FINANCIAL CONDUCT AUTHORITY

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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

Dear Chief Executive

SUPERVISION STRATEGY FOR THE RETAIL BANKING PORTFOLIO

The last 11 months of coronavirus (Covid-19) disruption have highlighted the critical role that retail banks play in the daily life of millions of individuals and businesses. Overall, banks have responded well to the immediate challenges. However, economic conditions for consumers and banks are widely expected to remain difficult, and this is likely to continue transforming the sector. So, our view of the key risks of harm over the next two years is dominated by the economic and social impact of the pandemic, the challenges it presents to your bank, the responses you may choose to make and, ultimately, the outcomes for your customers, including the most vulnerable.

Many of these challenges are not new to you, but they are heightened in these tougher trading conditions and by the increased customer vulnerability from the pandemic and its effects. As you respond and adjust, we expect you to act in a customer-centric way, with proper and early consideration of conduct risks. Establishing a healthy, purposeful culture is fundamental to this.

Purpose of this letter

As part of **our approach to supervision**, we group firms into portfolios based on broadly similar business models. Your firm belongs to the Retail Banking portfolio, which is characterised by retail deposit taking activity. However, our supervision of this portfolio brings together a single view of the risks associated with retail banks' wider activities and services (particularly their regulated lending). In this letter, we:

1. Set out our view of the key risks of harm that retail banks' activities are likely to pose over the next two years. We have grouped these risks into four priority areas of focus. Our view is grounded in analysis of a wide range of data.

2. Emphasise our expectations about what retail banks should be doing to mitigate the key risks of harm in these four priority areas.

3. Outline what work we will do in these four areas to ensure firms are meeting our expectations and mitigating these key risks of harm. We will work closely with specialist colleagues, other portfolio supervisors and, where appropriate, the Prudential Regulatory Authority (PRA).

You and your Board should consider carefully the degree to which your business presents these key risks of harm and review your strategies for mitigating them. You should be prepared to demonstrate how you and your Senior Managers are taking reasonable steps to address these risks. We expect you to promptly remediate newly identified issues yourselves, but where appropriate we will use swiftly escalating interventions with firms unwilling or unable to improve.

Four priority areas for our supervision of retail banks

1: Ensuring fair treatment of borrowers, including those in financial difficulties

Our view of the risks

In the current environment, lenders face growing operational and financial pressures, including from potentially lower net interest margins, and more customers may have difficulties meeting their borrowing commitments. As set out in the recent **Mainstream Consumer Credit Lenders portfolio letter,** these pressures have the potential to cause harm, for example, if banks:

- fail to perform adequate affordability checks, leading to or exacerbating the over-indebtedness of customers
- fail to establish and implement clear, effective and appropriate policies and procedures for dealing with customers in arrears, resulting in unfair or inappropriate outcomes for those in financial difficulties
- fail to embed and respond to our credit card regulatory remedies, leading to potential unfair treatment of customers in persistent debt
- fail to ensure transparency in the pricing structures and features of overdrafts and consumer credit products, leading to adverse customer and market outcomes

These potential harms were identified before Covid-19, but lenders' awareness of them is even more important in the current environment, as they all have the potential to exacerbate the difficulties customers are facing.

What we expect retail banks to do

Appropriate governance and oversight is vital in balancing the needs of customers and shareholders in product and lending decisions, and as part of this we expect retail banks to deliver effectively to customers in financial distress the forbearance and other protections provided under **CONC7**, **MCOB13** and elsewhere.

We have issued several guidance documents with our expectations of firms' treatment of borrowers in financial difficulties as a result of circumstances relating to coronavirus, including for **mortgages**, **different consumer credit products**, and **overdrafts**. With all these products, and the **temporary interventions** we put in place, customers should be treated fairly in line with **Principle 6**. Banks should strive toward outcomes that ensure customers who go on to be granted forbearance under our Tailored Support Guidance are:

- given sustainable arrangements, taking in to account their other debts and essential living costs, which give them reasonable opportunity to repay their debt
- not pressurised into repaying their debt within an unreasonably short period of time
- allowed time to consider their options and, if necessary, seek debt advice before deciding what support to take, and referred to debt advice if this is appropriate
- (for consumer credit products) treated with due consideration and protected from escalating debt once they have entered into a forbearance arrangement with a firm based on what they can afford to pay

As part of this, retail banks should ensure that they:

- recognise vulnerability and respond to the particular needs of vulnerable customers
- have clear, effective and appropriate policies and procedures for dealing with customers in payment difficulties and those the firm understands or reasonably suspects to be vulnerable
- have adequately trained staff to provide their customers with the help they need

What we will do

Assessing banks' regulated lending activities and delivery of forbearance and other protections will continue to be a key supervisory priority for the FCA. We set out more detailed views of the risks of harm from lending activities, and our supervisory priorities and actions concerning them, in the strategy letters for specific lending portfolios, with some published recently (e.g. the Mainstream Lenders letter referred to above) and others that will be published in due course.

We will continue to oversee firms' strategies and targets for **identifying repeat users of overdrafts**, including those in financial difficulty, under **CONC 5D**.

We will monitor the retail bank portfolio to see how forbearance and other **CONC7 protections** are being delivered for relevant Small and Medium Enterprise (SME) borrowers in financial distress.

2: Ensuring good governance and oversight of customer treatment and outcomes during business change over the next two years

Our view of the risks

The difficult economic conditions that are widely expected to prevail over the next two years are likely to present some financial challenges to retail banking business models. In response, firms may seek to change business models and revenue sources, and may seek to reduce costs by cutting budgets or trying to make transformational changes.

However, our recent assessments give rise to a concern that some banks will not necessarily be able to plan and execute these accelerating changes in a way that safeguards good outcomes for customers (including SMEs). Despite some improvements, weak governance and oversight has remained the most common root cause of harm in the portfolio over the last two years, and instances of poor customer service and treatment continue.

So, we see increased risk of harm over the next two years because business changes carried out without proper controls may lead firms to:

- fail to fulfil obligations to customers
- provide sub-standard service or products, or otherwise fail to treat customers fairly
- sell unsuitable products (including new higher risk ones), perhaps through more cross selling
- reprice unfairly or charge excessive fees, e.g. to existing customers (against a backdrop of reduced switching in current conditions) or where customers are in vulnerable circumstances
- handle resulting customer complaints unfairly

Some business changes would particularly impact customers and pose novel risks, including:

- accelerated branch and ATM closures (which would intensify issues around continuing access to face to face services and cash)
- accelerated digitisation and innovation in products, services and technologies
- the growing use of Big Data, artificial intelligence and advanced analytics
- permanent moves to dispersed working (presenting new challenges to controls and culture)

Ultimately, some banks might conclude that their business model is not sustainable in the long term in the face of the various difficult conditions, and choose to withdraw from certain activities and services, or merge with other firms. Such decisions would affect customers, raise issues of continuity of provision (particularly of transactional services), and potentially weaken competition and innovation.

What we expect retail banks to do

Firms must ensure they have in place strong, scalable, agile, capable and adaptable governance and oversight (including risk management frameworks), to ensure that they identify and manage relevant risks they might be exposed to from business changes and, in particular, mitigate any harmful impacts on customers in line with the Principles. As part of this, we expect banks to pay attention to the fair treatment of vulnerable customers during business changes.

More generally, we expect firms to pay attention to indicators of potential vulnerability when they arise and to have policies in place to deal with consumers who may be at greater risk of harm. Firms should be aware that vulnerable customers are not a static population, especially in the current difficult economic and social conditions, and some customers will be newly vulnerable. Please see our proposed guidance on the **fair treatment of vulnerable customers**.

We expect firms to consider whether Principle 6 (customers' interests) or Principle 7 (communications with clients) require them to communicate certain business changes to customers with appropriate notice. We generally expect firms to give appropriate notice to customers about any changes they make to the terms and conditions of bank accounts (assuming they can rely on a power to make these changes that is fair and enforceable). Any specific requirements on giving notice would need to be observed. We would always expect firms to be transparent about any fees and charges that might apply.

We expect firms to have a robust governance and oversight process through which branch and ATM closure or conversion decisions are made. Please see our **guidance** which sets out our expectations that firms carefully consider the impact of a planned closure of a branch or ATM, or conversion of a free-to-use ATM to a pay-to-use, on their customers' everyday banking and cash access needs. We expect you to:

- disclose plans of site closure or conversion to the FCA at the earliest opportunity (Principle 11); and we will expect to engage with you on your long-term plans for your branch estate
- analyse the needs of customers currently using the sites, including vulnerable customers and relevant SMEs, the impact of proposals, and alternatives that are or could reasonably be put in place (Principle 6)

- communicate information about closures or conversions no less than 12 weeks before implementation, ensuring information needs are considered (Principle 7)

Our guidance sets out more detail on our expectations. Please also see our recent **statement** about the guidance. We expect you to engage proactively with us and to be proactive in relation to the impact on customers.

You should take care to consider customer outcomes in taking appropriate steps to stay financially sustainable in the long term. If you choose to withdraw entirely from a regulated activity or service, you should carefully consider your contractual arrangements, any legislative or regulatory requirements around notice, how ceasing continuity of provision may affect your customers, and how you can mitigate any harm in line with the Principles. (Compare, for example, what we say on p9 below about potential closures of current accounts of customers living in the EU.) And if a sale (or acquisition) of all or part of a business is contemplated, you should consider carefully relevant risks and, in particular, consider the impact on customers in line with the Principles, before starting the transaction.

You must tell us about anything we would reasonably expect notice of under **Principle 11** (relations with regulators). This should include any proposed restructuring, reorganisation or business expansion which could have a significant impact on your firm's risk profile or resources. In the present context, this should include in particular the proposed provision of a new type of product or service, or proposed cessation of a regulated or ancillary activity or significant reduction in the scope of such (see SUP15.3.8G (1)(c)&(d)). Principle 11 applies to **unregulated activities** as well as **regulated activities** and takes into account the activities of other members of a **group**. Note also your notification obligations under **SUP 15.3.1R** (matters having serious regulatory impact).

We will expect to engage with firms about any risks of harm they have identified in such proposed changes (or serious matters) and how they will mitigate them.

These matters should be considered by all Senior Managers, including the Chief Risk Officer, Head of Compliance, Chair, and Chairs of the Risk and Audit committees. In our supervisory work, we will continue to consider carefully whether those with relevant senior management functions (SMFs) have carried out their responsibilities appropriately under the Senior Management and Certification Regime (SMCR).

What we will do

Our work will aim to ensure that, among other things, we are sighted on strategic change and business transformation programmes, and on whether these are being appropriately governed, assessed and overseen. Firms will want to set themselves milestones and we will expect to engage with them about whether they are meeting these. We will be especially alert to the resulting outcomes for vulnerable customers and for SMEs where their treatment is covered by our Handbook. Specifically, our work will include:

- continuing our assertive approach with identified higher risk firms to secure agreed material improvements in their governance and oversight, escalating our interventions if necessary

- targeted proactive engagement (including information requests) with newly identified higher risk firms, who we will identify through continuously intensifying use of data; we will engage to understand the risk of harm from their business models and from any planned changes to these, focusing on their controls over customer outcomes, including during any cost cutting

We will monitor and engage with you in relation to any plans for branch and ATM closures or conversions and other changes that may impact access to cash. This supervisory work will support the broader policy engagement by the Joint Authorities Cash Steering Group. This was set up by Her Majesty's Treasury (the Treasury) to coordinate the activities of government and regulators relating to cash access, and has representatives from the Treasury, FCA, Payment Services Regulator and Bank of England.

Our work under this priority supports two of our retail banking sector outcomes (see p23 in our **Business Plan**): *'Customers get high-quality products and services from retail banks'* and *'Consumers and SMEs can access services that meet their needs, including cash'*.

3*: *Ensuring operational resilience over the next two years and beyond

Our view of the risks

Most banks responded resiliently to the immediate challenges of Covid-19 disruption and showed agility, moving quickly to working from home while maintaining critical customer services. Generally, the level of outages and incidents reported to us trended down over the last 18 months. However, our assessment is that there are still too many, and that they often stem from underlying weaknesses in the governance and oversight of operations and technology, especially in respect of change programmes or where significant business services and underlying functions are outsourced.

Governance and oversight of operational resilience will be stretched by the likely accelerating rate of operational change, as banks seek to meet the changing needs of both consumers and their own businesses as result of Covid-19, and potentially cut costs, seek new revenue streams or take more risk. Change might include increasing reliance on third party suppliers, increased migration of systems and data to the cloud, and other technological innovations. New propositions developed at pace raise execution risks that can result in increased outages and system failures and in conduct risks. The risk of outages also increases from heavier traffic through digital and online systems as more consumers move to these, and from capacity challenges in firms' delivery of, and roll-off from, the government schemes put in place.

What we expect retail banks to do

Over the next two years, we expect retail banks to identify and manage relevant risks arising from operational disruption, and mitigate harm to customers in line with the Principles, by ensuring effective management of change and transformation programmes. You should carefully consider the findings in our recent multi-firm review **Implementing Technology Change**.

We have reminded firms (p5 above) of their obligations under Principle 11 and SUP15.3.1R. In the present context, this should include in particular telling us of proposed operational and technological changes which could have a significant impact on your firm's risk profile or resources, including material outsourcings (see SUP15.3.8G (1)(e)). Again, we will expect to engage with firms about any risks of harm they have identified and how they will mitigate them.

In this time of potential financial pressure, it will be important for retail banks to consider carefully their procurement decisions before contracting with third-party suppliers. We expect firms to appropriately identify and manage the associated operational risks throughout the life span of third-party arrangements (from inception and onboarding, through business-as-usual operation, to exit or termination of the arrangements). We remind firms that they retain full responsibility and accountability for discharging all their regulatory responsibilities and cannot delegate any part of this responsibility to a third-party. Where retail banks are struggling to get

material third-party suppliers to correct issues or mitigate risks, they should highlight such difficulties to us.

Boards and senior management should be sufficiently engaged both in setting effective standards for operational resilience so these are part of business and risk strategies, and in the management of the main risks relevant to operational resilience. Firms should ensure that in meeting their responsibilities, board members and senior management have the necessary knowledge, experience and skills for their responsibilities.

In line with SMCR requirements, senior management should know what they are responsible and accountable for. This includes establishing clear lines of responsibility for managing operational resilience, and clearly delegating responsibilities where an important business service is supported by a wide range of people and systems. Irrespective of firm size, we expect clarity on who is responsible for operational resilience.

Under the SMCR, individuals that perform the Chief Operations Function (SMF24) are responsible for managing the internal operations or technology of the firm or part of the firm. (Where firms do not have an individual performing the SMF24 function, it is for the firm to determine the most appropriate individual who is accountable for operational resilience.)

In our supervisory activity, we will continue to consider carefully whether the relevant SMFs, notably SMF24, have carried out their responsibilities appropriately.

We expect firms to ensure good communications with customers if outages or other incidents do occur, including making appropriate use of prepared playbooks.

The foregoing should be considered by firms with reference to **Consultation Paper 19/32** and any subsequent statement.

What we will do

Our work will aim to ensure that, among other things, we are sighted on operational and technological change programmes, and whether these are being appropriately governed, assessed and managed.

Our emphasis will be on controls around outsourcing of functions that underpin important business services or have direct customer impact (e.g. contact centres), data migrations, and the approach to risk management and governance of using cloud-based technology.

Specifically, our work will include:

- continuing our assertive approach with identified higher risk firms to secure agreed material improvements in their operational resilience, escalating our interventions if necessary

- sharing and using the findings from our Implementing Technology Change review

- carrying out targeted proactive engagement with newly identified higher risk firms; we will identify these from data, the information we gather about the pace and scale of firms' business transformation plans, and findings by specialist colleagues

- responding to firms' notifications of incidents and other relevant reactive casework

Our work under this priority supports another of our retail banking sector outcomes (see p22 in our **Business Plan**): *'The retail banking sector is operationally resilient and supplies important products and services with minimal disruption to consumers and markets'*.

4: Minimising fraud and other financial crime

Our view of the risks

The recent **National Risk Assessment** published by the Treasury assessed that retail banking services continue to be at high risk of being abused for money laundering and other financial crime. Our own work continues to identify common areas of weakness in many retail banks, including weaknesses in systems and oversight that can leave them more vulnerable to financial crime than we would like.

Firms will face new challenges from the increasing speed and volume of transactions, and from the growing number of vulnerable customers, who may be drawn in as victims (or even in some cases as accomplices, for example as 'money mules'). Firms will also likely face evolving types of fraud and money laundering activity, especially when the economy reopens more fully.

Financial crime controls may be affected by management stretch as business models change, and by focus and resource potentially being removed during cost cutting. New propositions developed or implemented at pace could carry financial crime risks, and accelerated (or delayed) technological change can increase the risk of successful cyber-attacks, enabling financial crime.

What we expect retail banks to do

We expect firms to build greater resilience to fraud and other financial crime through sustained improvement in their systems and controls, so they can more effectively spot, disrupt, stop and report these activities. Despite potential pressures on costs, firms should ensure continuing adequate investment in well-resourced and capable governance and oversight of fraud and other financial crime risks. See our **guide to countering financial crime risks,** our **cyber insights document** which highlights a number of industry insights on cyber resilience, and the **Joint guidance on money laundering and terrorist financing.**

Please review carefully our forthcoming Dear CEO letter to retail banks about anti-money laundering frameworks. In future engagement with your firm, we are likely to ask you to demonstrate the steps you have taken in response to that letter.

We have reminded firms (p5 above) of their obligations under Principle 11 and SUP15.3.1R. In the present context, we note the need for a firm to notify us if it is failing to satisfy one or more of the threshold conditions (SUP15.3.1R (1)). In particular, a factor in determining whether a firm meets the suitability threshold condition is the need for it to minimise the extent to which it is possible for its business to be used for a purpose connected with financial crime (**COND2.5.1C(2)(f)**). Firms also need to notify us of any matter which could have a significant adverse impact on their reputation (SUP15.3.1R (2)), and we should be notified of any significant failure in systems or controls (SUP15.3.8G (2)).

These expectations are especially relevant to the SMCR roles of SMF17 (Money Laundering Reporting Officer) and Prescribed Responsibility D (Financial Crime). In the supervisory work we conduct, we will continue to consider carefully whether the relevant SMFs have carried out their responsibilities appropriately.

What we will do

Our work will focus on ensuring that firms meet our requirements to have effective systems and controls to detect, disrupt and reduce the risk of financial crime.

Specifically, our work will include:

- continuing our assertive approach with identified higher risk firms to secure agreed material improvements in their financial crime controls, escalating our interventions if necessary

- targeted proactive engagement with newly identified higher risk firms, including in the light of findings from work by specialist colleagues

- dealing with notifications of issues from firms and other relevant reactive casework, including by engaging with foreign regulators or parent companies where needed

Our work under this priority supports another of our retail banking sector outcomes (see p22 in our **Business Plan**): *'The incidence of fraud and financial crime including fraud is minimised within the payments services and the banking sector'*.

Other important areas of work

EU withdrawal

The EU withdrawal transition period came to an end on 31 December 2020. You need to have considered **how the end of the transition period affects you and your customers**, and what action you may need to take. In particular, please note the changes to the FCA Handbook to reflect the UK's exit, and the FCA's approach to using the temporary transitional power (TTP), which came into effect at the end of the transition period. For more information, including on what firms need to consider now that the transition period has ended, visit our **website**.

The PRA and FCA wrote to CEOs in October 2020 with more details on **the importance of the final preparations for the end of the transition period.** That included the need for banks to have plans in place on their approach to servicing their existing contracts with EEA-based customers. Also, the FCA wrote to the Treasury Select Committee about **UK bank closures of current accounts of customers living in the EU in the post-transition period**. The letter emphasised our expectation that firms treat these customers fairly and set out particular aspects firms should consider. You can also find information on servicing your EEA retail banking customers after the end of the transition period **on our website**.

Where firms have identified the need to stop providing services to any categories of customers as a result of EU withdrawal, wherever they are based, we will generally expect to be told, in line with firms' obligations under Principle 11 or SUP15.3.1R.

LIBOR

LIBOR, a key interest rate benchmark, has been proposed to cease for all currencies except USD in December 2021, with USD ceasing in mid-2023. Contracts that rely upon LIBOR and expire after these dates must have reliable fall-backs or be transitioned to a replacement rate. The Risk-Free Rate Working Group has set milestones for new contracts, the most pressing of which is that no new LIBOR contracts that expire post end-2021 should be issued after the end of Q1 2021. We have communicated our expectations through **statements and our website** and all firms who currently rely on LIBOR should read, reflect, and act on these communications. We expect firms to take reasonable steps to ensure the end of LIBOR does not lead to market disruption or harm to consumers. We particularly want firms to manage the conduct risks associated with transitioning loan or mortgage contracts with retail consumers or relevant SMEs.

Conclusion

As noted, it is vital that firms establish **a healthy, purposeful culture**. This remains a key area of focus for us, because unhealthy cultures remain a significant contributory factor in most harms we see. There is a growing consensus that in healthy cultures employees feel a social purpose beyond making money, feel safe from retribution for speaking up, and feel listened to and recognised for the diverse contributions they can make to innovation and improvement.

We place great emphasis on leadership in this regard and expect leaders to set an appropriate tone from the top, with clearly articulated values supported by role modelling of appropriate behaviours. This should be backed up by remuneration and performance management that drives those behaviours. Managers should ensure these values are understood and lived out in practice through all levels of the firm.

Successful leaders will be skilled in leading both strategic and cultural change, informed by purpose. Amid the challenges of the next two years and beyond, retail banks have further opportunity to be part of the solution not the problem and to rebuild trust in financial services.

Next steps we expect from you

We expect you to consider and discuss this letter with your fellow directors and Board and agree what further action you should take to ensure your firm meets the requirements and expectations we have set out.

If you have any questions, please contact the FCA Supervision Hub on 0300 500 0597, or your normal supervisory contact where applicable.

Following completion of this strategy cycle, we will write again with an updated view of the key risks in the portfolio and our supervisory plans for the next cycle.

Yours faithfully

David Geale
Director
Retail Banking and Payments Supervision