FACTFILE: GCSE ECONOMICS

UNIT 3.3

FINANCIAL CAPABILITY – FINANCIAL SERVICES INDUSTRY

Rewarding Learning

Financial Services Industry

Learning Outcomes

Students should be able to:

- demonstrate understanding of the financial services industry's contribution to the UK economy;
- demonstrate understanding of market failure in the financial sector and how this affects consumers and sellers of financial products (only a broad overview is required).

Financial Services Industry:

Definition:

The Financial Services Industry is a term describing all organisations which operate collectively in the industry providing a range of financial services to consumers.

Contribution of the Financial Services Industry to the UK economy:

Traditionally, the UK has been a net 'exporter' of financial goods/services, resulting in a net surplus (of invisibles) on the Balance of Payments, in the UK economy.

The Financial Services Industry provides employment opportunities for a minimum of 2.1m staff in the UK – the highest number since 2008 (source: http://www.telegraph.co.uk/finance/newsbysec-tor/banksandfinance/11306744/Financial-services-employee-numbers-at-highest-level-since-crisis-hit.html).

The Financial Services Industry contributing 12pc – approximately £144bn – of the UK's annual gross domestic product of £1.2 trillion (source: http://www.telegraph.co.uk/finance/newsbysec-tor/banksandfinance/11306744/Financial-services-employee-numbers-at-highest-level-since-crisis-hit.html).

Furthermore, the Financial Services Industry provides employment for staff across the regions of the UK – not just centred in the key financial centre, London. This has a positive multiplier effect in the regional economies.

Market Failure:

Market failure: When the price mechanism results in an inefficient or unfair allocation of resources.

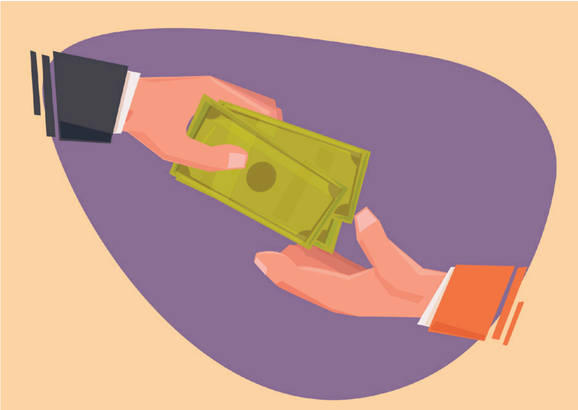
Causes:

- Moral hazard.
- Asymmetric information.
- Speculation.
- Monopoly.
- Incomplete market.

Regulation of the Financial Services Industry in the UK:

In the UK, the Financial Services Act (2012) states that the responsibility for regulation of the Financial Services Industry is shared between:

- Financial Conduct Authority (FCA).
- Prudential Regulation Authority (PRA).



Financial Conduct Authority: The FCA is responsible for ensuring that the financial markets work well so that consumers get a fair deal.

The FCA supervises financial services providers to ensure that they operate with integrity, provide financial products/services that are appropriate for consumers, and that such financial services providers conduct their business operations in the best interests of consumers.

Specifically, the FCA is required to:

1. supervise the conduct of financial services providers in both retail and wholesale financial markets;
2. supervise the trading arrangements that support these markets;
3. supervise financial services firms not supervised by the PRA;
4. supervise the operation of the UK Listing Authority (Stock Exchange).

Examples of financial services providers subject to regulation/scrutiny include: banks, building societies, credit unions, mortgage and insurance brokers, financial advisers and firms that offer consumer credit (e.g. credit card issuers, payday lenders and debt management firms).

Prudential Regulation Authority (PRA):

The PRA is responsible for reviewing the activities of financial services providers in the UK, and ensuring the stable operation of financial services providers in the UK, such that it avoids any widespread disruption to the operation of financial services industry and minimises any impact on consumers.

Financial Ombudsman Service:

The Financial Ombudsman aims to assist in the resolution of disputes between consumers and financial services providers in a way that is fair, quick, reasonable and informal.

Financial Services Compensation Scheme (FSCS):

This is a scheme established for the purpose of providing financial compensation to individuals who suffer loss (up to £85000), as a result of financial difficulties experienced by a financial services provider (e.g. bankruptcy or financial loss).

Summary:

The Financial Services Industry makes an important contribution to the UK economy in a number of ways, including provision of employment of staff and generating a surplus in the economy. The UK financial services industry is regulated by the FCA and the PRA. The Financial Ombudsman Service assists in dispute resolution between various parties.

Review Questions:

1. Explain the functions of the FCA.

2. Explain two ways in which the interests of consumers are protected in the financial services industry.

3. Discuss 4 possible causes of market failure in the financial services industry (UK). Support your answers with an example in each case.