

Promoting effective competition in the interests of consumers

The FCA's strategic objective is to ensure that the relevant markets work well so that consumers get a fair deal. We have operational objectives to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system, and to promote effective competition in the interests of consumers.

The FCA is one of very few financial regulators in the world with an objective to promote competition. For the FCA, competition is about:

- making markets work well by giving consumers a range of choices
- understanding and empowering consumers to help them make good choices, to drive value in financial services
- encouraging new entrants and innovation

The FCA pursues its competition objective through a variety of tools, powers and initiatives, including:

- reducing barriers to entry in areas like banking so there are more challengers
- undertaking market studies to analyse the effectiveness of competition in the markets we regulate, such as the credit card market
- supporting innovators through its Innovation Hub
- making increased use of behavioural economics to understand how markets work for consumers and how consumers make choices

From April 2015, the FCA has also held concurrency powers with the Competition and Markets Authority, allowing it to enforce competition law.

Reducing barriers to entry – The FCA has made changes to its authorisation process to reduce barriers to entry into retail banking. Since April 2013, the FCA has authorised 12 new banks. In January 2016, the FCA and PRA jointly launched a New Bank Start-up Unit to assist new banks to enter the market and support them through the authorisation process.

Market studies – Since the FCA was set up in April 2013 it has completed three competition market studies. Further market studies are currently underway, including on credit cards (around 30 million UK consumers have a credit card), investment banking and asset management (the UK is Europe's largest asset management market, with around £6.6 trillion invested), and the mortgage sector (the size of the UK mortgage market is £1.3 trillion). Examples of market interventions resulting from our market studies include:

- **General Insurance** – we found that competition in the add-ons market was not effective and was not working in the interest of customers. As a result, we have restricted the sale of poor value policies like Guaranteed Asset Protection Insurance (GAP).
- **Retirement income** – we found that many consumers are missing out by not shopping around for an annuity and switching providers. Our remedies include requiring firms to provide better information so that consumers can easily identify if they could be getting a better deal by shopping around. We are continuing our surveillance of this market in light of the government's pension reforms.
- **Cash savings** – we found that the cash savings market is not working well for many consumers. Our package of measures is designed to provide greater openness for savers, enable faster switching and ensure greater transparency over the poorest savings rates. Our remedies include firms making interest rate information more easily accessible. This includes alerting consumers more actively to changes in interest rates, the expiry of a bonus rate or the maturity of a fixed-term account, for example by text message. We are also introducing a new rule which requires firms to provide a prompt and efficient service so that a customer can switch to a better account offered by the same firm.



- **Credit cards** – we published the interim findings of our credit card market study in November 2015 and have identified a package of potential measures designed to change incentives for firms and help up to five million consumers in debt.

Project Innovate – The FCA launched its Innovation Hub in 2014 to ensure that the regulatory regime supports the development of positive, innovative products and services. The Innovation Hub has supported 213 firms, 18 of which have been authorised to undertake regulated activities and 21 firms have applied for authorisation.

Project Innovate case study:

An insurance firm was aiming to provide ultra-short term car insurance, allowing users to buy car insurance covering a period of a few hours, and allowing people to borrow or pool friends' cars. Since its business model was unusual, the Innovation Hub helped the firm think carefully about how it approached authorisation. The firm has now been authorised by the FCA.

Regulatory sandbox – The FCA is currently developing a regulatory sandbox which will allow businesses to test out new financial products with the consent of consumers, services or business models in a 'safe space' without incurring all the normal regulatory consequences of engaging in those activities. A regulatory sandbox has the potential to deliver more effective competition in the interests of consumers by:

- reducing the time and, potentially, the cost of getting innovative ideas to market
- enabling greater access to finance for innovators
- enabling more products to be tested and, thus, potentially introduced to the market
- allowing the FCA to work with innovators to ensure that appropriate consumer protection safeguards are built in to their new products and services

RegTech – The FCA is in discussions with fintech businesses, trade bodies, academics, consultancies and others to identify potential ways to support the adoption of new technologies to facilitate the delivery of regulatory requirements. The aim is to help firms to develop and benefit from new technology and comply with regulation in a cheaper and easier way.

Behavioural economics – The FCA believes it is important for competition to understand how and why consumers make decisions so that we can most effectively help them make the choices that are best for them. For example, by looking at the impact of additional disclosures on a decrease of interest on savings accounts we were able to increase switching by between 5% and 8%.