KNOWLEDGE ORGANISER LIBF Unit 3 Topic 7 – The Impact of Recent Changes

What changes have occurred?

The change that has occurred has taken various forms: new organisations have been established; new institutional roles and responsibilities have been outlined; legislation and regulation has been introduced in the European Union and the UK; increased consumer protection measures have been put in place; and industry guidelines have changed.

State Pension Ages

Born on 1 January	Age eligible for state pension	
	Men	Women
1950	65	60
1960	66	66
1970	67	67
1980	68	68
1990	68	68
2000	68	68
2010	68	68

Sustainable Economy

Personal financial sustainability is affected by the sustainability of the economy in which an individual lives. In Topic 3, we explored the relationships between personal financial sustainability and the key economic factors – ie interest rates, inflation, house prices and unemployment rates. Before 1997, the government sought to influence these economic factors by setting monetary policy that was implemented by the Bank of England; in 1997, the Bank of England was made independent of the government and tasked with setting monetary policy to ensure monetary stability. This task was formalised when the Bank of England Act 1998 gave the Bank responsibility for setting Bank rate. The intention was that Bank rate would be a tool with which the economy could be manipulated to meet a Consumer Prices Index (CPI) inflation target of 2 %. The goal is to deliver stable prices that will help to create a stable, sustainable economy. Bank rate had been high in the decades leading up to the change: in 1980, it stood at 17 %; and in 1990, 14.875 %. In June 1998, Bank rate had been brought down to 7.5 % – and by March 2009, in the aftermath of the global financial crisis, the MPC had reduced the rate to an unprecedented 0.5% in an effort to stimulate the economy.

Factors Affecting Home Affordability

Factor	Trend	Evidence
Private rental prices	Moderate increase	By an average of 1.1 per cent in the 12 months to December 2018
UK average earnings in real terms (adjusting for inflation)	Large increase	For the 12 months to December 2018
Multiple of income that first-time buyers paid for a home	Large increase	From an average of 2.7 times income in 1996 to an average of 4.3 times income in 2017

Sustainable Financial Services

As well as a sustainable economy, a sustainable financial services industry is needed if individuals are to be able to sustain their personal finances in the long term. Previous topics have discussed the drivers behind changes, and the outcomes of the changes, in the financial services industry (see, for instance, the PESTEL analysis in Topic 3). The purpose of most of these changes, such as the new regulatory regime, is to make financial services safer for consumers, and to increase their choice of products, services and providers. All of these changes have a positive impact on the sustainability of individual finances and help to avoid market failure.

Role of the European Union

Many of the changes within the financial services industry have been initiated by the European Union, the financial services policy of which aims to deliver stable, secure and efficient financial markets (European Commission, 2014). The Union achieves this aim by means of the European System of Financial Supervision (ESFS), which includes:

European Systemic Risk Board

Monitors the entire financial sector to identify potential problems that could lead to future crises and to take action to prevent them.

European Banking Authority (EBA)

'Works to ensure effective and consistent prudential regulation and supervision across the European banking sector'.

European Securities and Markets Authority (ESMA)

'Contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets'.

European Insurance & Occupational Pensions Authority (EIOPA)

Aims to 'support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries'

EU Commissioner

EU Commissioner who was responsible for initiatives in the financial services industry, explained that the aim of the European regulatory framework is to co-ordinate between the national financial authorities of member states and to harmonise the technical rules that apply to the financial services sector. Member countries are not, however, obliged to implement the changes initiated by the European Union unless they are presented in the form of directives or regulations

EU Regulation

◆ Under Directive 2004/113/EC establishing the principle of equal treatment between men and women in the access to and supply of goods and services (known as the EU Gender Directive).

◆ Directive 2004/109/EC (as amended), known as the Transparency Directive, was implemented in the UK in January 2007 by means of changes to the Financial Services and Markets Act 2000. The Directive applies to storing and providing regulated information, such as the financial reports of providers, annual and half yearly accounts, and interim management statements, and the disclosure of major shareholder transactions.

◆ Directive 2013/36/EU, known as the Capital Requirements Directive (CRD) IV, is an amendment to an earlier version of the Directive and specifies the liquid assets that providers must hold to ensure that they will be able to meet the withdrawal needs of their customers and continue to operate during any period when external funding is not available.

◆ The CRD also made provisions for bank staff remuneration. This was adopted by the UK by means of the Financial Conduct Authority (FCA) Remuneration Code, which came into force on 1 January 2011. The Code requires that 50 per cent of the bonuses paid to a bank's senior managers, risk takers and staff in control functions must be paid in the form of shares.

◆ The CRD IV also calls for a 2:1 cap on bonuses. This means that bankers can receive a maximum of 100 per cent of their base salary as a bonus, provided that the bank's shareholders agree.

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UK Legislation

In recent years, legislation has been introduced in the UK to ensure the sustainability of the financial services industry. Table 7.3 highlights some of the Acts and the impact that they have on personal financial sustainability. As well as these legislative changes, there have been many regulatory changes that alter the way in which providers conduct themselves, eg the FSA's introduction of the Banking Conduct of Business Sourcebook (BCOBS) on 1 November 2009. This requires banks to be fair, clear and not misleading in communication with consumers, so combating information failure. It is now operated by the FCA.

Financial Conduct Authority (FCA)

The FCA also operates the Senior Managers Regime, the Certification Regime and the Conduct Rules (together replacing the former Approved Persons Regime). This ensures that all senior bankers and certain staff providing regulated financial advice are 'fit and proper' by assessing their:

- ◆ honesty, integrity and reputation;
- ◆ competence and capability; and
- ◆ financial soundness.

Certain staff must be approved before they are allowed to perform their job

Credit Act 2006

Increased the powers of the Office of Fair Trading (OFT) to investigate organisations that apply for consumer credit licences, to impose conditions on licences and to charge organisations that fail to comply with penalties of up to £50,000 – which means that lenders and their products must meet standards that are designed to protect the interests of borrowers.

Financial Services & Markets Act 2000

- ◆ Introduced the Financial Ombudsman Service
- ◆ Established the Financial Services Authority (FSA) as regulator of the industry and set out the regulatory framework.

Banking Act 2009

- ◆ Allows the Bank of England to close down a bank before it becomes insolvent to protect the rest of the financial services industry.
- ◆ Gives the Bank of England a new statutory financial stability objective

Financial Services Act 2010

- ◆ Made financial stability one of the FSA's regulatory objectives
- ◆ Gave HM Treasury powers to make regulations about financial services providers' remuneration policy, which powers have been used to discourage risk-taking by bank staff
- ◆ Set out the objectives of the Consumer Financial Education Body (CFEB), now renamed the Money Advice Service (MAS)

Financial Services Act 2012

- ◆ Established an independent Financial Policy Committee (FPC) that monitors risk to the UK financial system and can take action to ensure sustainability.
- ◆ Replaced the FSA with two regulatory bodies: the Prudential Regulation Authority (PRA), to supervise firms; FCA, to ensure that providers prioritise the interests of customers and operate with integrity, and that there is effective competition, so that consumers have more choice.

Financial Services (Banking Reform) Act 2013

- ◆ Introduced a 'ring fence' around consumer and small business deposits to separate them from riskier banking activities, such as trading in stocks and shares
- ◆ Gave the PRA powers to force banks to separate these activities
- ◆ Provided new penalties, eg bankers found guilty of reckless misconduct that leads to bank failure can be sent to jail
- ◆ Gave depositors protected under the FSCS preference if a bank enters insolvency, so that they are more likely to get more of their money back (not only the amount protected under the FSCS)
- ◆ Introduced a cap on payday loans

Finance Act 2016

- ◆ Amended the law relating to national debt and public revenue
- ◆ Made amendments to areas such as income tax structure, corporation tax, capital gains tax, inheritance tax, VAT, stamp duty land tax, and tax avoidance and evasion

Equity Loan

Involves the government lending the borrower(s) 20 per cent of the purchase price of a new-build home, with no fees payable for the first five years of ownership. Borrowers need to put down a 5 per cent cash deposit and they borrow the remaining 75 per cent from a commercial lender. The scheme is limited to properties with a maximum price of £600,000 in England.

Mortgage Guarantee Scheme

Involved the mortgage lender purchasing a guarantee on the mortgage loans that it makes. Lenders offered mortgages that were 95 per cent of the purchase price, so the consumer needed to put down only a 5 per cent cash deposit. The mortgage guarantee scheme applied to any type of property. This scheme closed on 31 December 2016.

Internet & Computer Use

Internet use	Number of people	Percentage of group	Change
Internet access	22m households	84 per cent of all households	Up from 57 per cent in 2006
Accessed the internet every day	38m adults	76 per cent of all adults	Up from 21 per cent in 2006
Used a computer every day	36.5m adults	73 per cent of all adults	Up from 45 per cent in 2006
Accessed the internet using a mobile phone	29m adults	58 per cent of all adults	Up from 24 per cent in 2010
Bought goods or services online	37m	74 per cent of all adults	Up from 53 per cent in 2008
Accessed their bank account over the internet	26.5m	53 per cent of all adults	Up from 35 per cent in 2008

Bitcoin

Bitcoin is a virtual currency that is not linked to any other currency and is not backed by a government or central bank. It was created by a group of computer programmers called Satoshi Nakamoto in 2009.