee a better return.

The burden of risk

More significantly, advice cannot transfer risk from investor to adviser. This is best illustrated in the example of pension fund withdrawal, which has been described as the next financial mis-selling scandal.

At retirement, anyone with a personal pension fund must use most of their fund to buy an annuity. Once purchased, this cannot be re-negotiated, so the pension income for the rest of an individual's life is determined by annuity

rates at retirement. If you were unfortunate enough to retire when rates were low, nothing can be done about it later.

This problem was recognised, and since 1996 it has been possible to defer buying an annuity and obtain an income by withdrawing capital from the fund. The hope is that the pensioner can put off buying the annuity until rates rise. There is of course a risk: if rates continue to fall, the remaining fund loses value, and the income will be even lower than if the annuity had been purchased in the first place.

Every article in the financial press on this subject stresses the need to get advice, and clearly it would be foolish to make a decision without doing so. Unfortunately, no one ever seems to define what advice can be given to the client. An adviser can outline the two options, highlight the risks of each, check how much risk the customer is prepared to take, and estimate the investment return required to maintain the pension income: what no one can do is tell the client which option will produce the best income.

Because of this uncertainty it might seem sensible for the adviser to tell clients that the final decision must be taken by them. Advisers do not do this: they make recommendations. In fact the regulators would be very concerned if they did otherwise.

Recommendation is a much stronger word than *advice*. If someone is *recommended* to do something there is an implication that the person making it takes some of the responsibility for the consequences. I sought your advice, you made a recommendation, I lost money, therefore you are responsible.

Let us assume that an adviser has recommended that the client defer purchasing the annuity. Unfortunately, because interest rates fall and the stock market is sluggish, the client finds the pension is only half what it might have been. The papers would be full of this heartbreaking story: but was it bad advice? To the investor it certainly will seem to be so, but advice cannot be assessed with the benefit of hindsight.

An alternative approach might be to ask whether the product was unsuitable for the client by virtue of its design. The difficulty with this is separating market loss from unsuitability of the plan in the first place.

The foundation for choice

Whilst pension fund withdrawal is one of the more complex financial decisions, the principles can be applied to all cases:

- there is a choice of options;
- it is impossible to predict with certainty which one will turn out to be the best.

Any recommendation can at best be only an opinion – albeit one based on knowledge and experience. Who then should be responsible for making the final decision? Since there is always an element of uncertainty, there is a strong case for saying it should be the investor, *provided they have been given enough information to make an informed decision.*

The amount of information requried for that will vary according to the complexity of the case and the knowledge of the investor. A great deal of information would be required for pension fund withdrawal or pension transfer, but much less would be required for an ISA.

And it might require a radical simplification of some of the tax rules, and of the legislation surrounding different savings, insurance, and pensions options before most ordinary clients could get to grips with what the choices really were and what different decisions would mean to them.

This sort of radical tax and legal simplification would have obvious benefits to the public. Once the options become intelligible, providing information could be much more effective than regulating advice and much safer for the client. Would members of good company schemes, for example, have left them to take out personal pensions they had been told:

- your employer's contribution will be lost;
- your family may lose valuable benefits if you were to die;
- unlike your company pension the level of income cannot be guaranteed;
- you will pay far more in charges than in an employers' scheme?

This then gives us an objective measure for assessing advice – *was the client given enough information to make an informed decision*?

The contrast with today

The information test flies in the face of most regulatory practice since the regulators have always tried to differentiate "information" from "advice".

But that distinction is more artificial than real. Returning to pension fund withdrawal, hard facts can be given about how it works, what the dangers are, and so on. Yet when it comes to the client asking, "What do you think I should do?", all any adviser can give is an opinion. By hailing this opinion as "advice" and setting it up on a pedestal as the centrepiece of financial regulation, the present system gives investors too high an expectation of the level of protection they will receive, which leads to confusion and dissatisfaction.

It is also very expensive. In his paper for the Institute of Economic Affairs, Professor David Simpson estimated that the cost of complying with the rules enforced by the UK's financial regulators amounted to 9% of the industry's turnover — which is, of course, ultimately paid for by the customer. This figure would not surprise anyone in the industry: regulation has created a whole new set of jobs, with every company having a compliance manager and compliance officers. The regulators have their own people checking up on the companies. Managers are involved in an endless paper chase of recording action plans, training programmes, file checks, observed interviews. All this is needed because, if advice is regulated, you have to record the details of every single meeting and sales transaction.

A new approach

The FSA needs to take a different approach. It should recognise that the concept of advice is at best confusing. It should take the view that customers can and must take more responsibility for their own decisions. This does not mean a return to *caveat emptor*, but it means turning customers into informed buyers by ensuring they have basic accurate information presented in an understandable manner before they buy.

It is encouraging to note that in its outline document the FSA states:

"The FSA will:

- aim to ensure that consumers receive clear and adequate information about services, products and risks;
- acknowledge consumers' responsibility for their own decisions, whilst aiming to ensure that they are not exposed to risks that they should not be reasonably be expected to assume."

Clearly, a large part of this involves pruning down the tax and regulatory forest so that clients can see what it is they are actually buying. At the moment we are in a vicious circle: tax and legal complexity means people need advice but that advice is only one part of the picture. Buyers of most

tangible products expect them to meet certain standards. Why should buyers of investment products not have similar rights? For this to work, the FSA needs powers to *regulate the products themselves,* including control over charging structures. The real cause of customer complaints is often not the advice but the design of the product. If the FSA is given this power then a completely new way of regulation opens up. A system that will be low cost, flexible and uses competition and the market as its prime weapons to give consumers a fair deal.

3. Choice as the regulator

Better product design

The best protection which consumers have is the ability to take their money elsewhere. If you do not like Tesco you shop in Sainsbury's. Supermarkets don't need a regulator because they know if their customers are dissatisfied they will lose them.

It is often argued that financial products are different from most other goods or services because the quality of the product and the wisdom of the decision to buy it can only be assessed long after the original purchase. But this need not be the case. There is no reason why buying and maintaining a financial product should be different to any other purchase, because – despite what the industry says – they are simple products.

The majority of products sold by the industry are collective or pooled investments. They work on the basis that numerous individuals give their money to a company which then invests it in a range of investments to achieve growth and/or income. In other words, it is a fund management service. The key difference between a personal pension and a PEP is merely its tax treatment.

The fund manager or company is entitled to charge for this investment service. What customers need to know is how well the manager is performing and what they are being charged. If they become dissatisfied, for example if the growth in the fund is mediocre and the charges are high, they should be able to transfer to another manager.

It is this ability to switch from one manager or company to another that should be the bedrock of consumer protection. Instead of trying to establish whether the advice was good or appropriate, the FSA should seek to establish a flexible market where moving to a different fund manager becomes a simple, low-cost operation. Ideally, it should be as easy as moving a deposit account move from one building society to another.

In such a regime, competition would force companies to stop selling high cost inflexible plans. The FSA would then simply regulate the funds themselves.

Bad design makes bad advice

The original regulators never tackled the problem in this way. They never recognised that much of what was termed 'bad advice' stemmed from the design of the product.

For example: an adviser recommends a woman to start a personal pension. There is no employer scheme, no existing pension provision and she is settled in her job. Definitely good advice. Twelve months later she is made redundant and has to stop paying into the pension. Unfortunately, the charging structure of the plan means that whilst she has invested £900, the value of her fund is only £450. She may complain, but she will be told that because there was nothing wrong with the advice, nothing can be done.

If such problems are to be avoided in the new regime we need to see why a true free market does not exist at present.

Historically, the industry marketed plans as long-term contracts which penalised the investor if the contract was broken. The concept is still retained in most insurance-based investment plans. It is also common in many pension plans. In practice it was maintained by concentrating the charges in the first years of the plan. If the plan was continued, charges would be evened out, but early cancellation results in a loss to the customer.

In its *Third Survey of the Persistency of Life and Pension Policies* the PIA recorded that 36% of pension plans were cancelled in the first three years. Of course, there can be many good reasons why a plan is discontinued. What is important is not the lapse but whether the customer is left with a positive value: whether the value of the fund exceeds that of the contributions. And the charging structure will be the major determinant of that.

Recently, there has been a move to more level charges. Regular saving PEPs and unit trusts adopt this approach, and so do the better personal pensions. The effect is that these plans offer more protection to a buyer. If someone starts to save £50 a month into a PEP and finds they cannot afford to continue, they are much more likely to be left with positive value. And if the saver believes performance is poor, it is relatively easy to switch to another company or manager.

The abolition of front-end charges would give consumers far more protection than the Act ever achieved. Plans would become flexible savings-type accounts, allowing savers to put in money as and when they wished. There would be no penalties for stopping payment and you would not be locked into the plan. At last the customers would have the real ability to choose.

The need for simplification

One more step is required for a fully flexible market, and that is a radical simplification of the tax system.

Investment is seen as being complicated because of the number of different products that are sold. There are qualifying life policies, non-qualifying life policies, unit trusts, PEPs, personal pensions and free-standing AVCs. This may seem to give consumers choice, but it is more apparent than real. All these products are essentially the same, in that each offers a fund management service. What distinguishes one product from another is how the fund and the eventual proceeds are taxed.

Most companies will offer unit trusts and insurance bonds (technically a single-premium non-qualifying life policy). In both cases, units in a fund or funds are purchased with the hope that their price will rise and they can eventually be sold at a profit.

Any gain from the bond is taxed under income tax, but only if the investor is a higher-rate taxpayer when the gain is taken. Any gain from a unit trust will be taxed under capital gains tax. With the investment bond, tax is charged on the fund itself and paid by the manager. No capital gains tax is charged on disposals within the unit trust.

What could be a simple investment has been complicated by the tax system. But is that complexity really necessary?

The Inland Revenue goes to great lenghts to prevent investors exploiting tax reliefs. The complex rules they have introduced to prevent wealthy investors from taking advantage of these releifs have, unfortunately, made the system very complicated for everyone. And there is no better example than the rules on Pensions. But there is no real need for such complexity as the straightforward £6,000 annual limit on PEP investments has shown.

The taxation of collective investments should be rationalised into two systems: one for pension savings, and one for non-pension items. This would mean that instead of today's confusing range of products, companies would need to offer only two sorts of product, a retirement savings account and a normal savings account. This in turn would have a fundamental effect on consumer protection. If there is only one generic type of plan for non-pension savings then it is hard to select the wrong contract.

The tax rules would be as simple as possible and should be structured to encourage long term investment – perhaps by making any investment become tax free after a certain period, just as the capital gains tax taper does

for long-term holdings. It must also allow investors to switch companies or managers without incurring a tax liability, as would happen at present.

4. Making regulation work

Regulation should aim to achieve a fair balance between buyers and sellers by giving both parties rights and responsibilities. The buyers' principal responsibility is to take the decision whether or not to purchase. To enable them to do that they need three rights:

- the right to receive unbiased, objective information;
- the right to receive accurate details of the cost of the product;
- the right to be sold only products that meet set standards.

Unbiased, objective information

Since sellers would still have a duty to give accurate information to a prospective customer, the FSA would play a key role in reinforcing this. It would draw up a customer guide for each plan which would have to be given to prospective buyers prior to the sale being completed. Written in Plain English it would:

- describe what the plan can do and cannot do;
- summarise for whom it would be suitable and unsuitable (e.g. for a personal pension it would state that it was unsuitable for someone who is or could be a member of a company scheme);
- give a standard risk rating to the funds;
- indicate whether the charges were lower or higher than the industry average.

Any such standards are bound to be controversial, but unlike the Treasury's CAT-mark proposals for ISAs, these would be neutral in that they would not favour one investment or fund over another. The emphasis is on ensuring that buyers have a source of clear information so they can make their own decision.

Accurate details of the cost of the product

Real Disclosure. Probably the major achievement of the current regime was the introduction of "hard disclosure". All companies must now produce an estimate of possible returns using their own changing structure. In principle,

a prospective buyer can get illustrations from different companies and compare the total charges made by each and the effects of thoe on the subsequent value of the investment. This is a great improvement on the previous system, but it still suffers from two major flaws:

- Illustrations are very complicated documents of up to three or four pages;
- they are only an estimate.

The latter point is very significant. The amount which is eventually charged may be totally different. The estimate is valid only if the plan continues as originally envisaged. But as plans become more flexible, it is much less likely that someone will pay £50 a month for 25 years. Charges will also vary if a different growth rate to the estimate is achieved. The company may also increase its charges.

Rather than giving people an estimate up front and then locking them in with front-end charges, we should instead be telling investors the actual costs of running the plan as they are incurred. In this way, investors will be able to assess whether they are getting value for money in exactly the same way as any other purchase. The level of fund performance, together with the standard of service and the charges imposed, could be seen by the customer – and acted upon at any time if the customer calculated that the plan was not delivering the best value for money.

Many companies worry that this regular ability of customers to review their investment would lead to excessive "switching" that would increase costs all round. In fact, it would lead to much better cutomer service as companies tried to build up a relationship of customer loyalty precisely to prevent their customers taking a short-termist view and deserting them from year to year.

There is no need to impose a maximum charge. If companies want to give a higher level of service they should be free to charge for this. The important thing is that the investor can see what is being charged.

Projections. However, there is a case for abolishing all projections of future growth or benefits. The purchase of a thousand shares in Marks and Spencer is not accompanied by an estimate of what they might be worth in five or ten years' time. Why then is an estimate required if these shares form part of a collective investment? An illustration can be dangerous since it can imply that there will always be a positive value; and customers may believe that they are an accurate promise of future performance, and ignore the potential risks of any investment.

Abandoning today's "telephone number" projections would change the public's attitude to investment. Having money in a unit trust or a pension

plan would simply be another bit of an individual's assets or wealth. Just as a balance in a deposit passbook represents your savings, so would the number of units you own in a fund.

It should also get the consumers to recognise that these investments belong to them and not the company. The phrase "I sold him a pension" is meaningless. The company has sold nothing, rather it is the individual who has invested money in one of the company's funds. The company is simply managing the money and must account to the customer for its stewardship.

Simple charges. Customer choice is difficult at present partly because a potential investor is faced with terms such as bid/offer spread, low allocation rates, capital units/accumulation units, plan fees, management charges, exit charges and so on. Companies are free to use any combination of these, making quick comparisons very difficult. Instead the FSA should force companies to present its charges in a standard and simplified way.

Products tend to have two main types of charges: an initial charge and an ongoing one. An initial charge reduces the amount invested; and that should be disclosed by showing the reduction on an investment of £100. It does not take an actuary to see that a company which gives an immediate value of £97 is better than one giving £89. This figure should be displayed on all product literature and customers provided with an individualized figure.

This strategy would not work for front-loaded plans. Over the medium term the FSA could use its powers to prohibit these, but until then an alternative method would be needed. As these charges mean that it takes some time before the plan is worth more than has been paid in, the break-even point would have to be shown. This might be worded something like this:

> "This plan charges proportionately more in the early years. This means it will be some time before its value is worth than the amount you have paid in. Given an annual return of 7.5% the plan will break-even in <u>9 years 4 months.</u> If you were to cancel or stop contributing before then you would make a loss.
>
> "Before deciding to go ahead with this plan you should be quite certain that you would want and can afford to maintain these payments."

For ongoing costs, a more radical approach is needed. Of all a company's charges, the annual management charge is probably the most misunderstood. A figure of 1.25% sounds quite modest but on a fund of £50,000 it amounts to an annual deduction of £625. Currently this is included as part of the total costs shown in the illustration given at the start of

the contract. What the investor does not know is what is being charged in any one year.

It must be remembered that buying a fund management service is no different from buying any other service. The buyer should be told the price on a regular basis so that a decision can be taken as to whether the supplier should be changed. Under the proposed system, the company would include in its annual customer statement what the annual charges were for the last year together with an estimate for the coming year. The annual costs would include the annual management fee, any plan fees and related insurance costs. The statement would also include the growth of the fund over the last year and the last five years, together with the same figures for the average of that sector. This would enable customers to make an informed decision as to whether the price they were paying for the fund managers represented good value. If they are dissatisfied they can simply transfer to another manager.

Standards

The FSA's core power would be the licensing or accreditation of any product that was marketed. This approval would have to be given before any product could be sold and its ultimate sanction would be to withdraw the accreditation.

Yet this must not become too bureaucratic, which would stifle innovation. Basic specifications could be drawn up for each product, which companies would have to meet, broadly aimed at removing front-end loaded plans, moving all plans on to a level charging structure, and prohibiting penalty fees for early cancellation. A self-certification process – by which providers could introduce products and apply the "approved" labels themselves if they were confident that the standards rules were met – would speed the rate of innovation, though there would have to be heavy penalties on companies which wrongly claimed that their products qualified.

Opening up elsewhere

In return for this regime, regulation could be loosened in other areas. Companies and intermediaries would still have to be authorised before they could transact business. Because there would be the strictest control on product design and fund management, there need be only a light control on those selling the products, particularly if they did not handle clients' money. Supervision would simply check that the correct documentation had been given.

The biggest change would be a simplification in the sales process. When dealing with basic protection and collective investment plans there would be no need to consider the whole of the client's circumstances. If a client just wanted a pension product, an intermeditary could provide it without having to consider at length what level of life insurance the customer might need. There would be no bar on doing a full financial review, and in most instances this will be the best course of action; but this can be agreed with the customer.

For the more basic products there would be no requirement to have elaborate training or supervisory programmes; which would open up the business to new entrants who could bring in fresh ideas.

This regime is about changing the culture of investment, so that putting £100 into a pension or a unit trust becomes a simple operation. Indeed it is not too fanciful to foresee people doing this either through an ATM or even when shopping at the supermarket. Remember that the customer would be protected by strict controls on the fund management and the product design.

Certain sales would of course have to be restricted to a fee-based system. Principally these are transactions which once completed are irrevocable. They would be:

- pension drawdown;
- advice on transferring pension benefits; and
- advice on whether to leave a company pension scheme.

In all three cases no one can predict which course of action will prove to be the best, so the final decision can only be taken by the customer once they have had unbiased advice on the risks and rewards of each choice. Making the intermediary financially disinterested in the outcome means there is no pressure to push the client one way or the other. Similar restrictions might be imposed on other products that present an irrevocable decision on the part of the client.

5. The market of the future

These changes are designed to bring about a revolution in the financial services industry. The traditional long-term, inflexible, jargon-ridden high-cost plans will be swept aside by ones which are flexible, simple to understand and offer value for money.

A true revolution is about changing attitudes. These changes can only be considered a success if the public's, the treasury's and the industry's attitude to collective investment changes. It will only be a success when the industry is able to accept small, infrequent payments from savers without dissipating most of them in charges. It will only be a success when it is no more difficult to put £50 into a unit trust than to put it into a deposit account. It will only be a success when people think of the balance in their pension fund as being really no different to the balance in a deposit account. It will only be a success when the Inland Revenue sees that a workable and intelligible system is better than one which tries to block every loophole at the expense of greater and greater complexity.

It is doubtful if today's financial services industry could respond very easily to these changes, partly because the sales process imposed on it in part by the Financial Services Act makes it very costly to sell its products. The FSA should recognise that these existing structures are out of date; and move towards a new structure, which would split the market into four main players:

- manufacturer;
- manufacturer/retailer;
- distributor;
- independent intermediary.

A *manufacturer* would design products and offer these to the market. There would be strict controls on this function. All manufacturers would have to be authorised and their products accredited by the FSA.

If a manufacturer wanted to sell its products either direct to the public or via its own sales force then it would be classed as a *manufacturer/retailer*. The same strict rules would apply to the manufacturing aspect but looser controls would apply to the sales side.

This sector will come under cost pressures to offer low charging plans. The direct sellers such as Virgin will prosper, as will bancassurers who will not need to employ expensive specialist staff; but the traditional company sales force will face a tougher challenge since it is likely that their products will start to look less and less competitive.

Distributors would be a new concept to reflect the more open market. Manufacturers would provide the fund management service but all sorts of other organisations could provide the collection and customer servicing facilities. In the process they would normally brand the product as the distributor's own. The major retailers would certainly become distributors, as could the Post Office; utility companies may also wish to develop this business, and so might trade unions or trade bodies. Unlike the present tied agents, they would not be restricted to dealing with one manufacturer but could select a different one for each product. The FSA would authorise distributors but focus on ensuring that their systems could keep track of their customers' money.

The aim of introducing distributor status is to encourage new and innovative service providers into the market. They could revolutionise the market by negotiating low-cost deals with manufacturers and passing them on to their customers. They could even make it an economic proposition to accept payments from those who can only afford small amounts now and then.

Independent intermediaries would be broadly unchanged. They would also enjoy a lighter regulatory regime provided they did not handle their customers' money. They would probably gravitate to the upper end of the market, perhaps moving to a fee-based system.

How the market will eventually develop cannot be predicted. That is something consumers will decide. What regulation can and must do is to encourage those with new ideas to come into the market so that they can deliver the benefits of competition to the customer.