Financial Conduct Authority

Consumer Credit: Authorisations Data Bulletin

A Data Bulletin supplement
June 2015

Introduction from the Editor

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Director of Credit Authorisations

From the outset, when the Government decided to transfer regulation of consumer credit from the Office of Fair Trading to the FCA, it was clear that requiring firms to get authorised was going to be central to the new regime.

Indeed, many of the benefits to consumers and industry stem from firms meeting our standards across the board.

Reviewing the applications of nearly 50,000 firms that registered for interim permission before the transfer took place was, however, never going to be a simple process. To help, we have given each of these firms an application period during which it must apply.

Since the first application period closed six months ago there has been some interest in how the process is going. This supplement to the FCA's popular Data Bulletin aims to provide insight into its progress.

If you have any thoughts or comments on how we can make the credit authorisations data more useful, please do tell us, by emailing **fcadataandanalysis@fca.org.uk**

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Background

Regulation of consumer credit transferred from the Office of Fair Trading (OFT) to the FCA on 1 April 2014.

Ahead of the transfer, most firms with OFT consumer credit licences that wanted to continue carrying out consumer credit activities were required to register with the FCA for interim permission. Just under 50,000 firms registered.

Each firm with interim permission was issued with a three-month application period during which to apply for limited permission or full permission. This included firms already regulated by the FCA that require a variation of permission for consumer credit activities. There are 17 application periods, with the final one closing on 31 March 2016.

There are also 770 grandfathered firms. These are authorised not-for-profit firms that were given a Part 4A permission without having to apply as they were covered by a group licence under the Consumer Credit 1974 Act to carry on certain activities.

This report uses technical language. A glossary is provided in annex 2.

Scope of this Bulletin

To be transparent about the authorisation process, we will publish the following information on a regular basis:

- an overview of application periods
- the volume of applications
- outcome of decisions
- average processing times for the FCA to make decisions

In addition to a breakdown of information for application periods and new-to-market and grandfathered firms, we also provide information by type of application (including for full, limited, and variation of permission).

Consumer Credit Authorisations data

Key figures as at 31 March 2015

19,533 firms had applied (12,641 in application periods and 6,122 new to market) or **were grandfathered** (770 firms).

77% of eligible firms in closed application periods had applied or become an appointed representative of another firm.

In the application periods that have closed, 5,172 interim permission firms lapsed or cancelled. For reasons why firms may have lapsed or cancelled, see page 6.

3,989 new to market firms had been authorised (with a further 1,401 still to be determined).

There were **47,625 authorised firms, of which 770 had been grandfathered, 10,286 had applied and been authorised, and 36,569 with an interim permission.** (A further 1,401 applications from new to market firms were in the process of being determined).

775 firms had withdrawn their application and a further 18 firms had been refused.

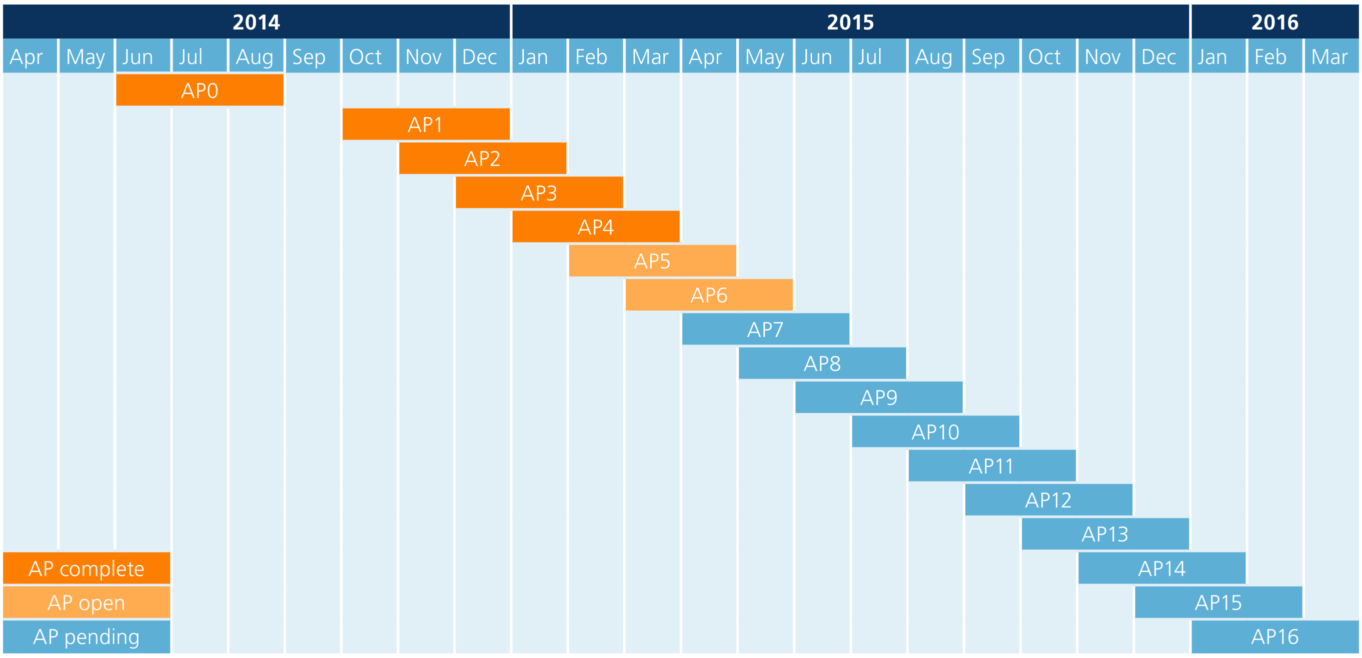
The majority of firms authorised so far are operating as limited permission credit brokers (most applications have been from firms that operate as brokers).

On average, so far it has taken just under 20 weeks for the FCA to determine a full permission case, around eight weeks for a limited permission case and 11 weeks for a variation of permission. We expect that the average time to determine an application will increase over time (see page 10 for an explanation).

Section 1:
Application periods

This section provides an overview of the application periods. In May 2014 all firms with an interim permission were told when their application period would be. The schedule of application periods is outlined in Figure 1.

Figure 1: Schedule of *application periods*



As at 31 March 2015, five application periods had closed and two were in progress.

Before the main application periods began, we offered a voluntary application period (AP0) for firms intending to become principals, in order to offer a choice for firms that wanted to be appointed representatives. This is because a firm wishing to become an appointed representative needs a principal to be authorised before the appointed representative's application period closes otherwise it has to cease business. New to market firms and firms in other application periods were also able to apply as principals.

The FCA prioritised sectors that posed the greatest risk to consumers. We judged these to be:

- debt management firms
- high-cost, short-term credit, and
- logbook lenders

But there were other factors in how we allocated firms their application period.

To ensure the application periods as a whole were well-balanced in terms of numbers, each application period also included a range of firms with lower-risk activities that could apply as a limited permission firm. A firm may request FCA approval to defer its application period.

Figure 2 shows the progress of each closed application period in terms of firms eligible to apply and applications received. Comparable information is also provided for firms applying in the application periods currently open as well as new firms.

Figure 2: Application period status

	AP0	AP1	AP2	AP3	AP4	Open APs	New firms[2]
Eligible firms[1]	468	3,578	2,962	5,505	4,282	n/a	n/a
Number of firms that submitted an application	468	2,476	1,774	3,931	2,974	1,018	6,892
% of eligible firms	100%	69%	60%	71%	69%	n/a	n/a
Firms lapsing/cancelling	0	1,102	1,188	1,574	1,308	n/a	n/a
Firms that became an AR	0	317	374	310	226	n/a	n/a
Firms reapplying after lapsing/cancelling[2]	0	27	15	40	1	8	n/a
Total firms that submitted an application, reapplied or became an appointed representative	468	2,820	2,163	4,281	3,201	1,026	6,892
% of eligible firms	100%	79%	73%	78%	75%	n/a	n/a

In the five application periods that had closed, 77% of eligible firms had applied, including 1,227 firms that had become appointed representatives and 91 firms that reapplied after lapsing/cancelling.

In AP0 to AP4, 5,172 interim permission firms had lapsed or cancelled.

There are a number of reasons a firm may not apply for authorisation during its application period:

- A firm may instead become an appointed representative of an FCA authorised principal.
- A firm's activities may be covered by an exemption or exception, so it no longer requires authorisation.
- A firm may decide to stop its regulated credit activity and/or cancel its interim permission (we are aware that many of the firms under the OFT regime did not utilise their licences).
- Firms or groups may decide to consolidate their regulated activities reducing the number of authorised firms.

Notes:

1 Eligible firms include adjustments for applications that have been deferred.

2 The number of new firms includes firms which previously held an OFT licence or interim permission but then reapplied (91 firms) and 770 grandfathered firms.

Section 2:
Volumes and determinations

This section provides data on the volumes of firms applying and the progress we had made in determining applications by 31 March 2015. An application can be approved or refused by the FCA, or withdrawn by the firm. This data excludes appointed representatives.

Figure 3 shows the volumes of received applications and determinations made. Annex 1 shows the breakdown of these figures by application type. Figure 4 shows the regulated activities that firms carry out.

Figure 3: Volumes and determinations – summary

		AP0	AP1	AP2	AP3	AP4	Open APs	New firms	**Total**
Firms that Applied		468	2,476	1,774	3,931	2,974	1,018	6,892	**19,533**
% Firms Determined		82.1%	76.9%	60.9%	49.5%	27.4%	22.4%	79.7%	**60.7%**
Of determined:	**% Authorised**	96.6%	98.9%	99.0%	99.4%	99.8%	98.7%	86.7%	**93.3%**
	% Withdrawn	3.4%	1.1%	1.0%	0.6%	0.2%	1.3%	13.0%	**6.5%**
	% Refused	0%	0%	0%	0%	0%	0%	0.3%	**0.2%**
# Firms Determined		384	1,904	1,081	1,945	816	228	5,491	**11,849**
Of determined:	**# Authorised**	371	1,884	1,070	1,933	814	225	4,759	**11,056**
	# Withdrawn	13	20	11	12	2	3	714	**775**
	# Refused	0	0	0	0	0	0	18	**18**

Note: The number of *new* firms includes firms which previously held an OFT licence or *interim permission* but then reapplied (91 firms) and 770 *grandfathered* firms.

As at 31 March 2015, 19,533 firms had applied (this included applications that were in progress at the OFT as at 31 March 2014, and firms that were grandfathered). 68% of firm applications received were limited permission.

93% of decisions had resulted in a firm being authorised (11,056 firms, of which 526 were principals). This includes firms that changed the way they proposed to operate (including their business model and regulated activities) as a result of conversations with FCA case officers.

775 firms withdrew their application and a further 18 firms had been refused. Note that in many cases it may not take much time to approve an application that meets our standards.

There were 47,625 authorised firms as at 31 March 2015, of which:

- 770 had been grandfathered
- 10,286 had applied and been authorised (of which 3,989 were new to market)
- 36,569 had an interim permission

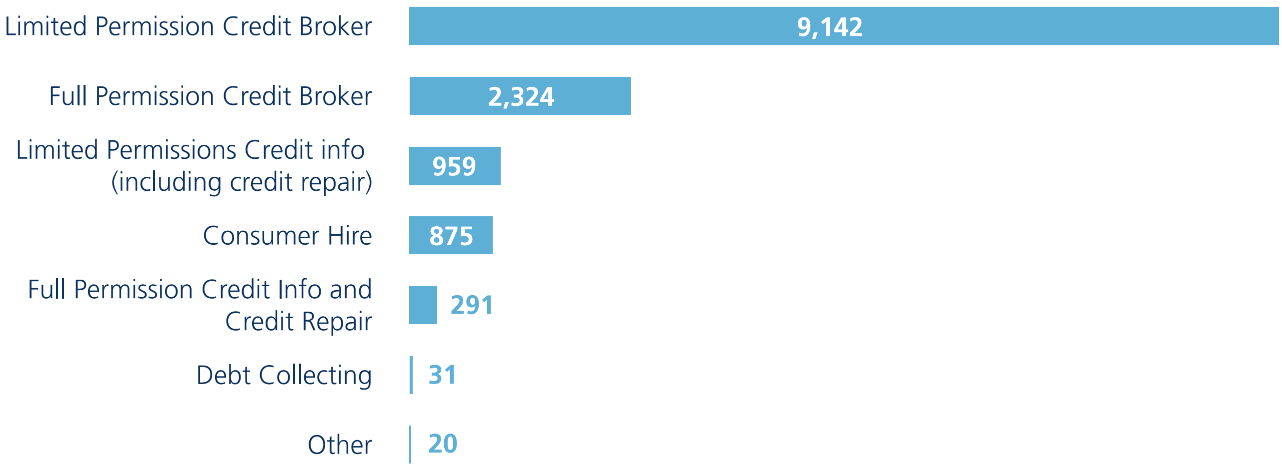
A further 1,401 applications from new to market firms were in the process of being determined.

Where we are minded to refuse an application, we give several opportunities for firms to discuss or challenge (at which point a firm may decide to withdraw), which may mean it takes longer to determine. This does not mean that cases that take longer to determine are likely to be refused. We expect that the proportion of applications refused may grow in the future.

Figure 4 shows the business categories of authorised firms (excluding interim permission firms) where these can be defined by combinations of regulated activities. Many firms will operate in more than one business category and therefore may appear more than once in the figure below.

The majority of authorised firms operate as limited permission credit brokers. This is because most applications have been from firms that operate as brokers. We expect the number of firms in categories other than credit broking to increase as we determine future applications.

Figure 4: Authorised firms' business categories



Note: 'Other' comprises the business categories listed in the Annex under regulated activities not separately included in the figure. These include lenders.

Section 3:
Average processing time

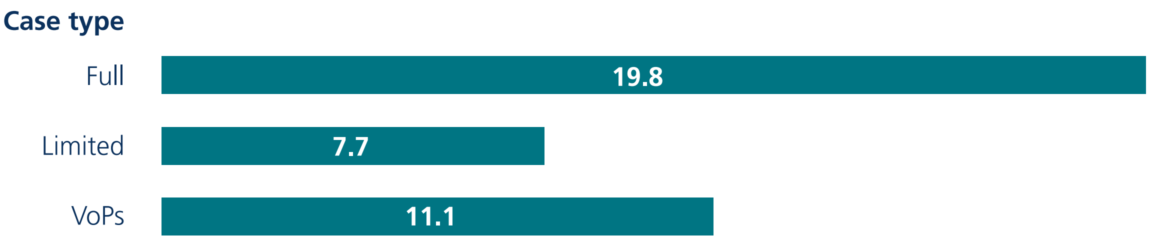
Our decision-making time frame is set out in the Financial Services and Markets Act 2000, and reflects the maximum time we may take to approve or reject an application. For full, limited and variation of permission cases we must determine an application within six months of it being complete or 12 months from receiving it (whichever is earlier).

We always aim to make decisions more quickly but this is dependent on:

- the quality of the application
- its complexity, and
- the time taken by the firm to get its application to complete status and/or to respond to any requests for additional information

Figure 5 shows information on the average elapsed time it has taken so far for us to make a decision from receiving an application.

Figure 5: Average processing time (weeks) by case type (1 Apr 2014 – 31 March 2015)



Note that firms with interim permission are able to continue trading while we consider their application.

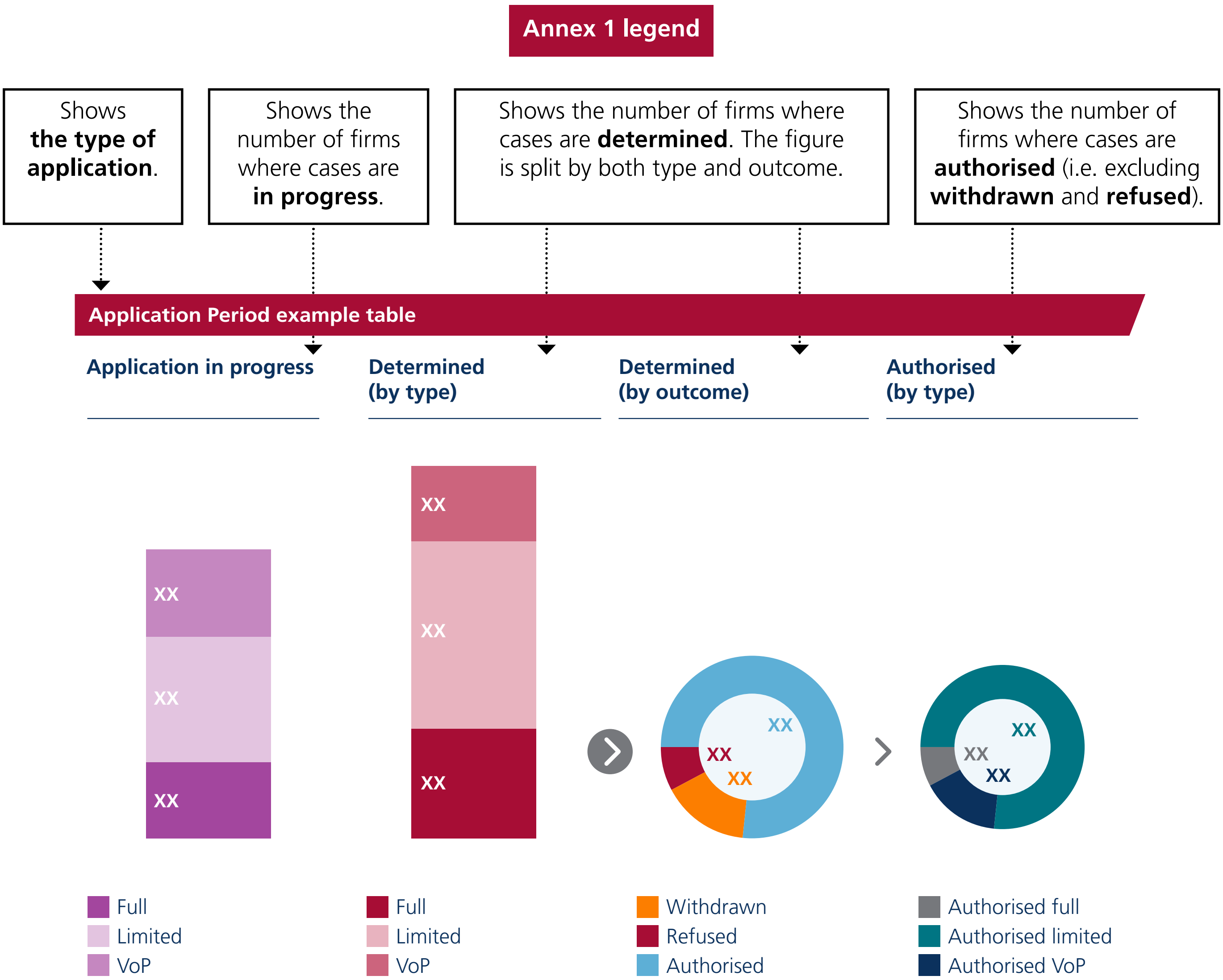
As anticipated, it takes us longer to process a full permission application than other types of case. Complex cases and business models that pose higher risks to consumers will inevitably take longer to assess.

The average time taken in different periods is not directly comparable as the mix of cases varies across application periods.

We expect that the average time to determine an application will increase over time. This is because application volumes have been increasing and we will still be determining the more complex applications from earlier application periods, so a larger proportion of applications will be taking longer to determine.

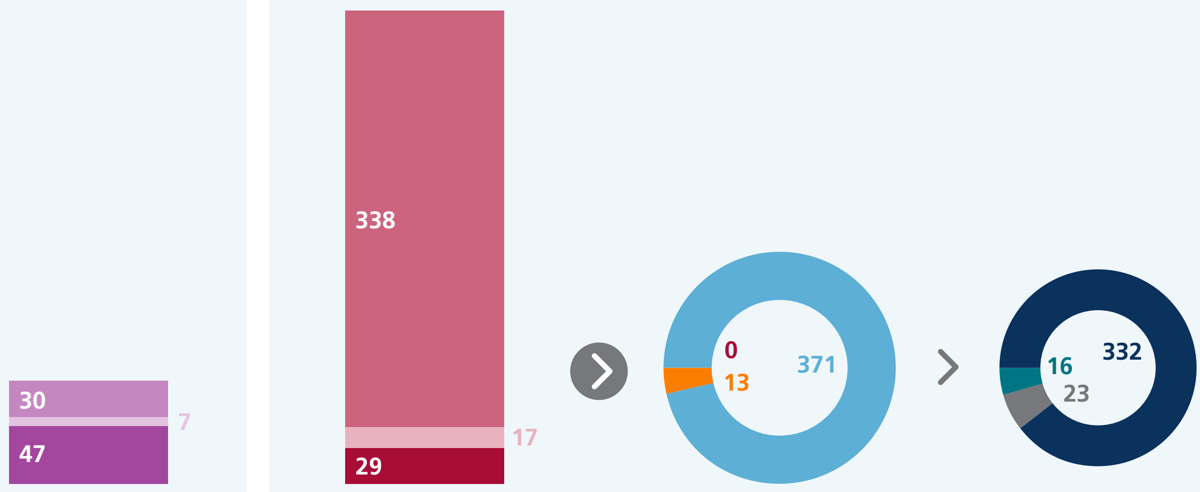
By comparison, for authorising other types of firms (those not primarily carrying out consumer credit activities), it took 17.1 weeks on average to process a permission case (equivalent to full and limited permission) and 17.8 weeks to process a variation of permission (for cases determined between January and March 2015).

Annex 1:
Volumes and determinations by case



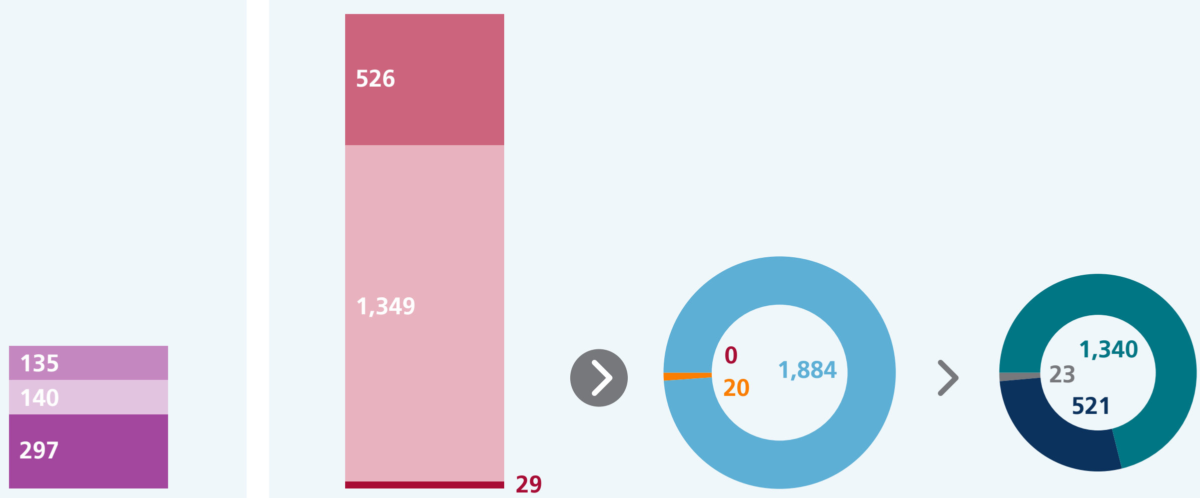
Application Period 0

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



Application Period 1

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



- Full
- Limited
- VoP

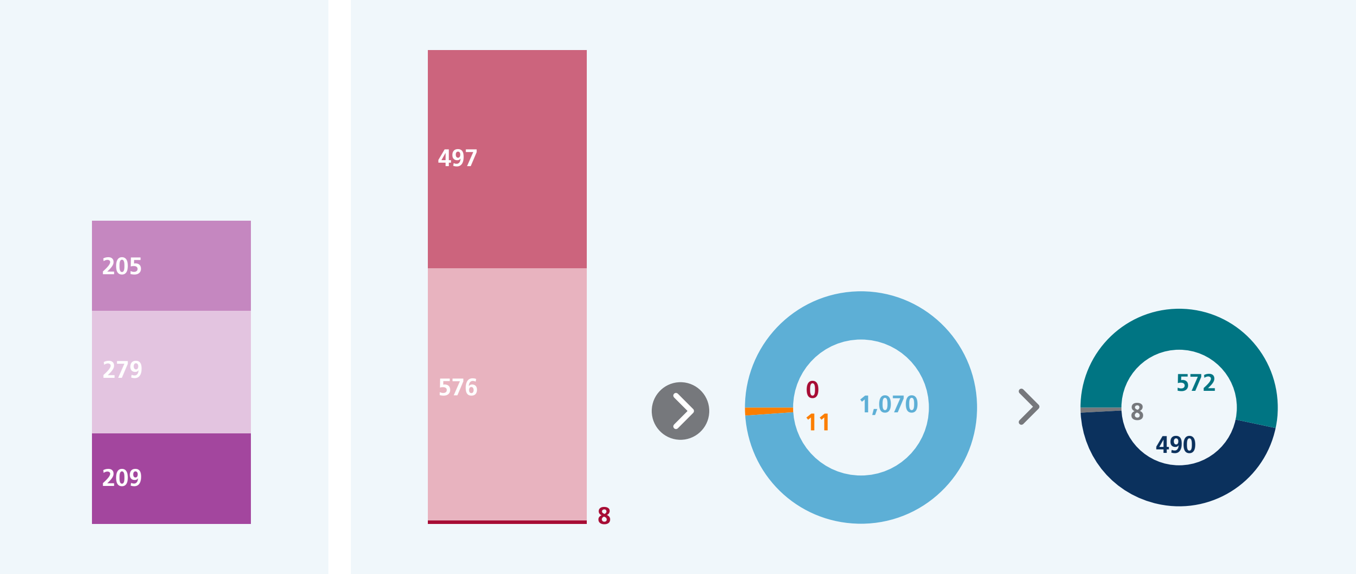
- Full
- Limited
- VoP

- Withdrawn
- Refused
- Authorised

- Authorised full
- Authorised limited
- Authorised VoP

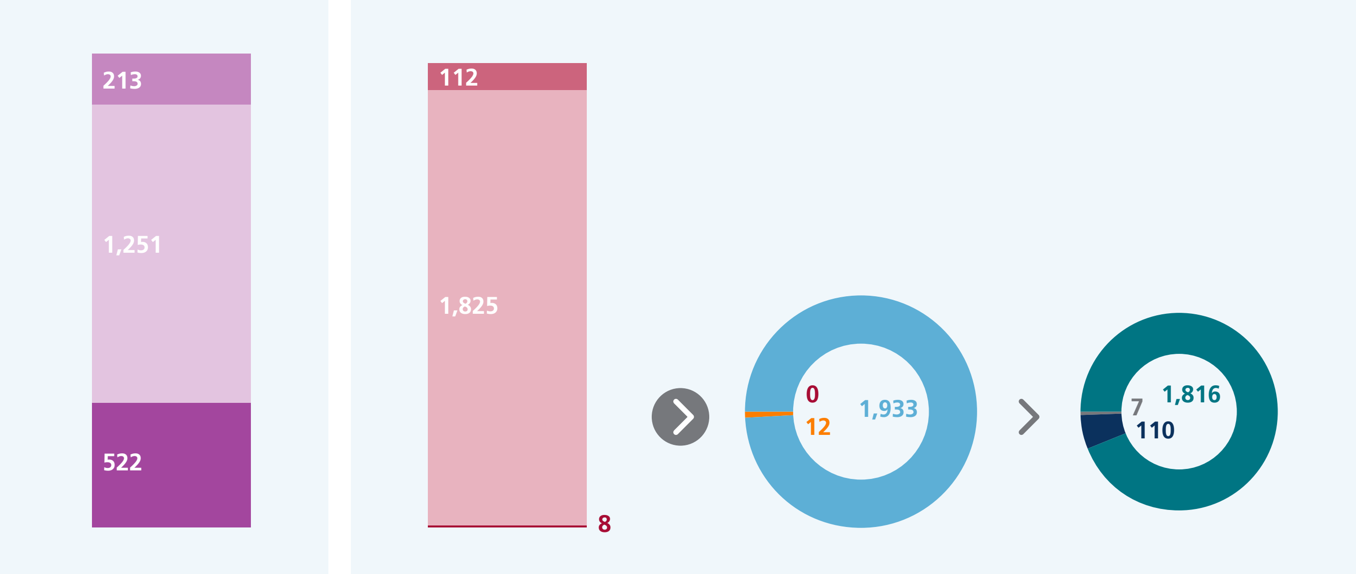
Application Period 2

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



Application Period 3

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



Full
Limited
VoP

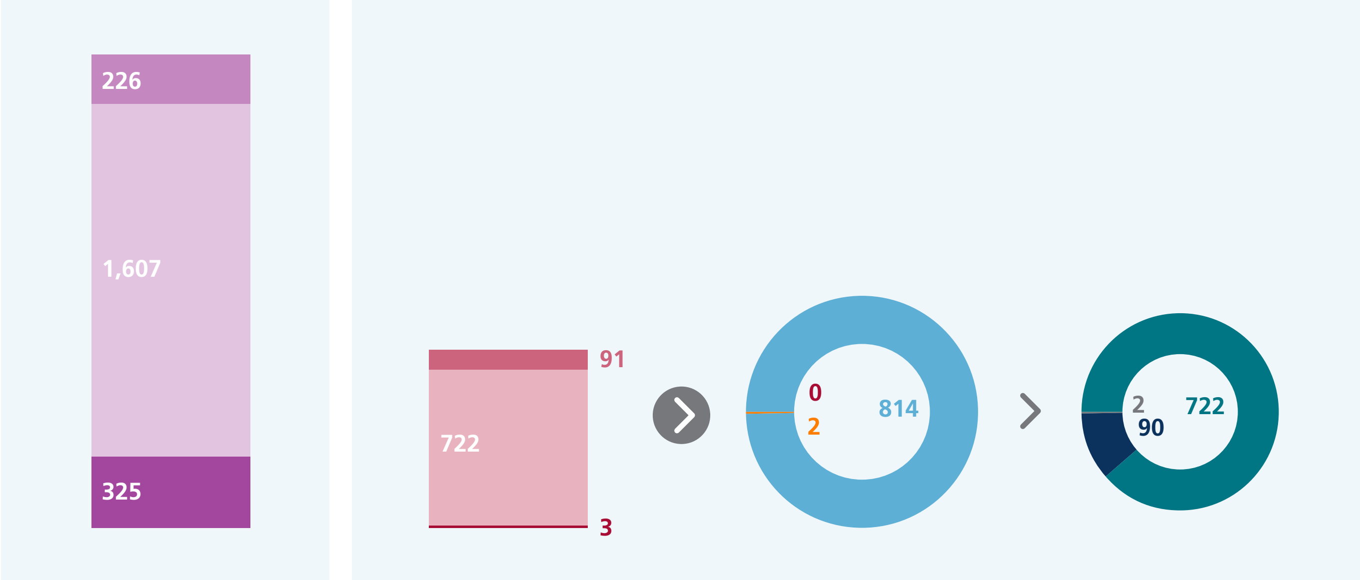
Full
Limited
VoP

Withdrawn
Refused
Authorised

Authorised full
Authorised limited
Authorised VoP

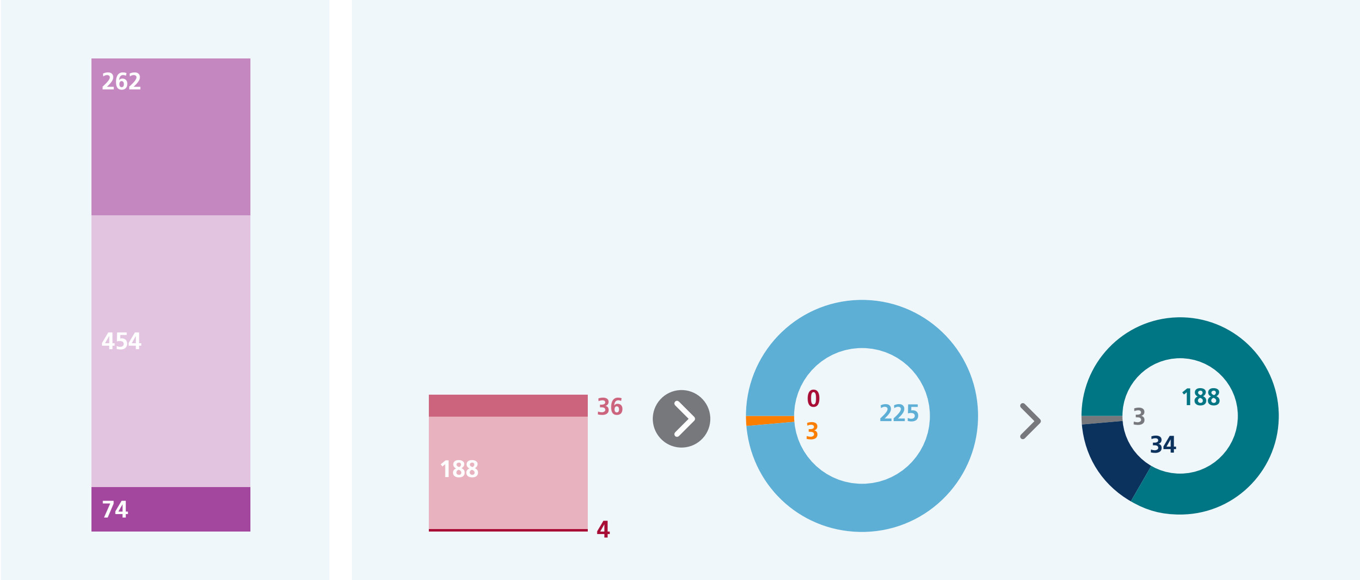
Application Period 4

Application in progress | Determined (by type) | Determined (by outcome) | Authorised (by type)



Open Application Periods

Application in progress | Determined (by type) | Determined (by outcome) | Authorised (by type)



- Full
- Limited
- VoP

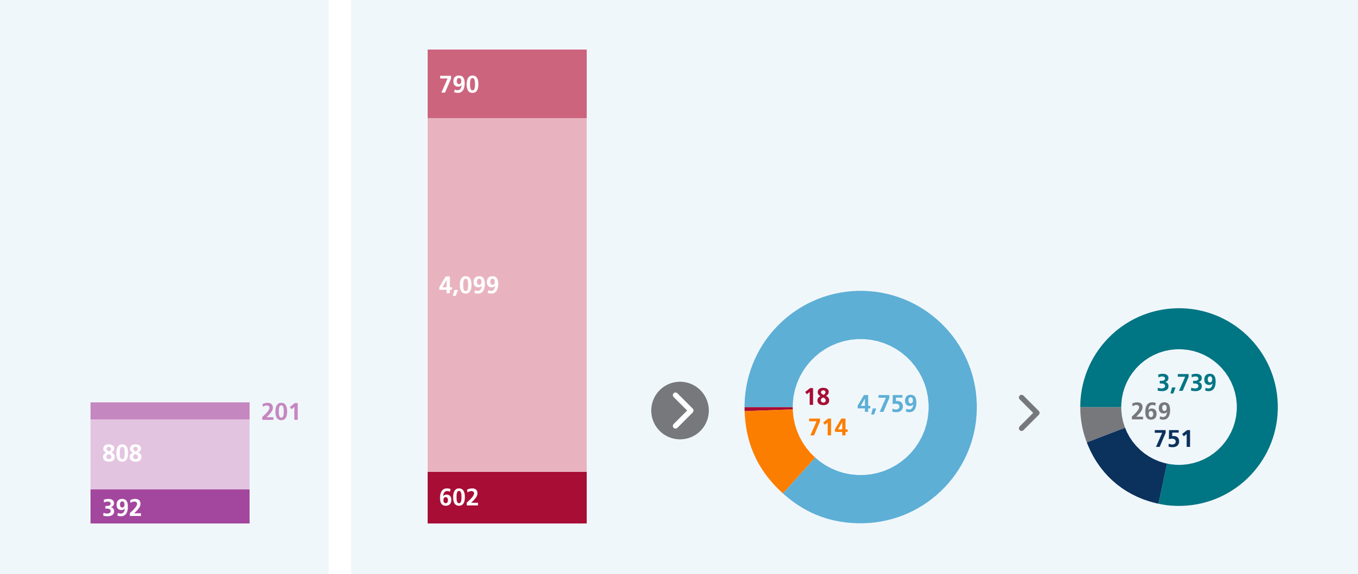
- Full
- Limited
- VoP

- Withdrawn
- Refused
- Authorised

- Authorised full
- Authorised limited
- Authorised VoP

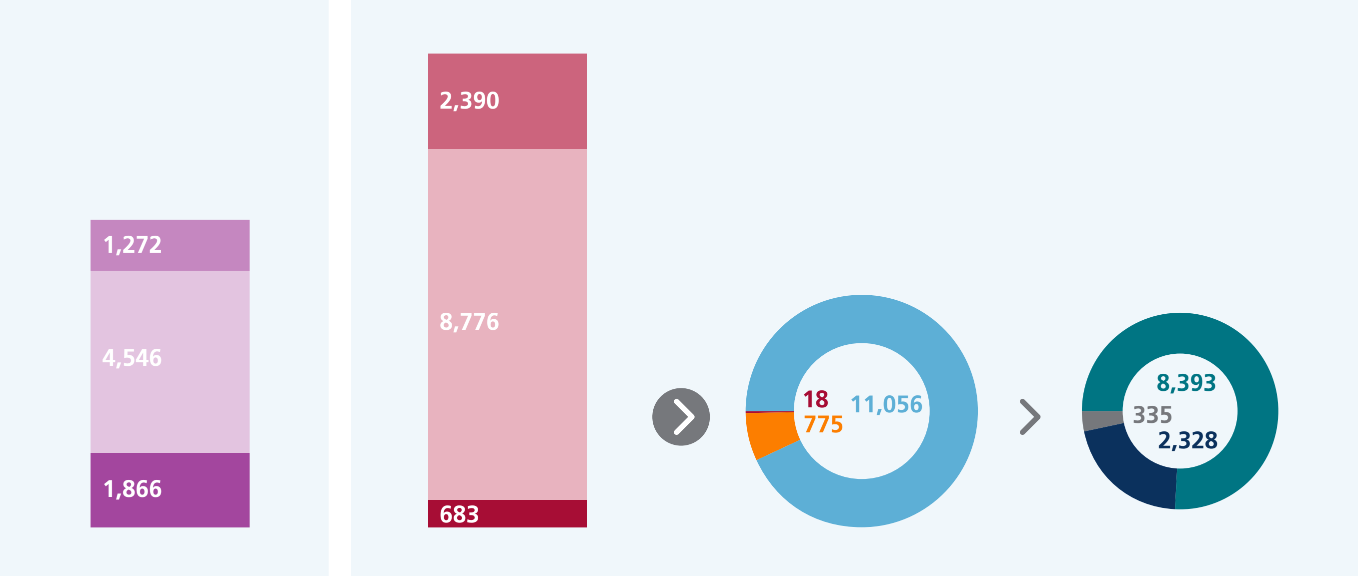
New* Applications

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



All Applications

Application in progress | **Determined (by type)** | **Determined (by outcome)** | **Authorised (by type)**



- Full
- Limited
- VoP

- Full
- Limited
- VoP

- Withdrawn
- Refused
- Authorised

- Authorised full
- Authorised limited
- Authorised VoP

* The number of *new* firms includes firms which previously held an OFT licence or *interim permission* but then reapplied (91 firms) and 770 *grandfathered* firms.

Annex 2:
Glossary of terms

Application Period (AP)	This is the three-month window that each firm with an interim permission has been allocated during which it needs to submit its application. In some cases the FCA may agree to move a firm into a different application period.
Appointed Representatives (ARs)	A firm or individual that carries out regulated activities under the supervision of a principal and as a result is exempt from requiring authorisation for those activities. Normally a firm is either an appointed representative or an authorised firm and cannot be both, but a firm can be a limited permission credit firm and an AR (in which case it is excluded from needing authorisation for the activities it is appointed to carry out as an AR rather than being an exempt person).
Approved	This is where the FCA has decided to grant authorisation.
Authorised	An authorised firm has a permission to carry out regulated activities.
Cancelled	This is where a firm that has applied to cancel its Part 4A Permission or its interim permission and the FCA has approved that application. It should be the case that the firm no longer carries out any regulated consumer credit activity or the firm becomes an appointed representative.
Complete	An application is deemed complete if there are no material gaps. Where the FCA does not consider an application complete, it will inform the applicant of this and the reasons why.
Full permission	This is a firm that has permission to undertake any regulated activities which are not limited permission activities.
Grandfathered firms	These are certain not for profit firms that were given a Part 4A permission without having to apply as they were covered by a group licence under the Consumer Credit 1974 Act to carry on certain activities. (The term is used generally by the FCA to refer to firms that were given permission without being authorised – such as those firms which had permission with a predecessor organisation when the FSA was formed on 1 December 2001.)
Interim Permission (IP)	Firms that held an OFT licence were invited to register with the FCA for an interim permission which allowed them to continue carrying out consumer credit activities. These firms were allocated an application period to apply for (full) authorisation. A small number of local authorities also obtained interim permission (having previously being exempt under the Consumer Credit Act).
Lapsed	In this publication, this refers to an interim permission firm that does not submit an application within its application period. Like firms that cancel their interim permission, they are unable to carry out regulated activities unless they become registered as an appointed representative.
Limited permission	This is a firm that has a permission that is restricted to certain consumer credit activities which are defined by legislation. In addition, a local authority will be a limited permission credit firm if it requires authorisation.
New firms	This comprises of new to market and grandfathered firms.
New to market	These are firms that have applied for consumer credit activities that were not registered as an interim permission firm. This includes firms that lapsed/cancelled and applied after their application period closed, firms that may have re-applied after withdrawing and firms whose applications were in progress at the OFT as at 31 March 2014.
Office of Fair Trading	The regulator of consumer credit until it closed on 31 March 2014.

Principal	A firm which is appointing one or more appointed representatives or agents to carry out regulated activities for which the principal firm takes responsibility.
Refused	An application where the FCA has issued a decision notice stating that the application has not been approved. The application is however not fully determined unless a final notice is issued, which occurs after a tribunal hearing if the firm refers the case or by default if the case is not referred within a specific period following the decision notice.
Regulated activities	These are certain activities laid out in legislation that a firm can carry out if authorised. We use a combination of such activities to define certain business categories:
Full permission credit broker	A firm with full permission with the 'credit broking' regulated activity.
Limited permission credit broker	Limited permission credit broker: A firm with limited permission with the 'credit broking' regulated activity.
Full permission credit info and credit repair	A firm with full permission with the 'providing credit information services' regulated activity.
Limited permissions credit info (including credit repair)	A firm with limited permission with the 'Providing credit information services' regulated activity.
Debt collecting	A firm with the 'Debt collecting' regulated activity.
High-cost short-term credit (HCSTC)	A firm with either the 'Entering into RCA as lender (high-cost short-term)' and/or the 'Exercising R&D under an RCA (high-cost short-term)' regulated activity.
Logbook Lending	A firm with either the 'Entering into an RCA as lender (bill of sale)' and/or the 'Exercising R&D under an RCA (bill of sale)' regulated activity.
Home credit	A firm with either the 'Entering into an RCA as lender (home credit)' or the 'Exercising lenders R&D under an RCA (home credit)' regulated activity (often referred to as 'home collected credit').
Consumer hire	A firm with either the 'Entering into consumer hire agreements as owner' or the 'Exercising owners R&D under a consumer hire agreement' regulated activity (in most cases, both).
Peer to peer lending	A firm with the 'Operating electronic system in relation to lending' regulated activity.
Other categories	Include **Hire purchase, pawnbroking, running account credit and other unsecured lending,** which are collectively defined as those with either the 'Entering into an RCA as lender (other)' and/or the 'Exercising lenders R&D under an RCA (other)' regulated activities.
RCA	Regulated credit agreement – a credit agreement which is not exempt under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
Variation of Permission (VoPs)	This is where an existing regulated firm (with a Part 4A permission) wants to add or remove categories of regulated activity, customer types or specified investments (the latter two do not apply to regulated credit activities), or vary or remove any limitations.
Withdrawn	An application that a firm has decided it no longer wishes to pursue (and has stated so in writing to the FCA).

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