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The FCA business plan

On Thursday 15th the FCA published their business plan for 2021/22. While many of the priorities from previous plans follow, the tone is of a more assertive regulator who still expects firms to be resilient and focused on customer outcomes.

The FCA annual report 2021/22 is the first from the new Chief Executive Nikhil Rathi, in which he formally sets out his agenda, not just for the forthcoming year but also indicating his longer-term aspirations for financial services regulation.

Mr. Rathi has publicly conceded that the regulator needs to raise its game, to become more innovative, adaptive, and assertive. In the next three years £120m will be invested to transform the collection and analysis of data to tackle misconduct more quickly and decisively.

Previously the new chief carved considerable change in senior roles at the London Stock Exchange and HM Treasury. As well as heavyweight industry experience, he is said to be highly intelligent with emotional and political IQ to match, and a 'stand-up' guy. This would all point to him being highly effective in transforming the FCA.

As a result of Brexit, the FCA will acquire greater powers and rule-making responsibilities. They have also evidenced their willingness to 'bare teeth' in relation to business interruption insurance and have affirmed that where necessary they will continue to use litigation.

The tone of the plan is far more strident than in previous years and with new strong leadership from Nikhil Rathi, the promised step-change appears to be very likely. The consequence of this is a more dynamic regulator with greater powers who is unafraid to act, and capable of acting quickly and decisively. Firms should be prepared for more scrutiny and action.

Most of the FCA sector priorities are familiar from previous years with a continued focus on customer outcomes and operational resilience. Both span sectors and in recent years have become established as perennial features of financial services regulation.

Customer Outcomes

The FCA continue to centre on the importance of customer outcomes as a prime principal of good conduct. Firms must be proactive in applying FCA guidance to their business models; policies, procedures and operational practices, to ensure customers are treated fairly, and be prepared to be measured on the outcomes that result.

Practically firms need to be continually monitoring customer outcomes and do so in a way that generates sufficient clarity to expose and fix failings. This demands adequate frameworks of testing, analysis, feedback and change in an on-going cycle. In the typical three lines of defence arrangement; operations, compliance and audit all need to be joined up, communicate without impunity and respond quickly to findings.

Firms need to be testing outcomes and reviewing customer cases to determine systemic failures and put things right with customers when they have gone wrong. This is a human process as it requires careful consideration of complex sets of circumstances. Disparate data sources (often not yet digitised), need to be collated, customers must be listened to with compassion and criticality, and then discrete moral judgements are called for to decide what is the right thing for the customer.

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The pandemic has created several issues which have the potential to seriously impact customer outcomes. Notably customer vulnerability has continued to increase with the potential that many more customers will find themselves in detriment as a result. Also, as the job support scheme comes to an end, impacting wage security, many more will find themselves in difficulty.

In addition, the shift in focus to crisis management and a rapid move to remote working that firms went through in response to Covid 19, has the potential to be the cause of poor customer outcomes. With such operational disruption, it is inevitable that the effectiveness of normal compliance measures will have been compromised making control and governance more challenging.

Now the initial impact of Covid 19 has been managed and firms start to stabilise they need to be reviewing what has been happening over the last 15 months to ensure fair treatment, as well as continuing to monitor for the on-going impact on customers.

Operational Resilience

Operational resilience is now firmly planted in the regulatory agenda, that is the ability of firms to define the level of shock they can withstand while assuring specific levels of business continuity. While the extent of Covid 19 might not have been easily foreseen, it alerts firms to the severity of incidents they ultimately need to prepare for. Environmental imbalance, our high dependence on digital systems and political tensions all increases the likelihood of major crises with dramatic effects.

Firms need to build their ability to react, quickly and effectively, to become more resilient to change and to ultimately adapt to rapid and seismic change. This means more flexible working practices, being able to deploy resources more quickly, reskilling and effectively managing high levels of performance under pressure.

If the FCA does meet its commitments to transform, and become more powerful, the approach by firms to regulation must increase. Firms who can maintain service levels during difficult times and put customers first will not only fulfil their regulatory responsibilities but also build better more sustainable business.

About RFS

RFS help firms to transform operational performance by reducing regulatory risk, increasing efficiency, and improving customer outcomes.

We do this through specialist resourcing, consultancy, and programme management, to help interpret what regulatory principles mean for your business and solve the operational challenges of putting them into action.

Contact

To find out how RFS can help you improve customer outcomes and become more operational resilient please get in touch.

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