

# Improving regulatory efficiency on authorisations



# About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes 12% of the UK’s total economic output and employs over 2.2 million people, with two thirds of these jobs outside London. It is UK’s largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It is also the largest taxpayer, and makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

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# Foreword

The UK is a world-leading international financial centre, but we cannot be complacent about its future. In 2020 TheCityUK convened senior practitioners to consider how to ensure the UK remains an internationally competitive place for financial and related professional services firms to invest, grow and do business.

The competitiveness of an international financial centre is dependent on a range of factors. The UK’s strengths lie in its openness, agility, high regulatory standards, approach to innovation and technology, access to talent, agglomeration of skills, and strong legal foundation. Looking to the future, the Financial Services and Markets Bill and Edinburgh Reforms provides a strong platform from which the UK can continue to grow and build on its strengths, tailoring financial services regulation to bolster the competitiveness of the UK as a global financial centre, while delivering better outcomes for consumers and firms.

While these fundamentals remain strong, there are other areas that underpin competitiveness. The culture and operational efficiency of regulators are also key factors. One crucial area of regulators’ operational efficiency is authorisations. Where firms perceive those processes are too complex, opaque or subject to delays, it can discourage further growth and investment. Conversely, where authorisations are simple, transparent, timely yet maintain necessary standards and rigour, they encourage faster investment decisions and can provide clear jurisdictional advantage.

For this report, we have conducted research across the industry to understand some of the challenges firms face when seeking authorisations from the regulators. The insights gained have enabled us to develop proposals that we believe, if implemented in conjunction with actions already being taken forward by regulators and policymakers, can significantly improve authorisation processes. Delivering these recommendations would help further strengthen the UK’s competitiveness and underpin new areas of growth. We hope they make a valuable contribution and provide a basis for further discussion and progress.



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# Executive summary

The regulators we refer to in this report are the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). We put forward recommendations for action that would transform the regulators' approach to authorisations processes by improving speed, efficiency and effectiveness. We focus on four of the regulators' authorisations processes: firm authorisations (Part 4A), variation of permission, change in control and approval of senior managers.

The industry recognises and appreciates that the regulators are taking steps to improve the speed and efficiency of authorisations. For example, the FCA is taking a number of steps to reduce the backlog of authorisation applications, which the industry welcomes. However, there remain concerns across the industry that the actions pledged by regulators will not address the underlying problems and deliver a step-change in culture and operational efficiency on authorisations that can be sustained over the long-term.

Financial services regulatory authorisations in the UK can be slow, inefficient and unpredictable. Regulators can often fail to meet their statutory deadlines for processing authorisation applications. Their current performance reporting is not sufficiently transparent about the delays. As a result, firms across the industry are incurring higher operating costs and losing confidence in the operational effectiveness of the regulators. There is also growing concern that if these problems persist they will negatively impact the UK's competitiveness in attracting global financial business and investment capital to the UK.

Since the reforms that followed the global financial crisis in 2008, the UK's regulatory framework – its architecture, operational independence, stability, and predictability – has been a source of strength, helping to maintain the UK as one of the most attractive places in the world for financial services firms to invest and grow their business. The UK has a reputation for balancing high standards with proportionate supervision, as well as developing rules in a predictable, consultative and transparent manner. Retaining this reputation is a fundamental component of the UK's bid to maintain and enhance its position as a world-leading international financial centre.

However, over recent years firms across the industry have increasingly raised concerns about delays and difficulties with regulatory authorisations, particularly at the FCA. This led us to conduct a review of firms' experiences of authorisations processes in the UK, the results of which form the basis for this report and our recommendations.

A shift towards a regulatory culture that is more commercially aware and efficiency-focused is urgently needed. The regulators are taking on considerable additional responsibilities, from extending the scope of the Senior Manager and Certification regime to the swathe of regulation on-shored from the EU in the Financial Services and Markets Bill. It is crucial to the UK's competitiveness that a high quality and efficient delivery of their core regulatory functions is maintained and enhanced. Our regulatory environment needs to remain competitive and attractive relative to financial centres across the world, and that has to include the efficiency and effectiveness of authorisations processes.

Delivery of the recommendations will help achieve the cultural shift needed and give firms the confidence that a step-change in regulators' operational quality and efficiency can be achieved.

Transparency is a major element of our recommendations – it is crucial to incentivising strong regulatory performance and efficiency. We welcome the government's proposals in the Financial Services and Markets Bill to enhance the accountability of the regulators, to sharpen their focus on international competitiveness and economic growth, and to give HM Treasury power to require regulators to publish information at any time on any matter. We urge HM Treasury to use this power to set performance metrics and require regulators to report against them regularly and publicly. This should include metrics on speed and efficiency of authorisations. This would both incentivise improvements and help Parliament in fulfilling its scrutiny function.

We urge the regulators and government to review our recommendations in the constructive spirit with which they are intended. The industry recognises that the regulators' task is not easy, and we are willing to engage and play their part in improving outcomes overall.

There is confidence that by working constructively together, the industry, FCA and PRA can deliver a high-quality, efficient and effective authorisations regime that contributes positively to the UK's international competitiveness in financial services.

# Recommendations summary

We recognise and appreciate that both the FCA and PRA are taking forward measures to improve their authorisation processes. In chapter 4 of this report we set out in full our recommendations for further actions to help deliver meaningful improvements. Here is a high level summary.

## A. Adopting a more commercially aware, efficiency-focused mindset

### 1. Follow through on the ambitions and tone being set by regulators' senior leaders

The regulators' senior leadership<sup>1</sup> has set a clear ambition for efficiency and commercial awareness in their firm-facing operations. The regulators should see these steps through and instill a long lasting cultural 'service mindset' in authorisations. That reflects the high standards of speed, efficiency and good communication that regulators expect firms to operate to.

### 2. Better understand the impact on firms

The regulators should develop a better understanding of the impact of the authorisations process on firms. The FCA should reinstate its quarterly firms feedback survey and invite firms to meetings to discuss their experiences. Firms should also be transparent about where there are pinch points in these processes, where information requests are not clear and where the process might be impacting the UK's attractiveness. This feedback in turn can be used by the FCA to report on their new secondary statutory objective.

## B. Embracing transparency, accountability and external engagement

### 3. Publish better performance data on authorisations

The government should direct regulators to publish quarterly granular data on key aspects of their performance - including authorisations - against specific metrics set by HM Treasury. We are pleased to see that both the FCA and PRA have already committed to the publication of more detailed data more frequently on their operational performance.<sup>2</sup> We recommend that the regulators publish quarterly granular data on authorisations service standards, including cases that have exceeded service standard timings, and the length of time taken to allocate case officers to applications. The industry should also feedback examples of lack of clarity on where requests were not clear and might have been causing delay. The feedback should be used by regulators to make their authorisations processes more efficient for themselves and industry.

### 4. Offer better guidance to firms

The regulators should offer more comprehensive guidance to firms on their authorisation process requirements and enable delegation of access to the authorisations IT system for trusted third parties, allowing them to assist clients. Firms should ensure the quality and completeness of their applications.

### 5. Enhance engagement and communications with firms

The regulators should engage more closely and openly with firms and set a minimum frequency for updating firms on the status of their applications.

## C. Enhancing internal coordination, capabilities and case management

### 6. Improve internal coordination and information sharing

The regulators should improve their internal information sharing and coordination, to ensure that information is accessible from a single digital source across the organisation. This is particularly necessary between their authorisation and supervisory functions.

### 7. Adopt a digital-first approach to authorisations

The regulators should invest further in a digital first approach to authorisations, automating forms and using AI to reduce administration. They should then focus staff on adding value through experience and judgment. The FCA should link its new applications portal to its Register, RegData and CRM systems. The industry should also feed back to the regulators examples of lack of clarity that contribute to delays. This feedback can be used by regulators to refine processes to be more efficient.

### 8. Implement better training for authorisation staff

The regulators should ensure that authorisation case officers have the knowledge, experience, and capability to process authorisations efficiently and effectively - for example, through more industry secondments. While we welcome the FCA recruiting a significant number of additional staff to work on authorisations, it is essential that all authorisations staff get the right training, including on emerging business models. The industry should be amenable to seconding in case officers from the regulators in the knowledge that the more exposure to firms these individuals have, the better the quality of service from regulators.

### 9. Streamline processes to improve efficiency

The regulators should explore more commonality in definitions across processes to enhance efficiency and engage with firms to streamline processes for less complex applications – for example, certain senior manager applications. Additionally, we suggest that the regulators undertake end-to-end mapping of all authorisations processes to identify areas for further improvement.

<sup>1</sup> For the FCA, the FCA Board and Executive Committee; for the PRA, the Bank of England's Prudential Regulation Committee and the PRA's senior management team.

<sup>2</sup> Letters between Economic Secretary to the Treasury and the CEOs of the FCA and PRA, December 2022, available at: <https://www.gov.uk/government/publications/correspondence-on-regulatory-operational-effectiveness>



# Introduction

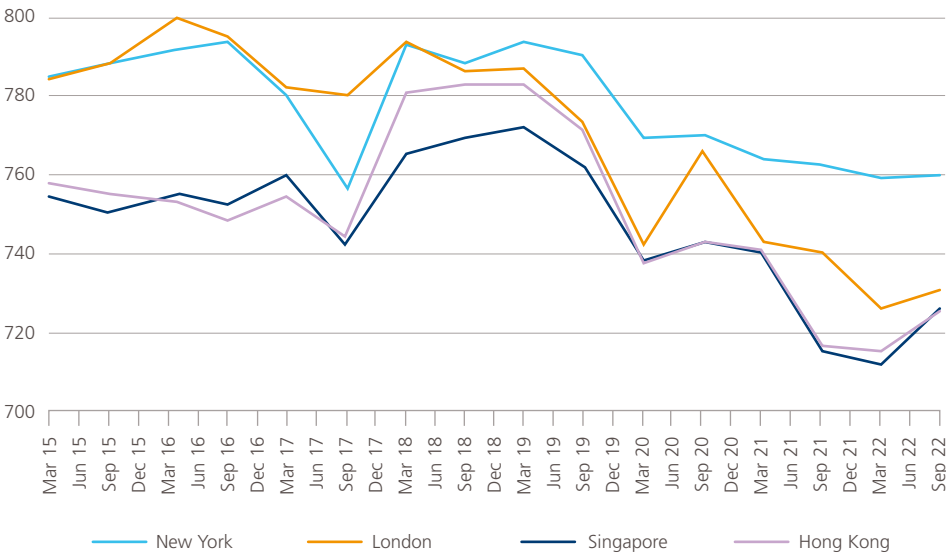
Regulatory authorisations may seem to be purely technical procedures. They rarely surface in the consciousness of the public or media. Yet they can have significant consequences for market integrity and competitiveness. They are the gateway to the UK financial services system, the critical mechanism through which firms gain approval to carry out regulated activities from banking to asset management and insurance (and many others). When discussing authorisations in this report, we are referring to four of these authorisation processes: firm authorisations, variation of permission, change in control and approval of senior managers.

When done well, authorisations facilitate the efficient operation of financial services firms in the UK. They ensure that the firms that provide financial services in the UK support consumers, protect investors and maintain the integrity of market. These firms are drivers of jobs, growth, productivity, and collectively contribute over 12% of the UK’s total economic output. Effective authorisations processes protect market integrity and the financial wellbeing of consumers by preventing bad actors or products from entering the ecosystem. As such, their operation has a direct bearing on the UK’s regulatory ‘shop window’ to the world and, ultimately, on the UK’s international reputation and competitiveness.

In an increasingly competitive global market for financial services investment, the attractiveness of the UK matters. Given the significant economic challenges the UK faces, our ability to attract overseas investment and generate private industry-led growth will depend in no small part on the relative strength of our financial services industry and regulatory environment. With the rise of global financial centres in Asia and the persistent strength of New York, the UK must continue to innovate and adapt to maintain and enhance its position as one of the world’s leading international financial centres.

**Figure 1:** Comparison of the Global Financial Centre Indices for London, New York, Singapore and Hong Kong (2015-2022)

Source: Global Financial Centres Indices, Z/Yen, Indices 17-32. TheCityUK analysis



Overall, the UK’s financial services sector still performs well in international competitiveness rankings: the latest Z/Yen Global Financial Centres Index ranks London second only to New York, with Asian financial centres making larger recoveries post-Covid.<sup>3</sup> However, our conversations with firms across the industry reveal a concern that UK regulators’ authorisations service standards are slipping, to the detriment of the efficiency and effectiveness of the UK’s financial services sector and its global attractiveness. There is also widespread concern about the growing gap between the government’s commitments to boost the UK’s competitiveness and the day-to-day operational reality encountered by firms.

Consequently, TheCityUK undertook an review of member firms’ experiences of regulatory authorisation processes. We spoke to over 20 industry leaders, investment professionals, compliance specialists, legal advisers, professional consultants, and former regulators. We also conducted a comprehensive quantitative survey of financial and related professional services firms in parallel to our qualitative research.

3 Z/Yen, GFCI 32, September 2022.

The picture that emerged from this review reinforced the concerns we had heard. Overall, the performance of the PRA and the FCA is still considered a relative UK strength. But there is a strong sense – particularly in the case of the FCA – that authorisations can be too slow, the processes can be marred by inefficiencies, and statutory deadlines are too often missed. Consequently, firms are incurring higher costs as they seek to navigate unpredictable timelines while meeting their regulatory obligations. The net result is that firms believe the UK’s competitive offer is being diminished. In some cases, they are starting to lose confidence in the operational effectiveness of the regulators. There is a concern among firms that the regulators do not appear to fully understand or appreciate the impact of their operations on the firms they regulate.

To their credit, the regulators have recognised that their performance in authorisations needs to improve. The PRA is already undertaking structural reform, combining authorisations with regulatory technology in a single department, with the aim of enhancing their authorisations performance through innovation. The FCA has recruited additional staff to its authorisations team, hired temporary external support to reduce some of the backlogs and is rolling out changes in a number of other areas.

The government is reforming the UK’s regulatory framework, to reflect the importance of the financial services industry as an engine for growth in the wider economy, and support the ongoing strength and competitiveness of the UK as a leading global financial centre. In December the government announced, as part of its ‘Edinburgh Reforms’ package, that in early 2023 it will commence a review into reforming the Senior Managers and Certification Regime. The culture, efficiency and effectiveness of the regulators is as important as the regulatory framework in achieving those objectives. In recognition of this, the government is introducing a new statutory secondary growth and international competitiveness objective.

We received 40 responses to our quantitative survey (of which half were dual authorised) and taken together with the regulators’ own data and our qualitative interviews, the results all point in the same direction. A step change in approach is needed to improve the efficiency and effectiveness of the UK’s financial services regulatory authorisations process to maintain and enhance the competitiveness of our industry and the UK economy.

# 1: The state of play

The regulators we refer to in this report are The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). They are responsible for the regulation and supervision of tens of thousands of financial services firms, from the largest global investment banks to firms comprised of a single financial adviser.

The FCA is responsible for regulating the conduct of approximately 50,000 firms in the UK and is responsible for the prudential supervision of approximately 48,000 firms.

The PRA is part of the Bank of England. It is responsible for the prudential regulation and supervision of 1,500 firms ranging from banks, building societies, credit unions and insurers to major investment firms. These firms are authorised and supervised on a prudential basis by the PRA, but their conduct is regulated by the FCA (dual-regulated).

## Regulatory authorisations

Financial services firms are required to seek authorisation from regulators for a range of permissions to operate. They are required to demonstrate that they meet specific requirements to receive authorisation to conduct business in the UK. Once authorised, the regulators conduct continuing oversight of firms and individuals against a framework of principles and rules. If firms wish to increase or vary the categories of products and services they offer, they must apply to the regulators for authorisation. They must also apply for authorisation to appoint individuals to senior management functions or other controlled functions. In cases where firms or individuals fail to comply with relevant standards, the regulators can pursue criminal, civil, or regulatory sanctions as appropriate.

Authorisations are, therefore, a vital component of the continuous oversight of regulated firms and individuals. They are effectively the ‘gateway’ to the UK’s financial services ecosystem. Managing the gateway efficiently and effectively while maintaining high standards is important to both the regulators and the industry. Getting it right matters. As the Chief Executive of the FCA recently commented “We carry a lot of risk in... our authorisations team”.<sup>4</sup>

The legislative framework governing the range of authorisation processes is set out in the Financial Services and Markets Act 2000. In addition to establishing the high-level parameters for authorisations processes, the legislation also sets out maximum timeframes within which the regulators must reach a judgment. This report focuses on the four key processes that firms told us were of greatest significance and in most need of improvement by the regulators, as set out in Table 1.

4 Nikhil Rathi, Oral evidence to the Treasury Select Committee, 8 December 2021.

**Table 1:** The key authorisation processes that need improvement

Source: FCA website; PRA website; FSMA 2000

Type of authorisation	Purpose of authorisation	Statutory deadline for regulators' decision
Firm authorisation (new authorisation)	Firms need to demonstrate that they are ready, willing, and organised to meet the standards of the regulatory system.	<ul style="list-style-type: none"><li>• within six months of receipt of a 'completed application', or</li><li>• within 12 months of receipt of an 'incomplete application'.</li></ul>
Variation of permission	If an authorised firm wishes to change or add to its regulated activities, it must apply to the regulator for a 'variation of permission' to do so.	<ul style="list-style-type: none"><li>• within six months of determining an application to be 'complete', or</li><li>• within 12 months of receipt of an 'incomplete application'.</li></ul>
Change in control	Individuals or companies wishing to acquire or increase control in a regulated firm (e.g., because of M&A activity) must seek pre-approval of the change from the regulator.	<ul style="list-style-type: none"><li>• within 60 working days from acknowledgement of the receipt of an application.<sup>5</sup></li><li>• the regulator may request additional information from the applicant. The first time it does so, the 60-day assessment period may be interrupted until the requested information is received, by up to 30 working days.</li></ul>
Senior Manager Functions	Firms wishing to make appointments to specified senior management functions must gain regulatory approval that the employee in question is 'fit and proper' to perform the function.	<ul style="list-style-type: none"><li>• within three months from the date of receipt (unless the application is attached to a firm authorisation request).</li><li>• if the regulator requests additional information, the three-month assessment period pauses on the day on which the request is made and restarts on the day the information is received.</li></ul>

The complexity inherent in the processes' design

The table above illustrates that the statutory deadlines for regulatory decisions vary across authorisation processes. For some the deadline is counted in calendar days, whereas others are counted in working days. There are also differences in the way in which the countdown to the statutory deadline can be paused or extended by the regulators.

This lack of uniformity in the design of authorisation processes presents challenges for the industry and its regulators. Complexity generates additional costs, impairs transparency, and makes it more difficult for firms to consistently deliver what the regulators need, and for government and other stakeholders to hold the regulators to account. Complexity also detracts from the international attractiveness of the UK's regime. This is not to say that all processes should be uniform, but there is clearly scope for greater commonality in definitions (for example, alignment across 'working days' or 'calendar days'), and in limiting the ways in which deadlines can be extended.

5 For an application by a bank or PRA-regulated investment firm, the PRA has a statutory duty to "shorten the assessment period so far as reasonably practicable"

The regulators' performance data

Transparency is an important mechanism in incentivising good performance. Both the PRA and the FCA publish data annually on their performance on authorisations – specifically on the number and proportion of cases that have been processed within the relevant statutory deadlines. The data for the authorisations processes covered in this report are set out in Tables 2 and 3 below:

**Table 2:** The PRA

Source: PRA Authorisations Performance Reports, various years

PRA	Initial Authorisations (Part 4A)		Senior managers (Part V)		Variations of Permission		Change in control	
	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard
2018/19	100	N/A	99.2	11	100	N/A	100	N/A
2019/20	91.7	1	95.3	72	100	N/A	100	N/A
2020/21	88.9	1	60	535	99.3	2	100	N/A
2021/22	91	1	69	340	100	N/A	100	N/A

**Table 3:** The FCA

Source: FCA Operating Service Metrics, 2021/22; FCA Service Standards, various years

PRA	Initial Authorisations (Part 4A)		Approved persons (Part V)		Variations of Permission		Change in control	
	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard	% Compliance	# of cases outside statutory standard
2018/19	99.4	27	99.9	13	99.9	3	100	N/A
2019/20	99.7	3	96.9	715	100	N/A	100	N/A
2020/21	98.7	7	85.7	1,812	99.6	7	99.9	1
2021/22	97.8	18	85.9	1,740	99.8	3	98.9	12



This data shows that in the last three years both regulators have missed statutory standards in at least two of the four authorisations processes that are the subject of this report. This indicates that the area of greatest concern is the authorisation of approved persons, where both the PRA and FCA have frequently breached deadlines. It also suggests that the initiatives the FCA and PRA have launched to improve performance have yet to bear fruit (see annex).

Conclusion

The industry welcomes the initiatives launched by the FCA and PRA to improve their performance on authorisations. However, the persistence of the challenges indicates that there are deep-rooted underlying problems. There is little industry confidence that the initiatives announced so far will be sufficient to resolve those underlying problems and significantly improve performance. This report seeks to enhance understanding of the root causes, their impacts, and further actions that can be taken to achieve a meaningful improvement in performance and outcomes.

2: What firms told us about the authorisation process

Some firms across the industry are experiencing regulatory delays across a range of areas, particularly senior manager authorisations. Several core themes were highlighted in the responses to our interviews and survey.

What firms want from authorisations

Interviewees repeatedly stated that high standards are fundamental to authorisations processes. They are essential to maintaining the integrity of the UK’s financial services ecosystem, to providing a consistent ‘gateway’ across different sectors of the industry, and to sustaining the UK’s reputation as an attractive destination for business and overseas investment. High standards must be accompanied by efficient and effective processes of execution and communication.

Our research produced four key themes that firms consider key to the quality and efficiency of the authorisation processes:

- i. **Speed of processing** – For firms that are seeking to offer new products and services, or seeking regulators’ authorisation for senior managers, speed remains an important factor.
- ii. **Certainty of timeframes** – To plan and operate effectively, firms need to be able to rely on regulators meeting established service commitments, and standards set in statute by Parliament.
- iii. **Transparency and communication** – Firms need to be able to determine, at any point in a regulatory authorisations process, the status of their application and the approximate length of time until a decision is reached.
- iv. **Quality of engagement** – Regulators need to provide firms with the ability to correspond face-to-face, be responsive to firms’ queries, and be reasonable in the additional information they request.

These themes reflect firms’ expectations of a service-oriented approach to regulatory authorisations. Firms understand very well that authorisation and access to the UK’s financial ecosystem is a privilege. They expect regulators to operate efficiently and effectively, upholding the same high standards that they expect firms to uphold for their own customers.

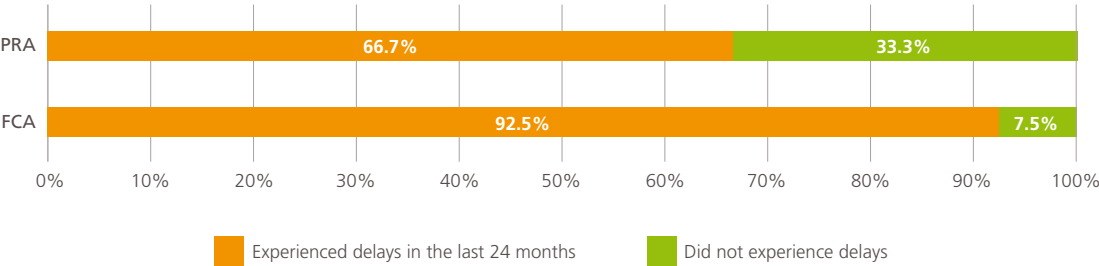
This chapter sets out the findings from our interviews and survey against these themes.

i. Speed

In our survey, we asked firms whether they had experienced delays to the processing of their authorisation applications over the past 12-24 months. The response was stark. 93% of firms regulated by the FCA, and 67% of firms regulated by the PRA, reported that they had experienced delays.

Figure 2: Proportion of survey respondents who had experienced delays in authorisations in the last 24 months

Source: Industry participants



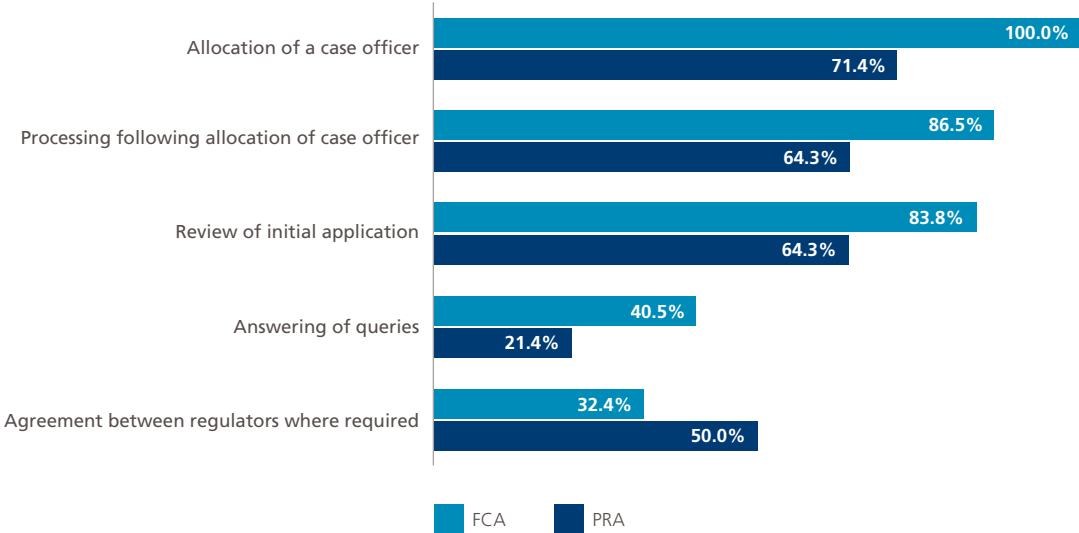
One FCA-regulated business reported that an application for the authorisation of a senior manager had taken 377 days from submission to approval. Another stated that “SMF (senior manager function) applications have been taking in excess of six months to complete”. The service standard for this process, set in legislation by Parliament, is three months.

For applications made to the FCA, delays were reported at all stages in the process: in the initial allocation of a case officer, the initial review of the application, the process of analysis following initial review, and in the communication of the final decision.

For the PRA, firms reported the largest number of delays at the stage of PRA coordination with the FCA, for applications that require the approval of both regulators (i.e., senior manager applications). This suggests that some of the delays reflected in the PRA’s statistics may be attributable to delays at the FCA.

Figure 3: Proportion of survey respondents that reported delays in the last 24 months

Source: Industry participants



Delays in the allocation of applications to case officers at the FCA were a particular source of frustration among interviewees. Delays at this stage mean firms are left “in limbo” without an identified point of contact with whom to follow up. Several participants in our interviews highlighted severe delays in the allocation of a case officer months after they had submitted an application.

A former FCA supervisor told us that the way in which the authorisations caseload is handled contributes to this problem:

“The way in which authorisations would work is that the next case they would review would be the next case that’s about to go over the clock. Obviously, it’s not a very good process, it means that you’re always up against it.”

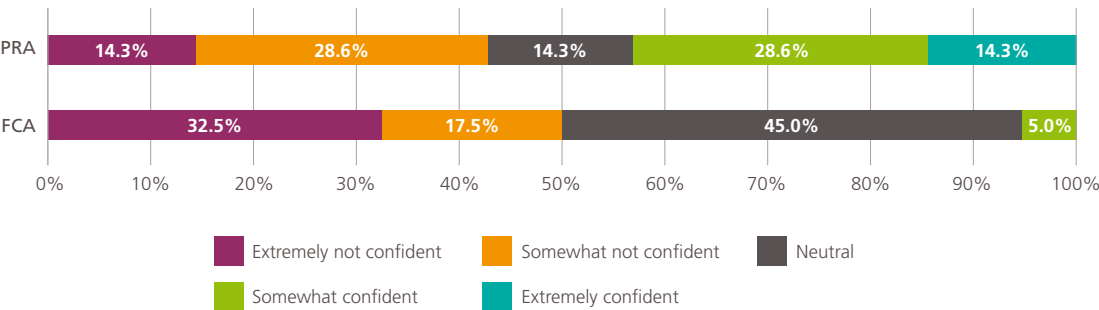
ii. Certainty

A consequence of these delays, particularly at the FCA, is that firms are faced with a lack of certainty about when their application will receive a decision. This has resulted in a lack of trust in the regulators meeting their statutory service deadlines. Only one respondent to our survey said that they were somewhat confident that an application submitted to the FCA would be processed within the statutory deadline. Half (50%) said they were not confident that the FCA would meet this deadline.

By contrast, approximately 40% of the respondents regulated by the PRA were confident that it would meet the statutory deadline.

**Figure 4:** Proportion of survey respondents who were confident that their regulator(s) would meet the statutory deadlines for their authorisations applications

Source: Industry participants



This lack of trust is leading some firms to question why the FCA's performance data does not appear to reflect the reality they experience. In TheCityUK's response to the FCA's 2018 consultation on its approach to authorisations<sup>6</sup> we highlighted industry concerns that, in some cases, FCA officials are seeking to 'game' the system – effectively buying themselves additional time within the statutory time limits set by Parliament. This concern was echoed by several respondents to the interviews we conducted for this report.

For example, one business questioned whether the FCA has deliberately delayed acknowledging receipt of applications on occasion, since the statutory timeline only begins once an application has been acknowledged by the FCA as 'received':

<sup>6</sup> In its November 2018 Feedback Statement, the FCA reported: "A respondent considers that the FCA is inappropriately assessing applications as incomplete to give the FCA the longest time possible to make a decision." FCA, FCA Mission: Approach to Authorisation, November 2018.

"At the moment, the FCA isn't acknowledging receipt very promptly, which means the statutory clock isn't starting. Sometimes they backdate the start date, other times they don't... It's been particularly noticeable in the last 12-18 months that this practice is being used more and more."

Another business raised a concern that the FCA is taking an unnecessarily restrictive view of what constitutes a 'complete' application for some 'variation of permission' applications. By deeming applications 'incomplete' the regulator can give itself twelve, rather than six, months to process applications within the statutory deadline.

"We've had examples of where applications have gone into the hopper, the FCA responds two months later with a query of questionable validity, but as a result the FCA then has 12 months to process the application because it's deemed 'incomplete'. That's really quite painful."

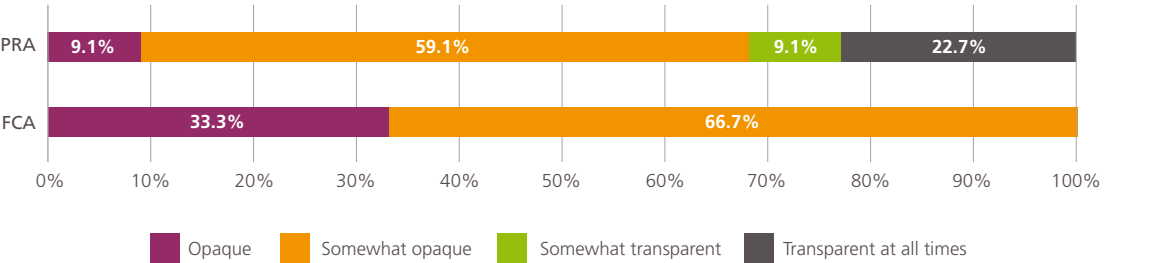
The regulators' inefficiency in processing authorisations applications is beginning to erode firms' trust in the regulators' methods and reported metrics.

iii. Transparency and communication

When the processing of applications is routinely delayed, it places a premium on the transparency of the process and regulators' engagement with applicant firms. In our survey we asked firms whether they felt the regulators' authorisations processes are transparent. The results highlight a significant challenge: 100% of FCA-regulated firms and approximately 70% of PRA-regulated firms said they find the processes are opaque.

**Figure 5:** Survey respondents' perceptions on the transparency of regulators' authorisations processes

Source: Industry participants



This opacity was also raised in our interviews. While the FCA's Connect IT system – through which applications are submitted – provides some basic feedback, the status updates it offers are viewed as so generic and undefined as to be of very limited use. Consequently, firms do not know how long it will take to assign a case officer to their application. The FCA's 2018 commitment – to allocate a case officer to each application within three weeks – is seemingly broken more than it is observed.

“With the FCA, it's hard to provide clients with any guidance other than you need to allow for approximately seven months [for a change in control application] ... We've heard how long the delays are anecdotally, but clients have found it impossible to believe.”<sup>7</sup>

Firms find that a lack of communication from the FCA, once applications have been submitted, is a source of frustration. Without certainty that applications will be processed within the statutory deadlines, and without ongoing communication and transparency, firms are unable to plan with any confidence and the processes create a significantly higher level of friction than firms would like to see.

“They [the FCA] don't seem to feel bound by any need to provide ongoing communications on where things stand.”

The difference between the levels of transparency from the PRA and FCA was also reflected in interviewees' comments about the regulators' willingness to engage openly with firms. Many dual-regulated firms reported significantly higher levels of engagement from the PRA than the FCA, some citing the PRA's pre-application engagement stage as an example of a more transparent approach.<sup>8</sup>

Most firms reported that face-to-face engagement with FCA authorisations case officers is a challenge. Many state that their experience is that officials prefer to communicate via email, which can limit the efficient exchange of information.

“Sometimes things would be better addressed through a conversation rather than back and forth emails between the FCA and firms... It would be valuable if authorisations caseworkers took the time to make a call rather than having questions running back and forth.”

<sup>7</sup> In June 2022, the FCA posted an update on the Change in Control section of its website, noting that it had “experienced delays in allocating FCA-led notifications to case officers over recent months”, with a delay of approximately one and a half months between submission of a complete notification and allocation to a case officer. Change of Control | FCA

<sup>8</sup> The PRA's new bank authorisation process consists of three stages. The first of these is an option “Pre-application” stage, comprised of three meetings to enable firms to develop their proposition and prepare their application. More information is available on the PRA's website: New bank authorisation process | Bank of England

This reluctance to engage can also undermine the free flow of information between a regulator and regulated firms. One business we interviewed reported that it seeks to minimise its FCA interactions:

“We don't bother raising queries with them because they don't reply. We go to regulatory consultants and spend lots of money; whereas we ought to be able to have an interactive discussion with the regulator.”

A number of firms highlighted the difficulty of raising queries with the FCA about authorisation processes in the context of what they perceive to be a lack of available official guidance. While the industry acknowledges that the FCA provides guidance on its website and in the relevant application forms, most interviewees felt that it should be more detailed and regularly supplemented by answers to frequently asked questions and outline good practice.

The complexity of the application forms and the lack of available guidance means that almost all interviewees reported that they employ external advisers to help complete application forms.

“No one would submit an application without external support and external counsel.”

“A lot of the questions are deliberately open-ended and vague – but unclear in terms of what they're asking for. The forms aren't terribly helpful in that respect. We spend a lot of time helping clients work through the information that they need to provide.”

This adds costs for firms which might ultimately be borne by consumers. Crucially, it also puts in place barriers to entry for smaller firms that don't have the financial resources available for specialist advisers. These advisors will always be required for larger, more complex, institutions, but a proportionate approach to the complexity being asked of smaller firms inhibits competition from smaller players.

“To a large extent, we rely on our institutional knowledge of previous applications... It's great for our clients who can draw on that expertise, but if you're coming at this application from a standing start, it's hard to navigate the system and know how to deal with it.”

Many noted that the FCA used to issue a quarterly feedback survey to all firms which had received an authorisation decision in the previous quarter. This allowed for better tracking of satisfaction over time.<sup>9</sup> However, this survey is no longer issued, closing off an important channel of feedback and engagement.

<sup>9</sup> The quarterly firm feedback survey enabled the FCA to chart satisfaction through a number of different indicators, such as the process of submitting applications, interacting with the FCA during consideration of that application and experience on conclusion of the application. FCA, FCA Mission: Approach to Authorisation, November 2018.

To make it easier for firms to plan and run their operations that require regulators’ authorisations, we recommend that the regulators improve their transparency, their direct and open engagement with firms, and produce more timely and frequent communications.

iv. Quality

IT systems

Firms’ engagement with the FCA’s authorisation processes covered in this report begins with the Connect IT system. This system has been in place for several years and has received a number of upgrades during its lifetime to increase functionality. But many in the industry find it to be outdated and not designed around the needs of users:

“It’s not just clunky, it’s unreliable.”

Interviewees complaints about Connect covered a range of areas. For example, the inability of FCA-registered users to delegate access to the system to other employees within the same business (to enable senior manager nominees to review their information prior to submission).

There were also complaints about the system’s limited functionality:

“The Connect system definitely has elements of ‘computer says no’.”

Many reported having to institute bureaucratic, manual workarounds to compensate for the system and its lack of interoperability with widely used software applications. One business said it had replicated, in its internal software, the information fields required for senior manager authorisations to enable drafts to be shared internally. Once signed off, the content of these fields would be transferred manually to Connect, resulting in a hugely time-intensive process.

Firms also noted the inability to delegate access to Connect IT to trusted specialist third parties, such as law firms or consultants, who could assist the completion of applications and provide quality control:

“There isn’t a way into the system unless you are an authorised firm... As a law firm, if we could see the forms and the criteria that need to be completed, we could help improve the quality of the application that is submitted.”

Given the experience such advisers can offer, the industry would welcome the FCA’s recognition of third parties’ involvement, by enabling delegated access the Connect system.

Engagement with staff at the regulators

Once applications are allocated to a case officer, our interviewees experiences vary considerably. In general, firms praised the willingness of PRA staff to engage face-to-face, their readiness to talk through applications and offer feedback upfront, and to give clear likely timelines for a decision.

“The PRA have been far more open; they’ve come back and asked questions straight away; and they’ve given us an indication of what they’re looking at. So, you understand where they are.”

Firms also welcomed the preparedness of PRA staff to engage in an open dialogue, offering views based on their experience.

“We typically see more senior people at the PRA, more comfortable giving firms a judgement about how long authorisation might take and where problems might arise. More junior people at FCA are less comfortable with taking that approach.”

Interviewees reported that, in some instances, their experience of FCA case officers was very positive. Knowledgeable, experienced, and proficient case officers can turn around applications and deliver decisions with significant speed and efficiency. But there were examples where the experience and knowledge of the case officer was insufficient.

“If you get someone reasonably experienced, it can often be quite smooth and efficient, quite sensible. But if you happen to get one of the new hires or someone moved across from another part of FCA, it can still be quite challenging”.

This was felt to be particularly challenging for more complex applications which require greater experience to reach a judgment.

“Generally, things can get unlocked if you can speak to the right person. The judgment is there in the building. But there’s a lot of time wasted. Perhaps there are too few people spread too thinly across the building to add that perspective.”

Our interviewees stated that these authorisation case officers are hard-working and diligent. In many cases, it became a question of whether all FCA case officers were equipped with the right level of knowledge, experience, and training:



“The overall sense is that the quality of staff working on the standard processes could be improved; and while you might have a positive experience with some of the supervisory team, sometimes the authorisations interactions suggest the staff in those functions aren’t of the same calibre.”

Internal coordination and communication

A further theme raised during interviews was the need for better coordination between the FCA’s authorisation and supervision teams. In some ways, this is surprising as authorisations are the first step towards ongoing supervision. However, firms reported being asked for data or documents by the authorisations team that were already held by the supervision team. Interviewees also reported being asked questions by authorisations case officers, where their supervisory colleagues would know the answer, had there been proper liaison between the two teams.

“Are they talking to the relevant supervisors to check if they already have the relevant information? There aren’t enough linkages within the organisation.”

This reflected a wider frustration that knowledge held in the supervisions team is not shared more widely, and that the databases or relationship-management systems used by the FCA are not enabling effective knowledge and information sharing. Firms can be left with the impression that they are ‘starting from scratch’ with authorisations case officers, and that case officers are less effective than they could be because they are not drawing on the FCA’s institutional knowledge:

“It misses a trick in terms of interacting with supervisors who may have more knowledge over what particular roles require.”

Consequently, some firms are left with the impression that two of the teams within the FCA that should be cooperating and coordinating most closely are failing to effectively do so – to the detriment of the overall efficiency and effectiveness of the authorisation regime.

Commercial awareness and mindset

When we asked interviewees “What needs to change to deliver a step-change in performance?” the responses most frequently given were “commercial awareness” and “mindset”.

Overall, firms felt that the regulators do not have a strong appreciation or consideration of the commercial objectives and market pressures to which firms are subject. The impression is that regulators are indifferent to the impact of their conduct and processes on financial and related professional services.

Almost all interviewees raised the lack of commercial awareness in the authorisations team at the FCA. Some said this was characterised by a lack of interest in understanding the commercial objectives of the applicant, which can result in a rigid and inflexible approach:

“We find with our interactions with the UK regulators – they have a bias towards taking a zero-risk approach. They don’t apply a second lens of thinking about the business and commercial elements of the process.”

Others reported that case officers do not appreciate the impact of the FCA’s conduct on firms’ operations and resources. The lack of certainty in timescales combined with poor communication and engagement negatively impacts business costs, efficiency, productivity and makes it challenging for firms to plan with any certainty.

“How do we resource our teams? We don’t know when the FCA is going to come back. I can’t just have people on hold, unassigned to other projects just waiting in the ether. How do we set aside budget?”

“The big problem is that we’re trying to run our business, but we’re having to do it in this state of flux. It’s a systems and controls thing... we’re not where we should be.”

Many interviewees made the link between the need for greater commercial awareness and a more service-oriented mindset. They do not feel that the FCA has achieved the “service mindset” that the former Director of Authorisations promised in October 2018<sup>10</sup>, nor that the proposed “culture change”, as noted by the FCA’s ExCo in May 2017, has been delivered.<sup>11</sup>

Firms that had not been contacted by the FCA for weeks or months regarding their application, received additional information requests with very short timelines, in some cases over weekends, almost always without justification for the urgency. One firm cited a request for additional information received on a Friday night, with a deadline for response of the following Monday morning. One professional services firm summarised:

“Firms get data requests that are unclear, the timelines are ridiculous, and the information goes into a black box: firms don’t get any feedback. Regulators don’t understand how much work the data requests take in firms and the processes that firms go through to provide the data as requested.”

10 “Alongside Brexit preparation, we are continuing to improve our approach to authorisations by instilling a service mind-set.” Sarah Rapson, then FCA Director for Authorisations, Speech at the APCC Annual Conference, 2 October 2018.  
11 Cited in: Dame Elizabeth Gloster, Report of the Independent Investigation into the Financial Conduct Authority’s Regulation of London Capital & Finance plc, 23 November 2020.

“There’s no reason why you [the regulator] can’t be world-leading about the engagement process with firms in the same that firms live or die by how they engage with their clients.”

Indeed, the observation reflects a broader sentiment that in authorisations, that regulators do not uphold the same high standards to which they hold firms. Nor are they matching the commitments to efficiency and competitiveness made by government ministers:

“Government and Treasury and ministers talk the good talk and often come across as hugely supportive of UK business. And then you have a webinar with the regulator, and you’re left questioning whether you want to be here.”

Conclusion

The experiences of the firms that responded to our survey and interviews demonstrate that regulators’ reported breaches of their statutory deadlines are only a part of the story on authorisations. While firms do not doubt that authorisations officials are seeking to do a good job under difficult circumstances, their experiences suggest that challenges permeate almost every aspect of the processes.

We recommend that the regulators set clear ambitions and delivery plans for achieving excellence and efficiency in their firm-facing operations, as a key component of maintaining high standards. As a first step, we would like to see the FCA reinstate its November 2018 “Public Commitments to firms” on authorisations and publish a plan and timetable to deliver on these commitments. Building on the commitment of the former Director of FCA Authorisations, we recommend that the regulators also set out the steps they will take to deliver a ‘service mindset’ approach to authorisations.

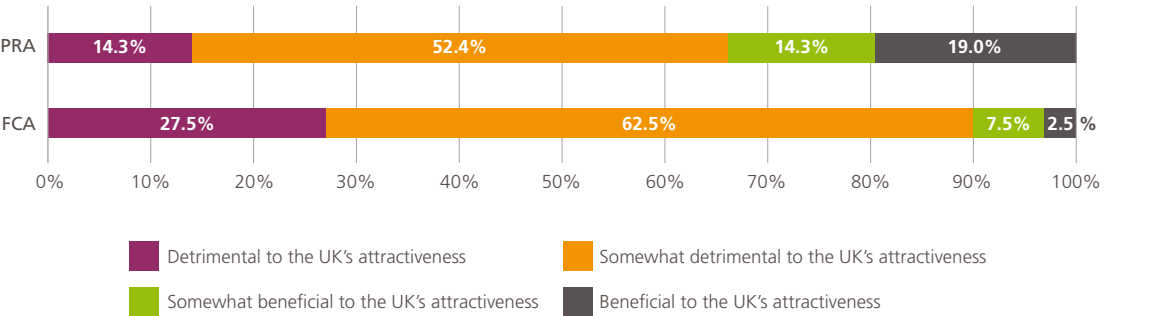
3: The impact on UK international competitiveness

Regulatory inefficiency on UK authorisations is costing firms time and money. The clear message we received through our survey and interviews is that the slow pace and perceived inefficiency of the authorisations processes is harming UK competitiveness. Many firms and investors have a choice about where they base themselves and where they operate.

A professional services business told us that they are regularly asked by clients to provide analysis on the ease of operating in the regulatory environments of a range of jurisdictions, and that the ease of navigating the authorisations process is always “on the list”. It is clear that the efficiency of authorisation processes matters.

In our survey, we first asked firms whether the efficiency of the regulators’ authorisations processes has an impact (positive or negative) on the attractiveness of the UK as a place to do business. The results were conclusive: nearly all the firms we reviewed said efficiency does have an impact on the attractiveness of the UK.

**Figure 6:** Perceived overall impact that the efficiency of the regulators’ authorisations processes have on the attractiveness of the UK as a place to establish/do business  
Source: Industry participants

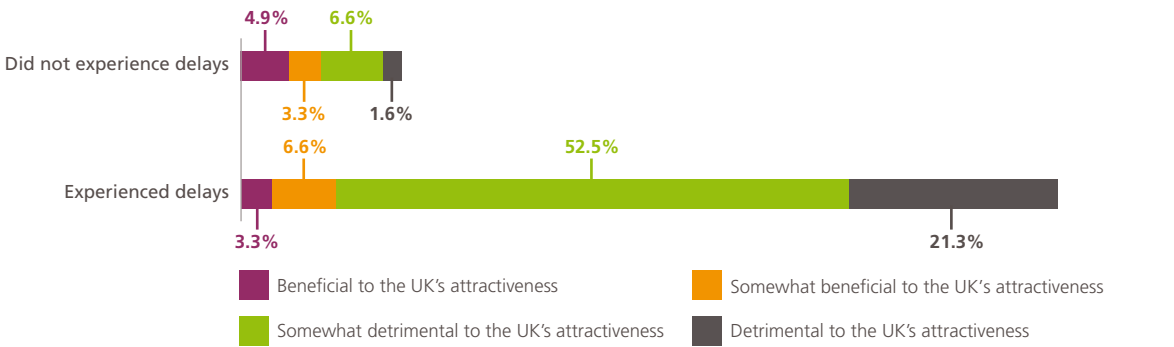


We then asked whether the current impact of the efficiency of the regulators’ authorisation processes is beneficial or detrimental to the attractiveness of the UK. The response was similarly conclusive. For the FCA, nearly all respondents (90%) said the impact is detrimental to the attractiveness of the UK. The results were similar for the PRA (70%).

In our interviews, the view that regulatory inefficiencies were slowly diminishing the UK’s competitiveness was a theme raised by a number of firms. For example, an EU-headquartered business currently seeking re-authorisation of its UK-based branch told us:

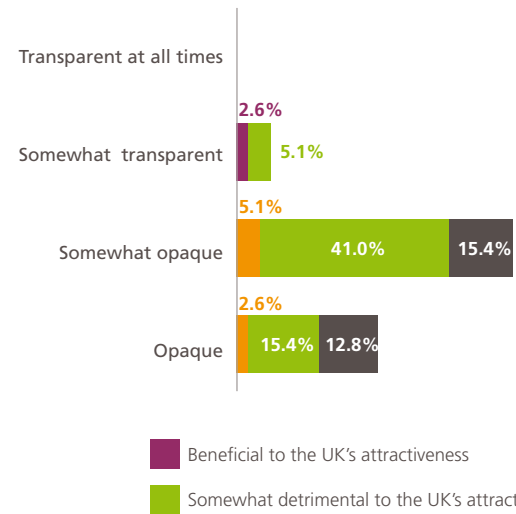
“Every time I go cap in hand to the [board] saying we’ve got to spend £x million to get ourselves re-authorised in the UK, you can see them thinking: do we really need this branch in London?”

**Figure 7:** Proportion of all respondents view of UK attractiveness depending on whether they had experienced a delay  
Source: Industry participants

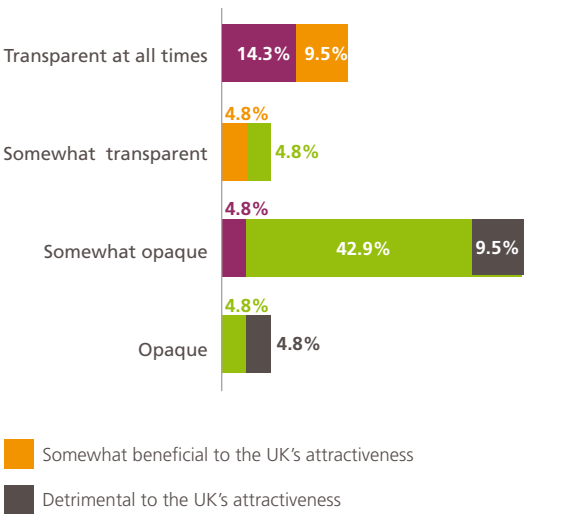


It is clear not only that delays to authorisations have been common, but that delays appear to increase the likelihood of a firm viewing the UK regulators as having a negative impact on the attractiveness of the UK as a place to do business.

**Figure 8:** Perceived FCA impact to UK attractiveness grouped by perceived transparency  
Source: Industry participants



**Figure 9:** Perceived PRA impact to UK attractiveness grouped by perceived transparency  
Source: TBC



Respondents that had negative perceptions of the transparency of their regulators were far more likely to have a negative perception of their regulators’ impact on the attractiveness of the UK. This is clearer when we show the proportionate makeup of these responses.

**Figure 10:** Impact of regulators’ operational efficiency on UK attractiveness

Source: Industry participants



It is much clearer here that the more transparent a regulator is perceived to be, the greater the perception that they are beneficial to the attractiveness and competitiveness of the UK.

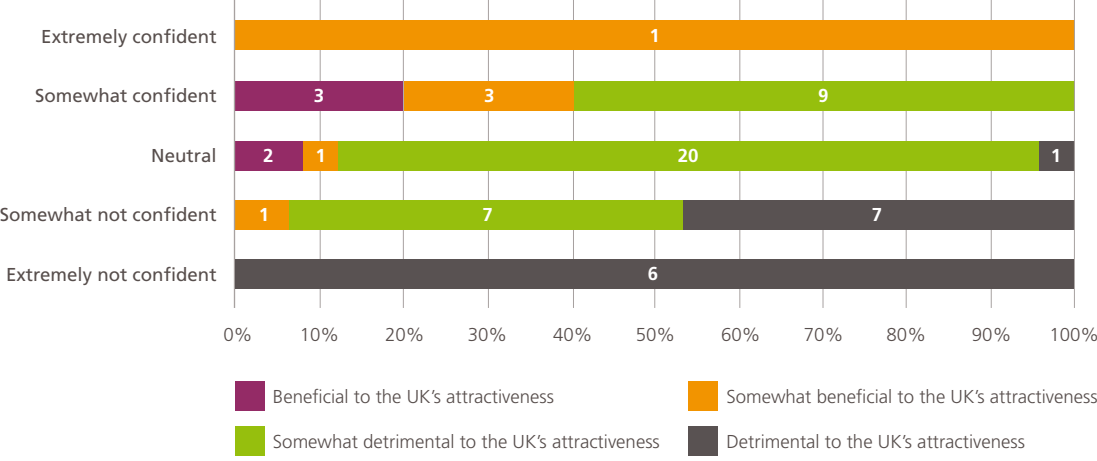
There seems to be a lack of confidence that regulators will improve their authorisation processes despite planned and completed work by the regulators aimed at delivering improvements.

Even of respondents that were somewhat confident that the authorisation process would improve, 60% believe that the UK regulators have a somewhat detrimental impact to UK attractiveness.

Respondents who were confident in the process improving were more likely to view the regulators as beneficial to UK attractiveness.

**Figure 13:** Perceived regulator impact on UK attractiveness grouped by confidence that they will improve processes

Source: Industry participants



### Competing with the EU

One business reported that while the FCA can take three to four months (not including queries) to process an application for senior manager functions or other controlled functions, the Central Bank of Ireland takes “just a few weeks.”<sup>12</sup>

However, another reported that, when it simultaneously submitted ‘Change in Control’ applications in the UK and Luxembourg, the total time taken to approve the applications was approximately the same. Timescales were perceived by many as similar, but with European regulators providing a greater level of certainty about the likely duration of the authorisations process.

“In other jurisdictions, you’re able to predict with relative certainty (even unhelpfully long timelines) the timescales, but there’s a process and they’re within a tolerable window.”

<sup>12</sup> The CBI has a regulatory service standard of assessing 85% “standard” Fitness and Probity applications within 15 business days. For certain qualifying applications, reduced service standards apply. CBI, Regulatory Service Standards Performance Report H1 2022, August 2022.

Firms told us that this sense of certainty is supported by greater engagement from EU regulators. Many reported that communication between firms and regulators in France, Germany and Luxembourg is more frequent and open. A firm seeking to establish a subsidiary in Germany reported that:

“Aside from being a slow process, it’s been extremely positive from the point of view of their engagement. It’s all in English, their English is fantastic, the relationship is good. They’re professional.”

Another business, headquartered in Italy, reported that engagement with both the Italian regulators and the European Central Bank (ECB) is more open and welcoming than with UK regulators:

“Interactions with the ECB are on first-name terms... [With the ECB, Bank of Italy and CONSOB] there’s always a slightly more personal approach. It’s much more of a dialogue – ‘tell us about your plans and we’ll tell you what we’re thinking.’ As opposed to the slightly aggressive letters we get from FCA which say: “do this, or else”.

However, firms also reported that the overall reputation of UK regulators amongst their EU counterparts is still strong, and, in some cases, the technical knowledge of UK regulators was superior to that of their EU counterparts.

“We’re really struggling with the ECB to try and explain global norms and operating models. That conversation has been very difficult. And it’s a very different conversation with the UK regulators.”

Competing with Singapore

Members have noted that for Singapore’s ‘shop window’, new investors into the Singapore market will first have an opportunity to meet with the Monetary Authority of Singapore (MAS) division focused on markets and development. Singapore is keen to win business in FinTech, innovation, green finance and insurance so aims to take a business-friendly approach first and at the appropriate stage bring in regulatory colleagues to discuss rules.

It is worth noting that Singapore has also had issues with processing times in the past, but this was raised by market participants and the regulators took the time to review their systems and worked with firms to make improvements. It has been suggested that authorisations now take around three to four months depending on licence in Singapore. The MAS can give financial grants to firms for digitalisation and hiring to overseas expansion and innovation. It is also committed to ensuring the most efficient regulatory framework and has taken steps to update complex, outdated or overlapping rules. The MAS approach to regulation is flexible and responsive to change, gives frequent opportunities for industry feedback and has an outcome-focused, risk-based approach.

Conclusion

UK regulators’ inefficiencies in processing authorisations applications are sufficient to lead many financial and related professional services firms to conclude that, if not addressed swiftly and adequately, they will negatively impact the UK’s international reputation and competitiveness.

While there were not any firms that suggested that they might withdraw from the UK market because of this inefficiency, the sentiment was that for global firms it is becoming harder to make the case for international capital to be invested in the UK.

Overall, the message from firms is that the UK’s regulatory shop window is not as attractive as it could or needs to be if the UK is to maintain and enhance its position as a world-leading international financial centre.

We welcome the steps that the FCA and PRA have already taken to improve speed and efficiency in processing authorisations<sup>13</sup>, and the further steps to which they have committed. However, most firms tell us that they have not yet begun to experience significant improvements in the level of service. They are also cautious about whether the actions taken and announced by regulators will be sufficient to deliver the performance step-change that is needed. Less than a third of respondents to our survey were confident that their experience of authorisations would improve significantly due to the regulators’ existing and planned measures.

13 The FCA has reduced the backlog of authorisations applications by 40% over the last year. See, for example, Sarah Pritchard (Executive Director, Markets – FCA), Speech, 27 September 2022.



# 4: Recommendations

We have nine recommendations for action by the regulators that we believe would give financial and related professional services firms confidence that a step-change in performance can be achieved. Collectively, they seek to generate a shift in the culture of the regulators towards a more commercially aware and efficiency-focused mindset.

These recommendations also aim to create greater transparency around regulators’ processing of authorisation applications.

The nine recommendations are grouped under three headings, as follows:

- A. Adopting a more commercially aware, efficiency-focused mindset
- B. Embracing transparency, accountability, and external engagement
- C. Enhancing internal coordination, capabilities, and case management.

While all but one of the recommendations (number three) address both regulators, in recognition of the additional caseload and challenges facing the FCA, much of the detail in the recommendations is specifically focused on the FCA.

## A. Adopting a more commercially aware, efficiency-focused mindset

### 1. Follow through on the ambitions and tone being set by regulators’ senior leaders

The regulators’ senior leadership<sup>14</sup> has set a clear ambition for efficiency and commercial awareness in their firm-facing operations. The regulators should see these steps through and instill a long lasting cultural ‘service mindset’ in authorisations. That reflects the high standards of speed, efficiency and good communication that regulators expect firms to operate to.

### 2. Better understand the impact on firms

The regulators should develop a better understanding of the impact of the authorisations process on firms. In particular, the FCA should: reinstate its quarterly feedback survey of firms which have recently received an authorisation decision and publish the results; leverage the example of the PRA by inviting larger firms, which submit a higher volume of applications, to follow-up meetings to discuss their views and experiences in more detail. The industry should also be transparent about where there are pinch points in these processes, where information requests are not clear and where the process might be impacting the UK’s attractiveness. This feedback in turn can be used by the regulators to report on their new secondary statutory objective.

## B: Embracing transparency, accountability and external engagement

### 3. Publish better performance data on authorisations

The regulators should increase transparency on their performance on authorisations. Both the FCA and PRA should publish data quarterly on authorisation service standards. The data should be more granular than existing publications, including the minimum, maximum, mean average, modal (i.e., most common) and median average processing times for each authorisation process. It should also include information on the open and closed cases that have exceeded service standard timings, and the length of time taken to allocate case officers to applications. The industry should also feedback examples of lack of clarity that contribute to delays. This feedback can be used by regulators to refine processes to be more efficient.

### 4. Offer better guidance to firms

The government should direct regulators to publish quarterly granular data on key aspects of their performance - including authorisations - against specific metrics set by HM Treasury. The regulators should offer more comprehensive guidance to firms on their authorisation process requirements. Firms accept that delays can be caused by incomplete applications. To help firms help the regulators, the FCA and PRA should publish more detailed guidance for firms on their authorisation requirements, including a ‘living’ Q&A-style document covering the most common recent queries. In addition, the regulators should enable the delegation of access to the authorisations Connect IT system for trusted third parties, allowing them to assist clients with the provision of appropriate information – subject to final sign-off remaining the responsibility of the applicant business.

### 5. Enhance engagement and communications with firms

The regulators should engage more closely, and communicate more openly, with applicant firms, to better understand the business objectives behind their authorisation applications. In line with the 2018 Public Commitments, the FCA should set a minimum frequency for updating firms on the status of their applications. Building on the experience of the PRA, the FCA should increase the number of face-to-face meetings it offers to authorisations applicants, particularly for more complex or urgent authorisations and for overseas applicants. The FCA should also explore how its staff can engage more regularly and informally with authorised firms – subject to appropriate safeguards to avoid conflicts of interest – to enhance their understanding of firms’ business models, commercial objectives, ways of working and expectations of the regulator. The industry should be transparent with their supervisors in kind, respecting that the resources available to regulators is finite, producing constructive feedback on the application process.

14 Emily Shepperd, The Times: ‘Innovation and highest standards go together’, 21 September 2022.

## C: Enhancing internal coordination, capabilities and case management

### 6. Improve internal coordination and information sharing

The regulators should improve their internal information sharing and internal coordination, to ensure that information is accessible from a single digital source across the organisation. The FCA should take steps to improve coordination between its authorisations and supervision teams to ensure that duplicate requests for information are eliminated, and that knowledge and expertise held in the supervision team is shared with the authorisations team. The FCA should introduce a comprehensive client relationship management system to ensure that any relevant information held on firms and individuals is accessible from a single digital source across the organisation, rather than held in siloes.

### 7. Adopt a digital-first approach to authorisations

The regulators should invest further into a digital first approach to authorisations, automating forms and using AI to reduce administration and ensuring that case officer resources are concentrated on the value-adding parts of the process that rely on experience and judgement. The FCA should continue to engage closely with industry as it develops its new applications portal to ensure that useability is prioritised alongside functionality. To maximise efficiencies, the new portal should link to the FCA Register, RegData and the FCA's CRM systems. The industry should also feed back examples of lack of clarity that contribute to delays. This feedback can be used by regulators to refine processes to be more efficient.

### 8. Implement better training for authorisations staff

The regulators should ensure that case officers working on authorisations have sufficient knowledge, experience, and capability to process authorisation efficiently and effectively. To reduce the perceived knowledge and capability imbalance between the regulator and regulated firms, the FCA should continue to enhance the training of its authorisations staff. It should also review whether to enhance staff experience of working with firms through early- and mid-career secondments, subject to safeguards to avoid conflicts of interest. The industry should be amenable to seconding case officers, in the knowledge that the more exposure to firms these individuals have, the better the quality of service from regulators.

### 9. Streamline processes to improve efficiency

The regulators should review whether adopting greater commonality in definitions across processes could enhance efficiency and make relevant recommendations to HM Treasury for any changes. The FCA should also build on the example of some other EU regulators by engaging with financial and related professional services firms on options to streamline processes for less complex applications – for example for certain senior manager applications. Additionally, we suggest that the regulators undertake some end-to-end mapping of the authorisations in order to better identify areas for improvement.

## Conclusion

The government and regulators need to deliver a step-change in performance on authorisations and boost the attractiveness of the UK's regulatory shop window to the world. The task is urgent. Every day that deadlines are missed, or firms are left in the dark about their applications, is a day that firms incur additional costs and trust in the regulators is undermined. Firms are content to pay for applications to be processed but they are reluctant to foot the bill for regulatory inefficiency.

We urge the regulators and government to review our recommendations in the constructive spirit with which they are intended. The industry recognises that the regulators' task is not easy, and we are willing to engage and play their part in improving outcomes overall.

The regulators will take on considerable additional responsibilities in the coming months and years, from extension of the scope of the Senior Managers regime to responsibility for a swathe of regulation that has been onshored from the EU. In doing so, it is crucial that they maintain high quality and efficient delivery of their core regulatory functions, including authorisations. But high standards must not be confused with excessive layers of checks. Skilled human judgment and effective use of technology and data is crucial to delivering accuracy and efficiency. As the FCA begins to assess authorisations through the lens of the new Consumer Duty, we underline that bureaucracy is not a proxy for effectiveness.

In the same vein, we note the considerably higher authorisation rejection rates being reported by the FCA. If these higher rates are genuinely the result of closing loopholes or a tightening of standards where they had previously been lax, then financial and related professional services firms will welcome this news. But the industry would welcome the FCA publishing detailed information on the causes of these higher rates of rejection, to help firms take appropriate action to minimise rejections.

We are confident that by working constructively together, the industry, FCA and PRA can deliver a high-quality, efficient and effective authorisations regime that contributes positively to the UK's regulatory reputation and international competitiveness in financial services.

# Annex

## FCA and PRA performance challenges and resulting initiatives

Year	Performance challenge
2014	<p>The NAOs report on the regulator’s performance:</p> <p>“Early evidence indicates some slowing of processing [of authorisations] in dual-regulated cases” compared to processing times under the Financial Services Authority (the predecessor regulator).</p> <p>It added that “the regulators have identified speed of case processing as an area for improvement” but that “there is no formal plan to address the issue of speed”.</p>
2016	<p>A report by PA Consulting, commissioned by the FCA, on the effectiveness of its supervision following the assumption of responsibility for regulating consumer credit firms, noted a lack of collaboration and information-sharing between supervisory and authorisation teams, stating:</p> <p>“Collaboration between supervisory teams, including Specialist Supervision, Event Supervision, Authorisations and non-supervisory teams (Competition, Enforcement, etc.) has not been mandated in the operational processes to date.”</p> <p>It also found that “apart from Consumer Credit, the interaction between Sector [supervision] teams and Authorisations is often limited.”</p>
2018	<p>In a Feedback Statement to a public consultation on its approach to authorisations, the FCA reported critical themes that had been highlighted by industry respondents:</p> <ul style="list-style-type: none"><li>• <b>Efficiency of the authorisation process:</b> “Several respondents said inefficiency on our part caused unnecessary delay in assessing some applications for authorisation. They cited changing case officers as a cause of delay and inconsistency.”</li><li>• <b>Application completeness:</b> “A respondent considers that the FCA is inappropriately assessing applications as incomplete to give the FCA the longest time possible to make a decision.” The FCA also noted that “Sometimes, however, applications are far from being complete.”</li><li>• <b>Case officer knowledge of financial services:</b> “Some respondents said that our case officers need to improve their knowledge of the financial services market and develop a better understanding of business models.”</li><li>• <b>Regulatory change:</b> “Respondents ask us to do more to help firms prepare for regulatory change. We agree that we have a role to play in helping firms prepare for regulatory change. It is a priority that we have been working on, and we will continue to do so.”</li></ul>
2020	<p>The Gloster Report identified a number of continuing performance challenges in authorisations, including “Inadequate training” of members of the Authorisations Division, “Lack of connectivity” between Authorisations and other FCA internal teams, and a failure to organise all information and data relevant to a business in a “single electronic system” with the ability for it to be interrogated by AI.</p>
2021	<p>In evidence to the Treasury Select Committee, the CEO of the FCA, Nikhil Rathi, acknowledged that “there are backlogs in our authorisations queue that apply to all firms. We are working hard to address those.”</p> <p>Specifically in relation to the processing of Senior Manager applications, he stated that “We have some work to do on that, I would accept”. On the same day, the then Chair of the FCA added that “We need a good system of triage and prioritisation, and a realistic set of targets to work the backlog down and get firms through authorisation when they should be authorised.”</p>

## Resulting initiative to improve

<p>The FCA launched the Delivering Effective Authorisations programme (DEA) to overhaul the way in which authorisations were granted to firms. The programme, which spanned a number of years, was targeted both at internal improvements and at ensuring applicant firms could meet minimum standards in applications, while improving their experience of the FCA’s authorisation processes.</p> <p>At a meeting in May 2017, the FCA’s Executive Committee noted that the aim of the programme was “to move to a more service-focused approach to ensure the authorisation process was adaptive, transparent, timely and consistent which would require a degree of culture change”.</p>
<p>In a speech in October 2018 by the then FCA Director of Authorisations, who acknowledged that:</p> <p>“We must also provide a good service to firms. On a practical level, that can be as simple as ensuring that a change of case officer is handled efficiently and communicated properly to firms. And, of course, if you can measure it, you can improve it. By measuring our performance more closely we have been able to identify where the process can become stuck and tackle it.”</p> <p>One month later, the FCA set out a comprehensive series of “public commitments to firms”, covering all types of application made for authorisations or to vary permission. Given the salience of these commitments in relation to the evidence we received from member firms through the course of our interviews. The commitments include:</p> <ul style="list-style-type: none"><li>• We will tell you that we have received your application within three working days.</li><li>• We will contact you again within three weeks, normally to tell you which case officer we have assigned to your application or to tell you about the date by which we will assign your application. The assigned case officer will handle all communication about your application. We will also give you an alternative person to contact if your assigned case officer is unavailable.</li><li>• If we subsequently have to assign your case to a different case officer, we will tell you this within three working days of making the change and give you the new contact details. The new officer will carefully review the case file to avoid asking for information already held.</li><li>• We will acknowledge all communications from you within two working days of receipt. This may be by means of an automated response.</li><li>• We will usually give you a substantive response to a query within 10 working days of receipt. If this is not possible, we will reply within the 10-working day period to tell you when you should expect to receive a substantive response.</li><li>• We will give you clear deadlines when we ask you to send us additional information.</li><li>• The designated case officer will give you an update on the current status of your case at least monthly and often more frequently. You will be notified within a week once your application is considered complete, at which point you will also be given an indication as to by when your application is likely to be decided.</li></ul>
<p>In December 2020, in response to the findings of the Gloster Report, the FCA announced a number of intended enhancements to its approach to authorisations, including enhancing the training available for all frontline supervisory, authorisations and enforcement staff; and plans to revoke authorisations for firms that haven’t used their permissions within the last 12 months.</p>

Throughout 2021 and 2022 the FCA has set out further steps to improve its authorisation processes:

- Appointing a new Executive Director of Authorisations, Emily Shepperd. Emily Shepperd would also lead the FCA's Transformation Programme.
- Appointed two new Directors of Authorisations: Laura Dawes and Dominic Cashman.
- Filled 95 new authorisation roles.
- Hired 45 'consultants' on a temporary basis from an external law firm and a consultancy to reduce the authorisations backlog.
- Reported that the backlog had been reduced by one-third.
- Stated it is investing "more than £100m in data and technology over three years" across the organisation. Specific to authorisations, it will begin testing "web-enabled forms" with applicants to enhance the user experience and improve efficiency. It is hoped the forms will reduce the number of applications submitted with incomplete information. It also intends to create a "Single View" dashboard "to give greater visibility of risk across priority firms and sectors."
- Removed authorisation application forms from its Handbook, thereby removing the need to consult every time it sought to make a change, to enable the FCA to adapt and change its application forms more rapidly.
- Responded to the Economic Secretary of the Treasury's letter highlighting the importance of operational effectiveness. The FCA set out plans to publish more frequent and detailed data on their operational performance.

The **Prudential Authority**, too, has set out several steps recently, aimed at improving the efficiency of the authorisations processes for which it is responsible:

- **Structural change.** The PRA recently created a new Directorate, comprised of Authorisations, Reg Tech, and International Supervision (ARTIS), aiming to create an innovation zone to look at how to streamline firm authorisations using better technology.
- **Greater automation.** In its 2019 response to the van Steenis Report, the Bank of England set out it would explore proofs of concept for "automating parts of the authorisation process for new firms."
- **New Bank Start-up Unit.** The PRA, in collaboration with the FCA, has created a New Bank Start-up Unit (NBSU) to provide information and support to firms interested in applying for authorisation as a deposit-taker.
- **Bank 'mobilisation' stage.** In 2013/14, the PRA introduced a new, optional, 'mobilisation' stage for new banks, enabling banks that have met essential authorisation criteria to begin operating. There are restrictions on deposits until assessed as ready to become fully operational.
- **Streamlining Senior Manager Applications.** In its most recent Annual Report, the PRA pledged to address delays in the SM&CR application approvals process for which FCA consent is required, including giving greater prioritisation to assessments to help streamline the review process.
- **Increased Frequency of reporting.** In its CEOs response, the PRA committed to reporting quarterly to "help provide greater transparency on our effectiveness, enable greater accountability and provide more information on trends in performance"

- **Further detail on the determination of cases.** In the same letter, they state their confidence in being able to provide "additional insight on timeliness" to help answer a frequent question about the UK's attractiveness.
- **Breaking down of metrics.** In this letter they also suggest that further granularity in their reporting by type of firm will allow "stakeholders to focus on those aspects of our operational effectiveness that most interest them".



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