



REGULATION

- Ensure compliance with the new regulator ◆
- Maintaining the balance ◆
- Embracing the future ◆
- Work to do on standards ◆
- Risk and commercial rent ◆

COMPLIANCE RULES: MOVING FORWARDS WITH THE FCA

As the FCA takes over regulation of the collections industry, it is important for businesses to ensure compliance, not just to avoid fines, but also to improve customer relations

By Ian Jackson

The move of regulator from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) is, in some ways, just a natural next step.

The industry has been evolving steadily, becoming more and more serious about its customers and the way it operates, but, at the same time, the size of the step should not be underestimated: it will be a leap.

The FCA has a clear remit and has already gained a reputation for being intrusive, questioning and consumer focused. The banks will confirm this! The challenge is significant, but is also welcome, as it will help drive improvements in standards and focus the industry on its customers. It is an opportunity to grasp and a chance for compliance to make a real difference to the health of companies.

The key aim of the FCA is to ensure financial markets work well so consumers get a fair deal. To do this, the FCA follows three statutory objectives: protect consumers, enhance the integrity of the UK financial system, and help

maintain competitive markets and promote effective competition in the interests of consumers. Since 2006, treating customers fairly has been a key regulatory focus, whilst, more recently, conduct risk and fair customer outcomes show that regulatory compliance is not enough. It is not even sufficient to go one step further forward and comply with the spirit of regulations. Companies need to go beyond this and compliance needs to be more ambitious and, also, focus on customer outcomes in line with the FCA remit.

A strong focus on the customer and customer outcomes underlined by an emphasis of ethical, compliant and customer-focused behaviour of staff provides a company with a strong foundation to build on for the new regulatory environment. All companies need to recognise that there will be a requirement to significantly increase the focus on the customer and compliance.

Benefits of compliance

The development of a robust compliance approach and structure, which aims to

provide the twin benefits of both positively assisting the organisation gain an advantage whilst also acting as a strong layer of defence, is important.

The emerging industry and regulatory context provides an opportunity for compliance to be more than a defence mechanism. Increased regulatory scrutiny provides a chance to adopt a compliance approach that extends beyond covering regulatory bases and contributes to improved customer outcomes and client relationships and further commercial benefits.

The compliance function's composition, its role and voice within the business, combined with its position within the overall risk-management framework, can provide the dual benefits of offence and defence for the organisation. Good, strong, customer-focused compliance is not just a fundamental requirement, it is a strategic imperative to drive a more customer-centric approach.

It is not possible to attribute direct sales benefits to compliance or be definitive of the value added by compliance, but driving growth

>>

>> that is focused on customer compliance can make a real contribution to the health of a company. Clients are increasingly setting compliance -gateway levels as their entry point into the market and are increasingly focused on providing continuing customer and regulator reassurance, and companies need to use this to their advantage.

The experience of other financial organisations, most notably large banks, illustrates the cost of non-compliance and the importance of having a strong base. We have seen banks fined, censured, placed in enforcement and undertake remedial action, with opportunity costs and reputational damage illustrating further the importance of managing regulatory risk.

It has been starkly shown over and over again as fines are announced and the less visible costs of remedial actions and opportunity costs and distractions multiply the overall impact.

Practical compliance

Regulatory and compliance arrangements for the organisation are determined by the impact of regulation, the regulator and the organisation's risk appetite. A firm's compliance framework will reflect these factors. Compliance must be utilised to add value as an enabler and must not be seen negatively as just a policing authority. It has a significant role as a layer of defence but it can be more.

The current business opportunities for the industry, placed against the backdrop of the regulatory changes, will enable an organisation's approach to the customer and regulation to help differentiate itself from its competitors. This is an excellent time to build on compliance foundations that are already in place and develop a more pragmatic and holistic compliance approach that is right for the company and the environment.

On a practical level, compliance areas need to design and implement a regulatory-risk framework that is suitable for its specific company requirements. Each company will be slightly different, although it is likely that there will be a number of common features of compliance accountabilities:

- ◆ Support and challenge line management on the completeness

and accuracy of compliance risk management activities.

- ◆ Identify and measure regulatory and compliance risks.
- ◆ Provide advice and guidance on regulatory obligations and on the creation and implementation of regulatory compliance policies and procedures.
- ◆ Monitor the organisation's compliance with relevant laws, regulations and internal risk policies.
- ◆ Produce evidence of compliance with relevant laws, regulations and internal risk policies.
- ◆ Report on compliance matters that require the attention of senior executives remaining objective, independent and pragmatic.
- ◆ Work with the business on compliance, regulatory and customer issues to assist

Good, strong, customer-focused compliance is not just a fundamental requirement, it is a strategic imperative

delivery of operations in line with agreed regulatory-risk management.

- ◆ Provide a forward-looking view of regulatory and customer issues and review potential future risks.
- ◆ Influence the delivery and provide evidence of appropriate customer outcomes.

Moving from the aspirations to the practicalities of compliance, it is important that compliance can show how it can make a difference. Undertaking business compliantly, and evidencing this, is a major platform for driving the right behaviours of staff and the desired customer outcomes. The FCA place the culture of the organisation as the highest priority and a strong compliance approach linked to the customer is an imperative.

A clean bill of compliance health gives commercial advantages. Clients will increasingly only partner with organisations with a strong customer and compliance agenda and, increasingly, the larger banks' demands are becoming more onerous as regulatory pressure increases on them.

Good evidence-based compliance is an entry requirement, but enhanced compliance and a strong customer-focused approach can provide a differential as clients will demand

stronger compliance focus and reduced risk to them.

The evidence from other financial services areas – most notably banks – is that strong, transparent, evidence-based compliance can act as a defence against reputational damage, fines and the opportunity cost of remedial actions. It is difficult to quantify the potential cost savings, but the recent painful costs, absorbed by banks, are significant and provide a very real example of the potential dangers of a complacent attitude to compliance.

By working closely with operational areas, compliance can assist to increase operational efficiency, both with significant change projects and business -as-usual operational issues. Early involvement with compliance on change

projects can aid the business' thinking through the most appropriate approach, whilst regular daily interaction with operational areas enables operational issues to be addressed. Add to this robust and consistent sign-off processes and this can further reduce potential issues.

Conclusion

The move to the FCA is a challenge for the industry and compliance needs to be able to hold a mirror up to the organisation and have the strength and independence to call out issues if required, but also partner with the business to deliver pragmatic solutions.

By installing a circular, straightforward process of plan, build, test, action and review, compliance can identify potential issues, monitor and test specific targets and provide outputs that can be acted upon and make a real difference as both a layer of defence and an enabler. **CCR**



Ian Jackson is head of compliance at Cabot Credit Management
E-mail: ijackson@cabotfinancial.com