



16 July 2007

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European Commission
Directorate-General
Internal Market and Services
B - 1049 Brussels
Belgium

By e-mail

ICAEW REP 70/07
FSF REP 01/07

Dear Sir

Green Paper on Retail Financial Services

The Institute of Chartered Accountants in England and Wales (the 'ICAEW') welcomes the opportunity to comment on the Green paper on Retail Financial Services in the Single Market.

The ICAEW operates under a Royal Charter, working in the public interest. As a world leading professional accountancy body, we provide leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The ICAEW is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

The ICAEW's Financial Services Faculty was set up in 2007 to become a world class centre for thought leadership on issues and challenges facing the financial services industry, acting in the public interest and free from vested interests. It draws together professionals from across the financial services industry and from the 25,000 ICAEW members specialising in the sector. This includes those working for regulated firms, in professional services firms, intermediaries, and regulators.

We have reviewed the Green Paper issued and are pleased to submit our comments.

1. In principle, the ICAEW supports any initiative that is capable of identifying and reducing regulatory barriers to market competition within the EU.
2. Efficient and orderly markets are the most effective mechanism for delivering the objectives outlined in the Green Paper. Any regulatory initiative should be consistent with the overarching objectives to act as safeguards for consumers, for efficient and stable financial markets and against anti-competitive behaviour. The Green Paper should focus on ways of removing public and private obstacles to market freedoms, and creating an environment that

is economically attractive for both existing players and potential new entrants. Once these factors are addressed, market competition should be able to resolve other issues.

3. The green paper focuses upon the lack of cross-border activity as the measure of competitiveness. Effective competition can also be delivered by firms establishing a local presence. The market should be left to determine which option is better able to deliver effective competition. The Commission in turn should look at removing barriers to setting up local operations as well as barriers to cross border activity.
4. Any improvement in the operation of Europe's retail financial services market requires a detailed and targeted investigation of all the issues that affect the distribution chain. Without this investigation, regulatory initiatives aimed at improving performance in weaker areas can have adverse unintended consequences in other areas which had been operating efficiently. There are many areas of activity where the retail market operates very efficiently and competitively. Sudden regulatory change does not necessarily generate improved consumer outcomes, particularly if that change may have a negative impact on effective areas.
5. Retail markets are affected by a range of economic, cultural and legal issues. Consumer confidence is complex but vital to retail financial markets. Regulatory solutions alone are not capable of generating cross-border activity in the retail financial services sector. Cultural and social traditions, local market issues, language barriers, currency, brand recognition are all significant factors contributing to the relatively low level of cross-border activity.
6. The retail financial services sector needs to deliver competitively priced products and services, which are easily understood and meet consumers needs. However, efficient markets usually present the most effective mechanism for developing, and delivering innovative, consumer-centric products and services. Product uniformity, by definition, undermines the basic market need of product differentiation. The UK experience of regulatory driven attempts at stimulating sustainable volume sales of simple products, has attracted limited interest from both product providers and consumers. We are unconvinced that a lack of standardised, simplified products is a significant barrier to greater cross-border activity. Further, uniform products might create a barrier to market entrants, since it is more difficult to establish a brand identity without the ability to differentiate products.
7. Market mechanisms are the best method of delivering comparable prices. However, it is important to consider the overall price of products when considering this, rather than comparing components. Two products might have a similar overall cost to consumers but have different charging structures. Market conditions can also affect the costs, and hence pricing, of products. There are significant scale economies for many financial products. In some developing markets, lack of scale or, for example, consumer expectations of an extensive branch network, might contribute to relatively higher costs.
8. We support the removal of any barriers to cross-border sharing of information between market participants, subject to data protection considerations. In practice, many information sharing schemes are industry led and depend upon mutuality. Barriers to entry might be practical rather than structural. For example, schemes might require participants to provide information on their customers in order to be able to receive it, but the methods of delivery and formats of information might vary across different schemes, thereby increasing the cost of joining. Market solutions to perceived barriers should be explored before regulatory action is taken.
9. We agree that the level of basic financial literacy among the general population is a problem, at least in the UK. This can lead to consumers not understanding financial products properly even when they are explained simply, not investing sufficiently in long term savings and low levels of confidence. The ICAEW has recently launched a scheme to create a task force of volunteers among our membership to assist secondary schools in England to teach about personal financial planning in the classrooms. We would be happy to provide further details of this scheme to the Commission to show how a partnership between schools and knowledgeable professionals can help to address this problem.

If you would like further information or to discuss any aspects of this response, please contact me at ian.coke@icaew.com or on +44 (0)207 920 8674.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Iain Coke', written in a cursive style.

Iain Coke
Head of the Financial Services Faculty