THE FINANCIAL SERVICES
PRACTITIONER PANEL

Sixth Survey of the FSA's regulatory performance

February 2011

Prepared for the Financial Services Practitioner Panel by TNS-BMRB

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Chairman's Foreword

2010 Practitioner Panel Survey

CHAIRMAN'S FOREWORD

Introduction

The Financial Services Practitioner Panel has a statutory duty to represent the interests of practitioners to the Financial Services Authority on its general policies and practices.
This biennial survey of regulated firms is an important measure of the views across the regulatory environment: it feeds into our work and provides a useful cross check for the advice which we give to the FSA.

The survey is particularly timely, with Government plans to change the regulatory system being developed for legislation in 2011, and implementation in 2012. This is the sixth survey conducted by the Panel and I believe the messages which have consistently been communicated to the FSA over the years, both pre and post financial crisis, remain relevant today. This is especially in the context of the new regulatory infrastructure being developed: the financial services industry welcomes strong regulation but believes it should be subject to rigorous cost benefit considerations; it should be tailored to the specific sectors in which firms operate; and it should be conducted by people with relevant experience and understanding of the industry.

The results have been analysed in each chapter by an independent research company, in consultation with a sub group of members from the Practitioner and Smaller Businesses Practitioner Panel. This foreword provides some perspective from the Practitioner Panel as to the implications of these views for regulation in the future.

Background and Context

The interpretation of the survey results must be seen in the context of the significant upheaval in the environment for financial services regulation domestically and globally since the last survey was undertaken in late 2008.
That period began with the collapse of Lehman Brothers, and whilst the resilience of the UK banking sector has improved since then, significant stresses remain in many parts of the financial system.

Over the same time span the FSA has begun to implement major reforms in the way it supervises firms and introduced a number of significant policy and rule changes in both the wholesale and retail arenas. Many of these changes in regulation, whilst implemented by the FSA, have been developed internationally and in Europe.

In this context it is perhaps not surprising that much of the feedback from regulated firms reflects the fact that they have begun to feel the impact of far greater regulatory intensity and change, without the benefits of those changes having yet had time to materialise. Nonetheless the Practitioner Panel feels that a number of important messages come through from the survey which are relevant both to FSA and to its successor Authorities.

Strong regulation

In the survey, the overwhelming majority of firms across all sectors agreed that strong regulation is for the benefit of the financial services industry as a whole.
This is clearly a good place from which start, but is tempered by the fact that a majority of firms, particularly in the retail arena and amongst small firms, believe that the costs of compliance are excessive.

Overall satisfaction with FSA

Overall levels of satisfaction with the FSA amongst regulated firms have fallen slightly over the last two years, although in terms of their individual dealings with the FSA the majority of firms did not think their relationship had changed.

The qualitative analysis which accompanied the survey did highlight respondents' views of the key drivers of FSA effectiveness which support the Panel's view of the factors which are critical to effective supervision and regulation. These include:

The need for discrimination between firms and sectors based on the nature of their business and the risk which they represent to regulatory objectives.

The need for continuity and good firm/sector knowledge within supervisory teams, with the avoidance of a 'mechanistic' approach.

High quality communications and effective responses at point of contact (and it is worth noting that for small firms in particular, those firms which had greater contact with the FSA tended to be the more satisfied overall).

The average survey scores for the performance of the FSA in achieving in its objectives of maintaining confidence in the UK financial system, promoting public understanding, protecting consumers and reducing financial crime have also fallen since 2008.

Overall a majority of firms felt that the FSA's response to the crisis had not been effective. However, for the 22 Major Groups that were questioned, and arguably, those 'closest' to the crisis, over half felt that the FSA had responded effectively.

Firms across all sectors perceived compliance costs to have risen over the last two years, with the most significant rises amongst the relationship managed retail firms. Amongst all firms the vast majority were either neutral about the value for money in performance terms provided by the FSA, or felt that felt that it was poor. Amongst non-relationship managed retail firms there was a much stronger bias to the poor category.

The Panel has consistently pressed the FSA on its approach to cost benefit analysis. This is in relation to the need to operate efficiently as an organisation, and in relation to ensuring that its resources are focused on the right priorities and effectively delivering desired regulatory outcomes. The survey supports the Panel's view that there is more to be done in this respect.

Larger firms – relationship managed by FSA

The survey particularly draws out the views of large relationship managed (RM) firms. This is a small group of firms, but they service a huge number of customers and their performance has a significant impact on the financial system as a whole. The concentration is illustrated by the fact that around 70 Financial Groups control circa 60% of the market. These firms are therefore regulated more intensively by the FSA, and have been the priority area for the FSA's supervisory enhancement programme (SEP) following the failure of Northern Rock in 2007.

The qualitative research highlighted that the greater intensity of supervision was very apparent to larger firms and this was by and large recognised as a necessity. Firms from outside the banking sector, and lower risk firms, however, felt strongly that supervision had moved beyond a proportionate risk based approach with an inappropriate read across from the major banking sector to other sectors.

The view of the Panel is that there is still more to be done in improving the quality and consistency of supervision, and the survey supports the view that where there is continuity of supervision by knowledgeable and experienced teams, the supervision is consequently more effective.

Smaller firms

Smaller firms make up 90% of regulated firms and they therefore dominate the survey scores. They are regulated in a different way to larger firms in that they do not have a dedicated FSA relationship manager at the FSA. Instead, smaller firms submit data electronically for FSA monitoring, and access a contact centre to answer any questions. Small firm supervision is therefore more at arms length than that of larger firms, with less personalised engagement with the FSA. In the past, our surveys have highlighted the problems of communications with smaller firms. This is something which the FSA has looked to address over the past few years with its enhanced small firms strategy. It is a positive finding of the survey that the FSA Roadshows (a key plank of the enhanced small firms strategy) are ranked most highly in terms of usefulness of FSA communications.

Nevertheless, it is still the case that small firms were less positive in their satisfaction with the FSA and their perception of the FSA's performance against its objectives. The majority of small firms felt the FSA did not show an understanding of small firms in the development of policy, or the impact of regulation on small firms. Small firms were also more likely than large firms to agree that over the last two years the regulatory system had placed too great a burden on the industry and the costs of compliance were excessive, given the size and nature of their business and the level of risk.

The small firms' indicators of satisfaction with the FSA have all tended to worsen between 2008 and 2010. It is not surprising that the perspectives of smaller firms have hardened as the effects of the crisis have filtered through the financial system and the economic downturn takes effect. It is also the case that a single aspect of FSA regulation can have a relatively greater impact on smaller firms, as their interests are less widespread. Therefore the impact of the RDR (Retail Distribution Review) on small firms will hugely affect those firms' views of the FSA overall.

International and EU

Views on the FSA's handling of EU and International issues were polarised between relationship managed and smaller firms. The majority of the former agreed that in relation to international issues the FSA had been suitably co-ordinated with other bodies and alert to emerging EU issues. Wholesale relationship managed firms were most positive in these regards, and the qualitative research amongst firms with a European or international perspective was generally positive about the FSA's involvement. Once again, however, sentiment amongst small firms was more negative.

There was a greater degree of consensus across all sectors that the FSA tends to 'gold plate' European directives. This is an area where the Panel is constantly on the alert with the FSA. We feel this perception from firms may be driven by the FSA's tendency to move early to implement directives and also add EU requirements on to existing UK requirements. The FSA may not regard this as gold plating the EU requirements, but it still builds regulatory pressure on to firms.

There is a clear view, particularly amongst major groups, that EU and international issues should be a major priority for the FSA, and the Panel has made the point, echoed in the survey, that there is significant risk of distraction and fragmentation of the UK's voice internationally during a period of regulatory transition.

Retail Distribution Review (RDR) and Treating Customers Fairly (TCF)

The RDR has made significant progress since the 2008 survey, however, the level of the support for this initiative has fallen over that period, particularly amongst retail firms. This is a disappointing finding given that the qualitative research indicates continued support for the principles behind the RDR. The Panel itself continues to support the objective of raised standards of advice, but has also registered its concern at the impact of RDR on the availability of advice and the implementation timescales.

By contrast levels of concern about TCF recorded in previous surveys had lessened (although by no means disappeared) with the qualitative research suggesting that TCF is now largely embedded within the regulatory framework.

Looking forward

This is a period of immense and rapid change for the FSA and for the firms which it regulates. Given the scale of the crisis we have been through, and the impact which it has had on firms, it was never likely that this survey would register the highest marks for the FSA, or indeed any part of the regulatory infrastructure.

The view of the Panel is that the case for significant strengthening of the regulatory framework is inarguable, and we have been supportive of many, if not most aspects of the work of the FSA. However, the Panel feels that in the drive to improve standards there are important points to be taken on board by the FSA, which are brought out clearly in this survey: Policy and supervisory approach should take clear account of the different characteristics of different sectors and the different risks within and between sectors, with no presumption of automatic read across from one sector to another.

The development of major policy initiatives should take full account of the likely costs and impacts of implementation so that the chances of unintended consequences are minimised, policy is proportionate to the risk. The Panel believes clear success measures in place prior to implementation would also help here.

The benefits of greater continuity within supervisory teams which have the requisite skills, experience and firm specific knowledge are clear.

Greater focus is required on value for money – with the regulator needing to provide clear explanation and justification for increases in expenditure.
In a time of regulatory change the need to prioritise in a disciplined way and not to lose sight of key imperatives, including in particular engagement with the EU and internationally, is particularly acute.

The vast majority of firms support strong and effective regulation and this provides a clear opportunity to work in partnership with firms to ensure that this is achieved without compromise to regulatory objectives

The Panel considers that these messages are equally relevant to the consideration of the new regulatory structures and I hope that all those interested in the future shape of regulation will consider the results of this survey.

Finally, I would like to thank my fellow Panel members, staff in the Panel Secretariat and FSA and TNS-BMRB who carried out the survey – and of course the firms who took the time to respond to the survey and provide the opinions on which this report is based. This year 4,256 regulated firms responded to the survey – giving an overall response rate of 43% - despite all the other pressures on time, and we are hugely grateful for that commitment.

Iain Cornish
Chairman

Sixth Survey of the FSA's Regulatory Performance

Prepared for: The Financial Services Practitioner Panel
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Executive summary – Sixth survey of the FSA's regulatory performance

Background

The 2010 survey is the sixth survey of regulated firms conducted on behalf of the Financial Services Practitioner Panel to measure the FSA's regulatory performance. This report is based on the responses of 4,256 regulated firms with an overall response rate of 43% achieved for the survey. The survey data have been weighted to ensure the survey results are representative of all regulated firms in the industry.

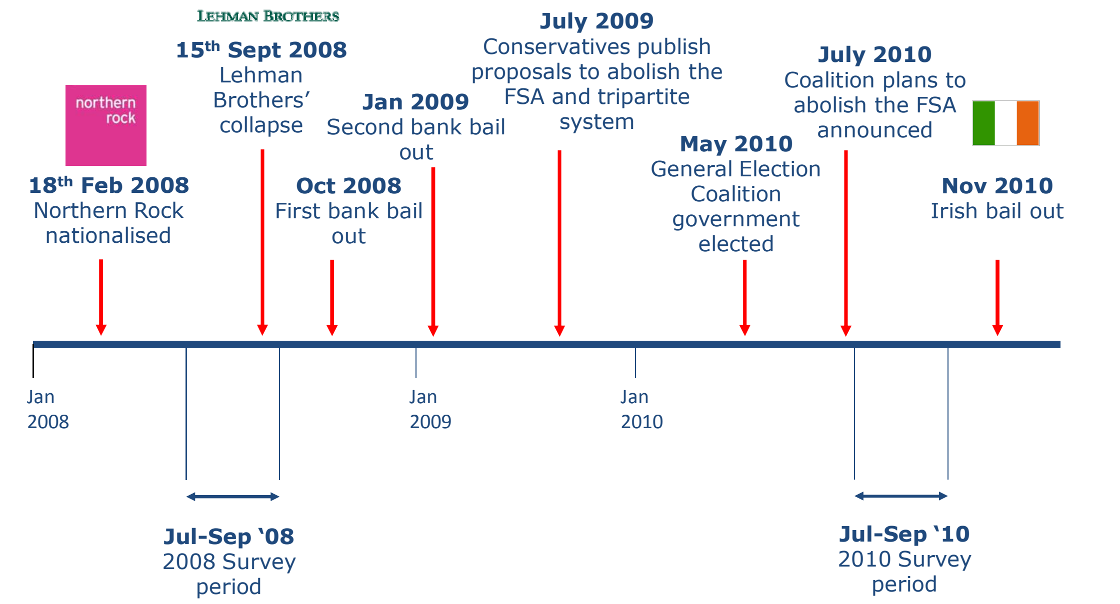
Fieldwork for the survey was conducted between 14 July 2010 and 1 October 2010. The survey was completed by firms using a paper questionnaire. A census of all regulated firms was taken with the exception of home finance brokers, general insurance intermediaries and financial advisers where a random sample was taken.

Prior to the quantitative survey, a qualitative phase of research was undertaken to identify key areas of interest to firms. In order to explore some of the survey findings in more detail, a follow-up piece of qualitative research was undertaken.

Contextual overview

There have been significant changes in the financial services industry since the previous survey was conducted in 2008 and it is likely that these changes have had an impact on the views expressed by firms throughout the survey. At the time the previous survey was conducted, the beginnings of the global financial crisis had emerged. The nationalisation of Northern Rock took place in February 2008 and the 2008 survey was conducted between July and September 2008. The majority of responses included in the 2008 survey were, however, collected before the collapse of Lehman Bothers in September 2008. Thus while the 2008 survey reflected the industry's early reaction to the crisis, the 2010 survey has provided the first opportunity for the industry to provide their response on the last two years of financial upheaval. The timeline in Chart 1.1 places the survey in the context of events that have affected the financial services industry.

Chart 1 Timeline of the events surrounding the 2008 and 2010 Panel surveys



The findings throughout the report are presented for the industry as a whole and by sub groups of interest. In terms of firm numbers, the population of the industry is dominated by small firms. However, the largest firms, though small in number, have an impact on 80% of consumers and are therefore an important group of interest.

FSA performance

There has been an overall decline in the industry's perceptions of the FSA's performance against its objectives. This decline in ratings from the industry was perhaps to be expected given the events of the last two years.

The industry was asked to rate the FSA's performance against each of its four objectives:

- Maintaining confidence in the UK financial system
- Promoting public understanding of the financial system
- Securing the appropriate degree of protection for consumers
- Reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime

The industry's perceptions of the FSA's performance against all four of its statutory objectives are now less positive than when the 2008 survey was conducted. The average rating given by firms for the FSA's performance in maintaining confidence in the UK financial system fell from 4.3 out of 10 in 2008 to 3.7 in 2010. Similar falls were recorded for the remaining three objectives, with the rating for promoting public understanding in the financial system falling from 4.6 to 4.0, securing the appropriate degree of protection for consumers falling from 5.4 to 4.8 and reducing financial crime falling from 5.5 to 5.2. Among relationship-managed firms (RM firms) there was a decline in perceptions of the FSA's performance in maintaining confidence in the UK financial system and in promoting public understanding of the financial system, but perceptions of the regulator's performance in securing consumer protection and in reducing financial crime remained stable.

Across all four objectives, retail firms tended to give lower ratings than wholesale firms and non-relationship managed (non-RM) firms gave lower ratings than RM firms. Firms that were very satisfied overall with their relationship with the FSA tended to rate the FSA more highly in terms of meeting its objectives.

The FSA's response to the financial crisis

Given the time at which the survey was conducted, the views of the industry were sought regarding the FSA's response to the financial crisis. Only a fifth of firms (19%) felt that the FSA's response to the crisis had been effective and the majority of firms (69%) disagreed that this was the case. Less than a quarter of firms (23%) felt that the response had been proportionate for the industry as a whole. The majority of firms (84%) thought that the FSA's domestic reputation had been damaged by the financial crisis and 61% that its international reputation had been damaged.

Firms discussing the FSA's response to the financial crisis in the qualitative research pointed to a change in the regulatory landscape, with large firms in particular commenting on increased regulation, supervision and enforcement. While support continued for the FSA as the regulator of choice, there was also considerable dissatisfaction with the way in which the FSA was perceived to have rolled out to the whole financial services industry a much stricter regulatory regime that was primarily designed to deal with the difficulties that were only experienced in the banking sector.

'At the moment our great concern is that we get lumped in the same thing as the banks and we have a very different kind of business.'
(Major Retail Insurer)

The future of UK regulation

At the time of the survey there was not a great deal of confidence among firms that the right regulatory framework was being put in place to prevent a future crisis, just 28% of firms felt this was the case and 42% disagreed with this. Three in ten firms (30%) did not give an opinion.

Opinion was divided among firms as to whether the transition to a new regulatory framework would affect the regulator's ability to respond to the financial crisis in the short term. Four in ten firms (39%) agreed, 30% of firms disagreed and 31% of firms did not give an opinion.

Similarly, 37% of firms agreed that the transition to a new regulatory framework would, in the short term, distract the regulator from EU and International issues, 16% disagreed and 46% did not give an opinion.

Reflecting the survey findings, firms in the qualitative research found it difficult to discuss the move to a new regulator and whether the right regulatory framework was being put in place. Nevertheless, firms were not convinced that the FSA's recent move to a more severe 'one size fits all' approach was in the best interests of the financial services industry. Overwhelmingly, firms wanted a strong regulator that approached regulation in a tailored and bespoke fashion. Greater clarity was also required around the way principles-based regulation should work, with more emphasis on business understanding and more dialogue with firms.

Attitudes towards regulation

The strong endorsement from the industry regarding the need for strong regulation reported in the 2008 survey is again clearly evident in the 2010 survey results. The vast majority of firms (84%) agreed that strong regulation is for the benefit of the financial services industry as a whole, with 44% strongly agreeing that this is the case.

This sentiment was echoed in the qualitative work, where firms commented that strong regulation promoted both industry and public confidence and therefore resulted in greater levels of business. However, there was a real concern that the FSA was not only increasing the intensity of regulation but that it was being applied uniformly across the industry, irrespective of the level of risk posed by a firm.

'The CEO of the FSA said sometime during last year they will be more intrusive, more interventionist, more in your face, more challenging and to be afraid, very afraid. So what we are seeing now reflects what basically was promised.'
(Major Group, Bank)

There were high levels of concern among the industry that that the current regulatory system has placed too great a burden on firms over the last two years, with eight in ten firms (81%) believing this to be the case.

The recent attention focused on risk-based regulation led to a new question being added to the 2010 survey to explore firms' attitude to risk based regulation as it was applied to their firm. Almost six in ten firms (58%) agreed that the level of supervision of their firm was excessive given the firm's level of risk. Retail firms were more likely to believe this to be the case as were, to a lesser extent, small firms and non-RM firms. Over half of RM firms (54%) felt supervision of their firm to be excessive given the firm's level of risk.

The industry's views of the quality of supervision provided by the FSA have remained stable between 2008 and 2010. Just over half of firms (54%) felt that the FSA provided sufficient guidance for firms to feel confident they were applying the principles appropriately. A concern remains, however, among regulated firms about the prospect of retrospective regulation, with

63% concerned that outcomes-based regulation may leave their firm open in the future to retrospective regulation. There has been a slight fall in the proportion of firms that believe the FSA has a balanced approach to the pace of regulatory change, from 39% in 2008 to 36% in 2010.

From the qualitative research it is apparent that over the past two years there has been an increase in the level of supervision for large firms, particularly large and mid-sized banks and insurers, alongside 'riskier' investment firms such as hedge funds and venture capital businesses. These firms reported a number of changes as to how supervision was being experienced, including: greater dialogue with the FSA on a regular basis; more detailed information requests outside formal FSA assessments; more interrogation of firms' responses to information requests; and interviews with significant influence functions.

By and large, an increase in supervision was viewed as necessary in the current financial climate. It was acknowledged by all, including the banks, that the supervision of firms with a significant market footprint should be monitored more closely in order to ensure market stability. However, there was also the view that the FSA had moved beyond its risk-based approach and was now heavily supervising in lower-risk sectors too. In this regard, firms thought that more intensive supervision had been introduced by the FSA as a response to the conduct of the banks, and the whole industry was now being penalised for it.

Attitudes towards Treating Customers Fairly (TCF) initiative

There was general support from the industry that TCF should remain a priority for the regulation of the industry, with two-thirds of firms (66%) agreeing that this was important. Support was highest among major groups, 91% of which agreed that TCF should remain a priority. The majority of firms (59%) felt that the FSA had provided a clear explanation about how they should embed TCF.

The qualitative research largely echoes the survey findings, with TCF being generally embedded in the way firms work and continuing to remain on their business agenda. Views were mixed about how well the FSA continued to communicate about TCF, with some small firms still being less sure what TCF meant in practice.

The Retail Distribution Review (RDR)

Many of the areas dealt with by the RDR apply only to certain types of firms and there was therefore a high proportion of firms that had no opinion or did not give an answer regarding these issues. Analysis of firms' attitudes towards the RDR is therefore based only on those firms that gave an opinion.

There has been a decline between 2008 and 2010 in the proportion of firms overall that felt the RDR was a welcome initiative, from 60% in 2008 to 47% in 2010. Between the 2008 and 2010 surveys the RDR had moved on considerably. As the RDR reaches the implementation stages, firms have become more aware of the implications of the initiative and it has become more real for firms. This is reflected in changes in firms' perceptions of the initiative.

The RDR primarily affects retail firms and it is among these firms that the greatest drop in support for the initiative has been seen. In 2008, 59% of retail firms welcomed the initiative, but this fell to 44% in 2010. There has been little change in the attitudes of wholesale firms, with 75% welcoming the initiative in 2008 and 72% doing so in 2010. Credit unions were the most positive about the RDR, with 78% welcoming the initiative.

Among retail firms there was a clear difference in the level of support for the RDR between RM and non-RM firms. Of those that gave an opinion, 64% of RM firms agreed that the RDR was a welcome initiative compared with 46% of non-RM firms..

From the qualitative research it was apparent that the principles of the RDR were to be welcomed as it would mean that remuneration for financial advice would be fairer, there would be greater clarity for consumers about the different types of services available in the financial services industry and it would have the overall effect of *'cleaning up the industry'*. Aware that some businesses would de-register, firms also thought that there would be a little less competition, which they welcomed. However, there were also some negative comments about the review, such as: the implementation rules were not clear; the professional requirements could present a number of challenges, especially for older IFAs; and a generally held view that the move to a fee-based approach to remuneration would disenfranchise the less wealthy from financial advice.

There has been much discussion around the prospect of firms leaving the industry as a result of the RDR and a question was therefore added to the 2010 survey to ask firms whether this was their intention. Overall 5% of firms stated they were planning on de-registering by 2012 as a result of the RDR, 67% of firms were not planning on de-registering, 27% of firms said they did not know whether they planned to de-register by 2012 or not and 2% did not answer. 1% of large firms (with over 20 employees) planned to de-register compared with 5% of small firms. Less than 0.5% of RM firms intended to de-register as a result of the RDR compared with 5% of non-RM firms. Almost all firms planning to de-register (98%) were non-RM retail firms.

Attitudes towards enforcement

There have been a number of changes to the FSA's handling of enforcement over the last two years, including a number of highly publicised fines. There has been a very small drop since 2008 in firms' overall satisfaction with the way the FSA handles enforcement, from an average score of 5.5 in 2008 to 5.3 in 2010.

Almost six in ten firms (59%) agreed that enforcement is perceived by the industry as a credible deterrent, although this represents a fall since 2008 when 67% of firms felt this to be the case. Almost all major groups (95%) felt that the enforcement procedure was a credible deterrent.

There was not an overwhelming feeling from the industry that the publication of fines undermined confidence in the industry as a whole. A third (34%) of firms believed this to be the case and 48% disagreed.

The small number of firms that had experienced enforcement action in the qualitative research were particularly concerned about the length of time it had taken the FSA to come to a decision. There was also the issue that the FSA were seen as '*the judge and the jury*' and therefore not necessarily purely objective in their decision-making. To this end, there was a call for an independent body to adjudicate.

Of equal concern was the level of the fines that were being imposed, with a view that, where the penalised firm had deep pockets, the FSA had taken advantage and imposed a fine that was disproportionate to its misdemeanors. In this respect there was some expression that the fines that the FSA had imposed were designed to make the FSA '*look tough in the public arena*'. There were also concerns expressed about the FSA's overall '*heavy-handed approach*' which could undermine the partnership approach to working between the FSA and the financial services industry and could potentially discourage firms from owning up to mistakes.

Attitudes towards EU and international issues

Among those firms that gave a response on these measures, opinion tended to be divided about the FSA's performance on most EU and international issues. Just over half (52%) felt the FSA had been '*alert to emerging EU issues and prepared its position in time*', and almost the same proportion (48%) disagreed with this. Lower proportions agreed that the FSA '*adequately represents UK interests in European regulation*' (42%), and that the FSA '*leads developments in international regulation as opposed to responding to them*' (38%).

A large majority (82%) of firms that gave an opinion did however feel that '*the FSA brings European directives into UK regulation in more detail than is necessary (gold plating)*'.

Participants in the qualitative research with a European or international perspective regarded the FSA as a very active and influential player in Europe, especially with regard to their involvement in Solvency II. The FSA was seen as interventionist, demonstrating a real commitment to financial regulation, although some felt this approach made the UK a more difficult place to do business. This was also the case where the FSA was felt to be 'gold plating' EU regulation.

Regarding priorities for the future, just over half (54%) of firms giving an opinion felt that EU and international issues should remain a priority for financial regulation, rising to 72% of wholesale firms, 73% of RM firms and 86% of major groups. Participants in the qualitative research echoed these views, considering that it would be a major mistake to focus on domestic issues and market recovery at the expense of maintaining a European and international focus.

The costs of compliance

Overall 57% of firms felt the current costs of compliance were excessive, 30% thought they were high but not excessive, and 11% considered the costs to be reasonable. There has been a substantial increase since 2008 in the proportion believing the costs to be excessive. Small firms, retail firms and those without a relationship manager were the most likely to say that the costs were excessive. Nearly half of small firms without a relationship manager used a third party to interpret FSA communications and regulations for them which had implication for their costs of compliance.

Over two thirds of firms (68%) felt their costs had increased over the last two years (on average by 18%), against 4% saying costs had decreased and 21% saying they had stayed the same. In the qualitative research, the key reason put forward for increased costs was the perceived expansion in FSA staffing because of additional regulation and supervision.

A key reason for the increase in fees, suggested by the participants in the qualitative research, was an increase in FSA staffing, due to an increase in regulation and supervision. However, there was thought to be a lack of transparency in the fee increases that had been experienced and some degree of cynicism that '*the FSA seems to be prospering as the rest of the industry is contracting*'.

When asked to rate the FSA's performance in terms of giving value for money, 57% of firms gave a poor rating (score of 1-3 out of 10), 31% gave a neutral rating (score of 4-6) and 8% gave a high rating (score of 7-10). These ratings have declined substantially from 2008 when 43% of firms gave a poor rating, 42% gave a neutral rating and 11% gave a high rating. Again small non-RM firms were most likely to give a poor rating on this measure.

Of those firms able to give an opinion, nearly half agreed that the costs of compliance had resulted in them reducing the type of business they conducted, and a similar proportion agreed that the costs meant their firm was at a disadvantage compared with competitors abroad. However, a much smaller proportion (17%) agreed that their firm was planning to leave the industry and only 7% said their firm was planning to relocate from the UK to another country as a result of the costs. The findings on these measures are fairly similar to those reported in 2008.

Overall satisfaction with firms' relationship with the FSA

Satisfaction among firms with their relationship with the FSA has declined slightly since 2008 from an average score of 6.0 in 2008 to 5.4 in 2010. Among RM firms, satisfaction fell from an average score of 6.8 in 2008 to 6.0 in 2010. The proportion of firms saying they were very satisfied (score 7 to 10) has fallen from 44% to 31%. RM firms tended to report higher levels of satisfaction than non-RM firms (an average score of 6.0 compared with 5.3).

Levels of satisfaction were higher among firms that had had some recent contact with the FSA with a third of firms (34%) that had had contact with the FSA in the last six months being very satisfied with their relationship compared with 22% of firms that had not had contact in the last six months. The majority of firms (70%) felt that their relationship with the FSA had not changed over the last two years, 9% felt the relationship had deteriorated and 15% felt it had improved.

Taking into account the FSA's perceived disproportionate approach to a tougher regulatory approach, an emphasis on high-profile financial penalties and internal difficulties with the turnover of staff, firms in the qualitative research still remained fairly positive about the FSA. While overall they were less satisfied with the FSA as a regulator, they still welcomed strong regulation and felt that the FSA was the regulator of choice with whom they wanted to continue work.

Relationship with the FSA

Frequency and nature of contact with the FSA

Most firms (84%) had spoken directly to someone at the FSA in the last 12 months and a third had done so in the last month. Just over half of firms (52%) had been in touch with the Firm Contact Centre in the 18 months before the survey, 14% had had a thematic review, 9% had experienced a supervisory visit and 3% had had an ARROW visit. A third of firms had not experienced any of these forms of contact.

These proportions were much higher among firms with a relationship manager – 78% had had contact in the last month, and in the last 18 months 47% had had a supervisory visit, 45% had had an ARROW visit and 28% had had a thematic review. Major groups were the most likely to have had all these forms of contact. Non-RM firms and small firms tend not to have regular contact with the FSA.

In the qualitative research, of those firms experiencing an ARROW visit, views were generally positive, especially where the visit had been aligned with the firm's internal audits, and were generally aligned well with the firm's level of risk. However, on the negative side, ARROW visits were seen as rather predictable, adopting a mechanical approach to supervision.

Although there was very limited experience, thematic reviews were seen as tougher than ARROW visits, because the notice period was much less and gave much less time to get the paperwork in order. Firms were quite concerned about thematic reviews which, they felt, often ended up with more serious enforcement issues.

Ease of dealing with the FSA

When asked to rate their satisfaction with the ease of dealing with the FSA, the largest group of firms (48%) gave a neutral response (score of 4-6), 34% indicated satisfaction (score of 7-10) and 17% indicated dissatisfaction (score of 1-3). The level of satisfaction has fallen since 2008 when 43% gave a score of 7-10. Firms with relationship managers and those that had

had recent contact with the FSA tended to be more satisfied than those that had not, and this was confirmed in the qualitative research.

The qualitative research indicates that measures of satisfaction tended to be related in part to the amount of contact firms had with the FSA and in part the quality of contact. Consequently, firms that were relationship managed tended to have much more contact with the FSA than those that were not relationship-managed, generally resulting in higher levels of reported satisfaction. This also applied to the credit unions and friendly societies. However, where there had been changes in the relationship management team, satisfaction was often diminished. This was in part because the new relationship manager may not have had sufficient knowledge of the sector and would also need to be brought up to speed regarding how specific firms conducted their business, which meant additional work for the firm.

Around seven in ten firms (69%) thought there had been no change in the ease of dealing with the FSA over the last two years, while 16% said there had been an improvement compared with 8% reporting a deterioration.

There was a positive balance of opinion that '*the FSA operates straightforward and efficient processes for dealing with authorisation and approval issues*' (49% agreeing and 35% disagreeing) and that '*the FSA has sufficiently skilled staff to deal with day-to-day issues*' (51% agreeing and 31% disagreeing).

Among firms that had had dealings with the Firm Contact Centre, 58% expressed satisfaction with the Centre, with 19% being 'very satisfied'. These results have not changed significantly since 2008. Firms using the Contact Centre in the qualitative research were generally positive about their contact if the issue was simple to resolve. However, where enquiries were more complex there was the continued view that the Contact Centre was less helpful, referring firms to the FSA website.

Designated relationship managers

There appeared to be confusion among some firms as to whether they did or did not have a designated relationship manager, although this was not as widespread as in 2008. The majority of firms (72%) that did have such a manager – and were aware of this – were satisfied with the relationship, with 26% being 'very satisfied'. These proportions are lower than in 2008 (77% satisfied, 35% very satisfied). However, the level of dissatisfaction has not increased – rather, a higher proportion of firms in 2010 opted for a neutral category or did not give an answer.

Levels of satisfaction were strongly correlated with the number of changes there had been to the relationship manager in the last two years. Only a quarter of firms had not had any change of relationship manager during this period and a third had experienced two or more changes. The management of a relationship between a firm and the FSA takes time and this was a frequent comment made by the participants in the qualitative research. Where there is continuity of that relationship, satisfaction tends to be much higher than where there have been changes in relationship manager. This is especially true where there have been multiple changes over short periods of time or where temporary staff have filled the relationship manager role.

Communications from the FSA

Firms were asked to rate the usefulness of the various ways in which the FSA communicated with them, on a scale of 1 (extremely poor) to 10 (outstandingly good). The most highly rated methods of communication (among those able to give a response) were the FSA Roadshows (average score of 6.2), feedback from the FSA following visits (average 6.1) monthly regulatory round-up emails (average 5.9) and business sector newsletters (average 5.6). Roadshows were particularly well regarded by small firms and those without a relationship manager.

Only specific firms are subject to ARROW visits and those who had received an ARROW visit report gave a positive rating. The average rating among RM firms was 6.8 out of 10. 'Dear CEO' letters, with a similar average rating of 5.3, appealed particularly strongly to major groups (average score 7.4). The least useful methods of communication were thought to be the FSA Business Plan (average 4.5) and the Annual Report (4.4), although again they were rated more highly by RM firms.

The qualitative research echoes the survey findings. Those who had attended found the Roadshows to be very accessible, with FSA staff being knowledgeable and easy to talk to. However, it was thought that they could be publicised more effectively. Supervisory reports and ARROW reports were thought to be comprehensive and accessible, with recommendations being sensible. However, they could take longer than expected to become available. Firms liked the Business sector newsletters as these tended to contain information that was relevant to their sector only; emails, however, were said to be rather long-winded and tended to be filed and ignored. Emails in particular were thought to be inadequately targeted and often not relevant to their sector.

Firms' satisfaction with the FSA Consultation Paper process (whether or not they had participated) has declined slightly since 2008. As in 2008, the majority of firms gave a neutral score of 4-6. Slightly fewer gave a high rating of 7-10 (18% in 2010, 21% in 2008) and slightly more gave a low rating (19% in 2010, 15% in 2008). However, only about one in five firms had ever participated in the process. In the qualitative research the main issue that emerged, particularly for small firms, was the length of the papers and the time it would take to work through them.

Generally, attitudes towards FSA feedback on consultations, and on FSA briefings, were quite positive, and only a minority agreed that they received too many communications from the FSA. Opinion was more divided, however, on whether most of the communications they received were relevant to their firm. The most negative results, across all types of firm, concerned the FSA website, with over half of those responding disagreeing that '*it's easy to find the information you need on the FSA website*'. The same view was expressed by participants in the qualitative research, where the key issues seemed to be the overall navigation of the website and a poor search engine.

Four out of ten firms overall (43%) relied on a third party to interpret FSA communications and regulation for them, and the proportion was even higher for small firms (47%), firms without a relationship manager (52%) and for financial advisers (59%).

Seeking guidance from the FSA

Six in ten firms (61%) had experience of seeking guidance from the FSA on rules and regulatory policy, of which two thirds had done so in the last year. The views of those that had done so were generally positive.

In terms of how helpful the guidance had been, 39% gave a high rating of 7-10, compared with 23% giving a poor rating of 1-3. The average score was 5.5 and there was very little difference by type of firm. A majority of firms also expressed generally positive views about the FSA staff providing guidance. However, opinion was equally divided on whether '*FSA staff have sufficient knowledge to understand my firm*'.

On some measures views were less positive among larger firms and those with relationship managers, possibly because the queries these firms raised with the FSA were less straightforward and more difficult to answer.

In the qualitative research, participants also expressed doubts on whether staff – especially newer relationship managers – had adequate knowledge of the sector, understood the issues for the firm sufficiently well, or were able to answer more difficult and complex questions.

Attitudes to supervision

Overall satisfaction with supervision

Firms were asked how satisfied they were with the FSA's supervision of their firm, by allocating a score from 1 (extremely dissatisfied) to 10 (extremely satisfied). Overall, 37% were satisfied (score of 7-10), 47% gave a neutral rating (score of 4-6) and 14% were clearly dissatisfied (score of 1-3).

Although these ratings were less positive than in 2008, among firms that were able to give an answer, the majority (59%) thought there had been an improvement in the quality of supervision over the last two years.

It is clear from the qualitative research that regulated firms were expecting to be supervised more intensively and believed that there was a general trend in this direction even if they had not yet experienced it in practice. Large firms, firms recently re-classified as high risk, retail firms and firms in administration had already experienced more intensive supervision, evident through more dialogue with the FSA, a greater number of information requests that were clearly being scrutinized in greater detail than in the past, and a more intrusive attitude of supervision teams.

Three issues in particular were mentioned that had an impact on satisfaction: the volume of information required by the FSA, the timing of requests and how the FSA uses and interprets the information supplied.

Conduct of business and prudential standards

Seven in ten firms claimed to understand the Conduct of Business Standards and Prudential Standards very well (14%) or quite well (56%), against 22% that admitted to not understanding them well. However, there was a fair amount of uncertainty about the way in which the FSA had applied the rules, with a large proportion of firms unable to give an opinion. Among firms able to give a response, the majority thought the FSA had applied the rules for these standards in a reasonable way. When asked whether they felt the FSA had the priority right in its focus on conduct of business or prudential supervision of firms, 37% of firms felt they had got the priority right, 17% felt the priority was not right and 47% were not able to give an opinion.

The qualitative research had similar findings, with firms generally very aware of a shift to greater prudential regulation, a view that was particularly apparent following an ARROW visit. Firms generally supported the FSA's stance on prudential regulation and felt that it should remain an important focus for regulation. However, there was some concern as to whether the FSA were genuinely able to check this.

Capital adequacy and liquidity

There was a similarly high level of 'no opinion' responses from firms to the questions regarding the capital adequacy requirements and liquidity. The results for these sections are therefore based only on firms able to give an opinion.

Capital adequacy

Overall the majority of firms (66%) that gave an opinion felt that the FSA had clearly explained the capital adequacy rules. Although firms generally felt that the rules had been clearly explained, they were less positive about whether the impact of the requirements had been fully considered (41% of firms felt this to be the case) and whether the case for increased capital requirements had been adequately made (33% of firms agreed). Firms did not tend to agree that implementing all changes regarding capital adequacy at the same time was a good idea. Four in ten firms (41%) agreed that this was a good idea and 59% disagreed.

Liquidity

Firms were less likely to agree that the FSA had clearly explained the detail of the new liquidity regime (45% agreed). As with the capital adequacy requirements, firms seemed less likely to agree that the impact of the new liquidity regime had been fully considered (34% agreed) and that the case for the new liquidity regime had been adequately justified (30%

agreed). Again four in ten firms (40%) agreed that implementing all the changes at the same time was better and 60% disagreed.

Findings from the qualitative research indicated that the capital and liquidity requirements were well understood and that the FSA was correct in increasing its focus on capital and risk. However, while firms generally thought that the capital and liquidity targets were at the '*tough end of realistic*' there were also some concerns expressed. These were that: the approach was very heavy handed and too widely applied, forcing standards on lower risk firms that were really meant only for the banks; and the FSA was being overly prudent and had designed a regime that was based on situations that were unlikely to happen but at the same time were unrealistic and would not prevent another financial crash.

Rating of FSA supervision

All firms were asked to say how much they agreed or disagreed with a series of statements about the way their firm was supervised by the FSA. Firms that gave no answer to these questions were excluded from the analysis.

The balance of opinion was positive for the FSA being '*willing to hold a dialogue with you*' (70% agreed), for adopting '*a consistent approach between the close-out meeting and the Risk Mitigation Programme*' (70% agreed), for applying '*a reasonable level of supervision for your business*' (63% agreed), and for '*placing emphasis on preventing problems rather than enforcement*' (58% agreed). The majority of firms also disagreed that the FSA had '*a tendency to excessive intervention in how your firm operates*' (64% disagreed). Opinion was, however, equally divided on whether the FSA was '*adversarial in approach*' (49% agreed, 51% disagreed).

Views were more negative about the FSA tending '*to look at processes rather than outcomes*' (72% agreed), asking for '*too much detailed information about your firm*' (56% agreed), having '*a good understanding of your business*' (62% disagreed), giving '*sufficient feedback on the information submitted*' (61% disagreed), and '*understanding your industry sufficiently to ask the right questions*' (56% disagreed). In answer to a separate question, 65% of those giving an answer felt that the FSA's supervision of their firm was excessive, given their firm's level of risk. On most of these measures, the responses are less positive than in 2008.

The issues arising in the qualitative research were very similar. Supervision staff were willing to discuss issues but had clearly become much more intrusive and adversarial over the past year. The main issues arising were the inability of the supervisory staff to focus on the real risks in the business and that the length of time between the end of the visit and the report – usually said to be two weeks – was too long.

Rating of supervisory staff

Firms were also asked for their views on the FSA staff who handle supervision. Again a high proportion of firms – particularly non-RM firms – had no direct experience of FSA supervision so were unable to answer these questions. The results reported are therefore based only on those giving a response.

On the positive side, a high proportion of firms giving a response agreed that '*FSA supervisory staff treat your staff as trustworthy*' (78%), '*have good interpersonal skills*' (74%), and that '*their competency has improved over the last two years*' (69%). Wholesale firms with a relationship manager were particularly positive on all these measures.

On the other hand, around six in ten firms that gave an answer agreed that FSA staff '*don't really take into account the level of risk arising from your business*' (61%), that '*it is difficult to give feedback to the FSA on their supervisory staff*' (60%) and that '*the turnover of FSA supervision staff is detrimental to your firm's regulatory relationship*' (62%). A similar proportion disagreed that FSA staff '*have sufficient commercial understanding of your business to make appropriate judgements*' (60%). Opinion was equally divided on whether '*the FSA makes good use of the information you provide to inform its dealings with you*' (50% agreed, 50% disagreed).

Major groups were the least likely to agree that the FSA did not take into account the level of risk from their business (36%), and generally firms that had a relationship manager were more positive on this measure than firms that did not (49% compared with 62%). Only a third of major groups (32%) agreed that it was difficult to give feedback to the FSA on supervisory staff, against an average of 60%.

On the issue of the turnover of FSA supervisory staff, relationship managed retail firms were the most concerned, with 77% agreeing that this turnover was detrimental to the regulatory relationship compared with an average of 62%. Although six in ten firms overall disagreed that the FSA had sufficient commercial understanding of their business to make appropriate judgements, this dropped to 50% disagreement among major groups, 53% among wholesale firms and 55% among RM firms.

Most of these measures showed a slight decrease in positive ratings – ranging from 1 to 7 percentage points – from the levels observed in 2008. The largest change was in the level of agreement that the FSA made good use of the information provided, down from 61% on average in 2008 to 50% in 2010.

As in 2008, it is clear that most firms would **not** welcome more contact from the FSA – only 34% agreed that they wanted more contact and just 9% among major groups.

Participants in the qualitative research expressed a range of views about the quality of supervision. Many firms were very happy with their supervisors, finding them knowledgeable, understanding, and professional to deal with. Where there were long-term supervisory relationships, supervisors would take on a softer, more advisory stance, and this was welcomed by firms.
However, the quality of supervision for some firms was a major issue. This was primarily due to the lack of continuity of supervisors, the use of temporary staff, a general lack of knowledge about the firm's business and a lack of cross-departmental working. Generally,

each time a new supervisor came into post, firms would have to invest considerable time into the significant relationship-building period where the firm works hard to educate the supervisor about their business. The effect of this was to reduce their confidence in the ability of the FSA to regulate them effectively.

There were also concerns about how knowledgeable supervisory staff were, particularly newly appointed supervisors. Some firms felt that their supervisors had inadequate experience in their sector, for example placing those with banking experience into the insurance sector. Here staff would lack adequate knowledge of the relevant sector, reducing firm's confidence in their ability to understand their issues. There were also comments that some supervisors were too junior. Additionally, while large firms in particular noted more requests for information they also mentioned that the FSA then followed up with many questions that simply demonstrated that they had either not read the information thoroughly or did not understand it.

Another concern expressed, particularly by the major groups, was the apparent lack of cross-departmental working, with a view that supervisors and relationship managers do not communicate enough, and it falls on the firm to educate both the relationship manager and the supervisor about the same issue.

By contrast, small firms, such as the credit unions and friendly societies, were particularly pleased with their supervision, commenting that they had a small team at the contact centre who would consistently deal with them in a knowledgeable and productive way.

Attitudes towards the Panels

Before taking part in the survey, just under half of regulated firms (45%) had heard of the Practitioner Panel and just 29% were aware of the Smaller Businesses Practitioner Panel. Awareness of the Practitioner Panel was higher among RM firms (73%) than non-RM firms (43%).

Firms that were aware of the Panels were generally positive about the role of the Panels and their ability to represent the industry. Of those able to give an opinion, 86% felt that the Panels had an important role to play on behalf of their type of business. The majority of firms (84%) agreed that the Panels were independent of the FSA and 87% agreed that they helped the FSA to understand industry views. However, firms were less likely to agree that the Panels were able to influence FSA policies and decisions (60% agreed).

Most important issues for the FSA and the new regulatory framework to address

A comment box was included at the end of the questionnaire for firms to comment on the issues they felt it was most important for the FSA to address and another box for the issues they felt the new regulatory framework should address going forward.

In terms of key issues for the FSA to address a key theme that emerged was around tailoring the approach for different types of firms. This was reflected in a number of responses, such as '*not treating all firms the same*' and '*greater understanding of my firm's industry*'. Firms were also concerned that there should be greater supervision of banks (this was a particular concern among retail firms). Although firms expressed a need for a tailored approach, simplifying the rules and regulations was also a priority for a number of firms. Major groups were primarily concerned with having more and better regulation, improving the quality of FSA staff and the regulator having a greater understanding of the firm's business.

Regarding the most important issues to be addressed by the new regulatory framework, many firms gave the same answer as for the issues for the FSA to address. Again there was a concern among firms that all firms would not be treated the same but also a feeling that the rules and regulations should be simplified. Firms also raised the need to reduce regulatory costs. However, they also felt there was a need to improve public confidence in the financial sector and to ensure there was better regulation of banks. Major groups were particularly concerned that all firms would not be treated in the same way and about capital adequacy, liquidity and Solvency II issues.

1. Introduction

The Financial Services Practitioner Panel (the Panel) conducts a biennial survey of the financial services industry to measure the performance of the FSA based on the views of the industry it is responsible for regulating. The Panel was established as a high-level body to represent the views and interests of regulated firms in the regulatory process,

The 2010 survey of the FSA's regulatory performance is the sixth survey in the series. The survey enables the Panel to canvass industry views and to communicate these views to the FSA. The survey was conducted by TNS-BMRB on behalf of the Panel.

This report presents the findings from the 2010 survey and highlights areas of concern for the financial services industry in the future. It presents clear guidance about where the FSA, or indeed any future regulatory body, can target developments to improve its regulatory performance from the perspective of the firms it regulates.

The main objectives of the 2010 survey were:

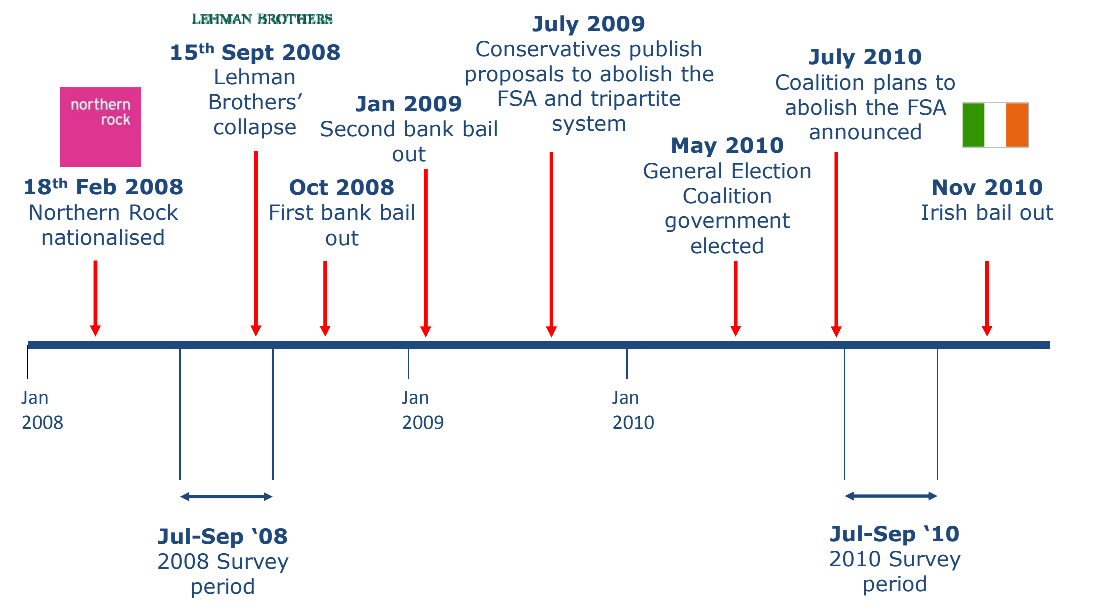
- To provide top-level assessment from chief executives/principals on their perceptions of the performance and areas of priority for the FSA.
- To provide industry-wide views of the operational efficiency of the FSA in dealing with firms.
- To provide the Panel with information about the effect of the FSA on the industry (regulatory burden, cost, innovation and competitiveness).
- To assess the industry's perception of the performance of the FSA throughout the financial crisis and identify concerns with moving towards a new regulatory framework.
- To provide information that can be used by the Panel in guiding the FSA on how it should set its priorities and guide delivery of its operations.

As further developments occurred, the survey also took into account the government's plans to restructure regulation beyond the FSA.

1.1 Contextual overview

There have been significant changes in the financial services industry since the previous survey was conducted in 2008 and it is likely that these changes have had an impact on the views expressed by firms throughout the survey. At the time the previous survey was conducted the beginnings of the global financial crisis had emerged. The nationalisation of Northern Rock took place in February 2008 and the 2008 survey was conducted between July and September 2008. The majority of responses included in the 2008 survey were, however, collected before the collapse of Lehman Brothers in September 2008. Thus while the 2008 survey reflected the industry's early reaction to the crisis, the 2010 survey has provided the first opportunity for the industry to provide their response on the last two years of financial upheaval. The timeline in Chart 1.1 places the survey in the context of events that have affected the financial services industry.

Chart 1.1 Timeline of the events surrounding the 2008 and 2010 Panel surveys



1.2 Methodology

As in previous years, a mixture of qualitative and quantitative research was used, with an initial stage of qualitative research conducted with regulated firms prior to the quantitative survey. In total, 42 exploratory depth interviews were conducted between February and March 2010 with chief executives of regulated firms and two group discussions were conducted with smaller firms. The interviews explored in-depth their attitudes towards the FSA, their experience of dealing with the FSA and any emerging issues or concerns. The findings from the qualitative research were used to inform the development of the quantitative questionnaire.

The quantitative survey of regulated firms was conducted using a paper questionnaire that was mailed to regulated firms between July and September 2010. A census was taken of all regulated firms with the exception of home finance brokers, financial advisers and general insurance intermediaries, where a representative sample was taken. Overall, 4,256 firms took part in the survey and a response rate of 43% was achieved. In 2008 46% of firms responded to the survey. It was anticipated that the response would fall from 2008 as a result of general financial uncertainty and the uncertainty surrounding the future of the FSA at the time of the survey.

In order to explore some of the survey findings in more detail a follow-up piece of qualitative research was undertaken. Twenty short telephone interviews were undertaken with major groups, large relationship managed (RM) firms and small wholesale and retail firms to further explore their views about how well the FSA had performed in relation to its four statutory objectives.

The data presented in this report has been weighted to be representative of the population of regulated firms.

1.3 Structure of the report

The report has been structured as follows:

Chapter 2 contains an overview of firms' perceptions of the FSA's performance against its objectives.

Chapter 3 considers firms' perceptions of the FSA's handling of the financial crisis and attitudes towards the new regulatory framework.

Chapter 4 explores firm's attitudes towards regulation in general and their attitudes towards rules, principles and outcomes based regulation.

Chapter 5 considers firms' attitudes towards two FSA initiatives, the embedding of TCF within firms and the implementation of the RDR.

Chapter 6 contains an overview of firms' attitudes towards enforcement.

Chapter 7 looks at firms' attitudes towards EU and international regulation.

Chapter 8 explores firms' attitudes towards the costs of compliance, the impact of costs on smaller firms and whether firms believe the fees offer value for money.

Chapter 9 explores firms' overall satisfaction with their relationship with the FSA and whether or not they feel this relationship has improved over the last two years. This chapter includes some key driver analysis looking at what drives firms' satisfaction with their relationship.

Chapter 10 considers firms' relationship with the FSA, how often they have contact with the FSA and their opinion of the firm contact centre and relationship managers.

Chapter 11 looks at firms' attitudes towards supervision including an overview of attitudes towards the new capital and liquidity rules and ratings of supervision staff.

Chapter 12 explores the attitudes of very small firms with less than 20 staff.

Chapter 13 explores the attitudes of some of the largest relationship managed (RM) firms.

Chapter 14 considers the issues raised by firms as the most important issues to be addressed by the FSA and by the new regulatory framework.

Chapter 15 contains a summary of firms' awareness of the Practitioner Panels and their perceptions of the Panels and the role they play.

1.4 Reporting categories

Small firms are far greater in number than large firms in the population of firms regulated by the FSA and therefore the total figures reported tend to be largely driven by the views of small firms. It is likely to be more valuable to consider the results from the individual categories.

Throughout the report comparisons have been made between:

- types of firm (major groups, relationship managed (RM) wholesale and retail firms, non-relationship managed (non-RM) wholesale and retail firms and credit unions)
- RM firms and non-RM firms
- retail and wholesale firms
- firms that have had recent contact (within the last six months) with the FSA and firms that have not had recent contact with the FSA
- very small firms with fewer than 20 full-time staff and larger firms with 20 or more full-time staff.

It should be noted that the base size for major groups is small, with 22 firms included. In general figures would not be presented based on such low numbers, but as these 22 firms represent such a high proportion of the population of major groups (58% of 38 major groups) the findings from this group are reliable.

Whether a firm has a designated relationship manager or not also provides an indication of its size, with large firms generally having a designated relationship manager and small firms lacking a relationship manager. Therefore comparisons between relationship managed (RM) firms and non-relationship managed (non RM) firms can also be used to provide an indication of differences in attitudes between large and small firms. The classification as to whether a firm is relationship managed or not is taken from the records held by the FSA

An additional size comparison has been derived from the questionnaire to explore attitudes of firms with fewer than 20 full-time staff. The majority of these firms were general insurance intermediaries, financial advisers or home finance brokers.

Comparisons have also been made with the 2008 survey findings where possible.

1.5 Notes to tables

- Base numbers are shown in italics.
- Very small bases have been avoided where possible. Where the base size is less than 50, both the bases and the percentage estimates are shown in square brackets [ ].
- Percentages may not always add up to 100% owing to rounding.
- Unless otherwise stated, changes and differences mentioned in the text are statistically significant at the 95% confidence level.
- The following conventions have been used in all tables:

-	No cases
*	Percentage less than 0.5%
n/a	Data not available
[ ]	Percentage based on less than 50 cases

2. FSA performance – overview

This chapter explores the views of regulated firms about the performance of the FSA against its four statutory objectives. At the time the survey was conducted plans for changing the regulation of the industry had been announced but the details of the future regulatory framework had not been made public (see Chart 1.1 in Chapter 1).

2.1 FSA performance against its statutory objectives

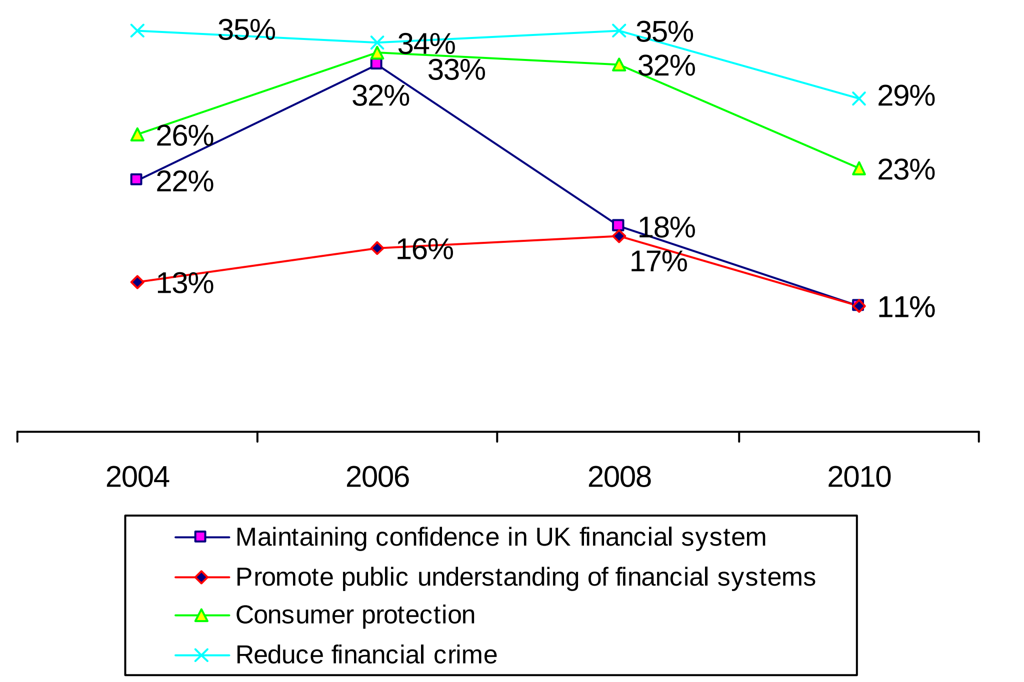
The FSA has four statutory objectives set out under the Financial Services and Markets Act 2000 (FSMA) namely:

- maintaining confidence in the UK financial system;
- promoting public understanding of the financial system;
- securing the appropriate degree of protection for consumers; and
- reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

Firms were asked to rate the FSA's performance against each of its statutory objectives over the last two years using a scale of 1 to 10, where 1 was extremely poor and 10 was outstandingly good. Chart 2.1 shows the proportion of firms that rated the FSA highly (a score of 7-10) in terms of performance against each of its objectives between 2004 and 2010. Firms' perceptions of the FSA performance improved between 2004 and 2006 (with the exception of reducing financial crime) . In 2008 there was a sharp decline in the proportion of firms that thought the FSA was performing well in terms of maintaining public confidence in the UK financial system, but performance against the other objectives remained largely unchanged from 2006. Between 2008 and 2010 the industry's perception of the FSA's performance against all four of its statutory objectives fell. This decline is largely driven by small firms. Among RM firms there was a decline in the average score for the FSA's performance against its objectives in maintaining confidence in the UK financial system and promoting public understanding, but no change in firms' perception of the FSA's performance relating to consumer protection or reducing financial crime since 2008.

The industry's rating of the FSA's performance against its objectives is strongly correlated with the level of satisfaction firms have with their relationship with the FSA and with their perception that the quality of FSA supervision has improved over the last two years. Across all four objectives, firms that were more satisfied with their relationship with the FSA gave higher ratings than less satisfied firms. Firms that agreed that the quality of FSA supervision had improved over the last two years were also more likely to score the FSA highly against meeting all four of its statutory objectives than firms that disagreed with this.

Chart 2.1 FSA performance against statutory objectives – proportion of firms giving a high rating (2004 to 2010)



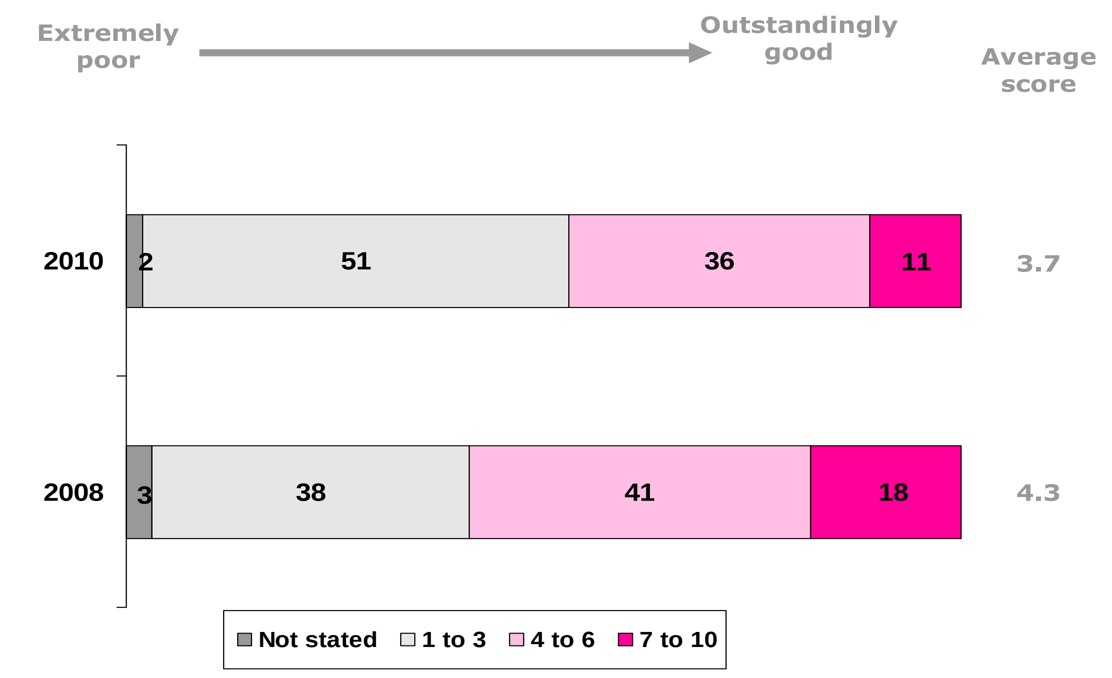
Base: All regulated firms 2004 (3,117) 2006 (4,071) 2008 (4,459) 2010 (4,256)

2.2 Maintaining confidence in the UK financial system

Of its four objectives, the FSA received the lowest average rating from the industry for its performance in '*maintaining confidence in the UK financial system*'. The average score given by firms for this objective was 3.7 compared with an average score of 4.0 for '*promoting public understanding of the financial system*', 4.8 for '*securing the right degree of protection for consumers'* and 5.2 for '*helping to reduce financial crime*'.

The decline in firms' perceptions of the FSA's performance in maintaining confidence in the UK financial system, first seen in 2008, has continued in 2010 (Chart 2.2). The proportion of firms rating the FSA poorly (a score of 1 to 3) has increased from 38% to 51% between 2008 and 2010 and there has been a corresponding decrease in the proportion of firms giving a high rating (a score between 7 and 10) from 18% to 11%.

Chart 2.2 Maintaining confidence in the UK financial system



Base: All regulated firms 2008 (4,459) 2010 (4,256)

Credit unions and non-RM wholesale firms tended to give the highest ratings (both gave an average score of 4.7) compared with non-RM retail firms that gave an average score of just 3.4 out of 10 (Table 2.1). RM firms were generally more positive than non-RM firms, with 14% giving a high rating compared with 11% of non-RM firms.[1] Similarly, over half (52%) of non-RM firms gave a poor rating compared with 38% of RM firms. Wholesale firms also tended to be more positive than retail firms, with 20% of wholesale firms rating the FSA highly on this objective compared with 9% of retail firms.

A quarter (27%) of firms that were very satisfied with their relationship with the FSA (a score of 7-10) gave a high rating in terms of the FSA's performance against this objective, compared with 1% of firms that were not satisfied. Satisfaction with firms' relationship with the FSA is explored in more detail in Chapter 9.

Findings from the follow-up qualitative research indicate that when answering the question about the FSA's effectiveness in maintaining confidence in the UK financial system, firms of all types considered the market as a whole.

> '*Well, very poorly really. I don't think anyone has confidence in them. They haven't managed to maintain confidence with the market or with the public.*' (Small Retail)

[1] This difference is not statistically significant

'*It is difficult to tell the FSA's part in all this but on balance I don't think they have done a very good job*.'
(RM wholesale bank)

However, asked to focus on the FSA's performance in relation to their sector, firms, especially the major groups and relationship managed firms, were more positive.

'*From a banking point of view the FSA haven't done a good job. They were doing supervision in a way that couldn't see the wood from the trees and perhaps weren't asking questions that would identify the systemic issues that were actually going on. From an insurance point of view they have been doing okay, and it would be a different answer if it [the question about maintaining confidence] was in relation to our industry's oversight. But as a whole I think it is hard to say that they have done a particularly good job when it came to the banking regulations.*'
(Relationship managed – Insurance)

'*The FSA are good at what they are doing from the broker's side but the banks, no. They did a poor job.*'
(Small Retail – Financial Adviser)

Firms in general were critical of the FSA for having, in their view, a poor regulatory focus, focusing on issues such as mis-selling and initiatives such as TCF rather than being more critical and challenging around regularity risk. Nevertheless, from their sector perspective, firms of all types recognised that the FSA had performed well in other respects. For example, the major groups and RM firms in the follow-up qualitative research thought that:

- the FSA had worked well to restore confidence in the UK and internationally, although '*much of the FSA's actions went unseen*';
- had been open, honest and had acknowledged their mistakes;
- in taking action had listened to the sectors and acted proportionately;
- had made a greater attempt to engage with their businesses; and
- had focussed correctly on introducing the RDR, tightening up practices in the mortgage market, and dealing with PPI.

The small firms in the follow-up qualitative research were much more varied in their views about how well the FSA had maintained confidence in the UK financial sector. While some were positive about the FSA as a regulator, but critical of the FSA's handling of the banks, others were wholly negative. Negative views tended to be underpinned by three factors: a long-held negative view of the FSA, the effect that the financial crisis had had on their firm and a single aspect of the FSA's performance that they were concerned about. This included issues around the introduction of the RDR, difficulties obtaining advice from the FSA, or the fees they paid.

'*I have to give credit where credit is due … For our business I think they [FSA] have done well … but the industry as a whole, no.*' (Small Retail – Financial Adviser)

‘*Despite the FSA taking us to the brink of the cliff they have managed to keep us from falling.*’
(Small Wholesale – Corporate Finance)

‘*I would say worse [than the previous two years]. My business has really slowed down … If the FSA had done their job properly we wouldn’t be in such a mess and I would still have a business.*’
(Small Retail – Mortgage Broker)

Table 2.1 Rating of FSA performance against statutory objectives, by firm type

	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2549)*	*(1020)*	*(243)*	*(4256)*
	%	%	%	%	%	%	%
Maintaining confidence in the UK financial system							
1-3 (Poor)	[41]	39	37	57	30	32	51
4-6 (Neutral)	[50]	47	47	32	48	42	36
7-10 (High)	[9]	13	15	9	21	21	11
Average score	**[4.1]**	**4.2**	**4.4**	**3.4**	**4.7**	**4.7**	**3.7**
Promoting public understanding of the financial system							
1-3 (Poor)	[23]	39	30	49	33	27	45
4-6 (Neutral)	[64]	52	51	40	48	45	42
7-10 (High)	[14]	9	17	9	17	23	11
Average score	**[4.7]**	**4.2**	**4.7**	**3.8**	**4.5**	**4.8**	**4.0**
Securing the right degree of protection for consumers							
1-3 (Poor)	[18]	15	13	33	17	13	29
4-6 (Neutral)	[50]	53	51	46	45	35	45
7-10 (High)	[32]	32	33	19	36	47	23
Average score	**[5.4]**	**5.5**	**5.7**	**4.5**	**5.6**	**6.1**	**4.8**
Reducing financial crime							
1-3 (Poor)	[5]	6	9	25	13	14	22
4-6 (Neutral)	[55]	54	47	46	44	40	46
7-10 (High)	[36]	38	41	25	41	37	29
Average score	**[6.0]**	**5.9**	**6.0**	**5.0**	**5.9**	**5.8**	**5.2**

2.3 Promoting public understanding, consumer protection and reducing financial crime

There were similar patterns in the rating of the FSA across all four of its statutory objectives. RM firms tended to be more positive than non-RM firms, wholesale more positive than retail, firms with recent contact more positive than those with no recent contact and firms more satisfied with their relationship more positive than the less satisfied firms. Between 2008 and

2010, average scores declined across the remaining three objectives of promoting public understanding of financial crime (from 4.6 to 4.0) of consumer protection (from 5.4 to 4.8) and of reducing financial crime (from 5.5 to 5.2). Across these three objectives there were increases in the proportion of firms rating the FSA poorly and decreases in the proportion of firms giving a high rating for performance against these objectives (Chart 2.3).

As regards the objective of '*promoting public understanding of the financial system*', only 11% of firms gave a high rating in 2010, down from 17% in 2008. Wholesale firms tended to give a higher rating than retail firms (17% of wholesale firms gave a high rating compared with 10% of retail firms). Over a quarter of firms (26%) which were very satisfied with their relationship with the FSA gave a high rating in terms of the FSA meeting its objective to promote public understanding of the financial system compared with just 1% of those which were not satisfied and 5% of those which were fairly satisfied.

The qualitative research in previous years has identified some concern that the FSA has '*promoting public understanding*' as one of its objectives. This has continued to be the case, with the follow-up qualitative research indicating that firms generally downgraded their view of the FSA's performance on this objective because they felt that it distracted them from their regulatory duties.

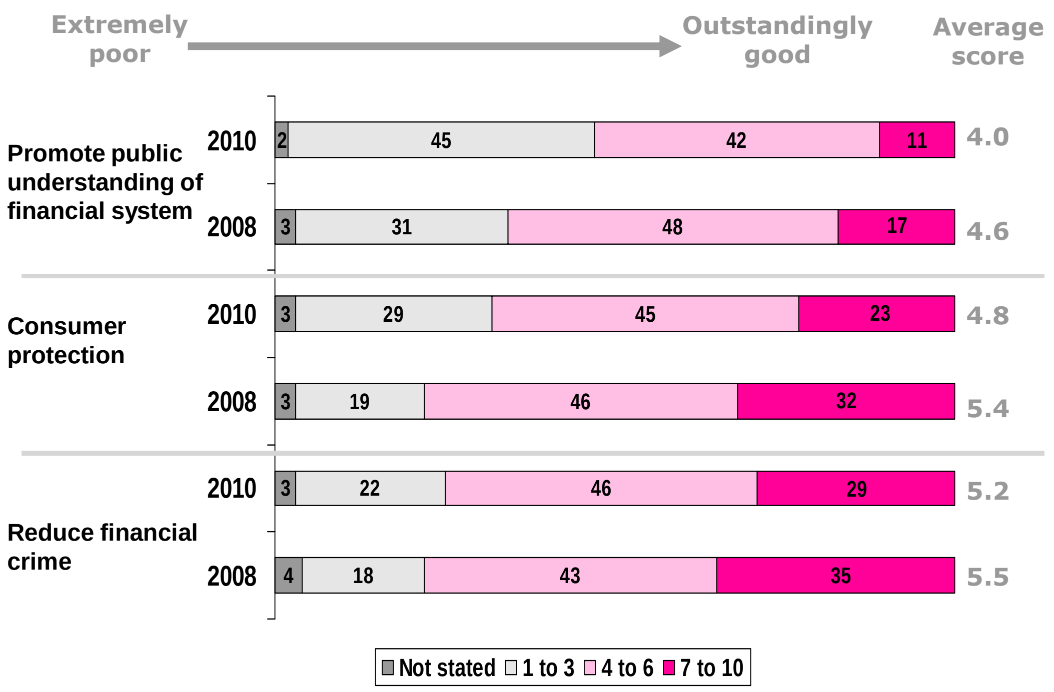
> '*I suggest they [FSA] were looking the other way weren't they? A regulator needs to regulate. That is their purpose. Getting involved in public information is just a distraction.*'
> (Relationship managed – Investment Manager)

There was also a strongly held view that the FSA had devoted considerable resources to the production of numerous leaflets and the Moneymadeclear website, yet from those dealing with the general public there was some doubt that the FSA's efforts had been rewarded with increased consumer understanding.

> '*Let the FSA come and sit here for a day and they will soon realise that most of the people that walk through that door know not the first thing about financial products*.'
> (Small Retail - Financial Adviser)

> '*The information we give to clients to help them understand what they are buying is over the top and unlikely ever to be read.*'
> (Small Retail – Mortgage Broker)

Chart 2.3 Rating of FSA performance against statutory objectives



Base: All regulated firms 2008 (4,459) 2010 (4,256)

A quarter of firms (23%) gave the FSA a high score for its performance in meeting its objective of '*consumer protection*', compared with 32% which gave a high score in 2008. Wholesale firms were more likely to give a high score than retail firms (36% compared with 20%). A third of RM firms (33%) gave a high rating compared with 22% of non-RM firms. Likewise firms that were very satisfied with their relationship with the FSA were more likely to give a high rating for the FSA's performance against this objective (46%) compared with firms not satisfied with their relationship (4%). Firms were also asked to what extent they agreed or disagreed that the FSA focuses on consumer protection to the detriment of its other objectives. This is explored in more detail later in the report, but interestingly firms that felt this was the case tended to give lower scores for the FSA's performance in securing the right degree of protection for consumers. A third (33%) of firms that agreed that the FSA focused on consumer protection to the detriment of its other objectives rated the FSA poorly for securing consumer protection, compared with 23% of those which disagreed.

Firms of all types in the follow-up qualitative research were positive about the FSA's efforts in relation to consumer protection, pointing to the enhanced compensation arrangements as evidence. However, there was a general belief that where firms had a common ownership, the compensation arrangements were weak and likely to confuse the public. Small firms were also particularly concerned about what they saw as 'over protection', with firms indicating that they felt very constrained by having to minimise any investment risk.

'*I give them [clients] all this paperwork and the past performance figures and then I basically have to tell them that it's all rubbish because the past doesn't predict the future and I can't give them any indication of relative risk*.'
(Small retail – investment broker)

Overall, more firms rated the FSA highly in terms of meeting its objective of '*helping to reduce financial crime*' with 29% of firms giving a high rating for this objective. Again, there was a fall in the proportion of firms giving a high rating (from 35% in 2008).

Over half of firms that were very satisfied with their relationship with the FSA (52%) gave a high rating for this objective, compared with 8% of firms that were not satisfied. There was very little difference in the proportion of firms giving a poor rating for this objective based on whether or not they had had any contact with the FSA in the last six months, but those which had had contact were more likely to give a high rating (31% compared with 22% which had had no contact).

Firms interviewed in the follow-up qualitative research were generally positive about the FSA's performance in relation to this objective as the increased reporting and prosecutions were evidence of the FSAs positive effect. However, there was concern that the FSA had only been successful with modest prosecutions and that the larger cases had not been successful. The smaller firms also noted that they were no longer being inspected, which to them seemed a retrograde step.

The small wholesale firms in the follow-up qualitative research were also concerned about the constant need for proof of identity, which meant that they downgraded the FSA's performance on this objective.

'*My clients are multi-nationals and I work with them all the time. I have to show them my passport every time I do business with them. This is embarrassing and unnecessary*.'
(Small Wholesale Investment Manager)

2.4 Key drivers of firms' rating of FSA performance against its statutory objectives

This section explores the key drivers of firms' rating of FSA performance against its statutory objectives and identifies those areas of performance on which to focus improvements to increase these ratings.

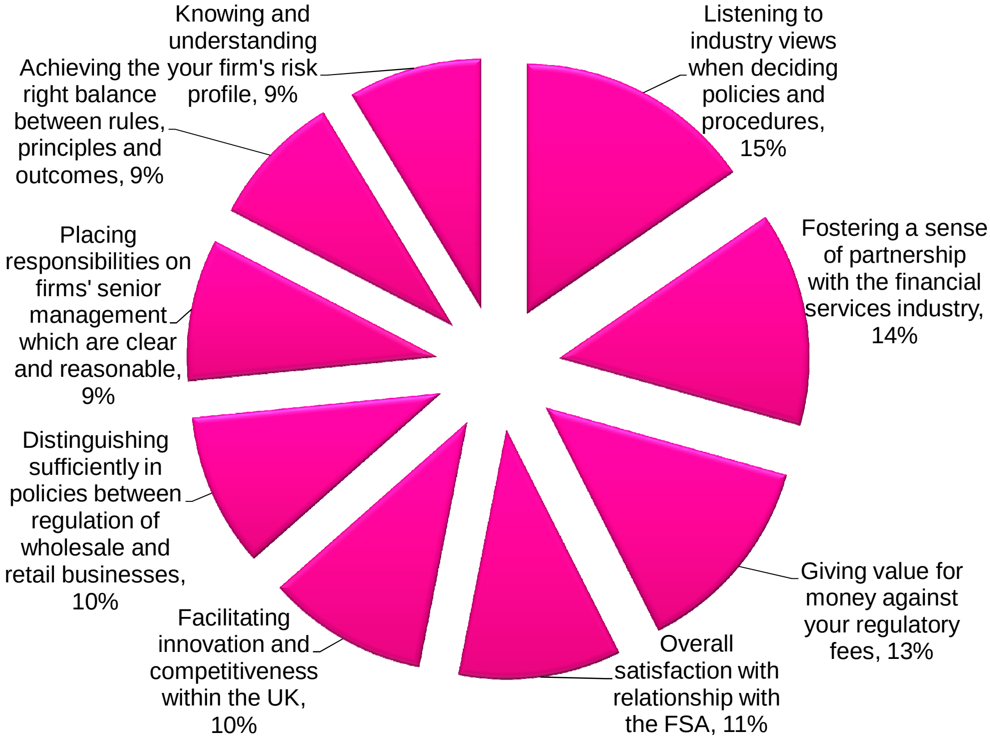
Initially a key driver analysis was run for each of the four statutory objectives individually, but it was found that the drivers were similar across all four objectives. A composite driver analysis is therefore presented here showing the drivers across all four objectives. Chart 2.4 shows the relative importance of the most important drivers against each other in driving firms' perceptions.

The most significant drivers of firm's perceptions of the FSA's performance against its objectives were '*listening to industry views when deciding policies and procedures*', '*fostering a sense of partnership with the financial services industry*' and '*giving value for money against your regulatory fees*'.

The drivers have changed to a certain extent since 2008. In 2008 the most significant drivers of perceptions of the FSA's performance in maintaining confidence in the UK financial system were '*facilitating innovation and competitiveness within the UK*', '*satisfaction with enforcement handling*' and '*fostering a sense of partnership with the financial services industry*'.

Fostering a sense of partnership has maintained its importance as a key driver, but the relative importance of facilitating innovation and competitiveness and satisfaction with enforcement handling have dropped, and there has been a rise in the relative importance of listening to industry views and giving value for money.

Chart 2.4 Key drivers of firms' perception of the FSA's performance against its objectives

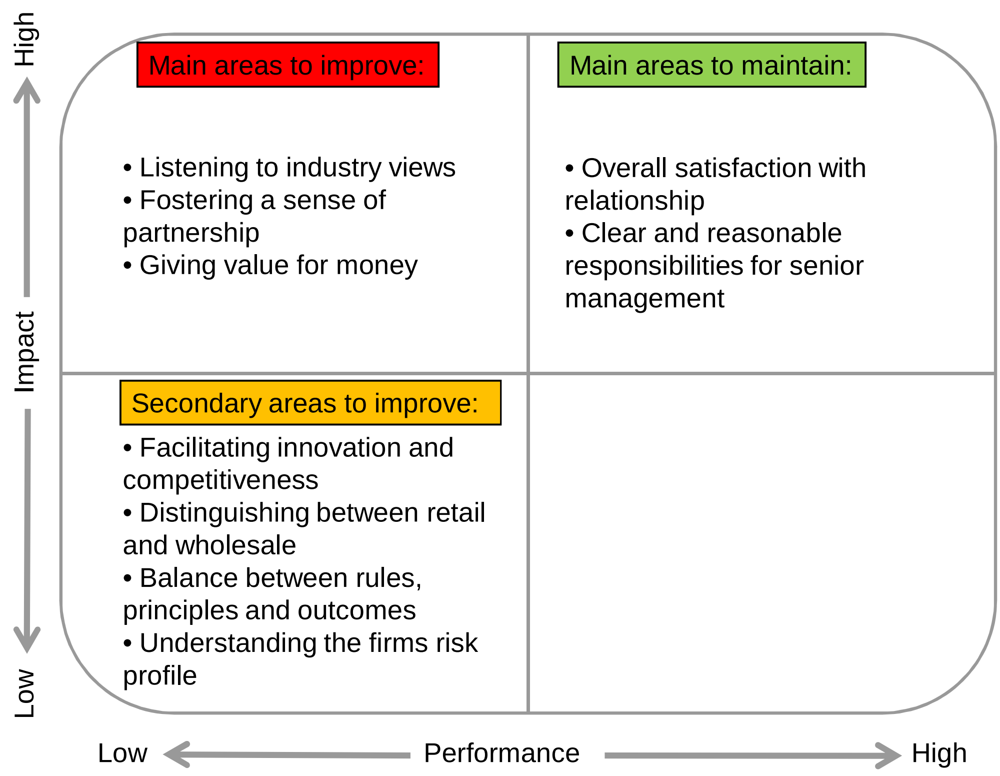


Base: All regulated firms (4,256)

The improvement matrix shown in Chart 2.5 illustrates the areas on which the FSA needs to focus in order to improve firms' rating of its performance against its statutory objectives. From this model it can be seen that the main areas on which the FSA should focus improvements would be in listening to industry views when deciding policies and procedures, fostering a sense of partnership with the financial services industry and giving value for money against regulatory fees.

Secondary areas to improve would be in facilitating innovation and competitiveness within the UK, distinguishing sufficiently in policies between retail and wholesale, achieving the right balance between rules, principles and outcomes and understanding the firm's risk profile. Areas where the FSA has been performing well and where the focus should be in maintaining this good performance are in firms' overall satisfaction with their relationship with the FSA and in placing responsibilities on senior management which are clear and reasonable. Although satisfaction with firms' relationship with the FSA has declined since 2008 it is important to try and maintain, or if possible improve, the current levels of satisfaction.

Chart 2.5 Improvement matrix: FSA performance against objectives



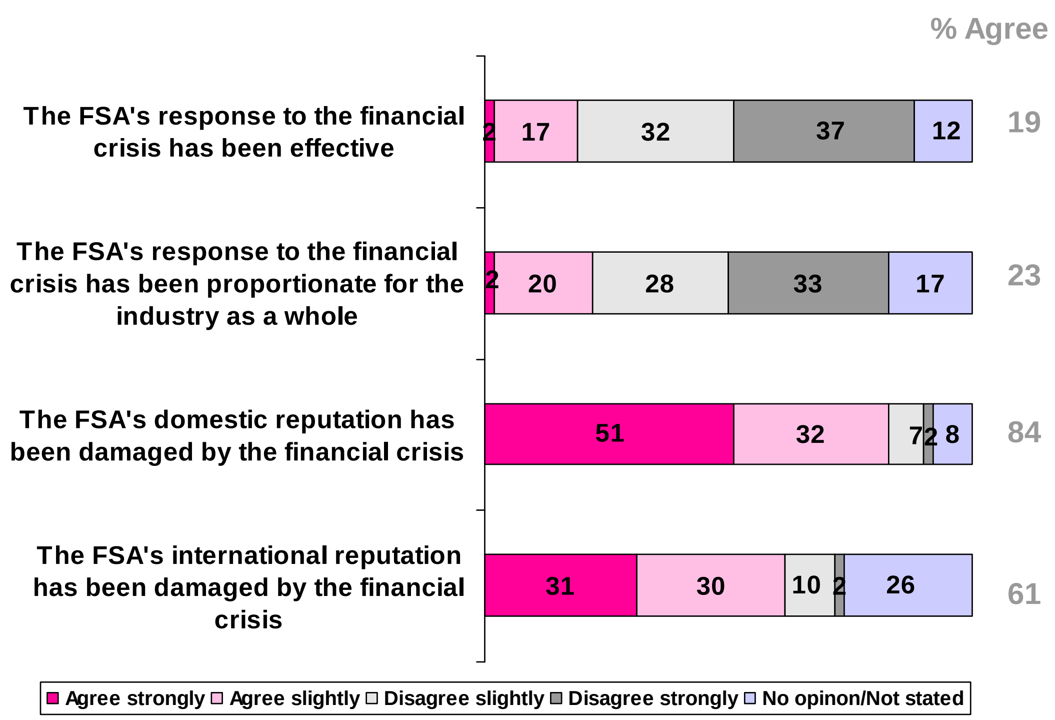
Base: All regulated firms (4,256)

3. The FSA's handling of the financial crisis

At the time the survey was conducted proposals had been put forward by the Coalition government regarding the future of the tri-partite regulatory system and its replacement with a new regulatory framework. This chapter explores the financial services industry's views about the FSA's handling of the financial crisis and its confidence in the proposed new regulatory framework.

Chart 3.1 details the industry's attitudes towards the FSA's handling of the financial crisis and the impact of the crisis on its reputation.

Chart 3.1 Attitudes towards the FSA's handling of the financial crisis



Base: All regulated firms (4,256)

3.1 The FSA's response to the financial crisis

All firms were asked to what extent they agreed or disagreed that '*the FSA's response to the financial crisis has been effective*'. Overall just under a fifth of firms (19%) agreed that the FSA had responded effectively (Table 3.1). There were significant differences in firms' attitudes towards the FSA's response to the crisis by type of firm. The very low level of agreement among non-RM retail firms (14% agreed that the FSA had been effective in handling the crisis) has the effect of depressing the overall score across the industry. In other types of firm between 31% and 36% agreed that the FSA had been effective, while over half of major groups agreed that the FSA's response to the financial crisis had been effective.

Table 3.1 The FSA's response to the financial crisis has been effective, by firm type

	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2,549)*	*(1,020)*	*(243)*	*(4,256)*
	%	%	%	%	%	%	%
Agree strongly	[-]	3	4	2	4	4	2
Agree slightly	[55]	33	30	12	32	27	17
Disagree slightly	[23]	35	39	31	36	21	32
Disagree strongly	[18]	28	22	43	20	20	37
Agree	**[55]**	**36**	**34**	**14**	**36**	**31**	**19**
Disagree	**[41]**	**63**	**61**	**73**	**56**	**41**	**69**
No opinion/not stated	[5]	1	5	13	8	29	12

There were significant differences in the opinions of retail and wholesale firms, with over a third of wholesale firms (35%) considering the FSA to have responded effectively compared with 15% of retail firms.

Firms were also asked to what extent they agreed or disagreed that '*the FSA's response to the financial crisis has been proportionate for the industry as a whole*'. Just under a quarter of firms (23%) agreed that the response had been proportionate and 61% disagreed. Again the level of agreement was lowest among non-RM retail firms (18% agreed). In comparison 41% of major groups agreed that the response was proportionate, as did 42% of non-RM wholesale firms and 35% of RM wholesale firms. Overall just over four in ten wholesale firms (41%) agreed that the FSA's response had been proportionate compared with 18% of retail firms. Firms that had had some contact with the FSA in the last six months were slightly more positive than firms that had not had any contact (24% compared with 17%).

Firms discussing the FSA's response to the financial crisis in the qualitative research pointed to a change in the regulatory landscape, with large firms in particular commenting on increased regulation, supervision and enforcement. While considerable support continued for the FSA as the regulator of choice, there was also considerable dissatisfaction with the way in which the FSA was perceived to have rolled out to the whole financial services industry a much stricter regulatory regime that was primarily designed to deal with the difficulties that were only experienced in the banking sector.

> '*The whole regulatory landscape has changed completely*.'
> (Retail, Bank)

> '*At the moment our great concern is that we get lumped in the same thing as the banks and we have a very different kind of business.*'
> (Major Retail Insurer)

'*We are running a commodity business, and yet the danger is we end up … with a regulatory environment which is much more penal and constraining.*'
(Major Retail Insurer)

3.2 Industry perceptions of the impact of the financial crisis on the FSA's reputation

Firms were asked to consider the impact of the financial crisis on the FSA's reputation, both domestically and internationally. The clear feeling from the industry was that the FSA's reputation had indeed been damaged on both domestic and international fronts.

The vast majority of firms (84%) agreed that the FSA's **domestic** reputation had been damaged and 61% agreed that its **international** reputation had been damaged. There was very little difference in opinion between retail and wholesale firms on the first measure, with 84% of retail firms and 83% of wholesale firms agreeing that the FSA's domestic reputation had been damaged. Nine in ten RM firms (90%) agreed that the FSA's domestic reputation had been damaged compared with 83% of non RM firms.

As stated earlier, the majority of firms (61%) agreed that the FSA's international reputation had been damaged by the financial crisis. Thirteen per cent of firms disagreed and a fairly high proportion (26%) did not give an opinion. RM firms were more likely than non-RM firms to agree that the FSA's international reputation had been damaged by the crisis (71% compared with 61%).

During the qualitative research it was apparent that the FSA had developed an image problem that was born out of the financial crisis and felt to be due to its media representation throughout the period.

'*The FSA's approach to regulation has I think been fair and sound. But it can be easy to take pot shots at them and generalise.*'
(Wholesale, Venture Capital Firm)

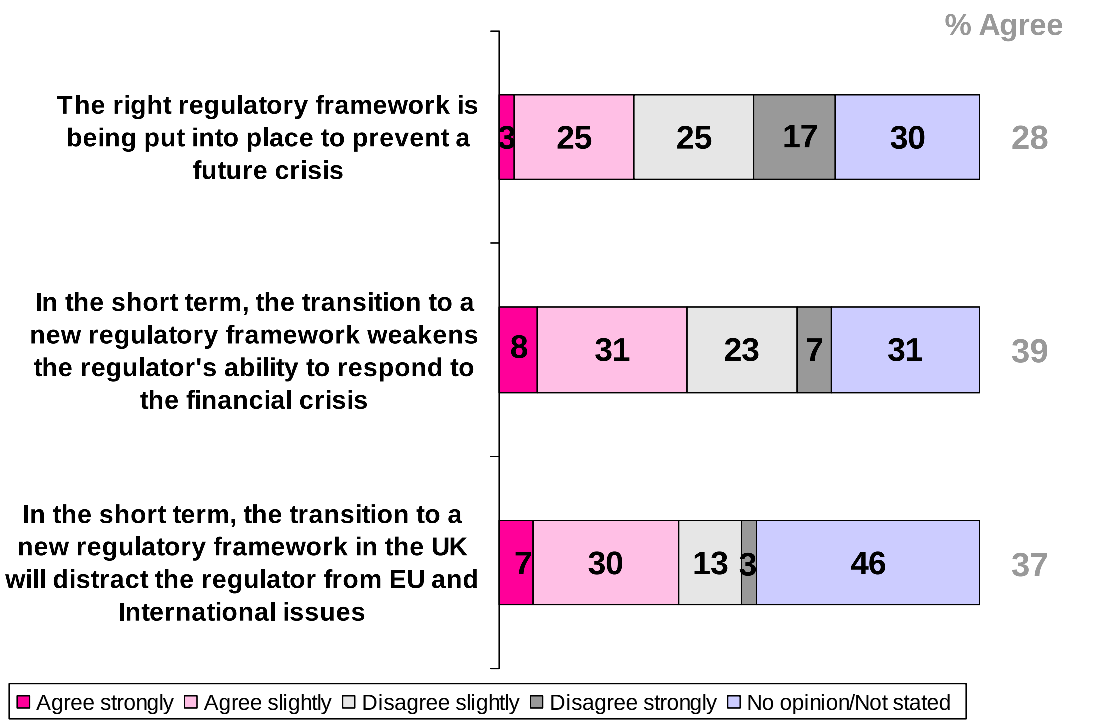
However, the FSA's strategy of publishing large fines for non-compliance had positioned the FSA as a rather 'reactionary' organisation trying to make up for an alleged lack of attention to what was happening in the financial services industry. The FSA was seen as a regulator that was too ready to punish banks and 'risky' firms, while from the perspective of the financial services industry a '*regulator should not be a policeman; a regulator should have a proactive role in ensuring that the industry is not only policed but also able to flourish*'.

3.3 Attitudes towards the proposed new regulatory framework

This section details firms' attitudes towards the proposed new regulatory system. There was a concern that firms might be worried about the transition to a new regulatory system, leading to a short-term loss of focus in regulatory policy. Questions were therefore included in the 2010 survey to assess whether or not this was the case.

Overall there seemed to be a degree of uncertainty among regulated firms about the future regulatory framework, with a large proportion of firms being unable to give an answer to these questions (Chart 3.2). This is perhaps not surprising, as the detail of the new regulatory regime had yet to be announced at the time of the survey.

Chart 3.2 Attitudes towards the future regulatory system



Base: All regulated firms (4,256)

Just over a quarter of firms (28%) agreed that '*the right regulatory framework is being put in place to prevent a future crisis*', 42% disagreed and 30% were unable to answer. Overall a quarter of retail firms (26%) agreed that the right regulatory framework was being put in place compared with 33% of wholesale firms and 41% of major groups.

Almost four in ten firms (39%) agreed that '*in the short term the transition to a new regulatory framework weakens the regulator's ability to respond to the financial crisis*', 30% of firms disagreed and 31% were unable to answer. This issue was of greatest concern to RM firms, where half (52%) agreed with this statement compared with 38% of non-RM firms. In general wholesale firms were more likely than retail firms to agree with this (47% compared with 37%).

Over a third of firms (37%) thought that '*in the short term the transition to a new regulatory framework in the UK will distract the regulator from EU and International issues*'. Again this was more likely to be a concern to RM firms than non-RM firms (62% compared with 36%).

Wholesale firms were also more concerned about this than retail firms, with 55% of wholesale firms agreeing with this statement compared with 33% of retail firms.

Reflecting the survey findings, firms in the qualitative research found it difficult to discuss the move to a new regulator and whether the right regulatory framework was being put in place. Nevertheless, firms were not convinced that the FSA's recent move to a more severe 'one size fits all' approach was in the best interests of the financial services industry. Overwhelmingly, firms wanted a strong regulator that approached regulation in a tailored and bespoke fashion. Greater clarity was also required around the way principles-based regulation should work, with an improved emphasis on greater business understanding and more dialogue with firms in the financial services industry.

4. Attitudes towards regulation

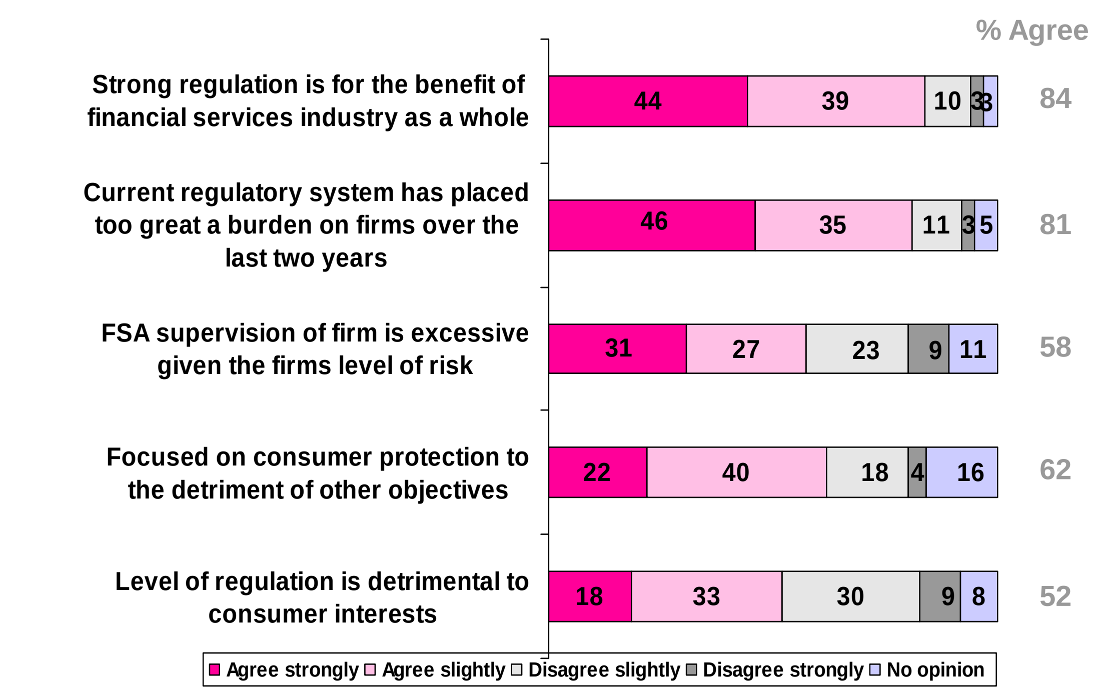
This chapter explores the industry's attitudes towards regulation overall and the way in which the regulatory system has been implemented by the FSA. It explores firms' perceptions of regulation based on rules, principles and outcomes and concerns among the industry about the prospect of retrospective regulation. This chapter also considers firms' attitudes towards the TCF initiative now that it is firmly embedded within the regulatory framework.

4.1 Overall opinions of the regulatory system

Overall there is a strong endorsement from the industry of the need for strong regulation. The vast majority of regulated firms (84%) agreed that strong regulation is for the benefit of the financial services industry as a whole, with 44% strongly agreeing (Chart 4.1). However, firms were also very concerned about the burden that regulation placed on them, with 81% agreeing that the regulatory system had placed too great a burden on their firm over the last two years.

There has been little change between 2008 and 2010 in firms' overall attitudes towards regulation. In 2008 85% of firms agreed that strong regulation was for the benefit of the financial services industry as a whole, yet 82% of firms felt that the regulatory system placed too great a burden on firms (compared with 84% and 81% respectively in 2010).

Chart 4.1 Attitudes towards regulation



Base: All regulated firms (4,256)

Support for strong regulation was evident across all types of firms (Table 4.1). All major groups (100%) agreed that '*strong regulation is for the benefit of the financial services industry as a whole*', with 82% strongly agreeing that this was the case. The lowest level of support was seen among non-RM retail firms but even among these firms 82% agreed that strong regulation was important. RM firms were more likely than those that were not relationship managed to believe that strong regulation was beneficial for the industry (94% compared with 83%).

Wholesale firms were slightly more likely than retail firms to agree that strong regulation benefited the industry as a whole (88% compared with 83%) and larger firms with 20 staff or more were slightly more likely than smaller firms to agree with this statement (88% compared with 83%).

Table 4.1 Strong regulation is for the benefit of the financial services industry as a whole

	RM	Non-RM	Retail	Whole sale	Recent contact	No recent contact	Total
	(430)	(3812)	(2939)	(1281)	(3264)	(992)	(4256)
	%	%	%	%	%	%	%
Agree strongly	54	43	42	51	45	41	44
Agree slightly	40	39	40	36	39	41	39
Disagree slightly	4	10	10	9	9	11	10
Disagree strongly	*	4	4	1	3	5	3
Agree	**94**	**83**	**83**	**88**	**84**	**81**	**84**
Disagree	**4**	**14**	**14**	**10**	**12**	**16**	**13**
No opinion/not stated	2	3	3	2	3	3	3

Firms in the qualitative research echoed the findings of the survey, commenting that firm regulation was good for the financial services industry as it promoted both industry and public confidence, ultimately resulting in greater levels of business. However, there was real concern that the FSA was increasing the intensity of regulation, and that this was being unnecessarily applied uniformly across the industry, irrespective of the relative risk that a firm posed.

> '*The CEO of the FSA said sometime during last year they will be more intrusive, more interventionist, more in your face, more challenging and to be afraid, very afraid. So what we are seeing now reflects what basically was promised.*'
> (Major Group, Bank)

> '*We are treated just like the banks but we are completely different and don't pose any risk at all to the industry … I think that is partly down to just lack of understanding of what our business is about.*'
> (Small IFA)

4.2 Regulatory burden and excessive supervision

All firms were asked to what extent they agreed or disagreed that '*the regulatory system has placed too great a burden on financial services firms over the last two years*'. Overall 81% of firms believed that it had, with 46% agreeing strongly that this was the case. This is despite the fact that the vast majority of firms agreed with the need for strong regulation.

Table 4.2 The regulatory system has placed too great a burden on financial services firms over the last two years

	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2549)*	*(1020)*	*(243)*	*(4256)*
	%	%	%	%	%	%	%
Agree strongly	[41]	41	34	52	22	16	46
Agree slightly	[50]	45	46	32	44	37	35
Disagree slightly	[5]	13	14	8	23	22	11
Disagree strongly	[5]	1	3	2	5	11	3
Agree	**[91]**	**86**	**79**	**85**	**66**	**53**	**81**
Disagree	**[9]**	**13**	**17**	**10**	**28**	**33**	**14**
No opinion/not stated	[-]	1	4	5	6	14	5

Credit unions and non-RM wholesale firms were the least likely to agree with this statement, with half (53%) and two thirds agreeing (66%) respectively, compared with 86% of RM retail firms, 85% of non-RM retail firms and 79% of RM wholesale firms. This is reflected in the fact that 69% of wholesale firms agreed that the regulatory system has placed too great a burden on firms compared with 83% of retail firms.

Although the majority of firms agreed that the regulatory system had placed too great a burden on firms, these same firms were also in agreement about the importance of strong regulation for the industry, indicating a broad acceptance of the necessity of strong regulation but some concerns about how this is applied to firms in practice.

The recent attention focussed on the application of risk based regulation led to a new question being included in the 2010 survey to explore firms' attitudes towards risk-based regulation as it applied to their firm.

Over half of all firms (58%) agreed that '*FSA supervision of my firm is excessive, given my firm's level of risk*'. Opinion was divided among major groups, with firms equally split in their agreement or disagreement. Retail firms were far more likely than wholesale firms to think that the level of supervision was excessive (61% and 43% respectively).

Table 4.3 FSA supervision of my firm is excessive, given my firm's level of risk							
	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2549)*	*(1020)*	*(243)*	*(4256)*
	%	%	%	%	%	%	%
Agree strongly	[14]	30	17	35	17	17	31
Agree slightly	[36]	40	29	27	26	25	27
Disagree slightly	[45]	21	36	20	33	30	23
Disagree strongly	[5]	8	11	8	14	16	9
Agree	**[50]**	**69**	**46**	**62**	**43**	**42**	**58**
Disagree	**[50]**	**29**	**47**	**27**	**47**	**46**	**32**
No opinion/not stated	[-]	2	7	11	11	12	11

From the qualitative research it was apparent that over the past two years there had been an increase in the level of supervision for the large firms, particularly large and mid-sized banks and insurers, alongside 'riskier' investment firms such as hedge funds and venture capital businesses. These firms reported a number of changes as to how supervision was being experienced:

- **Greater dialogue** with the FSA on a regular basis. In some cases more staff had been assigned to their firm's supervisory team. Firms that were in administration clearly felt this to the highest degree, with conversations on a daily basis.

- **Information requests** outside formal FSA assessments were also much more regular, detailed and scrutinised than they had ever been before, with much more focus placed on interrogating firm's responses to information requests.

- Some large firms also pointed out that interviewing **significant influence functions** had been a new experience and was evidence to them of the FSA's more intrusive approach.

'*It is far, far more intrusive. When we volunteer information we get ten questions back wanting to know the ins and outs of everything.*'
(Major General Insurer, Retail)

By and large, an increase in supervision was viewed as necessary in the current financial climate. It was acknowledged by all, including the banks, that the supervision of firms with a significant market footprint should be monitored more closely and that the FSA had been left with no choice but to supervise more intensively and there is an expectation that it needed to do so in order to ensure market stability now more than ever.

However, there was also the view that the FSA had moved beyond its risk-based approach and was now heavily supervising in lower risk sectors too. For example, there was criticism from many large firms, particularly insurers, that supervision was being applied in a 'blanket' manner. In this regard, firms thought that more intensive supervision had been introduced by the FSA as a response to the conduct of the banks, and the whole industry was now being penalised for it.

> '*The FSA has adopted more intrusive regulation since 2008, moving beyond risk-based regulation and becoming too heavy handed in low risk sectors like reinsurance…I can't see why FSA is applying scarce resources to all sectors, when there are clearly higher risk sectors which need more careful supervision.*'
> (Wholesale insurance firm)

> '*You simply shouldn't apply a new rhetoric and a new scheme of supervision to everybody in the industry, because actually some of us held our heads above water. So regulate by firm [do] not regulate by stigma attached to the whole industry as a result of failure.*'
> (Major Retail Bank)

While recognising that supervision was becoming more intensive overall, the small firms still felt that they were experiencing light touch supervision.

> '*My impression is they [FSA] are becoming tougher. Partly because on the web site there is … a section saying we've done this or that to [company].*'
> (Retail, Small Firm, IFA)

Some small firms would welcome more contact from the FSA to ensure they were operating properly. However, on balance firms, particularly those that had recently had a positive ARROW visit, felt that their contact with the FSA had been proportionate and in-line with their risk rating.

> '*I think that the balance is probably about right [and] the day to day regulation is proportionate and appropriate.*'
> (Retail, Small Firm, Credit Union)

> '*We haven't had too much contact over the last few years so we seem to keep our head down and do a good job and we have very few complaints.*'
> (Retail, Small Firm, IFA)

4.3 Quality of supervision

Just under half of regulated firms (45%) agreed that the quality of FSA supervision had improved over the last two years, with 6% strongly agreeing that this was the case. Non-RM wholesale firms were least likely to agree that the quality of supervision had improved (43%) together with non-RM retail firms (44%), compared with RM wholesale firms (53%). Almost six in ten major groups (59%) felt that the quality of FSA supervision had improved over the last two years.

Firms that had been in contact with the FSA in the last six months were more positive about the improvement in the quality of supervision than those that had had no contact. Just under half of firms (48%) that had had contact with the FSA felt that the quality of supervision had improved compared, with 37% of those that had had no contact. A more detailed discussion of firms' views on the quality of guidance and supervision offered by the FSA is included in Chapters 10 and 11.

Participants in the qualitative research expressed a range of views about the quality of supervision. Many firms were very happy with their supervisors, finding them knowledgeable, understanding, and professional to deal with. Where there were long-term supervisory relationships, supervisors would take on a softer, more advisory stance, and this was welcomed by firms.

'*We have worked with [supervisor] for many years now. [They] have an excellent knowledge of the sector generally and also of our business. Our discussions are always fruitful. We have a true dialogue, which we find very reassuring.*'
(Major Group, Investment Manager)

However, the quality of supervision for some firms was a major issue:

'*Our single biggest issue with the FSA, my single biggest issue with the FSA is the quality of the people that they have doing the monitoring and the continuity of those people.*'
(Insurer)

This was primarily due to the lack of continuity of supervisors, the use of temporary staff, a general lack of knowledge about the firm's business, and a lack of cross-departmental working.

In terms of supervisory continuity a number of firms noted that they had many relationship managers / supervisors over the last few years, in some cases reporting three supervisors in two years. Firms were frustrated at the sheer number of supervisors they had had to deal with, both at senior and junior supervisory levels. There were also firms that commented on the use of temporary staff as supervisors as this made for awkward relationships.

Generally, each time a new supervisor would come into post, firms were concerned that they would again have to invest considerable time into the significant relationship-building period where the firm works hard to re-educate the supervisor about their business. The effect of this was to reduce their confidence in the ability of the FSA to regulate them effectively.

There were also concerns about how knowledgeable supervisory staff were, particularly newly appointed supervisors. Some firms felt that their supervisors had inadequate experience in their sector, for example, placing those with banking experience into the insurance sector. Here staff would lack adequate knowledge of the relevant sector, reducing firms' confidence in their ability to understand their issues. There were also comments that supervisors were too junior, especially when liaising with Chief Executive Officers (CEOs).

Here CEOs complained that the supervisors would come to them with issues that should be dealt with in a more appropriate part of the business, for example, with compliance officers.

By contrast, small firms such as the credit unions and friendly societies were particularly pleased with their supervision, commenting that they had a small team at the contact centre who would consistently deal with them in a knowledgeable and productive way.

A concern expressed, particularly by the major groups, was the apparent lack of cross-departmental working, with a view that supervisors and relationship managers do not communicate enough and it falling on the firm to educate both the relationship manager and the supervisor about the same issue.

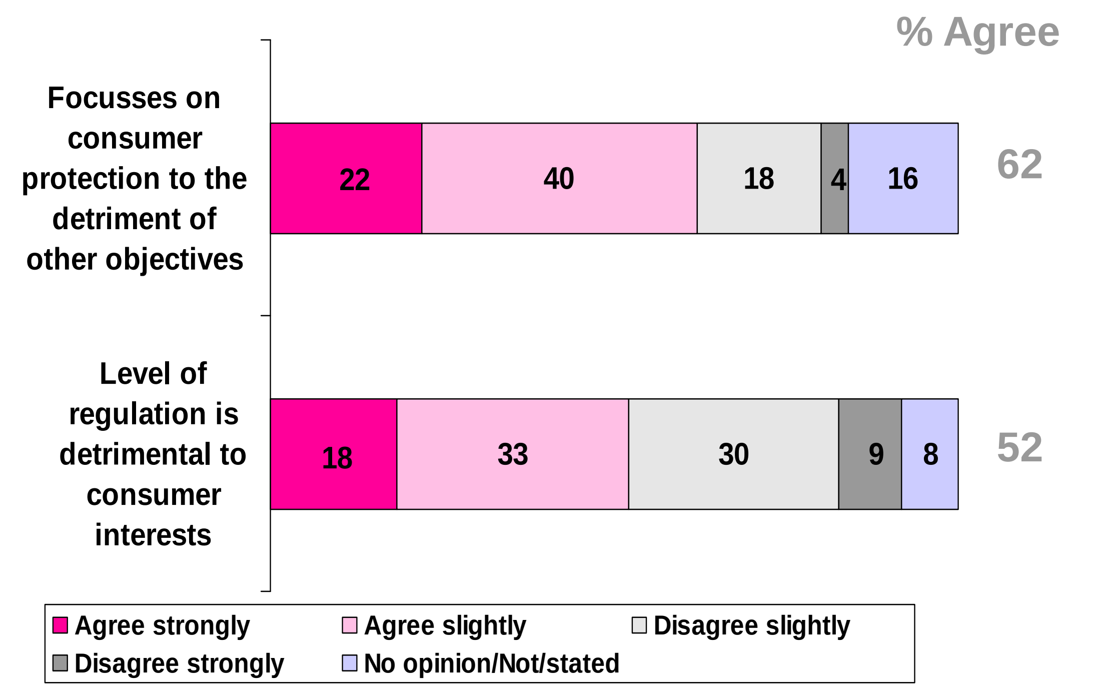
It was lamented that no Service Level Agreement (SLA) seemed to exist internally within the FSA to ensure that departments work together, that visits are coordinated and that documents are delivered in a timely manner. For example, one firm noted that the output from an ARROW report was delivered immediately before a public holiday and so the firm could not take any actions.

4.4 Consumer protection

There has been little change in firms' attitudes towards the FSA's handling of consumer protection since the 2008 survey. Around six in ten firms (62%) felt that that '*the FSA focuses on consumer protection to the detriment of its other objectives*', with a fifth (22%) feeling strongly that this was the case. A similar proportion of firms (61%) agreed with this statement in 2008. The most marked difference in opinion among firms was between retail and wholesale firms with two-thirds of retail firms (66%) agreeing with this compared with 48% of wholesale firms. There was no difference between the views of RM and non-RM retail firms.

Firms were also asked to what extent they agreed or disagreed that '*the level of regulation of the industry is detrimental to consumer interests*'. Overall, half (52%) of firms agreed with this statement, with 18% agreeing strongly. This represents no change since 2008 when 51% of firms agreed with this. Levels of agreement differed between retail firms (58%) and wholesale firms (28%) and between non-RM firms (53%) and RM firms (40%). Firms that agreed that the level of regulation was detrimental to consumer interests were more likely to score the FSA poorly in meeting its objective of securing the right degree of protection for consumers (39% gave a score of 1-3 compared with 17% of those that disagreed).

Chart 4.2 Attitudes towards consumer protection



Base: All regulated firms (4,256)

4.5 Rules, principles and outcomes

Since the previous survey was conducted in 2008, the FSA has shifted its approach to assessing firms' behaviour from an emphasis on more principles-based regulation to a focus on outcomes. Firms were asked to what extent they agreed that the FSA had shifted its attention to outcomes in its supervision of firms' behaviour and whether they felt that the right balance had been achieved between rules, principles and outcomes.

4.5.1 Shift in attention to outcomes

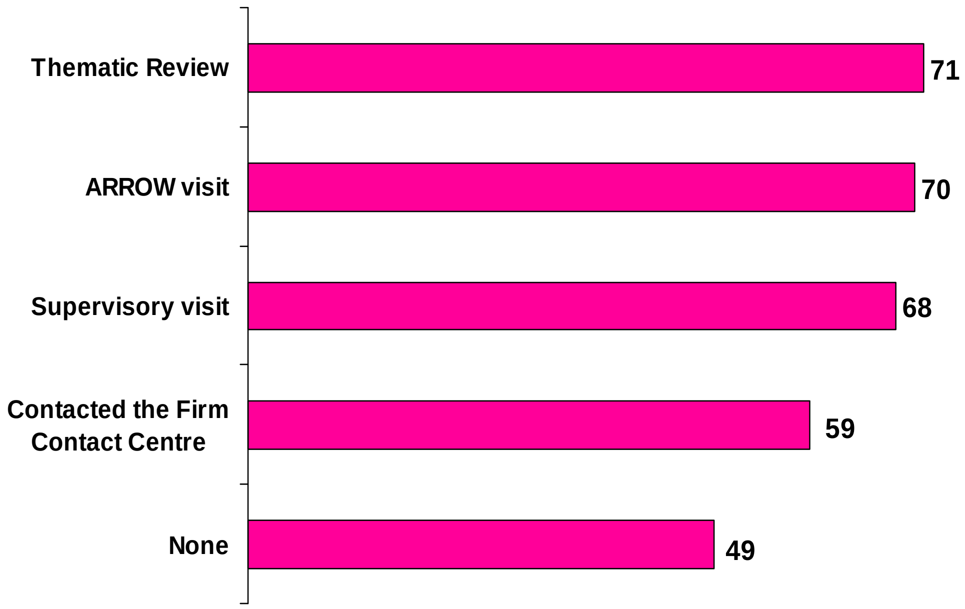
There was a significant degree of uncertainty among firms about whether '*the FSA has shifted its attention to outcomes in its assessment of firms' behaviour*' with a third of firms (31%) not giving an answer to this question (Chart 4.4). The majority of firms (57%), however, agreed that there had been a shift in attention to outcomes and just one in ten (11%) disagreed.

Almost all major groups claimed to be aware of this shift, with 95% in agreement with this statement. RM firms were more likely to be aware of this shift in emphasis than non-RM firms (66% compared with 56%). As might be expected, firms that had had contact with the FSA in the last six months were also more likely to agree that there had been a shift in emphasis

(60%) compared with 47% of firms that had not had recent contact. Retail firms were more likely than wholesale firms to agree that there had been a shift in emphasis (59% compared with 48%). There was no difference between large and small firms.

Firms that had experienced some sort of supervisory visit or contact by the FSA were more likely to agree that the FSA had shifted its focus to outcomes (Chart 4.3). Over seven in ten firms (71%) that had experienced a thematic review since 2009 felt this to be the case, as did 70% of firms that had had an ARROW visit, 68% of those which had had a supervisory visit and 59% of firms that had contacted the Firm Contact Centre. In contrast, less than half of firms (49%) which had not experienced any of these interventions thought that the FSA had shifted its emphasis to outcomes.

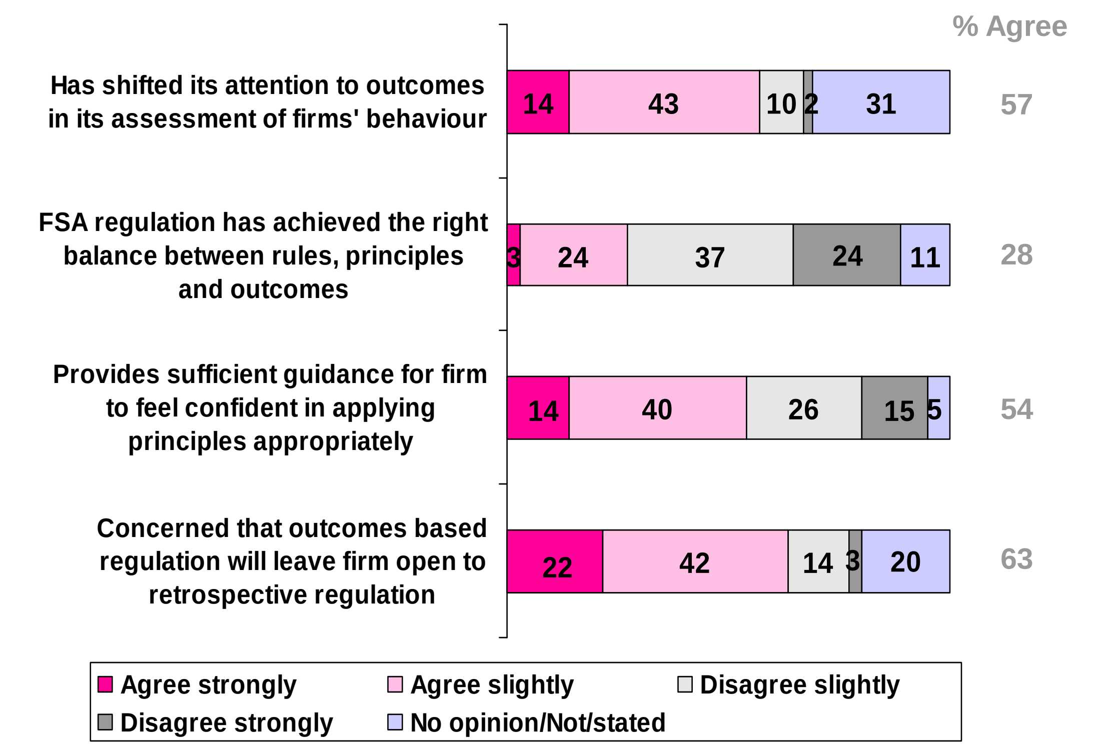
Chart 4.3 Proportion of firms that agreed that the FSA has shifted its attention to outcomes, by type of supervision experienced



Base: All firms

Among firms with no recent contact with the FSA, over four in ten (42%) were not able to give an answer to this question, indicating they had no knowledge of whether or not there had been a shift in the FSA's attention towards outcomes based regulation.

Chart 4.4 Attitudes towards regulation



Base: All regulated firms (4,256)

4.5.2 Striking the right balance between rules, principles and outcomes

There was a low level of agreement among firms that '*FSA regulation has achieved the right balance between rules, principles and outcomes*'. Just over a quarter of firms (28%) agreed that the FSA had achieved the right balance. Over six in ten firms (62%) **disagreed** with this, with a quarter (24%) strongly disagreeing (Chart 4.4).

Half (50%) of firms that were very satisfied with their relationship with the FSA felt that the regulator had achieved the right balance compared with 21% of firms that were moderately satisfied and six per cent of those that were not satisfied.

From the qualitative research it was apparent that while firms welcome principles-based regulation (PBR) as a 'mature' approach to regulation, allowing a degree of freedom and flexibility, there was a real feeling that the FSA were not as wedded to PBR as had been originally thought and that the current approach sat somewhere between a principles-based and a rules based approach to regulation.

'*It's not as principles-based as it could be.*'
(Insurer)

'*PBR would be fine, if it wasn't backed up by three and a half tons of rules as well.*'
(Investment Manager)

4.5.3 Providing sufficient guidance for firms to feel confident they are appropriately applying the principles

Firms were asked to what extent they agreed or disagreed that the FSA provided '*enough guidance for them to feel confident that they were appropriately applying the principles*'. Just over half of firms (54%) felt that the FSA provided sufficient guidance in this respect. This represents no change since 2008, when 53% of firms agreed they had sufficient guidance. Small firms were more likely than large firms to feel they received sufficient guidance (56% and 49% respectively). There was little difference in the attitudes of RM firms and non-RM firms, or between those that had had recent contact and those that had not.

The majority of major groups (55%) **disagreed** that they had sufficient guidance to feel confident they were applying the principles appropriately.

While the concept of PBR was welcomed, participants in the qualitative research commented that principles were open to interpretation. Their chief complaint was the difficulty they found in obtaining clarity and guidance from the FSA on principles, and advice as to whether their proposed product or policy was compliant. As a result, many of the firms interviewed said that they resorted to using consultants to assist them and give them peace of mind. This created more work, was expensive, and at times resulted in even more uncertainly.

Firms also mentioned that providing evidence of adhering to a principle could be a real challenge.

'*In theory a series of principles sounds very good but then from a firm's point of view we've now got to interpret to what degree are we following these principles and … provide the evidence*.'
(Investment Manager)

4.5.4 Retrospective regulation

There was evidence from the survey that many firms were concerned that '*outcomes based regulation might leave their firm more open to retrospective regulation in the future*'. Almost two-thirds of firms (63%) agreed they had concerns that their firm would be open to retrospective regulation, with a fifth (22%) strongly agreeing. In 2008 the focus was on principles and firms were asked whether they were concerned that more principles-based regulation would leave them more open to retrospective regulation. In 2008, 62% of firms agreed that they were concerned that MPBR would leave them open to retrospective regulation. Although not strictly comparable, this represents little change in the proportion of firms concerned about the prospect of retrospective regulation across the two surveys.

Retail firms appeared to be more concerned about retrospective regulation than wholesale firms (65% and 54% respectively). Major groups were particularly concerned about this with 86% agreeing (55% agreeing strongly) that retrospective regulation was a concern.

The issue of retrospective regulation was a recurring theme both in this and the previous wave of qualitative interviews. The absence of a set of rules and the move to PBR or, more recently, outcomes based regulation was a concern, although none of those interviewed had experienced a regulatory issue that was retrospectively imposed.

> '*…I think always the problem, when you dispense with a rule book and move to something that is more subjective such as PBR, is that you can end up with retrospective regulation … no, we haven't seen it yet, but it is a fear.*'
> (Financial Adviser)

4.6 The pace of regulatory change

The industry was first asked in 2008 whether they felt that the FSA had a '*balanced approach to the pace of regulatory change*'. The proportion that agreed that there was a balanced approach has fallen slightly from 39% in 2008 to 36% in 2010. The most marked differences between firms' views on this were between retail and wholesale firms. Almost half of wholesale firms (48%) agreed that the FSA had a balanced approach compared with only a third (33%) of retail firms.

5. FSA initiatives

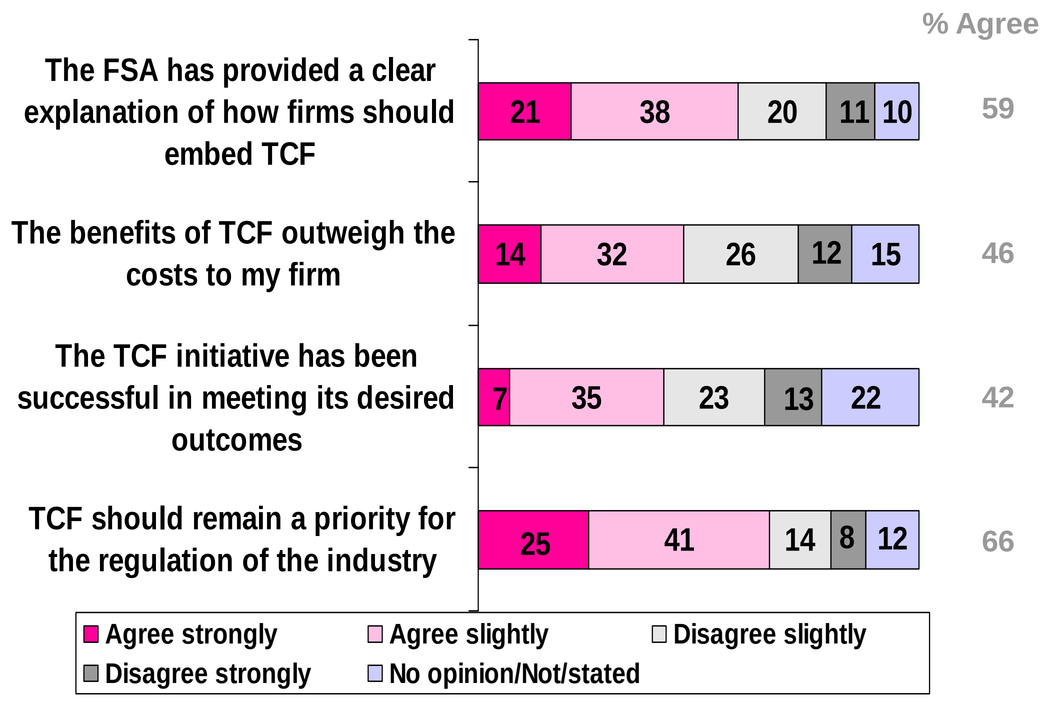
This chapter examines the industry's views of FSA initiatives, including Treating Customers Fairly (TCF) and the Retail Distribution Review (RDR).

5.1 Attitudes towards the Treating Customers Fairly (TCF) initiative

The TCF initiative has evolved since the 2008 survey was conducted from a new initiative to a way of working that should now be embedded within firms' working practices.

Overall six in ten firms (59%) agreed that '*the FSA has provided a clear explanation of how firms should embed TCF*' with a fifth (21%) strongly agreeing (Chart 5.1). Retail firms were more likely to agree with this than wholesale firms (61% compared with 50%). In 2008, when firms were asked a slightly different question, 53% agreed that the FSA had provided a clear explanation of how they should implement the TCF initiative. Although the two questions are not strictly comparable, this does suggest a degree of improvement in how the FSA has communicated with the industry about TCF.

Chart 5.1 Attitudes towards the Treating Customers Fairly (TCF) initiative



Base: All regulated firms (4,256)

Firms were asked whether they felt '*the benefits of TCF outweigh the cost to my firm*' and opinion was divided among firms as to whether or not this was the case. Just under half of firms (46%) agreed with this statement and 39% disagreed. Again retail firms were more likely than wholesale firms to give a positive response (49% and 36% respectively). RM firms were less likely to agree with this (40%) than non-RM firms (47%). This is largely influenced by RM wholesale firms where only a third (33%) agreed that the benefits of TCF outweighed the costs to their firm. There was no difference in the views of large and small firms.

There was general support among firms that '*TCF should remain a priority for the regulation of the industry*' (66% agreeing). Support for this was highest among major groups, 91% of which agreed that TCF should remain a priority. Over two thirds of retail firms (68%) agreed that TCF should remain a priority compared with 59% of wholesale firms.

Just over four in ten firms (42%) agreed that '*the TCF initiative has been successful in achieving its desired outcomes'*. However, 22% of firms were unable to give an answer on this measure.

The qualitative research largely echoes the survey findings, with TCF being generally embedded in the way firms work and continuing to remain on their business agenda. Views were mixed about how well the FSA continued to communicate about TCF, with some small firms still being less sure what TCF meant in practice.

> '*I mean the whole point of TCF is treating customers fairly. But actually what does that mean in real terms?*'
> (Retail, Mortgage Advisor, SFD)

However, small firms in particular continued to be annoyed about how TCF had initially been introduced and felt that it reflected a slight on their business practices.

> '*And all of us would like to think that before TCF had even been invented as a phrase by the FSA, we were doing it.*'
> (Retail, IFA, SFD)

5.2 The Retail Distribution Review (RDR)

Since the last survey was conducted in 2008, the RDR policy has been more fully developed. The RDR set out to achieve three market outcomes:

- improve the clarity with which firms describe their services to consumers;
- address the potential for adviser remuneration to distort consumer outcomes; and
- increase the professional standards of investment advisers.

In March 2010, the final policy document was published to address the first two outcomes and in June 2010 the policy initiative for achieving the third outcome was published. Thus between the 2008 and 2010 surveys the RDR had moved on considerably. As the RDR reaches the implementation stages, firms have become more aware of the implications of the initiative and it has become more real for firms. This is reflected in changes in firms' perceptions of the initiative.

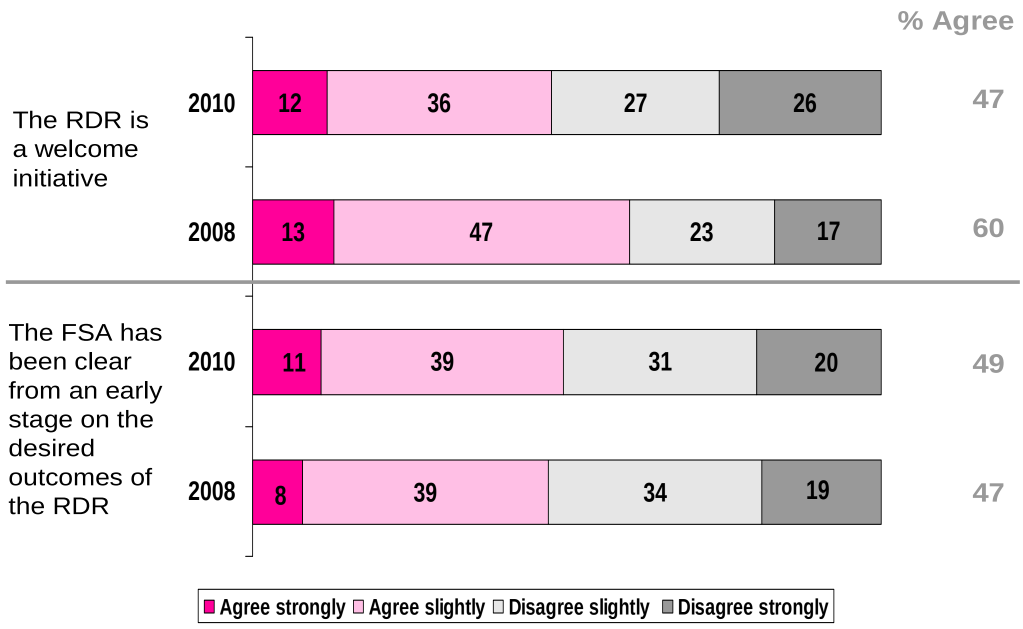
Many of the areas dealt with by the RDR apply only to certain types of firms and there was therefore a high proportion of firms that had no opinion or did not give an answer regarding these issues. Analysis of firms' attitudes towards the RDR is therefore based only on those firms that gave an opinion.

There has been a decline between 2008 and 2010 in the proportion of firms that felt '*the RDR is a welcome initiative*', from 60% in 2008 to 47% in 2010 (Chart 5.2). This is perhaps not surprising as the RDR has moved on from a review stage in 2008 to final policy with specific requirements of firms in 2010. Credit unions were the most positive about the RDR, with 78% welcoming the initiative.

The RDR primarily affects retail firms and it is among these firms that the greatest drop in support for the initiative has been seen. In 2008, 59% of retail firms that gave an opinion agreed that the initiative was welcome, but this fell to 44% in 2010. There has been little change in the attitudes of wholesale firms, with 75% welcoming the initiative in 2008 and 72% doing so in 2010.

Among retail firms there was a clear difference in the level of support for the RDR between RM and non-RM firms. Of those that gave an opinion, 64% of RM firms agreed that the RDR was a welcome initiative compared with 46% of non-RM firms.

Chart 5.2 Attitudes towards the RDR



Base: All firms that gave an opinion

From the qualitative research it was apparent that the principle of the RDR was to be welcomed as its potential benefits would include fairer remuneration for financial advice, greater clarity for consumers about the different types of services available in the financial services industry and the possibility of an overall effect of '*cleaning up the industry*'. Aware that some businesses would de-register, firms also thought that there would be a little less competition, which they welcomed.

Retail firms that gave an opinion were more negative about all aspects of the RDR than wholesale firms (Table 5.1). Just under half of retail firms (48%) thought that the FSA had been clear from an early stage about the desired outcomes of the RDR and the same proportion (48%) felt the FSA had kept the industry adequately informed about the RDR. Just over a third (36%) of retail firms felt that the FSA had been clear about **how** to achieve the desired outcomes of RDR. There was very little agreement among retail firms that the move away from commission to a fee based pay structure would benefit consumers, with only a quarter (26%) believing this to be the case.

Firms taking part in the qualitative research expressed similar views. Overall, they felt that the implementation rules were not clear, the professional requirements may present a number of challenges, especially for older IFAs and a generally held view that the move to a fee-based approach to remuneration will disenfranchise the less wealthy from financial advice.

‘*I’m certainly not averse to the RDR and I think that gaining qualifications is the right way to go, but we are a small firm and I worry about how we will fit this in with the day job. We are a young firm too and so I think we are used to exams but I do wonder about our sister organisation where there are many older people who may be less inclined to go back to exams.*’
(Small Financial Adviser)

‘*I can’t quite see how people who are not used to paying upfront for advice – they will have paid through a commission which perhaps looks invisible – how they will react to us giving them a bill for, say £250.*’
(Large Financial Adviser)

The RDR particularly affects firms involved in the selling and distribution of retail investment products, such as financial advisers and home finance brokers. Both financial advisers and home finance brokers were less likely than average to agree that the RDR was a welcome initiative (42% and 28% respectively compared with the average of 47%). Just 16% of home finance brokers and 26% of financial advisers felt that the move to a fee-based pay structure would benefit consumers.

Table 5.1 Attitudes towards the RDR by firm type

	Type of firm		
	Retail	*Wholesale*	*Total*
	%	%	%
The RDR is a welcome initiative			
Agree	44	72	47
Disagree	56	28	53
Base	*(2,028)*	*(380)*	*(2,427)*
The FSA has been clear from an early stage on the desired outcomes of the RDR			
Agree	48	67	49
Disagree	52	33	51
Base	*(2,011)*	*(365)*	*(2,395)*
The FSA has been clear about how to achieve the desired outcomes of RDR			
Agree	36	55	38
Disagree	64	45	62
Base	*(2,022)*	*(352)*	*(2,392)*
The FSA has kept the industry adequately informed about RDR			
Agree	48	57	49
Disagree	52	43	51
Base	*(2,167)*	*(437)*	*(2,623)*
The RDR move away from commission to a fee based pay structure will benefit consumers			
Agree	26	69	31
Disagree	74	31	69
Base	*(2,233)*	*(441)*	*(2,692)*

All firms were asked whether they planned to de-register by 2012 as a result of the RDR. Overall, 5% of firms were planning on doing so, 67% of firms were not planning on de-registering and 27% of firms said they did not know whether they planned to de-register or not.

Almost all firms planning to de-register (98%) were non-RM retail firms. Six per cent of these firms said they were planning to de-register and 27% did not know whether or not they would do so.

All firms that stated that they were planning to de-register by 2012 as a result of the RDR were asked to give their main reason for doing so (Table 5.2). Firms were offered a choice of four pre-coded reasons and the opportunity to state any other reasons. The suggested options were 'examination requirements of RDR', 'the move away from a commission to a fee based structure', 'capital adequacy requirements' and 'nearing retirement'.

Although asked for the main reason, a number of firms gave more than one response to this question. Three in ten firms (31%) cited the examination requirements as their primary reason for de-registering. Three in ten (30%) said they were planning to de-register because they were nearing retirement, and 28% said it was due to the move from commission to a fee based structure. Only 4% opted for 'capital adequacy requirements' as a reason.

Table 5.2 Reasons for planning to de-register by 2010

	Total
	(158)
	%
Examination requirements of RDR	31
Nearing retirement	30
The move away from a commission to a fee-based structure	28
Excessive/poor regulation	4
Capital adequacy requirements	4
Excessive costs	1
Something else	14
Not stated	5

There were a number of other responses given in which some firms referred to excessive regulation or poor regulation being the reason they were planning to leave the industry:

'*Yet more regulation that will generally not benefit the consumer.*'

'*The fact that these questions are even raised is an indictment in itself. Signs of good and fair regulation would be reasons for staying and not being "forced out".*'

'*RAMR, Over regulation, FSA failure to tackle dual pricing - cannot earn living.*'

Other issues raised by firms included not feeling that the RDR applied to their firm or feeling that it was too early to be thinking about the impact of RDR at this stage:

'*I don't think it is part of our business.*'

'*I know nothing about it. It is too complex for me to bother with. I will attend to it nearer the time.*'

Among some firms there was a sense of general exasperation in their comments after a difficult two years trading for the industry:

'*After a two year struggle with the credit crunch all of the above is too much too risky, so we are getting out whilst we have the opportunity.*'

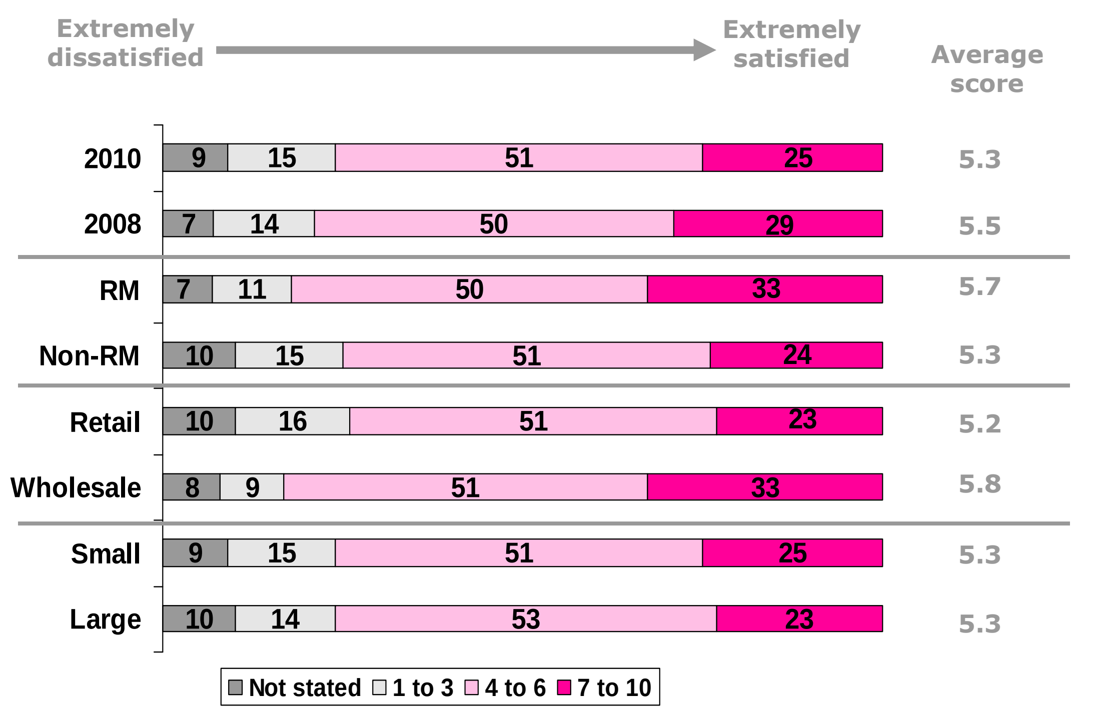
'*Can't take any more.*'

6. Attitudes towards enforcement

This chapter explores the industry's views of the FSA's approach to enforcement. There have been a number of changes to the FSA's handling of enforcement over the last two years, including a number of highly publicised fines. Between 2008 and 2010 there has been some decline in firms' opinions of how the FSA handles enforcement. There is a high level of uncertainty around some of the estimates, with large proportions choosing not to answer or stating that they had no opinion.

Chart 6.1 shows firms' overall satisfaction with the way the FSA handles enforcement. There has been a small drop since 2008, from an average score of 5.5 in 2008 to 5.3 in 2010.

Chart 6.1 Firms' overall satisfaction with enforcement

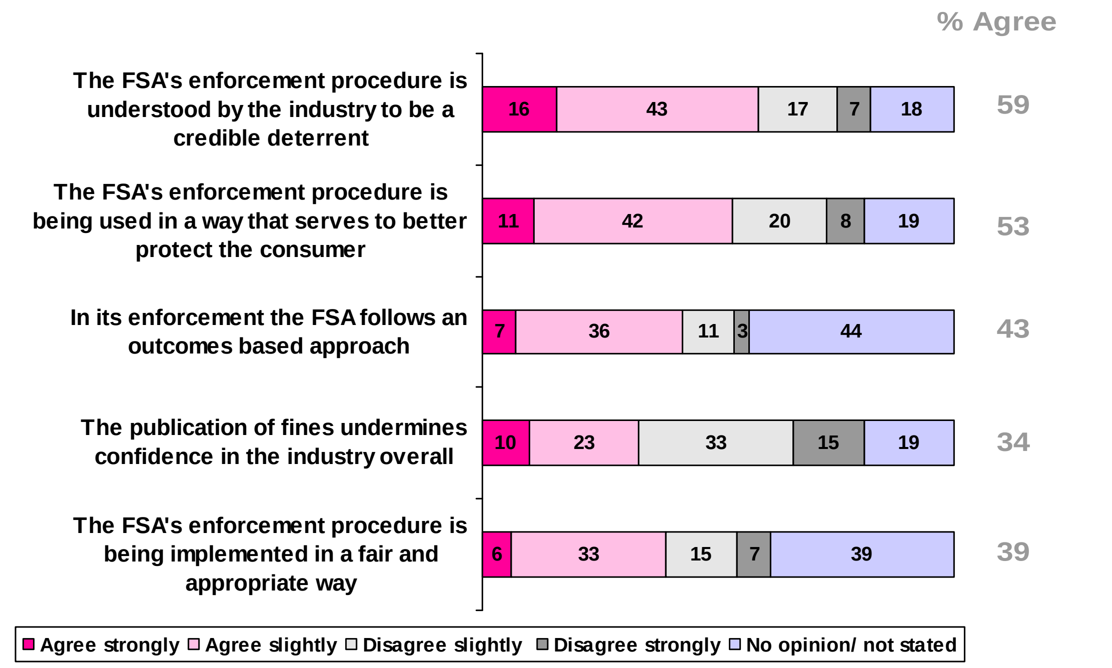


Base: 2010 (4,256), 2008 (4,459), RM (430), Non-RM (3,812), Retail (2,939) Wholesale (1,281) Small (3,230), Large (974)

RM firms tended to have a higher degree of satisfaction with the way the FSA handles enforcement, with a third (33%) of RM firms giving a high score of 7-10 compared with a quarter (24%) of non-RM firms. Likewise, a third of wholesale firms (33%) gave a high score compared with less than a quarter of retail firms (23%). There was little difference in the levels of overall satisfaction with enforcement between small and large firms.

Firms' attitudes towards other aspects of enforcement are detailed in Chart 6.2.

Chart 6.2 Firms' attitudes towards enforcement



Base: All regulated firms (4,256)

The FSA's enforcement procedure is designed to be a '*credible deterrent*' and overall the majority of firms (59%) agreed that it was understood as such by the industry. Larger firms were more likely than smaller firms to agree with this statement.

Almost all major groups (95%) felt that the enforcement procedure was perceived by the industry to be a credible deterrent as did three quarters (77%) of RM retail firms (Table 6.1). Among non-RM retail firms only 57% agreed with this statement. RM firms were generally more likely than non-RM firms to believe the enforcement procedure to be a credible deterrent (73% compared with 58%).

Firms overall were less likely to agree that enforcement was perceived to be a credible deterrent in 2010 than when the last survey took place in 2008 (59% compared with 67%) but there has been no change in the opinion of RM firms, which has remained stable with 73% agreeing with the statement.

Table 6.1 The FSA's enforcement procedure is understood by the industry to be a credible deterrent, by type of firm							
	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2549)*	*(1020)*	*(243)*	*(4256)*
	%	%	%	%	%	%	%
Agree strongly	50	26	21	15	18	11	16
Agree slightly	45	51	48	42	47	34	43
Disagree slightly	-	14	20	17	16	17	17
Disagree strongly	-	-	3	8	3	4	7
Agree	**95**	**77**	**69**	**57**	**64**	**44**	**59**
Disagree	**-**	**14**	**22**	**24**	**20**	**21**	**23**
No opinion/not stated	5	9	9	18	16	35	18

Participants in the qualitative research had little direct experience of enforcement but nevertheless considered that the FSA's approach to enforcement was well understood and credible, if rather heavy-handed. Mid-sized and large firms were concerned about the consequences of enforcement action, particularly in terms of the financial damage that can occur, with concerns about potential bankruptcy. Of more concern was the damage to the firm's reputation and the amount of time it would take to restore its image. For this reason, these firms were particularly concerned that any enforcement action was fair and proportionate.

Small firms in the qualitative research were extremely worried about being compliant, especially in terms of making paperwork mistakes and missing new legislation for which they might then be penalised. The financial damage and the potential for bankruptcy of enforcement action was a real concern, exacerbated by the fact that small firms were so infrequently subject to an FSA supervisory visit.

Just over half (53%) of firms agreed that '*the FSA's enforcement procedure is being used in a way that serves to better protect the consumer'.* This again is a fall since 2008, when 61% of firms agreed. Wholesale firms were more likely to agree with this than retail firms (63% compared with 51%).

There was a great deal of uncertainty among firms about whether '*the FSA follows an outcomes-based approach in its enforcement*' with 44% being unable to give an opinion at this question. This may reflect the relatively recent shift in terminology and the focus on outcomes rather than principles. Among those firms that gave an answer, there was a far higher level of agreement (43%) than disagreement (14%) with this statement.

There was little endorsement from the industry of the view that '*the publication of fines undermines confidence in the industry overall*' with only a third (34%) of firms believing this to be the case and 47% of firms disagreeing. Retail firms were, however, more likely than wholesale firms to believe the publication of fines undermined confidence (38% and 17%

respectively). Almost half of home finance brokers (46%) and financial advisers (47%) felt that confidence was undermined by the publication of fines.

Again there was a significant amount of uncertainty around whether '*the FSA's enforcement procedure is being implemented in a fair and appropriate way'* with four in ten firms (39%) unable to answer. Feedback from individual firms involved in the testing of the survey suggested that, without having been subject to enforcement procedure themselves, some firms found it difficult to assess how it was being applied. Where answers were given, nearly twice as many firms agreed (39%) as disagreed (22%) that enforcement was applied in a fair and appropriate way. However, only a third (32%) of major groups felt that the FSA's enforcement procedure was being implemented in a fair and appropriate way and the same proportion disagreed.

The small number of firms that had experienced enforcement action in the qualitative research were particularly concerned about the length of time it had taken the FSA to come to a decision. There was also the issue that the FSA were seen as '*the judge and the jury*' and therefore not necessarily purely objective in their decision-making. To this end, there was a call for an independent body to adjudicate.

Of equal concern was the level of the fines that were being imposed with a view that, where the penalised firm had deep pockets, the FSA had taken advantage and imposed a fine that was disproportionate to its misdemeanors. One firm was particularly angry about the fine imposed in the light of the '*meltdown of the banks and they get away with it*'. In this respect there was a general view that the fines that the FSA had imposed had been designed to make the FSA '*look tough in the public arena*'.

> '*I felt like the FSA had a political agenda and they didn't look at the facts the company presented.*'
> (Anon)

> '*It does become quite threatening … the FSA seem to be so keen on getting fines to grab headlines.*'
> (Retail, RFD, Bank)

While there was a recognition that enforcement action was a necessary part of regulation, and that fines could play a part in this, there were also concerns expressed about the FSA's overall '*heavy-handed approach*' which could undermine the partnership approach to working between the FSA and the financial services industry and could potentially discourage firms from owning up to mistakes.

> '*If we made an error I would like to think that we would talk to the FSA about it. But given their intent to punish approach at the moment, if it was something very minor we might just judge the risk of them spotting it was so small compared to if we go to them and tell them and they hit us hard. I would like to think we would tell the FSA but that is now another decision to consider.*'
> (Financial Adviser)

In a similar manner, the FSA was felt to be disproportionately tough on minor misdemeanours*:*

'*Sometimes it's a little tough on those who maybe haven't gone out to defraud anyone … maybe just not kept up with the paperwork, I find that a little bit over the top.*' (Wholesale General Insurance Intermediary)

7. Attitudes towards EU and international issues

This chapter explores firms' perceptions of the FSA's handling of EU and International issues, including the regulator's ability to adequately represent the UK's interests in European regulation and how it influences developments in international regulation.

These EU and International issues are more pertinent to certain types of firms and a large proportion of firms therefore declined to answer. Analysis in this chapter is therefore based on all firms who answered these questions.

7.1 UK coordination

All firms were asked to what extent they agreed or disagreed that, with regard to EU and international issues, the FSA has been suitably coordinated with other UK bodies. Just over four in ten firms (42%) agreed that the FSA had been suitably coordinated. RM wholesale firms were most likely to agree (64%) while non-RM retail firms were least likely to agree (34%). Overall, RM firms were far more likely to agree that the FSA had been suitably coordinated (61%) than non-RM firms (40%). Wholesale firms were also more likely than retail firms to agree (59% compared with 36%).

7.2 Ability to influence EU and international regulatory developments

Opinion among firms tended to be divided about the FSA's performance relating to EU and international issues across many measures. There was, however, a strong feeling from firms that the FSA applies 'gold plating' to European directives that are introduced.

Firms were divided in their opinions as to whether '*the FSA has been alert to emerging EU issues and has prepared its position in time*' (Chart 7.1). Half (52%) felt the FSA had been alert to emerging issues and half (48%) felt they had not. Larger firms which may potentially have had a greater exposure to international issues tended to be more supportive of the FSA's efforts internationally. This can be seen in the greater support among RM firms and particularly among RM wholesale firms where cross border activity may be more pertinent.

RM firms were more likely to agree that the FSA had been alert to emerging issues (72%) than non-RM firms (50%). Similarly, wholesale firms were more likely to agree than retail firms (66% compared with 46%). Over three quarters of RM wholesale firms (77%) agreed that the FSA had been alert compared with 45% of non-RM retail firms.

Opinion was also divided among firms as to whether '*the FSA adequately represents UK interests in European regulation*' – while 42% of firms agreed that UK interests were adequately represented, a majority (58%) disagreed that this was the case. Firms were less likely to agree that '*the FSA leads developments in international regulation as opposed to responding to them*' (38% of firms agreed).

Participants in the qualitative research with a European or international perspective thought that the FSA was a very active player in Europe and '*one of the most involved and active regulators in Europe*', referring particularly to their involvement in Solvency II. Of all the regulators in Europe, the FSA was considered to be the most interventionist, even compared to France and Germany, and with a regulatory framework and focus that was amongst the most developed in Europe.

> '*I don't think we have regulators that are as interventionist as the FSA, even amongst the big countries in Europe such as France and Germany; in smaller countries who recently joined the EU, regulation is in its infancy… light-years away from the UK.*'
> (Major Group, Retail Bank)

However, views about this were mixed. Some felt that this was a positive as it demonstrated a real commitment to financial regulation; on the other hand there was a sense that ultimately this made the UK a more difficult place to do business and that the more interventionist approach of the FSA made UK business less cost-effective.

> '*I am aware that new regulations keep coming in from the other side of the channel and at each step on each occasion it makes life more complex for those over here.*'
> (Wholesale General Insurance Intermediary)

Overall, the FSA was seen as being influential in Europe:

> '*My impression is [FSA] are very influential. They are the professionals and the other countries are catching up from a long way behind.*'
> (Wholesale, corporate finance)

However, despite the FSA's presence and influence in Europe there was also a view that ultimately all regulators are obliged to implement EU directives and France and Germany were seen as having greater influence over EU financial policy compared with other regulators, including the UK. In this respect, an issue was raised in relation to the Alternative Investment Financial Fund Management directive, which some firms saw as being rather protectionist towards European member states, effectively discouraging investment outside the EU, and an issue where the FSA could have been stronger.

The majority of firms that gave an opinion (82%) felt that '*the FSA brings European directives into UK regulation in more detail than is necessary (gold plating)*'. This was a particular concern among major groups, 89% of which agreed that the FSA applied 'gold plating' to regulation with over half (52%) agreeing strongly that this was the case. The majority of both retail and wholesale firms agreed that European directives were introduced in too much detail, but retail firms were more likely than wholesale firms to believe this to be the case (84% compared with 76%).

Firms that rated the FSA highly in terms of maintaining confidence in the UK financial system and promoting public understanding of the financial system were less likely to agree that the

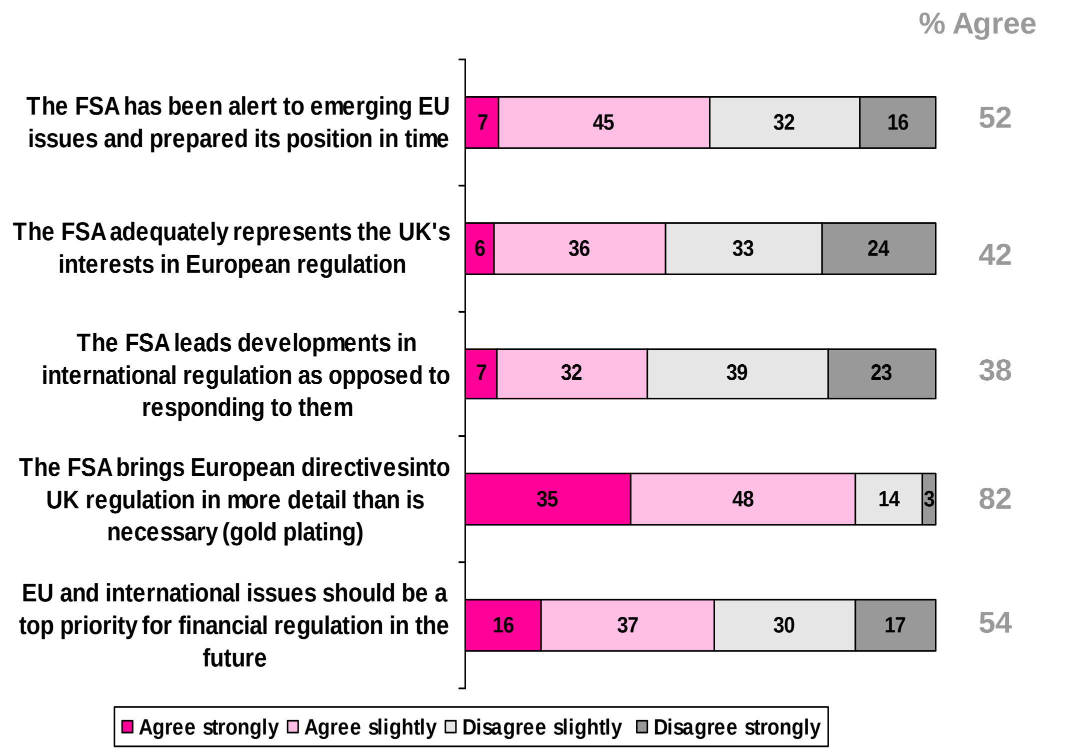
FSA had brought in European directives with more detail than was necessary (72% and 73% respectively) than firms that gave a poor rating for these objectives (86% and 85%).

There was, however, a significant difference between firms that rated the FSA highly in terms of facilitating innovation and competitiveness and firms that gave a poor rating. Two thirds of firms that rated the FSA highly for facilitating innovation and competitiveness agreed that the FSA applied 'gold plating' to European directives compared with 86% of firms that rated the FSA poorly for facilitating innovation and competitiveness.

The same issues were raised in the qualitative research, with the Insurance Mediation Directive being raised as a case in point, although it was recognised that this was later brought back to the EU standard. Overall, however, firms with a European perspective considered that there was an issue with the FSA gold plating EU regulation which ultimately made the UK a more regulated country in which to do business.

> '*There has been a history of [FSA] going for the super equivalent. Europe sets the bar there, but FSA sets regulations that are far higher up…*'
> *(Major group, Retail Bank)*

Chart 7.1 Firms' attitudes towards EU and international issues



Base: All regulated firms with an opinion

A further issue in relation to European directives arising in the qualitative research was a strongly held view that the FSA did not do enough to help firms implement European regulations. In this respect, the FSA was described as '*just a mouthpiece*' and effectively '*cutting and pasting the directive into the rulebook*'.

Internationally, the FSA was seen as a strong, credible and innovative regulator, with a reputation that had fared better internationally than at home.

> '*I work with the US regulator a great deal. I would say that the FSA and US regulators are seen as strong regulators and despite the recent problems are still highly regarded, more so than at home.*'
> (Investment Manager)

In terms of innovation, the FSA was seen as being at the forefront of moving from a rules-based approach to regulation to principles-based regulation and on a par with the US and Swiss regulators.

Regarding priorities for the future just over half of firms (54%) felt that '*EU and international issues should be a top priority for financial regulation in the future*'. A substantial majority of major groups (86%) agreed that this should be a priority as did 74% of RM wholesale firms, 71% of non-RM wholesale firms and 70% of RM retail firms and credit unions. This compares with 46% of non-RM retail firms.

That these issues remain a priority was more important for wholesale firms than retail firms (72% compared with 47%).

Participants in the qualitative research echoed these views, considering that it would be a major mistake to focus on domestic issues and market recovery at the expense of maintaining a European and International focus.

Firms were also asked to what extent they felt that '*in the short term the transition to a new regulatory framework will distract the regulator from EU and international issues*'. As reported in Chapter 3, across all firms, including those who gave no opinion, just 37% agreed this was a concern. However, when the results are based only on those firms that gave an opinion, seven in ten (70%) agreed that the regulator may be distracted in the short term from EU and international issues by the transition to a new regulatory framework.

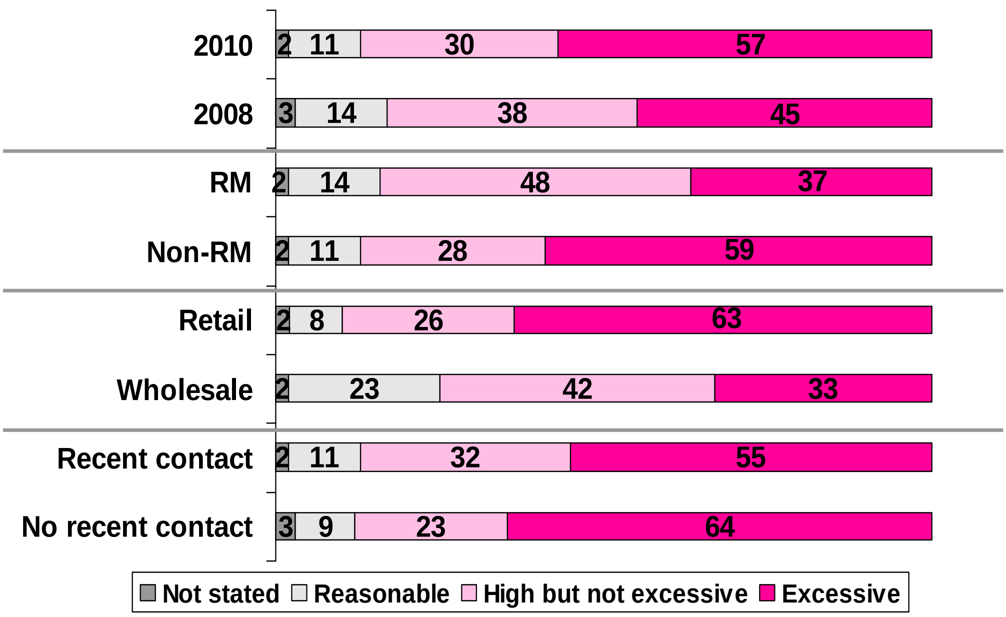
8. The costs of compliance

This chapter explores the industry's views of the costs of compliance, whether the costs are thought to be reasonable or excessive, and whether firms believe the regulatory fees give good value for money.

8.1 Firms' attitudes towards the costs of compliance

Overall, over half of firms (57%) felt the costs of compliance were excessive, 30% felt they were high but not excessive and 11% considered the costs to be reasonable (Chart 8.1). These figures mark a return to the levels last seen in 2006 and an increase since 2008 from 45% to 57% in the proportion of firms believing the costs to be excessive.

Chart 8.1 Firms' perception of the overall costs of compliance



Base: 2010(4256), 2008 (4,459) RM (430), Non-RM (3,812), Retail (2,939), Wholesale (1,281), Recent contact (3,264) No recent contact (992)

There were few differences between different types of firms in the proportion perceiving the costs to be reasonable with the exception of wholesale firms, a quarter of which (23%) felt the costs to be reasonable compared with 8% of retail firms. The main differences were between the proportions of firms regarding the costs as excessive. Almost two thirds of retail firms (63%) felt the costs were excessive compared with a third of wholesale firms (33%). Firms that did not have a relationship manager (and were therefore less likely to have contact with the FSA) were also much more likely to view the costs of compliance as excessive compared with RM firms (59% and 37% respectively). Just over half of firms (55%) that had had contact with the FSA in the last six months thought the costs were excessive compared with almost two thirds (64%) of firms that had had no recent contact.

There is a strong correlation between firms' perceptions of the costs of compliance and their level of satisfaction with their relationship with the FSA. Of firms that were dissatisfied (score of 1-3), 84% felt the costs to be excessive compared with 60% of those that were neutral (score of 4-6) and 37% of those that were satisfied (score of 7-10).

A key reason for the increase in fees, suggested by the participants in the qualitative research, was an increase in FSA staffing, due to an increase in regulation and supervision. However, there was thought to be a lack of transparency in the fee increases that had been experienced and some degree of cynicism that '*the FSA seems to be prospering as the rest of the industry is contracting*'.

8.2 Impact of costs of compliance on small firms

Of the small firms (those with less than 20 employees) participating in the survey, only 2% were relationship managed, and 84% were retail firms. Overall analysis of these findings by size of firm therefore largely mirrors the findings reported above in relation to retail firms that were not relationship managed. Small firms did seem generally to be more affected by the costs of compliance – 59% thought the costs were excessive, compared with 50% of larger firms.

However, it is interesting to observe that small firms that are relationship managed give different responses from those that are not, suggesting it is this factor rather than the size of firm that affects their views. For example, just 30% of small firms that were relationship managed believed the total current costs of compliance to be excessive and 22% thought they were reasonable, compared with 60% and 10% respectively of small firms that did not have a relationship manager.

It is worth noting that nearly half (48%) of small firms that did not have a relationship manager, used a third party to interpret FSA communications and regulations for them, compared with 29% of those that were relationship managed. This in itself is likely to have increased their costs.

The qualitative research, both in this and previous waves, has indicated that small firms find the costs of compliance particularly disproportionate, particularly as they sometimes had to employ an extra member of staff to deal with compliance issues.

8.3 Whether costs of compliance have increased or decreased

Over two thirds of firms (68%) believed their costs had increased over the last two years, only 4% thought they had decreased while 21% thought their costs had remained the same (Table 8.1).

Table 8.1 Perceptions of changes to costs in the last two years							
	Major groups	RM retail	RM whole-sale	Non RM retail	Non RM whole-sale	Credit Union	Total
	(22)	(147)	(257)	(2,549)	(1,020)	(243)	(4,256)
	%	%	%	%	%	%	%
Increased	[86]	89	74	71	51	43	68
Decreased	[0]	2	2	4	7	2	4
Stayed the same	[14]	4	16	19	32	32	21
Don't know /Not stated	[0]	4	8	6	9	23	7

Retail firms, especially those that were relationship managed, were more likely than others to feel their costs had increased over the last two years (89%). Credit unions and non-RM wholesale firms were the most likely to say their costs had remained the same (32%).

Of those firms that thought their costs had increased, the largest group (37%) felt they had increased by 25% or more, compared with one in five (19%) that thought the increase was less than 10%. The average percentage increase reported amongst all firms was 19%. Again it was the RM retail firms that were most likely to report a substantial increase – 44% of those reporting an increase felt their costs had gone up by 25% or more and the average increase was 20%.

The very small group of firms that said their costs had decreased were nearly all non- RM. The average decrease reported by these firms was 15%. From the qualitative research it was apparent that these firms were particularly pleased about the level of fees they paid, considering that one welcome aspect of the FSA's fee structure was that it was proportionate.

> '*At least fees are now paid proportionately according to the size of the organisation.*'
> (Retail, SFD, IFA)

8.4 Value for money

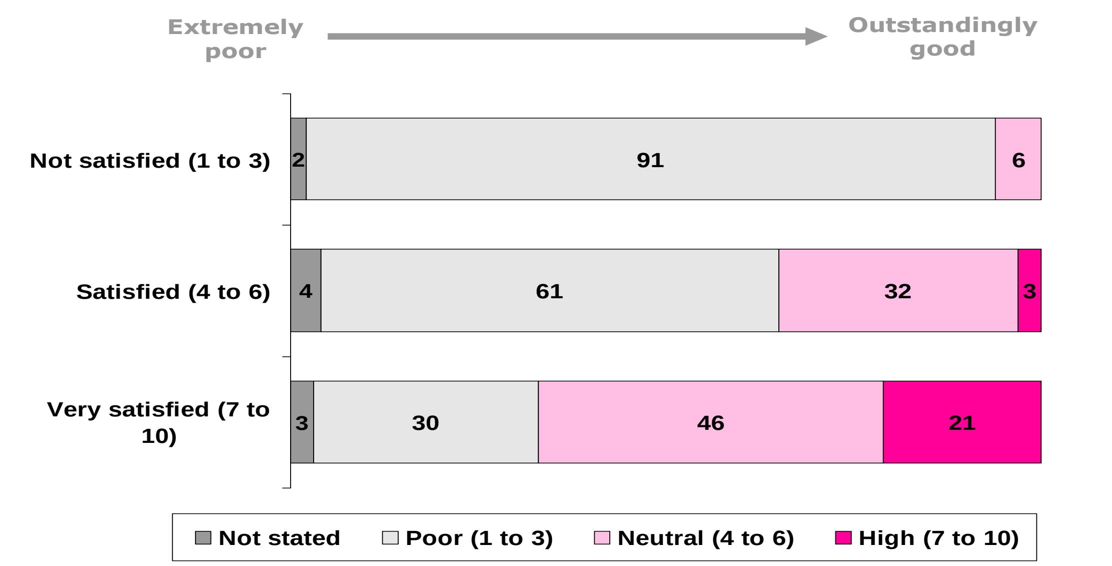
All firms were asked to rate the FSA's performance in terms of giving value for money against the regulatory fees (Table 8.2). Overall, 57% of firms gave a poor rating (score of 1 to 3 out of a maximum of 10), 31% gave a neutral rating (score of 4 to 6) and 8% gave a high rating (score of 7 to 10). These ratings have declined substantially from 2008, when 43% of firms gave a poor rating, 42% gave a neutral rating and 11% gave a high rating.

Following the pattern observed in other findings, the firms most likely to give the FSA a poor rating on value for money were retail firms that were not relationship managed (65%). Firms in the General Insurance Primary category were particularly likely to give the FSA a low score on this measure (75%). Those most likely to give a high rating were wholesale firms (20% on average) and credit unions (28%).

Table 8.2 Rating of FSA performance in terms of giving value for money, by firm type							
	Major groups	*RM retail*	*RM wholesale*	*Non-RM retail*	*Non-RM wholesale*	*Credit Unions*	*Total*
	(22)	*(147)*	*(257)*	*(2549)*	*(1020)*	*(243)*	*(4256)*
	%	%	%	%	%	%	%
Giving value for money against the regulatory fees							
1-3 (Poor)	[50]	44	32	65	30	23	57
4-6 (Neutral)	[45]	48	47	27	46	42	31
7-10 (High)	[-]	7	17	4	21	28	8
Average score	**[3.7]**	**3.9**	**4.6**	**2.9**	**4.7**	**5.1**	**3.3**

Not surprisingly, firms that were dissatisfied with their relationship with the FSA overall were far more likely to give the regulator a low rating for value for money (91% of these firms gave a poor rating compared with 61% of firms that were neutral and 30% of those that were satisfied). Similarly, a fifth of firms (21%) that were satisfied with their relationship with the FSA rated the regulator highly for giving value for money, compared with 3% of those that were neutral and less than 0.5% of those that were dissatisfied. This pattern is similar to 2008, although the percentage of firms giving a poor rating has increased across all levels of overall satisfaction.

Chart 8.2 Rating of the FSA in giving value for money against regulatory fees by satisfaction with relationship with the FSA



Base: All regulated firms (4,256)

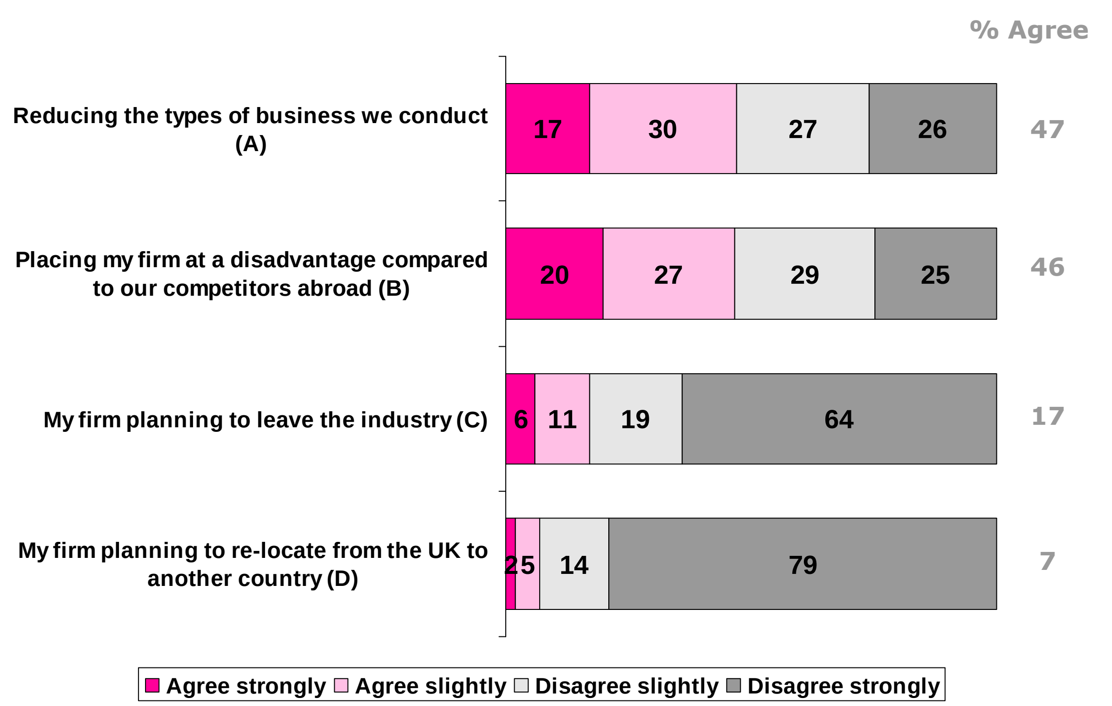
8.5 Consequences resulting from costs of compliance

All firms were asked to indicate their level of agreement with each of four statements regarding the consequences of compliance costs for their business. The four statements were:

'*The costs of compliance have resulted in reducing the types of business we conduct*'
'*The costs of compliance have resulted in placing my firm at a disadvantage compared to our competitors based abroad*'
'*The costs of compliance have resulted in my firm planning to leave the industry*'
'*The costs of compliance have resulted in my firm planning to re-locate from the UK to another country*'

When asked how much they agreed or disagreed with each of these statements, a relatively large proportion of firms (ranging from 18% to 43%) had no opinion or gave no answer. These have therefore been excluded from the analysis and the figures shown in the chart below are based only on those firms that gave an opinion.

Chart 8.3 Impact of costs of compliance on the business



Base: All regulated firms excluding not stated/no opinion. A (3,503); B (2,576); C (3,252); D (3,069)

Of those giving an opinion, almost half (47%) agreed and 17% agreed strongly that '*the costs of compliance have resulted in reducing the type of business we conduct*'. Nine in ten of the firms that agreed with this were in the retail category and 86% were non-RM retail firms. The same proportion (46%) agreed (and 20% agreed strongly) that the costs meant their firm was '*at a disadvantage compared with our competitors abroad*'. The highest levels of agreement on this were from major groups, 63% of which agreed with the statement.

However, around four fifths of firms (83%) **disagreed** that '*the costs of compliance have resulted in my firm planning to leave the industry*', and an even higher proportion (93%) disagreed that their firm was '*planning to re-locate from the UK to another country'* as a result of the costs. Most of those who disagreed with these two statements indicated strong disagreement.

The findings with regard to these four statements are fairly similar to those reported in 2008, suggesting that there has been little change over the last two years in the reactions of firms to the costs of regulation.

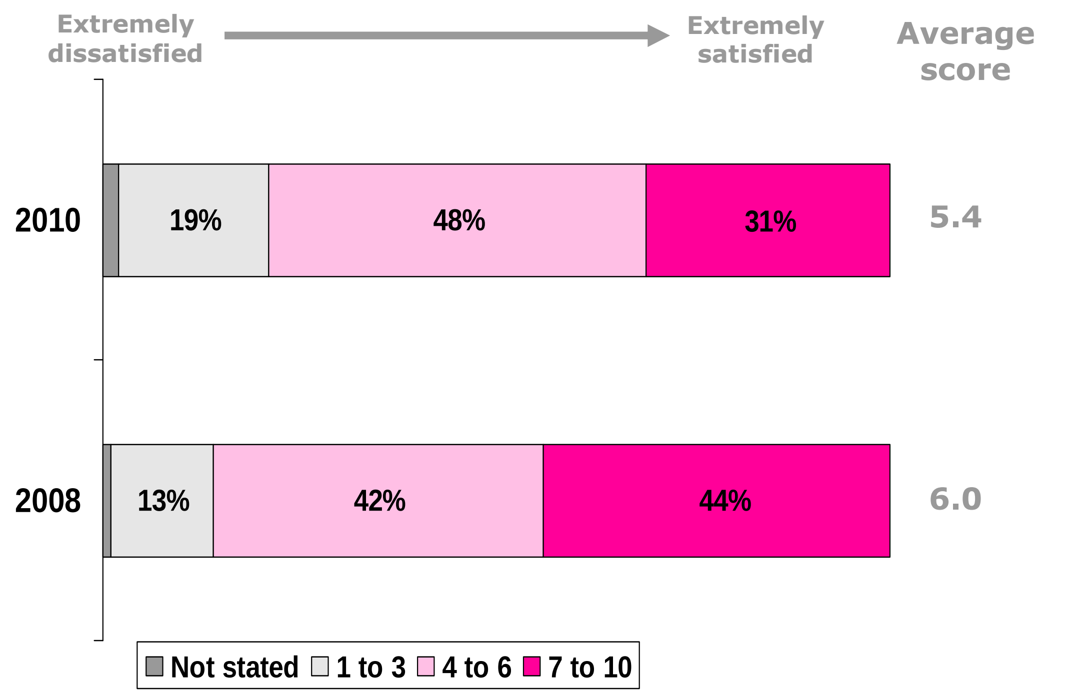
9. Overall satisfaction with the FSA

This chapter explores firms' overall satisfaction with their relationship with the FSA, their views on whether the relationship has improved in the last two years, and their perceptions of the overall effectiveness of the FSA's performance on a number of measures.

9.1 Overall satisfaction with relationship

There has been a decrease in firms' overall satisfaction with the FSA, evidenced by a decline in the average score of 6.0 in 2008 to 5.4 in 2010. The proportion of firms saying they are highly satisfied (score 7 to 10) has fallen from 44% to 31% (Chart 9.1).

Chart 9.1 Overall satisfaction with relationship with the FSA



Base: All regulated firms 2008 (4,459) 2010 (4,256)

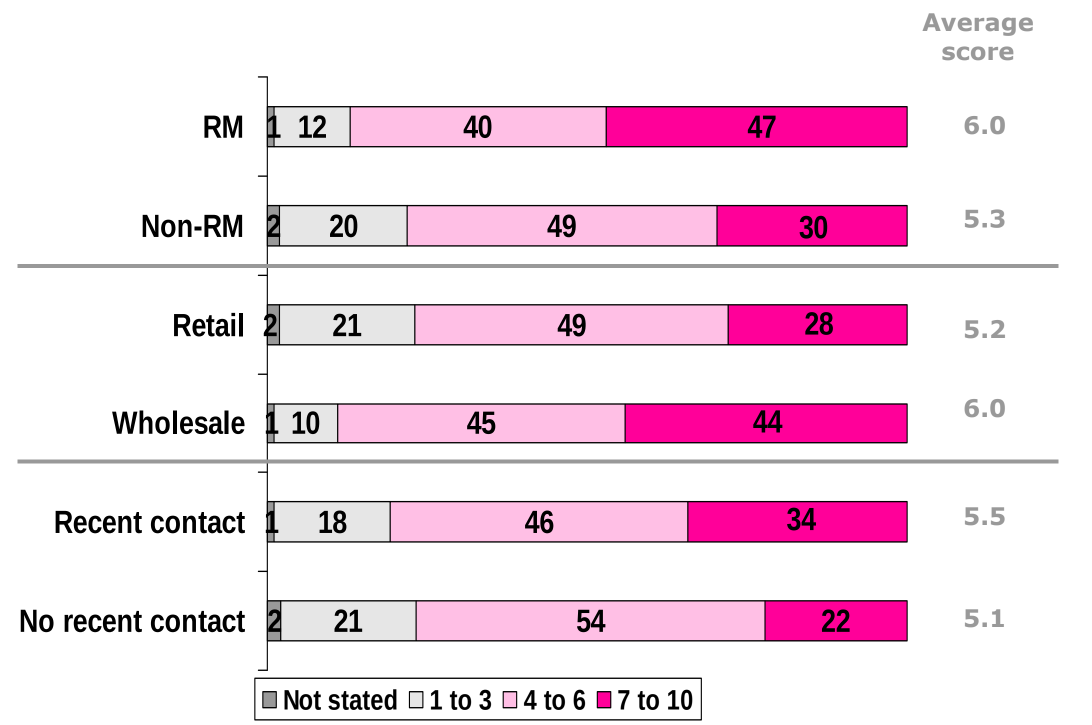
As seen in previous sweeps of the survey, RM firms tended to be more satisfied with their relationship with the FSA than non-RM firms (47% were highly satisfied compared with 30% of non-RM firms). Overall satisfaction with their relationship with the FSA was higher among firms that had seen no changes to their designated relationship manager in the last two years (57% highly satisfied) than firms that had seen two or more changes to their relationship manager (38% highly satisfied).

Wholesale firms reported higher levels of satisfaction with their relationship with the FSA than retail firms, with 44% of wholesale firms reporting high levels of satisfaction compared with 28% of retail firms.

There was also a difference in overall satisfaction with the relationship with the FSA by how recently firms had had contact – a third of firms (34%) that had had contact with the FSA in the last six months were highly satisfied with their relationship, compared with 22% of firms that had not had recent contact (Chart 9.2).

There was little difference in overall levels of satisfaction between large and small firms.

Chart 9.2 Overall satisfaction with relationship with the FSA by type of firm



Base: RM (430), Non-RM (3,812), Retail (2,939), Wholesale (1,281), Recent contact (3,264), No recent contact (992)

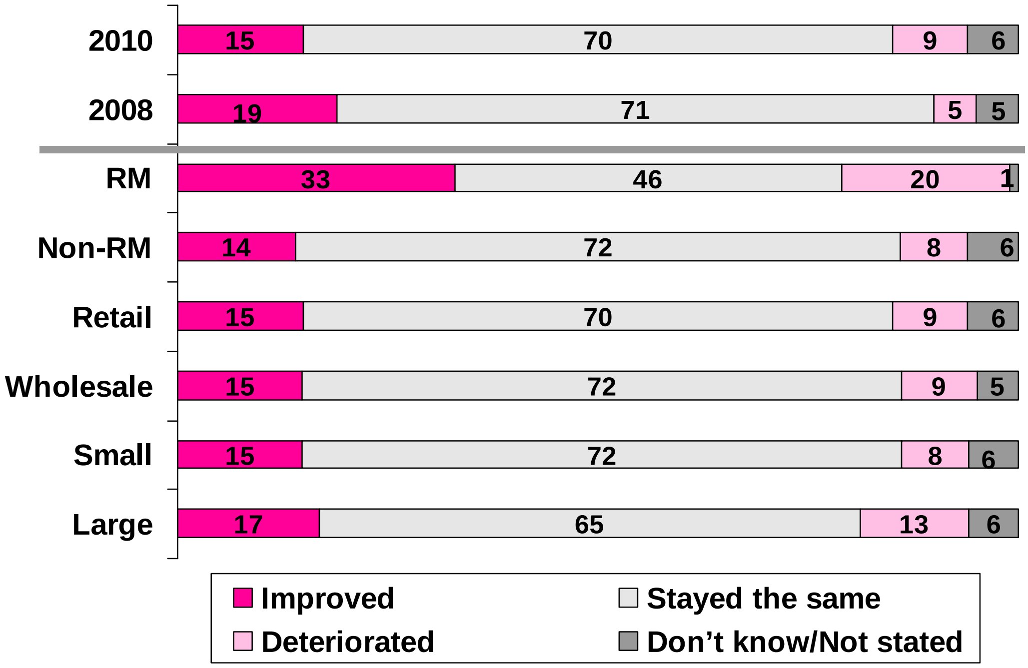
Taking into account the FSA's perceived disproportionate approach to a tougher regulatory approach, an emphasis on high-profile financial penalties and internal difficulties with the turnover of staff, firms in the qualitative research still remained fairly positive about the FSA. While overall they were less satisfied with the FSA as a regulator, they still welcomed strong regulation and felt that the FSA was the regulator of choice with whom they wanted to continue working.

> '*I guess in summary despite the whingeing I think they do a pretty good job, better than other regulation I've seen.*'
> (Retail, Small Firms Division, Advising and Arranging)

9.2 Improvement in relationship with the FSA

All firms were asked whether they felt their relationship with the FSA had improved, stayed the same or deteriorated over the last two years (Chart 9.3). The majority of firms (70%) said their relationship had stayed the same over the last two years. Around one in ten firms (9%) felt their relationship had deteriorated and 15% felt that it had improved. This is a similar distribution of responses to that reported in 2008, although there has been a small increase in the proportion of firms reporting a deterioration (5% in 2008 compared with 9% in 2010) and a decrease in the proportion reporting an improvement (19% in 2008 compared with 15% in 2010).

Chart 9.3 Change in firms' relationship with the FSA by type of firm



Base: 2010 (4,256), 2008 (4,202), RM (430), Non-RM (3,812), Retail (2,939), Wholesale (1281), Small (3,230), Large (974)

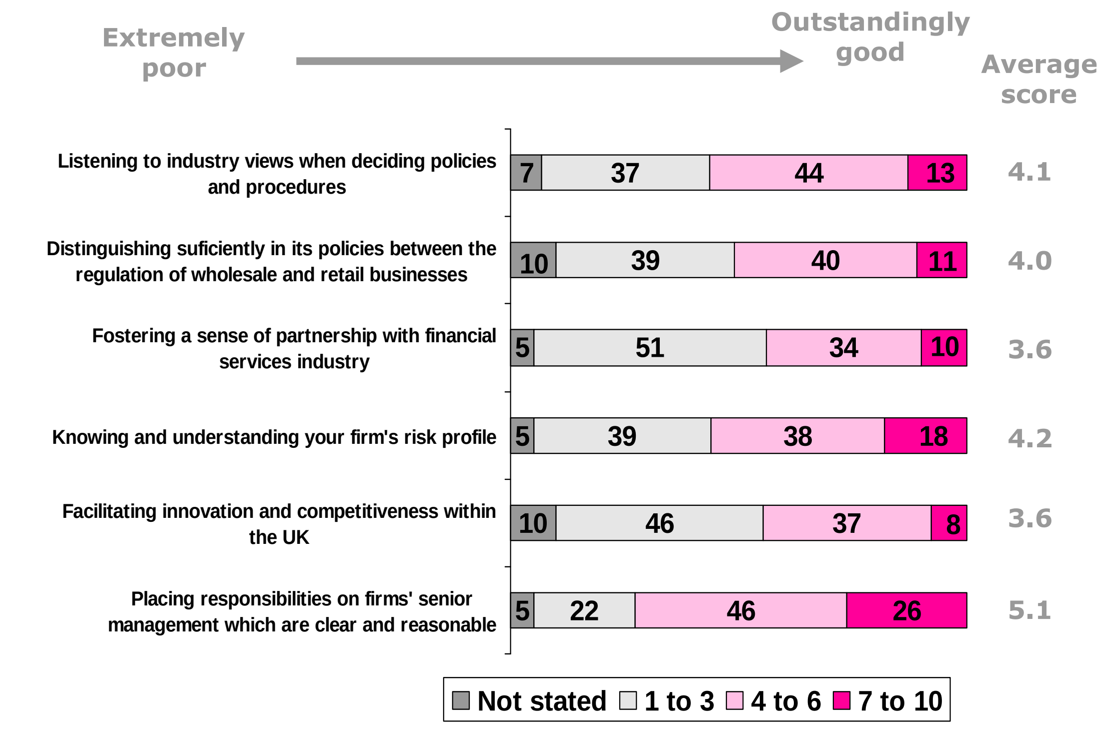
9.3 Overall effectiveness of the FSA

Firms were asked how effective they felt the FSA had been in certain areas over the last two years, including partnership between the financial services industry and the FSA, and the FSA's understanding of firms and their business. Firms scored the performance of the FSA on a scale from 1 (extremely poor) to 10 (outstandingly good).

Few firms rated the FSA highly on any of the measures and average ratings tended to cluster around or below the midpoint of the scale, ranging between 3.6 and 5.1 (Chart 9.4). The highest average score was for '*placing responsibilities on firms' senior management which are clear and reasonable*', with an average of 5.1. Lower average scores were given for '*knowing and understanding the firm's risk profile*' (4.2), '*listening to industry views when deciding policies and procedures*' (4.1) and '*distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses*' (4.0).The lowest scores were given for '*fostering a sense of partnership with the financial services industry*' and '*facilitating innovation and competitiveness within the UK*' (both 3.6).

There have been reductions (ranging from 0.2 to 0.7) since 2008 in all the average scores, mainly reflecting the higher proportion giving low scores on all these measures.

Chart 9.4 Overall effectiveness of the FSA



Base: All regulated firms (4,256)

Wholesale firms were more positive than retail firms in rating the FSA for distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses (25% gave a high rating compared with 8% of retail firms).

The qualitative research suggests that the factors underpinning perceptions of overall effectiveness of the FSA were six-fold:

- The degree to which their firm had been impacted upon by increased, and often perceived as unnecessary, regulatory burden.
- Whether the FSA sufficiently discriminated between firms with different levels of risk in terms of its supervisory impact.
- The amount of contact they had with the FSA.
- Where the firm was relationship managed, whether there had been changes in the relationship management team, the frequency of change and the effectiveness and knowledge of the new team.
- Where the firm had received a supervisory visit, whether the team understood the business and asked genuinely searching questions.
- For small firms specifically, whether they had ever received a supervisory visit.

9.4 Key drivers of firms' satisfaction with their relationship with the FSA

This section explores the key drivers of firms' satisfaction with their relationship with the FSA and identifies areas of the service provided that are important to firms and how well the FSA is performing in these areas. This is then used to show areas where the priority should be to maintain an already strong performance or areas where it would improve satisfaction to improve performance.

9.4.1 Key drivers of satisfaction with the relationship with the FSA

Throughout this report comment has been made that highly-satisfied firms have tended to give higher ratings across many other measures of performance. Satisfaction with any service is not driven by one factor alone but by a combination of many factors which in turn may also be interrelated. In the case of the FSA, firms' overall level of satisfaction may be influenced by the type of contact they have had with the FSA, their experience of the supervision staff, their perception of the performance of the FSA in meeting its objectives, the overall business context or by a range of other factors.

In order to understand more clearly what is influencing firms' satisfaction with the FSA key driver analysis has been used. This identifies which issues or 'drivers' affect firms' overall satisfaction and measures the relative importance of each in driving satisfaction.

Overall satisfaction with the FSA was measured through firms' response to the following question:

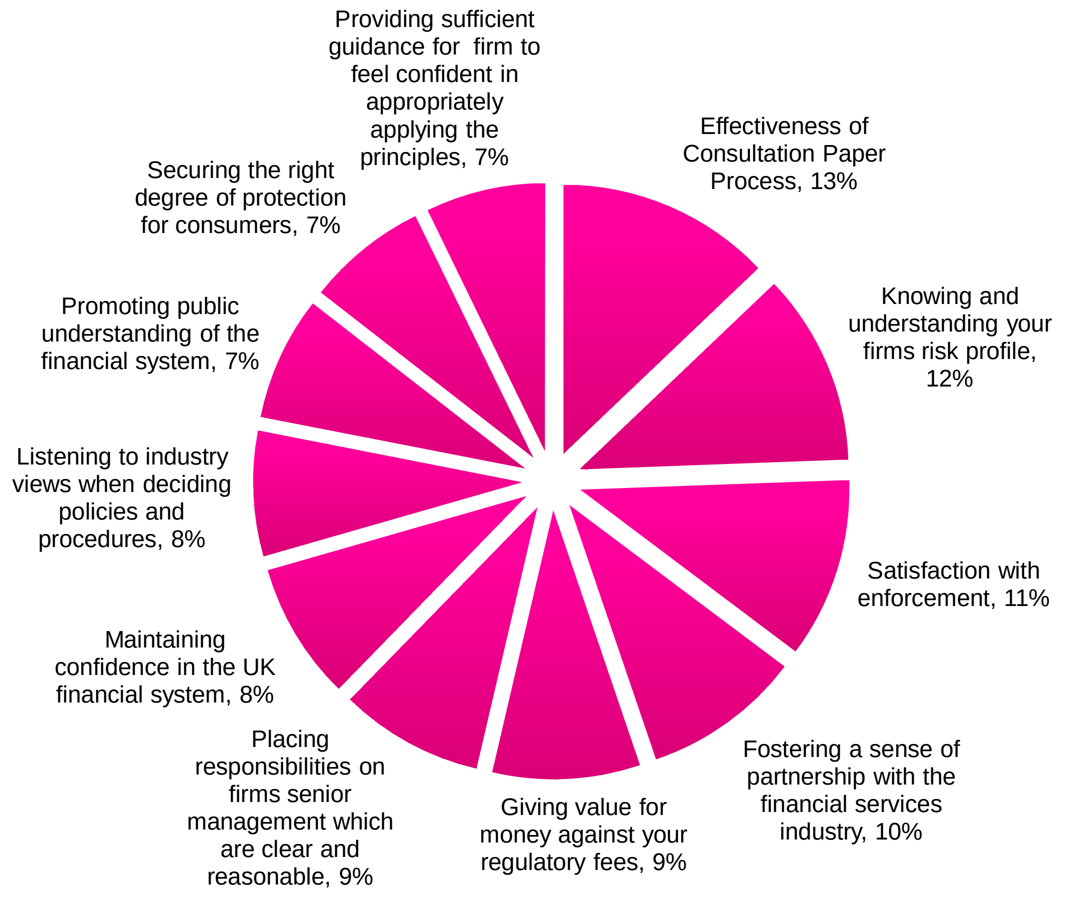
'*Taking into account all your firm's dealings with the FSA, how satisfied are you with the relationship?*'

Firms were asked to give their answer on a scale of 1 to 10, with 1 being extremely dissatisfied and 10 being extremely satisfied. Correlation analysis was then run to look at various aspects of service to identify the aspects most closely correlated with satisfaction.

As was the case in 2008, the main overall driver for firm's satisfaction with their relationship with the FSA was '*ease of dealing with the FSA*'. However, while 'ease of dealing with the FSA is clearly fundamentally important in driving firms' satisfaction it is a little too wide ranging to be able to improve – rather, we need to know what influences firms' perceptions of the ease of dealing with the FSA. Inclusion of this element in the driver analysis obscures some of the more detailed analysis and it has therefore been excluded (the variable was also excluded in 2008 analysis). Ease of dealing with the FSA is so closely correlated with satisfaction that the drivers for each are very similar.

The analysis in chart 9.5 therefore includes all the drivers of firms' overall satisfaction with their relationship with the FSA, excluding ease of dealing with the FSA.

Chart 9.5 Relative importance of key drivers in determining overall firm satisfaction with their relationship with the FSA



Base: All firms (4,256)

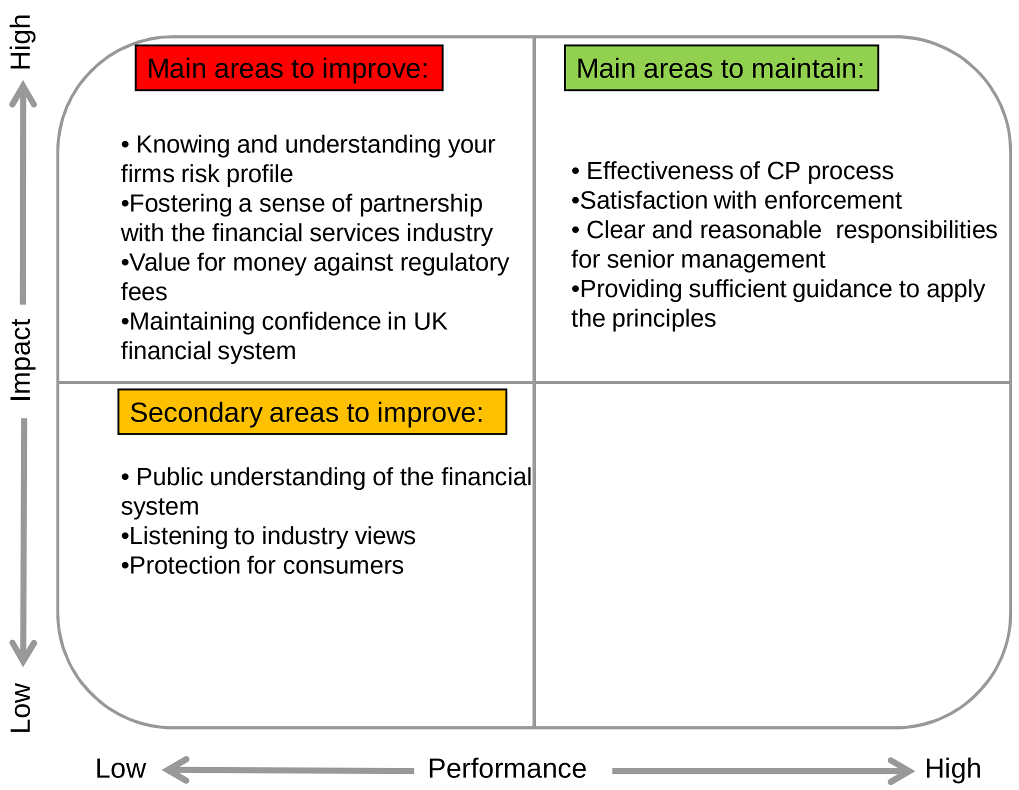
The top three drivers of firms' satisfaction with their relationship with the FSA were '*effectiveness of the consultation paper process*', '*knowing and understanding the firm's risk profile*' and '*satisfaction with enforcement handling*'.

The key drivers of satisfaction have remained largely unchanged since 2008 although there have been shifts in the relative importance of each driver. Satisfaction with enforcement handling has remained a priority across the two survey years. The effectiveness of the consultation paper process has increased in relative importance since 2008.

Chart 9.6 shows the importance of each key driver plotted against performance in that area. The drivers in the top left box are those where it is important to improve performance to improve satisfaction. In the top right-hand box are drivers where current performance is slightly better, but these are areas where it is important to maintain a good performance to ensure firms are satisfied with the performance of the FSA. It should be noted that performance in the areas marked as 'main areas to maintain' was only slightly higher than in the 'main areas to improve' category and therefore attention should still be focused on these areas to ensure performance is at least maintained and ideally improved.

According to this analysis, the main priorities for improvement are improving understanding of firms and fostering a sense of partnership with firms. In the current economic climate, offering value for money against regulatory fees is also of importance to firms.

Chart 9.6 Improvement matrix: All firms



Base: All firms (4,256)

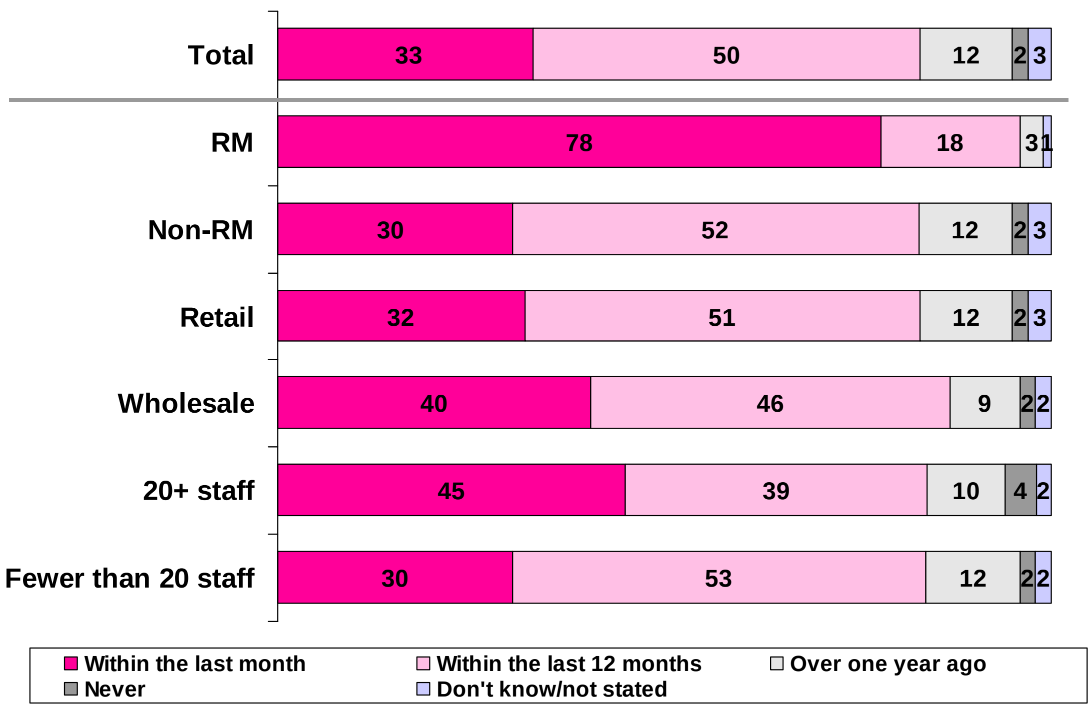
10. Relationship with the FSA

This chapter examines the amount and type of contact that regulated firms have with the FSA, and how easy they find it to deal with the regulator. It also explores firms' experience of and satisfaction with a designated relationship manager and/or the Firm Contact Centre. Also covered are firms' reactions to the various methods the FSA uses to communicate with the industry, and their views on the guidance the FSA provides on rules and regulatory policy.

10.1 Frequency and nature of contact with the FSA

Most firms (84%) had spoken directly to someone at the FSA in the last 12 months and 33% had done so in the last month. For 3% of firms, their last direct contact had been over two years ago, and a further 2% of respondents said they had never spoken to anyone at the FSA (Chart 10.1).

Chart 10.1 When last spoke to someone at the FSA



Base: All respondents (4,256); RM (430); Non-RM (3,812); Retail (2939); Wholesale (1281); 20+ Staff (974); Fewer than 20 staff (3230)

Nearly all firms in the major groups had spoken to someone in the last month and two thirds had done so in the last week. Among RM firms, 79% had had direct contact in the last month and 38% in the last week, compared with 30% and 9% respectively for firms without a relationship manager. Wholesale firms were more likely to have had recent contact than retail firms (40% compared with 32% in the last month), and large firms had had more recent contact than firms with less than 20 full-time staff (45% compared with 30% in the last month).

Firms were also asked to say whether, since January 2009 (about 18 months before the survey), they had experienced any of the following interventions from the FSA: a supervisory visit; an ARROW (advanced risk response operating framework) visit; or a thematic review. They were also asked whether they had contacted the Firm Contact Centre during the same period (Table 10.1).

Over half of firms (52%) had been in touch with the Firm Contact Centre, while other forms of contact were much less common for the majority of firms – 14% had had a thematic review, 9% had experienced a supervisory visit, and 3% had had an ARROW visit. A third of firms (33%) had not experienced any of these types of contact.

The pattern was very different for firms with a relationship manager – 47% of these had had a supervisory visit, 45% had had an ARROW visit and 28% had experienced a thematic review. Major groups were the most likely type of firm to have had a supervisory visit (95%), a thematic review (77%) or an ARROW visit (68%).

Table 10.1 Experiences with the FSA since January 2009

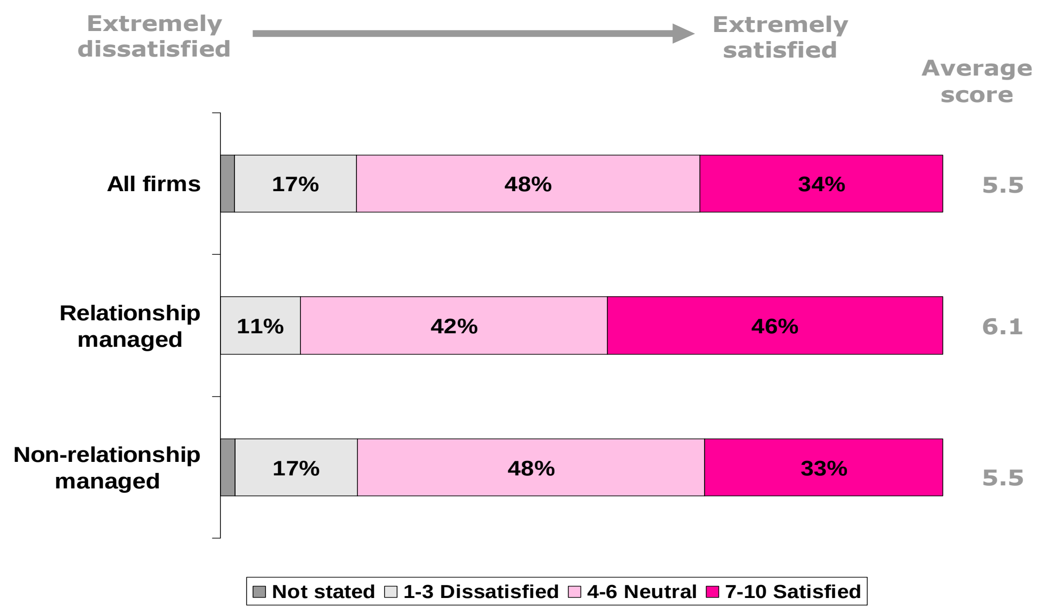
	Major groups	Retail	Wholesale	RM firms	Non-RM firms	Total
	(22)	(2,939)	(1,281)	(430)	(3,812)	(4,256)
	%	%	%	%	%	%
Contacted the Firm Contact Centre	[9]	51	56	36	53	52
Thematic review	[77]	16	7	28	13	14
Supervisory visit	[95]	9	12	47	7	9
ARROW visit	[68]	2	9	45	1	3
None of the above	[-]	34	30	14	34	33

10.2 Ease of dealing with the FSA

Ease of dealing with the FSA is one of the key factors driving overall satisfaction with the relationship with the FSA.

All firms were asked to rate their satisfaction, on a scale of 1 (extremely dissatisfied) to 10 (extremely satisfied), with the ease of dealing with the FSA (Chart 10.2). The largest group (48%) gave a 'neutral' response (a score of 4-6), a third (34%) gave a score of 7-10, indicating they were satisfied, and around one in six (17%) gave a score of 1-3, indicating dissatisfaction. There has been a fall in satisfaction levels since 2008 when 43% of firms reported being satisfied.

Chart 10.2 Ease of dealing with the FSA



Base: All respondents (4,256); Relationship managed (430); Non-relationship managed (3,812)

RM firms expressed higher levels of satisfaction on this measure (46%) than those without a relationship manager (33%), and wholesale firms were more likely to be satisfied (42%) than retail firms (32%). As with previous measures, contact with the FSA seems to affect perceptions in a positive way – firms that had had contact with the FSA in the last six months were more likely to be satisfied with the ease of dealing with the regulator (37%) than those that had not had recent contact (25%).

Around seven in ten firms (69%) thought there had been no change in the ease of dealing with the FSA over the last two years, 8% thought there had been a deterioration, while twice this number (16%) felt there had been an improvement. RM firms were the most likely to report an improvement (27%).

The qualitative research indicates that measures of satisfaction tended to be related in part to the amount of contact firms had with the FSA and in part the quality of contact. Consequently, firms that were relationship managed tended to have much more contact with the FSA than those that were not relationship-managed, generally resulting in higher levels of reported satisfaction. This also applied to the credit unions and friendly societies. However, where there had been changes in the relationship management team, satisfaction was often diminished. This was in part because the new relationship manager may not have had sufficient knowledge of the sector and would also need to be brought up to speed regarding how specific firms conducted their business, which meant additional work for the firm.

There was some difference in opinion as to whether or not the FSA '*operates straightforward and efficient processes for dealing with authorisation and approval issues*'. Across all firms, the balance of opinion was that this was the case, with 49% agreeing against 35% disagreeing (16% did not give an answer). Wholesale firms were particularly likely to find in favour of the FSA – 63% agreed compared with 28% who did not. However, major groups felt quite differently about this, with 32% in agreement and 59% in disagreement.

Similarly, around half of firms (51%) agreed that '*the FSA has sufficiently skilled staff to deal with day-to-day issues*' with 31% disagreeing. There was little difference by type of firm, although credit unions held particularly positive views (59% agreed, 20% disagreed).

10.3 Firm Contact Centre

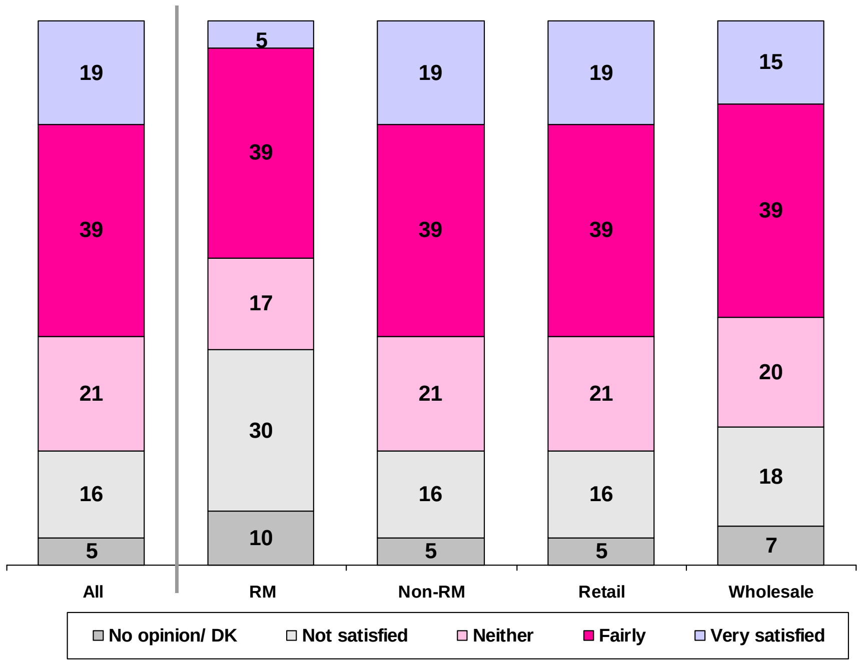
Firms were also asked whether they had had any dealings with the FSA Firm Contact Centre. Overall, 72% firms had done so at some point, and 62% had done so in the last year. Firms that did not have a relationship manager were much more likely to have contacted the Centre than relationship managed firms (74% compared with 49%). The latter will tend to address any queries to their manager rather than the Contact Centre.

Among firms that had had dealings with the Contact Centre, just under six out of ten respondents said they were satisfied (58%) with 19% being 'very satisfied' (Chart 10.3). Around a fifth (21%) were neutral while 16% were dissatisfied, including 4% who were not satisfied at all. Firms that had a relationship manager were more dissatisfied than those that did not (30% compared with 16%), perhaps because their expectations of the service that would be provided by the Contact Centre had been higher. These results have not changed significantly since 2008.

In the qualitative research, firms using the Contact Centre were generally positive about their contact if the issue was simple to resolve. However, where enquiries were more complex there was the continued view that the Contact Centre was less helpful, referring firms to the FSA website.

> '*Great [Contact Centre] if it's simple and if you can't find something in the rules. When I've asked for something more complicated it depends on who you get to be honest. Often as not they refer you to the website but sometimes they seem to go the extra mile and can be really helpful.*'
> (Financial Adviser)

Chart 10.3 Satisfaction with Firm Contact Centre



Base: All respondents whose firm has had dealings with the Contact Centre (3,055); Relationship managed (200); Non-relationship managed (2,843); Retail (2,110), Wholesale (929)

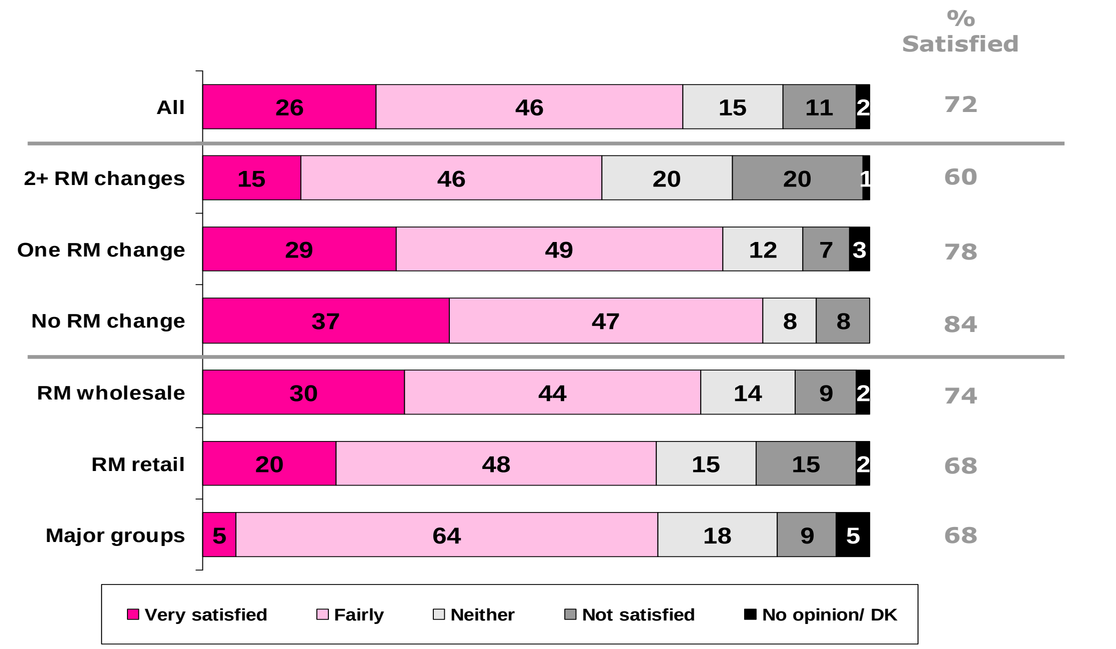
10.4 Designated relationship managers

According to the FSA's database, 6% of the firms taking part in the survey had a designated relationship manager. However, when asked about this, a much larger number – 11% – thought that they did, indicating some degree of confusion on this point. One in 20 firms that did not have a designated relationship manager appeared to think that they did. Similarly, of the firms that the FSA defined as having a relationship manager, 5% – mainly wholesale firms – did not think that this was the case and a further 3% did not know. This is better than in the 2008 survey, when 16% of RM firms were unaware of their status.

Firms with a designated relationship manager – and that were aware they did have a relationship manager – were asked how satisfied they were with their firm's dealings with that manager (Chart 10.4). Just over seven in ten (72%) said that they were satisfied, with 26% being very satisfied. Around one in ten firms (11%) were dissatisfied. RM wholesale firms were the most likely to say they were *very* satisfied (30%), and major groups the least (5%).

These findings are, on the face of it, less positive than those in the 2008 survey, when 77% overall said they were satisfied, with 35% being very satisfied. However, the level of stated dissatisfaction has remained the same. Rather, a higher proportion of firms in 2010 either opted for the neutral 'neither satisfied nor dissatisfied' answer category or did not give an answer at all. This could indicate that a higher proportion of respondents in the recent survey had not had direct contact with the relationship manager, or that some time had elapsed since they last had dealings with them.

Chart 10.4 Satisfaction with relationship manager



Base: All respondents whose firm has, and is aware of having, a Designated RM (401); 2+ RM changes (144); 1 RM change (162); No RM change (81); RM wholesale (235); RM retail (140); Major groups (22)

Respondents were also asked how often their relationship manager had changed in the last two years. Only a quarter of firms (23%) had not had any change in their relationship manager and 34% had experienced two or more changes in their relationship manager during this time period. This had happened more often to RM retail firms (42%) than to wholesale firms (30%) or major groups (27%).

Not surprisingly, levels of satisfaction with the relationship manager were highest among firms whose relationship manager had seen no change in the last two years (84%). This group were also most likely to be 'very satisfied' with their relationship manager (37%), compared with 15% of firms that had experienced two or more changes. A similar trend was present in the 2008 data, although the number of firms stating they were 'very satisfied' with their relationship manager has fallen across all three groups. In 2008, half of firms (49%) that experienced no change in their relationship manager were 'very satisfied' with the relationship, compared with 36% of firms that had had one change and 23% of firms that experienced two or more changes.

The management of a relationship between a firm and the FSA takes time and this was a frequent comment made by the participants in the qualitative research. Where there is continuity of that relationship, satisfaction tends to be much higher than where there have been changes in relationship manager. This is especially true where there have been multiple changes over short periods of time or where temporary staff have filled the relationship manager role.

However, it was noticeable in the qualitative research that there has also been a decline in satisfaction. Apart from the issue of staff churn, there are three other issues that impact on satisfaction. These are concerned with what firms saw as 'micro-management' of their firm as seen in the volume of information that is required by the FSA – and the amount of staff time it consumes, the timing of the information requests and how the FSA uses and interprets the information supplied.

> '*Eventually we will probably have one or two people, unless things quieten down, whose … only role in life is to supply information to the FSA.*'
> (Major Retail Bank)

> '*[We get] information requests that are ill thought out, the timing is just not realistic and even when we supply the information to FSA they will come back to us and it is clear to us that they have either not read what we sent to them or it has not been understood.*'
> (Major Retail Bank)

10.5 Communications from the FSA

The FSA communicates regularly with regulated firms using a variety of materials. Firms were asked to rate the usefulness of each of these on a scale of 1 (extremely poor) to 10 (outstandingly good). Firms that said they did not receive the publication, or they did not answer the question, have been excluded from the base for the ratings.

Table 10.2 Rating of FSA communications

	1 to 3	4 to 6	7 to 10	Average score	Do not receive / never seen / not stated
	%	%	%		%
FSA Roadshows	12	39	48	6.2	39
Feedback following visits	14	38	49	6.1	60
Monthly regulatory round up email	11	48	41	5.9	29
Newsletters for business sector	15	51	34	5.6	30
ARROW reports	19	47	34	5.4	72
'Dear CEO' letters	19	51	30	5.3	41
The FSA Business Plan	32	52	17	4.5	42
Annual report	34	51	15	4.4	40

The most highly-rated method of communication, with an average score of 6.2, was FSA Roadshows. Almost half of the firms giving a response rated the roadshows highly, and only about one in 10 gave a poor rating. They were well regarded by all types of firm, and especially so by small firms, those without a relationship manager and credit unions.

Feedback from the FSA following visits was almost as highly rated – average score of 6.1 – among those firms that were able to give a response (60% did not). RM firms gave this method of communication higher scores (average of 6.5) than firms without a manager (6.0).

The monthly regulatory round-up email (average score of 5.9) and newsletters for business sectors (score of 5.6), were also felt to be useful by many firms. While the round-up email was given similar ratings by all types of firms, business sector newsletters were thought to be particularly useful by RM firms (score of 6.2) and credit unions (6.8).

Over seven in ten firms were unable to give a rating to 'ARROW' reports, but those that did so gave an average score of 5.4, rising to 6.8 among RM firms. 'Dear CEO letters' were accorded a similar overall rating of 5.3, rising to 6.8 among firms with relationship managers. 'Dear CEO' letters appealed particularly strongly to major groups (score of 7.4). The methods of communication thought to be less useful by the majority of firms were the FSA Business Plan (average score of 4.5) and the Annual Report (4.4). Again RM firms gave these two items more positive ratings than others, with major groups in particular giving relatively high scores to both (6.5 to the Business Plan and 5.9 to the Annual Report).

The qualitative research echoes the survey findings. Those who had attended found the roadshows to be very accessible, with the FSA staff being knowledgeable and easy to talk to. However, it was thought that they could be publicised more effectively. Supervisory reports and ARROW reports were thought to be comprehensive and accessible, with recommendations being sensible. However, they could take longer than expected to become available. Firms liked the Business sector newsletters as these tended to contain information that was relevant to their sector only; emails, however, were said to be rather long-winded and tended to be filed and ignored. Emails in particular were thought to be inadequately targeted and often not relevant to their sector.

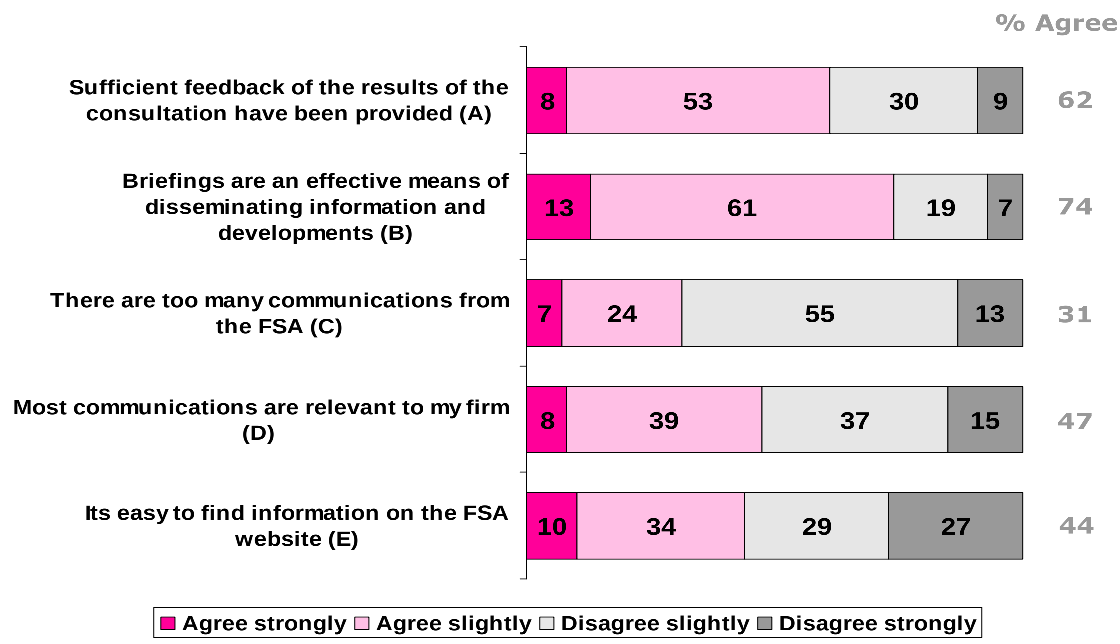
A further way in which the FSA communicates with the industry is through the Consultation Paper process. Only one in five firms (22%) had ever participated in an FSA consultation, although the proportion was much higher among large firms (36%), credit unions (46%) and RM firms (56%). Among major groups, 100% had participated.

Firms' satisfaction with the Consultation Paper process (whether or not they had participated) was assessed using a 10 point scale in which 1 was extremely dissatisfied and 10 was extremely satisfied. As in 2008, the majority of firms (56%) gave the consultation process a neutral rating of 4-6. Slightly fewer gave a high satisfaction rating of 7-10 (18%, compared with 21% in 2008) and slightly more gave a low rating (19%, compared with 15% in 2008). Relationship managed firms were the most satisfied (39% gave a high rating, rising to 50% among major groups).

The major concern about the Consultation Papers, and a view that emerged in previous waves of the Panel survey, was the overall length and technical complexity of the papers. This continued to be a concern amongst the participants in the qualitative research, although there was a suggestion that they had become more clearly written and more accessible. However, they were still felt to be too long, an issue that was particularly of concern to small firms that tended to ignore the consultation papers overall because of the time it would take to work through them.

Firms were also asked for their views more generally about FSA communications, by indicating how much they agreed or disagreed with a series of statements (Chart 10.5).

Chart 10.5 Rating of FSA communications



Base – All firms excluding no opinion/not stated: A (3,011); B (3,255); C (3,578); D (3,912); E (3,976)

On balance, the majority of firms giving an opinion agreed that there had been '*sufficient feedback of the results of consultation exercises*' (62%); and that FSA briefings were '*an effective means of disseminating information and developments*' (74%). The majority also disagreed that they '*receive too many FSA communications*' (69%). Large firms, and those with relationship managers, held more positive views than others.

Views were more evenly divided on the question of whether '*most of the communications received from the FSA are relevant to my firm*' – 47% felt they were, but 53% thought they were not. Again, firms that had a relationship manager were more likely to give a positive answer (68% agreed) and nearly nine in ten major groups (86%) agreed that most communications were relevant.

Participants in the qualitative research thought that, overall, the targeting of information had improved and was generally more relevant to their firm's business. Of all the communications received, emails were felt to be the least well targeted.

Over half of firms giving an opinion (56%) disagreed that '*it's easy to find the information you need on the FSA website*'. This was the case regardless of size of firm or relationship status. Only major groups held a more favourable view (65% thought it was easy, compared with 35% that did not). These results are similar to the 2008 survey, when just over half also disagreed that it was easy to find what they needed on the website.

The same view was expressed by the participants in the qualitative research, the key issues being with overall navigation of the FSA website and a poor search engine that tended to find hundreds of irrelevant items.

> '*I really dislike the FSA website. The search engine is atrocious. I have even put an actual document title into the search engine and it still can't find it.*'
> (Financial Adviser)

Firms were also asked whether or not they '*rely on a third party to interpret FSA communications and regulations for their firm*'.

Four out of ten firms overall (43%) said that they did rely on a third party, and the proportion was even higher for small firms with less than 20 full-time employees (47%), for non-RM wholesale firms (52%) and for financial advisers (59%).

10.6 Seeking guidance from the FSA

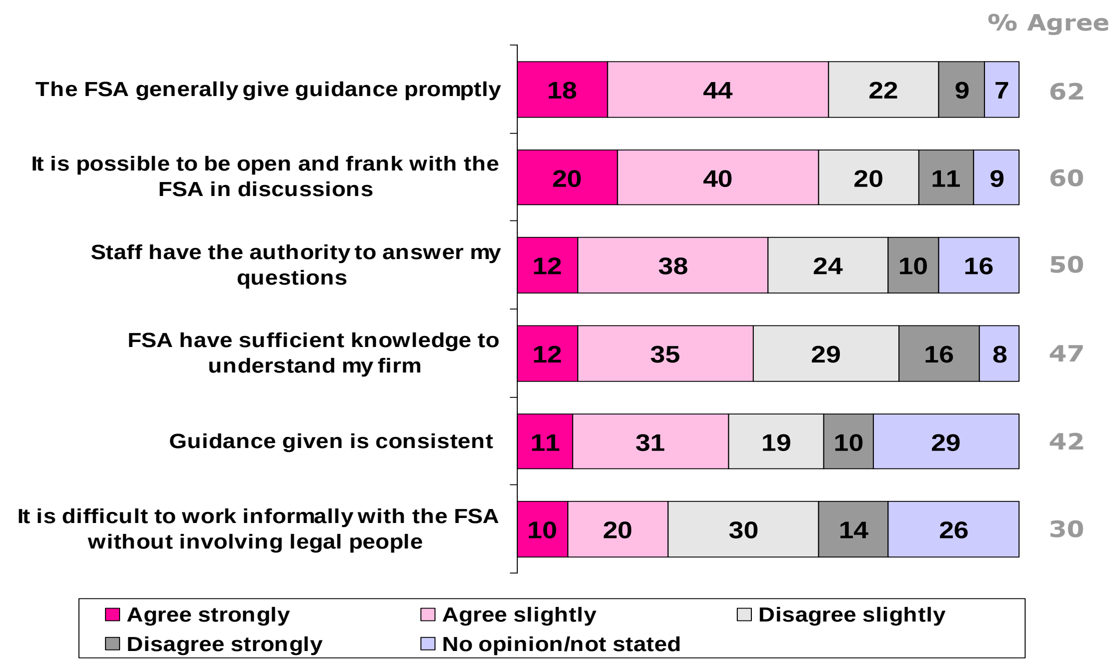
Firms were asked if they had had experience of seeking guidance from the FSA on rules or regulatory policy, and when they had last done so. Over six in ten firms (61%) had done so, a slightly higher proportion than in 2008 (55%). The proportion seeking guidance was higher among large firms (72%) and RM firms (85%), although there was no difference between retail and wholesale firms. Two thirds of the firms that had sought guidance had done so in the last year.

Small firms with less than 20 full-time employees had mainly sought guidance from the Firm Contact Centre (88%), while most RM firms had, not surprisingly, consulted their manager (83%).

The views of firms that had experience of seeking guidance from the FSA were generally positive. In terms of how helpful FSA guidance had been, 39% of firms gave a high rating of 7-10, compared with 23% that gave a poor rating of 1-3. The average score was 5.5, and there was very little difference by size of firm or by relationship status (5.8 if relationship managed, 5.5 if not).

Chart 10.6 shows the level of agreement with some more general statements designed to elicit firms' views about the experience of seeking and obtaining guidance from the FSA. Again, these questions were only asked of firms that had experience of this.

Chart 10.6 Views on FSA guidance



Base: All respondents who have sought guidance (2,611)

Overall, the most favourable views expressed were that '*FSA staff generally give guidance promptly*' (62% agreed, 31% disagreed) and that '*it is possible to be open and frank in discussions with the FSA*' (60% agreed, 32% disagreed). Major groups were less likely than average to agree that they received guidance promptly (50% agreed and 50% disagreed), as – to a lesser extent – were RM firms (55% agreed and 41% disagreed). Against that, these types of firms were much more likely to feel that they could be open and frank in their discussions with the FSA (75% of RM firms and 90% of major groups agreed with this).

There were slightly lower levels of approval expressed in response to three other statements – when those firms that gave no answer are excluded, around six in ten positive answers were given against four in ten negative answers for it being '*difficult to work through things informally with the FSA without involving legal people*', for staff having '*the authority to answer my questions*', and for there being '*consistency of guidance from different members of staff*'. On the latter two measures, larger firms and those with relationship managers tended to give less positive answers than others – possibly because the queries they raised with the FSA were less straightforward and more difficult to answer than those raised by smaller firms.

However, for the first measure, on working through things informally without involving legal people, major groups were the most likely to disagree that it was difficult to do this (70% disagreed).

Large firms, when interviewed as part of the qualitative research, have indicated that while they would like to be able to work through issues informally with the FSA, this has not usually been possible. This feeling had strengthened in this wave of the research. Large RM firms too tended to pose more difficult and complex questions to the FSA, compared with other firms. Although views varied across the firms, there was some suggestion that newer relationship managers were less able to answer complex questions, they were less able to answer them speedily and lacking knowledge of the sector may have to seek guidance elsewhere before making a decision. A further issue arose in relation to Principles Based Regulation (PBR). Some of the larger firms felt that the FSA was unwilling to make a decision where a principle was involved and instead suggested the firm should go ahead with implementation and wait for the response from an ARROW visit.

> '*One of the issues I have is with the way the FSA deals with PBR. I approve the principle of PBR. It's a good one and allows flexibility. But try asking the FSA for a ruling if you are unsure and they throw it back at you and say 'Do it and then we'll make a decision later'. Generally that's not a very helpful approach and one I find very frustrating. They are inconsistent too … I think it depends on how well they understand the issue themselves.*'
> (Insurer)

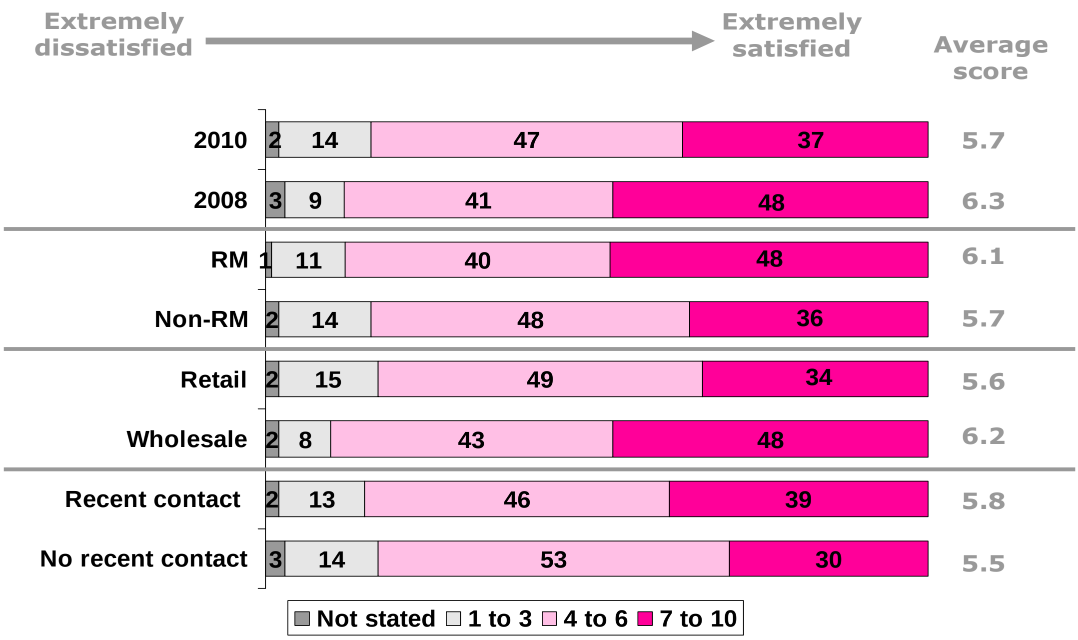
The statement which attracted the most negative answers was '*FSA staff have sufficient knowledge to understand my firm*'. Overall, 45% of firms disagreed with this, and 47% agreed. Firms giving more positive answers on this included credit unions (68% agreed), relationship managed wholesale firms (62% agreed) and major groups (60% agreed).

11. Attitudes towards supervision

11.1 Overall satisfaction with supervision

Firms were asked how satisfied they were with the FSA's supervision of their firm, by allocating a score from 1 to 10 where 1 meant extremely dissatisfied and 10 meant extremely satisfied. The chart below details the responses.

Chart 11.1 Overall satisfaction with FSA's supervision



Base: 2010 (4,256), 2008 (4,459) RM (430) Non-RM (3,812) Retail (2,939), Wholesale (1,281), Recent contact (3,264), No recent contact (992)

Ratings were generally less positive than in 2008, having returned to the levels last seen in the 2006 survey. Overall, 37% were satisfied (score of 7 to 10), compared with 48% in 2008. As in previous years, RM firms tended to be more positive on this rating (48%) than non-RM firms (36%).

Although these ratings are less positive than in 2008, the responses given to a separate question on whether the quality of FSA supervision had improved in the last two years were more encouraging – of those firms able to give an opinion, six in ten (59%) thought there had been an improvement.

The majority of firms (54%) had never had a supervisory visit, down from 59% in 2008. Just under four in ten firms (37%) that recalled having a visit, comprising 10% within the last year, 13% between one and three years ago, and 14% more than three years ago. The firms most likely to have received a visit in the last year were major groups (77%) and RM retail firms (60%).

Even fewer firms (26%) had experienced a thematic review, although there has been an increase in this proportion from 19% in 2008. The firms most likely to have experienced a review were again major groups (86%) and RM retail firms (73%).

Firms were asked whether any FSA supervision visit (or thematic review) they had experienced had been undertaken in a '*suitably informed, collaborative and proportionate manner*'. Most firms did not respond to this question, since relatively few had experienced either a visit or a review. Based only on those answering, eight in ten firms (the same proportion as in 2008) agreed that FSA supervision had been undertaken in this manner.

Regulated firms in the qualitative research were expecting to be supervised more intensively and believed that there was a general trend in this direction even if they had not experienced it in practice.

> '*When …the head of the FSA was appointed he said, "Right I want you to all fear the FSA", which I think is great; one knows where one stands.*'
> (Retail, Small Firm, IFA)

Larger firms, retail firms and firms in administration had certainly experienced more intensive supervision, evident through more dialogue with the FSA, a greater number of information requests that were clearly being scrutinized in greater detail than in the past, and a more intrusive attitude of supervision teams.

Of those firms experiencing an ARROW visit, views were generally positive, especially where the visit had been aligned with the firm's internal audits. Firms had both positive and negative things to say in relation to ARROW visits. On the positive side, ARROW visits were said to provide the appropriate level of rigour, and were generally aligned well with the firm's level of risk. However, on the negative side, ARROW visits were seen as rather predictable, adopting a mechanical approach to supervision. For example, one firm was not happy with their last ARROW visit. The CEO took the supervisors aside and told them they had missed the point and told them what they should have been looking at. It was felt that they missed the important issues and instead drilled down on more inconsequential matters. Rather, this CEO wanted the FSA team to look at the areas he had his own concerns with.

> '*I predicted virtually everything that they were going to ask.*'
> (Retail Investment Bank)

CEOs and Heads of Compliance considered that too much advance warning was given for an ARROW visit. They also thought that the FSA had inappropriate priorities during ARROW visits. For example, CEOS thought that the FSA tended to focus on inappropriate issues with senior management (such as TCF) but let them off rather lightly when it came to more substantive issues such as capital requirements. For example:

‘*It's like when they asked about TCF, they grilled me about it but just asked others [junior staff] a few easy questions. I told the FSA it was pointless grilling me about the FSA and TCF as I know all about it. They should ask difficult questions of other staff, to see whether TCF has become part of the culture.*’
(CEO, Building Society)

‘*I was really surprised at their level of questioning. They didn't seem to focus on aspects of the business where there are potentially key risks.*’
(Head of Compliance, Insurance)

Although there was very limited experience, thematic reviews were seen as tougher than ARROW visits. With ARROW visits, firms know that FSA staff are going to visit well in advance and can therefore adequately prepare. By contrast, the notice period for thematic reviews is much less and gives much less time to get the paperwork in order. Firms were quite concerned about thematic reviews which, they felt, often ended up with more serious enforcement issues.

11.2 Conduct of Business and Prudential Standards

All firms were asked how well they understood the Conduct of Business Standards and Prudential Standards. Seven in ten firms said that they understood these standards either very well (14%) or quite well (56%), against 22% that admitted to not understanding them well. Firms were also asked for their views on the FSA's flexibility in applying the rules for these standards. The table below shows the results for these questions.

Table 11.1 Description of the FSA in applying rules

	Conduct of Business Standards	Prudential Standards
	(4,256)	(4,256)
	%	%
Highly/fairly flexible	4	3
About right	36	33
Highly/fairly rigid	24	24
No experience/don't know/ not stated	36	40

A large number of firms were unable to answer these questions because they had no experience of the FSA's applying the rules to their firm. Where a response was given, the most common answer was that the FSA had got it ‘about right'. Very few firms considered the FSA to be flexible on either set of standards, while about one in four firms described the FSA as being highly or fairly rigid.

Major groups and RM retail firms were most likely both to have had experience of the FSA's application of the rules on these standards, and to describe the FSA's approach as rigid (67% of major groups and 43% of RM retail firms).

Firms were also asked to say whether or not the FSA had got the priority about right in its focus on Conduct of Business or Prudential Supervision. As in 2008, almost half were unable to give an opinion on this question. Where firms gave an answer, they were more likely to agree that the priority was about right (37%) than to disagree (17%).

The qualitative research had similar findings, with firms generally very aware of a shift to greater prudential regulation, a view that was particularly apparent following an ARROW visit. Firms generally supported the FSA's stance on prudential regulation and felt that it should remain an important focus for regulation. However, there was some concern as to whether the FSA were genuinely able to check this with one firm commenting '*I think the FSA should look beyond the P&L if they truly want to understand a firm's position*'.

> '*All FSA's resources seem to be skewed towards conduct of business – they had long checklists of boxes to tick in terms of selling insurance to someone, but missed the big picture in terms of if the firm doesn't have enough capital to sustain losses.*'
> (MGR, Retail, Bank)

11.3 Capital and liquidity requirements

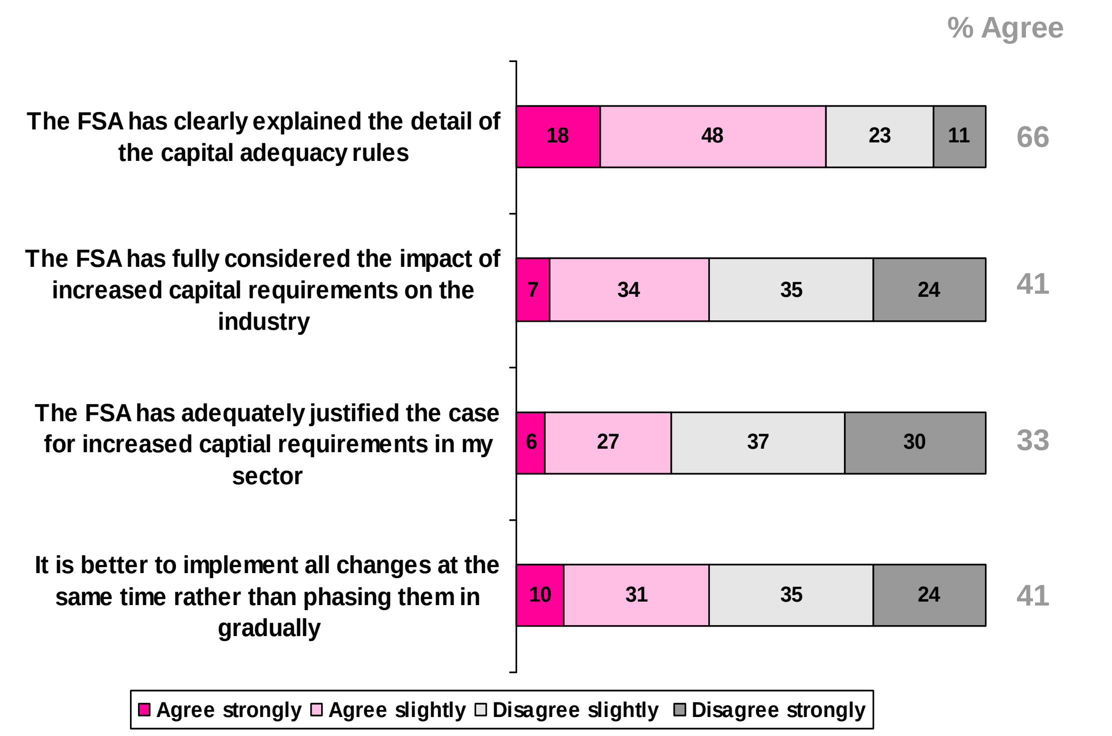
Following the financial crisis the FSA issued new rules regarding capital adequacy requirements and a new liquidity regime. There was an interest in understanding firms' reaction to the introduction of these new rules. Although commonly referred to together as 'capital and liquidity requirements' it was felt important to understand firms' attitudes towards the capital and liquidity requirements individually.

A significant proportion of firms gave a 'no opinion' answer at these questions and the following analysis is therefore based only on firms that gave an opinion.

11.3.1 Capital adequacy requirements

Firms tended to feel that the FSA had clearly explained the detail of the capital adequacy rules but were much less convinced that the impact of the increased requirements had been fully considered or that the case for introducing them had been adequately justified (Chart 11.2). Similarly, the majority of firms disagreed that it was better to implement all the changes at the same time.

Chart 11.2 Attitudes towards the capital adequacy rules



Base: All firms with an opinion, from top: 3,633; 3,270; 3,117; 3,158

Overall the majority of firms that gave an opinion (66%) felt that '*the FSA has clearly explained the detail of the capital adequacy rules*'. Credit unions and major groups were most likely to agree that the detail of the capital adequacy rules had been clearly explained (80% and 67% respectively) compared with 63% of RM retail firms.

Although firms generally felt that the rules had been clearly explained they were less likely to agree that '*the impact of the increased capital requirements has been fully considered by the FSA*'. Four in ten firms (41%) agreed that the FSA had fully considered the impact of the increased requirements and over half (59%) disagreed with this. Just 17% of major groups agreed that the FSA had fully considered the impact of the increased requirements compared with 36% of RM retail firms, 38% of non-RM retail firms, 43% of RM wholesale firms and 57% of non-RM wholesale firms. Wholesale firms were more likely than retail firms to agree that the FSA had fully considered the impact of the new capital requirements (54% compared with 38%).

A third of firms (33%) agreed that '*the FSA has adequately justified the case for the increased capital requirements in my sector*' but the majority (67%) disagreed that the case had been adequately justified. Less than three in ten major groups (28%) and a similar proportion (29%) of non-RM retail firms felt that the case had been adequately justified. Over half of credit unions (57%) and 48% of non-RM wholesale firms felt the case had been adequately justified.

Four in ten firms (41%) agreed that it was better to implement all changes at once rather than phasing them in gradually but six in ten firms (59%) disagreed with this. Major groups were least likely to agree (24%) compared with 45% of credit unions and 49% of non-RM wholesale firms that agreed.

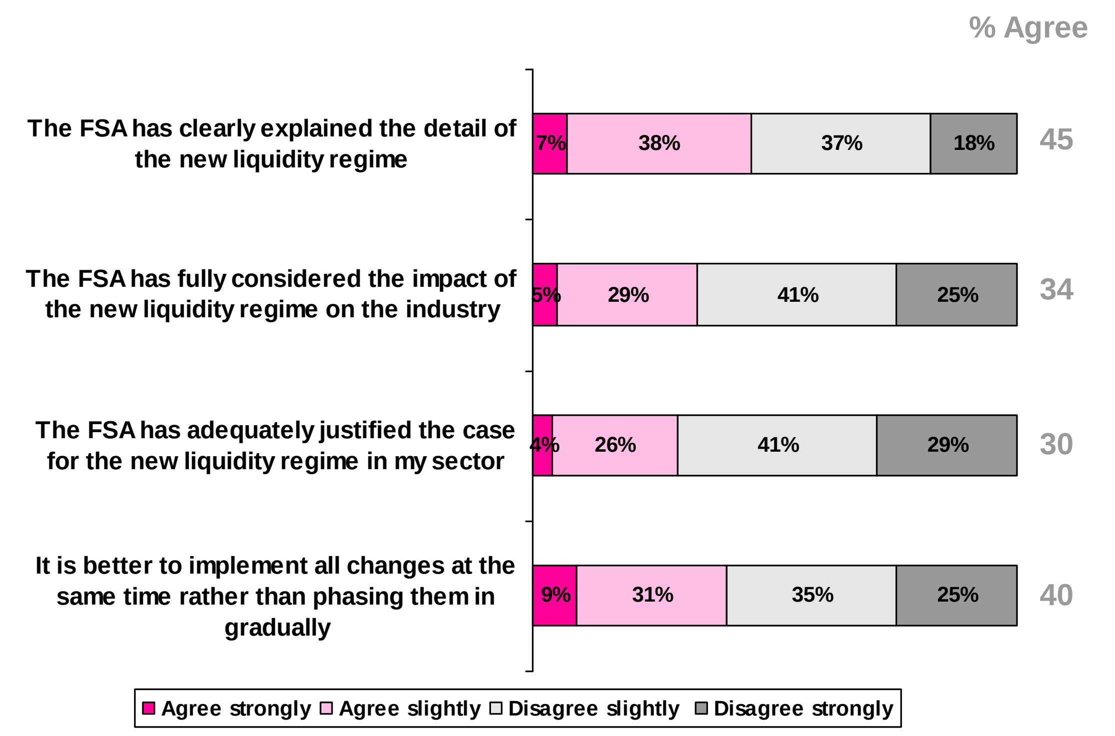
Table 11.2 Attitudes towards the capital adequacy requirements

	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit Unions	Total
	%	%	%	%	%	%	%
The FSA has clearly explained the detail of the capital adequacy rules							
Agree	67	63	65	66	65	80	66
Disagree	33	37	35	34	35	20	34
Base	*(18)*	*(139)*	*(216)*	*(2,187)*	*(897)*	*(161)*	*(3,633)*
The FSA has fully considered the impact of the increased capital requirements on the industry							
Agree	17	36	43	38	57	57	41
Disagree	83	64	57	62	43	43	59
Base	*(18)*	*(133)*	*(204)*	*(1,986)*	*(768)*	*(151)*	*(3,270)*
The FSA has adequately justified the case for increased capital requirements in my sector							
Agree	28	34	40	29	48	57	33
Disagree	72	66	60	71	52	43	67
Base	*(18)*	*(129)*	*(196)*	*(1,926)*	*(680)*	*(157)*	*(3,117)*
It is better to implement all changes at the same time rather than phasing them in gradually							
Agree	24	37	36	39	49	45	41
Disagree	76	63	64	61	51	55	59
Base	*(17)*	*(132)*	*(194)*	*(1,878)*	*(767)*	*(160)*	*(3,158)*

11.3.2 The FSA policy on liquidity

Compared with the capital adequacy regime, firms were less likely to feel that the FSA had clearly explained the detail of their policy on liquidity and they were also slightly less likely to think that the impact of the liquidity regime had been fully considered. There was very little difference, however, between the liquidity and the capital adequacy policies in the proportion of firms that felt the case for them had been adequately justified or in the proportion that felt that the changes should all be implemented at once.

Chart 11.3 Attitudes towards the new liquidity regime



Base: All firms with an opinion, from top: 2,918; 2,680; 2,660; 2,708

Just under half of firms (45%) felt that '*the FSA has clearly explained the detail of the new liquidity regime*'. There were clear differences by type of firm. Almost three quarters of credit unions (72%) felt that the FSA had clearly explained the detail as did two thirds of major groups (67%). This compares with 42% of non-RM retail firms. RM firms overall were more likely than non-RM firms to agree that the detail had been clearly explained (56% compared with 45%).

Just over a third of firms (34%) agreed that '*the impact of the new liquidity regime has been fully considered by the FSA*' and almost twice as many (66%) disagreed. Although they were more likely to agree that the FSA had clearly explained the policy on liquidity, the major groups did not tend to agree that the impact of the new liquidity regime on the industry had been fully considered; only a quarter of major groups (27%) agreed with this. Credit unions were more likely to agree (58%) as were non-RM wholesale firms (52%).

Three in ten firms (30%) agreed that '*the FSA has adequately justified the case for the new liquidity regime in my sector*' and the majority of firms (70%) disagreed that this was the case. Non-RM retail firms were the least likely to feel that the case had been adequately justified (26%).

Four in ten firms (40%) felt that '*it is better to implement all changes at the same time rather than phasing them in gradually*' while six in ten (60%) did not agree with this. Non-RM wholesale firms were most likely to agree that it would be better to implement all changes at the same time (49%).

Table 11.3 Attitudes towards the FSA policy on liquidity

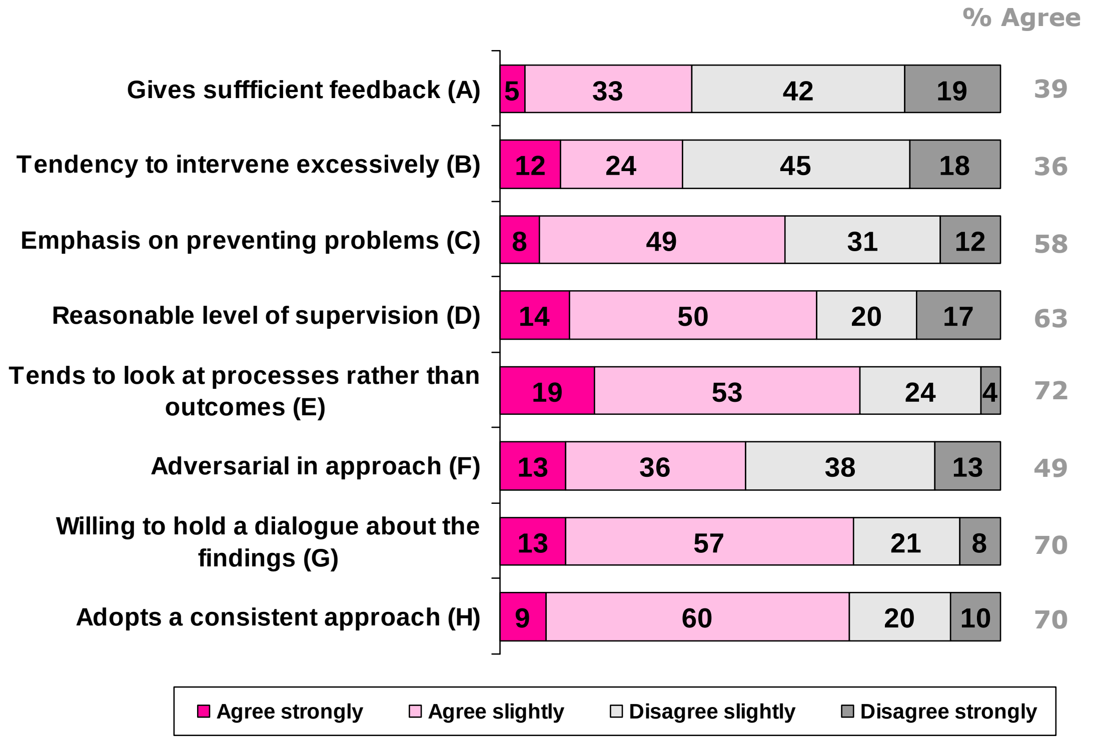
	Major groups	RM retail	RM wholesale	Non-RM retail	Non-RM wholesale	Credit Unions	Total
	%	%	%	%	%	%	%
The FSA has clearly explained the detail of the new liquidity regime							
Agree	[67]	58	54	42	51	72	45
Disagree	[33]	42	46	58	49	28	55
Base	*(15)*	*(126)*	*(198)*	*(1,726)*	*(663)*	*(177)*	*(2,918)*
The FSA has fully considered the impact of the new liquidity regime on the industry							
Agree	[27]	28	39	29	52	58	34
Disagree	[73]	72	61	71	48	42	66
Base	*(15)*	*(118)*	*(186)*	*(1,600)*	*(593)*	*(158)*	*(2,680)*
The FSA has adequately justified the case for the new liquidity regime in my sector							
Agree	[40]	37	41	26	44	54	30
Disagree	[60]	63	59	74	56	46	70
Base	*(15)*	*(119)*	*(186)*	*(1,602)*	*(565)*	*(162)*	*(2,660)*
It is better to implement all changes at the same time rather than phasing them in gradually							
Agree	[31]	39	33	39	49	46	40
Disagree	[69]	61	67	61	51	54	60
Base	*(16)*	*(119)*	*(182)*	*(1,604)*	*(613)*	*(165)*	*(2,708)*

Findings from the qualitative research also indicated that the capital and liquidity requirements were very well understood and considered that the FSA was correct in increasing its focus on capital and risk. However, while firms generally thought that the capital and liquidity targets were at the '*tough end of realistic*' there were also some concerns expressed. These were that: the approach was very heavy handed and too widely applied, forcing standards on lower risk firms that were really meant only for the banks; and the FSA was being overly prudent and had designed a regime that was based on situations that were unlikely to happen but at the same time were unrealistic and would not prevent another financial crash.

11.4 Supervision

All firms were asked to say how much they agreed or disagreed with a number of statements about the way their firm was supervised by the FSA (Charts 11.4 and 11.5). A large number of firms gave no answer to these questions and are therefore excluded from the analysis.

Chart 11.4 Ratings of FSA supervision: Outcomes



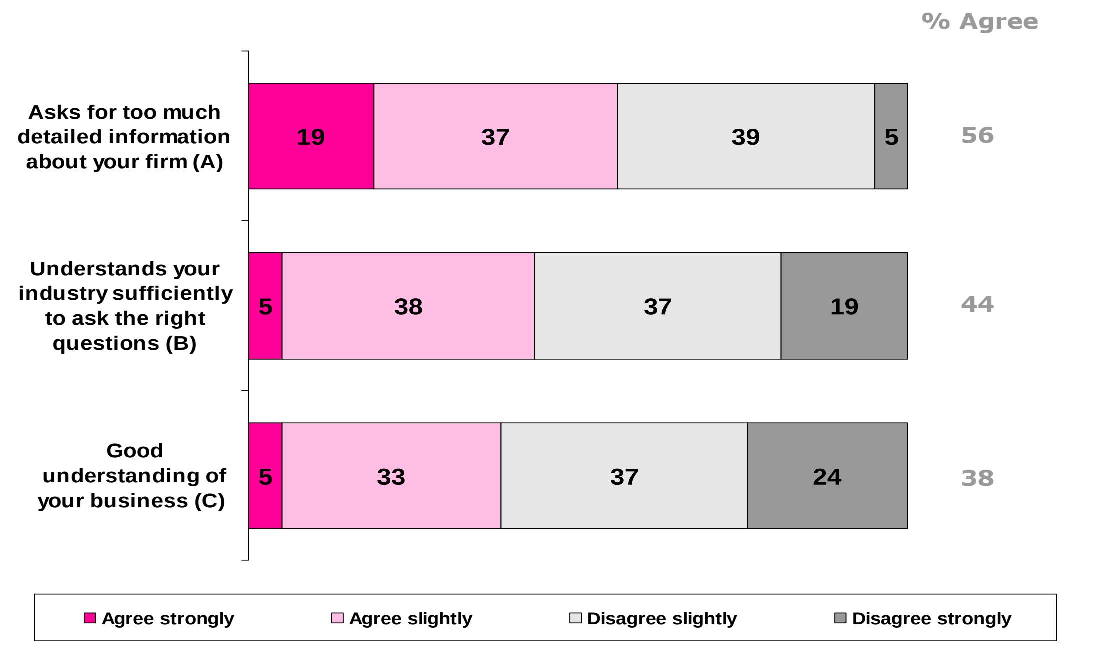
Base: A (3,218); B (3,039); C (2,841); D (3,601); E (2,823); F (2882); G (2414); H (995)

The balance of opinion was positive for the FSA being '*willing to hold a dialogue with you*' (70% agreed), for adopting '*a consistent approach between the close-out meeting and the Risk Mitigation Programme*' (70% agreed), for applying '*a reasonable level of supervision for your business*' (63% agreed), and for '*placing emphasis on preventing problems rather than enforcement*' (58% agreed). The majority of firms also disagreed that the FSA had '*a tendency to excessive intervention in how your firm operates*' (64% disagreed). Opinion was, however, equally divided on whether the FSDA was '*adversarial in approach*' (49% agreed, 51% disagreed).

Views were more negative about the FSA tending '*to look at processes rather than outcomes*' (72% agreed), asking for '*too much detailed information about your firm*' (56% agreed), having '*a good understanding of your business*' (62% disagreed), giving '*sufficient feedback on the information submitted*' (61% disagreed), and '*understanding your industry sufficiently to ask the right questions*' (56% disagreed).

In answer to a separate question, 65% of those giving an answer felt that the FSA's supervision of their firm was excessive, given their firm's level of risk.

Chart 11.5 Ratings of FSA supervision: Processes



Base: A (3,540); B (3,621); C (3,436)

On most of these measures, the responses are less positive than in 2008. Of the measures which were included in both surveys, only one showed a slight improvement in 2010 – 72% agreed that the FSA tended to look at processes rather than outcomes, down from 77% in 2008 (and 82% in 2006).

RM firms tended to be more positive in their answers to these questions than non-RM firms. In particular, they were much more likely to agree that the FSA had a good understanding of their business (56% and 37% respectively) and was willing to hold a dialogue with them (84% and 69% respectively), and to disagree that the FSA was adversarial in its approach (69% and 50% respectively disagreed).

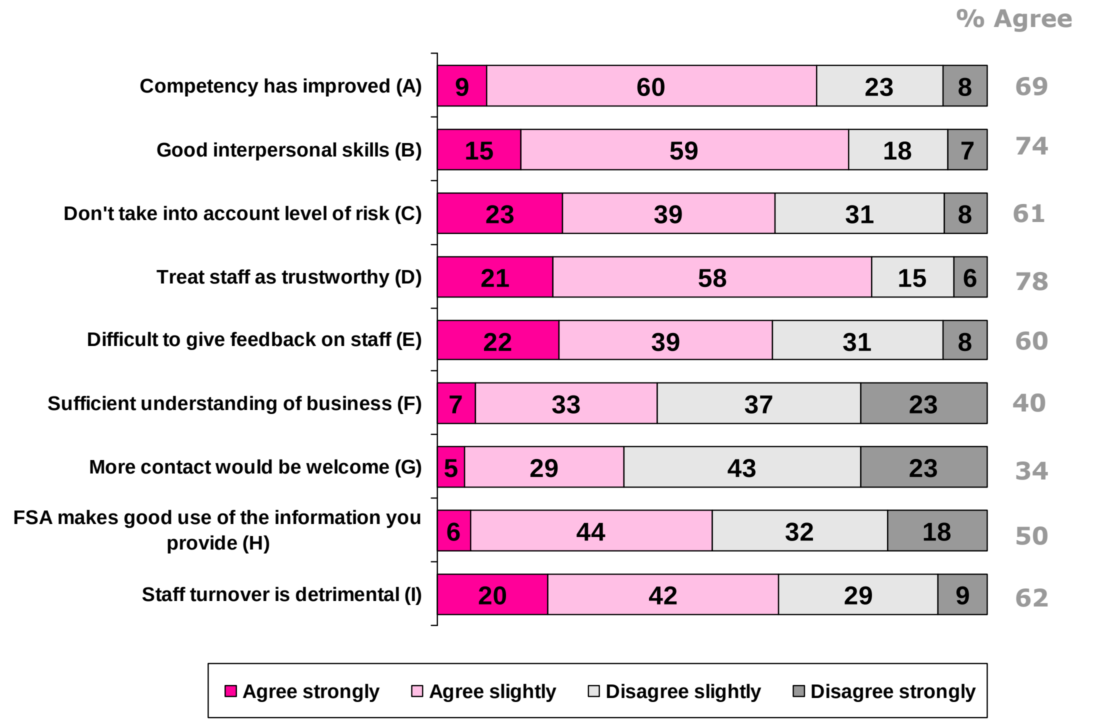
The issues arising in the qualitative research were very similar. Supervision staff certainly seemed willing to discuss issues but had clearly become much more intrusive and adversarial over the past year. The main issues arising were the inability of the supervisory staff to focus on the real risks in the business and that the length of time between the end of the visit and the report – usually said to be two weeks – was too long.

> ‘*They [FSA] still seem to be obsessed with tick boxes. They ask lots of questions but I don’t really think they understand the business enough, and all our divisions, to get a real understanding of where the risks lie or how big the risks are.*’
> (Investment Manager)

11.5 Ratings of supervision staff

Firms were also asked for their views on the FSA staff who handle supervision (Chart 11.6). Again, a high proportion of firms – particularly non RM firms – did not have direct experience of FSA supervision so were unable to answer these questions. The chart is therefore based only on those giving an answer.

Chart 11.6 Ratings of supervision staff



Base: All firms excluding no opinion/not stated: A (2,034); B (2,878); C (2,762); D (2,438); E (2,028); F (2,722); G (3,039); H (2,343); I (1,644)

On the positive side, a high proportion of firms giving a response agreed that '*FSA supervisory staff treat your staff as trustworthy*' (78%), '*have good interpersonal skills*' (74%), and that '*their competency has improved over the last two years*' (69%). Wholesale firms with a relationship manager were particularly positive on all these measures.

On the other hand, around six in ten firms that gave an answer agreed that FSA staff '*don't really take into account the level of risk arising from your business*' (61%), that '*it is difficult to give feedback to the FSA on their supervisory staff*' (60%) and that '*the turnover of FSA supervision staff is detrimental to your firm's regulatory relationship*' (62%). A similar proportion disagreed that FSA staff '*have sufficient commercial understanding of your business to make appropriate judgements*' (60%). Opinion was equally divided on whether '*the FSA makes good use of the information you provide to inform its dealings with you*' (50% agreed, 50% disagreed).

Major groups were the least likely to agree that the FSA did not take into account the level of risk from their business (36%), and generally firms that had a relationship manager were more positive on this measure than firms that did not (49% compared with 62%). Only a third of major groups (32%) agreed that it was difficult to give feedback to the FSA on supervisory staff, against an average of 60%. Although major groups were generally more positive in their attitudes towards FSA supervisory staff, in one respect they were more negative – 59% disagreed that the FSA made good use of the information they provided, compared with an average of 50%[2].

On the issue of the turnover of FSA supervisory staff, RM retail firms were the most concerned, with 77% agreeing that this turnover was detrimental to the regulatory relationship compared with an average of 62%. Although six in ten firms overall disagreed that the FSA had sufficient commercial understanding of their business to make appropriate judgements, this dropped to 50% disagreement among major groups, 53% among wholesale firms and 55% among RM firms.

Most of these measures showed a slight decrease in positive ratings – ranging from 1 to 7 percentage points – from the levels observed in 2008. The largest change was in the level of agreement that the FSA made good use of the information provided, down from 61% on average in 2008 to 50% in 2010.

As in 2008, it is clear that most firms would **not** welcome more contact from the FSA – only 34% agreed that they wanted more contact and just 9% among major groups.

The qualitative research also noted that there were many positives about FSA supervision, but also some negatives. Generally, FSA staff were seen as professional and pleasant to deal with. Some were rated very highly on their understanding of the sector, others less so. There was also some suggestion that the turnover of FSA staff had increased over the past two years and that this was reflected, for some RM firms, in a marked lack of continuity in their business relationship.

Additionally, while large firms in particular noted more requests for information they also mentioned that the FSA then followed up with many questions that simply demonstrated that they had either not read the information thoroughly or did not understand it.

> '*I don't want to be critical of the FSA, or my relationship manager, because on balance I think they do a good job. But it is true to say that their business knowledge can be sadly lacking, especially the more junior members … and what they do with all the information we send them I really don't know. I'm sure they don't read it, given the number of questions we get back from them.*'
> (Insurer)

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[2] This difference is not statistically significant.

12. Attitudes of small firms

Previous sweeps of the Practitioner Panel survey have highlighted that small firms tend to be more negative than larger firms about their relationship with the FSA. The FSA has increased its efforts in recent years to target its advice and guidance to small firms more effectively. Further to this the Enhanced Small Firms Strategy has been developed to help small firms better meet their regulatory requirements.

This chapter focuses specifically on the views and attitudes of small firms (those with fewer than 20 full-time staff) compared with larger firms.

12.1 Overview

As was apparent in 2008, small firms were less positive than larger firms in their satisfaction with the FSA and their perceptions of the FSA's performance against its objectives. These measures have also worsened since 2008, as has been reflected in the wider findings.

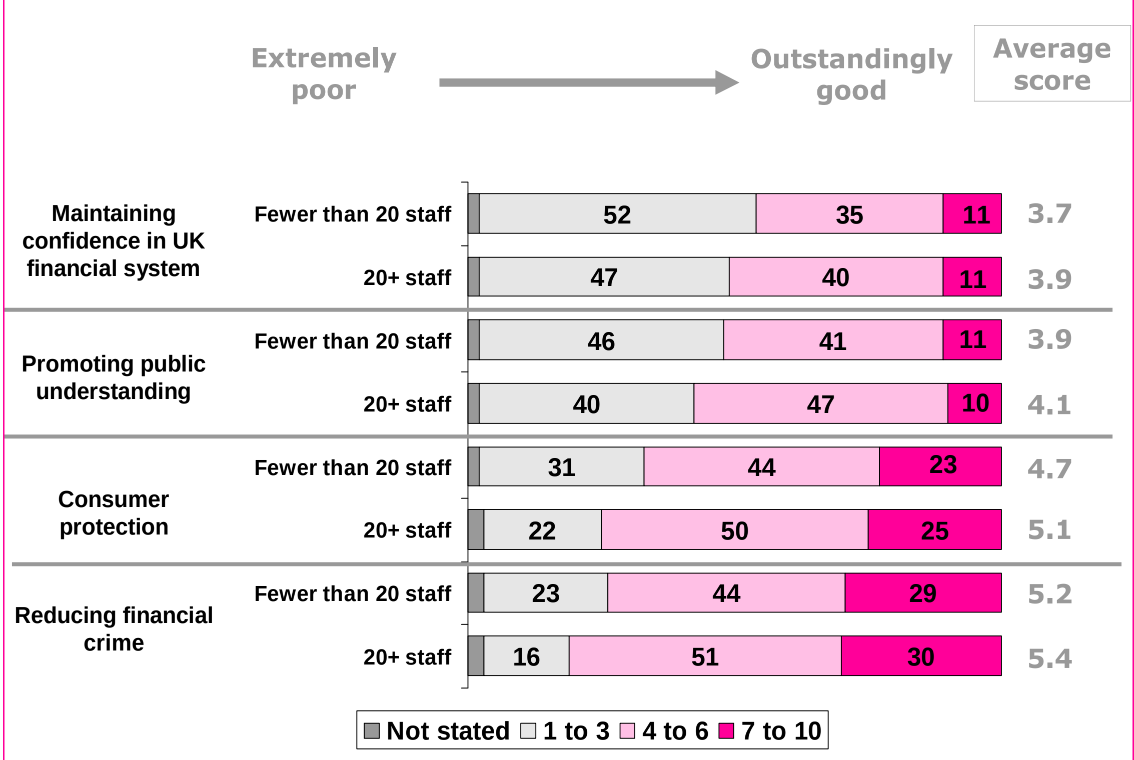
The majority of small firms held the view that the FSA does not show an understanding of small firms in the development of policy and that the FSA does not recognise the impact of regulation on small firms. RM firms with fewer than 20 full-time staff were slightly more positive in their views.

While the vast majority of small firms felt that strong regulation was important, the general view held by small firms was that the regulatory system places too much burden on small firms and that the level of supervision is excessive, given their level of risk. Further to this many small firms held the view that the costs of compliance were also excessive. Perhaps unsurprisingly, this view was more common amongst small firms that relied on a third party to interpret FSA communications and regulations for their firm.

12.2 Statutory objectives

Chapter 2 outlined the four statutory objectives set out under the Financial Services and Markets Act 2000 (FSMA) by which the performance of the FSA is measured. The rating of the FSA's performance against its four statutory objectives differed between firms with fewer than 20 full-time staff and firms with 20 staff or more (Chart 12.1).

Chart 12.1 FSA performance against statutory objectives

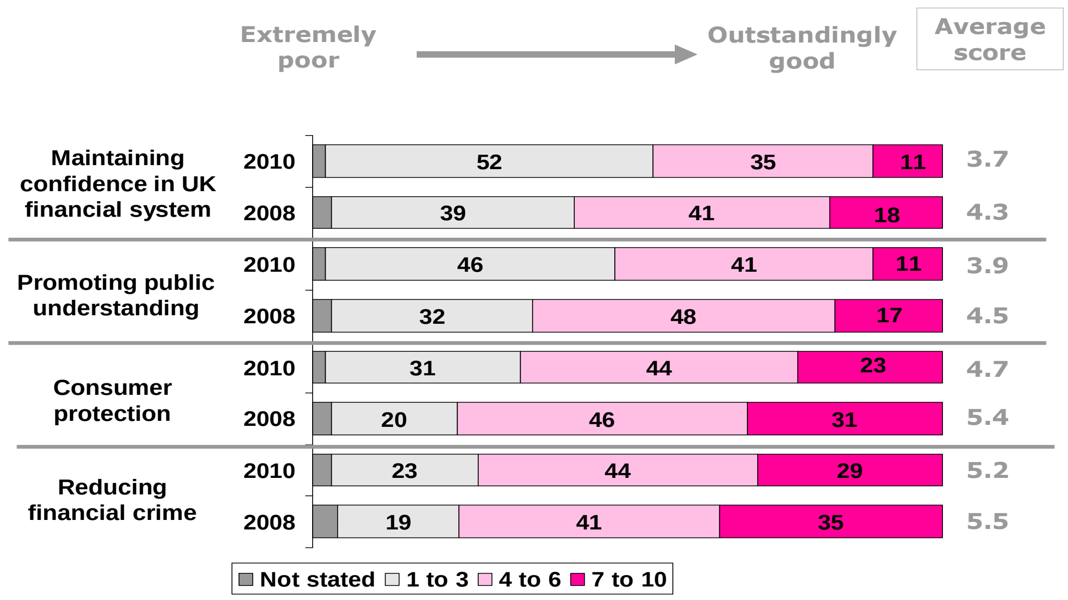


Base: 20+ staff (974), Fewer than 20 staff (3230)

Small firms with less than 20 full-time staff were generally more dissatisfied with the FSA's performance than larger firms. The greatest disparity by size of firm was in the rating of the FSA's statutory objective on protecting consumers (small firms gave an average score of 4.7 compared with 5.1 for larger firms).

In spite of the Enhanced Small Firms Strategy, there has been a worsening in small firms' perceptions of the FSA's performance against all four of its statutory objectives between 2008 and 2010. This mirrors the same trend as the overall results (Chart 12.2).

Chart 12.2 FSA performance against statutory objectives



Base: Fewer than 20 staff 2010 (3,230), Fewer than 20 staff 2008 (3,119)

12.3 Relationship with the FSA

In previous years, firms with 20 or more full-time staff tended to report higher levels of satisfaction with their relationship with the FSA than small firms. However, it is encouraging to see that this trend has not continued into 2010, as no differences were apparent by size of firm.

Reflecting the overall results, small firms' satisfaction with their relationship with the FSA has seen a decrease since 2008. In particular, there has been a decrease in the percentage of small firms giving a high score of 7 -10 (44% in 2008 compared with 31% in 2010).

RM small firms had a higher level of satisfaction with their relationship with the FSA than small firms that were non-RM (43% and 31% respectively giving a score of 7 -10).

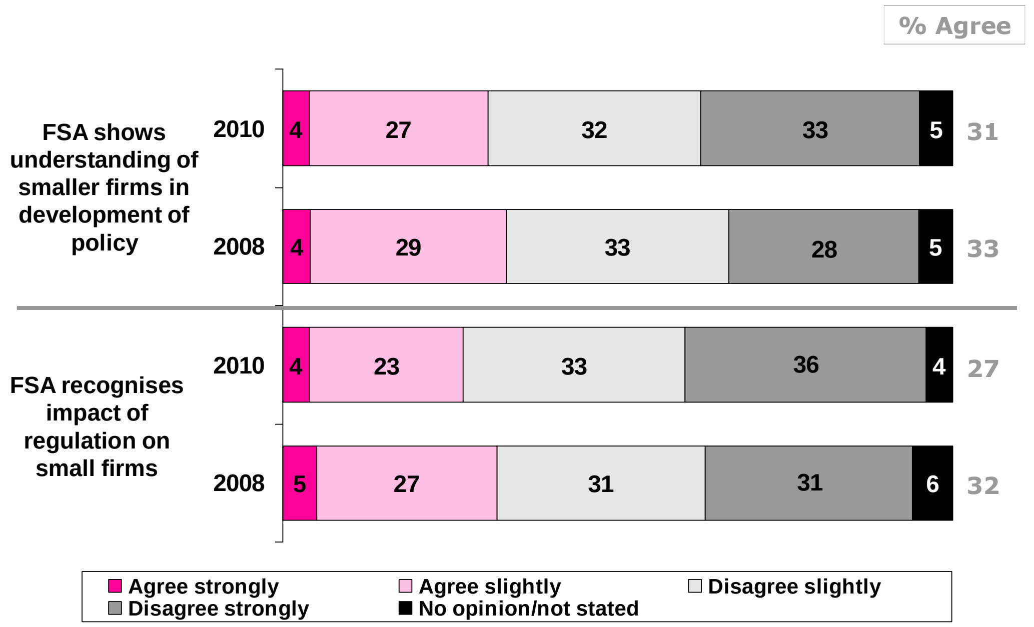
The majority (72%) of small firms felt their relationship with the FSA had stayed the same over the past two years, 15% felt it had improved and 8% said it had deteriorated.

From the views of participants in the qualitative research it was apparent that although small firms still felt that the burden of regulation was disproportionate to their size, the level of supervision had remained relatively stable. In this research, most of the firms had not had any contact with the FSA apart from routine monitoring and information provision. Where firms had received a supervisory visit they considered it was proportionate and in line with their level of risk.

12.4 Small firms strategy

In the light of the small firms strategy, a number of statements in the questionnaire referred to the FSA's efforts to understand and accommodate the needs of small businesses (Chart 12.3).

Chart 12.3 Small firms strategy



Base: Fewer than 20 staff 2010 (3230), Fewer than 20 staff 2008 (3,119)

It is disappointing to see that, in spite of the small firms strategy, there has been no change in the proportion of small firms agreeing that '*the FSA shows understanding of smaller firms in the development of regulatory policy and operation*' (33% in 2008 and 31% in 2010) and a decline in the proportion that agree that '*the FSA recognises the impact of regulation on smaller firms and seeks to accommodate them*' (32% and 27% respectively).

12.5 Regulation

Small firms generally agreed that strong regulation was for the benefit of the financial industry as a whole (83%) – although somewhat less so than larger firms (88%).

There was, however, some concern that '*the level of regulation on the industry is detrimental to consumers' interests*', with two in ten small firms (20%) agreeing strongly with this statement compared with one in ten (12%) of larger firms (Table 12.1).

Table 12.1 Agreement that the level of regulation is detrimental to consumers' interests

	Fewer than 20 staff	20+ staff
	(3230)	*(974)*
	%	%
Agree strongly	20	12
Agree slightly	34	30
Disagree slightly	28	38
Disagree strongly	9	10
No opinion/not stated	8	10
Agree	**55**	**42**
Disagree	**37**	**48**

Opinion was equally divided on whether the FSA exercises the principal of fairness in its dealings with the financial services industry – half (47%) of small firms that gave a response to this question disagreed with this, compared with 41% of larger firms.

From the perspective of small firms, evidence from the qualitative research suggests that the degree of fairness was due less to direct experience than to perceptions of what was happening in the financial services industry. Consequently, while small firms understood the concept of principles-based regulation, for example, they felt it was fairer, and much safer, to use a rule book as it gave the FSA less scope for penalising a firm for small infractions.

12.6 Burden and costs of regulation

Although the majority of small firms believed strong regulation was beneficial to the industry, the findings highlighted two fundamental issues for these firms: the burden and costs of regulation.

Looking firstly at the burden of regulation, small firms were more likely than larger firms to agree that over the last two years the regulatory system had placed too great a burden on the industry and that the supervision of their firm was excessive given their level of risk (Table 12.2).

Table 12.2 Burden of regulation on financial services firms		
	Fewer than 20 staff	20+ staff
	(3230)	*(974)*
	%	%
Over the last two years the regulatory system has placed too great a burden on financial services firms		
Agree strongly	48	35
Agree slightly	33	42
Disagree slightly	10	14
Disagree strongly	3	3
No opinion/not stated	5	6
Agree	**82**	**77**
Disagree	**13**	**17**
The level of supervision is excessive, given firm's level of risk		
Agree strongly	32	25
Agree slightly	27	27
Disagree slightly	21	28
Disagree strongly	9	11
No opinion/not stated	11	9
Agree	**59**	**53**
Disagree	**30**	**38**

Firms were asked to rate the overall effectiveness of the FSA in '*placing responsibilities on firms' senior management which are clear and reasonable*', using a scale of 1 (extremely poor) to 10 (outstandingly good). Small firms were more likely than larger firms to give a poor rating (a score of 1-3) on this measure – 23% and 17% respectively. The response to this measure is less positive than in 2008

In terms of the cost of regulation for small firms, the FSA adopts a risk-based regulatory approach and so does not routinely visit or inspect all small firms. Nevertheless, small firms were more likely than larger firms to hold the view that the current costs of compliance were excessive, given the size and nature of their business and its level of risk (59% and 50% respectively). Non-RM small firms were especially likely to hold this view compared with RM small firms (60% compared with 30%).

The proportion of small firms that felt their compliance costs were excessive increased from 48% in 2008 to 59% in 2010 (Table 12.3).

Table 12.3 Views on the total current costs of compliance given the size and nature of business			
	Fewer than 20 staff 2008	Fewer than 20 staff 2010	20+ staff 2010
	(3119)	*(3230)*	*(974)*
	%	%	%
They are excessive	48	59	50
They are high, but not excessive	37	28	37
They are reasonable	13	10	12
Don't know/not stated	2	2	1

Small firms were also more likely than larger firms to rely on a third party to interpret FSA communications and regulations for their firm (47% compared with 28%). Perhaps unsurprisingly, small firms that relied on a third party were more likely than those that did not to agree that the current costs of compliance were excessive (62% and 58% respectively).

In the qualitative research it was the reporting that was considered to be burdensome and time consuming. Specifically, small firms were concerned about the volume, frequency and apparent duplication of the information they were providing to the FSA. In this respect there was a strongly held view that the FSA had a 'one size fits all' approach to reporting that was out of synchronisation with business calendars and required a more tailored and intuitive approach.

'*You can't do a great job for people if all you're doing is writing [reports].*'
(Retail / SFD / Financial Advisor)

In addition, the need to employ a third party was also a major reason for saying that the regulatory burden had become more costly.

'*In the past two years we have started to employ a consultant half a day a week to check over all the additional paperwork and to help us with the rules.*'
(Financial Adviser)

Small firms were also concerned about the likely costs of the Retail Distribution Review (RDR). Specifically, they were concerned about the costs of training and the impact on their business of having members of staff taking study leave.

The costs of compliance to small firms were more likely to result in their planning a reduction in the type of business they conducted than was the case for larger firms (40% compared with 33%). The costs of compliance also led 15% of small firms to agree that the costs of compliance had resulted in their firm planning to leave the industry – only 5% of larger firms stated this (Table 12.4).

Table 12.4 Consequences stemming from the costs of compliance		
	Fewer than 20 staff	20+ staff
	(3230)	*(974)*
	%	%
The costs of compliance have resulted in reducing the type of business we conduct		
Agree strongly	15	11
Agree slightly	25	22
Disagree slightly	21	25
Disagree strongly	21	27
No opinion/not stated	18	15
Agree	**40**	**33**
Disagree	**42**	**52**
The costs of compliance have resulted in my firm planning to leave the industry		
Agree strongly	5	1
Agree slightly	9	4
Disagree slightly	14	16
Disagree strongly	47	57
No opinion/not stated	25	22
Agree	**15**	**5**
Disagree	**60**	**73**

The majority of small firms that responded to the question did, however, agree that the quality of FSA supervision has improved over the last two years (61% agreed compared with 54% of larger firms). This suggests there has been some impact resulting from the small firms strategy.

13. Views of large relationship managed (RM) firms

There is a small group of firms regulated by the FSA whose performance has significant potential to have an impact on the performance of the financial system as a whole and as such these firms will have been subject to a different regulatory approach to other firms in the industry. These firms are all relationship managed and will be some of the largest firms in the UL market. Throughout this chapter they are referred to as large RM firms.

This chapter explores the views and opinions expressed by the large RM firms that took part in the survey.[3]

13.1 Summary

There is evidence of some differentiation in the rating of the FSA against its four objectives by large RM firms, with lower scores being given for the FSA's performance in maintaining confidence in the UK financial system and promoting public understanding of the financial system and higher scores for securing the right degree of protection for consumers and helping to reduce financial crime.

Large RM firms were more likely than average to agree with the need for strong regulation and more likely to believe that the quality of FSA supervision had improved in the last two years. However, they were also more likely to believe that the regulatory system had placed too great a burden on their firm and more likely to think that the FSA's supervision of their firm was excessive based on the firm's level of risk.

Large RM firms were more likely than firms overall to be aware of the FSA's shift in emphasis towards outcomes rather than rules and principles. However, they were slightly less likely than average to feel that the FSA had achieved the right balance and that they had sufficient guidance to feel they were applying the principles correctly. They were also more likely to be concerned about the prospect of retrospective regulation.

There were slightly higher levels of satisfaction with the FSA's enforcement procedure reported by large RM firms than by firms overall. Almost all large RM firms felt that the enforcement procedure was perceived by the industry to be a credible deterrent.

There was no difference in overall levels of satisfaction with the relationship with the FSA between large RM firms and firms overall. However, 42% of large RM firms felt that their business relationship with the FSA had improved over the two years and 27% felt it had deteriorated.

[3] It should be noted that analysis in this chapter is based on the responses from 34 of these firms and therefore the response from just one firm can have an impact of a few percentage points on the results.

The majority of large RM firms were satisfied with their relationship manager, but these firms were less likely than RM firms overall to be satisfied. Most large RM firms had seen at least one change to their relationship manager in the last two years.

In the supervision of their firm, the majority of RM firms felt it was possible to be open and frank in discussions with the FSA. Most large RM firms felt that the FSA applied a reasonable level of supervision to their firm, but they also felt that the FSA had a tendency to intervene excessively in how their firm operated.

The majority of large RM firms felt that the FSA had a good understanding of their business and that they understood the industry sufficiently to ask the right questions, but they also felt that the FSA asked for too much detailed information about their firm.

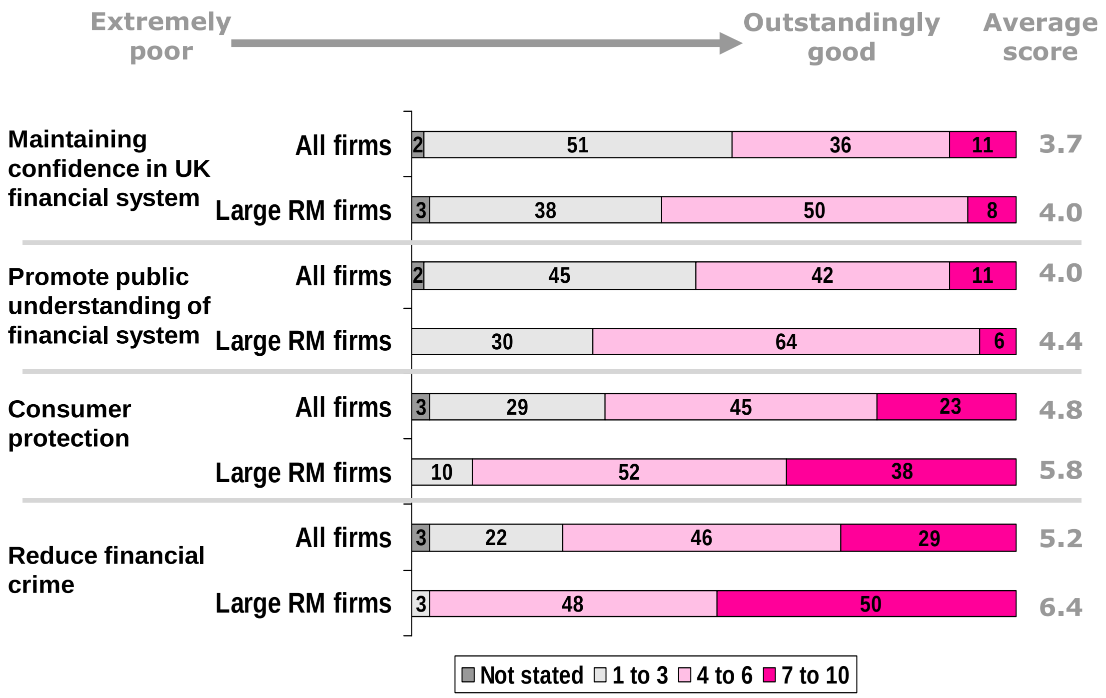
13.2 FSA performance against objectives

In general, across the four objectives, large RM firms gave higher average ratings of the performance of the FSA in meeting these objectives than the average across all firms. Often this difference in the average scores is driven by higher levels of mid-range scores given by the large RM firms.

13.2.1 Maintaining confidence in the UK financial system

In terms of maintaining confidence in the UK financial system there was little difference in the average score given by large RM firms (4.0) and that given by firms overall (3.7). The slightly higher average score reflects the fact that the large RM firms were less likely to give a poor score (1 to 3) but also slightly less likely to give a high score (7 to 10) than firms overall. Half of large RM firms (50%) gave a mid range score between four and six compared with 36% of firms overall.

Chart 13.1 FSA performance against objectives



Base: All large RM firms (34), All firms (4,256)

13.2.2 Promoting public understanding of the financial system

On average the large RM firms gave a rating of 4.4 out of ten for the FSA's performance against its objective to promote public understanding of the financial system (which represents no significant difference from the average of 4.0 given by firms overall). Three in ten large RM firms (30%) rated the FSA poorly in terms of meeting this objective compared with 45% of firms overall. The large RM firms were, however, also less likely to give a high rating. Just 6% gave a high rating for the FSA's performance in meeting this objective.

13.2.3 Consumer protection

Large RM firms gave an average rating of 5.8 out of ten for the FSA's performance in meeting its objective of securing the right degree of protection for consumers compared with an average of 4.8 given by firms overall. Large RM firms were more likely to give a high score than firms overall (38% compared with 23% respectively) and were less likely to give a poor rating (10% compared with 29%).

13.2.4 Financial crime

The largest difference between the large RM firms and firms overall in the rating of the FSA's performance against its objectives was seen in the assessment of the FSA's objective to reduce financial crime. Large RM firms gave an average rating of 6.4 compared with an average of 5.2 given by firms overall. Half of large RM firms (50%) rated the FSA highly in terms of meeting this objective with just three per cent giving a poor rating.

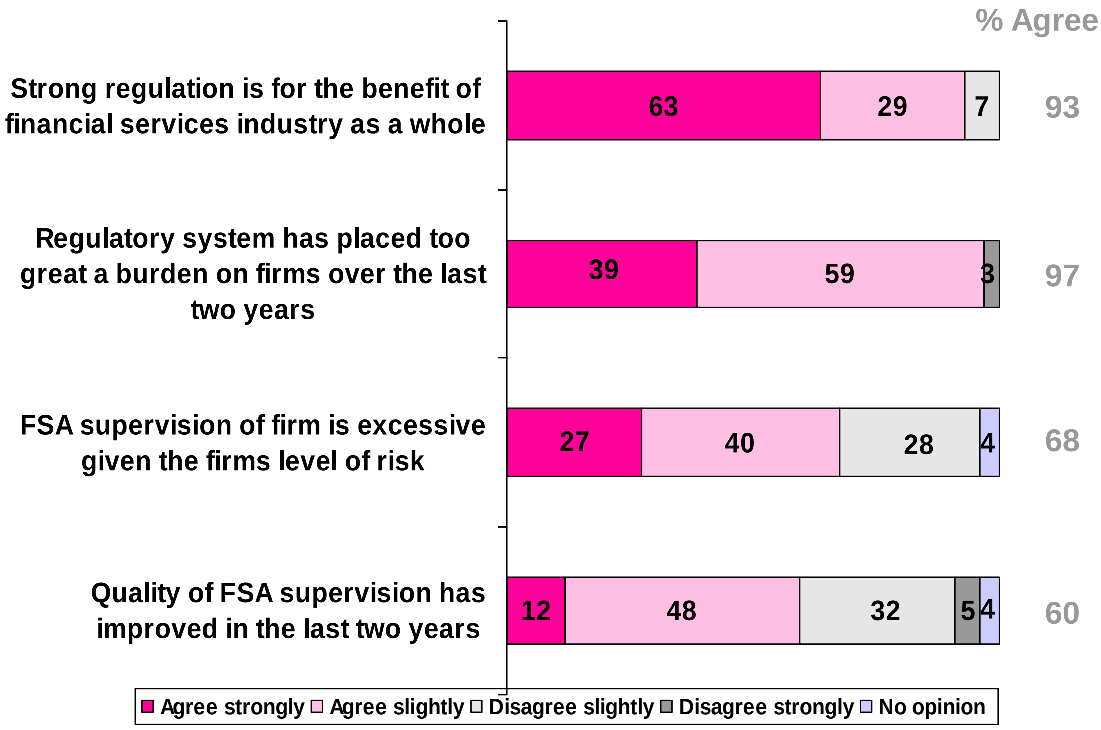
13.3 Attitudes towards regulation

There was a high level of agreement among large RM firms regarding the need for strong regulation. Almost all large RM firms (93%) agreed that strong regulation benefited the financial services industry as whole, with 63% strongly agreeing. They did, however, also believe that over the last two years the regulatory system had placed too great a burden on financial services firms, with 97% agreeing that this was the case. Large RM firms were more likely than firms overall to believe that the FSA regulation of their firm was excessive given the firm's level of risk. Over two thirds of large RM firms (68%) felt that the FSA supervision of their firm was excessive.

In the context of a need for strong regulation, firms in the qualitative research commented that the increased burden that they had experienced was due less to FSA visits and inspections than to inspections that did not sufficiently identify the risks in the business and increased requests for information and follow-up questions that firms did not think were properly used and digested by the FSA.

Large RM firms were more likely than average to agree that the quality of FSA supervision had improved over the last two years. Six in ten large RM firms (60%) agreed that the quality of supervision had improved compared with 45% of firms overall.

Chart 13.2 Large RM firms' attitudes towards regulation



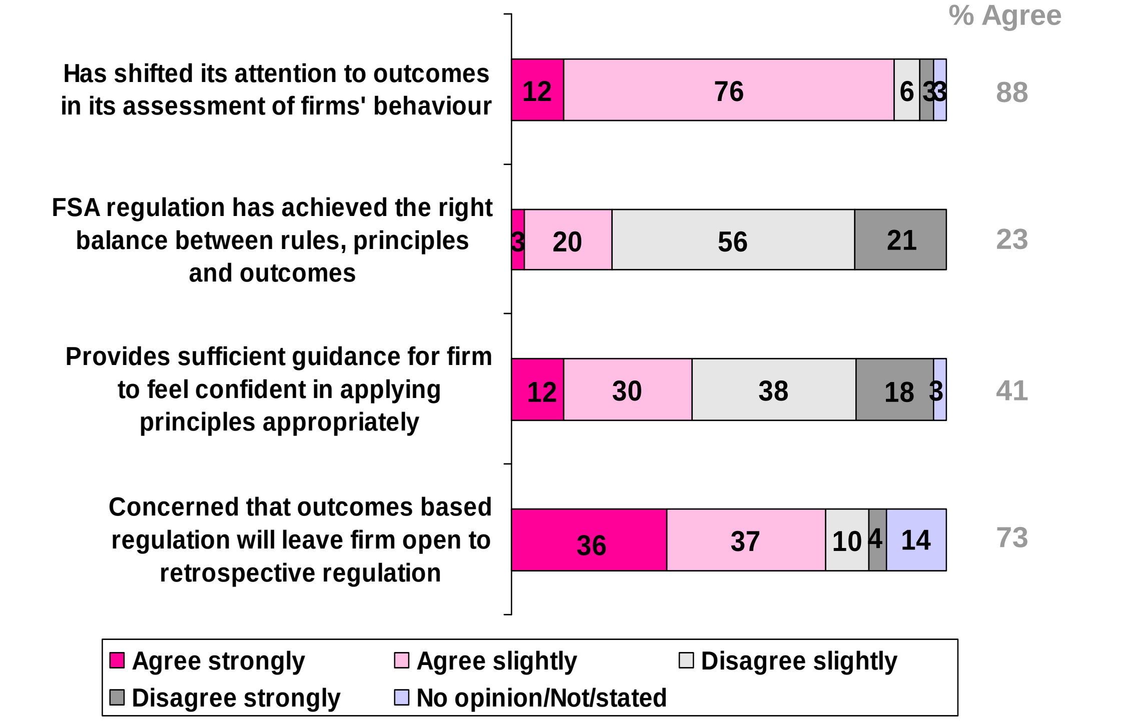
Base: All large RM firms (34)

13.4 Rules, principles and outcomes

Large RM firms were more likely than firms overall to be aware of the FSA's shift in emphasis towards outcomes rather than rules and principles, but they tended to be slightly less likely than average to feel that the FSA had achieved the right balance or that they had sufficient guidance to feel they were applying the principles correctly. They were also more likely to be concerned about the prospect of retrospective regulation.

The vast majority of large RM firms (88%) agreed that the FSA has shifted its attention to outcomes in its assessment of firms' behaviour compared with 57% of firms overall that agreed with this statement. Less than a quarter (23%) of large RM firms agreed that the FSA had achieved the right balance between rules, principles and outcomes. Four in ten large RM firms (41%) felt that the FSA had provided them with sufficient guidance for them to feel they were appropriately applying the principles (compared with 54% of firms overall). Almost three quarters of large firms (73%) were concerned that outcomes-based regulation would leave their firm open to retrospective regulation.

Chart 13.3 Large RM firms' attitudes towards regulation



Base: All large RM firms (34)

The balance between principles- and rules-based regulation is an issue that continues from the previous wave of the qualitative research, with large firms often being frustrated by the FSA's inability, and sometimes refusal, to help firms understand whether they had correctly interpreted a principle. This gave rise to views of the FSA being ineffectual, as well as the possibility of retrospective regulation.

13.5 Attitudes towards enforcement

Large RM firms gave a slightly higher rating of their satisfaction with the way the FSA handles enforcement than firms overall (an average score of 5.6 compared with an average of 5.3 given by firms overall[4]).

There is a strong belief among large RM firms that the FSA's enforcement procedure is perceived by the industry to be a credible deterrent. Nine in ten large RM firms (90%) agreed that this was the case compared with 59% of firms overall. Large RM firms were also more likely to agree that the FSA's enforcement procedure is being used in a way that serves to better protect the consumer (68% agreed) compared with firms overall (53% agreed). Half of large RM firms (51%) agreed that the FSA follows an outcomes-based approach in its enforcement. Three in ten large RM firms (29%) felt that the publication of fines undermined confidence in the industry overall (34% of all firms). Four in ten large RM firms (39%) felt that the FSA's enforcement procedure was being implemented in a fair and appropriate manner.

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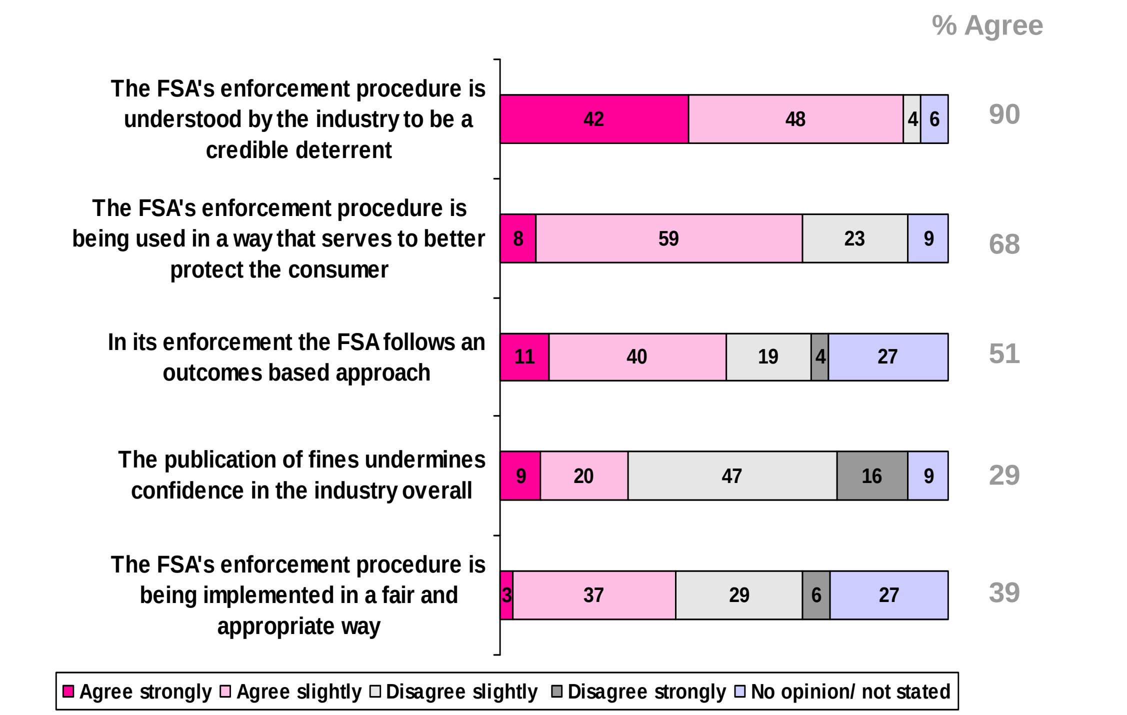
[4] This difference is not statistically significant.

The caveat to this, arising out of the qualitative research, was that the FSA tended to impose fines that were disproportionate to the nature of the misdemeanour, imposing very large fines, simply because firms had deep pockets. There were also very mixed views about whether high profile fines had a positive or a negative effect on consumer confidence.

> '*Well, looking at the fines they have imposed, I think they look at the firm and say, "They can afford it, and we want to make a big splash so we will hit them hard." In the end I'm not sure what signals this sends to the consumer.*'
> (Investment Manager)

Chart 13.4 Large RM firms' attitudes towards enforcement



Base: All large RM firms (34)

13.6 Overall satisfaction with relationship with the FSA

All firms were asked to rate how satisfied they were with their relationship with the FSA on a scale of 1 to 10 (with 1 being extremely dissatisfied and 10 being extremely satisfied). Large RM firms gave an average satisfaction score of 5.4 out of ten. This is the same as the average score across all firms (5.4).

Over four in ten large RM firms (42%) felt that their business relationship with the FSA had improved over the last two years, 32% felt their relationship had remained the same and 27% felt it had deteriorated.

Deteriorating relationships with the FSA, in the qualitative research, tended to be associated with a lack of continuity of relationship managers. The consequences tended to be a lack of understanding of the business, delays in providing information or advice, or a refusal to help firms deal with issues arising out of a discussion about principles-based regulation.

Firms were also asked to rate their experience of dealing with the FSA in terms of the ease of dealing with them. Large RM firms gave an average rating of 5.8 out of 10. There is little difference between this rating and the average rating given by all firms of 5.5 out of 10. A third of large RM firms (34%) felt that the ease of dealing with the FSA had improved over the last two years, 38% felt it had stayed the same and 25% felt it had deteriorated.

13.6.1 Contact with the FSA and the relationship manager

Firms were asked when they had last had any contact with someone at the FSA. Three quarters of large RM firms (74%) had had contact with the FSA within the last week, 10% had had contact within the last month, 10% within the last six months and 6% claimed not to have had any contact with the FSA in the last six months.[5]

All large RM firms by definition had a relationship manager. Almost all (96%) were aware that they had a relationship manager whilst 4% did not know whether they had a relationship manager or not.

Of those who were aware that they had a relationship manager, the majority (60%) were satisfied with their dealings with them (6% very satisfied and 54% fairly satisfied). Seventeen per cent of large RM firms reported being neither satisfied or dissatisfied with their dealings with their relationship manager, 12% were not very satisfied and 4% were not at all satisfied.

A quarter of large RM firms (26%) had kept the same relationship manager over the last two years, 36% had seen one change, 25% two changes, 9% had seen three changes and 4% had seen four or more changes to their relationship manager.

13.7 Seeking guidance

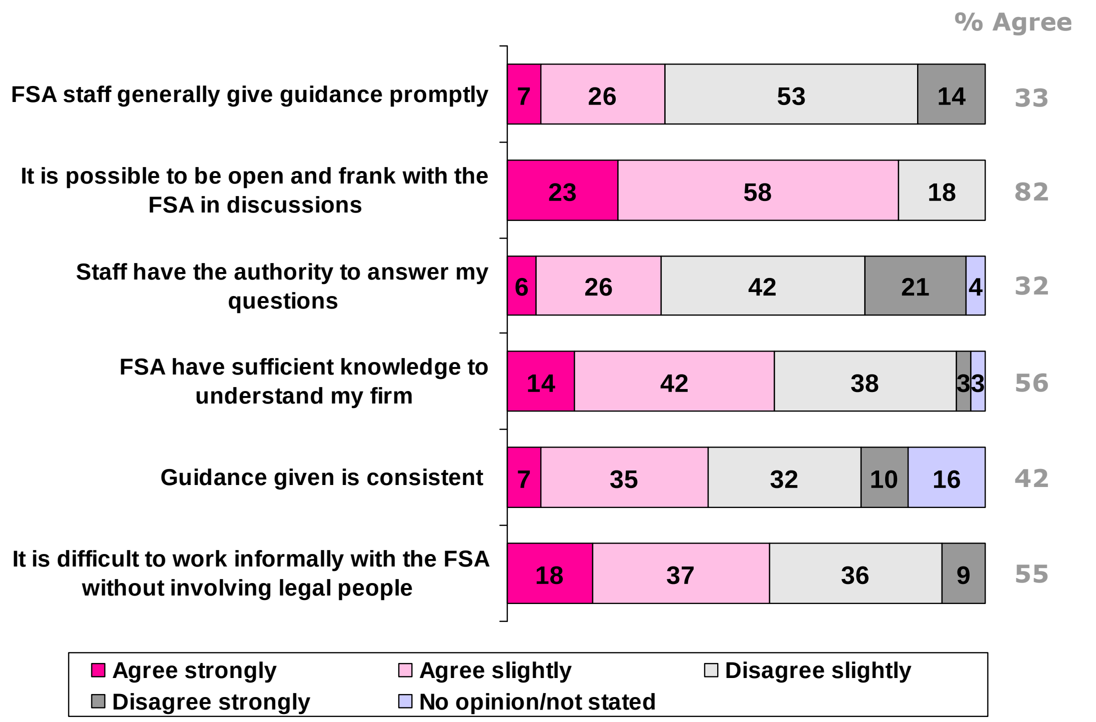
Firms were asked whether they had experience of seeking guidance on rules or regulatory policy from the FSA. Overall, 85% of large RM firms had sought guidance from the FSA. Those who had sought guidance were asked about their experience of approaching the FSA for guidance. A third of large RM firms that had sought guidance (33%) felt that the FSA staff generally gave guidance promptly compared with 62% of all firms that had sought guidance.

The majority of large RM firms (82%) felt that it was possible to be open and frank with the FSA in discussions. Large RM firms were more likely to consider it possible to be open and frank in discussions than firms overall (60% of all firms that had sought guidance thought it was possible to be open and frank in discussions with the FSA).

[5] This section is based on the responses of 34 firms, thus the 6% of large RM firms claiming to have had no contact with the FSA in the last 6 months equates to two firms in total.

There was a degree of contradiction in the attitudes of large RM firms toward the knowledge of FSA staff. Over half of large RM firms that had sought guidance (56%) felt that the FSA staff had sufficient knowledge to understand their firm, but just under a third (32%) agreed that staff had the authority to answer questions. From the qualitative research, the likely reason for this is the degree of churn in relationship managers, with some new managers being unfamiliar with the sector and therefore having to defer to others before decisions could be made.

Chart 13.5 Large RM firms' attitudes towards approaching the FSA for guidance



Base: All large RM firms with experience of seeking guidance from the FSA (29)

13.8 Satisfaction with FSA supervision

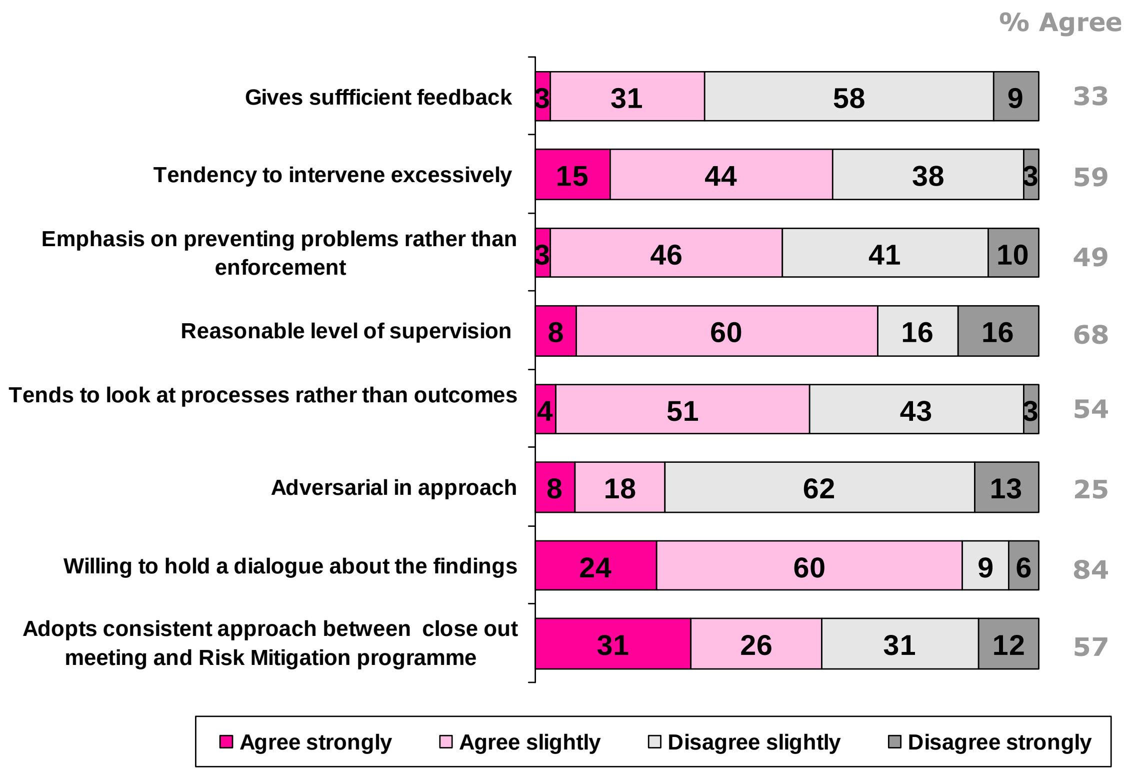
Large RM firms gave an average rating of 5.5 out of ten for their level of satisfaction with the FSA's supervision of their firm.

Chart 13.6 below shows large RM firms' attitudes towards a number of aspects of supervision.

The majority of large RM firms (84%) felt that the FSA was willing to hold a dialogue with them about the findings and 57% felt that there was a consistent approach between the close-out meeting and the Risk Mitigation Programme.

Two thirds of large RM firms (68%) thought that the FSA applied a reasonable level of supervision to their firm for its size and type. Large RM firms were less likely than firms overall to find the FSA adversarial in its approach (25% compared with 49%) and they were also less likely to agree that the FSA tended to look at processes rather than outcomes (54% compared with 72%). Large RM firms were, however, far more likely than firms on average to feel that the FSA had a tendency to intervene excessively (59% compared with 36%).

Chart 13.6 Large RM firms' attitudes towards supervision



Base: All large RM firms with an opinion

The majority of large RM firms (63%) agreed that the FSA had a good understanding of their business and 57% felt that the FSA understood their industry sufficiently to ask the right questions. However, 81% of large RM firms felt that the FSA asked for too much detailed information about their firm.

In the qualitative research there was evidence that supervision could be too mechanical in approach, inadequately focusing on the real risks in the business. Other negative comments arose about the adversarial nature of some supervisory teams, the delay in supplying the supervision report and lack of discussion about the outcomes of the supervisory process.

14. Key issues to be addressed in the future

All firms were asked what they felt the most important issues were to be addressed by the FSA and what they felt were the most important issues to be addressed by the new regulatory framework going forward. There was inevitably some overlap in firms' responses to these two questions with many firms thinking the same issues applied to both questions. The responses have been grouped according to the common themes that emerged.

14.1 Most important issues for the FSA to address

14.1.1 A more tailored approach

In terms of key issues for the FSA to address, a key theme that emerged was around tailoring the approach for different types of firms. This was reflected in a number of responses, such as '*not treating all firms the same*' and '*greater understanding of my firm's industry*'. Firms were also concerned that there should be greater supervision of banks (this was a particular concern among retail firms). Although firms expressed a need for a tailored approach, simplifying the rules and regulations was also a priority for a number of firms. Major groups were primarily concerned with having more and better regulation, improving the quality of FSA staff and the regulator having a greater understanding of the firm's business.

Firms felt that it was important that the FSA understood their business and differentiated appropriately between different types of business. They felt that in some aspects of regulation a 'one size fits all' approach had been adopted, which resulted in their firm being subject to disproportionate regulation. Firms commented that it was important for the regulator to fully understand the differences in the industry.

'*Understanding the real risks in individual institutions and differentiating between different client and service types - the descriptions retail and wholesale are far too wide and inevitably leads to "lowest common denominator" regulation.*'

There was a feeling among firms that fostering a better understanding of the industry and, in particular, the risk associated with different sectors would help the FSA to identify risks more effectively and deal with them appropriately. Firms commented that this would benefit the consumer by protecting them against the collapse of financial institutions.

'*Accept that not all banks and building societies present the same risks. Small building societies should not have the same burden of regulation as the large banks.*'

'*Too much focus on consumer protection in terms of treating customers fairly and not enough on checking the financial situation of the firm and thus protecting consumers overall.*'

14.1.2 Stronger supervision of banks

There were also a number of comments from firms that there should be stronger regulation of the banking sector. This included references to proportionate regulation and a need to curb excessive bonuses and excessive risk taking.

'*Banks need to be properly regulated. Whilst the FSA were chasing low risk IFAs and spending an inordinate amount of time and money on the TCF initiative the banks were bankrupting the country.*'

14.1.3 Experience of supervisory staff

There were suggestions from firms that the supervisory staff needed to have more responsibility (see quotation below) and that they should have sufficient experience of the industry to be able to adequately supervise the firm. High turnover of staff was cited as a problem, as was inexperience.

'*Be proportionate, understand the firm's business, allow supervisors to make a decision.*'

'*Ensure that supervisory staff have some industry experience. Our last two have been new (but bright) graduates.*'

14.1.4 Dealing with the aftermath of the financial crisis

Not surprisingly there was a feeling among firms that one of the most important areas for the FSA to address was dealing with the aftermath of the financial crisis. There was a certain degree of anger among some firms about the crisis and the fact that it been allowed to happen at all.

'*Isn't it a given that the FSA has presided over total regulatory failure. The internal battles between different FSA departments and the lack of clear focus and leadership has been disastrous. And it was all so predictable - and predicted.*'

However, among firms there was also a feeling that the priority now should be on dealing with the situation as it currently stands. There was a general feeling that the FSA needs to focus on re-building confidence in the financial services industry and in the regulator itself.

'*Rebuilding confidence in a period of extraordinary change when many of the FSA staff will be concerned about their future.*'

Firms raised concerns about the need to avoid knee-jerk reactions in regulation following the crisis. There were concerns raised about the FSA being too heavy handed in the regulatory response to the crisis and that they had over-reacted. Firms were also concerned that the FSA should not completely stop firms or consumers taking risks as long as the risks were proportionate.

'*Avoid becoming too conservative / unwilling to take decisions or proportionate risks.*'

'*Following their public failures .e.g. Northern Rock and the stresses created by the economic downturn they have completely over-reacted both in terms of supervision and their own internal processes. I suspect this is delivering little or no increase in real consumer protection but it is hugely increasing direct and indirect costs.*'

14.1.5 Getting the balance right

Firms felt there was a need to find a balance between consumer protection and the interests of the industry. Some firms felt that the risk was being placed solely on them with no incentive for consumers to take responsible decisions. In one example a motorcycle dealer pointed out that his customers knew the risks involved in riding a motorcycle and were able to choose to do that, but they were not able to choose a certain financial product because he felt he had been forced to stop offering the product.

'*To monitor and maintain procedures to strike a balance between providing adequate protection for consumers whilst minimising the burden on providers.*'

Firms felt that consumers were not benefiting from these changes because they were losing choice. There were a small number of firms who felt that regulatory changes were effectively forcing them out of the industry and that this would inevitably result in a reduction of choice for consumers.

'*With RDR they are handing the bulk of the industry to the banks, the ones who got the country in a mess at the start [...]. It is quite apparent that they are trying to put small businesses like mine out of business. I can't see why but it's only the consumer who will suffer through lack of choice.*'

14.1.6 Consultation process

The effectiveness of the Consultation Paper process was not raised as a major issue by firms in general but there were some comments from firms about how this process could be improved. Some firms felt that the language used in Consultation Papers was too technical and without specialist advice they found them hard to interpret.

'*From the perspective of a smaller firm it is often difficult to sift out of consultation or final papers the elements which actually relate to us. Perhaps two versions could be produced.*'

'*When you consult and get feedback that is very different from what you have proposed then consult again rather than have a PS that is radically different to the CP.*'

Table 14.1 Most important areas for the FSA to address				
	Retail	Wholesale	Major groups	All firms
	(1802)	(686)	(16)	(2,518)
				%
Do not treat all firms the same, have a more individual approach	15	20	25	16
Greater regulation/stronger supervision of banks	14	6	6	13
Reduce regulatory costs	12	6	6	11
Protecting consumers/dealing with financial crime	8	10	13	8
Simplify rules and regulations	8	8	6	8
Regain/improve public confidence in the financial sector	7	11	6	8
Reduce regulatory/admin burden on small firms	8	6	-	7
Reduce cost burden on small firms	8	3	-	7
Reduce regulatory/admin burden (general)	7	5	-	7
Greater understanding of my firm's industry	5	8	19	6
RDR – Prefer a commission to a fee based structure – consumers will not seek advice	7	1	-	6
Offer more guidance and help, be more approachable	5	4	-	5
Improve quality of advice given by firms to clients	5	2	-	5
Improve the quality of FSA regulatory staff	4	8	38	5
More/better regulation	4	6	38	5

14.2 Most important issues to be addressed by the new regulatory framework

Firms were also asked what they felt the most important issues were to be addressed by the new regulatory framework. Many of the themes that emerged were similar to those raised at the previous question regarding priorities for the FSA. In fact a number of firms simply stated 'see previous'. It can therefore be assumed that in many cases the priorities firms believe should apply to the FSA are also applicable to the new regulator.

There was a concern among firms that all firms would be treated the same, but also a feeling that the rules and regulations should be simplified. Firms also raised the need to reduce regulatory costs. However, they also felt there was a need to improve public confidence in the financial sector and to ensure there was better regulation of banks. Major groups were particularly concerned that all firms would be treated in the same way and about capital adequacy, liquidity and Solvency II issues.

As was reflected in the priorities for the FSA, firms were concerned that the new regulator should not treat all firms in the same way. These concerns focused around treating firms from different industries in different ways but also in treating firms proportionately according to their level of risk.

'*Concentrate less on low-risk firms and more on high-risk institutions and tighter regulation of the banking industry.*'

'*A very distinctive separation of wholesale and retail regulation.*'

'*Proportionate response which avoids stifling competition and treating customers as incapable of making educated/informed decisions.*'

Firms also commented that they would like to see simpler regulation and less bureaucracy in regulation. There were also concerns about the possibility of duplication across the different regulatory agencies that are being established.

'*Less bureaucracy and a condensed, more clearly defined, approach. This is what brokers need, the FSA as a compliance structure is far too complicated.*'

'*The move to two main regulators (PRA and CPMA) could cause overlaps or gaps to occur. The regulatory burden could easily increase on firms as both regulators seek to become effective. Many conduct issues will also have prudential implications and there is a risk that firms will have excessive demands put on them by two regulators.*'

As was the case in terms of priorities for the FSA, firms expressed a view that it was important for the new regulator to find the right balance and to regulate firms proportionately to their level of risk. Firms also felt that one of the most important issues for the new regulator to address would be restoring confidence in the industry.

'*Establishing an appropriate balance and sense of proportion. Otherwise we will simply relocate to another EU state – while conduct of business will still be subject to UK gold plating at least our prudential and risk management will be proportionate*.'

'*Restoring confidence in the financial services industry and banking in particular. Ensuring that the UK remains an attractive place to do business from a regulatory point of view.*'

'*Maintaining robust but proportionate regulation.*'

Table 14.2 Most important areas to be addressed by the new regulator				
	Retail	Wholesale	Major groups	All firms
	(1577)	(610)	(12)	(2,207)
				%
Do not treat all firms the same, have a more individual approach	17	17	33	17
Simplify rules and regulations	10	9	-	10
Reduce regulatory cost (general)	9	5	8	9
Regain/improve public confidence in the financial sector	8	8	-	8
Ensure greater regulation of banks and banking sector	9	3	8	8
Treat everyone fairly and consistently, listen and be supportive	7	4	-	7
Reduce regulatory burden (general)	6	6	8	6
More/better regulation	5	5	8	5
Dealing with financial crime/protecting consumers	6	8	8	7
Focus on systemic risk, Identify/foresee potential problem situations	4	7	8	4
Reduce regulatory/admin burden on small firms	5	3	-	4
General negative comments about the FSA (for example 'abolish it')	5	1	-	4
Ensuring independent/quality advice available to all customers	5	*	-	4
Reduce cost burden on small firms	5	1	-	4
Liquidity/capital adequacy/Solvency II issues	3	7	25	4

15. Practitioner Panels

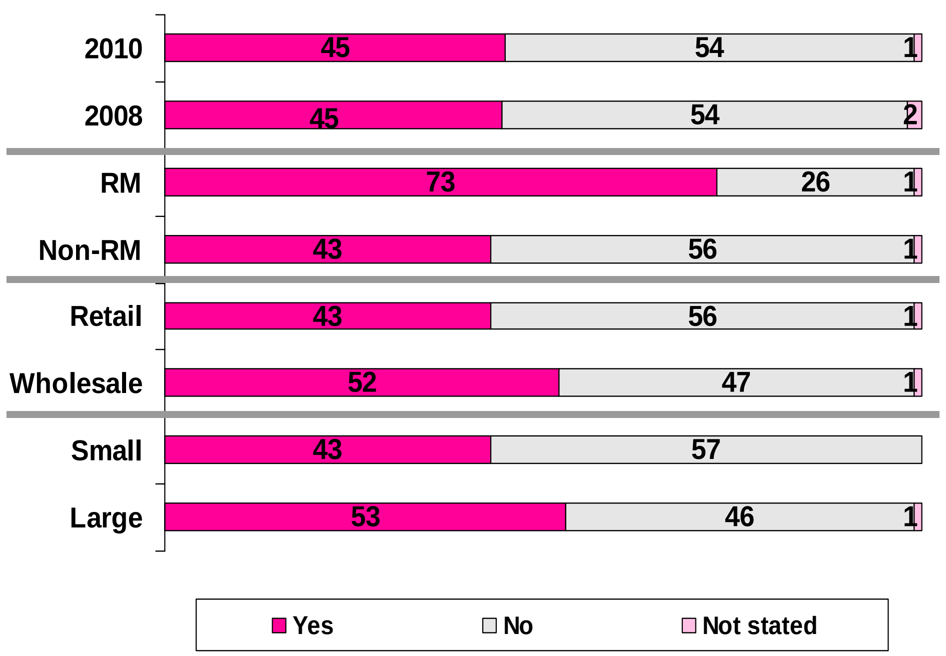
This chapter explores firms' awareness of and attitudes towards the Financial Services Practitioner Panel and the Smaller Businesses Practitioner Panel. We also examine firms' views of the role of the Panels in representing the industry's views to the FSA.

15.1 Awareness of the Practitioner Panel and the Smaller Businesses Practitioner Panel

All firms were asked whether they had seen or heard anything about the Practitioner Panel before they were contacted to take part in the survey. Overall just under half of firms (45%) had heard of the Practitioner Panel (Chart 15.1). This level of awareness is the same as that recorded in 2008.

Awareness of the Practitioner Panel was highest among major groups (86%) and RM retail firms (82%). Almost three-quarters of RM firms (73%) were aware of the Practitioner Panel compared with 43% of non-RM firms. Awareness was also higher among large firms (53%), wholesale firms (52%) and firms that had had recent contact with the FSA (48%).

Chart 15.1 Awareness of the Practitioner Panel by firm type

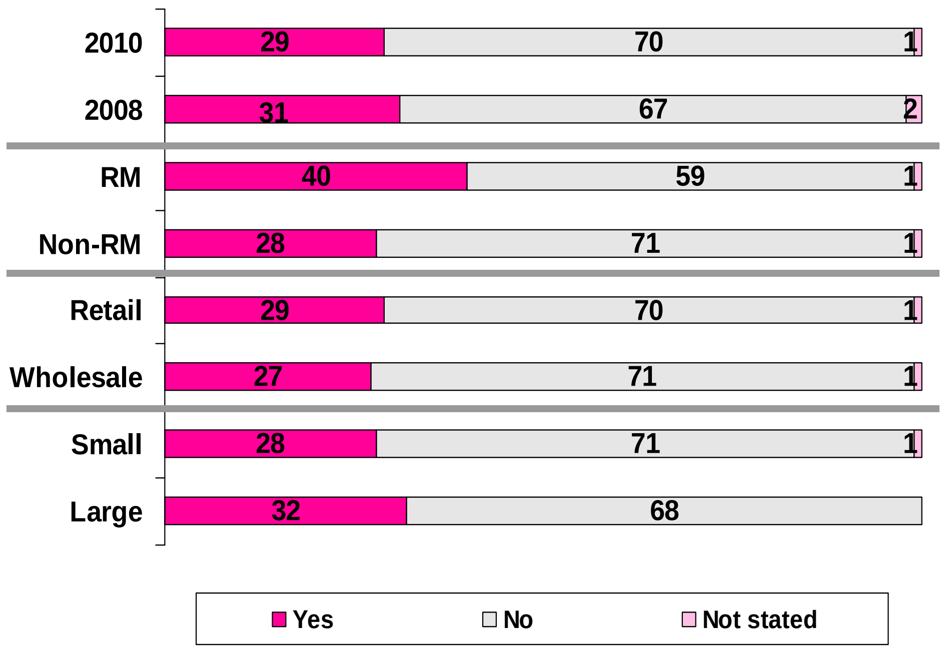


Base: 2010 (4,256), 2008 (4,202), RM (430), Non-RM (3,812), Retail (2,939), Wholesale (1,281), Small (3,230), Large (974)

Levels of awareness of the Smaller Businesses Practitioner Panel were lower than for the Practitioner Panel. Three in ten firms (29%) were aware of the Smaller Businesses Practitioner Panel compared with 45% that were aware of the Practitioner Panel. Although it might be hypothesised that small firms would be more likely than larger firms to know about the Smaller Businesses panel, this is not supported by the results – 28% of small firms were aware of the Smaller Businesses Practitioner Panel compared with 32% of large firms.

There were similar patterns in levels of awareness for the Smaller Businesses Panel as were seen for the Practitioner Panel. RM firms had higher levels of awareness than non-RM firms (40% compared with 28%) and firms that had had recent contact with the FSA were more likely to be aware than those with no recent contact (31% compared with 23%).

Chart 15.2 Awareness of the Smaller Businesses Practitioner Panel by firm type



Base: All regulated firms (4,256)

15.2 Attitudes towards the Practitioner Panels

All firms were asked about their attitudes towards the Practitioner Panels and the role they played in representing industry views to the FSA. As many firms had not heard of the Panels before being contacted to take part in the survey, a high proportion of firms gave no answer to these questions. The analysis in this section is therefore based only on those firms that gave an answer.

Overall there has been little change since 2008 in the industry's attitudes towards the Practitioner Panels. Although less than half of firms were aware of the Panels, those firms that did express an opinion were generally positive about the role of the Panels and their ability to represent the industry (Table 15.1).

Table 15.1 Attitudes towards the Practitioner Panels 2008 and 2010

	2008	2010
	% Agree	% Agree
The Panels have an important role to play on behalf of your type of business	89	86
The Panels are independent of the FSA	85	84
The members of the Panels can represent the industry as a whole	76	78
The Panels are helping the FSA to understand industry views	89	87
The Panels are able to influence FSA policies and decisions	67	60
It is easy for firms to express their views to the Panels	75	75
Base: All with an opinion		

Of firms that gave a response, there was a high level of agreement (86%) that '*the Panels have an important role to play on behalf of your type of business*'. Retail firms were slightly more likely than wholesale firms to believe this to be the case (87% compared with 83%). Firms that had recently had contact with the FSA were also more likely to agree (87%) compared with firms that had had no recent contact (83%). All major groups (100%) agreed that the Panels have an important role to play.

Firms were asked whether they felt that the Panels were independent of the FSA and the majority of firms (84%) agreed that they were. RM firms were more likely than non-RM firms to believe this to be the case (92% compared with 83%).

The majority of firms (87%) agreed that the Panels helped the FSA to understand industry views. Almost all RM firms (95%) felt this to be the case compared with 86% of non-RM firms. Wholesale firms were also more likely to do so than retail firms (93% compared with 86%).

Overall 78% of firms that gave an answer agreed that the Panels could represent the industry as a whole. RM firms were more likely to think this than non-RM firms (82% compared with 77%) and there was very little difference between retail and wholesale firms (77% and 79% respectively).

The only area in which a significant change has been observed between 2008 and 2010 is in firms' attitudes towards the Panels being able to influence FSA policies and decisions. In 2008, two-thirds of firms (67%) felt that the Panels could influence FSA policies and decisions but this dropped to 60% in 2010. However, the majority of firms still believe this to be the case.

The biggest difference in views was observed between retail and wholesale firms. Over seven in ten wholesale firms (71%) agreed that the Panels were able to influence FSA policies and decisions compared with 57% of retail firms. Non-RM wholesale firms were the most likely to agree with this (74%) and non-RM retail firms were the least likely to agree (57%). Almost two thirds of major groups agreed that the Panels were able to influence FSA policies and decisions.

Three quarters of firms (75%) agreed that it was easy for firms to express their views to the Panels. Small firms were more likely than large firms to agree (76% compared with 69%).

Appendices

Appendix 1 Qualitative and Quantitative Technical report

The technical report provides details of the methodological approach to the research for the qualitative and the quantitative elements.

A1.1 Qualitative research aims

The overall aims of the qualitative research were fourfold:

- To provide a top-level assessment from Chief executives and Heads of Compliance of their perceptions of the performance and areas of priority for the FSA;
- To provide industry wide views of the operational efficiency of the FSA in their dealings with firms;
- To provide the FSA Practitioner Panel with information about the effect of the FSA on the industry (regulatory burden, cost, innovation and competitiveness);and
- To provide information that could be used by the FSA Practitioner Panel in guiding the FSA on how it should set its priorities and guide the delivery of its operations.

This aspect of the research was both developmental and substantive in role. As a piece of developmental research, the interviews were designed to provide insight into the key issues, or 'hot topics', for the industry that should be included in the subsequent quantitative survey. Through the use of in-depth interview techniques the research also had a substantive role by amplifying the quantitative information and explaining how and why issues arising were important to the industry.

A1.2 Design

The qualitative research was conducted in three phases:

- Phase 1 comprised five interviews with members of the FSA Practitioner Panel and senior staff of the FSA. It was designed to provide the landscape for the project against which the research materials could be designed. Findings from these interviews are not reported here as they served only to delineate the scope and focus of the research programme.

Phase 2 comprised 42 face-to-face depth interviews with CEO's and Heads of Compliance across a wide spectrum of the financial services industry (Table 1A) and three mini group discussions comprising 18 representatives from the small Financial Advisers and Mortgage advisers/arrangers sectors. This phase of the research had the dual aim of helping to design the survey by identifying the key 'hot topics' for inclusion and as a substantive piece of research in its own right being used throughout the research report to explain and amplify the survey findings. The interviews were one hour in length while the mini group discussions were 90 minutes in length.

- Phase 3, was undertaken after the survey and used to explore views about the FSA's four key objectives in more detail. This phase comprised twenty, thirty minute, telephone depth interviews with CEOs and Heads of Compliance in both small and large organisations in the retail and wholesale sectors (Table 1B).

Table 1A Breakdown of face-to-face depth interviews for Phase 2 of the qualitative research

Retail		Wholesale		Major groups	
Advising and Arranging Intermediary	2	Advising and Arranging Intermediary	2	Bank	2
Authorised Professional Firm	2	Bank	2	Discretionary Investment Manager	2
Credit Union	2	Corporate Finance Firm	2	Financial Adviser (FA)	2
Discretionary Investment Manager	2	General Insurance Intermediary	2	General/ Life Insurer	2
Financial Adviser (FA)	4	General Insurer	2		
General Insurance Intermediary	2	Venture Capital Firm	2		
Banks	2	Discretionary investment manager	2		
Building societies	2				
General/ life insurer	2				
Total	**20**	**14**		**8**	
Total		**42**			

Table 1B Breakdown of face-to-face depth interviews for Phase 3 of the qualitative research

Major Groups	Relationship Managed	Retail – small	Wholesale - small
5	5	5	5

A1.3 Recruitment

The sample was derived from the FSA TARDIS database, which is a comprehensive listing of all regulated firms.

The recruitment process for Phase 2 of the research began with an introductory letter sent to a sample of potential respondents. The letter outlined the study aims, indicated key areas of questioning and guaranteed confidentiality and anonymity. Allowing a couple of days for delivery the potential respondent was then telephoned by one of our senior recruiters. Respondents were screened to ensure their responsibilities enabled them to fully discuss FSA performance, with recruiters then arranging a mutually convenient time for interview. The recruitment of individuals to take part in the study was managed by TNS-BMRB's specialist field and recruitment unit. A copy of the screening questionnaire may be found in Appendix E

Recruitment for Phase 3 adopted a similar approach.

A1.4 Fieldwork

The interviews were conducted by experienced researchers using topic guides to structure the interview. Copies of the topic guides for Phases 2 and 3 may be found in Appendices D and F. The interviews were digitally recorded and transcribed prior to analysis.

A1.5 Analysis of the qualitative material

TNS-BMRB uses a content analysis method known as 'Matrix Mapping', which is designed for the analysis of qualitative material. 'Matrix-Mapping' begins with a familiarisation stage. Based on the coverage of the topic guide, the researchers' experiences of conducting the fieldwork and their preliminary review of the data, a thematic framework or matrix, is constructed. The material from the transcripts is then summarised into this thematic framework. Following this, the researcher reviews the material and identifies features within the data: mapping the range and nature of issues and providing explanations. By organising the material in this way, the researcher can identify common themes that emerge from the interviews as well as looking at similarities and differences that occur between different groups of firms taking part in the research.

The key issues, and the features that underpin them, have been used to amplify the survey findings and help explain why practitioners hold a particular set of beliefs and views. Verbatim quotes have been used to illustrate and illuminate the findings in the report.

A2.1 Overview of Quantitative Survey Method

The quantitative survey interviewed a representative sample of 4,256 regulated firms in Great Britain about their views of the Financial Services Authority (FSA) and its regulatory framework. The survey achieved an effective response rate of 43 per cent. In line with previous surveys the survey was administered using a postal self-completion questionnaire, with fieldwork conducted between July and October 2010.

A2.2 Sample Selection

The sample for the quantitative survey was also obtained from the FSA's Tardis database.

There were a number of duplicate firms in the TARDIS database, particularly where firms had more than one type of operation. Prior to sample selection a comprehensive check for duplicate records was conducted with all duplicate records removed from the final sample.

Once all duplicates had been removed 18,159 firms remained, from which the sample was selected for the survey. A census of all firms was taken with the exception of firms that were financial advisers, general insurance intermediaries or home finance brokers, where a sample was selected. Within each of these categories the sample was stratified (according to size and location) and then a certain number of firms selected, ensuring the selected firms were representative of the overall sample populations provided. In total 10,035 firms were selected for the survey and were sent a questionnaire. Table 2A details the selected sample by type of firm.

Table 2A Universal and issued sample with final response rates, by type of firm

Primary category	Universe	Issued sample
Advising and Arranging Intermediary (exc. FA & Stockbroker)	630	630
Advising only Intermediary (exc. FA)	78	78
Arranging only Intermediary (exc. Stockbroker)	136	136
Authorised Professional Firm	365	365
Bank (other than Wholesale only)	210	210
Building Society	51	51
Corporate Finance Firm	420	420
Credit Union	488	488
Discretionary Investment Manager	1,325	1,325
Financial Adviser (FA)	5,131	1929
General Insurance Intermediary	5,987	2,248
General Insurer	242	242
Home Finance Broker	1,896	713
Home Finance Provider	79	79
Life Insurer	159	159
Lloyd's Managing Agent	52	52
Personal Pension Operator	56	56
Stockbroker	153	153
Venture Capital Firm	270	270
Wholesale Market Broker	47	47
Other	384	384
Total	**18,159**	**10,035**

A2.3 Questionnaire development and design

A number of new questions were added to the 2010 questionnaire following the findings from the qualitative research. It was therefore necessary to test the new questions added to the questionnaire to ensure that the new questions were understood correctly by firms completing the questionnaire. The questions were tested through cognitive interviewing, with participants from the qualitative research re-contacted to see if they would be willing to participate in the cognitive testing of the main questionnaire. After the cognitive testing a number of small changes were made to the questionnaire prior to the final questionnaires being sent out. The cognitive piloting took place in May 2010.

The questionnaire (Appendix B) consisted of three main sections:

Section A: Industry Regulation

This section collected firms' attitudes towards the performance of the FSA against its statutory objectives; regulation; TCF initiative; effectiveness of the FSA; FSA developments; EU and International issues; communications from the FSA and how the FSA responded to the financial crisis.

Section B: Experience of the FSA as a Regulated firm

This section collected information on firms' overall satisfaction with the FSA; experience of dealing with the FSA; view of guidance received from the FSA; view of the way the FSA supervises firms, attitudes towards enforcement and costs and efficiency in relation to your business.

Section C: Your type of Business and the Practitioner Panel

This section collected detailed information of the firm; firms' views on the Financial Services Practitioner Panel and the most important issues for the FSA and the new regulatory framework to address.

A2.4 Advance Letter, reminder letters and Survey website

An advance letter (Appendix C) explaining the purpose of the research was sent to selected firms prior to the main questionnaire being sent. The letter was despatched on Practitioner Panel headed notepaper to legitimise the study and encourage response.

To also help encourage response a website was created for firms to access: http://www.thepanelregulatorysurvey.co.uk. The website was mentioned in the advanced, main and reminder letters, and also the questionnaire, with firms encouraged to access the site if they wanted more detailed information on the survey. The website also contained some extracts from previous Practitioner Panel surveys so firms could understand the nature of the survey and how the results would be used. Respondents were also able to request a copy of the letter and questionnaire and contact TNS-BMRB via the website if they had any further queries.

A2.6 Fieldwork

The survey fieldwork was conducted between July and October 2010. During fieldwork firms that had not returned a questionnaire were sent a reminder letter encouraging them to complete and return their questionnaire. In total three separate reminder packs were sent to firms that had not returned their questionnaire.

A2.7 Response Rate

The Overall Response rate achieved was 43%. This compares with 46% in 2008, 40% in 2006, 48% in 2004, 42% in 2002 and 58% in 1999. The response rate was calculated by dividing the number of effective completed surveys by the effective sample size (total number of questionnaires mailed out minus deadwood (firms that had ceased trading or had moved address)). Table 3A details the response rate overall and Table 4A shows the response rates achieved according to type of firm.

Table 3A Overall response rate

Outcome	Count
Total completed surveys	**4,256**
Incomplete	5
Refusals (including blank surveys returned)	203
Business closed / moved	37
Duplicate	
Address unknown / Returned by Post office	184
Total returned questionnaires	**4,685**
Response Rate	**43.4%**

Table 4A Response rate by type of firm

Firm type	Issued	Achieved	Response rate
Major groups	38	22	58%
Relationship managed retail firms	310	147	49%
Relationship managed wholesale firms	616	257	44%
Non relationship managed retail firms	5,906	2549	44%
Non relationship managed wholesale firms	2,655	1020	39%
Credit unions	493	243	52%
Unknown	17	18[1]	-
Total[2]	**10,035**	**4,256**	**46.1%**

[1] A small number of firms returned the questionnaire without the serial number and therefore it is not possible to know which category the firm would fall into.
[2] Please note the total includes additional firms that are not included in the other groups.

A2.8 Data scan checks and preparation

All returned paper questionnaires were scanned and a number of edit checks were conducted on the scanned data. This ensured that where firms had multi-coded questions the scan image was checked to ensure the correct code was assigned in the data. All verbatim answers at open-ended questions were inspected by coders. This resulted in some additional codes being added to the code frames of some questions.

A2.9 Weighting

The aim of weighting is to compensate for differences in the probability of selection of each firm and to ensure that the survey estimates are representative of the universal population of regulated firms (after duplicates have been removed).

The weights were derived in two stages. First, a design weight was applied to compensate for differences in the probability of selection. The design weight applied was simply the inverse of the selection fraction.

Where a census of all firms was conducted firms a weight of ‘1’ was applied. For firms that required selection (financial adviser, general insurance intermediary and home finance broker) the design weight was calculated and applied based on a firm’s probability of selection.

The second stage in the weighting process was to apply a non-response weight. The achieved sample profile was compared against the universal sample profile according to supervisor division and primary category. This indicated where particular types of firm were under represented in the achieved sample compared to the universe population. The application of a non-response weight to the data ensures that views of firms are representative of the universal population and corrects for particular types of firms that are less likely to have responded. Table 5A below compares the universal sample population profile (unweighted) with the achieved sample population profile (with the final weight applied) by firm type. With the final weight applied the achieved sample very closely matches the universal population.

Table 5A Universal and achieved sample profiles

Firm type	Universal Population (unweighted)	Achieved population (final weight applied)
	%	%
Major groups	0.2	0.2
Relationship managed retail firms	2.1	2.1
Relationship managed wholesale firms	4.0	4.0
Non relationship managed retail firms	75.6	75.4
Non relationship managed wholesale firms	15.2	15.2
Credit unions	2.7	2.9
Other	0.2	0.2
Total	100	100

Appendix B Postal Questionnaire

THE FINANCIAL SERVICES PRACTITIONER PANEL

The Sixth survey of the FSA's regulatory performance 2010

The Financial Services Practitioner Panel would like to know your views about the FSA's regulatory performance. This survey is conducted every two years by the Panel and provides an excellent means for the industry to feedback their views to the FSA. The purpose of this survey is to gain the view of each firm or group regulated by the FSA. The results of the survey will also form an important benchmark going forward with the new regulatory framework. All the information you give is completely confidential.
We very much appreciate you taking the time to complete this questionnaire.

Who should complete the questionnaire?

The questionnaire should be completed by the most senior person in your firm or group (Chief Executive or equivalent). If, however, there are other senior people within your firm who are responsible for dealing with certain issues with the FSA, for example compliance, you may wish to receive input from them for the relevant sections.

Section A – Industry Regulation covers broader aspects about the FSA from an industry wide perspective and regulation of the financial services industry in general.
Section B – Your experience of the FSA as a regulated firm covers your firm's relationship with the FSA.
Section C –Your type of business and the Practitioner Panel covers opinions about the Practitioner Panel and some factual information about your type of business.

If you feel you (or anyone else in your firm) do not have the experience to answer any question or section please leave the question blank or put a cross in the 'no opinion' box as appropriate. Partially completed questionnaires are still important for us to have.

Completing the questionnaire

We estimate the questionnaire should take about 30 minutes to complete.

For each question, please put a cross ☒ in the box next to the answer which is closest to your view about that issue. For some questions you are able to cross more than one box and this will be indicated in the instructions for that question. If you have made a mistake in your answer please completely fill the box to show the mistake ■ and then cross the correct answer.

Please use a black ball point pen to complete the questionnaire.

Returning your questionnaire

Please return your completed questionnaire to TNS-BMRB in the pre-paid envelope provided **in the next two weeks** if possible, or by the **20th August** at the latest.

Questions

If you have any questions about the survey please call **Anthony Allen** at TNS-BMRB on **020 7656 5599** or email anthony.allen@tns-bmrb.co.uk. Alternatively, visit the survey website at **www.thepanelregulatorysurvey.co.uk**

Section A - Industry Regulation

How you feel the FSA has performed against its statutory objectives

Q1 **Using a scale of 1 to 10, (where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good*), please state how you think the FSA has performed in the following areas <u>over the last two years.</u>**
Please cross one box in each line ☒

	Extremely poor 1	2	3	4	5	6	7	8	9	Outstandingly good 10
Maintaining confidence in the UK financial system	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Promoting public understanding of the financial system	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Securing the right degree of protection for consumers	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Helping to reduce financial crime	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Your attitudes towards regulation

Q2 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Strong regulation is for the benefit of the financial services industry as a whole	☐	☐	☐	☐	☐
Over the last two years the regulatory system has placed too great a burden on financial services firms	☐	☐	☐	☐	☐
The <u>quality</u> of FSA supervision has improved in the last two years	☐	☐	☐	☐	☐
FSA supervision of my firm is excessive, given my firm's level of risk	☐	☐	☐	☐	☐

Q3 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has focussed on consumer protection to the detriment of its other objectives	☐	☐	☐	☐	☐
The FSA exercises the principle of fairness in its dealings with the financial services industry	☐	☐	☐	☐	☐
The level of regulation on the industry is detrimental to consumers' interests	☐	☐	☐	☐	☐
The FSA has shifted its attention to outcomes in its assessment of firms' behaviour	☐	☐	☐	☐	☐
The FSA's regulation of the industry as a whole has achieved the right balance between rules, principles and outcomes	☐	☐	☐	☐	☐

Q3 How much do you agree or disagree that… (continued)

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA provides sufficient guidance for my firm to feel confident we are appropriately applying the principles	☐	☐	☐	☐	☐
I am concerned that outcomes based regulation may leave my firm more open in the future to retrospective regulation	☐	☐	☐	☐	☐

Your attitudes towards the Treating Customers Fairly initiative (TCF)

Q4 How much do you agree or disagree that…

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has provided a clear explanation of how firms should embed TCF	☐	☐	☐	☐	☐
The benefits of TCF outweigh the cost to my firm	☐	☐	☐	☐	☐
The TCF initiative has been successful in meeting its desired outcomes	☐	☐	☐	☐	☐
TCF should remain a priority for the regulation of the industry	☐	☐	☐	☐	☐

Your views of the overall effectiveness of the FSA

Q5 Using a scale of 1 to 10, (where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good*), how would you rate the overall effectiveness of the FSA in the following areas <u>over the last two years</u>?

If you really cannot give an opinion on a particular aspect, just leave that line blank.

Please cross one box in each line ☒

	1 Extremely poor	2	3	4	5	6	7	8	9	10 Outstandingly good
Listening to industry views when deciding policies and procedures	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Giving value for money against your regulatory fees	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Fostering a sense of partnership with the financial services industry	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Knowing and understanding your firm's risk profile	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Facilitating innovation and competitiveness within the UK	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Placing responsibilities on firms' senior management which are clear and reasonable	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

FSA developments

Q6 To what extent do you agree or disagree with the following…?
***Please cross one box in each line* ☒**

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA shows understanding of smaller firms in the development of regulatory policy and operation	☐	☐	☐	☐	☐
The FSA recognises the impact of regulation on smaller firms and seeks to accommodate them	☐	☐	☐	☐	☐
The Retail Mediation Activities Return (RMAR) places a disproportionate burden on firms	☐	☐	☐	☐	☐
The FSA has a balanced approach in the pace of regulatory change	☐	☐	☐	☐	☐
The Retail Distribution Review (RDR) is a welcome initiative	☐	☐	☐	☐	☐
The FSA has been clear from an early stage on the desired outcomes of the RDR	☐	☐	☐	☐	☐
The FSA has been clear about how to achieve the desired outcomes of RDR	☐	☐	☐	☐	☐
The FSA has kept the industry adequately informed about RDR	☐	☐	☐	☐	☐
The RDR move away from commission to a fee based pay structure will benefit consumers	☐	☐	☐	☐	☐

Q7 Does your firm plan to de-register by 2012 as a result of the RDR?

Yes ☐ → GO TO Q8
No ☐ } GO TO Q9
Don't know ☐ } GO TO Q9

Q8 What is your MAIN reason for your firm planning to de-register by 2012?
***Please cross one only* ☒**

Examination requirements of RDR ☐
The move away from a commission to a fee based structure ☐
Capital adequacy requirements ☐
Nearing retirement ☐
Other (please specify) ☐

____

EU and international issues

Q9 Thinking of European and international issues, how much do you agree or disagree that …

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has been suitably co-ordinated with other UK bodies	☐	☐	☐	☐	☐
The FSA has been alert to emerging EU issues and has prepared its position in time	☐	☐	☐	☐	☐
The FSA adequately represents the UK's interests in European regulation	☐	☐	☐	☐	☐
The FSA leads developments in international regulation as opposed to responding to them	☐	☐	☐	☐	☐
The FSA brings European directives into UK regulation in more detail than is necessary (gold plating)	☐	☐	☐	☐	☐
EU and international issues should be a top priority for financial regulation in the future	☐	☐	☐	☐	☐
In the short term, the transition to a new regulatory framework in the UK will distract the regulator from EU and international issues	☐	☐	☐	☐	☐

Communications from the FSA

Q10 Overall how satisfied are you with the effectiveness of the FSA's Consultation Paper (CP) process?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q11 Has your firm ever participated in a FSA consultation?

Please cross one box only ☒

Yes ☐ No ☐ Don't know ☐

Q12 How much do you agree or disagree that…

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
There has been sufficient feedback of the results of consultation exercises	☐	☐	☐	☐	☐
FSA briefings are an effective means of disseminating information and developments	☐	☐	☐	☐	☐
I receive too many communications from the FSA	☐	☐	☐	☐	☐
Most of the FSA communications I receive are relevant to my firm	☐	☐	☐	☐	☐
It's easy to find the information you need on the FSA website	☐	☐	☐	☐	☐

Q13 **Do you rely on a third party to interpret FSA communications and regulations for your firm?**
Please cross one box only ☒

Yes ☐ No ☐ Don't know ☐

Q14 **How would you rate the usefulness of the following FSA communications?**
If you really cannot give an opinion on a particular aspect, just leave that line blank.
Please cross one box in each line ☒

	1 Extremely poor	2	3	4	5	6	7	8	9	10 Outstandingly good	Do not receive/ never seen
Annual Report	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
The FSA Business Plan	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Newsletters for your business sector	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
"Dear CEO" letters	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
ARROW reports on your firm	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Feedback following visits	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Monthly Regulatory Round Up email	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
FSA Roadshows	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q15 **Overall how satisfied are you with the way in which the FSA engages with you?**
Please cross one box only ☒

1 Extremely dissatisfied	2	3	4	5	6	7	8	9	10 Extremely satisfied
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

How you feel the FSA has responded to the financial crisis

Q16 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA's response to the financial crisis has been effective	☐	☐	☐	☐	☐
The FSA's response to the financial crisis has been proportionate for the industry as a whole	☐	☐	☐	☐	☐
The FSA's domestic reputation has been damaged by the financial crisis	☐	☐	☐	☐	☐
The FSA's international reputation has been damaged by the financial crisis	☐	☐	☐	☐	☐
The right regulatory framework is being put into place to prevent a future crisis	☐	☐	☐	☐	☐
In the short term, the transition to a new regulatory framework weakens the regulator's ability to respond to the financial crisis	☐	☐	☐	☐	☐

Section B – Your Experience of the FSA as a Regulated Firm

Your overall satisfaction with the FSA

Q17 Taking into account all your firm's dealings with the FSA, how satisfied are you with the relationship?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q18 In the last two years would you say your business relationship with the FSA has…

Please cross one box only ☒

- Improved ☐
- Stayed the same ☐
- Deteriorated ☐
- Don't know ☐

Your experience of dealing with the FSA

Q19 When did you last speak to someone at the FSA?

Please cross one box only ☒

- Within the last week ☐
- Within the last month ☐
- Within the last 6 months ☐
- 6-12 months ago ☐
- 1-2 years ago ☐
- Longer than 2 years ☐
- Never ☐
- Don't know ☐

Q20 Since January 2009 have you done or experienced any of the following?

Please cross all that apply ☒

- Had a supervisory visit ☐
- Contacted the Firm contact centre ☐
- Had an ARROW visit ☐
- Had a thematic review ☐
- None of the above ☐

Q21 Overall, how would you rate the ease of dealing with the FSA?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q22 In the last two years would you say your ease of dealing with the FSA has…

Please cross one box only ☒

- Improved ☐
- Stayed the same ☐
- Deteriorated ☐
- Don't know ☐

+ + +

Q23 **Regarding <u>general administration</u>, to what extent do you agree or disagree that the FSA…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Operates straightforward and efficient processes for dealing with authorisation and approval issues	☐	☐	☐	☐	☐
Has sufficiently skilled staff to deal with day-to-day issues	☐	☐	☐	☐	☐

Q24 **Does your firm have a Designated Relationship Manager or a designated team at the FSA?**
Please cross one box only ☒

Yes ☐ → GO TO Q25
No ☐
Don't know ☐
} GO TO Q27

Q25 **How satisfied are you with your firm's dealings with your Designated Relationship Manager?**
Please cross one box only ☒

Very satisfied	Fairly satisfied	Neither satisfied nor dissatisfied	Not very satisfied	Not at all satisfied	No opinion	Don't know
☐	☐	☐	☐	☐	☐	☐

Q26 **How often has your Designated Relationship Manager or key specialist at the FSA changed in the past two years?**
Please cross one box only ☒

Has not changed ☐
Once ☐
Twice ☐
Three times ☐
Four or more times ☐
Don't know ☐

Q27 **Has your firm had dealings with the FSA's Firm Contact Centre?**
Please cross one box only ☒

Yes ☐ → GO TO Q28
No ☐
Don't know ☐
} GO TO Q30

Q28 **How satisfied are you with the service provided by the FSA's Firm Contact Centre?**
Please cross one box only ☒

Very satisfied	Fairly satisfied	Neither satisfied nor dissatisfied	Not very satisfied	Not at all satisfied	No opinion	Don't know
☐	☐	☐	☐	☐	☐	☐

Q29 **When did you last contact the FSA's Firm Contact Centre?**
Please cross one box only ☒

Within the last week ☐
Within the last month ☐
Within the last 6 months ☐
6-12 months ago ☐
1-2 years ago ☐
Longer than 2 years ☐
Never ☐
Don't know ☐

+ +

Your view of the guidance you receive from the FSA

Q30 Have you ever had any experience of seeking guidance on rules or regulatory policy from the FSA?

Please cross one box only ☒

Yes	☐	→ GO TO Q31
No	☐	→ GO TO Q35

Q31 When did you last seek guidance on rules or regulatory policy from the FSA?

Please cross one box only ☒

Within the last week	☐	1-2 years ago	☐
Within the last month	☐	Longer than 2 years	☐
Within the last 6 months	☐	Never	☐
6-12 months ago	☐	Don't know	☐

Q32 Overall, how would you rate the helpfulness of the guidance you received from the FSA?

Please cross one box only ☒

Extremely poor 1	2	3	4	5	6	7	8	9	Extremely good 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q33 Have you sought guidance <u>mainly</u> from...

Please cross one box only ☒

Designated Relationship Manager	☐
Firm Contact Centre	☐

Q34 Thinking specifically about approaching the FSA for guidance, how much do you agree or disagree that…

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
It is possible to be open and frank in discussions with the FSA	☐	☐	☐	☐	☐
It is difficult to work through things informally with the FSA without involving legal people	☐	☐	☐	☐	☐
FSA staff generally give guidance promptly	☐	☐	☐	☐	☐
FSA staff have sufficient knowledge to understand my firm	☐	☐	☐	☐	☐
Staff have the authority to answer my questions	☐	☐	☐	☐	☐
There is consistency of guidance from different members of staff	☐	☐	☐	☐	☐

Your view of the way the FSA supervises your firm

Q35 Overall, how satisfied are you with the FSA's supervision of your firm?

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q36 When did your firm have its last supervisory visit by the FSA?

Please cross one box only ☒

- Less than six months ago ☐
- More than 6 months, but less than 1 year ago ☐
- More than 1 year, up to 2 years ☐
- More than 2 years, up to 3 years ☐
- More than 3 years ago ☐
- Never ☐
- Don't know ☐

Q37 Has your firm ever participated in an FSA thematic review?

Please cross one box only ☒

- Yes ☐
- No ☐
- Don't know ☐

Q38 Do you feel that any FSA supervision visit (or thematic review) you have experienced over the last two years was undertaken in a suitably informed, collaborative and proportionate manner?

Please cross one box only ☒

- Yes ☐
- No ☐
- Don't know ☐

Q39 How well do you understand the definitions of Conduct of Business Standards and Prudential Standards in relation to supervision?

Please cross one box only ☒

- Very well ☐
- Quite well ☐
- Not very well ☐
- Not at all well ☐
- Don't know ☐

Q40 How would you describe the FSA in applying the rules for…?

Please cross one box only ☒

	Highly flexible	Fairly flexible	About right	Fairly rigid	Highly rigid	No experience	Don't know
The Conduct of Business Standards	☐	☐	☐	☐	☐	☐	☐
Prudential Standards	☐	☐	☐	☐	☐	☐	☐

Q41 Has the FSA got the priority about right in its focus on conduct of business or prudential supervision of firms?

Please cross one box only ☒

- Yes ☐
- No ☐
- Don't know ☐

Q42 **Thinking specifically about the FSA capital adequacy requirements how much do you agree or disagree that…**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has clearly explained the detail of the capital adequacy rules	☐	☐	☐	☐	☐
The FSA has fully considered the impact of increased capital requirements on the industry	☐	☐	☐	☐	☐
The FSA has adequately justified the case for increased capital requirements in my sector	☐	☐	☐	☐	☐
It is better to implement all changes at the same time rather than phasing them in gradually	☐	☐	☐	☐	☐

Q43 **Thinking specifically about the FSA policy on liquidity, how much do you agree or disagree that…**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has clearly explained the detail of the new liquidity regime	☐	☐	☐	☐	☐
The FSA has fully considered the impact of the new liquidity regime on the industry	☐	☐	☐	☐	☐
The FSA has adequately justified the case for the new liquidity regime in my sector	☐	☐	☐	☐	☐
It is better to implement all changes at the same time rather than phasing them in gradually	☐	☐	☐	☐	☐

Q44 **When considering the FSA staff who handle your supervision, how much do you agree or disagree with each of the following?**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Their competency has improved over the past two years	☐	☐	☐	☐	☐
They have good interpersonal skills	☐	☐	☐	☐	☐
They don't really take into account the level of risk arising from your business	☐	☐	☐	☐	☐
They treat your staff as trustworthy	☐	☐	☐	☐	☐
It is difficult to give feedback to the FSA on their supervisory staff	☐	☐	☐	☐	☐
They have sufficient commercial understanding of your business to make appropriate judgements	☐	☐	☐	☐	☐
More contact from the FSA would be welcome	☐	☐	☐	☐	☐
The FSA makes good use of the information you provide to inform its dealings with you	☐	☐	☐	☐	☐
The turnover of FSA supervision staff is detrimental to your firm's regulatory relationship	☐	☐	☐	☐	☐

Q45 **How much do you agree or disagree that, in supervising your firm, the FSA…**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Asks for too much detailed information about your firm	☐	☐	☐	☐	☐
Understands your industry sufficiently to ask the right questions	☐	☐	☐	☐	☐
Gives sufficient feedback on the information you submit	☐	☐	☐	☐	☐
Has a tendency to excessive intervention in how your firm operates	☐	☐	☐	☐	☐
Places emphasis on preventing problems rather than enforcement	☐	☐	☐	☐	☐
Has a good understanding of your business	☐	☐	☐	☐	☐
Applies a reasonable level of supervision for a business of your size and type	☐	☐	☐	☐	☐
Tends to look at processes rather than outcomes	☐	☐	☐	☐	☐
Is adversarial in approach	☐	☐	☐	☐	☐
Is willing to hold a dialogue with you about the findings	☐	☐	☐	☐	☐
Adopts a consistent approach between the close-out meeting and the Risk Mitigation Programme	☐	☐	☐	☐	☐

Your views of the way the FSA handles enforcement

Q46 **Based on your experience, or what you have seen or heard, how satisfied are you with the way the FSA handles enforcement?**

Please cross one box only ☒

Extremely dissatisfied 1	2	3	4	5	6	7	8	9	Extremely satisfied 10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q47 **How much do you agree or disagree that ….**

Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA's enforcement procedure is understood by the industry to be a credible deterrent	☐	☐	☐	☐	☐
The FSA's enforcement procedure is being used in a way that serves to better protect the consumer	☐	☐	☐	☐	☐
In its enforcement, the FSA follows an outcomes based approach	☐	☐	☐	☐	☐
The publication of fines undermines confidence in the industry overall	☐	☐	☐	☐	☐
The FSA's enforcement procedure is being implemented in a fair and appropriate manner	☐	☐	☐	☐	☐

Costs and efficiency in relation to your business

Q48 **Given the size and nature of your business and its level of risk, how do you feel about the total current costs of compliance for your firm (taking both fees and internal & external costs into account)?**

Please cross one box only ☒

- They are excessive ☐
- They are high, but not excessive ☐
- They are reasonable ☐
- Don't know ☐

Q49 **Over the last two years, have the total direct and indirect costs of compliance for your firm increased or decreased as a percentage of total costs?**

Please cross one box only ☒

- Increased ☐
- Decreased ☐

GO TO Q50

- Stayed the same ☐
- Don't know ☐

GO TO Q51

Q50 **By what percentage have they increased or decreased?**

Please cross one box only ☒

Less than 2%	☐	15% - less than 20%	☐
2% - less than 5%	☐	20% - less than 25%	☐
5% - less than 10%	☐	25% or more	☐
10% - less than 15%	☐	Don't know	☐

Q51 **How much do you agree or disagree that in relation to FSA supervision, the costs of compliance have resulted in…**

Please cross one box only ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
(a) Reducing the types of business we conduct	☐	☐	☐	☐	☐
(b) Placing my firm at a disadvantage compared to our competitors based abroad	☐	☐	☐	☐	☐
(c) My firm planning to leave the industry	☐	☐	☐	☐	☐
(d) My firm planning to re-locate from the UK to another country	☐	☐	☐	☐	☐

Section C –Your Type of Business and the Practitioner Panel

Your type of business

Q52 How many full time staff (or equivalent) are employed by your firm in the UK?
Please cross one box only ☒

0-9	☐	100-499	☐
10-19	☐	500-999	☐
20-49	☐	1000 or more	☐
50-99	☐		

Q53 How many customer facing staff or advisers does your firm have?
Please cross one box only ☒

0-9	☐	100-499	☐
10-19	☐	500-999	☐
20-49	☐	1000 or more	☐
50-99	☐		

Q54 How would you describe the type of business you conduct?
Please cross one box only ☒

- All retail ☐
- Mainly retail ☐
- Part retail, part wholesale ☐
- Mainly wholesale ☐
- All wholesale ☐

Q55 And where are your customers located?
Please cross one box only ☒

- Only in the UK ☐
- Partly in the UK, partly overseas ☐
- Only overseas ☐

Q56 This questionnaire may have been completed by one or more individuals. Who has completed this questionnaire?
Please cross each box which applies ☒

Chief Executive/MD	☐	Partner/Principal in firm	☐
Group/Head of Compliance (responsible for 2 or more regulated areas or authorised activities)	☐	Financial Director	☐
Senior/Principal Compliance officer (responsible for single area or regulated activities)	☐	Other	☐

Q57 **Had you seen or heard anything about the Practitioner Panel before you received the letter about this survey?**

Yes ☐
No ☐

Q58 **Had you seen or heard anything about the Smaller Businesses Practitioner Panel before you received this survey?**

Yes ☐
No ☐

Q59 **How much do you agree or disagree that…**
Please cross one box in each line ☒

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The Panels have an important role to play on behalf of your type of business	☐	☐	☐	☐	☐
The Panels are independent of the FSA	☐	☐	☐	☐	☐
The members of the Panels can represent the industry as a whole	☐	☐	☐	☐	☐
The Panels are helping the FSA to understand industry views	☐	☐	☐	☐	☐
The Panels are able to influence FSA policies and decisions	☐	☐	☐	☐	☐
It is easy for firms to express their views to the Panels	☐	☐	☐	☐	☐

Q60 **In your opinion, what do you feel are the most important issues for the FSA to address?**

Q61 What do you feel are the most important issues that will need to be addressed by the new regulatory framework going forward?

Q62 Finally, would you be happy for a member of the TNS-BMRB research team to contact you about the answers you have given in this survey?

Yes – happy to be contacted ☐

No – please do not contact me ☐

Thank you for taking the time to complete the questionnaire. Please return it to TNS-BMRB in the reply-paid envelope provided to the following address:-

TNS-BMRB
Kantar Operations
Olympus Avenue
Tachbrook Park
Warwick
CV34 6RJ

Appendix C Advanced letter

THE FINANCIAL SERVICES PRACTITIONER PANEL

**C/O Independent Panels
Secretariat
25 The North Colonnade
Canary Wharf
London
E14 5HS**

Address line 1
Address line 2
Address line 3
Address line 4
Address line 5

28 June 2010

Dear

Financial Services Practitioner Panel: Survey of Regulated Firms

The Financial Services Practitioner Panel represents the interests of the Financial Services industry in the UK regulatory framework. The Panel comprises senior figures from regulated firms who provide a high level body available for consultation on policy by the FSA and are able as practitioners to communicate to the FSA views and concerns of regulated firms.

Since 1999 the Panel have conducted a biennial survey of regulated firms to measure industry views and opinions on the performance of the FSA. The 2010 survey will be the sixth survey in the series and we would greatly appreciate your help in this important initiative. The survey is an authoritative way for regulated practitioners to feed back their collective views to the FSA and it greatly assists the Panel in guiding the FSA on how it should set its priorities and deliver its operations.

What happens now?

We have appointed an independent research company, TNS-BMRB, to carry out this survey on our behalf. Within the next two weeks you will receive a questionnaire in the post from TNS-BMRB, which we estimate should take around 30 minutes to complete. The survey covers your relationship with the FSA as a regulated firm and plays an important role in the Panel's discussions with the FSA. The results will be published towards the end of the year.

As the purpose of the survey is to gain the view of each regulated firm or group, the questionnaire should be completed by the most senior person within your firm (for example the Chief Executive or Group CEO). If there are other senior persons who are responsible for any aspects (e.g. compliance) the relevant sections of the questionnaire can also be completed by those people where appropriate.

Confidentiality

All the information provided by your firm will be totally confidential and no identifiable information about your firm will be passed to the Practitioner Panel or to the FSA.

Why should my firm take part?
The Practitioner Panel needs the results of this research to ensure that it reflects the views and concerns of a wide range of regulated firms in its communications with the FSA. As such it is essential that all firms who are invited to participate do so, in order that the research is able to represent the entire industry.

The survey is about the performance of the FSA as a regulator over the last two years. Although a recent announcement has been made about the future structure of UK regulation, the finer details of the regulatory system under the new coalition government are still uncertain. The results from the survey will be vital in influencing the shape of regulation in the years to come. This is your opportunity to have your say, and we would encourage you to participate.

The results of the survey have directly impacted on the FSA's policy developments with regard to the approach to TCF, the training of supervision, and the FSA's approach to communications with firms.

If you would like any further information about the survey, or have any queries, then please contact **Anthony Allen** at TNS-BMRB (020 7656 5599, anthony.allen@tns-bmrb.co.uk) or the Practitioner Panel Secretariat Team (020 7066 5210) mailbox FS-PP@fsa.gov.uk who will be happy to help.

If more information is wanted on the wider work of the Panel this is available at: www.fs-pp.org.uk.

Yours sincerely

Iain Cornish
Chairman
Practitioner Panel

Appendix D Qualitative topic guide – phase 2

Confidential

209446
February 2010
TG1 V2

FSA Practitioner Panel Survey

Topic Guide – Developmental Research

Study research aims:

- To provide top level assessment from Heads of Compliance of their perceptions of the performance and areas of priority of the FSA;
- To provide industry wide views of the operational efficiency of the FSA in dealing with firms;
- To provide the Panel with information about the effect of the FSA on the industry (regulatory burden, cost, innovation and competitiveness);and
- To provide information that can be used by the Panel in guiding the FSA on how it should set its priorities and guide the delivery of its operations.

1) INTRODUCTION

- About TNS-BMRB - independent research agency working on behalf of the FSA Practitioner Panel
- Research designed to explore key issues currently facing firms; experiences of FSA as a regulator and provider of guidance and information; priority setting for the future
- Developmental stage used to help design an industry-wide survey
- Length of interview –1 hour
- Recording - confidentiality and anonymity

2) COMPANY BACKGROUND (BRIEFLY)

- Nature of business; size; position in market; UK or international operation
- Nature of contact with FSA – relationship managed or via Contact centre
- Brief overview of contact with FSA (to provide context for perceptions and experience)
  - How much contact
  - When last contact
  - What issues contacted FSA about

3) KEY DEVELOPMENTS SINCE LAST FSA PRACTITIONER PANEL SURVEY (BRIEFLY)

- Developments over past two years
  - In their business
  - In their sector
  - In the interaction between their firm and the FSA
  - In the content of their dealings with the FSA

4) 'HOT TOPICS' IN THEIR INDUSTRY SECTOR

Ask firm to SPONTANEOUSLY list all the 'hot topics' that their industry is currently facing…

Take each topic in turn and explore using the prompts in section 5, below…

If topic not listed in section 5, use generic prompts below:

- Experience of issue
- Views about issue
- Benefits and downsides
- Possible enhancements

Only explore topics that are spontaneously mentioned by firms (i.e. do not prompt on issues not mentioned)

5) INDUSTRY 'HOT TOPICS'

- **Supervision**
  - Experience of supervision
    - Has this changed recently – how in what way
    - Noticed increase/ more intensive supervision
    - Benefits
      - Need stricter supervision
      - Give FSA more understanding of business/ risk level
      - Appropriate response to crisis
    - Drawbacks
      - Intrusive?
      - Time/ cost?
      - Kneejerk response to crisis?
    - Has FSA change in approach made them change the way they manage risk themselves – how?
    - Is new regulatory approach <u>integrated</u> (ie is it aligned to the nature of the business or a "one size fits all" approach)

  - Experience of ARROW/ ARROW 2 visits
    - Positive/ negative

  - Improvement in quality/ capability of supervisors?
  - Quality/ capability of Subject Matter Experts (SMEs)
  - How do they feel about the new model of supervisors supported by SMEs
  - FSA involvement in interviewing for "significant influence functions" (i.e. senior management, non-executive directors)
    - Views/ experience
    - Satisfaction with interviews – are they conducted appropriately

- **More Principles Based Regulation (MPBR)**
  - Understanding of MPBR
  - How is it working in practice
    - o Principles vs prescription
    - o Has FSA emphasis changed
    - o Is there still flexibility?
    - o Is clarity from rules more helpful
  - Benefits/ drawbacks of MPBR
    - o Is PBR still feasible post-crisis
  - Does the FSA make it clear what their risk appetite is for different types of firms (ie the amount of risk the FSA is willing to accept)
    - o Transparent? Need to be published?

Prudential/ conduct of business standards

- Balance between prudential and conduct of business standards?
  - o Shifted pre/post crisis
  - o What has it been? What is it now? Right balance?
- Is overall conduct of business strategy as important
  - o How well is FSA now representing consumer viewpoint
- Is new <u>capital</u> regime workable
  - o How much longer will it take firms to meet requirements
- Is new <u>liquidity</u> regime workable
  - o How much longer will it take firms to meet requirements
- Pace/ extent of regulatory change
  - o How has FSA handled consultation/ communication

- **Enforcement**
  - Experience of enforcement
  - Has enforcement process changed over time ; how
  - Views about enforcement process (efficiency, timeliness, fairness)
  - FSA seen as getting tougher?
  - Credible deterrent – what does this mean? Is FSA achieving this?
  - Penalties – are these seen as fair/ appropriate/ transparent – are tougher penalties needed

- **Retail Distribution Review (RDR)**
  - Views and experiences
  - Impact on business
  - Views of professional requirements of RDR
    - o How is this being implemented
  - How has FSA handled implementation/ communication
  - Should review be extended to wholesale

6) EU/ International

- Views and experiences of implementation of major EU directives
- Impact of changes to EU regulatory structure on UK industry
  - o Impact on your firm
  - o Impact on regulatory role of FSA
- Impact of EU regulation on principles-based approach
  - o More rules?
- Views on role and effectiveness of FSA in guiding implementation of EU regulation

- **International**
  - Does the FSA represent UK's interests well in Europe/ internationally
    - Where is FSA failing/ succeeding in EU/ international arena
  - How do firms perceive overall FSA regulatory approach in the international arena
  - Do firms have a different business strategy according to the regulatory approach; examples
  - Benefits and downsides of FSA approach in the international arena
  - How much contact do firms have with overseas regulators
  - Increased/ decreased
  - How does the FSA compare

- **Reporting (RMAR)**
  - Experience of RMAR; how often
  - Awareness of any changes in RMAR process
    - How well does the electronic reporting process work
  - Impact of changes on reporting burden

- **FSA cost effectiveness**

  Note: try to disentangle views about cost-effectiveness and the level of fees paid to the FSA
  - Views about the cost effectiveness of the FSA in how it carries out its regulatory task
    - Reasons / basis for their views
    - What would make the FSA more cost-effective
- Increase in fees
  - Reaction to increase
  - Is FSA still "value for money"
  - FSA's cost-benefit analysis (CBA)
    - Awareness
    - View of quality
    - View of degree to which it informs FSA policy

7) COMMUNICATING WITH THE FSA

- Relationship-managed firms
  - Continuity of contact – how many advisers have they had in last two years
  - Understanding of business
  - Quality of advice and guidance
  - Examples of good/ poor communication

- Via Firms Contact Centre
  - Awareness of Contact Centre
  - Use of Contact Centre; frequency
  - Speed of getting through
  - Understanding of business
  - Quality of advice and guidance
  - Examples of good/ poor communication

- Overall experience of engaging FSA staff
  - In what instances (only in relation to FSA initiatives)
  - How well does it work
  - One- or two-way flow of information?
  - How easy are the FSA to do business with

    - Examples
  - Is the FSA joined up in its communications (verbal/ written)?

7) FSA COMMUNICATIONS WITH THE INDUSTRY

- How do they find out about what the FSA is doing?
  - Effectiveness of this
  - Possible enhancements

- FSA Consultations
  - Experience of FSA consultations (which ones)
  - How well do they consider consultation works
  - Do they consider their views are listened to (reasons for views)
  - Possible enhancements to the consultation process
  - What would be the best way of bringing issues to the attention of FSA

9) FSA STRATEGIC DIRECTION (AN OVERVIEW)

- Does the FSA have the right focus (for their firm / sector)
- What are they getting right / what are they getting wrong
  - Examples
- How have FSA handled the crisis – has the FSA missed anything in its regulatory response
- Is the UK still an attractive place to do business
- Where should the FSA focus lie (for the next year)
- What should be changed to enhance the regulatory framework
  - Impact of election
  - If FSA disbanded, which aspects should be preserved?
  - Views of tripartite system
- What three issues would they like the FSA to address
    - Reasons for choice

Thank participant

Close the interview

Appendix E Qualitative recruitment questionnaire

Screening Questionnaire

IMPORTANT: PLEASE REFER TO RECRUITMENT INSTRUCTIONS FOR COMPLETE STUDY DETAILS

This form is confidential property of: Job Number: 209446

Job Name: FSA practitioner' panel survey

Date: 16.11.10

PLEASE WRITE IN BLOCK CAPITALS

Recruiter: Please take these details even if they appear on sample

Mr/Mrs/Miss/Ms: Initials: ____________ Surname: ________________

First name: ____

Address: ____

____

____

Postcode

Tel home:

Tel work:

Tel mobile:

Depth Details:

Interview Number: (use FRN) …………………

Date: ……………………………………..

Time: ……………………………………..

Location: ……..…………………………..

Face to face recruitment	1
Telephone recruitment	2
Delivered invitation	3
Sent confirmation	4
Confirmed attendance	5

Researcher: …………………………….. Recruiter tel no ……………………

RECRUITER'S DECLARATION

The person named above has been recruited by me in accordance with the instructions and within the Market Research Society Code of Conduct.

Signed: ______________________________

Print ______________________ name: ______________________ Date:

BACKCHECKED

Signed: ______________________________

Print name: ______________________ Date: ______________________

PLEASE NOTE RESPONDENTS ARE SENIOR IN THEIR ORGANISATION AND MAY NEED PERSISTENCE TO CONTACT. THEY ALSO SHOULD BE SPOKEN TO WITH RESPECT TO THEIR SENIORITY

"Good morning/afternoon, I'm from TNS-BMRB, an independent research organisation. You may have recently taken part in a research study we are undertaking on behalf of the FSA's Practitioner's Panel to evaluate the performance and effectiveness of the FSA. The Practitioner Panel are interested in following up some of the issues that arose in the survey in more depth.

The research is completely anonymous. Any of the information you share with TNS-BMRB will be kept completely confidential, and your personal details will not be passed on to the FSA or practitioner's Panel. TNS-BMRB are totally independent of the FSA and FSA's Practitioner Panel.

Could I just confirm a few details?"

Recruiter information - If respondents have any concerns or want more information about the study, please give them **Andrew Thomas's** phone number and he will call them back.

Andrew Thomas
Director

Please contact Gary Bright if there are any other questions about recruitment.

Explain to everybody:

- About TNS-BMRB
- Background to the research
- The nature of the methodology – e.g. depth interviews or groups
- Confidentiality and anonymity of respondents
- That interviews will be recorded

Note: If respondent does not want to participate could you ask them to please provide a reason as to why and record their answer below:

Recruiter please fill in:

Can I just check that you are the person within your firm who completed the Practitioner Panel survey earlier this year?

Yes	1
No	2

NOTE – IF NO, ASK FOR CONTACT DETAILS OF PERSON/PEOPLE WHO DID AND FOLLOW UP

Alternative contact
Name/Job Title____
Tel Number____

1. Can I just take a note of your job title?

Write in ____

RECONTACT QUESTION

Thank you for taking part in this research. There may be occasions in the future where we would like to contact you again. This will be solely for TNS-BMRB research purposes. Would you be happy for us to do this?

Yes	1	**Record and close**
It depends what the research is about	2	
No, definitely not	3	

The interview will be held on:

………/………/………. (date), at (time) ……………………………………………

(place) ……………………………………………………………………………………

Contact details (e.g. best time of day/number to ring) ……..……………………..

………………………………………………………………………………………………

THAND AND CLOSE

CHECK ADDRESS AND CONTACT DETAILS

Appendix F Qualitative topic guide – Phase 3

Confidential

209446 November 2010 Post survey TG2 V2a

FSA Practitioner Panel Survey

Topic Guide – Post Survey Research

Study research aims:

- To explore firms' views of how the FSA has performed according to its four statutory objectives now, and over the past two years.
- To understand, where there has been any change, the reasons for this.

1) INTRODUCTION

About TNS-BMRB - independent research agency working on behalf of the FSA Practitioner Panel
Research designed to follow-up a number of issues from the recent survey in which they participated
Length of interview – 20 - 30 minutes
Recording - confidentiality and anonymity

2) COMPANY BACKGROUND (BRIEFLY)

Nature of business; size; UK or international operation
Nature of contact with FSA – relationship managed or via Contact centre

3) RATING THE FSA ON ITS FOUR KEY OBJECTIVES

- Thinking about the FSA's four key objectives:

  maintaining confidence in the UK financial system;
  securing the right degree of protection for consumers;
  promoting public understanding of the financial system; and
  helping to reduce financial crime.

- How well do you think the FSA has performed over the past two years (since 2008)

- Has the FSA performed better on some of its objectives compared to others;
    - Probe which and reasons why

- Thinking back a further two years – comparing the period 2006/2008 to the past two years – has the FSA performed better or worse in relation to its statutory objectives
    - Probe which and reasons why

- If FSA performance has deteriorated, ASK
    - Why do you think FSA performance has deteriorated *(Spontaneous initially)*
    - Possible prompts:
        - FSA has done too much
        - FSA has done too little
        - FSA has been too intrusive
        - FSA has not reacted fast enough
        - FSA has had the wrong focus (what focus and what should it have been)

- Over that past two years…
    - what has the FSA got right?
    - what has the FSA got wrong?
    - What could the FSA have done to have enhanced their overall performance?

- What impact do you think the financial crisis has had on how the FSA are seen to have performed over the past two years?

- How has the financial crisis affected your overall view of the FSA's performance over the past two years?
    - In what way, and reasons why
    - Is there anything the FSA should have done, but did not, that has informed your view?
    - Is there anything the FSA did, but should NOT have done, that has informed your view?

- How has the abolition of the FSA affected your overall views of the FSA's performance over the past two years?
    - In what way, and reasons why?

Thank participant and close the interview

The Financial Services Practitioner Panel

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