Title: Claims Management Regulation – Cutting the costs for consumers – financial claims

IA No: MOJ 019/2015

Lead department or agency:
MOJ

Impact assessment (IA)

Date: 02 December 2015

Stage: Consultation

Source of intervention: Domestic

Type of measure: Other

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Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**In scope of One-In, Three-Out?**	**Measure qualifies as**
£0m	-£3,300m	£383m	[redacted] YES	[redacted] IN

What is the problem under consideration? Why is government intervention necessary?

Consumers who believe they have been mis-sold financial products currently face two informational problems when pursuing these in the Financial Products and Services ("financial claims") market. The first is that consumers may not fully understand the range of free alternatives for pursuing their claims, which means that Claims Management Companies (CMCs) are able to agree contracts with consumers who may have otherwise opted for these alternatives. The second is that, even when consumers are aware of these free alternatives, they may contract with CMCs but are unaware of the level of work a CMC is undertaking on their behalf to investigate their claim. This can lead to CMCs adopting exploitative pricing structures. In addition, there is evidence that CMCs are making a large number of speculative claims, which places additional burdens on consumers, lenders and the Financial Ombudsman service. As the MoJ is responsible for the regulation of CMCs, and must be able to adapt to address market failures and emerging issues effectively, as may be required, Government intervention is necessary to ensure that consumers are protected.

What are the policy objectives and the intended effects?

The proposed reforms have the following policy objectives:
1) To protect consumers by ensuring that CMCs charge consumers a fair and proportionate amount for the work undertaken in pursuing a financial claim on their behalf
2) To reduce the number of unmeritorious and speculative claims lodged with lenders and the Financial Ombudsman
3) To reduce the level of nuisance calls and texts in relation to financial claims services

What policy options have been considered, including any alternatives to regulation? Please justify preferred option.

Five options have been considered:

- Option 0: Do Nothing.
- Option 1: Amend rules affecting PPI and PBA claims only – 15 per cent cap
- Option 2: Amend rules affecting PPI and PBA claims only – 10 per cent cap
- Option 3: Amend rules affecting other financial claims
- Option 4: Request that CMCs voluntarily adhere to Options 1 or 2 and 3
- Option 5: Improve consumer awareness and advertising around free alternatives for bringing a claim.

Based on the evidence available, the Government's preferred option is to implement Options 1 and 3 concurrently.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:**
Continual monitoring and enforcement in line with the current regulatory setup.

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**		**Non-traded:**

I have read the Impact assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Edward Faulks Date: 20/1/16.