What to expect: UK Financial Services Regulation in 2025

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Introduction

In this paper, we set out seven UK regulatory themes to watch in 2025, how we expect the country's financial regulators to operate, and a sector-by-sector guide to regulatory focus areas. These insights are based on our close engagement with UK regulators and our market knowledge of how firms are responding.

While this paper focusses on UK regulators, it also unpacks the four global themes set out in our global regulatory outlook in a UK context.

Global theme	Expected UK impact in 2025
Regulatory fragmentation	In 2025, firms face an increasingly distinctive UK brand of financial services regulation. UK regulators will place new emphasis on growth, creating opportunities for firms. Regulators still expect firms to deliver better outcomes for consumers, manage rapidly evolving risk and maintain financial soundness.
External threats	UK regulators will assertively supervise against new operational resilience requirements from 31 March 2025, hold firms to account for sustainability commitments, reporting and risk, and monitor exposure to non-bank financial institutions (NBFIs).
Consumer outcomes	The Financial Conduct Authority (FCA) will keep the Consumer Duty as the cornerstone of its approach, with particular emphasis on fair value and vulnerability. The FCA 2030 strategy will include a new focus on consumer resilience. Fraud and scams will also be a focus, with additional scrutiny on new obligations on authorised push payment (APP) fraud.
Managing risk in a changing environment	Regulators are holding firms to account in managing complex, rapidly evolving risks and issues (e.g., the Consumer Duty, artificial intelligence (AI)). In doing so, regulators are taking a step back, and considering Board effectiveness in overseeing these risks, and how risk culture impacts decision-making.

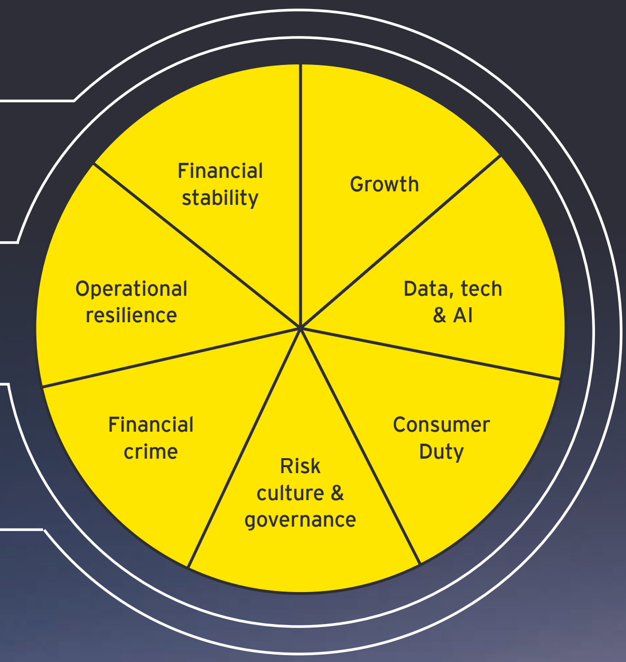
Global Regulatory Outlook

Four themes

- **Regulatory fragmentation**
- **External threats**
  (Operational resilience; sustainable finance; NBFI)
- **Consumer outcomes**
  (Fair treatment, inclusion, fraud and scams)
- **Managing risk in a changing environment**

Distinctive UK approach to regulation

UK regulatory themes 2025



Executive summary

In 2025, we expect UK financial services firms to face an increasingly diverse, complex and dynamic set of regulatory challenges. The country's financial services regulators are setting expectations that firms go further than rule-based compliance and deliver:

- Better outcomes for consumers and society (e.g., fair value, vulnerable customers).
- Effective management of rapidly evolving global and technological risks (e.g., operational resilience, cyber).
- Financial robustness amid uncertain conditions.

The political narrative in 2025 will focus on growth, an "appropriate" level of regulation and UK competitiveness. Regulators are adapting to this, focusing their communications on growth and regulatory efficiency. We expect a further slowdown in significant new policy initiatives. However, the regulatory agenda remains ambitious. In public messaging, firm-specific correspondence and Skilled Person (s166) reviews, the regulatory narrative remains that firms must improve to meet existing standards. Against this background, successful firms will:

- Adapt their approach to meet the UK brand of financial services regulation.
- Influence regulators to remove unnecessary burdens.
- Safely execute change to benefit from the removal of detailed regulatory rules.
- Invest in data, management information and people to deliver against regulatory outcomes while reducing long-term cost.

Meeting the UK brand of financial services regulation

The UK brand of financial services regulation will pivot towards growth, while maintaining rigorous, high-level expectations that firms deliver better outcomes for customers, manage rapidly evolving risks and maintain financial soundness. While regulatory rules remain important, UK regulators expect firms to prioritise outcomes, and not just focus on the letter of the law. Regulatory expectations are not static but continue to change. For example, Consumer Duty expectations continue to increase, evolve and be influenced by external factors, i.e., the Financial Ombudsman Service and courts, and threats to operational resilience and financial crime change rapidly. A traditional rules and process model is unlikely to keep pace. Successful firms will build regulatory outcomes into their strategy and management information while building the capability to rapidly respond to fast-changing threats and regulatory expectations.

Taking opportunities for growth and efficiency

The political and regulatory narrative for 2025 will focus on growth, international competitiveness, regulatory balance and regulatory efficiency. The Prudential Regulatory Authority (PRA)'s decision to further delay[1] Basel 3.1 implementation was partly due to it reflecting on competitiveness and growth considerations. The year will see consultations on removing the Certification Regime. In retail financial services, the Financial Conduct Authority (FCA) is expected to remove some detailed Handbook requirements that overlap with the Consumer Duty. In wholesale, we will see simplification of capital markets regulation and a withdrawal of consumer protections for commercial insurance clients.

Firms have the opportunity to influence government and regulators, such as by identifying requirements that impose a high cost but offer little benefit to consumers or risk management. The withdrawal of detailed rules may create space for firms to innovate and reduce operating costs. However, post-financial crisis, firms have little experience of responding to a reduction in regulatory rules. Maximising the benefits of efficiencies, while continuing to meet higher-level regulatory expectations, will require careful change management.

1 'PRA announces a delay to the implementation of Basel 3.1, Prudential Regulatory Authority (PRA), The PRA announces a delay to the implementation of Basel 3.1 | Bank of England, 17 January 2024

Building capability – AI and people

In 2025, we expect to see firms under significant pressure to reducing operating costs in risk and compliance. With UK regulators adopting a pro-innovation approach to the use of artificial intelligence (AI), firms have the opportunity to deploy new technologies to meet regulatory expectations. This includes automation of rules-based compliance and controls, adoption of AI in risk and compliance, and enhancing data capabilities to demonstrate delivery of outcomes to regulators.

In parallel, staff require significant upskilling to manage AI and the complex, diverse, rapidly evolving regulatory issues set out below. Successful firms will upskill and empower staff to focus on value-adding judgement, and to respond to rapidly evolving risks, while automating and offshoring simpler processes.

Insights in this report

In the first section, we explore seven cross-cutting themes for 2025:

- **Growth:** a new regulatory focus which may create opportunities for firms.
- **Data, technology and AI:** how firms can innovate while meeting regulatory expectations.
- **The Consumer Duty, fair pricing and vulnerability:** the increasing clarity on FCA expectations.
- **Governance and risk culture:** the expectations of the Prudential Regulation Authority (PRA) on risk culture, and plans to remove the Certification Regime.
- **Financial crime:** issues include the new authorised push payment (APP) fraud regime, anti-money laundering (AML) and sanctions.
- **Operational resilience:** this includes supervisory focus after the operational resilience policy transition period ends on 31 March 2025.
- **Financial stability:** topics include exposure to non-bank financial institutions (NBFIs), embedding of UK Solvency Regime and preparation for the Basel 3.1 standards.

In the second section, we set out what firms can expect from the UK regulators. We expect firms to face less policy change but more direct-firm intervention. This will include s166s, thematic reviews and firm-specific action, as UK regulators focus against existing standards. The FCA's five-year strategy, launched in 2025, will focus on four main themes with trust as a "cornerstone": supporting economic growth and innovation, increased regulatory efficiency and effectiveness, financial crime and consumer resilience.

In the third section, we look at 2025 from a sector perspective – considering retail banking, capital markets, insurance, and wealth and asset management. We consider the game-changers that could drive major changes in the sectors, specific policy change to look out for in 2025, and areas of supervisory focus.

Firms that adapt to these key themes for 2025, the new regulatory approach, and sector-specific initiatives, will be able to deliver better outcomes for customers, reduce risk and achieve cost savings. Firms that fail to adapt can expect increased regulatory scrutiny and to face remedial actions.

Three recommendations for firms

1

Focus on outcomes, rapidly evolving risks and financial stability. Automate to deliver a baseline of rules-based compliance. Integrate an outcomes-based regulatory approach into strategy and across three lines of defence models. Focus skilled human resource on value-adding judgement.

2

Act quickly in response to the pro-growth agenda of the UK government and regulators. Build capability and change processes to maximise benefits of removal of detailed standards while continuing to manage against high-level but demanding regulatory expectations.

3

Align data and management information to outcomes. Align outcomes with systems, controls and processes, using data and insight to demonstrate that outcomes are delivered and risks are managed. Upskill and empower staff to deliver end outcomes, not just follow processes.

Section 1

Cross-cutting themes

Section 1

Cross-cutting themes

We have identified seven themes that will impact all financial services sectors in 2025:

1 Growth

Headlines

- Government strategy on financial services growth and competitiveness will be published in 2025.
- Growth is key focus of remit letters from HM Treasury to the PRA, FCA and PSR.
- FCA Handbook rules that overlap with the Consumer Duty will be removed.
- The FCA will consult on commercial insurance market reforms to rebalance consumer protection and competition.
- Reforms to UK MiFID and transaction reporting aimed at boosting UK competitiveness are underway.

In her November 2024 Mansion House speech, the Chancellor of the Exchequer, Rachel Reeves, stated that post-crisis reforms had "resulted in a system which sought to eliminate risk taking … has gone too far … and, in places, had unintended consequences".[2] In 2025, we are already seeing extensive government and regulatory commentary, with the Chancellor announcing a series of industry roundtables "to seek views about the best way to deliver long-term in the sector and across the country".[3] The response of the PRA and FCA, most notably in letters to the Prime Minister published January 2025, sets out plans to increase attractiveness of the UK for capital and investors, as well as how to reduce the regulatory burden on firms. We may see the first major UK deregulatory push since the 2008 financial crisis.[4,5]

Wholesale initiatives are most advanced, with reforms to UK MiFID under consultation, HM Treasury giving the FCA powers to create a new transaction reporting regime in capital markets, and with the FCA consulting on disapplication of consumer regulation in wholesale insurance markets.[6] In retail markets, the FCA will announce results of its call for input on removing rules that overlap with the Consumer Duty.[7]

2 Mansion House 2024 Speech", UK government, Mansion House 2024 speech – GOV.UK, 14 November 2024
3 Chancellor ramps up engagement with financial services leaders to bolster plans to grow the economy", UK government, Chancellor ramps up engagement with financial services leaders to bolster plans to grow the economy – GOV.UK, 20 January 2025
4 A new approach to ensure regulators and regulations support growth", FCA, FCA letter on a new approach to ensure regulators and regulations support growth, 16 January 2025
5 PRA letter to the Prime Minister", PRA, PRA letter to the Prime Minister | Bank of England, 20 January 2025
6 "Discussion Paper, DP24/1: Regulation of commercial and bespoke insurance business", Financial Conduct Authority (FCA), 29 July 2024
7 "Call for Input: Review of FCA Requirements following the introduction of the Consumer Duty", Financial Conduct Authority (FCA), Review of FCA requirements following the introduction of the Consumer Duty, 29 July 2024

Firms have an opportunity to influence regulatory direction and reduce compliance costs. Delivering efficiencies, while meeting high-level expectations and delivering outcomes, will need a new approach to change management. Firms have little institutional memory of safely realising efficiencies when regulatory requirements are removed.

While the regulatory narrative for 2025 will focus on growth, we do not expect overall regulatory supervisory intensity to decrease. Whilst the regulators engage with government and industry on policy, they are independent in relation to supervisory activity, and remain focussed on well-established priorities. As we set out in section 2, which follows, regulatory resources have increased significantly over the past three years. Regulators have the data capability and supervisory bandwidth to hold firms to account through supervisory tools, s166s and enforcement activity.

What should firms do?

- Seize the unique opportunity in 2025 to shape the UK regulatory regime. Firms should engage with government and regulators on issues hindering growth, provide evidence of cost and benefit (or lack thereof) and propose changes in line with regulatory remits.
- Invest now to respond to deregulatory change, with potential for significant medium-term benefit. This includes developing a new approach to regulatory change management, to safely deliver efficiencies as standards are removed.
- Develop innovative ways of delivering regulatory priorities, taking advantage of regulatory messaging on growth and competitiveness and engage with regulators on AI opportunities.

2 Data, technology and AI

Headlines

UK government and regulators continue to encourage firms to innovate – e.g., the FCA's AI Lab and AI Sandbox.	FCA AI Sprint January 2025 to consider whether additional regulatory certainty can drive innovation and uptake.[8]	Regulators will follow the UK government's five AI Principles: (1) safety, security, robustness; (2) appropriate transparency and explainability; (3) fairness; (4) accountability and governance; and (5) contestability and redress.[9]	The FCA will consult on a regulatory regime for cryptoassets, with multiple consultations throughout 2025.

As digitalisation and use of AI accelerates, firms will be able to offer better, faster and more bespoke services and remove cost from their operations. Regulation of AI is fragmented globally: where initiatives exist, they are sector agnostic, with few specific financial services AI policies in development. In the UK, regulators consider that existing, technology-agnostic regulatory requirements can be applied to the use of AI. In 2025, this position may start to shift with pressure on UK regulators to move from a technology neutral to a technology positive stance. The UK government is also proposing to legislate to place requirements on the companies developing the most powerful AI models and intends to consult on how best to establish a regulatory regime that will address the most immediate risks.

Regulators have a series of AI initiatives, including the Bank's AI Consortium and the FCA's AI Lab, which includes its AI Spotlight, Supercharged Sandbox, AI Input Zone, and AI Sprint.[10] In addition, Supervisors will pay close attention to change management. They will focus on whether trade-offs between the status quo and AI approaches are understood, downsides are managed, impacts on end users and risk types are understood, and change can be managed effectively.

We expect both the FCA and PRA to continue to pull large data sets from firms, as seen with the PRA's data collection on firm's exposures to tokenised assets, stablecoins and other cryptoassets.[11] In addition to the operational challenge of providing data, firms face the challenge of regulators having a better understanding of a firm's data than the firm itself.

The FCA plans to fully regulate crypto assets by 2026, supporting a "safe, competitive and sustainable" market for cryptoassets in the UK.[12] We expect, amongst other publications outlined in the FCA's Crypto Roadmap, a consultation on stablecoins, custody and prudential issues during the first half of 2025.

What should firms do?

- Improve compliance effectiveness and reduce cost, using digital solutions to map regulatory rules directly to systems and controls and drive reporting.
- Use data, digital strategies and AI to evidence to regulators that regulatory outcomes are being achieved (i.e., Consumer Duty outcomes).
- Engage with the regulators on AI, setting out how regulatory clarity could help drive innovation and uptake.
- Enhance data capabilities to provide a cumulative internal accurate view on data provided to and previously provided to regulators.

8 "FCA AI Sprint", Financial Conduct Authority (FCA), FCA AI Sprint, 4 November 2024
9 "AI regulation: a pro innovation approach", Financial Conduct Authority (FCA), AI regulation: a pro-innovation approach – GOV.UK, 29 March 2023
10 "FCA AI Sprint", Financial Conduct Authority (FCA), FCA AI Sprint, 4 November 2024
11 Data collection on firms' exposures to tokenised assets, stablecoins and other cryptoassets", Prudential Regulatory Authority (PRA), Data collection on firms' exposures to tokenised assets, stablecoins and other cryptoassets | Bank of England, 12 December 2024
12 FCA finds crypto ownership continues to rise as it delivers plans to regulate crypto", Financial Conduct Authority (FCA), FCA finds crypto ownership continues to rise as it delivers plans to regulate crypto | FCA, 26 November 2024

3 The Consumer Duty, fair value and vulnerability

Headlines

The FCA will focus supervisory attention and enforcement on the Consumer Duty across retail markets.	The FCA will conduct thematic work across sectors, products and services, keeping focus on price and value.	In Q1 2025, the FCA will publish its review into firms' treatment of vulnerable customers.[13]	A new FCA five-year strategy, which includes a focus on consumer resilience, will be published.[14]

The Consumer Duty will remain the FCA's primary focus for 2025, with particular attention on delivery of fair value and vulnerability. In addition to FCA activity, decisions of the Financial Services Ombudsman (FOS) and the Courts will continue to set precedents in respect of fair treatment. However, the government plans[15] to reform the redress system to make it more predictable, with the outcome from an FCA/FOS Call for Input expected in H1 2025. The Supreme Court will also hear an appeal against the Court of Appeal judgment in three motor finance commission cases.[16] The FCA continues to be concerned about both fair value outcomes, particularly in general insurance markets, and the effectiveness of governance over fair value. This has been a focus of s166 activity in 2024 and we expect this to continue in 2025. We also expect the FCA's Vulnerable Customer Review findings, which will be published Q1 2025, to identify weaknesses in current practices and set clearer expectations.[17]

What should firms do?

- Continue to embed Consumer Duty outcomes in their strategy and processes. Develop data and management information to enable effective Board oversight and demonstrate to regulators that governance is effective, and Consumer Duty outcomes are achieved.
- Develop more robust fair value frameworks where the FCA has called out weaknesses. For insurers, incorporate direct FCA feedback in frameworks. For other sectors, identify read-across from issues the FCA has identified in insurance.
- Ensure there is strong governance around pricing and fair value assessment processes, and that firms can evidence there has been robust internal challenge to conclusions made.
- Maintain sufficient evidence of pricing rationale.
- Review where there may be barriers to accessibility in current products and services that mean they do not fully suit the needs of all customer segments within the target market.
- Ensure there are evidenced processes in place for using customer data to spot signs of potential vulnerabilities, including financial difficulty.
- Review staff training and support to ensure they are aligned with internal vulnerable customer policies.

13 "Review of firms' treatment of customers in vulnerable circumstances", Financial Conduct Authority (FCA), Review of firms' treatment of customers in vulnerable circumstances | FCA, 15 March 2023

14 "Setting the foundations for our future strategy", Financial Conduct Authority (FCA), Setting the foundations for our future strategy | FCA, 26 November 2024

15 "Mansion House 2024 Speech", UK government, Mansion House 2024 speech – GOV.UK, 14 November 2024

16 Announcement from the UK Supreme Court", UK Supreme Court, Announcement from UK Supreme Court – UK Supreme Court, 11 December 2024

17 "Review of firms' treatment of customers in vulnerable circumstances", Financial Conduct Authority (FCA), Review of firms' treatment of customers in vulnerable circumstances | FCA, 15 March 2023

4 Governance and risk culture

Headlines

The PRA will focus on a strong risk culture, led by senior management, in 2025.[18]	The FCA sees governance as integral to the Consumer Duty, and links culture to effective delivery of Consumer Duty outcomes.	The European Central Bank expects banks to monitor, measure and assess culture across all levels of their organisation.[19]	Regulators will continue to focus on diversity, equity, and inclusion (DE&I), and non-financial misconduct.	Government consultation on the removal of Certification Regime.[20]

Governance and culture have been regulatory priorities since the financial crisis. In 2025, we expect UK regulators to continue to focus on culture, decision-making and board effectiveness.

The PRA is focussing on "risk culture", the shared values, beliefs, knowledge, attitudes and understanding of risk within a firm which influence how employees behave and how they make decisions in relation to risk. The FCA has clear expectations on boards in respect of the Consumer Duty, made more complex as Consumer Duty expectations evolve and increase.[21] Final FCA rules on non-financial misconduct will be published in early 2025, and we expect further supervisory focus in wholesale insurance and capital markets.[22] PRA and FCA policy statements on other DE&I proposals are expected later in 2025. The government will consult on removal of the Certification Regime, which requires changes to legislation before regulatory consultations on specific rule changes.

What should firms do?

- Empower and equip staff to make judgements on rapidly evolving, complex issues relating to financial risk, consumer outcomes and operational challenges.
- Keep Board effectiveness under regular review, as Consumer Duty expectations increase and evolve.
- Consider the effectiveness of training, including mandatory training, in helping staff deliver positive risk outcomes.
- Enable greater agility at the point of customer contact, moving away from a tick-box approach of binary controls or rules.
- Build enhanced management information and outcomes monitoring to demonstrate a strong risk culture that results in the right decisions being made first time.
- Prepare for further supervisory action on governance and management information ahead of the implementation the FCA's final rules on non-financial misconduct.

18 "Prudential Regulation Authority Business Plan 2024/25", Prudential Regulatory Authority (PRA) Prudential Regulation Authority Business Plan 2024/25 | Bank of England,11 April 2024

19 "Draft guide on governance and risk culture", European Central Bank (ECB), Draft guide on governance and risk culture, 24 July 2024

20 "Mansion House 2024 Speech", UK government, Mansion House 2024 speech – GOV.UK, 14 November 2024

21 "FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty", Financial Conduct Authority (FCA), FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty, 27 July 2022

22 'FCA Culture and non-financial misconduct survey – findings" Financial Conduct Authority (FCA), 25 October 2024

5 Financial crime

Headlines

Nearly £1.2bn in fraud losses in 2023.[23]	A quarter of s166 reviews in 2023/24 on Financial Crime.[24]	50% of FCA enforcement operations opened in 2023/24 on Financial Crime.[25]	Record Financial Ombudsman Service (FOS) complaints on fraud/scams – 8,700 in Q1 2024.[26]

Financial crime will be one of four key themes in the FCA's 2025-30 strategy.[27] For 2025, the FCA is targeting reductions in investment fraud, APP fraud and money laundering. Both the FCA and the PSR will closely monitor implementation of the new reimbursement regime and are expecting firms to use new flexibility in payment delays to combat fraud. Sanctions activity will remain high, with the government having established the Office of Trade Sanctions Implementation (OTSI) in October 2024. Regulators will be keeping a close eye on the assessment, classification and subsequent treatment of politically exposed persons (PEPs) with amendments to the FCA's Guidance on the treatment of PEPs expected to be confirmed in 2025. The FCA is increasing investment in financial crime intelligence and data, and will conduct firm-specific assessments on AML and sanctions systems and controls. Firms that continue to have poor data or do not know their customers well will find themselves under regulatory scrutiny. Regulatory expectations will be tied to the Consumer Duty and customer vulnerability.

What firms should do?

- Review financial crime controls, including ensuring they remain fit for purpose as businesses change in size and scope, and are sustainable amid challenges such as a major geopolitical event. Also, explore how controls could be bolstered, e.g., using alternative data sources.
- Demonstrate robust governance and the ability to prove to regulators that senior management are effective when setting and reviewing strategy for fighting financial crime. Set out clear lines of responsibility, including accountability between the first and second lines of defence.
- Review resource allocation and training to ensure teams have the bandwidth and necessary role-specific expertise to sustainably carry out their roles.
- Implement new reimbursement regimes and develop robust, risk-based responses to payment delays legislation.

23 "Annual Fraud Report 2024", UK Finance, UK Finance Annual Fraud report 2024.pdf, 22 May 2024
24 "Annual Report and Accounts 2023-24", Financial Conduct Authority (FCA), Annual Report and Accounts 2023/24, 5 September 2024
25 FCA Enforcement data 2023/24, Financial Conduct Authority (FCA), FCA Enforcement data 2023/24 | FCA , 5 September 2024
26 "Fraud and scam complaints hit highest ever level", Financial Ombudsman Service, Fraud and scam complaints hit highest ever level – Financial Ombudsman service, 4 September
27 "Setting the foundations for our future strategy", Financial Conduct Authority (FCA), Setting the foundations for our future strategy | FCA, 26 November 2024

6 Operational resilience

Headlines

The July 2024 technology outage and geostrategic instability further increased regulatory focus on operational resilience.	Operational resilience three-year transition ends 31 March 2025.	Digital Operational Resilience Act (DORA) came into effect on 17 January 2025 in the EU.	Final Rules on Critical Third Parties in effect from 1 January 2025.

Operational resilience continues to be a global regulatory priority. UK regulators have set clear expectations that firms maintain important business services without intolerable harm to consumers or markets. Firms face significant implementation deadlines, with the UK operational resilience three-year transition ending on 31 March 2025.[28] Many firms will also need to meet the DORA requirements by 17 January 2025 for their EU businesses.[29] These regulations raise the bar, and regulators are expected to hold firms to account using supervisory powers in 2025. The PRA[30] and FCA[31] issued consultation papers in December 2024 proposing the detailed information that firms should submit when operational incidents do occur, and the data firms should collect on material third-party arrangements. The final FCA, PRA and Bank of England rules for the new critical third parties (CTPs) regime came into effect from 1 January 2025[32] but will apply to individual third parties if/when they are designed as CTPs by HM Treasury. The PRA and FCA to consult in the second half of 2025 on the management of ICT and cyber risk.[33]

What should firms do?

- Be well on their way to addressing vulnerabilities ahead of the 31 March 2025 deadline.
- Comprehensively embed robust testing, to understand their capabilities, and for assurance purposes.
- Invest in risk management, governance, technology and infrastructure to both meet regulatory expectations and build customer trust.
- Consider integrated platforms that allow them to operate resilience programmes efficiently and respond to future change, as technology, threats and regulation evolve.
- Enhance their risk management capabilities to detect, respond to and recover from cyber attacks.

28 "Operational resilience: insights and observations for firms", Financial Conduct Authority (FCA), Operational resilience: insights and observations for firms | FCA, 28 May 2024

29 "Digital Operational Resilience Act (DORA)" Regulation (EU) 2022/2554, European Union, Publications Office, 27 December 2022

30 "Operational resilience: Operational incident and outsourcing and third-party reporting Consultation Paper, CP17/24", Prudential Regulatory Authority 13 December 2024

31 "Operational Incident and Third Party Reporting Consultation Paper, CP24/28", Financial Conduct Authority (FCA), 16 December 2024

32 "PS16/24 – Operational resilience: Critical third parties to the UK financial sector", Prudential Regulatory Authority (PRA), PS16/24 – Operational resilience: Critical third parties to the UK financial sector | Bank of England, 12 November 2024

33 Dear CEO letter to International Banks Supervision: 2025 priorities", Letter from Rebecca Jackson and Alison Scott 'International banks Supervision: 2025 priorities' Prudential Regulatory Authority (PRA), 21 January 2025

7 Financial stability

Headlines

Concerns about firms' exposures to NBFIs are increasing.	The PRA will focus on stress testing.	Basel 3.1 standards start to apply from 1 January 2026 for UK firms.	Final Rules on UK Solvency II in effect from 31 December 2024.

Financial stability remains a global and UK regulatory priority. In 2025, UK firms face significant major overhauls of prudential regimes. For banks, the PRA will focus on Basel 3.1 standards implementation ahead of the 1 January 2027 deadline.[34] For insurers, the PRA will supervise in accordance with the new UK Solvency II regime, which went live on 31 December 2024.[35]

The Bank of England (BoE)'s first system wide exploratory scenario (SWES) exercise[36] highlighted the interconnectedness between banks and NBFIs, and the importance of system-wide tests for understanding vulnerabilities and improving market resilience. The PRA will use the SWES report to better understand vulnerabilities including in its considerations on firms' stress testing[37] and continue its stress tests on credit and liquidity risks for life and general insurers. The PRA will continue to focus on firms' exposures to NBFIs, especially on private equity financing and private credit.

The BoE seeks to transition to a demand-driven reserves supply via repo operations. This proposal, together with Quantitative Tightening and the phasing out of Term Funding Scheme with additional incentives for SMEs (TFSME) repayments will further reduce central bank reserves, impacting firms' liquidity funding and management.

What should firms do?

- Banks should progress Basel 3.1 implementation plans to be ready for implementation in January 2027, having regard to global developments.
- Non-systemic banks and building societies should prepare for the PRA's solvent exit planning rules, that come into effect on 1 October 2025[38]).
- Insurers should prepare for the PRA's final policy for solvent exit planning later this year, with implementation expected Q4 2025.
- All firms should review exposure to NBFIs, their systemic vulnerabilities and impact on market resilience.
- Firms should review their stress testing, risk management and contingency planning, including any assumptions used, and consider the results of the Bank of England's SWES exercise.
- All firms should ensure that their risk management approach can identify, assess and control their liquidity, market and credit risk exposures to NBFIs, including their correlations across financing activities with multiple clients.
- Banks should update their liquidity management and treasury planning in light of envisaged reduction in available Bank of England reserves, phasing out of TFSME and market volatility.

34 The PRA announces a delay to the implementation of Basel 3.1", PRA, The PRA announces a delay to the implementation of Basel 3.1 | Bank of England, 17 January 2025

35 PS15/24 – Review of Solvency II: Restatement of assimilated law", Prudential Regulatory Authority (PRA), PS15/24 – Review of Solvency II: Restatement of assimilated law | Bank of England, 15 November 2024

36 "The Bank of England's system-wide exploratory scenario exercise final report", The Bank of England, The Bank of England's system-wide exploratory scenario exercise final report | Bank of England, 29 November 2024

37 Joining the dots – speech by Nathanaël Benjamin, Executive Director', PRA, Joining the dots – speech by Nathanaël Benjamin | Bank of England, 15 January 2025

38 PRA Solvent exit planning for non-systemic banks and building societies, Supervisory Statement, SS/24, SS2/24 – Solvent exit planning for non-systemic banks and building societies | Bank of England, 12 March 2024

Section 2

Regulatory approaches

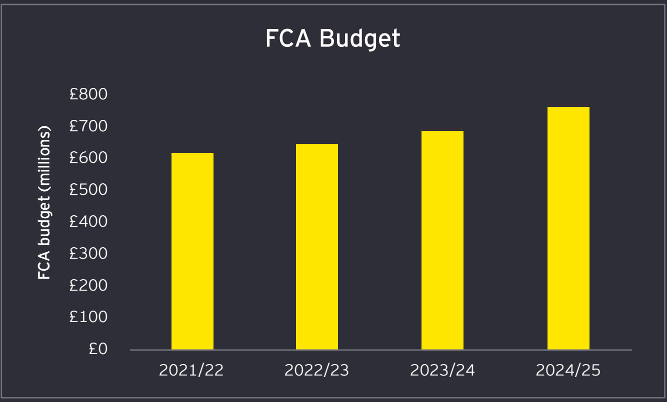
Section 2

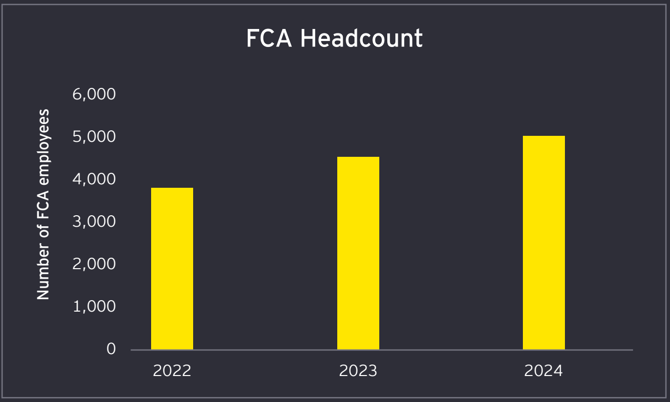
Regulatory approaches

As noted above, the UK government and regulatory focus on growth will principally impact the policy agenda in 2025. We do not expect to see major changes in how regulators operate, with an outcomes-focussed, data-enabled, assertive and supervisory-led approach continuing from both the PRA and FCA.[39]

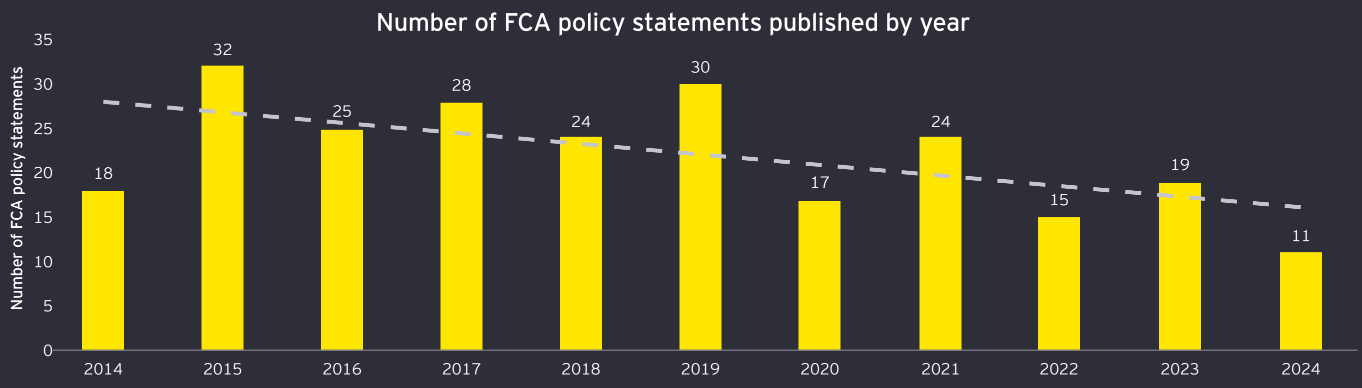
The FCA's approach

The FCA will continue to focus on outcomes, using its full supervisory toolkit assertively to deliver the Consumer Duty. This approach is epitomised in how FCA functions are now named: departments previously named as "Supervision" are now known as "Market Intervention" functions. This approach has been enabled by an increase in headcount and budget.[40]





The volume of new policy issued by the FCA has been falling.[41] We expect this trend to continue, especially given the increased oversight from the Regulatory Innovation Office and the FCA's new Cost Benefit Panel, and with the Consumer Duty proving sufficiently robust to address most scenarios.



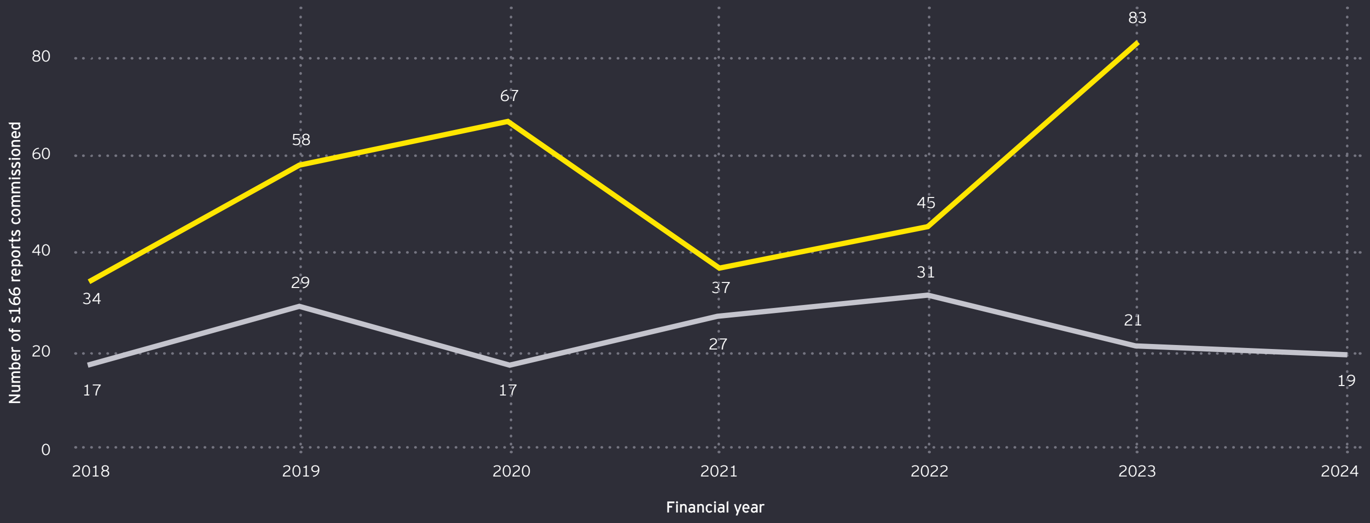
The reduction in policy should not be seen as a decrease in regulatory intensity, but as a rebalance between use of regulatory tools. FCA budget increases over the past three years have primarily focussed on data, supervision, authorisations and other support functions.[42] The FCA has invested heavily in its technological and data capabilities, and is increasingly confident in its ability to draw insight from large data sets requested from firms and conduct broad enquiries.

39 Please note that the PRA's financial year commences from 1 March of each year, whereas the FCA's begins from 1 April of each year
40 "Business Plan 2024/25", Financial Conduct Authority (FCA), Business Plan 2024/25 | FCA, 19 March 2024 https://www.fca.org.uk/publications/business-plans/2024-25
41 Annual Report and Accounts 2023/24", Financial Conduct Authority (FCA), 5 September 2024
42 "Annual Report and Accounts 2023-24", Financial Conduct Authority (FCA), Annual Report and Accounts 2023/24, 5 September 2024

For 2025, we expect supervisors to use the s166 tool extensively. In the 2023/24 fiscal year, the FCA commissioned 83 s166 reviews, a 77% increase on 2022/23.[43]

Number of s166 reports commissioned by UK regulators between Apr '18 and Aug '24

PRA data for 2024 includes data published for Q1 and Q2 FY24, FCA data is due to be published.[34]



● Number of s166 Reports commissioned by FCA ● Number of s166 Reports commissioned by PRA

In 2024, the FCA's proposals to disclose firms under enforcement investigation received significant industry pushback.[44] In November 2024, the FCA published a further consultation on its enforcement transparency proposals, with a final decision expected in Q1 2025.[45] The FCA's new enforcement strategy also proposed a significant change, with the FCA now committed to using its enforcement powers strategically in support of its priorities, as opposed to prioritising the worst misconduct regardless of the underlying issue. Under this approach, firms are likely to face increased scrutiny, and are more likely to face enforcement action, for issues the FCA has identified as priorities, or given warnings about in industry-wide correspondence or speeches.

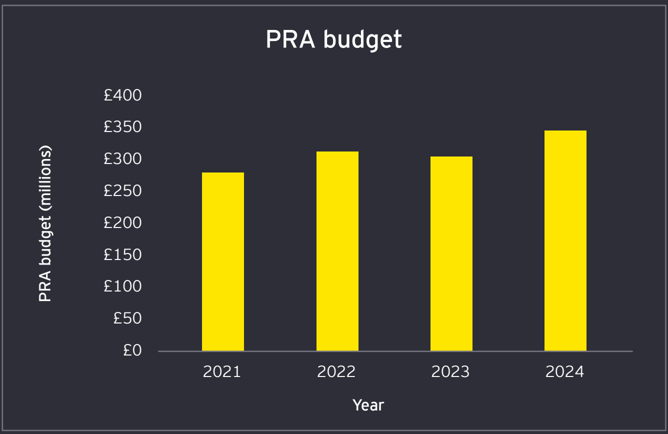
43 "Annual Report and Accounts 2023-24", Financial Conduct Authority (FCA), Annual Report and Accounts 2023/24, 5 September 2024

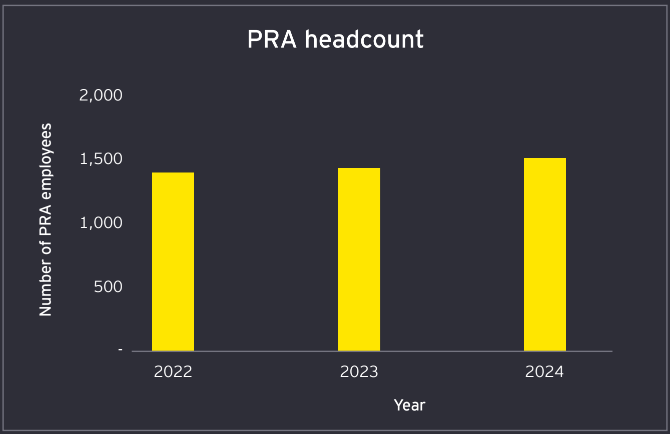
44 "CP 24/2 Our Enforcement Guide and publicising enforcement investigations–a new approach", Financial Conduct Authority (FCA), CP24/2: Our Enforcement Guide and publicising enforcement investigations – a new approach, 27 February 2024

45 FCA seeks further views on enforcement transparency proposals | FCA, 28 November 2024

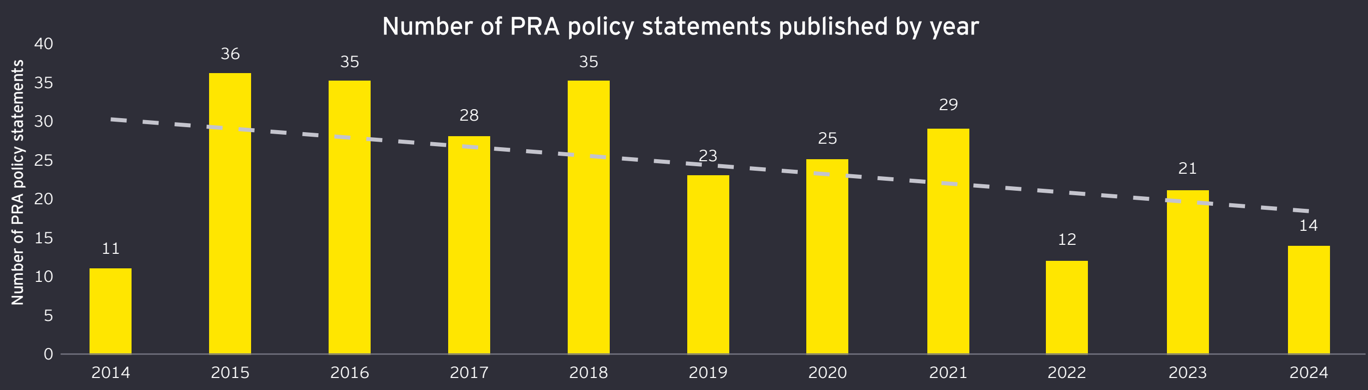
The PRA's approach

The PRA's approach will also continue to be supervisory-led and outcomes-focussed. Like the FCA, its budget increased significantly between 2023 and 2024 though, in contrast to the FCA, headcount has largely remained flat.[46]





The volume of policy changes from the PRA has also been falling.[47] As we consider 2025, we see the PRA continuing to revamp its rulebook in line with the new regulatory framework set out in the Financial Services and Markets Act 2023.[48] This updated rulebook will comprise rules, supervisory statements and statements of policy, eliminating references to EU regulatory products.



Like the FCA, the PRA is seeking to use data better to drive improvements. It is continuing to enhance its data capabilities as part of its joint transforming data collection programme with the FCA and Banking Data Review. Such programmes also offer firms the opportunity to engage and shape future use of data with the regulators.

46 "PRA Annual Report and Business Plan", Prudential Regulatory Authority (PRA) Annual Report and Business Plan | Bank of England
47 "Prudential regulation publications", Prudential Regulatory Authority (PRA), Prudential regulation news and publications | Bank of England, Accessed: November 2024
48 "Financial Services and Markets Act 2023", UK Government, Financial Services and Markets Act 2023, 29 June 2023

Section 3

Sector perspectives

Section 3

Sector perspectives

Retail banking and payments

The PRA and FCA have recognised challenging recent years for banks and their customers. In its "Dear Chief Executive" letter to retail banks (October 2024), the FCA identified multiple pressures on banks: having to manage regulatory change, ensure compliance, deliver good customer outcomes, all while transforming business models and technology, amid external headwinds and growing, diverse competition.[49] In response, regulators expect banks to focus on leadership and people management, governance and oversight, risk management frameworks, and risk culture. In the PRA's "Dear Chief Executive" letters to banks (January 2025)[50,51] the PRA seeks firms to uphold strong governance, risk management, and controls supported by accurate information to proactively identify, analyse, and mitigate risks in a dynamic, competitive environment. In 2025, we expect regulators to continue to focus on culture and control, with particular focus on the following themes: financial stability, motor finance redress, the Consumer Duty, vulnerability, access, and financial crime.

Financial stability

Following the failures in 2023 of Silicon Valley Bank (SVB) and Credit Suisse, the PRA continues to focus on implementation of global bank capital standards, Basel 3.1 and risk culture.

on Banking Supervision (BCBS), assessing adequacy of liquidity risk management and interest rate risk in the banking book (IRRBB).

What to expect in 2025

- The PRA to continue to monitor developments regarding US proposals for the implementation of Basel 3.1.[52]
- A consultation on amendments to the PRA's ring-fencing rules, following HM Treasury publishing its response to its 2023[53] and laying secondary legislation in Parliament to implement reforms.
- The PRA moving further towards finalising and implementing the strong and simple prudential framework for small domestic deposit takers (SDDTs).
- Continued PRA focus on banks' stress testing.[54]
- Continued PRA focus on banks' risk management and understanding of their Counterparty credit risk (CCR) management, including exposures to, as well as funding dependencies from, NBFIs.
- The PRA to continue its work with the Basel Committee

What should firms do?

- Progress their Basel 3.1 implementation plans to be ready for implementation on 1 January 2027.
- Navigate variances in the content and timing of Basel 3.1 implementation across borders.
- Continue to assess and test their own emergency liquidity risk management, including communication plans, learning from the 2023 banking turmoil.
- Ensure that their risk management approach can identify, assess and control their liquidity, market, and credit risk exposures to NBFIs, including their correlations across financing activities with multiple clients.
- For those firms with established remediation plans on CCR management to ensure they implement them.

49 "FCA strategy for Retail Banks in 2025", Financial Conduct Authority (FCA), FCA strategy for Retail Banks in 2025, 23 October 2024

50 "Dear CEO letter to International Banks Supervision: 2025 priorities", Letter from Rebecca Jackson and Alison Scott 'International banks Supervision: 2025 priorities' Prudential Regulatory Authority (PRA), 21 January 2025

51 "Dear CEO letter to UK Deposit Takers Supervision: 2025 priorities" Letter from Charlotte Gerken and Laura Wallis 'UK Deposit Takers Supervision: 2025 priorities', Prudential Regulatory Authority (PRA), 21 January 2025

52 The PRA announces a delay to the implementation of Basel 3.1", PRA, The PRA announces a delay to the implementation of Basel 3.1 | Bank of England, 17 January 2025

53 "A Smarter Ring-Fencing Regime: Consultation on near-term reforms – response", HM Treasury, Consultation_Response_-_Smarter_Ring-Fencing_Reforms.pdf, 11 November 2024

54 "Joining the dots – speech by Nathanaël Benjamin, Executive Director", PRA, Joining the dots – speech by Nathanaël Benjamin | Bank of England, 15 January 2025

Motor finance redress

Redress linked to motor finance has the potential to be the largest UK redress payout since PPI, with estimates of up to £30bn.[55] The issue demonstrates the growing importance of the FOS and the Courts in an era of outcomes-based regulation. Decisions of the FOS in January 2024 created the potential for significant redress, while the decision of the Court of Appeal in October 2024 has the potential to extend exposures beyond discretionary commission arrangements (DCAs).[56] These decisions highlight the risk of focussing too narrowly on FCA rules, without considering broader concepts of fairness. The decisions also highlight the risk of reliance on consumer disclosure to justify commission payments.

What to expect in 2025

- Lenders exposed to DCAs face an anxious wait. A judicial review, the FCA review under s166 powers and final FCA decisions will shape the quantum and process for redress.
- A decision from the Supreme Court on the appeals against the October 2024 Court of Appeal judgement in three motor finance commission cases.[57]

What should firms do?

- Review historical commission structures and disclosures to identify areas of concern; review current commission structure and disclosure to identify any gaps between regulatory, Ombudsman and court expectations.
- Consider current commission levels and ensure a robust assessment of the value for money provided by these arrangements.
- Assess consumer understanding of disclosure so as to evidence that current disclosure is understood by customers.
- Consider alternative distribution funding arrangements.
- Ensure adequate resources are in place if there is a surge in claims management company (CMC) activity for related products.
- Prepare for redress exercises.

55 White, Lawrence, "Britain's motor finance probe could cost financial industry $38 billion, Moody's says", Reuters, Britain's motor finance probe could cost financial industry $38 billion, Moody's says | Reuters, 19 November 2024

56 "Johnson and Wrench -v- FirstRand Bank, and Hopcroft -v- Close Brothers", Courts and Tribunals Judiciary, Johnson and Wrench -v- FirstRand Bank, and Hopcroft -v- Close Brothers – Courts and Tribunals Judiciary, 25 October 2024

57 "Announcement from the UK Supreme Court", UK Supreme Court, Announcement from UK Supreme Court – UK Supreme Court, 11 December 2024

Consumer Duty

In October 2024, the FCA wrote to CEOs of retail banks to set out its 2025 agenda.[58] The FCA reminded CEOs that the Consumer Duty should be their top priority, be at the heart of strategy and business objectives, and that the board and senior management should embed the interests of retail customers into the culture and purpose of their firms.

What to expect in 2025:

- The FCA focussing on data, management information and board reports on Consumer Duty outcomes, and on embedding Duty within firms' culture and controls framework. The FCA may ask to review board assessments of the Consumer Duty and the key management information they receive.
- Regulatory scrutiny over fair value across all retail banking products, with continued focus on the cash savings market and on business bank accounts. Discrepancies between open book and closed book rates, and speed of passing on interest rate changes, will face specific regulatory attention.
- Regulatory scrutiny over affordability assessments, particularly in respect of later-life mortgage lending and second-charge mortgage lending.

What should firms do?

- Continue embedding the Consumer Duty into culture and the full range of activities.
- Ensure continuous improvement of Consumer Duty strategy and implementation, as expectations become clearer and market practices evolve and improve over time.
- Continue sourcing and delivery of data, management information and dashboards needed to monitor and evidence customer outcomes under the Consumer Duty. Refine mechanisms for governing and reviewing dashboards, and acting on them, including board assessment.
- Identify and address poor outcomes promptly.
- Take particular care in handling maturity of interest-only mortgages, helping to avoid the sale of the home where this is not the intended repayment strategy.
- If client records are out of date and cannot be completed, take additional steps to mitigate the risk of harm, such as using enhanced outcomes testing.
- Test, monitor and adapt approaches to tracking down less-engaged customers, including timing and content, if these are not driving the right consumer engagement and understanding.

58 "FCA strategy for Retail Banks in 2025", Financial Conduct Authority (FCA), FCA strategy for Retail Banks in 2025, 23 October 2024

Vulnerability and access

The FCA has identified vulnerability and access as supervisory priorities for 2025.[59] In addition, access is a key feature of the government's National Payments Vision[60] and the new HM Treasury Financial Inclusion Committee.[61] The FCA focus on vulnerability began in 2015, guidance has been in place since 2021, and the FCA expects firms to have made significant progress since then in protecting vulnerable customers.[62] We expect the FCA's review into the treatment of vulnerable customers, published in Q1 2025, to set clear expectations of firms and be followed by intensive supervisory scrutiny.[63] Supervisors will also focus on adherence to new Access to Cash rules and the FCA's September 2024 report on UK payment account access and closures.[64]

What to expect in 2025

- The FCA review into treatment of vulnerable customers is expected to highlight weaknesses in current industry standards and examples of good/poor practice.
- The FOS is likely to continue to rule against firms where there have been missed opportunities to use customer data to identify vulnerabilities.
- The FCA will monitor data on new and early arrears and payment shortfalls, focussing on potentially vulnerable customers and identifying outlier firms for further action.
- Extensive FCA engagement with banks on their programmes of transformation, digitalisation and branch closures.
- The FCA will monitor customer contacts about suspended (frozen) accounts, identifying firms that have outlier rates of suspension, and engaging with firms to ensure they make improvements to systems and controls as appropriate.

What should firms do?

- Not rely solely on customers disclosing their vulnerability. Firms should review their monitoring strategies and use a range of data points, as opposed to a single data source to track vulnerability and customer outcomes.
- When vulnerability is identified, record and act on the information provided.
- Ensure they are able to compare outcomes for different groups or types of customers, as well as outcomes in different scenarios.[65,66]
- Comply with new rules and guidance on borrowers in financial difficulty. Consider earlier support for customers at risk and a wider range of forbearance options, refer or signpost customers to money guidance and debt advice, and ensure fees are commensurate with reasonable costs.
- Review policies and procedures on payment account access through the lens of the Consumer Duty, as per the FCA's September 2024 update.
- Provide additional support for vulnerable customers. For example, inform customers without a permanent address of alternative options to meet identification requirements.
- Improve awareness of the availability of Basic Bank Accounts and make it easier for customers to choose to apply for one if eligible.
- Comply with the new access to cash regime, including identification of gaps in cash provision.

59 "FCA strategy for Retail Banks in 2025", Financial Conduct Authority (FCA), FCA strategy for Retail Banks in 2025, 23 October 2024
60 "National Payments Vision", UK government, National_Payments_Vision..pdf, 14 November 2024
61 Financial Inclusion Committee – GOV.UK
62 "FG21/1 Guidance for firms on the fair treatment of vulnerable customers", Financial Conduct Authority (FCA), FG21/1: Guidance for firms on the fair treatment of vulnerable customers, 23 February 2021
63 "Review of firms' treatment of customers in vulnerable circumstances", Financial Conduct Authority (FCA), Review of firms' treatment of customers in vulnerable circumstances | FCA, 15 March 2024
64 "UK payment accounts access and closures: update", Financial Conduct Authority (FCA), UK payment accounts access and closures: update | FCA, 4 September 2024
65 "Implementing the Consumer Duty for closed products and services by 31 July 2024", Financial Conduct Authority (FCA), Dear CEO letter: Implementing the Consumer Duty for closed products and services – retail banking, 16 May 2024
66 "Consumer Duty implementation: good practice and areas for improvement", Financial Conduct Authority (FCA), Consumer Duty implementation: good practice and areas for improvement | FCA, 20 February 2024

Financial crime

While financial crime will be a regulatory priority across all sectors, the FCA is particularly focussed on banking and payments firms. In 2023/24, the number of new cases about current accounts received by the FOS rose by 4,600 year on year, and the resulting total accounted for over a fifth of all complaints from victims of fraud and scams.[67]

What to expect in 2025

- APP fraud will be a significant regulatory focus in 2025. Firms need to be conscious of how the new APP reimbursement regime interplays with FCA expectations on treatment of vulnerable customers.
- The Payment Services (Amendment) Regulations 2024, gave Payment Service Providers the ability to delay payments – where they have reasonable grounds for suspecting fraud or dishonesty on the part of someone other than the payer – for up to 4 business days.[68] The FCA has published guidance on enabling a risk-based approach to payments, including how it expect firms to use the legislation[69], and will focus supervisory attention on governance, process, controls and outcomes.
- The FCA will engage with banks extensively on financial crime, including those banks transforming financial crime systems and controls. This will include new risk-based assessments of AML, sanctions controls and follow ups to the FCA fraud review.
- 2025 will see the conclusion of in-flight, multi-firm work in the context of cash deposits through the Post Office and cash-based money laundering.

What should firms do?

- Use data to identify customer vulnerability. Findings from the FOS have shown that firms cannot rely on being unaware of the vulnerability at the time of these customers falling victim to scams. Instead, firms are expected to be able to use the data they hold to identify anomalies in customer transactions to proactively identify vulnerability and prevent the scam.
- Ensure new processes and controls, and data collection methods to meet new rules and standards are robust and stand ready to swiftly address any teething issues in the post-implementation period.
- Firms should review their processes and communications with customers who are alleged victims of fraud to ensure they are not harsh or unsupportive and are suitable for those that may be most vulnerable to fraud and scams.

67 Annual complaints data and insight 2023/24", Financial Ombudsman Service, Annual complaints data and insight 2023/24 – Financial Ombudsman service, 12 July 2024
68 New powers for banks to combat fraudsters", UK government, New powers for banks to combat fraudsters – GOV.UK, 3 October 2024
69 FG24/6: Guidance for firms that enables a risk-based approach to payments | FCA, 22 November 2024

Insurance

Insurers faced an intense period of regulatory activity in 2024, with the PRA adapting Solvency II for the UK market and the FCA using its full range of powers to progress Consumer Duty outcomes. Regulatory scrutiny will increase further in 2025. FCA market studies into pure protection and premium finance have potentially fair reaching consequences, with fair value and commission in the spotlight.[70,71]

In 2025, there will be a further increase in regulatory focus, from multiple channels:

- From the FCA, the conclusion of work on motor total loss, market studies into pure protection and premium finance, and continued focus on fair value and product governance.
- From the government, plans to reform pensions and review pricing of motor insurance.
- From the courts and the FOS decisions challenging established practices around commission, pricing and fairness.
- From the PRA, stress tests on credit and liquidity risks for life and GI, supervisory scrutiny with amendments to Solvency II live from 31 December 2024 and finalisation and implementation on solvent exit planning.[72,73]

Although uncertainty remains over the outcomes of these reviews, we know that government and regulators share an agenda to drive major change across the retail insurance market. Over the next three years, we expect regulatory initiatives will drive major changes in commercial models (pricing and distribution), apply further pressure on operational costs, significant redress programmes and market consolidation. For wholesale insurers, the government and regulatory focus on growth may see existing requirements being eased or adapted – for example, the consultation paper in Q1 2025 on the application of the Consumer Duty to wholesale markets.

While insurers will need to respond to specific themes set out below, they should also consider the cumulative impact of the broader regulatory agenda. With the FCA demanding change to the status quo, insurers have an opportunity to shape the future of the market, rather than just have the FCA shape it for them. Insurers will also need to engage with the government on pension reform.

Spotlight on: pension reform

Regulators and government have signalled their desire for financial services firms to help increase pension savings and use pension investments to boost economic growth. For example, long-term or "slow-money" strategies that direct pension assets into public infrastructure investments are seen as ways to improve returns for savers and smooth the transition to a lower-carbon future that benefits all citizens.

The new government has launched its "landmark pensions review" to boost investment, increase pension pots and tackle waste in the pensions system as part of its mission to drive growth.[74] The first stage is focussing on investment, including identifying any further actions that could be taken forward in the Pension Schemes Bill, aiming to support greater productive investment and better retirement outcomes.

The second stage will explore "long-term challenges to ensure our pensions system is fit for the future", considering how the wider pensions landscape could be improved to strengthen security in retirement.[75]

70 MS24/1.1: Pure Protection Market Study", Financial Conduct Authority (FCA), MS24/1.1: Pure Protection Market Study | FCA, 28 August 2024

71 MS24/2.1 Premium Finance Market Study", Financial Conduct Authority (FCA), MS24/2.1 Premium Finance Market Study | FCA, 16 October 2024

72 PS15/24 – Review of Solvency II: Restatement of assimilated law", Prudential Regulatory Authority (PRA), PS15/24 – Review of Solvency II: Restatement of assimilated law | Bank of England, 15 November 2024

73 "PRA Dear CEO Letter to Insurers – Insurance Supervision 2025 priorities", Prudential Regulatory Authority (PRA), PRA Dear CEO Letter to Insurers – Insurance Supervision: 2025 priorities, 9 January 2025

74 Chancellor vows 'big bang on growth' to boost investment and savings", UK government, Chancellor vows 'big bang on growth' to boost investment and savings – GOV.UK, 20 July 2024

75 Chancellor vows 'big bang on growth' to boost investment and savings", UK government, Chancellor vows 'big bang on growth' to boost investment and savings – GOV.UK, 20 July 2024

Fair value

The FCA has significant concerns about fair value in insurance having called out issues with guaranteed asset protection (GAP), pure protection and motor policies sold with premium finance. We expect the FCA to add to this list in 2025. The FCA has concerns over high commissions and/or long distribution chains that reduce value, and has identified material weaknesses in fair value assessments. In addition, the government has launched a taskforce on motor insurance pricing.[76]

In 2024, the FCA demonstrated its robust approach to tackling fair value in insurance, with GAP insurance effectively removed from the market using supervisory tools and market studies announced into pure protection and premium finance. As evidenced by action on GAP and the likely outcomes of these market studies, the FCA is looking at supply-side remedies that will drive market change, rather than demand-side interventions (e.g., consumer disclosure).

In addition to market-wide issues, the FCA's Thematic Review into Product Oversight and Governance (TR24/2) identified material weaknesses in firms' approaches, including issues with governance, data and oversight.[77]Notably, the assessment highlighted firms' inability to provide evidence for their positive fair-value conclusions, and insufficient evidence of robust internal challenge and appropriate data and management information to support decision-making.

In addition to fair value, the FCA will focus on claims-handling arrangements in 2025. In November 2024, the FCA published the findings of a multi-firm review of life insurers' bereavement claim process,[78] which they noted may also be relevant to other firms operating a claims process. The review confirmed the FCA's view that "firms have more work to do in respect to poor and slow service" and the regulator is likely to undertake future work in this area.

What to expect in 2025

- FCA market studies into premium finance and pure protection, with findings relating to commission having potential to impact other products.
- The FCA's continued use of supervisory tools to follow up on TR24/2. This will include reviewing firm responses to the requirement that GI and PP firms conduct urgent reviews into the findings and expectations of TR24/2.
- Assertive FCA supervisory action in 2025, including continued use of the s166 tool after the regulator warned the sector of "significant failings" on fair value in September 2023, and still found weaknesses in August 2024.[79]
- Greater regulatory concern over how much tangible consent is given by the customer for their data to be used in pricing and marketing of products, given obtained data is increasingly used in pricing decisions.

What should firms do?

- Review fair value product assessments, both in terms of process and outcomes. Provide evidence of how assessments have impacted products.
- Review product governance arrangements to ensure robust challenge when considering the value of products, with conclusions backed up by appropriate evidence.
- Evidence that fair value has been considered across groups of customers, including those with vulnerable characteristics.
- Ensure they can demonstrate that the use of data in pricing does not result in unfair biases or pricing practices.
- Not wait until the conclusion of market studies to review their pure protection or premium finance products against Consumer Duty expectations.

76 "Ministers bring together industry experts and consumer champions to tackle spiralling costs for drivers", UK Government, Ministers bring together industry experts and consumer champions to tackle spiralling costs for drivers – GOV.UK, 16 October 2024

77 "TR24/2 Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4), Financial Conduct Authority (FCA), Thematic Review 24/2: Product Oversight and Governance thematic review – General Insurance and Pure Protection, 21 August 2024

78 "TR24/2 Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4), Financial Conduct Authority (FCA), Thematic Review 24/2: Product Oversight and Governance thematic review – General Insurance and Pure Protection, 21 August 2024

79 TR24/2 Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4), Financial Conduct Authority (FCA), Thematic Review 24/2: Product Oversight and Governance thematic review – General Insurance and Pure Protection, 21 August 2024

Operating model

The continuing need to focus on cost reduction, and a move away from outdated legacy systems, is accelerating insurers' adoption of automated operating models, which combine human expertise with machine-aided processes to optimise operations and boost efficiency. Regulators are focussed on the trade-off between increased efficiency, with the promise of increased customer value, and concerns that the changes could increase financial exclusion or reduce operational resilience. Today, current use cases for technology focus on greater levels of self-service utilising AI tools, such as enhanced chatbots, while future investments are likely to focus on the embedding of AI throughout the insurance model, prioritising predictive risk assessments and enhanced underwriting.[80]

What to expect in 2025

- The government review into motor insurance pricing may identify practices across the ecosystem that drive up insurance prices unnecessarily. This may result in recommendations for regulators and the industry.
- The FCA will continue to focus on effective change management during operating model transformation, with a focus on consumer outcomes.

What should firms do?

- Consider the ethical and regulatory considerations associated with the adoption of automation and AI solutions. Firms should test solutions to prevent any unintended biases, which may perpetuate historical disparities of race, gender and socioeconomic factors.
- Firms should review whether any shift to digital operating models could have negative impacts on certain customer segments, evidencing how their needs have been taken into account.

Financial resilience and solvency reforms

In November 2024, the PRA finalised rules and policy materials that will replace Solvency II assimilated law – the so-called Solvency UK regime. The rules went live on 31 December 2024 and the PRA will prioritise ensuring these are implemented.[81]

What to expect in 2025

- The Life insurance Stress Test (LIST) 2025, which will apply to UK life insurers active in the bulk purchase annuity market with the largest annuity portfolios (the PTR has delayed the dynamic general insurance stress test (DyGIST) until 2026[82]).
- The PRA to finalise its requirements on insurers for solvent exit planning later this year, with implementation in Q4 2025.[83]
- The government's focus on growth, including long-term UK infrastructure projects, may trigger further potential changes to the Solvency UK regime.
- Given previous weakness exposed by market-wide stresses, the PRA will seek to finalise its liquidity reporting requirements for insurance firms most exposed to liquidity risk.

What should firms do?

- Expect to ensure they have sufficient resources in their planning for financial contingencies, and are regularly testing their plans, including assessing the appropriateness of their early warning indicators and liquidity resilience.
- If in scope, prepare for the LIST 2025 stress test.

80 "Generative AI in insurance", EY Parthenon, Generative AI in insurance, May 2024

81 "PRA Dear CEO Letter to Insurers – Insurance Supervision 2025 priorities", Prudential Regulatory Authority (PRA), PRA Dear CEO Letter to Insurers – Insurance Supervision: 2025 priorities, 9 January 2025

82 "Update on the Dynamic General Insurance Stress Test", Prudential Regulatory Authority (PRA), Update on the Dynamic General Insurance Stress Test | Bank of England, 18 December 2024

83 "PS20/24 – Solvent exit planning for insurers", Prudential Regulatory Authority (PRA), PS20/24 – Solvent exit planning for insurers | Bank of England, 18 December 2024

Capital markets

The government's Financial Services Growth and Competitiveness Strategy (FS Growth Strategy), due for publication in Spring 2025, includes capital markets as one of five priority areas.[84] It will focus on growth and risk-taking, building on post-Brexit reforms. The UK government and regulators are also focussed on hiring and incentivising talent, with proposals to remove the Certification Regime and reduce the length of mandatory pay deferrals. With the potential for regulatory rules to ease, firms will need to build change muscle to ensure they benefit from increased regulatory flexibility, while continuing to meet high-level but stretching regulatory expectations.

Risk management, culture and non-financial misconduct

Both the PRA and FCA have called out weaknesses in risk management, as evidenced by business conducted with Archegos and further market shocks over the past two years.[85] With the macro-economic outlook still uncertain, both the PRA and FCA will look to senior management and boards to evidence that remediation programmes to improve risk management have been effective. Regulators will continue to carry out supervisory testing by looking at the processes through which new products and some transactions are produced. The FCA will also continue its enhanced testing programme to look at how banks are controlling conduct risks such as financial crime, market abuse and conflicts of interest. This includes an increase in outcomes testing, data-led approaches and in-person supervisory assessments.[86]

While risk culture is not a new concept, the increased focus on this topic by the PRA and FCA, and the European Central Bank indicates that further progress is expected. In 2024 we saw significant fines for capital markets firms as regulators enforced against those falling short of expectations.[87] In 2025 we will see final rules published on non-financial misconduct. In 2024, the FCA prioritised wholesale banks, brokers and insurers when conducting its survey on culture and non-financial misconduct.[88] As we look to 2025, the FCA has made clear that capital markets firms should also reflect on this data, compare their performance with peers', and consider improvements to culture, risk identification and management, and addressing non-financial misconduct on an ongoing basis.

What to expect in 2025

- Continued supervisory scrutiny of risk management, including effectiveness of remediation programmes, and controls over financial crime, market abuse and conflicts of interest.
- Risk culture to be an area of supervisory focus from the PRA, as per its 2024/25 business plan and supervisory priority letters.
- The FCA is due to publish final rules on non-financial misconduct in early 2025, with PRA and FCA policy statements on other diversity and inclusion-related proposals due later in 2025. Regulatory scrutiny will remain higher in capital markets than in most other sectors.

84 "Mansion House 2024 Speech", UK government, Mansion House 2024 speech – GOV.UK, 14 November 2024

85 "Portfolio letter: Wholesale banks portfolio analysis and strategy forum", Financial Conduct Authority (FCA), Portfolio letter: Wholesale banks portfolio analysis and strategy forum, 8 September 2023

86 "Portfolio letter: Wholesale banks portfolio analysis and strategy forum", Financial Conduct Authority (FCA), Portfolio letter: Wholesale banks portfolio analysis and strategy forum, 8 September 2023

87 "Final Notice: Macquarie Bank Limited, London Branch", Financial Conduct Authority (FCA) Final Notice 2024: Macquarie Bank Limited, London Branch, 18 November 2024;

88 "Final Notice: Citigroup Global Markets Ltd", Financial Conduct Authority (FCA) Final Notice 2024: Citigroup Global Markets Ltd, 17 May 2024

What firms should do?

- Ensure senior management and boards review progress of risk remediation programmes, and seek assurance that programme outcomes have been delivered, and that risk is managed effectively on an ongoing basis.
- Review controls over preventing financial crime, market abuse and conflicts, given shifting threats and continued supervisory focus.
- Consider PRA feedback in respect of risk culture – the shared values, beliefs, knowledge, attitudes and understanding of risk within a firm that influence how employees behave and make decisions in relation to risk.
- Ensure boards and senior executives review the evidence and management information they use to gain comfort over the embedding of appropriate risk culture, frameworks for monitoring and assessing it, and improvements to management information to identify causes of potential risk culture weaknesses.

Sustainability

The government has set out its ambition for the UK to be the world leader in sustainable finance, with this being one of five priorities in its FS Growth Strategy.[89] This includes delivering a regulatory framework to support sustainable growth and enable the private sector to realise the opportunities of transition. The FCA remains concerned with greenwashing and will monitor adherence to its anti-greenwashing rule.

What to expect in 2025

- The outcome of the government consultation on whether there is a value case for a UK Green Taxonomy.
- A government decision on the endorsement of the ISSB sustainability standards (IFRS S1 and S2) to create UK Sustainability Reporting Standards (UK SRS), with a consultation expected on the draft SRS.
- Subject to a positive endorsement decision, consultations on requiring listed companies (FCA) and other economically significant companies (UK government) to report under the UK SRS.
- A government consultation in H1 2025 on how to take forward their commitment to require financial institutions – including banks, asset managers, pension funds, and insurers – and FTSE 100 companies – to publish carbon footprint and develop and implement credible transition plans. As part of its consultation on the updating the Listing Rules to refer to the UK SRS, the FCA is also expected to consult on guidance, aligned with TPT framework, to clarify expectations for listed companies' transition plan disclosures.
- A PRA consultation in Q1 2025 on updating SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change, to include, among other things, identified effective practice and developments in wider regulatory thinking.
- A new Transition Finance Council, launched by the government and the City of London Corporation.
- Regulation of the provision of environmental, social and governance (ESG) ratings, with legislation expected to be laid in early 2025, followed by an FCA consultation on the rules for ESG ratings providers.
- Government consultation on steps to raise the integrity and use of voluntary carbon and nature markets (VCNMs) and the proposed implementation of the principles for carbon and nature market integrity.
- Potential FCA enforcement action on greenwashing, with at least one firm currently under investigation in an environment-related case, and possibly further rulings on financial services-related adverts from the Advertising Standards Authority.

What firms should do?

- Consider the data implications of proposed new reporting standards and the steps needed to implement, e.g., the UK SRS, transition planning requirements and, if applicable, EU requirements such as the Corporate Sustainability Reporting Directive (CSRD and the European Sustainability Reporting Standards (ESRS). Prepare a flexible approach to data and reporting that anticipates continued evolution and global fragmentation of standards.
- Engage with the government consultation on VCNMs and the Integrity Council for the Voluntary Carbon Market, to influence policy and unlock investment.
- Review greenwashing controls, given likely FCA follow-up on the anti-greenwashing rule.

89 "Mansion House 2024 Speech", UK government, Mansion House 2024 speech – GOV.UK, 14 November 2024

Financial stability

The PRA requires firms to implement Basel 3.1 standards by 1 January 2027, with a three-year transitional period ending in January 2030.[90,91] The EU has started to implement Basel 3.1 under CRDVI/CRRIII, with CRRIII applying from 1 January 2025.[92] Moreover the PRA's recent announcement of a further delay in the UK implementation of Basel to 2027, was partly driven by the uncertainty remaining regarding US regulators' stance on adopting these global Basel standards.[93] This uncertainty has an impact for international firms and their plans for assessing and planning for a transition to standardised models.

What to expect in 2025

- The PRA will continue to assess firm's application for, use of, and risk management of internal capital models, including commissioning s166 skilled persons reports for seeking assurance of firm's market risk models and their accompanying risk management and controls.
- PRA SS1/22 on trading wind down (TWD) will apply from 3 March 2025, with PRA supervisors engaging throughout the period until TWD comes into force.
- The PRA to continue to monitor developments regarding US proposals for the implementation of Basel 3.1.
- The PRA to finalise its updated approach to the supervision of International Banks' branches and subsidiaries.
- The BoE[94] to develop its plans to transition to a demand-driven reserves supply via repo operations.

What firms should do?

- Prepare for the implementation of Basel 3.1 on 1 January 2027, as outlined in the PRA's policy statements PS9/24 and PS17/23.
- If operating cross-border, follow implementation plans of global regulators in assessing how current market risk models should transition under Basel 3.1, including performing a cost benefit analysis for opting to use an advanced model approach.
- Update liquidity management and treasury planning in light of envisaged reduction in available Bank of England reserves, and market volatility.

Reporting

Regulators will consider the effectiveness of current reporting regimes, in terms of benefit to regulator and cost to firms, while simultaneously holding firms to account for data integrity and controls over reporting.

What to expect in 2025

- The FCA is likely to consult on changes to the UK transaction reporting regime, following the discussion paper published in November 2024.[95] This will focus on improving the quality of data reported to regulators, reducing reporting burdens on market participants, and harmonisation between the transaction reporting regime and wider wholesale market reporting requirements.
- The PRA will continue to focus on regulatory reporting, including commissioning skilled persons reports to seek assurance of firm's governance and data quality controls surrounding firms' regulatory reports, such as the Common Reporting Framework (COREP).
- The ECB Single Supervisory Mechanism (SSM) will continue its supervisory focus on deficiencies in effective risk data aggregation and risk reporting (RDAR), and expectations that firms make substantial progress in improving their data aggregation capabilities and internal risk reporting practices.

What firms should do?

- Ensure that their controls for monitoring and providing regulatory data on their capital planning, including their risk management and data governance oversight, are duly assigned, documented and controlled, such that their reporting returns are accurately and timely submitted.
- For firms operating in the EU, assess their data governance framework complies with the ECB guidance on effective risk data aggregation and risk reporting, published in May 2024, in conjunction with the Basel Committee on Banking Supervision's (BCBS) principles for effective RDAR (BCBS 239).[96,97]

90 'PRA announces a delay to the implementation of Basel 3.1, Prudential Regulatory Authority (PRA), The PRA announces a delay to the implementation of Basel 3.1 | Bank of England, 17 January 2024

91 "PS9/24 – Implementation of the Basel 3.1 standards near-final part 2", Prudential Regulatory Authority (PRA), PS9/24 – Implementation of the Basel 3.1 standards near-final part 2 | Bank of England, 12 September 2024

92 "Basel III finalisation in the EU: the key elements and how they make the EU banking system more resilient", European Central Bank (ECB), Basel III finalisation in the EU: the key elements and how they make the EU banking system more resilient

93 "The PRA announces a delay to the implementation of Basel 3.1", PRA, The PRA announces a delay to the implementation of Basel 3.1 | Bank of England, 17 January 2025

94 "Bank of England: Discussion Paper Transitioning to a repo-led operating framework" Bank of England(BoE), Transitioning to a repo-led operating framework | Bank of England, 9 December 2024

95 "DP24/2: Improving the UK transaction reporting regime", Financial Conduct Authority (FCA), DP24/2: Improving the UK transaction reporting regime | FCA, 15 November 2024

96 "Guide on effective risk data aggregation and risk reporting", European Central Bank (ECB), Guide on effective risk data aggregation and risk reporting, May 2024

NBFIs

The Bank of England, PRA and FCA continue to have concerns over NBFIs as assets under management within the private equity (PE) sector continue to having increase. Regulators are concerned by the interconnectedness of banks, NBFIs and the private equity sector through loans, securities and deliverables – exposing them to liquidity, market and credit risks, as well as funding dependencies.

The Bank of England's recent report on its System Wide Exploratory Exercise (SWES)[98] highlighted the interconnectedness and understanding of the behaviours of banks and NBFIs in stressed financial market conditions, with the exercise highlighting the importance of system-wide stress tests for understanding vulnerabilities and improving market resilience. It also urged continued monitoring and policy development to address these risks.

What to expect in 2025

- The PRA to continue to monitor firms' exposures to NBFIs, and particularly the trend toward illiquid private equity financing and private credit.

What firms should do?

- Ensure that their risk management approach can identify, assess and control their liquidity, market and credit risk exposures to NBFIs, including their correlations across financing activities with multiple clients.
- For those firms with established remediation plans on CCR management to ensure they implement them.
- Review their stress testing, risk management, and contingency planning, including any assumptions used, and consider the results of the Bank of England's SWES exercise.

Operating model

With regulation increasingly fragmented globally, international firms face a significant challenge in meeting local regulatory requirements while maximising efficiencies and reducing costs across their operating model. Regulators continue to scrutinise firms' operating models and outsourcing arrangements, where they rely on external, often offshore, providers. The scalability of firms' risk and control functions as they continue to expand into new markets will continue to be a major challenge for international firms.

What to expect in 2025

- Global firms active in Europe or looking to increase their presence should be conscious of the regulator's continued objective to ensure that there is local understanding and ownership of risk management and decision-making within their EU entities.
- The PRA looking to clarify its expectations and enhance supervisory scrutiny around international firm's booking models and control arrangements.[99]

What should firms do?

- As international banks continue to rationalise their operating models, they should ensure they remain in line with regulatory expectations around governance and control arrangements including, for global booking models and outsourcing, and any nuanced local regulatory requirements.
- Be ready with documented evidence as to how they are ensuring their governance and control frameworks remain robust in the context of their chosen operating model, as well as producing effective management information to enable ongoing monitoring of the associated risks.

97 "Principles for effective risk data aggregation and risk reporting", Basel Committee on Banking Supervision (BCBS), Principles for effective risk data aggregation and risk reporting, 9 January 2013

98 "The Bank of England's system-wide exploratory scenario exercise final report", The Bank of England, The Bank of England's system-wide exploratory scenario exercise final report | Bank of England, 29 November 2024

EU/UK supervisory focus

Through their supervisory engagement we are seeing regulators both in the EU and UK continue to focus on thematic topics such as global booking models, outsourcing and local risk management capabilities for international firms. In addition, we are seeing regulators probe on the robustness of pre- and post-trade controls.

To successfully manage financial and non-financial risks, while achieving global business growth, banks will need to ensure:

- They have complete and consistent documentation explaining governance and control arrangements, nuanced for the local context where appropriate, and that their approach is scalable.
- Their oversight framework for outsourcing arrangements is robust and meets regulatory expectations.
- That local risk management and control functions have adequate resourcing and capabilities, and there is evidence of senior-level challenge.
- They understand the focus areas of local regulators, and have prioritised workplans accordingly.

Wealth and asset management

The wealth and asset management (WAM) sectors are facing a period of broader change in their regulatory framework. Work continues on the government's Smarter Regulatory Framework, with a focus on MiFID, AIFMD and UCITS. The FCA is also proposing updating and improving the UK's regime for asset management, with the aim of a more proportionate regime supporting innovation – and with a particular focus on exploring the use cases for fund tokenisation. A review of the advice guidance boundary, previously identified as a priority by the new government, is also expected to progress in the coming year. Following the publication of CP24/27: Advice Guidance Boundary Review – proposed targeted support reforms for pensions, in December 2024, the FCA plans to consult, at the end of H1 2025, on better support for consumers in retail investments and pensions, including draft rules.

Among this wider set of policy changes, are warnings of surprise visits and more assertive and intrusive supervision. We have highlighted below some areas that firms should be expecting to receive supervisory focus as the regulators continue to explore innovation and wider reformation of the regime.

Vulnerable customers

The FCA have made it clear in supervisory letters and wider feedback that they see the WAM sectors as falling short of expectations in their identification of vulnerabilities in the customer base. This was highlighted in the FCA's feedback on Consumer Duty implementation, which noted that 49% of portfolio managers and 69% of stockbrokers identified no vulnerable customers within their customer bases. The FCA also flagged the risk of generalised approaches, such as identifying everyone above a certain age as vulnerable, leading to a failure to tailor support to reflect individual needs.[100]

What to expect in 2025

- WAM firms should expect their approaches to vulnerable customers to come under the regulatory microscope, with the outcome of the FCA's treatment of vulnerable customer review further highlighting weaknesses in the current approach which will then become the focus of supervisory attention.

What should firms do?

- To avoid regulatory action, firms should revisit their definitions of vulnerability internally, as well as ensuring they have evidenced robust processes in place for using customer data to spot signs of potential vulnerabilities, alongside avenues for customers to volunteer their vulnerability.

Fair value

In line with its approach across other sectors, the FCA is set to continue to focus on fair value outcomes following the Consumer Duty implementation supervision.

What to expect in 2025

- For WAM firms, regulatory focus will home in on areas the regulator has previously raised questions about value to consumers. This includes the provision of ongoing advice (without a service that can justify the fees), the practice of overtrading to generate high fees, and any failure to consistently provide clear disclosures to customers on fees and charging structures.

What should firms do?

- The regulator has highlighted they are looking for comprehensive assessments that look across the value chain, factoring in all fees and revenue streams.
- Take learnings from the FCA's findings on fair value from the Product Oversight and Governance thematic review – General Insurance and Pure Protection.[101] Here the regulator stressed the importance of processes for regularly reviewing value assessments on an ongoing basis, as well as ensuring there is evidence of robust internal challenge of the assessment conclusions.

99 "CP11/24 – International firms: Updates to SS5/21 and branch reporting", Prudential Regulatory Authority (PRA), CP11/24 – International firms: Updates to SS5/21 and branch reporting | Bank of England, 30 July 2024

100 "Consumer Duty implementation: good practice and areas for improvement", Financial Conduct Authority (FCA), Consumer Duty implementation: good practice and areas for improvement | FCA, 20 February 2024

Financial crime

The FCA has for many years flagged concerns about the WAM sectors, and the need for firms to do sufficient due diligence to avoid inadvertently facilitating money laundering.

What to expect in 2025

- An approach to financial crime that is more assertive and promises more intrusive scrutiny. This includes the FCA's dedicated financial crime unit for consumer investments, and achieved the highest number of charges for financial crime in a single year in 2023.[102]
- With a volatile geopolitical outlook continuing, the regulator will continue to keep a watchful eye on sanctions and the adequacy of firms' sanctions systems and controls.
- Firms should focus on getting the basics right, including measurable financial crime risk appetite, and effective, business-wide, customer-focused financial crime assessments that are used to tailor controls.

What should firms do?

- The FCA has made clear that they tend to see the root cause of failings in this area to be ineffective or conflicted leadership and governance, combined with inadequate systems and controls.
- Consider reviewing current systems and processes to ensure they can stand up to intensified regulatory scrutiny.

Change management

Since 2023, there has been a wave of consolidation in the asset management industry as some firms have experienced challenges in raising and maintaining assets. The regulator has highlighted in supervisory communication the impact this change could have on business models, products and services, as well as, ultimately, customer outcomes and markets.

What to expect in 2025

- Regulatory interest has emerged in the effectiveness of firm's due diligence as they undertake integration of new acquisitions, with the FCA announcing plans to undertake multi-firm work to review consolidation within the market.[103] Concerns centre on systems and controls not keeping pace with rapid growth.
- Firms involved in consolidation to be watched for warning signs that they have failed in their task, including indicators such as increased customer complaints post-consolidation.[104]
- Ultimately, as with most areas of regulatory concern in this industry, the regulator will look for effective governance arrangements, controls and focus on good outcomes to protect consumers' interests through periods of change.

What should firms do?

- Robust due diligence to ensure good client outcomes are achieved, with clear evidence of this bolstered by board-level ownership.
- Ensure evidence of due diligence undertaken includes whether systems and controls have been effectively embedded within the acquired firm, consider whether senior managers remain fit and proper to perform their role for a larger entity, and ensure that re-sized firms have appropriately adjusted to their new liquidity and capital requirements.

Sustainability

Firms have seen a number of new sustainability-related rules come into effect, including the Sustainable Disclosures Requirements (SDR) and the FCA's anti-greenwashing rule. The FCA will be paying close attention to firm and product-level disclosures, and the use of investment labels. In Q2 2025, the FCA is also expected to publish final rules on extending the SDR regime to portfolio management with the government due to decide on extending the SDR to overseas funds.

The FCA will continue to question firms over the "say-do gap" between green and sustainability claims and their day-to-day sustainability performance. Overall, the FCA remains concerned about governance and management of all climate-related risks, with ongoing questions about division of responsibility for net-zero execution, which is now a familiar feature of FCA portfolio letters.

101 "TR24/2 Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4), Financial Conduct Authority (FCA), Thematic Review 24/2: Product Oversight and Governance thematic review – General Insurance and Pure Protection, 21 August 2024

102 "A targeted and outcomes-based approach to tackling financial crime", Financial Conduct Authority (FCA), A targeted and outcomes-based approach to tackling financial crime | FCA, 5 September 2024

103 "FCA's expectations for financial advisers and investment intermediaries", Financial Conduct Authority (FCA), Portfolio Letter: FCA's expectations for financial advisers and investment intermediaries, 7 October 2024

104 "FCA expectations for wealth management and stockbroking firms", Financial Conduct Authority (FCA), Dear CEO letter: FCA expectations for wealth management & stockbroking firms, 8 November 2023

EY contacts

Regulatory insights team

Christopher Woolard CBE

Chair, EY Global Regulatory Network
EY EMEIA Regulatory Lead, Partner,
Ernst & Young LLP
+44 20 7760 8166
christopher.woolard@uk.ey.com

Alex Roy

Financial Services
Regulatory insights, Director
Ernst & Young LLP
+44 20 7980 9674
alex.d.roy@uk.ey.com

Corinne Kaufman

Financial Services
Regulatory insights, Director
Ernst & Young LLP
+44 738 595 8245
corinne.kaufman@uk.ey.com

Retail banking and payments

James Lown

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 9512
jlown@uk.ey.com

Heather Alleyne

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 3827
halleyne@uk.ey.com

Abigail Viljoen

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 0820
aviljoen@uk.ey.com

John Saxton

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7806 9110
jsaxton@uk.ey.com

Insurance

Eamon McGinnity

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7806 9299
eamon.mcginnity@uk.ey.com

Richard Monks

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7806 3399
richard.d.monks@uk.ey.com

Capital markets

Stuart Crotaz

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 9714
scrotaz@uk.ey.com

Amy Hallet

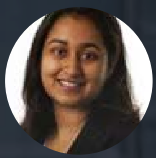
Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 1374
ahallett1@uk.ey.com

EY contacts

Wealth & asset management

Anthony Kirby

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 9729
akirby1@uk.ey.com



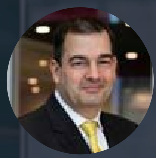
Naheed Tapya

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 3094
ntapya@uk.ey.com

Uner Nabi

Financial Services consulting, Partner
Ernst & Young LLP
+44 20 7951 6442
unabi@uk.ey.com

Prudential



Jared Chebib

Financial Services consulting, Credit Risk, Partner
Ernst & Young LLP
+44 20 7951 5941
jchebib@uk.ey.com

Shankar Mukherjee

Financial Services consulting, Market Risk, Partner
Ernst & Young LLP
+44 20 7951 2714
smukherjee@uk.ey.com

Etienne Michelin

Financial Services consulting, Banking Prudential, Partner
Ernst & Young LLP
+44 20 7951 0291
emichelin@uk.ey.com

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