The FCA’s Business Plan 2017-18
What this means for your firm
“Firms are being challenged by rapidly evolving user needs, as well as heightened uncertainty in the economic and political outlook.”

Andrew Bailey
Chief Executive, FCA

“2017/18 is already looking like it will be an eventful year.”

John Griffith-Jones
Chairman, FCA
“Firms face a demanding regulatory implementation agenda, at a time of transformational demographic and technology-driven change, and in an uncertain broader economic and political environment. The FCA is looking to close out historical issues such as PPI, progress a range of key market initiatives and increase focus on culture and governance, and on new risks, in particular, cyber. The FCA will also need to flex priorities to respond as the UK political situation and Brexit negotiation outcomes become clearer. Regulation is already a top priority for Boards and senior management – and this plan demonstrates why that should and will remain the case.”

John Liver
EY Global Regulatory Reform

The FCA has published its annual Business Plan, the finalised Mission document setting out its high level approach to regulation and, for the first time, its Sector Views.

It has done so against a backdrop of considerable change for the regulator and for the industry.

There are only 88 weeks from the publication of the FCA’s 2017/18 Business Plan until the beginning of 2019. By this time, FS firms will need to have, depending on their market:

► Executed their ring-fencing plans
► Gained relevant authorisations
► Executed transformational business and operational change under MiFID II
► Implemented PRIIPs and IDD
► Complied with GDPR legislation
► Implemented the Senior Manager and Certification Regime
► Created open banking environments to comply with PSDII

This is by no means an exhaustive list.

As well as overseeing the implementation of these items, the UK regulators will also be heavily engaged working on the implications of Brexit, including the Great Repeal Bill, reconfiguring future supervisory relationships with overseas regulators, and supporting the industry through transition to the new arrangements, to manage financial stability, market and consumer risks. At the same time, both regulators and firms will be adapting to a rapidly evolving financial services market, driven by huge demographic changes and technology advances.

It is, therefore, not surprising that the priorities remain consistent to the previous year. The focus and tone of the FCA throughout the Business Plan and supporting documents remains consumer, firm and market focussed.
“A critical aspect of promoting competition is to ensure markets stay open to new entry and innovation. We have powers to enforce the prohibitions under UK and EU competition law on anti-competitive agreements and conduct in relation to the provision of financial services.”

FCA ‘Our Mission 2017’
Nonetheless, there are clear areas of new or increased priority in this year’s plan, including the significantly increased recognition of cyber threats, the enhanced focus on access and consumer vulnerability and the use of market studies and competition powers to investigate practices and business models, and drive market-wide change. These tools are increasingly central to the FCA’s interventions to secure its objectives. The proposed review of retail banking is the newest focus area – although actions following reviews in asset management, insurance, wholesale markets, consumer credit and elsewhere are likely to have far-reaching consequences for those markets.

In our view, firms should look afresh at competition as a regulatory and business model question rather than purely an area of legal challenge. Expect also to be increasingly engaging with competition teams rather than supervisory contacts as new areas of regulatory activity are driven out of the FCA’s Strategy & Competition (S&C) Division.

The Mission is an important high-level document, aiming to explain how the FCA views its role and its approach to issues it needs to consider in its decision-making, including its remit, the impact it can make, and the needs of users of financial services. There is a clear intention to focus effort on vulnerable customers, which firms should be incorporating into their business planning and controls.

Further papers promised for this year – on the FCA’s approaches to its key processes, and to critical policy areas, including competition and consumers – will provide important opportunities for the industry to contribute to the evolution of UK regulation.

The inaugural Sector Views publication – to be published annually from this point – provide useful context and insights into where the FCA believes markets are, and equally, are not, working well and therefore where future intervention may focus.
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EY thematic cross-sector insights
What this means for your firm:

**Banking – SM&CR:**
- Demonstrate that changes to governance structures result in better cultural outcomes and track improvements in accountability and culture (most banks have clearly articulated a cultural tone from the top, but have not tested how this translates to the day-to-day practices of employees).
- Assess your implementation of SM&CR through scenario testing. For example, ask yourself for a given event, would your Management Responsibility Maps and Certification hold up against regulatory investigation? Would you be able to demonstrate reasonable steps? How easy is it to obtain the necessary evidence?
- Implement the conduct rules training requirements and notification of SM&CR for all staff (other than ancillary staff), and be able to demonstrate accountability at all levels of your firm.

**SM&CR extension across financial services:**
- Prepare for proposed implementation from 2018, using lessons learnt from banking and insurance to date.
- Assess the current state appropriateness of processes and control frameworks (identification of the senior manager significant-harm function (SHF) population as well as the assessment of staff against the requirements at all stages of the employee life cycle are areas where you may require more reflection).

**Remuneration and performance incentives:**
- Consider how remuneration policies link risk and individual reward to discourage excessive risk taking, and how they encourage positive behaviours and improve culture.
“There are significant regulatory changes on the horizon over the coming months, in particular, new money laundering regulations and the introduction of the new corporate criminal tax offence. These will require firms to identify gaps quickly in their current policies and control frameworks, and update accordingly. The FCA has signalled, however, that it expects firms to focus on the effectiveness and proportionality of their control frameworks, and will support firms looking to introduce innovative solutions for managing financial crime risk. This could provide real impetus for firms to adopt new approaches to financial crime risk management more widely, such as process automation, use of utilities and data analytics.”

Debbie Ward
EY Financial Crime

The FCA is currently working with HM Treasury on transposing the Fourth Money Laundering Directive (4MLD) into UK legislation ahead of the end of June deadline. In addition, they continue to negotiate EU proposals for upcoming revisions to 4MLD. Firms across the industry will already be taking steps to prepare for the new regulations in addition to the introduction of the corporate criminal tax offence. For most firms, these new regulations will require either enhancements to existing, or implementation of new, systems and controls. The regulator wants firms to take a pragmatic approach, which strikes the right balance between effective anti-money laundering (AML) procedures and the need for firms to reduce the cost of compliance. The FCA also remains focused on the need to minimise the negative impact of financial crime measures on consumers, including the de-risking of particular client types. Firms must, therefore, ensure they consider where the controls they have in place to prevent financial crime might have unintended consequences for consumers.

The FCA has made it clear that it wants to support innovation where firms have new ideas on how to tackle financial crime in a more cost-efficient way, with a particular focus on how new technology can make AML processes more efficient. Any efficiency gains must, of course, be achieved without any implications for the effectiveness of the overall control framework.

The FCA’s continued focus on protecting consumers from financial crime is evidenced by a combination of taking action against those carrying out scams and educating consumers about the risk of investment and pension fraud through its ScamSmart campaign.

What this means for your firm:

► You should take steps to identify and address any potential gaps in your current control framework against the new money laundering regulations. The greater emphasis on the risk-based approach, changes to the application of simplified and enhanced due diligence are likely to be particularly challenging areas.

► In preparation for the corporate criminal tax offence, you should, as a first step, conduct a business risk assessment to understand the nature and extent of your firm’s exposure to the offence.

► You should proactively look at new technologies and other innovation which could achieve cost efficiencies and improve the overall quality of risk management. The use of outsourcing or utilities for conducting KYC, automation of certain parts of the alert handling and KYC processes, and better analytics around transaction monitoring are particular areas where leading peers are starting to realise greater efficiency through new approaches.
This year’s plan demonstrates the FCA’s commitment to encouraging the delivery of innovative financial services, the adoption of technologies to improve regulatory compliance and the interface between the regulator and firms. The FCA views innovation, if managed well, as an integral tool to encourage competition and offer consumers better value for money.

**Continued focus on supporting the FinTech community and new bank start-ups**

- The FCA sets the standard for driving international coordination on innovation with collaborative agreements with FinTech regulators in multiple jurisdictions. It intends to improve Project Innovate’s value, impact and its role as a catalyst to enhance competition, expanding engagement with regional and Scottish FinTechs, accelerators and trade bodies.

- It will continue to support firms via the New Bank Start-Up Unit, providing resources and focused supervisory input during the early years following authorisation.

**Increased support for firms considering automated advice offerings**

- The Advice Unit’s scope will potentially extend beyond investments, pensions and protection. There are plans to share resources with firms for support in assessing the effectiveness of their models. We see this as necessary to accelerate digital and automated advice models across other sectors, including mortgages, general insurance and debt firms.

**Continued support for firms trialling innovative ideas, helping them to understand the associated opportunities and risks**

- The regulatory sandbox continues to allow firms to pilot new products and ideas in a safe environment. To date, it has attracted applications from new entrants, FinTechs and large institutions.

- Provision of direct assistance to innovation businesses looking to understand regulatory implications will also continue to be available through the Innovation Hub.

- Support for firms in using RegTech, to improve compliance while reducing the costs

  - The FCA’s commitment to increasing interest and innovation in RegTech was evident through its response to the RegTech Call for Input and related tech sprints on the themes of ‘unlocking regulatory compliance’, ‘unlocking regulatory reporting’ and ‘access problems in financial services’.

  - Leveraging the insights from these activities will be a continued priority, in addition to another initiative to consider how technology can reduce the regulatory burden of real-time (and near-real-time) compliance monitoring and surveillance.

**What this means for your firm:**

- You should consider active involvement in future tech sprints and associated RegTech collaboration initiatives to exploit the collective contributions from both peer firms and technology providers around how to make compliance more efficient and cost effective.

- Firms using or piloting automated advice should use the forthcoming standardised testing scenarios to challenge their models and learn from the experience of the Advice Unit and the firms they have supported.

- Firms wishing to participate in the sandbox should learn from the previous cohort applications — namely that ideas: need to be fully formed and ready to test with clear testing objectives; be truly innovative and therefore possibly crossing into a ‘grey area’ of regulation; present a clear consumer benefit; and be supported by customer safeguards (e.g., capital to cover losses).
The FCA continues to recognise the opportunities that technology offers firms to benefit customers, enhance competition and improve market integrity, whilst also reducing costs. However, with this comes significant technology and cyber resilience challenges, as the number of participants in the delivery of financial services grows and operating environments become increasingly automated.

Whilst continuing to manage weaknesses and the increasing frequency and scale of cyber-attacks, firms are expected to meet significant regulatory compliance challenges. GDPR, Open Banking initiatives and PSDII require firms to enhance data protection, regulatory reporting and connectivity expectations. Greater complexity is coming at a time when, according to our 2016 Global Information Security Survey, 87% of board members and C-level executives say that they lack confidence in their organisation’s cybersecurity arrangements.

The regulator will continue to focus on firms’ controls and resilience; including governance, accountability, testing, the need for technology risk experience at board level, and requirements for specific procedures to protect consumers and critical services. 2018 will see the opening up of banking and the emergence of the ‘API economy’, enabling innovation and competition, and leading to improved customer experience fuelled by data-driven insights. Firms are continuing to invest in understanding Blockchain’s potential, with proofs of concept and pilots under way. However, serious questions of security, scalability, regulatory and legal implications are coming to the fore. The existence of sandbox environments is a valuable tool in continuing to prove these technologies’ worth.

Steve Holt  
EY IT and Cyber Risk

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**What this means for your firm:**

- Identify any gaps in your current IT risk and cyber resilience capabilities by performing an analysis of your position against regulatory guidance and expectations, and benchmarking against your peers.
- Accelerate benefits and responses to regulators by assessing and reprioritising current IT risk and cybersecurity initiatives, taking into account upcoming market, legislative and technological changes.
- Assess compliance against GDPR requirements by identifying personal data captured and transmitted across your organisation, including third parties, and develop a road map of prioritised remediation actions ahead of May 2018.
- Stay focused on desired business outcomes when assessing the opportunities and risks posed by any proposed changes to existing technology within an organisation.
Continuing from last year, the FCA retains a focus on pre-empting and preventing poor treatment of back book customers. An overarching focus in the plan is on stimulating competition and innovation and, while this may encourage existing customers to consider alternative providers, challenges around renewal pricing transparency and barriers to exit mean that the benefits may largely be felt by new customers to a firm, rather than their existing ones. To address this, the regulator seeks to understand how firms are ensuring fair customer outcomes relating to price transparency, product choice and ease of switching, through the way in which they communicate with customers and participate in active market competition.

The current macro conditions which may impact pricing and credit, are not sector specific. Equally, stressed business conditions, such as remediation costs and volatile revenues, may drive decisions to augment pricing and distribution models which are likely to be felt most by firms’ back books. The FCA is approaching this priority through a portfolio of planned activities across sectors, and its focus is likely to be dependent on a number of factors, including those with the largest inactive customer bases, such as pensions, insurance and retail lending, complexity of products or pricing structures, and industries with fewer providers. With the pressures of further economic instability and an expectation that credit conditions will be squeezed, we anticipate that some findings will be significant and thematic and, therefore, all sectors should be preparing for intervention on this topic, not just the areas focused on to date.

“The way in which certain demographics interact with financial services, as well as the landscape of providers servicing them, is undergoing a marked period of change. A key implication is that driving sustainable and profitable growth, through traditional strategies is more challenging and servicing your incumbent customer base effectively will become a key competitive advantage. Regulatory intervention where impediments are identified will serve to protect the overall health of the industry and should therefore be expected.”

Penney Frohling
EY Customer and Strategy

What this means for your firm:
► Proactively consider treatment of your existing back books across all of your operations, not just those with a current regulatory focus.
► Demonstrate that existing customer needs and benefit cases are developed and considered as part of your key change initiatives, strategy and other business decisions.
► Ensure controls are effective at protecting your existing customer base and are built into all relevant governance (this should be supported by an ability to evidence transparent, informative and engaging communication strategies).
What this means for your firm:
► Ensure you have a more explicit vulnerable customer strategy
and an operational strategy that supports it.
► Be aware of the challenges some customers will face with the
increasingly digital and remote marketplace, and consider
potential alienation of customers in vulnerable positions when
designing or adapting services for the modern consumer.
► Ensure continued collaboration and open and honest dialogue
with consumer groups, such as mental health charities and
technology firms, including joining up to innovate your product
and service offerings.
► Use technology to support the identification of vulnerable
customers – for example, telephony or web software can be
programmed to recognise words or phrases, such as age,
mental or physical illness, or financial difficulty, and route
customers to appropriate specialist channels or teams.

Whilst we have seen positive steps being taken in the industry to
change culture and to develop practices to ensure fair outcomes
for vulnerable customers, and those in financial difficulty, the FCA
has publicised areas where it feels further enhancements could be
made. The FCA is increasing its focus on firms’ ability to identify,
monitor and support vulnerable customers, particularly those
whose vulnerability has been caused or exacerbated by firms’
actions. The following areas may be subject to increased scrutiny
from the FCA:
► Firms’ commitment to improve consumer access to appropriate
financial products, services and information at each stage in
the consumer journey
► Impact of extended remediation programmes (such as PPI)
on vulnerable customers and the extent to which delays in
remediation can cause vulnerability
► How vulnerability is reflected in customer treatment strategies
► Pension scams (the FCA continues to prioritise work against
a market backdrop of both higher volume and increasingly
sophisticated scams; it is looking to introduce legislative
changes to close loopholes and increasing publicity and
communications to raise consumer awareness of the risks in
the market)
► Responsibility for helping customers to address long-term
credit card debt, particularly in instances where credit cards
are potentially misused and operated as a high interest
personal loan

Whilst attention has previously been drawn to the issues faced
by our ageing population, firms should now also be increasingly
sensitive to the fact that vulnerability can affect customers,
regardless of age. We are now facing an ever-indebted youth, who
are less able to accumulate the necessary savings to sustain them
in retirement. This presents a unique opportunity for firms to
design innovative new products that address the issues faced by
each demographic.

In addition, as firms look to change business models, consideration
should be given to pockets of their customers where access may
be affected, and steps taken to educate or limit this: for example,
through the introduction of digital.

Jenny Clayton
EY Retail Banking and Wealth Management
EY industry sector insights
“Wholesale firms are today operating in an environment that is highly competitive and cost conscious, with a backdrop of uncertainty brought about by the Brexit vote and the recently announced general election. Margins are being driven down and firms need to find new ways of attracting business whilst managing the pressures of regulatory change and operational efficiencies.

We continue to see technology as a driver for greater compliance efficiency through the promotion of innovative RegTech technology solutions. This will include a new initiative to determine how real-time (and near real-time) compliance monitoring and surveillance technologies can reduce firms’ regulatory burden and improve regulatory reporting.

We also see opportunities to use regulation as a differentiator to enhance competitiveness and demonstrate positive ways in which firms conduct business with clients. Whilst regulatory change is challenging, we see opportunities for firms to set themselves apart from their peer groups, as well as using technology to improve processes.”

Stuart Crotaz
EY Corporate and Investment Banking

The FCA will continue to focus on wholesale firms’ approach and capabilities in relation to the identification and management of key risks. This will be largely driven by its previously stated objectives and its experiences in investigating and reviewing past market events relating to conflicts (including benchmarks and segregation of duties), market abuse risks (including mismanagement of information), effective competition, financial crime risk, use of electronic and digital services, and issuers’ ability to raise finance.

The FCA will focus on firms’ efforts to implement MiFID II changes relating to: enhanced conduct requirements regarding product governance, conflicts of interest, inducements, and disclosures to clients and increased transparency and efficiency across all markets to drive fairness and equitability of prices and liquidity. The FCA will also be preparing for the introduction of the EU Benchmarks Regulation in January 2018 by assessing the reliability and integrity of the submission and administration of benchmarks. This will take place alongside the FCA’s ongoing work with the Fixed Income, Currencies and Commodities (FICC) Market Standards Board and other international counterparts to address risks and conduct standards in FICC markets.

Combatting market abuse and the associated conflict scenarios will be a key element of the FCA’s oversight. We expect
What this means for your firm:

► Understand your market abuse strategy and policies — have you identified all risks and are your controls effective?

► Consider whether your surveillance and monitoring capabilities and technology are sufficient to capture and assess all potential risk areas; for example, across all asset categories.

► Confirm whether your MiFID II project will deliver all of the requirements relating to reporting, market structure changes, best execution, inducements, product governance, research, and conflict management ahead of January 2018.

► Assess your conflict of interest framework to ensure coverage across all business units. Are conflicts identified to a sufficient level of granularity? Can you assess the impact of potential conflicts at an enterprise level across business units?

► Assess whether your culture and governance framework meets the ‘5 Conduct Questions’

1 https://www.fca.org.uk/firms/5-conduct-questions-feedback.
The FCA has confirmed it will continue to focus on competition, value for money and conduct of firms to ensure markets remain resilient.

Firms will be familiar with the competition and value for money themes following the publication of the 2016 Asset Management Market Study interim report. Costs and charges made headlines following this publication and were a catalyst to the active versus passive debate, putting pressure on active investment managers to justify their costs. Firms are already working on new cost transparency and conduct requirements as part of their MiFID II and PRIIPs implementations. These may need to be revisited based on the outcome of the Asset Management Market Study final report, due in Q2 2017.

Global firms need to be mindful that other regulators (e.g., in continental Europe, the Americas or Asia-Pacific) may have varied levels of focus on competition, so the FCA will be seeking to understand how this works in practice against existing regulations under way.

Conduct is another theme the FCA has focused on over recent years which is intrinsically linked to investor outcomes. As mentioned on page 10, the FCA will be extending SM&CR to investment management firms. Firms will need to review the three lines of defence model to measure and monitor risk accountability and promote a strong risk culture, effective risk management and adherence to the firm’s risk appetite framework.

The critical service provided by custodians has placed them firmly on the FCA’s agenda to ensure infrastructures are fit for purpose, including resilience to cybercrime and appropriate quality of product governance.

Last year, 86% of asset managers’ CROs2 expressed concern about liquidity management, and this continues as a big theme for 2017 and beyond, given the political risks and secondary market liquidity traps. Further advances in consistent global regulatory and risk guidance standards are supportive in developing controls to manage fund liquidity during both normal and stress periods.

What this means for your firm:

► You should assess the effectiveness of your conduct risk policy regarding suitability, product and pricing throughout the product life cycle, ensuring transparency and disclosure is strengthened at point of sale, monitored on an ongoing basis and effectively governed. Evidence of good governance will be particularly important as SM&CR takes hold.

► You should seek to enhance liquidity tools and solvency following the FCA’s recent focus on open ended funds and daily redemption and evaluation by ensuring legacy accounts are secure, appropriately managed and monitored.

► As a custodian, you should ensure robust and effective cybersecurity policies and procedures are in place, and that infrastructure remains fit and resilient to cybercrime. Effective monitoring should ensure events are monitored and reported, and risks mitigated.

Pensions and retirement income

“In the pensions and retirement income sector, the FCA will continue follow-up work on long-standing customers and on the thematic review of annuity sales practices, supporting its overall priority of addressing the treatment of existing customers. The reviews this year, looking at pensions and retirement outcomes, will further embed the FCA’s focus on consumer choice – and the information customers get to enable them to make that choice – through the competition lens. This could create both challenges and opportunities for firms in a sector already grappling with major regulatory-driven change programmes.”

James Tufts
EY Life and Pensions

What this means for your firm:

► Be ready to demonstrate sufficient progress in your change programmes to address the issues from the ongoing long-standing customer and annuity reviews.
► In anticipation of the publication of the pensions strategy and Retirement Outcomes Review, focus on demonstrating that you provide consumers with timely and adequate levels of information to enable them to make decisions.
► Consider how you can continue to develop your value proposition through the information provided at key consumer decision points, such as retirement or taking decumulation decisions, or in whether to take advice.

The FCA will continue to focus on ensuring that consumers get fair outcomes through advice, guidance and information that allow them to make the right decisions and assess whether products offer value for money. It will set out its expectations through the publication of its pensions strategy and its findings of the Retirement Outcomes Review. Its focus is on encouraging firms to provide adequate and timely information to allow consumers to take action, whether shopping around or making decisions on retirement. The FCA will examine this by looking at how consumers react to ‘wake-up’ packs ahead of retirement, and in taking drawdown without getting advice.

The FCA’s ambition, in part driven from its concerns over the quality and availability of advice, is that customers should understand and be engaged with the information presented to them as it impacts their propensity and capability to make proactive retirement-based decisions, including whether to seek advice. The relatively few new service providers entering the market is highlighted as an issue which is reducing competitive pressure, and the FCA is looking to see what opportunities exist for innovations which lead to products offering better value for money for customers.
Retail banking

“The retail banking sector is set to face a tremendous amount of change, challenge and opportunity over the coming years. The emergence of the Open Banking economy with permissioned sharing of customer data, and payments initiation capability and development of innovative new services, means competition to traditional banks is expected to accelerate, with non-banks continuing to target specific elements of the financial services value chain. This will challenge both new and established participants to critically examine the role they want to play for customers and in the industry as a whole, and to adapt their strategies, business and operating models accordingly, in many cases fueled by emerging technologies”

Hamish Thomas
EY Payments

The FCA’s concerns about competition and culture in retail banking continue, despite both the rise of FinTech challengers and implementation of SM&CR. However, given the major structural changes required by PSDII, Open Banking and ring-fencing, it is not proposing significant additional intervention in the sector, to ensure banks focus on implementing these programmes successfully. The FCA will undertake a strategic review of retail banking’s business models, to inform current and future regulation, so banks should be mindful of the emerging findings.

Open banking brings irrefutable change to the landscape next year, enabling customers to take greater control of their financial data and share it with third parties in exchange for value-adding propositions. New methods and/or channels for payments will develop; the role of payment initiator will be decoupled from account service provider in some cases, separating the ‘storage’ from the ‘moving’ of funds in the eyes of the customer.

Major UK banks are also undergoing perhaps the most fundamental structural change in recent times by implementing ring-fencing before the 2019 deadline. In-scope banks are establishing new ring-fenced and non-ring-fenced bank entities, applying for banking licenses, variations of permissions and memberships to Financial Market Infrastructure venues. To transfer assets across entities, banks are working with appointed Skilled Persons to articulate the rationale for proposed models and plans to minimise detriment to customers and other stakeholders. Many retail, SME, corporate and institutional customers will transfer to a different bank (albeit within the same group). Depending on need, some customers may deal with both sides of the ring-fence.

Banks should review their risk management frameworks and potentially develop specific policies and controls to mitigate idiosyncratic conduct risks, conflicts of interests etc. created by their new models. They will also need to consider operational risks, in particular where mass sort code changes are required. Extensive controls around the data changes, regular source systems reconciliation thorough system testing, robust readiness approaches and comprehensive contingency planning should help mitigate these risks.

What this means for your firm:

► Ensure focus is given to customer awareness, both with respect to new services and what it means to ‘share’ their data, specifically the differences in levels of customer protection across various payment methods. Open Banking may seem complex to some, which may inhibit adoption of new services if customers do not feel sufficiently informed and comfortable.

► Pay specific attention to fraud and security protocols put in place to support the API channel as well as impacts to exiting processes.

► Clarify your liability models as Third Party Providers begin to insert themselves into the value chain.

► Ensure contingency plans in relation to potential Brexit outcomes are in place. Although not yet known, it is likely that a “hard Brexit” will have a material impact on many of the banks’ ring-fencing models. Executing these, should they be required, is likely to prove challenging.
Retail lending

“The FCA has driven significant change in both the mortgage and consumer credit market over the last three years. This intense focus will remain, with the FCA responding to increased levels of over-indebtedness as well as ensuring the appropriate treatment of customers in financial difficulty. Risky business models, including inappropriate commission arrangements, have also been highlighted as a potential risk to customers, and the FCA will place the motor finance industry under the spotlight this year. With these themes in mind, firms should be taking steps to respond to the ongoing FCA scrutiny by ensuring that they are lending responsibly and providing fair outcomes for their existing customers.”

Jenny Clayton
EY Retail Banking and Wealth Management

The FCA has highlighted the risks associated with increasing levels of over-indebtedness and tightening of access to affordable credit for higher-risk customers. It will also be responding to macro-economic challenges such as firms’ preparations for an interest rate rise.

Mortgages
The Mortgage Market Review (MMR) in 2014 introduced significant enhancements to responsible lending. This year’s primary focus will be competition within residential mortgages through the mortgages market study. Firms can expect increased attention to barriers preventing consumers making effective choices and an assessment of tools to support them, including advice.

Another focus will be on issues facing over-indebted customers, particularly interest-only customers reaching the end of their term with no repayment vehicle in place, and customers in long-term arrears. The regulator has noted increased mortgage drift, with firms potentially offering forbearance options not in customers’ long-term interest.

Consumer credit
The FCA has noted consistent themes emerging regarding consumer credit, with concerns continuing around treatment of customers in arrears or with persistently high debt. This year sees the rollout of remedies from the credit card market study and the monitoring of changes in the debt management industry. The FCA expects more to be done by firms to spot customers at risk of financial difficulty.

Focus on high-cost credit will broaden to include the whole sector, including overdrafts, driven by the FCA’s analysis and media spotlight on the high costs of overdrafts, particularly where daily charges are levied for small borrowing amounts.

Finally, focus on business models persists, particularly where sales can be influenced by commissions or other remuneration, or inadvertently lead to the sale of credit to consumers for purposes not necessarily suitable. Motor finance will face a targeted study, where there is particular concern about potential conflicts of interest, and a lack of transparency has been identified.

What this means for your firm:

► Review your mortgage forbearance options to ensure these are tailored to the individual customer circumstances. You may consider exploiting predictive analytics: for example, in determining common characteristics of customers more or less likely to maintain a payment arrangement over time.

► Review your commercial relationships, such as those with brokers, to understand where these might be driving poor outcomes, ensuring remuneration policies do not drive inappropriate or irresponsible lending.

► Consider whether your customers are provided with clear and transparent information and useful tools to enable effective choices and actions to be made: for example, the use of prompts such as text alerts. The mortgages market study is expected to conclude that these are required enhancements.
General insurance and protection

“In the general insurance and protection markets, the FCA intends to revisit the issues that it has reviewed in previous years. The focus on distribution continues, with a further thematic review of the length and complexity of distribution chains, and an interesting proposal to undertake a market study of the wholesale insurance market. A review of firms’ pricing practices in general insurance continues the FCA’s focus on the value customers get from insurers’ products, which, along with the implementation of the Insurance Distribution Directive, could lead to further pressure on insurers around how they communicate their value proposition to their customers.”

Steve Southall
EY Insurance

The FCA continues its retail consumer focus in the sector by looking at the length and complexity of value chains, and their impact on efficiency, value and competition, with a further review to understand the end-to-end relationships in distribution chains. This builds on the delegated authority review (published June 2015) and appointed representatives review (published in July 2016). Added to this, the review of GI pricing will further examine the value insurers deliver for consumers, building on the GI value measures pilot and the FCA’s expectation that the publication of this data will influence consumer behaviour. One area to consider is the potential for cross subsidies between new and existing business, identifying it as another possible driver for customers not to be treated fairly.

A notable part of the plan for this sector is the proposed market study of wholesale insurance brokers to assess how effectively competition is working. The study will assess both market integrity and conduct risks and, ominously, expects to consider appropriate remedial actions in due course. Recent news of an FCA investigation into the aviation insurance market point to some of the issues that the study will cover across the market as a whole.

We expect firms across the distribution chain to be challenged on the value they provide to customers, and the level of reward they extract in return. This could place further strain on the profitability of such chains already under pressure following the additional controls required as a result of previous reviews.

What this means for your firm:

► Review and test your governance and oversight arrangements regarding delegated authorities and other third parties, and be prepared for a continued high level of regulatory scrutiny in this area.
► Continue to review the value to the customer in product features and service, as well as in price, and ensure that pricing strategy is aligned to fair outcomes.
► Consider what opportunities there are to enhance customer outcomes through greater communication and transparency of information.
The retail investments sector has seen a significant change due to regulatory reform and technological advances over the years. Further changes are expected as advisors move up the value chain, manufacturing and distributing their own product ranges. At the same time, traditional fund manufacturers, who previously only distributed through third parties, are looking at opportunities to access retail investors directly. The regulator is aware that it needs to monitor the risks closely in this dynamic environment.

Uner Nabi  
EY Wealth and Asset Management

“The retail investments sector has seen a significant change due to regulatory reform and technological advances over the years. Further changes are expected as advisors move up the value chain, manufacturing and distributing their own product ranges. At the same time, traditional fund manufacturers, who previously only distributed through third parties, are looking at opportunities to access retail investors directly. The regulator is aware that it needs to monitor the risks closely in this dynamic environment.”

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The FCA has acknowledged the numerous regulatory changes that have taken place over the past years in the retail investment market to strengthen the positive outcomes for consumers. The introduction of MiFID II and PRIIPs aims to provide further transparency and protection to retail investors.

Some of the regulatory changes appear to have left gaps in access to investment advice, and this has led the regulator to support less costly technological advice models. More agile firms have sought efficiencies through the use of digital advice and guidance, which have provided consistency and quality with the ability to monitor outcomes easily. Such initiatives represent significant cost savings in the longer term; however, there is still work to be done in ensuring that digital models are appropriately adapted to boundaries of regulated advice, and appropriate controls are in place to ensure investors are receiving products in line with risk appetite capacity as well as offering value for money. The FCA has announced its intention to assess both current and forthcoming automated advice models to inform its future regulatory approach, with suitability of this type of advice potentially being tested. This is particularly relevant given the potential systemic risk that could arise if there are any concerns regarding the underlying controls of an auto-advice process.

The UK retail distribution landscape is a complex environment and investment platforms have increased market share over the years. Not surprisingly, a key focus area highlighted by the regulator is the investment platform market study, which will build on the work conducted through the wider Asset Management Market Study.

What this means for your firm:

► Your future strategies must be flexible enough to cope with the dynamic environment driven by regulatory changes and technological advances. Review of the product life cycle and customer journeys is a critical method with which to do this.

► Platforms that distribute directly to clients as well as act as intermediaries need a clear understanding of the regulatory obligations applicable to their various business models.

► The regulator will closely monitor innovation and its impact on consumers as firms adapt to the changing landscape. Firms need to work with the regulator in identifying and mitigating future risk that may evolve.
FCA’s market based work programme and upcoming European regulation
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FCA – ongoing market-based activity
Summary of EU Legislative Programme (Consultation)
Summary of EU Legislative Programme (Negotiation)
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Summary of EU Legislative Programme (Other)
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<td>Provision of further information on certain technical standards and clarity over implementation assumptions linked to MiFID II</td>
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<td>Introduction of recovery and resolution measures for Central Counterparties</td>
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<td>Pan-European Venture Capital Funds Proposal (CMU package)</td>
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<td>A review of the EU Passporting regime and its possible replacement with a revised equivalency regime for non-EU/non-EEA jurisdictions</td>
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