Central University of Finance & Economics

Financial Services: Graded Unit 2

Developing stage

Class: Financial Service 1

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1. The details of how the issue affects financial institutions and consumers

1.1 How financial institutions and systems are affected by Bank of England and Financial Services Act 2016

Firstly, according to my objectives in the planning stage, I will give a detailed explanation of how the changes in the financial services regulations in the Bank of England and Financial Services Act 2016 affects the financial institutions and system.

In the Bank of England and Financial Services Act 2016, there are some changes to the rights of the financial institutions. In the law, it is clearly stipulated that PRA is no longer an independent body affiliate to Bank of England, but integrates the rights to Bank of England, which leads to the expansion of BoE’s power. It changes the original status of PRA as a subsidiary of Bank of England and PRA becomes PRC (Prudential Regulation Committee), which is an internal body of BoE. And then, the financial regulatory system changes from the tripartite confrontation of the BoE, PRA and FCA to the dual pattern of BoE and FCA. (Legistlation,2021)

In this law, PRC is given the power to continue to carry out the original supervision. PRC supervises around 1500 firms and groups, which includes nearly 900 banks, building Societies and credit unions and over 600 surers of all types.

The PRA continues to conduct governance reviews of financial institutions, including governance processes and culture. Financial institutions must provide feedback on which the PRA decides whether to step in and propose an action plan to improve governance. In addition, the PRA helps financial institutions deal with threats and challenges. The PRA's approach is to regulate ahead of time. The PRA will identify potential risks in financial institutions and make decisive decisions and actions for the healthy development of financial institutions. (Publishing service, 2017)

What's more, the establishment of the law led to the expansion of the power and status of the FPC. Financial Policy Committee becomes an independent committee as the Monetary Policy Committee. The internal organizational structure is formally formed and it is composed of the board of directors, Monetary Policy Committee, Financial Policy Committee and Prudential Regulation Committee. They restrict and depend on each other, which is conducive to the stable development of financial systems and institutions in UK.

Under the Act, FPC further seeks to achieve the financial stability objectives of banks. The FPC aims to protect and enhance the resilience of the UK financial system by identifying, monitoring and taking actions to eliminate and reduce systemic risks.

FPC provides clearer expectations for appropriate levels. It provided capital to the UK banking system and hammered out a systemic risk framework. The Act allows FPC to make recommendations to the Treasury. FPC can make recommendations where systemic risk cannot be identified. FPC has its own procedures for assessing banking system risks outside the core. FPC receives regular briefings from the financial institutions, banks, PRA and the FCA to analyze potential risks. (Legisilation,2021)

And I collect some data and information to demonstrate the impact on UK financial institutions and systems. The information and data will be listed in Section 2.2.1.

1.2 How consumers are affected by the changes of financial services regulation

My second objective is the impact to consumers of the change in the financial services regulations, so I will focus on how consumers are affected.

According to my research, the Financial Services Act 2010 was introduced in 8th April, 2010. It is an Act to make provision about financial services and markets. In this act, FSA has been given broader legislative power to safeguard the interests of consumers and FSA has mentioned some measures to protect consumers. FSA provides consumer redress scheme which means eligible consumers can receive remedies when they suffer losses or damage. A "consumer redress scheme" is a scheme under which the firm is required to take responsibility for the harm to the consumers. If the firm has caused a loss to the consumer, then the consumer must be remedial compensation.

In addition, FSA establishes a body corporate named Consumer Financial Education Body. CFEB is used to enhance the understanding and knowledge of members of the public of financial matters and the ability of members of the public to manage their own financial affairs. The main functions of CFEB are promoting the awareness of financial planning and financial products or services. CFEB was renamed money advice service (MAS) in April 2011. MAS is free to consumers and it can provide general suggestions to consumer, but it cannot provide specific transactions and products. The funds of MAS come from the taxpayment of financial institutions. (Legistlation,2021)

However, after the economic crisis in 2008, UK government abolished FSA and set up FCA to protect financial consumers, guide and regulate market behavior. FCA focuses more on forward-looking risk, with an emphasis on timely intervention before consumers are harmed. FCA also attaches great importance to timely and reasonable compensation for damage to consumers' rights and interests. Also, FCA can impose penalties ranging from public reprimands to closure of misbehaving institutions. It also has financial crime teams and criminal prosecution powers.

FCA firmly combats the criminal acts that infringe on the interests of consumers, consumers can be protected under the law. What's more, consumers can learn a lot knowledge about financial products or services from the money advice service. They can gradually learn to protect their financial assets by learning relevant knowledge.

In addition, consumers can be helped when they have losses. FCA has regulatory tools, such as Framework for Systematic Assessment of Financial Institutions (FSF). In the FSF, business model and strategy analysis (BMSA) are used to assess financial institutions in the preparation stage and identify the risk points that may infringe on consumer rights and market integrity. (FCA, 2021)

I will also cite two cases in 2.2.2 to prove that the interests of consumers are protected.

2. Analysis of the primary and secondary sources of information and data collected

According to my three objectives, I will divide the information and data collected into three parts. And each objective will be analyzed with the explicit explanation.

2.1 The information about the impact on financial institutions and system

According to the information I have investigated, Due to the changes in the law, the PRA has enforcement authority over its regulatory agencies to respond to threats and protect the health of financial institutions. PRA took enforcement action to the financial institutions(a UK-incorporated subsidiary bank of an overseas bank, a London branch of an international bank and a UK-incorporated designated investment firm subsidiary of an overseas securities firm).

I will give a case to explaon the impact on financial institutions. On 9 Februaray 2017, PRA has fined the bank of Tokyo-Mitsubishi UFJ Limiyed for ￡17.85 million. The reason for the fine was that BTMU had not co-operated with the Department of Financial ServicesDFS, which had an enforcement department within the PRA.BTMU did not inform DFS enforcement action. BTMU had inadequate systems and controls for communicating the relevant information, resulting in the failure to disclose it to the PRA. (Publishing, 2021)

According to the information I gathered, FPC has undertaken a series of activities since the Act was passed to enhance the financial resilience of the marketplace and stabilize the financial system. For example, FPC has asked Bank to complete an in-depth assessment of the financial stability risks associated with derivative transactions. This will review progress in implementing post-crisis reforms in derivatives markets and consider the impact on the resilience of the financial system. It would also facilitate a broader review by the Financial Stability Board. In July 2016, FPC reduced the countercyclical buffer rate on banks' UK exposures from 0.5% to 0%. This was in response to increased uncertainty about the outlook for the UK economy and the increased likelihood that significant domestic risks will emerge in the short term. These practices have exerted certain influence on the financial system of the UK and promoted the stable development of the financial system. (Publishing, 2021)

2.2 The information about the impact on customers

Through the legislative reform in 2010, FSA established the regulatory authority, which named MAS. The emergence of MAS provided protection for the interests and rights of consumers. In addition, MAS also aimed to improve the awareness and ability of consumers to protect their financial assets.

The data I collected shows that, MAS had two main categories of financial expenditure, money guidance and debt advice. The budget of MAS had increased year by year after 2010. Among other things, MAS placed great emphasis on financial education for consumers and encourages them to take action to manage their own money. MAS has made significant investment in marketing and customer communications, which accounts for 30% for consumer financial education. This indicates that MAS focused on helping consumers improving their cognitive level, managing ability and protecting the interests and rights of consumers. (Gov, 2021)

MAS budget 2010-2015

Years	Money Guidance (£ m)	Debt Advice (£ m)	Total
2010-2011	32.9	0	32.9
2011-2012	43.7	0	43.7
2012-2013	46.3	34.5	80.8
2013-2014	43	34.5	77.5
2014-2015	43	38.1	81.1

By the way, according to the case I gathered, after the law set up, FCA protected consumers by authorizing companies to provide financial services or products. Almost all companies that provide or sell financial services or products in the UK need to be authorized by FCA. However, unauthorized companies may deliberately defraud and violate consumers' rights. These companies may engage in stock fraud. FCA assessed companies that are selling without authorization and then FCA warned consumers to avoid dealing with such unauthorized companies. (FCA, 2021)

In the 31st Dec 2010, FCA issued a warning to consumers on its website, asking them to watch out for Master Financial Corporation. Upon inspection, Master Financial Corporation was found to be an unauthorized company that continued to sell financial services and products. Similarly, on Dec 22rd 2010, FCA issued another statement warning consumer not to easily trade and invest with ABF Capital Management. Because FCA found that ABF was not regarded as a proper financial company, and it said consumers who bought ABF products would not be covered by the compensation scheme. By issuing warnings, FCA protects the rights and interests of consumers. (FCA, 2021)

3. Assessments of the impact of legal changes on financial institutions and consumers

3.1 Assessment of the impact of Bank of England and Financial Services Act 2016 on financial institutions

Due to the establishment of Bank of England and Financial Services Act 2016, financial institutions have been affected to a certain extent, which I will break down into several aspects. The first aspect is the supervision of financial institutions. The act gave PRA with more power to supervise financial institutions. PRA can supervise the potential risks of financial institutions and impose fines and warnings on financial institutions that do not comply with the legal provisions. My research confirms that, PRA not only helps financial institutions to supervise potential risks, but also penalize financial institutions which violate the law. Under the PRA's supervision in advance, the systemic risk of financial institutions has been continuously reduced.

The second aspect is the development of financial institution. After the legal changes, FPC paid more attention to the stable development of the financial system. FPC proposes a number of ways to enhance the resilience of system. In my research, I found that FPC reduced countercyclical buffer rate on banks' UK sures from 0.5 per cent to 0 per cent. Banks and other financial institutions can improve the way they provide loans under the revised CCYB, which will help reduce instability in the UK economy.

Therefore, the establishment of Bank of England and Financial Services Act 2016 has a positive impact on the financial institutions.

3.2 Assessment of the impact of the Financial Services Act 2010 on consumers

What’s more, after the act of the Financial Services Act 2010, the rights and interests of consumers are protected by FSA and FCA. The influence of laws on consumers is mainly reflected in two aspects.

On the one hand, consumers' awareness of independent protection has been improved. After the law, FSA set up MAS to help consumers raise their awareness of how to protect their property. MAS was committed to consumer protection. According to my research and investigation, the financial expenditure of MAS on money advice has increased year by year after 2010, which indicates that MAS has made contribution to improve the rights and interests of consumers. MAS has enhanced consumers' awareness of self-protection of property rights by increasing financial knowledge education and popularizing financial knowledge.

On the other hand, after abolishing FSA and establishing FCA, FCA also further protected the rights and interests of consumers by singling out unauthorized firms selling financial products and issued a warning to consumers, warning them to be cautious about making financial transactions with unauthorized firms. Moreover, consumers are also protected by other ways. Consumers can complain to FCA about unauthorized companies or seek formal financial companies to buy financial products through FCA. All these can prove that because of the establishment of the law, the rights and interests of consumers are protected. So, the effect on consumers after the law was established is positive.

4. Conclusion from my investigation

4.1 conclusion and recommendations for financial institutions and systems

In this part, I will give a brief summary of the impact of the establishment of financial act on financial institutions. Firstly, I introduced the details about how the establish of the Bank of England and Financial Services Act 2016 impact the financial institutions and systems in the 1.1. Due to the reform of the law in 2016, PRA has become PRC, an affiliated institution of BOE, but its supervision rights over financial institutions are still recognized by law. PRA helped financial institutions manage risks. Financial institutions are required to submit feedback to PRA in advance and they are subject to PRA regulation.

In addition, FPC has more rights to control the banking system. FPC has developed a framework for assessing systemic risk to help the banking system identify and assess risks. So, the regulatory and supervision of financial institution and system became more and more standardized and detailed.

After that, I cited some data and information to support my opinions on the 2.2.1. I cited the case of the PRA's fine against Tokyo-Mitsubishi UFJ Limited to demonstrate that PRA strictly enforced its regulatory powers over financial institutions after the establishment of the act. And PRA prohibited all non-compliant behavior by financial institutions. Moreover, I have found data showing that FPC has reduced the countercyclical buffer rate of the banking industry from 0.5% to 0%, to provide more opportunities for financial institutions to develop and to reduce systemic risk. All these case and data are showed the influence of the establishment of acts on financial institutions and systems.

In my recommendation, when making laws which are related to financial institutions and systems, it is necessary to start from the perspective of financial institutions and systems. In order to investigate the enforceability of laws from many aspects, we can test whether laws can have a positive impact on financial institutions and systems through the trial of laws. And personally, I suggest that the law may require regulators to further classify the risks of financial institutions and systems so as to further reduce systemic risks and contribute to the development of financial institutions and the system.

4.2 conclusion and recommendations for consumers

What's more, I will give a brief conclusion about the establishment of acts impact on the consumers. I described how the establish of the Financial Services Act 2010 impact on the consumers in the 1.2. As a result of the law, FSA has put more emphasis on consumer protection. FSA had a mechanism to protect consumers and created a new agency, the CFEB, later renamed the MAS. Moreover, after the financial crisis, FSA was abolished and replaced by FCA. FCA was committed to protecting the rights of consumers and cracking down on crime against consumers. FCA also had a regulatory and protective body called FSF, which was used to protect the rights and interests of consumers.

In 2.2, I found that after the establishment of the law, the budget expenditure of MAS in consumer protection increased, which was mainly reflected in financial guidance and lending advice. The figure increased from 32.9 percent in 2010 to 81.1 percent in 2015. In addition, FCA also regulated financial institutions by identifying those that do not comply with the FCA's regulations. FCA reminded consumers to be cautious when conducting financial transactions with these financial companies. FCA alerts consumers mainly by sending them a warning. According my research, FCA has warned consumers that Master Financial Corporation and ABF Capital Management respectively on the 31st Dec 2010 and Dec 22rd 2010. All these can demonstrate that the establishment of acts have a positive influence on consumers.

In my recommendation, I would suggest that there should be a little more diversity in consumer protection when establishing the financial acts. The protection of consumers' rights and interests starts with consumers themselves and the external environment. The act should not only focus on raising the awareness of consumers, but also raise the awareness of financial institutions to protect the rights and interests of consumers. In addition, the act should vigorously promote the popularization of financial knowledge education, and encourage young people to develop independent awareness and ability to protect assets.

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