UK’s FCA business plan 2024/25

27 March 2024

The FCA's 2024/25 business plan sets out priorities for regulating the UK financial services industry

Why should I read this?

The FCA’s business plan 2024/25 sets out an ambitious programme of work for the final year of its current 3-year strategy with the aim of achieving better outcomes for consumers and markets.

The FCA’s operational objectives are to:

- protect consumers
- protect the integrity of the UK financial system
- promote effective competition in the interests of consumers

The FCA’s secondary objective is to facilitate the international competitiveness of the UK economy and its growth in the medium to long term, subject to alignment with international standards.

Michaela Walker, Partner and Head of our European Financial Services Sector, comments,

“The comprehensive plan highlights the FCA's commitment to a robust and future-proof financial services sector in the UK. The FCA seeks to create a thriving financial ecosystem by prioritising consumer protection, ensuring financial stability and fostering a competitive and innovative market that adapts to global trends, benefitting both consumers and businesses.”

What do I need to know about the FCA’s business plan 2024?

Consumer protection

Embedding the Consumer Duty

The plan emphasises implementing the Consumer Duty, requiring firms to prioritise treating customers fairly at every stage of the product life cycle, from design to after-sales service. The FCA plans to test firms' compliance through various means.

Claire Carroll, Partner in Financial Services Disputes and Investigations comments,

“Firms now should be treating the consumer duty as part of “business as usual”. The FCA has been clear that the duty should be at the heart of everything the firm does that can have an impact on retail customers. Firms that are slow to realise that will feel sharpened scrutiny from their supervision contacts, and possibly enforcement action.”

Pensions and value for money

The FCA, in collaboration with the PRA and TPR, will analyse pension products to ensure they deliver good value for consumers, promoting responsible saving for retirement.

Michael Jones, Partner in Pensions comments:

The Financial Conduct Authority (FCA) is committed to driving up standards and improving value in relation to pension products. We are expecting it to consult on the value for money framework for contract-based schemes shortly. It is important that policy makers and the regulators work collaboratively and align implementation across the DC market to ensure a holistic and consistent framework that is fit for purpose. Additionally, the FCA will review firms' treatment of vulnerable customers as part of its ambitious programme of work for the final year of its three-year strategy."

Fighting financial crime and market abuse

Tech-powered supervision

The FCA plans to leverage data analytics and intelligence to identify and tackle financial crime more effectively. They will use these tools to focus resources on high-risk firms and activities, potentially disrupting fraudulent schemes and protecting consumers.

Jake McQuitty, Partner in Financial Services Disputes and Investigations comments,

"Combatting financial crime remains a cornerstone of the FCA's supervisory approach. For many years, tech-powered supervision has been a key part of the FCA's armoury for identifying and combatting abuse in financial markets. Extending this approach into other parts of the financial sector is a logical next-step and we are seeing increased use of data analytics by the regulator to support the testing of firms' financial crime frameworks to identify areas of weakness."

Combating market abuse

The FCA intends to strengthen its capabilities in detecting and deterring market manipulation across different asset classes. This may involve advanced network analysis to identify suspicious trading patterns and improved monitoring of fixed income and commodities markets.

Jake McQuitty, Partner in Financial Services Disputes and Investigations comments,

"The FCA has long struggled with identifying and prosecuting potentially abusive and inappropriate practices at the more sophisticated end of the market spectrum. Improving its capability to detect anomalies in market behaviour on a cross-asset class basis has the potential to materially enhance the FCA's effectiveness in identifying areas of risk and better ensuring the integrity of financial markets. Improved market monitoring and intervention in fixed income and commodities markets will be a key focus as this capability evolves."

Enhancing financial stability

Operational resilience

Operational disruptions pose significant risks to financial services, with firms facing increasing cyber threats and resilience challenges, in part due to increased reliance on critical third parties. The FCA's ongoing work includes overseeing operational resilience standards, the plan to publish a consultation paper on incident reporting, and proposing new rules to manage and mitigate risks introduced by critical third parties.

Craig Rogers, Partner in Commercial comments,

"The next year promises to be interesting with the FCA expressing a clear intention to undertake detailed review of firms' ability to satisfy the operational resilience requirements. We are already seeing this play out with skilled person reviews of cyber and operational resilience arrangements. At the same time, the regulators are increasing scrutiny of third party supplier arrangements and drawing the major service providers into their jurisdiction with the designation of critical third parties by HMT. In parallel firms with international presence are grappling with the new rules under DORA, the EU AI Act, from MAS in Singapore and the evolution of rules on outsourcing and third-party risk in the US from the SEC, FDIC, FED, OCC and CFTC. Fasten your seatbelts!"

Improving oversight of appointed representatives ("ARs")

The FCA will use its new rules to raise standards by improving principals' oversight of their ARs, and gathering more information from principals on the ARs they manage.

Julia Neal, Partner in Financial Services Disputes and Investigations comments,

"ARs cause a disproportionate level of consumer harm, primarily due to poor oversight by principal firms. The FCA's expectations are clear: it expects principal firms to do more in respect of the onboarding and supervision of ARs and where the FCA identifies concerns, intervention will follow. Firms and their senior management should be aware of the significant consequences, which could include skilled person reviews and enforcement action."

Boosting market competitiveness and innovation

Data-driven market oversight

The FCA intends to utilise data analytics tools to improve its supervision of wholesale markets. This approach will allow them to identify potential risks and intervene promptly while fostering a competitive environment for financial institutions.

Tim Fosh, Partner in Financial Services, comments:

"The FCA is looking to expand its use of data analytics and connected tools to increase its capacity to detect and pursue market abuse. Perhaps significantly, the new focus appears to be on cross-asset class market abuse, which could lead to a new series of enforcement actions".

Unlocking retail investment potential

The FCA plans to review the boundaries between financial advice and guidance. This could potentially lead to a more accessible investment environment for retail investors by simplifying the regulatory framework for certain financial products.

Jen Green, Principal Associate in our Pensions team, comments:

“The Advice and Guidance Boundary Review is a chance to transform how firms offer advice and support to consumers, leveraging new technologies to improve financial outcomes. We are optimistic about the FCA’s ambition to address the advice gap this year and hope the changes it makes will go far enough to embolden authorised firms and non-authorised persons (like pension scheme trustees) to provide the support that savers need. The advice gap is such a long-standing, wide-spread issue – all eyes are on the upcoming consultation response.”

Adapting to a dynamic landscape

Environmental, social and governance (“ESG”) priorities

The FCA is supporting the financial sector in driving positive change, including the transition to net zero and wider sustainability issues. This year it will integrate the sustainability disclosure requirements and investment labels into the funds market and expand the regime with a consultation on portfolio management.

Phil Spyropoulos, Partner in Financial Services comments,

“That the SDR would come into force in 2024 was a known known. Equally it was no surprise that the consultation on retail portfolio management would trail closely after the publication of the SDR policy statement, PS23/16. The real known unknown is the overseas funds regime and what SDR will mean for UCITS sold in the UK.”

Retail financial services

Remediation of complaints relating to historic discretionary commission arrangements in the motor finance market will be a key feature the FCA’s focus on improving the redress framework this year. The FCA’s focus on vulnerable customers, particularly within the current environment of cost of living pressures will also continue and it will be good to see the final changes to mortgage, consumer credit and overdraft rules which are designed to improve outcomes for customers in financial difficulty.

Naomi Seward, Partner in Retail Financial Services comments,

“The FCA is committed to reducing and preventing serious harm in consumer credit markets. It will continue to expect firms to evidence that they have implemented these higher standards and they are driving good customer outcomes.”

Artificial Intelligence

The FCA will continue to assess the impact of AI on UK markets to better understand the risks and benefits, as well as develop its own AI capability to protect consumers. It will also launch a pilot of the AI & Digital Hub, together with other regulatory partners, such as through the Digital Regulation Co-Operation Forum.

Simon Lightman, Partner in Commercial comments,

“AI continues to be high up on the agenda of both firms and the FCA. In line with the Government’s sector-specific approach to AI regulation, the FCA has been tasked with outlining its strategic approach to AI by 30 April 2024. We expect the FCA will build on the approach outlined in Discussion Paper 5/22 and

continue to take a broadly technology-agnostic approach. Critically, firms must ensure that their use of AI, as with any other technology, dovetails with core requirements such as consumer duty and operational resilience. We expect to see firms taking particular care when using AI solutions in their consumer decision making processes. Firms will also be keen to avoid some of the very public gaffs seen in other consumer-facing sectors when deploying chatbots and AI powered assistants"

How Eversheds Sutherland can help

Our Financial Services Group has the relationships with key industry bodies to actively participate in pivotal conversations with the FCA and we are a longstanding member of, and one of very few law firms appointed to, the Skilled Person Panel, with experience of delivering s166 and standalone projects for clients.

Our specialist teams have extensive experience of working with the FCA and addressing the issues arising from redress claimants in this sector. We are experienced in delivering "complaint" related projects and we are able to build a team comprising of lawyers and financial services consultants from across our legal practice and Konexo, our financial services consulting team. This combined approach enables us to deploy a broad range of skills and experience to match the teams within your organisation.