

Regulation round-up



July 2017

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Welcome to the July issue
of Regulation round-up

Christopher Woolard, Director of Strategy and Competition

"We didn't find evidence of consumers "squandering" their pension savings - 53% of withdrawn pots were moved into other savings and investments"

Welcome to the July edition of Regulation Round-Up. I'd like to take this opportunity to highlight the [interim report of our Retirement Outcomes Review](#). This is the first comprehensive study into how the retirement income market is changing since the pension freedoms. Our review focused on the 1 million pension pots that have been accessed since pension freedoms.

This is a significant number, but it is useful context to note that many more eligible pension pots have not been accessed - perhaps because consumers have made a conscious decision to leave their pot untouched or because they have not yet engaged with this decision yet. We found that the consumers who have accessed these pots have broadly welcomed the pension freedoms. Many of these consumers are accessing pots early to withdraw lump sums. Over half of pots accessed have been fully withdrawn, but we didn't find evidence of consumers "squandering" their pension savings - 53% of withdrawn pots were moved into other savings and investments. Additionally, drawdown has become much more popular with consumers who do not take advice. We have identified five emerging issues in the market:

- consumers who fully withdrew their pots did so partly because they do not trust pensions and may be paying too much tax or missing out on other benefits as a result

- most consumers who purchased drawdown without advice stayed with their existing pension provider and did not shop around
- drawdown is complex and consumers who buy drawdown without advice may need further protections to manage their drawdown effectively
- annuity providers are leaving the open annuity market
- product innovation has been limited

We have identified some potential remedies and we are seeking views on both how urgent and appropriate they are:

- additional protections for consumers who buy drawdown without advice
- measures to promote competition for consumers who buy drawdown without taking advice, including proposals to:
- allow consumers to take some of their savings early without having to put the rest into a drawdown product
- make it easier for consumers to compare and shop around for drawdown products
- tools and services to help consumers make good choices

Ensuring that this market is on a good footing for the future will require cooperation across the government, regulators, industry and consumer bodies. We will engage with all stakeholders during the consultation phase and publish our final report in the first half of 2018.

Hot topics

Asset Management Market Study

We have published the [final report of our asset management market study](#). The final report follows the interim report published last year which found that price competition is weak in a number of areas of the industry. Despite a large number of firms operating in the market we found evidence of sustained, high profits over a number of years, based on our sample. We also found that investors are not always clear what the objectives of funds are, and fund performance is not always reported against an appropriate benchmark.

Finally, we found concerns about the way the investment consultant market operates. Having considered the consultation feedback to the interim report and carried out further work, we are now confirming the key findings set out in the interim report as final. We have proposed an overall package of remedies to make competition work better in this market, and protect those least able to actively engage with their asset manager. We consider that this will increase efficiency, lead to the UK asset management industry being a more attractive place for investors and so improve the relative competitiveness of the UK market.

Advice Unit

We have announced the expansion of the scope of our [Advice Unit](#) so it will now take in

firms developing automated advice models within the mortgage, general insurance and debt advice sectors. It will also now accept firms that want to provide guidance instead of regulated advice as well as firms not intending to seek authorisation.

The Advice Unit was established in 2016 following a [recommendation from the Financial Advice Market Review \(FAMR\)](#) to provide regulatory feedback to firms developing automated advice and discretionary investment management models. The Advice Unit is open to applications from firms of all sizes, whether new start-ups or large firms, provided they meet our eligibility criteria.

The application process is also changing so that the Advice Unit will now be accepting applications from firms throughout the year, rather than on a cohort basis.

There have been two cohorts of firms who have participated in the Advice Unit so far, with ten firms accepted in summer 2016 and seven firms in early 2017.

Financial advisers

MiFID II: Policy Statement II and Consultation Paper VI

We have published our [final policy statement](#) on MiFID II implementation and our sixth consultation paper:

- The policy statement sets out our final rules in areas including: research, taping for corporate finance and discretionary investment managers, local authorities and client categorisation and inducements.
- Our [consultation](#) paper proposes fees for recognised investment exchanges, operating multilateral trading venues, or organised trading venues (OTFs). This is as part of the requirement in HM Treasury legislation for them to join the Financial Services Compensation Scheme.

We have also finalised the rules we published in near-final form in our [first policy statement](#) on MiFID II implementation.

Investment platforms market study

We have published the [terms of reference for our investment platforms market study](#). The study will consider platforms and other firms that allow investors or their advisers to access retail investment products through an online portal.

Live and Local - October events now available

Further to the August and September [retail investment events](#) that were announced last month, we have now released dates and locations for the October assessing suitability workshops, Q&A roundtable and one-to-one surgeries to be held in various locations across the UK. Further details and registration link are available on our [Live & Local webpage](#).

General insurance intermediaries and insurers

Consumer Contracts - first undertaking received under the Consumer Rights Act 2015

We have received our first undertaking under the Consumer Rights Act 2015 following engagement with a firm about their contract.

The undertaking has been given by London General Insurance Company Limited. It concerns the transparency of a term in the contract for Nationwide Building Society's FlexPlus current account. This term sets out what items were covered by the Extended Warranty Protection Policy provided by the account. Lifestyle Services Group Limited administers the policy. The firms fully cooperated with us in resolving our concerns.

We remind all firms that:

- They must ensure that the terms in their consumer contracts comply with the Consumer Rights Act 2015. This requires terms to be fair and transparent - consistent with our objective of reducing harm to consumers
- Under section 69(1) of the Consumer Rights Act 2015, if a term could have different meanings, the meaning that is most favourable to the consumer is to prevail
- We expect firms to consider the undertakings we publish as part of their risk management process (see [UNFCOG 1.5](#)).

Live & Local general insurance events announced

From September 2017, we are travelling across the UK with a new series of [Live & Local events for regulated general insurance firms](#). We will visit each region more than once during the programme to give firms more opportunity to attend a variety of events. The first series of these events will run from September to December and include:

- Interactive workshop on how firms can identify and prevent harm
- Q&A roundtable with a panel of FCA and industry representatives

Registration is now open - details are available on our [Live & Local webpage](#).

In addition, we are planning two presentations to take place at our London office in the autumn. One aimed at retail insurers and the other at Lloyd's and London Market firms. They will focus on one or more key issues within the market as well as our business priorities. Event and registration details of the two presentations will be available in September.

Mortgage advisers and lenders

FG: Treatment of politically exposed persons (PEPs)

We have published our [final guidance](#), alongside a feedback statement, on the treatment of politically exposed persons (PEPs). This outlines who should and should not be considered a PEP and is intended to support firms' judgements based on the information they have collected, their risk appetite and other relevant factors.

CP: EU Benchmarks Regulation

Our consultation on the implementation of the [EU Benchmark Regulation \(CP17/17\)](#) is currently open. The draft application forms referred to in our consultation are now available. There are also links to the forms in chapter 5 of the consultation paper.

We are asking [for comments](#) on the application forms **by 6 August 2017**.

Our consultation paper also set out our proposals for Handbook changes. Please send us your comments on our proposed Handbook changes **by 22 August**.

PCBS Customer Understanding

We have published our findings on our [thematic review](#) of customer understanding of transactions. This work stems from the recommendations made in the 2013 Parliamentary Commission on Banking Standards ([PCBS](#)) [report](#). The report said that the FCA should periodically examine whether banks have adequate systems in place to ensure that customers have had a reasonable opportunity to understand a transaction.

Webpage update: Packaged Bank Accounts

We have published the [findings of our review](#) of more recent complaint handling standards, specifically relating to complaints where a customer claims that their packaged bank account was mis-sold. This review is a follow-up to the findings of our [thematic review of packaged bank accounts \(TR16/8\)](#). Our initial review found weaknesses in how firms handled complaints about packaged bank accounts at the end of 2014. As part of our initial findings, we committed to reviewing more recent complaint handling standards.

PSD2 consultation on authorisation and reporting forms published

In April 2017 we issued [CP17/11](#), which considered the majority of the changes being brought about by PSD2. In July we published a smaller consultation paper ([CP17/22](#)) on PSD2, which follows on from [CP17/11](#).

In this document we are consulting on some changes to the FCA Handbook to introduce new reporting and record keeping requirements for payment service providers.

We are also consulting on some registration and authorisation forms to be used by prospective and existing payment institutions and e-money institutions to reflect new authorisation and registration requirements under PSD2.

PSD2 is being implemented in the UK through the Payment Services Regulations 2017. It has the potential to increase competition in the retail banking sector by stimulating innovation, and in turn to increase the choice available to consumers. It also brings in some important protections for consumers and seeks to increase the security of payments.

The majority of PSD2 requirements must be implemented by 13 January 2018.

We are asking for comments on [CP17/22](#) **by 18 August 2017**.

Guidance on using league tables in client pitches

Following our investment and corporate banking market study, UK Finance and AFME have [published guidance](#) on the use of league tables during firms' pitch presentations to clients. The guidance is a response to our findings that banks routinely present league tables to clients in a way that inflates their own position. It aims to ensure clients are presented with information that is clear and not misleading and that the UK maintains a healthy competitive approach.

Alongside this, league table providers have reviewed their transaction recognition criteria

to reduce the incentives for banks to undertake loss-making transactions purely to generate a higher position in league tables.

Life insurance and pension providers

[Retirement Outcome Review Interim Report](#)

We have published the interim report of our Retirement Outcomes Review. Our review looked at how the retirement income market is evolving since the pension freedoms were introduced in April 2015. We focused particularly on consumers who do not take advice.

This [summary](#) provides a brief overview of the key points from the interim report and may be enough detail for some readers. For a more in-depth description of our findings and proposed remedies you can read the [full interim report](#).

[With-profits thematic review update](#)

We have issued an information request to the majority of firms that undertake with-profits business to help us carry out a multi-firm review of the sector. The last full review that focused on with-profits business was in 2010. The forthcoming review into the fair treatment of with-profits customers will allow us to understand further the range of practices that are now being adopted by firms. The information request is designed to help us identify the most appropriate areas to focus on in the review.

[Investment platforms market study](#)

We have [published the terms of reference for our investment platforms market study](#). The study will consider platforms and other firms that allow investors or their advisers to access retail investment products through an online portal.

[Asset Management Market Study](#)

We have proposed an overall package of remedies to make competition work better in this market, and protect those least able to actively engage with their asset manager. We consider that this will increase efficiency, lead to the UK asset management industry being a more attractive place for investors and so improve the relative competitiveness of the UK market.

Investment managers

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Wealth managers

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Consumer Credit

Live & Local regional events for regulated firms

As part of our [Live & Local](#) regional firm engagement programme, we are holding three events for regulated consumer credit firms focusing on fair treatment of customers, systems and controls, and regulatory reporting. These sessions will take place in Birmingham in September, London in October, and Manchester in November. More details and registration form are available on our [event website](#).

Credit unions

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Fintech and innovative businesses

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News and publications

[Annual Report and Accounts 2016/17](#)

[CP: Review of Effectiveness of Primary Markets: Premium Sovereign Listing Segment](#)

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Financial Conduct Authority
25 The North Colonnade London E14 5HS
www.fca.org.uk