2025 Global financial services regulatory outlook

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Background

The regulatory landscape is shaped by a changing and increasingly fragmented world where geostrategic stress, political change, economic strains, technological advancements and societal shifts are all contributing to greater uncertainty.

Regulation doesn't occur in a vacuum. It is changing in many cases in response to these strains on the financial system in an ever more uncertain world.

The past year has highlighted many critical issues for financial services companies and their regulators. The geopolitical situation, especially in Europe and the Middle East, remains tense. Together with ongoing challenges between China and the US, this environment is driving growing volumes of economic sanctions and export controls and increases the risks of business interruption for global firms. Concerns about potential cyber attacks on critical infrastructure, and firms' ability to withstand market volatility, have increased.

The political landscape continued to shift as more than 50 countries, including five G7 members,[a] went to the polls. In some cases, these elections signaled changes in national priorities, with some governments reconsidering the role of finance in boosting international competitiveness, delivering growth and building future industries. Regulators have been keeping a watchful eye on subsequent market volatility, which could expose vulnerabilities in firms that experience liquidity mismatches and are highly leveraged.

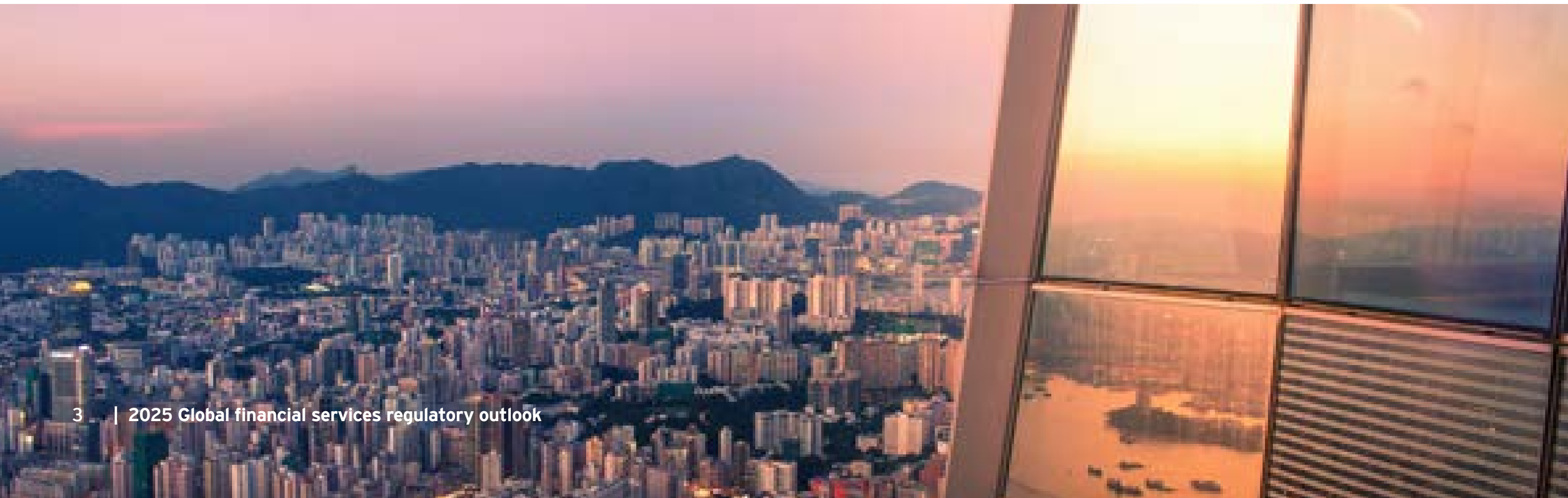
The macroeconomic situation is finely balanced. Although inflation is easing, financial difficulties for consumers and businesses continue. In many countries there is a political, philosophical contradiction evident in the approach to regulation. On the one hand, encouraging international competitiveness and deregulation, and on the other, focusing on ways to boost citizens' financial wellbeing and empowerment by helping them to build savings for later life, protecting access to financial services and boosting competition. Globally, central banks will also be focused on the acceleration of private debt, and levels of public debt which will likely exceed 93% of global gross domestic product (GDP) by the end of 2024.[1]

The past year has demonstrated a growing challenge in balancing support for technology innovation with protecting consumers and markets from the attendant risks. Adoption of artificial intelligence (AI) by financial institutions continues to accelerate, while the CrowdStrike outage in July 2024 strengthened calls for more oversight of the third-party technology companies that underpin the financial sector's operating model.[2] It also reaffirmed the importance of effective business continuity plans.

Finally, although the effects of the bank failures in spring 2023 were contained, regulators remain concerned about financial instability and the capability of the banking system to cope with deposit runs which could happen faster because of digitalization. The ability of central bankers to contain incidents is hampered by the increasing interconnectivity of the global financial system. These issues are certain to be a key area of focus in the 12 months ahead.

Although existing priorities continue to dominate regulators' thinking, the factors outlined above have prompted changes in emphasis.

[a] France, the UK, the US, the EU and Japan all held elections in 2024.



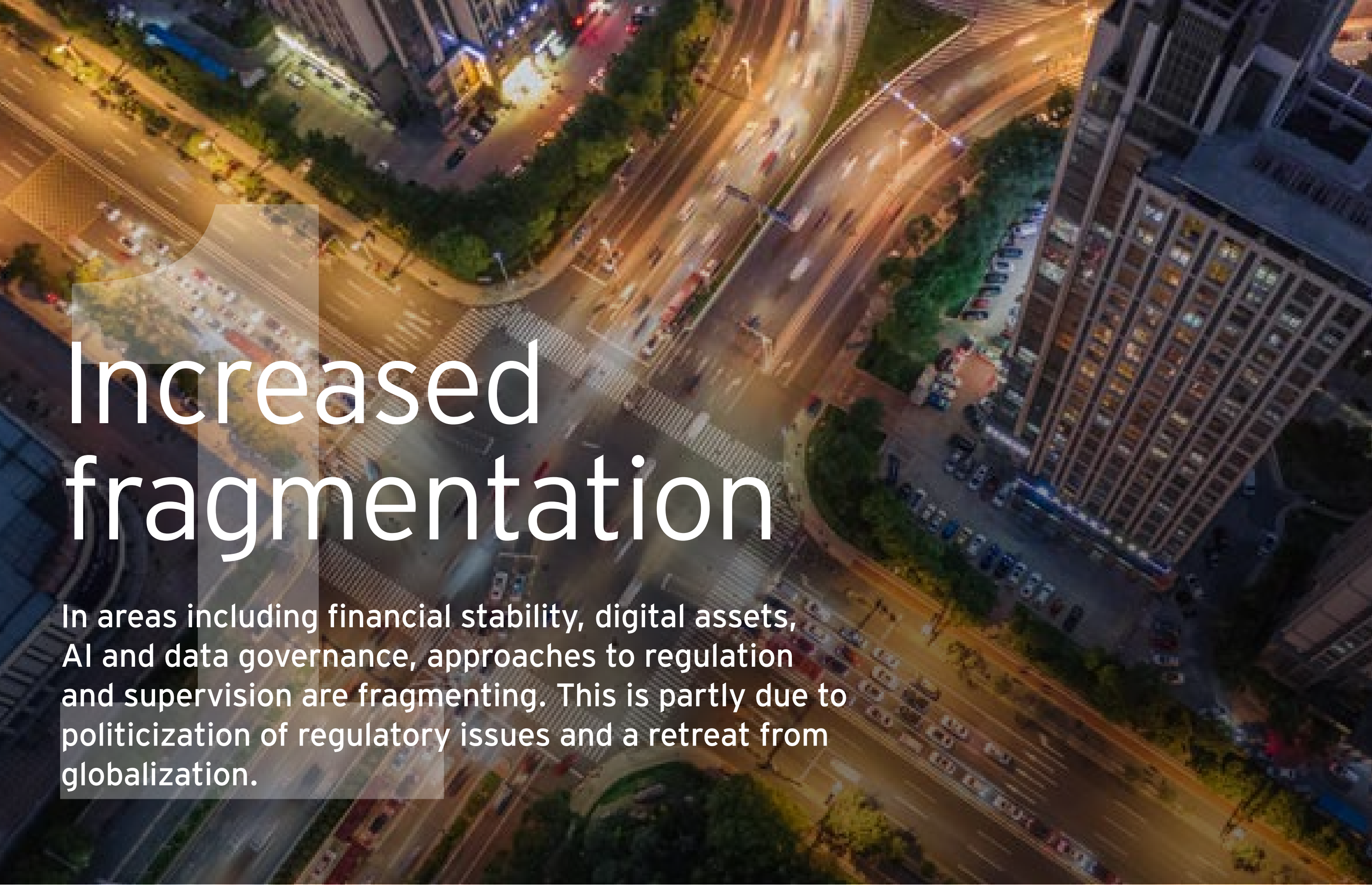
The 2025 regulatory outlook for financial services

In 2025, firms should expect:

- Further fragmentation of regulatory regimes as policymakers prioritize their own countries' interests in response to global issues, instead of prioritizing international cooperation at the outset. In the absence of global coordination, local standards will continue to proliferate. (Part 1).
- More scrutiny of firms' operational and financial resilience. Regulators and supervisors will focus on contagion risks from dependencies on critical third parties, including technology providers, especially as AI adoption accelerates. Contagion risks from non-bank financial institutions will also remain a focus. (Part 2).
- Continued pressure to improve outcomes for retail customers, including a renewed focus in some regions on financial inclusion and protection against fraud. (Part 3).
- Close examination of the alignment between risk management and governance frameworks, and the strategies and growth ambitions of firms. Although the bank failures of March 2023 are not new, supervisors remain focused on remediation of long-standing issues, risk culture and effective risk management and governance practices. (Part 4).

In response to these and other pressures from policymakers and regulators, firms should:

- Develop and build an operating model that allows firms to address local rules and risks when operating across borders, without significantly impacting cost.
- Consider the specific risks posed by each market, and the risks associated with the end-to-end process to deliver services in those markets. Satisfy senior management that these can be managed effectively. Use scenario planning to prepare for major disruptions.
- Demonstrate that consumers are at the heart of their strategy and be prepared to show good customer outcomes to supervisors.
- Adjust their risk management, change management and governance frameworks to ensure they reflect business strategy and future ambitions, and are set up to respond to the changing environment.
- Capitalize on opportunities to shape regulatory policy as governments consider how to mobilize the financial sector to deliver economic objectives.



Increased fragmentation

In areas including financial stability, digital assets, AI and data governance, approaches to regulation and supervision are fragmenting. This is partly due to politicization of regulatory issues and a retreat from globalization.

Policymakers are increasingly cognizant of how risks will manifest in their jurisdiction and are developing country-specific responses. As a result, progress toward multilateral commitments is slowing in areas such as bank prudential regulation and net-zero targets. As governments seek to capture the economic benefits of new technologies and mitigate the risks, their regulatory approaches are tending to diverge.

In practice, this trend multiplies the complexities, and potentially the costs, of managing global operations. Local players may be able to use this to their advantage. Even today, operating by international lines of business across different jurisdictions is becoming less feasible; firms increasingly need to understand the regulatory nuances.

Setting up for success

- Invest in political and regulatory monitoring capabilities to help anticipate future changes and develop strategies to safeguard your business.
- Monitor political changes and use scenario planning to identify potential implications of different outcomes.
- Track and understand the differences in requirements between jurisdictions, and develop capabilities that allow your organization to satisfy those requirements in an efficient and well-controlled way.

Prudential regulation

The Basel 3.1 reforms, designed to secure bank stability, are being inconsistently adopted, leading to divergent capital standards and challenges for internationally active banks. Uncertainty around US implementation has led to delays in other jurisdictions. For example, the European Commission has postponed a crucial component of the reforms, the Fundamental Review of the Trading Book (FRTB), until January 2026, citing concerns about European banks' ability to compete with their US rivals. Their delay creates complications because some elements of the reforms are interdependent, such as the Credit Valuation Adjustment (CVA) and FRTB risk weights.

In addition to the US approach to bank capital standards, which places a greater reliance on stress testing, US policymakers have also pursued a tailored approach to capital standards for internationally active insurance groups. While many countries have implemented the Insurance Capital Standard developed by the International Association of Insurance Supervisors, the US has pursued the Aggregation Method, which will be subject to an equivalence assessment by the global insurance supervisor by the end of 2024.[3]

Basel 3.1 reform status

KEY			
Draft regulation not published	Draft regulation published	Final rule published (not yet implemented by banks)	Final rule in force (published and implemented by banks)

	Canada	USA	Australia	Hong Kong	Japan	Singapore	Switzerland	UK	EU
	North America		Asia-Pacific				EMEIA		
Revised Standardized Approach (SA) for credit risk	Final rule in force	Draft regulation published	Final rule in force	Final rule published	Final rule in force	Final rule in force	Final rule published	Final rule published	Final rule published
Revised Internal Ratings Based (IRB) approach for credit risk	Final rule in force	N/A	Final rule in force	Final rule published	Final rule in force	Final rule in force	Final rule published	Final rule published	Final rule published
Revised Credit Valuation Adjustment (CVA) framework	Final rule in force	Draft regulation published	Draft regulation published	Final rule published	Final rule in force	Final rule published	Final rule published	Final rule published	Final rule published
Fundamental Review of the Trading Book (FRTB)/market risk	Final rule in force	Draft regulation published	Draft regulation published	Final rule published	Final rule in force	Final rule published	Final rule published	Final rule published	Final rule published
Output floor	Final rule in force	Draft regulation published	Final rule in force	Final rule published	Final rule in force	Final rule in force	Final rule published	Final rule published	Final rule published
Revised operational risk framework	Final rule in force	Draft regulation published	Final rule in force	Final rule published	Final rule in force	Final rule in force	Final rule published	Final rule published	Final rule published

Source: Bank of International Settlements, *RCAP: Basel III implementation dashboard* RCAP on timeliness: Basel III implementation dashboard

Actions for firms:

- Ensure your organization understands how the rules diverge between jurisdictions in which it is active.
- Engage proactively with policymakers as they develop, implement and revise their initial proposals.
- Consider how differences in capital requirements impact your firms' strategy and operating environment.

Digital assets and central bank digital currencies (CBDCs)

While certain types of digital assets are gaining wider acceptance as a tool to transfer assets, modernize payments and enhance financial inclusion, the global picture remains inconsistent.[4, b] Limited examples of internationally coordinated activity have led to a proliferation of local approaches which are progressing at different speeds.

In areas of the market that are considered legitimate by regulators, most agree that standards need to be raised. Two high-profile failures in 2022 continue to drive regulators' efforts to boost standards.[5] Authorities in Singapore,[6] Hong Kong,[7] the European Union (EU),[8] Japan,[9] the UK,[10] and the United Arab Emirates (UAE),[11] are at different stages of implementing stablecoin regulations. Digital asset trading venues are increasingly subject to regulation following recent failures and concerns about the protection of customers' assets.[12] Dubai has established a bespoke regulator – the Virtual Assets Regulatory Authority – while others have handed responsibility to existing bodies.[13] In the US, however, many expect digital asset regulation to be loosened following statements made by the President-elect during the 2024 election campaign and the nomination of a new SEC Chair who will play an important role in overseeing the use of digital assets in capital markets.

[b] For example, China has banned crypto mining, exchanges and trading.

Development of CBDCs, including wholesale and retail CBDCs, by countries around the world, is another area of divergence that is rooted in differences in policy objectives and scope. This has implications for the design of CBDCs and their ability to be applied to use cases such as cross-border payments, which rely on interoperability with other CBDCs and payment systems. Many organizations are conducting experiments to address this issue.[14]

Although some attempts to coordinate internationally exist, consistency is not guaranteed. The Financial Action Task Force (FATF) reported in July 2024 that while there is progress in anti-money laundering (AML) and counter-terrorist financing (CFT) implementation for virtual assets, global adoption of standards is uneven.

Actions for firms:

- Monitor political developments at an international, national and local level, which could influence the direction of regulatory policy.
- Ensure that senior management plays a proactive leadership role in setting a strategy and risk appetite for engaging in digital asset business and assessing the risks inherent in business models and the efficacy of internal controls.
- Monitor trends to help identify and mitigate risks, such as fraud and AML, and implement the travel rule.

Artificial intelligence (AI)

At present there is no globally consistent approach to AI regulation. Regulatory initiatives tend to consider the context in which AI is being used and the potential outcomes. Legislators are taking different approaches to the degree to which rules apply throughout the AI value chain. For instance, under the "risk-based" approach to AI regulation, the activity for which AI is used determines the compliance thresholds that the technology must meet. In recognition of this fragmentation, China advocated for a global approach to AI governance.[15]

Several countries are pursuing legislative solutions which apply across sectors, although they are progressing at different speeds. The EU is set to implement large parts of the EU AI Act, with bans on prohibited AI starting in February 2025 and rules on "Annex III" high-risk systems taking effect in August 2026. Australian regulators are proposing mandatory guardrails for AI in high-risk settings,[16] and South Korea intends to introduce an AI Act within the year. Although details are unclear, the UK's approach is likely to be more targeted toward "those working to develop the most powerful artificial intelligence models."[17] China has put forward safety requirements for the development of large language models, including a ban on the use of datasets containing more than 5% of harmful content.[18] Meanwhile, the timeline for Canada's Artificial Intelligence and Data Act is uncertain, with its passage before the next federal election in question.

Others are choosing to issue guidelines or principles, recognizing that legislative proposals could quickly become out of date, or to avoid stymieing innovation. The Monetary Authority of Singapore (MAS) has produced principles on the risks and opportunities of generative AI and the government has also launched a generative AI sandbox for early-stage companies.[19] Similarly, the Hong Kong Monetary Authority (HKMA) has published regulatory principles and established a sandbox to promote responsible innovation.[20] The Japan AI Safety Institute has published guides on AI safety.[21]

Policy initiatives specific to financial services have been slower to develop. In the UK, this is because the regulators consider that existing, largely technology-agnostic, regulatory requirements can be applied to the use of AI. Finance-specific initiatives are also being pursued. In Europe, the European Commission is also reviewing how AI is deployed in the financial sector.[22] US authorities have produced documents that suggest their general direction of travel, including the US Treasury's March 2024 report, which addresses AI cybersecurity in finance,[23] and the Security Exchange Commission's (SEC's) 2024 report addressing AI in emerging technologies and broader technological governance.[24]

State of play: How is AI regulation progressing globally?

		AU	CAN	CN	EU	HK	JP	SG	KR	GBR	US
Law	EU AI Act or similar	—	☐	☐	✓	—	—	—	☐	☐	—
Principles	Guiding Principles/Ethics Framework/Code of Conduct	✓	✓	✓	—	✓	✓	✓	✓	✓	✓
Digital policies	AI-related risks considered in digital policies (i.e., data, cyber, operational resilience)	✓	—	✓	✓	✓	✓	✓	—	✓	✓
FS specific initiatives	FS specific guidance/initiatives	—	—	—	☐	✓	—	✓	—	✓	☐

Key: ✓ Present — Not present ☐ Proposed/Under consultation

Actions for firms:

- Build and maintain an inventory of AI systems and use cases, making sure to understand their risk profile in the current legal context.
- Consider implementing governance and control frameworks based on standards, such as the National Institute of Standards and Technology (NIST) AI Risk Management Framework.
- Safeguard confidentiality of firm and client data against exposure through public AI solutions trained on sensitive queries and feedback.
- Focus on a risk-based approach toward critical AI infrastructures and on the outcomes of AI applications.

Data protection, privacy and localization

Data regulation will become more intricate in 2025 as new laws are introduced alongside existing frameworks. In the US, several state-level data protection laws, most of which are modeled on the California Consumer Privacy Act, will come into force following failed attempts to pass a Federal law.[c]

Technology-specific regulations are further complicating the picture. Efforts to expand or introduce Open Banking initiatives in the US,[25] Canada,[26] Europe[27] and the UK[28] will bring advantages for customers but will also increase the risks associated with data sharing and usage. European data protection agencies are expected to play an important role in enforcing the new EU AI Act.[29]

Volatile geopolitics are raising national security concerns, which in turn are influencing policies on data transfer and localization. The US will introduce regulations to prevent bulk data transfers to "countries of concern," following Executive Order 14117, which aims to mitigate espionage and cybercrime risks.[30] Australia is due to consider measures to restrict data from its national digital identity scheme from being stored, handled or transferred abroad.[31] The European Commission's UK data protection adequacy decisions are also due to expire in June 2025, however, the Commission will determine whether to extend the adequacy decisions for a further period of up to four years.[32] Firms should watch these developments closely.

Actions for firms:

- Monitor developments in data-specific legislation as well as technology-specific regulations to capture the full scale of data-related regulation.
- Use local expertise to ensure they properly understand the requirements. International firms should also develop a cross-border view to identify areas of divergence.
- Establish a process for responding to new data localization measures using learnings from previous examples.

[c] For example, new laws in Delaware, Iowa, Minnesota, New Jersey, Nebraska and New Hampshire will come into effect in 2025.

Building resilience to external threats

Regulators are concerned about the financial sector's resilience against vulnerabilities and external threats, often linked to their relationships with customers or suppliers.

The financial sector's technology dependency is creating more potential points of failure via firms' relationships with unregulated third parties. These weaknesses can be exploited by bad actors or — as a major IT outage in July 2024 showed — can materialize for non-sinister reasons. In addition, the share of financial services offered by firms that are partially or entirely unregulated continues to grow. Regulators are concerned about the potential stability risks non-bank financial institutions (NBFIs) pose to systemically important institutions. Their response is usually to require regulated firms to address the risks introduced through their relationships with third parties, rather than seeking to regulate third parties directly.

Heightened geopolitical tensions are resulting in more sanctions and asset freezes as governments move to block their adversaries' access to the financial system. Several jurisdictions are updating their financial crime frameworks, leading to higher standards and regulatory expectations and drawing in new categories of firms, such as cryptoasset service providers.

Setting up for success

- Ensure vendor, change management and business continuity plans are integrated and account for how services are delivered across markets.
- Address dependencies on critical third-party technology providers and demonstrate robust processes to manage major disruptions.
- Understand and manage risk exposures resulting from business relationships with NBFIs, especially levels of leverage.
- Assess and mitigate AML and CTF risks originating from source, such as cryptoassets and alternative payment providers.

Operational resilience

Recent events, including ongoing conflicts, natural disasters and a global IT failure, have reinforced regulators' focus on firms' ability to withstand major operational disruptions. Several jurisdictions have introduced new standards designed to strengthen firms' management of operational risk.[33] Firms need to understand their end-to-end process for delivering services and how that could be disrupted.

Timeline of new operational resilience standards

January 2025
EU Digital Operational Resilience Act (DORA) will begin to apply.

March 2025
In the UK, in-scope firms will need to be operating within their impact tolerances for all important business services.

May 2025
A new operational resilience framework will begin to apply to in-scope firms in Hong Kong.

July 2025
CPS230 will apply to banks, insurers and superannuation trustees regulated by the Australian Prudential Regulation Authority (APRA).

Regulators are especially focused on the additional risks introduced through the financial sector's growing reliance on third-party technology companies, such as vendor and cyber risk. Their focus has sharpened since the disruption of July 2024. Although the impact was overcome relatively quickly, this incident renewed interest in upcoming regulation designed to address risks that originate outside the regulated ecosystem. For instance, the Basel Committee is consulting on common standards for third-party risk management by international banks that call for a more comprehensive and rigorous approach to critical third-party service providers.[34]

In Europe, regulators in both the UK and EU are extending their oversight to the supply of critical services to the financial sector to mitigate the impact that disruption or failure of a third-party service provider could have on financial stability and adopting measures to boost cyber resilience. Financial institutions subject to the Digital Operational Resilience Act (DORA) must ensure they can prevent, withstand and recover from major ICT-related disruptions. As well as establishing standards for financial institutions to follow, DORA provides a framework for overseeing critical ICT third-party providers. New cyber resilience rules came into effect in October 2024.[35]

In the UK, the Bank of England, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) are due to finalize, in Q4 2024, their rules and supervisory expectations for the critical third-party regime (CTP). The regime, which will apply to third parties that are designated as CTPs by HM Treasury, is designed to manage financial stability risks caused by a small number of technology providers that serve multiple financial institutions.

Actions for firms:

- Revisit business continuity arrangements to prepare for renewed supervisory focus.
- Expect regulators to incorporate tech disruption scenarios in stress testing exercises.
- Identify the risks in your firm's end-to-end process to deliver services, including exposures from third-party providers, and put in place measures to mitigate the risk of disruption. International groups should understand their exposures at a local, regional and global level.

Sustainable finance

Environmental, social and governance (ESG) reporting on emissions, climate risks and sustainability is becoming a business norm for the largest companies. In the EU, for example, the scope of the Corporate Sustainability Reporting Directive (CSRD) will extend to include the next wave of companies from 1 January 2025. In the US, state-level climate reporting, such as the California Climate Corporate Data Accountability Act, is progressing despite SEC delays, with similar initiatives under way in New York[36] and Washington State.[37] Globally, several markets including Australia, Switzerland and Hong Kong are adopting IFRS sustainability standards, starting in 2025, with over 20 countries indicating their interest in complying with the International Sustainability Standards Board (ISSB) standards over time.

Nature-related risk and biodiversity are receiving increased attention, although regulatory strategies for these risks are still in their early stages.[38] Initiatives such as the Network for Greening the Financial System's (NGFS) preparatory work on nature-related financial risks,[39] the Taskforce on Nature-related Financial Disclosures' (TNFD) work to align to the Global Reporting Initiative (GRI),[40] the European Financial Reporting Advisory Group's work (EFRAG),[41] and ISSB's inclusion of biodiversity risks in their 2024-26 work plan,[42] all indicate a broadening focus on the "E" beyond climate to help understand its impacts to financial stability and shape future regulatory responses. It may, however, take some time before firms face specific obligations regarding biodiversity and nature-related risks.

The voluntary carbon market is attracting growing attention as an alternative mechanism for meeting net-zero transition goals. Regulatory gaps raise reputational and operational risks, but initiatives, such as The Core Carbon Principles[43] and the International Organization of Securities Commission's (IOSCO's) forthcoming final guidance, aim to improve credit quality and transparency.

Actions for firms:

- As the focus on biodiversity and natural capital intensifies, firms should strive to understand the associated risks and opportunities and consider the potential implications to their business strategy.
- Consider how innovative technologies such as AI can support precise and timely reporting to meet regulatory requirements.

Non-bank finance

The Financial Stability Board (FSB) estimates that in 2022, non-bank financial institutions – sometimes referred to as "shadow banks" – accounted for more than 47% of the assets in the global financial system, up from 42% in 2008. NBFIs include regulated and unregulated firms that offer "bank-like" products and services, including credit and payments, without the same prudential requirements as banks. In the US, NBFIs collectively originate and service most residential mortgages.[44] Although their contribution to the functioning of capital markets is recognized, regulators have recently become more concerned that concentrations of risk in NBFIs could spill over into the regulated sector and destabilize systemically important institutions.

Recent events fueling increased NBFI scrutiny

March 2020
Global "dash for cash", prompted by the COVID-19 pandemic. Investors rushed to sell securities, causing market instability

March 2021
Collapse of Archegos Capital Management after the firm failed to meet its margin calls, prompting banks to rush to sell off the fund's positions

March 2022
London Metal Exchange nickel market dysfunction, fueled by an increase in demand for nickel after the Russian invasion of Ukraine. The episode led to a suspension in trading and cancellation of orders

September 2022
Crisis in liability-driven investment products used by the pensions industry following the government's September budget announcement

The private credit market is attracting significant attention in the US and Europe where it poses challenges both in terms of leverage and risk management. This segment, where investment funds lend to corporate borrowers, has grown to US$2.1t, of assets and committed capital globally.[45] Although private credit is a useful source of capital for companies excluded from public debt markets and traditional bank finance (e.g., due to their size or risk profile), the market is relatively opaque and regulators do not have good visibility over the potential systemic risks that could migrate from private credit markets into the rest of the financial system.

Supranational agencies and domestic regulators continue to voice their concerns, but international coordination remains a challenge. The FSB has called for countries to progress reforms designed to address threats to financial stability from NBFIs and intends to publish proposals to address "leverage-related vulnerabilities" in NBFIs by the end of 2024.[46] The European Commission recently sought views on the effectiveness of the current regulatory framework for NBFIs and macroprudential regulation of NBFIs will be a focus of the next term.[47] In relation to private finance, prudential authorities in the UK and the EU have highlighted some banks' poor understanding and risk management of their exposures to the segment.[48]

Actions for firms:

- Regulators are focusing on the understanding that banks and other regulated institutions have of their exposures to NBFI markets. Prepare for greater supervisory scrutiny, especially regarding risk management procedures and exposures to less visible markets, such as private finance, where regulators will be concerned about counterparty risk, concentration risk and liquidity risk.
- Invest in data analytics and aggregation capabilities to support identification and monitoring of material exposures and concentrations.

Financial crime and sanctions

Authorities worldwide are refining their AML and CTF regimes to protect the financial system against abuse by malicious actors. In response to greater geopolitical tensions and technological advancement, they are addressing gaps and targeting higher-risk actors and activities, particularly the use of cryptoassets and alternative payment providers to evade sanctions.

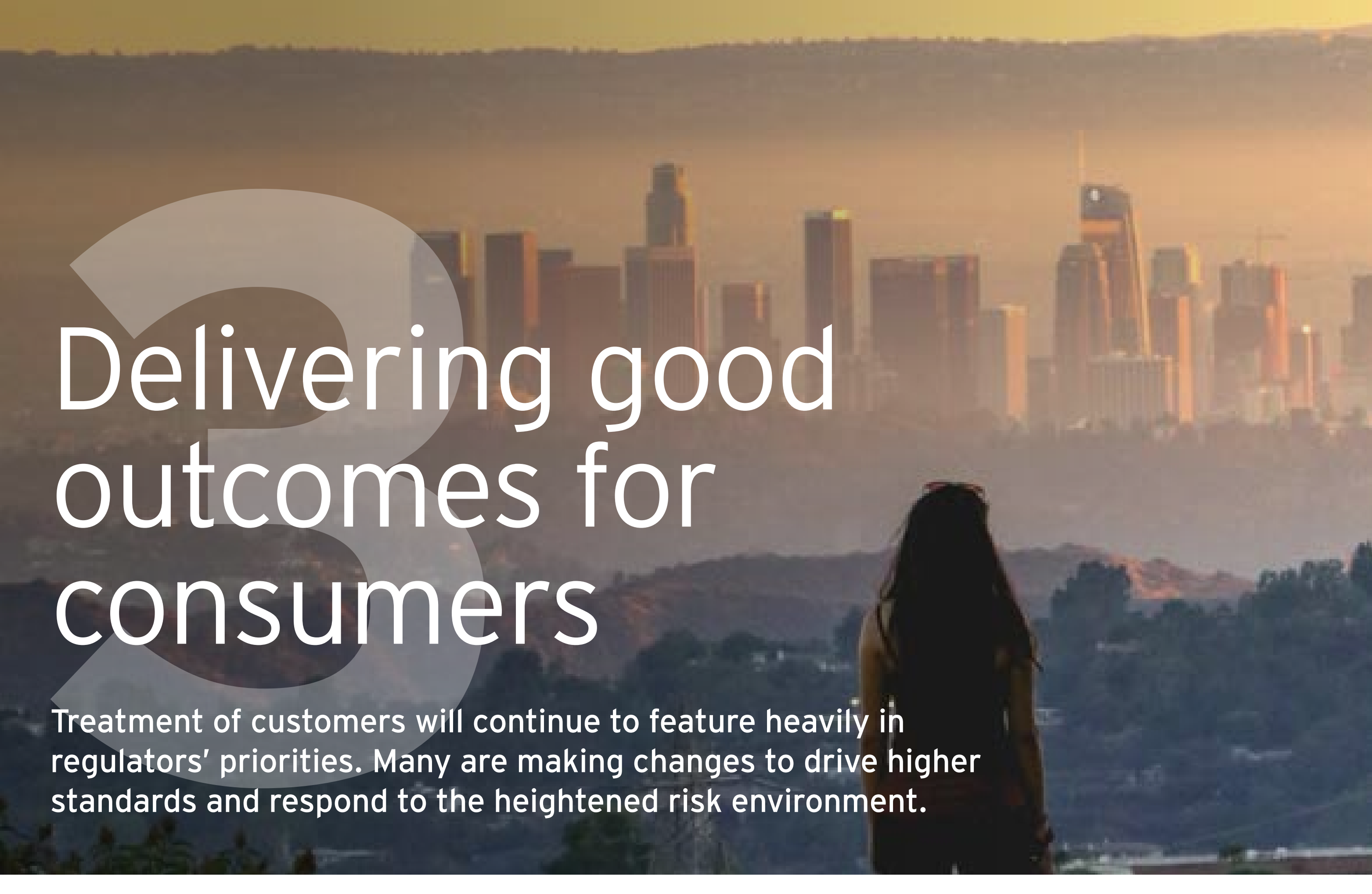
The Australian government introduced a bill to update and expand its AML and CTF regime to additional high-risk services including digital currencies and virtual asset providers.[49] The EU has recently introduced an enhanced AML regime including establishing a new authority with direct supervisory responsibility for the riskiest financial institutions. This change is expected to significantly increase scrutiny of firms operating across the EU.[50]

The US Treasury's Financial Crimes Enforcement Network (FinCEN) recently proposed a new rule to strengthen AML controls in financial institutions by requiring consideration of national AML and CTF priorities. Earlier in 2024, FinCEN joined the SEC in proposing to extend the AML and CTF regime to investment advisors.[51] US regulators have identified inadequate financial crime skillsets and training within firms.

At an international level, the Financial Action Task Force (FATF) will progress new priorities under the Mexican presidency, including effective implementation of FATF standards in relation to asset recovery, beneficial ownership and virtual assets, and financial inclusion.[52]

Actions for firms:

- Ensure financial crime initiatives have an appropriate level of oversight, with clearly defined roles and responsibilities.
- Review staffing and training to identify any gaps in financial crime knowledge and expertise.
- Identify lessons that can be learned from previous experiences of integrating sanctions requirements into your organization's control framework and ensure these are applied to future changes.



Delivering good outcomes for consumers

Treatment of customers will continue to feature heavily in regulators' priorities. Many are making changes to drive higher standards and respond to the heightened risk environment.

Many consumers are still experiencing stress from a challenging economic climate. Building financial resilience, particularly in later life, is high on the agenda. The ESG agenda is driving a greater focus on financial inclusion, and countries are revisiting their strategies to support vulnerable or excluded customers. At the same time, technology is changing the nature of customers' interactions with financial services providers. Fraud and scams are becoming increasingly sophisticated, and regulators are clear that they expect the financial sector to play their part in protecting consumers.

Treatment of consumers

Fostering the financial wellbeing of consumers is among regulators' top priorities.

The UK FCA's 2023 introduction of the Consumer Duty – in effect a duty of care owed by financial services firms to their retail customers – has attracted the attention of regulators around the world, many of whom are bringing forward similar measures. For example, MAS has expanded the scope of its Guidelines on Fair Dealing, including requirements relating to product design, explanations of products and their terms and conditions, and complaints handling that mirror aspects of the UK Consumer Duty.[53] New rules on product governance will begin to apply to in-scope firms in Japan.[54]

Setting up for success

- Look beyond compliance to actual consumer outcomes and use this shift as an opportunity to gain a competitive advantage.
- Analyze the needs of stressed or underserved customers and take steps to ensure products and services are delivering good outcomes. Respond constructively to policymakers' efforts to promote greater financial and digital inclusion.
- Consider what role your organization can play in building customer awareness of fraud and scams. Evaluate the use of prompts or controls that can be implemented into the customer journey to support customers to protect themselves.

Among other jurisdictions enhancing consumer protections, New Zealand's Conduct of Financial Institutions Regime comes into force on 31 March 2025 to strengthen the systems and processes put in place by banks and insurers to treat customers fairly.[55] Ireland has been consulting on modernizing its Consumer Protection Code and a revised code is expected to come into force by Q1 2025.[56] Several authorities in the Middle East are updating their conduct and consumer protection regimes.

Actions for firms:

- Ensure customer outcomes are at the heart of your strategy. Put yourself in the customers' shoes and use customers' insights to inform your products and services.
- Monitor consumer complaints and public comments to track where there may be concerns about outcomes.
- Pre-empt regulatory action by reviewing your end-to-end user journey to eliminate unfair practices, complex information and opaque fee structures.
- Understand how regulators may view the principle of fairness and be prepared to demonstrate how you are delivering in customers' interests.
- Understand your responsibilities in managing the consumer impact created by your partners and affiliates.

Financial inclusion and access to cash

Alongside regulators' increased emphasis on ethical conduct in 2025, financial institutions should expect additional obligations to promote financial inclusion, notably in countries including the UK and US that are developing, or expected to develop, national financial inclusion strategies.[57]

Key to these strategies will be measures requiring financial products and services to meet the needs of low to moderate-income households. Credit scoring will be an important focus of the financial inclusion drive. Efforts to make it easier for customers with limited credit histories to access loans and other financial products include the EU proposal on financial data access expected to come into effect by 2027, and the US Federal Reserve's plan to provide new resources on alternative data.[58] The US Federal Deposit Insurance Corporation has published plans to improve access to banking services and promote safe and affordable loan, savings and investment products.[59]

By the end of 2024 or early 2025, regulations in the EU, UK, Ireland, Canada, US and Australia may require banks to maintain basic cash infrastructure, offer cash services and close gaps in their coverage.[60] In the UK, from 18 September 2024, banks and building societies designated by the UK government have been required to assess and fill any gaps in cash access provision that significantly impact consumers and businesses, including any potential gaps created by a branch or ATM closure. At the same time, Canada has ruled out the creation of a digital currency to protect the use of cash.

Actions for firms:

- Prepare for political and regulatory scrutiny of decisions to withdraw in-person access to your products and services, such as through bank branches.
- Be prepared to demonstrate how your products and services cater to the needs of certain customer groups, including vulnerable customers.

Fraud and scams

Regulators globally are increasing their efforts to protect consumers from fraud and scams that are becoming more sophisticated and harder to detect. In Europe, where mixed social engineering attacks and authorized push payment (APP) fraud are on the rise, policymakers appear ready to agree to new payments rules that will enhance consumer protections.[d] For instance, checks to ensure a payee's name matches the name included in the international bank account number (IBAN) will be mandatory for regulated firms. Payments services firms will be obliged to highlight fraud risks to their customers.[61] Major retail banks in Singapore will be replacing one-time passwords with newer technology to prevent phishing, including using digital tokens on mobile devices to sign into bank accounts.[62]

However, in many countries, the debate about how fraud victims should be reimbursed, and by whom, is ongoing. In Australia, regulators have acknowledged the roles played by banks, telcos and online platforms in preventing scams. The draft Australian Scams Prevention Framework could lead to significant fines for failure to comply with mandatory codes.[63] In the UK, new rules require payment services providers (PSPs) to reimburse victims of APP scams by up to £85,000 per claim. The compensation cap was originally set at £415,000 but reduced by the Payment Systems Regulator (PSR) following consideration of concerns, including the prudential impact on PSPs. The reimbursement will be shared equally by sending and receiving PSPs to incentivize strong anti-fraud controls. Lawsuits have been filed in the US against large banks to force them to reimburse customers that are victims of authorized payment scams.[64]

Actions for firms:

- Help your customers understand common fraud and scams. Careful use of friction in the user journey could prevent mistakes.
- Use technology to monitor transactions, enhance security and verify customer identity.
- Ensure your organization is set up to respond quickly to customers who have been defrauded.

[d] According to the FCA, APP fraud is where "someone is deceived into authorising a payment either to an account that they think belongs to a legitimate payee but is actually controlled by a fraudster, or for something they believed was legitimate but is actually fraudulent". GC24/5: Authorised Push Payment Fraud: enabling a risk-based approach to payment processing | FCA

Managing risk in a changing environment

Although not new, the 2023 banking crisis brought into sharp focus two closely related issues, which contributed to firm failures.

Long-standing risk management weaknesses went un-remediated, and some firms had failed to update their risk management and governance arrangements in line with their business strategy and future ambitions. As a result, supervisors are now re-emphasizing full and timely remediation of known weaknesses, effective board oversight, a strong risk culture and, in some regions, senior manager accountability. Failure to live up to supervisory expectations could result in enforcement action, including large fines.

While effective risk management and governance arrangements are a constant concern, firms should expect greater scrutiny in 2025 as supervisors test firms' ability to monitor and respond to the fast-changing operational environment. Regulators and supervisors are becoming more demanding of boards and senior management and are being explicit about the issues they expect to be considered.

Setting up for success

- Continue to implement governance and risk management arrangements that support effective oversight and management of your firms' risk environment, now and in the future.
- Pay close attention to feedback from supervisory interactions and cross-sector reviews. Ensure actions are implemented and supervisors are kept updated on progress.
- Prioritize investment in systems and data that allow you to proactively self-identify issues and implement controls before the risk crystallizes.

Risk management

Evaluations conducted after the 2023 bank crisis brought to light the importance of addressing known risk management and compliance weaknesses. Supervisors will increase the pressure on firms to resolve long-standing issues and failure to do so will likely lead to enforcement action. For example, US regulators have raised issues with banks seen as slow to correct previously identified issues. In the UK, the PRA will run its first insurance dynamic stress test in 2025, with one of the objectives being to assess the effectiveness of insurers' risk management and management actions following an adverse scenario.[65]

Supervisors always expect firms to be able to effectively manage their risk environment, but this is becoming increasingly important in an ever-changing environment. Firms should be able to demonstrate to supervisors the effectiveness of their control environment and monitor and test against their policies, procedures and regulatory requirements to identify emerging and pervasive issues across lines of business.

Additionally, supervisors will test firms' risk management capabilities and ensure they are commensurate with both current business operations and future ambitions. This includes third-party relationships and their role in the wider financial services ecosystem. Firms should be considering if their three-lines-of-defense model is organized effectively. Boards and senior managers should expect significant pressure from supervisors if long-standing issues have not been corrected.

Actions for firms:

- Explore how advanced technologies such as data analytics and AI can help your organization predict future issues.
- Conduct regular testing to allow you to better intercept emerging issues.
- Consider if your three-lines-of-defense model is delivering optimal results.

Governance and accountability

In addition to a greater emphasis on remediation of known issues, supervisors are scrutinizing boards of directors to ensure they have effective oversight of firms' risk management capabilities and remediation efforts and effectively hold senior management to account. A review of the Federal Reserve's supervision and regulation of a bank which failed in March 2023 specifically highlighted the failure of the bank's board in this regard.[67]

Having introduced accountability regimes following the 2008 financial crisis, several jurisdictions are expanding or strengthening them, with new measures in areas such as climate risk and cryptoasset exposures. Australia's Financial Accountability Regime will apply to insurers and superannuation entities from March 2025, extending the regime that already applies to banks.[68] In Europe, banks and investment firms subject to the sixth Capital Requirements Directive (CRD6) face new suitability requirements for senior managers, as well as new obligations relating to climate and cryptoasset-related risks.[69] In the UK, the Senior Managers and Certification Regime (SM&CR) could be extended to central counterparties, central securities depositories, regulated investment exchanges and credit reference agencies. The FCA has also been exploring possible options to extend the SM&CR to payment and e-money firms.[70] The next steps will be coming from the UK government.

> Good governance is always important, but especially during periods of heightened uncertainty and change.
>
> UK Financial Conduct Authority[66]

Actions for firms:

- Ensure governance arrangements give board members sufficient oversight of the firm's risk environment.
- Approach regulatory relationships systematically. Feedback should be tracked and revisited to ensure issues are being addressed.
- Make sure senior individuals, especially those subject to accountability regimes, have a clear understanding of their role and responsibilities. These should be formalized in writing and regularly reviewed and updated.

About the EY Global Regulatory Network

Our GRN is a network of former regulators which helps the C-suite and board-level executives respond to constantly changing regulatory and supervisory expectations.

We advise financial institutions, as well as governments and regulators, on actions they can take to address the changing risk environment.

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