

# **Assessing regulatory adaptation: energy and financial services**

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# Disclaimer

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LLOYDS  
BANKING  
GROUP



Regulatory Policy Institute

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# Banking has been seen as a “problem market” for 20 years. Energy for 10 years

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## Energy

- **OFGEM**
  - *Energy Supply Review 2008*
  - *Retail Market Review 2010*
  - *Simpler Clearer Fairer Proposals 2012*
- **Competition and Markets Authority** - *Energy Market investigation 2014 to 2016*



## Banking

- **Cruickshank Report** – *Competition in UK Banking started in 1998 and concluded in 2000*
- **Office of Fair Trading** - *Circa 10 market studies between 2003 - 2015*
- **Competition and Markets Authority** – *Payday Lending and Retail Banking Inquiry*
- **Financial Conduct Authority** – *Savings, General Insurance, Credit Cards, Mortgages*

OFFICE OF FAIR TRADING



**The most recent CMA inquiries have not settled the political debate or been seen as definitive or authoritative**



Competition & Markets Authority



OpenAPI

**No price caps and no excess profits in banking  
PPM price cap and excess profits in energy**



**Political support for price caps in both markets**

**Both CMA and politicians have overlooked important trends and relied on deeply flawed analysis and analytical framework**

1



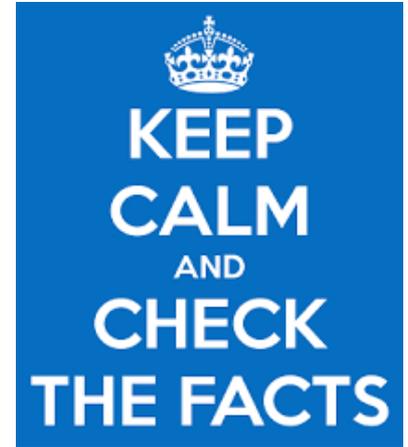
**Disruptive technology  
impacting costs and B2E**

2



**Automated switching,  
personalised  
comparison**

3



1. Excessive profits
2. Switching gains
3. Unfair differentials

# Open Banking – the heart of the Retail Banking Inquiry – could accelerate these trends and should be applied to other industries



1

One click, safely and securely...



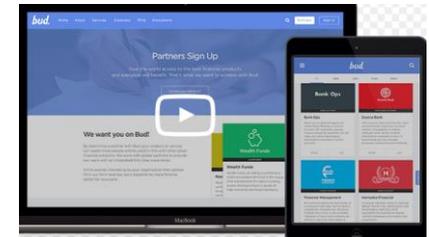
2

...Share transactional data with third parties through APIs without providing a password...

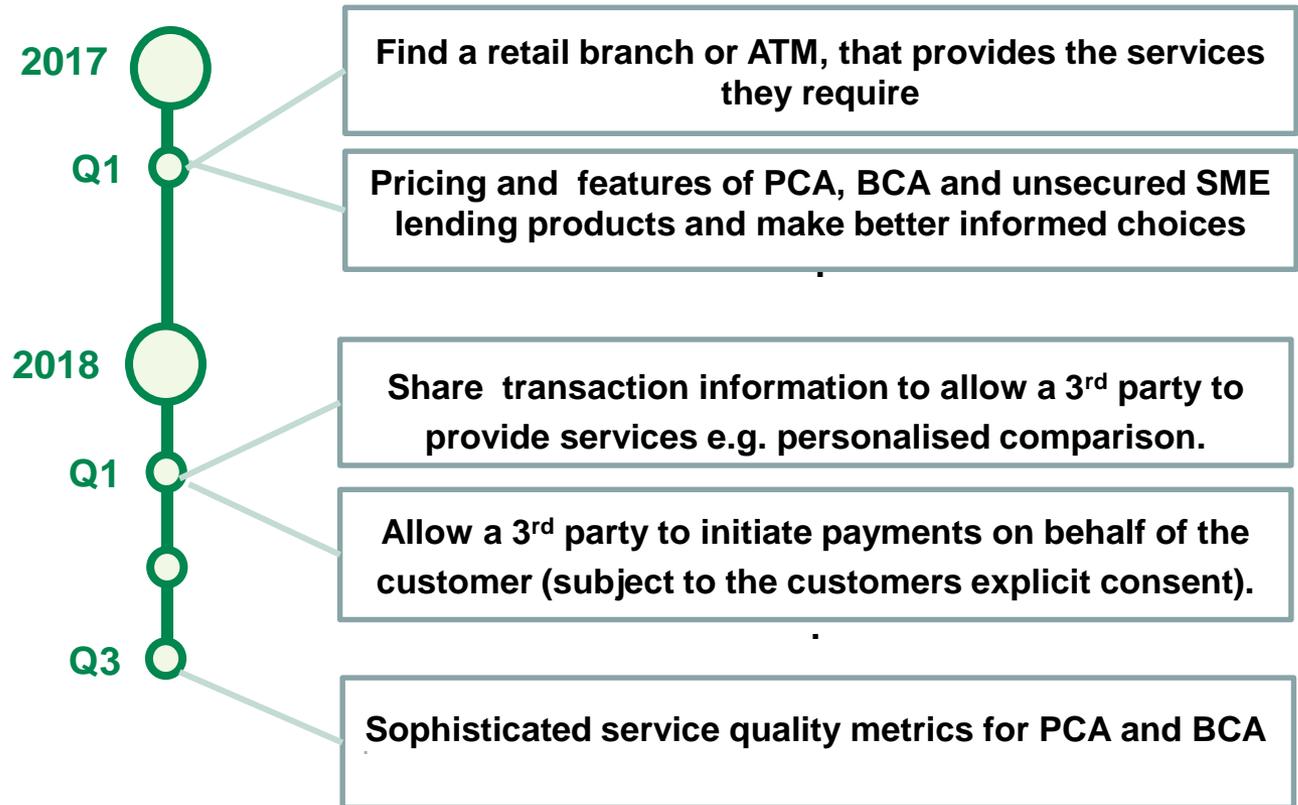
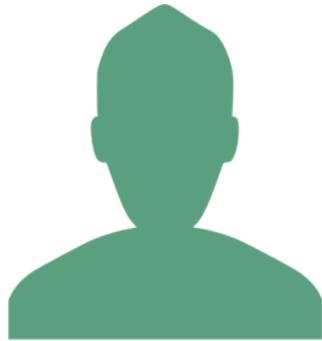


3

...access information about their bank (e.g. service quality), receive personalised comparisons, initiate payments to 3<sup>rd</sup> parties



# APIs and Open data will remove barriers to entry and allow innovation in digital comparison, messaging and supply of current accounts



## **Significant institutional reform looks necessary but no evidence this is likely**

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The right answer:

*“An iterative, interrogative process aimed at understanding why things are as they are”*

**George Yarrow, Initial Submission to CMA Energy Inquiry**



The wrong answer:

*“Fairness is for politicians and not regulators”*

**Stephen Smith, RPI Hertford Seminar November 2011**



# Conclusions

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## 1. Regulatory reform for sector regulators and CMA

- ✓ Pass the Yarrow test – what institutional changes would allow them to hold the line
- ✓ CMA needs a new analytical framework for market inquiries

## 2. Challenge and scrutiny

- ✓ Failure to challenge key regulatory decisions (sector and CMA) is a big part of problem: anti-discrimination/excess profits
- ✓ Wider appeals mechanism necessary

## 3. Technology and customer engagement

- ✓ Open Data should be consistently applied
- ✓ Genuine opportunity for transformational change working with market processes