



## Thematic Reviews

The FCA uses thematic reviews to investigate risks which potentially affect the whole or a large part of the market. This month's briefing considers what thematic reviews are; how a thematic review works; and key themes and practical tips emerging from past reviews.

Since its creation, the FCA has been keen to prove itself more effective than its predecessor, the FSA. There has been a move away from the "fire-fighting" approach of the FSA and an emphasis on looking forward - spotting any issues in the market before they escalate. Thematic reviews are a major component of this new strategy.

The FCA's 2014/2015 Business Plan serves to confirm an ongoing commitment to the use of thematic reviews<sup>1</sup>.

Annex 1 of the Business Plan gives details of the upcoming thematic reviews in various sectors<sup>2</sup>, these include:

- financial crime controls in C3/C4 firms;
- premium Finance;
- protection of client money by small firms; and
- SME banking.

### What is a thematic review?

The FCA's risk-based supervision approach has three elements:

- (a) Firm-based - this approach assesses and deals with the risks to an individual firm or group of connected firms.
- (b) Event-based - dealing with risks which occur or emerge.
- (c) Theme-based - this approach manages risks which affect a number of firms, an entire sector or the market as a whole.

Thematic reviews, as the name suggests, allow the FCA to consider the effect of a potential or emerging issue across an entire sector or market. Whereas individual firm visits are useful only to learn about the processes at a specific firm, a thematic review gives a broader overview of issues affecting a sector or market that could give rise to problems.

The thematic reviews undertaken by the FCA tend to fall into two clear categories. Those which:

- (a) focus on a particular product; and

- (b) consider processes (commonly referred to by the FCA as the "customer journey").

The table below sets out examples of both types of review.

Product Reviews	Process Reviews
Mobile Phone Insurance	Anti-Money Laundering and Anti-Bribery and Corruption Systems and Controls
Motor Legal Expenses Insurance	Payment Protection Insurance Complaints: Report on the Fairness of Medium-Sized Firms' Decisions and Redress
Automatic Renewal of Fixed-Term Bonds	Mortgage Lenders' Arrears Management and Forbearance

In most cases, consumer protection is the objective of a review. Consumer protection means more than simply ticking the correct legal boxes: it is no longer enough for a product to be compliant, the FCA expects "customers' interests to be at the heart of how firms do business"<sup>3</sup>.

The FCA may also use thematic reviews to promote other objectives. For example, a thematic review of firms' controls on bribery and corruption can assist in achieving the FCA's statutory objective of promoting and enhancing the integrity of the UK's financial system.

### How do thematic reviews work?

#### Stages of a thematic review

Whilst no thematic review operates in exactly the same way, the Motor Legal Expenses Insurance review conducted by the FCA in 2013/14 provides a good indication of the steps the FCA is likely to follow:

1. Initial visits to a cross-section of firms. At this stage the FCA may also request documentation such as customer files and calls, any terms and conditions and documents relating to the sales process (providing it is within FCA regulation).

<sup>1</sup> <http://www.fca.org.uk/static/documents/corporate/business-plan-2014-2015-interactive.pdf>

<sup>2</sup> <http://www.fca.org.uk/static/documents/corporate/business-plan-2014-15-annex-1.pdf>

<sup>3</sup> <http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/fair-treatment-of-customers>

2. Qualitative and quantitative consumer research.
3. A questionnaire to a wider group of industry participants.
4. Engagement and feedback at both a firm and industry level, together with consumer-directed communication.

After a thematic review has been conducted the FCA will consider what follow-up is needed and put in place a timeline to assess the extent to which there has been improvement.

## Product Lifecycle

The information the FCA gathers during a thematic review is used to assess the risks to consumer of either the product or process.

When dealing with products the FCA will consider the risks at six key stages:

- Product Governance
- Product Design
- Terms and Conditions
- Sales
- Claims
- Complaints

This breakdown of a product lifecycle allows the FCA to analyse precisely where any problems arise and produce tailored solutions.

## Key themes and practical tips

At the time of writing there have been 16 thematic reviews published by the FCA with a review of price comparison websites currently in progress. Specific thematic reviews cover a particular product or industry and the subjects have been diverse, including mobile banking, outsourcing in the asset management industry and financial incentives. However although consistent/general lessons applicable more generally are still emerging the follow general themes may be of interest to all regulated firms.

- If *'forewarned is forearmed'* it is useful for firms to anticipate whether their product or a particular process is likely to be reviewed in the near future. In this respect, consumer expectation is key - where there is a gap between what is

expected by the customer and what is delivered by the industry, it is likely that the FCA will want to investigate. Monitoring customer complaints and considering FOS referrals can assist in early identification of any potential problem areas.

- The FCA provides advance notice of the issues on which it will be carrying out thematic reviews. See the link to Annex 1 to the FCA's Business Plan 2014/15 above. Firms should study this information. If they identify concerns in an area which is to be the subject of a thematic review, steps should be taken to address these issues as a matter of urgency.
- Obviously, if a thematic review actually identifies concerns in a particular area then steps should be taken to rectify these by any firm to which these concerns relate.

The above can assist in highlighting areas which may be of concern. However, the key of course is to ensure that prompt and effective steps are taken to investigate and address concerns.

Governance and culture have emerged as important factors which firms can use to differentiate themselves and garner FCA approval:

- Strict internal monitoring and control systems coupled with hands-on directors who take responsibility for ensuring firm compliance are crucial.
- It could not be clearer that the FCA consider the consumer to be at the heart of regulation. A pervasive culture which considers the consumer and genuinely seeks to design products and processes which work for them is undoubtedly the best way to impress the regulator.

## Conclusions

Thematic reviews are not a new tool. However, they are of vital importance to the FCA which employs them as a method of spotting concerns in the market before they escalate.

Provided that they are willing to act, forward-thinking firms can use their own management information and the publicity and reports relating to thematic reviews to identify and address areas of possible regulatory concern at the earliest opportunity.

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