

## FCA Business Plan, Mission and Sector Views 2017: insurance 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.

### 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.

### 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 setting out an in-depth analysis/viewpoint of each sector.

### Attitudes towards trust

Trust between users and providers of services is necessary for a market to function well. The regulator defines trust as:

*A set of beliefs about the honesty and validity of ongoing commitments, which reinforce the belief that future actions will be predictable and reliable.*

Trust ensures users and providers have the confidence to make transactions that benefit both. It is particularly important in financial services markets, given the inherent uncertainty of financial products, how long financial contracts can last and the different levels of knowledge between users and suppliers in many financial transactions.

### 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

## 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 facing a prospect of reduced earnings and housing affordability.

## 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 our 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 provision

The Mission paper suggested the regulator is considering going beyond its existing *Treating Customers Fairly* principle towards 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 over the merits, and for example the Financial Services Consumer Panel has long called for this.

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

### General insurance and protection

In recent years, our policy and supervisory work in this sector has focused on issues affecting consumers, particularly in the retail and commercial sub-sectors. Going forward the FCA will monitor/review these issues to ensure that progress is made and sustained, and will intervene further if necessary.

Top issues as described by the regulator:

- IT failures, data protection issues and risk of cyber-attacks may lead to customer detriment.
- Customers choosing unsuitable products by focusing on headline price over suitability.
- Intense competition can lead to poor advice and consumer expectation gaps.
- Poor governance/oversight of complex distribution chains in parts of the market, risking poor consumer outcomes.
- Vulnerable or high-risk consumers cannot access general insurance products and services.
- Firms do not have effective systems and controls to mitigate financial crime, conflicts of interest and inducements.
- Small businesses could purchase inappropriate cover for their needs, and underestimate the levels of cover required.
- Wholesale market developments may not improve market efficiency and consumer outcomes.

### Key activities in 2017-18:

- Wholesale insurance market study;
- Insurance Distribution Directive implementation;
- Value in the distribution chain; and
- IT resilience.

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