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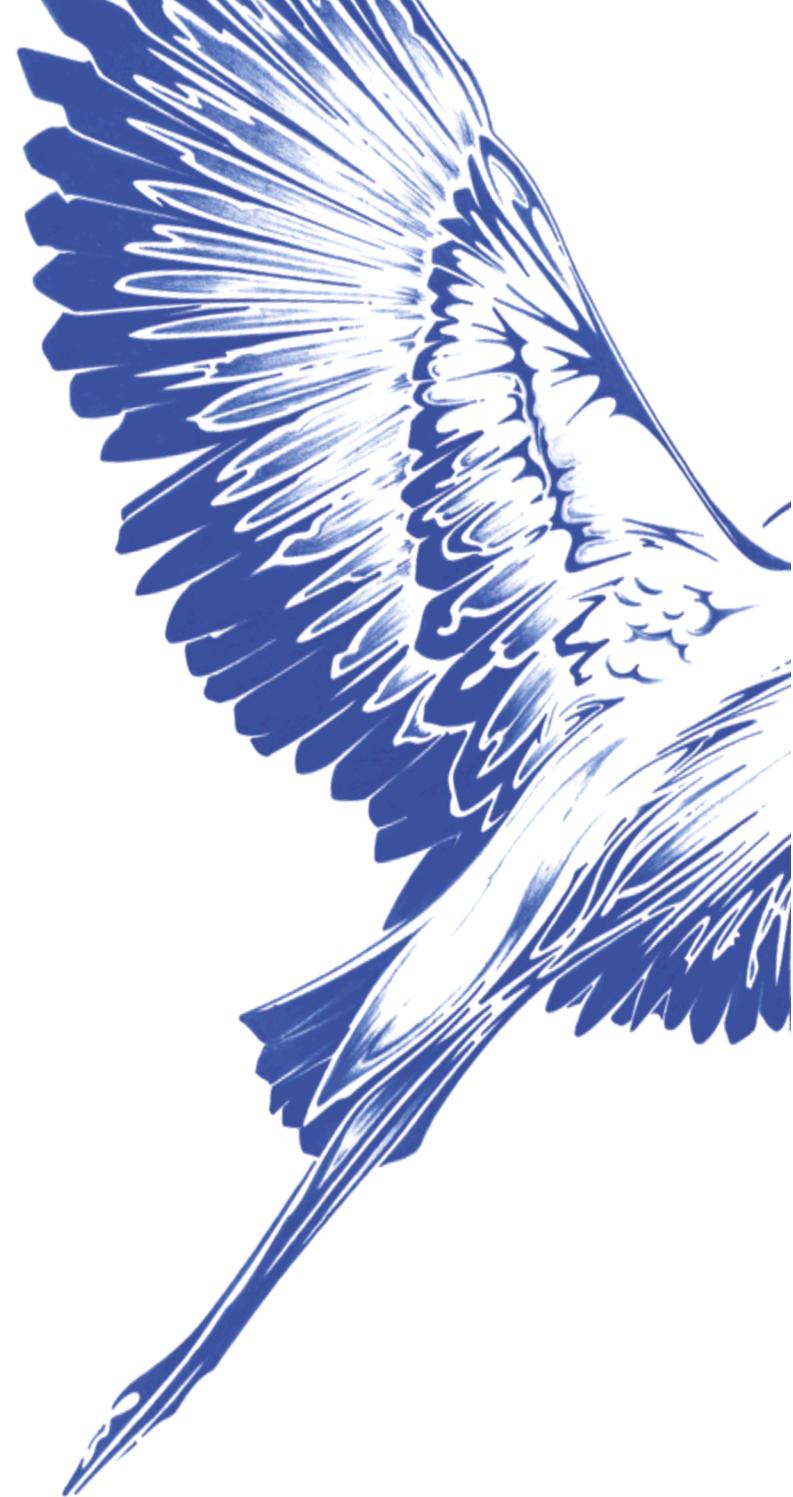
FCA'S RISK OUTLOOK, KEY PRIORITIES AND PLANNED REVIEW WORK FOR 2015/2016

02 April 2015

On 24 March 2015 the Financial Conduct Authority set out the key areas of work it will undertake in the forthcoming financial year with the publication of its Business Plan for 2015/16. This is also the first year that its Risk outlook is published as part of the Business Plan. The Chief Executive of the FCA, Martin Wheatley, points out the importance of the Business Plan for setting out the regulator's priorities for the year and also providing greater clarity for firms and how they can expect to work with the FCA.

Below we have provided glance card summaries of the FCA's Risk Outlook and its Key Priorities and Planned Review Work for 2015/2016:

To view the full FCA Business Plan 2015/16 please follow this [link](#).



RISK OUTLOOK

Key Risk Area

Commentary

BUSINESS CONDUCT

- **Culture in firms**

The FCA considers that complexity in business models is an issue that needs to be addressed by firms in order to provide better consumer outcomes. The FCA believes that a cultural shift within firms to promote good conduct that places consumer interests and market integrity at the heart of the financial sector will benefit all stakeholders. Cultural change will also be an important aspect in mitigating risks associated with large back-books. Firms should be proactive in acting in the interests of both existing and new or potential customers as this will reduce the above-mentioned risks and show commitment to offering suitable, accessible and good value products to all customers.
- **Consumer behaviours**

The FCA notes that firms may in some occasions capitalise on identified consumer behaviour patterns and traits. Firms should adapt to such consumer behaviour and strive for providing better consumer outcomes. This issue should be positively addressed by firms as it poses a risk to the integrity of the financial markets.
- **Conflicts of interest with a focus on wholesale markets**

The FCA believes that there is room for improvement on managing conflicts of interest associated with business models and activities in the wholesale markets. The FCA will be working to ensure that robust risk management strategies are in place, including that steps are being taken to protect sensitive and confidential client information.
- **Financial crime**

Financial crime poses a significant threat to promoting and enhancing the integrity of the UK financial system. The FCA will maintain its focus on risks arising from money laundering, bribery, corruption and fraud that affects consumers, however the primary focus will be on the first three. In the meantime, firms need to take a risk-based approach that encompasses effective management of risks and not just risk avoidance.
- **Unfair contract terms**

There will be a particular focus on unfair contracts terms in 2015/2016 by the FCA. Terms and conditions can often be too long and complex for consumers to understand which could lead to unsuitable products being bought or problems

coming to light at a later point of a contract. Moreover, consumers could be greatly disadvantaged by firms having too much discretion in some situations and also by getting poor deals for the value they are receiving.

The Consumer Rights Act is due to come in force in 2015, the Act deals with unfair contract terms in a wide range of sectors, including financial services, and will widen the scope for the assessment of fairness, therefore aiding towards the FCA's endeavours in this area.

POLICY LEGISLATION AND REGULATION

- **EU and International** Active engagement with Europe is essential for the smooth and efficient regulatory implementation on a national level. The FCA plays a key role in implementing EU, domestic and international legislation.
- **Market infrastructure** There is a risk that the integrity and reputation of the UK's markets becomes diminished if consumers and other investors lack confidence that those markets operate fairly and transparently. This risk has been identified and is being addressed in the revision of the Markets in Financial Instruments Directive (MiFID II) and also in the introduction of directly applicable implementing EU regulations.
- **Prudential** The FCA is continuing its roll out of the Capital Requirements Directive (CRD IV) and the Recovery and Resolution Directive (RRD).
- **Shadow banking** Shadow banking is a highly dynamic and constantly evolving part of the financial markets. It responds to the changing nature of banking regulation and also to broader macroeconomic conditions. However, there are still substantial gaps in the empirical data to determine size and direction of financial transactions, including issues of interconnectedness with the broader financial system. It is for this reason that in 2015/16, the FCA will be further exploring broader market developments and issues that affect market integrity, competition and retail finance.

DOMESTIC POLICY

- **Pension reforms** In April 2015 there will be significant changes made to the pensions market, with the over 55s having more choice about their financial options. The FCA have pointed out that numerous risks may flow from innovation and a marketplace that has yet to reach maturity in terms of the range of products and services available. The FCA will be closely monitoring

this area.

- **Consumer credit** The FCA notes that the continuous growth of consumer credit could lead to unaffordable debt and therefore consumer credit remains a significant issue on the domestic policy agenda, as rates of borrowing increase. Furthermore, the FCA stresses that affordability assessments should be carried out with high caution as this could pose a serious harm to consumers who enter into lifetime agreements or engage in credit reassessments.

ECONOMIC AND MARKET TRENDS

The economy and financial markets impact and influence consumers and firms in a number of ways. They may change their behavioural patterns, business models, strategies and, most importantly, financial soundness. It is for this reason in line with the recent economic crisis and other crucial economic events that it is important for the FCA to be alert and in line with economic and market trends.

Firms will need to ensure that their strategies are realistic and reflective of current market conditions. The FCA warns against optimism leading towards unrealistic strategies or old business models that no longer reflect the market. Firms and consumers will have to adjust to the recovered economy, which even after recovery may not look the way it did before the crisis. Therefore, it is important to maintain an adaptable and forward-thinking approach.

SOCIAL FACTORS

- **Ageing population and older consumers** Consumers falling under this category may be ill-prepared for the cost of long term care due to a lack in savings combined with a context of low returns on savings or decisions made about the early withdrawal of their funds. This gap could be filled by financial firms by providing innovative products that provide finance for long-term care in old age.
- **Young consumers** Trends in employment for the younger generation and external conditions in the housing market combined with an indication of increasing levels of economic stress in those under 30, may have contributed to young people making more use of credit and debt products to service their day-to-day living. This causes risks of high levels of debt that could lead to knock-on problems later in life for the consumers in this category. In 2015/16 the FCA will be exploring whether the range of products and services on offer are appropriate to meet the needs of younger consumers and whether the market is responding to any trends that appear to be of a more medium-term nature.

TECHNOLOGICAL CHALLENGES

- **Innovation in online web-based channels** While digital advancements can make financial services faster and more convenient, foster competition in the marketplace and reduce costs, they can also increase security and resilience risks that may arise from cyber-attacks or weaknesses in the underlying IT infrastructure, if they are not implemented with due diligence.
- **Cyber crime** Cyber-crime risks are increased by the complexity and age of IT systems operated by some firms.
- **Complex systems with intermediaries** The increasing prevalence of firms acting as gatekeepers or intermediaries can lead to a competition risk, and also give rise to single point of failure risks. This arises where there are significant economies of scale and switching is difficult or costly, and/or using more than one service concurrently is not possible. This could make it more difficult for new players to enter the market and for the market to work well.
- **Failure to invest and maintain** Failures to invest in IT systems and to carry out proper maintenance could result in them becoming increasingly complex, less resilient and potentially less secure. This in turn could lead to failures in the IT systems that could be of detriment to consumers.
- **Market resilience** The risks on infrastructure resilience are closely linked to the other keys areas of risk. Poor conduct may arise from inadequate investment in the systems that firms use to undertake, monitor and control business in the wholesale markets, or in their failure to have robust business continuity plans in place.

KEY PRIORITIES AND PLANNED REVIEW WORK FOR 2015/2016

Topic and Timeframe

Commentary

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- **Culture review**
Q2 to Q3 2015

The FCA will conduct a new thematic review on whether culture change programmes in retail and wholesale banks are driving the right behaviour. There will be a particular focus on remuneration, appraisal and promotion decisions of middle management, as well as how concerns are reported and acted on.
 - **Inducement and conflicts of interest**
Q3 2015

Following the FCA's FG14/1 published guidance on inducements and conflicts of interest relating to retail investment advice (January 2014), the regulator will be assessing firms' practices in this area and whether improvements are needed. This assessment will form part of the FCA's consultation on Handbook changes needed to implement MiFID II and to strengthen the inducements rules in general.
 - **Emerging distribution models – non-advised sales**
Q2 2016

The FCA will undertake a market study into non-advised sales of investment and protection products. Focus will be on consumer behaviour when making investment decisions and how firms support consumers in choosing the most suitable products for their circumstances.
 - **Role of Appointed Representatives**
Q2 to Q4 2015

The FCA will review the role of Appointed Representatives in the distribution of general insurance products. Considerations will be made of the role and work of the principal firm in ensuring that it has adequate and robust systems, controls and resources to effectively select and oversee its Appointed Representatives.
 - **Technology and use of Big Data**
Q2 2016

There will be a market study on how insurance firms use Big Data, such as web analytics and behavioural data tools (including social media). The FCA will identify potential risks and benefits for consumers, including whether the use of Big Data creates barriers to access products or services, and will also examine the regulatory regime to ensure that it does not unduly constrain innovation in the area.

- **Conflicts of interest in dark pools**

Q1 2016

The risks around dark pools have remained a topic of focus for the FCA and the regulator aims to increase its knowledge of the conflicts of interest that may be inherent in the operation of dark pools and also of how firms are managing such conflicts.
- **Investment and corporate banking**

Q2 2016

The FCA will undertake a market study to investigate competition in the investment management and corporate banking sector.
- **Retirement practices** **sales**

Q2 to Q3 2015

The Pensions landscape will be a significant area of focus and will include policy work, supervision, market studies and thematic work. The FCA will review how the retirement sales practices of pension providers, in relation to their vesting customers, have changed. There will be a particular focus on assessing how firms are supporting customers to make the right choices given the wider range of options available. The FCA states that its key objectives as a result of this work are to ensure that firms have stepped up and improved their practices since the publication of the thematic report in December 2014 and to ensure that firms do not seek to undermine or circumvent the Pension Wise service for the purposes of retention.
- **Retirement outcomes**

2016

The FCA will conduct a market study into the outcomes consumers receive from the products and services they buy at retirement. The study will review how well the market is working after the reforms and the guidance guarantee have been introduced, and in particular after the introduction of the full pensions flexibilities in April 2015. The FCA will look at both advised purchases (reviewing the suitability of advice given) and non-advised purchases (reviewing the information provided).
- **Asset management**

2016

The FCA will conduct a market study on asset management. Although the full scope of the study is yet to be finalised, the issues to be examined will include the charges paid by investors and the factors that drive those charges.
- **Post authorisation review of funds**

Q1 2016

The FCA will review whether UK authorised investment funds and segregated mandates are operated in line with investors' expectations as set by marketing material, disclosure material and investment mandates. Compliance with other responsibilities to investors, such as adherence to risk management parameters, will also be considered.

- **Retail banking**
The FCA will complete its review of unauthorised transactions, in order to ensure that firms are not placing unreasonable obstacles or responsibilities on their customers, or that they are not unfairly rejecting claims.
- **Mortgage market**
Q2 to Q4 2015
The FCA will continue to assess how firms are implementing post-MMR rules, and will focus on completing its advice and distribution review in the summer, and commencing its review into responsible lending from April 2015. Starting from autumn 2015, the FCA will begin a wider assessment of barriers to competition with a view to launching a market study in early 2016 on those aspects of the mortgage market that are not working to the benefit of consumers.
- **Collection of unsecured debts**
Q1 2016
The FCA will examine the ways in which consumer credit debts are collected and the extent to which firms involved in the recovery and collection process are following its rules - treating customers fairly and showing appropriate forbearance.
- **Staff remuneration and incentives in consumer credit firms**
Q1 2016
The FCA will be reviewing the remuneration and incentive structures in credit and debt services firms and will assess how these firms are managing the risk that their reward arrangements could encourage potentially undesirable behaviours leading to poor outcomes for consumers.

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