

Fourth Survey of the FSA's
Regulatory Performance

*THE FINANCIAL SERVICES
PRACTITIONER PANEL*

November 2006

ACKNOWLEDGEMENTS

The Financial Services Practitioner Panel commissioned GfK NOP to undertake this research on its behalf. The GfK NOP project team comprised John Banerji, James Bance, Richard Gaze, Dan Cooper and Amy Edwards.

The project was managed by Chris Cherlin (tel: 020 7066 9534) from the Panel Secretariat and by Errol Walker (tel: 020 7066 0814) of the FSA's Retail and Consumer Research department.

Further copies of this report, and further information concerning the work of the Panel, can be obtained from the Panel's website - www.fs-pp.org.uk

TABLE OF CONTENTS

	PAGE
CHAIRMAN'S FOREWORD	5
1. INTRODUCTION	10
2. EXECUTIVE SUMMARY	15
3. INDUSTRY REGULATION	26
3.1 M&GI intermediary firms	27
3.2 Performance against Statutory Objectives	30
3.3 General attitudes towards regulation	34
3.4 Overall effectiveness of the FSA	46
3.5 FSA developments	50
3.6 EU & International issues	56
4. EXPERIENCE AS A REGULATED FIRM	64
4.1 Overall satisfaction with the FSA	65
4.2 The drivers of satisfaction	70
4.3 Main priorities for the FSA	76
4.4 Other areas for improvement	91
4.5 The importance of the FSA's staff	98
4.6 Costs and efficiency	101
4.7 The Financial Ombudsman Service	109
Appendix 1 - Views about the Practitioner Panel	
Appendix 2 - Survey Questionnaire	
Appendix 3 - Methodology	

Chairman's Foreword

Survey population

The following report represents the findings of the fourth survey by the Financial Services Practitioner Panel (the Panel) into the FSA's regulatory performance and effectiveness. The survey, which is conducted every two years, was undertaken on our behalf by GfK NOP.

Over 4,000 firms responded to the survey from across all sectors of financial services activity. For the first time the survey captures the views of the newly regulated mortgage and general insurance (M&GI) population of firms. Due to the inclusion of the M&GI firms, the overall number of responses has increased significantly from our 2004 survey, when over 3,000 firms responded. The response rate was 40% of those firms invited to take part. Although this was lower than the 2004 response rate of 48%, the higher number of respondents and the fact that the response rate from the major groups rose from 62% to 63%, means that the market coverage of the survey remains substantial.

A further challenge we faced with regard to the M&GI population was that, being in large part new to and less familiar with FSA regulation, many of these firms might have found it difficult to comment in a substantive way on some areas of the regulator's performance. Due to their large number, we were also anxious to ensure that the overall results would not be skewed in one direction or the other. For these reasons we have separately presented M&GI firms' responses, where appropriate. Otherwise the findings are split between major wholesale and retail groups, relationship managed wholesale and retail firms, and smaller wholesale and retail firms.

The big picture

At the high-level, the results confirm continued strong support for regulation, with firms recognising the benefits that this can generate for themselves, for consumers and for the UK marketplace. However, since our previous survey, overall satisfaction with the work of the FSA has, disappointingly, shown little or no sign of improvement. However, this general conclusion disguises marked differences between sectors and sizes of firms.

On the one hand, the major groups - wholesale and retail - have become more positive about their relationship with the FSA, while smaller wholesale and relationship-managed wholesale and retail firms showed little change from 2004. As one Panel member described it, relationships between larger firms and the FSA have settled into something akin to that of old married couples: habits are now tolerated. On the other hand, views of the FSA held by smaller retail firms, who do not benefit from relationship management, have deteriorated, with 18% now giving the FSA a low satisfaction score (13% in 2004). The arrival of the M&GI firm population did not significantly depress the results, although satisfaction scores among secondary GI firms (i.e. firms whose primary business is not financial, such as vets and car dealerships) were markedly lower.

While in market coverage terms, therefore, satisfaction with the FSA has stabilised, within the recently-expanded population of regulated small retail firms, which now accounts for over 80% of all regulated firms, dissatisfaction with the regulator is more pronounced and some smaller firms report that they are now considering leaving the industry.

In the qualitative study and the quantitative survey most firms welcomed the concept of principles-based regulation, as opposed to rules-based regulation. In a similar way to principles-based regulation, most firms welcomed the Treating Customers Fairly (TCF) initiative. In the qualitative study most firms held the view that treating customers fairly was best practice and essential to any good business. In the quantitative survey, nearly two thirds of practitioners welcomed the Treating Customers Fairly (TCF) initiative.

However, the main concerns, shared by both large and smaller retail firms, centred on how the FSA will implement their new policy approach to the retail market: uncertainty about the move towards principles-based regulation; lack of clarity about FSA initiatives like Treating Customers Fairly (TCF); concerns over enforcement and retrospective regulation; and continuing complaints over the cost and burden of compliance.

On TCF specifically, the survey disconcertingly shows that 52% of all firms still do not feel that the FSA has been clear enough about what it means and how it should be implemented. Similar concerns apply to firms' understanding of and trust in how the FSA will apply principles-based regulation in practice (55%), even though, encouragingly, the majority of firms (75%) support the idea in principle.

As has been the case in our previous survey reports, the burden of regulation is still considered high across the spectrum of all surveyed firms, but particularly in the retail sector. Over half of all firms agreed strongly with this view, including 46% of major retail groups and 60% of smaller retail firms. The costs of compliance are regarded by 63% (the same in 2004) of all retail firms as excessive and 85% (90% in 2004) of all firms expect them to rise further still.

Part of the problem in the retail sector appears to be firms' expectations. Following the inevitable significant "hump" of regulation in the wake of the implementation of the Financial Services and Markets Act in 2001, many firms expected - wrongly or rightly - that the rate of regulatory change would plateau and then ease down. However, a flurry of EU regulation, in combination with recent FSA initiatives such as TCF, has left many firms with the impression that the level and costs of regulation will continue to increase and not fall. This atmosphere of seemingly constant change is seen as disadvantageous and undesirable to all - this statement is particularly true of retail firms, irrespective of size. Even deregulatory measures and the move towards a more principles-based regime do not come without significant financial, people and operational implications for firms.

Some retail firms will never be satisfied with the regulator, especially since the FSA is always likely to adopt a somewhat more interventionist approach in the retail markets because of the greater potential for consumer detriment. But it is important that the FSA sets out a coherent view of how it thinks successful retail markets should operate and that it is clearer with the industry about what form of regulation we might expect to see, not just in the upcoming 12 months, but in the longer term. It is also important - and this is something that came through strongly in the qualitative interviews - that the FSA and its staff take the time to pause for thought before embarking on major new initiatives, in order to ensure that the cumulative impact and consequences are properly considered at the outset, and are communicated clearly and coherently to the industry that is then charged with embedding them.

The FSA should also continue to explore whether more could be done to help and support smaller firms to achieve the market outcomes that it seeks. Some of the FSA's proposed changes, such as a potential cut-back of more onerous disclosure requirements and the removal of some secondary firms from the regulatory scope of GI, could provide early benefits to both firms and regulators alike.

Some steps in the right direction

On the positive side, firms did recognise that the FSA had delivered improvements in several areas of day-to-day working with firms, highlighted as problem areas in previous surveys: for example, in the handling of consultation procedures; in satisfaction with firms' relationship managers; in the willingness to provide guidance; and in the navigability of the Handbook. The website was also seen as improved.

The FSA's general treatment of smaller firms was another area in which respondents registered a degree of welcome progress, recognising the efforts made by the regulator to create the Small Firms Division as a resource dedicated to improving its understanding of, communication with and facilities available to small firms.

Although all firms thought the FSA was more likely to introduce EU regulations faster and in greater detail than elsewhere in the EU, there was general support for the view that the FSA had done a good job in keeping the industry briefed on MiFID developments.

While these developments are indeed encouraging, the survey still found that many practitioners felt that FSA staff had insufficient commercial understanding of their businesses. There needs to be further investment in enhancing the knowledge, approach and retention of its people - especially those performing front-line supervision, policy, enforcement and Contact Centre roles - and ongoing development in the robustness and use of pre- and post-cost benefit analyses. A drive to increase understanding by FSA staff of firms' commercial realities, together with a greater willingness to explore market based solutions, may go a long way towards addressing some of the problems highlighted by firms in this survey.

Going forward

As always, the survey's findings raise some important and interesting issues for the FSA on the one hand, and its various stakeholders - the regulated community, trade bodies, Government, consumers and, in particular, the Panel itself - on the other. Some messages might make for uncomfortable reading within the FSA, but we hope that they will provide a solid and authoritative basis for action going forward.

I am pleased to note that, in the past, the FSA has taken the findings of our survey seriously and has responded positively to many of the concerns raised. For example, the recently-completed survey on the cost of regulation, conducted jointly by the Panel and the FSA, was launched in direct response to the findings of our 2004 report. The concerted series of measures to improve the FSA's relationship and interaction with smaller firms can also be linked directly back to our 2004 survey.

Much remains to be done to create the risk-based, proportionate regime to which the FSA - and the industry - aspires. As I have already stated, we recognise that much effort is underway within the FSA to effect enhancements and changes across the board, many of which form part of the regulator's "Making a Real Difference" initiative. This includes a further move of focus away from policy making towards implementation and supervision; a large-scale internal training effort to prepare FSA supervisory staff for the challenges of principles-based regulation; and a focused effort to hire and retain highly qualified staff - all of this we welcome.

We will work closely with the FSA and the Smaller Businesses Practitioner Panel to identify, understand and help address those issues highlighted in this year's findings that give the greatest cause for industry concern.

Finally, I would like to take this opportunity to thank Matthew Bullock, Russell Collins, Ruthven Gemmell and Nick Prettejohn for their hard work on the sub-group that oversaw the day-to-day activities relating to this survey. Matthew, who has a strong interest and experience in statistics, I thank particularly for chairing our sub-group since the inception of the Panel, which has helped to ensure the survey's accuracy and consistency. I would also like to thank the team at GfK NOP who conducted this substantial piece of research on the Panel's behalf and authored the final report, and our own Secretariat staff for ensuring that all operational and communication aspects of this project ran smoothly.

Last but not least, I want to thank the FSA for the constructive and frank manner in which it engages with the Panel and the industry as a whole. When I tell foreign regulators about our survey, they are often stunned to learn not only that the FSA welcomes constructive public criticism of this kind, but that it also pays for it! For that in and of itself, it deserves to be commended.

Roy Leighton
Panel Chairman
November 2006

1. Introduction

Background

The Financial Services Practitioner Panel (the Panel) was established in November 1998. The Panel comprises independent senior figures from a cross-section of the financial services industry, to provide a high level body available for consultation on policy by the FSA and which is able to communicate to the FSA views and concerns of the regulated industries. It has a statutory basis under Section 9 of FSMA.

The Panel commissioned surveys of regulated firms in 1999, 2002, 2004 and 2006. GfK NOP was appointed in 2004 and 2006 to conduct the survey to gauge industry views and opinions on the performance of the FSA.

The objectives of the 2006 research programme broadly follow those of 2004:

- To provide top level assessment from chief executives / principals on their perceptions of the performance and areas of priority of the FSA
- To provide industry wide views on the operational efficiency of the FSA in dealing with firms
- To provide the Panel with information on the effect of the FSA on the industry (in areas such as costs, innovation and competitiveness)
- To provide information which can be used by the Panel in suggesting to the FSA how it should set its priorities and guide delivery of its operations.
- To provide a basis on which to track and compare the effectiveness of the FSA over time.

The FSA assumed responsibility for regulating Mortgage intermediary firms on 31 October 2004 and General Insurance intermediary firms on 14 January 2005. Even though these firms were relatively new to FSA regulation, the Panel felt it important to include Mortgage & General Insurance intermediary firms (M&GI) in the 2006 survey to provide a baseline assessment and a benchmark for the future.

Methodology

As in 2004, the 2006 questionnaire was sent to the majority of regulated firms, to be completed by the most senior executive in the business.

The research programme in 2006 included a qualitative stage to gain an insight into the current thinking of practitioners with regard to regulation, and to ensure that the quantitative questionnaire reflected relevant issues. An extensive programme of exploratory depth interviews and group discussions was conducted (details of which are included in appendix 3). Depth interviews were conducted in order to gain different perspectives from a variety of firms, whereas group discussions were conducted where it was felt that there would be a benefit from discussion amongst smaller firms. Particular reference was paid to the new M&GI sectors, to note any differences amongst the more recently FSA regulated population.

Following the qualitative stage the quantitative questionnaire was drafted and agreed with the Panel. It was then piloted to check comprehension and adjustments were made as a result.

The main survey was carried out using a self-completion questionnaire (practitioners were also offered the option of completing the questionnaire online). Towards the end of the fieldwork period, telephone reminders were conducted and some practitioners completed the survey by phone. The telephone questionnaire was a shorter version of the main postal survey.

All questionnaires were completed between 19th June and 22nd September 2006.

A copy of the 2006 questionnaire and further details of the sample, response rate and analysis techniques employed are included in appendix 3.

The data in this report have been weighted to ensure that the results are representative of the population of regulated firms. For full details of the weights applied see appendix 3.

Structure of regulated firms

Since the 2004 survey the number of FSA regulated firms has increased considerably through the inclusion of M&GI intermediary firms. The population surveyed in 2006 therefore included both the original firm types from 2004 and M&GI intermediary firm types. The M&GI category included the following five sectors:-

- General Insurance - primary activity
- General Insurance - secondary activity
- Mortgage Administrator
- Mortgage Adviser
- Mortgage Arranger

Making comparisons

In this report comparisons have been made to the 2004 survey where appropriate. In previous reports the data was analysed by size of firm as there were significant differences between smaller and larger firms. In 2004, “smaller” firms were defined as having fewer than 20 approved individuals. The FSA had established separate business units to regulate retail and wholesale firms and the analysis of the 2004 survey reflected this structure. In addition the responses from major financial groups, the largest firms in the industry were examined as a distinct category. Hence in 2004 the sample was segmented by the following groups:-

- Major groups -wholesale
- Major groups - retail
- Large firms - wholesale
- Large firms - retail
- Small firms - wholesale
- Small firms - retail

In 2006, the same overall approach has been used but the definitions have been adapted to reflect the FSA's current structure. The segmentation in 2006 was based on Major Groups, Relationship Managed (larger) firms and Smaller firms. Major Groups had small base sizes and so should be treated with caution, but where possible we have split these into retail and wholesale firms. Other Relationship Managed firms were also split into retail and wholesale to reflect the different supervisory divisions. Smaller wholesale firms were defined as those who had supervisory contact with the Firm Contact Centre. Smaller retail firms were defined as those who had supervisory contact with the Small Firms Division.

Consequently, we have concentrated on analysing the 2006 report using the following groups:-

- Major Groups - wholesale
- Major Groups - retail
- Relationship Managed firms - wholesale
- Relationship Managed firms - retail
- Smaller firms - wholesale
- Smaller firms - retail

Arrangement of this report

The next section of this report contains a summary of the key findings of the research and the conclusions that can be drawn from the data. The detailed findings are divided into two main sections, which reflect the format of the questionnaire:-

- Views of industry regulation, including:
 - The FSA's performance against its objectives
 - General attitudes towards regulation
 - Overall effectiveness of the FSA
 - FSA developments
 - EU and international Issues
- Experience as a regulated firm, including
 - Overall satisfaction
 - The drivers of satisfaction
 - FSA performance on the drivers of satisfaction
 - Main priorities
 - Other area for improvement
 - The importance of staff
 - Costs and efficiency
 - The Financial Ombudsman Service (FOS)

2. Executive Summary

Fourth survey of the FSA's regulatory performance

This report is based on a survey of 4,071 senior executives in regulated financial services firms. Initially, one questionnaire was sent to the most senior person within each firm. The majority (3,451) completed the paper version of the questionnaire, a smaller number (127) completed the questionnaire online and 493 were interviewed by telephone. The overall response rate was 40%. The survey results are representative of all regulated firms in the industry.

A census of all regulated firms was conducted, with a few exceptions, where a random sample was taken. The exceptions were as follows:- smaller Financial Advisers, Authorised Professional Firms, Discretionary Investment Managers, General Insurance intermediaries and Mortgage Arrangers. This was due to the higher proportion of these firms within the regulatory population.

A qualitative study was undertaken - involving over 50 firms from across all sectors and sizes of business - to help provide depth and to aid the development of the quantitative work. The qualitative fieldwork comprised depth interviews and group discussions.

The main quantitative survey was carried out between 19th June and 22nd September 2006.

Mortgage and General Insurance intermediary firms

In 2006, the population of firms surveyed included the Mortgage and General Insurance intermediary firms (M&GI). With the exception of the secondary GI intermediaries, the M&GI firms' answers were similar to other smaller retail firms. The qualitative study found that secondary GI intermediaries (such as dentists and car dealerships) felt the burden of compliance disproportionately, as they had the least expertise due to financial services not being their core business. The quantitative survey found that scores were much lower in general for secondary GI intermediary firms. We understand that a review of General Insurance firms is currently underway.

Section One - Industry Regulation

General attitudes towards regulation

In 2006 the majority of regulated firms continued to express support for the idea that strong regulation is for the benefit of the whole industry. Eight out of ten practitioners agreed with this statement and half of these were in strong agreement.

However, the qualitative study found that many practitioners believed that the burden of regulation had increased since 2004. The constant changes to the regulatory regime, coupled with a lack of information, clarity and trust had only served to add to the pressures on firms. Many firms found it difficult to fully digest regulation and achieve a sense of stability.

Smaller retail firms mentioned the burden more frequently, as they had far less resource than larger firms. In particular amongst smaller retail firms, the secondary GI intermediary firms felt the burden the most as financial services was not their core business. The increasing burden contributed greatly to smaller retail firms feeling overwhelmed with and frustrated by regulation.

In the quantitative survey, there was little change in the proportion of practitioners who felt that the current regulatory system placed too great a burden on firms, with over half of practitioners agreeing strongly with this view. The burden was felt more strongly for retail firms than wholesale firms, and particularly strongly for smaller retail firms, as in 2004. However, although the proportion of firms agreeing that the burden was too great was similar to 2004, the qualitative study found genuine concern that the situation had failed to improve over the last two years.

The majority of practitioners also felt that the regulatory burden that they carry is ultimately detrimental to consumers' interests. As might be expected, higher proportions agreed with this view amongst all retail firms, including Major Groups and other Relationship Managed firms. Over half of all retail firms claimed that the costs of compliance had reduced the types of business offered. Over one fifth of all retail firms - large and small - claimed that their businesses were seriously thinking about leaving the industry as a result of the costs of compliance. The qualitative study found that many practitioners in retail firms felt that the consequence of this burden would result in a reduction in choice and higher costs for consumers.

Principles-based regulation was an example of a change in FSA approach, which, while perceived to be sensible in theory and potentially beneficial, actually added to the burden and discontent, at least in the short term. In the qualitative study and the quantitative survey most firms welcomed the concept of principles-based regulation, as opposed to rules-based regulation. However, in the quantitative survey, over half of practitioners felt that the FSA had not made it clear how principles-based regulation would work in practice. The proportion of firms disagreeing that the FSA had made it clear was higher amongst all retail firms compared to wholesale firms, irrespective of size. The qualitative study highlighted how smaller retail firms struggled with the uncertainty that this caused, and as a result some firms preferred the current prescriptive approach.

In a similar way to principles-based regulation, most firms welcomed the Treating Customers Fairly (TCF) initiative. In the qualitative study most firms held the view that treating customers fairly was best practice and essential to any good business. In the quantitative survey, nearly two thirds of practitioners welcomed the Treating Customers Fairly (TCF) initiative. However, over half of practitioners disagreed that the FSA had provided a clear explanation of how firms should implement the TCF initiative. Again, the proportion of firms disagreeing that the FSA had provided a clear explanation was higher amongst all retail firms, irrespective of size. The qualitative study highlighted how smaller retail firms in particular struggled with the burden of extra work to demonstrate that they were TCF compliant. Confidence in the way that the FSA would supervise and enforce against TCF - and whether the emphasis on outcomes would indeed materialise - was also a factor here.

Costs and efficiency

The costs of compliance came through as a major issue in the 2006 survey, as it had done in 2004. The qualitative study found that practitioners continued to perceive the cost of regulation as excessive, not just in terms of the regulatory fees, but also the indirect costs that firms incurred in order to be compliant.

The majority of all firms continued to believe that the total current costs of compliance were 'excessive' and only one in ten saw costs as reasonable. Smaller retail firms were particularly likely to view compliance costs as excessive.

However, there is an improvement in the 2006 survey in terms of fewer practitioners believing that the costs of compliance would continue to rise for the foreseeable future. In the 2006 survey, the proportion of practitioners believing costs would continue to rise decreased by ten percentage points since 2004.

To put this in perspective, a large majority of practitioners still felt that the current costs of compliance were harmful to their business. In the quantitative survey, over two thirds of practitioners agreed with this view.

As a result, the costs of compliance have continued to affect the types of business that many firms conduct. Just under half of practitioners agreed that the costs of compliance had led to a reduction in the types of business conducted and service offered. This is an improvement from the 2004 survey, where well over half of all practitioners were of this opinion.

However, the costs of compliance continued to be a particular problem for Financial Adviser firms, amongst which nearly two thirds of practitioners claimed to have reduced the types of business conducted. The qualitative survey found that Financial Advisers in particular felt that consumer choice would be affected as a result of the costs of compliance.

A sizeable proportion of practitioners also agreed that their business was placed at a disadvantage when competing for international business as a result of the costs of compliance. Nearly one fifth of practitioners in 2006 held this view, and this proportion was higher amongst Relationship Managed wholesale firms. However, the overall proportion of practitioners holding this view had reduced since 2004, when one quarter agreed.

Some practitioners, especially from smaller retail firms, said that their business was considering leaving the industry as a result of the costs of compliance. However, although nearly one fifth claimed this to be true, less than one in ten strongly agreed. The proportion strongly agreeing was slightly higher amongst Financial Advisers.

When asked to estimate the costs of compliance as a proportion of total costs, nearly one fifth of all practitioners and nearly one quarter of those from smaller retail businesses, stated that compliance costs were 15% or more of total costs. Over one in ten smaller retail firms claimed that this proportion was 25% or more.

Statutory objectives

When rating the FSA on its performance against its objectives, practitioners continued to give high scores, as in 2004, for reducing financial crime and securing the right degree of protection for consumers. But the majority of practitioners also stated that the FSA focused on consumer protection to the detriment of its other objectives. The qualitative study found that while practitioners could see that the FSA was focusing on the level of consumer protection, they felt that the FSA was often doing this in a disproportionate way. They saw the FSA as lacking a balanced approach, in encouraging consumers to think that problems were worse than they were. It was also felt that consumers were encouraged to complain, especially regarding endowments and pensions mis-selling - this led to some spurious cases that took time and cost to resolve. In this respect, this was considered to be inappropriate.

In 2006, there was an improvement in scores for the FSA's performance in respect of maintaining confidence in the UK financial system. The proportion of practitioners who gave a high rating increased from just over one in five in 2004 to just under one in three in 2006. This improvement was mainly amongst wholesale firms and Relationship Managed firms. The scores for smaller retail firms were similar to 2004.

Scores continued to be low for promoting public understanding of the financial system. This is the only objective where the proportion of practitioners giving low scores outweighed those giving high ones. Nearly a third of practitioners gave a low score for this objective, and the proportion giving low scores was higher for retail firms, especially Financial Advisers. In the qualitative study comments were made about the need for the FSA to promote public understanding of the financial system in a more balanced way.

Overall effectiveness of the FSA

The qualitative study found that many practitioners had difficulties measuring the regulatory fees they paid in terms of "value for money". Nearly half of all practitioners gave a low score for the FSA giving value for money against regulatory fees. Only one in ten firms gave a high score. Retail firms, especially smaller retail firms, gave lower scores. Relationship Managed wholesale firms and smaller wholesale firms gave higher scores.

The qualitative study found that many practitioners still viewed the FSA as having a "one size fits all" approach to regulation. The FSA's approach was not considered to be markedly different between wholesale and retail firms, and between smaller and larger firms. Just over two fifths of practitioners gave the FSA a low score for "knowing and understanding your firm and its business". This worsened since 2004, when just over one third of practitioners gave a low score. A higher proportion of smaller retail firms gave a low score.

FSA developments

In the qualitative study there was some recognition that the FSA's approach to smaller firms had slightly improved, following the establishment of the Small Firms Division. This improvement has been mainly concerned with more rapid response and verbal recognition about the value of smaller firms when contacting the Firm Contact Centre. However, on a day-to-day basis, most practitioners were unconvinced that this has made a difference to the worsening burden of regulation, especially for smaller retail firms.

Over half (52%) of firms agreed that FSA industry training roadshows and events are an effective means of disseminating information and developments. This proportion is higher amongst Relationship Managed firms, with nearly three quarters agreeing.

The quantitative survey confirmed that some improvements had been made. Over half of practitioners agreed that the Small Firms Division had been a positive development. Just over half of practitioners agreed that “the FSA had improved its treatment of smaller firms since 2004”. Just over two fifths of firms agreed that the FSA shows understanding of smaller firms in the development of regulatory policy and operation. This is an improvement on the 2004 survey, where just under a third of practitioners agreed.

Furthermore, just over one third of practitioners agreed that the FSA recognises the impact of regulation on smaller firms and seeks to accommodate them. This is an improvement on the 2004 survey, when a quarter of all practitioners agreed. However, this improvement was chiefly amongst smaller wholesale firms. Over one quarter of firms disagreed strongly, dominated by smaller retail firms.

There were also perceived to have been some improvements to the website. The qualitative study found that practitioners appreciated that they could access the Handbook through the website, had the ability to report online, and change authorised persons and regulatory activities online. However, there was still felt to be room for further improvement in terms of navigation and filtering by audience. In the quantitative survey, more practitioners agreed than disagreed that “improvements to the website have made it easier to find the information you need”. This proportion was higher for Relationship Managed wholesale firms.

However, there was a particular FSA development that was seen to contribute in a major way to the extra burden felt by retail firms. This was the Retail Mediation Activities Return (RMAR). Smaller retail firms in particular were found to be struggling with having to report twice per year instead of once, often having to employ external expertise to do so. Nearly three quarters agreed that the RMAR has produced a substantial extra burden on firms. Over eight in ten smaller retail firms agreed with this view, whilst nearly three fifths strongly agreed with this view.

European Union (EU) and international issues

EU and international issues were not seen as a top priority by the majority of practitioners. This reflected the high proportion of smaller retail firms in the sample, most of which tended to have a UK/domestic focus. International issues continued to be a top priority for Major Groups and the majority of wholesale firms large and small. Indeed, in the quantitative survey just over one in six practitioners felt they could give an opinion or had experience of EU or international issues. In 2006, only those practitioners who could give an opinion on such issues were asked more detailed questions.

In the qualitative study, many practitioners felt the Capital Requirements Directive was sensible and appreciated that firms had to be solvent. A few firms felt that this was an example of gold-plating EU directives by the FSA, and there was a concern that the capital required may be an issue for some smaller firms. In the quantitative survey, more firms agreed than disagreed that “the FSA has assessed the Capital Requirements Directive (CRD) in an effective way”. A larger proportion of Relationship Managed firms agreed, particularly amongst Major Groups.

Most practitioners in the qualitative survey were less sure of the implications of the Markets in Financial Instruments Directive (MiFID). Some practitioners found the lack of information from the FSA frustrating and concerning, as they were unsure of how (and if) MiFID would affect them. In the quantitative survey, more practitioners agreed than disagreed that “the FSA has kept the industry adequately informed on MiFID”. The proportion of firms disagreeing was higher amongst retail firms. Most Major Group firms agreed that they felt adequately informed on the subject.

In the quantitative survey, a number of questions were asked around the perception that the FSA tends to “gold-plate” EU directives. The main concern was voiced in the qualitative study that this continued to put UK firms at a commercial disadvantage in Europe. There was a concern that firms and capital would leave the UK as a result. In the quantitative survey, most practitioners who answered the question continued to agree that the FSA brought EU directives into UK regulation faster and in more detail than other European regulators. The proportion agreeing was higher amongst Major Group firms.

Section Two - Experience as a regulated firm

Overall satisfaction

When asked about their satisfaction with the relationship between their own business and the FSA, practitioners typically gave a moderate score, few gave a very high (9 or 10 out of 10) and few gave a low score (1, 2 or 3). The average score was 6 out of 10. This was the same as in the 2004 quantitative survey.

The qualitative study found many frustrated practitioners, especially on the retail side. The reason given was that the continuing burden of regulation had not improved, and in some cases had become worse. Smaller retail firms felt this burden the most as they had far less resource. This was reflected in the lower scores for their day-to-day relationship with the FSA.

In the quantitative survey, the proportion of smaller retail firms who gave a low score increased from just over one in ten in 2004 to nearly one fifth in 2006. There had been a slight increase in satisfaction for Major Group firms and Relationship Managed wholesale firms.

The quantitative survey found that the majority of practitioners had not seen any real change in their relationship with the regulator in the last two years, but just under one in four had seen an improvement and less than one in ten had seen a deterioration.

Larger firms were more likely to have seen an improvement in their relationship with the FSA, especially for Major Group firms, but also for other Relationship Managed firms. On a like-for-like basis, satisfaction with Relationship Managers has improved for the same firm types. In 2004 nearly two-thirds (64%) were satisfied and in 2006 this proportion rose to over three quarters (76%). However, smaller firms were more likely to say that there had been no change over the last two years.

Priorities for improvement

As in 2004, the 2006 survey asked practitioners about their views on the performance of the FSA in a wide range of areas such as consultation, guidance, supervision and enforcement. Analysis was conducted to identify the main issues, to determine the relative importance of each issue and to identify the issues that, from the industry perspective, should be the main priorities for the FSA to improve.

The main issues identified were:

Supervisory approach and business understanding

The qualitative study found that practitioners had variable experiences of the FSA's supervisory approach and ability to understand their business. While there were some slight improvements for some Relationship Managed firms and wholesale firms, many retail firms found that high staff turnover (internal and outward) at the FSA meant that little understanding and corporate memory has been developed.

The quantitative survey analysis determined that the understanding of practitioners' business by FSA staff was the main priority for improvement, because it was of high importance and the FSA's current performance in this regard was seen as weak. Moreover, performance has worsened since 2004, and consequently this has become an even higher priority. Scores are lower for retail firms, and particularly low for smaller retail firms. Most practitioners who answered the question also disagreed that the FSA had sufficient commercial understanding of practitioners' businesses to make appropriate judgements. The proportion disagreeing was higher for Relationship Managed retail firms than smaller retail firms. This re-enforces the view that greater understanding of practitioners' business is the highest priority, particularly regarding commercial realities.

Staff knowledge and consistency

Although some Relationship Managed firms believed the FSA was becoming more approachable and made some effort to recognise different types of businesses, the provision of guidance in relation to staff knowledge and consistency was very poor indeed. Any improvements in the approachability of FSA staff were felt not to have reduced the regulatory burden for most firms, especially for smaller retail firms.

Most practitioners who answered the question disagreed with the view that, when approaching the FSA for guidance, staff had sufficient knowledge to understand practitioners' businesses. A high proportion strongly disagreed, especially amongst smaller retail firms. Furthermore, most practitioners who answered the question also disagreed that there was consistency of guidance from different members of staff.

In the quantitative survey, most practitioners felt that staff gave guidance promptly, but the qualitative study found that the nature of the guidance given was often inconsistent, vague and lacking in authority. It was felt that simply referring practitioners to the Handbook was not the solution as this did not solve the problem. This was felt to add to the substantial regulatory burden for many firms, especially smaller retail firms. For these reasons, staff knowledge and consistency is a very important priority for improvement.

The Handbook

Although most practitioners did agree that the Handbook had improved over the last two years, over three quarters felt that it was still difficult to find the rules and guidance needed in the Handbook. Again, particularly for smaller firms with limited resources, its size and complexity proved a source of frustration.

The Handbook continues to be a priority as practitioners are often referred to it when they contact the FSA for guidance. Future satisfaction will also depend on whether any guidance that is sought can be resolved either through the FSA staff or the Handbook. Any improvements in this area will help to reduce the burden on smaller firms particularly, thereby increasing overall satisfaction levels.

Effective administration

Most practitioners felt that the FSA were relatively good at carrying out processes such as authorisations, approvals and waivers - the majority of practitioners thought that such processes were carried out efficiently. However, there was a slight increase in the proportion strongly disagreeing that the FSA operated straightforward and efficient processes for dealing with authorisation and approval issues.

Whilst in the quantitative study the specific activities in relation to administration were rated reasonably well, on an overall level the qualitative study found that the volume of communication from the FSA was a major contributor to the increasing regulatory burden. This was felt to be poorly targeted and irrelevant to smaller firms.

As this area was relatively important in influencing satisfaction, and there was a high level of concern amongst smaller retail firms particularly, this should remain a priority for improvement.

Open discussion

Although most practitioners were satisfied that it was possible to be open and frank in discussions with the FSA, over one in ten (11%) strongly disagreed. Many practitioners did not feel they could work through things informally without involving legal experts. Many practitioners in the qualitative study felt that the reluctance to offer guidance showed a lack of willingness to have an open and frank discussion.

As in 2004, this was an important area and there were signs that practitioners remain dissatisfied. Any improvements would have a positive impact on practitioners' overall satisfaction with the FSA.

Conclusions

It may be unrealistic to expect that, due to its role as a regulator, the FSA will ever achieve very high satisfaction scores from a large proportion of regulated firms. However, during the last two years, thanks to the amount of effort made by the FSA, it might be expected that overall satisfaction would increase.

Indeed, for Relationship Managed and wholesale firms, many scores have improved. Scores for Relationship Managers have improved over the last two years, and the FSA's hard work in building those relationships has been reflected in the improved scores.

But for the volume of smaller retail firms, their scores have not improved. As these firms comprise over four-fifths of all FSA regulated firms, they have dominated the overall satisfaction score. As smaller retail firms, supervised by the Small Firms Division, have continued to give the FSA low scores, the top priority for improvement could be to raise their levels of satisfaction.

However, it must be said that - even with Relationship Managed retail firms - there are areas where ratings have dipped and where there remains room for improvement. For instance, irrespective of size, all retail firms gave relatively low ratings for the FSA explaining clearly how principles-based regulation and TCF would work in practice.

A period of stability could benefit many firms. One of the major factors contributing to regulatory burden is the volume of new initiatives. Most practitioners felt that new initiatives and methods of regulation, such as principles-based regulation and TCF, have not been explained fully and have contributed to the burden. If there was a period of stability, where no new initiatives were announced and efforts were made to ensure existing initiatives worked effectively, this should relieve the regulatory burden and improve overall satisfaction.

Stability could also be targeted at relieving the burden for smaller retail firms. By making the explanation of existing initiatives a focus at the Firm Contact Centre, the burden and sense of frustration would be relieved amongst those whose satisfaction scores were the lowest. In addition to this, the volume of material that is sent to smaller retail firms could be further filtered so that those with the least resources can focus on the higher priority issues.

3. Industry regulation

3.1 M&GI intermediary firms

In 2006 it was important to establish to what extent the more recently FSA regulated M&GI intermediary firms behaved differently to the firm types which were surveyed in 2004. This varied according to the different types of M&GI intermediary firms. However, with the exception of the secondary GI intermediaries, there was a consistent theme in that the M&GI intermediary firms' answers were similar to other firms in the FSA regulated population.

There were three broad categories of the M&GI population:-

Mortgage Intermediaries

In the qualitative study, Mortgage Administrators, Mortgage Advisers and Mortgage Arrangers did not view the FSA regulation as a step change from previous regulation as it was recognised that mortgages were complex and long term products, which needed tight regulation. Some mortgage intermediaries viewed the new FSA regulation as superior to the prior regime, as it meant more stringent regulation. In some cases they cited that rogue firms who were flouting regulations were being forced to exit the industry as a result of tighter FSA regulation.

“In fact, the mortgage code was too woolly and the FSA regulations are a lot tighter, a lot clearer.”

CEO, Mortgage Broker, Large.

In the quantitative survey, mortgage intermediaries gave very similar scores to the original firm types in the 2004 survey. When looking at overall satisfaction with the FSA relationship, the scores across all three mortgage intermediary types were similar to other firm types. This was consistent with mortgage intermediary scores across the quantitative study. When compared with Financial Advisers, some of which also were responsible for advising on mortgages, the scores were slightly higher.

General Insurance Intermediary - Primary Category

Despite the concerns of General Insurance intermediary primary firms, the qualitative study found that the transition to FSA regulation was generally smoother than expected. Some had already experienced GISC and saw FSA regulation as a continuation. Also, a small number of practitioners had previously worked within other areas of financial services, and hence were already familiar with FSA regulation to a degree. FSA regulation was not considered a huge change in this respect.

“After IBRC there was GISC, then the EU stepped in, so it was clear that the FSA would be involved, so getting regulated wasn’t a shock. I’ve had experience with the FSA from the investment side of regulation.”

CEO, GI Primary, Small.

Other GI primary firms were concerned that the new level of regulation was inappropriate for General Insurance products, as in their view they were generally straightforward products and there was not the same level of risk or long-term element as with investment products. The example was cited that if a consumer made a poor choice in respect of purchasing car insurance, the risk was confined to one year, after which it would be possible to switch providers. It was also cited that General Insurance customers found little value in the additional documentation and were uninterested in reading it, either due to length or because in many cases they already knew what product they wanted.

“There’s a fundamental difference between regulation of investments and insurance. Investments are a lot of money and significant for the individual and want to make sure that it is all done properly. But if I’m getting £300 car insurance do I really need this? If I make a bad choice or get bad service then they can leave. So it’s unnecessary regulation.”

CEO, GI Primary, Small.

The quantitative survey confirmed that in terms of overall satisfaction with the regulatory relationship, GI intermediary primary firms behaved similarly to many other firm types regulated by the FSA. Although GI intermediary primary firms scored lower on this overall score than mortgage intermediaries, they had very similar scores to Financial Advisers. Across the quantitative study GI intermediary primary firms’ scores were very similar to those of other small firms.

General Insurance Intermediary - Secondary Category

In the qualitative study, GI intermediary secondary firms undoubtedly experienced the greatest difficulty adjusting to FSA regulation. They felt that the burden of compliance fell disproportionately on them, as they had the least resource due to the fact that financial services was not their core business. In spite of this, they felt that they had the same rules applied to them as Financial Advisers. This was viewed as unnecessary and felt to be pushing some secondary firms towards unregulated products.

“There is a huge problem caused by compliance within my industry, namely the overly onerous compliance demands that are working to the detriment of the consumer - the very person the FSA are ultimately claiming to protect. I also know other dealerships who have moved towards unregulated products because they cannot afford to comply, in terms of both time and financially. Consumers are therefore being sold an unregulated product without their knowledge, leaving them in a potentially vulnerable position.”

CEO, GI Secondary, Large.

The quantitative survey gave strong indications that the GI intermediary secondary firms behaved very differently in terms of the way they answered questions to both the other M&GI intermediary firm types and original firm types. When considering overall satisfaction with FSA relationship, the GI intermediary secondary firms' scores were noticeably lower than for any other firm type. In addition to this, throughout the data, they gave consistently low scores throughout. Much higher proportions of GI intermediary secondary firms were dissatisfied than any other firm type. In short, they felt the burden of compliance disproportionately to other firm types, and consistently gave low scores as a result.

3.2 Performance Against Statutory Objectives

The Financial Services and Markets Act (which established the FSA) set out four statutory objectives for the regulator. In 2004, the Panel considered it appropriate to ask practitioners to assess the performance of the FSA on these objectives.

In the 2006 qualitative study, practitioners felt that the FSA had not noticeably improved its performance on any of the four statutory objectives since 2004.

In particular, most practitioners thought that the FSA's approach had lacked balance, drawing attention to companies who have not been performing well and encouraging consumers to complain, especially regarding endowments and pensions mis-selling. In this respect, they felt that there was an inappropriate degree of protection for consumers because the FSA encouraged consumers to think that their problems were more serious than they were.

Consequently, some practitioners in the qualitative study did not believe the FSA had improved consumer confidence in the UK financial system. Some believed the FSA's actions had eroded confidence. They felt that the FSA should also do more to draw attention to the positives of the industry rather than reinforce the perception that they are all 'bad apples'.

"The FSA are meant to be working with the industry, in evolutionary terms, why assume that everybody is bad when actually we're not".

CEO, IFA Firm, Retail, Large.

For many practitioners, the feeling that the FSA had done little to promote public confidence was linked to negative views about the other objectives. They believed that the FSA had done little to promote public understanding of the financial system or to secure the right degree of protection for consumers.

Some practitioners felt that the lack of balance was also reflected in the lack of financial education. They believed it would be beneficial to the industry if consumers were better financially educated and developed an awareness of how to protect themselves. Many practitioners believed that consumers had to take some level of responsibility. They felt that the FSA should not over-protect, as in the past some practitioners felt it had impacted negatively on the financial services industry, such as consumers focussing on mis-selling.

“The consumer has a responsibility and I think that the FSA need to recognise this, they can’t cater for everything. Customers change their perception of what was good at the time. There must be a degree of responsibility on that choice.”

HOC, Building Society, Retail, Large.

In terms of dealing with financial crime, practitioners in the qualitative study believed that there had also been little change in FSA performance since 2004. Most believed that the industry needed strong regulation, but there were some doubts that the huge volume of rules were going to catch rogue firms.

“They don’t appear to have enough, in many cases, teeth in their mechanism to get companies to own up to wrong doings. So, although they are supposed to be regulating it they seem to have a problem doing it properly, doing it efficiently enough.”

CEO, Authorised Professional Firm, Retail, Small.

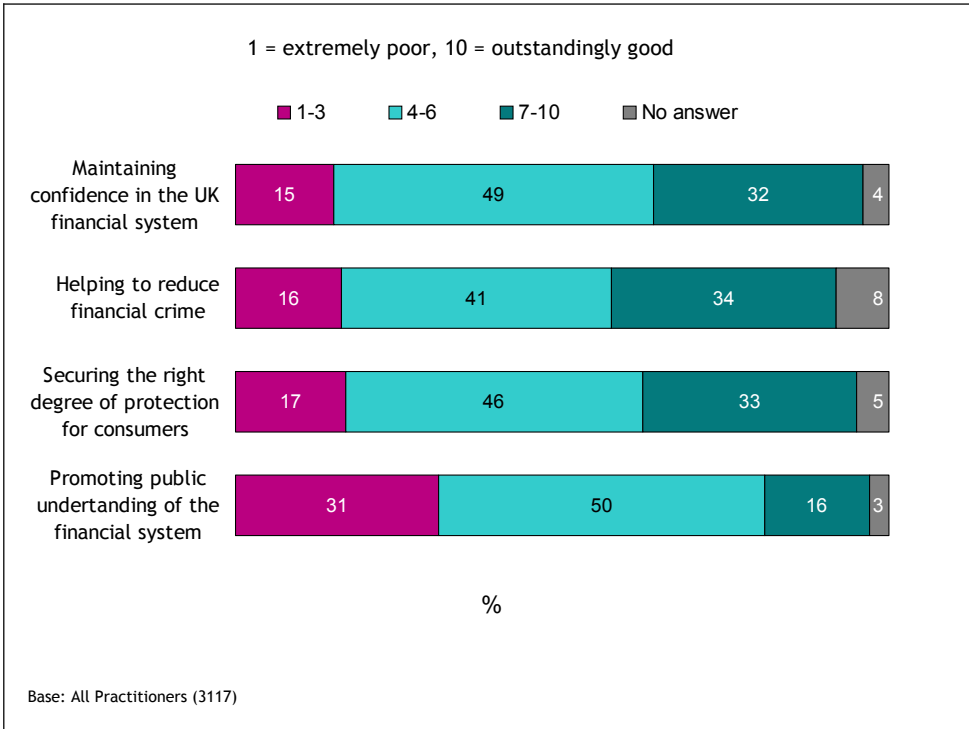
However, there was acknowledgement from practitioners that any move to a risk based regulatory regime would focus on where the bigger risks were (larger players). There was concern about smaller firms who were considered to be under no supervision regime at all.

“The fact of the matter is, despite all this, all the costs and all the rest of it, it doesn’t seem to actually at the end of the day deal with the problem of ”mavericks”. That is what worries me. It’s an extremely demanding regime, but I’m not sure that they’ve still got the structure that will be that antennae to see something before it actually happens.”

CEO, Lloyds Market, Wholesale, Small.

The quantitative survey reflected the qualitative study in that it found no improvement in three out of four objectives since 2004. The objective which improved in the quantitative survey was “maintaining confidence in the UK financial system”.

Chart 3.1: The FSA’s performance on its statutory objectives



In the quantitative survey practitioners were asked to rate the performance of the FSA on each of its objectives using a scale from one (extremely poor) to ten (outstandingly good) - they could also give any score in between one and ten.

The proportion of practitioners who gave a high rating (7-10) for ‘maintaining confidence in the UK financial system’ improved by ten percentage points from 22% in 2004 to 32% in 2006. The proportion of practitioners dissatisfied (scoring 1-3) decreased from 29% to 15%.

There were higher scores amongst wholesale firms for “maintaining confidence in the UK financial system”. While nearly six in ten (57%) of practitioners from wholesale firms overall gave a score of 7-10, only 27% of retail firms gave a high score.

The low scores amongst retail firms were driven by the smaller retail firms. Amongst the smaller retail firms there were far fewer practitioners giving high scores (7-10), and this level of performance is closer to the level achieved for 2004.

In the 2004 survey, around a third of firms gave high scores (7-10) for “helping to reduce financial crime” and “securing the right degree of protection for consumers”. In 2006, scores for these two questions were similar, but “maintaining confidence in the UK financial system” has improved. On all three of these questions around a third gave high scores (7-10), and there were relatively low levels of dissatisfaction.

In a similar way to 2004, the rating of ‘promoting public understanding of the financial system’ was more negative than for the other objectives. This was the only objective for which the proportion of practitioners giving low scores outweighed those giving high ones. Nearly a third (31%) gave a low score for the FSA’s performance against this objective. Retail firms were more likely to give the FSA lower scores, particularly Financial Advisers, of whom 39% gave a 1 - 3 score. This corresponded with the view in the qualitative study that the FSA should encourage consumers to take more responsibility for their own decisions when taking out financial products.

3.3 General attitudes towards regulation

General attitudes towards regulation were explored in both the qualitative study and the quantitative survey. These included new issues such as principles-based regulation and the Treating Customers Fairly (TCF) initiative.

Strong regulation, but too great a burden

The qualitative study found that many firms were supportive of the principle of industry regulation, although most did not advocate the recent inclusion of General Insurance (GI) under the regulatory regime. Regardless of firm size or type, practitioners were also of the opinion that the regulatory burden on firms was too great.

“Quite frankly I can’t think of one thing that has improved in the last two years.”

HOC, IFA Firm, Retail, Small.

In 2006, most practitioners in the qualitative study believed that the burden on firms had increased since 2004. The increasing volume and ever changing focus of regulation, coupled with a lack of guidance had only served to add to the pressures on firms and meant that many found it difficult to fully digest regulation and stabilise themselves and their processes.

“I would just like things to settle down for a while. There’s been so many new rules in the last three or four years coming through, you don’t really have time to digest the last set of rules and make them work in your business before the next set of rules comes through and things start changing again.”

CEO, Lloyds Market, Wholesale, Small.

Smaller retail firms in the qualitative study claimed that they felt the greatest burden, as they were less able to cope with the cost of regulation and had far less resource than larger firms. In particular amongst smaller retail firms, the secondary GI intermediary firms, such as car dealerships, claimed that they felt the regulation was very onerous as financial services was not their core business. In these cases, the responsibility of compliance fell on individuals who did not necessarily have adequate skills or training in the financial services field.

In the qualitative study, examples were cited of the volume of new developments, which weighed particularly heavily on smaller retail firms. M&GI intermediary regulation, additional documentation and information requirements, Retail Mediation Activities Return (RMAR), Treating Customers Fairly (TCF) and Arrow have meant that many firms have had to invest in new systems, processes and more staff or outsourcing in order to cope with regulatory requirements. This has added further time and financial pressures on firms.

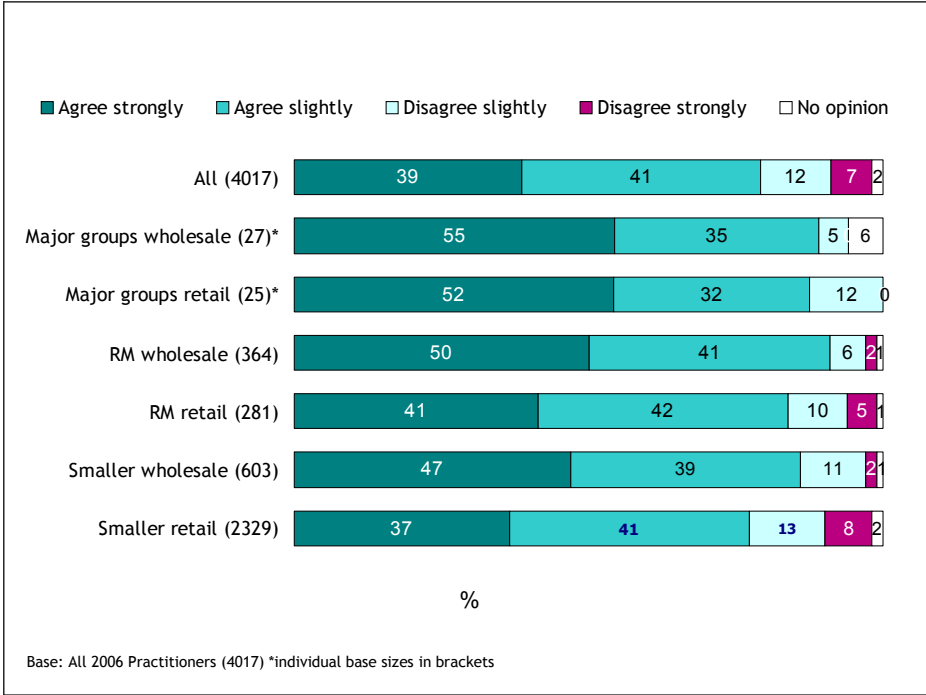
“At times I think they try to design Rolls Royces rather than minis.”

CEO, IFA Firm, Retail, Large.

Aside from the burden of cost and time, some practitioners also expressed in the qualitative study that there was a great ‘fear burden’ surrounding regulation and were worried about being caught out by the FSA inadvertently, especially as some practitioners believed that the FSA had a ‘guilty until proved innocent’ ethos. Some smaller firms deliberately tried to maintain a low profile and avoided contact with the FSA as much as possible. In some cases this was due to unhelpful contact with the FSA in the past, hence they saw no point in re-contacting.

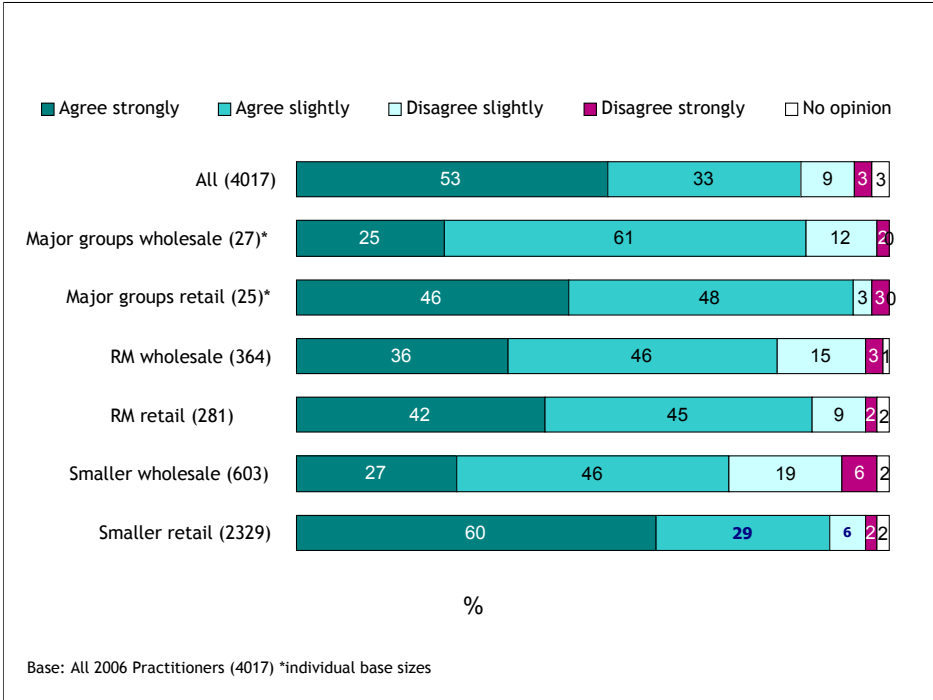
The quantitative survey confirmed that, as in 2004, the industry still supported the principle of strong regulation. Eight of ten (79%) of practitioners in 2004 and 2006 agreed with the statement ‘strong regulation is for the benefit of the financial services industry as a whole’, and this level of agreement continued to be consistent by size and type of business.

Chart 3.2: Strong regulation - ‘strong regulation is for the benefit of the financial services industry as a whole’



The quantitative survey also found that there was little change in the proportion of practitioners who felt that “the current regulatory system places too great a burden on financial services firms”. Comparing the original firm types only, 85% agreed in 2006 whereas 84% agreed in 2004. The entire 2006 population (including M&GI intermediary firms) also produced a very similar figure of 86% agreeing.

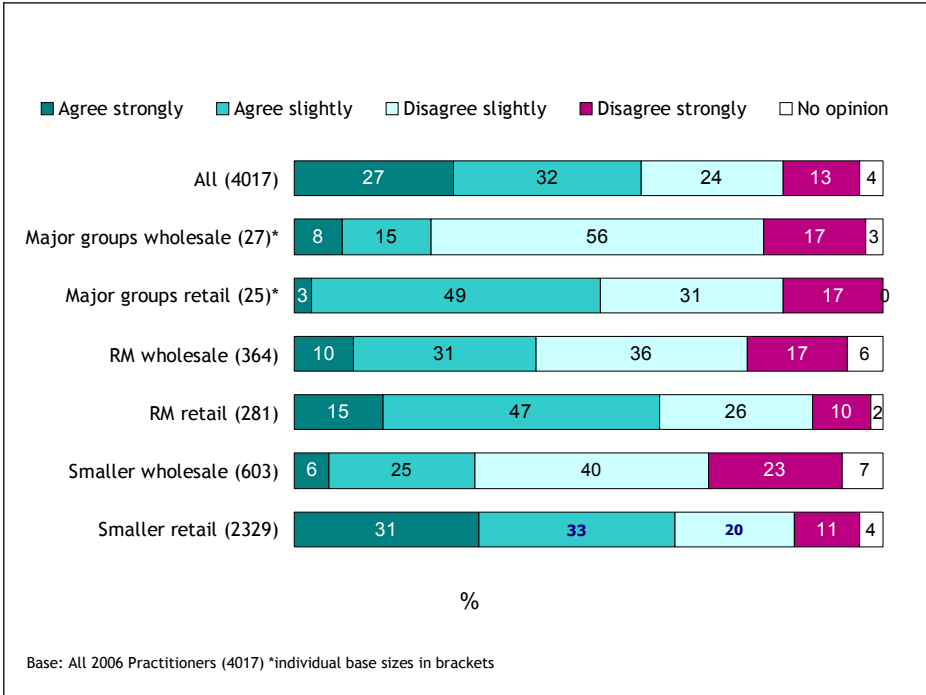
Chart 3.3: The burden of regulation - ‘the current regulatory system places too great a burden on financial services firms’



As in 2004, there was a high proportion of retail firms strongly agreeing that the burden on firms was too great. In particular this proportion continued to be particularly high for smaller retail firms. There continued to be higher proportions of firms agreeing that the burden was too great amongst Financial Advisers (92%).

The proportion of practitioners in the quantitative survey who felt that the level of regulation was also detrimental to consumers’ interests had not changed since 2004. Just over half (56%) of original firm types agreed with this in 2006, whereas in 2004 this figure was 57%.

Chart 3.4: Interests of consumers - ‘the level of regulation on the industry is detrimental to consumers’ interests’



There continues to be a strong difference between retail firms (64% agreeing) and wholesale firms (34% agreeing). Smaller retail firms were more likely to agree strongly that the level of regulation was detrimental to consumers’ interests.

Principles-based regulation

Principles-based regulation was a new topic addressed by the survey in 2006. The qualitative study found that the concept of principles-based regulation was broadly welcomed by practitioners. Many felt that the concept allowed firms greater flexibility with interpretation compared to rules based regulation. It was also thought that this approach was bringing regulation more in line with European practice and that it could also potentially reduce some of the current burden on firms.

“I guess it means that you have to have some trust in the FSA’s approach, so there is a leap of faith, we’re moving to principles based regulation. Potentially that might open the door up to have scope to take enforcement action. But on the other hand, if it’s done in the right context, which seems to be the FSA trying to simplify their approach and not have firms having to follow detailed, prescribed rules and reduce the burden on the FSA handbook and simplifying when they can, then it has to be positive and that’s the way I see it.”

HOC, Major Firm, Retail.

There was, however, a high degree of apprehension expressed by many practitioners in the qualitative study about how principles-based regulation would work in practice. The main concerns were surrounding the ambiguity and vagueness of the initiative.

“Principles are very difficult to actually attain to, particularly if the regulator themselves aren’t actually quite sure what they are looking for.”

CEO, IFA Firm, Retail, Large.

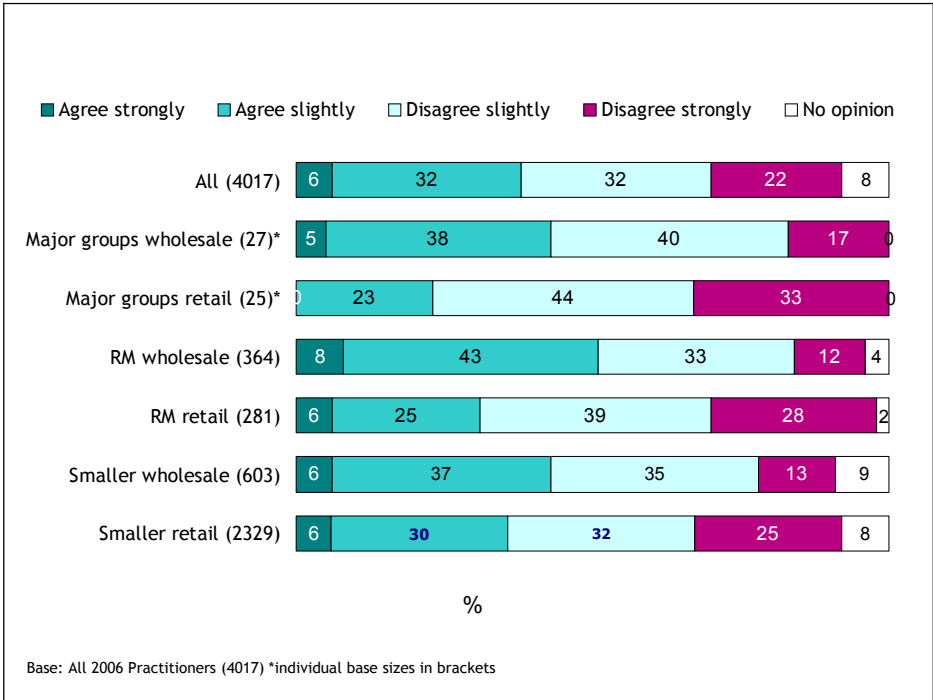
Given the perceived lack of clarity in this area, concerns were raised in the qualitative study as to how the FSA would assess if a firm was compliant. This was mainly a worry about consistency of approach. There were fears that FSA’s enforcement and monitoring procedures would not adhere to a similar principles-based approach as the guidance might suggest. Hence some firms feared that they could potentially fall foul of the FSA, possibly even resulting in enforcement action.

The qualitative study found that some smaller retail firms, with fewer compliance resources, tended to prefer the rule based approach, as the principle based approach relied on further guidance from the FSA. Many smaller firms had already found it difficult to obtain clarification from the FSA on various matters.

The quantitative study also found that the majority of practitioners welcomed principles-based regulation, with 75% agreeing it was a welcome approach and 15% disagreeing. The proportion disagreeing was higher amongst retail firms, of which 17% disagreed, compared to 9% of wholesale firms who disagreed.

Just over half (55%) practitioners disagreed that the FSA had made it clear how principles-based regulation would work in practice. Very few practitioners (6%) agreed strongly with this statement, indicating that across all firms, the majority of practitioners were not completely clear how principles-based regulation would work on a day-to-day basis.

Chart 3.5: Interests of consumers - ‘the FSA has made it clear how principles-based regulation will work in practice’



There was a difference in the quantitative survey between retail and wholesale firms. Retail firms were more likely to disagree (57% disagreeing) than wholesale firms (47% disagreeing) that the FSA had made it clear how principle based regulation would work. This difference was across all sizes of firm.

Treating Customers Fairly (TCF)

TCF was another new topic for 2006, a major initiative by the FSA since the 2004 survey. TCF is central to the delivery of the FSA's retail regulatory agenda and a key part of their move to principles-based regulation.

In the qualitative study, practitioners recognised that the concept of treating customers fairly was good practice and essential to any sound business. However, the TCF initiative had negative connotations for practitioners, as they felt that it implied that they did not treat customers fairly.

"It's teaching your grandmother to suck eggs, it's belittling what one should be doing anyway, [I'd] expect this to be taught in the infants' class."

CEO, Authorised Professional Firm, Retail, Small.

Practitioners were of the opinion that having a formal TCF initiative only served to add to the burden discussed earlier, as it created further work for firms. For example, TCF involved a greater collation of management information to demonstrate that firms were TCF compliant.

As with principles-based regulation, practitioners felt that TCF was very broad. There were many concerns over how to implement TCF, especially as there had been little comment or guidance on this by the FSA.

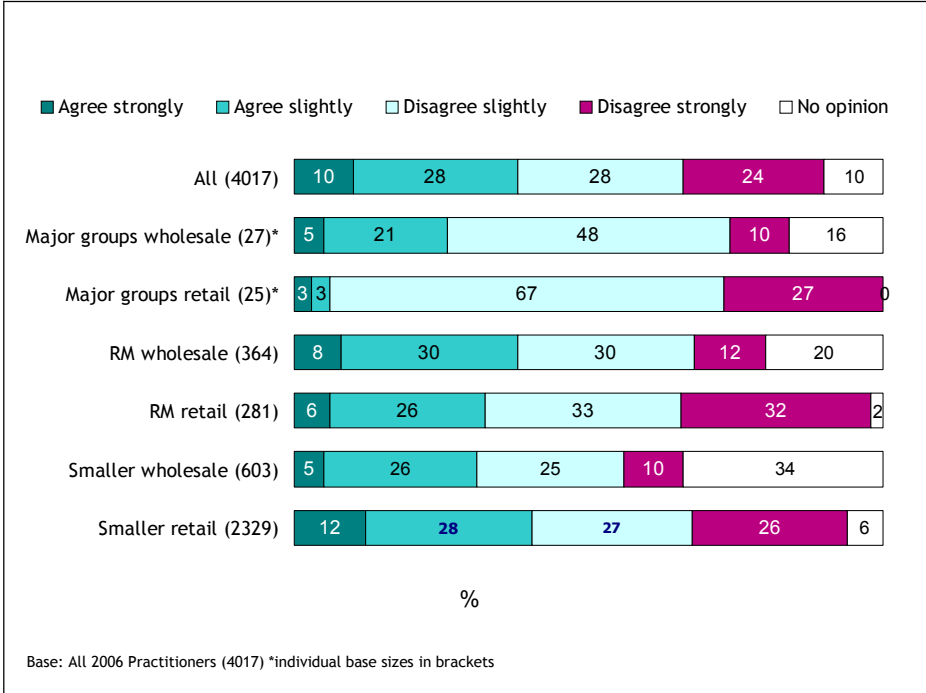
"No one knows what they mean by that [TCF], so they issue guidance, then more guidance, then set up a working party, get together some ideas, it just goes on wider and wider."

HOC, Building Society, Retail, Large.

In the quantitative survey, nearly two-thirds (62%) of practitioners agreed that the FSA's decision to introduce the TCF initiative was welcomed. There was very little difference by size and type of firm.

However, just over half of practitioners (52%) disagreed that the FSA had provided a clear explanation of how firms should implement the TCF initiative. Very few practitioners (10%) agreed strongly, indicating that across all firms, irrespective of size and firm type, most practitioners were not clear how firms should implement the "Treating Customers Fairly" (TCF) initiative on a day-to-day basis.

Chart 3.6: Interests of consumers - “the FSA has provided a clear explanation how firms should implement the ‘Treating Customers Fairly’ (TCF) initiative”

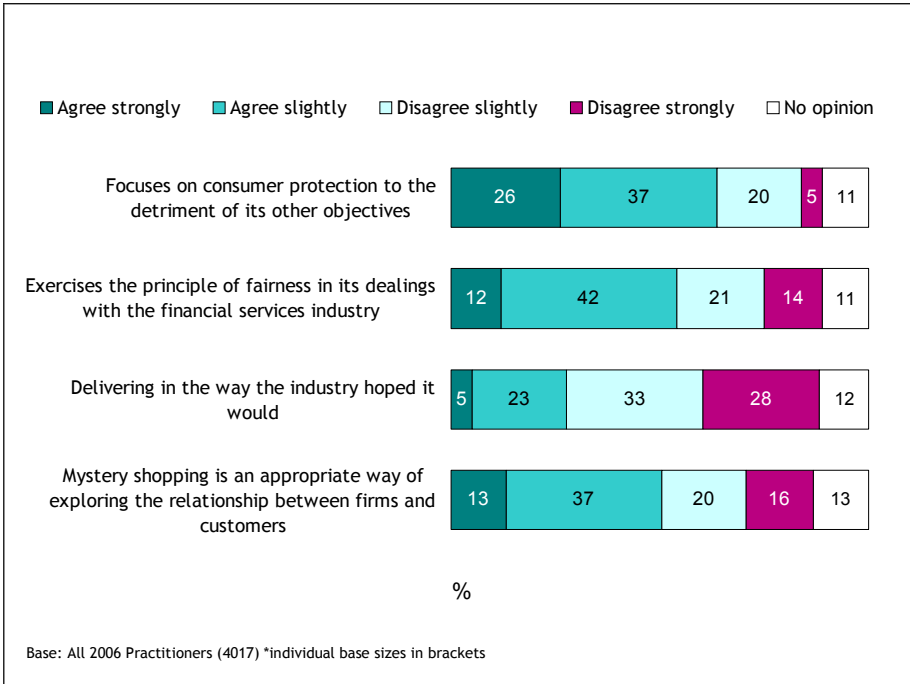


The proportion of practitioners disagreeing was higher for retail firms (55%) than wholesale firms (38%). The higher level of disagreement amongst retail firms was widespread across both Relationship Managed firms and smaller firms. This reflected the qualitative study findings in that the TCF initiative was found to be more of a consumer and retail issue.

Other attitudes towards regulation

The quantitative survey asked practitioners to rate a number of other attitudes towards regulation relating to the FSA, using the same agree-and-disagree scale.

Chart 3.7: General attitudes towards regulation - other attitudes relating to the FSA



The first three statements in the chart above were asked in 2004. Scores were very similar in 2006. Retail firms tended to be less positive than wholesale firms. The question on Mystery Shopping was added in 2006, as this has become increasingly used by the FSA.

Thematic reviews

In the qualitative study, practitioners who commented reported variable experiences of thematic visits. Many felt that they were generally constructive and useful but could be affected by the quality of staff conducting the visit and their approach, experience and attitude.

“The latest visit was very friendly.”

HOC, Bank, Wholesale, Large.

“I felt like the FSA were trying to catch me out and were more interested in picking out problems than anything else.”

HOC, Authorised Professional Firm, Retail, Large.

There was also a view that the notice period given by the FSA for thematic visits was often too short (2-3 days). This intense time pressure was felt to be ironic given the FSA’s perceived lack of responsiveness and poor timeliness when it came to dealing with practitioner queries. The short time scales were also a cause of stress and worry for some firms, particularly as some perceived this to be the FSA trying to ‘catch’ them out. They saw the thematic visit as a ‘masquerade’ to check up on compliance practice.

“I was given only a couple of days notice. Whilst the FSA stressed that the visit was purely to understand more about small businesses of our nature, I felt very much under the spotlight.”

CEO, GI Secondary, Large.

The 2006 quantitative survey included a new question on thematic reviews. Just over half (54%) of practitioners agreed that “thematic work is an effective way to spot emerging issues and problems”. Nearly one third of all practitioners did not give an opinion on this question, and the proportion giving no opinion was higher amongst smaller firms.

Consequently, a higher proportion of larger firms agreed than smaller firms. The highest proportion of practitioners agreeing were in Major Group firms (80% wholesale, 89% retail). The second highest proportion agreeing were in Relationship Managed firms (74% wholesale, 80% retail). The third highest proportion agreeing were in smaller firms (58% wholesale, 52% retail).

Just under one in six (16%) of practitioners claimed to have participated in an FSA thematic review. A higher proportion of the larger, Relationship Managed firms claimed to have participated; the highest proportion was amongst the Major Group wholesale firms (97%).

One fifth of all firms felt that any supervision visit (or thematic review) had been undertaken in a suitably informed, collaborative and proportionate manner. A small proportion (5%) disagreed with this view. The majority did not answer this question.

Arrow

Practitioners from the qualitative study who could comment on ARROW expressed similar views to that of thematic visits. Their satisfaction relied heavily on the approach, experience and attitude of the staff conducting them. As a result, experience was varied and inconsistent.

Some practitioners were of the impression that ARROW visits had improved and had become less confrontational and aggressive.

“When we deal with them on a themed visit or an ARROW visit we find them to be open minded.”

HOC, Building Society, Retail, Large.

Others, however, felt that ARROW visits had worsened, with inexperienced staff who lacked business understanding.

“ARROW was disappointing. I think their inexperience showed through, I felt the supervision team just didn’t understand the issues. They identified risks that we did not feel were risks at all.”

HOC, Securities & Derivatives, Wholesale, Small.

Further criticism from practitioners included the amount of work ARROW visits required. This was especially frustrating as it was felt to be duplication.

“The amount of information that the FSA want before a visit is really substantial and is repeated each time they visit, almost without regard to the information they’ve had before or what they know about the business.”

CEO, Friendly Society, Retail, Large.

3.4 Overall effectiveness of the FSA

Views on various aspects concerning the overall effectiveness of the FSA were explored in both the qualitative study and the quantitative survey. Value for money was an issue addressed for the first time by the 2006 survey.

Value for money

In the qualitative study, most practitioners found it difficult to assess the value for money of their regulatory fees. The concept of value for money was not something firms really thought about in relation to their regulatory fees. Most simply considered the fees an unwelcome levy that they had no choice but to pay, similar to a tax.

“It’s like income tax. Do you get value for money on your income tax? I don’t think people measure it in that way really. It just feels like a levy on us.”

HOC, Major Group, Retail.

“You could argue that they’ve rooted out the crooks and stopped those who market in an unacceptable way, they probably have. From that point of view you’ve got to say that they’ve done a good job. The fees we pay are not astronomical.”

HOC, Investment Managers, Retail, Large.

However, one Major Group firm expressed that it did not receive value for money. It felt that it did not receive enough access to senior level staff at the FSA.

Although some smaller firms felt that the costs of regulation were excessive, they acknowledged that they benefited from the value of FSA accreditation, as it provided reassurance and legitimacy to consumers.

“I think so, as I said before, we can use it as a selling tool, and the fact we can say we are regulated by the FSA is an important factor, once you grow larger then maybe not, but for a small organisation such as ours it is a very useful tool. I think it is value for money as it stands at the moment.”

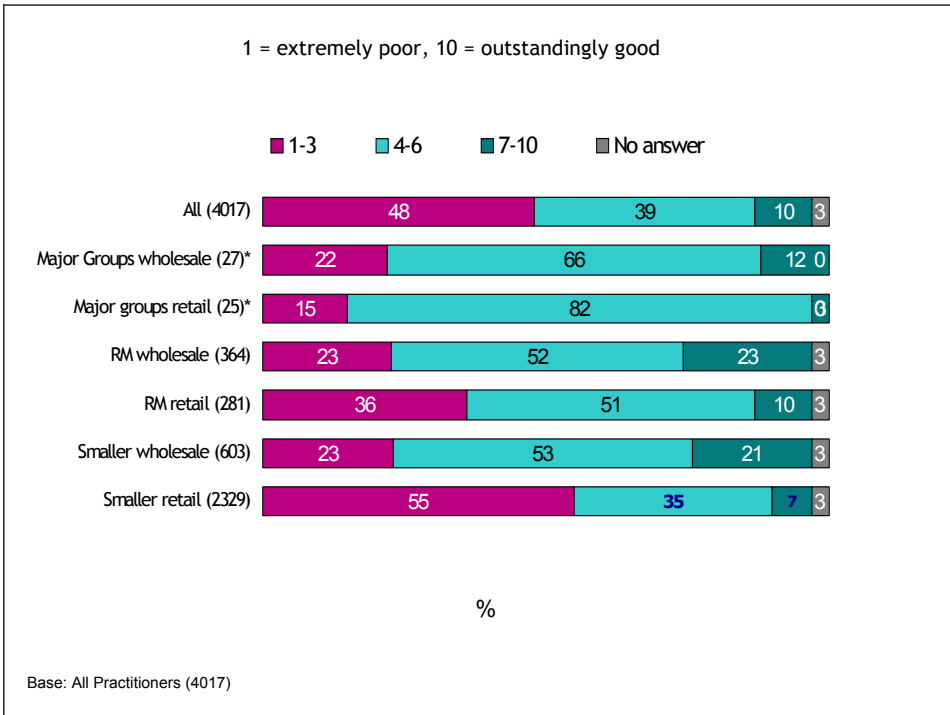
CEO, Credit Union, Retail, Small.

Although there were some positive comments about value for money in the qualitative study, there were high proportions of practitioners giving low scores for value for money in the quantitative survey.

Practitioners were asked to rate the performance of the FSA using a scale from one (extremely poor) to ten (outstandingly good) - they could also give any score in between one and ten.

For the first time in 2006, practitioners were asked to rate the FSA’s performance on “Giving value for money against your regulatory fees”. Nearly half of all practitioners (48%) gave a low score (1-3). Only 10% of all practitioners gave a high score (7-10).

Chart 3.7: Overall effectiveness of the FSA - “Giving value for money against your regulatory fees”



For smaller retail firms in particular, a higher proportion (55%) of practitioners gave a low score (1-3). Across all sizes of firm, although to a lesser degree, a higher proportion of practitioners gave a low score (1-3) amongst retail firms than wholesale firms.

Amongst Relationship Managed wholesale firms and smaller wholesale firms, a higher proportion of practitioners gave a high score (7-10). Nearly a quarter (23%) of Relationship Managed wholesale firms and around a fifth (21%) of smaller wholesale firms gave a high score.

Knowing & understanding your firm

The qualitative study, as in 2004, found that many practitioners viewed the FSA as still having a 'one size fits all' approach to regulation. This was felt to show the FSA's lack of understanding of the firms and sectors they regulate. They believed that the FSA often took a far too generalistic approach to policy formulation and failed to take into account the differences between regulated firms that fell under the umbrella of FSA regulation. It was chiefly between retail and wholesale firms and between smaller and larger firms, but also across firm types within the financial services industry. This was viewed as a lack of understanding and lack of policy tailoring across sectors. Some practitioners felt this to be clearly apparent within the recent inclusion of M&GI intermediary firms under regulation.

"We've felt for a long time that the FSA sees everybody in financial services as the same."

HOC, IFA Firm, Retail, Small.

Some practitioners also felt that the FSA failed to take into account the commercial realities under which firms operated, resulting again in a 'one size fits all' approach to regulation. This was felt to be of little benefit to the consumer, to the industry and to innovation. For instance, lack of differentiation between regulatory requirements of small and large firms meant that although some smaller players would have liked to offer a wider range of services, they were restricted by regulatory burden and cost.

"It's short-sighted I feel the perception of the FSA in many cases, it stops and just focuses on the procedures, rather than looking at the wider commercial interests organisations have."

HOC, IFA Firm, Retail, Large.

"Could they remember that there are some small players in the market, who would like to offer more, but couldn't afford to or wouldn't be able to manage the regulatory aspects that would go with it. The only people that can do it...are the big boys for obvious reasons."

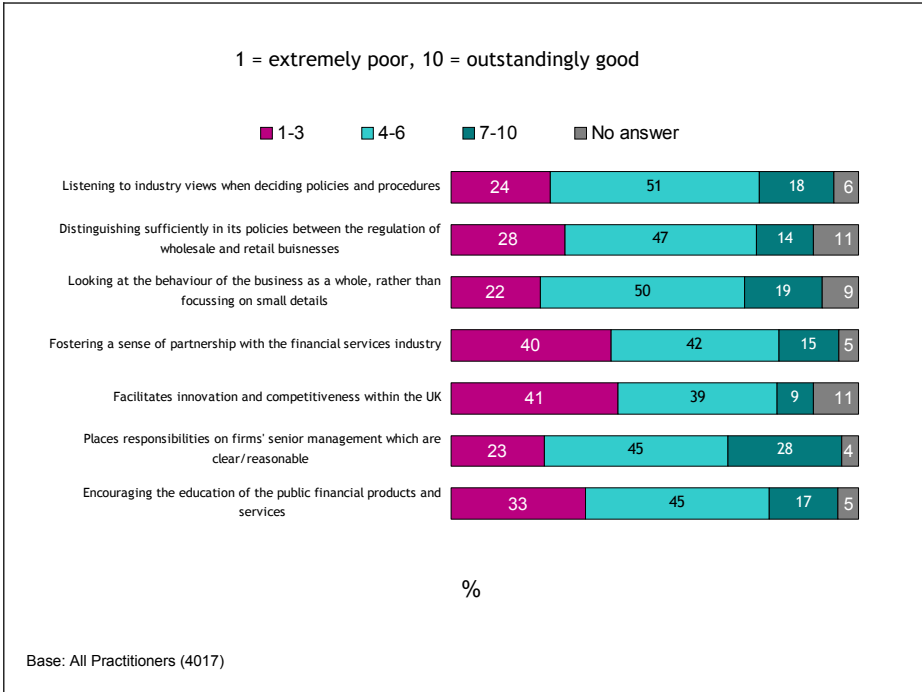
CEO, Credit Union, Retail, Small.

The quantitative survey found that just over two-fifths (44%) of practitioners gave a low score 1-3 for “knowing and understanding your firm and its business”. This has worsened since 2004, when 35% of practitioners gave a low 1-3 score. This low score was driven by Smaller Retail firms, 50% of which gave a low score for the 2006 survey, compared to 39% for the 2004 survey.

Other aspects concerning the overall effectiveness of the FSA

For the remaining questions, practitioners tended to give scores in the middle of the scale (4-6). Scores were very similar to those in 2004. In most cases, smaller retail firms had noticeably higher proportions of practitioners giving a low score (1-3) than other types of firm.

Chart 3.8: Overall effectiveness of the FSA - other aspects



In nearly all cases, a higher proportion of practitioners gave low scores (1-3) than high scores (7-10). There were two questions in particular where a higher proportion of practitioners gave low scores (1-3). These were concerning the FSA “fostering a sense of partnership with the financial industry” and the FSA “facilitates innovation and competitiveness within the UK”.

Two fifths of practitioners gave a low score (1-3) for the FSA “fostering a sense of partnership with the financial industry”. The scores were very similar to 2004. A higher proportion (45%) of smaller retail firms gave a low score compared to other firms.

Just over two fifths (41%) of practitioners gave a low score (1-3) for the FSA “facilitates innovation and competitiveness within the UK”. The scores were very similar to 2004. A higher proportion (44%) of all retail firms gave a low score compared to other firms. The proportion of practitioners who gave a low score was consistent across all sizes of retail firms, including Major Group retail firms.

3.5 FSA developments

Views on FSA developments were explored in both the qualitative study and the quantitative survey. One of the main themes that emerged was the FSA's treatment of smaller firms.

FSA's treatment of smaller firms

In previous surveys smaller firms were more negative in their response to the FSA's treatment of smaller firms.

In 1999 the FSA set up the Smaller Business Practitioner Panel to represent the interests of smaller regulated firms. In 2004 the Small Firms Division was also set up by the FSA to address these issues. Since the surveys first started, practitioners have seen the setting up of these bodies as positive moves.

In the qualitative study there was little spontaneous mention of the Small Firms Division. However, there was some acknowledgement that the FSA's approach towards smaller firms had improved. Some practitioners mentioned a more rapid response to queries. There was also some perception that when practitioners contacted the FSA they were verbally recognising the value of smaller firms.

“To be fair to the FSA, we've put in a request to change our area of operations and they've been very good, they've responded very quickly and indicated in principle that they are willing to support us. This is good, I understand from fellow Directors that this hasn't been the situation in the past.”

CEO, Credit Union, Retail, Small.

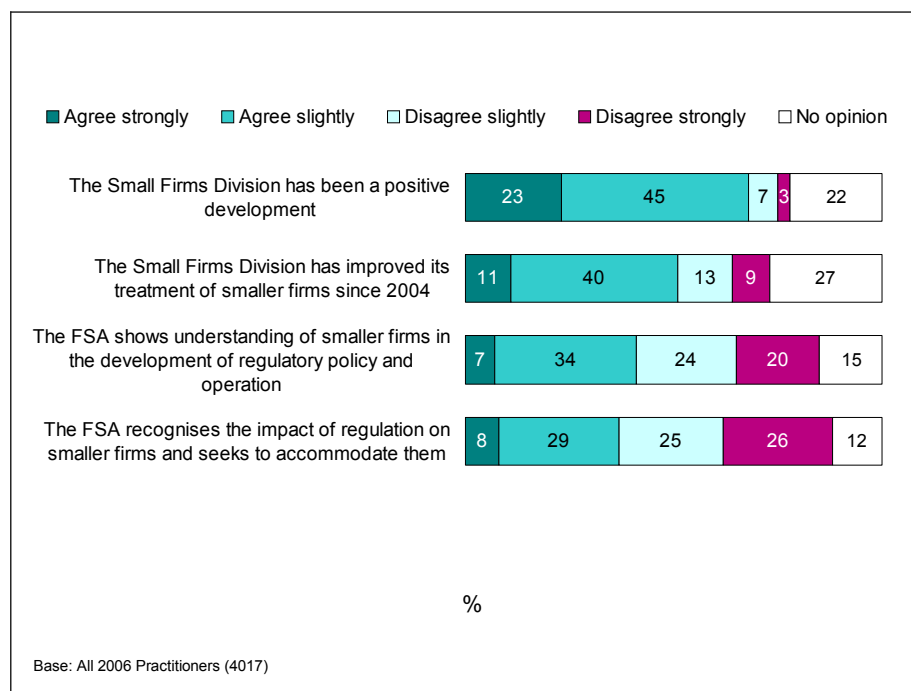
However, on a day-to-day basis practitioners were unconvinced that this had made a difference to the worsening burden of regulation, especially for smaller retail firms.

“I think there is perhaps a realisation at the FSA that there is a difference [between small and large firms], but in practical terms it hasn't made a difference. They maybe acknowledged it...warm words about us and our value, but when it comes down to practicalities it's still the same, you've got to do this reporting. Whereas the larger firms, they'll have accounts departments...”

HOC, IFA Firm, Retail, Small.

In the quantitative survey, nearly a quarter (23%) of firms strongly agreed that the Small Firms Division had been a positive development. Only 10% of firms disagreed. Over a fifth (22%) of firms did not give an opinion, but this tended to be larger firms rather than smaller firms.

Chart 3.9: FSA developments:- smaller firms



Just over half (51%) of all practitioners in the 2006 survey agreed that “the FSA has improved its treatment of smaller firms since 2004”. Amongst the firm types that were regulated prior to 2004 who could therefore give a more authoritative answer, 55% of practitioners agreed. A higher proportion of smaller retail firms agreed (62% agreeing, 15% disagreeing) than smaller wholesale firms (50% agreeing, 15% disagreeing).

Just over two fifths (41%) of firms agreed that the “FSA shows understanding of smaller firms in the development of regulatory policy and operation”. However, one fifth of firms disagreed strongly with this view. There were similar scores by type of firm. This was an improvement since the 2004 quantitative survey, when 30% agreed, and 33% disagreed strongly.

Just over a third (37%) of practitioners agreed that “the FSA recognises the impact of regulation on smaller firms and seeks to accommodate them”. However, just over one quarter (26%) of firms disagreed strongly with this view. A higher proportion of smaller wholesale firms agreed (48%) than smaller retail firms (35%). This was an improvement since the 2004 quantitative survey, where 27% of all practitioners agreed, and 39% disagreed strongly.

Retail Mediation Activities Return (RMAR)

In the qualitative study, the RMAR was a key cause of concern and was felt to be another example of the increasing burden on firms. Smaller practitioners in particular felt the greatest burden, as larger firms were more likely to have their own compliance departments or accountancy firms dealing with it, lifting the burden somewhat.

Main criticisms of RMAR surrounded time and cost. Firms found returns time consuming to complete and had little sense of why they now had to report twice yearly. There was also some view that the reporting changes came about too quickly and were missed by some. Firms also incurred cost pressures, such as additional accountancy fees.

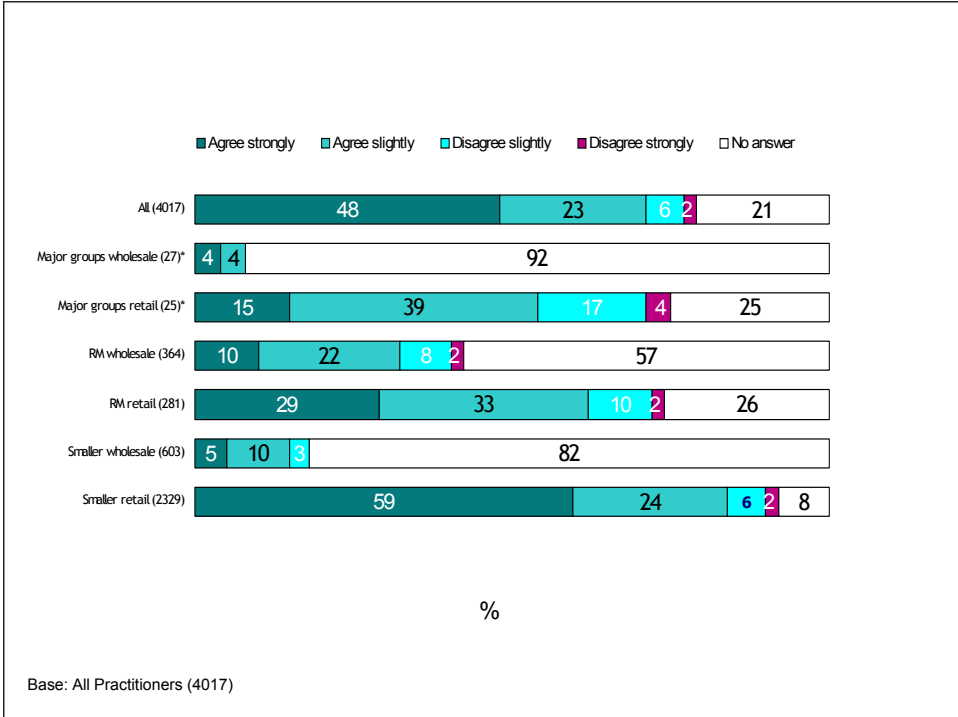
“One of the things that really gets us at the moment is the reporting, the RMAR, having to do it twice yearly is costing us an extra thousand pounds per year in accountancy fees...it is a cumbersome piece of documentation to complete. I’m not certain why we have to do it twice yearly as a small practitioner.”

HOC, IFA, Retail, Small.

Further criticisms of RMAR surrounded the fact that practitioners widely experienced technical problems with the electronic reporting system. The attitude of the FSA enhanced these frustrations, as staff were perceived to offer unhelpful and conflicting advice. In some instances the FSA also accused some firms of serious error breaches when innocent mistakes had simply occurred.

The quantitative study found that amongst all practitioners interviewed in 2006, nearly three quarters (71%) agreed that “the RMAR has produced a substantial extra burden on firms”. As might be expected, reflecting the qualitative study, this proportion was higher amongst smaller retail firms (83%). Furthermore, nearly three-fifths (59%) of practitioners in smaller retail firms agreed strongly with this view.

Chart 3.10: FSA developments:- “the Retail Mediation Activities Return (RMAR) has produced a substantial extra burden on firms”



Relationship Managed firms found the RMAR to be less of a burden: 54% of Major Group Retail firms agreed and 62% of Relationship Managed Retail firms agreed that the RMAR had produced a substantial extra burden on firms.

Website

Where practitioners in the qualitative study had commented, some held the view that the FSA website had improved and that the FSA had made positive efforts in this area in terms of simplification and navigation. There was some feeling from practitioners that the website was a useful information source. It was also appreciated that they could access the Handbook on the website, had the ability to report online and change authorised persons and regulatory activities online. However, there was still felt to be room for further improvement in terms of navigation and filtering by audience, such as by smaller firm.

“The website has been jazzed up. The FSA have attempted to make it easier to navigate, home pages for certain types of firms i.e. authorised professional firms and topics i.e. TCF. You can also indicate whether you want all the rules relating to an authorised professional firm. I think this is a good thing, rather than looking through a lot of source books that are irrelevant. However, I do think that the website could be laid out a lot better, I know some people have a terrible time trying to find anything.”

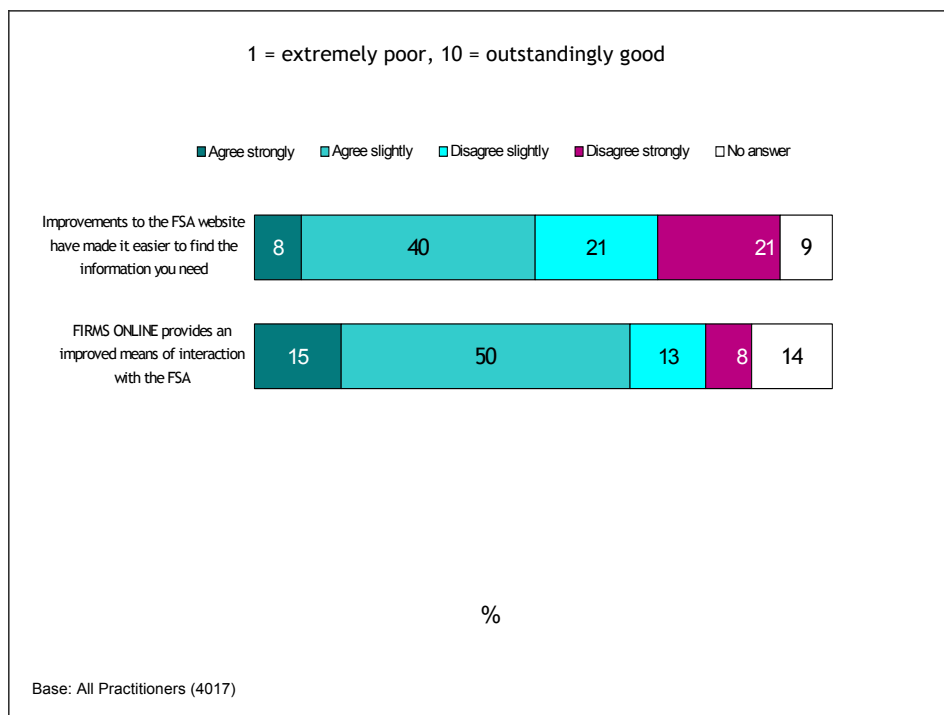
HOC, Authorised Professional Firm, Retail, Large.

“Fortunately they have a good website and the documents are fairly easy to find.”

HOC, Friendly Society, Retail, Small.

In the quantitative survey, fairly equal proportions of practitioners agreed and disagreed that “improvements to the FSA website have made it easier to find the information you need”. This reflected the varying experiences of practitioners found in the qualitative study. The proportion agreeing was higher amongst Relationship Managed wholesale firms:- 63% Major Group wholesale firms agreed and 55% of Relationship Managed wholesale firms agreed.

Chart 3.11: FSA developments:- online developments

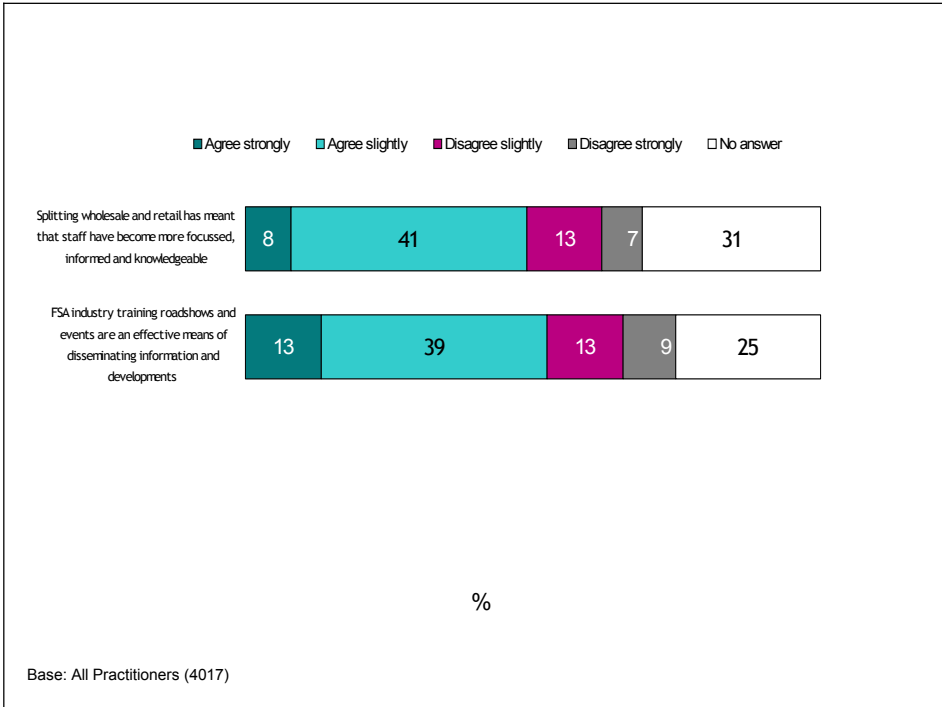


Nearly two-thirds (65%) of practitioners agreed that “FIRMS ONLINE provides an improved means of interaction with the FSA”. This proportion was higher amongst smaller retail firms (69%) and Major Group retail firms (72%).

Other FSA developments

In the quantitative study, nearly half (49%) of practitioners agreed that the FSA “splitting wholesale and retail has meant that staff have become more focussed, informed and knowledgeable.” However, only 8% of practitioners agreed strongly. A higher proportion of practitioners in Major Groups agreed:- 66% of Major Group wholesale firms and 60% of Major Group retail firms agreed.

Chart 3.12: Other FSA developments



Over half (52%) of firms agreed that “FSA industry training roadshows and events are an effective means of disseminating information and developments”. A relatively high proportion (13%) of practitioners agreed strongly. A higher proportion of Relationship Managed firms agreed:- in particular 74% of Major Group Retail firms and 73% of Relationship Managed wholesale firms agreed.

3.6 EU & International issues

International activities, such as working with overseas regulators to agree international standards and monitor global firms and markets, form an important part of the FSA's role and one of the principles under which the FSA operates is the maintenance of the international competitiveness of the UK financial services industry.

The FSA places particular priority on European issues as the UK must implement into UK law legislative decisions made at the European Union (EU) level. The proportion of practitioners who were able to comment on these issues in the qualitative study and the quantitative survey were therefore relatively small. The quantitative survey found that just over one in six (17%) practitioners felt that they could give an opinion of or had experience of EU or international issues.

Capital Requirements Directive

In the qualitative study, many of the practitioners who could comment felt the requirements were sensible and appreciated that firms had to be solvent.

“It’s fair enough, it’s straightforward, it’s a quarter of your annual expenditure [depending on the size of your business and what you are involved in]. I think it’s fair enough.”

CEO, IFA Firm, Retail, Large.

Some practitioners felt that the Capital Requirements Directive was another example of the FSA gold plating EU directives. They also felt that there had been limited guidance from the FSA in this area.

“I think that the new regime is more complex and that this change stems from European Directives. It’s led to increased costs in the business.”

CEO, Insurance Firm (Life & Investments), Retail, Large.

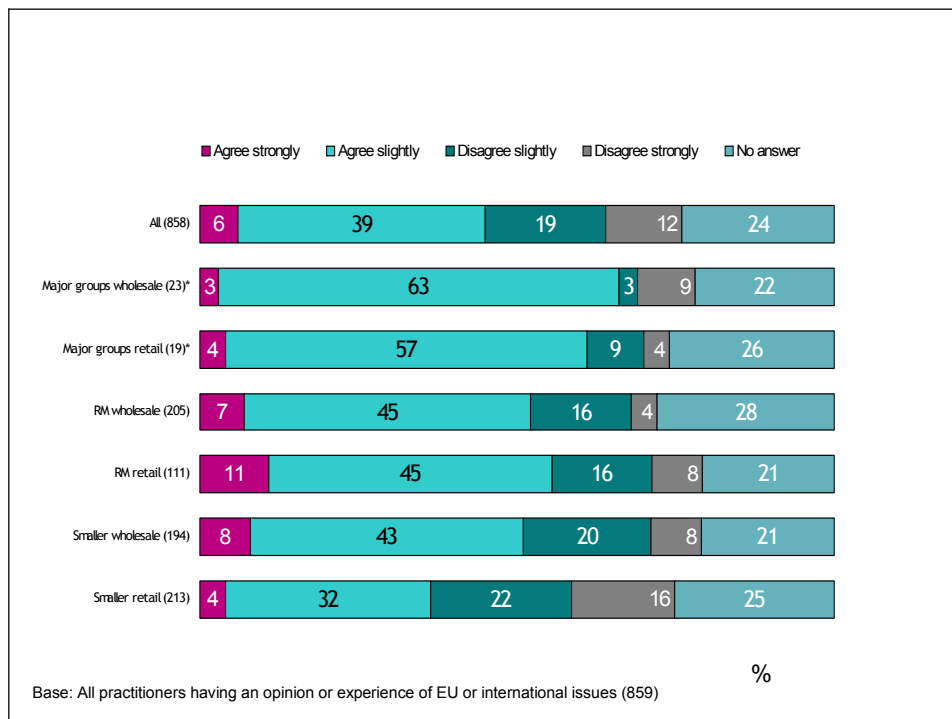
In addition, some practitioners feared that the level of capital required may be a struggle for some smaller businesses and that the FSA should recognise this. Some practitioners also felt that there had been a lack of guidance in this area.

“Capital might be an issue for some small businesses, having to have £10,000 on one side.”

HOC, IFA, Retail, Small.

In the quantitative study, nearly half (45%) of practitioners agreed that “the FSA has assessed the Capital Requirements Directive (CRD) in an effective way”. A further 31% of practitioners disagreed, and 24% gave no opinion. Fewer smaller retail firms agreed (36%), and the proportion disagreeing (38%) outweighed the proportion agreeing. A larger proportion of Relationship Managed firms agreed, particularly amongst Major Groups.

Chart 3.13: EU and international issues:- “The FSA has assessed the Capital Requirements Directive (CRD) in an effective way”



Markets in Financial Instruments Directive (MiFID)

As might be expected, in the qualitative study as well as the quantitative survey, it was mainly larger firms who felt able to comment on MiFID. In the qualitative survey most practitioners were uncertain as to the implications of MiFID, as details had not yet been finalised. Practitioners found the lack of information from the FSA frustrating and concerning, leaving them unsure of how it would affect them.

"I do remember something coming out from the FSA this year saying you need to be ready for MiFID, it could have big implications for you. Well okay, somebody tell us what they are. There's no good telling me that a train's coming but they are not telling me when it's coming or how big it is. We need to know... MiFID...is just something we don't know about...not for lack of trying."

HOC, Building Society, Retail, Large.

It was, however, anticipated by some practitioners that MiFID would be significant, prescriptive and rules-based.

"We are getting information that tells us it will be significant, but we are still waiting for the details."

HOC, Building Society, Retail, Large.

"It's going to have an impact and people need to get themselves into position to cope with it."

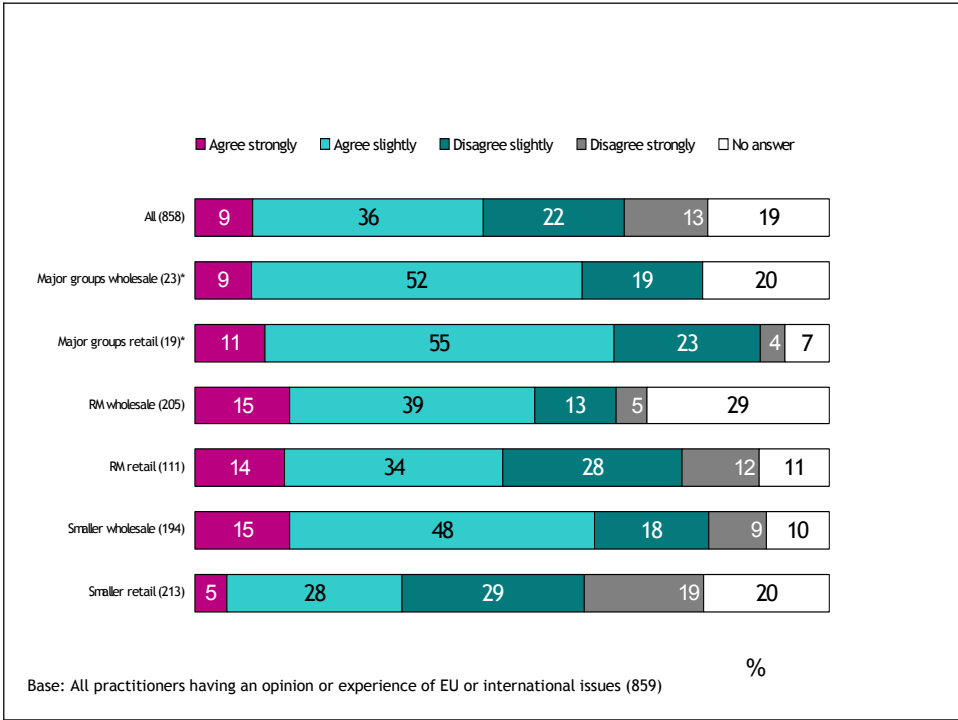
HOC, Investment Management Firm, Retail, Large.

"Early signs of MiFID suggest that some of the requirements may be more prescriptive and restrictive than the current FSA rules. The question is how forceful the FSA can be and influence what goes on before it gets to legislation stage where we end up with no scope."

HOC, Major Firm, Retail.

In the quantitative survey, a more positive picture emerged than in the qualitative study. Nearly half (46%) of practitioners who commented on EU or international issues felt that “the FSA has kept the industry adequately informed on MiFID”, although few agreed strongly. Also, over a third (36%) of practitioners disagreed. The proportion of firms disagreeing was driven by retail firms:- 41% of Relationship Managed retail firms disagreed and 47% of smaller retail firms disagreed.

Chart 3.14: EU and international issues:- “The FSA has kept the industry adequately informed on MiFID”



However, Major Group firms felt more adequately informed on MiFID, with 61% of Major Group wholesale firms agreeing and 66% of Major Group retail firms agreeing (*small base sizes).

EU issues and gold plating

In a similar way to 2004, the qualitative study highlighted a concern amongst many practitioners regarding the FSA's tendency to 'gold plate' the implementation of European directives. The result of this gold plating was that UK firms were perceived to operate at a disadvantage compared to the rest of Europe.

“One appreciates that much of the stuff coming out of the FSA is driven by EU directives. I think the major criticism that we would have as far as that is concerned is the massive gold plating that the FSA seems to indulge in, which puts, we feel, our business in the UK at a severe disadvantage commercially.”

CEO, Lloyds Market, Wholesale, Small.

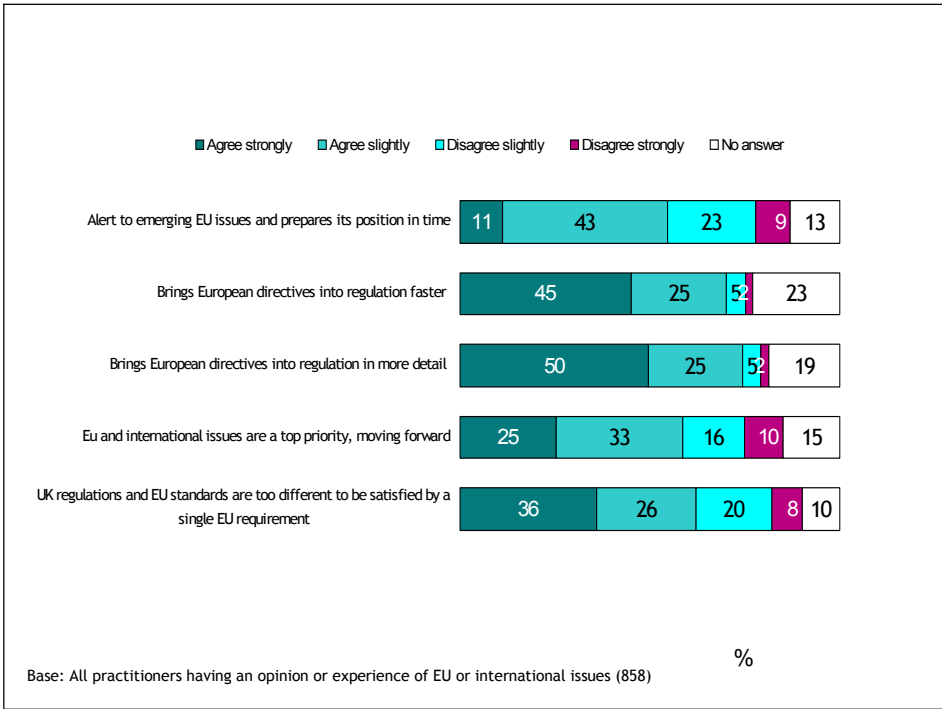
Some practitioners also feared that that gold plating would result in firms and capital leaving the UK. For instance, for insurance firms with policies underwritten by Lloyds, the burden of gold plating was especially felt by those who were experiencing 'double regulation'.

“There's a huge danger that people will regulatory shop in Europe...because, quite frankly, the burden we have is higher.”

CEO, Major Group, Wholesale.

In the quantitative survey, a number of questions were asked relating to EU issues and also relating to gold plating. In 2006, firms were asked only to answer these questions if practitioners had an opinion or experience of EU or international issues.

Chart 3.15: EU and international issues:- EU issues and gold plating



Nearly two-fifths (59%) of practitioners who answered the question agreed that “EU and international issues are a top priority, looking forward”. Furthermore, one quarter of practitioners strongly agreed. The proportion agreeing was again highest amongst Major Groups:- 86% of Major Group wholesale firms and 89% of Major Group retail firms agreed. The proportion agreeing was lower amongst smaller retail firms (43%).

Over half (54%) of practitioners who answered the question agreed that “the FSA is alert to EU issues and prepares its position in time”. Nearly one in ten (9%) practitioners strongly disagreed.

Over two-thirds (70%) of practitioners who answered the question agreed that “the FSA brings European directives into UK regulation faster than other European regulators”. Furthermore, over two fifths (45%) of practitioners strongly agreed. The proportion agreeing was highest amongst Major Groups:- 97% of Major Group wholesale firms and 89% of Major Group retail firms agreed.

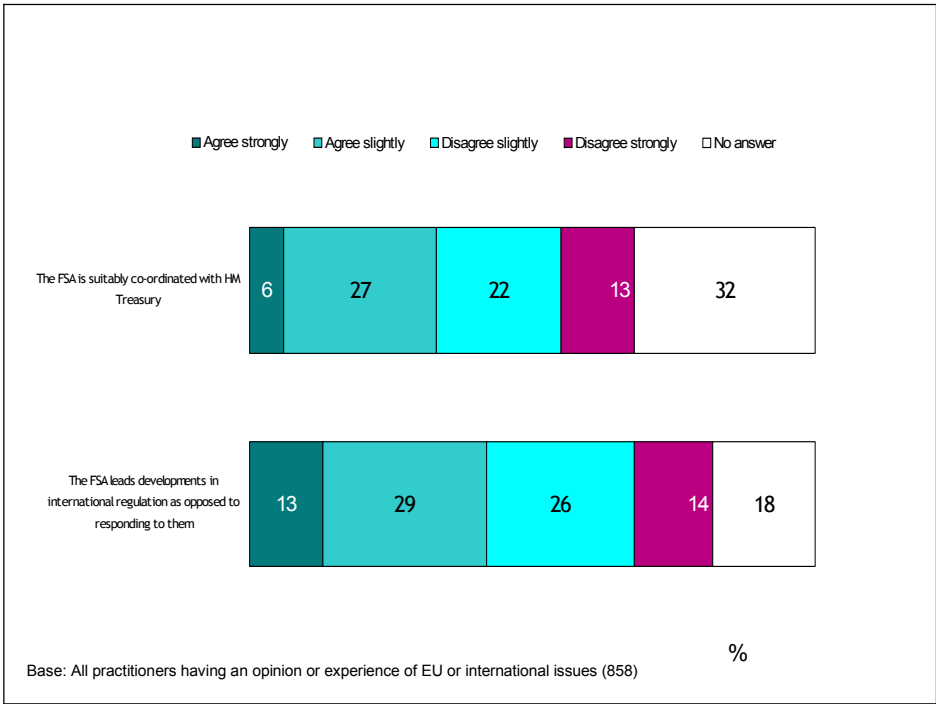
Three quarters of practitioners who answered the question agreed that “the FSA brings European directives into UK regulation in more detail than other European regulators”. Furthermore, one half of practitioners strongly agreed. The proportion agreeing was again highest amongst Major Groups:- 92% of Major Group wholesale firms and 92% of Major Group retail firms agreed.

Nearly two-thirds (62%) of practitioners agreed that “UK regulations and EU standards are too different to be satisfied by a single EU requirement”. The proportion agreeing was highest amongst retail firms:- 56% of wholesale firms and 68% of retail firms agreed.

Other issues

In the quantitative survey, one third of practitioners who answered the question agreed that “The FSA is suitably co-ordinated with HM Treasury”. However, few strongly agreed.

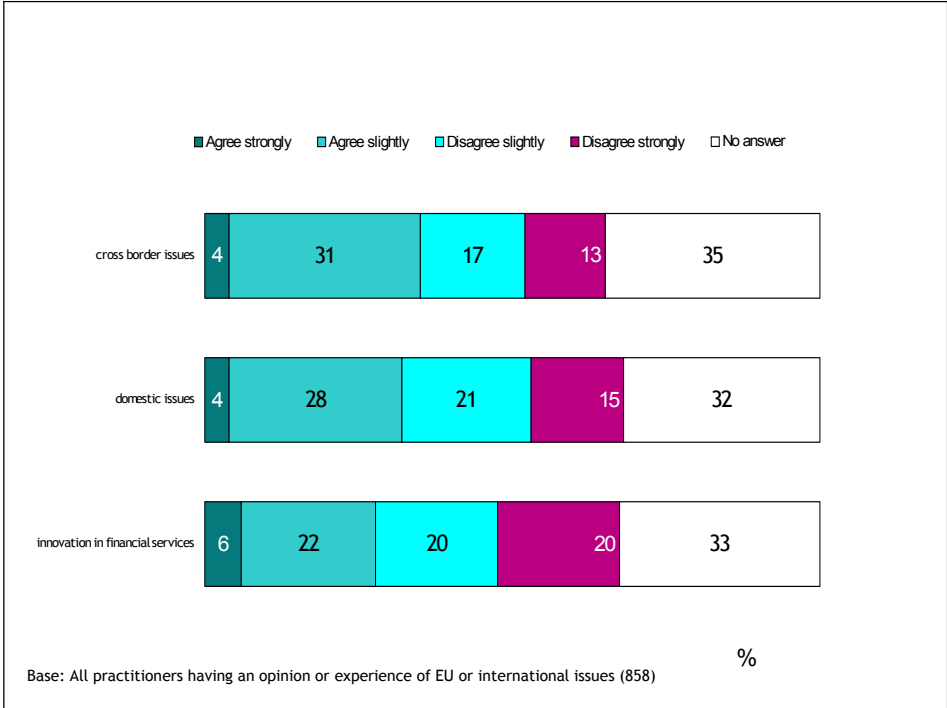
Chart 3.16: EU and international issues:- other issues



Fairly equal proportions (two-fifths) of practitioners agreed and disagreed that “The FSA leads developments in international regulation as opposed to responding to them”. However, well over one in ten (13%) strongly agreed.

In the 2006 quantitative survey, practitioners who had an opinion or experience of EU or international issues were asked whether they agreed or disagreed that the FSA improved the UK's international competitiveness.

Chart 3.17: EU and international issues:- has the FSA improved the UK's international competitiveness? Please answer in relation to cross border issues, domestic issues and innovation in financial services.



In all cases, around one third of practitioners who answered the question could not give an opinion. For those that could give an opinion, practitioners were most likely to agree that the FSA had improved the UK's international competitiveness for cross border issues.

They were least likely to agree that the FSA had improved the UK's international competitiveness for innovation in financial services. The proportion (40%) of those practitioners disagreeing was also highest.

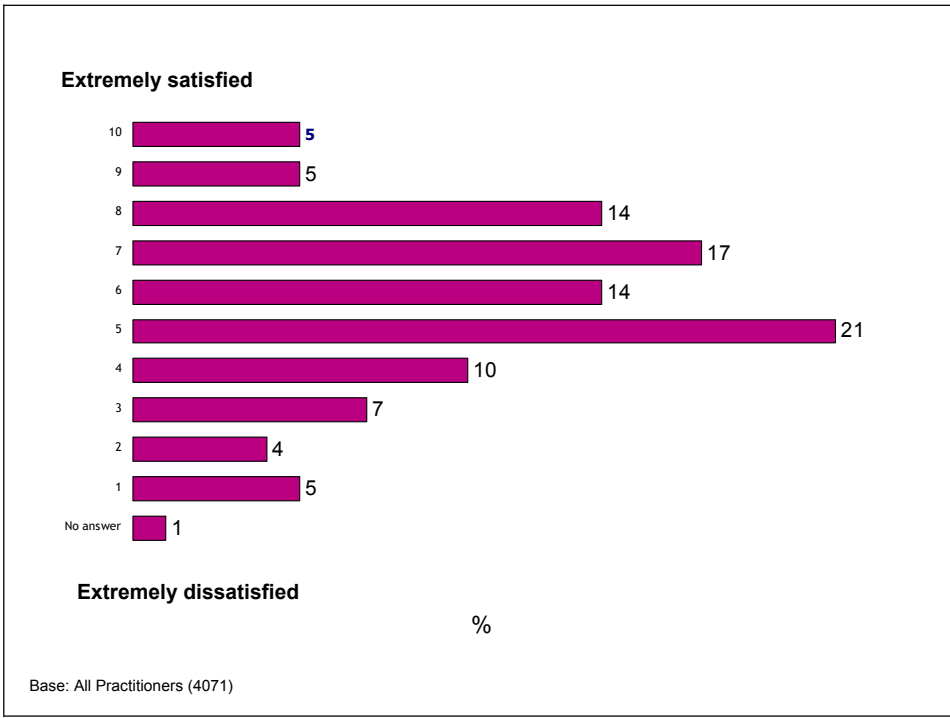
4. Experience as a regulated firm

4.1 Overall Satisfaction with the FSA

The quantitative study asked practitioners to rate satisfaction with the FSA relationship, taking into account all their dealings. Practitioners were asked to rate their satisfaction on a scale from one (extremely dissatisfied), to ten (extremely satisfied).

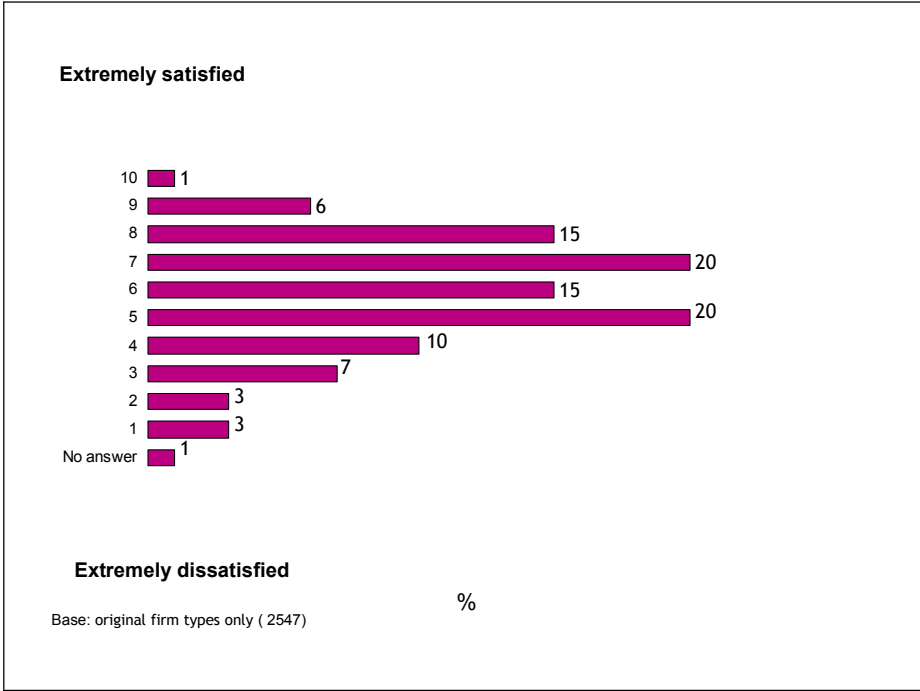
The overall satisfaction question was asked of all firms in the survey, including the more recently regulated M&GI intermediary firms. The majority of survey respondents gave the FSA a score in the middle range of the scale, with few giving scores of either nine or ten, or one or two. The mean satisfaction score was six, the same as in the 2004 quantitative survey.

Chart 4.1: Overall satisfaction - ‘taking into account all your business’ dealings with the FSA, how satisfied are you with the relationship?’ (all 2006 respondents)



Practitioners' overall satisfaction ratings for the 2006 quantitative survey were also compared on a like-for-like basis with the 2004 quantitative survey. In order to make a like-for-like comparison, practitioners' responses were compared amongst the same firm types as those surveyed in 2004, removing the M&GI intermediary firms.

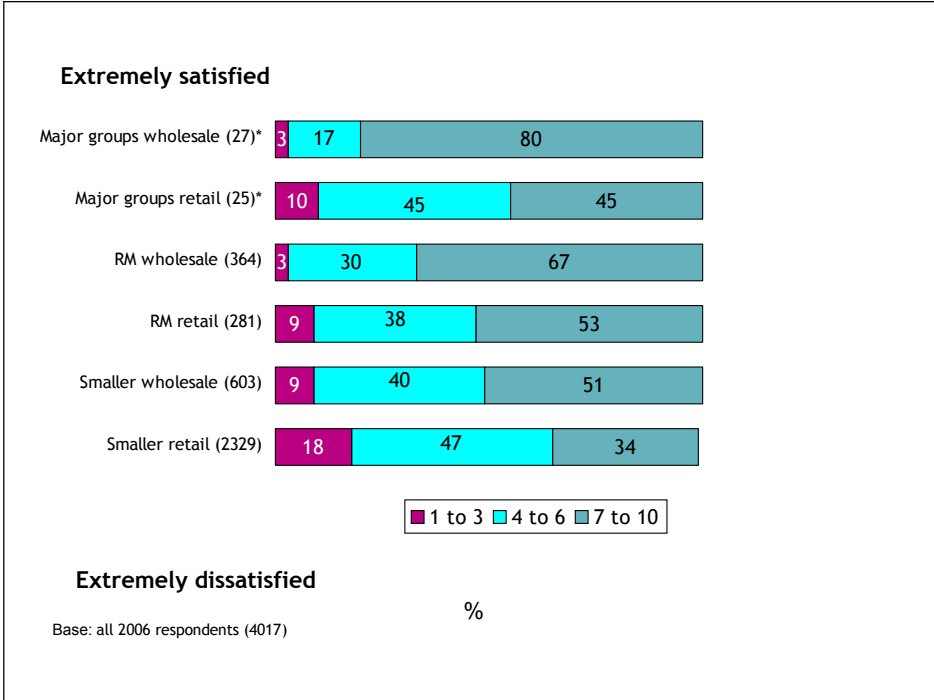
Chart 4.2: Overall satisfaction - 'taking into account all your business' dealings with the FSA, how satisfied are you with the relationship?' (2006 respondents - excluding M&GI intermediary firms)



Amongst the same firm types, the 2006 overall results are very similar to 2004. The majority of practitioners also gave the FSA a score in the middle range of the scale, with few giving scores of either nine or ten, or one or two. The mean satisfaction score was also six amongst the same firm types in 2006, the same as in 2004.

The overall satisfaction question in the quantitative survey was analysed by firms of different size, and whether firms were retail or wholesale. The quantitative survey found that there were considerably lower satisfaction levels for retail firms (and smaller retail firms in particular).

Chart 4.3: Overall satisfaction - ‘taking into account all your business’ dealings with the FSA, how satisfied are you with the relationship?’ (All 2006 respondents)



The overall satisfaction ratings for firms of different size, and retail or wholesale, were compared with the 2004 quantitative survey. Amongst smaller retail firms, the proportion who gave a low score (1-3) increased from just over one in ten (13%) in 2004 to nearly one fifth (18%) in 2006. The worsening of this score is statistically significant for smaller retail firms.

Amongst Relationship Managed wholesale firms the proportion of practitioners giving a low score halved from 6% in 2004 to 3% in 2006. Amongst Major Group firms this proportion also decreased from 15% in 2004 to 6% in 2006. However, although there are indications that these scores have improved, the differences are not significant due to much smaller base sizes.

For smaller wholesale firms and Relationship Managed retail firms, there was little difference in scores for both the 2004 and 2006 surveys.

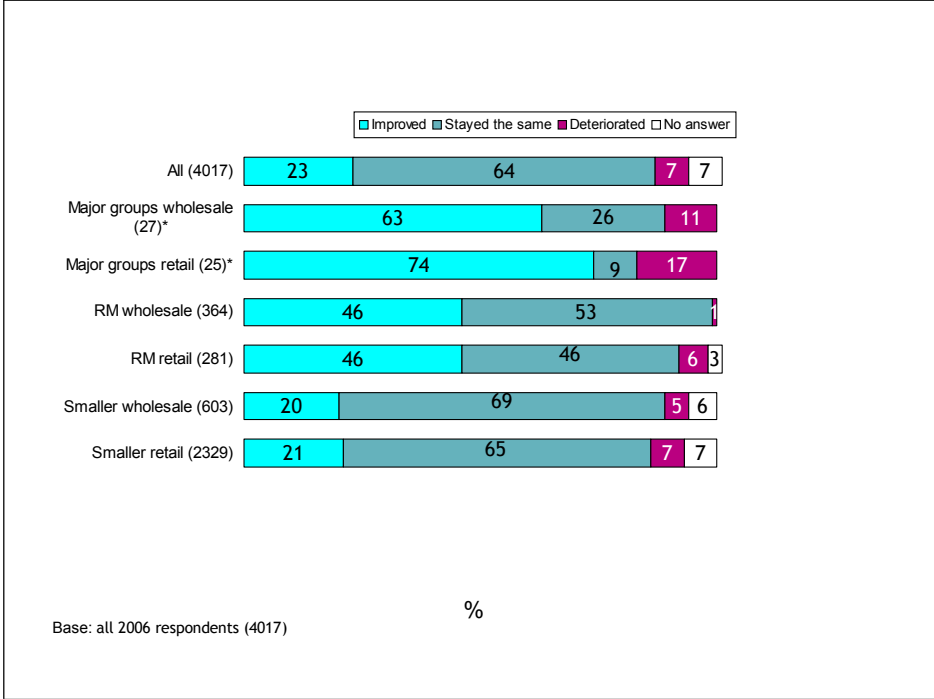
The individual sector that gave the highest satisfaction scores was Banks (70% gave the FSA a score of 7 - 10). This was a slight improvement on the 2004 survey, where Banks also gave the highest scores, but at a slightly lower level (67%). Other improvements were for General Insurers, whose proportion scoring 7-10 rose from just under half (48%) in 2004 to three-fifths in 2006. Credit Unions also gave higher scores, as the proportion scoring 7-10 rose from just under half (48%) in 2004 to over three-fifths (61%) in 2006.

Those sectors that gave the lowest scores were GI secondary intermediaries (21% gave the FSA a score of 7 - 10), Authorised Professional Firms (29%), and Financial Advisers (34%). Authorised Professional Firms' score worsened slightly, as in 2004, 31% gave a 7-10 score. Financial Advisers' score also worsened, as in 2004, 39% gave a 7-10 score. As the Financial Advisers' sector comprised a large proportion of the smaller retail firms, this had a noticeable effect on the smaller retail firms' score and the score for all firms.

Changes in firms' relationship with the FSA

As in the 2004 survey, practitioners were asked if they felt that their firm's relationship with the FSA had improved, deteriorated or stayed the same in the last two years.

Chart 4.4 Changes to relationship with the FSA in the last two years



The majority (64%) believed that there had been no change in the relationship, but just under one in four (23%) practitioners felt that there had been an improvement. Fewer than one in ten (7%) of practitioners had seen a deterioration in their relationship. Smaller firms were less likely than other types of businesses to have seen an improvement, but they were not more likely to say that there had been a deterioration.

A higher proportion of Relationship Managed firms believed the relationship had improved. Over two-thirds (68%) of Major Group firms and nearly one half (46%) of other Relationship Managed firms believed the relationship had improved over the last two years. As these firms have had the most dealings with the FSA, this would be expected.

Relationship Managed retail firms have the highest proportion of practitioners who believe that the relationship has deteriorated. This proportion was nearly one in five (17%).

4.2 The drivers of satisfaction

Which areas are more important to practitioners?

As in 2004, one of the main objectives of the survey was to provide the Panel with guidance on where, from the industry's perspective, the FSA should prioritise efforts to improve its service to regulated firms. In order to identify these priorities the following analysis approach was taken:

- **Individual questions were grouped into thirteen factors.** The survey contained a large number of questions about specific aspects of the relationship between the practitioner's firm and the FSA. A factor analysis was conducted to group questions into key themes. The outcome of the factor analysis is that the battery of questions around the performance of the FSA are grouped by a standard statistical process into sets or factors that have an underlying theme or connection. These factors provide a more manageable summary. (Details of the factor analysis methodology can be found in appendix 3.)
- **Derived importance scores were calculated for the factors.** Regression analysis was used to calculate the relative importance of the factors. This analysis looked at the strength of the relationship between the performance of the FSA on the questions in each factor and overall satisfaction with the FSA - the higher the correlation the more important the factor. (Details of the regression methodology can be found in appendix 3.)

Priorities are therefore those factors which are important (having the most impact on overall satisfaction) and where the FSA's current performance is low.

The thirteen factors were composed of the following underlying questions:-

Factor	Underlying questions
Supervisory approach and business understanding	<p>Supervision -</p> <p>The FSA has a good understanding of your business</p> <p>The FSA is willing to hold a dialogue with you about compliance issues</p> <p>The FSA applies a reasonable level of supervision for a business of your size/type</p> <p>The FSA makes good use of the information you provide to inform its dealings</p> <p>Staff don't take into account the level of risk arising from your business</p> <p>They have good interpersonal skills</p> <p>Sufficient commercial understanding of your business to make appropriate judgements</p> <p>Places emphasis on preventing problems rather than enforcement</p> <p>Difficult to give feedback on supervisory staff</p> <p>Willing to discuss findings of any supervisory visit</p> <p>Adopted a more principles-based approach with your firm</p> <p>Treat your staff as trustworthy</p>

Factor	Underlying questions
Staff knowledge and consistency	<p>Guidance -</p> <p>Co-ordination of response and action by the FSA across departments and teams</p> <p>Staff have sufficient knowledge to understand my business</p> <p>Staff avoid making decisions altogether</p> <p>Staff generally give guidance promptly</p> <p>Consistency of guidance from different members of staff</p> <p>Staff have the authority to answer my questions</p> <p>General administration -</p> <p>Sufficiently skilled staff to deal with day-to-day issues</p>
Effective administration	<p>General administration -</p> <p>Straightforward and efficient processes for dealing with authorisation and approval issues</p> <p>Handles waiver requests and other administrative functions (e.g. changes of permission) satisfactorily</p>

Factor	Underlying questions
Open discussion	<p>Guidance -</p> <p>Approach is one of collaboration rather than confrontation</p> <p>Possible to be open and frank in discussions with the FSA</p> <p>Difficult to work through things informally without involving legal people</p> <p>Supervision -</p> <p>Adversarial in approach</p>
Consultation procedures	<p>FSA places sensible reliance on market-led solutions</p> <p>Cost benefit analyses within Consultation Papers have been carried out robustly</p> <p>FSA Consultation Papers have become more concise</p> <p>FSA is committed to reducing the volume of Consultation Papers</p> <p>“Dear CEO” letters are a helpful alternative to the Consultation Paper process</p>

Factor	Underlying questions
Fair enforcement	<p>FSA's enforcement procedure</p> <p>Is being used in a way that is beneficial to the industry</p> <p>Recent review of enforcement procedures will result in firms being treated more fairly</p> <p>Is being used in a way that better serves to protect the consumer</p> <p>Is being understood by the industry to be an important strategic tool</p> <p>Imposes unreasonable penalties</p>
Using the Handbook	<p>Ease of use of the Handbook has improved over the last two years</p> <p>Difficult to find the rules and guidance that you need in the Handbook</p> <p>Level of detail in the Handbook is about right</p>
Organisation of the Handbook	<p>Guides to the Handbook have been useful</p> <p>Introduction of the personalised Handbook is welcomed</p>

Factor	Underlying questions
Focus on detail	Supervision - Asks too much detailed information about your business Tends to look at processes rather than outcomes
Staff continuity	Supervision - Approach varies on the individual Turnover of FSA supervision staff is detrimental to our regulatory relationship

The next section looks at the performance of the FSA on each factor in more detail.

4.3 Main priorities for the FSA

Supervisory approach and business understanding

This factor had the highest importance score but performance was relatively low, which means that from the industry's perspective this area should be where the FSA focuses its efforts to improve practitioner perceptions.

The qualitative study found that there was considerable variability in practitioners' views of the FSA's approach and ability to understand their business.

Some Relationship Managed and wholesale firms in the qualitative study felt that there had been some improvement in the quality of staff at the supervisory level in terms of their approach, knowledge and business understanding. The business-like and collaborative approach of FSA senior management was also acknowledged. The appointment of Hector Sants to the FSA was also seen as a commitment to engaging with wholesale firms.

"We have no issues with our day-to-day FSA contact or our relationship at supervisory level. Our supervisor is knowledgeable and understands our business."

CEO, Major Group, Wholesale.

"Middle to Senior Management are of pretty good quality. If I know who to speak to and have consistency then they will listen. They do that well. They are not closed minded, however you've got to make an effort to get that good relationship."

HOC, Building Society, Retail, Large.

However, the qualitative study also found that criticisms of the variability and quality of staff remained, particularly in relation to lack of relevant sector knowledge. Staff turnover was therefore a key concern, particularly for retail firms, as it was felt that staff did not have enough time to build up relevant sector knowledge. They felt the lack of continuity had restricted relationship building with supervisory teams. It had also impaired staff understanding of the businesses that they supervised and the issues that they faced.

“Their mentality is not one of engaging to facilitate this organisation making a profit, it’s there to say if you want to do that transaction with that client here are the hoops you must go through... They have no ability to conceptualise the management team here, how our management processes work...”

HOC, IFA Firm, Retail, Large

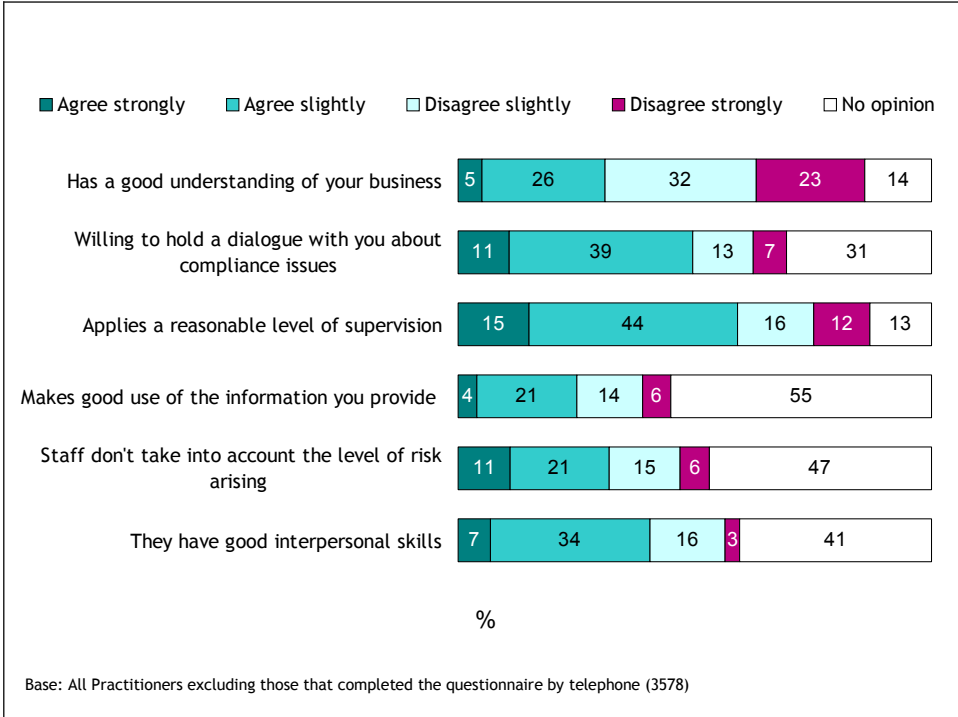
In addition, the qualitative study found that some firms who interacted with the FSA via the Contact Centre also expressed frustration. They stated that the frustration was due to staff competency, their lack of business understanding and lack of definitive or consistent responses to their queries.

“For a firm like us, trying to ring up the FSA and say this is our particular situation and we’re such a minor little player, you’re quite likely then to speak to somebody who perhaps doesn’t deal with me or doesn’t understand the needs of a smaller practice, so it hasn’t always been easy to get through to people and get the right answers.”

CEO, Authorised Professional Firm, Retail, Small.

In the quantitative survey, the most influential question driving the overall satisfaction score was whether practitioners agreed that the FSA had a good understanding of their business. As in 2004, more practitioners disagreed than agreed with this view. Just under a third (31%) of practitioners agreed, very few agreed strongly and well over half (56%) disagreed. Nearly one quarter (23%) disagreed strongly. This was a slight increase in the proportion disagreeing since the 2004 survey, where 20% of practitioners disagreed strongly.

Chart 4.5: Performance on ‘supervisory approach and business understanding’

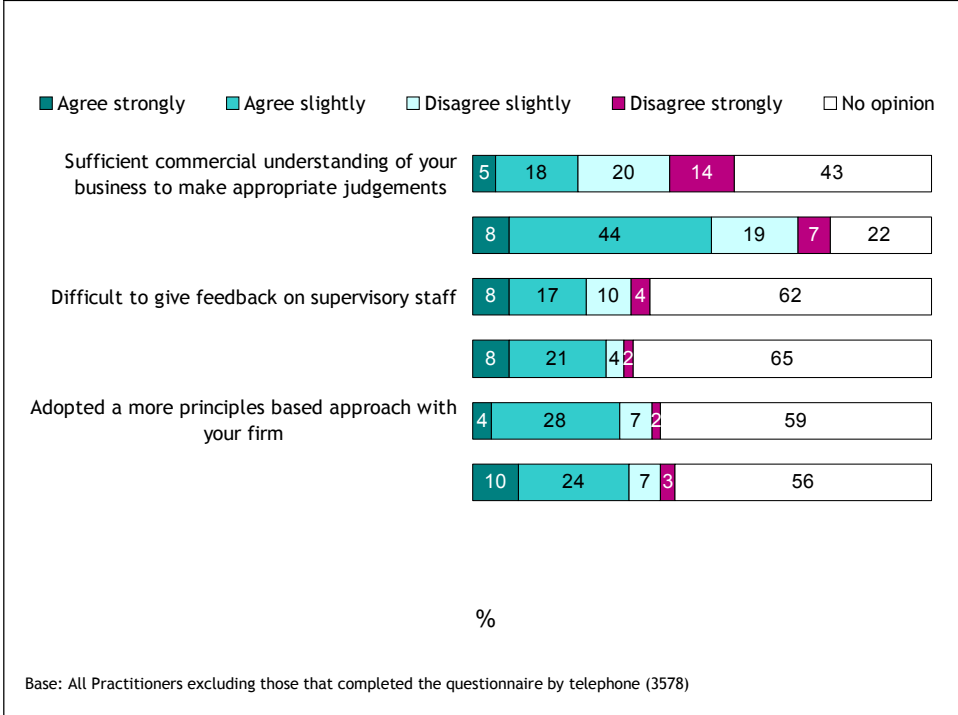


Retail firms were more likely to disagree that FSA had a good understanding of the practitioner’s business. This might have been expected, as wholesale firms were more likely to have a Relationship Manager.

For the other attributes which were the most important in this factor, the proportion of practitioners agreeing outweighed those disagreeing. In addition, the proportion strongly disagreeing was much lower for these attributes than for “the FSA has a good understanding of my business”. This has made the understanding of practitioners’ businesses an even higher priority for improvement.

The remainder of the questions in this factor, “supervision approach and business understanding”, was slightly less influential in driving the overall satisfaction rating. In the quantitative survey, practitioners were asked if the FSA had sufficient commercial understanding of the practitioner’s business to make appropriate judgements. The proportion of those disagreeing outweighed the proportion of practitioners agreeing.

Chart 4.6: Performance on ‘supervision approach and business understanding’



However, although the proportion disagreeing was higher amongst retail firms than wholesale firms, a higher proportion of Relationship Managed retail firms disagreed than smaller retail firms. Over two-thirds (70%) of Major group retail firms disagreed and just over half (52%) of other Relationship Managed firms disagreed. This compared to just over a third (34%) of smaller retail firms who disagreed.

One quarter of practitioners agreed it was difficult to give feedback on supervisory staff, but few agreed strongly. Nearly two thirds (62%) of practitioners were not in a position to answer this question.

For all the other questions in this group, the proportion agreeing outweighed those disagreeing. The proportion strongly disagreeing was also much lower than for “the FSA has sufficient commercial understanding of your business to make appropriate judgements”. Scores were similar, where asked, to the 2004 quantitative survey. This re-enforced the importance of making the understanding of practitioners’ businesses a priority, especially regarding commercial understanding.

Staff knowledge and consistency

This factor was the second most important. The questions within it mainly originated from the guidance section of the questionnaire.

Findings were generally similar to the 2004 qualitative survey in that the provision of guidance in relation to staff knowledge and consistency for many firms was very poor. Some practitioners felt frustrated by FSA staff's reluctance to offer guidance or felt that when they did it was inconsistent, vague and often factually incorrect, indicating their lack of knowledge.

"I certainly think that the terms guidance and the FSA are mutually exclusive."

HOC, IFA Firm, Retail, Large.

Frustration was generally felt the most by smaller firms with limited compliance resources. These firms dealt primarily with the Contact Centre and were often referred back to the Handbook for guidance, which firms found unhelpful, as this did not solve their problems. On occasion smaller firms claimed they were forced to resort to paying external consultants for clarification and advice.

"I've never come across anybody in my entire life that says well thanks for the call, we refer you to this [the Handbook], we can't answer. That's what they are paid to do. They shouldn't be there in the first place, because if the Handbook had been written properly and clearly you wouldn't need them to decipher it or find out where it is."

CEO, Authorised Professional Firm, Retail, Small.

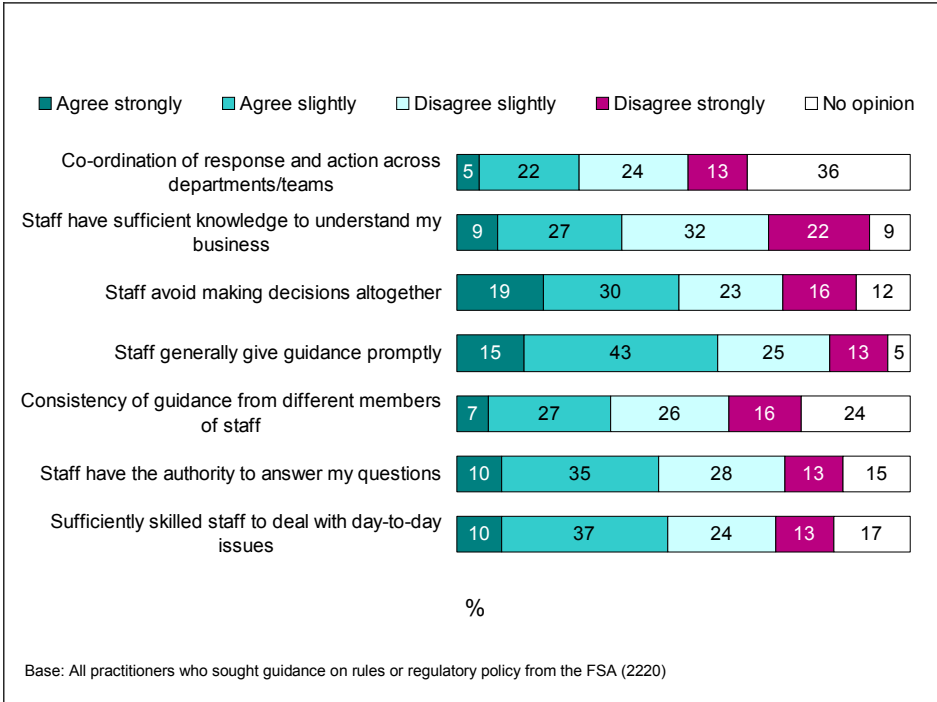
However, some of the larger, Relationship Managed firms who had a positive relationship with their supervisory teams expressed that they had been a helpful and forthcoming source of information.

"If you build up a good relationship with your supervision team, even though they are not subject matter experts, [they may] be able to give an answer there and then, they sometimes go out of their way to help you a bit more...they'll say we'll have a look at what is industry practice. It's not an answer to a specific query or initiative but more in a generic way which you can use to make decisions going forward."

HOC, Major Group, Retail.

The quantitative survey found that nearly two thirds (61%) of practitioners had some experience of seeking guidance from the FSA. As in 2004, larger firms had sought guidance mainly from their Relationship Manager and smaller firms mostly used the FCC. In 2006, the quantitative survey asked only those practitioners who had experience of seeking guidance to answer the more detailed questions on guidance issues.

Chart 4.7: Performance on ‘staff knowledge and consistency’



In this second, most important factor, “staff knowledge and consistency”, one of the most influential questions was “staff have sufficient knowledge to understand my business”. The proportion of practitioners who disagreed (54%) with this view outweighed those who agreed (38%). Just over one fifth (22%) strongly disagreed with this view. As might be expected, there was a higher proportion (25%) of practitioners strongly disagreeing amongst smaller retail firms. The results were similar to the 2004 quantitative survey.

The only other questions in this factor where the proportion disagreeing outweighed the proportion agreeing related to the consistency of guidance. These were concerning the “co-ordination of response and action by the FSA across departments and teams” and “consistency of guidance from different members of staff.”

In 2004, nearly a quarter (24%) of firms strongly disagreed that “staff generally give definitive guidance promptly”. In 2006, this question was changed to “staff generally give guidance promptly”. The proportion strongly disagreeing was reduced to 13% in 2006. The proportion agreeing increased from nearly two fifths (38%) in 2004 to nearly three fifths (58%) in 2006. This proportion was fairly consistent across size and type of firm.

Effective administration

The third most important factor, “effective administration”, was also a priority for action.

In the qualitative study, many smaller retail firms felt that there was disproportionate regulatory burden. The burden was, to a significant degree, caused by the volume of communication from the FSA. Hence effective administration was seen as an important area to address for the FSA.

Some practitioners cited specific examples of the unnecessary volume of communications firms received from the FSA, which was often poorly targeted and irrelevant to smaller firms.

“We get a lot of stuff which actually has no relevance whatsoever for us. It’s aimed at retail firms who are selling products in a very active way which we’re not.”

CEO, Authorised Professional Firm, Retail, Small.

Further frustration was caused by the increase in the volume of regulatory administration and reporting. Many smaller firms also felt frustrated and claimed that the FSA showed a lack of responsiveness to queries. They claimed that they often had limited compliance resource, no direct supervisory contact at the FSA and often found the contact centre unhelpful. Some firms had resorted to seeking advice from external sources such as consultants, which had been costly.

“They do email me and I do read the emails, they have been tailored for smaller firms, however I still get some which are totally irrelevant to a working day practitioner. They are all to do with committees and sub committees who are asking for opinions on various things that are completely irrelevant to my job.”

CEO, Authorised Professional Firm, Retail, Small.

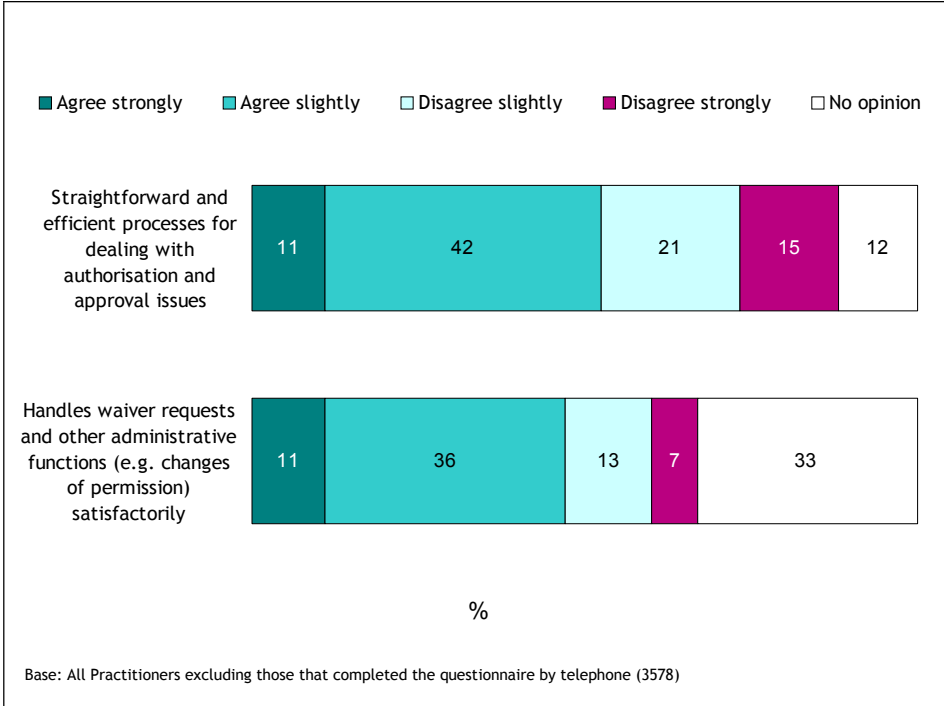
“A huge amount of communication, the large majority of which is wholly irrelevant to my business.”

CEO, GI Secondary, Large.

“Correspondence is often irrelevant...you inform them and they still send them.”

HOC, Authorised Professional Firm, Retail, Large.

Chart 4.8: Performance on ‘effective administration’



In the quantitative survey, over half (53%) of practitioners agreed that the FSA operated “straightforward and efficient processes for dealing with authorisation and approval issues.” However, 15% strongly disagreed, and this proportion increased slightly from 2004 (13%). The proportion was higher amongst smaller retail firms (17%).

Nearly half (47%) of practitioners agreed that the FSA “handles waiver requests and other administrative functions (e.g. changes of permission) satisfactorily”. Under one in ten strongly disagreed. This was a similar proportion to 2004.

Over one third (34%) of practitioners gave a high score (7-10) for the overall ease of dealing with the FSA. However nearly one fifth (19%) gave a low score (1-3). The proportion giving a low score was higher for smaller retail firms (21%). This has worsened slightly since the 2004 survey, where 19% of smaller retail firms gave a low score.

Nearly one in seven (13%) of firms claimed to have a designated Relationship Manager at the FSA. Over two thirds (67%) were satisfied with their firms’ dealings with the Relationship Manager, with just under a third (31%) very satisfied. A higher proportion (42%) of wholesale firms were very satisfied with their Relationship Manager than retail firms (24%).

On a like-for-like basis, satisfaction with Relationship Managers has improved for the same firm types. In 2004 nearly two-thirds (64%) were satisfied and in 2006 this proportion rose to over three quarters (76%).

Nearly two thirds (64%) of practitioners had claimed dealings with the FSA's Firm Contact Centre (FCC). Just over half (54%) of practitioners were satisfied, with just under one in six (16%) very satisfied. There were similar scores by size and type of firm.

Open discussion

This factor was the fourth priority for improvement.

In the qualitative study, many practitioners did not think it was currently possible to be open and frank in discussions with the FSA.

Some firms indicated a frustrating lack of constructive dialogue with the FSA. They felt that despite their best efforts to be open and cooperative with the FSA, it was to no avail.

“[The FSA’s attitude is] ... poor because of their aggressive commentary towards us, their suspicion towards our reports, that’s been a problem. Their poor style, we’re very happy to be open and honest with them, but we find that their style is very aggressive back, it doesn’t reciprocate what we are trying to achieve with them, which is a long-term relationship.”

HOC, IFA Firm, Retail, Large.

The FSA’s reluctance to offer guidance was also felt to show the lack of willingness to have an open and frank discussion

“Quite often the response will come back in ‘you need to make your mind up about that’, they won’t necessarily give you the guidance that you want.”

CEO, Investment Management Firm, Retail, Large.

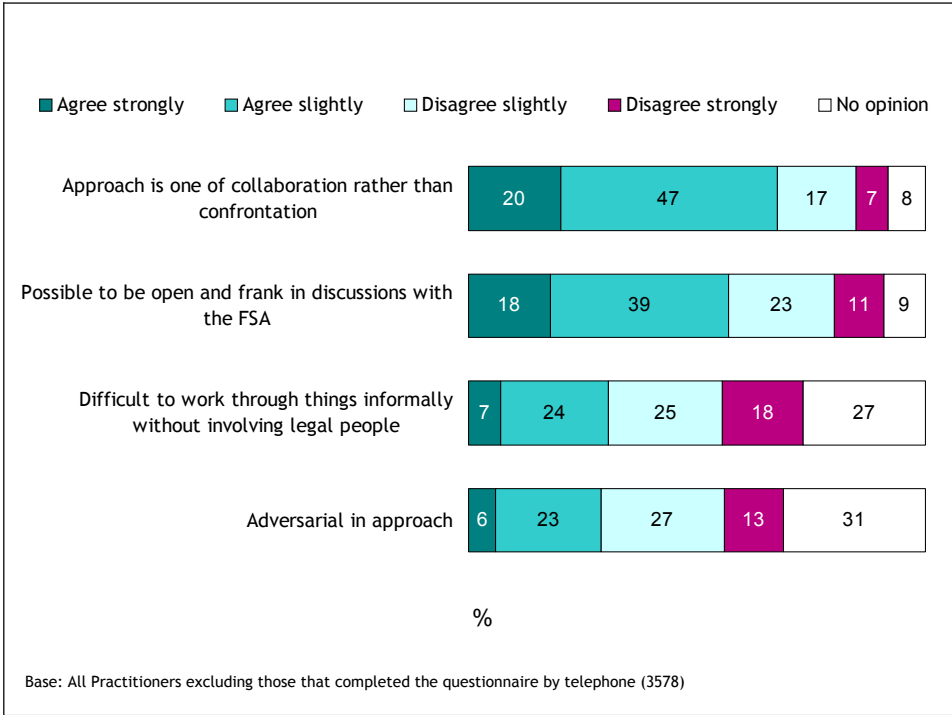
Some firms however reported a positive relationship with the FSA (although this was to a lesser degree), which was considered to be extremely open and collaborative on both sides, with the FSA taking an active interest in their business.

“We’ve been very open with the FSA with what we are doing and I believe that this type of approach gets their respect and understanding and gets people more on side.”

CEO, IFA Firm, Retail, Large.

In the quantitative survey, well over half (57%) of practitioners agreed that it is “possible to be open and frank in discussions with the FSA”. However, over one in ten (11%) of practitioners strongly disagreed. The proportion who disagreed strongly was higher amongst smaller retail firms (13%). The scores were very similar to those in the 2004 survey.

Chart 4.9: Performance on ‘open discussion’



There were two questions in this factor where the proportion of practitioners who disagreed outweighed those that agreed. These were “difficult to work through things informally without involving legal people” and the FSA staff were “adversarial in approach”. The scores were very similar to those in the 2004 survey.

The Handbook

Although the questions relating to the Handbook were relatively not so important as many other factors, performance ratings were still lacking. Hence continuing to improve the Handbook remains a priority. In addition to this, the provision of guidance and the Handbook were found very much to relate to the same problem. The qualitative study found that between both of these, there lacked a comprehensive answer to queries for many smaller retail firms. This uncertainty was perceived to increase the regulatory burden.

In the qualitative study, most practitioners did not believe that the Handbook had improved to any considerable degree.

The handbook continued to attract criticism from most practitioners for its unhelpfulness and complexity. Further criticisms included its length, the fact that searches delivered an excessive volume of results, its 'jargon' and its lack of filtering by audience.

"It has improved a little, but it's still difficult to find anything."

CEO, Major Group, Wholesale.

The Handbook was a particular source of frustration for smaller firms with limited compliance resources. They claimed that they were referred back to the Handbook by Contact Centre staff unwilling to offer guidance. Some firms had even resorted to using external tools, such as Complanet, to supplement the handbook as it explained regulation to them in a more structured and user-friendly manner.

"It's so massive it's very difficult to know where to look for things. If I wasn't intelligent then it would be impossible. There are just too many reference numbers because they are dealing with so many different types of organisations. I do not want to know what the rules are that relate to Building Societies and Banks, I just want to know what Chartered Accountants rules are."

CEO, Authorised Professional Firm, Retail, Small.

However, there was a view amongst some practitioners that the handbook had improved very slightly.

Some firms felt that it had been made more user friendly for smaller firms.

“They appear to have gone out of their way to make it more user friendly to smaller firms. But it’s still not clear enough, not written in clear language.”

CEO, Authorised Professional Firm, Retail, Small.

Some practitioners also expressed that they liked the online and electronic format of the Handbook, as it was convenient to access and enabled them to easily keep up to date with regulatory changes.

“I do rely very much on the handbook online...it is the easy way to keep yourself abreast of the various changes...it’s very convenient and as the new kid on the block to a large extent I was very impressed with the facility there.”

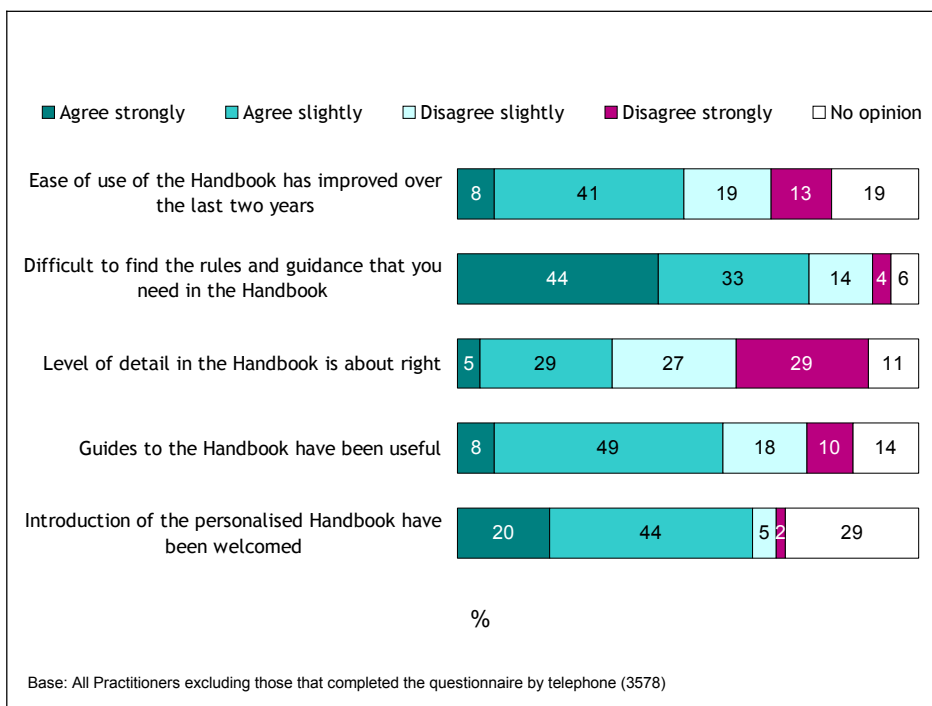
HOC, Friendly Society, Retail, Small.

“They’ve got it in an electronic format, they send through updates.”

HOC, Credit Union, Retail, Large.

In the quantitative survey, nearly half (49%) of all practitioners agreed that the Handbook had improved over the last two years. However, few strongly agreed and over one in ten (13%) strongly disagreed.

Chart 4.10: Performance on ‘the Handbook’.



Over three quarters (77%) of practitioners agreed that it was “difficult to find the rules and guidance that you need in the Handbook”. Relatively few disagreed with this view. The scores were very similar to 2004.

More practitioners disagreed than agreed that the “level of detail in the Handbook was about right”. Well over one quarter (29%) strongly disagreed. The scores were very similar to 2004.

Nearly two thirds (64%) of practitioners welcomed the introduction of the personalised Handbook. Very few disagreed with this view.

4.4 Other areas for improvement

The factors below were less important in influencing overall satisfaction with the relationship. However, there is scope for improvement, especially where performance scores were relatively low.

Consultation procedures

In the qualitative study most practitioners were of the view that the volume of Consultation Papers (CPs) had reduced in recent times. Although this was a welcome improvement, some scepticism was expressed that the FSA had simply increased the complexity of consultation papers and the number of topics that they covered.

“I’ve noticed that there’s been a marked falling off of consultation papers.”

HOC, Friendly Society, Retail, Small.

“They have also been consolidated, so I’m not saying that they are cheating, but the FSA can say we’ve only issued 3 papers, whereas in fact they have covered 6 different issues, and before would have been issued as 6 different issues.”

HOC, Securities & Derivatives, Wholesale, Small.

Further criticisms by practitioners included the level of jargon in the consultation papers and the fact that regulation was often ‘buried’ within them, making it difficult for practitioners to find what had changed. Smaller firms in particular didn’t necessarily have the time or resources to plough through them, hence could potentially overlook important information.

“Hold on, we’ve just suddenly discovered you’ve changed a whole set of rules. Why has this happened? ‘Well it was in the consultation’, you look through the consultation and it was a struggle to find that these things had actually changed and then getting them unwound involved a huge process of getting rule waivers and them having to put out consultation. It was just a bit of a shambles.”

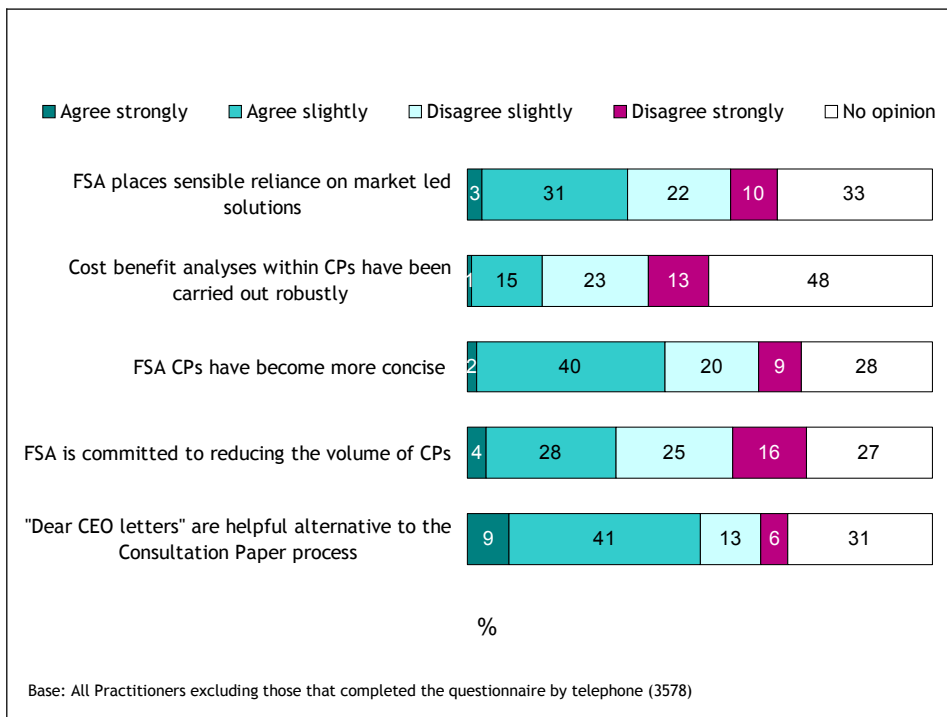
HOC, Investment Management Firm, Retail, Large.

“It would help a great deal if they put things in to plain speak.”

HOC, Friendly Society, Retail, Small.

In the quantitative survey, more practitioners agreed rather than disagreed for all questions except “cost benefit analyses within Consultation Papers have been carried out robustly.” In addition to this, over one in ten (13%) practitioners strongly disagreed with this view. This is a slight improvement on the 2004 survey, where 18% strongly disagreed.

Chart 4.11: Performance on ‘Consultation Procedures’



A high proportion of practitioners also strongly disagreed that the “FSA is committed to reducing the volume of consultation papers. Nearly one fifth (16%) strongly disagreed with this view. The proportion in 2006 strongly disagreeing was higher amongst smaller retail firms (18%). However, there was an improvement on the 2004 survey where one quarter of all practitioners strongly disagreed.

Fair enforcement

In the qualitative study, many firms felt that they did not have enough experience of enforcement to form an opinion in this area. Those who could comment presented a fairly negative picture based on perception more than experience.

Some cynicism was expressed that the enforcement review was purely cosmetic and that the FSA hadn't actually changed a great deal, as the enforcement process still presumed firms guilty until proven innocent.

Other practitioners expressed that the enforcement review was ultimately a positive move. They felt that this was in contrast to the way that the FSA was set up previously. Before the enforcement review, the FSA were perceived by some practitioners as 'judge, jury and hangman'. The Legal & General case brought that to light, in that they now felt firms would be treated more fairly by the FSA.

"I must say I am quite glad they got a bloody nose from the Legal and General."

HOC, Building Society, Retail, Large.

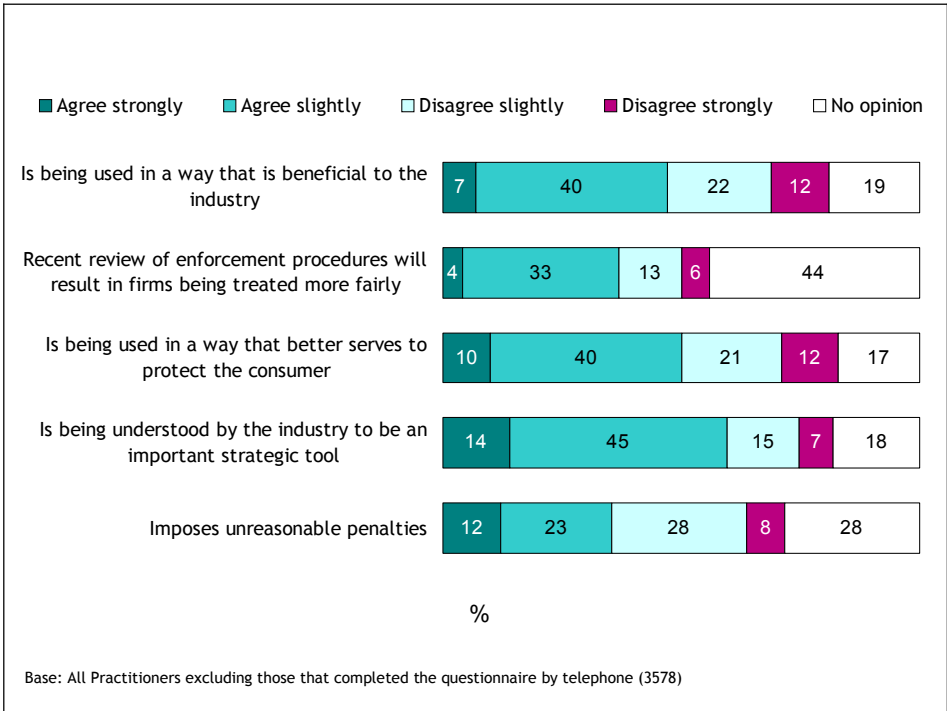
In addition, there continued to be some worry over the quality of enforcement and supervision. A practitioner cited one high profile, company failure case. A criticism was made that the market knew the situation well but it was claimed the FSA did not act.

"It's an extremely demanding regime, but I'm not sure that they've still got the structure that will be that antennae to see something before it happens."

CEO, Lloyds Market, Wholesale, Small.

In the quantitative survey, most practitioners agreed rather than disagreed with all the questions in this area except the FSA’s enforcement procedure “imposes unreasonable penalties”, where slightly more disagreed. The proportion of practitioners strongly disagreeing was higher (12%) for the FSA’s enforcement procedure “is being used in a way that is beneficial to the industry” and “is being used in a way that better serves to protect the consumer”.

Chart 4.12: Performance on ‘fair enforcement’. The FSA’s enforcement procedure...

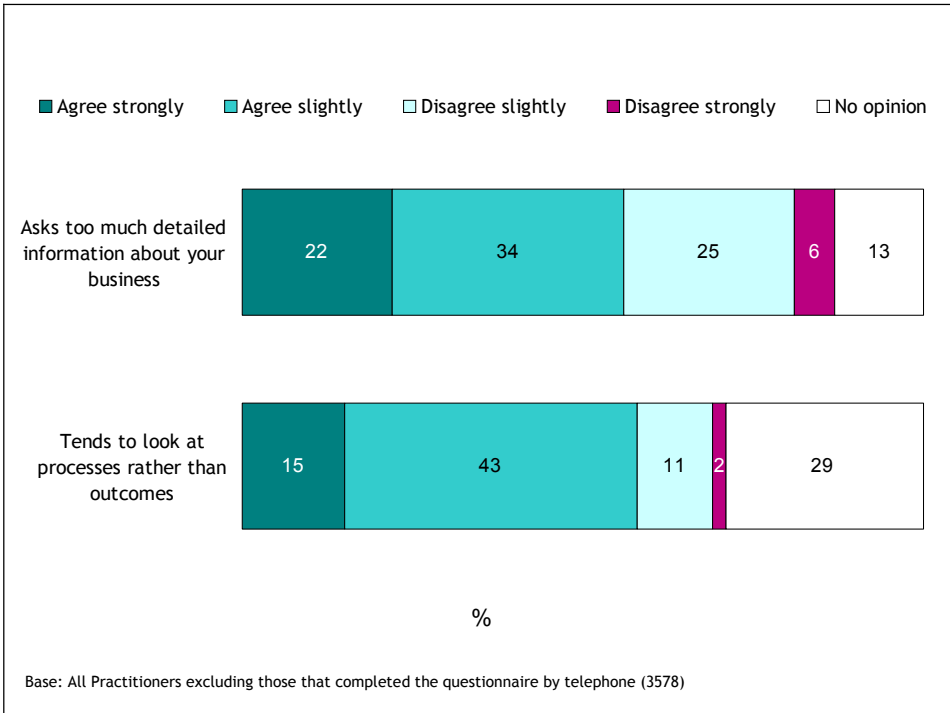


Focus on Detail

In the qualitative study, many smaller retail firms felt that the FSA focused too heavily on detail, producing too much paperwork, focussing on procedures. They felt that the whole supervisory process focussed too heavily on detail making the burden fall disproportionately on smaller retail firms.

In the quantitative study, two questions in particular were rated differently to the other questions relating to supervision. Both these questions concerned the focus on detail.

Chart 4.13: Performance on ‘focus on detail’.



For both questions, most practitioners agreed rather than disagreed. Over half (56%) of practitioners agreed that “the FSA asks too much detailed information about your business”. This proportion was higher for smaller retail firms (62%), and particularly high (75%) for secondary GI intermediary firms, as might be expected.

Over half (58%) of practitioners agreed that “the FSA tends to look at processes rather than outcomes”. This proportion was higher for all retail firms (60%). This proportion was higher still for the Relationship Managed retail firms:- amongst Major Group retail firms this proportion was the highest (75%). 65% of other Relationship Managed retail firms agreed and 60% of smaller retail firms agreed.

Staff Continuity

In the qualitative study, staff turnover continued to be a key concern for both wholesale and larger retail firms. A lack of continuity was felt to have restricted relationship building with supervisory teams. It was believed that this impaired staff understanding of the businesses that they supervised and the issues that they faced.

“We got on very well [with our previous FSA contact] because he understood the business and was quite comfortable with it, whereas the new guy is wanting to know more and more because he doesn’t know about it and therefore we need to get him up to a level so he gets up to his own comfort level.”

HOC, Investment Management Firm, Retail, Large.

Some practitioners blamed high levels of FSA staff turnover for the perceived lack of relevant sector background and knowledge. They also believed that this was responsible for major errors made by the FSA. By way of an example, an error with a capital requirement calculation was cited. It was believed that this error was miscalculated by a ten figure margin.

In the quantitative survey, one half of practitioners agreed that the FSA’s “approach varies depending on the individual”. Very few disagreed. Wholesale and retail firms gave similar scores. However, the Relationship Managed firms had higher proportions agreeing. Amongst Major Group firms nearly nine tenths (86%) agreed, whereas nearly two-thirds (63%) of other Relationship Managed firms agreed. Less than one half (46%) of smaller firms agreed.

Chart 4.14: Performance on ‘staff continuity’.



Nearly two thirds (66%) of practitioners could not give an answer for the “turnover of FSA supervision staff is detrimental to our relationship”. However, most who could comment agreed, and this comprised over one quarter (26%) of all practitioners. Less than one in ten (7%) disagreed. Again, Relationship Managed firms had slightly higher proportions agreeing. Amongst Major Group firms over two-thirds (67%) agreed, whereas nearly one half (45%) of other Relationship Managed firms agreed. Just over one fifth (22%) of smaller firms agreed.

4.5 The importance of the FSA's staff

Many of the questions in the survey related to practitioners' perceptions of the FSA's staff and two of the main priority factors ("supervisory approach and business understanding" and "staff knowledge and consistency") relate to FSA staff. This is a summary of the issues specifically relating to FSA staff.

Whilst the FSA was recognised as having made some improvements in their approach amongst Relationship Managed firms, for the smaller retail firms the regulatory burden had not been relieved on a day-to-day basis.

The qualitative study found that as smaller firms were far less likely to have dedicated compliance personnel who could resolve queries relating to guidance, they struggled with a lack of guidance either from the Handbook or from FSA staff. When they contacted FSA staff for guidance, they were sometimes offered inconsistent, vague and often factually incorrect guidance.

"Whenever I've tried to question something you'll speak to one person and get one idea, speak to somebody else and you get a totally different perspective...You can't get a specific answer if you want one."

HOC, IFA Firm, Retail, Small.

Other practitioners claimed they were offered no guidance at all and referred to the Handbook. When some practitioners consulted the Handbook after the referral by FSA staff, many practitioners were still not certain that they had the correct answer to their query. Hence many smaller retail firms, due to their limited resources in this area, were frustrated that in spite of consulting both the FSA staff and the Handbook they could not be sure that they were compliant.

"I have rung up people to explain things, they don't explain they just point you to a paragraph and say that's where you will find it, but you can't understand it."

CEO, Authorised Professional Firm, Retail, Small.

Some smaller retail firms had to employ external personnel such as accountants in order to make sure they were compliant. However, they felt the amount they had to spend on compliance was extremely disproportionate to the amount of income they received compared to larger firms. Hence many had doubts as to whether they could continue to conduct certain types of business due to the sheer amount and cost of regulation, coupled with a lack of guidance, either through the FSA staff or through the Handbook. This was particularly the case for smaller Financial Adviser firms.

In the qualitative study, high staff turnover continued to be seen as the main reason the FSA's guidance was poor. Relationship Managed retail firms especially felt that if staff could build up a relationship with them, they could understand their business better. If they could understand their business better, then staff could answer queries more effectively in relation to the types of business they conducted.

“The whole team that supervise us was replaced and they'd been supervising us for years, so a whole raft of experience, both [sector] and specific company experience was swept aside. To be honest it was appalling”.

HOC, Major, Retail.

For some Relationship Managed firms and wholesale firms, there were some perceived improvements in the way that FSA staff had given guidance. There was evidence that relationship building had worked. Some practitioners felt they had been given better, more informed guidance as a result of staff continuity and a more detailed appreciation of the issues they faced as a business.

“Members of the supervision team have now since stabilised and we are now dealing with someone who knows the business, which is key to a good relationship.”

HOC, Major, Retail.

For many smaller retail firms, where there was no Relationship Manager, the situation was perceived to be much worse. They felt high staff turnover was most to blame. When contacting the FCC for guidance, they felt that there was far less likely to be a member of the FSA staff who understood the nature of their firms' business, let alone the commercial issues it faced. However, as they claimed staff either gave incorrect answers or referred practitioners to the Handbook, practitioners assumed that due to staff turnover the FSA did not have adequate resources to provide guidance correctly.

While many smaller retail firms felt ready to fully embrace the concept of principles-based regulation, they could not find the answers they needed to be compliant, either through FSA staff or the Handbook. The Handbook was often not considered to provide full answers, especially concerning principles-based regulation. Consequently some smaller retail firms preferred rules based regulation as it reduced the uncertainty. It meant that they could gain correct answers from the Handbook without contacting FSA staff.

“The FSA feel as if they are giving guidance and giving the practitioners room to manoeuvre, but in reality it doesn’t do that, in reality it doesn’t work. We want to be told what is right and what is wrong. We don’t want a margin to work in, only to be told next year that what I’ve been doing is wrong and now there is a mis-selling issue. We want specific rules.”

HOC, IFA Firm, Retail, Small.

4.6 Costs and Efficiency

In the qualitative study, most practitioners perceived the cost of regulation to be excessive and in many cases felt it difficult to quantify. This perception was not just based on the regulatory fees that firms were required to pay, but also the indirect costs of regulation.

As mentioned in the “Overall effectiveness of the FSA” section above, in the qualitative study most firms found it difficult to assess the value for money of their regulatory fees. They felt it was an unwelcome levy that they had no choice to pay, similar to a tax. In the quantitative survey, nearly half (48%) of practitioners gave a low score (1-3) for the FSA “giving value for money against regulatory fees”.

The indirect costs of regulation were felt to have continued to rise with increasing regulation. For example, in order to meet compliance demands many firms claimed that they had been forced to invest both time and money in either new systems, processes, staff or external consultants.

“A lot of the cost comes in, not in changing the control, but in evidencing the control. To produce evidence to a third party, such as the FSA - who doesn’t really understand us or know us, then we have to give them more information. So you spend more time recording what you do, which doesn’t add any value to the business as such. Setting those up slows down your innovation and puts on a cost that is hard to quantify. But you are always doing more than you otherwise would do, to evidence the control.”

HOC, Building Society, Retail, Large.

“You can of course put a monetary value on the fees you are paying, but not really when it comes to how much time you spend. A typical day varies, it could be a short day in terms of dealing with compliance or it could be a long day.”

HOC, Friendly Society, Retail, Small.

It was inevitably smaller firms who felt the greatest financial burden and some indicated that they would not wish to find out how much money (not to mention time) they had expended on compliance for fear of the outcome. There was also the implication that this cost burden could force some smaller firms out of the industry altogether, such as smaller IFAs. Many firms mentioned that for smaller firms, the indirect costs of compliance were totally disproportionate to income.

“Compliance is getting too much now...we’ve just employed somebody to do it all for us, that’s additional cost.”

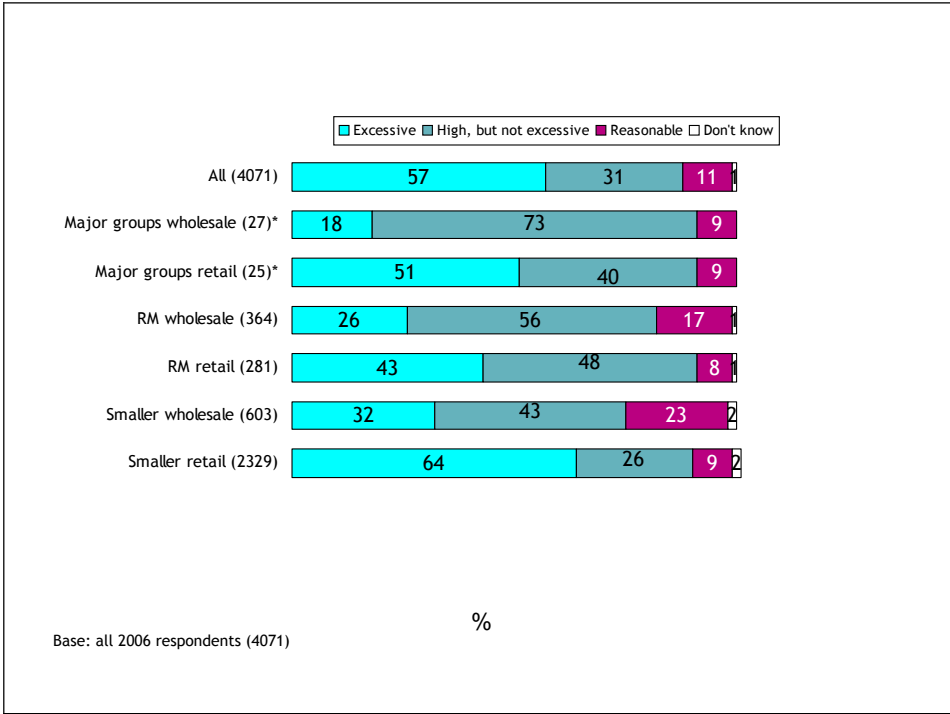
HOC, IFA Firm, Retail, Small.

In the 2006 quantitative survey, nearly three fifths (57%) of all practitioners felt the total costs of compliance were excessive. In the 2004 survey this figure was similar (58%).

Amongst the same firm types as 2004 (the original firm types), this figure was also similar (55%). The proportion was higher (70%) amongst secondary GI intermediary firms. This accounts for the small difference in percentage points between the score for all practitioners and the score for the original firm types.

The proportion was higher amongst all retail firms (63%) and especially smaller retail firms (64%). In the 2004 survey, the proportion was similar for smaller retail firms (66%).

Chart 4.15: View of total current costs of compliance (taking both fees and internal & external costs into account)

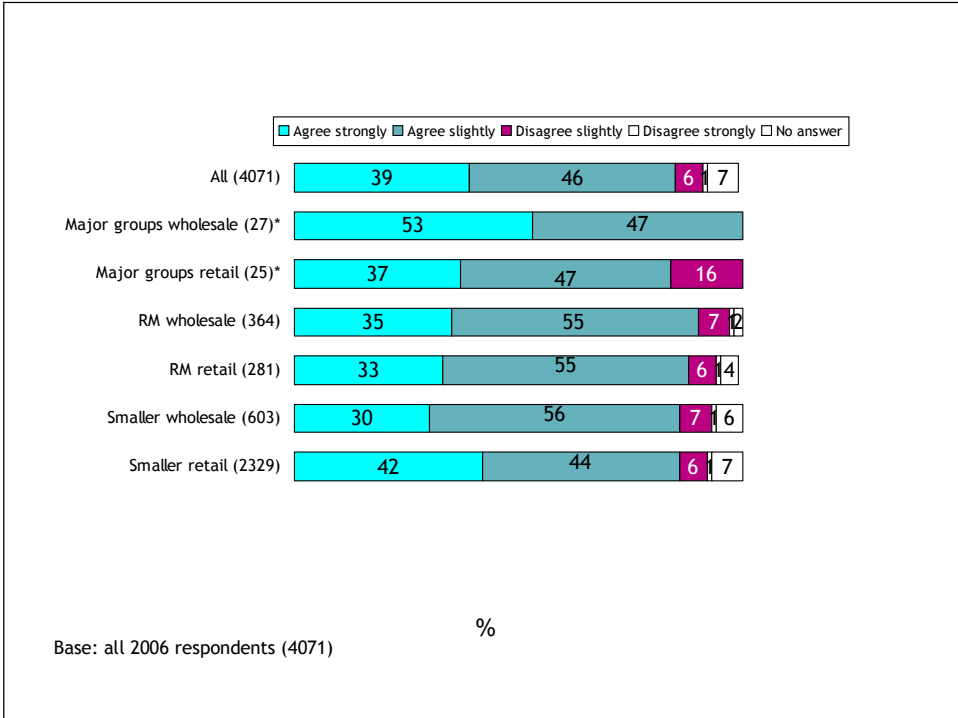


A higher proportion of Financial Adviser firms saw costs as excessive (74%), followed by GI secondary intermediary firms (70%).

The lowest proportions seeing costs as excessive were amongst Banks, Credit Unions and Discretionary Investment Manager firms. However, they still viewed costs as high, rather than reasonable.

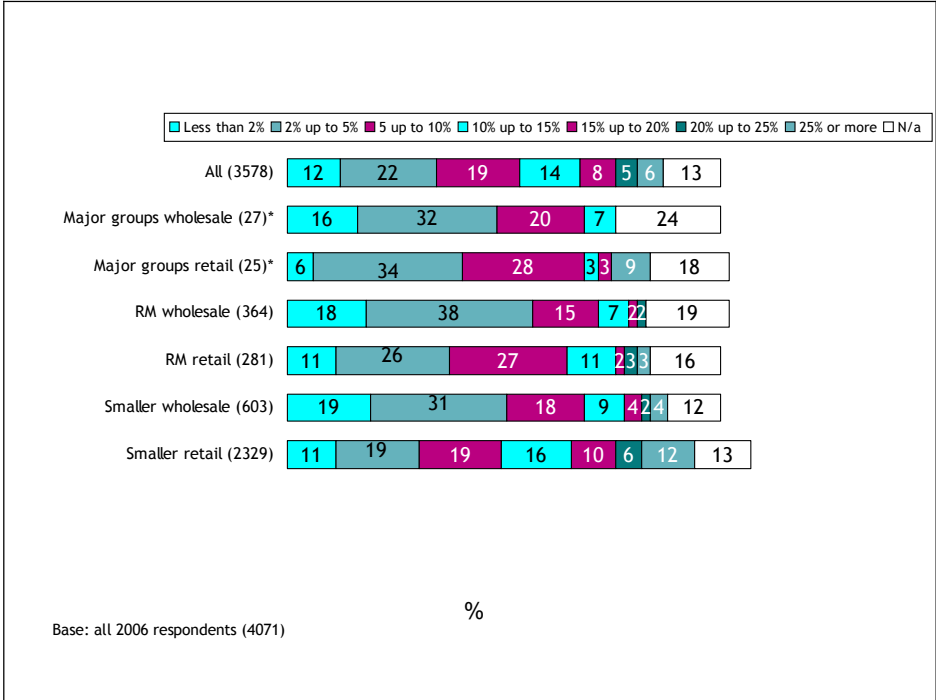
The quantitative survey confirmed that the fear of continually rising compliance costs was widespread with nearly two fifths (39%) of all practitioners agreeing strongly with the statement ‘the overall cost of compliance will continue to rise for the foreseeable future.’ However, this is an improvement on the 2004 survey, where nearly one half (49%) of all practitioners strongly agreed.

Chart 4.16: Future costs of compliance - ‘the overall costs of compliance will continue to rise for the foreseeable future’



In the quantitative survey practitioners were asked to give an estimate for the total costs of compliance as a percentage of their total costs. In 2006, the scale had more bands to allow greater sensitivity.

Chart 4.17: Total internal and external identifiable current costs of compliance, as a percentage of total costs



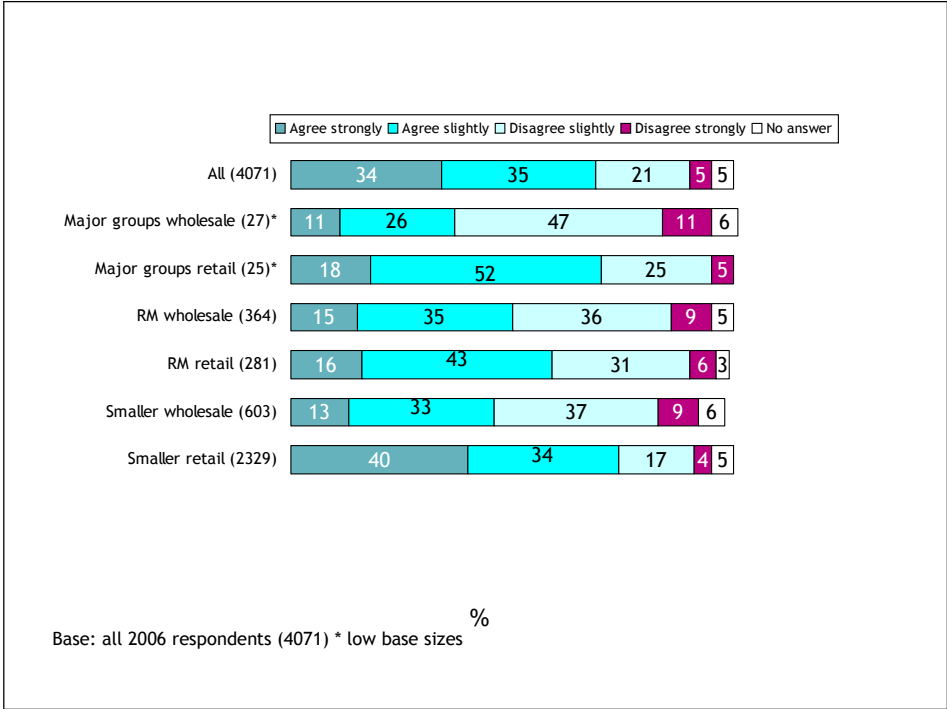
As might be expected, smaller retail firms saw the overall cost of compliance as a larger proportion of total costs. Nearly a fifth (19%) of all practitioners and nearly a quarter (23%) of small retail firms claimed that compliance costs were 15% or more of their total costs. Over one in ten (12%) of small retail firms claimed that this proportion was 25% or more.

A much higher proportion of Financial Advisers claimed that their compliance costs were more than 15% of total costs (35%). However, the proportion claiming that the figure was 25% or more was the same as for smaller retail firms (12%).

Impact of costs

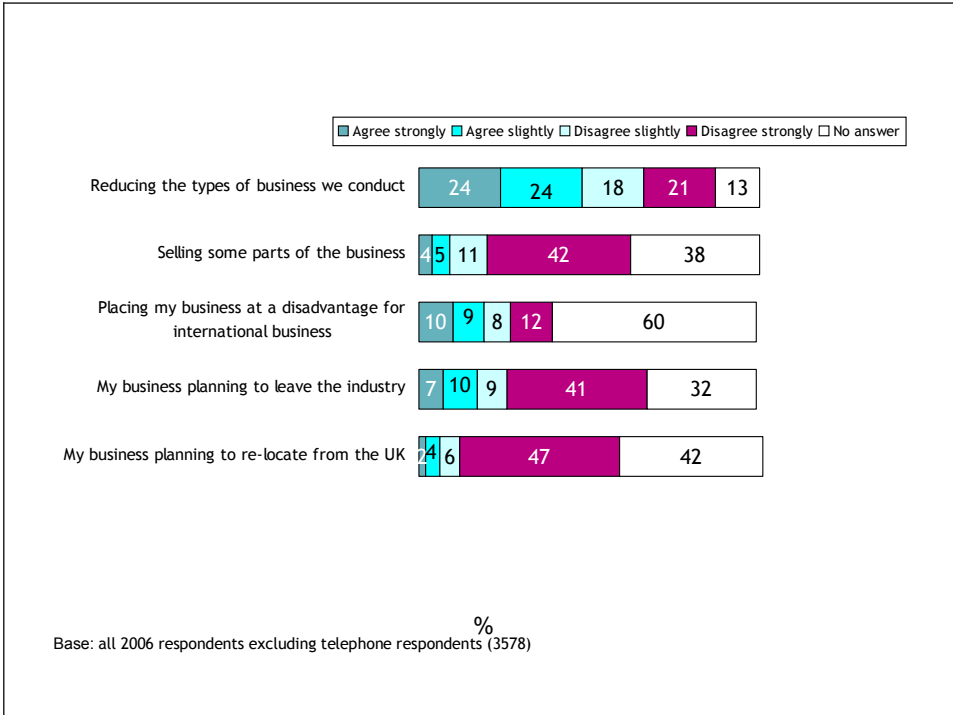
Over two thirds (69%) of practitioners agreed that ‘the costs of compliance were harmful to their business’. This was a slight improvement on the 2004 survey where three quarters of practitioners agreed. As in 2004, smaller retail firms were more likely than other categories to see costs as harmful and two fifths agreed strongly with the statement.

Chart 4.18: Impact of costs - ‘the costs of compliance are harmful to my business’



Practitioners were asked to what extent they agreed or disagreed that certain business effects would result from the costs of compliance.

Chart 4.19: Impact of costs - ‘the costs of compliance have resulted in...’



The costs of compliance were felt to have affected the types of business that many firms conduct. Nearly half (48%) of practitioners agreed that costs of compliance had led to a reduction in types of business conducted. This is a slight improvement from the 2004 survey, where well over half (58%) of all practitioners agreed. As might be expected given the nature of their business, this was more pronounced for retail firms, where over half (53%) had reduced types of business offered, compared to wholesale firms (27%). The individual sector most likely to have reduced the type of business they offer were Financial Advisers (64%).

To a much lesser extent costs had led to some firms selling parts of their business - 9% agreed that they had sold some part, but only 4% strongly agreed. This was a slight improvement on the 2004 survey, where 9% strongly agreed.

Nearly one fifth (19%) of practitioners felt that their business was placed at a disadvantage compared to competitors based abroad, when competing for international business. The proportion was much higher for Relationship Managed wholesale firms:- 54% of Major Group wholesale firms and 43% of other Relationship Managed wholesale firms agreed. The overall proportion of practitioners agreeing was an improvement on 2004, where one quarter agreed.

Nearly one fifth (17%) of practitioners claimed that their businesses were planning to leave the industry as a result of the costs of compliance, but only 7% strongly agreed. The proportion strongly agreeing was higher amongst Financial Advisers (10%). Overall, a higher proportion (21%) of retail firms agreed, compared to wholesale firms (3%).

Far fewer (6%) of practitioners agreed that their business was planning to re-locate from the UK to another country as a result of the costs of compliance, and only 2% strongly agreed.

4.7 The Financial Ombudsman Service

In the qualitative study, very few practitioners had dealings with the Financial Ombudsman Service (FOS), and hence felt it difficult to express an opinion.

However, for those that could comment, there was a perception of a disconnect between the FOS and FSA. It was felt that they could be more aligned.

“The issue is the FSA and FOS are not always as joined up as they could be. FOS go off in ways that almost are a quasi regulator.”

HOC, Major, Retail.

Some practitioners were also of the opinion that FOS was unfair. This unfairness was considered a result of practitioners still having to pay even if they received no complaints. They felt that this was on account of no proper appeals procedure being in place.

In the 2006 quantitative survey, a new section was devoted to the FOS. Over a quarter (26%) of firms had experience of dealing with the FOS. All practitioners were then asked three further questions, irrespective of whether practitioners had dealings with the FOS.

Chart 4.20: The Financial Ombudsman Service



Over a third (36%) of practitioners agreed that “by its case decisions the FOS is assuming a policy setting role that is the responsibility of the FSA”. Relatively few disagreed (15%), and 5% strongly disagreed. The proportion agreeing was lower than in the 2004 survey, where one half of practitioners agreed.

Over one quarter (27%) of practitioners agreed that “the new wider implications arrangements have led to more considered judgements. Few practitioners disagreed with this view.

Over one third (36%) of firms agreed that “The FOS decisions are broadly fair”. Again, relatively few practitioners disagreed.

Amongst those who had dealings with the FOS, the picture was more positive. Whilst the proportion was higher (58%) of those agreeing that the FOS is assuming a policy setting role that is the responsibility of the FSA, a higher proportion of practitioners were also positive regarding the performance of the FOS on the new wider implications arrangements (38% agreeing) and fairness of FOS decisions (56% agreeing).

Appendix 1

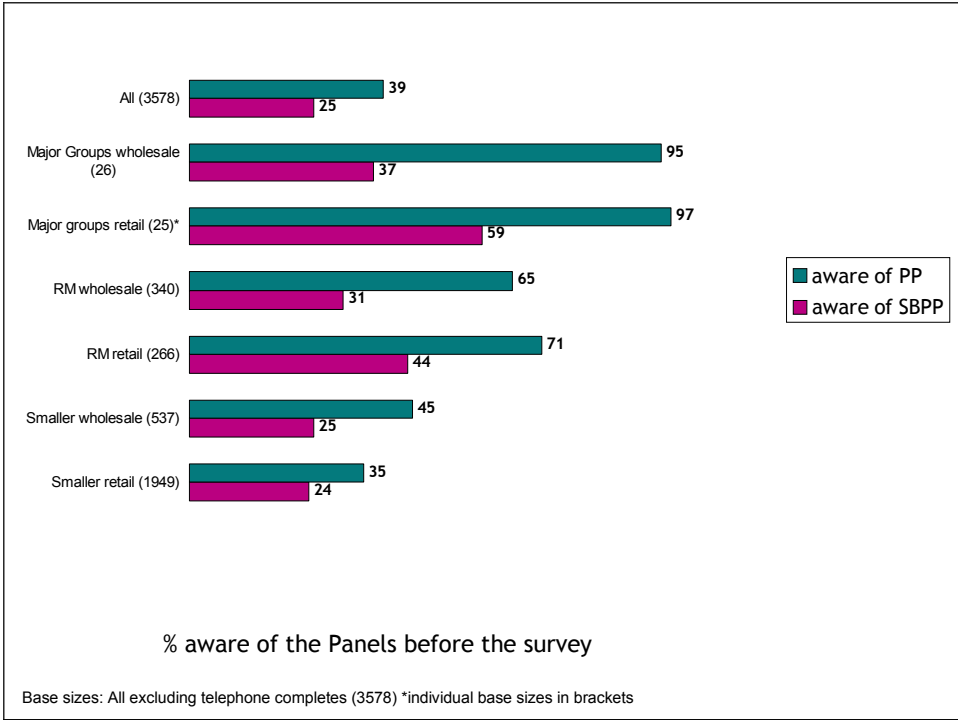
Views about the Practitioner Panel

The Financial Services Practitioner Panel

In the quantitative survey practitioners who completed the postal or online version of the survey were asked if they had seen or heard anything about the Financial Services Practitioner Panel (PP) prior to receiving the letter about the survey. Amongst original firm types, well over half (56%) of practitioners said that they had seen or heard something about the Panel before the survey. Including the M&GI intermediary firms, however, this proportion fell to one in three (33%). The proportion aware amongst original firm types is an improvement on the 2004 survey, where 42% were of practitioners were aware.

Major groups continued to be the most aware of the Panel, with well over nine in ten practitioners here saying that they had seen or heard of the Panel before the survey.

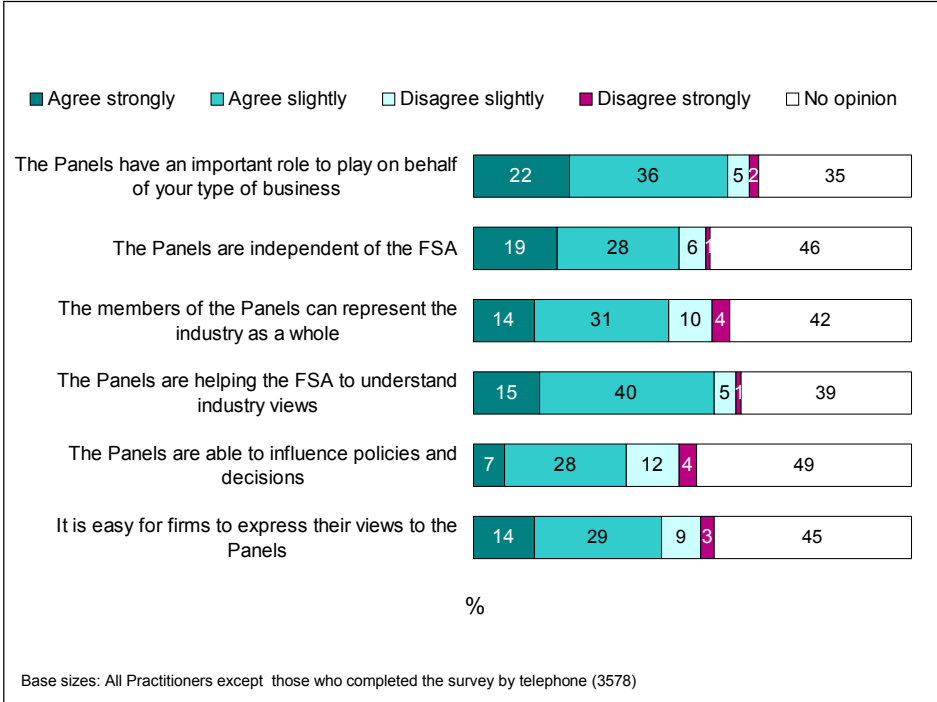
Chart A1: Awareness of the Panels before the survey



Awareness of the more recently formed Smaller Businesses Practitioner Panel (SBPP) was asked for the first time in 2006. The proportion of practitioners aware of the SBPP was lower (25%) compared to Practitioner Panel (34%). Awareness of the SBPP was higher amongst Major Group retail firms (59%) than smaller firms, where approximately one quarter of firms were aware.

In the 2006 survey, all practitioners except those who completed the telephone survey were asked whether they agreed or disagreed with six statements about the role of the Panels.

Chart A2: Opinions on the role of the Financial Services Practitioner Panels



Well over half (58%) of practitioners agreed that the Panels ‘have an important role to play on behalf of your type of business’, with a just over one fifth (22%) agreeing strongly. Major groups had even higher levels of agreement (four in five). Slightly lower levels of agreement were found among Relationship Managed firms, with seven in ten Relationship Managed retail firms and 56% of Relationship Managed wholesale firms agreeing that the Practitioner Panel had an important role to play on behalf of their business.

Nearly half (47%) of practitioners believed that ‘the Practitioner Panel is independent of the FSA’ with just under a fifth (19%) agreeing strongly. Agreement did not vary greatly across type or size of firm, but agreement was higher among Major Groups (83%).

A similar proportion (45%) of practitioners agreed that ‘the members of the Panel can represent the industry as a whole’, however 14% disagreed. Levels of agreement were higher amongst Major Group retail firms (73%).

Well over half (56%) of all practitioners agreed that ‘the Panel is helping the FSA to understand industry views’ with 15% agreeing strongly. The level of agreement was higher among Relationship Managed firms, especially Major Group retail firms (76%).

Of all practitioners 35% agreed (69% among Major Group retail firms) and 17% disagreed that ‘the Panel is able to influence policies and decisions’. Although only slightly less likely to agree, retail firms were more likely to disagree (19%) than wholesale firms (10%). Almost half (49%) of practitioners were unable to give an opinion.

Only 33% of firms agreed that 'it is easy for firms to express their views to Panel members'. Levels of agreement were again higher for Major Group retail firms (63%). A large proportion of practitioners (45%) gave 'no opinion'; this may be because they have never tried to express their views to the panel. Levels of 'no opinion' were particularly high among smaller wholesale firms (53%).

Appendix 2
Survey Questionnaire

THE FINANCIAL SERVICES PRACTITIONER PANEL

FOURTH SURVEY OF THE FSA'S REGULATORY PERFORMANCE FINAL VERSION

Who should complete the questionnaire?

The purpose of this survey is to gain the view of each regulated firm or group, and so the questionnaire should be completed by the most senior person (Chief Executive or equivalent).

If there are other senior people who are responsible for any aspects (e.g. Compliance), the questionnaire may receive input from them for the relevant sections (such as Sections B or C).

How to complete the questionnaire

"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.

For each question, please put a cross in the box next to the answer which comes closest to your view about that issue. For some questions you may be able to cross more than one box or may need to write in your answer. We estimate the questionnaire should take about 30 minutes to complete.

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

Confidentiality

Your individual responses to the survey will be totally confidential. No questionnaire will be returned to the Practitioner Panel or the FSA. In reporting the survey answers, GfK NOP will always group responses together to ensure that no individual's or firm's answers can be identified. This is in accordance with the Market Research Society Code of Conduct.

Survey results

The survey plays an important role in the Practitioner Panel's discussions with the FSA. The results will be published in November 2006.

Returning your questionnaire

Please return your completed questionnaire to GfK NOP in the pre-paid envelope provided **in the next two weeks** if possible and at the latest so that it arrives at GfK NOP no later than **8th August 2006**.

Questions

If you have any questions about the survey please call Richard Gaze on 020 7890 9182 or Amy Edwards on 020 7890 9130 at GfK NOP.

SECTION A - INDUSTRY REGULATION

1. FSA'S PERFORMANCE AGAINST ITS MAIN OBJECTIVES

Q1 Please give a rating from 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*.
If you really cannot give an opinion on a particular aspect, just leave that line blank.

PUT A CROSS IN ONE BOX FOR EACH LINE

	Extremely poor							Outstandingly good		
	1	2	3	4	5	6	7	8	9	10
Maintaining confidence in the UK financial system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Promoting public understanding of the financial system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Securing the right degree of protection for consumers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Helping to reduce financial crime	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. GENERAL ATTITUDES TOWARDS REGULATION

Q2 How much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current regulatory system places too great a burden on financial services firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA focuses on consumer protection to the detriment of its other objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA exercises the principle of fairness in its dealings with the financial services industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The level of regulation on the industry is detrimental to consumers' interests	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA is delivering in the way that the industry hoped it would	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The shift towards principle rather than rule based regulation is a welcome approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA has made it clear how principle based regulation will work in practice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA's decision to introduce the "Treating Customers Fairly" (TCF) initiative is welcomed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA has provided a clear explanation how firms should implement the "Treating Customers Fairly" (TCF) initiative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Thematic work is an effective way to spot emerging issues or problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mystery shopping is an appropriate way of exploring the relationship between firms and their customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. OVERALL EFFECTIVENESS OF FSA

Q3 Please give a rating from 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*.
If you really cannot give an opinion on a particular aspect, just leave that line blank.

PUT A CROSS IN ONE BOX FOR EACH LINE

	Extremely poor								Outstandingly good	
	1	2	3	4	5	6	7	8	9	10
Listening to industry views when deciding policies and procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Looking at the behaviour of the business as a whole, rather than focussing on small details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Giving value for money against your regulatory fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Fostering a sense of partnership with the financial services industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knowing and understanding your firm and its business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Facilitates innovation and competitiveness within the UK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Places responsibilities on firms' senior management which are clear and reasonable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Encouraging the education of the public about financial products and services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. FSA DEVELOPMENTS

Q4 In April 2004, a new organisational structure was introduced, including a split in regulatory activity between wholesale business, retail business and the creation of the Small Firms Division. To what extent do you agree or disagree with the following...?

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Splitting wholesale and retail has meant that staff have become more focussed, informed and knowledgeable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Small Firms Division has been a positive development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA has improved its treatment of smaller firms since 2004	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA shows understanding of smaller firms in the development of regulatory policy and operation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA recognises the impact of regulation on smaller firms and seeks to accommodate them	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Retail Mediation Activities Return (RMAR) has produced a substantial extra burden on firms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improvements to the FSA website have made it easier to find the information you need	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FIRMS ONLINE provides an improved means of interaction with the FSA

FSA industry training roadshows and events are an effective means of disseminating information and developments

5. EU AND INTERNATIONAL ISSUES

Q5 Do you have an opinion or experience of EU or international issues?

PUT A CROSS IN ONE BOX ONLY

Yes PLEASE GO TO Q6
 No PLEASE GO TO Q8
 Don't know PLEASE GO TO Q8

Q6 Thinking of European and international issues, how much do you agree or disagree that ...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA has assessed the Capital Requirements Directive (CRD) in an effective way	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA has kept the industry adequately informed on MiFID	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA is suitably co-ordinated with HM Treasury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA is alert to emerging EU issues and prepares its position in time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA leads developments in international regulation as opposed to responding to them	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA brings European directives into UK regulation faster than other European regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA brings European directives into UK regulation in more detail than other European Regulators (gold plating)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

EU and international issues are a top priority, looking forward

UK regulations and EU standards are too different to be satisfied by a single EU requirement

Q7 How much do you agree or disagree that the FSA has improved the UK's international competitiveness, such as the FSA's action on the handling of hedge funds, for example? Please answer in relation to:-

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
cross border issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
domestic issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
innovation in financial services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. CONSULTATION PROCEDURES

Q8 Overall how would you rate the effectiveness of the FSA's consultation paper process?
PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q9 How much do you agree or disagree that...
PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
FSA consultation papers have become more concise	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The FSA is committed to reducing the volume of consultation papers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost benefit analyses within consultation papers have been carried out robustly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
'Dear CEO' letters (and other communication tools) are a helpful alternative to the consultation paper process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA places sensible reliance on market led solutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q10 How would you prefer to communicate your business's views to the FSA?
YOU MAY PUT A CROSS IN MORE THAN ONE BOX**

- Directly to the FSA
- Via open meeting or industry conference
- Via trade association / representative body
- Via consultants or legal advisors
- Via surveys such as this
- Other
- Don't know

7. ENFORCEMENT

**Q11 Based on your experience, or what you have seen or heard, how satisfied are you with the way the FSA handles enforcement?
PUT A CROSS IN ONE BOX ONLY**

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Q12 How much do you agree or disagree that FSA's enforcement procedure....
PUT A CROSS IN ONE BOX FOR EACH LINE**

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Is understood by the industry to be an important strategic tool	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is being used in a way that is beneficial to the industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is being used in a way that serves to better protect the consumer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Imposes unreasonable penalties
- The recent review of enforcement procedures will result in firms being treated more fairly

SECTION B – YOUR EXPERIENCE OF THE FSA AS A REGULATED FIRM

8. YOUR OVERALL SATISFACTION WITH THE FSA

Q13 Taking into account all your business' dealings with the FSA, how satisfied are you with the relationship?

PUT A CROSS IN ONE BOX ONLY

- | | | | | | | | | | | |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Extremely
dissatisfied | | | | | | | | | | Extremely
satisfied |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Q14 In the last two years would you say your business relationship with the FSA has...

PUT A CROSS IN ONE BOX ONLY

- Improved
- Stayed the same
- Deteriorated
- Don't know

9. DEALING WITH THE FSA

Q15 Overall, how would you rate the ease of dealing with the FSA?

PUT A CROSS IN ONE BOX ONLY

- | | | | | | | | | | | |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Extremely
dissatisfied | | | | | | | | | | Extremely
satisfied |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Q16 In the last two years would you say your ease of dealing with the FSA has...

PUT A CROSS IN ONE BOX ONLY

- Improved
- Stayed the same
- Deteriorated
- Don't know

Q17 Regarding general administration, to what extent do you agree or disagree that the FSA...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Operates straightforward and efficient processes for dealing with authorisation and approval issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Handles waiver requests and other admin functions (e.g. changes of permission) satisfactorily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has sufficiently skilled staff to deal with day-to-day issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q18 Does your business have a Designated Relationship Manager at the FSA?

- Yes GO TO Q19 AND THEN TO Q20
-
- No
- Don't know GO STRAIGHT TO Q20

Q19 How satisfied are you with your firm's dealings with your Designated Relationship Manager?

PUT A CROSS IN ONE BOX ONLY

- Very satisfied
- Fairly Satisfied
- Neither Satisfied nor dissatisfied
- Not very satisfied
- Not at all satisfied
- No opinion
- Don't know

Q20 Has your business had dealings with the FSA’s Firm Contact Centre?

- Yes GO TO Q21 AND THEN TO Q22

- No
- Don’t know GO TO Q22

Q21 How satisfied are you with the service provided by the Firm Contact Centre?

PUT A CROSS IN ONE BOX ONLY

- Very satisfied
- Fairly Satisfied
- Neither Satisfied nor dissatisfied
- Not very satisfied
- Not at all satisfied
- No opinion
- Don't know

Q22 Has your business ever considered making a formal complaint (whether or not any such complaint was actually made)?

PUT A CROSS IN ONE BOX ONLY

- Yes - and your business made a complaint
- Yes - but your business did **not** make a complaint
- No
- Don’t know

10. PROVISION OF GUIDANCE

Q23 Have you had any experience of seeking guidance on rules or regulatory policy from the FSA?

- Yes GO TO Q24
- No GO TO Q27

Q24 Overall, how would you rate the helpfulness of the guidance you received from the FSA?

PUT A CROSS IN ONE BOX ONLY

- | | | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Extremely
poor | | | | | | | | | | Extremely
good |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Q25 Have you sought guidance mainly from...

PUT A CROSS IN ONE BOX ONLY

- Designated Relationship Manager
- Firm Contact Centre

Q26 When approaching the FSA for guidance, how much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA’s approach is one of collaboration rather than confrontation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is possible to be open and frank in discussions with the FSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is difficult to work through things informally with the FSA without involving legal people	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FSA staff generally give guidance promptly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FSA staff avoid making decisions altogether	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FSA staff have sufficient knowledge to understand my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Staff have the authority to answer my questions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is consistency of guidance from different members of staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is co-ordination of response and action by the FSA across departments and teams	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ALL FIRMS PLEASE ANSWER

Q27 Thinking about the FSA Handbook of rules and guidance, how much do you agree or disagree...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The level of detail in the Handbook is about right	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is difficult to find the rules and guidance that you need in the Handbook	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Guides to the Handbook have been useful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The ease of use of the Handbook has improved over the last 2 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The introduction of a personalised Handbook is welcomed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. SUPERVISION

Q28 Overall, how satisfied are you with the FSA's supervision of your business?

PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q29 When did your business have its last supervisory visit by the FSA?

PUT A CROSS IN ONE BOX ONLY

Less than six months ago	<input type="checkbox"/>
More than 6 months, but less than 1 year ago	<input type="checkbox"/>
More than 1 year, up to 2 years	<input type="checkbox"/>
More than 2 years, up to 3 years	<input type="checkbox"/>
More than 3 years ago	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

Q30 Has your firm ever participated in an FSA thematic review?

PUT A CROSS IN ONE BOX ONLY

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

Q31 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?

PUT A CROSS IN ONE BOX ONLY

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

Q32 How would you describe the FSA in applying the rules for the Conduct of Business Standards?

PUT A CROSS IN ONE BOX ONLY

Highly flexible	<input type="checkbox"/>
Fairly flexible	<input type="checkbox"/>
About right	<input type="checkbox"/>
Fairly rigid	<input type="checkbox"/>
Highly rigid	<input type="checkbox"/>
No experience	<input type="checkbox"/>
Don't know	<input type="checkbox"/>

Q33 How would you describe the FSA in applying the rules for Prudential Standards?

PUT A CROSS IN ONE BOX ONLY

- Highly flexible
- Fairly flexible
- About right
- Fairly rigid
- Highly rigid
- No experience
- Don't know

Q34 How much do you agree or disagree that, in supervising your business, the FSA...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Asks for too much detailed information about your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Places emphasis on preventing problems rather than enforcement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has a good understanding of your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Applies a reasonable level of supervision for a business of your size and type	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tends to look at processes rather than outcomes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is adversarial in approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is willing to hold a dialogue with you about compliance issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Is willing to discuss the findings of any supervision visit of your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q35 When considering the FSA staff who handle your supervision, how much do you agree or disagree with each of the following?

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Their approach varies depending on the individual	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
They have good interpersonal skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
They make site visits too frequently	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
They don't really take into account the level of risk arising from your business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
They treat your staff as trustworthy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is difficult to give feedback to the FSA on their supervisory staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
They have sufficient commercial understanding of your business to make appropriate judgements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA makes good use of the information you provide to inform its dealings with you	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FSA has adopted a more principles based approach in its dealings with your firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The turnover of FSA supervision staff is detrimental to our regulatory relationship	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. THE FINANCIAL OMBUDSMAN SERVICE (FOS)

Q36 Has your firm had experience of dealing with the Financial Ombudsman Service (FOS)?

PUT A CROSS IN ONE BOX ONLY

- Yes
- No
- Don't know

Q37 How much do you agree or disagree with each of the following regarding the Financial Ombudsman Service (FOS)?

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
By its case decisions the FOS is assuming a policy setting role that is the responsibility of the FSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The new wider implications arrangements have led to more considered judgements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The FOS decisions are broadly fair	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. COSTS AND EFFICIENCY IN RELATION TO YOUR BUSINESS

Q38 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 business (taking both fees and internal & external costs into account)?

PUT A CROSS IN ONE BOX ONLY

- They are excessive
- They are high, but not excessive
- They are reasonable
- Don't know

Q39 What would you estimate are the total internal and external identifiable current costs of compliance for your business as a percentage of total costs?

PUT A CROSS IN ONE BOX ONLY

- Less than 2%
- 2% - less than 5%
- 5% - less than 10%
- 10% - less than 15%
- 15% - less than 20%
- 20% - less than 25%
- 25% or more
- Don't know

Q40 How much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The overall costs of compliance will continue to rise for the foreseeable future	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The costs of compliance are harmful to my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The costs of compliance have resulted in...					
(a) Reducing the types of business we conduct	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Selling some parts of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Placing my business at a disadvantage compared to our competitors based abroad, when competing for international business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) My business planning to leave the industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) My business planning to re-locate from the UK to another country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION C -YOUR TYPE OF BUSINESS AND THE PRACTITIONER PANEL

14. YOUR TYPE OF BUSINESS

Q41 How many full time staff (or equivalent) are employed by your business in the UK?

PUT A CROSS IN ONE BOX ONLY

- 0-9
- 10-19
- 20-49
- 50-99
- 100-499
- 500-999
- 1000 or more

Q42 How many customer facing staff or advisers does your firm have?

PUT A CROSS IN ONE BOX ONLY

- 0-9
- 10-19
- 20-49
- 50-99
- 100-499
- 500-999
- 1000 or more

Q43 How would you describe the type of business you conduct?

PUT A CROSS IN ONE BOX ONLY

- All retail
- Mainly retail
- Part retail, part wholesale
- Mainly wholesale
- All wholesale

Q44 And where are your customers located?

PUT A CROSS IN ONE BOX ONLY

- Only in the UK
- Partly in the UK, partly overseas
- Only overseas

Q45 This questionnaire may have been completed by one or more individuals. Who has completed this questionnaire?

PUT A CROSS IN EVERY BOX WHICH APPLIES

- Chief Executive/MD
- Group/Head of Compliance (responsible for 2 or more regulated areas or authorised activities)
- Senior/Principal Compliance officer (responsible for single area or regulated activities)
- Partner/Principal in firm
- Financial Director
- Other

Q46 Which trade association(s) is your firm a member of?

PUT A CROSS IN EVERY BOX WHICH APPLIES

- Association of British Insurers (ABI)
 - Association of Independent Financial Advisers (AIFA)
 - Association of Private Client Investment Managers and Stockbrokers (APCIMS)
 - Association of Mortgage Intermediaries (AMI)
 - British Bankers Association (BBA)
 - British Insurance Brokers Association (BIBA)
 - Building Societies Association (BSA)
 - Council of Mortgage Lenders (CML)
 - Investment Management Association (IMA)
 - London Investment Banking Association (LIBA)
 - Not a member of a trade association
- OTHER MAIN TRADE ASSOCIATIONS - PLEASE WRITE IN THE NAMES AS APPROPRIATE
-

15. THE FINANCIAL SERVICES PRACTITIONER PANEL

Q47 Had you seen or heard anything about the Practitioner Panel before you received the letter about this survey?

- Yes
No

Q48 Had you seen or heard anything about the Smaller Businesses Practitioner Panel before you received this survey?

- Yes
No

Q49 How much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Panels are independent of the FSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The members of the Panels can represent the industry as a whole	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Panels are helping the FSA to understand industry views	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Panels are able to influence FSA policies and decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is easy for firms to express their views to the Panels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q50 What do you see as the most important issues for the FSA to address as the regulator for the financial services industry?



**THANK YOU FOR TAKING THE TIME TO COMPLETE THE QUESTIONNAIRE.
PLEASE RETURN IT TO GfK NOP IN THE REPLY-PAID ENVELOPE PROVIDED**

**IF THE REPLY-PAID ENVELOPE HAS BEEN MISLAID, PLEASE RETURN THE
QUESTIONNAIRE TO GfK NOP AT THE FOLLOWING FREEPOST ADDRESS:-**

**Chelmsford Data Centre
GfK NOP Ltd
FREEPOST KE4466
91 Victoria Road
Chelmsford
Essex
CM1 1ZZ**

Appendix 3
Methodology

Qualitative Study

Outline and role

A programme of 42 exploratory depth interviews were conducted with Chief Executive Officers and Heads of Compliance functions representing a range of different firm types and sizes. Two mini-group discussions were also convened with representatives from smaller firms. Additionally two Networks were interviewed for this research.

These interviews were conducted in order to meet the objectives set for the qualitative phase of the research, being:

- To take an initial view from the industry on current issues and performance
- To check the relevance of issues current at the time of the 2006 study, and furthermore to assess the likely importance of 'hot topics' identified by the Panel working party
- Overall, to gain an early indication of major themes
- To bring forward experience and perspective of 'newly' regulated M&GI sectors

The prime role of the qualitative phase was to assist in the development of the quantitative questionnaire, optimising the degree to which the research captured the issues that were of importance to the sector. Additionally the qualitative research would enhance the understanding that we could bring to bear on the results overall.

Qualitative method and sample

In order to develop the approach and discussion for the qualitative study, a short programme of internal interviews were also conducted. Two members of the Practitioner Panel were interviewed and four interviews were conducted with FSA management in this early stage.

Depth interviews allowed us to understand the specifics that each respondent brought to their view on FSA performance;

- The business context and challenges that framed their interaction with the FSA
- The history of their firm's interaction, being the detail of what had happened, how it had affected the business etc.
- The view they took on regulation in principle and how this practically impacted on their business

Individual interviews were also appropriate in terms of capturing the views of busy senior personnel and allowed them to speak in detail and in confidence.

Two mini group sessions were also convened with practitioners representing smaller firms. In these sessions we brought together discussion groups to ensure that the small firm voice was reflected in the research. This also gave us the opportunity to compare the experiences and views of practitioners from small firms - by hearing the views of other respondents and discussing these in an open forum. The mini-group sessions were convened in Leeds and Birmingham with practitioners representing Financial Adviser firms and M&GI intermediary firms.

All practitioners included in the qualitative study represented either a CEO function or a Head of Compliance function - given that in some sectors these titles do not directly apply but the responsibilities are intrinsic to firm operation. We wanted to include the perspectives from both senior management and senior compliance responsibilities, though there was considerable cross-over between these two roles, especially in smaller firms.

The sample was derived from the FSA TARDIS database (the listing of all regulated firms) and respondents were screened to ensure their responsibilities enabled them to comment on FSA performance.

Table A1: The sample breakdown for the depth interviews

Firm Type	Interviews
A. IFA firms	5
B. Investment Managers (retail)	2
C. Accountants	3
D. Law Society (Eng. + Scot)	3
E. Building Societies	2
F. Friendly Societies	3
G. Major Financial Groups (retail focused)	2
H. Insurance companies (life and investment focused)	3
I. Banks (retail focused)	2
J. Credit Unions	2

- **Wholesale**

K. Investment Mgrs (wholesale)	1
L. Lloyds Market	2
M. Securities and Derivatives	3
N. Major Financial Group (wholesale focused)	1
O. Banks (Wholesale focused)	2

- **M&GI**

P. Mortgage brokers/advisors	2
Q. General Insurance Primary	2
R. General Insurance Secondary	2

The depth interviews and mini-groups were conducted from February through to April 2006 and were carried out by senior personnel from GfK Financial.

All research sessions were audio recorded (unless notes were taken on the basis of respondent preference/appropriateness) and analysed for reporting to the Panel.

Quantitative study

Questionnaire design and piloting

As in the 2004 survey, a single questionnaire was sent to all organisations. The questionnaire was sent to the most senior person within the organisation, usually the CEO or Senior Partner.

Findings from the qualitative phase of the research were used to identify key areas to be included in the quantitative questionnaire. This research, along with guidance from a sub-group of the Panel, was used to develop the 2004 questionnaire for the 2006 survey. A draft version of the questionnaire was then piloted. Questionnaires were sent out to representatives of all sizes and type of organisation, four of which were sent to M&GI intermediary firms. In-depth telephone interviews were carried out during May and June with twelve pilot participants (six with members recruited from the qualitative stage and six recruited specifically for the pilot). Findings from the pilot were used to identify areas where the questionnaire required changes or improvements. The questionnaire was then revised and the final version agreed by the sub-group of the Panel.

Sampling frame

As with the 2004 survey, the sample was taken from the FSA's comprehensive listing of all regulated firms, known as TARDIS. The names and addresses of firms were taken from this database. There was some duplication of firms, particularly where firms had more than one area of operation. De-duplication was undertaken by the FSA prior to the database being sent to GfK Financial. GfK Financial then undertook further de-duplication and formatting of the database. All non-UK firms, along with those without a contact address, were removed from the database.

Amongst the original firm types surveyed in 2004, firms with zero approved individuals were removed. Amongst M&GI intermediary firms, there was a much larger proportion of zero approved individuals, and therefore these were included in the sample.

The FSA also supplied GfK Financial with a separate list of all MFG (Major Financial Groups) and their main contacts. The correct contact for each MFG was identified and flagged in the database as a Major Group; all other contacts for that group were removed from the database. For other non-major groups one firm was selected from each group and all other firms in that group were removed. In this process banks were selected over life insurers and life insurers were selected over insurance companies. The net result was a single database with one identifiable contact for 10,279 firms.

Survey sample

The full database of 10,279 firms was sorted on the basis of primary reporting type and then used to draw the sample.

With the exception of Financial Adviser and General Insurance intermediary firms with less than 20 approved individuals, and Mortgage Arrangers with less than 10 approved individuals, the total universe size for each primary reporting type was relatively small and so a census was taken. For smaller firms where numbers were large only a sample was needed to ensure that the views of the total were represented. Separate stratified random samples (ranging from 1 in 2 to 1 in 5) of the smaller firms were taken. For General Insurance intermediary and Mortgage Arranger firms, there were far fewer approved individuals and therefore those firms with less than 10 approved individuals were sub-divided further. The under-representation of these firms in the sample was corrected by weighting at the analysis stage. Similar sampling procedures for smaller firms were applied in 2004, 2002 and 1999.

In the charts and tables the base sizes refer to the number of respondents interviewed. These are shown unweighted as statistical tests are based on unweighted numbers.

As weighting has been applied, readers should not try to make calculations from combinations of weighted data and unweighted base sizes.

The questionnaire was sent to a total of 10,279 firms. Correspondence was addressed to the named contact taken from the FSA database. Where this information was not available 'Senior Partner/Chief Executive' was used.

Profile of achieved sample

The survey results in this report are based on an achieved sample of 4,071 firms.

Table TA1 shows the composition of the achieved sample by primary reporting type, as identified by TARDIS.

In 2006, the analysis used a more appropriate definition of size across all firms from TARDIS. This was due to the belief that the number of approved individuals was not necessarily an accurate indication of size for M&GI intermediary firms. Hence the distinction was created between the larger firms supervised by Relationship Managers, including Major Groups, and smaller firms supervised by the Small Firms Division and through the Wholesale Contact Centre.

Where appropriate, comparisons were made with the nearest equivalent groups in the 2004 survey. In the 2004 survey, smaller firms were defined as having less than 20 approved individuals and large firms are defined as having 20 or more approved individuals.

Table A1: Composition of achieved sample by primary reporting type

Primary Reporting type	All	Larger organisations Relationship Managed (including Major Groups)	Smaller organisations Smaller Firms Division and Wholesale Contact Centre
Unweighted base	4071	697	2931
Weighted base	4071	338	3386
	%	%	%
Advising and arranging intermediary	2	2	1
Advising only intermediary	1	1	1
Authorised professional firm	3	1	3
Bank (other than wholesale only)	1	12	0
Building Society	1	3	0
Corporate finance firm	2	1	2
Credit Union	3	0	3
Discretionary investment manager	5	10	5
General insurer	1	12	*
Financial Adviser	24	6	28
Life insurer	1	4	1
Lloyds managing agent	*	4	0
Mortgage Lender	*	4	*
Stock broker	1	3	*
Venture capital firm	1	1	1
Wholesale market broker	*	2	*

General insurance intermediary	38	24	38
Mortgage adviser	1	*	1
Mortgage arranger	14	4	17
Other	3	6	0
Total	100	100	100

* less than 0.5%

Fieldwork procedures

During early June, sample members were sent advance notification of the survey from the Chairman of the Practitioner Panel. Questionnaires were sent out one week later on 16th June. The questionnaires were sent with a covering letter from GfK Financial containing information on how to complete the survey along with a web address for those that preferred to complete the survey online. A reminder letter was sent three weeks later to all sample members that had not returned by post or completed their questionnaire online. Those who informed GfK Financial that they did not wish to take part in the survey, that their questionnaire was a duplicate or that their firm had ceased trading, were also excluded from this mail out. A second reminder was mailed out by the Financial Services Practitioner Panel on 4th August. This included a second copy of the questionnaire for completion in case the original had been mislaid. At the same time a letter was sent from Roy Leighton to the Head of Compliance of all non-responding firms informing them that their CEO had been sent the second copy of the questionnaire.

Between 22 August and 8 September GfK Financial telephoned a prioritised list of firms that had not responded. Firms were asked to take part in a shortened version of the questionnaire containing key questions from the full survey. 501 interviews were completed over the telephone but this number was reduced to 493 due to eight of the firms also completing the postal or online version of the questionnaire during the telephone fieldwork period.

Completed questionnaires were accepted up until 22 September 2006.

Response Rate

The overall response rate for the survey (including telephone completes) was 40%. This compares to 48% in 2004, 42% in 2002 and 58% in 1999. The response rate was calculated by taking the number of completed surveys and dividing by the effective sample size (number of questionnaires mailed out minus the firms that had ceased trading or moved address).

Table TA2 shows differing response rates by primary reporting type.

Table A2: Response rate by primary reporting type

Primary reporting type	No. of firms in sample	Response rate
Advising and Arranging Intermediary	357	31%
Advising only Intermediary	81	31%
Alternative Trading System Operator	16	38%
Arranging only Intermediary	85	35%
Authorised Professional Firm	610	31%
Bank (other than Wholesale only)	228	65%
Building Society	63	78%
CIS Administrator	9	56%
CIS Trustee	4	75%
Composite Insurer	16	50%
Corporate Finance Firm	445	34%
Credit Union	553	37%
Custodial Service Provider	7	57%
Discretionary Investment Manager	1112	34%
E-money Issuer (non-bank)	4	25%
Energy (including Oil) Market Participant	34	32%

General Insurer	304	39%
Financial Adviser	1573	48%
Life Insurer	203	34%
Lloyd's Managing Agent	66	45%
Lloyd's Member Agent	13	8%
Market Maker	35	46%
Media Firm	7	43%
Mortgage Lender	85	36%
Own Account Trader	33	15%
Service Company	12	25%
Stockbroker	153	39%
Venture Capital Firm	212	27%
Wholesale Market Broker	53	43%
Wholesale only Bank	19	79%
GI intermediary - primary	1516	49%
GI intermediary - secondary	1187	26%
Mortgage Administrator	15	27%
Mortgage Adviser	206	39%
Mortgage Arranger	963	40%

Reasons for non-response

During telephone fieldwork reasons for non-response were collected from those that refused to take part in the survey over the telephone (196). The reasons for refusal for those that actively refused during the postal stage were also recorded (81).

The reasons for non-response are shown in table TA3.

Table A3: Reasons for non-response

Reasons for non-response	%
Too busy/understaffed	27
Company policy - no surveys	15
Too little exposure to the FSA	14
No longer regulated by the FSA	10
Firm no longer in business	5
Do not personally believe in surveys	4
Not available during fieldwork	4
No reason given	21

Weighting

To ensure that the sample was as representative as possible of the universe the data were weighted to the profile of TARDIS (after duplicates had been removed).

Statistical Techniques

GfK Financial used two main statistical techniques in their analysis of the data, Factor Analysis and Ridge Regression. These techniques are described below.

Factor Analysis

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction, by identifying a small number of factors which explain most of the information observed in a much larger number of manifest variables. By examining the correlation among the questions, we may reveal a significant overlap among various subgroups of items e.g. certain questions about FSA staff tend to correlate with each other, and so on. These correlated questions will group together to form factors. These factors are essentially the underlying or latent dimensions that often exist in a battery of, say, attitudinal questions.

Factor scores for each individual can then be generated as an input to regression modelling. The benefit of using factor scores in regression modelling is that when they are computed, they are orthogonal, i.e. they are completely uncorrelated so the regression does not suffer from multicollinearity. If correlated variables are used in a regression model, a technique known as Ridge Regression is used.

Ridge Regression

In market research regression analysis is often used to work out how much influence different service attributes have on overall satisfaction. If the service attributes we measure are in some way correlated (for example as one improves another one is also likely to improve) ordinary regression cannot deal with this and tends to give most of the influence to just one of the attributes. Ridge regression is a special type of analysis used to overcome this problem (often called collinearity). Unlike ordinary regression, ridge regression shares the communal influence between the service attributes and a less biased picture is presented.

