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Financial Markets Regulatory Outlook 2025

"World trade is slowing, geopolitics is fracturing, and technological change is accelerating. It is a world where long-established business models are being challenged and where some key economic dependencies are suddenly turning into geopolitical vulnerabilities"

Mario Draghi, September 2024[1]

"As a supervisor, talking about innovation of course means trying to strike the right balance between two ostensibly contradictory goals, which we nonetheless want to reconcile: the 2S's – Security for the financial sector and Support for economic development. But there is a third S, which can help to achieve this compatibility: Simplification."

François Villeroy de Galhau, Governor of the Banque de France, November 2024[2]

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Global regulatory landscape

Vigilance for the near term, but strategic transformation is key to unlocking future value

As we look ahead into 2025, we see an outlook that is clouded by more uncertainty than usual, driven by a combination of politics, geopolitics, and economics.

Last year saw 3.7 billion voters going to the polls across 72 countries.[3] Political priorities from many of these elections are still emerging. However, what is already clear is that countries will prioritise economic growth, competitiveness and – given high and potentially rising geopolitical tensions – economic and cyber security.

Against this background, we expect changes to regulation and the overall regulatory and supervisory environment around the world, with the pace and extent varying by country. However, recognition that safeguarding financial stability, combating financial crime and responsibly integrating new technologies are increasingly intertwined with national security and economic self-interests, will likely shape the dialogue surrounding potential financial services (FS) deregulation.

In 2025, FS firms will need to be vigilant in the face of a demanding set of interrelated economic and geopolitical risks, and a financial system that is becoming increasingly complex through growing interconnections between FS intermediaries and non-bank financial institutions (NBFIs).

In our view, a successful strategy for FS firms in the year ahead will combine navigating the many immediate challenges they face and simultaneously looking beyond them to identify and pursue opportunities that emerge from new market value or areas of government focus.

Achieving this calls for a bold approach to prioritising strategic choices (even amidst uncertainties in regulation, government policy choices and profitability). For many FS firms, especially within Europe, sub-par price-to-book ratios may increase pressure to defer investment, and instead focus on reducing costs and returning earnings to shareholders. The key question is whether any firm – regardless of sector – can afford the opportunity cost of withholding internal investment.

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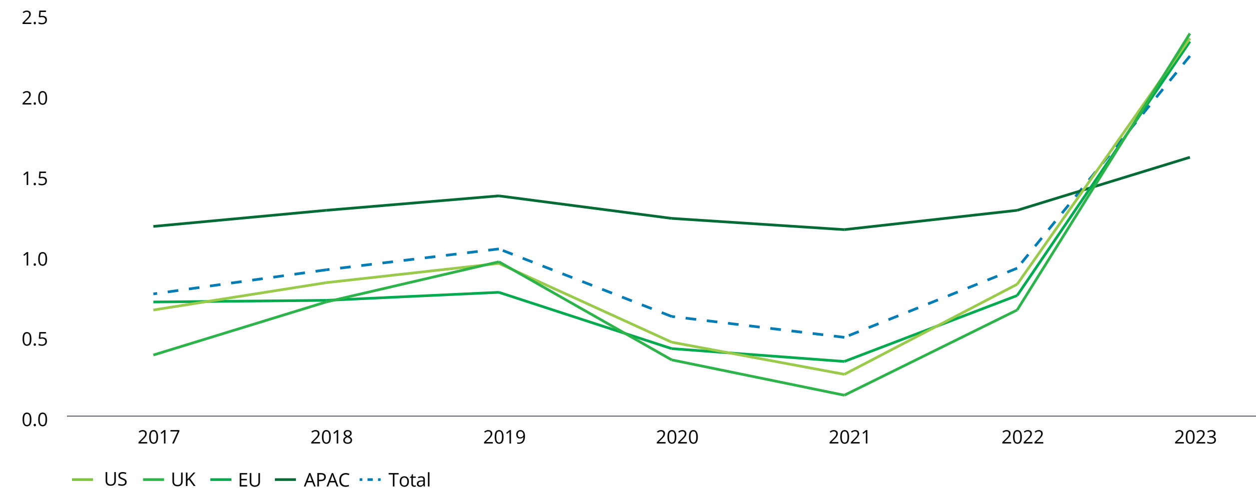
The economic outlook

In mid-2024, the International Monetary Fund (IMF) observed that the world's economy "appears to be on final approach to a soft landing".[4] However, while forecasters continue to see a soft landing as the baseline, the risks to global growth are on the downside, particularly because of macro-financial and economic uncertainties. Near-term global GDP growth is projected to hover around a "stable but underwhelming" 3%.[5] Advanced economies are projected to grow between 1.7% and 1.8% and Asia's developing economies at 4.5% until 2029.[6] However, the IMF cautions that alternative scenarios involving a permanent increase in trade tariffs could decrease global gross domestic product (GDP) by 0.8% in 2025 and 1.3% in 2026 relative to baseline projections.[7] Analysis by the European Central Bank (ECB) shows sharply rising trade policy uncertainty and elevated levels of economic policy uncertainty and geopolitical risk.[8]

Central banks have been cutting interest rates, but the future direction and pace of changes to benchmark rates will depend on a range of factors, including: what happens to inflation, including developments in trade and tariff policies, geopolitical tensions and changes in government policy priorities. At present, more than 2,500 industrial policy measures are in play (of which 71% are trade distorting).[9]

However, even if rates remain on a downward path, will this overcome negative perceptions of the economy?[10] Perhaps not, as the transmission lag observed while rates increased is equally relevant to easing. Higher mortgage rates will remain locked in for some time and many households will continue to feel financially squeezed.[11]

Figure 1: cost of interest-bearing deposits for Global Systemically Important Banks (GSIBs)



Source: Deloitte analysis of GSIBs financial reports[12]

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Fierce competition has so far sustained deposit costs across all regions (see Figure 1), and typically the change in deposit costs compared to the change in benchmark rates lags behind the percentage change in loan yields – in short, keeping interest expenses under control will be challenging and banks will be looking to boost fee income. However, pricing strategies will be particularly sensitive in jurisdictions that have implemented regulations to protect vulnerable customers and deliver fair value, especially where firms are required to evidence outcomes using customer-level data.

Unless consumer and business demand for credit can compensate for margin compression, broader funding strategies may need to be reconsidered. Offering more holistic products and services to transaction-focused customers may help to retain deposits in a competitive environment. But firms could also consider medium-term strategic acquisitions to preserve margin and loan growth, particularly those targets with a sticky retail deposit base but lacking a strong lending platform.

Fluctuations in benchmark interest rates will also require course corrections by (re)insurers. Interest rate uncertainties will keep life insurance firms on their toes for asset-liability and reinsurance management, especially as their direct and indirect exposure to illiquid assets has increased in the past years.[13] General insurers may face a challenging balancing act between offering competitive premiums, a potential stickiness in claims settlement costs, and rising "social inflation" pressures (particularly in the US and Australia).[14] Supervisory expectations on delivering fair value and servicing policyholders' needs will also increase in a number of regions.[15,16]

In 2024, barely a month has passed without a senior central banker or regulator making a cautionary statement about rising geopolitical risks. This is hardly surprising given that more than 50 global conflicts are taking place: the highest number since the Second World War.[17] Rising geopolitical tensions also spill over to the cyber environment, raising risks for the public and private sectors.[18] Maintaining resilient cybersecurity and financial crime prevention are two areas that we expect to be insulated from the politics of growth and competitiveness. This coincides with FS firms in many countries having to improve their operational resilience and the effectiveness of their third-party risk management approaches. While in some respects, improving cyber capabilities and operational resilience go hand-in-hand, they undoubtedly put additional strain on firms' technological change capabilities.

Evolution in the FS regulatory agenda?

The growth and competitiveness agenda

The subdued economic outlook raises questions about steps governments can take to support the growth and international competitiveness of their economies, particularly in the context of tight fiscal positions and limited manoeuvrability on taxation. This has inevitably put the spotlight on regulators, specifically their role in promoting growth and competitiveness, including removing regulatory barriers to product innovation and unlocking household savings.[19]

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Regulators' starting position is invariably that safe and stable financial systems are better positioned to support the real economy.

At the global level, we see little appetite to review or change standards in the year ahead. The Basel Committee on Banking Supervision (BCBS), for example, has prioritised implementation of the final package of Basel III measures before considering new initiatives or revisions (such as on liquidity). The current political appetite within BCBS member jurisdictions for coordinated changes also appears to be low, and unilateral policy changes within jurisdictions – especially divergence from international standards – may increase fragmentation in the global FS policy landscape.

Meanwhile, a growing reluctance has emerged amongst some Basel member jurisdictions to implement in full the final Basel III standards that were agreed upon in 2017.[21] For example, the EU's implementation includes generous transitional allowances, some of which are likely to be extended by several years or incorporated into the end-state framework. Trading book reforms have also been delayed in several jurisdictions, and their ultimate adoption may be influenced by the direction US regulators choose to take under the new administration and any commitment to a re-proposal.

As the great financial crisis fades into the rearview mirror, it seems that competitiveness considerations have taken the wheel. However, just as guardrails on a motorway do not impede drivers but ensure they stay on the road, a robust regulatory framework sets safe boundaries for banks, enabling them to fulfil their role of lending to the real economy.

Elizabeth McCaul, member of the European Central Bank Supervisory Board, November 2024[20]

Appetite for risk is evidently growing in some jurisdictions, particularly the UK, where the government has directed prudential and conduct regulators to consider how they can enable "informed and responsible risk-taking" by regulated firms and their customers.[22,23]

While growth-enhancing regulatory changes and longer-term initiatives (e.g. the UK National Wealth Fund and the EU's Savings and Investments Union) aim to "crowd in" investment, the true test is market appetite. The success of a "growth alliance" between governments and the FS industry is likely to depend on shared risk participation. The availability of state guarantees, for example, may be key to determining the viability of financing the infrastructure and transition projects required for economic growth.

Economic security vs. sustainability: a balancing act?

The focus on growth has reduced the momentum around sustainability regulation and we expect this to continue. Moreover, in recent months, differences between individual countries' strategies for tackling (or not) the sustainability transition have arguably become starker. This has made it harder for firms

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offering or managing sustainable investments to navigate an increasingly complex landscape. Firms will need to consider how to satisfy ongoing demand across countries that either a supportive or unsupportive policy environment, and adapt their communications, marketing and engagement strategies accordingly. That said, national and regional policy development persists – the Hong Kong Monetary Authority (HKMA), for example, has recently published "good practices" for climate risk management.[24,25]

Regardless of what happens in terms of global coordination, escalating financial costs, including claims, litigation and the extraterritorial reach of some jurisdictions', including the EU's, regulations, demand action.

Fixing the roof before it rains

Strong capital and funding metrics across the banking sector, while important, are not enough. Many supervisory issues remain unresolved. About two-thirds of large US banks are assessed as "less-than-satisfactory" by supervisors – a significant deterioration compared to five years ago. Most of these outstanding issues relate to governance and controls.[26] Similarly, the most recent ECB Supervisory Review and Evaluation Process (SREP) round found that while 71% of banks received the same overall score as the prior year, 14% had worsened, with scores for the lowest rated cohort driven by weaknesses in management, risk culture and internal controls.[27]

Data is the foundation for effective risk management. Yet a decade after the BCBS issued its BCBS 239 principles for risk data aggregation and reporting, very few global banks have achieved full compliance.[28] Supervisors are increasingly impatient with this slow progress. The ECB has led the charge for years and recently issued stricter guidance on risk data aggregation and reporting, signaling severe consequences if shortcomings persist;[29] European insurance supervisors have issued similar warnings about persistent data management shortcomings.[30]

Boards and executives should anticipate increased scrutiny and pressure to address long-standing weaknesses in these fundamental areas.[31] Supervisors will expect decisive action and a clearly articulated roadmap to address these critical areas, going beyond tactical fixes to deliver stable solutions.[32] A proactive approach on data, while necessary for regulatory compliance, also presents an opportunity to support the rollout of innovative technologies, including AI, for unlocking competitive advantages.

While insurance supervisors continue to focus on solvency and liquidity management, risk exposure is receiving increased attention in the context of underestimated perils, and policy wording that extends liability beyond the scope of what underwriters intend. This is particularly prevalent in the cyber insurance market, where a number of regulators (Australian Prudential Regulation Authority (APRA), Bermuda Monetary Authority (BMA), Autorité de Contrôle Prudentiel et de Résolution (ACPR), Prudential Regulation Authority (PRA)) have called for action to strengthen underwriting and risk management practices.[33,34,35]

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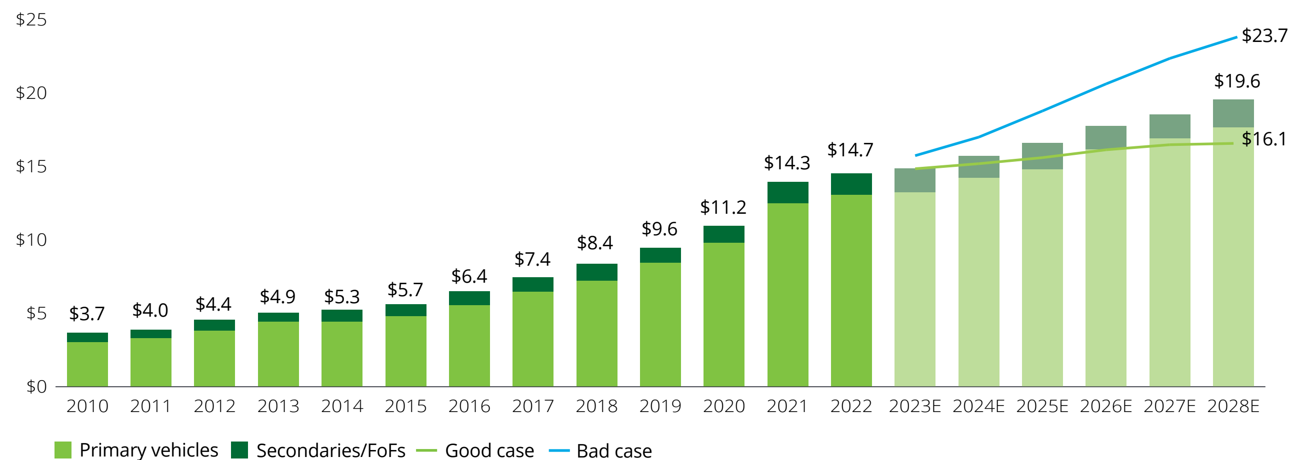
Across the FS sector, anti-money laundering and the fight against financial crime more broadly will likely remain high on the agenda – the Japan Financial Services Agency (JFSA) 2024/25 strategic priorities make a direct link between financial crime and maintaining a resilient financial system.[36] The UK's Financial Conduct Authority (FCA) has called for urgent action in response to its recent assessment of a broad range of FS firms' financial crime policies, controls, and procedures. The review identified some widespread weaknesses in fundamentals – including discrepancies between registered and actual business activities; controls not keeping pace with business growth; failure to risk assess customers and activities; and inadequate resourcing and oversight of regulatory requirements.[37]

Figure 2: historical assets under management and forecasts of private capital

In USD bn



Source: PitchBook Inc[39]

Note: the 2023-2028 bars represent the base-case forecast, the good case and bad case are inclusive of secondaries and fund of funds.

Private markets at the regulatory frontier

Global private assets are projected to reach USD 21 trillion by 2030 – a staggering 62% surge from their current size.[38] While this expansion helps unlock significant private investment to fuel economic growth, it also raises red flags for some supervisors and financial stability authorities. The increasing scale, interconnectedness, and opacity of private markets, coupled with concerns about some participants' resilience in stressed market conditions, are a stark reminder of the vulnerabilities of the pre-crisis global financial system.

Regulators are keeping a close eye on how this may precipitate risks for the FS sector. The Bank of England has completed its first system-wide exploratory scenario (SWES) exercise last year, examining the behaviours of banks and NBFIs under stressed conditions. While the results indicate resilience in certain markets, more work is to be done. In particular, the exercise highlighted misaligned expectations among participants, including NBFIs assuming greater access to repo financing than providers were willing to extend,

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and discrepancies between banks' projections and initial margin requirements set by central clearing counterparties (CCPs). The exercise also revealed that the collective actions of participants exacerbated the initial shock of a stress scenario.

Similarly, APRA is gearing up to launch its inaugural financial system stress in 2025 (expected to draw inspiration from the Bank of England's SWES) further demonstrating a global regulatory focus on this issue.[40]

The BCBS and International Association of Insurance Supervisors (IAIS) are also paying attention to structural changes involving migration of risks from insurers' balance sheets to reinsurance firms connected with private equity investors. The BCBS has cautioned the untested resilience of private markets, where concentrations of investments in less liquid assets suggest greater vulnerability to stress than elsewhere.[41,42]

Slow progress on the agreement and implementation of global standards for NBFIs has meant that banks with the major NBFIs as their counterparties have borne the brunt of supervisory activity. Last year's PRA review into banks' private equity financing activities found sizable gaps in their risk management, highlighting an inability in some banks to aggregate data or grasp its significance for counterparty risk management.[43,44] ECB supervisors are also likely to hold firms to task against their 2023 guidance on counterparty credit risk governance and management.

Appetite for global policy changes may be diminished, but new BCBS guidelines for counterparty credit risk management reinforces this as an exceptional issue.[45] Supervisors will leave no stones unturned to maintain financial stability and we can expect a continued focus on stress testing undertaken by banks and insurers as a means to monitoring and mitigating contagion risks stemming from their exposures to private markets.

Operational resilience and technology

Critical third-party management remains a priority

Recent incidents related to information and communication technology (ICT) third party failures are stark reminders that disruptions of relatively small third-party providers can rapidly and simultaneously undermine the operational capabilities of global firms. FS firms should expect regulators' resolve to remain strong in addressing critical third-party management,[46] and having an eye toward a regulated firms ecosystem.

European regulators are leading the way,[47] with the UK introducing a specific Critical Third Parties (CTP) framework and the EU's Digital Operational Resilience Act (DORA) regime setting high-level areas of focus for CTP management. Other jurisdictions are yet to implement formal regulations, but US regulators have issued collective guidance on third-party risk management (which is expected to remain a priority in 2025),[48] and others are likely to follow. The BCBS and the IAIS have also pushed for robust operational resilience frameworks beyond major jurisdictions, although cooperation on global standards is unlikely in the near term.[49]

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Unlocking the power of artificial intelligence (AI)

A recent global survey conducted by Deloitte revealed a strong appetite among executives for leveraging AI. Over half of those surveyed indicated a desire to harness generative AI to bolster productivity and growth, with 38% anticipating cost reductions as a direct result of efficiency gains.[50]

Even as firms explore AI's vast potential, they will need to navigate a fluid regulatory landscape, characterised by evolving frameworks, divergent supervisory expectations, and international fragmentation. However, data quality, model risk management, and governance of AI systems are likely to emerge as focal points for supervisors globally. The Hong Kong Securities and Futures Commission, for example, has emphasised these areas in its core principles for the use of generative AI language models.[51,52]

In the absence of other fully developed frameworks, the EU's new AI Act,[53] with its technology-specific approach, is emerging as the de facto benchmark. While many operational details will be elaborated upon over 2025-2026, the broader contours have already been signposted. Other jurisdictions have adopted technology-neutral stances for now, relying on existing, wider frameworks. In the UK, for example, the practical applications of AI will be captured by a combination of existing operational resilience,[54] CTPs and Consumer Duty frameworks –[55] to name the key ones. In the US, while federal regulation may shift under the new administration and Congress, national security has been a key consideration in executive action taken by the previous two administrations.[56,57] Bipartisan action by the House Financial Services Committee is underway to identify the advantages and risks of AI, and assess the effects of existing laws and regulations on its adoption.[58] The US Department of Treasury has also recently issued a request for information to examine the uses, opportunities, and risks of AI in the FS sector. The U.S. Securities and Exchange Commission has also announced that emerging technologies (including AI) will be a priority in this year's examinations.[59]

Clarity on crypto?

Crypto asset regulation remains fragmented. Regulators in Japan,[60] Singapore and HK SAR took early steps towards crypto-specific frameworks, and the EU's Markets in Crypto Assets Regulation (MiCAR) regime is being phased-in, but other jurisdictions – including the US and UK – have not yet adopted specific, comprehensive regimes. But that looks set to change. In the US, the incoming administration is expected to take a more favourable stance on cryptoassets.[61] Meanwhile, 2025 will see the UK flesh out the draft details of its own regime.

Crypto markets are experiencing a resurgence, reminiscent of the 2021 boom, with ETF launches and rising Bitcoin and Etherum prices. However, a clearer regulatory landscape in some jurisdictions makes this cycle different. Renewed market enthusiasm, coupled with a maturing regulatory landscape, may prompt FS firms to re-evaluate crypto offerings in 2025. Increasing interest and trading activity will put pressure on jurisdictions without comprehensive frameworks, including the US and UK, to catch up.

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Taking the longer view

The outlook for 2025 hangs in the balance of whether, and in what magnitude, conspicuous economic and geopolitical downside risks materialise. The permutations are numerous and difficult to predict – this demands vigilance. But the prospect of a growth alliance between the FS sector and governments has enormous potential, and unlocking the maximum value requires a joint commitment by FS firms and governments to medium-term strategic transformation.

Regardless of externalities – positive or negative – the need to address supervisory backlogs, particularly in risk management and data governance, is a certainty FS firms can pursue without remorse. Similarly, the integration of AI, while brimming with opportunity, requires a strategic and discerning approach. This means building robust risk management foundations today, while anticipating and adapting to the evolving regulatory landscape shaping AI's future.

FS firms that successfully synthesise strategic transformation with a commitment to enhance fundamental risk management and data governance capabilities look set to thrive in the years ahead – our view is that 2025 is the year to make it happen.

Seiji Kamiya
Centre for Regulatory Strategy
APAC

Irena Gecas-McCarthy
Centre for Regulatory Strategy
US

Suchitra Nair
Centre for Regulatory Strategy
EMEA

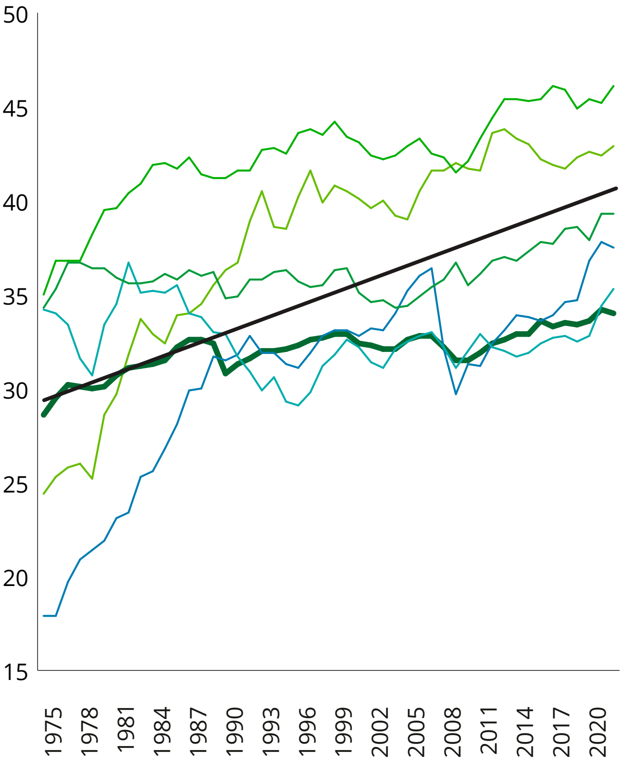
EMEA perspective

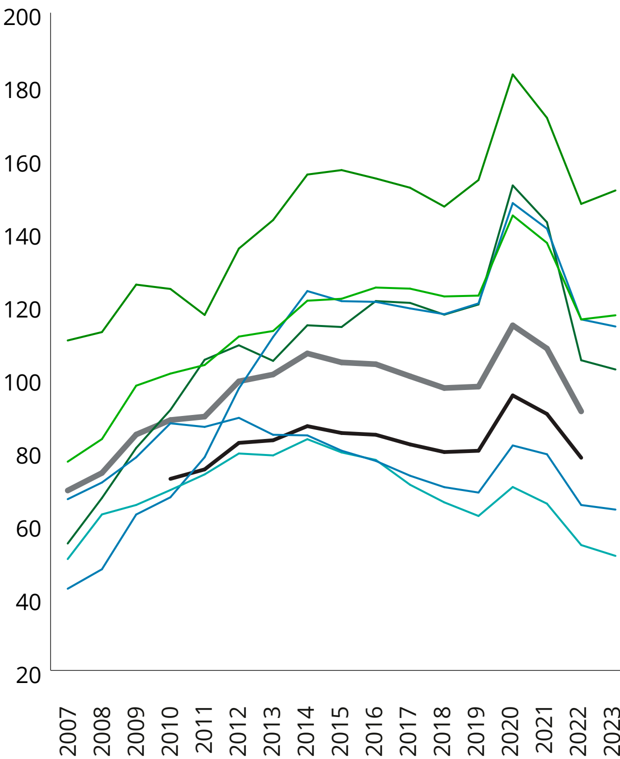
Seizing opportunities: a proactive approach to compliance and risk management

FS firms can approach 2025 with cautious optimism about the future direction of regulation, given policymakers' focus on economic growth and removing regulatory barriers to achieving it.[62]

However, it will be a busy year. Firms face a sizeable package of implementation work and, as part of this, will need to optimise efforts for success. Supervisors will expect firms to take a proactive approach to risk management, particularly in areas such as consumer protection, novel risks (especially geopolitical), and climate-related challenges.[63] By embedding a robust risk culture, leveraging data-driven insights, and prioritising good customer outcomes, firms will put themselves in a strong position to navigate these complexities and unlock growth opportunities in this evolving regulatory environment. Firms should buckle up – 2025 will not only be a year for implementation, but an opportunity to rethink approaches to compliance and risk management.

Figures 3 and 4: tax revenue as a % of GDP and debt to GDP ratios





Source: OECD[72]

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FS policy landscape: more choices on the menu?

2024 witnessed a flurry of elections across the EU and UK, involving 57 separate contests.[64] We now have new political leadership in the UK, a new European Commission and a new European Parliament, albeit with the same coalition partners as before. More generally, many newly elected governments face difficult fiscal choices and the medium-term implications for the political landscape are still unfolding as coalitions and national policies are finalised.[65,66] Moreover, major elections are not yet behind us, with Germany going to the polls in February and parties without a majority will remain under pressure over fiscal measures. All these developments will affect the direction of EU FS policy over the coming year.[67]

Political narratives and power transitions aside, gloomy economic realities persist and will dictate the political direction of travel. EU and UK growth forecasts remain below 2% until 2029,[68] while the EU and UK economies must source more than EUR 700 bn per year of investment in green technology and infrastructure until 2030.[69,70] With government debt and taxation running at multi-decade highs, unlocking private capital is increasingly seen as the pathway to growth.[71]

Contrasting with post-GFC sentiment, strengthened resilience has earned the FS sector recognition as a key enabler of productive investment. The political narrative on FS regulation across Europe is increasingly focused on economic growth, competitiveness and the removal of unnecessary regulatory barriers. This will be welcome news, but how far are governments and regulators willing to go and what are we likely to see in 2025?

Significant changes to regulations are unlikely to occur this year. The European Commission's workplan, expected in early 2025, should provide clarity on how medium-term growth and competitiveness ambitions will be achieved in the EU, and further announcements around the UK Government's 10-year UK FS strategy are expected in spring.[73] Based on what we know so far, we anticipate developments along two lines: the first being government-led initiatives to facilitate investment (e.g. the UK NWF), and the second being to assess the scope for reforming rather than entirely reversing aspects of post-GFC FS regulation.

EU political leaders and policymakers have long recognised the need to unlock private capital. The SIU,[74] with a revamped securitisation regime,[75] has the potential to breathe life into the CMU and Banking Union ambitions. However, some specific barriers to CMU, such as harmonising national insolvency laws, have not been removed, and progress more generally risks being thwarted if the project is used as a vehicle to further other, more controversial, Banking Union aspirations (e.g. EDIS).

The UK Government's recent announcements convey its resolve to reset its risk appetite in FS regulation, and a willingness to work closely with the industry to unlock growth. While the UK FS strategy debate will play out over several years, updated remit letters to regulators, calling for more openness to responsible and informed risk-taking – by firms and their customers – should have a more immediate impact on the FCA and PRA approaches to supervision.[76]

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EU and UK policymakers are likely to start with considering efficiencies in the implementation of existing regulations as a "quick win". The UK's PRA is in the process of creating a simplified prudential regime for small domestic deposit takers, focusing predominately on easing disclosures, internal Pillar 2 assessments and the supervisory evaluation process. Similarly, within the EU, re-examining proportionality in disclosures (e.g. the proposed Omnibus regulation aimed at streamlining ESG reporting) is on policymakers' agenda.[77,78] However, the overall scope and appetite for reengineering regulation for proportionality and simplicity remains unknown at this stage.

Counter-intuitively, FS firms do not necessarily welcome every rule reduction. Regulatory streamlining, however well-intended, can drive fatigue and costs in meeting and evidencing compliance with amended requirements. Regulators' cost benefit analyses need to incorporate that cost.

Uncertainty around the direction of US FS sector regulation may influence how European policymakers decide to proceed more broadly. In this regard, the timing of US FRTB and final Basel III standards implementation will be most closely watched. Sustainability regulation is expected to lose momentum under the new US Administration, but progress may also face stronger headwinds in Europe, as sustainability considerations jostle for space alongside the growth and competitiveness agenda.

Beyond engaging with public consultations, one opportunity for firms to position themselves to take advantage of governments' growth priorities is to enhance their capabilities around customer protection. Despite policymakers' ambitions to mobilise consumer capital to invest in new businesses and infrastructure, tougher consumer protection measures (e.g. RIS, Ireland's Consumer Protection Code and the UK Consumer Duty) may temper growth-enhancing measures.[80] Firms with a consumer-first culture, robust and informative data capabilities and controls aligned to delivering "good customer outcomes", will be best placed to take advantage of future growth agenda opportunities.

> *Fewer tick boxes, less cost; no doubt welcome. But if we streamline disclosure, affordability or product rules, will firms be spooked if they have responsibility for outcomes without the comfort blanket of rules or guidance?*
>
> **Nikhil Rathi, chief executive of the FCA, October 2024[79]**

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So what does this all mean for FS firms' 2025 strategies? It will take time for policymakers to make their pro-growth agenda a reality, and FS firms will need to decide how to respond to the developing situation, including how emerging messages should affect decisions on the pace and ambition of their own net zero strategy, and how to facilitate increased demand for private funds to fuel growth. In the meantime, firms will need to deliver against the renewed focus on supervisory constants explored within the sectoral perspectives of our report.

New regulations: challenges and opportunities

Despite the pivot towards a pro-growth and competitiveness agenda, this year will see a large volume of adopted regulations take root. These changes are significant (e.g. Basel 3.1 in the UK and residual elements of CRR3/CRD6 in the EU) and, regardless of external events, there are limited prospects for delay – EU FRTB rules being an exception, where specific contingency mechanisms were included in legislation. Although the mechanisms have already been used once, they can be used again.

Supervisory expectations for compliance will be high, particularly for files that have had an extended lead-in, e.g. final Basel III standards. Within the EU, CRD6 requirements for senior managers will prompt EU banks to reconsider their distribution of responsibilities, presenting an opportunity for banks to re-think their strategy for managing regulatory compliance. While the UK Government will consult on replacing the certification component of its SM&CR with a more proportionate regime, we do not foresee any reduction is supervisors' appetite to hold boards and senior executives accountable for delivering outcomes aligned with supervisors' statutory objectives.

Incoming and recently adopted regulatory changes may require or incentivise firms to reconsider their structure and geographical footprint. Third country firms are already considering the effect of the CRD6 restrictions on cross-border banking activities into the EU, and the PRA's reinforced stance on risk management practices for bank and insurance branches (booking models and reinsurance)[81] may also raise questions about where firms' activities are located. Easing of UK ring-fencing and ring-fenced rules may offer ring fenced banks some new opportunities, but supervisors will be cautious of any additional risks created through strategic changes to the banks' geographical footprint. For example, a liquidity crisis spilling over from the jurisdiction where a UK ring-fenced bank's overseas entity is based.

In addition to compliance challenges, incoming regulatory changes will reset the business returns earned across activities – some immediately positive or negative – while others will evolve as transitional allowances roll off. Firms may need to consider optimisation across pricing, product structures, asset mix and collateral arrangements. For example, while CRR3 and Basel 3.1 rules will increase the capital intensity of some lending activities,[82] new opportunities may be created for NBFIs. EU and UK insurers in particular, might be able to leverage recent rule changes easing investments in long-term assets.[83]

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In summary, the political priority of growth and competitiveness will not alleviate what for firms will be a heavy implementation schedule in 2025. As always, new regulations bring business and strategic challenges, which will require decisions on the viability of lines of business, on pricing and on legal entity structures. At the same time, challenges for one firm or sector will create opportunities for others. Good decision-making will require analysis and risk assessment underpinned by robust data.

Unlocking value for the future through better risk management

Despite signals from European governments on easing FS regulatory burdens, the activities of supervisory authorities and their expectations around compliance are a separate matter. We expect European supervisors to maintain, and in some cases increase, the pressure on firms to deliver high standards of risk management. A "one and done" approach to tackle risks which are dynamic in nature (e.g. customer vulnerability, cyber, climate or geopolitics) is unlikely to meet supervisory expectations. The ECB's proposed updated guidelines on risk culture, and its criticism of banks' weaknesses in identifying and managing novel risks point towards firms demonstrating proactive behaviours. EIOPA's geopolitical risk stress test and the future PRA dynamic general insurance stress test also point towards a reinforced intention from regulators to ensure firms' resilience and adaptability to a broader range of risks.

Sustainability risk is a prime example: as climate change and nature degradation continue, environmental risk is rising. Litigation risk is increasing. The weakening of the political impetus to take action is also increasing transition risks. We do not expect the requirements supervisors set for how firms manage risks to change radically this year, but supervisors have significant latitude to raise their supervisory expectations of compliance with existing rules. Firms need to continue to develop robust risk, controls and monitoring frameworks at sufficient pace to keep up with the evolution of risks and standards.

"One area I would like to highlight concerns strong governance and sound risk culture – the hallmark, I would even say the "North star" of a safe banking system. They are more important than ever, especially in the current risk environment, in which banks are facing economic, competitive and geopolitical headwinds."

Elizabeth McCaul, member of the European Central Bank Supervisory Board, November 2024[84]

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Seizing opportunities: a proactive approach to compliance and risk management

Geopolitical risk will also continue to attract supervisory attention. The ECB and PRA consider it a top priority – FS firms were required to prepare for geopolitical risk shocks as part of stress testing exercises last year, and should not expect the supervisory focus to reduce.[85] Developments in the US and Ukraine may still have material impacts on trade, and ultimately on EU large exporting countries' economies.[86] Banks and insurers' risk modelling teams will be challenged to capture these dynamics adequately, especially for commercial lines.[87]

Financial risks, especially credit and liquidity risks will continue to be a focus for supervisors. For example, in addition to the broader findings discussed in our Global Regulatory Landscape, the BoE's recent system-wide exploratory stress test identified particular vulnerability in the sterling corporate bond market in stress and it has signaled its intention to run future exercises for surveillance and risk assessment. For UK life insurers, funded reinsurance recapture risk, new liquidity risk reporting metrics and remediation action from stress tests will need to form part of a broader risk management approach managed at board level, informed by solid MI.[88] Despite European households' resilience to the changing macroeconomic conditions and the shift towards higher interest rates, the ECB's latest supervisory priorities places emphasis on banks' abilities to identify deteriorations in asset quality in a timely manner, and translate this into prudent provisions and capital levels.[89]

EMEA perspective

Seizing opportunities: a proactive approach to compliance and risk management

Rising supervisory expectations on consumer protection, and especially vulnerability will require firms to enhance their data capture capabilities to evolve with the times.[90] For example, characteristics of customer vulnerabilities change with the macroeconomic environment, requiring firms to challenge themselves continuously to identify vulnerable customers on time and provide them with adequate support.[91,92] More broadly, the premium finance and motor insurance markets are under considerable supervisory scrutiny, especially in the UK and Ireland.[93,94] Supervisors may broaden their scrutiny of consumer outcomes to other areas of FS throughout the year.

Overall, strong MI, data and risk, culture, including in relation to model risk will be key to build strong foundations for the future. Many regulatory and supervisory implementation programmes are data led or will be enhanced by the sound management of data (e.g to tackle fraud and financial crime). A proactive approach to risk management underpinned by robust models and input data will enable firms to keep pace with rising supervisory expectations. The use of (Gen) AI, if correctly harnessed, could be a gamechanger to support firms in this journey.

In focus

Artificial intelligence and data

Walking the tightrope: openness and control in the age of data and AI

In 2025, FS firms will confront a regulatory landscape defined by the tension between increasingly open data ecosystems and intensified scrutiny of data-powered AI.

Open finance initiatives, alongside the EU Data Act and other UK Smart Data schemes, promise access to vast data troves to foster innovation and growth. Yet, they also bring new compliance demands for data-sharing governance and infrastructure. Simultaneously, looming EU AI Act deadlines and heightened oversight by financial and data protection regulators underscore the increasing regulatory focus on AI and data use. The evolving nature of these policies – and potential divergence within the EU and between the EU and the UK – add further complexity.

Firms face the challenge of scaling (Gen) AI and data capabilities to drive efficiency and growth, all while managing novel risks and evolving regulatory expectations. Legacy systems, data quality concerns, and competition from digital disruptors – within and beyond FS – exacerbate these challenges.

Success requires aligning data and AI strategies with a cohesive digital vision that incorporates evolving regulatory dynamics. This means integrating risk and compliance into all transformation efforts. Risk appetite, governance frameworks, operations, and investment decisions must reflect a regulatory-aware approach to expanding AI and data use. This integration strengthens strategic decision-making, ensures compliance, and fosters trust with consumers, markets, and regulators. **By repositioning risk and compliance as enablers of value creation, rather than cost centres, firms can unlock competitive advantages, driving both profitability and sustainable growth.**

Artificial intelligence and data

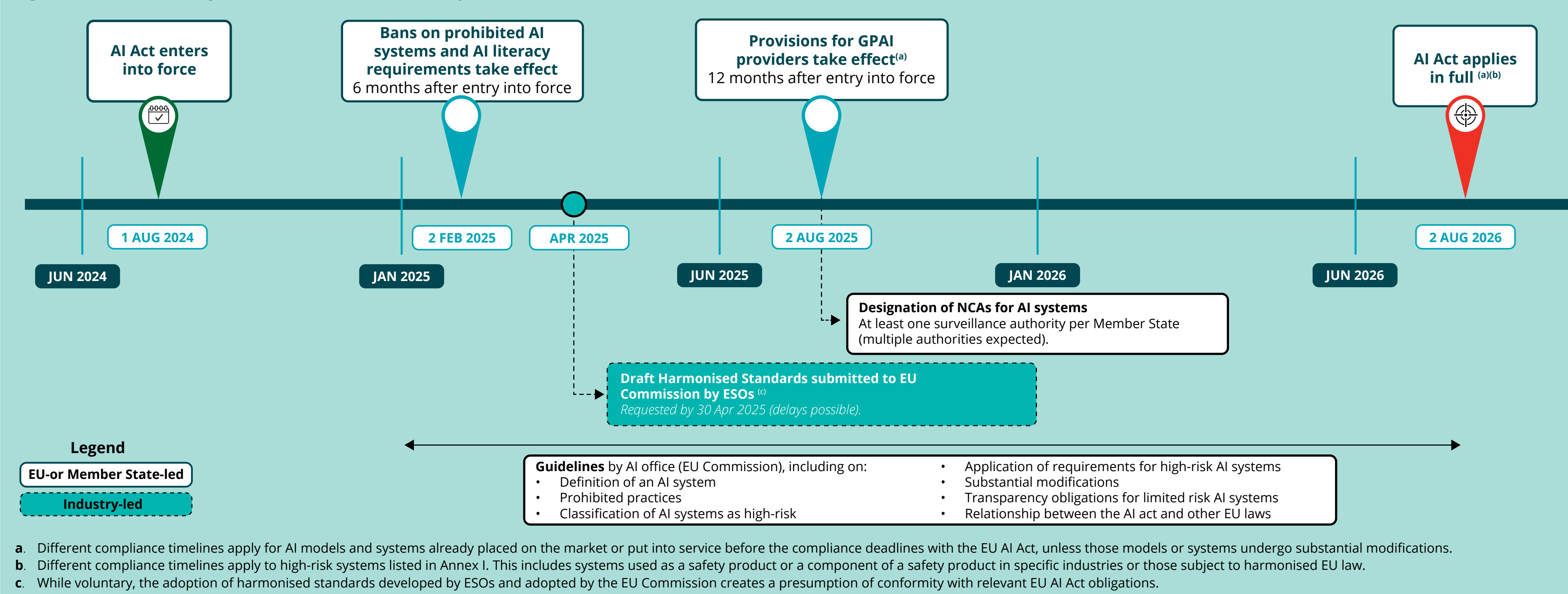
Walking the tightrope: openness and control in the age of data and AI

Ticking clock, mounting stakes: navigating new AI regulation

Although AI is not new to FS, its growing scale of adoption, complexity, and strategic importance have placed it squarely in regulators' sights. The EU AI Act, with multiple implementation deadlines extending to 2026, exemplifies this focus.

The Act's primary legislation is already in force. However, 2025 will bring a surge of guidance and secondary legislation from the EU AI Office, new AI Act NCAs, and ESOs tasked with defining the technical standards needed to operationalise the Act. Additional measures tailored to FS may also emerge from the ESAs and national sector regulators. These developments necessitate agile compliance strategies and close monitoring of regulatory changes.

Figure 5: EU AI Act implementation timeline – key milestones (non-exhaustive)



a. Different compliance timelines apply for AI models and systems already placed on the market or put into service before the compliance deadlines with the EU AI Act, unless those models or systems undergo substantial modifications.
b. Different compliance timelines apply to high-risk systems listed in Annex I. This includes systems used as a safety product or a component of a safety product in specific industries or those subject to harmonised EU law.
c. While voluntary, the adoption of harmonised standards developed by ESOs and adopted by the EU Commission creates a presumption of conformity with relevant EU AI Act obligations.

Artificial intelligence and data

Walking the tightrope: openness and control in the age of data and AI

A "wait-and-see" approach is risky given the Act's complexity and tight timelines. Firms should proactively interpret its requirements, grounding their efforts in industry standards, leading practices, and ethical frameworks.

Establishing clear roles and responsibilities for AI systems, underpinned by a comprehensive inventory, are immediate "no-regret" actions. These foundational tools, beneficial across all jurisdictions, enable organisations to understand and navigate the impact of evolving regulatory regimes. A robust inventory should detail all AI systems, including those sourced from or used by third parties – a significant area of risk exposure. The inventory must reflect the Act's broad AI definition and include systems in non-financial areas, such as HR or security. This is critical for identifying systems subject to the Act's prohibitions from February 2025. Though these bans might seem peripheral to FS, they still warrant careful consideration. For instance, the ban on AI emotion recognition in the workplace could affect employee compliance monitoring systems.

Ahead of the August 2026 compliance deadline for high-risk and transparency-risk AI systems, businesses must enhance their AI governance and risk management frameworks. Many firms recognise that current frameworks require bolstering to scale securely and sustainably – this is especially true, though not exclusively, for GenAI. Key challenges include ensuring transparency, explainability, bias mitigation, fairness, and data quality – all central to AI Act compliance.[95] Effective AI governance will also demand more advanced technological controls, such as embedded code-level guardrails for bias mitigation, explainability or audit trails.

However, a further change in perspective is needed. The AI Act, and regulators more generally, are concerned not only with the inherent risks of AI models but also with those arising from the wider AI systems in which they operate. This encompasses elements such as user interface design, incentives for effective human oversight, and the quality of user training. As AI systems, particularly those powered by GenAI, become increasingly integrated into various business functions and accessible to a wider range of personnel, ensuring that risk management approaches address the interplay between models and systems is paramount. They should also give greater prominence to specific domains such as data protection, privacy, and impacts on individuals' fundamental rights, which may not be focal points in traditional model risk management frameworks.

Achieving this demands operational and cultural shifts to create effective collaboration across risk, legal, compliance, technology, and business teams. This should be underpinned by robust AI training programmes, not least to meet the AI Act's general requirement for AI literacy from February 2025.

The Act's implications extend beyond mere compliance. Its extraterritorial reach presents internationally active firms operating within the bloc with three strategic choices: adopt the Act as their global standard, implement tailored EU-specific solutions, or limit the use of high-risk AI systems. While the Act is currently regarded as a global benchmark, regulatory frameworks in the US

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and the UK may still evolve, influenced by factors such as geopolitical considerations and the race to attract capital and AI investment. Governance models that can anticipate and accommodate these cross-jurisdictional changes and differences will be essential.

The Act also imposes direct compliance obligations on EU-active AI vendors, creating both opportunities and challenges. Vendors will have to shoulder greater liability for their models and systems and boost transparency and access for downstream users. This will support FS firms' compliance efforts and third-party risk management. However, these obligations may also prompt vendors to modify products, restrict access, adjust terms, or even exit certain markets. Compliance deadlines for providers of GPAI models, which underpin many GenAI systems, are as early as August 2025. Proactive engagement with vendors to anticipate potential disruptions is critical. Exploring alternatives may include assessing different providers, considering more specialised AI solutions, or pursuing in-house development. Selecting the optimal approach requires a thorough evaluation of costs, functionality, internal capabilities, and the regulatory implications of becoming an AI developer under the Act.

Under the microscope: FS regulators intensify scrutiny of AI

While the AI Act is significant, it is not the only regulatory show in town. **Existing technology-neutral FS frameworks in both the EU and UK – encompassing conduct, prudential and model risk management, operational resilience, and financial stability – remain critical for regulators assessing AI solutions.**

In the EU, the Act complements rather than replaces existing regulations. For example, ESMA has issued guidance on AI in investment services, an area not classified as high-risk under the Act.[96] This guidance emphasises alignment with MiFID II, setting expectations for governance, conduct, and prioritisation of clients' best interests. For 2025, ESMA has prioritised ensuring investor protection and market integrity when firms use AI. Similarly, EIOPA is developing an AI framework for insurance to support national supervisory efforts.[97]

In the UK, where AI adoption is surging – 75% of firms now utilise it, up from 58% in 2022 – policymakers opted against formally defining AI.[98] This offers flexibility but places the onus on firms to establish their own definitions to ensure robust governance and risk management. Many are aligning with the EU AI Act's definition as a pragmatic starting point. As under the Act, maintaining inventories of AI systems and risk classifications based on materiality is critical, even if currently mandatory in the UK only for banks under the PRA Model Risk Management principles. These principles – expected to be extended to large insurers soon – along with the Consumer Duty, operational resilience frameworks, and the SM&CR, will form the bedrock of the UK's outcome-based approach to AI supervision.

Yet, both in the UK and the EU, industry understanding of what "good" looks like in an AI context under these FS technology-neutral frameworks remains immature. In the absence of imminent regulatory guidance, interpreting these requirements should be tailored to individual AI use cases, risk appetite, in-house expertise, and overall AI maturity.

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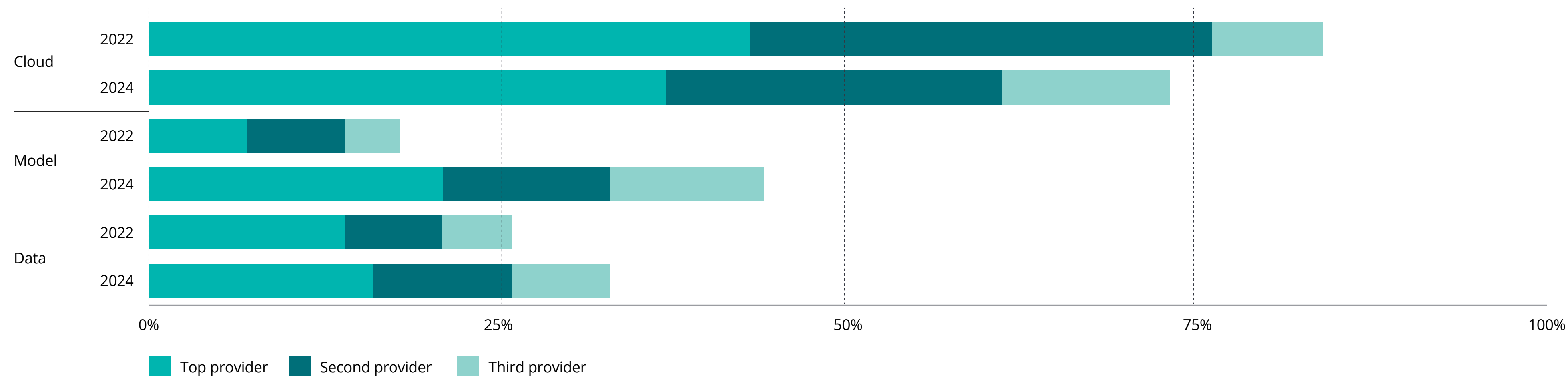
This is particularly pressing in relation to **AI third-party risk, a policy area likely to dominate the regulatory and supervisory agenda of the EU, the UK, and international bodies such as the FSB.** Reliance on a limited number of AI, cloud, and data vendors significantly amplifies the impact of operational disruptions, raising concerns about potential financial stability risks.[99]

Moreover, firms' use of third-party "black boxes" is a leading cause of their limited understanding of AI systems, compared to those developed in-house.[100]

To mitigate escalating AI third-party risk, FS firms must diligently vet suppliers and implement robust controls for testing, change management, and ongoing monitoring.

Critically, contracts and risk management frameworks must evolve in lockstep with regulatory demands and supervisory expectations. This may necessitate a comprehensive review – and renegotiation – of existing agreements.

Figure 6: percentage of all third-party providers for cloud, model and data



Source: BoE / FCA[101]

Artificial intelligence and data

Walking the tightrope: openness and control in the age of data and AI

Open finance: from a defensive stance to data-driven growth

The UK and EU are laying the groundwork for "open finance" regimes to foster competition, innovation, and inclusion. Central to this effort are the EU FIDA regulation and the UK DUA Bill, both expected to become law in 2025. These measures, alongside other UK Smart Data schemes and the EU Data Act, will expand open datasets across numerous economic sectors.

This interconnected data landscape offers significant promise for growth. The UK open banking ecosystem is currently valued at over GBP 4 billion.[102] Open finance could magnify this impact. For instance, firms could integrate financial data with energy consumption to design personalised green finance products or combine property and financial data to improve mortgage assessments.

However, implementing open finance will be complex and take time. Establishing fair compensation for third-party data access – a principle enshrined in the EU and UK frameworks but absent in open banking – will be particularly contentious. While regulators have set high-level principles, specifics remain unclear, potentially necessitating further intervention. Ensuring interoperability across diverse data ecosystems and building the necessary data-sharing infrastructure will demand significant investment.

The risk of fragmentation is significant, particularly as the EU is not mandating common API standards. Businesses must also navigate differing implementation timelines. The EU currently favours commencing with consumer data for credit agreements, accounts, savings, and motor insurance, as early as 2027/28. The UK is expected to prioritise consumer propositions and use cases based on cost-benefit analyses, with SME lending and consumer savings potential early priorities.[103]

A proactive approach, aligning open finance initiatives with broader digital transformation goals and leveraging synergies with cloud adoption and AI investments, unlocks greater long-term advantages and cost efficiencies. Developing a robust data strategy and prioritising high impact use cases will inform technology infrastructure design, analytical capabilities, and the target operating model necessary to maximise value.

The trust imperative: balancing innovation with data protection and ethics

The convergence of AI and personal data brings data governance, protection, and ethics into sharp focus. The EU AI Act exemplifies this, mandating GDPR compliance as a prerequisite for conformity. In the UK, firms perceive four of their top five AI risks as data-centric: privacy and protection, quality, security, and bias.[104] This aligns with consumer sentiment. Deloitte research reveals that 66% of European consumers prioritise data privacy and security as paramount to trusting AI.

Looking ahead, both EU and UK data protection authorities will release further guidance in 2025, clarifying expectations for AI development and deployment under data protection laws. The DUA Bill will also make targeted amendments to the UK data protection regime, seeking to balance robust regulatory oversight with an environment conducive to innovation. Some FS authorities are also increasingly attentive to data ethics, as evidenced by recent publications from the Danish FSA and EIOPA.[106,107] These highlight risks such as financial exclusion, and the need for ethical frameworks to ensure data use aligns both with regulations and societal – and firms' own – values.

Artificial intelligence and data

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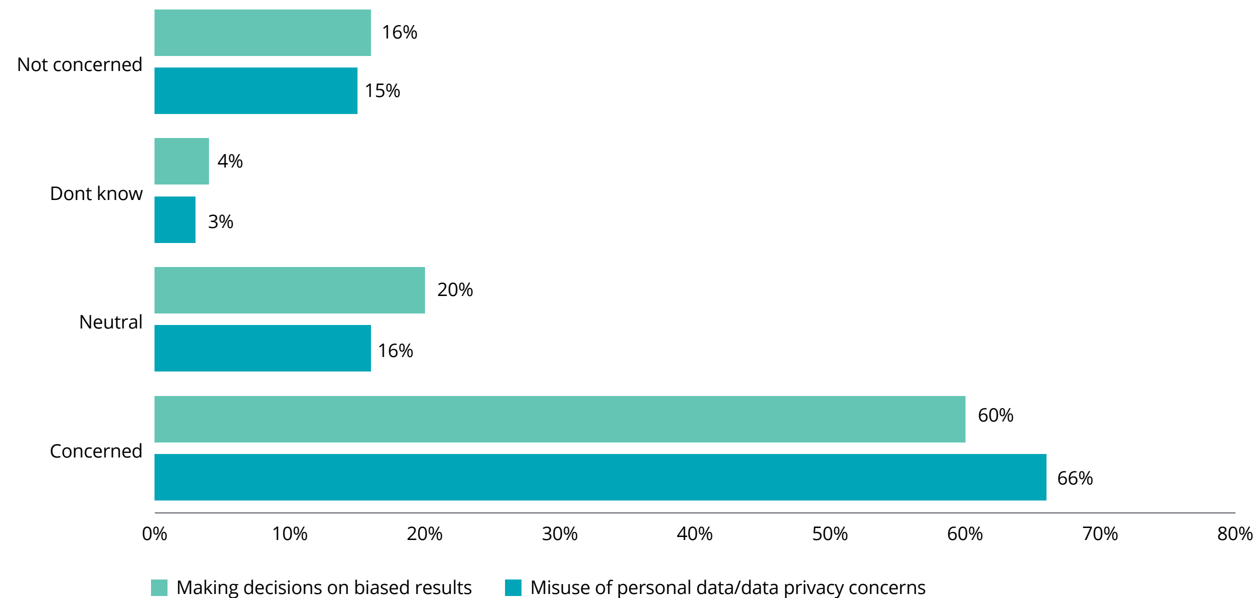
Figure 7: factors influencing trust in Generative AI – Deloitte survey

When thinking about the potential impact of Generative AI on our society, how concerned (or not) are you about the following issues?



Source: Deloitte[105]

To navigate this evolving landscape successfully, firms should capitalise on existing data protection leading practices and tools, while engaging in effective horizon scanning. Robust data governance should be woven into the entire AI lifecycle. Prioritising data protection tenets – including data quality, privacy safeguards, transparency, clear communication, and user-friendly systems and dashboards that support individual data rights – is not only a compliance checkbox but a strategic imperative, particularly as firms embrace open finance. For banks, this aligns with BCBS 239 data management strategy, enhancing the strategic benefit and operational focus of remediation efforts. Finally, investing in PETs such as homomorphic encryption and federated learning can often bolster privacy and security while facilitating innovation.

Ultimately, trust will be a key commercial differentiator. Deloitte's research shows that high-trust firms significantly outperform peers, achieving up to four times the market value.[108] Compliance thus evolves from a constraint into a catalyst for innovation, benefiting both society and the bottom line.

Payments and digital assets

A regulatory crossroad

A wave of compliance deadlines, intensifying into 2026-2028, is set to create a more costly and competitive operating environment for the payments and digital assets industries.

But amidst the headwinds lie new opportunities. 2025 promises greater regulatory clarity on new forms of money and payments – from stablecoins to CBDCs and open banking enabled payments – enabling firms to (re)assess their role in the future payments landscape.

Compliance deadlines loom

Retail payments

The EU and UK are implementing new regulations to strengthen consumer protection, choice, and resilience. Deadlines loom, with operational resilience, UK safeguarding rules and EU IPR slated to take effect in 2025. Broader reviews of regulatory frameworks – EU PSD3 package finalisation and further UK reforms – will lead to further deadlines between 2026 and 2028.

Implementing payments reforms individually is challenging, but tackling multiple reforms concurrently amplifies the complexity. This presents strategic, operational, and financial questions and challenges for payments firms.[109]

In the UK, the multi-year implementation of new safeguarding rules coincides with Consumer Duty and APP fraud refunds remediations, necessitating substantial upgrades to systems and controls, and board reporting.

For example, upgraded systems are essential to support mandatory daily safeguarding reconciliations. Board reporting must evolve to provide a comprehensive view of customer outcomes across products, as required by the Consumer Duty, including fraud metrics related to the customer experience, e.g. time taken to remediate fraud cases. Firms must also embed fraud detection and prevention measures throughout the customer lifecycle, from onboarding to transaction monitoring.

Creating a single overarching implementation plan can anticipate peak demands on resources – especially risk, compliance, and IT – and identify implementation efficiencies and interdependencies.

The UK Government's new NPV acknowledges the industry's calls for greater coordination of regulatory initiatives and the sector's vital role in driving economic growth and competitiveness.[110]
A "payments forward plan" should provide much-needed clarity on the sequencing and prioritisation of regulatory initiatives. However, with publication only expected in H2 2025, the plan offers little immediate relief for firms navigating multiple regulatory priorities and reforms.

Meanwhile EU firms face upcoming deadlines for payee verification checks. From October 2025, these checks will be required for euro-denominated credit transfers under IPR. By ~2028, this will likely

Payments and digital assets

A regulatory crossroad

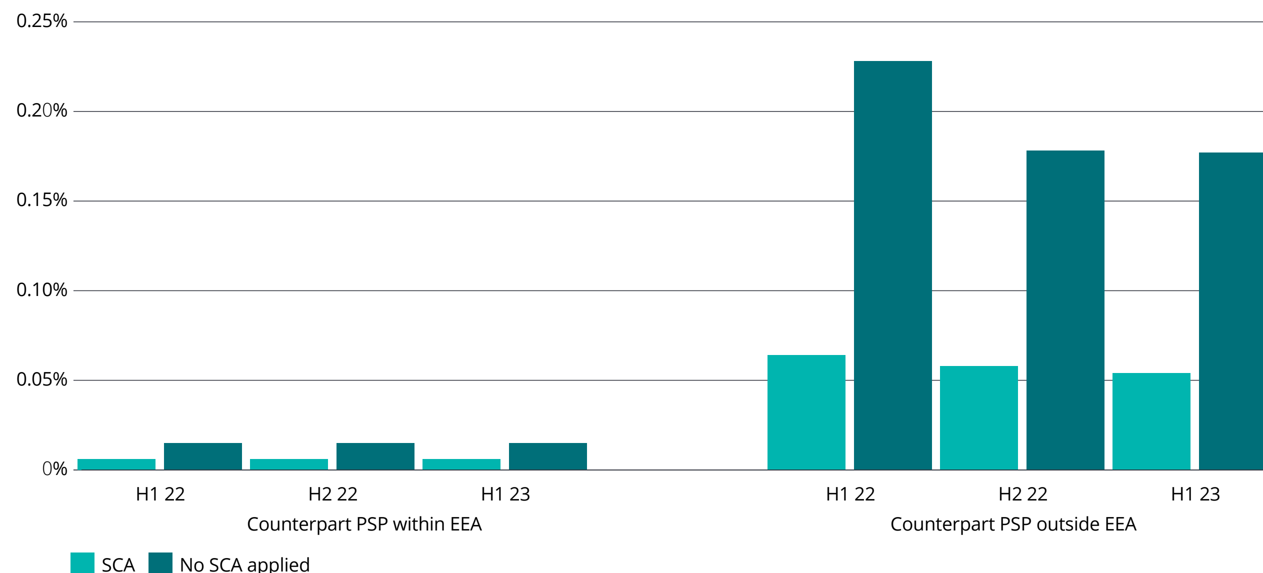
extend to all EU transfers, regardless of currency, under PSD3 assuming its finalisation by the end of 2025. The introduction of payee verification checks, coupled with the proven success of SCA in reducing fraudulent card payments (Figure 8), will be crucial for protecting revenues and reducing liabilities. This is especially important as PSD3 will likely introduce mandatory fraud refunds.

Separately, PSD3 will also likely require existing EU non-banks to submit new information to regulators, including details about wind-down and safeguarding arrangements, to demonstrate compliance.

Beyond meeting compliance deadlines, the window for integrating regulatory considerations into business strategies for initiatives launching from 2026 to 2028 is closing.

For example, PSD3 proposes that firms must offer payment authentication methods suitable for all users, including those with low digital skills and without smartphones. Firms should use the lead time before PSD3 finalisation to assess the impact on their mobile-only payment strategies and formulate a response.

Figure 8: fraud rates for SCA vs. non-SCA-authenticated card payments
(volume of fraud in % of the respective value of transactions)



Source: ECB and EBA[111]

Firms should also consider broader digital initiatives affecting payments. For example, by 2027, EU firms must accept EU Digital Identity Wallets for SCA. Additionally, EU firms may capitalise on opportunities presented by the DMA, including opening access to NFC technology on mobile devices provided by certain BigTechs, to create new digital wallets.

These wallets could offer consumers alternative options for in-store and online payments, competing with BigTechs, and potentially incorporate open banking-enabled A2A payments.

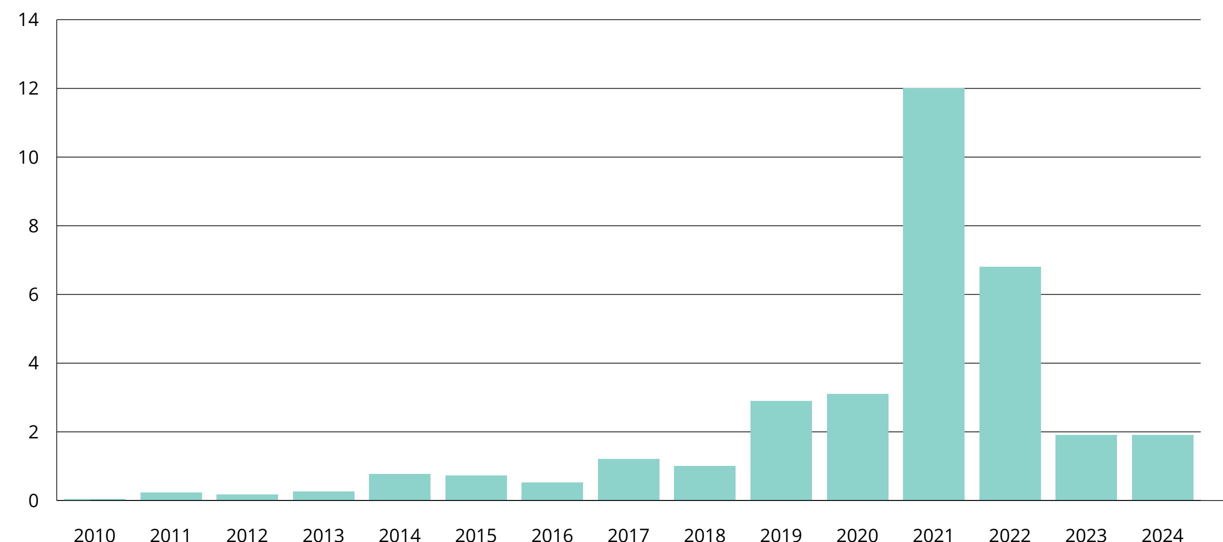
Payments and digital assets

A regulatory crossroad

Overall, looming compliance deadlines, with their associated costs and strategic implications, create a challenging outlook. This appears particularly acute for non-banks, which continue to grapple with profitability pressures, despite rising e-money transaction volumes.[112]

While many individual non-bank payments and e-money firms are highly profitable, the sector as a whole is struggling. 40% of these firms in the UK are unprofitable, with median firms' net profit standing at a mere GBP 4,200.[113] This is compounded by shrinking venture capital (Figure 9) and record market exits – 31 payments startups exited Europe in 2023.[114] Smaller players with fewer resources and less diversified portfolios and revenue streams will feel the pressure.

Figure 9: venture capital investment in the payments industry
in USD bn



Source: Dealroom[115]

Non-banks should reassess their strategic positioning in 2025. Larger players may pursue banking licences to unlock revenues, although the costs and lengthy process are likely prohibitive for smaller firms. Alternatively, regulated firms could diversify their offerings, adding services such as credit, digital assets, or BNPL to boost revenues.

Unbacked digital assets

2025 marks the arrival of EU MiCAR compliance deadlines for most custodians, exchanges, and other intermediaries. While roughly 2,000 firms are registered under existing national regimes, markets are concentrated.[116] Ten exchanges handle ~90% of trades.[117] The rise in operating costs due to MiCAR implementation may result in some EU market exits, beginning in 2025. Lithuania offers a telling early example. In November, 300 locally registered firms were removed from the Lithuanian register for failing to meet new capital requirements.[118]

In our experience, most firms committed to the EU have decided their EU head office location and are focussed on securing licences. In licensing processes, regulators are intensifying scrutiny of group structures. We expect firms to be challenged by supervisors if they systematically only route trades to intragroup

Payments and digital assets

A regulatory crossroad

exchanges outside the EU, necessitating a review of booking models.[119] Firms must also demonstrate substance and autonomy, robust client asset control and segregation from the firm's assets, and financial resilience as standalone EU entities.

The UK's regime remains less developed. While draft details will emerge in 2025, final rules are not expected until 2026. It is already clear, however, that compliance with operational resilience and Consumer Duty rules will be a priority for the FCA. Although not yet mandatory, firms with ambitious growth plans may benefit from starting preparations for these regimes in 2025, freeing up resources to implement digital assets-specific rules later.

For an industry that has largely operated under lighter touch regulation, the Consumer Duty's emphasis on ensuring good customer outcomes represents a substantial cultural and strategic shift. Initial steps towards Consumer Duty compliance include developing a granular understanding of your customer base and defining a target market and distribution strategy.

Compliance with operational resilience rules also demands significant resources, as underscored by the three-year implementation timeline for firms already in-scope. Identifying and addressing third-party vulnerabilities will be a key challenge, especially those related to DLT beyond firms' direct control. A helpful starting point is mapping the systems, processes and third parties underpinning services.

We expect European banks and investment managers to remain focussed on securities tokenisation in digital assets strategies. However, Bitcoin's price surge post-US election and a maturing EU regulatory landscape under MiCAR may prompt some EU firms to reevaluate building an unbacked digital assets offering in 2025. Existing regulatory permissions could offer incumbents an advantage. For example, banks can provide services governed by MiCAR such as custody of unbacked digital assets via a simpler regulatory notification.

The regulatory fog around new forms of money and payments starts to lift

2025 promises increasing regulatory clarity on new forms of money and payments. Five forms are emerging – stablecoins, retail and wholesale CBDCs, tokenised bank deposits and open banking enabled A2A payments – although the level of clarity varies (Figure 10).

Increasing regulatory clarity will enable firms to (re)assess their strategic approach to new forms of money and payments in 2025. This includes where to focus efforts, when to build capabilities, and the jurisdiction(s) to focus on.

2025 is expected to provide greater clarity on political commitment to retail CBDCs in the EU and UK. Key questions regarding costs, revenue models, and the potential need for mandatory investment in retail CBDC capabilities by banks are also expected to be addressed.

Payments and digital assets

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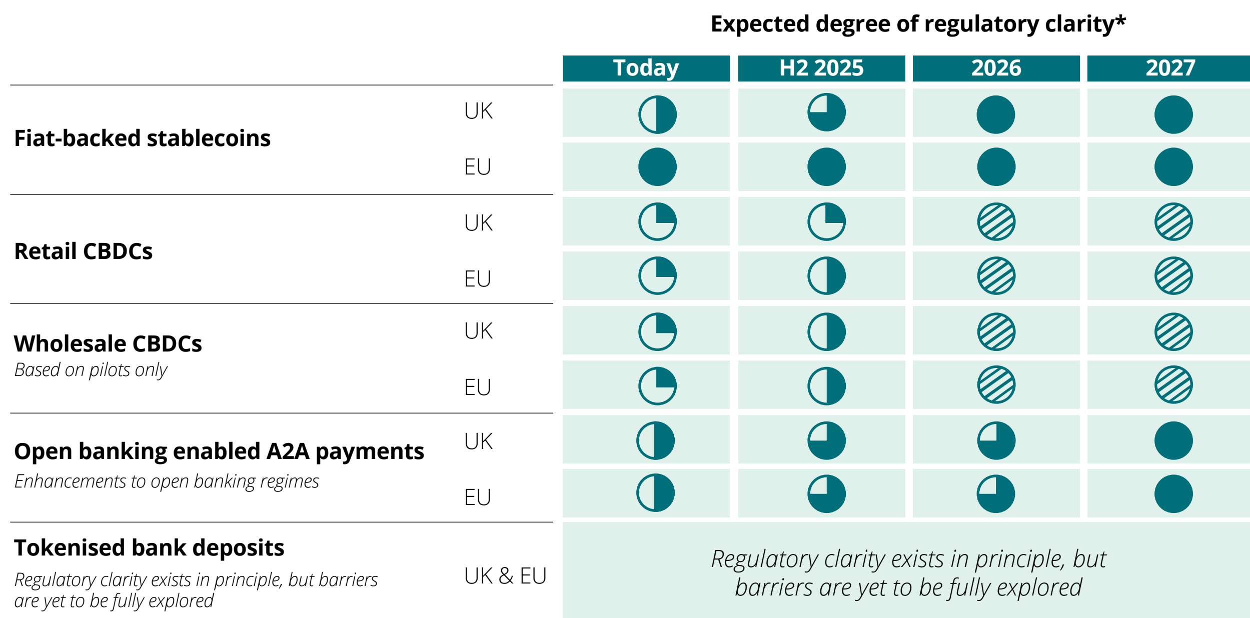
This comes at a time when firms are facing mounting pressure to invest in compliance, putting a strain on their budgets. This pressure stems from regulations such as the EU's IPR and PSD3, and UK payments reforms, even though these reforms may encourage the adoption of open banking A2A payments.

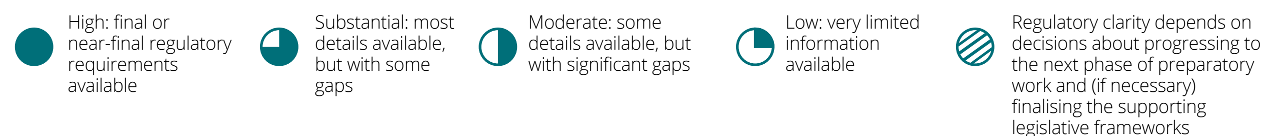
Firms with more financial headroom may have capacity to pursue optional investments. One such option is stablecoins. While we expect no significant uptake in the use of stablecoins in European retail payments in 2025 – the primary use case remains digital assets trading – some payments applications are emerging. These include remittances and cross-border payments.[120] European firms seeking market leadership may issue one for brand recognition, potentially gaining an edge if retail use cases emerge. Simplified MiCAR issuances may encourage EU banks and e-money firms.

Figure 10: emerging regulatory clarity for new forms of money and payments



		Expected degree of regulatory clarity*			
		Today	H2 2025	2026	2027
Fiat-backed stablecoins	UK	Moderate	Substantial	High	High
	EU	High	High	High	High
Retail CBDCs	UK	Low	Low	Depends on progressing	Depends on progressing
	EU	Low	Moderate	Depends on progressing	Depends on progressing
Wholesale CBDCs *Based on pilots only*	UK	Low	Moderate	Depends on progressing	Depends on progressing
	EU	Low	Moderate	Depends on progressing	Depends on progressing
Open banking enabled A2A payments *Enhancements to open banking regimes*	UK	Moderate	Substantial	Substantial	High
	EU	Moderate	Substantial	Substantial	High
Tokenised bank deposits *Regulatory clarity exists in principle, but barriers are yet to be fully explored*	UK & EU	*Regulatory clarity exists in principle, but barriers are yet to be fully explored*			

** Based on our best estimate as of January 2025.*



Source: Deloitte analysis

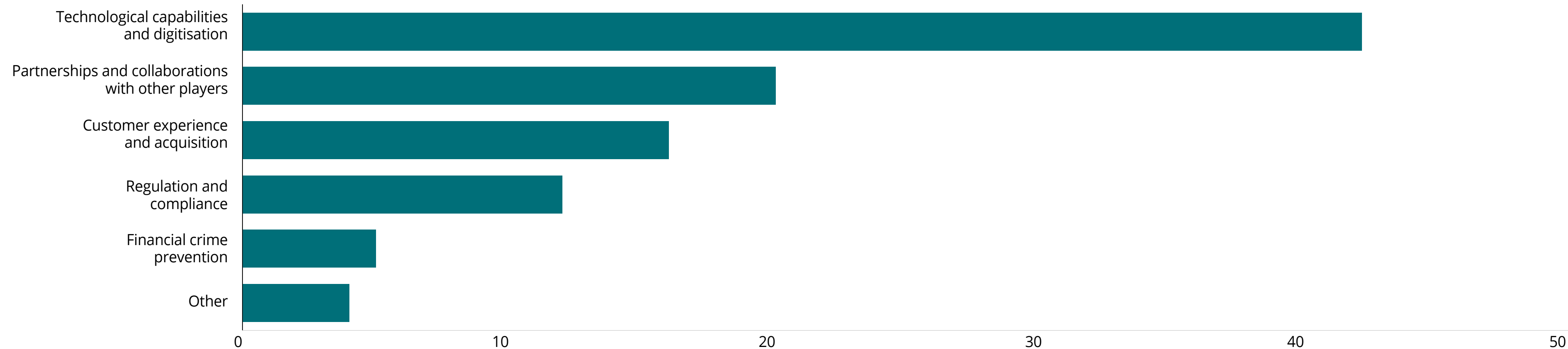
Payments and digital assets

A regulatory crossroad

Optional UK BoE wholesale CBDC pilots may encourage banks and investment managers to explore instant settlement of digital securities using central bank money in 2025, potentially partnering with trading and settlement platforms in the BoE/FCA Digital Securities Sandbox.

While regulatory clarity is emerging, firms will continue to navigate uncertain commercial models for many new forms of money and payments when making strategic infrastructure investment decisions in 2025. Nevertheless, in the long-term, interaction with DLT-based forms of money appears inevitable. Stablecoins are gaining traction, and CBDCs may leverage DLT. As firms prioritise enhancing technological capabilities (Figure 11), preparing for DLT interaction is paramount. Cloud infrastructure offers a flexible solution for enabling integrating new forms of money and payments alongside traditional methods, mitigating future infrastructure overhauls, and offering scalability as payment processing demands fluctuate.

Figure 11: payments industry investment focus areas
What area will see the most investment from your business in the next 12-24 months?



Source: Payments Association & Pay360[121]

Payments and digital assets

A regulatory crossroad

Regulatory divergence intensifies

EU-UK divergence will likely intensify in 2025, adding complexity to firms' operating environment.

Firms operating in unbacked digital assets markets already navigate a patchwork of regulations. The EU's regime is more developed than the UK's. We see a similar pattern of regulatory divergence emerging in areas such as stablecoins and safeguarding for e-money firms. This year will unveil further detail and potential additional divergence as UK and EU payments regulatory reforms – such as PSD3 – and the UK digital assets framework take shape.

By end-2025, greater clarity on UK-EU divergence will reveal the long-term costs of offering products in each jurisdiction and enable firms to assess the feasibility of unified risk and compliance systems, policies, and procedures, versus local tailoring.

Conclusion

Regulatory deadlines loom large, demanding significant skilled staff and financial resources. But firms should not lose sight of the new business model opportunities posed by new forms of money and payments.

Sustainable finance

Time to step up to address the risks and opportunities of the sustainability transition

The risks associated with climate change and nature degradation are becoming more acute and the need for the sustainability transition more urgent.

To address this, in 2025 we expect EU and UK policymakers to continue to steer sustainability-linked innovation, investment and resilience through a combination of measures, including through regulation. What will be different this year is that policymakers will shift their focus towards industrial strategy and fiscal policy as they position the sustainability transition to drive economic growth and competitiveness.

For FS firms, the focus on industry and the economy, and greater clarity on national transition plans and sector decarbonisation pathways, should support demand for sustainable finance. Policymakers are also taking measures to increase public sector financing and address regulatory barriers to the provision of private sector financing. In turn, policymakers expect the FS sector to play a significant role in financing the sustainability transition.

Juxtaposed with this trend, policy action supporting the transition faces strong political headwinds and fiscal constraints domestically and internationally. Whilst we expect policymakers to make progress, their actions will be constrained. Most notably, we will see them take steps to reduce the burden of regulation at the same time as the measures referred to above to strengthen the sustainability drive are introduced.

Compliance and risk management also remain important themes. As the risks to businesses and society from environmental change increase, regulators and supervisors will continue to raise standards and extend expectations to ensure the transparency and soundness of sustainable assets and investments, and resilience to environmental-related financial and greenwashing risks.

In the face of uncertainty on the timing and content of new regulations and policies, firms can consider scenarios to identify no- or low-regret actions to take now, rather than wait for certainty to emerge. These steps include scaling the enterprise data environment to support future disclosure integrity and high quality, data-driven decision making. This activity needs to be led by the board to ensure all functions and business areas are aligned.

Sustainable finance

Time to step up to address the risks and opportunities of the sustainability transition

Corporate sustainability reporting: only the end of the beginning

On paper, 2025 should be a milestone year for the implementation of CSRD, with larger firms reporting for the first time. But the attention of policymakers in the EU has shifted to reducing the reporting burden. As we start the year, it is uncertain what action the European Commission will ultimately take. How to define or quantify the reporting burden has not been agreed. And it is unclear how the Omnibus legislation to address the reporting burden across CSRD, CSDDD and the EU Taxonomy – which the Commission President committed to in a speech in November to the European Parliament – will be progressed. Currently the only public indication from the Commission is that an "Omnibus simplification package" will be prepared by the time of its College meeting on 26 February 2025.

In any event, we do not currently expect to see a proposal for paring back the core components of CSRD. We come to this conclusion in part because of the practical and political challenges of reopening negotiations on primary legislation, and also because we have not seen in the debate so far a strong desire to re-think the basic premise of requiring sustainability reporting, although we recognise that the political positioning on this topic is volatile. It is more likely that the Commission will identify ways to make the task of reporting less onerous for firms, including through streamlining and reducing duplication of requirements. That could be achieved, for example, by introducing a simpler regime for mid-sized companies, reconsidering sector-specific standards or revisiting the thresholds for companies in scope. Reporting requirements across different pieces of legislation could also be streamlined, or the transition from limited to reasonable assurance might be delayed.

Firms already reporting in 2025 and 2026 would anyway be advised to continue with their current CSRD implementation plans as requirements will not change immediately (if at all), and data and systems, internal controls and governance frameworks typically need to be developed further, including to accommodate sector-specific guidance, and to support improved data quality and assurance. However, smaller companies and third-country groups could consider what flexibility can be built into implementation roadmaps and reporting systems to anticipate potential future changes to requirements.

All firms should consider the opportunity to utilise data used to meet CSRD requirements to ensure sustainability is fully considered in business strategy and planning. Firms operating in the EU should also prioritise planning for the application of CSDDD (from July 2027) – at least, unless or until it is clear the mooted Omnibus legislation will postpone the implementation date for CSDDD. CSRD and CSDDD are connected through data needs and reporting requirements. Firms can start by mapping value chains and performing a gap analysis against the requirements, to inform an implementation plan.

Around 30 jurisdictions have consulted on sustainability-related disclosures since the publication of the ISSB's sustainability disclosure standards in June 2023. This year, the ISSB will continue to extend its standards, including through work on nature and human capital.

The GHG Protocol is also likely to be refreshed this year, which is widely referenced in the standards for measuring emissions.

Sustainable finance

Time to step up to address the risks and opportunities of the sustainability transition

In the UK, the Government is expected to create the Sustainability Reporting Standards by endorsing the ISSB sustainability disclosure standards during Q1. We expect it to adopt the international standards with minimal changes. Following a consultation and finalisation of the requirements, reporting is likely to begin for the first wave of firms (likely larger, listed companies) in 2027, based on FY2026 data. Given the complexity of the reporting requirements, firms that expect they might need to report in 2027 should start planning this year based on the ISSB standards. The Government will also consider whether to develop a UK green taxonomy, but since the outcome is so uncertain (it is not known if the Government will ultimately issue a green taxonomy, and if it does what approach it will take) there is little firms can do to prepare specifically for any rules in advance of a proposals, beyond any investment already being made to develop their sustainability reporting capabilities.

Financing the sustainability transition: addressing barriers to scaling finance

There is a pressing need to scale finance to support the sustainability transition. At COP 29, the provision of public sector financing for developing countries was one of the main topics of discussion. Developed countries need urgently to increase investment in their own adaptation and resilience. One estimate puts the additional investment required to deliver the UK net zero transition at GBP 50 bn annually every year into the 2030s (from around GBP 10 bn in 2020).

For FS firms, in the past uncertainty about the path of the sustainability transition, lack of demand for financing and access to blended finance, and regulation have impeded lending. This year, several of those obstacles will begin to be addressed. If successful, the measures taken could in combination lead to a step change in the overall investment risk. For example, in the UK:

- *Enabling sector policies.* An industrial strategy, national transition plan and sector decarbonisation pathways will bring greater clarity to the assessment of investments, and should drive demand for financing.
- *Availability of public finance and incentives.* The NWF and GBE will increase risk sharing between the public and private sectors. Targeted grants, taxes and incentives (including a carbon tax from 2027) will further enhance the economic case for some investments.
- *Coordinated government action.* A Transition Finance Council will oversee the implementation of recommendations made by the TFMR to enhance the UK as a hub for transition finance.

One specific aspect the TFMR considered was potential regulatory barriers to transition finance, including the capital treatment of transition exposures, the capacity of supervisors to assess the riskiness of transition exposures (and supervisors' risk appetite) and the role of supervisors in supporting development of market-leading practices. The FCA subsequently said it would consider how best to embed the TFMR's findings in its policymaking and supervisory work.

The UK Government has also now inserted into the remits it sets for the microprudential and macroprudential regulators, a direction to support sustainable finance and the transition to net zero.

Sustainable finance

Time to step up to address the risks and opportunities of the sustainability transition

In the near term, we expect the BoE and FCA to increase capacity and capabilities to enable them to do so.

Some of the initiatives highlighted here are likely to be be effective in the shorter term whilst others will take longer to crystallise, but all should improve the assessment of the commercial viability of sustainability-linked financing. FS firms will need to take a broad view across their business of the different measures, to understand in full the implications and consider what new opportunities might be created. They should also consider where to engage proactively with the development of policies.

Another consideration for FS firms in determining their strategy for providing transition finance is the extent to which they need to help existing customers transition to be able to meet their own net zero commitments. FS firms will in future likely need to disclose credible transition plans aligned with a 1.5°C climate-warming scenario (for EU firms, this is the result of CSDDD; for UK firms, it is likely as the Government is consulting on proposals this year having originally committed to the change in its pre-election manifesto). Since the latest scientific projections indicate a high likelihood that the world will breach the 1.5°C temperature threshold by 2030, it is increasingly hard for FS firms to set a credible transition strategy based on that benchmark. As they assess the credibility of their transition plans, firms should also consider how greater clarity on sector specific and economy-wide transition strategies will help investors and other stakeholders to assess and benchmark an individual firms' progress.

Voluntary carbon markets have been a key area of discussion over the past year, including at COP29 which reached agreement on a new international carbon market. The UK Government also launched its integrity principles for voluntary carbon and nature markets. There is an ongoing debate about the extent to which carbon offsets should be used for the transition in hard-to-abate sectors. There is however anyway little practically for FS firms to respond to in the near term. We expect the focus this year to be on further policy development. Challenges around integrity and transparency will also likely continue to slow carbon market growth in the near term.

Managing environmental-related risks: no time to pause

As climate change and nature degradation continue, the probability of environmental-related risk is increasing. The impact when risks crystallise is also rising because of the increasing severity of environmental-related events and because sustainability-linked activities account for an increasing share of firms' businesses. The weakening of the political impetus globally to tackle climate change and nature degradation, including because of heightened geopolitical risk, is increasing transition risks as governments delay acting.

We expect the requirements supervisors set for how firms manage financial- and non-financial risks in climate will evolve this year rather than radically change. But firms should bear in mind that supervisors still have significant latitude to increase the intensity of supervision and to raise expectations within existing frameworks. When the BoE updates its supervisory guidance on managing the financial risks from climate change, it will provide examples of leading practices that may spur some firms to decide they need to improve their capabilities.

Sustainable finance

Time to step up to address the risks and opportunities of the sustainability transition

For the ECB, after the end-2024 deadline for banks to be fully aligned with its expectations for climate-related and environmental risks passes, we expect it to hold boards and senior management teams to account, assigning remediation work and raising the prospect of periodic penalty payments for non compliance.

An evolution of requirements still means change. The BoE has said that it will consider how scenarios for future stress tests could start to incorporate specific risks that are expected to be caused or exacerbated by climate change, and the UK Climate Financial Risk Forum plans to continue its work to support the development of firms' risk management capabilities, including in relation to transition finance and adaptation. (Whilst the BoE and FCA will work internally this year to explore risks related to adaptation, we do not expect to see any recommendations to FS firms until later in the year at the earliest.)

Also, supervisory work on "top-down" governance, incentives and accountability for data issues (discussed in the Banking sector chapter) will include climate and other sustainability data. For EU banks, the EBA's guidelines on ESG risk management (finalised in January) introduced a requirement for firms to use portfolio alignment methodologies as a portfolio-level risk management tool.

Greenwashing risk and litigation risk are becoming more prominent. Supervisors in both jurisdictions have spoken about the fact that they are actively examining greenwashing risk in their supervisory work and have reminded firms they have a number of tools that can be used that fall short of public sanctions. The clear implication is that firms should not assume that controlling greenwashing risk is anything other than a high priority. All FS firms should also consider their exposure to litigation and reputational risks from greenwashing that go beyond SDR or SFDR, including because of new disclosures they will make under CSRD. Unsatisfactory progress against transition commitments could also lead to reputational and (ultimately) litigation risk.

Sustainable finance

Time to step up to address the increasing risks and opportunities of the sustainability transition

FS firms need to continue this year to develop robust risk, controls and monitoring frameworks at sufficient pace to keep up with the evolution of risks and standards. Firms should develop a roadmap for doing this that considers all the drivers – regulatory and supervisory, as well as internal and strategic considerations, and market practice.

We do not expect any fundamental change this year to minimum capital requirements to take account of climate risk (a now long-standing topic for the FS sector). EIOPA did publish a report last year on the prudential treatment of sustainability risks within Solvency II, recommending that the European Commission considers introducing additional capital requirements for fossil fuel assets. And in 2023, the EBA recommended enhancements to the bank Pillar 1 framework to capture environmental and social risks. But the resulting adjustments remain difficult to make in practice, and we have not seen any indication that policymakers are ready to introduce changes.

The focus of supervisors will continue to be on climate. There was an explosion in the discussion of nature risk during COP16, and the ECB continues to push the banks it supervises to develop their capabilities to assess and manage nature risk. We do not expect this to be sufficient though to elevate nature to the same level of attention as climate in 2025. But the increased activity should prompt firms that have not done so already to assess their nature risk exposure and to develop a strategy for embedding nature in their risk management and transition planning.

Conclusion

In 2025, the opportunities and risks for FS firms from sustainable finance will grow as policymakers take steps to accelerate the mobilisation of private and public financing for the sustainability transition, and as physical and transition risks increase. Firms cannot afford to wait for certainty to emerge. Firms can proactively plan using scenarios to identify low-regret actions to take. Amongst the steps they take now, scaling the enterprise data environment to support future disclosure integrity and high quality, data-driven decision making is a key investment, alongside enhancing governance and controls over sustainability information.

Sector perspectives

Retail and commercial banking

Fixing the roof before it rains

EU and UK banks go into 2025 off the back of a year in which profitability was generally strong, and financial resilience metrics remained robust despite ongoing geopolitical and macroeconomic headwinds – although the potential ramifications of ongoing legal proceedings related to motor finance cloud the outlook for some UK banks.

However, banks' homework list remains long: bolstering resilience to geopolitical, operational and cyber risks, further integrating climate and nature risk management capabilities and transition plans into strategic decision-making, taking advantage of the opportunities (and managing the risks) of digitalisation and AI, controlling liquidity risks from online banking and social media,[122] and managing risks associated with NBFIs. All this while ensuring existing implementation programmes (including Basel/CRD/CRR, operational resilience, model risk management, BCBS 239 and the UK Consumer Duty) remain on track, and maintaining profitability metrics.

Consequently, in 2025 we expect supervisors to make increasingly strident calls for banks to invest in "fixing the roof before it rains", taking advantage of recent profitability to address long-standing issues. While there is an understandable tendency to frame such tasks as "remediation", **banks should see them as enablers of their medium-term strategic transformation.** In fact, broader technological shifts (including supervisors' own use of technology) and evolving customer and market preferences will inevitably require banks to transform their own capabilities.

The priority for banks in 2025 should be investment in two foundational areas of ongoing weakness, both of which underpin the broader spread of regulatory topics on banks' plates and have significant business benefits if done well: **data** (in particular risk data aggregation and reporting), and **risk culture and governance.**

Retail and commercial banking

Fixing the roof before it rains

Data and risk culture: why now?

Neither of these two issues is new: and both are difficult, expensive and time-consuming to fix. As banks look to protect margins in 2025 by controlling costs, the temptation will be to repair or replace individual tiles rather than the whole roof. Yet further delaying necessary transformation in these two areas is not sustainable for two key reasons:

1) **Bank boards and management bodies are under increasing pressure to demonstrate that they are steering their bank in a forward-looking and agile way,[123] but this depends on several pre-requisites:** a comprehensive and effective risk appetite, supported by high quality and timely MI, increasingly informed by scenario analysis and stress testing. As the range of risks banks face broadens, identifying growth and profit opportunities whilst understanding the risk profile of those opportunities becomes increasingly complex. Banks also need to show they can effectively identify and manage "novel" risks.[124] **Data capabilities and risk culture are important enablers, and improvements in both will be mutually reinforcing.**

2) **Supervisors are increasingly willing to use the sharper tools at their disposal to incentivise and/or compel banks to remediate weaknesses faster and more effectively. In 2025, data and governance issues are squarely in their crosshairs.** Following its reforms to the SREP, the ECB is making greater use of enforcement tools that potentially change the economics of interim implementation solutions, and at their most severe can directly constrain banks' ability to grow their business.[125] In the UK, regulators continue to use Risk Management & Governance scalars and skilled person reviews, and the PRA will expect banks' Basel 3.1 implementation to include robust governance over changes to capital calculations and clear demonstration that systems can deliver accurate and timely capital calculations for both modelled and standardised approaches, where necessary.[126] Supervisors in both the EU and UK have recently proposed requirements that more directly link executive remuneration to remediation of supervisory findings.[127]

Data

Connecting data remediation to strategic execution

Banks must have the basics right with data issues – clear data lineage, maintenance of golden sources and development of robust detective and preventative controls.

But in 2025 we also expect supervisors to focus on "top-down" governance, incentives and accountability for data issues (including not just risk data aggregation and reporting, but also cloud outsourcing, risks associated with digitalisation and operational resilience).

Supervisors have made explicit calls for banks to have greater IT expertise at the board and management body level –[128,129] this will become increasingly important as banks look to new technologies, including AI to improve efficiency and reduce manual effort.

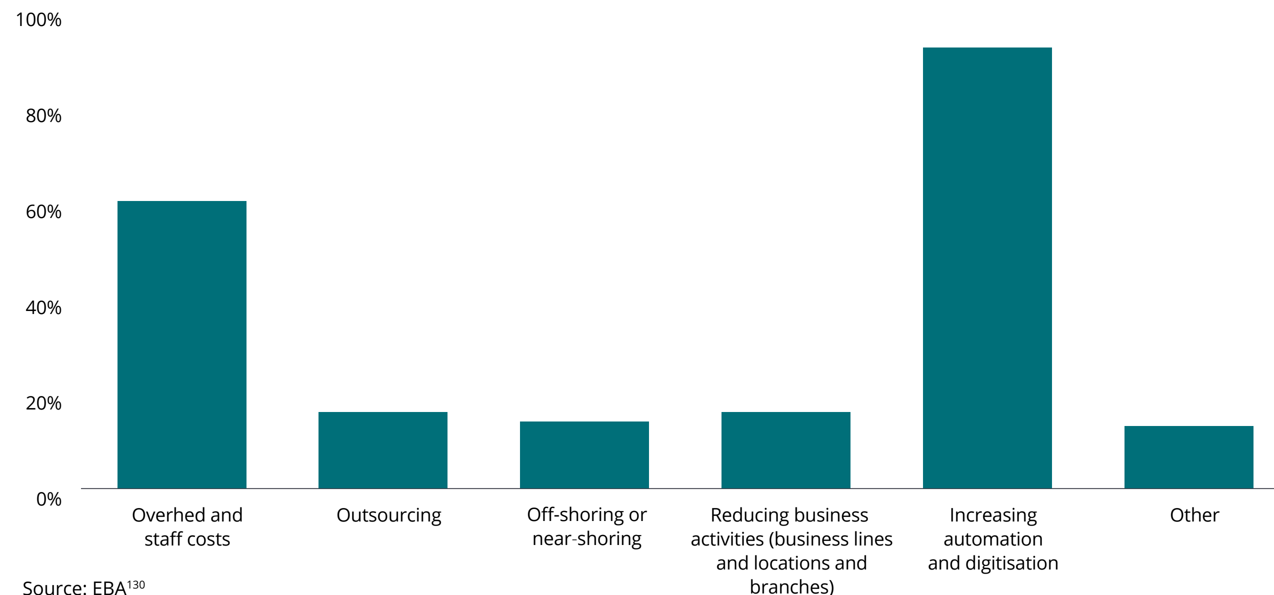
Retail and commercial banking

Fixing the roof before it rains

If banks are going to transform their data, bank management must envision, develop, communicate, and deliver a clear strategy for high quality data that enables more effective business decision-making.

Banks often view data remediation primarily as a compliance exercise (see Figure 12),[131] but there are also opportunities to generate strategic advantage. Reducing time spent reconciling data between teams will enable banks to respond quickly when the market shifts or becomes more volatile.[132] And improved data can enable more efficient and effective customer service. For example, less fragmented IT infrastructure can provide banks with a more comprehensive view of their customers, enabling revenue growth and reduced cost-to-serve. Having a more joined up view of trends in conduct data across a range of internal and external sources could allow banks to enhance customer experience and optimise product strategies (and potentially mitigate conduct, legal, and reputational risks).

Figure 12: primary measures planned by EU banks to reduce operating cost/expenses



Source: EBA[130]

Taking a top-down view will enable banks to identify where synergies exist between data collected for different regulatory, supervisory or MI purposes. Banks often identify cohorts of customers for one purpose but fail to leverage that data for a broader range of potential uses, and this may be a missed opportunity in some cases. For example, data collected for climate risk management and disclosures (counterparties' sensitivity to energy prices; physical location of critical production facilities, data centres or third-party providers) may also be relevant for assessing counterparties' exposure to geopolitical risks; investment in collecting more granular data for Consumer Duty purposes could help banks improve understanding of depositor profiles for liquidity risk management. **Ensuring the right expertise is in the room at the management body level will help banks identify where data improvements deliver business benefits and/or help to reduce costs.**

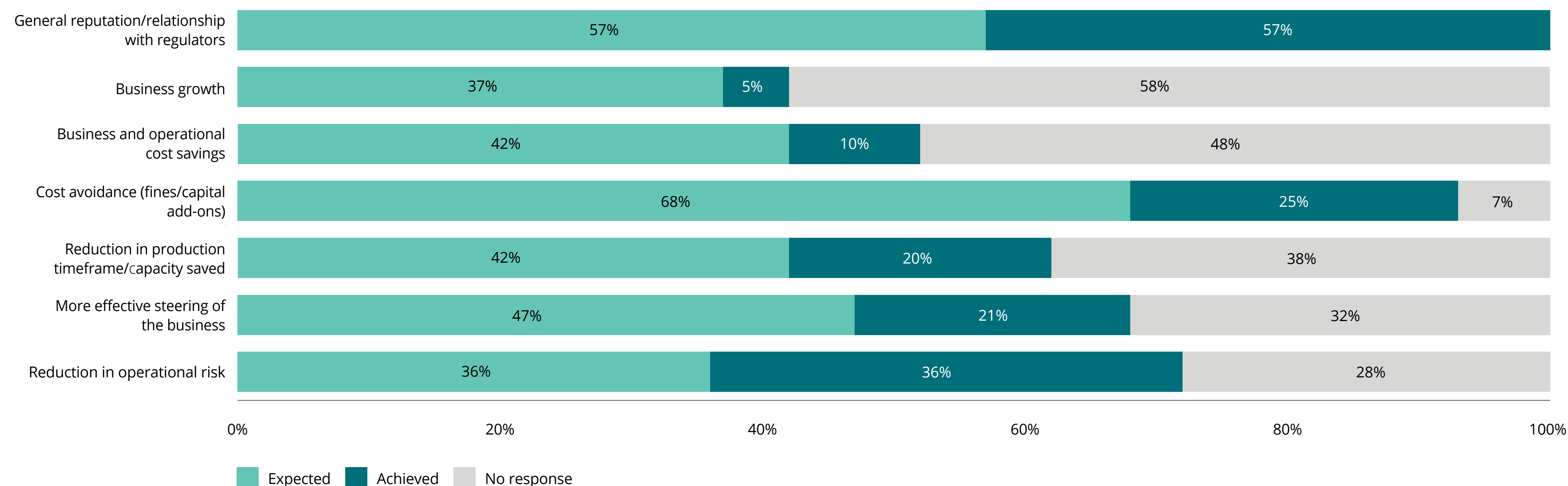
Retail and commercial banking

Fixing the roof before it rains

Basel 3.1/CRR3 implementation provides a good example of why fixing data is not just "good housekeeping", but a crucial near-term task. As banks seek to understand the impact of the new rules, Risk and Finance departments are facing increasing demands from business units for data on exposures, exposure classifications, risk parameters, collateral eligibility and applicability for different RWA approaches, and for second-order effects including output floor allocations, effects on incentive programmes, and changes to the costs of capital and internal funding. Banks with ongoing data challenges will find these requests a drain on resource, especially where processes depend on manual inputs.

From a strategic point of view, data capability will be a differentiator as banks optimise their capital allocation and navigate the "day 2" landscape. If banks' data is not accurate, then strategic decisions on portfolio structure, collateral optimisation, risk transfer transactions, pricing, and appetite for new business will not be optimal. Those banks that can provide fast, accurate data

Figure 13: expected vs achieved benefits resulting from BCBS 239



Source: Deloitte survey (2024)[133]

Retail and commercial banking

Fixing the roof before it rains

will make better decisions about which customers to target, and protect their market position in the most profitable customer segments. Even if banks choose to delay certain strategic actions in light of uncertainty over the final form of the Basel III rules in the US, laying the data foundations to respond effectively cannot wait.

Risk culture and governance

Risk culture, governance, and the effectiveness of boards and management bodies will play a critical role in banks fixing their data issues. **At the same time, specific governance-related initiatives demand attention in 2025.** CRD6 requires banks to draw up individual statements setting out the roles and duties of all members of the management body, and to map out duties and reporting lines. Implementing the SM&CR was a significant exercise for UK banks – some EU banks will need to treat it as a full-scale transformation programme, with CEO-level buy-in and even ownership.

UK banks (and banks in some other European jurisdictions)[134] have already been through this journey, but some may need to revisit it. For example, as geopolitical and technology-related risks rise up the supervisory agenda, banks will need to decide who is ultimately responsible for those risks, and whether they have the right incentives and tools to control them effectively. Going through this mapping exercise can help banks to identify where targeted investments in people (topic-specific expertise at senior management level or below) or capabilities (data collection, scenario analysis and stress testing, or AI tools that facilitate more effective risk management) are required.

More broadly, **regulation increasingly imposes an expectation of continuous improvement** and empowers supervisors to require a broader range of remediation activity – examples include operational resilience,[135] the UK's Consumer Duty, and fraud and financial crime prevention.[136]

Where regulators and supervisors' expectation is that remediation of existing weaknesses is just the beginning of an ongoing journey, and the business needs to incorporate evolving expectations into its operating model, banks' implementation programmes will need to ensure – even more than normally – that the first line is fully on board. **Banks will need to develop, implement and monitor a culture that is increasingly comfortable with continuous self-examination, reflection, root cause analysis, and learning from errors and challenges.** This is especially important as banks grow: several recent enforcement actions against banks have had their roots in controls not keeping pace with growth of the business.

Retail and commercial banking

Fixing the roof before it rains

Conclusion

While the prospect of major new regulatory initiatives being introduced in the short term appears low, banks continue to face ongoing implementation and remediation work, as well as responding to evolving supervisory expectations. **The call for banks to remediate long-standing issues will become louder in 2025. In a challenging macroeconomic and geopolitical environment, banks that identify strategic benefits in effecting transformational change in their data, culture and governance will reap rewards in both business performance and supervisory relationships.**

Key considerations for retail and commercial banks:

- Prioritise investment in data, risk culture and governance, to make them enablers of medium-term transformation.
- Increase board and management body expertise in IT and data issues, articulating a clearer "tone from the top" on how remediation of data issues can enable more effective strategic execution and implementation of regulatory changes such as Basel 3.1/CRR3.
- Identify synergies in data collected for different purposes and develop a culture which values and rewards cross-product and cross-business unit thinking.
- Implement and monitor a culture that is increasingly comfortable with continuous self-examination, reflection, root cause analysis, and learning from errors and challenges.
- Treat mapping of responsibilities for CRD6 as a full-scale transformation programme, with CEO-level buy-in and – where needed – ownership, and use the exercise to identify where investment in capabilities and people is required.

Investment banking

Out with the old, in with the new

In 2025, investment banks and capital markets firms face a particularly demanding set of strategic decisions, operational challenges and resource-intensive supervisory and regulatory implementation programmes.

The strategic decisions flow from CRD6's restrictions on third-country branches, and the ratcheting up of expectations on booking models by the PRA and ECB. The move to T+1 settlement in the UK and the EU will require operational heavy-lifting, while supervisory and regulatory (remediation) programmes are omnipresent. The potential for market volatility, including from geopolitical tensions, will require vigilance. Navigating this successfully will require effective governance and board oversight, decision-making under uncertainty and rigorous planning and implementation.

Watch out for the devils in the detail

With significant capital markets reforms largely finalised last year (MiFIR Refit, EMIR 3.0, Wholesale Markets Review reforms, CRD6) and further firm commitments (T+1 transition), in 2025 firms will need to focus on detailed Level 2 (L2) rules in the EU and implementation everywhere. The cumulative effect will, for some firms, challenge their existing business models and trigger a substantial transformation.

We expect the majority of L2 regulatory technical standards for CRD6 to be published in 2025. These standards will define and constrain how third country entities can provide "core banking services" to EU clients and provide more clarity in areas such as firms' ability to rely on reverse solicitation or what constitutes an ancillary service to MIFID business. However, the L2 measures are in our view unlikely to answer all the open questions. Firms will therefore have to make some difficult judgments and interpretations. Firms will need to broaden and deepen their impact assessments when they have the L2 details and determine whether they need to change their existing business model and European footprint.

Investment banking

Out with the old, in with the new

The EU active account requirement, which comes into force in June 2025, will challenge the *status quo* in EU derivatives clearing. All financial and non-financial counterparties that are subject to the derivatives clearing obligation in the EU will have to invest to set-up or upgrade their existing active account to meet the operational, resiliency and reporting requirements on day one and to design a control framework to satisfy representativeness expectations whilst absorbing potentially higher clearing costs. We expect the EU's current temporary equivalence for two UK CCPs, which expires in June 2025 to be extended until there is a notable shift of strategically important derivatives clearing from UK to EU CCPs.

Clearing is also in focus in the US where the deadline for clearing of cash and repo UST is looming but many firms are yet to make critical business decisions around their clearing strategy.[137] The clearing obligation will capture all members of the US FICC, including outside the US. These firms need to evaluate their current FICC memberships, current and target operating models and client relationships to decide if any restructuring or transfer of business activity is needed and, ultimately, whether the firm is willing and able to offer clearing services to clients. Firms must then ensure that they are operationally ready to clear all current and potential future in-scope trades, which may require a significant re-engineering of the existing infrastructure.

With the debate around CMU (part of the broader Savings and Investment Union) reignited in the EU some further policy movement may occur in securitisation regulation, post-trade infrastructure efficiency and the regulatory and supervisory ecosystem. However, we do not envisage concrete impacts during 2025.

Deepening the capital markets union to help guide the required financing flows should be our highest priority.

Frank Elderson, Member of the Executive Board of the ECB, November 2024[138]

Prepare for T+1 transition

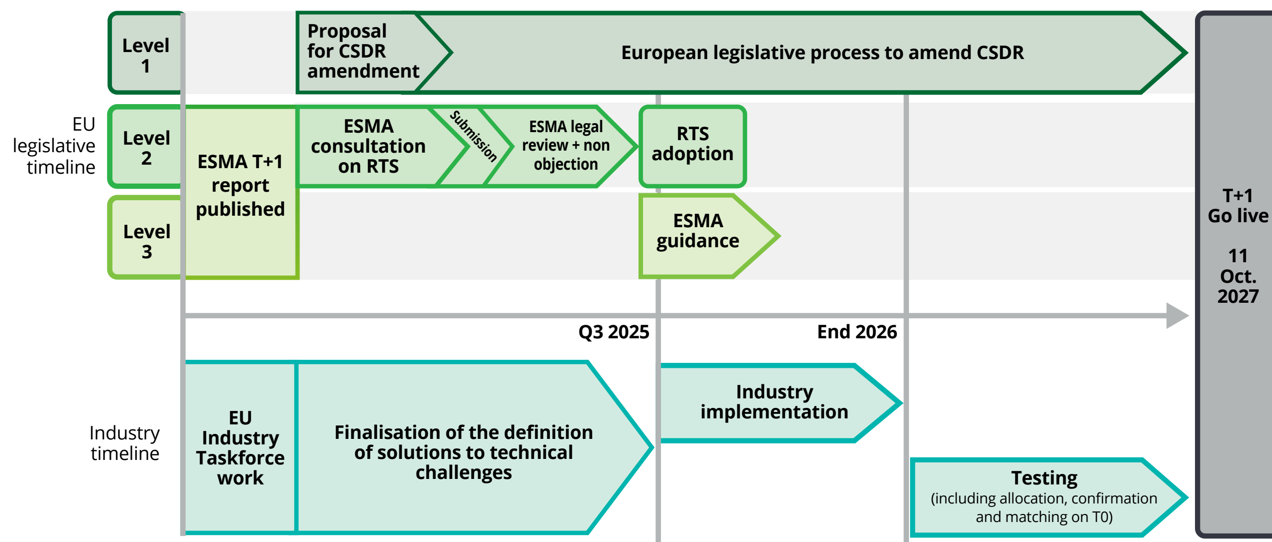
Regulators across the UK and the EU have now firmly endorsed settlement transition to T+1. The UK has committed to the transition by the end of 2027 and the EU is proposing a more precise date of 11 October 2027,[139] which should allow for pan-European alignment with the UK and Switzerland. Successful transition within this timeline will require the majority of budgeting, planning, program set-up and gap analysis to happen in 2025 with implementation in 2026 and testing in 2027.

T+1 transition is a massive, multi-year effort. It will require industry participants to assess and address changes across front, middle and back-office functions and systems, revise agreements with counterparties, clearing houses and CSDs, undertake significant process re-engineering exercises, re-design data and systems architectures, and ensure clients are engaged early enough to understand the changes required. Developing an effective governance structure to oversee the transition at the outset, conducting an impact analysis, agreeing budgets and allocating funding early will make for a smoother and more timely transition.

Investment banking

Out with the old, in with the new

Figure 14: proposed timeline for T+1 transition in the EU



Source: ESMA[140]

Firms that transitioned successfully to T+1 settlement in the US in May 2024 will still need to navigate the market infrastructure complexities and fragmentation in the EU, the challenges of illiquid currencies and EU and UK interconnectedness, as well as potentially higher failed settlement penalties.

Given a longer transition timeline compared to the US, firms in Europe have an opportunity to incorporate lessons learned from the US and approach the transition strategically to reduce their reliance on manual resourcing and tactical workarounds. A strategic approach will help firms to integrate the transition into other ongoing regulatory change programmes and identify adjacencies that may need re-calibrating, such as operational resilience impact tolerances or their risk appetite on CTPs.

The T+1 transition and other post-trade reforms will require firms to improve the accuracy of their data that feeds into settlement systems, transaction reporting and, in future, consolidated tapes in the UK and EU and the European Single Access Point mechanism. Supervisors will continue to put pressure on firms to improve the availability and accuracy of data. We expect supervisors to increase their supervision of the quality of all reported data and consider deficiencies in transaction reporting holistically, expecting firms to extrapolate remediation across all transaction reporting requirements.

Investment banking

Out with the old, in with the new

The quality of data and speed of data provision are also becoming more important for the functioning of future consolidated tapes. In order to allow the consolidated tape provider to comply with the requirement to disseminate data "as close to real time as technically possible", supervisors are likely to require much faster transmission of sufficiently accurate data. Firms will have to step up their data quality controls and potentially leverage newer technology, necessitating further investment into post-trade processes.

Keep an eye on risk management

Firms with operations in both the UK and EU, particularly where their EU operations are supervised by the ECB, will have to meet increasing supervisory expectations on booking models and related controls. Simply maintaining the *status quo* is not sufficient. Whilst optimising their European footprint, firms need to keep a close eye on their risk management practices in financial and non-financial risk, ensuring that no change diminishes the effectiveness of their existing risk management arrangements.

Supervisors in the UK and the EU will continue pushing firms to improve their understanding of market risks and counterparty risk exposures. To be able to identify and aggregate risk exposures and assess the concentration risk properly firms have to overcome difficulties of often fragmented systems in different business lines and legal entities. Once they have identified exposures comprehensively, firms need to establish and document an effective control and risk appetite framework specifically tailored for instances of more complex non-linear risks and fragmented risk management (e.g. split desks).

In designing an effective control framework supervisors expect firms to focus on preventative and automated trading controls, booking model controls, MI and oversight. As a starting point firms must remediate existing weaknesses in controls to avoid supervisory intervention and be able to make any further changes to their booking models.

In responding to increasing supervisory expectations, firms have an opportunity to identify and remediate gaps holistically front-to-back, starting from due diligence and onboarding processes and front office controls. Strategic solutions can be even more valuable if extrapolated to all business areas and product types.

Risk management also remains in focus with the seemingly inexorable rise of NBFIs. Not only are investment banks expected to step up their monitoring and management of exposures to NBFIs, but some of the large, integrated non-banking firms may experience an increase in supervisory scrutiny themselves. For now, there is no visibility of any additional tailored regulatory regime for these firms but given their importance for the functioning of the global capital markets, supervisors may start applying higher scrutiny to their risk management and controls.

Conclusion

Investment banks and capital markets firms face a complex set of challenges in 2025, requiring them to address some strategic questions about their European businesses and footprint, strengthen aspects of their risk management, lay the groundwork for some transformative changes in settlement and clearing and grapple with the nitty gritty of L2 implementation. In order to do all this well, firms will need to plan, budget and execute effectively, recognising that the demands on their regulatory and technology change resources will be particularly heavy.

Investment banking

Out with the old, in with the new

Key considerations for investment banks and capital markets firms:

- Finalise CRD6 impact assessment when L2 details are confirmed and start defining the strategy for servicing EU clients, to allow time for legal entity changes, staffing adjustments, regulatory applications and smooth client transitions in time for January 2027 when CRD6 provisions for TCBs and cross-border services will apply.
- Ensure operational and resiliency preparedness for EU active account supported by a dedicated controls framework.
- Evaluate current business strategy and client expectations around UST clearing and ensure operational readiness.
- Develop strategic solutions for smooth and timely T+1 transition, focusing on automation.
- Focus on data quality controls and speed of data provision in light of post-trade transparency reforms.
- Elevate risk management standards around counterparty credit risk, risk culture, front office controls, MI and oversight by identifying gaps front-to-back and remediating them across all business areas and product types.

General insurance

Risk management to the test

Retail conduct will dominate the regulatory agenda for the UK GI sector this year. The FCA has intensified efforts to enforce the Consumer Duty (the Duty) and put pressure on the GI retail sector to address long-standing concerns around product oversight, governance, good customer outcomes and value.

The FCA's market study on premium finance, its various reviews on the motor insurance sector (claims handling and motor business model) and the potential wider implications from the Supreme Court ruling on motor finance could also open insurers up to challenge and review of previous common practices in their personal lines business. There is also a growing concern from prudential regulators around the commercial GI sector's financial resilience to emerging risks. Heightened geopolitical, cyber and climate-related risks will make improving overall exposure management capabilities paramount for commercial GI firms, whilst maintaining strong underwriting discipline.

Risk management can help firms address these challenges. **The true test for GI firms this year will be whether their risk function can be increasingly business, tech and digital savvy and their overall risk management capability can respond effectively to a rapidly evolving risk landscape, while strengthening their processes for improving and monitoring customer outcomes.** Being able to rely on robust data will be key to demonstrate progress to supervisors and also to gain commercial advantage in a highly competitive market. Equally, GI firms are increasingly aware of the intrinsic value of their data and the need for a risk-intelligent culture to gain a competitive edge in a highly competitive market.

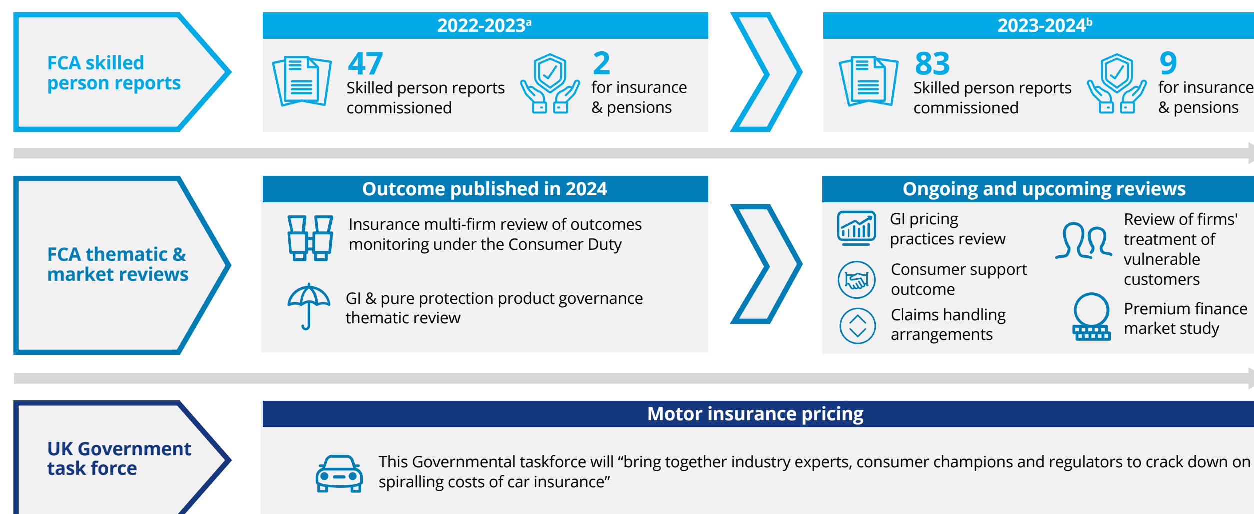
Conduct regulation: raising the bar

UK retail GI firms have experienced intense supervisory scrutiny under the Duty (see Figure 15). We expect this trend to continue into 2025, both in the UK and some EU countries.

General insurance

Risk management to the test

Figure 15: increasing FCA scrutiny of insurers



a, Source: FCA – Data from 31/03/22 to 31/03/23 b, Source: FCA – Data from 31/03/23 to 31/03/24
Source: Deloitte, FCA and UK Government website[141]

The quality of outcomes monitoring (especially for vulnerable customers) has proved particularly challenging. There is a clear gap between the FCA's expectations on evidencing Duty compliance and firms' capabilities to do so.[142] Developing a robust Duty data framework will play a significant part in addressing this. Insurers need to review their current outcomes monitoring frameworks to identify and address weaknesses – whether relating to data granularity, metrics, or interpretation. Firms should demonstrate to the FCA that they have effective measures in place to identify issues and the means to take decisive action to improve customer outcomes where required.

Many insurers have been running Duty programmes for two years or more – by now at significant cost. **Now is the time to consider what actions are needed to move towards a sustainable compliance framework.** Our view is that harnessing technology, including AI where suitable, and coordinating efforts across the market are essential to meet the enhanced consumer protection requirements under the Duty. In the near future we expect to see the emergence of AI Agents to monitor and anticipate areas of customer harm and enable early action based on scenarios where products and services do not perform as expected.

Last autumn the FCA launched its premium finance market study on home and motor insurance products.[143] This coincided with a larger review of motor insurance business models and the Government's initiative to set up a taskforce to consider how to tackle motor insurance premium inflation. In addition, commission-related practices are under the spotlight following the Court of Appeal's ruling in October 2024 on motor finance discretionary commission arrangements. The Supreme Court is now hearing an appeal against the Court of Appeal's judgment.[144] The judgement could

raise questions over the fairness of commission practices beyond motor finance and prompt a wider review of other practices. Ahead of the Supreme Court ruling later in 2025, insurers should assess their potential exposure and consider reviewing their processes to mitigate risks.

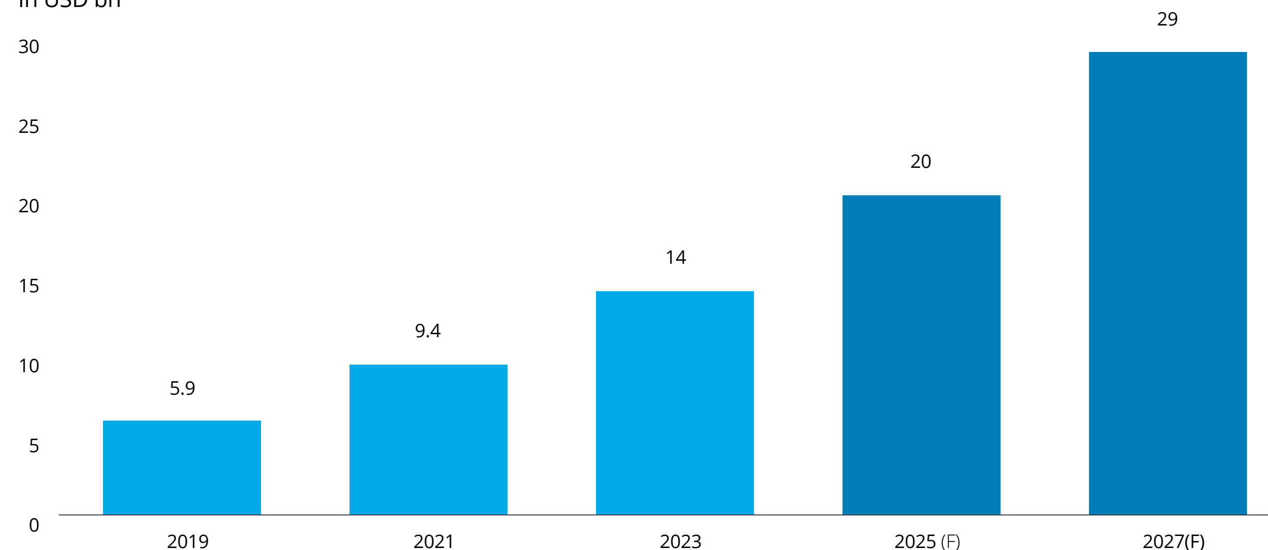
There is also growing interest from international regulators in consumer protection issues. Monitoring consumer risk and increasing levels of consumer protection will be a key focus area for the IAIS over the next four years and its recent consultation on the fair treatment for diverse consumersemphasises the importance it is placing on protecting those that may be in vulnerable circumstances.[145,146] Last year, the CBI consulted on a review of its Consumer Protection Code,[147] with a focus on outcomes and the customers' best interest rule, effectively moving closer to the spirit of the Duty regime in the UK. Meanwhile, EIOPA continues to focus on value for money issues and inconsistency of compliance with the IDD's Product Oversight and Governance rules.[148] **If we have learnt anything from implementing the Duty in the UK, it is that EU insurers will benefit from considering whether their current conduct data frameworks are fit for purpose to provide evidence of outcomes and in particular the treatment of those in vulnerable circumstances.**

Risk management: evolving to meet the challenge of new risks

The commercial GI market faces increasing prudential pressures, with new types of risks and variations of existing ones – including for example different types of climate risks, geopolitical and cyber underwriting risk. Improving overall risk management, modelling and data capture capabilities for these risks will alleviate regulatory concerns and give firms a commercial advantage as they will be better able to anticipate potential losses and tailor price and products accordingly. The global cyber insurance market is expected to reach USD 29 bn by 2027

Figure 16: global cyber insurance market size from 2019 to 2023 and 2027 forecast

In USD bn



Source: Statista[150]

General insurance

Risk management to the test

– demonstrating an ever-growing demand due to the increasing prevalence of cyber risks for SMEs in particular (see Figure 16). However, most cyber incidents remain uninsured. In fact, access to cyber insurance is a regulatory concern in the EU in particular, with EIOPA having recently collected views through a survey to improve its understanding of the availability and affordability of cyber insurance for SMEs.[149]

The story is similar when it comes to climate risk, with only 25% of the total losses caused by extreme weather – and climate-related events across Europe covered by insurance.[151] Improving the ability to identify, anticipate and manage these risks (beyond simple exclusions) is therefore a commercial and regulatory imperative.

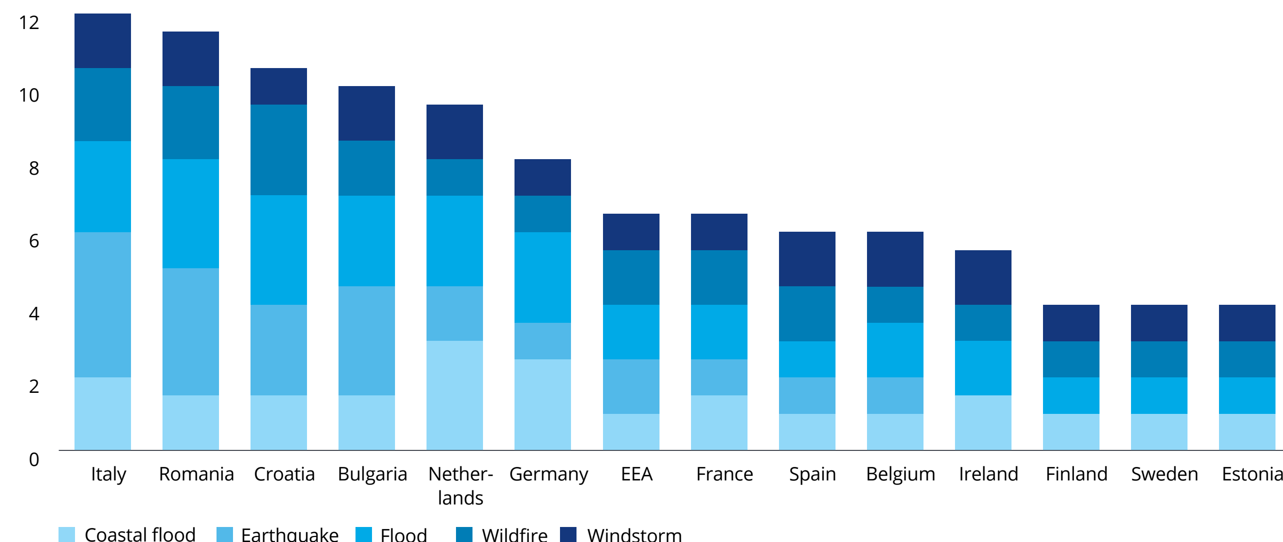
As a result of these forces, we are of the view that insurers need to maintain a strong risk and control framework including underwriting discipline and top-notch data capabilities if they are to make the most of the opportunities generated by the drive to narrow the insurance protection gap whilst demonstrating to their supervisor that they are capable on managing these risks.

EU and UK regulators are acutely aware of insurers' growing exposures and are increasingly carrying out industry-wide stress and scenario testing. For example, 32% of regulators that responded to an IAIS survey indicated that they are carrying out insurance stress tests focused on cyber risk.[153] EIOPA tested 48 EU insurers' exposure to geopolitical tensions last year in its EU-wide stress test and found that the overall European insurance industry is well capitalised.[154] However, the stress test results indicated the importance of ample availability of liquid assets to meet the liquidity needs in the geopolitical scenario.

UK insurers will experience ongoing pressure from the PRA to improve their risk management capabilities, including their ability to respond to adverse shocks (such as the crystallisation of geopolitical risks). When considering how to enhance their capabilities, firms

Figure 17: catastrophe insurance protection gap scores in the EU – per country

EIOPA protection gap score per country



Source: EIOPA[152] – technical information and EIOPA methodology available here

General insurance

Risk management to the test

should look ahead to the PRA's DyGIST in May 2026, which will be a significant change from previous iterations. We expect DyGIST to test how firms escalate issues up their governance chains, how to adjust risk appetite in response to rapidly-developing events and the feasibility of management actions in stressed market conditions. GI firms will also be able to learn some lessons from the LIST 2025 and may wish to reflect on feedback from previous stress tests (e.g. regarding board involvement and feasibility of management actions) in a "live" exercise. There are likely to be efficiencies for firms from anticipating the demands that DyGIST will place on them and including them in any enhancements they are making to their risk management capabilities in 2025.

Conclusion

Looking ahead, GI firms will have some difficult choices to make around **how to invest their time and resources to satisfy regulators while also addressing commercial challenges.** In this vein, retail GI firms might want to think about investing in a longer-term and sustainable Duty framework, harnessing new technology and data capabilities.

Similarly, commercial GI firms that want to take advantage of the opportunities in the changing risk landscape should work on improving models and stress-testing capabilities as well as overall risk management frameworks. Enhancing capabilities in these areas will help insurers capture the opportunities the new risks will bring.

Key considerations for general insurers:

- Develop a robust Duty data framework, using technological solutions where available.
- Revisit the risk and control framework and processes for stress and scenario testing, focusing on how stress test results interact with risk appetite, the feasibility of proposed management actions, and associated governance arrangements.
- Enhance data gathering, aggregation, monitoring and modelling techniques, and ensure systems and reporting are up-to-date and adjusted for new risk types.
- Assess impact of motor finance Supreme Court ruling on business practices and consider reviewing processes around commission disclosures to mitigate risks.

Life insurance

Opportunities require wise risk and regulatory management

Financing growth is a primary objective and a key driver of policy and reform agendas for both the UK Government and the European Commission for 2025 and beyond. One of HMT's stated objectives of the SUK reforms is to allow life insurers to invest in a wider range of "productive" assets that could finance UK economic growth.[155]

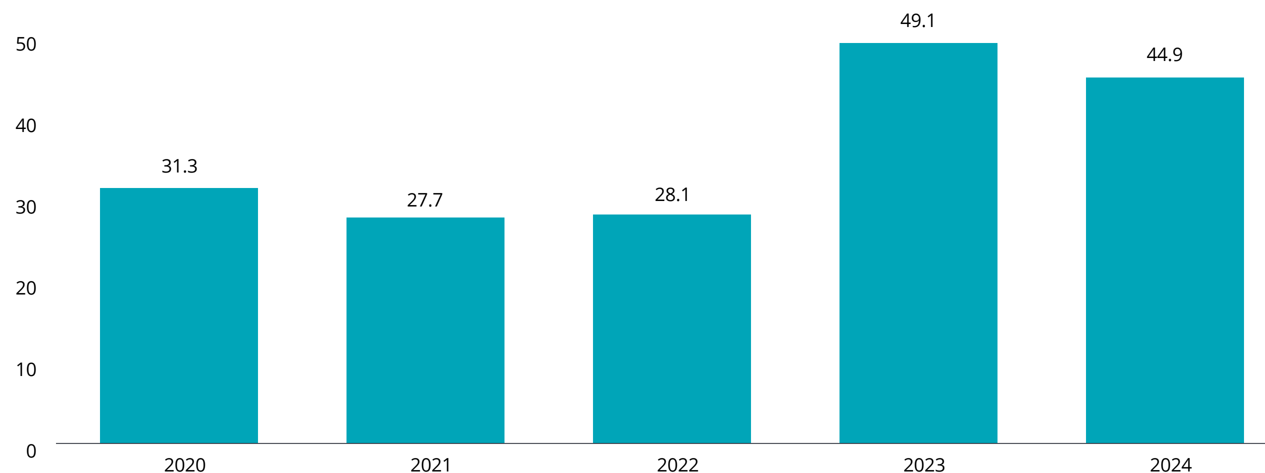
At the same time, and notwithstanding their secondary competitiveness and growth objectives, regulators need to give primacy to their financial soundness and policyholder protection objectives. In the UK, this interplay has resulted in one of the busiest agendas for life insurers on record since the implementation of Solvency II.

A daunting implementation agenda for BPA firms

The changes in train are not dominated by a single regulatory file; instead life insurers, especially those in the BPA market, are:

- Continuing the implementation of SUK reforms including exploring expanding the range of assets that could be eligible for inclusion in the MA portfolio.
- Preparing to submit the first MA attestation to the PRA.
- Preparing to implement the new PRA's liquidity reporting framework.
- Grappling with new expectations on Funded Re arrangements.
- Running the PRA's LIST25. This will include individual firms' results being published towards the end of this year.

Figure 18: volume of BPA transactions since 2020
in GBP bn



Source: data reported from Reuters and Pension Age[159]

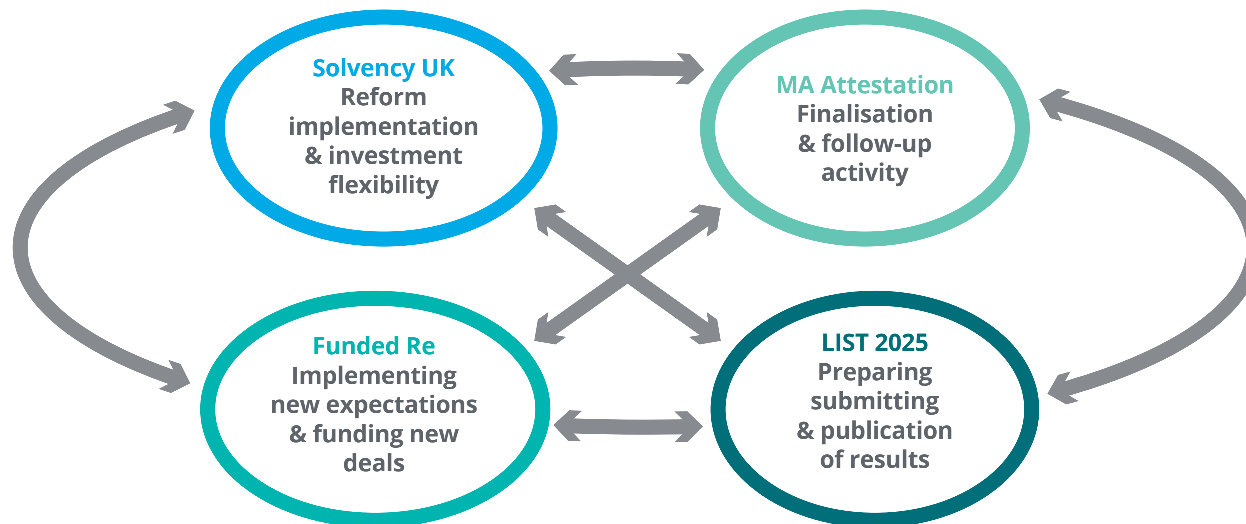
Life insurance

Opportunities require wise risk and regulatory management

This is a daunting homework list but four factors make it even more challenging than it might first appear:

- **First, all initiatives are deeply interconnected and will require use of similar resources in actuarial, financial risk and modelling functions.** For example, as part of SUK implementation, firms might choose to submit MA applications for assets with highly predictable cashflows. These in turn will need to be carefully reflected in the MA attestation and in the stress testing exercise. Similarly, Funded Re and reinsurance re-capture scenarios that are part of LIST25 are also connected. This means that insurers and their boards need to understand the cumulative operational impact of these changes and ensure they will have enough resources through the year to meet the deadlines.

Figure 19: life insurers should tackle regulatory requirements in the round



- **Second, we expect demand for BPA transactions to remain high this year resulting in several new entrants to the sector.** We are also seeing higher year-on-year annuity sales in the open market (FCA reported a 39% increase in the number of annuity policies sold to the end of March 2024)[156] requiring more capital or reinsurance together with greater operational capacity to absorb the supply. This is likely to put increased competitive pressure on BPA incumbents.

- **Third, the increased investment flexibility brought in by SUK reform remains largely untested.** Our view is that, in this very competitive market, firms will need better asset origination expertise to unlock the potential of the reforms and protect or increase their commercial success. Final Basel III banking rules could be a catalyst here. UK and EU banks are seeing some portfolios becoming more capital intensive as the new rules land, and risk transfers of these portfolios are likely to be part of their response. It remains to be seen whether the conditions are right for such supply to find demand in the life insurance sector. But banks and life insurers alike should be asking themselves this question.

Life insurance

Opportunities require wise risk and regulatory management

- **Last, we expect risk functions to find the year ahead particularly challenging.** Risk teams sit right at the centre of the tension between managing risk and meeting commercial objectives. The best risk teams will be able to demonstrate to the PRA that they have the right frameworks, expertise and models to manage the risks of this complex business. We are of the view that investing in building and maintaining a robust and effective risk function could be the key to continued commercial success in the market.

The DC pensions market will also undergo material changes in the year ahead. The Government is set to complete its Pensions Investment Review and publish a Pensions Bill in the first half of this year focusing on consolidation of pension schemes.[157] Even in the absence of these changes, the DC market is set to grow significantly over the next few years, putting it at the centre of attention for life insurers, regulators and Government. It is expected that assets under management in DC pension pots will reach GBP 800 bn by 2030.[158]

In the past year, both the current UK Government and European Commission reports have proposed that insurance investment in key areas of the economy should be a key component of enabling much needed economic growth and a way of financing the green transition.[160]

Consumer protection challenges persist

In parallel, under the Consumer Duty (the Duty) in the UK, insurers must deliver good outcomes for consumers and enable them to pursue their financial objectives. **In the DC market, making good on these principles can be particularly challenging due to the complexity and long-term nature of pension products, low levels of customer engagement and financial literacy and limited take-up of advice.**

Insurers will need to be very careful when balancing the pressures to invest in certain types of assets against delivering good outcomes and value for money for policyholders.[161] These two forces may sometimes align but life insurers should build the systems and controls to identify when they do not. Insurers should ensure they inform policyholders of any risks associated with investments to avoid foreseeable harm.

Life insurance

Opportunities require wise risk and regulatory management

The FCA has been working on solutions to improve retirement and retail investment outcomes for more than a year now through the Advice Guidance Boundary review. Late in 2024 the FCA consulted without rules on proposals in the retirement market centred around developing a targeted support model and simplified advice. 2025 will be a crucial year in the development of this new advice/guidance model with further consultation with draft rules expected in H1 2025.

Finally, since August 2024 firms have been fully under the scope of the Duty and are ready and willing to move Duty compliance into business as usual. **However, we expect the FCA to focus on Duty implementation in the life insurance sector.** As an example, over the last year the FCA applied intense scrutiny to the general insurance sector with interventions including thematic reviews and skilled persons reports focusing on evidencing customer outcomes and compliance with product oversight and governance rules.

In the case of life insurers, we think it is likely that the treatment of vulnerable customers and closed product portfolios will attract supervisory attention in the year ahead.[162] **Many life insurers are still grappling with the sheer volume of products and their variants subject to the Duty,[163] resulting in real operational challenges.** To solve this problem, some firms have embarked on substantial product simplification programmes that are still ongoing due to the complex nature of the implementation required. Prioritising the ongoing work on closed product portfolios is a must. It is also crucial that any decisions regarding difficult-to-reach customers should demonstrate the firm is acting fairly.

Firms should also apply the lessons from their work on closed products to the design of current and new products. The emphasis of the Duty on designing products that meet the changing needs of customers is pointing towards offering a range of products and options, but too much variety may come back to bite firms further down the track. Designing products that firms can review regularly and portfolios that they can easily consolidate is key for firms that want to future-proof their portfolio in a Duty environment.

Life insurance

Opportunities require wise risk and regulatory management

Conclusion

The year ahead will bring a heady mix of risks and opportunities to the life insurance sector. Implementing regulatory change such as SUK, LIST 2025 and Funded Re rules will be top of the BPA market agenda. The Duty journey is not yet over either, with the FCA likely to challenge firms in relation to closed products and their treatment of vulnerable customers. Boards should consider if their firm has sufficient resources of the right calibre to meet regulatory expectations. Of equal importance will be for firms to assess the opportunities brought on by regulatory change, be it the ability to invest in a wider range of assets, the implications of pension reform or the review of the Advice Guidance boundary opening the doors to a new advice model. Both the DC and BPA markets are set to grow significantly over the next five years; this means that setting the right regulatory strategy can play a big role in making a success of the opportunities ahead.

Key considerations for life insurers

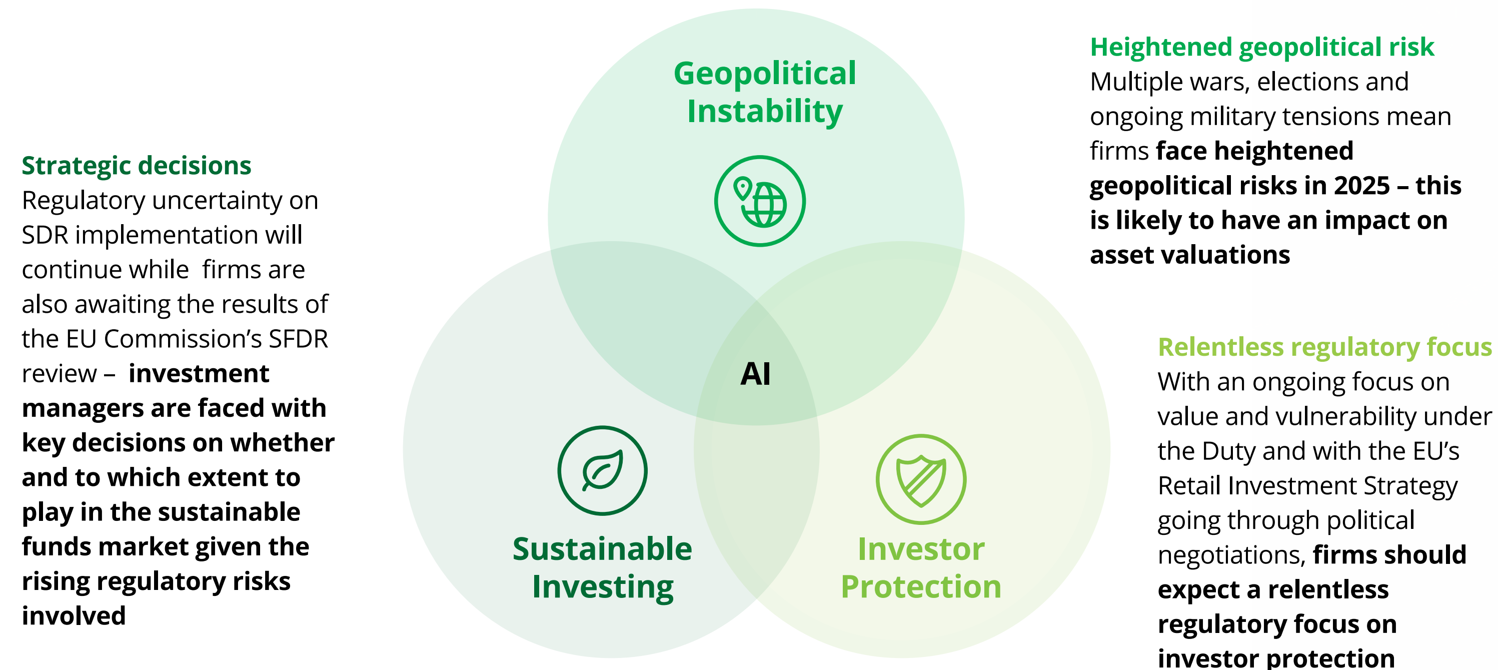
- Assess inter-connectedness of work to implement Funded Re/SUK and stress testing to ensure enough resources/time are available.
- Review the impact of new regulatory requirements on the firm's capacity to complete new deals and compete in the BPA market.
- Empower risk teams to ensure they can provide the necessary challenge to the business and demonstrate to the PRA high quality risk management.
- Dedicate appropriate resource to finalise Duty programmes, especially in relation to closed products and the treatment of vulnerable customers.
- Review current product development and design practices in light of lessons from Duty implementation: designing for change and adaptability is a must.

Investment management and wealth

A delicate balance of risks and opportunities

The year ahead brings a unique combination of challenges – and with them some opportunities – (see Figure 20 below) for the investment management industry:

Figure 20: the challenges and opportunities faced by the investment management industry this year



Strategic decisions
Regulatory uncertainty on SDR implementation will continue while firms are also awaiting the results of the EU Commission's SFDR review – **investment managers are faced with key decisions on whether and to which extent to play in the sustainable funds market given the rising regulatory risks involved**

Heightened geopolitical risk
Multiple wars, elections and ongoing military tensions mean firms **face heightened geopolitical risks in 2025 – this is likely to have an impact on asset valuations**

Relentless regulatory focus
With an ongoing focus on value and vulnerability under the Duty and with the EU's Retail Investment Strategy going through political negotiations, **firms should expect a relentless regulatory focus on investor protection**

AI, if used appropriately, can be the common thread that allows firms to navigate these risks and perform more efficiently e.g. AI can drive better customer outcomes by mining customer related data, can be used for ESG regulatory reporting or fund labelling or for market insights at times of heightened geopolitical risk. In parallel, firms will need to ensure AI use is compliant with all existing regulations and does not result in inadvertent customer harm.

Investment management and wealth

A delicate balance of risks and opportunities

Consumer protection: a relentless focus

In the UK the implementation of the Consumer Duty (the Duty) has created a new landscape where firms need to demonstrate they are delivering good outcomes for their customers. Firms need to focus on two areas: the treatment of vulnerable customers and fair value assessments for products.

The FCA has stressed it will focus on the protection of customers in vulnerable circumstances and has made clear that the wealth management industry continues to be an outlier.[164] The FCA has stated that firms need to be more pro-active to recognise vulnerability and address potential harm. In our view, board members and senior executives of wealth management firms should challenge the *status quo* to ensure the firm's vulnerable customer journey is high on the agenda.

Firms should consider scenarios where vulnerable customers are likely to receive poor outcomes, design and implement ways to support them effectively, and empower staff to adapt processes where appropriate. Firms also need to determine how to evidence they are delivering fair outcomes to vulnerable customers and, more importantly, what actions they have taken to remedy instances where they have fallen short.

On the other hand, asset managers with no direct contact with end clients should also focus on how to tackle vulnerability in an environment where data sharing between manufacturers and distributors is at various levels of maturity. At the very least, they should seek to understand the level of maturity of their distributors' treatment of vulnerable customers and ensure that additional support is clearly signposted on their websites and marketing materials.

The other key area of regulatory focus within consumer protection is product value. Asset managers have five years of experience under their belt since fund value assessments were implemented in 2019 (under COLL rules).[165] This is not the case for wealth managers, which have only been subject to product value rules since July 2023. We believe there are long-standing practices of UK wealth and advice firms that may affect product value and attract supervisory scrutiny in 2025. Examples include: significant fee variations for the same service, material use of in-house funds in vertically integrated firms, varied levels of services for smaller clients and ongoing advice charges without appropriate records of the relevant service being delivered. Firms need to assess whether these practices can be justified in a fair value framework.

As a starting point, firms should understand the degree to which their business model relies on these practices and the impact of phasing them out or reducing their use if they cannot justify them. Firms that identify commercial practices that carry greater conduct risk and assess what they mean for their business and strategy will be better able to respond to scrutiny.

Value for money is also an increasing concern for EU policymakers. Political agreement on the EU's RIS due in 2025 – it will set out value assessment requirements for asset managers and distributors. In our view, firms operating in the EU should engage boards early in the value assessment process so that they are able to provide challenge and insights to analyse the commercial and strategic implications of the new regime around products, pricing and distribution practices.

The regulatory backdrop is one of increasing expectations and demands on firms to deliver good outcomes for retail customers which will increase operational and compliance costs. However, the Government and FCA are also looking to narrow the advice gap in the retail investments sector and provide confidence to those consumers who would be better off investing to do so.

Investment management and wealth

A delicate balance of risks and opportunities

Last year, the FCA published a consultation (without rules) on a Targeted Support model for pensions,[166] which could open the door to a new advice model. This is aligned to the Government's growth mission and the need for increased risk taking to achieve it. We expect a similar model to be proposed in a further consultation from the FCA and HMT covering retail investment in the first half of 2025. **To make the most of this opportunity, firms will need to invest in technology and innovation to recommend appropriate products to the right customer segments.** But first, getting the basics of consumer protection right around product value and vulnerable customers is a must to provide a solid foundation on which to build the infrastructure to attract new customers under the new Targeted Support model.

Clearly, **having the right data will be crucial for firms to demonstrate they are delivering good customer outcomes.** The FCA's increasing number of data requests over the last year is evidence of the need for high quality conduct data in the sector to manage increasing regulatory expectations.

Sustainable finance: opportunity or minefield?

Both asset and wealth managers face strategic questions about whether to participate in the sustainable funds/products market where increasing regulatory requirements and unpredictable investment performance trends are posing new challenges. As per Deloitte's recent SDR survey report,[167] asset managers continue to face implementation challenges around choosing evidence-based standards for sustainability. This has led to some firms not fully disclosing a product's sustainability characteristics ("greenhushing") as a way of managing the risks of disclosure. Firms which understand a product's sustainability characteristics will need to satisfy themselves that the resulting disclosure is fair, clear and not misleading.

A lack of appropriate sustainability-related KPIs continues to be a significant obstacle to measuring and reporting sustainability performance, and firms wanting to market SDR labelled products or products with sustainability-related terms in their names should first consider whether they have access to robust KPIs. The FCA intends to extend the SDR to wealth and other portfolio managers – but firms are concerned that the extended rules do not fully account for the nuances of wealth management that may result in detriment to clients. For example, it is not clear how a label would work for bespoke portfolios where the asset allocation may have to change frequently to accommodate clients' circumstances.

Firms should focus on ensuring a consistent understanding of sustainability-related terms in-house, upskilling risk and control functions, and having strong governance frameworks that can support SDR labels and the use of sustainability-related terms in fund names.

Greenwashing risk is also an ongoing threat to firms and is exacerbated by the complexity of disclosures and slow progress on regulations for ESG ratings and data. In the UK, the FCA's anti-greenwashing rule took effect in May 2024 and has led to firms carrying out large scale reviews of documentation. Although the FCA has been largely silent on the rule in its public statements since May, we expect this to change in 2025, so firms should be ready to respond to supervisory scrutiny.

Investment management and wealth

A delicate balance of risks and opportunities

For example, firms should be able to articulate where greenwashing risk sits in their existing risk framework and why, identify whether and how their green products and firm-level claims could be open to greenwashing claims, and ensure that end-to-end controls are in place that include design, marketing and performance reporting of sustainable funds and products.

Geopolitical instability: navigating an unpredictable world

In the year ahead firms should consider the impact of heightened geopolitical risk on their asset valuation processes and controls, and potential harm to retail investors driven by short-term volatility in investment markets. In August 2024, the ESAs published a report highlighting the uncertainty financial markets face due to multiple wars, elections, and ongoing military tensions.[168] We expect supervisors across the EU and UK to keep a watchful eye on how firms treat consumers in stressed market conditions. Where firms expect such events to affect the valuation of funds or portfolios, they should consider how to develop effective communications to reduce the harm resulting from retail customers taking poorly considered decisions in response to market volatility.

Limited progress on global nature- and climate-related goals at COP16 and COP29 respectively and **changing Government attitudes towards supporting the transition to net zero following elections in several countries have made the outlook for firms offering sustainable investments more complex and difficult to navigate.**

In the past six months, differences between individual countries' strategies for tackling (or not) the sustainability transition have arguably become starker. This has made it more difficult for firms offering or managing sustainable investments to navigate an increasingly complex landscape. Firms will need to consider how to satisfy ongoing demand across countries that have either a supportive or unsupportive policy environment, and adapt their communications, marketing and engagement strategies accordingly. Firms should pro-actively discuss and, if required, agree changes in investment mandates to ensure investment strategies remain fit for purpose and they meet their fiduciary duties effectively.

Making the most of a challenging period

We expect these challenges to put pressure on firms' ability to maintain profit margins while managing risk. Many firms are starting to explore how advances in technology such as AI can be harnessed to generate growth, create operational efficiencies and optimise their cost base.[169] For example, AI can be used to facilitate the collection and analysis of suitability information, demonstrate the delivery of good customer outcomes via communications mining and facilitate ESG reporting.

To make the most of these opportunities, firms will need to build the necessary guardrails to ensure new technology deployment does not result in harm to consumers and can be monitored over time. Such guardrails need to facilitate compliance with existing regulations as both the FCA and ESMA set out in detail in recent months.[170,171]

Investment management and wealth

A delicate balance of risks and opportunities

Conclusion

With the increasing focus on consumer protection, significant questions hanging over complexity around SDR, and ongoing geopolitical tensions driving increased volatility, firms face a steep risk and reward curve in 2025. Assessing the risks and opportunities clearly and robustly is a must for charting a successful pathway through the challenges.

Key considerations for investment managers

- Challenge the *status quo* on the firm's work on vulnerable customers so far and consider tangible actions to meet enhanced regulatory expectations.
- Assess from a commercial point of view the degree of reliance on any practices that carry material conduct risk and consider the impact on the firm's future product and distribution strategy.
- For sustainable funds, consider how to improve access to robust and credible sustainability KPIs so the firm can expand in this area while managing regulatory and greenwashing risks effectively.
- Review asset valuation processes and customer communication strategies in the event of significant market volatility due to geopolitical events.
- For new and existing AI use cases, carry out an analysis to determine which existing regulations might apply and how to develop guardrails to avoid customer harm.

Private market investments

Growth brings new challenges and responsibilities

The private market investments sector has grown rapidly in recent years. For example, in the Euro area, compound annual growth rates between 2010 and 2023 stand at 10% for private equity funds,[172] 14% for private credit funds and 12% for real asset funds. In the UK assets under management in private markets funds has almost trebled in the decade to 2023.[173]

Governments and regulators are seeking to improve access to private markets in order to promote investment in long-term, productive assets. For example, in the EU, ELTIF fund launches have accelerated since the introduction of ELTIF II, the AIFMD II harmonised loan origination fund regime aims to boost cross-border lending within the EU, and the Letta report calls for a clear strategy to bolster private equity and venture capital.[174,175] In the UK, the National Wealth Fund aims to crowd private investment into clean energy and growth industries primarily through private assets, the Pensions Regulator has issued guidance encouraging pension schemes to consider investing in private markets following the Mansion House Compact,[176] and upcoming reforms to the AIFMD and the retail disclosure regime are intended to make them more proportionate for alternative managers and investment trusts.[177,178]

As the market grows, it is attracting greater scrutiny from supervisors. **Key concerns include potential systemic risk, especially in light of interconnectedness between private markets and the banking sector, and consumer protection as the sector expands into retail markets.** The sector is seeing an increase in both direct supervisory engagement and indirect scrutiny (e.g. via banking supervisors probing banks' interactions with the sector). To respond effectively, firms need to ensure that investment in their risk management frameworks and operational capability keeps pace with the growth of their investment teams. This includes more formalised processes and controls, better use of technology and data, and strong governance.

Private market investments

Growth brings new challenges and responsibilities

Valuation

Valuation is a key supervisory focus area. In the UK, the FCA is conducting a multi-firm review of valuation governance of private assets, while in the EU there is increased attention since ESMA's valuation review highlighted particular risks for private equity and real estate assets.[179]

Of particular concern is that subjectivity and conflicts of interest in the valuation process could result in inaccurate valuations. While values are ultimately crystallised on exit, before then inflated values can support borrowing, avoid covenant breaches, support fund performance (and potentially annual performance fees), and result in unfair prices for any investors entering or exiting the fund during its lifecycle.

We think that key elements to a strong valuation process include having the right level of resources and expertise, using high-quality data as inputs, robust challenge at key stages of the process especially around any key assumptions and judgements made (for example, if a set of comparable companies is used, how these have been chosen), **and clear documentation of why decisions have been made.** As recently highlighted by the CSSF firms also need robust controls to identify and prevent errors in the process.[180]

Where firms do not have the right level of resources and expertise in-house, they may use a third-party valuer. When doing so, they need to ensure that the information they provide to the valuer is complete and accurate, that they are satisfied with the robustness of the methodology, and that they review the outputs carefully before approving the valuations.

Where firms with a minority stake in a company have limited information about it, they may be able to find out how a co-investor has valued it. However, they are still responsible for their own valuation. When making new investments, we think firms should consider whether they have sufficient information rights to enable a robust valuation. If firms cannot negotiate better information rights, they should consider whether there is sufficient public information available, and how any valuation uncertainty feeds into their investment risk assessment and overall risk appetite.

> We need transparency – particularly on data – to build a system-wide picture of risks, and to be clear about who owns them.
>
> **Nikhil Rathi, CEO of FCA, October 2024[182]**

In our view, firms should review their valuation committee to ensure that responsibilities are clearly defined and there is sufficient independence and senior-level expertise. We think that governance committees should ensure that the assumptions behind valuation models are robust and periodically back-tested. They should also understand how valuation models may interact with other models used across the business (e.g. models used for credit risk underwriting may provide inputs into valuation models) and the limitations of these models. The PRA's expectations on model risk management[181] – while not directly applicable – contain some useful principles for firms looking to improve their valuation model governance.

Private market investments

Growth brings new challenges and responsibilities

Systemic risk

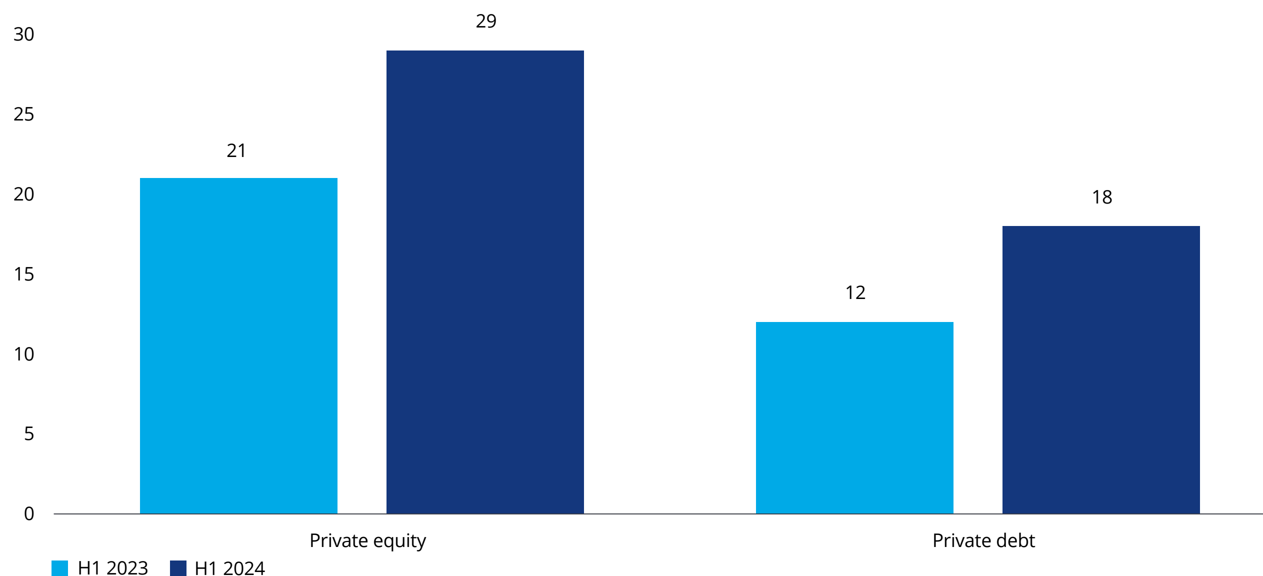
Supervisors are increasingly focusing on whether and how private market investments could cause systemic risk, especially where there are high levels of leverage, concentration and interconnectedness. The current high interest rate environment is leading to difficulty exiting investments, which has resulted in some firms taking on further leverage to refinance their investments or fund dividend payments. Regulatory and supervisory interest in the sector fits into a broader focus on the risks posed by NBFI.

In the EU, the new AIFMD II regime imposes leverage limits on loan origination funds, the ESA have been assessing how private credit could contribute to systemic risk,[183] and the Commission is consulting on the adequacy of macro-prudential policies for NBFI.[184] In the UK, the BoE has been assessing how vulnerabilities in private equity may affect the wider financial system, while the PRA has been focusing on the adequacy of banks' risk management frameworks governing their private-equity-linked financing businesses –[185,186] which may result in banks asking private equity firms to provide more information to help them understand interlinkages and risk correlations between different transactions. The FSB has also been focusing on liquidity preparedness for margin and collateral calls,[187] which is particularly relevant to firms with highly leveraged positions.

We think that private markets firms are likely to see increased supervisory scrutiny of their risk management frameworks and tools, including stress testing, risk limits, early warning signals as a stress event approaches, and increased governance in times of stress.

We think that private credit managers should also examine the robustness of their credit risk management and underwriting standards, which the BoE notes have weakened over the past few years.[188] In our view, some firms would also benefit from more automated and streamlined processes to monitor their portfolios, so that they can identify financing issues and work with borrowers before these become more significant.

Figure 21: intermediaries allocating to private markets (%)



Source: Broadridge[189]

Private market investments

Growth brings new challenges and responsibilities

Private markets firms will also need robust data governance to ensure good data quality to enable them to manage risks effectively. In addition, we expect private markets firms to receive more data requests from supervisors, including for exercises such as the BoE's system-wide exploratory scenario.

Private markets firms may also face tighter credit conditions from banks once the final Basel III reforms are implemented (effective from 2025 in the EU and expected from 2026 in the UK) as some types of lending may incur higher capital charges – they could engage with banks to understand whether there are any actions that they can take to mitigate this (e.g. having the debt rated).

Retail investment

There is increasing retail participation in private markets. For example, a survey of 800 European fund selectors found that respondents (including wealth managers) significantly increased their allocation to private equity and debt between H1 2023 and H1 2024 (see Figure 21), and also planned to increase their adoption of private equity over the next year.

Policymakers are seeking to encourage retail investment, for example through reforms to ELTIFs, LTAFs and the pensions market. In 2025, the European Commission is expected to make proposals to channel more EU savings and pension investments into the EU economy,[190] which could include incentives to invest in ELTIFs.[191] Where firms expand into retail markets, they will need to consider carefully how they meet retail investor protection rules, including MiFID II and, in the UK, the Consumer Duty.

Expanding into retail markets will have significant implications for product design. For example, retail investors may prefer an open-ended fund – firms will need to think carefully about redemption terms to ensure they can manage liquidity effectively, and make clear to retail investors how liquidity management tools could delay the return of their monies. Offering liquidity during the fund's lifecycle will also increase the importance of accurate asset valuations. In addition, UK managers will need to demonstrate that their fund provides value to retail investors in line with the FCA's focus on long-term value.

Asset managers will also need to consider their distribution strategy and build new relationships with distributors. We think firms should pay particular attention to defining an appropriate target market, working with distributors to ensure that the product is reaching the intended target market, and ensuring that their product information is clear and understandable to retail investors (especially regarding the risks and charges).

Private market investments

Growth brings new challenges and responsibilities

Conclusion

While Governments and regulators are keen to facilitate investment in long-term, productive assets, they also want to ensure that firms have robust controls in place to mitigate risks to the market and to consumers. We think firms should invest in their risk management and operational capabilities, including their use of technology and data.

Key considerations for firms

- Firms need to invest sufficiently in their risk management frameworks and operational capabilities. This includes more formalised processes and controls, better use of technology and data, and strong governance.
- Firms should review their valuation governance to ensure that they have the right level of resources and expertise, high-quality data, robust challenge and clear documentation.
- To mitigate against potential systemic risk, firms need robust risk management frameworks and tools, including stress testing, risk limits, underwriting standards, portfolio monitoring, data governance, early warning signals as a stress event approaches, and enhanced governance in times of stress.
- Firms expanding into retail markets should carefully consider the implications for product design, liquidity management, target market, product information and distribution strategy.

Further reading

Global and EMEA regulatory landscapes	Geopolitical risk management in financial services: component parts of a comprehensive approach Beyond banks: four ways regulators are tackling perceived NBFI risks Taking stock of the UK Government's financial services regulatory agenda Failure to prevent fraud offence requires new perspective on risk
Retail Conduct	Evidencing Consumer Duty compliance: shedding light on the FCA's data expectations What are the next big conduct challenges in retail banking and lending?
Sustainable Finance	Financing the UK net zero transition | How the National Wealth Fund and policy recommendations from the Transition Finance Market Review will steer progress EU sustainability agenda: what to expect over the next five years
Critical Third Parties and Operational Resilience	Critical third parties (CTPs) – navigating the EU's and UK's new regulatory frameworks The UK's Critical Third Parties regime is finalised
Retail and Commercial Banking	Basel 3.1 near-final rules part 2: is it the final countdown? Fixing the foundations: building risk culture and governance block-by-block
Capital Markets/Investment Banking	PRA updates its approach to branch supervision and expectations for booking arrangements More clarity on T+1 transition in the UK, firms must act now
Life Insurance	A year of change for insurance stress tests Developing a DC pensions growth strategy for life insurers
General Insurance	Identifying General insurance products in the Duty spotlight Monitoring Consumer Duty Outcomes: Key findings from the FCA's Multi-firm Review in the Insurance sector
Investment Management & Wealth	ESMA's final guidelines on the use of ESG and sustainability related terms in fund names The significant nexus between Consumer Duty and SDR...and how to tackle it
AI and Data	The UK's framework for AI regulation EU AI Act: forging a strategic response
Payments and crypto	The UK's National Payments Vision: an ambitious blueprint for growth

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A2A
Account-to-Account

ACPR
Autorité de Contrôle Prudentiel et de Résolution

AI
Artificial Intelligence

AIFMD
Alternative Investment Fund Managers Directive

APP
Authorised Push Payment

APRA
Australian Prudential Regulation Authority

BCBS
Basel Committee on Banking Supervision

BMA
Bermuda Monetary Authority

BNPL
Buy Now Pay Later

BoE
Bank of England

BPA
Bulk Purchase Annuity

CBDCs
Central Bank Digital Currencies

CBI
Central Bank of Ireland

CCP
Central Counterparty Clearing Houses

CEO
Chief Executive Officer

CMU
Capital Markets Union

COLL
Collective Investment Schemes sourcebook

COP
Conference of the Parties

CRD
Capital Requirements Directive

CRR
Capital Requirements Regulation

CSDDD
Corporate Sustainability Due Diligence Directive

CSRD
Corporate Sustainability Reporting Directive

CTs
Consolidated Tapes

CTP
Critical Third Parties

DC
Defined Contributions

DLT
Distributed Ledger Technology

DMA
Digital Markets Act

DORA
Digital Operational Resilience Act

DUA
Data Use and Access

EBA
European Banking Authority

ECB
European Central Bank

EDIS
European Deposit Insurance Scheme

EIOPA
European Insurance and Occupational Pensions Authority

ELTIF
European Long-Term Investment Fund

EMIR
European Market Infrastructure Regulation

ESMA
European Securities and Markets Authority

ESAs
European Supervisory Authorities

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ESG
Environmental, Social, and Governance

ESOs
European Standardisation Organisations

ETF
Exchange Traded Fund

EU
European Union

FCA
Financial Conduct Authority

FICC
Fixed Income Clearing Cooperation

FIDA
Financial Data Access

FoFs
Funds of Funds

FRTB
Fundamental Review of the Trading Book

FS
Financial Services

FSA
Financial Supervisory Authority

FSB
Financial Stability Board

FTSE
Financial Times Stock Exchange

Funded Re
Funded Reinsurance

FY
Financial Year

GBE
Great British Energy

GBP
Great British Pound

GDP
Gross Domestic Product

GDPR
General Data Protection Regulation

GenAI
Generative AI

GFC
Great Financial Crisis

GHG
Greenhouse Gas

GI
General Insurance

GPAI
General Purpose Artificial Intelligence

GSIB
Globally Systemically Important Bank

HMT
His Majesty's Treasury

HKMA
Hong Kong Monetary Authority

IAIS
International Association of Insurance Supervisors

IT
Information Technology

KPI
Key Performance Indicator

L2
Level 2

LIST
Life Insurance Stress Test

IMF
International Monetary Fund

IPR
Instant Payments Regulation

ISSB
International Sustainability Standards Board

JFSA
Japan Financial Services Agency

LTAFs
Long-Term Asset Funds

MA
Matching Adjustment

MI
Management Information

MiCAR
Markets in Crypto-Assets Regulation

MIFID
Markets in Financial Instruments Directive

MiFID II
Markets in Financial Instruments Directive II

Glossary

MiFIR
Markets in Financial Instruments Regulation

NBFIs
Non-Bank Financial Institutions

NCA
National Competent Authority

NFC
Near-Field Communication

NPV
National Payments Vision

NWF
National Wealth Fund

PETs
Privacy-Enhancing Technologies

PRA
Prudential Regulation Authority

PRC
Prudential Regulation Committee

PSD3
Payment Services Directive 3

RIS
Retail Investment Strategy

RWA
Risk-Weighted Assets

SCA
Strong Customer Authentication

SDR
Sustainability Disclosure Requirements

SEC
Securities and Exchange Commission

SFDR
Sustainable Finance Disclosures Regulation

SIU
Savings and Investments Union

SM&CR
Senior Managers and Certification Regime

SME
Small and Medium-Sized Enterprises

SREP
Supervisory Review and Evaluation Process

SUK
Solvency UK

TCBs
Third Country Branches

TFMR
Transition Finance Market Review

UN
United Nations

USD
US Dollar

UST
United States Treasury

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Contacts

Suchitra Nair
Partner
Head of the EMEA Centre for Regulatory Strategy
Deloitte
+44 20 7303 7963
snair@deloitte.co.uk

David Strachan
Partner
EMEA Centre for Regulatory Strategy
Deloitte
+44 20 7303 4791
dastrachan@deloitte.co.uk

Tom Spellman
Partner
Offering Leader, Regulatory and Financial Risk, Strategy, Risk and Transaction Advisory
Deloitte
+44 20 7303 0019
thspellman@deloitte.co.uk

Cat Morris
Partner
FS Industry Leader, Strategy, Risk and Transaction Advisory
Deloitte
+44 20 7007 1189
catmorris@deloitte.co.uk

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