

# StepChange response to HMT consultation on regulatory environment cross-cutting reforms

September 2025

# Introduction

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StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2024, over 660,000 people contacted StepChange seeking debt advice or guidance with their problem debt and over 170,000 people completed full debt advice through our online and telephone service.

We welcome this consultation on cross-cutting financial services regulation reforms and address specifically the Government's proposals to require the regulators to produce long-term strategies and 'streamline' their obligations to have regard for their strategic objectives when exercising their functions. In StepChange's capacity as a not-for-profit debt advice provider, we wish to comment specifically on the role of the FCA.

## Response to consultation questions

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### **Question 3: Do you agree with the government's proposal to require the regulators to produce long-term strategies?**

We agree that it could be helpful to require the FCA to produce a long-term strategy. As noted in the following question, we do not agree that the statutory requirement for the FCA to consider its strategic objectives in exercising its functions should be replaced by a responsibility to 'have regard' for a long-term strategy.

We see merit in a responsibility on the FCA to formalise and strengthen its approach to developing a long-term strategy to build on the regulator's strengths and address weaknesses in the consistency and effectiveness of its approach to regulation. The long-term strategy should be a plan that clarifies how the FCA will meet its statutory objectives including the 'have regards'.

The FCA has made good progress in addressing sources of harm in the consumer credit market while supporting a thriving market that meets the needs of most consumers. Its rulebook has raised standards across consumer financial services, it has taken action to address predatory business models and entrenched poor practice in the high-cost credit market, and it has begun reforms to an outdated credit information system that stand to benefit both consumers and industry. These steps show that it is a regulator capable of applying its consumer protection remit effectively alongside its wider market-regulation function.

Less good progress, however, has been made in addressing some significant longstanding consumer harms. A prominent example of this is the persistence of preventable harmful financial difficulties journeys in consumer credit. In 2024, StepChange estimated that four million people, 8% of UK adults, are stuck in harmful financial difficulty: they hold consumer credit products and have been unable to keep up with credit repayments for six months or more without taking harmful coping actions like missing household bills or rationing essentials.<sup>1</sup>

These harmful debt journeys occur primarily because consumers struggling to make ends meet are drawn into entrenched problem debt by revolving credit products—most commonly credit cards—poorly designed to meet their needs. Ineffective affordability assessments fail to identify difficulty before or during the course of an agreement, automatic credit limit increases draw struggling borrowers into increasing debt, and low minimum payments lead to expensive long-term repayment.

These problems are preventable but the regulator has not adequately addressed the problem for several reasons. The FCA's pre-Consumer Duty approach was organised around market studies, which focused on product-specific issues and were not an effective vehicle to surface and address cross-cutting problems. The FCA's approach to developing remedies to the problems it finds has also been influenced too much by narrow cost-benefit analysis, which inevitably puts a greater emphasis on easier to evidence short-term costs and a lower emphasis on harder to evidence long-term benefits, to the detriment of adequately considering impacts on vulnerable consumers and more significant strategic solutions. (An example of this bias in practice is the FCA's response to the problem of persistent credit card debt identified in its credit card market study: instead of responding to persistent debt as a harm to be prevented, the regulator developed a complex set of rules designed merely to reduce the cost of persistent debt to consumers.) The Consumer Duty, with its focus on good outcomes and preventing avoidable harm, is highly relevant to problems like harmful financial difficulties journeys but will not drive change unless applied effectively. There is no sign that the Consumer Duty will be used to address the issues to which it is most relevant, reflecting a regulatory culture that is biased against strategic action.

The emergence of significant redress arising from FOS complaints in the subprime credit market is an example of the consequences of the regulator's low appetite for strategic interventions to address entrenched problems. StepChange and other stakeholders had brought concerns about the approach of subprime lenders to affordability and creditworthiness assessments to the attention of the regulator, but those problems were not addressed. Where those problems, and the associated social harms to consumers including higher costs to public services, could have been

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<sup>1</sup> StepChange infographic (2024) [How consumer credit causes harm for people struggling with the cost of living](#)

prevented through regulatory action, market practice has instead been shifted (to the extent that it has improved) only by significant FOS redress.

Another example where the current regulatory approach can fall short are complex issues where wider public policy and regulatory policy interact such as financial inclusion, or the challenge of supporting victim-survivors of economic abuse. The FCA's current programmatic approach involving narrowly defined projects is not well-suited to these issues where sustained engagement with a range of stakeholders and a flexible approach is needed. A long-term strategy could help by surfacing and creating a framework for sustained engagement and action to more effectively address these type of complex, cross-cutting issues. Similarly, consumer outcomes will be improved, and both government policy and regulation will benefit, if FCA and government activity is better joined-up without compromising the independence of the regulator.

As the government will be aware, the FCA already produces a five year strategy, so it will be important to be clear how a statutory long-term strategy would go further than the regulator's current approach. We would like to see a long-term strategy that is framed and structured in a way that drives a coherent and strategic regulatory agenda without reducing the flexibility the FCA must demonstrate to respond to emerging regulatory and consumer protection priorities.

The short timescale of this consultation precludes us from providing detailed suggestions for a long-term strategy. Initially, we suggest that key elements of a strategy include:

- identifying strategic consumer protection priorities and themes, including key drivers of harm where consumer vulnerability and financial services interact, and a programme of activity to address those priorities;
- a clear approach to outcomes monitoring, using objective data wherever possible in addition to subjective indicators;
- a balance between a long-term strategy framework and more frequent updates to ensure the FCA's approach is responsive to real world conditions, prevent regulatory inertia and ensure mistakes are corrected; and
- a responsibility for the FCA to identify problems that fall to some degree within its regulatory responsibility but require action (including joint action) by government, other regulators and non-statutory professional or industry bodies, and draw the attention of those bodies to the need for action.

**Question 4: Do you agree with the government's proposal to streamline the requirement to have regard to the regulatory principles and remit letter by linking this to the regulators' long-term strategy?**

We do not agree with the government's proposal to 'streamline' the requirement for the FCA to have regard to the regulatory principles and remit letter by linking each to the regulators' long-term strategy.

The government's proposals risk:

- downgrading consumer protection have regards, with greater consequences for consumers affected by socio-economic disadvantage and/or in vulnerable circumstances
- exacerbating the imbalance of power between consumers and firms, leading to worse long-term consumer outcomes; and
- introducing greater regulatory uncertainty and inconsistency, weakening the strategic coherence of the FCA's approach.

It is an essential feature of the FSMA framework that the FCA is required to have regard to its strategic consumer protection objective when exercising its functions. That objective is defined and given substance by the accompanying 'have regards'. For example, the (2)(e) have regard in the consumer protection objective ('the general principle that those providing regulated financial services should be expected to provide consumers with a level of care that is appropriate having regard to the degree of risk involved in relation to the investment or other transaction and the capabilities of the consumers in question') is essential in telling the regulator how to interpret a firm's responsibility to consumers in different contexts, and the 2(b) have regard in the competition objective ('the ease with which consumers [...], including consumers in areas affected by social or economic deprivation, can access [those services]') is essential in framing how the regulator should interpret a well-functioning competitive market in a way that is inclusive of consumers in different circumstances. If the FCA does not consider these important have regards where relevant to its activities, there is a clear risk that important aspects of the FSMA framework designed to promote the interests of disadvantaged consumers that, in our experience, tend to fall into the background unless actively promoted will be further 'downgraded', overlooked or ignored.

More generally, the regulatory framework, including the have regards, ensures that each of the FCA's strategic objectives are given due weighting and maintain the substance of Parliament's intent in the FCA's activities. The firms regulated by the FCA enjoy, as a whole, access to far greater resources than consumer representatives and organisations with which to seek to influence regulatory policy. Regulated firms also enjoy advantages of regulatory access and ownership of product and outcomes data. Each of these factors can shape how the FCA perceives regulatory challenges and solutions. As such, the more general its regulatory obligations become, the greater the risk that unconscious regulatory bias will emerge and be difficult for consumer stakeholders or others to offset.

A long-term strategy will not tell the FCA how to make decisions in regard to specific issues and sub-sectors. In making these decisions, the FCA must seek to grasp all of the complexity, detail and trade-offs necessary to develop robust analysis and make

the best possible decisions. That is not disproportionate, it is an essential purpose of the regulator.

The proposed future relationship between the have regards and a long-term strategy is not defined in the consultation. Achieving a strategic outcome requires a series of steps aligned with a strategy. Presumably, the FCA would still need to make case by case decisions on what aspects of the long-term strategy apply to any activity, which does not look dissimilar to what the FCA does now in regard to the strategic objectives and have regards. It is not clear how this would be more efficient, but it would introduce a serious risk of decreased regulatory consistency. We also note here it is not clear how the unpredictable timing of changes of government and the remit letter would be reconciled with the need for the FCA to develop and deliver a strategy within a predictable framework. The FCA should be sufficiently independent of government to develop and deliver a long-term strategy that delivers its statutory objectives.

It does not appear clear that the requirement to consider the have regards is disproportionately burdensome. In exercising its functions, the FCA considers matters of importance and it is right that a credible regulator should do so within a clear framework. It is able to do this in a proportionate way: we note in public documents like its quarterly consultation paper covering multiple minor rule changes, the FCA typically deals with assessment of its objectives and have regards in a single paragraph. In more detailed consultations, the assessment rarely extends further than two pages. We acknowledge, of course, that work and analysis takes place in practice to support those written assessments but it appears that efficient decisions can be made where appropriate. The FCA's response during the pandemic and subsequent inflation shock, developing, publishing and finalising rules within days, demonstrated it is able to respond in an agile and effective way to urgent real world challenges.

We do not agree with the consultation document's implication that the regulator's ability to act strategically in the long-term and its responsibility to consider the have regards when making decisions are at cross-purposes (2.21). If the FCA has not acted strategically at all times, it is not because it is required to have regard to a range of matters but because it has not applied those principles strategically. Introducing a requirement for the regulator to develop a long-term regulatory strategy can help it to act strategically, but removing the have regard responsibilities would not necessarily of itself do so.

Rather than change the status of the have regards, the government should consider how the have regards and principles can be updated and refreshed (noting the government has stated it will consider updating the regulatory principles where duplication exists). We note, for example, how the FCA has used the Consumer Duty to embed concepts of behavioural bias and consumer vulnerability into its rulebook in great part in response to new regulatory challenges posed by the rapid and widespread digitisation of financial services—there is a strong case that the FSMA 'have regard'

that consumers should take responsibility for their decisions should be updated to embed those concepts. We have also highlighted in this response that the FCA can be constrained by the cost-benefit analysis (CBA) requirement in section 3B (1)(b) of the FSMA 2000 which can make it difficult for the regulator to act strategically and decisively (and indeed the FCA has come under increasing pressure to apply the CBA requirement in a prescribed and narrow manner)—that is to say there are a number of more effective ways the government could support the FCA to act more strategically.

From a consumer protection perspective, the structure and clarity of the FSMA 2000 framework is crucial. It is paramount both the FCA's long-term strategy and all of its activities are aligned with the FSMA consumer protection have regards. Developing a more robust long-term strategy can help the FCA act with more strategic purpose, but muddying the status of key have regards will be at cross-purposes with that objective. Should the government take forward the proposals, we would strongly urge it to clarify develop and consult on more detailed proposals before moving to legislation.

**Question 5: What published documents from the PRA or FCA do you find most helpful? What information do you consider most important?**

StepChange makes use of a range of FCA documents, including the FCA's annual business plan and five year strategy, regulatory initiatives grid, quarterly consultation papers and regulatory perimeter report.

