

Staying in control



of your culture and conduct risks

Why is culture and conduct so important?

The FCA Business Plan 2016/17 continues to concentrate on improving the governance and culture of regulated firms. But now they're focusing on how effective a firm is when it comes to delivering good governance, which means you need to consider more than just your structure and design.

So what are the FCA's concerns?

In their business plan, the FCA highlight that:

- **Poor cultures** in firms drive behaviours that result in poor outcomes for consumers and markets.
- **Firms' strategies, business models and governance arrangements** are not aligned with firms' values and good conduct.
- **Incentive structures and performance management** do not reward behaviours that act in the long-term interests of customers and market integrity.
- **Weak governance and lack of accountability** create poor oversight of risks to customer and market integrity risks in how firms are run.

To tackle these problems, the FCA wants to see evidence that you consider conduct risks and good customer outcomes in all areas of your business, including decision-making, controls, processes and appropriate management information – which all need to be regularly reviewed by relevant individuals at senior management level.

What does this mean for me?

You should make sure that your senior management team make robust decisions. Directors and senior managers must all be fully aware of what is happening, with effective communication and reporting structures in place to support the decision making process.

If you run a smaller firm, consider using a 'Decisions Register' to document the business development decisions and impact this has on your customers. In medium to larger firms, you should present a board pack of agreed conduct risk MI for consideration before board meetings, with senior management prepared to review, challenge and take further action where appropriate.

What is the FCA's current focus?

- **Your incentives and remuneration structures**

– if your remuneration structures are appropriate and how senior management drive positive culture and behaviours.

- **Your outsourcing, supply chains, product design and distribution**

– if you have appropriate control over your supply and distribution chain, if you carry out appropriate oversight of conduct issues and risks, and if products perform as they are designed to.

- **Review of Appointed Representatives (AR)**

– the FCA are driving a much greater focus on the AR arrangements of principal firms to strengthen oversight and supervision controls, and to make sure appropriate cultures are in place and conduct risks clearly identified and addressed.

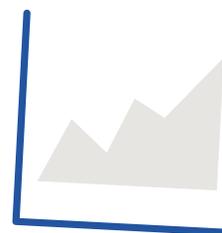
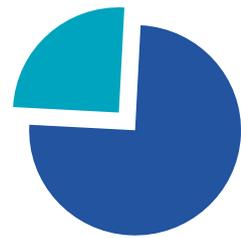


How can I go about changing my MI?

If you do not have the necessary MI in place, you can start by asking yourselves these questions.

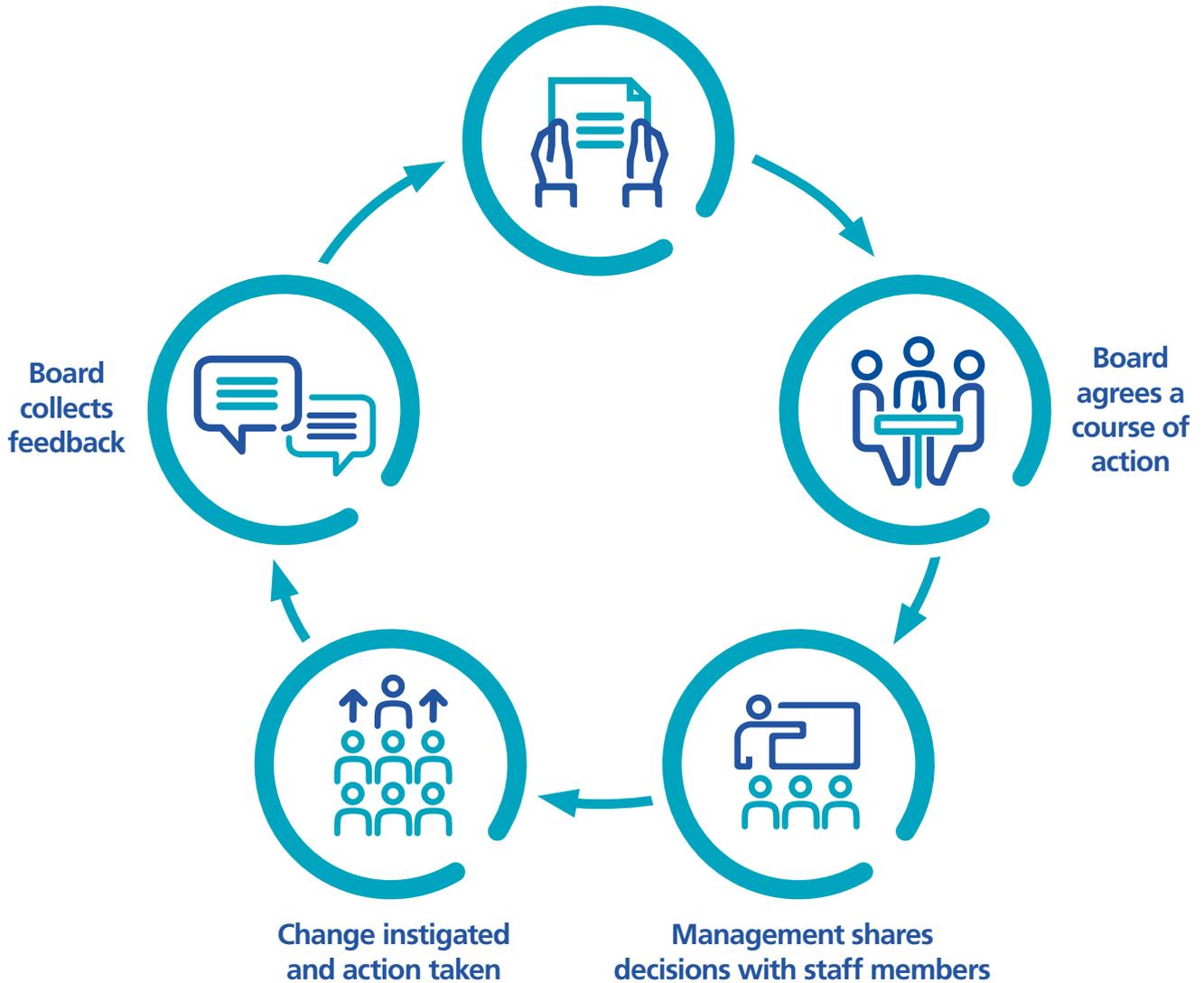
Can I demonstrate...

1. That my senior management takes appropriate oversight and governance?
2. That I understand and consider conduct risks in my business?
3. How I manage those risks?
4. What my firm's culture is?
5. That my customers understand what they are buying?
6. That the products customers buy meet their identified needs?
7. Why the outcome is good for my customers?
8. That I can identify and manage conflicts of interest effectively?
9. That my staff incentives and remuneration schemes are consistent with delivering good customer outcomes?
10. What my complaints handling process says about my firm's culture?



The senior management decision making cycle

Board reviews all relevant information to assess impacts



Where can I find out more?

You can find out more from Thistle Initiatives, our partner consultant, at enquiries@thistleinitiatives.co.uk

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