

Regulation round-up



May 2017

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Welcome to the May issue
of Regulation round-up

Linda Woodall, Director of Life Insurance and
Financial Advice

"Overall, financial advisers delivered suitable advice in 93.1% of cases during 2015"

Welcome to the May edition of Regulation round-up. I would like to take this opportunity to discuss our work in the financial advisers sector which focused on assessing suitability.

Over 600 firms took part of our [assessing suitability review](#); the first time we have undertaken such a large and statistically significant sample with this sector.

Overall, financial advisers delivered suitable advice in 93.1% of cases during 2015. We consider that these are positive results for the sector. We believe they are due to the successful adoption of the Retail Distribution Review (RDR) by advisers and reinforced by our previous supervisory and enforcement activities. This sets a benchmark for financial advisers and we expect the suitability of advice to increase further in the future.

Persistent issues remain with firms' disclosure and more specifically with initial disclosure, product disclosure and suitability reports. We are disappointed to find that only 52.9% of disclosure was acceptable. Firms continue to fail in correctly disclosing the total cost of ongoing services in cash terms and/or do not provide an approximation of how long services may take when quoting hourly rates.

Firms must ensure that their disclosure documents accurately reflect the services they

provide and the associated costs.

Over the coming months we will look at how we can better clarify our expectations of financial advisers in four areas; attitude to risk, replacement business, cash terms and suitability reports.

Due to the success of Live & Local we will soon be launching the second year of this regional programme, including events across the UK focusing on the results of this work. Details will be available shortly on our [Live & Local web page](#).

We intend to repeat the review in 2019.

Hot topics

Strategic review of banking business models

We have announced the launch of the [Strategic Review of Retail Banking Business Models](#) (the review) in our Business Plan 2017/18. The review will seek to:

- Understand evolving retail banking business models in greater depth. We will look at firms' business models to identify any potential conduct or competition issues
- Understand how free-if-in-credit banking is paid for, in particular whether it leads to any distributional concerns between different types of consumers
- Understand the impact of changes such as digital conversion and reduced use of branches on business models and consider potential consequences for our consumer protection and competition objectives

We will develop a robust evidence base to enhance our understanding of the state of competition and conduct in retail banking markets at a pivotal time of change.

We envisage that the review will encompass financial service providers including retail banks, building societies and credit unions. In view of the large share of the UK market served by the larger retail banking groups, we will inevitably place most focus on these firms, but we are also keen to draw from other firms' experiences. We expect to look across the retail banking balance sheet and to consider the full range of personal banking products and services and SME banking.

Financial advisers

We have published the findings of our assessing suitability review. Overall, financial advisers delivered suitable advice in 93.1% of cases during 2015. We are encouraged by these results and believe they are due to firms' successful adoption of the Retail Distribution Review. However, we are disappointed to find that only 52.9% of disclosures were acceptable. Firms must ensure that their disclosure documents accurately reflect the services they provide and the associated costs.

PS: Packaged Retail and Insurance-based Investment Products (PRIIPs)

To reflect the PRIIPs Regulation that will apply from 1 January 2018, we consulted on changes to our disclosure rules in CP16/18. We have now published PS17/6 which takes account of the PRIIPs framework, summarises feedback and includes final rules which will take effect on 1 January 2018. We also provide information on PRIIPs on [our website](#).

General insurance intermediaries and insurers

GC: FCA's approach to the review of Part VII insurance business transfers

While the Prudential Regulation Authority leads the Part VII process we also have an active role. In particular, we have a right to be heard on applications to sanction a Part VII transfer and the views we give to the High Court are based on our assessment of the Part VII transfer against our own statutory objectives. We are consulting on our approach to reviewing insurance business transfers schemes under Part VII of the Financial Services and Markets Act 2000.

Mortgage advisers and lenders

FG: The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations

We have published [finalised guidance](#) on the treatment of customers with mortgage payment shortfalls. The guidance covers remediation for mortgage customers who may have been affected by the way firms calculate these customers' monthly mortgage instalments. This finalised guidance follows non-Handbook [guidance consultation](#).

Banks and building societies

Senior Management & Certification Regime (SM&CR)

To date, the SM&CR applies to deposit-takers and dual-regulated investment firms. Firms already under the SM&CR have been undertaking fitness and propriety checks on all relevant individuals. There is also a revised framework for insurers to raise standards of

individual conduct, and additional rules that will apply more widely across financial services.

We have published a series of policy papers to address outstanding issues:

- [Whistleblowing in UK branches of foreign banks](#)
- [Duty of responsibility](#)
- [Applying our Conduct Rules to Non-Executive Directors](#)
- [Remuneration in CRD IV firms](#)

CP: Implementation of the revised Payment Services Directive (PSD2)

Our [consultation on PSD2](#) closes on 8 June 2017. All payment service providers, including banks, building societies, payment and e-money institutions should read the consultation paper and we welcome any feedback to the consultation questions. To receive the latest PSD2 information, please sign up to our [email updates](#).

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Life insurance and pension providers

[Review of the effectiveness of independent governance committees \(IGCs\)](#)

In our 2016/17 Business Plan we said we would be conducting a review of the effectiveness of IGCs. During 2016, we conducted, jointly with the Department for Work and Pensions, a review of the industry's progress in implementing the Independent Project Board's recommendations on workplace pensions.

In December 2016, we published our findings report which was broadly supportive of the effectiveness of IGCs in implementing the Independent Project Board's recommendations. As a result, we have decided to defer the full IGC review to focus on other priorities. These priorities have been set out in our [2017/18 Business Plan](#).

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Investment managers

Firms impacted by MiFID II should apply now for authorisation or variation of permission, otherwise they risk being unable to operate in the UK market after 3 January 2018, when MiFID II takes effect. Our [application and notification user guide](#) helps firms to understand the steps they need to take.

From 3 July 2017, we will [start testing](#) for firms wishing to connect to our new Market Data Processor (MDP) system. Before this date, firms will need to follow the steps in the onboarding process.

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Wealth managers

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Consumer Credit

There are no specific updates for Consumer Credit firms this month. However, as a reminder, we have a [dedicated section](#) of our website which contains useful information for Consumer Credit firms.

Credit unions

CP: Implementation of the revised Payment Services Directive (PSD2)

Last month, we published a [consultation paper](#) on PSD2 which closes on 8 June 2017. The consultation largely affects payment service providers subject to the Payment Services Regulations (PSRs) but also includes some changes which affect credit unions. To receive the latest PSD2 information, please sign up to our email updates.

Fintech and innovative businesses

[Speech: The FCA's regional FinTech engagement](#)

Christopher Woolard, Executive Director of Strategy and Competition, delivered a speech at the Leeds Digital Festival on the FCA's regional FinTech Engagement.

Christopher noted that we are seeing the emergence of regional FinTech hubs, especially in the Leeds-Manchester area and Edinburgh-Glasgow corridor. We are committed to supporting the emergence of these hubs by offering more and better local assistance.

[Speech: Competition and innovation in financial services: the regulator's perspective](#)

Christopher Woolard, Executive Director of Strategy and Competition, delivered a speech in China, where he talked about how competition is central to the effective running of financial markets. It drives innovations that consumers want and ensures value for money. He also covers how the FCA intervenes where competition can't perform its vital function, there's a risk of consumer harm and the FCA's Project Innovate.

[FCA and SFC sign Fintech co-operation agreement](#)

The Financial Conduct Authority (FCA) today entered into a co-operation agreement with the Securities and Futures Commission (SFC) in Hong Kong to foster collaboration in support of financial technology (Fintech) innovation.

News and publications

[Complaints data](#)

We have published data on the number of complaints reported by firms under new rules which came into force on 30 June 2016. The total number of complaints reported by firms in the second half of 2016 was 3.04 million. This number is higher than previous reporting periods because under our new rules all complaints are now captured in the data.

[Andrew Bailey speech at press conference for the publication of FCA corporate documents](#)

[Speech: Expect the unexpected - cyber security - 2017 and beyond](#)

[Advice on recent national cyber attack](#)

[Fake FCA emails](#)

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[PS: Review of the FCA's appropriate qualification exam standards](#)

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