

## Update

Financial Services

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## FCA's Business Plan 2018/19

In the current evolving regulatory landscape and with the uncertainty brought about by Brexit, the Financial Conduct Authority's (FCA) business plan for 2018/19 is one of the most anticipated publications to date. It was issued earlier this month, and sets out the key issues identified and the key regulatory priorities for the coming year, in line with the FCA's 'mission' statement and its operational objectives.

Britain's withdrawal from the EU is one of the key areas of focus for the FCA, who are working collaboratively with the Government, regulatory bodies from across the EU and regulated firms to ensure that there is a sufficiently high level of resource dedicated to operational readiness ahead of the transition. A review of the scope and content of the rules that apply to incoming firms will be required, including those around passporting rights and the proposal of implementing a temporary permissions regime, if necessary.

It is interesting to see that a number of recurring themes are once again at the top of the list. Culture and governance within firms remain a priority, and now even more so, considering the fast approaching extension of the Senior Manager & Certification Regime (SM&CR) to all firms.

The prevention of financial crime and making the UK financial markets a hostile place for criminals and a safe place for consumers is also once again at the top of the FCA's agenda.

There are, however, a few new items due to the recent evolution of the financial sector with new business models being introduced thanks to technological innovation, as well as the additional legislation around payment services, data protection and cybersecurity. We have highlighted the key cross-sector and sector-specific priorities in this factsheet along with the required action and FCA's supervisory objectives for the upcoming year.

The prevention of financial crime and making the UK financial markets a hostile place for criminals and a safe place for consumers is also once again at the top of the FCA's agenda.

All firms should ensure they read the business plan and use it as a helpful document, as it identifies common issues for both consumers and firms, but also offers remedial measures to overcome those issues, that all operators in industry can benefit from.

### Cross-sector priorities

#### Firm governance and culture

With the long anticipated policy statement for the implementation of SM&CR due in summer 2018, 'the tone from the top' and how this is embedded within a firm's culture remains a key theme for the FCA. The proposed rules will reflect the FCA's intention for the new regime to be proportionate to the risks, impact and complexity of different firms. The FCA will also open a consultation this summer on proposals to introduce a public register for all senior managers and certified persons.

The FCA will conduct a broader review of all firms' remuneration arrangements, the purpose being to identify the potential or actual harm from schemes where firms are not subject to one of the FCA's remuneration codes.

#### Financial crime and anti-money laundering

In summer 2018, the FCA is expecting to share the results of its review into the money laundering and terrorist financing risks

within the e-money sector. 2018/19 will also see the FCA conduct a thematic review to better understand how capital markets are being used for money laundering.

To ensure that the accuracy of its risk assessment of different sectors firms and that firms are maintaining high standards of systems and controls around money laundering, the FCA will conduct a random sampling of small and lower-risk firms.

The FCA continues working closely with the Government on a reform of the suspicious activity reporting regime and establishing a new National Economic Crime Centre.



### Data security, resilience and outsourcing

With the increase in the number of cyber-attacks on financial services firms, throughout 2018/19, the FCA will strengthen its supervisory assessment of the highest impact firms to better understand their resilience to cyber-attacks, the current and planned use of technology and staff expertise. This will also include looking at the interaction of risk management, governance strategy and culture towards a firm's data security.

With a greater number of firms outsourcing their critical services, the FCA will be focusing on risks posed by outsourcing and third-party providers. There will also be a focus on outsource providers who support a number of firms, meaning any disruption would have a greater impact on numerous firms.

The requirement for strong systems that ensure cybersecurity, data protection, business continuity and full control over a firm's activities, is not only for the larger players but also relevant to smaller firms operating in the consumer credit and payment services space. The FCA will carry out thematic work with lower impact firms, including new and long-established firms.

### Innovation, big data, technology and competition

Technological development is moving quickly and has definitely brought about great benefits but also extended the scope of risks to new potential issues. The Crowdfunding post-implementation review will see new proposed rules for the sector published for consultation in 2018.

Following the volatile year of cryptocurrencies in 2017 and complex landscape they present, the FCA will be publishing a discussion paper in 2018/19 outlining its policy thoughts, as part of its work with the Treasury and Bank of England.

The FCA is exploring an extension to its regulatory sandbox given the global scope of Fintech and financial services. Over 2018/19 it will work with interested overseas regulators on a blueprint of a global sandbox.

### Fair treatment of existing customers

The FCA is taking over as the regulator of claims management companies (CMC) in spring 2019, and during the year will publish the rules and principles CMCs will be expected to comply with. To inform the rules it creates, the FCA will be conducting a thematic review into how far brokers and motor insurers are inflating claims through referrals to CMCs and keeping volume discounts from their own repairers.

Once the FCA has published the themes from its current work to understanding the pricing practices in retail general insurance, it will determine the actions it needs to take on pricing practices to ensure the market works well for its customers.

To continue improving competition in current accounts and cash saving market, the FCA will issue a report on its work around monthly maximum charges for unarranged overdrafts as well as carrying out a review as to whether competition could be improved in the cash savings market.

### Long-term savings, pensions and intergenerational differences

To better understand the change in firms' business practices following pension reforms, the FCA will be collecting data from all firms across the market that have pension transfer permissions. Where consumer harm is identified the FCA will then work on its intervention powers. 2018/19 will see the FCA publishing its final report on its Retirement Outcomes Review work, with an accompanying consultation paper detailing its proposed remedies to address its findings.

The FCA is continuing its work in non-workplace pension schemes exploring the already identified weaknesses from its work in the workplace pensions market, with a feedback statement expected at the end of 2018.

#### High-cost credit

During 2018/19 the FCA will look into the solutions created to address the lack of choice and availability of alternatives to high-cost credit.

The FCA is examining the pricing policies that firms employ for rent-to-own services, with particular focus on the add-on charges for insurance and warranties as well as the potential impact of these costs on consumers' finances.

A report of the FCA's thematic review of commission and remuneration models in consumer credit firms, the impact on consumer outcomes and the impact of inter-firm payments of products offered to consumers is expected at the end of 2018.

#### Sector specific priorities

In addition to the overall set of priorities that the FCA has established for the whole financial sector, it has also identified more specific objectives and remedies targeted at the following areas:

- wholesale financial markets;
- investment management;
- retail lending;
- pensions and retirement income;
- retail investments;
- retail banking;
- general insurance and protection.

Many of the FCA's concerns in these specific sectors reflect their view of the issues that affect the financial markets cross-sector as outlined above. Some of the proposed remedial action, however, is more specifically focused, and this includes objectives that have been designed around:

- the management of conflicts of interest;
- firms' operational resilience;
- improved competition in asset management;
- review of the implementation of MiFID II;
- verification of the effectiveness of the PRIIPs regulation;
- potential review of the Consumer Credit Act;
- prevention of fraud and avoidance of scams;
- further thematic activities in scope of the financial advice market review;
- new legislation on the trading of CFDs;
- review of the implementation of PSD2;
- protection of vulnerable customers.

Once again, the FCA's plan must be taken in due account by all firms, large or small, as the factors of risk posed to businesses and consumers must be recognised and proposed measures implemented to ensure that all regulated firms operate in accordance with the FCA's guidelines and objectives.

The regulator's thematic work will continue and be used to analyse trends and developments in industry, but may also result in the identification of shortcomings that could be regarded as breaches and be punished accordingly.

For further details on the topics mentioned, please contact our Regulatory Consulting team.

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