

## A round up of policy events and news

### 1. Top stories

#### FCA Business Plan and risk outlook

The FCA's annual business plan has been published. It includes an overall risk outlook, seven areas of particular focus this year and a list of additional key work streams and ongoing activities. Key areas of focus include:

- **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.
- **Financial advice:** affordable, professional advice to meet consumers' changing and complex needs.

Of particular note for advisers are the plans around the implementation of the Financial Advice Market Review and the FCA's focus on supporting increased financial advice professionalism. (See below)

#### Specific risks relating to financial advice

- **Consumers need more support:** as consumers' needs, finances and financial literacy become more varied and complex, the need for appropriate, accessible advice and products is growing.
- **Advisers may not always give consumers:** the most suitable investment advice, may offer a limited range of products or have staff reward schemes that motivate sales over suitability.
- **Consumers may reject paid-for financial advice:** because of the potential cost. They may choose non-advised sales, even when support is better for their needs.
- **Complex charging structures:** and poor transparency makes it harder for consumers to compare products.

#### Delivering the Financial Advice Market Review

The FAMR final report set out a series of recommendations aimed at stimulating the development of a market that provides affordable and accessible financial advice and guidance for everyone, at all stages of their lives. These included recommendations for the FCA to:

- Simplify and clarify the regulation of financial guidance.
- Support firms offering 'streamlined advice' on a limited range of consumer needs.
- Create a specialist Advice Unit operating in a similar way to the FCA's Project Innovate to give regulatory support to new automated advice models.
- Clarify certain rules relating to financial advisers including on cross subsidisation, training and fact finds.
- Consider introducing risk based levies or wider funding classes as part of the FSCS Funding Review.
- The review also contained recommendations for the FCA, Government, and industry designed to increase consumer engagement with financial advice, including through the provision of workplace advice.

The FCA will work on implementing the recommendations throughout the year, as well as developing clear policies to support the development of the advice market. The FSCS Funding Review will also commence in April 2016.

The FCA and the Treasury will report jointly to the Economic Secretary and FCA Board in 2017 on the progress made towards implementation. In 2019, both organisations will conduct a review of the outcomes from FAMR.

### **Professionalism and the suitability of advice**

The FCA supervisory focus will continue to be on supporting increased financial advice professionalism, and will increase communications with the sector and continue to assess how suitable advice is. It will also monitor any changes that result from implementing FAMR proposals. [Click here](#)

[http://www.cii.co.uk/media/6829217/cii-pfs\\_policy\\_briefing\\_famr\\_final\\_report\\_mar2016.pdf](http://www.cii.co.uk/media/6829217/cii-pfs_policy_briefing_famr_final_report_mar2016.pdf)

### **Queen's Speech**

The Government's new legislative programme has been announced. It includes a Pensions Bill and a Bill for Life Time ISAs. [Click here](#)

[http://www.cii.co.uk/media/6978038/policy\\_briefing\\_queens\\_speech\\_2016.pdf](http://www.cii.co.uk/media/6978038/policy_briefing_queens_speech_2016.pdf)

### **HM Treasury and FCA consultations on secondary annuity market**

Proposed rules and guidance for the regulation of new secondary annuity market activities have been published in a FCA consultation paper. Activities covered include:

- entering into a regulated annuity assignment agreement as a purchaser;
- entering into a regulated annuity buy-back agreement as an annuity provider; and
- regulated annuity broking.

There is a focus on disclosure of information, presentation of offers, restriction on charging, compensation and prudential arrangements, and other regulatory requirements such as record keeping. The consultation closes on 21 June with final rules expected later in the year. [Click here](#)

### **FCA consults on capping early exit pension charges**

The FCA has published a consultation paper on its proposals to cap early exit pension charges (CP16/15). This follows the imposition of a duty on the FCA to cap early exit charges in certain pension contracts. The FCA proposes to impose a cap on early exit charges expressed as a percentage of the member's policy value at exit. The deadline for comments is 18 August 2016. [Click here](#)

### **Tracey McDermott launches 'advice unit' in speech on the regulation of advice**

Tracey McDermott, outgoing chief executive, FCA, has given a speech on the recent financial advice market review (FAMR) conducted by the FCA and HM Treasury. The review recommends a package of measures relating to: affordability; accessibility and engagement; and liabilities and consumer redress. Recommendations include the creation of an advice unit to assist firms in developing automated advice tools that can help provide low cost, high quality advice to mass-market consumers on investments, pensions and products. This unit will be in place from May 2016 and open to all firms. The FCA intends to work with HM Treasury to develop a regulatory framework and advice market indicators to implement and monitor the other proposed changes. The FCA will report on its progress in 12 months. [Click here](#)

### **Culture in financial services – a regulator's perspective – speech by Andrew Bailey (PRA)**

Andrew Bailey, Deputy Governor for prudential regulation and FCA CEO designate, has given a speech at the City Week conference focussing on culture in financial services. Mr Bailey discussed the importance of culture to both prudential and conduct financial regulators and the challenges for supervisors when looking at the culture of firms. Mr Bailey, who takes up the role of CEO at the FCA in July 2016, spoke extensively on the role of regulators when dealing with the question of culture. He went on to share his views on the senior managers and certification

regimes, where Mr Bailey remarked that the “notion of personal responsibility ... at the level of senior management” is embedded at the “heart” of the regime. [Click here](#)

[https://www.cii.co.uk/media/7044457/cii-andrew\\_bailey\\_speech\\_full.pdf](https://www.cii.co.uk/media/7044457/cii-andrew_bailey_speech_full.pdf)

### **Bank of England and Financial Services Bill receives Royal Assent**

The Bank of England and Financial Services Bill has received Royal Assent and has become an Act of Parliament. Provisions within The Act include early exit pension charges and putting in place a legal basis of the new senior management conduct and certification regime. This is likely to be operational for advisers in 2018. [Click here](#)  
CII briefing will be published in due course.

## **2. General insurance**

### **FCA GI add-on case studies**

The FCA has published a number of case studies to assist firms in understanding its expectations under the new rules and guidance on opt-out selling and improved information for add-on buyers. The policy set out last September included a ban on selling ‘optional additional products’ on an opt-out basis (this occurs when firms use sales methods such as pre-ticked boxes). [Click here](#)

### **PRA issues feedback from 2015 general insurance stress test**

The PRA has published the main findings of its 2015 general insurance stress test exercise, via a CEO letter. 63 per cent of the general insurance market (by premium) participated in the test. The main findings were:

- in aggregate, the sample insurers were resilient against specific market-wide stresses;
- the economic scenario results in the largest adverse impact, which arises mainly from a fall in the value of corporate bonds as credit spreads are assumed to widen;
- there was a wide range in views on the plausibility of each scenario;
- results from the complex stress tests (for example, liability, cyber stresses) indicate that common terminology and a common framework for the assessment of exposure is required before a wider assessment of firm and sector resilience can be determined on a consistent basis; and
- no systemic risks or common cause of a market-wide catastrophe were identified through firms’ own defined stresses.

The PRA states that the conclusions rely on the ability of insurers to maintain a robust process for exposure measurement and management whether on property or liability risks. This will be an area of increased focus for PRA supervision, particularly in light of continued rate reductions and widening of terms and conditions in the London market. The results of the stress test exercise will be used by the PRA to inform the design and implementation of future stress test exercises. The next exercise is likely to be in 2017. [Click here](#)

## **3. Financial Advice**

### **FCA survey of firms providing financial advice**

The FCA has published a report setting out the findings from a survey of firms that provide retail investment advice, including financial advisers, networks, banks and life insurance companies. The purpose of the survey was to provide a contribution to the Financial Advice Market, as well as inform the FCA’s supervisory work. Alongside questions about the firms and the advice market more generally, the survey focused on three advice areas in retail investments: retirement income, pension accumulation and investments. [Click here](#)

### **Money Advice Service publishes latest business plan**

The Money Advice Service (MAS) has published its 2016-2017 business plan. The business plan states that the MAS’

focus for the next year will be developing evidence on how to improve financial decisions. The MAS will set aside up to £7 million to commission external trials, pilots and research into this issue. MAS also aims to increase its funding for debt advice, improve financial capability, develop financial education, support universal credit recipients and increase awareness of basic bank accounts. [Click here](#)

## 4. Life & Pensions

### FCA policy statement on pension reforms

Following a consultation on its pension reforms, the FCA has published its final rules and guidance on changes to its handbook. Changes to the FCA Handbook will be made in areas including:

- communication concerning accessing pension savings;
- cancellation rights;
- restrictions on the promotion and distribution of high risk investments; and
- using pension savings to repay debt. [Click here](#)

## 5. Mortgages

### MMR - FCA thematic review report

The FCA has published its thematic review into responsible lending in the mortgage market and its feedback statement on competition in the mortgage sector. The reports conclude that:

- firms have appropriately applied the responsible lending requirements, which came into force as part of the Mortgage Market Review (MMR); however
- there is scope for improving consumers' ability to make better choices regarding mortgage deals. The review found that while overall firms have implemented responsible lending rules in line with the FCA's expectations, there was room for improvement among some firms, particularly with regard to process improvements and flexibility in applying the requirements.

The FCA intends to launch a market study later in 2016 focusing on the ability of customers to make effective choices and will consider how to improve the way in which competition works in consumers' best interests. The three main areas of consideration will be: (i) the adequacy of existing tools such as price comparison websites, best-buy tables and advice; (ii) the impact of increased intermediation in the mortgage sector; and (iii) the impact of panel and other arrangements between lenders, brokers and other participants in the mortgage supply chain. [Click here](#)

## 6. Banking

### FCA review on customer understanding of products

The FCA has published an update regarding the survey it commissioned of 17 retail banks and building societies to review how firms ensure their customers understand the products that they have bought. This was in response to a recommendation of the Parliamentary Commission on Banking Standards (PCBS) that firms should "demonstrate that they are fulfilling a duty of care to their customers". The FCA found that firms generally demonstrated good practice. However, the FCA expressed concern that some firms may not be distinguishing effectively between customer understanding and customer satisfaction, noting that a satisfied customer does not necessarily understand the product. As a result, the FCA will continue to monitor this area and undertake follow-up work in due course. [Click here](#)

## 7. From the regulators (general)

### FCA's regulatory sandbox opens to applications

As part of the FCA's Project Innovate, the FCA has announced that businesses can now apply to be in the first cohort of its sandbox programme. The regulatory sandbox is a "safe space" in which selected eligible firms can test innovative products, services, business models and delivery mechanisms while ensuring that consumers are appropriately protected. The sandbox programme will permit unauthorised firms to benefit from a tailored process for restricted authorisation which will allow them to test their ideas, and authorised businesses will receive individual guidance while testing ideas that do not easily fit into the existing regulatory framework and in some cases obtain FCA waivers or no enforcement action letters. The deadline for applications to be in the first cohort of the sandbox is 8 July 2016. [Click here](#)

### PRA/FCA joint consultation on enforcement review

The FCA and the PRA have published a consultation paper (FCA CP16/10, PRA CP14/16) containing proposals aimed at strengthening the transparency and effectiveness of their enforcement decision-making processes. The paper explains the changes which the FCA and PRA have already made, and sets out the recommendations which require consultation and the proposals for implementing them. In addition, the FCA proposes to amend the Enforcement Guide and the Decision Procedure and Penalties Manual to provide a framework and incentives for partly contested cases, allowing enforcement proceedings to be resolved when an individual or firm agrees all relevant facts and breaches, but wishes to contest the appropriate regulatory outcome. The PRA will consult separately on the recommendations relating to settlement and contested decision-making once the Bank of England and Financial Services Bill has passed through Parliament. [Click here](#)

### FCA guidance on Small and Medium Sized Business (Credit Information) Regulations

The FCA has published guidance explaining the scope of its functions in relation to the Small and Medium Sized Businesses (Credit Information) Regulations 2015. The guidance is given under the FCA's powers in section 139A of the Financial Services and Markets Act 2000 and Regulation 20 of the Regulations. The guidance states that:

- the FCA will apply its standard risk-based approach to monitoring compliance, having regard to the requirement to use resources in the most efficient and economic way;
- the FCA will exercise its powers in a manner that is transparent, proportionate and consistent with its publicly stated policies; and
- designated entities must maintain records for at least five years from creation which should be able to demonstrate compliance or non-compliance with relevant requirements under the Regulations.

In addition, the guidance sets out the structure of the fees that the FCA may charge. [Click here](#)

### FCA report on financial exclusion

The FCA has published a report entitled *Mind the gap: Consumer research exploring experiences of financial exclusion across the UK*. The report considers the barriers faced by consumers looking to access different financial services. [Click here](#)

### Tracey McDermott speech on consumer credit

Tracey McDermott, acting CEO of the FCA has given a speech entitled '*Consumer credit regulation: the journey so far*'. In it she said 'we have, together, made significant progress in driving up standards in the sector. There is much still to do but, from our perspective, consumer credit regulation is now firmly embedded as a key part of what we do at the FCA'. To read the full speech: [click here](#)

### **FSCS announces final levy for 2016/17**

The Financial Services Compensation Scheme (FSCS) has announced its levy for 2016/17. The FSCS will levy £337 million in this financial year, £26 million less than forecast in its 2016/17 budget. The levy in 2015/16 totalled £319 million. [Click here](#)

### **Cyber-security – speech by Will Brandon (BoE)**

Will Brandon, chief information security officer, Bank of England (BoE), has given a speech to the City Week 2016 Conference in London. Mr Brandon's speech addressed:

- cyber-security risks for financial institutions;
- the methods cyber-attackers use;
- where cyber-security threats derive from; and
- what financial institutions can do to minimise their vulnerabilities to cyber-attacks. [Click here](#)

### **Risk transfer speech by Andrew Bulley (PRA)**

Andrew Bulley, director of life insurance, has given a speech discussing prudential regulatory issues arising from risk transfer by insurers. In it he covered the risk margin component of Solvency II, Bulk Purchase Annuities and longevity risk transfer. [Click here](#)

### **FOS annual review 2015/2016**

The Financial Ombudsman Service (FOS) has published its annual review of consumer complaints in respect of insurance, banking, credit, savings and investments for the financial year 2015/2016. [Click here](#)

## **8. Europe & international**

### **MiFID update**

**FCA key findings on inducements and conflicts of interest thematic review** Following the publication of finalised guidance on inducements for product providers and advisory firms, the FCA has published key findings from a thematic review conducted last year regarding benefits provided, and received, by firms conducting business under the Markets in Financial Instruments Directive (MiFID), and those carrying out regulated activities in relation to a retail investment product. The aim of the key findings is to remind firms of the FCA's expectations around the current rules, given the proposed delay in implementing MiFID 2 to 3 January 2018. Key expectations noted by the FCA are that:

- when providing or receiving a non-monetary benefit, firms are expected to consider whether all aspects of the benefit are designed to enhance the quality of the service to the client, including the location and nature of the venue, and those activities which are not conducive or required for business discussions, e.g. sporting and social events and activities;
- where an activity or event provides a number of non-monetary benefits, e.g. attendance at sporting events following a training session, a firm must consider each benefit separately;
- sufficient detail should be recorded to ensure effective monitoring and compliance;
- when product providers supply training or educational material to advisory firms, the product provider may make payments to the advisory firm to cover the costs of facilitating the training, e.g. by setting up a webinar. However, any such payments should not exceed any costs incurred; and
- when disclosing a summary of the allowable benefits provided, MiFID firms must ensure clients are given an indication of the value of those benefits in order for the client to be aware of the possible level of inducements. [Click here](#)

**One year extension** On behalf of the Council of the EU, the Permanent Representatives Committee, has agreed to the extension by one year the dates of transposition and application of the revised Markets in Financial Instruments

Directive and associated Regulation (MiFID 2). The deadline for Member States to transpose the Directive into national legislation would be 3 July 2017 and the date of application of MiFID 2 would be 3 January 2018.

**FCA minutes** The FCA has published the minutes and slides relating to its MiFID 2 implementation roundtable, which was held on 18 April 2016. In the minutes, the FCA states that it intends to publish two further consultation papers on the implementation of the amended Markets in Financial Instruments Directive and associated Regulation (MiFID 2) in July 2016 and September 2016, with the aim of completing the transposition of MiFID 2 by April 2017. [Click here](#)

#### **FCA response to European Commission Green Paper on retail financial services**

The FCA has published its response to the European Commission Green Paper on retail financial services. In addition to responding to specific questions in the Green Paper, the FCA has set out overarching issues which it considers require better understanding and research in order to determine whether, and where, more Commission action is required to attain the goal of greater cross-border trade in retail financial services. These issues include:

- Already agreed measures. The FCA states that it is important for the Commission to monitor and assess how implementation and “bedding down” of various already agreed EU measures addresses issues raised in the Green Paper;
- Disclosure. The FCA supports disclosure measures being developed with a genuine understanding of consumer behaviour; and
- Risks to the consumer. The FCA highlights the importance of recognising the risks that reducing barriers to cross-border trade in retail financial services could have on consumers. [Click here](#)

#### **EIOPA: Interview with Gabriel Bernardino**

The European Insurance and Occupational Pensions Authority (EIOPA) has published an interview with Gabriel Bernardino (EIOPA Chairman) in which he discusses aspects of Solvency II, stress testing and ESRB’s proposal for a bank-like countercyclical requirement for insurers. [Click here](#)

#### **EIOPA launches 2016 EU-wide insurance stress test**

EIOPA has published its 2016 EU-wide stress test for the European insurance sector. The aim of the test is to assess insurers’ vulnerabilities and EIOPA. It is designed by EIOPA to assess the resilience of the European insurance sector to adverse market developments based on a common analytical framework. Additionally, the stress test will examine the potential increase of systemic risks in situations of stress. The 2016 stress test focuses on two major market risks: (i) the prolonged low yield environment; and (ii) the so-called “double-hit” (i.e. a negative market shock to asset prices combined with a low risk free rate). [Click here](#)

#### **EIOPA final report on preparatory guidelines on product oversight and governance arrangements**

EIOPA has published its final report on preparatory guidelines on product oversight and governance (POG) arrangements by insurance undertakings and insurance distributors. This will help in preparation for formal requirements provided for in the Insurance Distribution Directive (IDD). EIOPA intends to review the preparatory guidelines once the deadline of 23 February 2018 for the transposition of IDD has passed. [Click here](#)

## **9. Westminster & Whitehall**

#### **Harriett Baldwin speech**

In a speech marking her first anniversary as City Minister, Harriett Baldwin has made a speech covering the last 12 months. [Click here](#) Passages to note include:

*“Take, for example, our review of the financial advice market. This taught us that there was a real gap in the market for customers who didn’t have huge sums to invest.*

*Well, we think the UK can do better. We want there to be affordable and accessible advice out there for everyone working to achieve their aspirations, and at every stage of their lives.*

*So we're taking forward all of the recommendations that came from our review, and working to make sure that whoever you are, it's easy for you to get the quality, professional advice you need about how you can make the most of your hard earned money.*

*Government has also taken important steps to make saving as easy as possible.*

*Our government-backed products like the Help to Buy: ISA, with over 400,000 accounts opened, have already proved really popular and we're continuing to expand the range of such schemes available – such as the new Lifetime ISA for under 40s we announced at the last Budget, or our Help to Save for people on lower incomes.*

*We're also replacing the Money Advice Service with a new, and more effective body – a reform which goes hand in hand with our merger of the Pensions Advisory Service and Pension Wise – putting an end to the confusion people had about which body to turn to.*

*And speaking of pensions, we also know it's not easy keeping track of your pension pot – that's why we're working with industry to create a pensions dashboard to allow people to see their pensions online in a single place.*

*Together with our changes to automatically enrol people on pensions, and our introduction of a new allowance to help people pay for pension advice, we hope to make it much more straightforward for people to plan effectively for their retirement.”*

And she went on to talk about women and financial services:

*“I have a strong belief that ensuring the future strength and success of this sector relies and depends upon us fully realising the potential of women in this industry.*

*In fact, that's not just a belief. The OECD has estimated that equalising the role of men and women in the labour market could increase GDP by 10% by 2030.*

*So I'm hugely proud of our work on this over the past year – and I must thank Jayne-Anne Gadhia, CEO of Virgin Money, for the review she did on this which led to our Charter for Women in Finance, which already has some of the biggest financial firms in the business signed up.”*

## 10. Appointments

**Prudential Regulation Authority** Sam Woods is to be appointed as the Deputy Governor of the Bank of England (BoE) with responsibility for Prudential Regulation and as the chief executive officer (CEO) of the PRA. Mr Woods will succeed Andrew Bailey who is moving to take up the position of chief executive of the FCA. He will take up his new role on 1 July.

**Financial Conduct Authority** Tracey McDermott, Acting Chief Executive of the Financial Conduct Authority (FCA) is to leave the organisation on 1 July 2016. Andrew Bailey, current PRA CEO will take over in July.

**Institute for Apprenticeships** Antony Jenkins has been appointed to the role of shadow chair of the Institute for Apprenticeships. Mr Jenkins is a former chief executive of Barclays plc and the current chairman of Business in the Community. The Institute will formally begin operations from April 2016 and its primary responsibility will be to act  
The Chartered Insurance Institute



as the ultimate decision maker on approving apprenticeship standards and assessment plans to ensure they are of high quality.

## 11. Upcoming events & publications

### 23 June Referendum on EU membership

The following papers and statements from the **FCA** are expected over the coming months:

- a policy statement to CP16/9, “Regulatory fees and levies: rates proposals 2016/17”, due in June 2016;
- a policy statement to CP14/13, “Strengthening accountability in banking: a new regulatory framework for individuals”, expected date to be confirmed;
- a consultation paper 2, “Implementation of MiFID II”, due in mid-2016;
- a policy statement to CP15/41, “Increasing transparency and engagement at renewal in general insurance markets”, due in mid-2016;
- a policy statement to CP16/13, “Secondary annuity market”, due in Q4 2016;
- a policy statement to CP15/32, “Smarter consumer communications: removing certain ineffective requirements in our Handbook”, expected date to be confirmed;
- a policy statement to CP12/20, “Review of the client money rules for insurance intermediaries”, expected date to be confirmed;

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### HM Treasury: public financial guidance

Our response to the Treasury’s consultation on public financial guidance. [www.cii.co.uk/42016](http://www.cii.co.uk/42016)

### Culture in Financial Services - a regulator's perspective

A briefing on Andrew Bailey’s speech on why organisational culture is of the upmost importance, to both prudential and conduct financial regulators. [www.cii.co.uk/41969](http://www.cii.co.uk/41969)

### Confidence in financial advice

Consumer research looking at attitudes towards financial advice. [www.cii.co.uk/41957](http://www.cii.co.uk/41957)

### The European Referendum Thinkpiece

Our latest Thinkpiece includes contributions from both of the official campaigns – Britain Stronger in Europe & Vote Leave. [www.cii.co.uk/41757](http://www.cii.co.uk/41757)

### June 2016

*This update has been produced by the CII Group’s Policy and Public Affairs team.*

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Please do not hesitate to contact us: Daniel Pedley, Public Affairs Manager, tel 020 7417 4450; [daniel.pedley@cii.co.uk](mailto:daniel.pedley@cii.co.uk)

