



FCA Business Plan 2019/20








A Guide for the Time-Strapped Commuter



The FCA’s business plan for 2019/20 sets out its priorities for the coming year. Over the past 12 months, the FCA’s focus has been on EU withdrawal which has consumed a significant proportion of its resources. This year, while the overall priority categories have seen little change, the emphasis on specific priorities has changed. Going forward, the focus will be on Operational Resilience, AML, Culture and Governance, and Fair Treatment of Existing Customers.

We know you're time poor, so to help you get to grips with the basics we bring you a summary of the business plan and provide some insight into where you should be focussing your compliance resources.

Cross Sector Priorities

2018/19		2019/20	
EU Withdrawal		EU Withdrawal	No change
Firms' Culture & Governance		Firms' Culture & Governance	No change
Financial Crime (Fraud & Scams) & AML		Financial Crime (Fraud & Scams) & AML	No change
Data Security, Resilience & Outsourcing		Operational Resilience	Name change
Innovation, Big Data, Technology & Competition		Innovation, Data & Data Ethics	Name change
Treatment of Existing Customers		Fair Treatment of Existing Customers	Name tweak
Long-Term Savings, Pensions & Intergenerational Difference		Demographic Change	Focus change
High-Cost Credit		The Future of Regulation	New

Firms' Culture & Governance

The regulator is continuing its focus on individual accountability and cultural change, which is being bolstered by the extension of the SM&CR regime to cover all FSMA regulated firms and holding individuals to account when things go wrong.

Firms' work on meeting the SM&CR requirements should be at the forefront of compliance priorities for 2019/20. We are helping many clients meet their SM&CR obligations. Read our [Common Questions and Learnings](#) document to help you get underway.

The FCA continues to pursue its interest in promoting a principles-based approach, where organisational culture leads individuals to do the right thing for consumers and the wider market. Good governance reinforces and is critical to driving a healthy culture and the right customer outcomes.

The FCA will continue to work with firms to endorse and encourage a culture by assessing what it believes to be the key drivers of behaviour:



Purpose
(the underlying link
between healthy
cultures, business models
& good outcomes for
consumers)



Leadership



Reward,
Remuneration
& Incentives



Management
Capabilities



Effective
Governance

Creating an effective and positive culture has remained on the FCA's agenda for some time. Firms should by now be able to identify their individual cultures and understand the drivers for employee behaviour. Crucially, the FCA will expect firms to be able to evidence how they measure a positive culture and the subsequent customer outcomes that culture produces. Read our white paper [How to Assess your Culture](#) for practical guidance on the core business areas and questions you should consider when assessing your culture

The FCA will gather views, develop ideas and share insights through various events, and in March 2020, it will hold a second *Transforming Culture* conference to share and discuss the outputs from this work.

Fair Treatment of Existing Customers

The FCA will be monitoring firms' practices that ensure the fair treatment of existing customers, including the information provided to current customers and prospects. The new business plan prioritises the needs of the particularly vulnerable and the impact on this cohort of consumers from unfair business models or where they may be more susceptible to unscrupulous practices. It uses the word 'particularly vulnerable' to define the very vulnerable cohort - those suffering with long-term rather than situational vulnerabilities, such as cognitive impairment.

In our experience, firms are still finding it challenging to [define vulnerable customers](#) in the context of their activities. Furthermore, firms are struggling to develop policies and strategies for effectively managing them. Too many customer-facing staff members are not appropriately trained in identifying vulnerabilities or dealing with them. As firms embrace technology to better service and communicate with customers, they should consider how this changes their ability to identify vulnerable customers and determine what indicators may be relevant to each communication channel. Technology could also [play a part](#) in the detection and control of vulnerable customers by conducting automated data forensics in both the live and post-interactive environments. Firms should put greater focus into this area as the commercial and regulatory impacts of poor vulnerable customer outcomes on a large scale could be significant.

Demographic Change

Replacing *Long-Term Savings and Pensions & Intergenerational Difference* is *Demographic Change*, with a greater focus on the financial needs of generational consumer groups rather than specific products. Keep an eye out for a discussion paper and a subsequent conference exploring intergenerational challenges, regulatory barriers and appropriate sector responses. The crux of this priority is making sure financial services firms meet varied and changing consumer needs and adopt appropriate practices for managing vulnerable customers.

Once again, technology rears its head. Different customer cohorts have varying preferences for interacting with financial services. Younger customers may prefer to conduct the bulk of their

firm interactions online, whereas older customers may feel less comfortable with this approach. Firms therefore need to consider how they adapt by creating flexible approaches to communication and servicing channels to ensure customers receive the products and services they want, in the way they need.

Innovation, Data & Data Ethics

With the rapid and extensive innovation in data, the FCA acknowledges firms' ability to gather and evaluate data has expanded significantly, making data a valued asset. The FCA recognises that such innovation could increase barriers to access and favour larger or incumbent firms, thus weakening competition and allowing some firms to exploit market power as providers of critical data or data analytical tools. To understand the drivers and potential harm data innovation may bring, the FCA is proposing to undertake diagnostic work to help it identify areas of regulatory action in the future, whilst not stifling innovation.

Firms should ensure their data protection/security measures are robust, particularly where data can be used as a competitive advantage. Further to this, the ethical use of data is a growing area of debate with the key question being: "Even if I'm allowed to hold the data, is it ethically right to do so?" This also feeds into a conduct topic regarding whether firms are treating customers fairly, the question, this time, being: "Is the AI or machine learning programme going to bias a particular target market because it knows they might be more profitable?"

Operational Resilience

The FCA will continue with its work to better understand the risks associated with the outsourcing/third-party provider environment. This will include a review of a selection of firms to determine their current approaches and identify any weaknesses in detecting cyber attacks. A report detailing the findings, including next steps, will be provided by the FCA following the review. Recognising that smaller firms are often the targets of cyber attacks, the FCA will further develop ways to target information at smaller firms.

As firms adopt more technology, exposure to cyber attacks increases. Firms should create a 'security culture' and develop organisational and technical

solutions to ensure they are aware of any threats and vulnerabilities specific to their firm and have policies and strategies for dealing with breaches. All too often we see that firms do not join the dots to effectively identify the weaknesses in their systems and controls, which means they do not learn from their mistakes. Furthermore, SM&CR will reinforce the need for operational resilience to be an accountability of the SMF24. The ownership and tone from the top are vital to managing this “known unknown”. Firms should review their frameworks and response times, as the potential impact on customers due to a cyber event could be significant.

Financial Crime (Fraud & Scams) & AML

The FCA is aiming to prevent the UK financial services sector being used to facilitate financial crime, making it difficult for criminals to target the UK’s financial markets. To achieve this, it is looking to engage with a number of agencies and government bodies, such as the Financial Action Task Force (FATF), to share intelligence and help respond to new threats. The regulator is also planning to make better use of available data, intelligence and technologies to assist in the identification and targeting of criminals. It plans to achieve this objective through supervision and enforcement of firms.

The more technology firms adopt the greater potential for exposure and possibility of cyber crime occurring. Firms will always be open to threats, however the focus should be on whether enough has been done to keep system perimeters robust. This is an ever-changing environment, so frequent monitoring and resilience testing is a must.

The Future of Regulation

Transformation is currently underway in financial services, driven by technology, changing consumer needs and Brexit. As a result, business models, products and services are also changing in order to keep pace. Understanding whether the current regulatory approach will continue to meet the needs of the market and protect consumers is therefore a critical priority for the FCA.

Much of its day-to-day activity will still centre on authorisations, approving individuals, supervising firms and taking enforcement action where required, as it continues to improve its approach to authorisation. However, the FCA’s lasting aim is to transform culture in financial services firms. This will include future-proofing its principles and rules post-Brexit, the duty of care, how data and technology can support better regulation and what it does, and does not, regulate. The FCA has committed to engaging with a broad spectrum of stakeholders in 2019/20 to gain their views.

How can we help you?



We’ll be deep-diving into some of the key priorities over the coming months to help you get to grips with the challenges and develop effective approaches for managing them. Get our latest thinking straight into your inbox with our [regulatory round-up email](#).

Alternatively, if you have concerns now, speak to one of the team on 020 3772 7230 or hello@tcc.group

Sector Priorities

There is also little change to the FCA's focus for specific sectors. We have provided a view of the priorities for 2018 versus the 2019 priorities and an overview of the FCA's approach and planned activities to help you ensure your resources are aligned.

Retail Investments	<p>Priorities 2018/19</p> <ul style="list-style-type: none"> – Suitability – Conflicts of interest – Emerging advice models 	<p>Priorities 2019/20</p> <ul style="list-style-type: none"> – Suitability – Value for money – Scams 	<p>Approach & Activities</p> <p>Key regulatory concerns within the retail investment space include value for money and the risk of unsuitable or low-quality products and advice. As such, the regulator will be conducting a second review into suitability of advice and effectiveness of disclosure. It will also conduct a post-implementation review of the Retail Distribution Review (RDR) and Financial Advice Markets Review (FAMR) outcomes.</p> <p>The regulator will be conducting work to assess the platforms market's progress in improving the speed of transfers and customer communication during this period.</p> <p>Finally, it will monitor firms' compliance with ESMA and FCA interventions in the contracts for difference (Cfd) market and assess any potential for harm arising from the sale of alternative, speculative derivatives to retail clients.</p>
	Pensions & Retirement Income	<p>Priorities 2018/19</p> <ul style="list-style-type: none"> – Suitability – Pension scams – Pension transfers 	<p>Priorities 2019/20</p> <ul style="list-style-type: none"> – Suitability – Changing customer needs – Scams

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Investment Management</p>	<p>Priorities 2018/19</p> <ul style="list-style-type: none"> – Technological resilience – Value for money – Disclosure and transparency – Financial crime 	<p>Priorities 2019/20</p> <ul style="list-style-type: none"> – Value for money – Stewardship 	<p>Approach & Activities</p> <p>The FCA's approach to the Investment Management sector focuses on ensuring Asset Managers perform effectively as agents to investors, market participants, and stewards of the investments they oversee.</p> <p>In addition to Handbook changes resulting from the Asset Management Market Study, the sector will see finalised rules to implement the Revised Shareholder Rights Directive (SRD II), a consultation on introducing a new prudential regime for MiFID investment firms designed to reduce unnecessary costs, and evaluations of the PRIIPs review and MiFID implementation.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Retail Lending</p>	<p>Priorities 2018/19</p> <ul style="list-style-type: none"> – Business model sustainability – Value for money – Vulnerable customers 	<p>Priorities 2019/20</p> <ul style="list-style-type: none"> – Changing customer needs – Vulnerable customers – Value for money – Business models 	<p>Approach & Activities</p> <p>The regulator will review lending models that it is concerned are designed to profit from consumers not making repayments on time or in full. It will also continue to monitor how the market develops in response to changing demographics, including the increasing numbers of temporary workers and the UK's aging population.</p> <p>As mortgages represent the largest proportion of the market, in terms of volume, the FCA is focussing considerable energy on ensuring consumers are able to identify and switch to appropriate products for their needs.</p> <p>In the credit space, the regulator will present its findings on whether there is a market need for more online information about high-cost credit options.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Retail Banking</p>	<p>Priorities 2018/19</p> <ul style="list-style-type: none"> – Technology resilience – Financial crime – Big data – Regulatory change 	<p>Priorities 2019/20</p> <ul style="list-style-type: none"> – Access – Payment systems – Regulatory change – Fair treatment of existing customers 	<p>Approach & Activities</p> <p>The regulator will look into SME business banking and price discrimination within the cash savings market, implement the Payments Sector Strategy, followup work from its strategic review of retail banking business models, and implement further measures from the revised Payments Services Directive (PSD2) and Open Banking.</p>

General Insurance and Protection

Priorities 2018/19

- Value for money & pricing practices
- Suitability
- Operational resilience
- Cyber crime

Priorities 2019/20

- Use of data
- EU withdrawal
- Value for money & pricing fairness
- Governance & oversight
- Access to insurance

Approach & Activities

Value for money and fair pricing continue to be key themes, with the regulator concerned that consumers are penalised for not shopping around which is likely to disadvantage vulnerable customers disproportionately.

The regulator will be conducting supervisory work to assess firms’ response to the FCA’s action on poor practices in GI distribution chains and evaluate the impact of the 2017 rules to increase transparency and encourage shopping around.

It will also monitor developments in motor claims practices in light of the implementation of the Civil Liabilities Act and consider action if claims inflation is observed.

Wholesale

Priorities 2018/19

- Clean markets
- Conflicts
- Technological changes
- Operational resilience
- EU withdrawal

Priorities 2019/20

- Clean markets
- Impact of regulatory change
- EU withdrawal
- Use of data

Approach & Activities

Beyond the FCA’s cross-sector priorities, all of which are directly relevant to the wholesale market, the regulator is focussed on tackling market abuse and monitoring the outcomes of various MiFID II interventions.

How can we help you?

Get in touch with our regulatory experts for specific guidance and advice on meeting your regulatory obligations for your sector:

T_020 3772 7230

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Key Publications

Discussion Paper: Intergenerational Issues	Q1
Policy Statement & Consultation Paper: ROR	Q1
Final Report: Mortgage Market Study	Q1
Consultation Paper: Mortgage Prisoners	Q1
Call for Input: Data Use & Access in Wholesale Markets	Q2
Feedback Statement: Fair Pricing in Financial Services	Q2
Feedback/Consultation: Feedback on Cash Market Discussion	Q2
Consultation Paper: Changes to Mortgage Advice Rules	Q2
Policy Statement: Illiquid Assets & Open Ended Funds	Q2
Policy Statement: Overdraft Pricing Remedies	Q2
Policy Statement: Buy Now Pay Later Offers	Q2
Policy Statement: Crowdfunding Platforms	Q2
Consultation Paper: Building the UK Financial Sector's Operational Resilience	Q3
Consultation Paper: Investment Firm Prudential Regime	Q3
Policy Statement: ROR	Q3
Policy Statement: IGC Remit Extension	Q3
Policy Statement: Value Measures Reporting	Q3

Key Publications

Final Report: PPI Complaints Deadline

Q3

Multi-Firm Review: Cyber Findings

Q4

Discussion Paper: TCF & Data

Q4

Discussion Paper: FCA Principles Review

Q4



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