

# Being better informed

## FS regulatory bulletin

### FS regulatory insights

September 2024

#### In this month's edition:

- FCA calls on insurers to address governance and fair value failings
- Basel Committee warns of new risks from permissionless blockchains
- FCA announces market study into pure protection products
- FCA calls on crypto firms to improve financial promotions



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# Executive summary



Welcome to this edition of 'Being better informed', our monthly FS regulatory bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services sectors.



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The pace of regulatory developments slowed down in August due to the usual summer break. There were, however, a number of noteworthy developments over the course of the month, particularly from the FCA, and we expect a busy autumn ahead.

Significant updates from the past month include the FCA's work to address product governance and fair value concerns in the general insurance and pure protection sector. The regulator shared the findings of its thematic review, which included the failure of many manufacturers to adequately assess and evidence that their products deliver fair value and good outcomes. In addition, the FCA expressed concern that some distributors do not fully understand their responsibilities to consider the remuneration they receive as part of distribution arrangements and its impact on the product's value, nor receive sufficient information from manufacturers. The FCA says it's

disappointed that many firms are failing to meet their obligations under PROD, despite extensive work by the regulator in this area. It's taking a range of follow-up actions, including: requiring firms to take remedial actions supported by attestations from senior management and using skilled person reviews, and requiring some firms to withdraw products.

Later in the month, the regulator announced plans to launch a market study into pure protection products, expressing concerns that the design of commission arrangements may not allow firms to deliver good outcomes to policyholders, and that some products may be providing poor value. The FCA published the terms of reference for the study, which it intends to launch later in the financial year 2024/25.

Elsewhere, regulators continue to monitor risks associated with digital assets and emerging technologies. The FCA published findings of a review of crypto firms' compliance with financial promotion rules. The review focused on how firms are implementing 'back end rules', such as personalised risk warnings, a 24-hour cooling-off period, client categorisation, and appropriateness assessments. The regulator outlines good and poor practices for the wider sector to consider and implement any necessary changes. It uncovered multiple instances across all review areas where firms did not meet the required standards,

including the expected level of consumer protection. The regulator warns firms against relying on industry comparisons to benchmark what is acceptable, given the prevalence of poor practices in the market. See our [At a glance](#) publication for more details.

The Basel Committee on Banking Supervision, meanwhile, issued a paper on the risks associated with permissionless distributed ledger technologies, as well as emerging risk management strategies and safeguards.

Please read on to find out more about these and other developments. You can also visit our [PwC webpage](#) for further regulatory insights, including our latest [podcast episode](#) on the emerging world of tokenisation. Matt Blumenfeld, PwC's Global Digital Assets Lead, is joined by guest speakers Shearin Cao, EMEA Regulatory Policy Director at Citi, and John Allan, Head of Innovation at the Investment Association, to discuss the opportunities tokenisation can bring, and how the regulatory landscape is developing.

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# Contents

**How to read this bulletin?**

Review the Table of Contents and the relevant Sector sections to identify the news of interest. We recommend you go directly to the topic/article of interest by clicking in the [active links](#) within the table of contents.

<b>Cross sector announcements</b>	<b>4</b>
<b>Banking and capital markets</b>	<b>6</b>
<b>Asset and wealth management</b>	<b>7</b>
<b>Insurance</b>	<b>8</b>

# Cross sector announcements

In this section:

Digital assets	4
Pensions	4
Technology	4
Wholesale markets	5



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## Digital assets

### FCA reviews crypto financial promotion rule compliance

The FCA [published](#) its review findings on crypto firms' compliance with financial promotion rules on 8 August 2024.

The review focused on how firms are implementing 'back end rules', such as personalised risk warnings, a 24-hour cooling-off period, client categorisation, and appropriateness assessments. The review outlines good and poor practices for the wider sector to consider and implement any necessary changes.

The FCA uncovered multiple instances across all review areas where firms did not meet the required standards, including the expected level of consumer protection. The regulator warns firms against relying on industry comparisons to benchmark what is acceptable, given the prevalent poor practices in the market. The FCA continues to support and monitor the market.

## Pensions

### FCA launches consultation on value for money in pensions

The FCA, the Department for Work and Pensions (DWP) and the Pensions Regulator (TPR) jointly published [CP24/16 Value for Money Framework](#) in pensions on 8 August 2024. The regulators want to ensure that workplace DC personal pensions are delivering good value, without an undue focus on cost and charges.

The proposed framework would require consistent measurement and public disclosure of investment performance,

costs and service quality, against metrics which the FCA believes allow effective value assessment. It may also add to the obligations of existing Independent Governance Committees and Governance Advisory Arrangements.

Firms will need to publicly disclose the results of the assessment, including a RAG rating, and take action where an arrangement is rated at red or amber. The scope would exclude most schemes of fewer than 1000 members, although employers will potentially also bear greater responsibility. The regulators welcome comments until 17 October 2024.

## Technology

### BCBS warns on permissionless blockchains

The Basel Committee on Banking Supervision (BCBS) [issued](#) a working paper on risks of permissionless (or public) blockchains and potential ways to mitigate such challenges on 28 August 2024. The paper explores issues around governance, technology and compliance stemming from the new technology. The BCBS notes that permissionless blockchains present novel challenges which may require new methods to manage risk. Risk mitigations are in development but have generally not been tested under stress.

Executive summary	Cross sector announcements	Banking and capital markets	Asset and wealth management	Insurance
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## Wholesale markets

### FCA updates on consolidated tapes

The FCA published an update to proposals to develop consolidated tapes (CTs) for [equities](#) and [bonds](#) on 13 August 2024. In relation to an equities CT, the FCA is carrying out an independent study to help share its design and understand the impact of the inclusion of pre-trade data. The analysis will consider use cases for a real-time pre-trade equities CT and the impact on market participants; this will be informed by lessons from the US and current trends in equities trading patterns. The FCA plans to provide an update on the analysis by the end of 2024.

Regarding a bond CT, the FCA has confirmed its framework and is finalising the tender process to appoint a bond CT provider. This follows a December 2023 [consultation](#) on whether to require the provider to remunerate data submitters. The FCA subsequently decided not to go ahead with this proposal. The FCA expects to start the tender process by the end of 2024.

# Banking and capital markets

In this section:

Payments

6



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## Payments

### PSR sets out VRP expansion plans

The Payment Systems Regulator (PSR) issued a call for views [response](#) and [non-confidential stakeholder submissions](#) on 15 August 2024. The response relates to the PSR's role in supporting the Phase 1 expansion of Variable Recurring Payments (VRPs) to regulated financial services, regulated utilities sectors, and local and central government.

VRPs allow customers to safely set up recurring payments of varying amounts (for household bills for example) with greater visibility and control compared to existing payment methods. This is enabled through open banking.

The PSR looks to coordinate the expansion through a multilateral agreement and mandated participation. The PSR will evaluate different pricing approaches, and consider the potential effectiveness of interventions which do not establish a VRP application programming interface access price, such as price transparency or reporting requirements.

The regulator will share a set of updated proposals for stakeholder comment in the autumn.

# Asset and wealth management

In this section:



Please refer to the Cross sector announcements section on p. 4 for developments that may be relevant to Asset management.

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# Insurance

In this section:

Conduct

7



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## Conduct

### FCA finds governance and fair value shortcomings

The FCA published findings of its [thematic review](#) into whether insurance firms are meeting their product governance obligations under the Product Governance Sourcebook (PROD 4) on 21 August 2024. As part of its review, the FCA assessed the product oversight and governance arrangements of manufacturers and distributors, focusing on general insurance and pure protection products.

The findings reveal that while most product manufacturers have improved their product oversight and governance arrangements, many still had shortcomings. These include inadequate implementation of governance frameworks, insufficient evidence in fair value assessments, and a lack of robust challenge during product reviews. Additionally, manufacturers often fail to consider the total price paid by customers and the impact of remuneration on the overall product value.

For distributors, the review shows some progress in governance and oversight, however many distributors made little progress to meet their responsibilities under PROD 4.3. Common issues identified include unclear governance structures, inadequate distribution arrangements, and ineffective processes to obtain necessary information from manufacturers. Distributors also lack effective mechanisms to assess the impact of their remuneration on product value.

The FCA is considering various actions to address these issues, including requiring firms to undertake remedial actions supported by attestations, using skilled person reviews, and potentially getting firms to withdraw products from the market.

### FCA announces market study into the distribution of pure protection products

The FCA announced its plans to launch a [market study into the distribution of pure protection products](#) to retail consumers on 28 August 2024. The study will focus on term assurance, critical illness cover, income protection insurance, and whole of life insurance. The study aims to assess market functionality and whether consumers are receiving good outcomes, linking to the FCA's broader Consumer Duty work.

The FCA has concerns about commission arrangements and 'loaded premiums' that may not support fair value, and potentially leading intermediaries to push unsuitable products. The FCA also has concerns that some products, such as guaranteed acceptance over 50s insurance, may offer poor payouts relative to premiums paid, especially impacting vulnerable customers. Additionally, the FCA notes that the exit of several insurers from the pure protection market may reduce consumer choice and weaken competitive pressures, potentially harming consumer interests.

In light of its concerns, among other things, the FCA will explore: consumer needs, engagement and understanding of pure production products; competitive constraints on insurers and intermediaries; commission incentives and potential conflicts of interest; and firms' behaviours and practices with respect to incentives.

Although not formally consulting, the FCA welcomes views on its Terms of Reference by 11 October 2024. The study will be launched by the end of the 2024/2025 financial year.



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**Wholesale markets**

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