# FCA Authorisations Update

OCTOBER 2022

## 1. Introduction

This update covers our progress on service standards for authorisations case work, outlining any areas where we are not meeting our statutory and voluntary timelines for authorisations, and sets out our strategy for closing any gaps.

The Authorisations Division is the first point of contact for firms and individuals wanting to carry out regulated activities or be registered by the FCA. We operate a robust gateway to protect consumers and the integrity of markets but also recognise the importance of an efficient process to applicant firms and the competitiveness of the wider UK economy. That is why we publish and monitor our operating service metrics, ensuring transparency and accountability.

We are meeting these standards in some areas and others are showing improvement compared to 2020/21. The areas of authorisations case work where we were not meeting our statutory deadlines and/or voluntary targets in 2021/22 are:

**Service metrics that are near target**

- Authorisation applications - Part 4A Permission (Statutory)
- Money laundering registrations (Statutory)
- Variation of permission (Statutory)
- Change in Control (Statutory)

**Other service metrics**

- Approved Person Status (Statutory and Voluntary)
- Payment Services Regulations and Electronic Money Regulations (Statutory)
- Appointed Representatives (Voluntary)
- Mutual Society Registrations (Voluntary)

A range of factors meant we did not meet some of our timelines in 2021/22, including:

- We have **increased the scrutiny** we apply at the gateway, building on the wide-ranging recommendations in the Gloster Review into London Capital & Finance. We look for financial irregularities and conduct holistic reviews of firms' business models. As a result, the number of firms that were not authorised in 2021/22 was 1 in 5, up from 1 in 14 in the previous financial year.
- **Incomplete or poor-quality applications** were a particular issue for Money Laundering Registrations, Payments Services Regulations and Electronic Money Regulations applications. For example, most cryptoasset business' applications were poor and the governance, systems and controls in place were inadequate. We engaged with the 30% of firms whose applications needed material extra work, and nearly half of these were subsequently registered. 5% of firms submitted a high-quality application and all of these were registered. The remaining 65% of firms submitted poor quality applications and as a result, none of these were registered. No firms remain in the Temporary Registration Regime for cryptoassets.
- We saw **increased volumes of applications** in key areas like Approved Person Status as a result of the expansion of the Senior Managers and Certification Regime (SM&CR).

During this time, we also successfully brought pre-paid funeral plan firms into the FCA perimeter on short timescales. We demonstrated a balance of scrutiny and pace, raising standards in an area where there have historically been significant levels of consumer harm. This involved proactively engaging with firms in advance of the gateway opening, setting expectations across the sector of what would be required to achieve successful registration. Throughout the authorisation process we continued that engagement, meaning we found firms that should not be authorised and worked with other firms to address issues they had. This provided stability and certainty for consumers.

As part of our organisational strategy to become a more innovative, assertive, and adaptive regulator, we want to improve our service to applicants with a better customer journey and more timely decisions, balancing this with ensuring the right level of scrutiny. Our service to firms begins before they have applied, with better communications and support for innovative firms. This is followed by application forms that will not only be easier to use but will also help to expedite assessments.

To achieve this, we are part way through delivery of a strategic action plan. Since December 2021 we have reduced our caseload by around 47% and plan to be substantially meeting the statutory service metrics by the end of 2022/23.[1] Service metrics are a lagging indicator and so the published full year numbers will not be reflective of the real time performance in March 2023.

### 2. Service metrics that are near target

- Authorisation applications - Part 4A Permission (Statutory)
- Money laundering registrations (Statutory)
- Variation of permission (Statutory)
- Change in Control (Statutory)

Service levels in these metrics are close to their target and the improvement activities described above will also improve performance in these areas. However the complexity of some cases means that we will not always meet the deadline.

In these cases, additional time is needed for greater scrutiny or engagement for good reasons, for example where required to meet our objectives effectively. On occasion this can also be at the request of the applicant.

Specifically on variation of permission, we met the statutory deadline in 99.8% of cases. There were only 3 out of 1,254 cases where we did not meet the deadline and in those cases the applications were legally or technically complex and required significant engagement with the firms.

This is also the case with Authorisation applications (Part 4A permission), where we met requirements in 97.8% of cases. To allow for outliers of the type described above, we have amended this metric to a ≥98% on target green rating.

On Change in Control (CIC) [2], we have received high volumes of notifications in recent years, many of which have been of increasing complexity. This has meant that we allocated cases closer to the 60 working days deadline after which notifications are automatically approved. The actions we have taken have already resulted in a c.20%

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[1] See Annex 1 which summarises the progress we have made since the end of the 2021/22 financial year.

[2] We have a statutory deadline of 60 working days to approve a CIC notification from acknowledging receipt of a complete notification. We aim to acknowledge receipt in 2 working days and for incomplete notifications we inform the notice-giver the notification is incomplete as soon as possible. The statutory deadline starts again at 0 days once a complete notification is submitted. We can 'stop the clock' to ask for more information on a CIC notification for a period of up to 30 working days before day 50. The clock is stopped from the day we request information until we receive the last piece of information requested (if not received all at once). We can only do this once which means there is a comparatively short turnaround time for all CIC notifications.

drop in caseload, despite spikes in receipts, and a c.40% decrease in time to allocate cases.

## 3. Other service metrics

- Approved Person Status (Statutory and Voluntary)
- Payment Services Regulations and Electronic Money Regulations (Statutory)
- Appointed Representatives (Voluntary)
- Mutual Society Registrations (Voluntary)

On Approved Person Status[3], we received a spike in applications due to the extension of the Senior Manager & Certification Regime (SM&CR) in December 2019. The initial peak saw an uplift of >1,000 cases per month in November and December 2019. We continue to receive a high level of applications, which have settled to a sustained uplift of 500 additional cases per month since January 2020. Since its peak of 8,000 cases in July 2021, the overall caseload for Approved Person applications (which also includes Customer Functions (CF) and Significant Influence Functions (SIF)) reduced to 2,400 in September 2022.

We are reviewing our voluntary service metrics to determine whether they remain appropriate. For example, the service metric of 5 calendar days for Approved Person CF/SIF applications is no longer achievable considering the additional scrutiny we now apply to these roles. In other areas, as we work to improve the service we provide, we will reflect on whether the timescales ought to be shorter.

While there is room for further improvement on Mutual Society Registrations, this is another area where we anticipate a small number of cases may need additional time for greater scrutiny or engagement for good reasons, for example where required to meet our objectives effectively. On occasion this can be at the request of the applicant.

## 4. Improving assessment times

We have a programme of strategic transformation activity in progress. This will bring our service metrics substantially within deadline by the end of March 2023 and continue to improve the way we operate our Authorisations gateway into the future.

<u>Increased capacity and capability</u>

We have already made significant foundational steps. In the last financial year, we recruited 95 additional permanent colleagues. We have also appointed more financial analysts who have market expertise in key areas and are helping to train and mentor other staff. We are already seeing the benefits of this with a reduction in pending caseload of around 47% since December 2021, and faster allocations to case officers.

This recruitment and training will help to ensure we maintain high standards while increasing our throughput. To achieve that, and to support the FCA's Strategy for 2022-25, we plan to recruit at least 30 more case officers into Authorisations in this financial year.

[3] We have a statutory deadline of 90 calendar days to approve a senior management function application. We can 'stop the clock' to ask for more information. The clock is stopped from the day we request information until we receive the last piece of information requested (if not received all at once). There is no limit to number of times we can stop the clock.

We have introduced 'burndown plans' across casework functions, with enhanced triage processes across the different portfolios. This enables us to point this additional permanent and temporary resource to where it is needed most.

Our enhanced triage processes have also enabled us to quickly identify incomplete applications, reducing the time it takes to allocate a case to a case officer and prioritising time critical cases. Our operating metrics may still take some time to fully recover, while we tackle cases that are outside the voluntary and statutory timelines, but the improvements should be felt by firms.

At the same time, we have improved our oversight and monitoring of progress with stronger and more frequent management information. This information also enables us to identify and address emerging challenges. In doing so we are able to draw on our experiences in areas of significant pressure, as set out below.

And in November 2021, we introduced a streamlined approach to Authorisations' decision-making, meaning we can take faster, more decisive action to prevent those unwilling or unable to meet our standards from entering the market.

We continue to be mindful of changes to our remit and potential changes in demand for Authorisations' services arising from challenging economic conditions and exceptional events (such as Russian sanctions), factoring this into our planning. We expect embedding of expert resource to further strengthen the gateway and are already seeing examples of where we make different decisions than previously.

We are continuing to invest in increasing capability with dedicated training and learning support and are considering other areas of specialist expertise that might benefit the case work teams. We have used external resource to increase capacity while we onboard new case officers. We expect our reliance on external resource to reduce as new joiners are fully embedded but following the success of this approach will consider using it in future where we need to quickly increase capacity.

At a more senior level we are in the process of introducing 2 additional Heads of Department to our casework function. This will expand capacity and capability as we drive improvement across the division and help us to manage risks within our expanding portfolios. Our portfolios will be realigned to ensure more dedicated focus on changes in control and cancellations, where we anticipate sustained activity, especially if the market consolidates due to economic pressures. A further portfolio will focus on innovation and emerging business models, covering payments and digital assets. Additionally, the added capacity will continue to support our streamlined and more assertive approach to decision making, which places decisions in the hands of senior leaders.

This comes in addition to the creation of a second Director role in May 2022. The 2 Directors, who combine regulatory experience with operational experience from the financial services sector, are bringing increased oversight and operational grip to the Division at the same time as driving gateway transformation.

<u>Transforming the application experience</u>

Completing an application form is often a firm or individual's introduction to regulation. So we want the process to set the right expectations for dealing with a modern regulator. Currently we have a complex forms landscape, which causes issues for users and the FCA.

The poor user experience means we receive too many incomplete forms, which delays assessment by case officers. We do not have good data validation or verification (ie automatic checking of the accuracy of data submitted by applicants). This affects the quality of data we receive leading to inefficiencies.

Our contact centre receives many calls on how to complete our forms and the language in them can be difficult to understand. It can also be expensive and take a long time to update our current forms. This means we spend time clarifying information or asking additional questions when the information could be better captured in the forms.

Having taken most forms out of our handbook, we are now able to progress work on digitising our forms, including data enrichment and validation to improve the application experience. We will remove any unnecessary or duplicative requests to ensure the information we ask for is relevant to each assessment we make. This will enable us to automate more of our processes.

We have conducted user research with the firms and individuals who use our forms to gather feedback on what works and does not work.

We have begun with one of our most frequently completed and longer forms, which is the one used for Senior Management Functions (SMF) applications. We will begin publicly testing beta versions of the new form later in 2022, after which we will work through the remainder of forms in a prioritised order.

Systems Improvements

A programme of work to upgrade and improve the FCA's case management systems is underway. Authorisations will transition to a newer version of the current system, which provides a better user experience, in 2023. Improvements to the way in which authorisation cases are managed through the system will be implemented following this upgrade, reducing manual effort and increasing automation. This upgrade will be more flexible, so will allow us to change processes in an agile way to respond to changing conditions or an expanded remit. We are also exploring whether we can automate triage processes to support more timely decisions in the future.

Improved communication and engagement

We are exploring how we can improve our engagement with industry about expectations at the gateway. This includes improvements to the Authorisations section of the FCA website and broader industry engagement. Our ability to meet statutory and voluntary timelines is influenced by the quality of the applications we receive. So it is important that applicants understand the need to provide full and accurate information and take the authorisation process seriously.

Recent experience in relation to firms seeking registration under 5MLD and Funeral Plans suggests that we can do more to make sure firms understand what it means to be regulated before they apply, and where they do there are benefits for applicants and the FCA.

We have recently proven the success of an enhanced engagement approach through a pilot to support early and high-growth innovative firms. We recognised the challenges firms can face in understanding their regulatory obligations in the first few years after authorisation. So we developed an enhanced supervision approach for these firms as they get used to their regulatory status, supporting them to understand their obligations so they can meet the standards we expect as they grow. It will also ensure that we can identify and address harm developing in newly authorised firms quicker. We will take the lessons we are learning from our engagement with firms in Early and High Growth Oversight to help inform our work across Authorisations.

We see this approach as a key part of the support we can offer innovative firms alongside the FCA Innovation Hub. Working more closely with the FCA Innovation Hub also means that firms better understand what is expected of them as they apply for authorisation.

Planning for remit increases

Our experience in relation to cryptoassets and Funeral Plans underlines the importance of having sufficient time to plan our Authorisations approach to new entries to our perimeter. This includes time to:

- understand the size and makeup of the market which will come within our perimeter
- engage with the market about our expectations and what it means to be regulated, particularly where firms are not used to regulation
- apply sufficient scrutiny to the applications we receive to enable us to identify those firms which should not be authorised as well as working with firms who are willing to engage with us, so that they are 'ready, willing and organised' by the statutory deadline