

# Policy briefing

24 April 2017

## FCA Business Plan, Mission and Sector Views 2017: financial planning perspective summary/analysis

### Key Points:

- The FCA Business Plan sets out potential risks and priorities for the year. Technology figures strongly on the regulator's list of areas to watch for.
- Also published is the FCA's Mission statement that includes a new approach model for regulation that identifies potential harm to consumers or markets and isolating possible remedies.
- Of particular interest among the priorities is the plan to revamp the Treating Customers Fairly principle into a Duty of Care obligation.
- Also highlighted is the FCA's work on culture and governance, particularly extending the Senior Managers & Certification Regime.

### Overview and background

In addition to publishing its annual Risk Outlook/Business Plan on 18 April, the Financial Conduct Authority (FCA) set out the results of a consultation on its future mission. It also produced a paper providing an in-depth analysis of each financial sector.

### Measuring FCA performance against objectives

Overall objective: ensuring that financial services markets function well						
Statutory objectives	Securing an appropriate degree of protection for consumers		Promoting effective competition in the interests of consumers		Protecting and enhancing the integrity of the UK financial system	
Outcomes	Consumer access to fair products/services, which deliver as promised	Consumers confident that firms treat them fairly and fix problems promptly	Competition contributes to improved consumer outcomes	Firms compete on clear costs and consumers have the information they need	Consumers can trust firms to be fit & proper and clean financial markets	A respected regulatory system that lets good firms know where they stand
Outcomes indicators	Fair products and services	Building trust and engagement	Value for money products and services	Competitive markets	Clean regulated markets	Attractiveness of market
	Improved consumer experience	Effective remedies	Getting better service	Clear and useful information	Low financial crime	Respected, joined-up regulation

From: FCA Business Plan, p.14

### Approach to regulation: the FCA Mission

The FCA's stated aim is to ensure that the UK has an effective, innovative and trusted financial services sector which provides public value and meets user needs. It sets out a guidance framework to aid decision-making and prioritisation:

- **Identification of harm, potential harm or markets not working as well as they could:** these could be grouped around the FCA operational objectives of market integrity, consumer protection, effective competition;
- **Diagnose cause of the harm, extent and potential development:** this could include individual firm analysis, s166 powers, data analysis, investigations, thematic reviews etc; and
- **Remedy tools:** consider whether they can be resolved entirely or only mitigated. These could include rule changes, guidance, communications to firms or customers, control of entry of firms or individuals, to removal of permissions, censure, penalty or criminal prosecution.

### Risk outlook: technology, consumer vulnerability

The Risk Outlook section examines the risks across the sectors and areas that the FCA regulates, including:

**Macroeconomic overview:** the outlook starts with a detailed economic impact on FCA objectives, highlighting that lower long-term growth and low interest rates are expected to continue, challenging many firm business models and profitability.

**Technology:** the big impact of new innovations including impact on business models, distributive ledger, smart data, cyber-crime and money laundering; and warns of risks such as financial crime.

**Social and environmental:** ageing population (1 in 5 will be age 75+ by 2040) and increased life expectancy; meanwhile younger people face prospect of reduced

earnings/housing affordability. Vulnerability of consumers in certain situations also highlighted as a key, recurring risk.

## FCA priorities and activities

### Culture and governance

There is an overall focus on culture and governance in financial services and its impact on individual and firms' conduct is a priority. The FCA will continue to emphasise senior management accountability, and the steps firms and their senior managers take to address any risks caused by their behaviours. Of interest is the direction of travel of firms' cultures and whether indicators suggest genuine progress is being made.

**Key activity in 2017-18:** roll out SMCR to wider FSMA firms in "a regime that is simple and practicable for firms to understand and implement".

### Protecting consumers

The regulator highlighted vulnerable consumers being more susceptible to harm and generally less able to advance their own interests. Priority will be given to consumers who are unable to shop around over those who choose not to do so. In particular, it reiterated that:

- Understanding vulnerability should be part of the FCA intervention framework, not a separate process.
- Vulnerable consumers are more susceptible to harm, and often less able to represent their own interests.
- To redress this imbalance, the FCA seeks to map how important competing priorities are to vulnerable consumers.

### Key activities in 2017-18:

- **Consumer Approach document:** setting out the vulnerability map, consolidating current and previous research on consumer needs, attitudes and behaviour, as well as draw on external evidence, to be published shortly.
- **Creating best practise standards:** in cooperation with the sector "that span activities outside the Regulated Activities Order perimeter."

### A Duty of Care obligation

The Mission paper suggested the regulator is considering going beyond its existing *Treating Customers Fairly* principle about "acting in the best interest of clients" in favour of a Duty of Care obligation. This would impose on firms "a requirement to exercise reasonable skill and care in the provision of a service."

There are different opinions about the merits of introducing this obligation, for example the Financial Services Consumer Panel has been calling on one for years.

**Key activity in 2017-18:** a Discussion Paper expected in spring 2017 to further explore the Duty of Care obligation.

### Pensions and retirement income

The outlook for UK consumers' ability to save for retirement, and generate a stable and adequate retirement income remains challenged due wage stagnation, reduced savings ability and investment returns, and increased household borrowing.

With the pension reforms embedding, alongside the development of a sector strategy, the regulator will focus on how people decumulate their pension savings, non-workplace pensions, and ongoing education on pension scams.

### Key activities in 2017-18:

- **Pensions Strategy:** setting out regulatory approach for the sector, including supervision, policy and competition projects. This process would begin in summer 2017.
- **Retirement Outcomes Review:** reviewing how consumers make non-advised access choices, and shopping around. Interim report in summer 2017 and final in early 2018.
- **Non-advised drawdowns:** the FCA will undertake a thematic review of sales process, compliance and pre-/post-sale communications. This would start in Q4-2017.
- **Other areas:** the regulator will also look at shopping around/switching, non-workplace pensions, the pensions dashboard and scams awareness.

### Retail investments

The Financial Advice Market Review is being implemented while MiFID II standards take effect January 2018. For the regulator, the desired outcomes in all these initiatives include:

- An increase in consumers' willingness to use/trust the sector.
- Improved access to advice and guidance for consumers.
- Focus from advisers on value for money for consumers, including the total cost of products and services.
- Transparent product features, risks and charges, lead to increased competition in the sector.

### Key activities in 2017-18: over and above the FAMR work:

- Assessing suitability of advice and disclosure;
- Investment platforms market study: stemming from the Asset Management Market Study; and
- Auto-advice: monitor developments and review models of existing and new entrants to help inform a regulatory strategy.

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