

UK FCA publishes business plan for 2020/21

Article By:

Garon Anthony

The FCA yesterday set out its business priorities for the years ahead, focussing in part on the unique challenges presented to the financial services industry by the Covid 19 pandemic.

In this blog we look at three issues that the FCA's Business Plan for 2020/21 pays special attention to, the regulatory response to the Covid-19 challenge, ongoing and future enforcement activities and long term savings/pensions issues.

Covid-19

Throughout the pandemic, the FCA says that it will:

- protect the most vulnerable – ensuring that they can get the financial services and the help they need.
- tackle scams – helping consumers avoid the scams that spring up as the pandemic develops
- ensure fair treatment for consumers and small firms – making sure that firms give strong and clear support to customers, recognising the challenges that everyone is facing.
- keep markets working well – ensuring that markets remain orderly.
- mitigate firm failures – mitigating the impact on consumers where firms fail in these challenging circumstances.

Looking ahead to the medium term, the Business Plan sets out four priority areas where the FCA says that it will address continuing harm, aiming to ensure that consumers:

- can rely on safe and accessible payments to receive their pay or benefits, settle bills and access cash
- do not get into unaffordable debt and are treated well if they do
- can make effective investment decisions about their savings, and are not exposed to risky or poor value products
- are offered fair value products in a digital age and are not at risk of being treated unfairly in the pricing and other terms they receive

Enforcement

The FCA warns that it will not hesitate to use its enforcement powers to tackle significant harm to markets and consumers that may be caused by any firms that seek to take advantage of Covid-19:

“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.”

The regulator says that it is also working with other regulators, law enforcement agencies and others to raise awareness of the increased risk of scams in the current climate and help consumers protect themselves.

The FCA continues to investigate firms and individuals who purport to carry on regulated activities without authorisation and to take action against those that do not meet the FCA’s Threshold Conditions for firms and the Fit and Proper test for individuals.

In the financial year up to 31 March 2020, the FCA has achieved 217 “outcomes” using its enforcement powers and imposed fines totalling £224,428,900.

The FCA confirms that the independent reviews into the regulator’s oversight of London Capital and Finance and the Connaught Income Series 1 Fund and interest rate hedging products continue and the reports are expected to be published at some stage during the next year. The FCA says that it will consider their findings and the implications for how it works extremely carefully.

Pensions and long term savings

The FCA believes there is “*significant risk of harm*” in the long-term savings market, partly due to consumers having being given additional responsibility for complex investment decisions following the 2015 pension freedoms. According to the FCA, consumers who fall victim to a pension scam lose an average of 22 years’ savings, typically three times their annual earnings.

The FCA notes that consumers are also exposed to significant market volatility caused by Covid-19 and wants to make sure they are supported to make effective investment choices in a fair market. To do this, the FCA says it will target three outcomes.

- Making sure investment products are appropriate for consumer needs. Some consumers are exposed to more investment risk than they expected/can absorb, including from sales of high-risk products and risk disguised in an investment wrapper. The FCA says that it wants 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 making effective decisions about their investments. The FCA thinks that the investment distribution process, and the support network around it, is not working well enough for consumers to make effective decisions about investments. It therefore wants consumers to have access to high-quality advice and support, and be aware of how to protect themselves from scams. The FCA therefore proposes the launch of a consumer harm campaign to initially help consumers make better-informed investment decisions. It is consulting on this proposal and the basis of recovering costs from fee-payers.
- Firms and individuals operating under high regulatory standards and acting in consumers’ interests The FCA says that it wants 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.

The regulator says that it will measure progress in these regards by assessing a variety of indicators. For example, it will continue assessing suitability of defined benefit to defined contribution transfer advice and start assessing suitability of decumulation advice. It will also continue assessing developments in the financial support market, through the Retail Distribution Review and Financial Advice Market Review evaluation, to make sure they are meeting consumer needs.

It is clear from all of this that the FCA faces an unprecedented regulatory burden but it fully considers that it has the wherewithal to step up to the plate to protect the UK financial services industry at a time of national and international crisis. All of this and Brexit too...

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