The FCA's Business Plan 2016-17

Key actions for your firm to consider

EY
Building a better working world

High level risks summary

"Over the next year, we will continue our valuable work with industry and consumers to develop policy and practice that both addresses current issues and takes account of emerging developments. I call this constructive deterrence, arguably the best form of regulation, seeking to prevent things from going wrong in the first place through proactive engagement."

John Griffith-Jones, Chairman, Financial Conduct Authority

The Financial Conduct Authority (FCA) published its annual Business Plan on 5 April 2016, which includes its risk outlook and key activities for 2016–17. In particular, the FCA highlighted the following cross-sector and sector-specific priorities:

- **Firms' culture and governance** – strong culture and governance which helps competition and consumers alike
- **Pensions** – fair treatment for consumers, stronger competition and a market that meets consumer needs
- **Advice** – affordable, professional advice to meet consumers' changing and complex needs
- **Treatment of existing customers** – effective competition, a fair deal and greater transparency for long-standing customers
- **Financial crime and anti-money laundering (AML)** – better, proportionate and more efficient AML controls, and consumers who are better able to avoid scams
- **Innovation and technology** – resilient systems and new forms of competition
- **Wholesale financial markets** – strong controls which protect market integrity and facilitate clean, efficient and effective markets

"The FCA Business Plan continues to set a demanding conduct agenda for the industry, and reinforces its focus on effective governance, culture and individual accountability.

Firms will need to be more proactive in managing risks that lead to poor consumer outcomes, particularly for long-standing customers. The work on pensions and financial advice will be crucial in helping consumers receive support when making critical decisions on long-term planning. The industry has a key role to play, and a significant opportunity to help redraw the landscape in a way that works for consumers and for them.

Investment banks will be expected to redouble their efforts on conflicts of interest, market abuse, trader controls and price transparency, particularly with the implementation of MiFID II.

The FCA is leading the regulatory pack on innovation, digital and FinTech, and is reinforcing its focus on cyber risk. AML remains a major concern for all regulators globally, and the FCA is no exception.

Market reviews and competition work underway at the FCA have already driven important changes in consumer credit, banking and insurance and may present significant challenges to the asset management industry. Firms must actively compete to retain customers and confirm that existing customers are able to enjoy the benefits of competition via the products and services they offer.

As well as presenting resource and implementation challenges, many of the FCA's regulatory demands pose strategic questions for boards and management about their business models. An effective response to the FCA plan will set the regulatory agenda alongside other key priorities, such as the development of digital propositions, use of financial technology and capital and cost optimisation."

John Liver, Global Regulatory Reform, EY

EY thematic cross-sector insights

Governance

"The FCA expects clear and demonstrable evidence of effective implementation of the individual accountability regimes. At the heart of this is the continued focus on robust governance arrangements and the effectiveness with which risk in business models and operations is identified and managed to deliver fair outcomes to customers and clients, and market integrity. Senior managers are now in the spotlight, and it is critical they demonstrate they are accountable, taking reasonable steps in their business oversight and responding appropriately to issues that crystallise."

Tim Rooke, Corporate and Investment Banking, EY

There is a continued focus on whether firms have implemented governance arrangements which promote fair customer outcomes and market integrity. The recent introduction of individual accountability regimes in banking and insurance is bringing about a sharper focus on the effectiveness of governance structures. Over the last year, as firms implemented changes to support individual accountability regimes, many revised their end-to-end governance arrangements. The key focus should now be on measuring how effective they really are through running scenarios, monitoring breach data and rigorously testing controls.

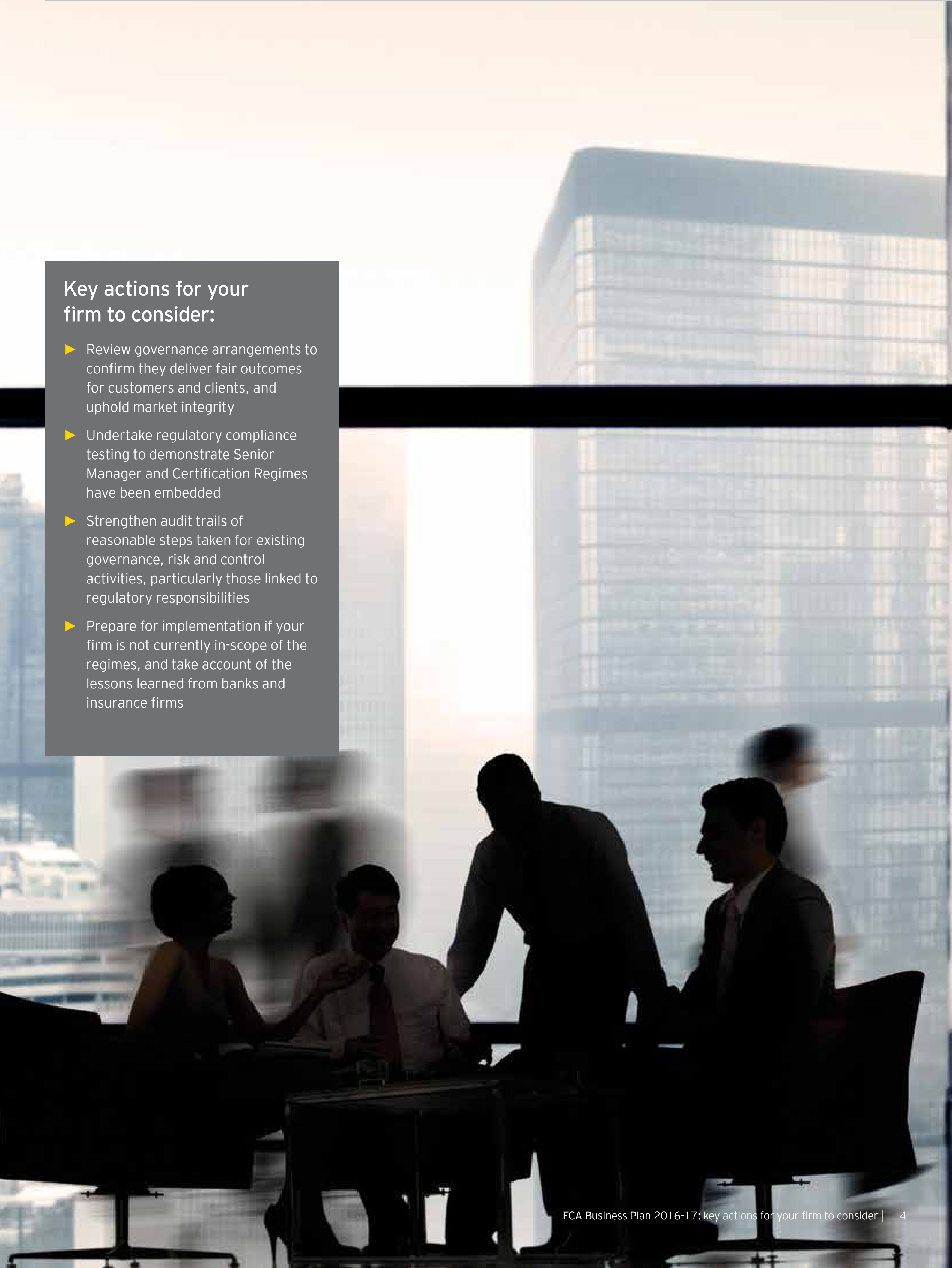
In order to be effective, governance structures must provide sufficient coverage, and enable appropriate and dynamic flows of intelligence. The primary indicator of an effective governance model is the ability to demonstrate proactive identification and appropriate management of risk. Where risks do crystallise, there will be even greater scrutiny on actions taken to address these and lessons learnt to prevent recurrence.

Senior managers and certification regimes

The FCA in its plan has clearly indicated that it expects firms and their senior managers to apply the spirit, as well as the letter, of the regimes. Firms are now focusing on the practicalities of embedding the Senior Managers Regime, including:

- Whether current governance structures allow for effective oversight, escalation and decision-making
- The quality of management information and record keeping as an audit trail of reasonable steps
- Effectiveness of the three lines of defence model at providing risk identification, oversight, assurance and remediation

The implementation of the certification regime and conduct rules will also continue in 2016–17. This includes a number of challenges relating to fitness and propriety checks, extension into the fixed income, currencies and commodities (FICC) markets, enhanced regulatory referencing rules for certified staff as well as the notification and training of the broader Conduct Rule population. For both certification regimes and conduct rules there will be practical challenges for firms to identify and track the relevant population. Additionally, the FCA will begin developing policy on extending the accountability regimes to all firms regulated under the Financial Services and Markets Act (FSMA).



Key actions for your firm to consider:

- Review governance arrangements to confirm they deliver fair outcomes for customers and clients, and uphold market integrity
- Undertake regulatory compliance testing to demonstrate Senior Manager and Certification Regimes have been embedded
- Strengthen audit trails of reasonable steps taken for existing governance, risk and control activities, particularly those linked to regulatory responsibilities
- Prepare for implementation if your firm is not currently in-scope of the regimes, and take account of the lessons learned from banks and insurance firms

Culture

"The FCA is serious about playing its part in bringing culture change across financial services. The Business Plan is loud and clear on the need to be able to demonstrate progress, although not particularly explicit on how firms should bring about this progress – except in relation to remuneration. To be sustainable and effective, approaches to cultural change also need to bridge behavioural change theory with the pressures of managing businesses and transformation programmes in a rapidly changing marketplace."

Clive Martin, People Advisory Services, EY

There can be no doubt about the FCA's intention to focus on culture, despite pulling back on last year's thematic culture review, and it is clear that it still wishes to see further improvements in this area.

A notable shift has occurred from understanding and evidencing culture to determining the effectiveness of firms' individual culture-change programmes; although the focus of the text seems to be on demonstrating progress through metrics-based indicators rather than also addressing the robustness of the behavioural change activity.

The references to mindsets and behaviours, and the links to decision-making, are indicative of increasing market recognition of the human aspect of risk, how behaviour is influenced by a multitude of things (not just by mechanistic drivers such as policies and processes) and how culture fundamentally affects decision-making.

However, the business plan focuses on incentives and remuneration and there is no reference to the complementary behavioural-change techniques that could help bring about the required changes in a more reliable way. These are being increasingly used by some firms in a way which is more structured and sophisticated than in the past. Despite the lack of explicit reference to these routes to success, we believe the FCA will look for evidence that these techniques have been considered as part of its individual engagement with firms.

Key actions for your firm to consider:

- Gain an understanding of collective and individual mindsets and how this insight is incorporated into your culture-change activities
- Build behavioural-change techniques into underlying business-change initiatives, in a structured and cohesive way
- Create a culture-change monitoring framework which includes locally embedded behavioural-change activity as well as centralised culture-change programmes
- Be explicit about the role your remuneration framework plays in encouraging sound and effective risk management as part of a cohesive approach to behavioural change

Advice

"The FCA has signalled the importance it places on access to affordable, professional advice. A well-functioning advice market is crucial so that people can access the support they need to make informed financial decisions. There will be continued focus on making sure there is an improved selection of high-quality, accessible and affordable non-advised options available to consumers. Innovation, underpinned by a strong digital proposition, is likely to be a key factor to success."

Simon Turner, Wealth and Asset Management, EY

Advice is highlighted as one of two new priority themes in this year's Business Plan. The Financial Advice Market Review (FAMR), undertaken by the FCA and HM Treasury, recognised the advice gap created since the implementation of the Retail Distribution Review, given the need for affordable and accessible advice on a broader basis. New pension freedoms have heightened the focus on ensuring good advice is accessible to those who need it and that consumers are protected when making critical decisions.

As indicated in the conclusion of the FAMR, and now confirmed in this year's Business Plan, the FCA is encouraging more streamlined advice to a wider range of consumers. The FAMR's recommendations included providing support to firms on the provision of streamlined advice in limited circumstances, simplifying financial guidance regulation and implementing a bespoke unit to help foster new automated 'robo-advice' models. It also recommended that the definition of 'investment advice' is kept narrow, i.e., to 'personal recommendation' in line with MiFID II as opposed to the UK's current broader definition.

Key actions for your firm to consider:

- Development of streamlined advice offerings, including robo-advice and the associated investment in technology
- For wealth and asset managers – consider whether the FCA decision to make simple advice accessible to more consumers impacts your distribution strategy

Markets in Financial Instruments Directive II (MiFID II)

"The proposed 12-month delay to the MiFID II implementation date should not be construed as an opportunity to reduce intensity in preparing for implementation. Ongoing delays in releasing final regulatory technical standards and delegated acts are eroding the benefits of the deadline extension. Nevertheless, given the scale and impact of implementing MiFID II, firms should be looking to progress with implementation activity in some areas on a no-regrets basis.

The industry needs to remain focused on addressing the broad and challenging requirements of MiFID II – firms have a huge amount of work to do in finalising their assessment of the impact for them and designing comprehensive implementation plans before engaging in the design, build and testing of new systems, controls and procedures, all of which need to be supported by a sound policy and control framework with training rolled out to impacted staff."

Samantha Carruthers, Corporate and Investment Banking, EY

The FCA in its plan is intending to publish further consultation papers, following on from its consultation paper CP15/43[1], to make the necessary changes to its handbook, primarily to add new conduct of business and organisational requirements.

MiFID II is expected to change fundamentally the way capital markets operate, enhancing pre- and post-trade transparency and further protecting the integrity of capital markets. Despite the recently announced delay to the implementation of MiFID II, and significant areas requiring further regulatory clarity, firms should be moving forward with activity on a no-regrets basis:

- Concluding on go-forward trading models
- Identifying and building links to new market venues
- Identifying potential pre-trade quoting obligations, including potential building or buying pre-trade quoting engines
- Reviewing client classification and addressing best execution and client information requirements accordingly
- Enhancing transaction reporting frameworks

A fundamental aspect underpinning all activity will be the availability and cleanliness of data (both static and trade). The extent to which firms can leverage existing data is likely to determine the success of programmes.

MiFID II is also expected to impact directly and indirectly wealth and asset managers. Their businesses will be materially impacted by:

- The target market assessment requirements which will impact both manufacturers and distributors of products
- More detailed ex-ante and ex-post costs and charges requirements effectively applicable to both manufacturers and distributors
- The requirements on payment for research and the related disclosure requirements
- The broader inducements requirements
- The more extensive suitability requirements
- Increased appropriateness assessments that will result from the wider definition of complex and 'retail'
- Increased reporting requirements
- Implications of the MiFID II requirements on third countries for firms with global operating models

1 Markets in Financial Instruments Directive II Implementation — Consultation I, December 2015, FCA.

Key actions for your firm to consider:

- Move from impact assessment to planning and implementation, including building credible implementation plans, agreeing a budget and establishing work streams aligned to MiFID II core topics
- Monitor the ongoing process of finalising the requirements and flex implementation plans and execution in response to changes and clarifications
- For wealth and asset managers – identify and determine how best to address the overlaps between MiFID II, other regulations such as Packaged Retail and Insurance-based Investment Products (PRIIPS) and other ongoing projects which the business has in process.

Treatment of existing customers

"The FCA report on fair treatment of long-standing customers in the life insurance industry sets out regulatory expectations in detail, and insurers will need to make sure that their response to the report is equally detailed in terms of demonstrating how they deliver fair treatment to long-standing customers. The report also has implications beyond life insurance, in areas such as strategy, product governance, charges and customer communication, and the FCA will expect other firms to review the guidelines in the report and apply them to their products and customers."

Steve Southall, Insurance, EY

The FCA is currently consulting on the detailed guidelines contained in its report, following up with the life insurance firms featured in the review. The FCA will hold industry discussions on reaching a voluntary solution to the fair treatment of closed-book customers through the removal or capping of exit or switching fees. The firms will have to respond in detailed terms to evidence that they treat long-standing customers fairly.

The FCA's packaged bank account review is due to be completed in Q3 2016. This follows their detailed study of the packaged account market, which focused on assessing whether customers could claim under insurance included in these accounts. In the current Business Plan, the FCA highlighted that it intends to consult on further remedies to improve outcomes for existing customers, with a specific focus on improving transparency, and increasing shopping around and switching.

The plan articulates concerns about products no longer being appropriate or not being actively reviewed frequently enough to confirm continuing appropriateness for existing customers. There are examples where this risk has crystallised for certain savings and investment products and this concern has been called out by the FCA.

Key actions for your firm to consider:

- Undertake a gap analysis against all guidelines in the report on treatment of long standing customers, to identify areas where current practice does not meet FCA expectations
- Review product governance and oversight arrangements in light of both the long-standing customer thematic review and the forthcoming review of independent governance committees
- Respond to the FCA's consultation on life insurance exit and switching fees
- Analyse whether packaged account benefits continue to represent good value to existing customers
- Implement operational changes required to facilitate better outcomes for long-standing customers, including customer communications, management information and products

Financial Crime and Anti-Money Laundering

"Financial crime continues to be a key focus area for the FCA and regulators worldwide. Recent terrorist atrocities have increased political pressure on financial services to maintain effective controls. Financial crime risk changes and develops with the introduction of new products and technologies. Firms need to be proactive and sophisticated in their understanding, measurement and mitigation of these risks, not least in high-profile areas such as tax evasion. Facing such a complex set of risks, the ability of firms to document and articulate their financial crime risk exposure and explain their control framework will need to bear ever greater scrutiny."

Debbie Ward, Financial Crime, EY

The next 18 months will see both national and international focus on the UK's financial crime control mechanisms. The FCA is committed to continuing work with global intergovernmental bodies, such as the upcoming Financial Action Task Force (FATF) mutual evaluation due in 2017.

Regulatory changes will implement the European Union's (EU's) 4th Anti-Money Laundering Directive (4MLD) into UK legislation, which the FCA will be working towards alongside the UK Treasury. The key focus of the 4MLD on the risk-based approach to clients will require firms to be able to articulate and explain how they have applied these procedures to individuals in order to mitigate potential financial crime risk.

The FCA will also continue to focus on the importance of the risk-based approach, including firms' use of IT to both improve compliance outcomes and control the cost of compliance. Where firms de-risk an entire client segment on a wholesale basis, the potential implications for financial exclusion to some consumers also need to be considered in the context of other regulatory pressures.

The FCA will continue to use its enforcement powers and has highlighted the use of intelligence, including that from whistle blowers, to prevent money laundering.

The FCA is currently running a consultation on its proposal to gather financial crime risk statistics from firms. This financial crime annual data return is intended to assist its Systematic Anti-Money Laundering Programme by enabling it to focus its resources on the firms with the highest risk.

Key actions for your firm to consider:

- Take steps to identify and address the effective use of new technology in any potential gaps in the current control framework against the requirements of the 4MLD
- Review transaction monitoring to confirm terrorist financing scenarios are included in the overall financial crime control framework
- Assess how senior management understand and take responsibility for the prevention, detection and deterrence of financial crime; in particular, confirming which senior manager will be allocated the prescribed responsibility for financial crime under the Senior Managers Regime (if not the money laundering reporting officer)
- Engage with the FCA consultation on its proposed financial crime data return and consider the processes required in order to gather the requested data points

Innovation and technology

"The FCA recognises the potential of innovative customer propositions and new technology to provide benefits to customers on one hand and the new risks introduced on the other. FCA regulation aims to allow for financial institutions to serve customers the way they want to be served, enabling the delivery of great value whilst providing an adequate level of protection. Banks need to enhance their risk and control frameworks to adopt these new technologies into their infrastructure whilst balancing systems complexity without unduly impairing the customer experience."

Patrick Craig, IT Performance Improvement, EY

The rapidly growing reliance of the financial services sector on the internet for the delivery of core financial products and services brings with it an increasing vulnerability to cyber attacks. Systemically important firms have been the focus of the FCA's vulnerability assessments to date. However, there are a vast number of authorised firms providing key intermediary services, where problems could be sources of significant disruption to the sector's operating capability.

The FCA will be communicating to firms its expectations of them for effective IT and operational resilience. We anticipate that the FCA will begin to focus more on identifying potential cyber risks in this wider population of authorised firms and become more explicit about the standards of cyber resilience it requires them to have in place.

Additionally, the FCA will recalibrate existing regulation to prevent stifling digitalisation and innovation that is beneficial for customers and competition. The FCA will launch a regulatory sandbox, creating a safe place for firms to test new ideas to confirm they meet regulatory requirements. In parallel, firms' boards are expected to make informed decisions to address associated IT complexity; appropriately balancing innovation with maintenance, resilience and customer protection.

An emerging FCA concern is that a growing number of firms are adopting or switching to cloud-based third-party services, which are provided by a relatively small number of suppliers. This could potentially create a new concentration risk from a regulatory perspective — not least because those providers sit outside the FCA's remit.

Key actions for your firm to consider:

- Use the regulatory sandbox to test digital interfaces to inform 'go' and 'no-go' decisions along with product reviews
- Review the benefits of digitalisation against your risk, cyber exposure and due diligence from third-party providers
- Understand the nature of cyber risk faced, why you might be a target, which assets might be targeted and your ability to respond to breaches to limit customer impacts, reputational risks and financial losses

Wholesale financial markets

"The Business Plan reflects the FCA's continued focus on conduct and culture in wholesale markets. In particular, the year ahead will see it focus on market integrity, reflecting both the EU requirements in relation to market abuse, as well as the FICC-specific focus areas set out in the FEMR. The plan also highlights the regulator's ongoing work in relation to inherent conflicts of interest, where firms will be expected to demonstrate robust programmes to manage this risk. The effectiveness of primary markets will be a key area, with particular attention paid to the structure of listed markets as well as the operation of the primary UK debt markets. The comprehensive set of requirements within MiFID II will cause firms to focus on the operational structure supporting their trading businesses, and will also be seen by regulators as an opportunity to embed market transparency and investor protection more deeply within their processes and controls."

Stuart Crotaz, Corporate and Investment Banking, EY

Of the FCA's top risks, two new themes were identified this year: wholesale markets being one which will be prioritised by the FCA. Within this theme, the FCA will be focusing on:

- Significant changes posed by European regulation, including the Market Abuse Regulation (MAR), Markets in Financial Instruments Regulation (MiFIR) and MiFID, which focus on enhancement of monitoring and surveillance activity to disrupt and deter market misconduct, and improving market transparency and investor protection.
- Implementing the 21 recommendations identified by the fair and effective markets review (FEMR), which includes the supervision of benchmarks; enhanced rules and an extension of the Senior Managers and Certification Regime; working with international counterparts to improve conduct and develop the global FX code; liaising with the FICC Market Standards Board regarding emerging risk and raising standards; and finally, incorporating the review findings into the FCA's supervision of the FICC markets.
- Undertaking numerous pieces of work to confirm primary markets continue to be effective, which includes negotiation of the Prospectus Regulation, improving availability of information in the UK IPO process, improving the effectiveness of the UK primary debt markets and reviewing the structure of listed markets.

Holistically, the FCA's focused work plan will look to assess a firm's arrangements to mitigate adequately the risks facing the wholesale financial markets, which have been described as:

- Heightened uncertainty about the global economic outlook
- Financial returns dictating business culture
- A failure to strengthen conflict management and trader controls

In response to the Wholesale Sector Competition Review, the FCA has published on 13 April 2016 its interim report on its Investment and Corporate Banking market study which focuses on issues around choice of banks and advisers for clients, transparency of the services provided by banks, and bundling and cross-subsidisation of services. This follows the extension of the FCA's powers to enforce against unlawful anti-competitive behaviour in the industry in coordination with other regulators, including the Competition and Markets Authority (CMA).

In July 2016, MAR and the Market Abuse Directive II (MAD II) will come into force. The scope of MAR has been expanded to cover all financial instruments, and includes orders as well as executed trades. Particularly challenging areas will be identifying the impact of potentially abusive behaviour by product and activity; determining how to confirm objectivity and disclosure for 'investment recommendations'; and establishing effective automated surveillance systems that are specific to MAR. History has taught us that tolerance is low where there is a failure to have adequate arrangements in place to detect market abuse and, again, increased attention is being paid to the FICC markets and the adequacy or arrangements in place.

Key actions for your firm to consider:

- Review FICC desks to confirm infrastructure and resourcing capability will meet the demands of the upcoming regulation, e.g., MiFID II, MAR and FEMR
- Assess management of conflicts of interest in the primary markets
- Monitor MAR and MiFIR/MiFID II programmes to confirm they are on track

Retail banking

"For retail banks, the treatment of existing customers is a key area for consideration. The FCA warns that tougher economic conditions could lead to customers getting a poor deal as banks seek to reduce costs, squeeze margins and generate additional income. There is a very real risk of history repeating itself, and senior managers will want to confirm that they have taken reasonable steps for their areas of responsibility, be that product manufacture, distribution or operations."

Jenny Clayton, Retail Banking, EY

The FCA's concerns about potential cost cutting appear to be borne out by the banks themselves.[2] In addition, many bankers, perhaps surprisingly, are anticipating that mortgage and credit card lending will be less restrictive over the next 12 months. This, coupled with a potential increase in interest rates, could push customers into arrears and limit their options for accessing more suitable products to meet their individual needs.

Firms will need to be satisfied that they can evidence the appropriate assessment of affordability and sustainability of lending products during both the lending and collections process. Our experience suggests that firms are finding the delivery of good customer outcomes challenging, and they should consider whether further training of staff and oversight in this area and would be beneficial.

Firms should consider mapping the end-to-end customer journey across key products to be confident that good customer outcomes are delivered throughout the life cycle, and any issues are identified and addressed.

For the mortgage sector, key events this year will be the feedback statement on Mortgage Competition (Q2 2016) and findings paper on Mortgage Market Review Embedding (Q3 2016). Related to this firms should consider their current approach to early repayment charges, evidencing affordability, IT requirements for new style disclosure documentation and competition considerations for customers to enter the mortgage market.

The FCA will conclude its authorisation process for all consumer credit firms, in 2016/17. It will also conclude in Q3 2016 its review of staff remuneration and incentives in Consumer Credit. The final findings from the credit card market review study are still to be published. We expect continued activity in this space in the next 12 months as the FCA brings together its findings for this market.

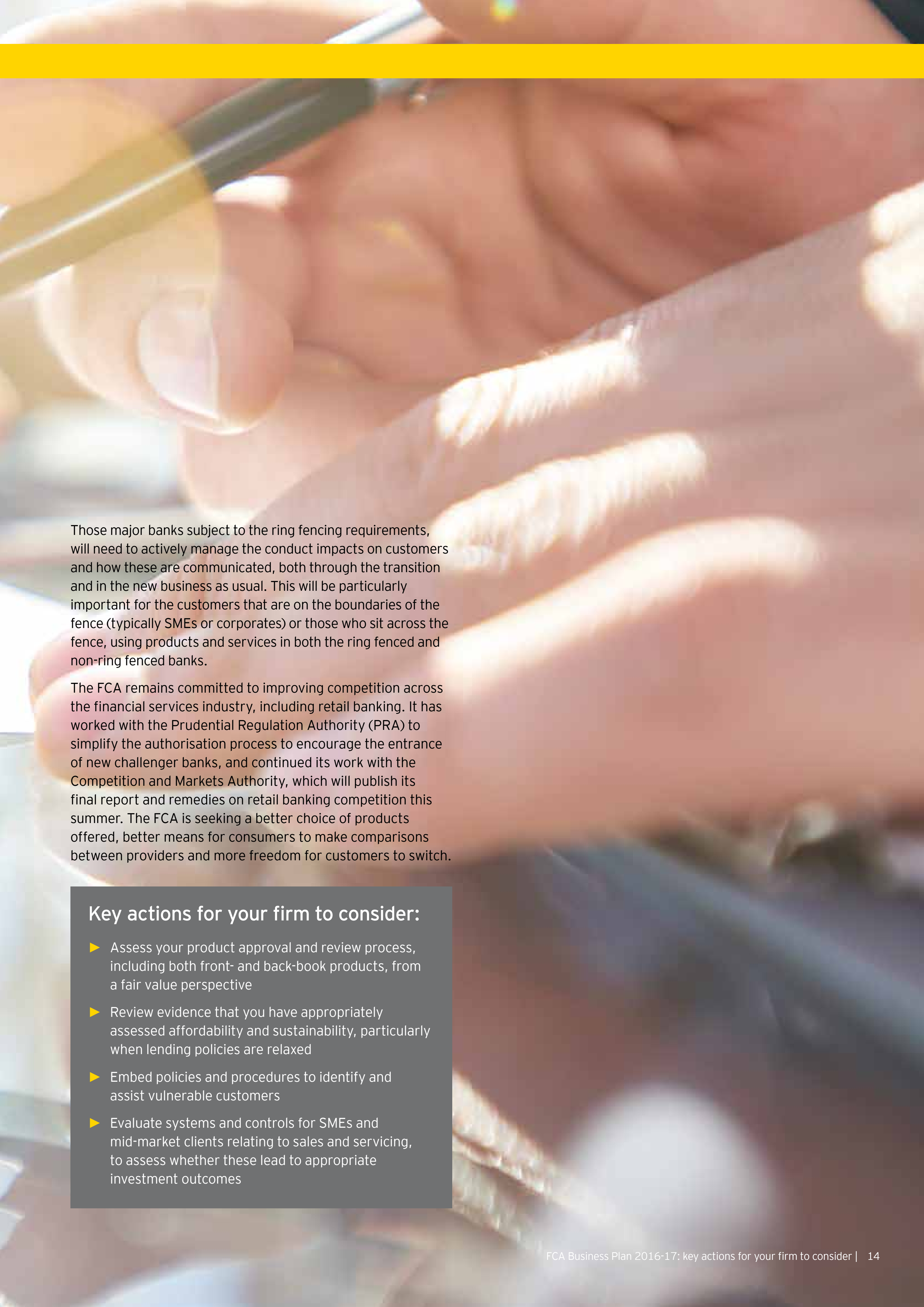
On PPI the FCA has highlighted in its plan that in 2016/17 it will consider responses to its consultation and will finalise new rules and guidance on handling PPI complaints, taking account of the Supreme Court's decision in the Plevin case.[3] Firms should also read EY's recent publication on closing down PPI complaints.[4]

Also due for publication in Q3 is the financially vulnerable customers review. Three key areas where firms should be focusing their activities to address consumer vulnerability issues are:

- Reflection on the vulnerable customer experience
- Development of product and service innovations to cater to vulnerable customers
- Assigning senior management responsibility and the training of frontline staff

Treatment of small and medium enterprises (SMEs) is in the spotlight, and we would encourage banks to learn from issues that have crystallised for retail customers and take proactive action to rectify any concerns, given the FCA's increasing expectation that retail-focused regulation will apply equally to SMEs and a sub-set of mid-market clients. For example, description of risks and issues and appropriateness of sales relating to fixed-rate loans, charges relating to product switching and cancellation, payment services breaches, handling clients in financial difficulty, complaint handling and provision of services through online banking channels. Consideration should be given to systems and controls; specifically, whether appropriate investment has been made in sales and servicing systems.

2 "Current and emerging European regulatory focus areas," Banking Barometer, EY.
3 Plevin (Respondent) v Paragon Personal Finance Limited (Appellant) [2014] UKSC 61.
4 "The end of an era: closing down PPI complaints," February 2016, EY.



Those major banks subject to the ring fencing requirements, will need to actively manage the conduct impacts on customers and how these are communicated, both through the transition and in the new business as usual. This will be particularly important for the customers that are on the boundaries of the fence (typically SMEs or corporates) or those who sit across the fence, using products and services in both the ring fenced and non-ring fenced banks.

The FCA remains committed to improving competition across the financial services industry, including retail banking. It has worked with the Prudential Regulation Authority (PRA) to simplify the authorisation process to encourage the entrance of new challenger banks, and continued its work with the Competition and Markets Authority, which will publish its final report and remedies on retail banking competition this summer. The FCA is seeking a better choice of products offered, better means for consumers to make comparisons between providers and more freedom for customers to switch.

Key actions for your firm to consider:

- Assess your product approval and review process, including both front- and back-book products, from a fair value perspective
- Review evidence that you have appropriately assessed affordability and sustainability, particularly when lending policies are relaxed
- Embed policies and procedures to identify and assist vulnerable customers
- Evaluate systems and controls for SMEs and mid-market clients relating to sales and servicing, to assess whether these lead to appropriate investment outcomes

Insurance and pensions

"For insurance, the FCA Business Plan reflects its risk-based approach with its focus now on the life and pensions market in light of pension reforms, changes to advice, innovation and technology, and its reviews in relation to long-standing customers and enhanced annuities. The next year promises to be one of considerable regulatory, strategic and operational challenge for the life and pensions industry."

Steve Southall, Insurance, EY

Life and pensions

Since the Government announced its plans for pension freedoms in the 2014 Budget, a number of changes have been made across the industry, allowing customers greater choice and flexibility over how they access and use their pension funds throughout their retirement. This trend is set to continue in 2016–17, and the FCA is responding with work in the following key areas:

- Publishing of the final rules and guidance on pension reforms, plus a review of retirement outcomes to consider the impact of the reforms on competition and switching in the market
- Consultation on how the FCA plans to discharge its duty to impose a cap on early exit charges
- Continued review of annuity sales practices and consultation on the secondary annuities market

In addition, the FCA plans to undertake an effectiveness review of Independent Governance Committees, which expects to report towards the end of 2017.

General Insurance (GI) and protection

There are no new GI-specific reviews announced in the plan. However, there is considerable ongoing regulatory activity in the GI space, including the findings of the review on appointed representatives expected in Q2 2016. Firms should be working to demonstrate that they understand the conduct risk associated with outsourcing key aspects of their distribution to third parties, confirming they retain appropriate expertise, oversight and risk management to discharge their regulatory obligations. In addition, the completion of the big data review is expected in 2016. This is the first detailed study of its kind by the FCA, who will use the lessons learned in its work with other sectors. Finally, we expect that the FCA will continue to follow up with firms in connection with previous thematic reports to confirm that its expectations are being met.

Key actions for your firm to consider:

Life and pensions

- Complete an impact assessment of the removal or capping of charges on profitability and business models
- Review the potential impacts of the secondary annuities market on business models

General Insurance

- Confirm appropriate risk frameworks are in place to categorise, identify and mitigate the risk posed to your business by appointed representatives and other third parties, and that appropriate measures and MI are in place to demonstrate effective oversight

Wealth and asset management

"Costs and value for money have been receiving considerable attention from international regulators and, indeed, are key components of MiFID II. Similarly, the FCA has signalled strongly in its ongoing review of the asset management sector that it remains highly interested in this area. The FCA's renewed attention in this area, as indicated in its current plan, should therefore not come as a surprise, given it has been consistently focused on customer outcomes. Time will show how products and advice will evolve in response to this."

Uner Nabi, Wealth and Asset Management, EY

The wealth and asset management sector, in particular, should take note of the key regulatory developments highlighted in the FCA's plan and the previous pages of this publication. The move towards more simple accessible advice potentially will have an impact on distribution strategies. The implementation of the 4th AML Directive, will require a risk-based approach to clients to mitigate financial crime risk. MiFID II will also have a material impact on suitability requirements and appropriateness assessments; as well as increasing disclosure and reporting requirements. In aggregate, this adds up to a full agenda of regulatory change for wealth and asset managers.

We also consider that wealth and asset managers should take account of the impact of the FCA's attention on the following matters:

- Establishing whether customers receive value for money is the purpose of the costs and charges data collection that formed a key element of the FCA asset management sector review. The FCA is yet to complete its analysis but, combined with the focus that MiFID II will bring to this and the broader international attention on this topic, for example in Germany, Ireland and Norway on 'Closet Trackers', it is likely that costs and value for money will be important considerations for firms that manufacture and distribute products and provide investment services.
- Culture and conflicts of interest management as important sources of risk, as evidenced by the FCA's stance on payments for research, and it remains essential that firms continue to make improvements in these areas – it is central to good conduct.

Key actions for your firm to consider:

- Conduct analysis of costs and charges for products manufactured and distributed to confirm these deliver value for money
- Review compliance culture including conflicts of interest management
- Monitor regulatory change programmes to confirm they are on track

Summary of FCA's work programme

Sector	Project name	Timing (by calendar year)
Retail banking	Competition in the Mortgage Sector	Feedback Statement by Q2 2016
	Credit Card Market Study	Report by Q3 2016
	Mortgages: Embedding the MMR – Responsible Lending Review	Findings in Q3 2016
	Early Arrears in Unsecured Lending Review	Complete in Q4 2016
	Financially Vulnerable Customers Review	Complete in Q3 2016
	Staff Remuneration and incentives in Consumer Credit Review	Complete in Q3 2016
	Packaged Bank Accounts Review	Complete in Q3 2016
General insurance and protection	Big Data Review	Report in Q3 2016
	Appointed Representatives Review	Complete in Q2 2016
Pensions and retirement income	Retirement Outcomes Review	Launch in Q2 to Q3 2016
	Annuities Sales Practices Review	Complete in Q4 2016
	Review of effectiveness of Independent Governance Committees	Launch in Q2-Q3 2016, Complete in Q4 2017
Wholesale banking and investment management	Asset Management Market Study	Interim Report in Q3 2016; Final Report in 2017
	Investment and Corporate Banking Market Study	Interim Report published 13 April 2016; Final Report in Q3 2016
Retail investments	Inducements and conflicts of interest review update	Complete Q2 2016

Carried over from 2015-16

Confirmed new work

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EYG No. 00513-164Gbl
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