Business Plan 2020/21

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1 Chair & Chief Executive joint message

Welcome to our 2020/21 Business Plan.

With finite resources, and nearly 60,000 firms to regulate, we've always had to make hard choices.

This year, we had already planned to focus our resources more heavily on the areas of greatest potential harm identified in our Sector Views, and to transform our own ways of working and capabilities in preventing harm.

We believe that this vital work to protect consumers and markets needs to continue, but will now be fundamentally reshaped by the impact of coronavirus (Covid-19) on the UK and global financial markets.

This Business Plan was intended to explain our strategic focus over the next 3 years. We are publishing this version now to outline the things we believe will continue to be important even as millions of households and businesses that rely on financial services and markets wrestle with the uncertainties created by coronavirus. We will review our plans as the position becomes clearer and ensure that we keep stakeholders updated as they develop.

The challenges ahead

The global economy faces massive challenges from coronavirus. The effects will be profound, and will be felt by millions of consumers and businesses.

At the same time as we react to the coronavirus emergency, we also need to consider other events. Leaving the EU will create a new political, legal and economic environment for firms and regulators. We have an important role to help manage risks connected with the end of the transition period.

We will preserve the UK's role as home to open global financial markets. International engagement on issues of mutual interest will be more important than ever to us achieving our objectives.

Against a fast-evolving environment, as we adapt to the long-term impact of coronavirus, it remains vital that we deliver on our objectives and in the public interest. To do this, we need to focus our resources on those markets where we see most potential harm.

The global economy faces massive challenges from coronavirus. The effects will be profound, and will be felt by millions of consumers and businesses.

Summary of this Business Plan

First, we have already taken rapid action to respond to the immediate shocks and urgent interventions required in the coronavirus emergency. Acting with speed has been the absolute priority, with immediate and important interventions made in hours.

Inevitably, we will need to take stock of those interventions and place some on a more regular footing. We will also need to adjust to the longer-term economic impacts on society. We will focus our efforts on ensuring:

- that **markets function well**
- that the **most vulnerable are protected**
- that the **impact of firm failure is minimised**
- that **we tackle scams**
- and seek to ensure **consumers and small firms are treated fairly**

Second, over the medium term, we will focus even more on achieving outcomes where we see enduring harm. Our aim is to ensure that consumers:

- can rely on ***safe and accessible payments*** to receive their pay or benefits, settle their bills and access cash when they need it
- can make ***effective investment decisions*** about their savings, and are not exposed to risky or poor value investment products
- don't get into unaffordable debt and are treated well if they do, so that ***credit markets work well for consumers*** and
- are offered ***fair value products in a digital age***, as use of consumer data and behaviour through digital channels increases, and with it the risk that consumers are not treated fairly in the pricing and other terms they receive

Third, we will focus on ***transforming our own operations*** for a digital age. We will learn from what has gone well and from what has not.

We will capture the lessons from this emergency about delivering quickly. But we also need to look at our entire system, from the data and intelligence we collect, how we decide which firms and individuals to allow to operate and how we supervise them, to how we ensure that unacceptable firms and individuals are stopped and removed from the regulated sector as quickly as possible. To achieve this, we need to review how we assess, share, prioritise and action the information and intelligence we receive, re-engineer our processes and invest to ensure that we have the capabilities, systems and technology we need. We need to look for the best value for money we can provide in our services.

Fourth, we will work with the Government and our stakeholders to shape the future regulatory framework. This framework doesn't only need to reflect a future outside the European Union; it must also address what we have learned through operating in the current regulatory framework. The current framework is too focused on rules and process, and not enough on principles and outcomes. We see far too many resources devoted to redress and remediation, and not enough to empowering consumers to take good decisions and regulatory action to prevent harm and safeguarding consumers' financial wellbeing.

> **We will not compromise on our expectations of firms, particularly that they make consumers' interests the foundation of their business models and behave accordingly.**

Responding to change and challenge

In summary, we know we must both respond to change and initiate it. We must learn the lessons from the current emergency, our own experiments with data and the forthcoming reviews of past regulation, then embed them deeply into the way the FCA operates. And we must actively meet the challenges from market developments, EU withdrawal, new technology and consumers' changing needs.

We will need to shape our future approach to regulation to meet the needs of the unprecedented times we are operating in. We will not compromise on our expectations of firms, particularly that they make consumers' interests the foundation of their business models and behave accordingly.

Charles Randell Chair	Christopher Woolard Interim Chief Executive

2 Our role

The guiding principle of all our work is preventing or reducing harm to consumers and markets.

Changes in the range of financial products available mean the sources of harm are constantly evolving. Our Mission explains how we make decisions about what we prioritise, when these priorities should change and where we use our resources.

Who we regulate

We are the conduct regulator for nearly 60,000 financial services firms in the UK. We are also the prudential supervisor for around 49,000 firms. Around 19,000 of these have to meet our specific prudential standards. These standards cover the levels of financial resource firms must have and ensure that client assets are protected if the firm fails. While the remaining 30,000 firms don't have to meet specific standards, they must still make sure they have sufficient resources to meet our Principles for Business, as well as the conditions that all firms must meet before we will authorise them (the Threshold Conditions).

Our core work

We authorise and supervise firms and individuals who carry out regulated financial services. Where necessary, we also take action against them.

Our role is to support healthy and vibrant competition in the markets. However, it is not to stop firms failing financially and having to leave the market. Failure that happens in a disorderly way can seriously harm both people and markets. We expect all firms to have contingency plans to deal with reasonably foreseeable major events and that the plans have been tested.

Authorising firms

Healthy competition relies on appropriate levels of consumer protection and integrity in the financial system. Consumers need to know they can trust the firms they buy from and are protected if something goes wrong.

Much of our authorisations work is about ensuring we have robust mechanisms in place at the point that firms come within our regulatory scope. This reduces the chances of consumer harm happening in the first place and increases our ability to minimise it when it does. In 2019, the percentage of firms which we refused or which withdrew their application following our scrutiny was 7.6%, compared to 5.8% in 2018.

Supervising firms

The firms we regulate and their staff are responsible for ensuring that they act in accordance with our principles and rules. We expect firms and their employees to meet these standards and we hold them to account when they fail to do so.

We take a forward-looking and strategic approach in our supervisory work. This includes looking both at the conduct of individual firms and, more widely, at how retail and wholesale markets are evolving.

Firms' culture shapes the outcomes for consumers and markets, which is why our aim is to assess and address the drivers of culture. This includes looking at firms' leadership, purpose, governance and approach to managing and rewarding their employees.

Over the coming year we will be shifting our focus towards smaller firms. Many, but not all, of the 60,000 firms we regulate are committed to acting in line with our rules and principles. Some are not. We will shift our focus towards those firms that consistently fail to meet our required standards. We will move more swiftly to enforcement action against those that fail to do this and so cause harm.

Enforcing our rules where needed

Through our enforcement activities, we identify and drive out behaviour that fails to meet our standards, or is dishonest or unlawful. We have the ability and power to tackle significant harm to markets and consumers caused by regulated firms aiming to take advantage of the coronavirus.

We are conducting investigations into issues across our regulatory remit, where we suspect serious misconduct has occurred.

We continue to investigate firms and individuals who seek to carry on regulated activities without authorisation and take action against those that do not meet our minimum standards (the Threshold Conditions for firms and the Fit and Proper test for individuals). For the financial year up to and including 31 March 2020, we have achieved 217 outcomes using our enforcement powers. The fine figure is still £224,428,900.

Independent reviews

There are ongoing independent reviews into our oversight of London Capital and Finance, commissioned by HM Treasury, and the Connaught Income Series 1 Fund and interest rate hedging products, which we commissioned.

The failure of these firms and/or products have caused great concern and distress for those who invested in them. These reviews will identify where there are lessons for us. We expect these reviews to report during the next year and we will consider their findings and the implications for how we work extremely carefully.

We will also continue to act where we can to warn consumers and firms about the risks of products and services at the edges of our perimeter.

What we do and don't regulate

The activities we regulate are primarily set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order (the RAO). The boundaries of the activities we regulate that this legislation sets out is commonly referred to as the 'FCA perimeter'.

However, the RAO regime governing 'regulated activity' is not the only basis for our regulatory responsibilities. Other UK and EU legislation also has a say in defining our perimeter, including, but not limited to, acting as the UK's listing authority, the market abuse regime, the payment services regulations, our concurrent competition powers, the financial promotions regime, enforcing certain provisions of the Consumer Credit Act 1974.

Where firms carry out activities that are outside the scope of financial conduct regulation, our rules will generally not regulate their conduct, including the relationship between these firms and their customers. Depending on the circumstances, there may be other consumer protection legislation or other legal duties, such as contract terms or fiduciary duties, which apply to the relationships between the two.

We also see that some firms that have permission to carry out certain regulated activities are not always clear when they communicate with potential customers that other activities they carry out sit beyond this boundary and are not regulated.

The regulatory framework, and what is excluded from it, has built up over many years. While many of the reasons for the exclusions are clear on their own, they can create a complex picture for consumers and firms when taken together. Many of the toughest issues we face involve activity at or over the other side of this boundary.

We will explain our activities and plans in more detail in our annual Perimeter Report due out later this year.

We will continue to work with HM Treasury, including on areas where we see harm happening outside our perimeter. We will also continue to act where we can to warn consumers and firms about the risks of products and services at the edges of our perimeter.

3 Coronavirus (Covid-19)

We are facing an unprecedented challenge, caused by the greatest public health crisis of our lifetimes. Over the coming months, everyday life will be disrupted in ways that will cause severe financial difficulties for many thousands of businesses, families, and individuals.

Our main priorities are to ensure that financial services businesses give people the support they need, that people don't fall for scams, and that financial services businesses and markets know what we expect of them.

Alongside HM Treasury and the Bank of England, we have already made a series of interventions at unprecedented speed to protect consumers, firms and the markets.

Our actions so far have been based on these objectives:

- keeping markets functioning and orderly during a major 'repricing' event
- issuing emergency guidance so that government schemes, for example, to help small firms and mortgage holders can work
- supporting consumers with the immediate shocks created by the crisis
- keeping public access to essential banking services
- protecting the most vulnerable in society

These have ensured that customers retain access to essential banking services and are able to benefit from flexibility on mortgage and other debt payments.

The magnitude and duration of the economic shock resulting from coronavirus is highly uncertain. The crisis has affected both the demand and the supply sides of the global economy. The new features of the pandemic, and of the environment in which it occurs, lead to an untested and largely unpredictable impact on confidence and investor/consumer behaviours.

This shock is not like previous economic downturns, but nor will it follow the pattern of a natural catastrophe, where the damage can be sized relatively quickly. Here, there is enormous uncertainty about the size and nature of potential damage.

This has made planning ahead much harder. This Business Plan sets out the priority areas of our work over the next 1 to 3 years. Where we can take this work forward now, without diluting our focus on the impact of coronavirus, we will. But it may be months before we are in a more stable position and can focus fully on the activities in this plan. Even then, the shape and scale of the issues we need to address may have changed significantly as a result of the virus. We may publish an update to this plan if we believe it is necessary.

We have already set out measures to help firms to support consumers and maintain orderly markets, as well as postponing and amending activities where appropriate to do so. This is a fast-moving situation, which we are responding to on a daily basis. We have a dedicated section on coronavirus on our website, with the latest information for consumers and firms.

Measures that we have already taken and communicated include:

- Proposing a range of temporary measures to support users of consumer credit products, such as personal loans, credit cards and overdrafts, who are in financial difficulty as a result of coronavirus
- Setting out new guidance for mortgage providers on payment holidays for consumers in financial difficulties
- Issuing new guidance on the Government's Coronavirus Business Interruption Loan Scheme, including on how lenders should assess affordability. Loans of up to £25,000 to sole traders and unincorporated enterprises can fall within the scope of FCA regulation
- Setting out clear expectations for general insurance providers – including home, travel and motor insurance. We've also provided information for consumers to help them understand what to expect from their insurers
- Providing information on how the Government's rules on key workers should be applied to financial services firms
- Requesting that firms delay announcements of preliminary results to ensure that information for markets is accurate and helpful, and giving firms an additional two months to complete and publish their audited financial statements
- Highlighting to consumers the increased risk of scammers trying to exploit the uncertainty created by the current situation
- Confirming that we are satisfied that markets are operating in an orderly way and that we do not see a need for a ban on short selling
- Reviewing our work plans to delay activity which is not critical to protecting consumers and market integrity in the short-term, allowing firms to focus on supporting their customers during this time

We have had open and constructive engagement with our stakeholders including firms and trade associations since the start of the emergency. We will continue to work with the industry and do all we can to support firms who are doing the right thing for consumers and markets as long as this situation continues.

We will remain vigilant to potential misconduct. There may be some who see these times as an opportunity for poor behaviour – including market abuse, capitalising on investors' concerns or reneging on commitments to consumers.

Where we find poor practice, we will clamp down with all relevant force. We are working with a range of partners, including other regulators, law enforcement agencies and firms and consumer groups, to raise awareness of the increased risk of scams in the current uncertain context and help consumers protect themselves.

We will keep our plans updated in light of unfolding events, and will keep stakeholders informed of changes in a timely way. Our website will continue to be regularly updated and we will engage regularly and widely with stakeholders in a variety of ways.

4 Our 5 key priorities over the next 1-3 years

We have identified 4 external priorities we will be focusing on over the next 1-3 years. We also have a fifth priority, our own transformation.

Our transformation is the foundation to enable us to deliver our external priorities better. It will ensure that we are better equipped to meet both our current and future priorities. We will report on our progress on these in our Annual Report and Accounts 2020/21.

As with all other areas of the plan, the shape and scope of our action is likely to be significantly affected by coronavirus. We will keep stakeholders regularly updated.

Transforming how we work and regulate

Since launching Our Mission in 2017 we have improved how we work. But we must continually adapt and raise our standards. The coronavirus outbreak has changed the world in which we regulate and accelerated our need to respond.

Our plans for our own transformation are ambitious and will fundamentally change the way we work. They will help us become a more efficient and effective regulator, in the longer term and particularly during the challenging times ahead.

We need to consider how we prioritise and deliver outcomes, how we use data and technology, what capabilities we need to be fit for the future and how we work with our global partners.

We have already started this work and will continue as we move into 2020/21 and beyond.

Key outcomes we want to achieve

Make faster and more effective decisions

In the same way that we require regulated firms and individuals to keep pace with the changing world, our day-to-day regulation must also adapt. As the regulatory context becomes more complex, and the numbers we regulate increase, we need to invest, to grow and develop our capabilities. This will enable us to move swiftly, and make confident, well-informed decisions from complex information.

We also need to broaden our approach to the way we choose and use our wide range of regulatory tools, to improve our reach and impact across all regulated firms. In doing so, we must operate in a more integrated way as 'One FCA' by simplifying or changing our processes to be more efficient and deliver better consumer outcomes. We must ensure that, whatever tool we use, we use it with a pace and decisiveness that matches the urgency of the issue.

Prioritise end outcomes for consumers, markets and firms

A regulatory approach which focuses on outcomes will allow us to be clearer at a time when market dynamics, innovation, societal and legislative changes are all transforming the financial landscape.

We want all firms to take the end outcomes for consumers and markets into greater account when they design and deliver services. To support this, we will be clearer with firms about the outcomes we expect them to achieve, as well as how we are targeting our own work to achieve them.

Our focus on outcomes also means we are changing the way we plan, prioritise, measure and report on our work. This is reflected in this Business Plan that focuses on 5 key priorities, and the outcomes we want to deliver against them.

Intelligence and information

We receive a wealth of information and intelligence about the markets, firms and individuals we regulate. We are reviewing and making changes to how we identify, prioritise and act on information and intelligence we receive. This will ensure a more focused and co-ordinated approach to information and intelligence across the FCA. In turn, this will enable us to better anticipate and deal with potential issues and misconduct, at pace.

We are also investing in our systems and processes to enable us to work more efficiently and make better use of our sources of information. Our Data Strategy, in particular, will harness the power of data and help us understand markets and consumers better.

More effective use of information and intelligence will allow us to identify harm and remove it more quickly when we see it. It will also reduce the regulatory burden on firms. We will do this by:

- Streamlining data and regulatory returns through Digital Regulatory Reporting.
- Streamlining operational impact on firms through better coordination between regulators. We continue to explore the potential of working with the Bank, PSR, Competition and Markets Authority, the Treasury and other public bodies to give industry a 2-year forward look of known major regulatory initiatives. We will publish this Regulatory Initiatives Grid twice a year. It will allow the Government and regulators to work together to identify and assess any peaks in demand on firms.

> **We want all firms to take the end outcomes for consumers and markets into greater account when they design and deliver services.**

Influence internationally on issues that affect UK markets and consumers

We are working hard with our partners and stakeholders to plan for the future of financial regulation in a post-EU withdrawal, tech-enabled world. We want to build stronger links with partners globally to ensure we respond in the most effective way to the challenges we face.

Our transformation will help strengthen the UK financial system and better protect consumers. This will increase public confidence, strengthen the UK's reputation as an international marketplace and help ensure it continues being a good place to do business. It will bring benefits for consumers, firms and markets and allow us to continue to influence the global regulatory standards that affect UK markets and consumers.

Measuring progress

We will monitor our progress towards achieving our outcomes using a variety of indicators. For example, we will evaluate the range of our regulatory tools and the speed with which we identify harm and use them.

We will monitor the extent to which firms take into account outcomes for end users when they design and deliver services. We will also assess the success of streamlining our regulatory returns through a live test.

Enabling effective consumer investment decisions

Pensions and retail investments allow consumers to build long-term savings and provide an income in later life. When these sectors work poorly, consumer losses from unsuitable investment decisions, or fraud, can be catastrophic. For example, consumers who are scammed lose an average of 22 years' pensions savings, almost 3 times their annual earnings.

At present we see significant risk of harm in these markets, in part driven by the way consumers have been given additional responsibility for complex investment decisions, through the shift to Defined Contribution (DC) pensions and the Government's 2015 pension freedoms.

Consumers are also exposed to significant market volatility caused by coronavirus. We want to make sure they are supported to make effective investment choices in a fair market. To achieve this, we will target 3 outcomes.

Investment products are appropriate for consumer needs
Some consumers are exposed to more investment risk than they expected or can absorb, including from sales of high-risk products and risk disguised in an investment wrapper. We want to ensure products are designed to meet consumers' needs, deliver value for money, and are marketed in a fair, clear and not misleading way.

Consumers make effective decisions about their investments
Our view is the investment distribution process, and the support network around it, is not working well enough for consumers to make effective decisions about their investments. We want consumers to have access to high-quality advice and support, and be aware of how to protect themselves from scams and fraud.

An area where we have seen increasing consumer harm is retail investments. To help tackle this we are proposing a consumer harm campaign to initially help consumers make better-informed investment decisions. We are consulting on our proposal to undertake this campaign and the basis of recovering the 2020/21 costs from fee-payers.

Firms and individuals operate under high regulatory standards and act in consumers' interests
We want to ensure firms have higher standards of governance, a stronger grip over networks of individuals in their distribution chains and that the regulatory system can better tackle the significant cost of misconduct we see in this market.

Measuring progress

We will measure progress by assessing a variety of indicators. For example, we will continue assessing suitability of defined benefit (DB) to defined contribution (DC) transfer advice and start assessing suitability of decumulation advice. We will also continue assessing developments in the financial support market, through our Retail Distribution Review and Financial Advice Market Review evaluation, to make sure they are meeting consumer needs.

Ensuring consumer credit markets work well

Demand for borrowing is strongly linked to economic factors, such as changes to welfare payments, household resilience and the labour market. Consumers who need to borrow to meet their essential living expenses typically pay more for credit, have little chance of repaying their debts and lack the financial resilience to meet unexpected shocks.

These issues affect many vulnerable people in the UK, cause severe financial stress and significantly damage health and wellbeing. We expect the coronavirus to have a major impact on this market and are proposing to put in place measures that will allow firms to exercise greater flexibility where it is in the best interests of consumers.

The economic impact of the response to the coronavirus crisis will have a considerable impact both on consumers and firms in relation to credit markets. This will shape and influence our approach. Over the coming period we intend to deliver the following outcomes:

Consumers can find products that meet their needs
Borrowers find it difficult to identify the right product for their needs. We want consumers to have access to clear and simple information which allows them to understand the range and features of available products.

Consumers do not become over-indebted by being given credit they cannot afford
We remain concerned that consumers may be getting unaffordable credit, allowing firms to benefit from exploitative fees and charges.

Affordable credit is available to smooth consumption
A well-functioning consumer credit market is essential to help consumers meet unexpected costs, smooth expenditure and make essential purchases they could not otherwise afford. We will continue to work with government and others to develop ways to increase access to fair and affordable credit, especially options to increase availability and awareness of alternatives to high-cost credit.

Consumers can take control of their debt at an early stage when they fall into financial difficulty
Financial regulation alone cannot eradicate the inevitable consumer harm that follows an economic downturn. Our goal is for firms to identify consumers at risk at an early stage and to give them suitable forbearance. We want borrowers to be made aware of, and engage with, debt advice before their financial problems become too severe.

Measuring progress

We will monitor the number and proportion of over-indebted consumers and how the volume of arrears and defaults in key markets are changing. We will continue to assess the suitability of creditworthiness assessments to understand whether consumers are being extended credit they cannot reasonably be expected to repay.

Making payments safe and accessible

The payments services sector is developing rapidly. More firms, new products and third-party providers are entering the market, with some firms growing quickly. We want to ensure consumers and small and medium-sized enterprises (SMEs) can safely access a variety of payments services.

We are also concerned that the coronavirus emergency will impact payments firms' financial strength and consumers' ability to access cash and payment services.

To deliver the 3 outcomes we have identified in this area, we will work together with the Payment Systems Regulator (PSR), the Government, Bank of England (the Bank) and other regulators. We will work particularly closely with the PSR to tackle common issues such as access to cash and fraud. The key outcomes we are targeting are:

Consumers transact safely with payment firms

We expect firms to handle and store data correctly and minimise the impact of fraud and operational outages. We will increase our focus on evaluating firms' systems and controls while monitoring the emerging risks. We will also ensure banks and payments firms have appropriate systems and controls in place to minimise the incidence of these accounts being used for fraud, money laundering or other financial crime.

Payment firms meet their regulatory responsibilities while competing on quality and value

We expect firms to safeguard customer funds and deliver high-quality, fair value products and services to consumers. We will therefore act swiftly where firms fail to meet safeguarding and other regulatory requirements. We also expect open banking to foster competition as it embeds and grows.

Consumers and SMEs have access to a variety of payments services

Access means that market developments do not exclude consumer groups and consumers can make payments through their preferred method. We are concerned that, as firms' business models change, they may stop providing some services to some groups. A priority is helping to ensure that customers continue to have Access to Cash.

Measuring progress

We will monitor firms' financial strength, in particular where there may be prudential concerns, and continue to develop our data sets and indicators to measure this. We will monitor the number of operational incidents and outage times and expect these to reduce. We will assess if firms have adequate systems and controls to prevent financial crime including fraud and expect to see this reduce, as measured through our regulatory returns.

Delivering fair value in a digital age

Fair value for consumers is key to healthy competition and underpins consumer trust in financial services. Our recent investigations of pricing practices in General Insurance, Cash Savings and Mortgages show markets sometimes fail to achieve fair value for consumers, some of whom pay a loyalty penalty. These risks of harm could be exacerbated by the global economic uncertainties caused by coronavirus. We want to protect these consumers, particularly the vulnerable.

We have seen greater digitisation of the firms we regulate, and we can expect the social changes driven by coronavirus to accelerate the development of digital markets. We need to ensure we have the necessary skills and focus to supervise firms effectively in an age of Big Data, but also harness the benefits for consumers through our own and firms' use of this data. We also need to be aware of the potential disproportionate impact on vulnerable consumers, some of whom may be among the 'digitally disenfranchised'.

We want consumers to benefit from digital innovation and competition, while tackling any problems. Consumers need confidence that they are getting fair access, price and quality. An FCA research paper in 2018, set out a framework for thinking about economic and fairness aspects of price discrimination, in particular how we consider fairness. We will build on this thinking through work on this priority. To achieve this, we will target 3 outcomes.

Consumers can choose from products that meet their needs, at a suitable quality and price
Consumers should be able to access, assess and act on available information to make informed buying decisions. They should be confident they are getting appropriate quality and service for the price they pay, and have the information to assess this.

Digital innovation and competition supports greater value for consumers
As markets become increasingly digital, our markets and our regulatory framework develop in ways that ensure digital markets continue to deliver fair value for consumers. Firms should use data and algorithms ethically to price and have adequate controls to prevent undue bias or discrimination.

Vulnerable consumers are not exploited or targeted with poor value products and services and access to key products and services is fair
Firms have robust policies on fair value for vulnerable consumers, and do not target them with poor value products and services. Our proposed Guidance for firms on the fair treatment of vulnerable consumers fairly clarifies that we want them to take extra care when dealing with vulnerable customers.

How we will measure progress

Over the next 3 years, we will develop an approach with measurements and metrics to assess fair value for consumers, using our ongoing evaluation of our previous intervention. Our Data Strategy will build new ways to collect information and monitor consumers' satisfaction with financial services firms.

5 Cross-cutting work

In relation to our 5 key priorities we will work across sectors in areas that have a broad market impact.

Our EU withdrawal and wider international work

We are committed to maintaining our influence as a leading global regulator, and to strengthening our international engagement. We are working alongside international counterparts in response to the global coronavirus outbreak.

We will continue to work closely with European and global stakeholders on developing robust global financial standards and effective supervision, and addressing issues of mutual interest, in areas such as conduct, market integrity, and operational resilience.

We will provide the Government with technical support as it negotiates the UK's future relationship with the EU, and other jurisdictions. We will take steps to ensure that both we and the UK financial services industry are prepared for the end of the transition period. This includes preparing transitional measures, such as the temporary permissions regime for EEA-based firms and funds passporting into the UK.

Climate change

The financial sector needs to adapt to manage the physical and transition risks that climate change poses. Our regulatory approach needs to support that. In the coming year we will assess the feedback to our recent consultation on new climate-related disclosure rules for some issuers. The consultation period has been extended and is now open until 1 October 2020.

We plan to continue our policy research to better understand how retail investment products are designed, the accuracy of disclosure, and whether this enables consumers to make effective decisions on 'green products'. We will continue to co-host the Climate Financial Risk Forum (CFRF), which we set up with the Prudential Regulation Authority (PRA) in 2019.

Innovation and technology

We will invest in new technologies and skills so that we can make better use of data to regulate efficiently and effectively. We will deepen our engagement with industry and society on artificial intelligence, specifically machine learning, and focus on how to enable safe, appropriate and ethical use of new technologies.

We will strengthen our rules to prevent money laundering, as well as working with domestic and international stakeholders to support a joined-up approach to cryptoassets.

We want to use technology to reduce the burden of regulatory reporting on firms. We will replace our Gabriel system with a new platform for collecting firms' data. This will provide an improved user experience and will include a single identity log on with our

> **We are working alongside international counterparts in response to the global coronavirus outbreak.**

Connect system. Following our Viability Assessment we, along with the Bank, will take forward our work on Digital Regulatory Reporting (DRR).

We will maintain our international collaboration through the Global Financial Innovation Network, including seeking to facilitate international sandbox experiments and deepening international knowledge-sharing of innovation approaches and new market trends.

We will explore if and how to expand our sandbox services to foster and encourage the wider adoption of appropriate technologies, particularly for RegTech.

Operational resilience

Our aim is to set new requirements that strengthen operational resilience. In December 2019, along with the PRA and the Bank, we published our joint Consultation Papers on operational resilience. Our proposals make it clear that we expect firms and Financial Market Infrastructures (FMIs) to take ownership of their operational resilience and to prioritise plans and investments based on their public interest impact.

The proposals set requirements and expectations for firms and FMIs to identify their important business services by considering how disruption to these services could cause harm to their customers (retail and wholesale) or market integrity. They require firms and FMIs to set a tolerance for disruption, and to ensure they can continue to deliver their important business services during severe but plausible scenarios.

The consultation period is now open until 1 October 2020 due to the impact of the coronavirus on the industry. We expect all firms to have contingency plans to deal with major events and that the plans have been tested. Alongside the Bank, we are actively evaluating the contingency plans of a wide range of firms.

After considering the responses, we will publish a Policy Statement with our response and our final rules.

Financial crime

In line with our commitments in the UK's 2019 National Economic Crime Plan, this year we will start to implement changes to how we reduce financial crime. These include making greater use of data to identify firms or areas that are potentially vulnerable. We will continue to take enforcement action where we uncover serious misconduct, particularly where there is a high risk of money laundering.

We will consult on extending the Financial Crime Data Return to more firms to help strengthen our risk-based supervision as part of our wider Anti Money Laundering (AML) strategy. Through the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), we will test how well professional body supervisors in the legal and accountancy sectors have embedded AML strategies.

Fraud falls within our priority of reducing the risk of financial crime. Our work is focused on ensuring that firms meet our requirements to have effective systems and controls to detect, disrupt and reduce the risk of financial crime.

We have also implemented a new registration and supervision regime for cryptoasset activities.

Our ScamSmart campaign focuses on mitigating consumer harm arising from scams. It's a multichannel campaign that is activated across 4 types of fraud – pensions, investments, online fraud and loan fee fraud.

Culture in financial services

We expect all solo-regulated firms to comply with the requirements of the SM&CR as they fall due. The regime aims to see firms across financial services foster healthy cultures where conduct and fair customer outcomes are at the forefront of their business.

We will continue to focus on the 4 key culture drivers in firms – purpose, leadership, approach to rewarding and managing people, and governance – and their effectiveness in reducing the potential harm from firms' business models and strategies.

6 Sector work

Our core activity is regulating conduct across the UK's vast financial services sector. While this plan focuses on our medium-term strategies to address harm on a smaller number of priority areas, we continue to work hard to deliver good outcomes right across the sector.

We explain our detailed analysis and regulatory approach across these areas in various documents including the portfolio letters we issue, and also in our Sector Views.

In this section we provide a summary of the outcomes we are working to deliver in these areas in the period ahead. As in other areas, the timing and scope of interventions to deliver these outcomes is actively under review in light of coronavirus. We will keep this under review, and in addition to what is presented here, please see our website with all the latest information for consumers and firms.

Wholesale financial markets

This sector includes transaction services, wholesale lending, advising, arranging, broking, trade execution, clearing and settlement.

Key outcomes we want to achieve

Orderly transition from LIBOR – We are supporting the transition to alternative risk-free rates to increase market integrity through our policy and supervision work. It is important that firms transition before the prospective end of LIBOR after the end of 2021 and treat customers fairly.

Clean markets that make it difficult to commit market abuse and financial crime – We will continue to evaluate and adapt our supervisory and enforcement strategies to respond to external changes, such as the impact of EU withdrawal on UK and EU co-ordination and co-operation arrangements (including data sharing), coronavirus and technological developments.

Wholesale markets that deliver a range of good value, high-quality products and services to market participants. We published a Call for Input (CFI) on 9 March, to better understand how wholesale financial participants are accessing and using market data and advanced analytics. The closing date for responses is now 1 October and will be kept under review, and we intend to publish a feedback statement setting out our findings after that.

Markets remain orderly in a range of market conditions – which is something we are actively focusing on in light of the global coronavirus crisis. We will also be preparing for the impact of the ending of the EU exit transition period.

Markets meet users' needs – Improving market effectiveness remains a key focus, including through enhancing governance and accountability through the SM&CR. We have also undertaken a review of remuneration practices in the wholesale broker sector. We also expect to introduce a more risk-sensitive prudential regime for investment firms in 2021.

Investment management

The UK investment management sector covers asset management, institutional intermediary and advice services, and custody and administration services. Harm in the sector is caused by several factors, including cases of poor governance, insufficient focus on delivering good value, and lack of investment in technology and operational resilience.

Key outcomes we want to achieve

Investors get high-quality, fair value, products and services. We want consumers to be able to access and choose from a range of products that are fair value and meet their investment needs. We will continue to assess the impact of remedies from our Asset Management Market Study in 2017. We are exploring further what effective disclosure looks like in supporting consumer investment decisions.

We continue to prioritise effective governance and expect firms to implement the SM&CR properly to help deliver this. We are evaluating how 'host' Authorised Corporate Director (ACD) firms discharge their responsibilities, including in the day-to-day management of the fund.

We continue to assess asset managers' exposure to LIBOR risk. We want to ensure they have strategies to manage the risks – including conduct risks – and monitoring how firms implement these plans.

Retail banking

Retail banking is central to the lives of virtually every consumer, business and organisation in the UK, and the way customers use it is constantly evolving.

Harm in the sector is often caused by financial crime, weak operational resilience and poor access to services for consumers. Weak governance and oversight in smaller banks is also driving harm.

In March 2020, the Government committed to bring forward legislation to protect access to cash for those who need it with the aim to ensure that industry continues to meet the changing needs of cash users. We will build on our forthcoming Access to Cash work, working with the Government, the PSR and other regulators, to help to ensure the market meets consumers' and SMEs' ongoing need for cash and related services.

Key outcomes we want to achieve

The retail banking sector is operationally resilient and supplies important products and services with minimal disruption to consumers and markets.

The incidence of fraud and financial crime including fraud is minimised within the payments services and the banking sector. It's estimated that serious and organised crime costs the UK at least £37 billion each year, posing a serious threat to the UK's economy, reputation, citizens and national security. We want firms to build greater resilience to economic crime through sustainable improvement in their systems and controls so that they can spot, disrupt and stop these activities.

Consumers and SMEs can access services that meet their needs, including cash. We are working with other regulators through the Joint Authorities Cash Strategy Group to support this intervention. We also continue to support innovation through our work with firms in our Sandbox, Advice Unit and Direct Support teams. This helps firms test innovative products and services, get regulatory feedback on their proposals and ensure they understand our regulatory regime.

Customers get high-quality products and services from retail banks. Our overdrafts Policy Statement in October 2019, and our ongoing work on cash saving remedies, are key to delivering fair value for consumers. Our short-term focus is ensuring customers have the appropriate services during the coronavirus crisis.

We expect our work on the Single Easy Access Rate (SEAR) to improve competition and transparency, which should lead to higher interest rates for longer-standing customers. Following our consultation on the SEAR, we intend to publish a Policy Statement at the appropriate time.

General insurance & protection (GI&P)

Harm in this sector is caused by unfair pricing practices in personal lines insurance (covered under 'fair value in the digital age' in the business priority), unsuitable or poor value products and services, as well as remuneration practices in firms that drive down value to the customer.

Developments in underwriting practice might also lead to problems of access for some customers. For example, using biometric or genetic data for risk modelling could make some consumers uninsurable, removing their access to the pooling of risk.

Key outcomes we want to achieve

Customers take out GI&P products and services that are suitable for their needs and deliver on their promises at the time of claim. We want to ensure that customers receive communications about products that are clear and not misleading both when they take out products for the first time and when they look to renew or switch. We will continue to assess how firms are applying our work on value measures, renewals and switching in our engagement with the market.

Customers are not unfairly excluded from GI&P products and services – Particularly in light of increasing use of data algorithms, which can automatically discriminate against consumers with protected characteristics. We want firms to consider the needs of vulnerable consumers and signpost them to specialist providers in the travel insurance market where their needs are too complex for firms to meet.

We intend to publish further work on the General Insurance Pricing Practices market study. The timing of this work is subject to review in the light of coronavirus.

Customers get high-quality, fair value, GI&P products and services which deliver on what is intended at the time of claim – following our work on General Insurance Distribution Chains including the finalised guidance we issued, we want to see efficient value chains that ensure the product gives consumers the intended value.

The GI&P sector is operationally resilient and supplies important products and services with minimal disruption to customers and markets.

7 Our budget

This section provides details on our finances.

Our budget

Our annual budget reflects the cost of the resources we need to carry out our work in 2020/21.

The key elements of our budget are:

- the cost of our core operating activities (our Ongoing Regulatory Activity, ORA), the largest element of which is our people
- the total amount we charge the industry to fund our activities (our Annual Funding Requirement)
- capital expenditure for the development of our technology and information systems, and new regulatory and operational requirements

We give additional detail on the budget proposals and the impact on our fees in our Fees Consultation Paper.

Annual Funding Requirement (AFR)

	FCA Budget			
£m	**2019/20**	**2020/21**	**Change**	**% Change**
ORA Budget	537.7	548.5	10.8	2.0%
EU Withdrawal	5.0	15.0	10.0	200.0%
Transformation	-	10.0	10.0	-
Scope Change Recovery	15.8	14.1	-1.7	-10.8%
Total AFR	**558.5**	**587.6**	**29.1**	**5.2%**

Our AFR for 2020/21 is £587.6m, an increase of 5.2%. Our AFR includes our ORA budget, EU Withdrawal, Transformation and the costs we need to recover for changes to our regulated activities (Scope Change). The actual fees we collect will reflect the AFR net of rebates from financial penalties collected (estimated at c.£51.8m).

The ORA Budget

We are committed to delivering an ORA budget that is flat in real terms, subject to any changes in our wider regulatory responsibilities. Our 2020/21 ORA Budget will increase by £10.8m to £548.5m, an inflationary increase of 2%.

EU Withdrawal

We have identified total EU Withdrawal demand of £15m for 2020/21 as we ensure that both we and the UK financial services industry are prepared for the end of the transition period at 31 December 2020. The full cost of these activities will be raised through fees that we charge firms, with a focus on the firms most affected by EU Withdrawal. The increase in fees raised reflects that in prior years the majority of costs were either absorbed within the ORA Budget or funded from Reserves.

Transformation

To support our Transformation Programme, we will invest £30m over 3 years. This will primarily be focused on developing our capabilities and simplifying our processes to deliver efficiencies and better consumer outcomes.

Scope change recovery

In 2020/21 we will recover scope change costs for the Senior Managers and Certification Regime, Claims Management Companies, and the final recovery for Consumer Credit.

Capital expenditure

The decrease in our capital expenditure budget reflects the return to more normalised levels in 2020/21 as we complete the once-in-a-generation investment in our IT systems as we migrate to the Cloud and implementing the necessary IT change driven by legislation and EU Withdrawal. Capital expenditure is largely funded through the ORA depreciation charge.

Capital Expenditure (£m)	2019/20	2020/21
IT Systems Development and Infrastructure	60.3	40.1
Property, plant and equipment	1.0	1.0
Total Budget	**61.3**	**41.1**

Fees consultation

We will consult on the allocation of our 2020/21 AFR in our annual fees rates consultation paper to be published on 7 April 2020.

Given the impact of Covid-19, we are freezing the fees to be paid by the smallest 71% of financial services firms for next year, and giving small and medium firms an extended period (until the end of 2020) to pay.

We are also consulting on whether there is industry support for us undertaking a communications and information campaign to tackle areas where we see real risk of consumer harm. This will build on and supplement our existing campaign, ScamSmart. We are particularly concerned at the moment about retail investments and the harm caused by fraudulent and high risk illiquid investments and this year we will prioritise helping consumers make better investment decisions. Through our Fees Consultation Paper, we are consulting on our proposal to undertake this campaign and the basis of recovering the 2020/21 costs of £2.3m from fee-payers.

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