Practitioner Panel Financial Services Industry Survey 2013

A topline report by GfK for: **FCA Practitioner Panel**

Published: 3rd May 2013

FCA PRACTITIONER PANEL
SURVEY OF REGULATED FIRMS – 2013

FOREWORD

I am pleased to be able to start the work of the FCA Practitioner Panel with a snapshot of the views and expectations of the Financial Conduct Authority (FCA) from across the regulated industry[1]. We believe it sets a useful benchmark of the industry's views of the regulator, which we and the FCA can build upon going forward.

We have already had constructive pre-publication discussions with both the Chairman and the Chief Executive of the FCA about the results of this survey. We will continue to use these findings to feed into our discussions with the FCA and the work of the Practitioner Panel and the Smaller Business Practitioner Panel going forward.

The aim of the Survey has been to provide feedback from the regulated industry about attitudes to regulation and, most importantly, views on how the regulator can be as effective as possible. Our premise has been that an efficient and effectively regulated financial services industry in the UK is the ideal outcome for consumers and industry alike.

From the results, we believe that the FCA should consider the following messages from the industry as follows:

1. Recognise when enough has been done in one area

The FCA should be pleased to see that firms have responded to recent regulatory changes – with nearly all firms having made changes to their risk assessment processes, and a significant proportion of larger firms having made significant changes to their governance structures.

However, the regulator must be careful not to go too far. We can see in the results that larger firms are worried about being placed at disadvantage compared with competitors abroad, and both smaller and larger firms are withdrawing from markets and services due to regulation.

We suggest that the FCA will need to be careful, particularly as it starts its work, to ensure that it does not overreact to potential problems in the marketplace, and so undermine both industry and consumer confidence in financial services.

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[1]This survey was conducted by independent research company GfK in February/March 2013, just before the FCA was created on 1st April 2013.

Over 80% of all firms have made changes to their risk assessment processes (with 95% of relationship managed firms having made changes).

69% of High Impact Firms have made significant changes to governance structures as a result of regulation, and 86% of all relationship managed firms have made some changes to their governance structures.

32% of relationship managed firms said they were worried about being placed at a disadvantage compared with competitors abroad, and from non-relationship managed firms, 20% are withdrawing from certain customer groups and 20% withdrawing from certain market sectors due to regulation.

2. Competition must be a more significant factor in the regulatory approach

Firms are far more confident in the FCA's ability to meet its consumer protection objective than its competition objective. We believe this lack of confidence stems from the tone of initial information provided about the FCA, and firms' previous experience of working with the FSA. It was the larger firms, who had taken more interest in the information provided about the FCA, who were the most critical, so this opinion is based on some knowledge about the FCA.

Although we appreciate that this is a new objective for the FCA which was not operating at the time of the Survey, we want to highlight the scale of the challenge and the need to embed an attitude to competition within the whole regulatory approach. When combining these results with the views on the main consequences of regulation, including concerns about competition from abroad and the withdrawal from certain consumer groups and market sectors as referred to above, one can see how the lack of confidence in the regulator's ability to promote competitive markets has arisen.

It is critical that the FCA works to put in place a clear action plan on how it will tackle its competition objective, and promote that in the wider community and within the regulator itself. The attitude towards fostering effective competition must be imbued throughout the regulator. Failure to support competition is likely to lead to less choice in the market, and ultimately could undermine the regulator's ability to deliver on its consumer protection objective.

70% of relationship managed firms were confident the FCA will deliver on securing an appropriate degree of consumer protection.

55% of relationship managed firms were confident of the FCA's ability to protect and enhance the integrity of the UK financial system.

28% of relationship managed firms were confident of the FCA's ability to deliver on promoting effective competition.

3. Communication with firms is crucial

The survey shows that firms that are relationship managed have a far better understanding of the FCA, its objectives and plans than those that are not. Wholesale firms are also generally more satisfied with the level and effectiveness of regulation than retail firms.

It is understandable that the regulatory focus for communications about the FCA was initially on larger firms, as these have a greater reach and impact on the market. However, the survey shows there is also mounting frustration amongst smaller firms about the impact of regulation, and particularly amongst smaller firms affected by the Retail Distribution Review (RDR).

As the FCA has decided to reduce the number of firms who are relationship managed in the new system, the FCA will need to think hard about alternative methods of getting its message across to the majority of regulated firms who are not relationship managed.

The FCA must put more effort into communicating with smaller firms and offering them some means of engagement and building up their understanding of the regulator. We are pleased that the FCA website is clearer than the previous FSA website, and we are hopeful that more progress can be made by the FCA on communications.

84% of relationship managed firms and 42% of non-relationship managed firms said they knew about the FCA's objectives. Non relationship managed firms use the media (57%), FSA/FCA website (46%) and FSA/FCA newsletters (45%) as their main information sources about regulatory requirements. 15% of High Impact Firms, 17% of large wholesale firms, and 44% of non-relationship managed retail firms said the regulator at the time (FSA) was not at all effective.

4. Proportionality, Proactivity and Predictability

When asked for a single message for the FCA Board, the industry's views can be themed into the three areas: proportionate treatment; proactive approach; and predictable regulation. These are all areas which both the Practitioner Panel and the Smaller Businesses Practitioner Panel have pressed the FSA to take action on before.

In addition, the stand-out improvement that large firms identify from a list of options to make the FCA more effective than the FSA was the need for clearer regulation. This was closely followed by the need for more staff with industry experience and FCA staff being more willing to give opinions.

The FCA needs to provide clear and consistent messages to firms in how they want them to behave. We urge the FCA to continue to work to take a proportionate approach. It must look to ensure that the level of regulation matches risk and does not have a 'one size fits all' approach. We believe that if the regulator sets out clearly how it wants firms to behave, the majority will try to comply with those requirements. It can then focus on helping the well-intentioned firms to comply, and taking strong action against any firms who have no wish to comply with the requirements.

When asked how the FCA can be made more effective than the FSA, the majority of all types of firm asked for clearer regulation from the FCA – 80% of firms said this was very important. This is followed by 65% saying more staff with industry experience is very important, and 63% saying FCA staff being more willing to give opinions is very important.

Looking forward
We were pleased to see a recovery in firms' satisfaction with their relationships with the regulator from the dip following the financial crisis which was noted in the 2010 Survey.

The Survey also asked for views on the perceived effectiveness of the regulator, as a measure to be used for the FCA going forward. The low average score for the industry of 4.6/10 sets an important baseline for the future.

We are extremely grateful to all the firms who took the time to respond to this survey and provided the opinions on which this report is based. 83% of the respondents were at Chief Executive level in their firms, which adds to the credibility of these views. I am also grateful to Joe Garner, my predecessor as Chairman of the Practitioner Panel who initiated and led this Survey, along with Helena Morrissey, and all my fellow Practitioner Panel members who have supported this work.

Graham Beale
Chairman FCA Practitioner Panel

Practitioner Panel membership – May 2013

Graham Beale Chairman	Chief Executive Officer, Nationwide Building Society
David Bellamy	Chief Executive Officer, St James's Place
Alison Brittain	Director of Retail Banking, Lloyds TSB Group
Michael Dobson	Chief Executive Officer, Schroder Plc
Paul Geddes	Chief Executive, Direct Line Insurance Group
Mark Harding	Group General Counsel, Barclays Group
John Hitchins	Global Chief Accountant and Financial Services Partner, PwC
Mark Ibbotson	Chief Executive Officer, NYSE – Liffe
Alexander Justham	Chief Executive Officer London Stock Exchange Plc
Helena Morrissey	Chief Executive Officer, Newton Investment Management Ltd
John Pollock	Group Executive Director, Legal & General Group Plc
Malcolm Streatfield	Joint Chief Executive, Lighthouse Group Plc
Paul Swann	President and Managing Director,ICE Clear Europe [Chair Markets Practitioner Panel]
Andrew Turberville Smith	Financial Director and Chief Operating Officer, Weatherbys Bank [Chair Smaller Business Practitioner Panel]

RESEARCH REPORT by GfK

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GfK Research Report

1. OBJECTIVES AND METHODOLOGY

The Practitioner Panel (the "Panel") has undertaken biennial surveys of the industry's view of the regulator – the Financial Services Authority (FSA) and its operations since 1999. These have provided an on-going picture of the financial services industry's reaction to the FSA's regulatory policies and how they work in practice.

This is the 7th survey and, unlike previous waves, takes a more forward looking approach. Its aim is to look at the aspirations of the industry for regulation and to gauge the feelings of firms about the new regulator, as the FSA's responsibilities were due to be split between the FCA (Financial Conduct Authority) and PRA (Prudential Regulation Authority) from 1st April 2013. The survey was conducted by GfK on behalf of the Panel.

Methodology
An online[2] quantitative survey was conducted over a 4 week period (Tuesday 19th February – Monday 18th March) to measure practitioners' perceptions. A census was taken of all regulated firms from the FSA TARDIS database of firms with the exception of home finance brokers, financial advisers and general insurance intermediaries, where a representative sample was taken, due to the size of these sectors.

Overall 1,470 firms took part in the survey and a response rate of 15% was achieved. In 2010, 4,256 firms took part in this survey and a response rate of 43% was achieved. The response rate was lower this year due to the shorter fieldwork period of 4 weeks, rather than 3 months.

The questionnaire is considerably shorter than in previous years with 12 structured and open ended questions. The target population was the most senior person in the firm. As a result, 83% of the interviews were with a CEO, MD, Partner or Prinicipal.

The data presented in this report has been weighted to be representative of the population of regulated firms. The risk-based system of supervision for the

[2] In previous years a postal methodology was used to conduct this survey.

FSA (and for the FCA going forward) distinguishes between firms according to their size and potential impact of any problems occurring in that firm. Those with a greater potential impact are relationship managed and have a named supervisor, and so are ‘relationship managed’. The majority of firms by number are smaller firms who provided data to the regulator and are generically supervised, and so are ‘not relationship managed’. This differential often leads to a different view of the regulator, and so has been used to assess responses. The following groups are presented in the report:

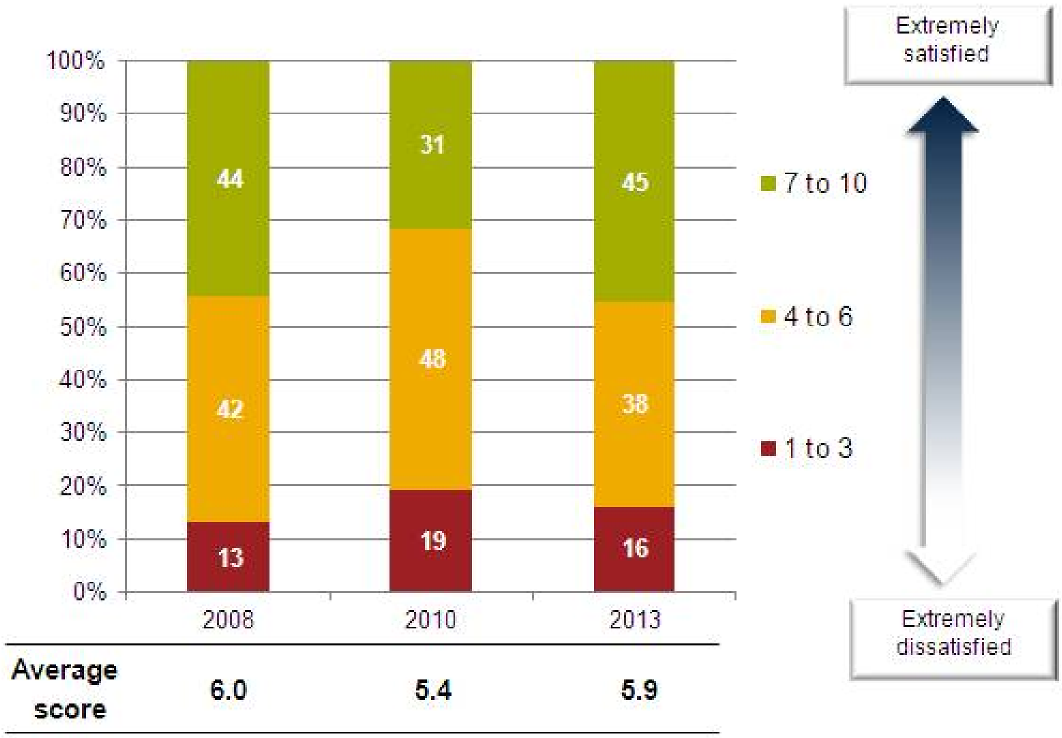
- Relationship managed firms
- Non-relationship managed firms.

As in previous years, the groups are derived by the dedicated supervisor area from the FSA TARDIS database of firms.

There is a small group of the largest firms, whose performance has significant potential to impact on the performance of the financial system as a whole, as they impact on around 80% of consumers of financial services. These firms were in a category of High Impact Firms for the FSA, and so are labelled as such in this Survey.

2. VIEWS OF THE FSA

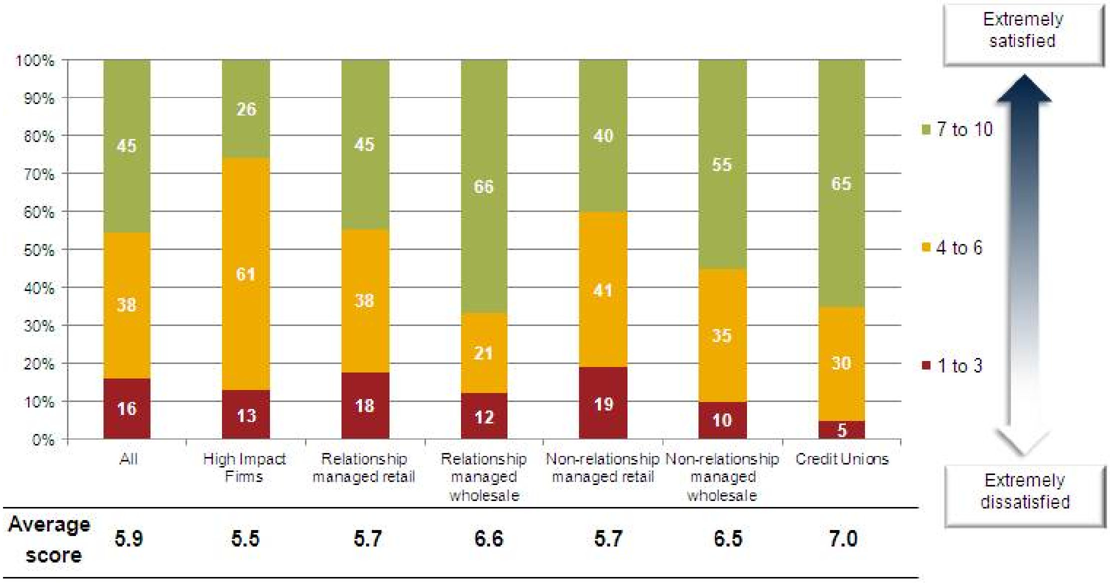
Figure 2.1: Satisfaction with the regulator relationship



Q1 Taking into account all of your firm's dealings with the Financial Services Authority (FSA) how satisfied are you with the relationship? Base: 2008 (4,459), 2010 (4,256), 2013 (1,470)

- The key finding from the 2013 survey is that firms' satisfaction with the regulator (the FSA at time of interview) has recovered from its dip in 2010, and returned to the 2008 level (this question is directly comparable with previous waves and provides reliable trend data).
- In 2010, low satisfaction could be seen to be as a result of a significant increase in regulatory intensity following the financial crisis from 2007/8, without any benefits of the changes having had time to materialise
- Within the 2013 responses, it can be seen that nearly half of those interviewed (45%) recorded a score that equates to being satisfied (i.e. between 7 and 10 out of 10).
- However, within this 'top box' score, the majority of scores were seven or eight (18% each), rather than nine or ten.

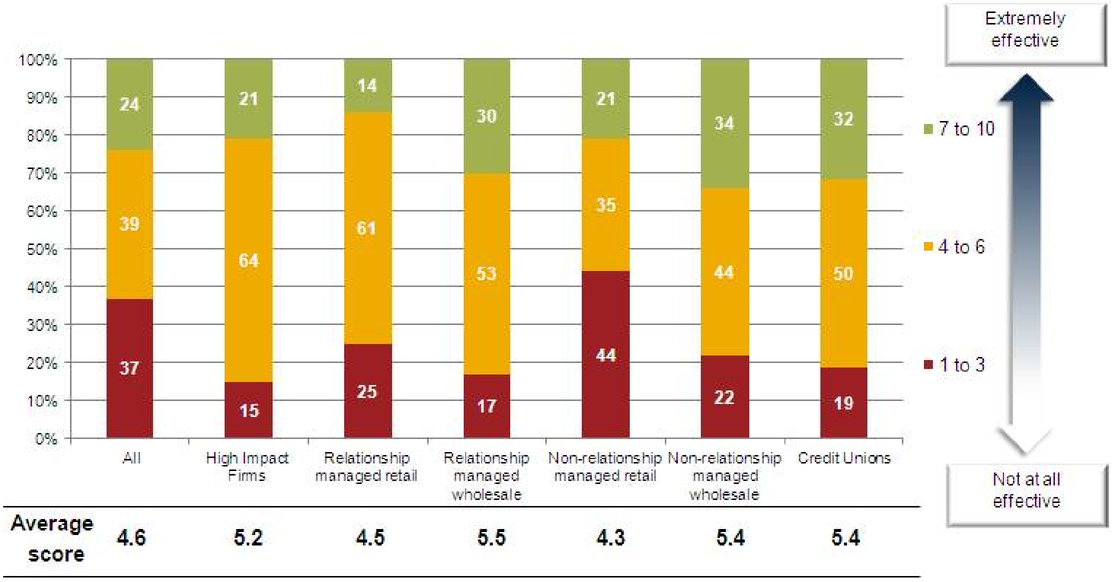
Figure 2.2: Satisfaction with the relationship by firm type



Q1 Taking into account all of your firm's dealings with the Financial Services Authority (FSA) how satisfied are you with the relationship? Base: All (1,470), High Impact Firms (28), Relationship managed retail (67), Relationship managed wholesale (100), Non-relationship managed retail (764), Non-relationship managed wholesale (398), Credit Unions (113)

- There are noticeable differences in the level of satisfaction by type of firm.
- High Impact Firms are much less likely to be satisfied – only a quarter (26%) recorded a score of seven or more.
- At the other end of the spectrum, wholesale firms and credit unions are much more satisfied with their relationship with the FSA, with roughly two-thirds giving a score of seven or more.
- Overall, 16% of the industry are 'dissatisfied' with their relationship – that is giving a score of three or less. This figure varies less by type of firm, but there are higher levels of dissatisfaction amongst the retail firms.
- The lowest level of disatisfaction is found among the credit unions, where only 5% are dissatisfied.

Figure 2.3: Perceived effectiveness of the regulator by firm type



Q2 Overall from your firm's perspective how effective has the FSA been in regulating the financial services industry?
Base: All (1,470), High Impact Firms (28), Relationship managed retail (67), Relationship managed wholesale (100), Non-relationship managed retail (764), Non-relationship managed wholesale (398), Credit Unions (113)

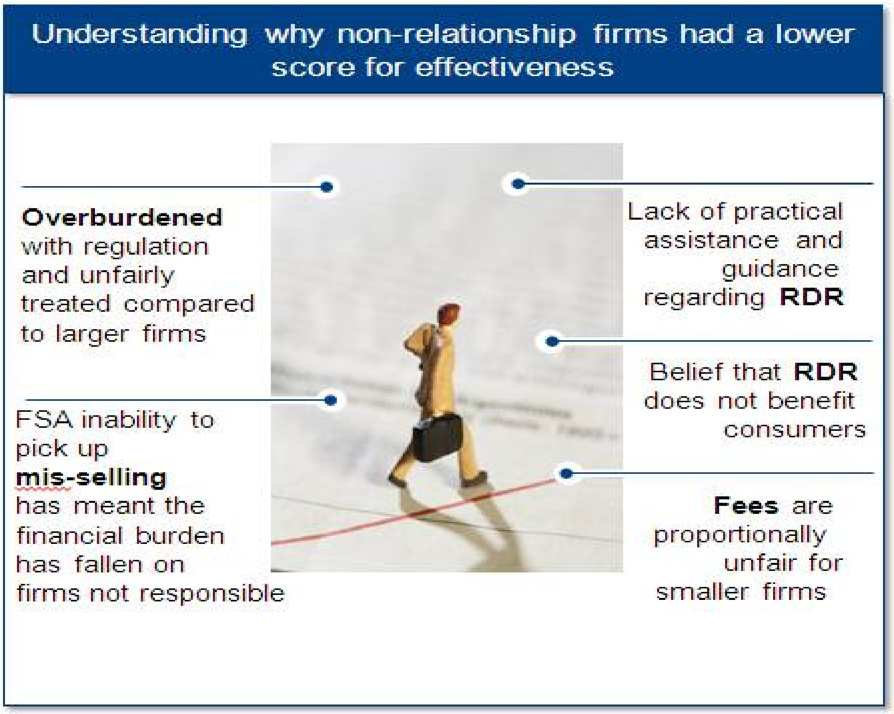
- More than one in three firms (37%) consider the FSA to have been ineffective - in other words gave a score of three or less. At the other end of the scale, just under a quarter (24%) gave a score of seven or more.
- Therefore the scores for perceived effectiveness are generally lower than those for satisfaction with the relationship. Whereas nearly half the industry (45%) gave a score of seven or more for satisfaction, only half this number gave the same 'top box' response for effectiveness. At the same time the 'dissatisfied' score (1-3) has more than doubled from 16% to 37%.
- The only group to give broadly similar responses to both questions are the High Impact Firms. All others types show markedly lower 'top box' scores and correspondingly higher 'bottom box' ones.
- The most striking feature of this analysis is the proportion of non-relationship managed retail firms who consider the FSA to have been ineffective. More than four in ten (44%) of these firms recorded a 'bottom box' score. The reason for the lower scoring here is explored in Fig 2.5.
- If the non-relationship retail group is taken out of the total, the average score increases from 4.6 to 5.3. This is because these firms make up over half of the interviews, so the total figure is skewed towards this group.

Figure 2.4: Reasons for lower effectiveness scores for FSA

Q3 Please could you tell me why you gave this score for effectiveness? Base: 1,470

- When asked an open question why they considered the FSA to have been ineffective, there was an overriding theme that the FSA had not been forward thinking and had been reactive, rather than proactive.
- As a consequence there is a belief that the FSA "didn't do their job properly" and failed to prevent the financial crisis. Critically the FSA did not prevent mis-selling within the industry as evidenced by examples such as PPI, Arch Cru and KeyData Investment Services.
- There was also a feeling, which has been observed in previous surveys, that the FSA was bureaucratic and focussed too much on the detail and 'red tape'. There was also a perception that the FSA adopted a "one size fits all" approach to the way in which they regaulated firms.
- Firms also felt – often quite strongly – that the implementation of initiatives was poor. This theme was particularly strong amongst firms that have been impacted by RDR. Respondents believed that RDR was pushed through with no real thinking about how it would work in practice; the timescales and costs of implementation were unclear, and this resulted in the industry being hit with higher costs.
- Another practical reason for the perceived lack of effectiveness was directed at FSA staff who were criticised for a lack of experience generally and specifically insufficient knowledge of the different industry sub-sectors that they were regulating.
- Firms also said there was a lack of both co-ordination and a spirit of partnership between them and the FSA.

Figure 2.5: Reasons for lower effectiveness amongst smaller firms



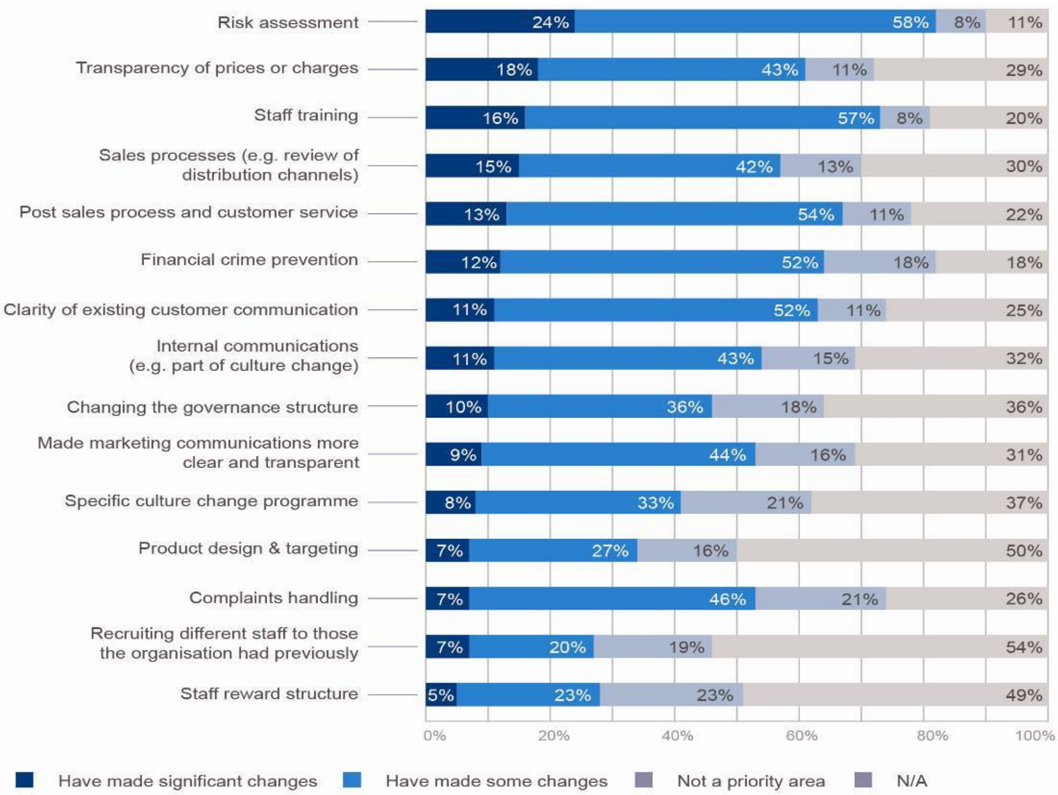
Q3 Please could you tell me why you gave this score for effectiveness? Base: 1,470

- Fig 2.3 shows a stronger negativity of responses on FSA effectiveness from the non-relationship managed retail firms. From the answers to the open ended questions it is shown to be driven by attitudes to the FSA's Retail Distirbution Review (RDR). More particularly:
    - There is strong underlying belief that ultimately RDR does not benefit consumers as a large proportion of the population is now excluded from receiving advice;
    - The implementation 'on the ground' has been poor and firms feel that there has been a lack of practical assistance and guidance.
- Additionally, smaller firms feel overburdened with regulation and that from a cost, or fees, point of view believe they have been treated unfairly compared with the larger firms.
- IFAs and general insurance intermediaries – who make up the bulk of the smaller non-relationship managed retail firms – say that they were not personally involved in the mis-selling scandals that have cost the industry so much money. Yet they have picked up additional costs.

- Moreover, they feel that the fees they had to pay to the FSA were not in proportion to those paid by larger firms and were not correlated with risk.

3. THE IMPACT ON FIRMS OF REGULATION TO DATE

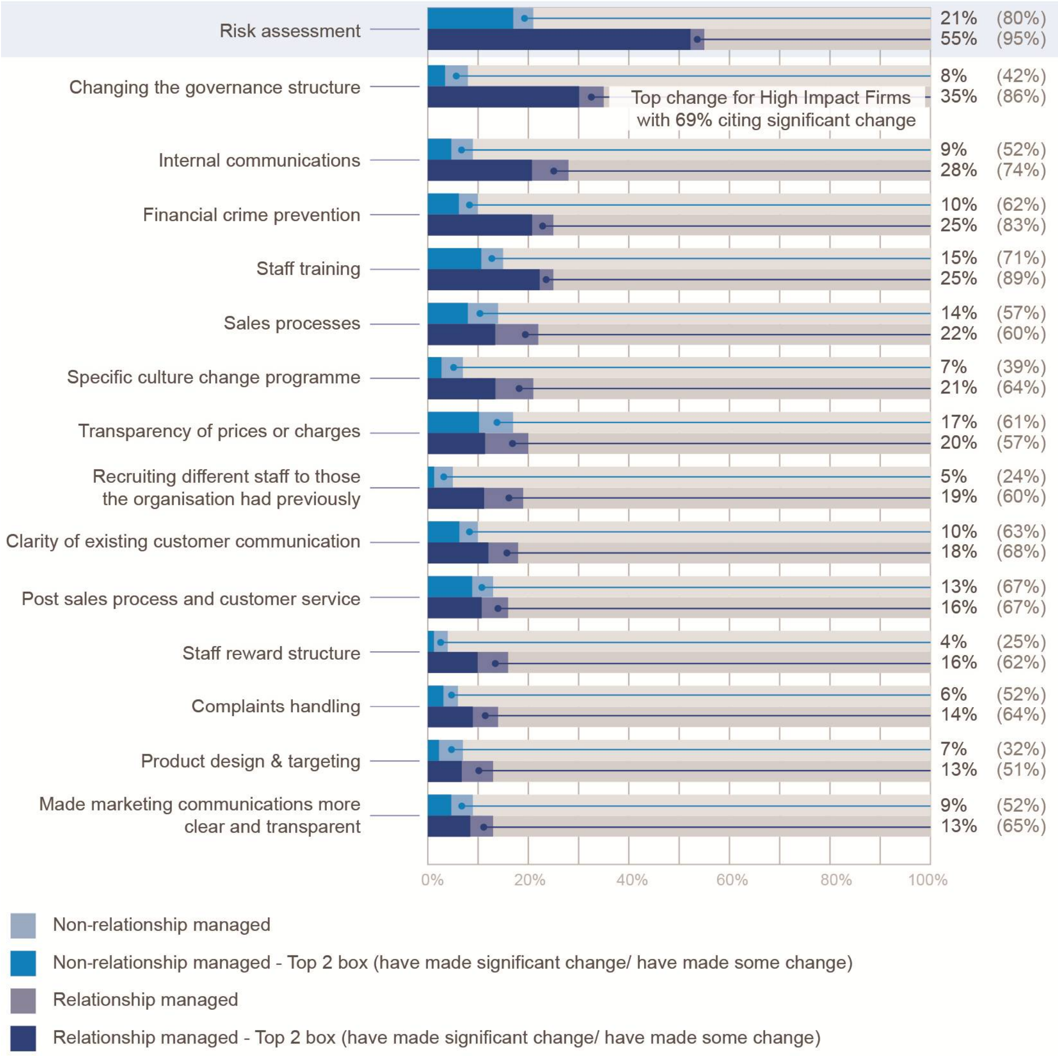
Figure 3.1: Changes made to business over the last two years (prompted)



Q9 Looking at the various areas of business below, over the last two years, to what extent has your firm made changes in these areas? Base: All (1,470)

- Over the last two years, the majority of firms have made at least some changes to their business as a result of regulation.
- The two areas where the highest proportion of firms have made changes are in risk assessment and transparency of prices or charges.
- Overall, just over 80% of firms have made changes to their risk assessment processes. Within this figure, just under a quarter (24%) recorded these changes as significant.
- Similarly just over 60% have made changes to the transparency of prices or charges and 70% have changed staff training.
- Across the industry, over one-third (36%) have changed their governance structure although only ten percent recorded these changes as significant. However, this proportion is higher amongst High Impact Firms, the next chart makes this clear.
- At the other end of the scale, only a minority of firms have made significant changes to their staff reward structure or recruitment processes.

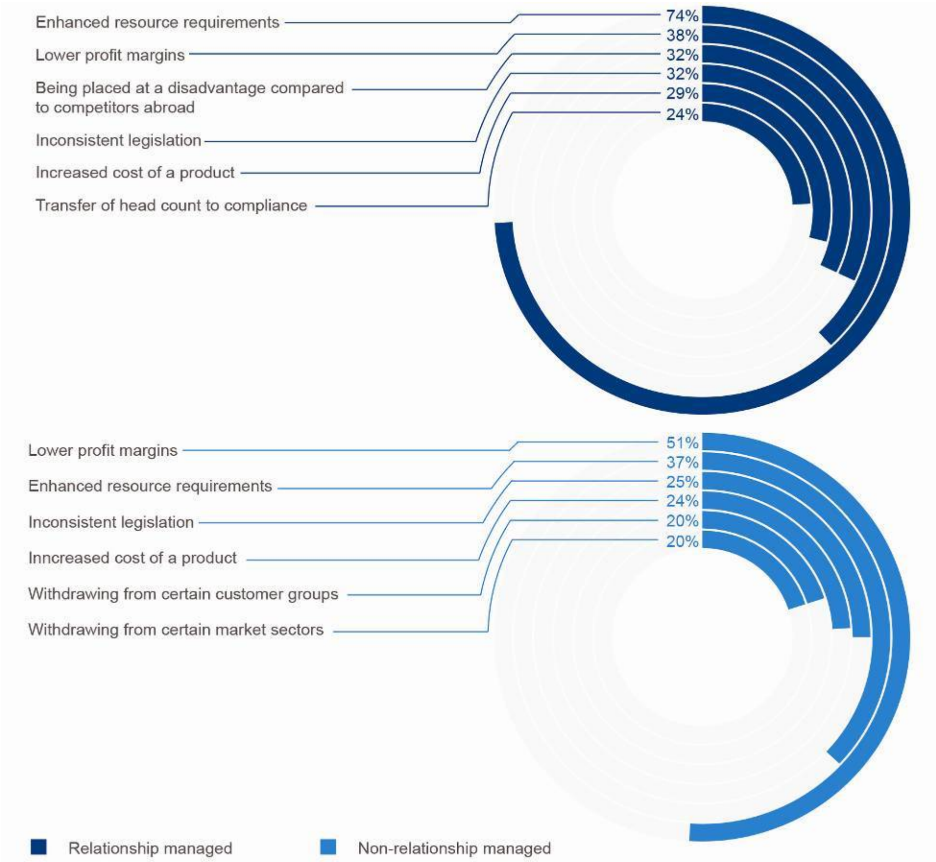
Figure 3.2: Changes made to business over the last two years



Q9 Looking at the various areas of business below, over the last two years, to what extent has your firm made changes in these areas? Base: Relationship managed (195), Non-relationship managed (1,275)

- As mentioned in 3.1, the changes that have been made vary according to firm type. The relationship managed firms are more likely to have made significant changes to the risk assessment process and the governance structure.
- Amongst relationship managed firms, two-thirds have made significant changes to their risk assessment process and nearly all (95%) have made some change.
- In terms of the governance structure, over a third of the larger firms have made significant changes and 86% have made at least some change. Amongst the High Impact Firms, 69% say they have made a significant change in this area.
- Whilst comparatively fewer have changed their staff reward structure significantly, over 60% of relationship managed firms have made some changes.

Figure 3.3: The main consequences of regulation – six most frequently mentioned



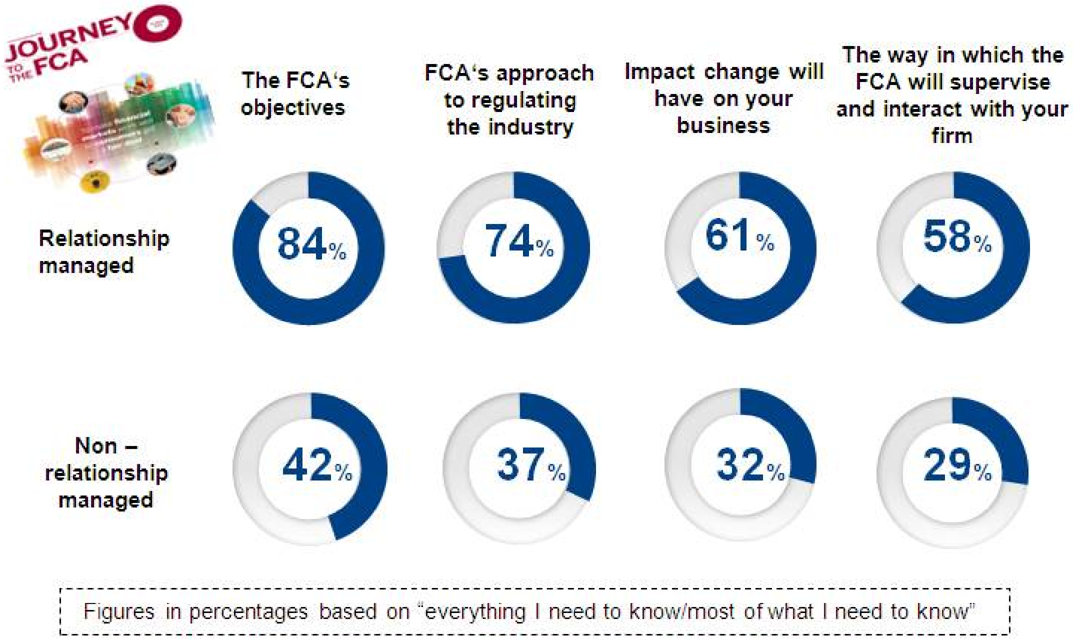
Q10a Which of the following has your firm experienced as a direct result of regulation? Base: Relationship managed (195), Non-relationship managed (1,275)

- Firms were asked which of a number of possible negative consequences of regulation they had experienced recently.
- There are differences by size of firm, although enhanced resource requirements and lower profit margins are the most frequently cited by both relationship and non-relationship managed firms.
- Amongst the relationship managed firms, almost three-quarters (74%) agreed that there had been enhanced resource requirements and around half this number (38%) that there had been an impact on profits.
- In contrast, a lower profit margin has been the main impact more for non-relationship managed firms (51%) with the greater resource requirement second (37%).
- There is an important anti-competitive theme in both groups but this has manifested itself in different ways. One-third (32%) of relationship managed firms believe that they have been placed at a disadvantage compared with competitors aboard. And the same is true of some 20% of wholesale firms.

- Amongst the smaller firms, competition is being reduced as 20% of them withdraw from segments of the market – be that particular types of customer or product categories.
- Interestingly – despite some comments in the media - very few firms had moved overseas (2%) or lost staff either to competitors (3%) or as a result of downsizing (10%).Finally, a significant minority (32% of larger and 25% of smaller) agreed that they had been impacted by inconsistent legislation.

4. PERCEPTIONS OF THE NEW REGULATOR (THE FCA)

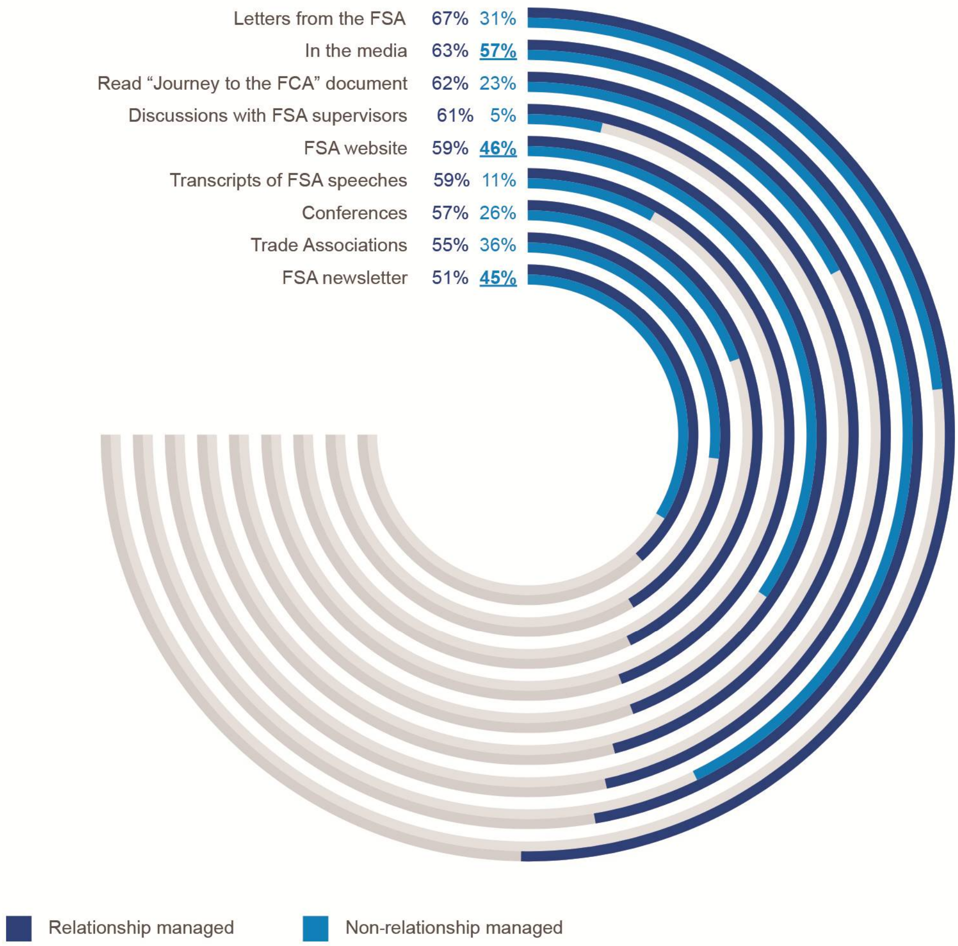
Figure 4.1: Current level of knowledge



Q4 Thinking about the FCA, how much do you feel you know at this stage about? Base: Relationship managed (195), Non-relationship managed (1,275)

- The striking feature of this chart is the disparity in knowledge between those firms that are relationship managed and those that are not.
- Over 80% of those with a relationship manager believe they already know everything or most of what they need about the FCA's objectives. In contrast, half this number (42%) of non-relationship managed are in the same position.
- The same differences exist for the other areas with the non relationship managed figures roughly half of those for the relationship managed.
- As might be expected, for all firms their knowledge of the way in which supervision will work is lowest whilst knowing what the FCA's objectives are is highest.
- It should be noted that, as this fieldwork was undertaken before the FCA had taken over as the regulator, many firms may have felt they did not know much about their new regulator.
- The greater level of knowledge amongst relationship managed firms maybe reflects FSA prioritisation in its FCA communications to those firms with the highest impact on the market.

Figure 4.2: Information sources used to learn about the new regulator



Q5a What information sources have you used to learn about the new regulatory body the FCA? Base: Relationship managed (195), Non-relationship managed (1,275)

- When shown a list of possible information sources about the FCA, over half of the relationship managed firms claimed to have used each and every one of them.
- Whilst nearly half of the non-relationship managed firms have used the FSA website or FSA newsletters to find out about the FCA, the only other source used by more than half is the media.
- Whilst it is to be expected that only a small minority of non relationship managed firms (5%) have learned about the FCA from direct contact with an FSA supervisor, the proportions that have read a transcript of a speech (11%) or even the 'Journey to the FCA' (23%) are probably disappointing. This latter figure compares to over 60% of larger firms.
- Trade associations are playing only a minor role in disseminating information with only a third of the smaller firms actively citing them.
- As already mentioned the regulator's website is a key information source across all firms. However there is evidence, on the next page. that the FSA website could have provided a better user experience especially for those firms without a relationship manager.

Figure 4.3: Improvements in communication for smaller firms

Perceptions of the FSA website

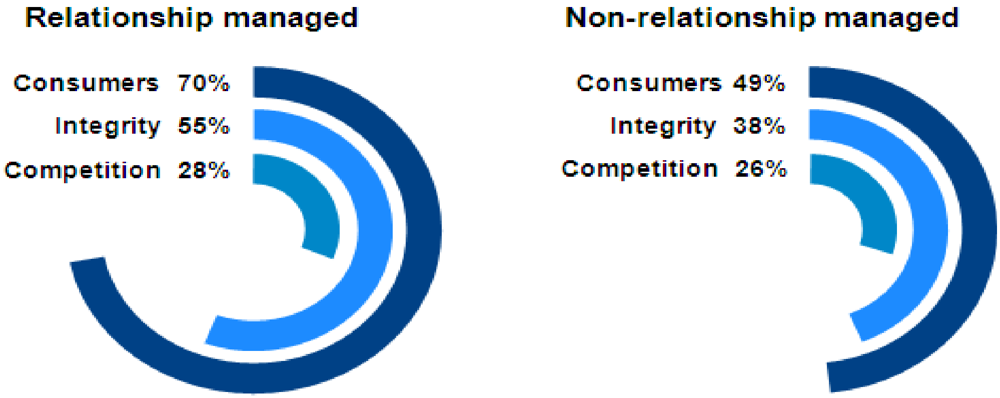
- Firms without a relationship manager said that they found the FSA website difficult to navigate and hence were often unable to find the information that they required.
- The industry would like much clearer signposting and content more tailored to their specific sector.

Perceptions of the FSA contact centre

- Partly as a consequence of not being able to find information on the website, firms have tried calling the contact centre. Again the feedback is that they cannot always resolve their issues or questions. This is, they believe, partly due to a lack of specific sector expertise and partly due to staff being unwilling to advise the firm in any way. Clearly, firms find this very frustrating.
- This is part of an over-riding theme that the industry wants the regulator to move away from a 'one-size fits all' approach and instead have sub-sector specialists who can help firms resolve their issues.

It is noted that the FCA Website, which has been launched since this survey was undertaken, has taken into account feedback from firms on the FSA website. The FCA site aims to improve user experience by having a dedicated firms area with information organised by firm and product type. The FCA has already received comments from firms and regulated individuals that sector information is easier to find using this structure.

Figure 4.4: Confidence in the FCA's objectives - % very/fairly confident



Q8 How confident are you that the FCA's oversight of the industry will deliver on the following statutory objectives?
Base: Relationship managed (195), Non-relationship managed (1,275)

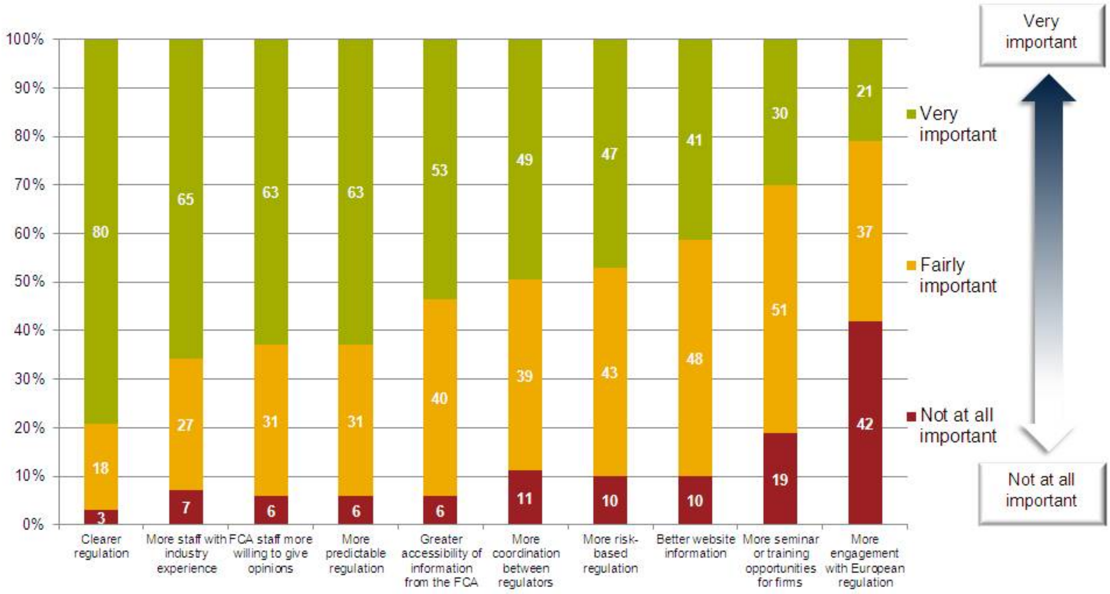
- Respondents were asked how confident they were that the FCA's oversight of the industry would deliver on the three operational objectives that support its single strategic objective of "ensuring financial markets function well". These objectives were stated as follows, to reflect the FCA's statutory requirements:
  - **Consumers:** Securing an appropriate degree of protection for consumers
  - **Integrity:** Protecting and enhancing the integrity of the UK financial system
  - **Competition:** Promoting effective competition in the interests of consumers in the financial markets
- It is clear from the chart above that the industry is much more confident the FCA will protect consumers, than it will protect the integrity of the UK financial system and this in turn elicits more confidence than the promotion of effective competition.
- Whilst the actual proportions differ between smaller and larger firms, the rank order is the same.
- In both cases little over a quarter of respondents are confident that the FCA will promote effective competition - across the whole sample the figure is 27%. This correlates with the anti-competitive theme identified in section 3 concerning the impact of the FSA's regulation on competition from abroad and the withdrawal of products or from certain market segments.
- It should be noted that High Impact Firms are actively saying that they are not confident (63%) that the FCA will promote effective competition rather than it is too early for them to pass judgement. The option that "it is too early to say" was recorded by only 16% of the High Impact firms.
- The lack of confidence on achieving the competition objective amongst large firms is particularly important, as those firms were also recorded as knowing most about the FCA (Fig 4.1).

Figure 4.5: Firms' expectations of the FCA

Q6 From what you have seen or heard about the FCA what do you think will be the improvements over the current regulatory environment? Base: 1,470

- A question was specifically asked to give firms the opportunity to provide feedback on what improvements they thought the FCA would make in comparison to the current regulatory environment. This was an opened ended question so the respondent could give their view in their own words. A maximum comment of just over 1,000 words was allowed.
- The non-relationship managed firms have lower expectations of the FCA than the relationship managed firms with a higher proportion unable to give a view and saying there will be no improvements.
- The relationship managed firms were generally more positive with many saying that the expected the FCA to improve by being more proactive and adopting earlier intervation.
- Just under 10% of firms said that they thought the FCA may make things worst, rather then improve the regulatory environment.

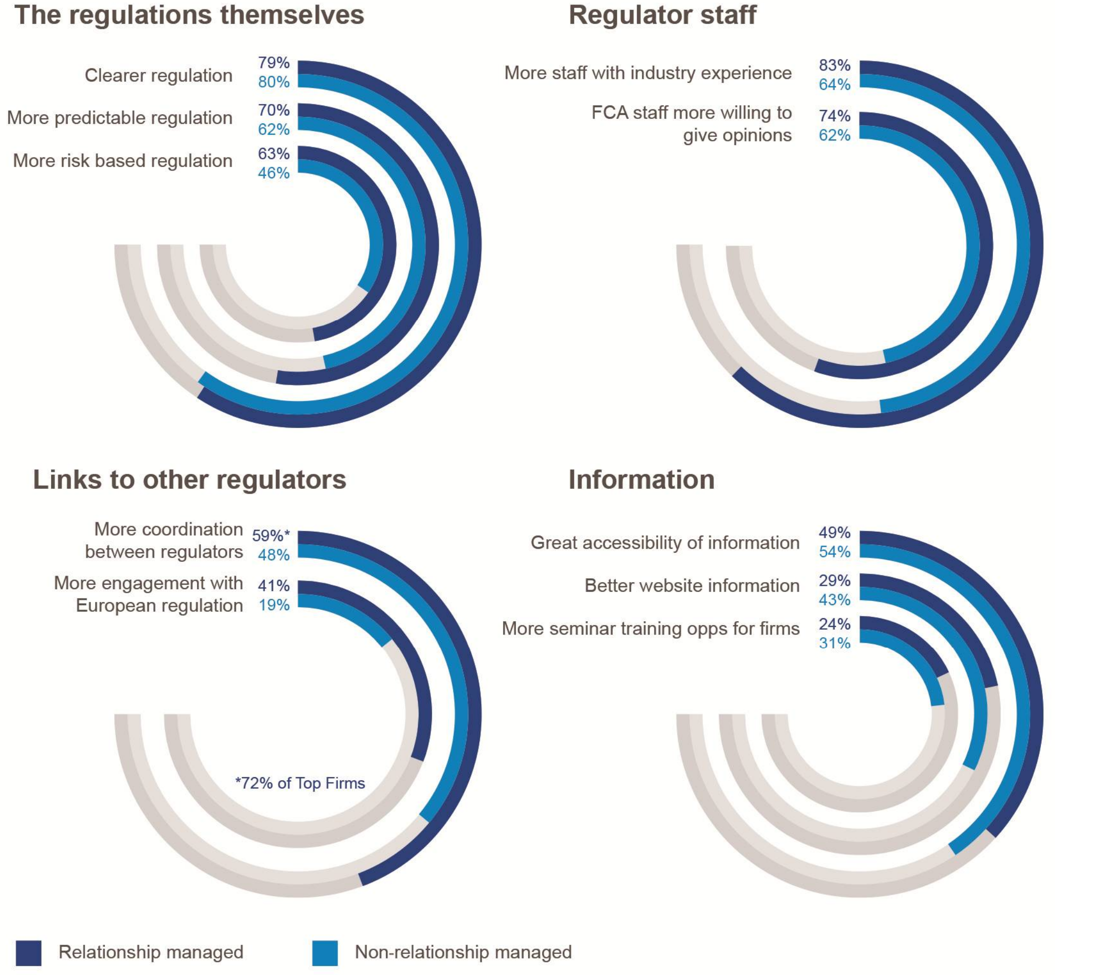
Figure 4.6: How can the FCA improve



Q11 A number of improvements have been suggested that might make the FCA more effective than the FSA? From your firm's point of view, how important is each of the following? Base: 1,470

- When asked which of a number of possible improvements might make the FCA more effective than the FSA, the clearest demand is for clearer regulation: 80% of the industry think it is very important that this improvement is made (as opposed to being fairly important or not at all important).
- Three other areas elicited a 'very important' score from two-thirds of those interviewed. These are employing staff with industry experience, empowering staff to give opinions and making regulation more predictable.
- These findings reinforce earlier ones that the industry is looking for greater clarity and support in meeting the requirements of the regulator.
- At the overall level it can be seen that only 30% consider training seminars to be very important and only 21% give the same rating to engagement with European regulators.

Figure 4.7: Views on improvements by firm type

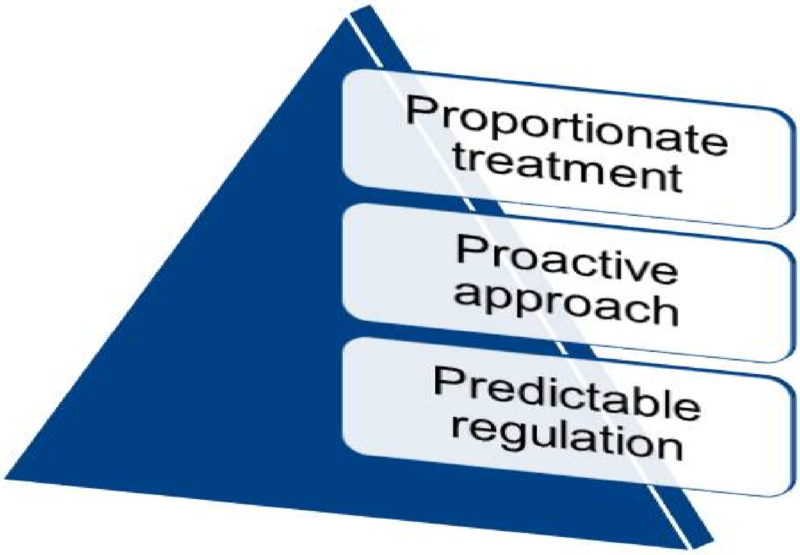


Q11 A number of improvements have been suggested that might make the FCA more effective than the FSA? From your firm's point of view, how important is each of the following? Base: Relationship managed (195), Non-relationship managed (1,275)

- There are some differences in responses about how the FCA can improve by size and type of firm.
- Whilst clearer and more predictable regulation are considered important across the industry, a higher proportion of relationship managed firms think risk-based regulation is important.
- Similarly, more of the larger firms believe FCA staff with experience or staff able to give an opinion is important but this is still important to over 60% of the smaller firms.
- The non-relationship managed sector is more likely to identify better information sources as important, with 54% requesting greater accessibility generally and 43% wanting a better website and 31% more training seminars.
- Not surprisingly, larger firms are more concerned about coordination between regulators and engagement with European regulators.

5. INDUSTRY WISHES

Figure 5.1: Industry Wishes



Q12 If you could deliver a single message to the board of the FCA, what would it be? Base: 1,470

A final question gave firms the opportunity to deliver a single message to the Board of the FCA. This provided a wealth of material which has been categorised under three themes:

Proportionate treatment

- Regulation that matches risk, including differentiation between small and large firms
- A balance of responsibility for risk between providers and consumers
- Not “one size fits all”

Proactive approach

- Act sooner on issues rather than wait until something happens (e.g.mis-selling)
- Investigate problems and do more research to ensure you are fully aware of the implications
- Work with ‘the good guys’ (avoid messages to the whole industry like “you will fear us”)

Predictable regulation

- Be more clear and concise in communications with firms
- Be consistent in your approach to regulating large and small firms

6. APPENDICES

APPENDIX 1 - Quantiative Technical report

QUESTIONNAIRE DEVELOPMENT AND DESIGN

A new questionnaire was designed as this was such a key time for the regulatory landscape. It was therefore necessary to test the questions to ensure that they were understood correctly by firms. The questions were tested through congnitive intervewing, with the participants selected by the Practitioner Panel. The cognitive piloting took place In Fenruary 2013.

The final questionnaire (appendix 2) consisted of three main sections:

Section A: The current regulator (the FSA)
This section collected information on the firms' overall satisfaction with the FSA, the perceieved effectives of the FSA and the reasons given for the score in effectiveness.

Section B: The new regulator (the FCA)
This section collected information on firm's view of the FCA, the information used to find out about the FCA, the improvements and concerns that firms had about the implementation of the FCA and their confidence with the FCA being able to meet their objectives.

Section C: Your own business
This section collected detailed information on the changes made to businesses over the last 2 years, what firms have experienced as a consequence of regulation, what improvements could the FCA make and a single message to the board of the FCA.

SAMPLING

The sample for the quantative survey was obtained from the FSA's TARDIS database.

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

Table 6.1

Primary category	Universe	Sample
Advising and Arranging Intermediary (exc. FS & Stockbroker)	827	827
Advising only intermediary (exc. FA)	98	98
Arranging only Intermediary (exc. Stockbroker)	173	173
Authorised Professional Firm	264	264
Bank (other than Wholesale only)	200	200
Building Society	47	47
CIS Administrator	25	25
CIS Trustee	6	6
Clearer/Settlement Agent	8	8
Composite Insurer	14	14
Connected Travel Insurance only	2	2
Corporate Finance Firm	436	436
Credit Union	599	599
Custodial Service Provider	9	9
Discretionary Investment Manager	1,470	1,470
Energy (including Oil) Market Participant	28	28
Financial Adviser (FA)	4,980	1,638
General Insurance Intermediary	5,612	1,911
General Insurer	267	267
Home Finance Administrator	18	18
Home Finance Broker	1,377	449
Home Finance Provider	83	83
ISPV	2	2
Life Insurer	142	142
Lloyds’s	1	1
Lloyds’s Managing Agent	47	47
Lloyds’s Member Agent	5	5
Market Maker	25	25
Media Firm	9	9
MTF Operator	21	21
Non-discretionary Investment Manager	26	26
Own Account Trader	27	27
Personal Pension operator	58	58
Service company	17	17
Stockbroker	144	144
Venture Capital Firm	280	280
Wholesale Market Broker	63	63
Wholesale only Bank	23	23
Other	163	163
Total	**17,596**	**9,625**

Once all the duplicates had been removed, as with other waves of this study, a census of all firms were taken with the exception of firms that were financial advisors, general insurance intermediaries and home finance brokers. Within each of these categories the sample was stratified (according to size and location) and then a certain number of firms selected, ensuring the selected firms were representative of the overall sample populations provided.

WARM UP LETTER

A warm up letter was sent to selected firms before the start of the fieldwork. This letter was dispatched on Practitioner Panel letterhead to encourage response.

FIELDWORK

The survey fieldwork was conducted over four weeks between Tuesday 19th February and Monday 18th March 2013. During fieldwork firms were sent a reminder email or letter encouraging them to complete the questionnaire. In total three reminder emails or letters were sent to firms who had not yet completed the questionnaire.

RESPONSE RATE

The overall response rate achieved was 15%. This response rate is lower than previous waves of this survey due to a smaller fieldwork period of 4 weeks, rather than 3 months.

Table 6.2 - Response rate by type of firms

Firm type	Sample	Response	Response rate
High Impact Firms	75	28	37%
Relationship managed – retail firms	253	67	27%
Relationship managed – wholesale firms	570	100	18%
Non–relationship managed – retail firms	4,918	764	16%
Non–relationship managed – wholesale firms	3,210	398	12%
Credit Unions	599	113	19%
Total	**9,625**	**1,470**	**15%**

WEIGHTING

The data was weighted to reflect the total universe of firms and the weights were derived in two stages:

Design weight

This was applied to compensate for differences in the probability of selection. When a census of all firms was conducted a weight of "1" was applied. For firms that required selection the design weight was calculated and applied based on a firm's probability of selection.

Non –response weight

The achieved sample profile was compared against the universal sample according to supervisor division and primary category. This indicated where particular types of firms were under-represented in the achieved sample. The application of a non response weight to the data ensures that views of firms are closely representative of the universal population.

Table 6:3

Firm type	**Universal Population (unweighted)**	**Achieved Population (weighted)**
	%	%
High Impact Firms	0.8	1.5
Relationship managed – retail firms	2.6	3.3
Relationship managed – wholesale firms	5.9	7.1
Non–relationship managed – retail firms	51.1	51.9
Non–relationship managed – wholesale firms	33.4	29.9
Credit Unions	6.2	6.3
Total	**100**	**100**

There was some further discussion regarding whether a further weight was required to account for the quota targets. It was decided that this option was not needed as the differences made to the data were very small. It would also mean that we would weight down the responses of the larger firms which we felt were important.

APPENDIX 2
QUESTIONNAIRE

INTRODUCTION

The Financial Services Practitioner Panel is conducting an independent and confidential survey to understand your views about regulation. The aggregated feedback from the survey will provide practitioners such as yourself with an opportunity to shape regulation.

This survey is conducted every two years and this latest version will provide an excellent opportunity for the industry to present its views to the Financial Conduct Authority (FCA) which will replace the FSA from April this year.

The questionnaire should be completed by the most senior person (Chief Executive or equivalent) in your firm or group. We estimate the questionnaire should take about 10 minutes to complete. The questionnaire consists of specific questions to quantify opinions as well as questions where you have the opportunity to give your views in your own words.

Your individual response to the survey will be **completely confidential**. 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.

This questionnaire will cover your opinions of the FSA, your expectations of the FCA and its implications for your own business.

Section A – The current regulator (FSA)

In this section we will focus on the last 2 years and the role of the FSA as a regulator.

Q1 Taking into account all of your firm's dealings with the Financial Services Authority (FSA), how satisfied are you with the relationship?

(SINGLE CODE)

Extremely dissatisfied									**Extremely satisfied**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q2 Overall, from your firm's perspective, how effective has the FSA been in regulating the financial services industry?

(SINGLE CODE)

Not at all effective									**Extremely effective**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Q3 Please use the space below to say in your own words why you gave this score for effectiveness? Please type your answer in the box below.
OPEN ENDED QUESTION

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___

___

Section B – The new regulator (FCA)

On the 1st April 2013, the FSA is splitting into two regulatory bodies (Financial Conduct Authority/Prudential Regulation Authority). For this survey we will only focus on the FCA and we would like to know your views looking forward.

Q4 Thinking about the **FCA**, how much do you feel you know at this stage about:
a. The FCA's objectives?
b. Its approach to regulating the industry?
c. The impact that the change to the FCA will have on your business?
d. They way in which the FCA will supervise and interact with your firm?

SHOW THIS QUESTION AS A GRID USING THE CODES BELOW

(SINGLE CODE) – GRID
Everything I need to know
Most of what I need to know
A little
Nothing

Q5a What information sources have you used to learn about the new regulatory body, the **FCA**? Please tick all that apply

(MULTI CODE)
Letters from the FSA
Transcripts of FSA speeches
Discussions with FSA supervisors
In the media
Read "Journey to the FCA" document
FSA Website
Conferences
FSA newsletter
Trade Associations
Other (please specify)
Nothing

Q5b Which one of these would you say has been the most important?

(SINGLE CODE)
Letters from the FSA
Read transcripts of FSA speeches
Discussions with FSA supervisors
In the media
Read "Journey to the FCA" document
FSA Website
Conferences
FSA newsletter
Trade Associations
Other (please specify)
Nothing

Q6 From what you have seen or heard about the **FCA**. What do you think will be the improvements over the current regulatory environment? Please type your answer in the box below.
OPEN ENDED QUESTION

Q7 What concerns, if any, do you have about the introduction of the **FCA**, and its effect on your business? Please type your answer in the box below.
OPEN ENDED QUESTION

Statutory Objectives

DESCRIPTION

The FCA will have the **single strategic objective of ensuring financial markets function well** and three operational objectives:
Securing an appropriate **degree of protection** for **consumers**
Protecting and enhancing the **integrity** of the **UK financial system**

Promoting **effective competition** in the interests of consumers in the financial markets

Q8 to be asked for each of the three objectives (using a grid)

Q8 How confident are you that the **FCA's** oversight of the industry will deliver on the following statutory objectives?

(SINGLE CODE)
Very confident
Fairly confident
Not very confident
Not at all confident
Too early to say

Section C: Your own business

We would now like to ask you a few questions about your own business.

Q9 Looking at the various areas of business below, over the last two years, to what extent has your firm made changes in these areas?

Staff reward structure (e.g. bonuses, sales incentive)
Staff training
Specific culture change programme
Recruiting different staff to those the organisation had previously
Internal communications (e.g. as part of culture change)
Transparency of prices or charges (e.g. in pre-sales literature)
Sales processes (e.g. review of distribution channels)
Made marketing communications more clear & transparent
Post sales process and customer service
Complaints handling
Product design & targeting
Clarity of existing customer communication (ie. statements, valuations etc.)
Financial crime prevention
Changing the governance structure
Risk assessment

(SINGLE CODE)
Have made significant changes
Have made some changes
Not a priority area
N/A

Q10a Which of the following, if any, has your firm experienced as a **direct result** of regulation? Please tick all that apply.

(MULTI CODE)
Enhanced resource requirements
Regulatory enforcement action
Withdrawing from serving specific consumers groups
Choosing not to launch products
Withdrawing a product due to regulation
Withdrawing from certain market sectors (e.g. General Insurance, Investments etc)
Withdrawing a service due to regulation (e.g. financial advice)
Increased cost of a product (e.g. increase APR, premium etc)
Lower profit margins
Losing staff through downsizing
Losing key staff to competitors
Transfer of head count from customer facing roles to compliance
Being placed at a disadvantage compared with competitors based abroad
Needed to move activities overseas
Inconsistent legislation
Changes in regulation being applied retrospectively

Q10b Which three would you say have had the greatest impact on your firm? Please tick all that apply.

(MULTI CODE)
Enhanced resource requirements
Regulatory enforcement action
Withdrawing from serving specific consumers groups
Choosing not to launch products
Withdrawing a product due to regulation
Withdrawing from certain market sectors (e.g. General Insurance, Investments etc)
Withdrawing a service due to regulation (e.g. financial advice)
Increased cost of a product (e.g. increase APR, premium etc)
Lower profit margins
Losing staff through downsizing
Losing key staff to competitors
Transfer of head count from customer facing roles to compliance
Being placed at a disadvantage compared with competitors based abroad
Needed to move activities overseas
Inconsistent legislation
Changes in regulation being applied retrospectively

Q11 A number of improvements have been suggested that might make the FCA more effective than the FSA. From your firm's point of view, how important are each of the following?

More staff with industry experience
Greater accessibility of information from the FCA
Better website information
FCA staff more willing to give opinions
More seminar or training opinions for firms
Clearer regulation
More predictable regulation
More engagement with European regulation
More coordination between regulators
More risk-based regulation

(SINGLE CODE)
Very important
Fairly important
Not at all important

Q12 If you could deliver a single message to the board of the FCA, what would it be? Please type your answer in the box below.
OPEN ENDED QUESTION

Finally, so that we can put your views into context, could you please answer the following questions on your type of business.

F1 How many full time staff (or equivalent) are employed by your firm in the UK?

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

F2 How many customer facing staff or advisers does your firm have?

(SINGLE CODE)
0-9
10-19
20-49
50-99
100-499
500-999
1000 or more
N/A

F3 How would you describe the type of business you conduct?

(SINGLE CODE)
All retail
Mainly retail
Part retail, part wholesale
Mainly wholesale
All wholesale

F4 And where are your customers located?

(SINGLE CODE)
Only in the UK
Partly in the UK, partly overseas
Only overseas

F5 This questionnaire may have been completed by one or more individuals. Who has completed this questionnaire?

(MULTI CODE)
Chief Executive/MD
Partner/Principal in the firm
Group/Head of Compliance (responsible for 2 or more regulated areas of authorised activities)
Senior/Principal Compliance Officer (responsible for single area or regulated activities)
Financial Director
Other (please specify)

Thank & Close statement

THE FINANCIAL SERVICES PRACTITIONER PANEL

APPENDIX 3

C/O Independent Panel
Secretari
25 The North Colonnad
Canary Wha
Londo
E14 5H

«First_Name» «Last_Name» «Suf»
«FIRM_Name»
«Address»
«Address1»
«City»
«PostCode»

12th February 2013

An opportunity to influence the regulatory landscape

I am writing to invite you to contribute to the 2013 Practitioner Panel Survey. The Panel undertakes this survey every two years as an independent and confidential survey of the financial services industry's attitudes towards the regulator. This is an opportunity to voice your views on regulation, and this year it will be conducted by the market research firm GfK. It will only take 10 minutes of your time.

The Financial Services Practitioner Panel is a statutory body, consisting of senior executive practitioners (see overleaf), which is uniquely positioned to feedback the views of the industry about regulation to the FSA – and the Financial Conduct Authority Board from this April. We work together with the Smaller Businesses Practitioner Panel which is supporting us in this survey.

This is a formative time for the regulatory landscape, and your input at this moment will make a significant difference. This is also why we are asking that the most senior executive in your organisation completes this survey.

GfK will be contacting you in the next few days with the survey details – if you have any questions, you can contact them on PractitionerPanel2013@gfk.com. I will share the headline results of this survey with you in April.

Thank you for your contribution,

Joe Garner

Joe Garner
Chairman, Financial Services Practitioner Panel

Please turn over

Panel Membership at 1st February 2013

The Financial Services Practitioner Panel

Joe Garner *Chairman*	Former Head of UK Bank, HSBC Bank plc
Paul Swann *Deputy Chair*	President & Chief Operating Officer, ICE Clear Europe
Graham Beale	Chief Executive, Nationwide Building Society
Michael Dobson	Chief Executive, Schroders
Paul Geddes	Chief Executive, Direct Line Group
Mark Harding	Group General Counsel, Barclays Bank PLC
John Hitchins	Global Chief Accountant, PwC
Simon Hogan	COO for Sales and Trading EMEA, Morgan Stanley
Mark Ibbotson	CEO, NYSE Liffe
Alexander Justham	CEO, London Stock Exchange plc
Guy Matthews	Chief Operating Officer and Partner, Sarasin & Partners
Helena Morrissey CBE	CEO, Newton Investment Management
John Pollock	Group Executive Director, Protection & Annuities, Legal & General Group plc
Malcolm Streatfield	Chief Executive, Lighthouse Group plc

The Smaller Businesses Practitioner Panel

Guy Matthews *Chairman*	Chief Operating Officer and Partner, Sarasin & Partners	(asset management)
Sally Laker *Deputy Chair*	Managing Director, Mortgage Intelligence	(mortgage advisers)
Clinton Askew	Director, Citywide Financial Partners	(financial advisers)
James Bawa	Chief Executive, Teachers Building Society	(building societies)
Dick Carne	Director, Asset Management IFA Limited	(financial advisers)
Ian Dickinson	Director, The Brunsdon Group	(GI intermediaries)
Peter Evans	Chief Executive, Police Credit Union	(credit unions)
Fiona McBain	Chief Executive, Scottish Friendly Assurance Society Ltd	(friendly societies)
Andy Smith	Risk, Governance and Compliance Director TD Wealth International	(wealth management)
Ian Templeton	UIA (Insurance) Ltd	(insurance providers)
Andrew Turberville Smith	Chief Operating Officer and Finance Director Weatherbys Bank Ltd	(banking)
Jim Kandunias	CEO, Esemplia Emerging Markets	(assetmanagement)