

HERE COMES THE SUN

It often happens, as soon as you go on holiday, the regulator issues something important you need to be aware of - on 31st March, the FCA published its annual [Risk Outlook and Business Plan](#). The Outlook sets out the risks the FCA believes will impact its achievement of its statutory objectives to:

- Ensure the financial markets function well
- Protect consumers
- Protect and enhance the integrity of the UK financial system
- Promote effective competition

The Business Plan details, among other things, the work the FCA will do to mitigate the risks. There are seven areas of focus:

1. Technology

Technology is necessary for innovation and competition but it must be effectively managed. Where third party providers of technology solutions are used they must be properly overseen.

2. Culture and controls

“Culture is fundamental to whether firms are able to embed conduct risk controls across the full range of their services and activities...”. The FCA is planning work on conflicts of interest in both wholesale and retail sectors. Financial crime remains an area of focus - specifically the FCA will look at market abuse controls in asset managers to ensure trading activity is consistent with required standards.

3. Back-books of business

Firms may be relying on customer inertia and may cause detriment to their existing customers where new customers are offered special rates and terms.

4. Retirement income products

Judging the suitability of different and complex decumulation products is causing problems for firms and consumers. Consumers may be affected by behavioural biases that lead to them making the wrong decisions.

5. Consumer credit

Improvement in economic conditions may lead consumers to borrow more. Firms may exploit weaknesses in consumers’ behavioural biases in encouraging inappropriate debt.

6. Terms and conditions

Product terms and conditions may be unduly complex leading to misunderstanding of the nature of products.

7. House price growth

Rising house prices may lead to weakening underwriting standards leading to consumers taking on unsustainable debt.

The FCA says “We expect firms to engage with the analysis and messages in this document and assess the relevance to their own business models and strategies”. Last week, the FCA published its Approach to Supervision in which it clarified that even for the smallest of firms “we are now looking at the culture and practices of each firm to ensure that you consider consumers and market integrity in everything you do”.

The FCA’s expectation of firms in its conduct risk methodology is that firms will in effect regulate themselves, in accordance with the FCA’s statutory objectives and mindset. This is an area TISA members will need to look at closely to manage the FCA’s conduct risk expectations in a proportionate and effective way.

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