PARADIGM
MORTGAGE
SERVICES

REGULATION RUNWAY

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Financial Services Compensation Scheme Levies

You may have just received an interim bill from the FSCS asking for further levies to fund a shortfall in levies already received. These additional funds are needed to support three of the Intermediation Pools where there has been, or is likely to be, an overspend. The three sectors are: Home Finance Intermediation, Life & Pensions Intermediation and General Insurance Intermediation. All firms who are FCA authorised – regardless of whether they are active in those areas or not – are being asked for additional levies. Firms that have investment permissions and trade in this sector of the market are likely to receive a refund, and if they have significant investments under management this refund could wipe out the additional levies in the other intermediated pools.

If you want to find out more around the reasons for these levies then please feel free to contact Christine Newell, Paradigm's Mortgage Technical Director, or speak to your compliance consultancy.

CP16/42 Reviewing the funding of the FSCS

On the back of the interim levies being imposed on firms, the FCA feel that a review of how the FSCS is funded is now needed. Trade bodies and other Industry figures have put pressure on the FCA to carry out the review and assess the fairness of how these charges are apportioned. A consultation paper CP16/42 has been launched and the closing period for the consultation is 31 March 2017. The main points for discussion are as follows:

- Considering the introduction of mandatory PII terms
- Introducing product provider contributions
- Merging funding classes for intermediation activities (setting out three options)
- Considering risk-based levies based on product, including introducing data collection for activities linked to higher risk products
- Increasing limits on claims relating to investment provision and intermediation of life, pension and investment products in light of pension freedoms
- Introducing FSCS coverage for debt management business.

We urge you to have a voice on the changes as part of the consultation period as these will affect you and your business moving forward. You can add your responses into the document by using the online response form or by emailing cp16-42@fca.org.uk.

Senior Manager Regime (SMR) and Certification Regime (CR)

This was implemented on 7 March 2016 in Banks, Building Societies, Credit Unions, Large Investments Banks regulated by the PRA and branches of Foreign Banks operating in the UK. It will be extended to ALL regulated firms in 2018 and the consultation for this will begin in 2017.

This SMR makes it easier for firms, and the Regulator, to be clear about who is responsible for what. It allows Senior Managers to be held to account where they are at fault for misconduct in that falls into their responsibility. All individuals, working at all levels, within relevant firms will be held to appropriate standards of conduct. The objectives of the SMR are to:

- Ensure each Senior Manager has a statement of responsibility setting out areas which they are personally responsible for
- Produce a responsibility map within each firm that knits these areas together
- Ensure all Senior Managers are pre-approved by the Regulator before carrying out their roles.

Certification Regime

This applies to "Material Risk Takers" such as Investment or Mortgage Advisers. These examples could cause serious harm to the firm or any of its customers. Firms will need to identify:

- All certified individuals
- Assess them for fitness & propriety
- Have relevant procedures in place to re-assess the fitness and propriety of certified staff on an annual basis

You can read more about the Senior Manager and Certification Regime here.

Paradigm will be providing further updates on this throughout 2017 as this will probably have some significant implications for firms, particularly the smaller one-man bands.

Financial Advice Market Review (FAMR)

The Regulator is keen for innovation in the industry, particularly where it provides a remedy for issues raised in the FAMR report, such as speeding up the ability to provide "automated advice models" where a client cannot afford to buy face to face guidance. This is quite a hot topic for the industry as a whole and all firms need to be aware of these changes and how it could affect their business models in the future. There are already two automated advice models available on the market for mortgages which are "Trussle" and "Habito" (you can have a look at these online auto-advice models by clicking on their names).

The FAMR was launched in 2015 to examine how financial advice could work better for consumers. The aim of the review has been to explore ways in which government, industry and regulators can take individual and collective steps to stimulate the development of a market to deliver affordable and accessible financial advice and guidance to everyone.

The review has taken place alongside the introduction of the Pension Freedoms and some three years after the implementation of RDR. It has explored the supply and demand side of the market for financial advice and guidance, and the barriers to providing these services and the potential solutions. The recommendations outlined in the report are as follows:

- Providing affordable advice to consumers
- Accessibility of advice to consumers
- Addressing industry concerns around future liabilities and redress without watering down consumer protection.