Stand out for the right reasons
Financial Services Risk and Regulation

COVID-19 dominates FCA business plan

AT A GLANCE

April 2020

What's new?

- The FCA set out its priorities for the next three years in its Business Plan 2020/21 on 7 April 2020. Due to the uncertain environment caused by this coronavirus (COVID-19) pandemic, its priorities are likely to develop and it may issue an update to the plan.
- The business plan underscores the impact COVID-19 is having on the short-to-medium term regulatory agenda. The FCA's four priorities for the next three years are all heavily influenced by the impact of COVID-19, with a focus on protecting consumers, particularly the vulnerable.
- The FCA also sets out its cross-sector priorities and areas of focus for each sector, as well as plans to transform the way it works and regulates.

What does this mean?

- The FCA has again signalled its intention to move towards a more outcomes-based approach to regulation and its desire to transform the way it operates, with a much greater focus on the use of technology.
- The FCA identifies four medium-term priorities: consumer credit, payments, fair value in a digital age, and consumer investment decisions.
- On payments, the FCA is concerned that COVID-19 could impact firms' financial strength, and consumers' access to cash and services. It expects firms to minimise the risk and impact of fraud and operational incidents, and will increase its focus on firms' systems and controls.
- On consumer credit, the FCA will focus on reducing over-indebtedness, increasing awareness of alternatives to high-cost credit, empowering customers to better manage their debts, and making products more informative so customers can clearly understand features.
- On value, the FCA wants to protect consumers (particularly the vulnerable) from the risks of poor value products and services, which it argues could be exacerbated in the current environment. It also notes that COVID-19 could accelerate digital development, which may 'disenfranchise' vulnerable customers.
- On investment decision-making, the FCA identifies significant risk of harm, driven in part by the consumer responsibility for complex investment decisions created by the 2015 pension reforms, as well as recent market volatility. It wants to ensure firms have higher standards of governance and a stronger grip over their distribution chains. The FCA also plans to start assessing suitability of decumulation advice.
- Beyond COVID-19, the FCA continues to prioritise climate change, technology, operational resilience, financial crime and culture.

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What do firms need to do?

- A clear message from the business plan is that COVID-19 has further reinforced the importance of: treating consumers and small businesses fairly, disrupting attempts from financial criminals to take advantage of the pandemic, and remaining operationally resilient in order to provide essential services to the economy. Firms need to make these central to their response to the pandemic.
- As markets become increasingly digital (and as reliance on digital channels increases during the current environment), firms should ensure vulnerable customers are not unfairly disadvantaged or excluded. This includes using data and algorithms ethically, and having adequate controls to prevent undue bias or discrimination. It also means that customer experience should be central to firms' digital transformation plans.
- In light of the FCA's plans to transform its approach to regulation, firms should start to consider how they would embrace a more outcomes-based regulatory approach from a risk management and compliance perspective, as well as the implications of a more data-driven approach to supervision.
- As part of its plans to change the way it works, the FCA also intends to shift its supervisory focus to smaller firms. Smaller firms should therefore prepare for greater supervisory scrutiny.

Next steps

Given the uncertainty caused by the COVID-19 outbreak, the FCA says it will review its plans as the situation develops, and may publish an update to the business plan if needed.

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