

# UNDERSTANDING REGULATORY STRATEGY IN FINANCIAL SERVICES

Malcolm Small introduces the Forum's new regulatory strategy special interest group



Regulation is a fact of life in retail financial services. All too often, we concentrate on the implementation of compliance and miss the bigger messages being sent to us about public policy contained in regulation. We are also impacted by government departmental regulation – a current example being the changes around “A” day – as well as EU directives. Again, messages about future directions are all too often missed, or ignored as frightening or inconvenient. This can be particularly the case in marketing and distribution, although all areas of the business, from corporate communications through to administration, are affected.

How can we better understand the strategic impacts of regulation for all aspects of our business going forward? How do we engage effectively with regulators, government and Europe to present an informed view of the likely effects of developing policies?

The Regulatory Strategy SIG is intended to be a safe space in which to start building this understanding. It will seek to:

- Identify the changes in future strategic direction implicit in regulation and policy.
- Consider how these changes will impact all aspects of our business.
- Assess the practical implications, if they are implemented.
- Identify which areas of our business would need to change, and how.
- Engage with other bodies in our industry, and with policy makers, to give expression to these observations.

The list of topics to be addressed is substantial indeed. The urgent issues include:

**Treating customers fairly:** The first example of the FSA's new “principle-based” approach to legislation has resulted in a wide range of responses from an industry used to regulatory prescription. What are the implications for distribution – and in particular IFA distribution – of complex, high-risk, products? How do corporate and marketing communications need to change? What are the messages for product design? How will principle-based regulation roll out?

**Mortgage and general insurance review:** The FSA has announced that this will take place in the spring of 2006. What lessons can we, and policymakers, learn from the story so far? What changes are needed? Has it worked, or has it just bombarded consumers with more unintelligible paperwork? What effects will continued regulation have on the markets for these products?

**Europe and the financial services action plan (FSAP):** The Insurance Mediation Directive drove mortgage and general insurance regulation. Which other directives will have major impacts on the UK financial services industry? Will the FSAP finally create a single market? What implications will Solvency 2 have for the financial structure of firms? There will be many other topics – the structural changes likely in the pensions market after “A” day, for example, or the effect on investment markets of the introduction of real estate investment trusts.

A number of these areas overlap with existing SIGs, and we'll be looking to collaborate with them to gain expert input.

Who should join the Regulatory Strategy SIG? It is not a "compliance"-led group, although compliance directors might well want to join – and would be welcomed. Rather, it is a group for operational senior managers and directors from all parts of our business who are tasked with a strategic planning function and need to gain insight and fresh thinking about the future environment. So marketing, distribution, public affairs, corporate communications and operations people will all find a home here.

This may seem to be a broad agenda, but we hope to demonstrate just how the value will be delivered at our launch at the Financial Services Forum's Strategic Issues and Challenges Conference on 8 November.

See you there.

### Malcolm Small

MANAGING DIRECTOR, THE LYNCOMBE CONSULTANCY

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