



AFM INTEGRATED ASSURANCE NETWORK

22 June 2015

Association of Financial Mutuals

Conduct Risk - Where Are We Now?

22/06/2015



Where Are We Now?

- Overview
- Regulatory Approach
- Regulatory Expectations
- How Firms have Changed
- 5 Hot Topics!
- Summary

Overview

- Last Year the FCA was still looking to see cultural improvements within firms.
- The risks around controls and behaviours go to the heart of the FCA's work as 'conduct regulator'.
- Change in culture will only come when the tone at the top of the firm is right.
- It is vital that firms ensure that cultural changes have been made to prevent poor conduct in the future.
- The FCA believes that a cultural shift within firms celebrating good conduct that places consumer interests and market integrity at the heart of the financial sector will benefit all.

Regulatory Approach

- Limited Direct Communication
- Firms asked to participate in Thematic Reviews
- Regular Communications
 - Themed Reviews
 - Guidance
 - Supervisory Statements
 - Speeches
- Periodic documents such as the Business Plan
- Strong Action Taken on ‘Offenders’.

Regulatory Expectations

- Significantly increased from FSA
- Firms expected to be pro-active in communication
- Firms expected to assess and react to pronouncements
- Firms to 'up-skill' to ensure they can meet expectations
- Balanced Feedback

How Have Firms Changed?

Going forward the FCA:

- will be looking at how a board engages in conduct issues.
- will ensure that firms are translating customer focus into practices that drive how business decisions are made, how the firm responds to customer-related issues and problems as they arise, how individuals should behave and how issues are escalated in an open way.
- wants to see businesses are actually led by individuals that are asking the right questions at the right time before things become a problem.

How Have Firms Changed?

Work already carried out by firms:

- recognise that every decision has an impact on customers
- clear about their role in serving the best interests of members
- committed to acting in an open and transparent manner.
- taking steps to improve diversity
- Concentrating on customer outcomes in all aspects of their business
- Demonstrating how matters items have been discussed

Hot Topics | Financial Crime / Cyber-Crime

- A new forward looking- looking area of focus this year is:
- ‘The importance of firm’s systems and controls preventing financial crime’
- The FCA expects them to have effective, proportionate and risk bases systems and controls in place.
- The FCA will continue to focus on anti-money laundering and anti-bribery and corruption measures.
- Cyber-crime risks are increased by the complexity and age of IT systems operated by some firms.

Hot Topics | Senior Management Arrangements

- Integrity, Honesty, Skill – CFs and Core Roles
- All change! / No change!
- What firms are doing:
 - Taking action now!
 - Gap Analyses
 - Talking to; Regulators, us, each other
 - Allocating responsibilities.

Hot Topics | Technology

- Cyber Crime (see previous slide)
- IT Strategy
- Customer facing technology
 - Websites (including customer interfaces)
 - Apps
 - Social Media
 - Telephony
- Non-Customer facing technology
 - Core systems
 - Regulatory reporting tools
- Monitoring of Technological Performance

Hot Topics | Vulnerable Customers

- A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly, when a firm is not acting with appropriate levels of care.
- Vulnerability is characterised by a range of emotional and practical consequences:
 - Heightened stress levels
 - Time pressures
 - A lack of perspective
 - Poor decision making
 - Inability to plan ahead and foresee problems
 - Changing attitudes towards risk taking
- Many firms lack an overarching strategy or policy on consumer vulnerability.

Consumer Rights Act

- Last year the FCA noted how terms and conditions can be long and complex,
- This year unfair terms will come into sharper focus as the Consumer Rights Act 2015 is due to come into force on 1 October.
- The 2015 Act sets out a framework that consolidates in one place key consumer rights covering contracts for goods, services, digital content, and the law relating to unfair contract terms.

Summary

- Step change in regulatory approach
- Increased regulation has impacted on costs
- Firms must keep abreast of what is required & expected
- Good practice can be achieved and will be recognised by the FCA

Any Questions?



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