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Dear Paul,

We know that firms are facing many difficult and unexpected challenges. The input that the Panel has provided has been invaluable. In representing the interests of practitioners and providing advice and feedback at this particularly difficult time, you have contributed significantly to our ability to ensure that relevant markets have continued to function well.

Since the start of the pandemic we have been in regular contact with many firms to try to understand the issues they are facing. We know how significantly they have had to review their operating arrangements, while continuing to manage the significant risks to their employees, customers and the impact on the market.

I would like to take this opportunity to thank the Panel for its commitment, hard work and flexibility over the past year and, in line with our statutory requirement, to respond to some of the key issues you raised in your 2019/20 Annual Report.

<u>Coronavirus response</u>

Coronavirus has affected millions of people and the economic impact is significant.

At the outset of the pandemic we provided space for the firms we regulate to concentrate resources on serving their customers. We gave firms flexibility over some regulatory requirements and significantly scaled back our programme of routine business contact. We only contacted firms on business-critical requests or about their response to the situation, so that they could focus on responding to coronavirus.

We looked closely at our own work plans and postponed activities that were not critical to protecting consumers and market integrity in the short-term. We chose to continue some regulatory reform, particularly work to help the most vulnerable and some long-term change programmes, such as our own transformation work.

<u>Future of Regulation</u>

<u>Developing regulation</u>

Our ongoing transformation programme will make us a more efficient and effective regulator during the challenging times ahead. It will strengthen the UK financial system and in turn, increase public confidence and enhance the UK's reputation as an international financial centre.

Our Data Strategy will harness the power of data and help us understand markets and consumers better. We are investing in regulatory technology that will enable us to focus our resources on those markets where we see the greatest potential harm and help to underpin our journey to outcomes based regulation.

Senior Managers Regime

The concept of individual accountability is fundamental to the Senior Managers Regime (SM&CR).

Many firms have found clearer accountability helpful in managing their businesses and that it led to better governance through improved challenge. This does not mean that senior leaders should not collaborate or make collective decisions. But they should do so within a framework that makes it clear to them what each is accountable for in the business. Where individuals share a role, the SM&CR allows them to share responsibilities.

Competition and co-ordination with the Competition and Markets Authority

On the point you raise on aggregators, delivering fair value in a digital age is a business priority. We want consumers to benefit from digital innovation and competition, while tackling any problems. Consumers should be able to choose products that meet their needs, at a suitable quality and price, and have the information to assess this.

There is strong, regular, coordination between the FCA and the Competition and Markets Authority (CMA) – at both senior and working level – given that we exercise certain competition and consumer powers for financial services concurrently.

We have worked closely with the CMA to increase consumers' awareness of overdraft use and the cost of overdraft borrowing.

Our alerts rules, which came into effect in December 2019, built on the CMA Order and required firms with 70,000 active PCAs [expand PCA acronym] to automatically enrol their PCA customers into a set of overdraft alerts.

When we consulted on our alerts rules we did so on the basis that we were not making changes to the unarranged overdraft and refused payment alert rules. So, firms already subject to the CMA order should not have incurred any costs.

IGCs

In response to your comments about adding to the responsibilities of IGCs, we have extended the remit of IGCs to 2 specific additional areas of pensions that require independent scrutiny. The first is firms' ESG policies, but only with regard to the pension products that IGCs oversee. The second is ready-made investment solutions designed by firms for investment pathways.

IGCs can leverage their workplace pension accumulation experience in assessing the value for money of investment solutions used in drawdown. IGCs have an important role in providing an independent check and challenge to firms on behalf of consumers, and should not be seen as replicating the firm's own internal governance processes.

Pension Transfer Advice

We took into account the views of each of the Panels when we considered contingent charging. We concluded that a ban on contingent charging was an appropriate part of the package of measures we put forward. There is an inherent conflict of interest in charging on a contingent basis for DB transfer advice. We made our decision in the context of finding that a significant proportion of advice given was not suitable and believe it is a proportionate response to the consumer harm in the market.

Data and Technology

Operational Resilience

Operational resilience is clearly vital to protecting the UK's financial system, institutions and consumers. It has become even more important during the pandemic and we work closely with other authorities to ensure firms maintain continuity of services, whatever the cause of disruption.

Working closely with the Bank of England we are part of CMORG (Cross Market Operational Resilience Group), which brings together industry members to encourage discussion and action on key operational resilience topics. One workstream is specifically looking at a 'Common Incident Lexicon' (i.e. Taxonomy) to support industry members in standardised communications when discussing incidents with regulators and publicly. We continue to engage and encourage this work.

We want to see smaller firms become more operationally resilient, particularly to cyber-attacks, so consumers and market participants suffer less harm. We want to see firms take a stronger stance with their third-party service providers' cyber hygiene and protection of their services, including all the data they hold on, or manage for, the firm.

We have continued to collaborate with the National Cyber Security Centre (NCSC) to make sure communications to smaller firms make our expectations clearer and give firms guidance on cyber resilience. In March 2020, we published the second of our Cyber Insights documents to share best practice on key areas of cyber resilience. We also ran a webinar in March 2020 on Operational Resilience and a Cyber Security podcast.

We will continue to work with the Bank of England on the progression of the Operational Resilience Consultation Paper. This closed for comment on 1 October 2020. Following this consultation, we expect to publish a Policy Statement during the first half of this year.

Open Finance

Open Finance has the potential to improve access within Financial Services, and could substantively change the nature of competition. Our aim is to ensure that it progresses in a way that delivers good outcomes for consumers and that the right incentives exist for all parties to participate.

In December 2019, we published a Call for Input to explore the opportunities and risks of Open Finance. The CFI was due to close in March but we extended the deadline to 1 October 2020, due to the impact of coronavirus. Combining the latest submissions with the number of responses received earlier this year, we received a total of just over 170 responses. We plan to publish a feedback statement in Q1 2021. Based on the responses, we will consider our next steps and will keep the Panel updated as our thinking progresses.

We want to understand what is needed to ensure Open Finance develops in the best interests of consumers, and what role we should play.

Balance of responsibilities

Intergenerational differences

Our periodic Financial Lives Survey provides continual oversight and analysis of the financial lives of UK consumers – across age, socio-economic, geographic and other demographic factors – this provides a critical evidence base for us to use when evaluating whether all consumer needs are being met within retail markets.

We will take the Panel's comments on potential further analytical work into consideration as part of our next business planning round.

Vulnerability guidance

The key aim of our vulnerability guidance is to help ensure that firms take vulnerability seriously and prompt them to embed the fair treatment of all vulnerable consumers into their culture, policies and processes.

Firms should respond to the needs of all consumers showing vulnerable characteristics, but take particular care to ensure they meet the needs of those at the greatest risk of harm.

We have recently completed further research on the impact of coronavirus on people's finances. As expected, while levels of vulnerability have increased, the drivers of vulnerability have not changed.

Our good practice examples have been well-received and we will continue to work with other regulators on how using data can improve outcomes for vulnerable consumers. We also work with government departments, consumer organisations and the wider industry.

Duty of Care

In our Feedback Statement on Duty of Care and potential alternative approaches we committed to reviewing how we apply the regulatory framework, particularly the Principles for Businesses, and how new or revised Principles could strengthen and clarify firms' duties to consumers. We said we would do further work to examine the options that are likely to be the most effective and proportionate, so we can understand their likely impact on all areas of our operation, industry and consumers.

Over recent months, we have had to make a number of reprioritisation decisions in order to protect consumers from harm arising from the impacts of the pandemic. We had planned to seek views on options for change by the end of this year. Due to the coronavirus, we have had to delay publication and now we aim to consult in Q1 2021.

<u>Regulatory Landscape for Pensions</u>

Our work on non-workplace pensions continues, and we will be engaging the Panels ahead of consulting later this year. We will continue to work closely with government and the Pensions Regulator on developments in the pensions market and seek to ensure consistency wherever possible.

We look forward to your continuing advice over the year ahead.

Yours sincerely,

Nikhil Rathi
Chief Executive