Mis-selling of financial products

Executive summary

The purpose of this report covers the situations that happen today in relation to mis-selling that is going in the financial services between the customers and the sales persons/advisers. This report is linked to a woman named Mrs Smith who has been mis-sold a stocks and shares ISA, which resulted in Mrs Smiths investment losing money which was not what she wanted. The reasons she believes she has been mis-sold is due to the fact she was bot given the correct information in a short meeting with one of the bank advisers, and she herself believes that she has been put under pressure by, the bank advisor who seemingly was just looking to make a sale to get a commission.

So, by doing my own research I have been able to look at the ethical implication of mis-selling and how they can be minimised. I have also discussed what way other financial institutions deal with the situation and the legislation that goes along with it as well.

Introduction

As part of the Bank Compliance team I have been asked by the head of compliance to Mrs T Ruth has asked me to write a report. The report is on mis-selling of financial products, Mis-selling is where a customer has been sold something in this case a bank adviser, but has been sold the product without the correct information they need to, so they are sure it’s the right investment for they want to invest in. The customers base their relationship on trust. As Albert Einstein once said, “ Whoever is careless with the truth in small matters cannot be trusted with important matters.” With this case Mrs

Smith trusted the bank adviser with her money for the Stocks and shares ISA, however the investment lost her money, whereas Mrs Smith stated she didn't want a risky investment. Throughout this report I will discuss the ethical implications of mis-selling and how to minimise it happening. I will also describe the PRINs that have been breached and how banks address the issue, along with remedies for what Mrs Smith can do if she isn't happy. I will also be covering the roles of the Financial Conduct Authority (FCA), Financial Ombudsman Service, The Money Advice Service and HM Treasury. The reason I will talk about these services is because, I will explain how Mrs Smith Can Benefit from the use of these Services.

Ethical implications of mis-selling? (what are the ethical implications of mis-selling?)

Mis-selling is where one party gives another party unsuitable advice, where the risks off the investment may not have been fully explained to you and the information that you needed was not given to you and therefore you end up with the incorrect investment (The Money Advice Service, 2018). Ethics is defined as dealing with what is good and bad behaviour, i. e. what is morally right or wrong. An example of ethics is the code of conduct set by a business in this example this code of conduct has been broken, because Mrs Smith was provided with the wrong advice. As member of the bank compliance team I have a responsibility to ensure that customers are correctly treated in an ethical way. Mis-selling to customers undermines consumer and trust as well as causing individual harm (Business Ethics Briefing, 2014). This is seen in the case of Mrs Smith as she has been affected financially because the financial advisor who was dealing her didn't give her the sufficient financial information regarding the risks off the investment she was entered into. The financial risks of her investment were not explained in enough detail to her, to allow her to make an informed decision. As compliance officers we have a moral and social responsibility to act in a responsible, ethical and trustworthy manor to all customers who we give advice too.

How do you minimise ethical risks of mis-selling? (How might the ethical risks of mis-selling be minimized?)

There are several ways to minimise ethical risks of mis-selling:

1. Ensure all staff are properly trained in all aspects of the stocks and shares ISA.
2. Ensure that appropriate time is given to each customer, whereas in the example of Mrs Smith she was given in adequate information in 10 minutes. The information she received in that 10 minutes lead her too making in an informed financial decision.
3. When a financial product is sold to a customer this transaction should be signed off by another member of the team, this check will allow greater transparency in the financial transactions.
4. Ensure all adequate information is provided to customers to allow them to make informed decisions. In this case Mrs Smith was not given the necessary information to make the correct decision

What PRINS have been breached ? (From a PRIN perspective, what PRINs may have been breached?)

Principles for business (PRIN) state a firm’s basic agreements under the regulatory system. It is in place to make sure the business sticks to being honest, fair and professional to all the customers that they have. The financial advisor who mis sold to Mrs Smith has broken the customer relationships of trust because they made Mrs Smith invest her money into a risky investment, that ended up making Mrs Smith lose money which was not what she intended. Therefore, in this case the financial advisor has broken the trust between the customer and the financial advisor. Another PRIN that has not been followed by the bank is the integrity of the business because it has mis-sold to Mrs Smith. People will now view that bank as untrustworthy and will not want to invest their money in that bank because it could be too risky. You could also say that no skill, care and diligence the reason for this is because the financial advisor who was explaining the investment to Mrs Smith didn't use his skill to get the best investment for her or take care in what he was suggesting that Mrs Smith invest in, as it was a risky investment. The meeting only lasted 10 minutes so in that space of time the communication between the financial advisor and Mrs Smith may not have been clear which can lead to a misunderstanding making Mrs Smith agree to something that does not suit her and the financial advisor would have been happy with the short period of time he spent advising Mrs Smith on the subsequent sale which was made.

<u>How should banks address the issue? Mrs Smith has stated she didn't want to take any risks and that the advisor had not warned her of the risks; how should the bank have addressed this issue?</u>

With Mrs Smith not looking to invest her money into a risky investment and ending up doing so, because one of the financial advisors in the bank did not give all the information that Mrs Smith needed to make a full-hearted decision. As part of the bank compliance team I think that there are a few ways the bank could address the issue, firstly any employee who has been caught mis-selling should be disciplined. Ways that they could be disciplined is the banks could hand them a warning stating if they don’t follow the rules or mis-sell again they could lose their job if anything of the sort happens again. Secondly, they could introduce fines to any bank advisors who are caught out mis-selling, the fines could be hefty so that will make the bank advisor think carefully before they mis-sell. Finally, another disciplinary action that could be taken would be the bank advisor could end up getting a suspension from work.

There could also be increased accountability on behalf of the bank, this means the bank would take accountability for Mrs Smith getting mis-sold and owning up for their mistake.

<u>RDR Guidance (What guidance does the RDR, and other legislation/policies, provide on the issue of potential mis-selling that may be relevant to the bank?)</u>

RDR came into play towards the end of 2012 and firms implemented it fully from the 1 st of January 2013. The thinking behind RDR was to help improve clarity where the firms describe the services the customer requires with the enough detail, also to address how much the customer should be paying for the advisor, another reason it is there to help is to increase the professional standards for advisors. RDR is also good for providing the end of commission-based selling. Commission is a payment employee’s receive on the amount of sales they make. So, with RDR putting an end to commission-based selling with banks it can help mis-selling become less frequent as it doesn't make a difference to the money the bank advisors take home so will not make them want to mis-sell information. Another legislation is the TCF which stands for Treat Customers Fairly, what this does is takes into consideration the individual adviser's knowledge, skill and experience. Also looks at the quality of research and analysis of the adviser to help set a price for the client and mainly to make sure that the less wealthy clients do not get priced out of the market. There is also a simplified advice process available which raises the professional standards for the investment advisers to require a level four qualification, as well as annually completing continuing professional development (CPD) and complying with a code of ethics to increase consumer trust. This is beneficial as increasing consumer trust will increase the sales as consumers aren't as worried getting mis-sold.

How other financial institutions address the issue? (How have other financial institutions addressed the issue of mis-selling and what can Mrs Smith do if she is not happy with any future remedies proposed by the bank (you should suggest some potential remedies)

There are a few ways that financial institutions address the issues, one of the ways that they tend to do this is by increasing the fines that come with mis-selling and then redress the payments. Redressing the payments is when they give the client all or some of their investment back. Another way financial institution's address the issue is by introducing governance and internal controls. Governance is where they make sure all the advisers are fully trained, and make sure they are held accountable by taking blame for what they have done. Internal controls are in place and this is where the compliance team do a checklist of how the adviser has sold the information. Also, the financial teams take a more active approach by taking analysis processes and techniques are used to detect if there is any potential of mis-selling. If Mrs Smith isn't happy with the remedies proposed by the bank there are a number of things she can do. Firstly, Mrs Smith would be allowed to contact the Financial Conduct Authority (FCA) it is in place to make sure markets are working correctly. The FCA's 3 legal objectives are to secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system and promote competition in the interest of consumers. Mrs Smith is also able to contact The Financial Ombudsman Service and what this service does is aim to try and fix complaints between the consumers and the business. If the business is unlikely or not capable of paying the compensation The Financial Services Compensation Scheme (FSCS) pays out the compensation. The Money advice Service is also available to Mrs Smith and they are there to help aid and improve people's understanding of financial matters, so it gives them more of an understanding of what is being explained to them. The HM Treasury plays a big part as well as it sponsors all of these remedies that are available to Mrs Smith and has power over them, which can involve them making a decision of board members for all of these bodies(National Audit Office, 2018).

Conclusion

In conclusion, I would suggest Mrs Smith has been unfairly mis-sold. What I would suggest is Mrs Smith gets back full amount that she herself invested in the investment, since she had not been giving enough information that she would have required to make a full-hearted decision. Also, the bank adviser who mis-sold Mrs Smith the market shares and ISA should be giving a fine as well as a suspension, and on returning to work he should be giving a training course on how to sell the information to the clients correctly. The bank involved should bring in checks so that after something has been sold, they go down a checklist and make sure everything on the checklist, has been done as it will be beneficial in preventing anymore mis-selling. So overall ethics being introduced into the finance sector, was a good idea due to the fact it is very helpful for advisers and the clients and its main aim, is to minimise mis-selling and it seems to be beneficial in that aspect. The roles the FCA, Financial Ombudsman Service, The Money Advice Service and HM treasury are involved in, are useful to Mrs Smith because if she is not happy with the outcome of what the bank suggests, she can get in contact with them and they will do everything in their power to seek justice for Mrs Smith as she has been mis-sold.

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