Top 10 for 2016
Banking

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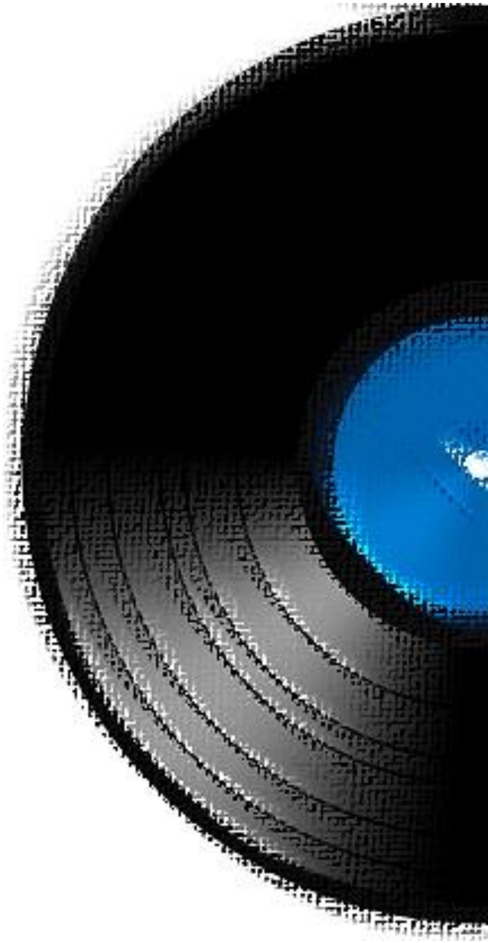
Top 10 regulatory topics for 2016

Impact on Banking

Deal with asap | Don't ignore | Plan

1. **Culture**
   Respect
2. **Conduct risk**
   Ain't misbehavin'
3. **Competition**
   Harder, Better, Faster, Stronger
4. **Structural reform**
   Breaking up is hard to do
5. **Measuring risk exposures**
   Let's twist again
6. **Capital calibration**
   Get the balance right!
7. **Data and regulatory reporting**
   I still haven't found what I'm looking for
8. **Technology and innovation**
   Under pressure
9. **Operational resilience**
   Livin' on a prayer
10. **Market participants adjusting to a**
    The times they are a changin'



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Competition | Banking

- Business model and profitability is on top of the supervisory agenda
- Banks must demonstrate profitability in a low interest rate environment.
- Peer review is a key supervisory activity under new SREP guidelines

Measuring risk exposures | Banking

- Several regulatory and supervisory initiatives in train will result in substantial changes to the capital framework
- Banks currently using the standardised approach will feel the impact first, as proposals to make capital more “risk-sensitive” will carry significant implementation costs.
- Greater scrutiny of non-performing loans (a priority of the SSM) will compound the effect of these initiatives on the amount of capital required to be held against a particular risk exposure
- Growing attention on liquidity risk means banks could produce a sound ILAAP as a mitigating tool

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Capital calibration Banking

- The new SREP, supervisory stress testing exercises, and proposals for banks to hold loss absorbing capacity and changes to accounting rules under IFRS 9 all need to be factored in to understand the overall change in capital requirements.
- Harmonisation and reduction of national discretions will lead to local adjustments

Data and regulatory reporting Banking

- The scope of the global principles for effective risk data aggregation and risk reporting ("BCBS 239") will be extended to D-SIB's
- Significant investment in MI and data will be needed to tackle expectations for monitoring conduct and demonstrating good governance, as well as further developments in prudential regulation and supervision.
- Pressure on regulatory reporting teams will continue with new ICAAP/ ILAAP templates, stress testing, STE and enhanced Pillar 3 disclosures, and developments such as ERF, BIRD and Anacredit

Don’t ignore

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Culture	Banking

- Strong risk governance supported with the tone at the top and the board’s role in identifying and managing risk as a measure is on supervisory agenda.
- Remuneration policies that promote a strong risk culture.
- Supported by embedded risk appetite statements.

Conduct	Banking

- Supervisory focus on consumer credit, credit cards and mortgages will continue.
- Banks will have to improve surveillance and MI to better manage conduct risk.
- Increased focus on integrating conduct risk into prudential frameworks and the alignment of remuneration and risk appetite.

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Technology and innovation — Banking

- FinTech (including Blockchain technology) will make various aspects of banking more cost efficient and competitive.
- Banks should consider partnering with, or acquiring, FinTech companies, or in the case of larger banks, make selective in-house investments, and scale up as payments utilities.
- Agile RegTech solutions, constructed to operate on existing infrastructure, can help deliver improved and cost-effective compliance, and, through analytics, harness the potential of their data.

Operational resilience — Banking

- Operational resilience is the summation of a number of initiatives on which banks have been working in recent years:
  - cyber defence,
  - stress testing, reverse stress testing,
  - recovery planning and operational continuity in resolution.
- The key will be to recognise the linkages between these programmes and integrate them within the overall risk management and governance framework.

Plan

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Structural reform **Banking**

- The EU’s attempt to implement a framework for bank structural reform is making slow progress.
- Significant work remains in order to make resolution plans operational.
- The implementation of bail-in may also prompt capital markets participants to review their investments in forms of bank debt that will be unambiguously bail-in-able in the event of a bank failing.

Operational resilience **Banking**

- New entrants will enter business that were traditionally the domain of banks.
- The revised Payment Services Directive (PSD II), to be implemented by 2017, will open the payments market to competition from non-banks
- Although still small in size, alternative lending platforms offer investment opportunities for yield
- Tech companies with banking licenses will penetrate into various niche markets e.g. mortgages and retail/ SME lending.

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Top 10 for 2016

Insurance & Investment Management

Andrew Power, Partner, Deloitte Great Britain

Top 10 regulatory topics for 2016

Impact on Insurers & Investment Manager

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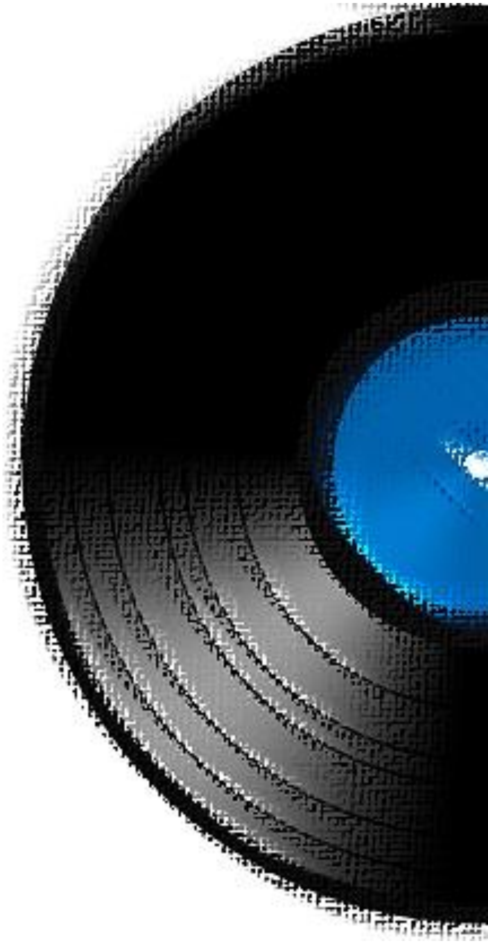

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Conduct Risk | **INSURANCE** ⬆ | **INVESTMENT MANAGEMENT** ➡

- Supply chain oversight and review of relationships
- Increased information from distributors about their end investors
- Global attention will also increase on conduct risk, following work by the IAIS.

Measuring risk exposures | **INSURANCE** ⬆ | **INVESTMENT MANAGEMENT** ➡

- Regulator’s decisions on model approvals still in progress
- Some risk weightings are already being reviewed under Solvency II e.g. infrastructure investments, securitisations. In this case, the changes are driven by the desire to promote the CMU initiative, and the “jobs and growth” agenda
- As investment firms in the EU are currently captured under the same capital requirements regime as banks, any changes to the standardised approach are likely to affect MiFID investment managers.

Deal with asap

Capital calibration

INSURANCE
INVESTMENT MANAGEMENT

- G-SIIs begin confidential reporting to supervisors on Higher Loss Absorbency requirements, IAIS will continue field testing programme to support the development of the new Insurance Capital Standards
- The challenge from regulators will increase, and across a wider scope of firms, with the implementation of the EBA's SREP guidelines for all CRD IV investment firms.

Data and regulatory reporting

INSURANCE
INVESTMENT MANAGEMENT

- The regulatory reporting requirements under Solvency II will be the foremost practical challenge. Under Solvency II insurers must report around 80 asset data fields, around half of which will need to be provided by their investment manager.
- Insurers and investment managers too will need to start working towards the implementation of the requirements that will be introduced by PRIIPs and MIFID II, and by the IDD.

Don’t ignore

Culture	INSURANCE INVESTMENT MANAGEMENT

- Remuneration policies that promote a strong risk culture
- Certification Regimes that promote managerial accountability

Competition	INSURANCE INVESTMENT MANAGEMENT

- Challenge around transparency of “add-on” products
- Regulators looking at value for money measure will re-evaluation of product offerings
- Increased disclosures of costs and charges and will increase the comparability of different products

Don’t ignore

Technology and innovation	INSURANCE INVESTMENT MANAGEMENT

- Insurers can expect more regulatory pressure for transparency around the use of data.
- Regulators will need to consider if and how they wish to protect those consumers who choose not to be “monitored”, or whose data makes them uninsurable
- The investment management landscape will continue to be disrupted by the rise of the “robo-advisors”.
- New reporting, disclosure and product governance requirements under MiFID II will generate a significant amount of new data. Firms should use this prospect to invest in analytics and ensure their data infrastructure is flexible and cost effective.

Operational resilience	INSURANCE INVESTMENT MANAGEMENT

- At the EU level, the Joint Committee of the European Supervisory Authorities (ESAs) identified cyber risk as a high priority in its May 2015 Risk Report.
- As firms’ activities become increasingly automated and “digitised”, so supervisory interest in their overall resilience will grow
- Many investment managers rely on 3rd party providers to carry out key functions and need to ensure effective oversight to incorporate any residual risks into the overall risk management framework.

Plan

Structural reform

INSURANCE
INVESTMENT MANAGEMENT

- Insurance resolution planning lagged behind banking; FSB consulting on developing effective recovery and resolution plans for global systemically important insurers + insurers deemed systemically important by their national authority.
- Likelihood of an insurer being required to overhaul its operating or legal entity structure in the immediate future for resolvability purposes is low. Some investment managers are covered by the Bank Recovery and Resolution Directives
- Asset managers will also have to consider the consequences of various bank liabilities becoming bail-in-able, particularly where investment mandates may prohibit ownership of higher risk securities.

Market participants adjusting to a new order

INSURANCE
INVESTMENT MANAGEMENT

- The clearing obligation and margin requirements for derivatives will be a particular challenge and cost for insurers which have traditionally used these as hedging instruments.
- Firms will face the challenges of sourcing and managing collateral
- 2016 will likely see policy recommendations from the FSB and IOSCO on mitigating risks and vulnerabilities associated with market liquidity in fixed income markets, and asset management.
- Despite delay in MiFID II implementation many firms it will require a revolution in capabilities to comply with the new standards

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