

# FCA Business Plan 2017/18

## Including Risk Outlook and Mission



### Risk Outlook

**The 2017-18 Business Plan includes an expanded risk analysis. Highlights are:**

- Macroeconomic uncertainty, risk of increased inflation and higher interest rates (with knock on impact on highly leveraged consumers)
- Uncertainties and market volatility linked to Brexit
- Lower margins causing firms to take greater risks to achieve profits
- Lower competition as profitability issues drive consolidation
- Poor firm culture and lack of individual accountability
- Ageing population and intergenerational wealth divide
- Technology outstripping management understanding
- Automation driving product / process conformity, excluding some consumers
- Cyber attacks and technology resilience



### At a glance – FCA's six cross-sector priorities for 2017-18

#### Culture and governance

- Follow-up embedding SMR in banks and insurers
- Consult on roll-out of SMR to all firms to take effect in 2018
- Review remuneration practices

#### Financial crime and Anti-Money Laundering

- Foster innovation to reduce costs of AML compliance
- Assume role as AML watchdog of professional bodies (e.g. SRA, ICAEW)

#### Treatment of existing customers – work across all sectors, including

- Consider effectiveness of annuity 'wake-up' packs
- Strategic review of retail bank business models
- Cash Savings Market Study remedies
- Consider customers with pending interest-only mortgage maturities and long-term mortgage arrears

#### Consumer vulnerability and access to financial services

- Publish 'Consumer Approach' strategy (summer 2017) setting vision for meeting consumer protection objective

#### The 2016-17 priority on innovation and technology has been split into two for 2017-18:

##### Promoting competition and innovation

- Publish insights on robo-advice
- Continue Innovate and Sandbox initiatives

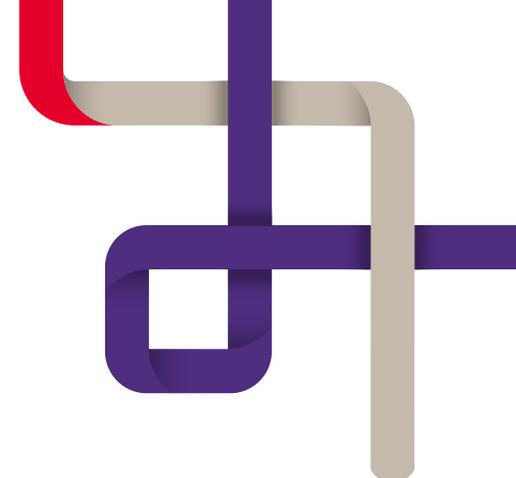
##### Technological change and operational resilience

- Assess cyber capability at all high risk firms
- Robust follow-up of major outages / cyber attacks



### Key points / insights firms should consider

- The Business Plan reaffirms the FCA's support in principle for firms looking to increase **digitisation and automation** to improve customer outcomes and improve margins. However, there is also a warning that firms should not use technological innovation as an excuse for non-compliance with FCA rules, or for creating barriers for consumers to accessing products
- Firms are similarly warned to ensure they have sufficient oversight of **outsource providers** and **legacy systems**
- The relationship and remuneration between firms in **distribution and value chains**, and whether this impedes competition and transparency and fairness for consumers, features heavily
- The principle of the **fair treatment of existing customers**, particularly prevalent to date in investments and pensions, is notable in its clear expansion to other sectors, including retail lending, cash savings and asset management
- Firms in all sectors should note the FCA's ever-increasing focus on **operational resilience, cyber risk and financial crime**
- **Markets that may be uncompetitive** are, as ever, on the FCA's agenda. This year's Business Plan features new or follow-up work on banking business models, wholesale insurance, asset management, mortgages, credit cards, retirement outcomes, investment platforms and pensions
- **Unsuitable products and advice** are similarly a routine feature of the Business Plan. This year's singles out complex investments, retirement planning, automated advice and general insurance



## Sector view – Retail banking and retail lending

### FCA's sector risk outlook and outcomes sought

#### Risk outlook

- Limited incentive for dominant firms to improve quality and price
- Low levels of cultural change
- Insufficient operational resilience
- Operational challenges of bank ring-fencing
- Significant change following the MMR
- Consumer credit firms still adapting to regulation
- Inadequate affordability assessments
- Insufficient or overly complex information hampers good decision-making
- Consumers who can afford credit may struggle to access it

#### Outcomes sought

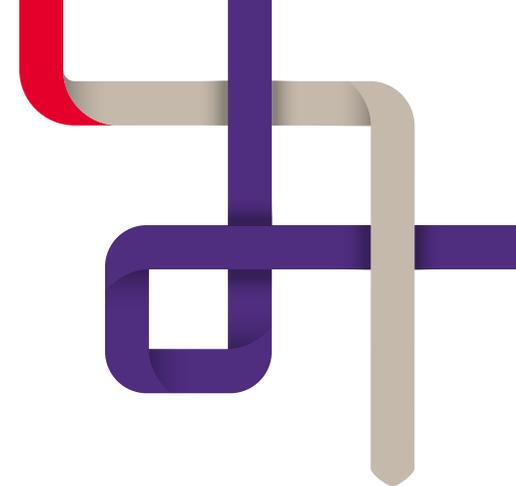
- Improved customer focus and reduced risk of poor outcomes
- Appropriate access, effective choice and protection for consumers
- Firms compete on what matters to consumers
- Consumers get clear information and can compare products and services
- Innovation and systems which benefit consumers whilst maintaining security, resilience and integrity
- Effective AML controls and decreased fraud
- Firms account for individual circumstances when consumers are in financial difficulty

### FCA planned activity in 2017-18

- **Implementing ring-fencing, PSD2 and SM&CR** with minimal negative impact on FCA objectives
- **Strategic review of retail banking business models**, focusing on how the different parts interact, and their relative profitability
- **Technology and cyber capability assessments** on all banks considered 'high impact'
- Consider steps to improve treatment of longstanding **cash savings customers**
- **PPI legacy** – complaints awareness campaign and new rules for complaints on undisclosed high commission (August 2017)
- Consider effectiveness of **'Sunlight' disclosure remedy** and inclusion in the Handbook
- **Mortgage market study** – publish interim report with preliminary conclusions and possible remedies (summer 2017); final report (Q1 2018)
- Review of **high cost products** and effectiveness of **price cap on HCSTC loans** (summer 2018)
- Consider treatment of customers with **interest-only mortgages approaching maturity**
- Examine the influence on fees and charges of **commission between firms** in the retail lending distribution chain
- Assess how firms are using **forbearance**
- Reviews of **overdraft market** and **motor finance**
- Continue to monitor **the debt management sector**
- Review effectiveness of **credit card market study** remedies

### Grant Thornton's view

- The FCA's indicates that the primary focus of its work on retail banks will be on significant **existing regulatory interventions**
- However, its appetite to engineer **greater competition and consumer engagement** is undimmed, with more research to be undertaken in these areas. The strategic review of business models reveals the FCA's willingness to unpick how the interaction between different parts of large banks may contribute to limiting competition, with the impact of 'free-if-in-credit' banking in the regulator's sights
- Firms should also note the FCA's ever-increasing focus on **operational resilience, cyber risk and financial crime**
- While there is little mention of specific enforcement priorities, the Business Plan does signal a willingness to use this approach when supervising the **SM&CR**
- Firms should be mindful of the FCA's continuing interest in firms **ensuring customers can afford loans and credit** extended to them. This Business Plan signals an intention to consider whether reducing repossessions by **extending forbearance** results in a net gain for consumers
- Initiatives on the **fair treatment of longstanding customers** has previously focused mainly on the life insurance and investments sectors. The application of principle is being extended, with forthcoming FCA work on customers with interest-only mortgages and cash savings



## Sector view – Retail investments, pensions and retirement income



### FCA's sector risk outlook and outcomes sought

#### Risk outlook

- Pension freedoms and other changes mean consumers are at greater risk of poor decisions and scams
- Consumers cannot or do not want adequate advice
- Self-directed investors at risk of receiving products that are poor value or outside their risk appetite
- Consumers cannot access and compare products as features and costs are hard to understand
- Competition diluted by few new service providers and consumer inertia and poor understanding
- Peer-to-peer and crowdfunding firms may not comply with CASS requirements

#### Outcomes sought

- Increased competition, innovation and value for money, particularly on pensions decumulation
- Improved consumer access to advice and guidance
- Transparent product features and charges, leading to increased competition
- Reduced harm from scams



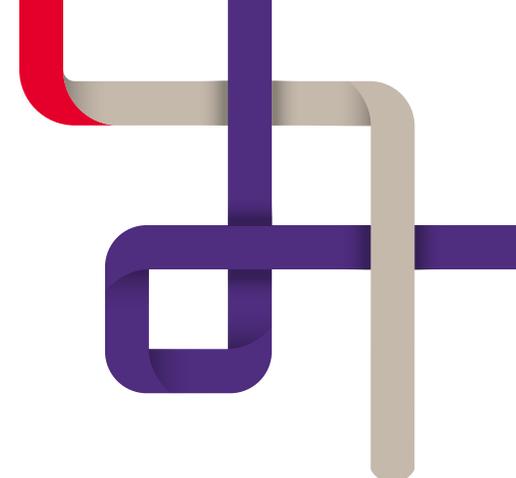
### FCA planned activity in 2017-18

- Publish a **strategy for the Pension sector**, setting out the forward regulatory approach and how FCA will interact with government and other regulators
- **Retirement Outcomes Review** – publish interim report with preliminary conclusions and possible remedies (summer 2017); final report (Q1 2018)
- Publish final **FAMR** guidance
- Possible new rules **requiring annuity providers to explain how much consumers could gain by shopping around** (pending current consultation)
- **Investment platform market study** – how firms compete for new business/retain existing customers
- Review of **non-advised pension drawdown**
- Follow-up work addressing risks identified in **CFD sector**
- Complete project to identify the most common problems in providing **suitable advice** and disclosure
- Outcomes testing of **automated advice**
- Complete work on how consumers react to **'wake-up' packs**, with possible action to improve pre-decumulation communications
- Initial discovery work to assess the competitiveness of **the non-workplace pensions market**
- Provide 'relevant help' to firms as they develop an online **Pensions Dashboard** – a consolidated view of all an individual's retirement savings (by 2019)
- Next phase of **ScamSmart** campaign to reduce the number of pension scams and victims



### Grant Thornton's view

- Continuing a theme from previous FCA output, firms should note that it intends to be **'particularly proactive' on pensions and retirement**, reflecting the implications of its wider risk outlook on its objectives
- The regulator's project on the causes of **unsuitable advice** has been ongoing for some time. It will be interesting to compare this with its work on automated advice and non-advised drawdown, and the extent to which all this is consistent with the final FAMR guidance
- Following recent work on structured products and IRHPs, the FCA has notified its intent to do further work targeting unsuitable advice on **complex products**
- While not a new concept, the importance of **value for money** is further cemented by this Business Plan. Firms will be well placed if they can articulate what constitutes value for money for their products, and if they can demonstrate that product reviews and other governance infrastructure is in place to achieve this
- The thematic review work on the **effectiveness of Independent Governance Committees** is not mentioned, however firms should not conclude that this is not important to the FCA



## Sector view – General insurance and protection



### FCA's sector risk outlook and outcomes sought

#### Risk outlook

- Technology failures, data protection and increased cyber attack threat
- Sale of unsuitable products – focus on price over product features. Specific risk of SMEs purchasing insufficient cover for their business needs
- Poor customer outcomes arising from inadequate oversight of multiple-party distribution chains
- Vulnerable customers' inability to purchase insurance products
- Lack of robust controls in the areas of financial crime, conflicts of interest and inducements
- Negative impact of wholesale markets on consumer outcomes and market efficiency

#### Outcomes sought

- Ability of all customers, including those considered vulnerable and high-risk, to access suitable insurance
- Fair treatment of existing customers
- Products perform as per customer expectations when making a claim
- Appropriate controls and oversight of distribution chains and outsourcers
- Capital resources are adequate in order to provide products and services as per customer expectations
- Customers' personal information is used by firms appropriately and fairly



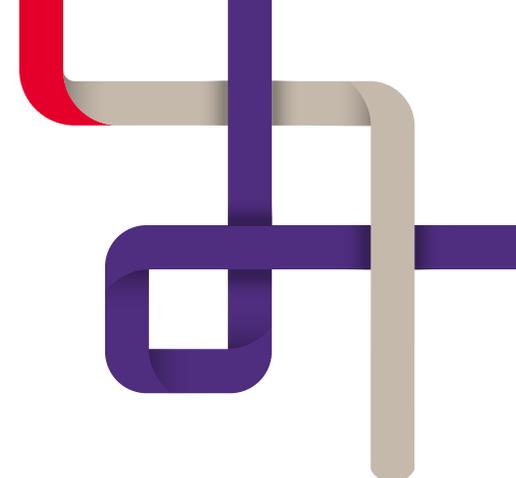
### FCA planned activity in 2017-18

- **Market study of the wholesale insurance market**, looking at the effectiveness of market competition, and how firms ensure that the way they operate does not increase conduct risks
- Review of **value in distribution chains**, following the thematic review of delegated authority outsourcing insurance market
- Review of **pricing practices**, focusing on pricing models and strategies across a number of retail insurance firms, following feedback statement on Big Data Call for Input
- Emphasis on the introduction of the **Insurance Distribution Directive** into UK law by February 2018
- As with other sectors, consider **technological change and resilience** in insurance firms, particularly where firms operate legacy systems and outsource the services they provide to customers



### Grant Thornton's view

- The emphasis on market competition is once again a recurring theme throughout the Business Plan, reaffirming the regulator's desire to ensure that markets function effectively and that poor practices do not have knock-on effects for consumers. The fact the FCA will carry out a **market study** of wholesale insurance indicates it is concerned that there is ineffective competition here, and the review of **value in distribution chains** will consider in further detail the relationships in these chains and whether they represent fair value to customers
- Similarly, firms should consider their **pricing models**, and in particular how they benchmark their pricing to ensure their rates are competitive and represent fair value. The FCA intends to look at the data and systems firms use when setting rates, and the impact of pricing practices on the insurance market
- Another recurring theme in this year's Business Plan is the FCA's keenness that firms have models to manage **IT change processes** effectively. Firms should ensure that planned system enhancements and changes do not have a detrimental effect on their ability to service existing and new customers



## Sector view – Wholesale and investment management



### FCA's sector risk outlook and outcomes sought

#### Risk outlook

- Failure to manage conflicts of interest, market abuse and financial crime risk effectively
- Abuse of market power undermines competition
- Markets fail to provide a good environment for issuers to raise finance
- Weak competition may mean investors pay too much for investment management services
- Weak governance allows poor product design and poor oversight of portfolios
- Poor advice to institutional investors
- Poor liquidity management in investment funds creates the risk of disruption in stressed conditions

#### Outcomes sought

- Clean, effective and competitive wholesale markets
- Key market infrastructure is resilient
- Growing cross-industry co-operation on cyber risk
- Stronger monitoring and capabilities to disrupt and deter misconduct
- Investors reward firms that act in their best interests
- Investors understand the objectives of the funds they are investing in and products deliver value
- Funds report performance against appropriate benchmarks
- Fund managers implement liquidity management tools when facing redemptions/valuation issues



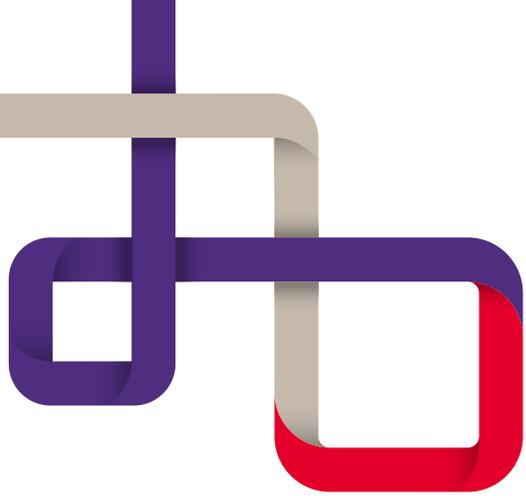
### FCA planned activity in 2017-18

- Ensure **EU Market Abuse Regulation and MiFID II** (from 3/1/2018) are implemented and embedded effectively
- Further review work on **effectiveness of listed debt markets**
- Implement **EU Benchmark** regulation (1/1/2018)
- Implement remedies following **market study on investment and corporate banking services**
- Following 2016/17 review of **primary markets**, implement final policy statements and possibly consult further on changes, including **IPO process and Listing Rules reform**
- Survey of market participants to assess impact of **Debt Market Forum recommendations**, including possible UK multilateral trading facility focused on issuance of wholesale debt
- Consider changes to account for **EU Shareholder Rights Directive**
- Monitor adherence to the '5 Questions' aiming to **improve culture, accountability and governance** in wholesale banks
- Final Report on **Asset Management market study** (Q2 2017), consulting on significant package of remedies and interventions
- Review policy options and tools for asset managers to manage **liquidity** when facing redemptions and valuations; assess adequacy of approaches to financial stability and associated conduct risk
- Consider custody banks' **CASS compliance** and resilience to **cyber attacks**



### Grant Thornton's view

- The implementation of **MiFID II** and the **MAR** are likely to dominate the agenda. However, there is plenty of other FCA activity, including potentially significant proposals to the rules governing **primary markets**
- The **Asset Management market study** was a major piece of regulatory discovery work. The interim report proposed a package significant remedies, including a strengthened duty on asset managers to act in investors' best interests, holding them to account for delivering value for money, introducing an all-in fee, greater clarity on fund objectives and use of benchmarks, and clearer communications. Its output following other market studies suggests that FCA will be willing to propose these remedies if it is persuaded they are needed to stimulate greater competition and improve consumer experiences.
- In speeches and other output in the past year or so, the FCA has indicated that it was necessary, post-crisis, for the global regulatory community to prioritise improving the capital and liquidity positions of banks. However, attention is now increasing turning to the equivalent **liquidity risks** within the wholesale and investment management sector, and addressing this is prominent in this Business Plan. Firms can expect greater scrutiny in this area
- Linked to the issue of stability is **operational resilience and resistance to cyber attacks**. As is the case elsewhere, firms can expect scrutiny on their infrastructure and controls in these areas



## Our partner team



**Jon Sperrin**

**T** 020 7728 2561 (DDI)  
**T** 020 7383 5100 (office)  
**M** 077 7928 6385  
**E** jonathan.sperrin@uk.gt.com



**Paul Garbutt**

**T** 020 7865 2170 (DDI)  
**T** 020 7383 5100 (office)  
**M** 079 7694 6251  
**E** paul.garbutt@uk.gt.com



**David Morrey**

**T** 020 7865 2657 (DDI)  
**T** 020 7383 5100 (office)  
**M** 078 3329 6870  
**E** david.morrey@uk.gt.com



**Alex Ellerton**

**T** 020 7184 4627 (DDI)  
**T** 020 7383 5100 (office)  
**M** 078 2582 3967  
**E** alex.g.ellerton@uk.gt.com

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