Report: Over-regulation may 'destroy' global savings culture

10 August 2011 by Simon Danaher, Online News Editor

There is a danger over-regulation could "destroy" the savings, protection and investment culture, according to a new report published by software consultancy company Focus Solutions.

The report, authored by Focus Solutions' Martin McKenna, said in pre-1988 UK, when the regulatory environment was much more relaxed, the savings and investments culture was healthy, with past generations often pressuring the younger generations to save.

It also said that, in the majority, customers understood the products they were buying and the sales process, which was often done face to face as profit margins were sufficient for companies to sustain a larger sales force. He added that, while the profitability was much larger for these companies, this in turn often benefited the customers who would periodically receive bonuses.

In contrast, the report said increased regulation in the UK has created the need to record and verify the sales process and product appropriateness, meaning "a much longer sales process, with customers unsure about the buying process, wider information needing to be gathered, and thorough and extensive documentation."

Regulation has also led to the end of the days of the insurance inspector coming round to collect premiums without it being replaced with anything, thus "the means of educating the next generation of savers has disappeared," said the report.

This has in turn led to the evaporation of a mass savings culture in the UK over the past 20 years and the opportunity to inform and educate customers is now left with large financial institutions such as the banks and building societies.

The report said that the UK has recognised these issues and the widely discussed Retail Distribution Review, which will allow for multiple, clearly defined, routes for institutions to sell products, has been developed in response to this.

The report added that there is an opportunity for other countries to learn from the mistakes of the UK, which is a very mature market, and ensure, as their own markets mature, the emphasis is on advice and ensuring that customers understand the products they are being sold.

In particular, the report highlights Hong Kong, which is growing more mature but is described in the report as being comparable to pre-1980s UK.

The report quoted Eleanor Wan, former chief executive of the Hong Kong Institute of Financial Planners, who said: "The mentality of investors in Hong Kong is still focused on the short-term and on returns, given the relatively young stage of development of the markets and of things like retirement planning as a concept."

According to the report, there is a potentially strong argument for Hong Kong regulators to “tolerate both approaches to the market, valuing advice and the consumer’s desire to buy direct.”

The report concluded that the “real lesson” for the global market to learn from the UK is that despite there being “steady legislation about the advice process for over 20 years, there is a lack of understanding about the value of advice.”

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