Building Society Horizon Scan

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Executive Summary

WHAT'S NEW

Operational incident and material third-party reporting is a fixed implementation programme

The regulator requires swift notification of eligible operational incidents and to have details of material third-party arrangements shared annually

Smaller societies can opt for a simplified prudential framework

Eligible smaller societies had the opportunity to become a Small Domestic Deposit Taker (SDDT) by notifying the PRA. Eligibility for SDDT includes an average three-year asset ceiling of £20 billion

Building society legislation should move towards greater flexibility in funding and corporate governance

A draft 2026 Order proposes changes to funding calculations and use of common seals, expected to come into force from 1 January 2027.

The FCA continues to focus on mortgage rule reform

The FCA expects feedback and a Policy Statement in the second half of 2026, with further work on remaining themes continuing through 2027.

WHAT'S TRENDING

Consumer Duty is shifting from implementation to evidence of outcomes

Firms must demonstrate how they use data to drive decisions and actions, with robust board oversight and annual assesement.

Regulatory proportionality is a measurable sector issue

BSA research has shown that compliance costs per £1 million of assets are higher for smaller societies. The PRA is pursuing more proportionate supervision

AI regulation will rely upon existing frameworks as opposed to new rules

The FCA expects firms to focus on oversight, testing, outcomes and explaining AI decisions

Work to address gaps in management of climate risk should be underway

The PRA expects firms to assess and plan for climate risk where exposures are material, regardless of size.

Mutual-sector growth and shared capability

Alongside government plans to grow the sector, the BSA is proposing shared capabillty to offset rising tech and compliance costs

WHAT'S IMPORTANT

Act now to embed new reporting and controls

Operational incident and third-party reporting requirements take effect on 18 March 2027.

Deliver the right prudential changes

Focus on the changes required to meet SDDT or Basel 3.1 requirements ahead of 1 January 2027.

Assess mortgage-rule opportunities

Prepare teams to evaluate the FCA's Policy Statement and potential product and underwriting opportunities.

Drive decisions with data

Ensure there is clear traceability of Consumer Duty data leading to decisions and actions.

Determine where shared services add value

Identify capabilites that differentiate the society from those that can safely be shared.

Building societies face significant regulatory change. Clear priorities and focused delivery will be critical for success.

Industry Roadmap

Detail on the milestones that shape regulation

Milestones

March 2026 onward

Strong and Simple capital and liquidity arrangements become the core prudential route for eligible firms that notified the regulator of their decision to be an SDDT by the March 31st 2026 deadline

Firms who have made this decision need to ensure intended simplification is realised in processes and reporting.

June 2026 onwards

Climate-risk expectations become increasingly embedded in business-as-usual supervision.

Firms needed to complete an internal review of their ability to meet the Policy Statement expectations by 3rd June 2026, and to develop a plan with Board sign-off for addressing any gaps.

Ensure plan for addressing gaps remains on track.

H2 2026, timing to confirm

FCA Policy Statement expected following its consultation on first-time buyers and underserved mortgage customers.

Review policy statement for impacts and opportunities

Q4 2026 onward

Consumer Duty emphasis continues to move towards outcome monitoring, product governance and support evidence.

Assess whether current usage of board MI is appropriately evidenced

1 January 2027

Core Capital & Reporting Regime under SDDT implemented.

Complete capital, reporting, model and governance implementation.

1 January 2027

Basel 3.1 implementation for firms within scope.

Complete capital, reporting, model and governance implementation.

1 January 2027, subject to confirmation

Draft Building Societies Act Order will enable exclusions from wholesale funding calculations and provide greater flexibility in the use of common seals.

Confirm final legal status, then assess opportunities

18 March 2027

FCA/PRA operational-incident and material third-party reporting rules take effect.

Implement the necessary processes, controls and reporting to meet the requirements

Throughout 2027

Mortgage Rule Review policy development continues across later-life lending, innovation and vulnerable consumers.

Ensure impacts and opportunities are assessed against firm strategy

Watchlist Roadmap

Key issues on the building society agenda

Watchlist

Q4 2026 to 2027

AI regulation and governance

The FCA is applying existing Consumer Duty, accountability and governance frameworks rather than creating a separate AI regime.

2026 to 2027

Reducing regulatory burden on smaller societies

PRA plans include modernising reporting, while BSA evidence identifies reporting as the sector's largest regulatory burden.

2026 to 2028

Government mutual-sector growth programme

The Government has announced a sector champion and reiterated its ambition to double the sector's size, but there isn't (yet) a detailed delivery timetable.

2026 to 2028

BSA sector-growth and shared-capability agenda

The strategy targets shared capability in skills, technology, risk, back-office costs and cyber.

2026 to 2028

Financial-crime control modernisation

FCA strategy retains financial crime as a core priority; operational capacity and capability continues to be stretched by economic crime threats and the need to meet tightened regulatory expectations.

Operational Incident and Material Third-Party Reporting: What Should Societies Do Before 18 March 2027?

Suggested Takeaway: This goes beyond simply enhancing regulatory reporting – data readiness is critical alongside ensuring the right operating model is in place.

Why This Matters Now

- The aligned FCA, PRA and Bank of England regimes apply from 18 March 2027.
- Operational incident reporting will require societies to develop processes to quickly inform the regulator of new operational incidents that meet thresholds, as well as providing both interim and final updates on the incident's resolution.
- For material third-party arrangements, requirements are to maintain a register of these arrangements, share this register with the FCA annually and also inform the FCA of proposed significant changes to any material third-party arrangements. Building societies are expressly included in the enhanced third-party reporting scope.
- The authorities designed the regime to produce more timely, accurate and consistent information about operational incidents and concentration of material third-party providers to the sector.

What Changes

1. Incident classification becomes more structured. Firms will need to determine whether events meet the FCA's materiality threshold and whether the FCA and / or PRA should receive the report.
2. Information about material third party suppliers is something the Regulator expects to receive. This expands data usage beyond contract management or outsourcing policy.
3. Regulatory submissions will depend on cross-functional ownership. The register cannot be owned by procurement alone, as the information required will come from specialist teams across the society.
4. Supplier-originated disruption remains the society's regulatory concern. The FCA notes that many incidents originate at third parties.

Recommended Client Stance

Create one coordinated readiness programme covering service mapping, supplier data, reporting decisions, governance and rehearsal. Use the implementation to improve management of operational incidents and material third parties rather than merely to create a new return.

Considerations for Smaller Societies

- May have fewer specialists to maintain inventories, interpret thresholds and manage reporting.
- May be disproportionately dependent on a small number of core suppliers.
- Should look to avoid duplication, by updating any existing procurement and / or resilience processes to meet the regulatory obligations.

Practical Questions for Boards and Executives

- How will the society identify whether an incident meets a materiality threshold?
- Are incident categories and severity ratings mapped or aligned to the Financial Stability Board FIRE taxonomy?
- Are incident and crisis management playbooks updated?
- Can incidents be reported using Connect both during and outside of working hours?
- Can the society identify all material third parties?
- Are these material suppliers mapped to Important Business Services, and are operational dependencies understood?
- Does existing supplier data align with data required in FCA templates?
- How are significant changes to material third party arrangements identified?
- Who owns and runs the processes following go live?

This goes beyond simply enhancing regulatory reporting – data readiness is critical alongside ensuring the right operating model is in place.