

# [Regulaton and the long term](https://assignbuster.com/regulaton-and-the-long-term/)

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Question a) Since 1990’s, the conduct of dealers in financial services sector have been a major issue; leading to low confidence particularly due to rampant miss-selling of financial products to customers. These services include mortgage endowment policies, personal pensions, and payment protection insurance and split capital investment trusts. Many consumers have heavily suffered, prompting the parliamentary committee on finance to recommend compensation payments of roughly ? 15 billion. Such occurrences are however, termed by the parliamentary select committee on finance as unacceptable thereby calling for new approaches of conduct regulation. In response to these issues, the select committee suggested formation of Financial Conduct Authority (FCA), which drafted detailed regulatory rules to act as guidance of conduct of financial product dealers. According to Olsen (2008), these rules have become a challenge in selling of the financial products by failing to deliver the outcomes intended. For instance; they have failed to cover all kinds of firms or businesses thereby not being responsive to structural changes and market innovations. Secondly, these rules are known to address processes rather than outcomes hence encouraging non- compliance that can inhibit innovation and competition. Finally, the rules have failed to guard against miss-selling behaviors as firms continue to offer poor quality products and advice to consumers without giving a clear element of risk associated with a given product. Question 1(b) Information symmetry Information should be left to flow freely such that every buyer gets to know changes in prices across the market. This will help in price homogeneity and also lead to market innovations as different firms try to devise new ways to outpace their competitors. Further, the regulations as set by FSA should not only target to streamline the process of selling the financial products, but also lead to the desired outcomes. More importantly, the regulations should focus on the attainment of the ultimate goal of serving the clients better, which should encourage competition and innovativeness among firms. Finally, firms which fail to observe these regulations as set out by FSA should compensate the clients who suffer losses due to any element of miss-selling. This will ensure that such firms bear the burden of their actions hence making them responsible of their actions. Question 2 Perception to old age and optimism Many people fear of old age make them to prepare for the future. Therefore, by Tamara looking forward to retirement, she will be more inclined to save. Optimistic people are more likely to save and since Tamara would wish to lead a comfortable and stress- free life after retirement, she would most likely end up saving for the future. Personality type Researchers have established relationship between personality traits and saving behavior. If Tamara is conscious and self disciplined, then she is more likely to save as opposed to carefree easy-going people. Self control Self control is regarded as the interaction between a person’s mind and conscious; that is, the doer and the planner. The doer may be willing to spend now rather than in future as opposed to the planner who may be inclined to saving for the future (Nofsinger, 2005). Therefore, if Tamara has a balance between the doer and the planner, then she is more likely to save for the future. Question 3 Both Phillip and Liz are cautious of risk as noted from the investment preferences. Out of their net receipt of ? 145, 000, they have decided to place ? 15, 000 as emergency fund whereas ? 130, 000 is invested in a building society. Investing with a building society yields minimal returns in terms of interest, which is then subject to taxation thereby reducing the net interest income to the investor. According to reference theory, the pain associated with bearing losses is about 2. 25 times intense in relation to corresponding gains. Therefore, if a person is given a chance of either winning or losing; on average, one would require a prospect of about ? 225 win against a prospect of ? 100 loss. The relative fear of loss depicted by both Phillip and Liz is commonly known as risk aversion. Another sign of risk cautiousness exhibited by the couple is shown by the mode through which they acquired their house. The house was purchased on cash as opposed to mortgage. This gives a clear indication that the couple did not wish to buy on mortgage due to the interest aspect and also the risk attached to defaulting in mortgage repayment. Regrettably, one loses the house and also the installments paid in case of failure to honor the mortgage repayment agreement. Being risk-averse investors, the couple may not realize significant returns from their investments, which would eventually lead to consumption of the amounts initially invested. This is because the products available for risk cautious investors have low rates of return unlike those available to their risk taker counterparts (Neukam & Hershey, 2003). In addition, the couple may not get an opportunity of expanding their investment basket as they restrict themselves to less risky investments, which could limit their investment income after retirement. However, the problems associated with such risk cautious investors could be minimized by the pay-as –you –go pension scheme whereby the couple’s receipt of one huge lump-sum amount could be deposited with a building society to earn them enough interest income to keep them going. References Neukam, K. A. and D. A. Hershey (2003) Financial Inhibition, Financial Activation, and Saving for Retirement. Financial Services Review, 12 (2), 19-37. Nofsinger, J. R. (2005) Social Mood and Financial Economics. Journal of Behavioral Finance, 6 (3), 144-160. Olsen, R. A. (2008) Trust as Risk and the Foundation of Investment Value. Journal of Socio- Economics, 37 (5), 2189-2200.