



FCA FINANCIAL
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Our Positive Impact 2022



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In July 2023, we republished this document to revise our estimates of the benefits brought by our policymaking activities. The first published version of the document reported estimated benefits from our policies of at least £16.5 billion (now £20.7 billion), hence an annual average benefit of at least £5.5 billion (now £6.9 billion). Following this revision, we also updated our Value for Money ratio, which was originally reported to be £11 for every pound spent on the FCA (now £13).

This version also clarifies our methodological approach to calculating the benefits from our policies. The figures reported in this document reflect gross benefits, and disregard any costs that our policies may impose on different parties (eg compliance costs to firms). This is consistent with the approach followed by other regulators (eg the CMA) in similar publications. The benefits reported in the first published version of this document were also estimated based on this approach.

Finally, this version clarifies our methodological approach to quantifying benefits from our competition enforcement activities. While we cannot quantify any benefits from raising awareness and compliance to competition law, we do account for benefits due to the amounts we receive from financial penalties imposed on firms for breaching competition law.



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Summary

Over the 3 years to end-March 2021 we have estimated benefits from a subset of new rules to be at least £20.7 billion.¹ This is an annual average of at least £6.9 billion. Over the same period we have identified benefits due to our enforcement activities of nearly £1.4 billion, an annual average of nearly £0.5 billion.

Demonstrating the positive impact of the FCA and our activities is an important part of being accountable to the public and is part of a wider set of publications setting out our performance. We report on our performance against our Business Plan in our [Annual Report](#), and measure our operational performance using [service standards](#).

This document sets out for the first time how we deliver public or societal value by providing quantified estimates of the positive impact of a subset of our activities – our policy interventions and our enforcement work.

Our intention is that this document becomes a regular publication where we estimate our annual positive impact on a rolling average over a 3-year period.

Quantifying the benefits of our activities is inherently difficult as much of our impact is not financial but in the prevention of harm that may otherwise have been caused. Over time we aim to include in our estimates the positive impact of other work we do, for example authorisation or supervision. We also want to refine the evidence we present, for example improving our methodology for estimating benefits. This will help demonstrate our value for money and shape our priorities.

The 2 sets of benefit figures we have identified together give a total annual quantified positive impact of £13 for every pound spent on running the FCA.

These figures are almost certainly an underestimate of our true positive impact. This is because they are based on a subset of our activities and are compared to all our annual costs.

The document is structured as follows:

- Section 1 discusses the positive impact of the FCA and the challenges in measuring this impact
- Section 2 provides estimates of the positive impacts of our policy interventions, as assessed by our cost benefit analysis (CBA) and post-event evaluation work
- Section 3 provides estimates of the positive impacts of our enforcement activities
- Section 4 provides our value for money ratio.

¹ The first published version of the document reported benefits of "at least £16.5 billion". In July 2023 we republished this document to revise this figure. Due to the revision, we also updated our estimate of the FCA's value for money ratio from £11 for every pound spent on running the FCA to £13.

1 Identifying the positive impacts of our actions

- 1.1** Regulation of financial markets can have wide-ranging impacts. We can measure our impact against our statutory objectives: making markets work well by protecting consumers, protecting and enhancing the integrity of the UK financial system, and promoting competition. If realised, these objectives will ultimately result in higher consumer welfare, economic growth, and competitiveness in the financial services sector.
- 1.2** We reflect the benefits we want to bring about as a financial services regulator in the four topline outcomes we expect from financial services. These cut across all the markets and sectors we regulate, as highlighted in our [Strategy](#).
- 1.3** We split topline outcomes across four themes – fair value, suitability and treatment, confidence, and access. We then further divide them between consumer outcomes and wholesale market outcomes, as shown in the table below. Consumer outcomes are benefits delivered to consumers, and wholesale market outcomes are benefits for wholesale market participants. These outcomes are directly related to the different types of benefits our policies aim to achieve and we attempt to quantify them in our CBA and post-event evaluation work.

Consistent topline outcomes		For consumers
	Fair value	Consumers receive fair prices and quality
	Suitability & treatment	Consumers are sold suitable products and services and receive good treatment
	Confidence	Consumers have strong confidence and participation in markets, in particular through (1) minimised harm when firms fail and (2) minimised financial crime
	Access	Diverse consumer needs are met through (1) high operational resilience and (2) low exclusion

Consistent topline outcomes		For wholesale markets
	Fair value	Market participants are able to make well informed assessments of value and risks due to appropriate transparency
	Confidence	Markets are (1) resilient to firm failures and (2) clean with low levels of market abuse, financial crime, and regulatory misconduct
	Access	Markets are orderly in a variety of conditions so that market participants are able to access a diverse range of services with minimised operational disruptions

- 1.4** For example, benefits resulting from our regulation may be lower prices (fair value), more suitable purchases of financial products such as investments or insurance through the fair treatment of consumers (suitability and treatment), increased participation in financial markets (confidence), and improved access to financial services (access). Wholesale market outcomes include improved market resilience and cleanliness (confidence), and orderliness and lower operational disruptions (access). Consumer benefits are often the most common quantifiable effect of our work.

Challenges in measuring benefits

- 1.5** Many of the benefits of financial regulation given above are difficult to identify and quantify in monetary terms.
- 1.6** This is mainly due to the challenge of isolating the impact of our intervention in a complex system. We typically seek to address this by using causal chain analysis – setting out how we expect an intervention to lead to the desired improvement in outcomes. This can mean we get a good grasp of intermediate steps to delivering outcomes. For example, we might be able to understand how many consumers have responded positively to one of our interventions.
- 1.7** Even with a clear causal chain, in many cases the counterfactual, or the way a market would develop without our intervention, is inherently uncertain when attempting to estimate future benefits. For example, how far innovation will allow consumer needs to be better met over time depends on a range of external factors and is very hard to predict in advance. When the counterfactual is highly uncertain, it is very challenging to estimate the incremental benefit of a new financial regulation. When evaluating post-event benefits the challenge is to find a research method that allows us to compare observed outcomes against those that would have occurred under the uncertain counterfactual if we had not intervened.
- 1.8** Where identification is possible, we are often unable to quantify the effects of our interventions in monetary terms without making some assumptions. For example, consumer confidence might be measurable in terms of relative sentiment but the benefit of greater willingness to engage with a given market, while undoubtedly large, is very hard to quantify.
- 1.9** Some of the other common challenges in quantifying the benefits of our activities include:
- Attribution problems. When our rules and activities are closely intertwined with those of international regulators, central government, and other bodies, attributing the impacts of any one organisation's impact is difficult. There are similar challenges in attributing outcomes delivered between co-dependent FCA activities, for instance regulatory interventions that are the result of collaboration between supervisory and enforcement activities.
 - Timing. The period over which we can expect harm to ultimately reduce often depends on future market developments and innovation.

- Many elements of harm reduction ultimately involve consumer welfare, rather than consumers' financial situation. For example, consumer confidence and customer service benefits may not predominantly be monetary benefits. Similarly, while a clear positive impact of our deterrent work would be a reduction in consumer exposure to fraud and scams operating at our perimeter, it is difficult to quantify the benefits of this. We have a programme of work to improve our ability to estimate certain benefits that have historically proven hard to quantify, including exploratory research on wellbeing.
- Challenges getting data. Estimating incremental impacts compared to a counterfactual often relies on estimating how various parties in that market will react. And those reactions can be dynamic, varying in response to other parties' responses. Getting data that allows us to estimate market outcomes in these circumstances is very difficult. It may also rely on sources such as stated intentions under hypothetical scenarios, which are highly uncertain. Learning from our post-event evaluation work is one way we try to improve how we do this.
- Many benefits of financial regulation are likely to be indirect. For example, our policy and enforcement decisions are likely to have both a direct and specific impact on current market participants subject to intervention and an indirect more general impact on future behaviour of the financial industry as a whole, such as deterrence of non-compliance with both our rules and other relevant legislation. We have so far not attempted to estimate deterrence effects of our work, but this is something we are considering for the future.

1.10 Despite these challenges, we believe it is important to quantify impacts as best we can, to improve both our understanding of the relative effectiveness of different types of interventions and our public accountability.

Potential benefits of different activities

1.11 The whole breadth of FCA activities is ultimately designed to deliver public value through achieving our objectives. However, as discussed in the previous section, quantifying these contributions is not always realistic.

1.12 The 2 following chapters discuss 2 areas of FCA activity where we have some, albeit partial, quantified estimates of positive impact and have used them for our first estimation of positive impact:

- a. New FCA rules, where we are required to conduct and consult on a cost benefit analysis of the impact of our proposed intervention.
- b. Enforcement actions, where we have information on the expected or likely consumer redress by consumers as a result of our actions, and on any penalties paid to the Treasury, which have a deterrent effect and are also available to be used as general public expenditure.

1.13 This does not mean that new rules and enforcement actions are the only source of our positive impact. There are also a wide range of ways in which we use our regulatory tools and interventions to deliver better outcomes. This includes authorisations, supervisory interventions, and advocacy.

1.14 Our authorisations activities are an example of potential sources of positive impact that we do not currently estimate. Authorising firms and restricting the gateway to regulated financial services could lead to a range of benefits. The main benefits we have identified are:

- Blocking the entry of firms to the market that pose significant risk of harm, such as fraud or scams. This happens either through our refusal or by highlighting major concerns, which cause firms to withdraw their applications. Our pilot work has found that this route potentially leads to very high estimates of value for money – over 90:1 in some cases – in certain sectors where we can estimate impact. For example, authorisation applications from credit broking, debt management or from providers of retail contract for differences products. However, it's not yet possible to generalise this conclusion to all sectors.
- Deterring other attempts to enter by firms/persons posing significant risk of harm.
- Improving business models and other potential factors that risk causing harm before firms enter the market.
- Providing proactive support to entry to innovative firms that we deem comply with threshold conditions.
- Providing continued endorsement of firms that are authorised, through management of the FCA Register, potentially preventing some consumers from losing money from dealing with unregulated firms.

1.15 Over time, our intention is that we will be able to estimate the impact or likely impact of more of our types of interventions and activities. For example, our competition enforcement work raises awareness and compliance, which creates benefits we have not been able to quantify. We also plan to use our post-event evaluations to estimate the impact we have achieved. We will also explore different ways in which we can improve our estimates of positive impact over time, such as the feasibility of quantifying the deterrence effects of our supervisory, enforcement or authorisations work. We would expect all of these to add a significant additional benefit over and above the direct interventions we make, as work by other regulators has shown. For example, the Competition and Markets Authority (CMA) looked at the deterrent effect of competition enforcement.

2 Positive impact from our policy interventions

- 2.1** This section presents an aggregation of the benefits in our published cost benefit analyses of new rules.
- 2.2** We are legally required to undertake, consult on, and publish a cost benefit analysis (CBA) before proposing or amending FCA Handbook rules. Although CBAs are undertaken before we act and are not necessarily required to present quantified estimates, they typically represent our most detailed analyses of our activities' impact.

Methodology and assumptions

- 2.3** For the purposes of this paper, we have limited our analysis to CBAs published for larger rule changes. Where the proposals in our consultations involve no, or minimal, cost increase to firms, we are required to include a statement of our opinion that no CBA is required and an explanation of it.
- 2.4** We present annual average figures over a 3-year period, by including benefits from policies whose Policy Statements were published between 1 April 2018 and 31 March 2021. This helps smooth out year to year variation in the number and scale of CBAs, and is consistent with approaches used by other regulators such as the CMA and Ofgem. Quantified estimates of benefits in our CBAs tend to reflect a small number of interventions accounting for a large fraction of the totals. Even though we have taken a 3-year average, total benefits will still vary over time as larger policies fall in or out of the timeframe. It is possible the impact estimates we produce over the next couple of years will be affected by the pandemic and economic downturn, since the number of Consultation Papers and CBAs in 2020 fell compared to the pre-pandemic period.
- 2.5** Our estimates take account of the future ongoing benefits of new rules. The way we typically structure a CBA is to estimate one-off and ongoing cost and benefit estimates. In the figures presented here, we calculate a present value of the stream of estimated ongoing benefits, as we don't always set out a present value figure in our CBAs. We use a discount rate of 3.5%, which is consistent with the Treasury's guidance on appraisal. This guidance recommends that costs and benefits should be calculated over the lifetime of an intervention, with a guideline of 10 years as a suitable working assumption. In this paper we use a time horizon of 10 years (assuming the ongoing benefits start at year 0) since this represents a reasonable approximation of a lifetime of an intervention and is consistent with similar types of interventions in central government impact assessments. The 10-year horizon represents an additional assumption since we have not always assessed in our CBAs how long the ongoing costs and benefits of each intervention would have been expected to continue for.
- 2.6** Where CBAs presented a range of estimates, we have taken the midpoint of the lower and upper bounds of the benefits estimated. On rare occasions this figure may differ from the central estimate presented in the CBA. For example, a CBA may have presented 3 independent scenarios, in which the central scenario was not a simple midpoint of the high and low scenarios. In these cases, we have taken the central estimate.

- 2.7** Where we revised our original CBA estimates in a Policy Statement, we use the revised figures.
- 2.8** For each CBA, the monetised benefits we report in this publication are expressed in nominal terms, at the level of prices in the year of the corresponding Consultation Paper.

Assessment of likely future impact vs. post-event evaluation

- 2.9** The figures we present here are based on our estimates of the costs and benefits before policies are implemented. Because of the uncertainties in before-event estimation, the actual benefits that materialise after the intervention may differ.
- 2.10** Before-event estimates are based on our anticipated assessment of benefits using the best available information before the intervention. Post-event evaluations are usually more accurate. This is because they consider the observed rather than expected impact based on information or data collected after the intervention has happened.
- 2.11** In the post-event evaluations we have undertaken recently, we found some evidence of how costs and benefits may differ from our CBA estimates in practice and have also learnt lessons about the impact of FCA policies. For example, in our evaluation of our general insurance renewal transparency intervention costs were around 70% less than estimated in our CBA before our intervention, and benefits worked in different ways than we originally anticipated. In the evaluation we estimated average consumer savings of £185m per year set against costs of around £4m per year.
- 2.12** Due to the resources involved, we conduct only a small number of targeted post-event evaluations each year. As in the general insurance example above, our post-event evaluations sometimes provide more reliable estimates on the realised costs and benefits of our implemented policies. However, this is not always the case or the focus in an evaluation. For example, our Rent to Own price cap evaluation found prices had fallen due to our price cap's benchmarking requirement, contributing to lower costs of financing for consumers. Although the observed equilibrium prices were in line with our expectations, we did not calculate total consumer benefits as a result of the price cap.
- 2.13** Though our past evaluations have demonstrated the positive impact of our interventions, we have not used post-event information to improve our pre-implementation estimates of impact. This is because, with the exception of Rent to Own, our evaluations to date do not cover policies where the policy statement was published in the 3-year period to March 2021. In the future, we will consider including our post-event evaluation estimates.

Quantifying benefits

- 2.14** For the reasons set out in the previous chapter, it is often unfeasible to quantify all the benefits of a new rule on a market in monetary terms. This is especially true for indirect or second-round impacts of market improvements such as enhanced competition. In many cases it is not reasonably practicable to quantify benefits. Our CBAs will instead contain a non-monetary quantification, a qualitative assessment, or possibly a break-even analysis.
- 2.15** When benefits are not fully monetised, we only go ahead with rules where we consider the benefits are likely to be greater than the costs, or where we have taken into

account the vulnerability of and harm to consumers when weighing up the benefits against the costs of intervening.

2.16 Because fully quantifying benefits is challenging in some circumstances, even in cases where we are able to quantify an element of benefits, we may underestimate the true scale of benefits.

2.17 In this paper we report only on CBAs that quantify at least some element of benefits. This accounts for around one third of all CBAs during the 3-year period to March 2021, presented in table 3. This does not include CBAs where we have quantified costs and provided an analysis of the minimum benefits required to break even. It only includes CBAs where we have provided estimates of quantified benefits. We therefore underestimate the positive impact delivered by our interventions over this period. In the future, we aim to improve our estimation of benefits in our CBAs so we would expect a greater proportion of interventions to be included in our positive impact calculations.

2.18 Alongside benefits, our policies typically result in costs for other parties, such as compliance costs to firms. In order to best represent the aim of our interventions to improve outcomes for a target party – typically consumers but also markets – in this publication we only report the gross benefits from our policies and disregard the costs to firms. This is in line with the approach followed by other regulators in similar publications, such as the CMA.

2.19 We report annually what our regulation costs businesses, as part of our obligations under the Small Business, Enterprise and Employment Act 2015, as amended by the Enterprise Act 2016 (see for example our [2020/21 report](#)). As well as costs to firms, there are costs to consumers, for example from time spent searching and switching, though these are infrequent and generally small. Our cost benefit analyses also set out these costs to firms, consumers and other parties affected by our interventions.

Aggregated benefits

2.20 Table 1 presents our benefit estimates in present value terms. The total benefit provides an estimate of the monetary impact of our interventions by aggregating the total benefits over a 10-year period, discounted so it's in present value terms.

Table 1.

	Total benefit (in present value terms) annual average
	£m
2018-2021	6,904
	Year-1 benefit
2018-2021	848

2.21 In the 3 years to March 2021, we have estimated our new rules have generated a total benefit of £20.7 billion, an annual average of around £6.9 billion.

2.22 Given our methodology, our benefits estimates are likely underestimates of the true impact.

2.23 Looking at the impact of our proposals within the first year of intervention, we estimate an average benefit of £848 million generated in the first year of a new rule being implemented.

Policy interventions included in our estimates

2.24 Our estimates are based on the benefits of policy interventions implemented in the last 3 years for which we have been able to quantify the benefits, at least in part, in our CBAs. The CBAs represent around one third (19 out of 61) of all the CBAs conducted by the FCA in the past 3 years to March 2021.

Table 2.

Year	Policy interventions
2018/19	7
2019/20	7
2020/21	5

2.25 Table 3 below shows the list of policy interventions whose monetised benefits we have been able to include in our total benefit estimates. Over the past 3 years we have estimated that the benefits from new rules we have created are equal to an annual average of £6.9 billion in present value terms. The remaining 42 interventions that are not included in Table 3 are nevertheless judged to be net beneficial, despite our analysis being unable to illustrate this in monetary terms. For example, the CBAs for our Asset Management Market Study remedies and our rules on building operational resilience did not quantify benefits but did contain break-even analysis to demonstrate what would be required for the interventions to deliver net benefits. Taking into account the fact that we are not able to monetise benefits in these and other CBAs, our positive impact is likely to exceed £6.9 billion annually.

Table 3.

Policy statement	Policy Intervention	Total benefit in present value terms (£m)
<u>PS20/6</u>	Pension transfer advice: contingent charging and other proposed changes	11,909
<u>PS19/18</u>	Restricting contract for difference products sold to retail clients	3,091
<u>PS20/8</u>	Motor finance discretionary commission models and consumer credit commission disclosure	1,420
<u>PS20/1</u>	Mortgage advice and selling standards	997
<u>PS20/10</u>	Prohibiting the sale to retail clients of investment products that reference cryptoassets	514
<u>PS19/17</u>	High-cost Credit Review: Buy Now Pay Later offers	496
<u>PS19/21</u>	Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance	389
<u>CP18/43*</u>	High-cost Credit Review: Rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit Discussion on rent-to-own pricing	385
<u>PS19/13</u>	Proposals to promote shareholder engagement	355

Policy statement	Policy Intervention	Total benefit in present value terms (£m)
<u>PS19/8</u>	Increasing the award limit for the Financial Ombudsman Service	298
<u>CP18/11*</u>	Reviewing the funding of the Financial Services Compensation Scheme (FSCS): final rules	281
<u>PS19/11</u>	Product intervention measures for retail binary options	146
<u>PS20/14</u>	Delay to the implementation of the European Single Electronic Format	87
<u>PS19/1</u>	Retirement Outcomes Review: changes to our rules and guidance – improved consumer engagement with retirement income decisions: wake-up packs, risk warnings and annuity information prompt	80
<u>PS18/21</u>	SME access to the Financial Ombudsman Service	70
<u>PS20/3</u>	Signposting to travel insurance for consumers with medical conditions	62
<u>PS20/11</u>	Mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages	56
<u>PS19/27</u>	Changes to mortgage responsible lending rules and guidance	55
<u>PS19/6</u>	Rent-to-own price cap	24

* Please note that these interventions were confirmed in CP18/43 & CP18/11 (for consultations on these policies see CP18/12 and CP16/42 respectively).

3 Positive impact from our enforcement actions

- 3.1** In this section we estimate the benefits from our enforcement activities, which, for reasons set out in earlier chapters, we have limited to the benefit to specific individuals through the amount of redress paid to those consumers by regulated firms and others as a result of those activities. We also include the total penalty amount paid to the Treasury, and the amount of confiscation proceeds under the Proceeds of Crime Act 2002 ('POCA') paid to the Home Office and therefore able to be used for public benefit.
- 3.2** Where possible, we use figures on the actual amounts paid to consumers. Where this is not available, we use the amounts directed to be paid to estimate benefits.
- 3.3** Our estimates do not include the benefits from our competition enforcement activities raising awareness and compliance to competition law, as these are difficult to estimate. In the last 3 years (1 April 2018 to 31 March 2021) we have issued one infringement decision, 4 on notice letters and 25 advisory letters, all of which are expected to generate such benefits.

Methodology

- 3.4** We analyse enforcement benefits by referring to 5 broad types of action:
- **Required redress:** Cases in which we formally use our statutory powers to directly require firms or individuals to pay redress
 - **Administrative cases:** Cases in which we did not *require* firms to pay redress but the firms under investigation *voluntarily* paid or agreed to pay acceptable redress before we imposed alternative action, such as a financial penalty or public censure as part of the overall discussion with the FCA about the appropriate outcome
 - **Confiscation Orders:** Cases under Section 6, Part 2, Proceeds of Crime Act ('POCA') 2002 where the FCA, as prosecutor, applies to the Crown Court to make a Confiscation Order against a defendant who has been convicted and/or sentenced for an offence (eg fraud, money laundering offences)
 - **Restitution Orders:** Cases under Section 382 FSMA, in which we apply to the High Court to order a person (legal or natural) who has breached a relevant requirement to pay us a sum that the Court considers just, for distribution to victims
 - **Financial penalties:** Cases in which we imposed a financial penalty on firms or individuals who engaged in misconduct

Required redress

- 3.5** We can use Section 384 FSMA to require restitution by FSMA authorised persons or persons guilty of market abuse, so they pay the redress we have decided directly to the people affected. To use this power, we must be satisfied that the person concerned has accrued profits, or that consumers have been harmed due to the breach of a relevant requirement.

3.6 We have used the required redress power once between 1 April 2018 to 31 March 2021 as, in general, firms decide to pay redress voluntarily as set out below.

Administrative cases

3.7 Our view is that the redress paid out likely represents the effects of our enforcement action as the redress was paid as part of a response to actions being taken by enforcement, though there is a slight uncertainty concerning the counterfactual. Since firms paid redress voluntarily, there is a possibility that they would have paid redress even if we hadn't taken the enforcement action.

3.8 However, firms under investigation are aware of our policy to consider the adequacy and speed of any appropriate consumer redress when imposing penalties and our ability to require redress if it is not made voluntarily. Our policies therefore strongly incentivise firms to pay reasonable redress when we begin enforcement action. As a result, we believe that figures from Administrative cases can be taken as quantifiable benefits of our action and report the total redress paid to consumers as a result of those cases.

3.9 Although not contained in this year's report, examples of similar action this year resulted in Credit Suisse forgiving US\$200 million of debt owed by the Republic of Mozambique and a voluntary payment of over £10million by Barclays to consumers.

Confiscation Orders

3.10 If the defendant benefitted from their criminal conduct, the Court must decide the total value of that benefit and the amount of assets available to the defendant to enable some or all of the benefit amount to be repaid. The Court orders the defendant to pay that amount by a certain date (Confiscation Order). As part of this, the Court may require that some or all of the Confiscation Order figure be paid as compensation to victims of the defendant's criminal activity. This will require proof of the losses to consumers and a specific order requiring that the confiscation fund be utilised in this way.

3.11 The FCA, as prosecutor, regularly asks for confiscation awards to be paid as compensation and puts significant amounts of work into identifying relevant victims and screening their claims for submission to the Court. The defendant pays the required funds under the Confiscation Order to Her Majesty's Courts and Tribunal Service (HMCTS) which then pays funds to the victims as directed by the Court. Where these funds are not paid in compensation, they go to the Home Office for general public spending or are spent on certain law enforcement projects.

3.12 Under the Asset Recovery Incentivisation Scheme (ARIS), the Home Office pays back a proportion of the amount recovered under Confiscation Orders to the FCA and other UK law enforcement agencies. The funds are then spent on asset recovery, crime reduction and community projects.

3.13 We report the total amount of confiscation monies paid to the Home Office less the amount of ARIS receipts as a result of FCA casework, on 14 Confiscation Orders from 1 April 2018 to 31 March 2021.

Restitution Orders

- 3.14** When a person (legal or natural) has breached a relevant requirement resulting in consumer losses, we can apply to the High Court to order that person pay us an amount that the Court considers just (Restitution Order). We then distribute these funds as restitution to individuals harmed by the breach. As with Confiscation Orders, it often takes longer or is not possible to recover full funds as it is dependent on the ability of the firm or individual to pay, which will vary depending on the type of firm in breach. In these circumstances, we are often unable to repay the full amount of the Restitution Order to consumers.
- 3.15** Once we have received all ordered funds (or as much as appears possible), we often return to the High Court for approval of our planned distribution of these funds (distribution directions). This process can take several years due to appeals by persons subject to the order, the time taken to gather funds and bankruptcies. Taking account of the potential length of time that the restitution process can take, we have included figures where payments to consumers following restitution orders and distribution directions took place between 1 April 2018 and 31 March 2021. In one case, for example, while the original restitution order was made in 2012, the distribution direction was only made in December 2019 and so we have counted it towards benefits in 2019. If we have a restitution order in the period 2018-21 where the amount has not yet been paid, we exclude that amount. Since we have data on the amount paid to consumers, we look at this rather than the total of the restitution order. There were 4 Restitution Orders from 1 April 2018 to 31 March 2021.

Financial penalties

- 3.16** Where a firm or individual commits serious misconduct, we may apply a financial penalty. We maintain a public [penalty policy](#) which requires us, as a matter of law, to set our penalties according to a detailed methodology which takes into account the harm of the relevant misconduct.
- 3.17** Once the total amount of penalties we receive during the relevant financial year has exceeded the budgeted deductible enforcement costs for that year, we pay anything over that to the Treasury.
- 3.18** Since this excess amount is typically used to finance general expenditure such as healthcare and education, we consider these amounts to be benefits of our enforcement activities. Penalties also have a deterrent effect as they reduce the incentives to commit misconduct. We cannot quantify the benefits of this effect, so our calculations are a lower bound estimate of the benefits of financial penalties.

Estimates

- 3.19** We report the benefits for the 5 types of cases separately. As with our CBA figures, we report total redress and penalty payments over a 3-year time period, from 1 April 2018 to 31 March 2021.

3.20 Table 4 below summarises how we measure the benefits from each of the 4 types of enforcement action and from penalties. For Administrative cases and Restitution Orders we include only payments actually made to consumers. For Required Redress we include the amount directed to be paid rather than the actual amount paid, as we do not hold this data.

Table 4

Type of enforcement action	Benefits quantification method
Required redress	Total amount of redress directed to be paid to consumers in a given financial year, according to the date of the Final Notice.
Administrative cases	Total amount paid to consumers in a given financial year, according to the date of the Final Notice
Confiscation Orders	Amount paid to consumers in compensation and amount paid to the Home Office, both as a result of payments made by defendants towards satisfaction of their Confiscation Orders obtained by the FCA in the given financial year.
Restitution Orders	Total amount paid to consumers in a given financial year, according to the date of the distribution directions in the Restitution Order
Financial Penalties	Total amount paid and total amount due to the Treasury in a given financial year from financial penalties

3.21 We take redress benefits to be a one-off benefit to consumers, seeking to correct, as far as possible, the financial harm which has been incurred. Although enforcement actions often involve misconduct that has happened over several years, in all the cases we have identified below the enforcement action was retrospective and taken in response to past misconduct that had already stopped. The penalties imposed in these cases can be assumed to have provided a benefit because the penalties are calculated in order to send a message of both specific and general deterrence, ie deterring both the person and others from committing the same or similar misconduct in the future.

3.22 Often, when enforcement action is taken, it follows other supervisory work completed by the FCA as a result of the detection of that misconduct. While we do not have sufficient information to be certain of this, it is likely that supervisory work both has an immediate deterrent impact on ongoing harm, as well as a specific impact on the conduct of the firm (supervisory work is often not made public and so is less likely to have a more general deterrent effect). Our Enforcement division also includes the Interventions team, which provides direct practical support to supervisory colleagues in tackling immediate and ongoing harm due to misconduct. Formal intervention action may not be necessary in all cases, in particular where identified misconduct and resulting harm was addressed by the relevant firms voluntarily following detection and intervention by the FCA. We do not quantify the benefits of this activity in this publication.

3.23 Presenting redress payments as a net consumer benefit is different from the way redress would be treated in a cost benefit analysis of a new rule. In a CBA an intervention that required firms to pay consumers an amount of money would be treated as a transfer, recorded simultaneously as a benefit to consumers and an equal cost to firms. However, since enforcement actions only concern serious misconduct by firms, we believe it is appropriate to present the figures in estimates of the quantifiable positive impact, and so value for money, of our activity. In theory if all rules were subject to a CBA when they were first introduced, then all estimates of benefits from compliance with those rules would already be recorded. If firms subsequently

failed to comply with those rules and paid consumer redress, there could be a risk of double counting benefits (once when the rule was introduced, and once when the non-compliance was detected). However, much of the stock of the FCA Handbook was introduced before CBA requirements, and even if a CBA was conducted many rules are enforced on a longer time horizon than 10 years. Moreover, since not all CBA benefits can be quantified the risk of double counting is reduced.

3.24 Finally redress payments will vary by year. For Required redress and Restitution Orders in particular, there have been 1 and 2 cases, respectively over the whole 3-year period. This means there can be large variations in the benefits when we take a particular type of action only rarely. To reduce the year-on-year variability we report the annual average over a 3-year period.

3.25 Table 5 below presents the estimates of the benefits from our Enforcement activity by type of action.

Table 5

Financial year	Type of redress				Financial penalties*
	Required redress	Administrative cases	Confiscation Orders	Restitution Orders	
£m					
2018/19		192.70	1.47		67.00
2019/20		170.55	2.33	3.17	206.60
2020/21	0.20	585.23	5.15	3.43	139.40
3-year average	0.07	316.16	2.98	2.20	137.67

* Enforcement costs (including FCA staff and legal costs) have been deducted from this.

4 Value for money ratio

4.1 This section compares the 2 sources of quantifiable positive impact from FCA activities that we have analysed in this paper – the benefits from new rules taken from cost benefit analyses and the redress to consumers from our enforcement activities – to the total costs of running the FCA.

Costs

4.2 To ensure that yearly fluctuations in the cost figure do not distort the picture for our impact, we use a 3-year moving average for total costs. This is consistent with the way in which we report estimated benefits. On this basis, our average annual cost over the financial years 2018/19 to 2020/21 is £563 million.

Expressing benefits relative to the FCA budget

4.3 To provide a benchmark for the scale of the CBA and enforcement estimates, we express them relative to the FCA Annual Funding Requirement (AFR), excluding capital expenditure, as set out in each year's Business Plan.

4.4 The AFR comprises all of the work of the FCA, whereas the numerator (CBA and enforcement benefits totals) only concerns a fraction of FCA activity (new Handbook rules and enforcement cases). This means the ratio of benefits from all FCA activities to AFR running costs will be much larger than the estimates below imply.

4.5 Table 6 below shows the benefits generated from rule making and enforcement. It also shows the Value for Money, which captures the ratio of benefits to the FCA's Annual Funding Requirement.

Table 6. Total benefits and value for money ratio

	Average annual benefits (£ billion)	Value for Money (ratio of benefits to Annual Funding Requirement)
Benefits from rule making	6.9	13
Enforcement benefits	0.5	
Total benefits from rule-making and enforcement	7.4	

Note: The Value for Money Ratio in this table uses the total Annual Funding Requirement. We may consider cost allocations to rule making and enforcement in future years to produce a relative Value for Money ratio for these FCA activities.

4.6 Taking into account enforcement benefits in addition to benefits created from new rules, we estimate to have generated a benefit of at least £7.4 billion per year over the 3-year period. This implies a benefit of at least £13 for every pound spent on running the FCA.

