Consumer credit licence-holders: Population sizing & communications research

Key Findings

by John Leston and Margaret Watmough

A research study for the Financial Conduct Authority

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Acknowledgments

This report has been authored by John Leston, an independent consultant working with Critical Research Ltd, and by Margaret Watmough, a member of staff at the Financial Conduct Authority (FCA), in the Market Research department.

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Both authors worked closely with Critical Research on the design of the research.

Abbreviations

AR	Appointed Representative (firm)
CBA	Cost-benefit analysis
CC	Consumer credit
CCA	Consumer Credit Act
CI	Confidence interval
CP	Consultation paper
DEFT	Design effect statistic
DA	Directly authorised (firm)
FA	Fully authorised
IP	Interim permission
FCA	Financial Conduct Authority
FR	Full regime
FRN	Firm registration number
FSA	Financial Services Authority
LP	Limited permission
OFT	The Office of Fair Trading
SRS	Simple random sample

Glossary

Active	A consumer credit licence-holder was designated as active if they had used their licence in the previous 12 months *and* stated either that they expected to do so in the next 12 months or that they did not know whether they would do so. This information was ascertained early in the interview, before any description of what licence-holders need to do, as regulation of the market transfers to the FCA.
Active population	The number of standard consumer credit licence-holders estimated to have used their licence in the previous 12 months and either expected to do so in the next 12 months or unsure whether they would do so.
Appointed Representative (AR)	An FCA designation: the Appointed Representative firm acts as an agent for the Principal firm. The Principal must be a firm that is directly authorised by the FCA. The Principal must accept full responsibility, including ensuring that the AR complies with FCA requirements. There must be a written contract between the Principal and the AR documenting this arrangement. FCA ARs are organisations that are existing Appointed Representatives for activities other than consumer credit. Under the full regime, most organisations (excluding lenders for profit and credit reference agencies) will be able to consider becoming an Appointed Representative for their consumer credit activities, if they can identify a suitable organisation to act as their principal.
Cell	Shorthand for: weighting cell.
CF30	The designation applied by the FCA to Approved Persons carrying out regulated activities that fall under the Customer Function. CF30 covers a number of different activities, including: advising on investments; advising on corporate finance business; advising on pension transfers; dealing or arranging deals in investments; advising in relation to Lloyd's syndicates; and acting in the capacity of an investment manager. Some individuals with CF30 status have a consumer credit licence in their own right.
Consumer Credit Act 2006 (CCA06)	The Consumer Credit Act 2006 reforms came

	into effect in April 2008.
Consumer Credit Act (CCA) 1974	An Act to establish for the protection of consumers a system, administered by the Office of Fair Trading, of licensing and other control of traders concerned with the provision of credit, or the supply of goods on hire or hire-purchase, and their transactions.
Consumer credit licence	A standard licence issued by the OFT under the Consumer Credit Act.
Consumer credit licence-holder	An organisation holding a licence issued under the Consumer Credit Act. Before the implementation in April 2008 of the Consumer Credit Act 2006 reforms, licences were issued for a five-year period; now they are issued for an indefinite period, but are subject to the payment of a five-yearly ‘maintenance’ payment.
Consumer credit licence category	Consumer credit licences are issued for one or more specified categories of consumer credit activity. There are nine main categories, three of which are further divided so that there are 13 sub-categories in total.
Consumer Direct business activity	The OFT database of licence-holders contains information about the main business activity of some, but not all, licence-holders. The categorisation used is that developed by Consumer Direct, which provides three levels of designation: ultimate business type, broad business type and business type.
Direct authorisation	Under the FCA full regime for consumer credit, organisations will either be directly authorised or be an Appointed Representative of a directly authorised organisation. The nature of direct authorisation will vary between organisations undertaking higher risk activities, who will need to be fully authorised, and those with only lower risk activities who will be eligible for limited permission.
Directly authorised (DA)	An FCA designation: a firm that is directly authorised and regulated by the FCA. Appointed Representatives are not directly authorised by the FCA.
Full regime (FR)	Regulation of the consumer credit market transfers to the FCA from the OFT on 1 April 2014. The period 1 April 2014 to 31 March 2016 is a transition period, during which consumer credit licence-holders will become authorised by the FCA. The period from 1 April 2016 is referred to as the full regime.

Fully authorised	Before 1 April 2016, all consumer credit firms with an interim permission that need to carry on regulated consumer credit activities should have applied for authorisation (or a variation of permission), or should instead have become an Appointed Representative. To become authorised, firms must demonstrate that they meet certain conditions. Firms that undertake higher risk activities will become fully authorised, whereas firms conducting lower risk activities will be granted a limited permission.
Future population	Licence-holders who have not used their licence in the past twelve months but expect to do so in the next year.
Group consumer credit licence-holder	In addition to standard licences for individual organisations, the OFT also operates a regime of group licences. Group licences are issued to professional and other altruistic organisations, which are then responsible for regulating the consumer credit activities of their members. Examples include the Law Society of England and Wales and the National Association of Citizens Advice Bureaux. Group licences were out of scope for this research.
Higher risk	Licence-holders are defined as higher risk for this research, according to the risk definitions provided by the FCA. Broadly, higher risk licence-holders are lenders using their own funds; credit brokers and credit intermediaries; debt counsellors/ advisers, debt adjusters and debt administrators; debt collectors; credit information service providers, credit reference agencies, peer-to-peer lending system providers; and secondary credit brokers levying charges or interest or higher costs for instalments.
Inactive population	Licence-holders that have not used their licence in the past 12 months and do not expect to do so in the next year.
Interim permission (IP)	All existing OFT licences will lapse on 31 March 2014. Interim permission is the permission granted to holders of current OFT licences to carry on consumer credit activities from 1 April 2014, if between 2 September 2013 and 31 March 2014 they have notified the FCA of their intention to seek interim permission and paid a fee, where one applies. Organisations already regulated by the FCA will receive an interim variation of permission.
Legal formation	The OFT records in its database of consumer credit licence-holders their legal formation.

	These are sole trader, partnerships, body corporates and other. The legal formation 'other' includes charities, trades unions and other miscellaneous organisation types.
Limited permission	A less intrusive authorisation option for lower risk organisations, with fewer requirements and therefore subject to a lower application fee.
Lower risk	Licence-holders are defined as lower risk for this research, according to the risk definitions provided by the FCA. All licence-holders not engaged in higher risk activities are lower risk.
OFT database	The OFT provided the FCA with a database of all consumer credit licence-holders as at 14 May 2013 which was used as the starting point for the research. The database included contact and other information for the licensed organisations.
OFT total population	The population of 69,950 consumer credit licence-holders contained in the OFT database as at 14 May 2013.
Past population	Licence-holders that have used their licence in the past 12 months but do not expect to do so in the next year.
Pre and Post CCA06	The OFT licensing regime and arrangements changed as a result of the Consumer Credit Act 2006 reforms. The changes came into effect for all new licence applications or renewals from April 2008 onwards. Before the change (which, among other things, introduced an indefinite licence with a periodic 'maintenance' payment) licences had been issued for a five year period. Consequently, not all pre-2008 licences had been renewed by the time of the previous survey **in 2012**; those that had not done so were classified as Pre CCA06, while those that had been renewed, as well as new applications from 2008 onwards, were classified as Post CCA06.
Pre and Post CCA06 (2012)	In order to be able to estimate population sizes and weight research results in a comparable way to the 2012 research, licence-holders were allocated to the CCA06 status, either Pre or Post, which they would have held as at 2 April 2012.
Primary business groups	Five broad groups of licence-holders – Debt advisers, Lenders, Primary brokers, Sellers and Others – are based on their primary business activity: *Debt advisers* (most not-for-profit debt advisers operate under a group licence and so were not

	in scope for the research). *Lenders* (these are specialist lenders for profit not including organisations whose primary business was the provision of goods and/ or non-financial services who were acting as lenders only in connection with that primary activity). *Primary brokers* (these are specialist brokers not including organisations whose primary business was the provision of goods and/ or non-financial services who were acting as brokers only in connection with that primary activity). *Sellers* (these are non-financial organisations that are involved in consumer credit activities only in support of their core business. The motor trade and other retailers make up a substantial proportion of the total). *Others* (this comprises a mixture of groups each too small for separate analysis. Examples are as diverse as debt collectors and hire companies).
Principal	A directly authorised organisation that appoints and takes responsibility for one or more Appointed Representatives.
Regulatory status	The current regulatory status of licence-holders. Either they are only regulated by the OFT (OFT only) or they are dual regulated and already regulated by the FCA for other activities (directly authorised (DA) or as an Appointed Representative (AR)).
Risk	The FSA's March 2012 Consultation Paper (CP13/7), *High-level proposals for an FCA regime for consumer credit*, defines the concepts of higher and lower risk activities in Tables 2.2 and 2.3. This research follows the definitions of higher and lower risk set out in the CP, with, as requested by the FCA at the time of designing the questionnaire, two exceptions. The research takes no account of whether a licence-holder is not-for-profit. The research does not, for secondary credit broking, explore whether 'the lower-risk activity does not include broking carried on in the consumer's home on more than an occasional basis.'
Standard consumer credit licence-holder	An organisation recorded in the OFT database as holding a consumer credit licence.
Transfer date	On 1 April 2014 regulation of consumer credit activities transfers from the OFT to the FCA.

Trade body member	Licence-holders that are members of one or more trade bodies. The trade bodies of which they are members have been categorised into three types: *FCA type* for financial services trade and professional bodies with which the FCA, and the FSA before it, has an established relationship; *Other financial type* for financial bodies with which the FCA is establishing relationships as it takes on consumer credit regulation; and *Other type* for other bodies, that are largely retail-focused.
Weighting cell	All sampled organisations were identified to one of eight weighting cells. These were the four legal formation groupings each divided between Pre and Post CCA06 (2012) status.

Reporting conventions

In tables, the following conventions are used when displaying results:

- Non-italic — Denotes a statistically significant difference against all excluding that subgroup.
- *Italic* — *Denotes a survey response from a sub-group that is not statistically significantly different from all excluding that subgroup.*
- *[ ]* — Percentages based on 20 or more and fewer than 50 observations.[1]
- * — A result of less than 0.5%.
- 0 — No observations.
- - — Category not applicable.

All results presented in tables were tested to a confidence interval (CI) of 95%. Thus, if a result in a table is shown as statistically significant, there is just a 5% chance that the difference could have happened by chance.

In tables and report text, percentages derived from the survey analysis or associated calculations are usually rounded upwards or downwards to the nearest whole number. Where a percentage, calculated to one decimal place, is x.5% the convention is to round upwards, e.g. 56.5% is shown as 57%. Totals in tables, therefore, may not add to 100%.

Findings are generally rebased to exclude respondents who refused to answer a question or said 'don't know'. The base information below tables that present survey findings gives the percentage (weighted to the total population of active licence-holders) of those who refused or were not able to give an answer.

The main subgroups for which findings are provided in this report are included in the next section, ***Subgroup bases used in the report***. This provides for each subgroup: a description or label, together with the number of interviews completed with participants representing that subgroup, the estimated number of licence-holders from the retain population in that subgroup, and the proportion of all retain licence-holders represented by that subgroup.

[1] No findings are included in this report, if the unweighted base (i.e. the number of interviews) was less than 20.

Subgroup bases used in the report

Details are provided below of the number of unweighted interviews conducted with each of the main subgroups of the retain population referenced in this report. Also provided are the estimated total number of organisations in each subgroup and the proportion of the retain population they represent.

Unweighted base, i.e. number of organisations interviewed	Description of subgroup	Estimated number of organisations in the subgroup	Percentage of the total retain population of organisations represented by the subgroup
944	**All licence-holders in the retain population**	**60,936**	**100**
813	Active	52,315	86
44	Future	2,947	5
19	Past	1,296	2
68	Inactive	4,378	7
131	All not active	8,621	14
186	Pre CCA06 (2012)	7,287	12
758	Post CCA06 (2012)	53,650	88
403	FCA	26,276	43
541	OFT only	34,660	57
182	FCA DA	11,982	20

221	FCA AR[2]	14,294	23
26	Debt advisers	1,488	2
65	Lenders	3,949	6
350	Primary brokers	22,971	38
421	Sellers	27,140	45
82	Other activities	5,389	9
246	Sole traders	16,036	26
99	Partnerships	4,804	8
531	Corporates	38,624	63
68	Legal formation: Others	1,472	2
698	Not sole traders	44,900	74
442	Up to £50,000 consumer credit turnover	27,995	46
201	Over £50,000 to £500,000 consumer credit turnover	12,679	21
55	Over £500,000 to £5 million consumer credit turnover	3,798	6
18	Over £5 million consumer credit turnover	1,237	2

[2] We have included with FCA AR licence-holders the very small number of CF30s. See CF30 in the Glossary, and see Section 4.3.

169	Consumer credit turnover unknown or prefer not to say	11,152	18
535	Higher risk activities	34,285	56
409	Lower risk activities	26,651	44
443	Member of trade body	28,397	47
491	Not member of trade body	31,912	53
184	FCA type trade body	11,862	19
67	Other financial trade body	4,250	7
194	Non financial services trade body	12,345	20
883	Retain licence-holders excluding those certain not to notify for IP	56,723	94
425	All licence-holders in the retain population with spontaneous and/ or prompted recall of the forthcoming changes in regulation	27,875	45
832	All licence-holders in the retain population certain to or probably will notify providing a date	53,464	88
531	All retain licence-holders whose notification date is expected to be December 2013 onwards	33,800	56
885	All retain licence-holders excluding those certain not to apply for IP	56,861	94

319	All retain licence-holders who may apply for IP who stated they were certain not to apply for full authorisation/ limited permission or probably will not do so	20,499	34
775	All retain licence-holders eligible for AR excluding those certain not to apply for the full regime	50,238	82

Summary

This report is intentionally a factual summary of the research findings.

We highlight here our key findings and main observations regarding the size of the population of consumer credit licence-holders, its composition, and its stated intentions to continue consumer credit business after the regulation of consumer credit has transferred from the OFT to the FCA.

The population of consumer credit licence-holders has become more stable in size

- The number of licence-holders on the OFT database had been declining for a number of years. By 14 May 2013 it had fallen to 69,550 from 81,284 as of 2 April last year.[3] The current trading population was estimated to be 62,192, however, only four per cent smaller than the estimated trading population of 64,636 at the time of the 2012 research.
- The total of organisations estimated to wish to retain their consumer credit licence was, at 60,936, very similar to last year's estimate of 61,301.[4] The current estimate was generated from data gathered early in the survey, before the transfer was discussed with licence-holders.
- The 'retain population' is made up of 55,262 organisations active in the consumer credit market and 5,674 wishing to remain regulated without currently planning to be active. We surveyed both groups in the population, as non-active users of their licence are able to notify for interim permission, if they wish to do so.

Consumer credit is a diverse and hence challenging market

- Although the total retain population of 60,936 is made up predominantly of corporates (63%), a quarter (26%) – or in excess of 16,000 – are sole traders.
- One in five (20%) are already directly authorised by the FCA, totalling 11,982, and a similar proportion (23%) and number (14,294) are already regulated by the FCA as Appointed Representatives of directly authorised firms. Together, this meant that 43% of the retain population is already FCA regulated.

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[3] These two dates were those on which the OFT provided us with up-to-date information on the licence-holders on their database for use in the research reported here, and in earlier research conducted in 2012 and published in March 2013.

[4] It should be noted that the figures are not completely comparable. In 2012, the retain population included all those wishing to remain regulated, without a time limit. This year, the retain population comprises those who, prior to any consideration of the transfer to the FCA, stated they wished to remain regulated beyond 31 March 2014, 1 April 2014 being the date of the transfer of consumer credit regulation to the FCA.

- The market is diverse and fragmented. It comprises a few highly populated primary business types, such as financial advisers and motor dealerships, and many that contain only a few hundred, or fewer, organisations.[5]
- Indeed, the total population is dominated by two primary business groups: sellers (27,140; 45%) for whom consumer credit is an ancillary activity to their main business, and primary brokers (22,971; 38%). Lenders, debt advisers and other specialists each make up only a small proportion of the total number of organisations involved.
- Most organisations are small. Six in ten (61%) have a consumer credit turnover no greater than £50,000, compared with only 3% with more than £5 million.
- More than half of the organisations (56%) are involved in higher risk activities[6] and so are relevant, under the full regime, for full authorisation rather than limited permission. The higher risk activities group is dominated by primary brokers who comprise two-thirds of it (67%), while the lower risk activities group is made up overwhelmingly of sellers (89%). Interestingly, this equates to just over 10,000 sole traders being in the higher risk activities group, the same being true for just over 16,000 organisations with a consumer credit related turnover of £50,000 per annum or less.
- Just under half of the population are members of a trade body (47%).
- Consequently, this is a population comprising in large part small organisations, for many of whom consumer credit is very much a secondary activity and whom, on the characteristics reviewed so far, it may be difficult to engage.

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Few licence-holders were aware of the transfer or could anticipate what it would mean for them

- Surveyed 12 to six weeks before the launch (on 2 September) of the interim permission notification period and prior to any direct communication with licence-holders by the FCA, awareness of any forthcoming changes regarding consumer credit regulation was low, eight in ten (78%) licence-holders having no spontaneous awareness of such changes before the survey, while, even after prompting, over half (54%) claimed to have no awareness of the transfer from the OFT to the FCA.
- Awareness was generally lower specifically among sellers and OFT only organisations, and higher among lenders, FCA DA firms and, in particular, among members of 'other financial' trade bodies, the term we use to refer to financial trade bodies such as the Consumer Credit Association with whom the FCA does not have a long-standing relationship.
- Unsurprisingly, it followed that very few licence-holders knew when the transfer was due to take place, with only 10% suggesting March or April 2014, and fewer (6%)

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[5] This presents a major research challenge. A large-scale random survey was needed to size accurately the overall population but, by being random, it could not yield sufficient results for statistical accuracy for the small segments. Consequently, the overall results we report are robust, but findings for small segments must be considered as indicative only.

[6] As defined in the FSA's Consultation Paper, CP13/7: http://www.fca.org.uk/your-fca/documents/consultation-papers/fsa-cp137.

suggesting that notification for interim permission would start at the beginning of September 2013.

- Having been informed about the transfer to the FCA during the survey, it is of concern that only a third (36%) of licence-holders thought they would have to take any action to be able to continue to conduct consumer credit business, although this proportion rose to 69% among members of other financial trade bodies.

The market is largely open to the transfer, and few licence-holders are negative about it or the FCA

- Views on the decision to transfer regulation to the FCA initially met with a largely neutral or favourable response; licence-holders with positive views thought it would improve regulation and considered it sensible to have all financial services under one regulator.
- Only 11% and 16% respectively of FCA and OFT only regulated firms expressed disfavour. They complained of lack of clarity about why the transfer was necessary and had concerns about cost and time burdens.
- Similarly, few licence-holders – FCA (13%) and OFT only (10%) – had unfavourable opinions about the FCA. Awareness of the FCA was low among OFT only organisations, however, such that almost half (49%) had no opinion of the organisation.

Licence-holders want to hear more from the FCA

- After having been told a little about what notification for interim permission will involve, almost all licence-holders wanted more information about the transfer from the FCA (92%) and/ or from the OFT (81%).
- They wanted to receive or access information in a number of ways: most popularly via email, followed by post and/ or via the regulators' websites.
- That said, when asked to identify their information needs, nearly four in ten (37%) licence-holders could not yet specify further information needs or said they had none. This is unsurprising, given that the survey was the first source of information on the transfer for very many respondents. Those with information needs expressed these quite generally, for example wanting guidance on how to notify and information on timings and cost.

Algorithm-based estimates have been made of the populations intending to notify for interim permission and subsequently to apply to remain regulated under the full regime

- Asked about their intentions, all those saying they were 'certain' to notify (or to apply) or would 'probably' do so were assumed to be part of the interim permission (or full regime) population.[7]

[7] Chapter 7 describes the algorithm in more detail.

Most licence-holders intend to notify for interim permission, although some change their view when they learn something about the full regime

- Over eight in ten (86%) licence-holders in the 'retain population' initially described themselves as 'certain to' or 'probably will' notify, falling to three-quarters (77%) after hearing information about the full regime.
- This translated into an estimate of 51,033 that would notify for interim permission.
- Those more likely to notify were larger organisations, those involved in higher risk activities and existing FCA DA firms. Less likely to notify were smaller organisations and those involved in lower risk activities, including sellers.
- Survey responses suggested that there would be a spike in notifications in September and subsequently in January and March.
- Only a financial incentive would have any impact in encouraging those planning to notify from December onwards to do so earlier.[8]

Most licence-holders with interim permission would want to remain regulated under the full regime, but not being able to become an Appointed Representative, if principals are not available, may lead to greater market exit

- An estimated 36,906 licence-holders claimed they intended to apply to be authorised under the full regime, in advance of being informed about the alternative of becoming an Appointed Representative, split between two-thirds (67%) of those involved in higher risk activities and just over half (53%) of those conducting only lower risk activities.
- This estimate rose to 45,757 licence-holders, after preference for the alternative approach of becoming an Appointed Representative was gauged. Of these it is forecast that 24,490 could be directly authorised (16,406 with full authorisation, and 8,084 with limited permission) and 17,417 might seek to become Appointed Representatives, while a further 3,850 could not be definitively allocated between the two.
- Those opting for full authorisation are projected to be predominantly primary brokers (59%), while those with limited permission would be dominated by sellers (89%). Appointed Representatives would largely be primary brokers (47%) and sellers (45%).
- Cost dominates the reasons given by those not applying for direct authorisation, while among those rejecting Appointed Representative status the major reason was lack of information about the concept.
- The projected full regime population is approximately 90% of that forecast for interim permission; the greatest decline is predicted among sellers where 85% of those with an interim permission are expected to proceed.
- The level of interest in Appointed Representative status is high, but it is sensible to consider that there may be insufficient principals available to accommodate it, at

[8] The survey was conducted before announcements that organisations notifying on or before 30 November 2013 would receive a discount of 30 per cent, and that the Government has decided there will be a programme of rebates to licence-holders to reflect the closure of the OFT regime on 31 March 2014 and the 5-year maintenance fee to the OFT they will have paid.

least in the early stages of the regime. Analysis suggests that around four in ten of those interested in becoming an Appointed Representative may choose to leave the market if they cannot do so, while about six in ten would opt instead for direct authorisation.

1 Research background and objectives

This chapter describes the background to and objectives set for this study, which was conducted in 2013 by Critical Research Limited.[9]

This is the second of two research reports on the consumer credit market by Critical Research. In March this year we published *Consumer credit licence-holders: Population sizing & segmentation research. Key Findings*, based on research conducted in 2012.[10]

1.1 Background – transfer of responsibility for regulation of consumer credit

The regulation of retail financial services is split between the Financial Conduct Authority (FCA) (regulating a wide range of firms including those that provide investments, banking, payment services, pensions, mortgages and insurance) and the Office of Fair Trading (OFT) (which, among other things, regulates consumer credit organisations providing, for example, overdrafts, personal loans, payday loans and debt collection services).

In January 2012, the government published the Financial Services Bill[11] which announced its intention to transfer the regulation of consumer credit from the OFT to the FCA, provided that a model of FCA regulation that is proportionate for the different segments of the consumer credit market could be developed. Following passage of the Bill,[12] Government subsequently confirmed its intention to proceed with the transfer which will now take place on 1 April 2014.

In March 2013, the FCA's predecessor, the Financial Services Authority (FSA), published its consultation paper CP13/7, *High-level proposals for an FCA regime for consumer credit*, describing how the FCA proposed to carry out its new functions to regulate the consumer credit market as the successor to the OFT. *Inter alia*, the new regime will be tailored to the risks of the consumer credit markets, minimising burdens on industry where risks are lower.

The design of this research was informed by the consultation paper and by the subsequent need to update information on the market, ahead of publishing further papers.

The consultation paper also outlines the intended process for the transfer of consumer credit regulation from the OFT to the FCA. Consumer credit licence-holders are required to notify the FCA, through an online process, of their intention to apply for 'interim permission' to continue providing consumer credit business from 1 April 2014.[13]

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[9] A separate Technical Report is published alongside this report.

[10] http://www.fca.org.uk/static/documents/consumer-credit-key-findings.pdf. An accompanying Technical Report is also available on the FCA's website.

[11] http://www.hm-treasury.gov.uk/fin_financial_services_bill.htm.

[12] http://www.legislation.gov.uk/ukpga/2012/21/contents/enacted.

[13] The online process for notifications is open from 2 September 2013 to 31 March 2014.

The interim permission regime will end on 31 March 2016, by when, in order to be able to carry on conducting consumer credit activities, licence-holders will need to have applied to become authorised by the FCA for consumer credit business, or become an Appointed Representative for the same. The research described to licence-holders the likely dates during which they would need to become authorised or an Appointed Representative as October 2014 to October 2015.

Compared with the interim permission regime, which lasts till 31 March 2016, the FCA's regime for consumer credit regulation from 1 April 2016 is referred to as the full regime.

For both stages of the transfer (interim permission, and authorisation or becoming an Appointed Representative) licence-holders, with some exceptions, will need to pay a fee.

The FCA needs to plan to have in place the right staff and resources, to regulate the organisations that seek interim permission and those that become authorised for consumer credit business under the full regime.

Research among existing licence-holders was required, therefore, to understand how many may choose to notify for interim permission and to seek to become authorised or an Appointed Representative under the full regime and, additionally, to understand their requirements for information about the transfer and the processes involved.

1.1.1 OFT consumer credit licence categories

The consumer credit market is a highly diverse one, ranging from so-called mainstream products, such as credit cards, to non-mainstream forms of credit such as payday lending and home collected credit.

The diverse nature of the market is indicated by the range of categories for which a licence can be issued. Consumer credit licences can be issued for one or more different categories. These are detailed in the OFT guidance *Do you need a credit licence?*[14] The main categories are shown in Table 1.1.

[14] http://www.oft.gov.uk/OFTwork/credit-licensing/do-you-need/licence-categories/.

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Table 1.1 OFT consumer credit licence categories

Category	Description
A	Consumer credit business
B	Consumer hire business
C	Credit brokerage
D	Debt adjusting
E	Debt counselling
F	Debt collecting
G	Debt administration
H	Credit information services
I	Credit reference agency

Two of the categories, D and E, are each further divided between commercial and non-commercial provision, while category H is divided into three groups: credit information including credit repair, credit information excluding credit repair, and non-commercial credit information. Therefore, while there are nine main categories, these are divided into 13 subcategories.

Since some consumer credit licence-holders operate on a non-commercial basis, in this report we refer to the licence-holders collectively as organisations, although the majority of them are firms.

1.1.2 Changes to OFT licensing as a result of the Consumer Credit Act 2006 reforms

The OFT licensing regime and arrangements changed as a result of the Consumer Credit Act 2006 (CCA06) reforms. The changes came into effect for all new licence applications or renewals from April 2008 onwards.

Before the implementation of the change, licence-holders were not prevented from applying for a licence to cover all the different consumer credit activities, even if they did not intend to be involved in them all. Since the CCA06 reforms were implemented, the OFT has challenged new licence-holders and those renewing their licence who appear to have requested more categories than are required, or inappropriate categories, particularly where the categories selected are deemed to be high risk in OFT terms. In addition, applicants may be required to answer supplementary questions about the use of some of these categories.

Another change introduced by CCA06 concerned the licence period. Whereas licences had been issued for a five-year period, CCA06 introduced an indefinite licence, although with a periodic maintenance payment that was again five-yearly.

For the research Critical Research conducted in 2012, it differentiated licence-holders that, on the five-year cycle, had not yet renewed their licence by the time of the research (using the term Pre CCA06 for them) from those that had renewed or had taken out a licence for the first time since April 2008 (Post CCA06).

The distinction was important. As the Post CCA06 application/ renewal process is more rigorous, the assumption had been that there were likely to be significant differences in the proportions of Pre and Post CCA06 licence-holders who were not using their licence for all of the categories for which it was held. This assumption proved to be correct. It was also shown that more of the Pre CCA06 organisations on the OFT's database were not trading.

1.2 Research objectives

This section describes the objectives of the 2013 research, and clarifies where, importantly, they differ from the research conducted in 2012.

1.2.1 Population sizing objectives of the 2012 research

The FSA commissioned the 2012 research to help it understand the size of the consumer credit market and its composition.

From an OFT database recording 81,284 licence-holders at 2 April 2012, we estimated that 64,636 were still trading and that the great majority of these, 61,301, wished to retain their licence. This 'retain population' included an estimated 47,607 organisations that we defined as 'active' on the basis that they have used their licence in the last 12 months and either intended to do so in the next 12 months or were unsure whether they would do so.

The survey research focused on this active population, segmenting it in a number of ways (for example, by primary business type, consumer credit activities and size) and providing some limited business model profiling of it.

The research was *not* designed to assess licence-holders' intentions to notify for interim permission or to carry on conducting consumer credit business under the full regime.

1.2.2 Research objectives for the 2013 research

The FCA commissioned this research to address two primary business objectives:

- Understanding the size and segmentation of the consumer credit market (revising the earlier estimates) and the proportions likely to notify for interim permission and apply for the full regime.
- Designing the programme of communications required to inform licence-holders about the transfer and the actions they will need to take to become regulated by the FCA.

The research was conducted among organisations holding consumer credit licences that were listed in the OFT's database as at 14 May 2013.

The **sizing objectives** of the research were to estimate:

- How many consumer credit licence-holders listed in the OFT database were still trading.[15]
- How many of those trading organisations were active, i.e. had used their consumer credit licence in the past 12 months and, prior to any discussion of the transfer of regulation to the FCA, expected to do so in the next 12 months or were unsure whether they would do so.
- How many trading organisations wished to remain regulated beyond March 2014, regardless of whether they were currently actively offering consumer credit services, again prior to any discussion of the transfer of regulation to the FCA.
- How many organisations expected to notify the FCA for interim permission.
- How many of the organisations expecting to have an interim permission were also intending to be regulated by the FCA under the full regime, and whether they were likely to become authorised by the FCA or preferred the alternative of becoming an Appointed Representative. It was anticipated that many licence-holders may not be certain about their intentions this far hence, and consequently it was recognised that only a broad indication would be possible of the number of organisations that would want to be regulated for consumer credit under the full regime.

Since licence-holders are able to notify for interim permission, even if they are not active users of their licence, **the survey research focused not, as last time, on the active population, but on the retain population**, albeit that active users of their licence account for the majority of this population. Chapter 3 explains the active, future, past and inactive components of the retain population.

All survey results were made available to the FCA and to Europe Economics[16] in August 2013. Some results have been used as an input into the cost-benefit analysis (CBA) that will be published as part of the FCA's October 2013 consultation paper on its proposed regime for consumer credit.

The **communications objectives** of the research were to gauge licence-holders':

- Attitudes and disposal towards the FCA.
- Awareness of the forthcoming change in regulation and change in the regulator.
- Understanding of what they need to do, by when, in order to notify for interim permission.
- Preferences for engagement: through which channels and from what organisations do they wish to receive information about the transfer.
- Expectations about the information they need in order to decide whether to transfer to the FCA.
- Initial reactions to the interim permission regime, including when they might notify and what would encourage early notification.

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[15] Under the OFT licensing regime it is not unusual for organisations to have only infrequent contact with, or from, the regulator. Consequently, it was inevitable that some of the organisations listed as licence-holders in the database would have ceased trading in the period since they last had contact with the OFT.

[16] Europe Economics was commissioned to conduct economic modelling that contributed to the FCA's CBA.

This report provides a first understanding, or baseline, of licence-holders' awareness, preferences and reactions, as indicated in this summary of the communications objectives. Further research, to look at changes, may be conducted after the FCA has implemented communications more fully with licence-holders. We would then report on changes in awareness, and so on, looking for differences in changes by several parameters. As this report is of baseline findings, we have intentionally kept reporting against communication objectives largely at total level, highlighting differences in results for selected subgroups only.

1.2.3 Coverage of the research

The research was conducted among standard consumer credit licence-holders. In addition to standard licences, the OFT also issues group licences to a small number of professional bodies and other altruistic organisations which are then responsible for regulating the consumer credit activities of their members. Examples include the Law Society of England and Wales, and the National Association of Citizens Advice Bureaux. **Group licences were not in scope for this research**.

In sizing the interim permission and full regime populations, the research has taken as its **starting point the OFT total population as at 14 May 2013 and is based on survey responses made over June and July 2013**. It does not forecast numbers of licence-holders that may later decide to cease consumer credit activities, or numbers of organisations that may commence consumer credit activities, in the periods to April 2014 and to April 2016.

2 Research design and methodology

This chapter summarises briefly the design of the research programme and the methodologies it employed. Its focus is on how we estimated the populations of licence-holders that were trading and wanted to retain their licence after March 2014, the populations that are described further in Chapter 3. Chapters 4 to 6 report survey findings for licence-holders that were intending to retain their licence after March 2014.

Full details of the research design can be found in the Technical Report that accompanies this report; it includes the survey questionnaire as its Appendix B.

We have also estimated the interim permission (IP) and full regime (FR) populations by applying an algorithm to survey responses. This approach is explained in Chapter 7, ahead of reporting findings on the IP and FR populations in Chapters 8 and 9.

Here, in Section 2.6, we also comment on the strengths and limitations of the research.

2.1 The OFT database

The starting point for the research was the OFT-provided database of 69,550 consumer credit licence-holders, as at 14 May 2013. Serving as the basis for sizing calculations, it contained information on each licence-holder's legal formation; identified each as Pre or Post CCA06, also giving the date of their initial licence and of any latest renewal or maintenance payment; and the licence categories included in the licence.[17]

Table 2.1 shows the OFT total population split by the eight 'cells' used in the research for sampling, and for sizing and survey weighting purposes. The cells were created from information known for all licence-holders, namely legal formation using four classifications (sole traders, partnerships, corporates and other), and whether they were Pre or Post CCA06 (2012).

It is important to comment on what is meant by Pre or Post CCA06 (2012). At that time of the survey in 2012 a third of the licence-holders recorded on the OFT database were Pre CCA06, but this was true for only one per cent by May 2013. Given the very low numbers of remaining Pre CCA06 organisations in 2013, a Pre/ Post CCA06 stratification as at May 2013 would not be appropriate as it could not sensibly be used to split licence-holders into reasonably-sized cells for sampling and weighting purposes. However, as the Pre/ Post CCA06 stratification was a very useful method for sampling and weighting purposes in the 2012 study, we wished to retain it this year to ensure that the results of the two surveys could be compared. Consequently, we decided to use Pre/ Post CCA06 status *at the time of the 2012 survey* to draw up our sampling and weighting cells for this year's research for all organisations that were on

[17] Since our previous survey in 2012, when the information on licence categories was incomplete, and, the OFT advised us, not entirely up to date, almost all licence-holders on the OFT database have either renewed their licence since the implementation as of April 2008 of the CCA06 reforms or had gained a licence for the first time. Consequently, information on licence categories is considered to be complete and largely accurate. For the current survey, unlike the 2012 survey, licence-holders were not asked which licence categories they held, and which they used.

both the 2012 and 2013 databases. Licence-holders new to the OFT database since it was drawn for the 2012 survey were automatically classified as Post CCA06 (2012).

Table 2.1 The OFT total population, i.e. the consumer credit standard licence-holder population as provided in the OFT database at 14 May 2013

	Consumer credit standard licence-holder population		
Legal formation[18]	**Pre CCA06 (2012)**	**Post CCA06 (2012)**	**Total**
A Sole traders	1,932	18,558	20,490
B Partnerships	637	4,737	5,374
C & E Bodies corporate inside or outside UK	5,163	36,997	42,160
D Other: charities, trades unions, others	291	1,235	1,526
Total	**8,023**	**61,527**	**69,550**

2.2 Drawing a random sample

Many organisations in the OFT database lacked contact details, such that this was likely to jeopardise the ability to draw a random sample.

A first step to lessen this problem was to identify organisations in the OFT database also regulated by the FCA and to augment any contact information held for those organisations by the OFT with information drawn from FCA records. This step was conducted by Critical Research, with assistance from the FCA.

A random sample of 4,080 organisations was then drawn from the augmented database, segmented across the eight cells to enable all sizing and survey results to be weighted and grossed up to the total universe.

There was still a sizeable proportion of organisations that had been sampled that lacked contact information. These organisations were then subject to further processes to enhance contact details, in particular to fulfil the requirement for a telephone number. Where a telephone number was lacking, an automated telephone number look-up process was conducted. Further, various internet searches were then employed, and the organisations were checked against Riskdisk, a database owned by Experian that forms a near complete and up-to-date source of trading and recently wound-up corporate organisations.[19]

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[18] The labels A-E for legal formation are those used by the OFT. Henceforth in this report, we either describe the four legal formation categories as: sole traders, partnerships, corporates and others, or we collapse these into sole traders and not sole traders.

[19] Riskdisk was formed in 1999 as a credit reference agency. It provides detailed company information based on Experian's own records and Companies House information in order

As well as supplying some contact information, Riskdisk was used to confirm that some organisations were trading or were not trading.

2.3 Sizing the trading population of consumer credit licence-holders

As the OFT has little or no contact with the vast majority of licence-holders between licence renewals, and as organisations that cease trading typically do not notify the OFT to surrender their licence, it was anticipated that the OFT database would include some organisations that were no longer in existence.

It was essential to be able to size the trading population, and then the population within it wishing to retain their consumer credit licence beyond March 2014, so that survey results would be grossed up accurately.

As detailed in Chapter 5 of the Technical Report, the 4,080 sampled organisations (drawn from the eight cells described in Section 2.1) were classified as trading or not trading. The classifications were based either on identifying an organisation definitively as trading or not trading, or by assigning a calculated probability that they were trading based on the information available for their specific cell.

A number of methods were used for identification. For those definitively identified as trading or not trading these were:

- Confirmation as trading by organisations, when they were telephoned – they went on to complete an interview, or refused to do so.
- Confirmation that the organisation was not trading, when the telephone number was called – the number had been taken over by another organisation.
- Identification on Riskdisk of organisations that had not had telephone numbers as trading or not trading.
- Corporate organisations looked for but not found on Riskdisk were assumed not to be trading.
- However, since the focus of Riskdisk is corporate organisations, it was anticipated that some of the other legal formations not found on Riskdisk would be trading. Consequently, more detailed internet searches were conducted for all sole traders, partnerships and the legal formation ‘others’ not yet identified as trading or not trading, till a definitive allocation to trading or not trading could be made.

Those given a probability of trading were all corporates and fell into two groups:

- Those with telephone numbers that proved to be unobtainable or incorrect (52 organisations): it was assumed that the same proportion of these would be trading as had proved to be the case for corporates from the same cell (i.e. Pre or Post CCA06 (2012)) that had been put through Riskdisk because they lacked a telephone number.
- Those where no attempt at all had been made to contact them during the survey period or where the telephone line had been consistently engaged or not answered (314 organisations in total): in the absence of any information about these

provide a risk assessment for businesses and consumers. See www.riskdisk.com for further details of this service.

organisations it was assumed that the same proportion would be trading as for all other corporates combined from the same cell (i.e. Pre or Post CCA06 (2012)).

Through these methods, of the 4,080 sampled organisations, 3,315 and 399 licence-holders, respectively, were classified definitively as trading and as not trading, while a probability of trading/ not trading was calculated for the remaining 366 corporates. On a cell by cell basis, these results were then grossed up, to estimate how many of the 69,550 licence-holders were trading. The results are presented in Chapter 3.

2.4 Sizing the population of consumer credit licence-holders intending to retain their licence after March 2014

An estimate was then required of the size of the population of trading licence-holders who stated an intention (before the transfer to the FCA was discussed) to retain their licence after March 2014. This 'retain population' could contain a wide range of licence-holders, from those actively using their licence to those who were not doing so currently but still intended to hold it on a contingency basis.

As detailed in Chapter 6 of the Technical Report, four questions from the telephone interview were used to allocate the 962 respondent organisations to one of eight categories:

- **Active:** organisations that had used their consumer credit licence in the previous 12 months and expected to do so in the next 12 months, or did not know whether they would do so.

  Future: organisations that had not used their licence in the previous 12 months but expected to do so in the next 12 months.
- Past: organisations that had used their licence in the previous 12 months but did not expect to do so in the next 12 months. These were further split into:
  - **Past Keep:** those past organisations stating that they intend to keep their licence.
  - **Past Not Keep but retain beyond transfer date:** those past organisations that stated they do not intend to keep their licence but would give it up **after** 31 March 2014.
  - **Past Not Keep and not retain to transfer date:** those past organisations that stated they do not intend to keep their licence and would give it up **before** 31 March 2014.
- Inactive (organisations that had not used their licence in the past 12 months and did not expect to do so in the next 12 months, or did not know whether they would do so). These were further split into:
  - **Inactive Keep:** those non-active organisations stating that they intend to keep their licence.
  - **Inactive Not Keep but retain beyond transfer date:** those non-active organisations that stated they do not intend to keep their licence but would give it up **after** 31 March 2014.
  - **Inactive Not Keep and not retain to transfer date:** those non-active organisations that stated they do not intend to keep their licence and would give it up **before** 31 March 2014.

The 'retain population' excluded the two categories of licence-holder intending to give up their licence before 31 March 2014, and included the other 6 categories, summarising them into four groups: active, future, past and inactive.

Critical Research's 2012 research for the FSA also estimated the size of a retain population[20] and its four component parts. Having screened respondents to identify active and other groups, the survey then focused solely on the active population.[21]

Chapter 3 of this current report details the estimated size of the 2013 retain population and its four subgroups. It was appropriate to estimate the size of the population that includes all licence-holders intending to retain their licence after 31 March 2014, as all licence-holders in it will be able to notify for interim permission, if they wish to do so, even those not intending to keep their licence for much longer than April 2014 and those who do not actively use their licence but hold it for contingency reasons.

2.5 Surveying and segmenting the retain population of consumer credit licence-holders

The survey questionnaire, including the screener questions, was designed by the FCA, with some input from Critical Research. As in 2012, the survey was conducted by telephone.[22]

The OFT advertised the research on its website, to demonstrate its validity. Critical was also able to email a reassurance letter to respondents.[23]

Interviewees included owners, managing directors, senior directors and partners of smaller organisations, and among larger organisations financial and other directors and, in particular among FCA regulated firms, compliance officers.

The survey was conducted from 29 May to 19 July 2013, with 944 full interviews completed (from among the 962 organisations screened); the average length of the telephone interviews was 20 minutes. All organisations completing the full interview had been screened as licence-holders intending to retain their licence; in other words, only 18 respondents fell into one or other of the two categories excluded from the retain population, as explained in Section 2.4. The interviews included all of the eight cells in the population, set out in Table 2.1.

Key findings from the research among licence-holders intending (before the transfer to the FCA was discussed) to retain their licence after March 2014 are provided in the remaining chapters of this report.

2.6 Strengths and limitations of the research

The research is a robust, large-scale study that has benefitted from a partnership between the FCA and Critical Research, and from the presence on the team of a highly-qualified statistician, Derek Farr.

[20] The definition was not the same as used this year. The 2012 research did not ask those intending to give up their licence when they expected to do so and so excluded all of those who planned to give up their licence.

[21] Consequently, the findings of the two surveys are not directly comparable as the 2013 survey includes categories of licence-holder that were excluded from the full interview in 2012.

[22] This year an option for online completion was not made available.

[23] This letter is provided as Appendix A of the Technical Report.

The research was conducted to a necessarily tight timeline. Critical Research received the OFT database in mid May, and all the work to design and implement the research (not least questionnaire piloting, programming, interviewing, and then weighting of survey results and analysis of findings) had been completed by mid August, a substantial endeavour in around three months.

Inevitably, given this schedule, it is possible, with hindsight, to identify some weaknesses in the research, as well as recognising some planned limitations.

2.6.1 Strengths of the research

The research has produced the best available information as at August 2013, held by the FCA or by the OFT, on the size of the trading and retain populations of consumer credit licence-holders, and on estimates of the numbers of licence-holders that will notify for interim permission and apply to be authorised or to be an Appointed Representative under the full regime.

The research has a number of strengths:

- The logic in estimating first the trading population of consumer credit licence-holders from among the OFT total population, and then estimating the size of the retain population. Consequently, it has been possible to gross up the survey results to the 'right population,' i.e. to the retain population rather than to the OFT total population.
- The rigour of the processes followed in creating these estimates is set out in the Technical Report. Importantly, the design effect for the survey (which was used to estimate the size of the retain population) was small (1.04),[24] and the confidence interval (at the 95% level) for the estimated size of the retain population is only +/- 2.5%.
- One strength of the sizing research was the ability to confirm that the organisations screened were representative of all the randomly sampled organisations, removing any fears that organisations that could not be contacted, or who refused to participate, might be less likely, for example, to be using their licence.[25] So, it was safe to extrapolate findings from the surveyed organisations in the sample to those that did not complete an interview.
- The survey was conducted with a large number of organisations (962), using a questionnaire that was piloted and whose design benefitted from experience in interviewing the diverse consumer credit market in 2012. Highly experienced interviewers took respondents through a relatively lengthy and complex

[24] The 'design effect' is the ratio of the variance of a statistic with a complex sample design to the variance of that statistic within a simple random sample (SRS) of the same size. A design effect therefore represents the combined effect of a number of components such as stratification, clustering, unequal selection probabilities and weighting adjustment for non-response and non-coverage. As stated, the overall design effect (DEFT) for the survey and hence population estimates (sample size of 962) was estimated to be 1.04. Consequently, the results from those interviews had confidence intervals (CIs) equivalent to those from a truly SRS of 889.

[25] See Section 6.3 of the Technical Report.

questionnaire, allaying concerns that organisations unaccustomed to market research of this type would not be able to complete the survey.

- We knew from 2012 that some organisations would not be able to give an accurate answer to the questions: *Is your organisation currently directly authorised by the Financial Conduct Authority* and *Is your organisation an Appointed Representative of an FCA directly authorised firm.* In 2012 Critical Research set up a process, with the FSA, to check the regulatory status of respondents, and for the research this year we were again able to adopt that process, as well as improving the survey questions and the briefing to interviewers. Respondents claiming that their organisation was directly authorised (DA) or an Appointed Representative (AR) were asked to provide its FCA firm registration number (FRN). It was then possible to check the FRNs against the FCA's lists of FCA DA and FCA AR firms, resulting in the need to amend the responses of around one in six respondents. The checks undertaken showed that some few had provided an FRN that had been cancelled by the FCA. Among FCA-regulated firms errors included claiming to be a DA rather than an AR, and vice versa. Consequently, the time-consuming checks enabled the survey research findings to compare accurately differences in findings by current regulatory status (FCA DA, FCA AR, OFT only).[26]

2.6.2 Limitations of the research

A number of limitations to the research are recognised:

- Given the diverse make-up of the consumer credit market, the research could not set out to size robustly all segments of the market. While an attempt was made to cover all types of organisations in the survey, some segments of the market, ones that are 'scarce', inevitably are represented by very few interviews. For example, among primary business types, only two interviews were conducted with logbook lenders and with credit unions, while no cheque cashing companies or comparison websites were interviewed. Consequently, while the research is confident in its estimates of the size of 'larger' populations, such as all retain licence-holders and all licence-holders that are FCA regulated, it cannot be relied on as, and was not intended to be, a good source for sizing the different populations of 'scarcer' business types, such as logbook lenders and payday loan companies.
- The survey interview provided for a majority of respondents their first news about the transfer, so that they were answering questions about their intentions to notify for interim permission and to remain regulated by the FCA after March 2016, with little time to consider what the transfer might mean for them. In particular for firms not currently regulated by the FCA for any financial service activities other than consumer credit the concepts of interim permission, authorisation and being an Appointed Representative were all new. Consequently, their stated intentions at the time of the survey may have changed after receiving more information from the FCA in mid July, and later at the start of September to coincide with the start of the

[26] Critical Research checked all numbers provided by survey participants against FCA DA and AR databases (which contained FRNs). Where Critical could not reconcile numbers to these databases, they referred checking to the FCA. Simon Clark, a firm data specialist at the FCA, completed 185 more detailed checks. See Technical Report, Section 4.6.

interim permission notification period. Importantly, the survey indicated that intentions not to continue to be regulated for consumer credit business were influenced, for some by application fee costs and by the combination of FCA interim permission notification fees and OFT maintenance fees. The survey also predated announcements that organisations notifying on or before 30 November 2013 would receive a discount of 30 per cent,[27] and that the Government has decided there will be a programme of rebates to licence-holders to reflect the closure of the OFT regime on 31 March 2014 and the five-year maintenance fee to the OFT they will have paid.[28]

- The time available in a 20 minute telephone interview to describe the difficult concepts of interim permission and the variants of the full regime was obviously very limited. Therefore, although the questionnaire design endeavoured to communicate key aspects, such as the requirements for annual fees and to submit annual reports, it is likely these will not have been fully understood by all respondents. Information on fees in particular could only be very broad brush and may prove to have been inaccurate as final decisions will only be made following a forthcoming consultation. Specifically, the information that could be provided regarding being an Appointed Representative was very limited. This is a particular concern. For many, mainly OFT only organisations, the concept was entirely new and difficult to grasp. Moreover, no information could be offered regarding the likely costs of this option whereas estimates were provided for full authorisation and limited permission. It is not possible to know whether the impact of these limitations is to have artificially reduced interest in the Appointed Representative option (due to lack of understanding of what it is and how it might work) or to have increased it (due to the absence of a price signal leading to an assumption that it might be much less expensive).[29]

[27] http://www.fca.org.uk/static/documents/policy-statements/ps13-07.pdf.

[28] Full details of how rebates will be made will be announced in Autumn 2013.

[29] Please also see Section 7.2.3 of this report.

3 The populations of consumer credit licence-holders

This chapter provides findings of the sizing research: the estimated sizes of the trading population, and of the population intending, before any discussion of the transfer of regulation from the OFT to the FCA,to retain its licence beyond March 2014.

Some comparisons with population estimates from 2012 are provided.[30]

This chapter also comments on changes over the last few years in the size of the OFT database, and on the caveats these changes imply for the accuracy of the estimated sub-populations of the database.

This chapter does not describe the methods of calculating the sizes of these two populations. Please see the summary of these methods in Chapter 2 of this report, with full details available in the accompanying Technical Report.

The populations of licence-holders intending to notify for interim permission, and intending to remain regulated by the FCA under the full regime, are parts of the retain population. Chapters 7 to 9 report on these populations.

Key findings in this chapter are:

- The number of licence-holders on the OFT database has been declining for a number of years. By 14 May 2013 it had fallen to 69,550 from 81,286 as of 2 April last year.
- The trading population was estimated to be 62,192, compared with the estimate of 64,636 from the 2012 research. As expected, a smaller proportion of sole traders was trading than of the other legal formations.
- The total of organisations estimated to wish to retain their consumer credit licence was, at 60,936, very similar to last year's estimate of 61,301, although it is important to note that the comparison is of a population wishing to retain its licence, without a time limit (2012 survey) with a population wishing to retain its licence beyond the end of March 2014 (2013 survey).
- The active population was estimated to total 52,315 organisations, up from 47,607 in 2012.

3.1 The trading population

The final outcome of calculations to estimate the trading population of consumer credit licence-holders was an estimate that 62,192 (89%) out of the 69,550 organisations on the OFT database were trading, as detailed in Table 3.1. Over half of the organisations estimated not to be trading were sole traders.

[30] For more information please see Chapter 3 of the report published on the 2012 research.

Table 3.1 Estimate of the number of trading organisations, by legal formation, compared with the OFT total population

	Licence-holders (row percentages; numbers)			
Legal formation	**OFT total population**	**Proportion of sample identified or estimated as trading**	**Estimated trading population**	**Estimated not trading**
Sole traders	20,490	80	16,363	4,127
Partnerships	5,374	92	4,934	440
Corporates	42,160	94	39,424	2,736
Others	1,526	97	1,473	53
Total	**69,550**	**89**	**62,192**[31]	**7,358**

Table 3.2 examines the findings in a different way, showing what proportion of each population (the OFT total population, and the estimated trading population) is accounted for by each of the four legal formations.

This analysis shows that while sole traders accounted for just under a third (29%) of the OFT total population, they accounted for just over a quarter (26%) of the trading population.

[31] Varies by two from the sum of the eight individual results due to rounding.

Table 3.2 Comparison, by legal formation, of the OFT total population and the estimated trading population of consumer credit licence-holders

Legal formation	Total	Proportion of Total (column percentages)
	OFT total population	
Sole traders	20,490	29
Partnerships	5,374	8
Corporates	42,160	61
Others	1,526	2
Total	**69,550**	
	Estimated trading population	
Sole traders	16,363	26
Partnerships	4,934	8
Corporates	39,424	63
Others	1,473	2
Total	**62,192**[32]	

3.2 The population intending to keep its licence and its component parts

The trading population was segmented into eight categories, as shown in Table 3.3 and as defined in Section 2.4.

The population intending to retain its licence after March 2014 was estimated to be 60,936 organisations, made up from six of the eight categories:[33] predominantly by the active population (52,315), but also by the future population (2,947), and by the populations jointly labelled past (1,296) and inactive (4,378).[34] The estimated number of trading licence-holders not intending to keep their licences was 1,256.

[32] Varies by two from the sum of the four individual results due to rounding.

[33] In the event, one of the categories was found not to include any organisations, again as shown in Table 3.3.

[34] Varies by one from the sum of the four individual results due to rounding.

Table 3.3 Allocation of the estimated trading population to different categories

	Allocation of the estimated trading population to different categories				
Categories of the trading population	**Sole traders**	**Partner-ships**	**Corporates**	**Other**	**Total**
Active	13,958	4,233	33,029	1,096	52,315
Future	683	260	1,960	44	2,947
Past Keep	178	65	1,016	36	1,296
Past Not Keep – give up *after* 31 March 2014	0	0	0	0	0
Inactive Keep	995	246	2,618	296	4,155
Inactive Not Keep – give up *after* 31 March 2014	223	0	0	0	223
Total retain	**16,036**	**4,804**	**38,624**	**1,472**	**60,936**
Past Not Keep – give up *before* 31 March 2014	74	130	363	0	567
Inactive Not Keep – give up *before* 31 March 2014	252	0	437	0	689
Total trading	**16,363**	**4,934**	**39,423**	**1,472**	**62,192**

Base: All trading population (962); Sole traders (251); Partnerships (101); Corporates (542); Other (68).

The survey this year did not explore reasons for having a licence but not intending to use it. When licence-holders were asked about this in the 2012 survey, the most frequent answer was *for contingency reasons*, while some respondents admitted to *not being sure whether they needed a licence or not*.

3.2.1 The active population

This section provides some further information on the active population, as the major component of the retain population. Table 3.4 shows what proportion of each population (the OFT total population, and the estimated active population) was accounted for by each of the four legal formations.

This analysis shows that sole traders accounted for slightly less of the active population than of the OFT total population (27%, compared with 29%) while the reverse is true for corporates (63%, compared with 61%).

Table 3.4 Comparison, by legal formation, of the OFT total population and the estimated active population of consumer credit licence-holders

Legal formation	**Total**	**Proportion of Total (column percentages)**
	OFT total population	
Sole traders	20,490	29
Partnerships	5,374	8
Corporates	42,160	61
Other	1,526	2
Total	**69,550**	
	Estimated active population	
Sole traders	13,957	27
Partnerships	4,233	8
Corporates	33,029	63
Other	1,095	2
Total	**52,315**[35]	

Base: All trading population (962); Sole traders (251); Partnerships (101); Corporates (542); Other (68).

3.3 Changes in population sizes since 2012

3.3.1 The decline of the OFT total population

The number of consumer credit licence-holders on the OFT database has been declining over several years. Its size at the end of March 2009 was 113,735, but this number had dropped to 91,174 by the end of March 2011.

As we know, its size on 2 April 2012 was 81,286 and by 14 May 2013 its size had reduced to 69,550, a decline of 14 per cent. The scale of decline by legal formation was 20% for sole traders, 18% for partnerships, 11% for corporates, and 21% for others.

The net change in the size of the OFT total population of 11,734 over this period is the result of 19,761 organisations leaving the OFT database, and 8,027 joining. Assuming the majority of leavers will not have been trading, and the majority of joiners will be both trading and active helps to explain why, as described in Sections 3.3.2 and 3.3.3, the size of the trading population has declined, while the size of the active population within it has increased.

[35] Varies by one from the sum of the four individual results due to rounding.

In preparing the research findings for publication, we have been able to check the size of the population as at 2 September 2013: around four and a half months on, the population has dropped from 69,550 to 68,990.

This decline raises two points:

- Firstly, because the OFT total population is still declining somewhat, the estimated sizes for the trading and retain populations of consumer credit licence-holders presented in this report will have been slight overestimates by the time the FCA's interim permission notification period began on 2 September 2013.
- Secondly, however, the rate of decline in the OFT total population has clearly lessened considerably since April this year, by which time almost all organisations had renewed their licence or acquired a licence for the first time under the more rigorous requirements of the CCA06 reforms. Consequently, we are confident that these estimates will only be slight overstatements of those populations prior to the launch of interim permission notifications.

3.3.2 The decline in the size of the estimated trading population

The number of consumer credit licence-holders estimated to be trading at the time of the survey in 2012 was 64,636, and has been estimated to be 62,192 this year, a decline of just four per cent. The scale of decline by legal formation was 5% for sole traders, 3% for partnerships, 3% for corporates, and 9% for others.

3.3.3 Summary of changes in the retain population

In comparing the retain populations, we need to be mindful of a change in definition. In 2012 we estimated how many licence-holders intended to keep their licence, while in 2013 we estimated how many intended to keep their licence beyond March 2014.

The number of consumer credit licence-holders estimated to be in the retain population at the time of the survey in 2012 was 61,301, and has been estimated to be 60,936 this year, a decline of less than one per cent. There is barely any change in the proportions by legal formation.

4 Segmenting the retain population

This chapter describes the key segmentations used throughout the report and then profiles the retain population by those segments. It thereby provides a picture of the overall population that will need to make a decision as to whether or not to notify for interim permission.

Key findings in this chapter are:

- Although the total retain population of 60,936 is made up predominantly of corporates (63%), nevertheless a quarter (26%), or in excess of 16,000, are sole traders.
- One in five (20%) are already FCA DAs, totalling 11,982, and a similar proportion (23%) and number (14,294) are existing FCA ARs.
- The total population is dominated by two primary business groups, sellers (27,140; 45%) for whom consumer credit is an ancillary activity to their main business, and primary brokers (22,971; 38%). Lenders, debt advisers and other specialists each make up only a small proportion of the total number of organisations involved.
- Most organisations are small. Six in ten (61%) have a consumer credit turnover no greater than £50,000, compared with only 3% with more than £5 million.
- More than half of the organisations (56%) are involved in higher risk activities and so are eligible for full authorisation rather than limited permission. The higher risk activities group is dominated by primary brokers who comprise two-thirds of it (67%), while the lower risk activities group is overwhelmingly made up of sellers (89%).
- Just under half are members of a trade body (47%).

4.1 Key segmentations

In this section, and generally throughout the report, the total retain population is segmented in a number of ways to highlight where there are likely to be variations in behaviour between different types of organisation. The main segmentations covered are:

- Legal formation
    - Information in the OFT database classifies organisations into four (main) legal formations:
        - Sole traders
        - Partnerships
        - Corporates
        - Others (mainly trade unions and charities)
    - The partnerships and others groups are both very small and, consequently, the report generally differentiates between:
        - Sole traders
        - Not sole traders
    - This segmentation relies on the information in the OFT database; respondents were not asked to confirm their legal formation as part of the interview.

- Current regulatory status
    - Organisations are identified as:
        - FCA DA
        - FCA AR
        - OFT only
    - Respondents were asked about their regulatory status in the questionnaire. However, experience from the 2012 survey alerted us to the fact that there was some inaccuracy in the responses on this subject. Consequently, comprehensive cross-checking was also done against FCA records.[36]
    - Seven respondents were found, on checking, to be CF30s. They have been included with FCA ARs.
- Primary business groups
    - To assist in the planning and monitoring of communications efforts by the FCA, the total universe of OFT licence-holders was segmented into five primary business groups. These are:
        - Lenders
            - These are financial specialists who are lending for profit.
            - They are eligible only for full authorisation and will not be permitted to become Appointed Representatives.
        - Primary brokers
            - Again, these are financial specialists.
            - They are eligible only for full authorisation or to be Appointed Representatives.
        - Debt advisers
            - This is a small group and so only a limited sample size was achieved.[37]
            - The great majority of licensed debt advisers are not-for-profit and operate under one of the group licences. Consequently, they were not covered by this research as group licences were out of scope.
        - Sellers
            - This is a very large group of non-financial organisations whose consumer credit activities are ancillary to a

[36] See Section 2.6.1 of this report.

[37] Additional non-random interviews were conducted with debt advisers to provide a more robust sample size for in-house reporting to the communications team. Findings from non-random interviews are not included in this report which, due to its focus on population sizing, has to be based entirely on random interviewing. A similar non-random boost was also undertaken for the lenders segment but, again, is not reported here.

primary business of selling goods and/ or non-financial services.
        - The largest subgroups included within sellers were the motor trade and other retail organisations. Included were, for example, sports clubs, dentists and estate agents.
    - Others
        - This was a ‘catch all’ group comprising all those that did not fall into the preceding classifications.
        - It was highly diverse and included groups such as debt collectors, hire companies and accountants, all of which were too small for separate analysis.

- Size
    - Questions were asked in the survey about numbers of new customers (in a year), consumer credit income and consumer credit turnover. However, unlike all the other segmentations, this information was not sought from the relatively small number of respondents who indicated that they were certain not to notify for interim permission. Consequently, the size segmentation does not profile the entire retain population.
    - The main size segmentation used is consumer credit turnover, employing the following bands:
        - Up to £50,000 per annum
        - Over £50,000 to £500,000 per annum
        - Over £500,000 to £5 million per annum
        - Over £5 million per annum
    - Not all respondents were willing or able to provide consumer credit turnover figures, and this needs to be borne in mind when interpreting results.
- Risk activities
    - The Consultation Paper (CP 13/7) published in March 2013 separated consumer credit into higher and lower risk activities
    - Questions were included in the questionnaire to enable survey respondents to be allocated to higher and lower risk activities broadly in line with the definitions included in the CP;[38] if a respondent was undertaking **any** higher risk activity they were automatically classified as ‘higher risk activity.’
    - This allocation determined whether participants were asked about either full authorisation (higher risk) or limited permission (lower risk).

[38] See Tables 2.2 and 2.3 in the consultation paper (http://www.fca.org.uk/your-fca/documents/consultation-papers/fsa-cp137). The only differences were that the survey did not identify whether organisations were not-for-profit or whether broking was carried out in-home on more than an occasional basis.

- Trade body membership
    - An insight into the reach, and potential impact, of trade bodies as an indirect communications channel was of interest.
    - Therefore, results were segmented firstly between those who were trade body members at all and those that were not.
    - Additional, further analysis was conducted based on the type of trade bodies of which respondents were members. These were allocated to three groups:
        - FCA type trade body, i.e. ones with which the FCA has an established/ traditional relationship; included within this group were ABCUL, ABI, AMI, BBA, BIBA, CII/ PFS, CML, FSB.
        - Other financial type trade body, i.e. more specialist, consumer credit-related trade bodies with whom, traditionally, the FCA has not had well established links; included within this group were APDSI, BCCA, CCA, CCTA, CFA, CSA/ DBSG, DRF, FLA and NPA.
        - Other trade body, i.e. non-financial trade bodies; examples included BRC, FENSA, HBF, ITRA, Retra, RMI and various accounting, legal, dental and medical organisations as well as other specialist retail and motor industry bodies.

4.2 Legal formation

Almost two-thirds (63%) of the retain population are corporates with the next largest group being sole traders who account for a quarter (26%) of the population. Details are shown in Table 4.1.

Table 4.1 Legal formation

	All retain licence-holders (column percentages; numbers)	
Legal formation	**Proportion**	**Number**
Sole traders	26	16,036
Partnerships	8	4,804
Corporates	63	38,624
Others	2	1,472
Total		**60,936**

Base: Legal formation status from OFT database. All retain licence-holders (944).

4.3 Current regulatory status

The majority (57%) of the retain population are currently neither FCA DAs nor FCA ARs and are described as 'OFT only' throughout the report.

Nevertheless, one fifth (20%) are already FCA DAs. This is of some significance as these organisations, under the full regime, will need, technically, to apply for a variation of permission for which it is anticipated a reduced application fee will be charged.

The FCA AR category includes, as noted, a very small number of CF30s.[39]

The full distribution by regulatory status is summarised in Table 4.2.

Table 4.2 Current regulatory status

	All retain licence-holders (column percentages; numbers)	
Current regulatory status	**Proportion**	**Number**
FCA DA	20	11,982
FCA AR	23	14,294
OFT only	57	34,660
Total		**60,936**

B3a Is your organisation currently directly authorised by the Financial Conduct Authority? And B3b Is your organisation an appointed representative of an FCA directly authorised firm? Some answers modified by checking against FCA records.

Base: All retain licence-holders (944).

4.4 Primary business groups

The retain population is extremely diverse and contains a mixture of a few segments with a very large number of organisations and a multitude of different, specialist segments and organisation types, each comprising relatively few organisations.

At the highest level the population divides almost equally between organisations whose primary business is financial (31,154, or 51%) and those whose primary business is something non-financial (29,782, or 49%).

The five primary business groupings comprise two large segments, sellers (whose primary business is selling goods and/ or non-financial services) and primary brokers. The remaining three groups (lenders, debt advisers and others) are much smaller. Details are in Table 4.3.

[39] CF30s with a consumer credit licence are, typically, self-employed individuals, often operating as part of a network. They are not themselves either an AR or a DA.

Table 4.3 Primary business groups

	All retain licence-holders (column percentages; numbers)	
Primary business groups	**Proportion**	**Number**
Debt advisers	2	1,488
Lenders	6	3,949
Primary brokers	38	22,971
Sellers	45	27,140
Others	9	5,389
Total		**60,936**

Questionnaire Section A.

Base: All retain licence-holders (944).

4.5 Size

The primary size segmentation used in this report is annual consumer credit turnover. Information was also gathered, however, on annual consumer credit income and on number of new customers, each of which are reported in this section.

4.5.1 Annual consumer credit turnover

Unfortunately, one in five (20%) of respondents were either unable or unwilling to provide an estimate of their annual consumer credit turnover. Their raw results are reported in Table 4.4. Additionally, the table also shows the resulting distribution across the consumer credit turnover bands of those not providing an estimate are distributed pro rata to those that did so.

Using this approach suggests that six in ten in the retain population (61%) have an annual consumer credit turnover of no more than £50,000 per annum, compared with only 3% with a consumer credit turnover exceeding £5 million per annum.

Table 4.4 Annual consumer credit turnover

	All retain licence-holders excluding those certain not to notify for IP (column percentages; numbers)			
Annual consumer credit turnover	**Including 'don't know'/ 'prefer not to answer'**		**Allocating 'don't know'/ 'prefer not to answer' pro rata**	
	Proportion	**Number**	**Proportion**	**Number**
Up to £50,000	49	27,995	61	34,740
Over £50,000 to £500,000	22	12,679	28	15,734
Over £500,000 to £5m	7	3,799	8	4,714
Over £5m	2	1,238	3	1,536
Don't know/ prefer not to answer	20	11,014	-	
Total		**56,725**		**56,725**

D2c What was your organisation's turnover specifically from your consumer credit licensed activities in your last financial year (OR, in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for IP (883).

Variations by segment are analysed using the data where 'don't know'/ 'prefer not to answer' responses have been allocated on a pro rata basis and are reported in Tables 4.5 and 4.6.

Table 4.5 Annual consumer credit turnover by segments: current regulatory status and legal formation

	All retain licence-holders excluding those certain not to apply for interim permission (column percentages)					
Annual consumer credit turnover	**Total**	**FCA DA**	**FCA AR**	**OFT only**	**Sole traders**	**Not sole traders**
Up to £50,000	*61*	*57*	*59*	*64*	77	55
Over £50,000 to £500,000	*28*	*24*	*33*	*26*	*21*	*30*
Over £500,000 to £5m	*8*	*12*	*5*	*9*	*2*	*11*
Over £5m	*3*	*8*	*2*	*1*	*0*	*4*

D2c What was your organisation's turnover specifically from your consumer credit licensed activities in your last financial year (OR, in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for IP (883); FCA DA (178); FCA AR (213); OFT only (492); Sole traders (233); Not sole traders (650).

Table 4.6 Annual consumer credit turnover by segments: primary business groups

	All retain licence-holders excluding those certain not to apply for interim permission (column percentages)					
Annual consumer credit turnover	**Total**	**Debt advisers**	**Lenders**	**Primary brokers**	**Sellers**	**Others**
Up to £50,000	61	*71*	*47*	*64*	*60*	*61*
Over £50,000 to £500,000	28	*12*	*43*	*27*	*30*	*12*
Over £500,000 to £5m	8	*17*	*5*	*8*	*6*	*21*
Over £5m	3	*0*	*5*	*1*	*3*	*2*

D2c What was your organisation's turnover specifically from your consumer credit licensed activities in your last financial year (OR, in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for IP (883); Debt advisers (25); Lenders (62); Primary brokers (340); Sellers (380); Others (76).

The only statistically significant variations were the above and below average proportions recording turnover up to £50,000 per annum among sole traders and not sole traders.

4.5.2 Annual consumer credit income

When respondents reported their annual consumer credit income, they were also asked whether, and if so how, this varied from their measure of consumer credit turnover. The great majority of those that gave a figure for their income (73%) stated that they considered income and turnover to be the same. Although the difference is not statistically significant, lower proportions said income and turnover figures were the same among lenders (65%) and debt advisers (52%).

Those who gave different figures for turnover and income were asked what they included in turnover that was not counted in income. A quarter (23%) did not know and otherwise a very wide range of items were mentioned. Some of the answers given suggest that many respondents do not have either a clear, or consistent, definition of the difference between income and turnover. Thus, among the examples given of things included in turnover but not income were commission, grants, green fees, interest, premiums, profits and subscriptions. Among lenders the most frequently cited items were value of credit/ loans advanced (27%) and value of loan repayments (25%).

Given the high proportion that gave the same answer for income and turnover, the overall pattern of responses for income is very similar to that for turnover, as shown in Table 4.7.

Table 4.7 Annual consumer credit turnover & income compared

	All retain licence-holders excluding those certain not to notify for IP (column percentages; numbers)			
Annual consumer credit turnover/ income ('don't know'/ 'prefer not to answer' responses distributed pro rata)	**Consumer credit turnover**		**Consumer credit income**	
	Proportion	**Number**	**Proportion**	**Number**
Up to £50,000	61	34,740	67	38,006
Over £50,000 to £500,000	28	15,734	25	14,181
Over £500,000 to £5m	8	4,714	6	3,404
Over £5m	3	1,536	2	1,135
Total		**56,725**		**56,725**

D2a What was your organisation's total income specifically from your consumer credit licensed activities in your last financial year (OR, in the past 12 months if that is easier to estimate)? Please include all fees, commission, interest and any other forms of income. D2c What was your organisation's turnover specifically from your consumer credit licensed activities in your last financial year (OR, in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for IP (883).

4.5.3 Number of new customers in last financial year/ past 12 months

All participants who had not ruled out notifying for interim permission, with the exception of debt management companies,[40] were asked how many new consumer credit customers they had handled in the past 12 months/ in their last financial year. They were asked only to include those who took out new credit or whom they had begun to advise or had referred to a lender or with whom they had otherwise started new business in the period. The median response was in the range 11 to 100, as shown in Table 4.8.

[40] In the case of debt management companies, what was of interest was the number of new debts under management rather than their number of customers (who, in any case, would be commercial organisations and not consumers). Consequently, they were asked a different question: *D1b How many debts became the subject of management arrangements, in your last financial year (OR in the past 12 months if that is easier to estimate)?* Results for this question are not provided in this report due to a very small sample size.

Table 4.8 Number of new customers in last financial year/ the last 12 months

	All retain licence-holders excluding those certain not to notify for IP and also excluding debt management companies (column percentages; numbers)	
Number of new customers	**Proportion**	**Number**
None	12	6,601
1 to 10	20	11,077
11 to 100	46	25,666
101 to 1,000	17	9,680
More than 1,000	5	2,958

D1a Thinking only of activities covered by your consumer credit licence, approximately how many new customers did you have in your last financial year (OR in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for interim permission and also excluding debt management companies (791). Excluding don't know (9%).

Variations by segment are shown in Tables 4.9 to 4.11. These show greater customer numbers for FCA DA organisations and lesser numbers, unsurprisingly, for sole traders. Lenders have greater customer numbers than primary brokers, while debt advisers emerge as a very diverse group with over-representation among both those with low and high customer numbers. The pattern of new customer numbers also correlates closely with consumer credit turnover.

Table 4.9 Number of new customers in last financial year/ the last 12 months by segments: current regulatory status and legal formation

	All retain licence-holders excluding those certain not to notify for IP and also excluding debt management companies (column percentages)					
Number of new customers	**Total**	**FCA DA**	**FCA AR**	**OFT only**	**Sole traders**	**Not sole traders**
None	12	*13*	9	*13*	*14*	*11*
1 to 10	20	10	*16*	25	26	17
11 to 100	46	43	51	44	45	46
101 to 1,000	17	25	*17*	14	*13*	*19*
More than 1,000	5	*8*	*7*	*4*	1	7

D1a Thinking only of activities covered by your consumer credit licence, approximately how many new customers did you have, in your last financial year (OR in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for interim permission and also excluding debt management companies (791); FCA DA (156); FCA AR (195); OFT only (440); Sole traders (215); Not sole traders (576). Excluding don't know (9%).

Table 4.10 Number of new customers in last financial year/ the last 12 months by segments: primary business groups

	All retain licence-holders excluding those certain not to notify for IP and also excluding debt management companies (column percentages)[41]				
Number of new customers	**Total**	**Lenders**	**Primary brokers**	**Sellers**	**Others**
None	12	*13*	*11*	*10*	25
1 to 10	20	*22*	15	24	*14*
11 to 100	46	30	51	*47*	30
101 to 1,000	17	26	18	15	15
More than 1,000	5	8	4	3	16

D1a Thinking only of activities covered by your consumer credit licence, approximately how many new customers did you have, in your last financial year (OR in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for interim permission and also excluding debt management companies (791); Lenders (58); Primary brokers (310); Sellers (346); Others (67). Excluding don't know (9%).

[41] There are too few observations to display results for debt advisers

Table 4.11 Number of new customers in last financial year/ the last 12 months by segments: consumer credit turnover[42]

	All retain licence-holders excluding those certain not to notify for IP and also excluding debt management companies (column percentages)			
Number of new customers	**Total**	**Up to £50,000**	**Over £50,000 to £500,000**	**Over £500,000 to £5m**
None	12	21	1	0
1 to 10	20	28	8	*15*
11 to 100	46	41	61	30
101 to 1,000	17	8	27	38
More than 1,000	5	2	*3*	17

D1a Thinking only of activities covered by your consumer credit licence, approximately how many new customers did you have, in your last financial year (OR in the past 12 months if that is easier to estimate)?

Base: All retain licence-holders excluding those certain not to notify for interim permission and also excluding debt management companies (791); Up to £50,000 (429); Over £50,000 to £500,000 (195); Over £500,000 to £5m (53). Excluding don't know/ prefer not to answer (9%).

4.6 Higher and lower risk activities

Segmentation by the nature of specific consumer credit activities undertaken is important as it determines whether organisations will qualify for full authorisation or limited permission.

Overall, just over half of the retain population (56%) were undertaking higher risk activities, as defined in the consultation paper: a total of 34,285. The remaining 26,651 (44%) were conducting only lower risk activities.

4.6.1 Variations in the distribution of higher and lower risk activities by segment

Looking first at the primary business groups, three of these were, by definition, made up entirely of organisations conducting higher risk activities, namely, lenders, primary brokers and debt advisers.[43]

Among the sellers group, seven out of eight (88%) were only undertaking lower risk activities such as referring customers to credit providers or lending or financing payment by instalments without levying charges or interest. The minority (12%) falling into the higher risk group were levying interest or charges.

[42] There are too few observations to report those with consumer credit turnover greater than £5 million.

[43] See Section 4.1, noting that the survey did not identify whether organisations were not-for-profit.

In the ‘other’ activities segment, organisations split exactly 50:50 between higher risk and lower risk. Examples of higher risk activities in this group are debt collection and acting as a credit reference agency, while among lower risk activities are various types of hire services.

Turning to variations by current regulatory status, nine in ten (91%) FCA DAs are undertaking higher risk activities, as are four in five (80%) FCA AR organisations. Conversely, two-thirds of OFT only (65%) licence-holders fall into the lower risk activities group.

Interestingly, the distribution between higher and lower risk activities is not related at all to consumer credit turnover as the division is almost identical in each of the turnover bands, with the proportion that are in the higher risk activities group ranging from 55% to 59%. However, this means that there are just over 16,000 very small licence-holders, with consumer credit turnover of up to £50,000, that fall into the higher risk activities segment.

Nevertheless, there is a significant difference between sole traders and all others. The proportion of sole traders that are conducting higher risk activities is 66%, compared with only 53% among those who are not sole traders. As a result, just over 10,000 sole traders are in the higher risk activities segment.

4.6.2 Profiling the higher and lower risk activity groups

Looking at the same data in another way, it is possible to profile the make-up of each of two groups, those conducting higher and lower risk activities.

Details are provided in Table 4.12. This shows that around two-thirds of the higher risk activities group comprises each of primary brokers, organisations already either FCA DA or AR and ones with a consumer credit turnover of up to £50,000. The lower risk activities group overwhelmingly comprises sellers (89%), OFT only organisations (85%) and, again, organisations with a consumer credit turnover of up to £50,000 (60%).

Table 4.12 Profile of higher and lower risk activity groups

	All retain licence-holders (column percentages; numbers)			
	Higher risk		Lower risk	
Segments	**Proportion**	**Number**	**Proportion**	**Number**
Debt advisers	4	1,488	0	0
Lenders	12	3,949	0	0
Primary brokers	67	22,971	0	0
Sellers	9	3,183	89	23,957
Other activities	8	2,694	10	2,694
FCA DA	32	10,860	4	1,122
FCA AR	33	11,362	11	2,932
OFT only	35	12,063	85	22,597
Up to £50,000 consumer credit turnover[44]	62	21,344	60	15,959
Over £50,000 to £500,000 consumer credit turnover	26	9062	30	7,865
Over £500,000 to £5m consumer credit turnover	9	2,921	8	2,138
Over £5m consumer credit turnover	3	985	3	689
Total		**34,285**		**26,651**

Base: All retain licence-holders except for consumer credit turnover which excluded those certain not to notify for IP (883).

4.7 Trade body membership

This segmentation was used specifically in analysis of questions regarding awareness and communications preferences.

The retain population is broadly divided between those who are members of a trade body (47%), totalling 27,331 organisations, and those that are not (53%), comprising 31,912 organisations.

For analysis purposes, the trade bodies were split into three groups, described as FCA type trade bodies, other financial trade bodies and other trade bodies, as presented in Section 4.1. The 47% that are trade body members was made up of 11,862 who were members of FCA type trade bodies (19%), a similar number (12,345) who were

[44] All calculations re distribution by consumer credit turnover are based on allocating those who said ‘don’t know’ or ‘prefer not to answer’ pro rata.

members of other trade bodies (20%), and a smaller number (4,250) who were members of other financial type trade bodies (7%).[45]

The distribution of trade body membership varied widely by primary business groups, as shown in Table 4.13.

Table 4.13 Membership of trade bodies by primary business groups

	All retain licence-holders (column percentages)					
Membership of trade body types	**Total**	**Debt advisers**	**Lenders**	**Primary brokers**	**Sellers**	**Others**
FCA type	19	0	*19*	33	10	*15*
Other financial type	7	18	48	3	2	18
Other	20	10	*6*	4	37	*21*

A1a Is your organisation a member of any trade body or association? And A1b Which one(s)?

Base: All retain licence-holders (944); Debt advisers (26); Lenders (65); Primary brokers (350); Sellers (421); Others (82).

[45] These three groupings taken together sum to slightly more than the total of trade body members as some organisations are members of trade bodies of more than one type.

5 Awareness of the transfer of consumer credit regulation to the FCA

This chapter summarises – for the retain population – licence-holders' awareness of forthcoming changes regarding consumer credit; how they had learned about these changes; their views on the transfer of consumer credit regulation from the OFT to the FCA; their knowledge about when the transfer will happen and what they may need to do; and when they expect the FCA will start to accept notifications for interim permission.

The findings provide valid baseline measures of licence-holders' levels of awareness and knowledge, since the survey was concluded just after the FCA's first letter to licence-holders, telling them about the transfer, was sent out on 15 and 16 July. Only around 30 organisations took part in the research after 16 July, and we would assume that not even all respondents from those organisations had received and read the letter before being interviewed.

Key findings in this chapter are:

- Awareness of the forthcoming changes regarding consumer credit regulation was low, eight in ten (78%) licence-holders having no spontaneous awareness of such changes, while, even after prompting in the survey, over half (54%) claimed to have no awareness of the transfer of consumer credit regulation to the FCA.
- Awareness was generally lower among sellers and OFT only organisations, and higher among lenders, FCA DA firms and, in particular, among members of other financial trade bodies.
- Unsurprisingly, it followed that very few licence-holders knew when the transfer was due to take place, with only 10% suggesting March or April 2013, and fewer (6%) suggesting that notification for interim permission would start at the beginning of September 2013.
- Having been informed about the transfer to the FCA, it is likely to be of concern that only a third (36%) of licence-holders thought they would have to take any action to be able to continue to conduct consumer credit business, although this proportion rose to 69% among members of other financial trade bodies.
- Views on the decision to transfer regulation in this area to the FCA initially met with neutral or favourable response, with only 11% and 16% respectively of FCA and OFT only regulated firms expressing disfavour.[46] Concern was grounded largely in lack of clarity about why the transfer was necessary and concerns about cost and time burdens, while those expressing favour assumed improved regulation would result from the transfer and considered it sensible to have all financial services under one regulator.

[46] These questions were asked before respondents were told anything about the processes and potential fees involved with interim permission and the full regime.

5.1 Unprompted and prompted awareness of forthcoming changes regarding consumer credit regulation

5.1.1 Unprompted awareness of changes regarding consumer credit regulation

As Table 5.1 shows, only around one in five (22%) licence-holders were aware of any changes in consumer credit regulation. Of these just under half (10% overall) specifically mentioned the transfer of regulation to the FCA (or, in a few cases, the FSA), while the remainder (12% overall) had more general recognition of change in this area, including small proportions (under 1%) mentioning transfer from the OFT (without mentioning the FCA as the successor regulator) and changes in the regulation of payday lending.

The major finding is that most licence-holders (78%) were, without prompting, unaware at the time of the survey of any forthcoming changes in consumer credit regulation. This differed little by type of licence-holder.

Spontaneous awareness specifically of the transfer to the FCA was low across the board, even among existing FCA DA firms, where one in seven (15%) were aware. This result is, however, double that for OFT only organisations, among whom one in fourteen (7%) were spontaneously aware.

Table 5.1 highlights two types of organisation (lenders and members of other financial trade bodies), both relatively small in terms of absolute numbers, where awareness levels are higher than average, although not statistically significantly so.[47] By comparison, only 3% of sellers were spontaneously aware of the transfer to the FCA. Trade bodies are likely to be an effective route to informing licence-holders about changes, although, by the time of the survey, it was only the members of other financial trade bodies that were largely aware: almost half (47%) of them were specifically aware of the transfer to the FCA, compared with one in ten (11%) of members of FCA type trade bodies.

[47] As shown in Section 4.4, there are estimated to be only 3,949 lenders in the retain population and, as detailed in Section 4.7, only 4,250 members of the other financial trade bodies. Moreover, there is a significant overlap between these two groups. The lack of statistical significance, however, may well simply reflect the small sample sizes available for these groups.

Table 5.1 Unprompted awareness of changes regarding consumer credit regulation

	All retain licence-holders (column percentages)				
Awareness of changes regarding consumer credit regulation	**Total**	**Lenders**	**Sellers**	**FCA type trade body members**	**Other financial type trade body members**
Aware – specifically of transfer to the FCA	10	42	3	*11*	47
Aware – not specifically of transfer to the FCA	12	*18*	*10*	*11*	*15*
Not aware	78	40	87	*77*	*38*

B1a Are you aware of any forthcoming changes regarding consumer credit regulation? And B1b What changes are you aware of?

Base: All licence-holders in the retain population (944); Lenders (65); Sellers (421); FCA type trade body members (184); Other financial type trade body members (67).

The following verbatim responses illustrate the range of knowledge and understanding among the minority of licence-holders with some spontaneous awareness:

> *I have read a small amount about the changes that are coming. It was a very brief article suggesting the obligation upon us will be greater in terms of having more records and filing more returns.*
>
> Car sales and repairs; corporate; OFT only

> *The FSA is now handing over to the FCA. They are changing things from October 2014. I have heard from our trade association that things are changing, and we will find out more from them as soon as these come through.*
>
> Home collected credit; corporate; OFT only

> *The FCA is taking over from the OFT which seems to make sense because at the moment consumer credit is dealt with by the OFT and FSA, and now it will all be under one body.*
>
> Seller of non-FS services; legal formation: others; FCA AR

> *The OFT is closing down and we are being taken over by the FSA. Our licence will not be valid when the OFT closes down.*
>
> Home collected credit; partnership; OFT only

> *I think the governing bodies are changing and a yearly fee is going to be involved from 2014.*
>
> Claims management; corporate; OFT only

That in the next year we heard our licences are likely to run out and there will be a new form of licensing.

Retail finance broker; corporate; OFT only

Just that it's going to change and we'll be charged again.

Motorcycle retail; corporate; OFT only

5.1.2 Prompted and total awareness of the transfer of regulation to the FCA

Licence-holders who had not been aware, spontaneously, of the transfer of consumer credit regulation to the FCA were told that regulation was going to move from the OFT to the FCA and were asked if they had already heard about this. The response meant that over a third (36%) of all licence-holders had heard of the transfer, when prompted, so that overall just under half (46%) of all licence-holders in the retain population had, spontaneously or with prompting, heard about the transfer.

Total awareness (spontaneous and prompted combined) was greater among FCA organisations (DA and AR) who were more aware (58%) than OFT only ones (36%). Again, however, as shown in Table 5.2, the greater levels of total awareness were among lenders and among members of other financial trade bodies. The greatest gap in awareness was demonstrated by sellers, of whom, even after prompting, less than a third (31%) were aware.

Table 5.2 Total (unprompted and prompted) awareness of the transfer to the FCA

	All retain licence-holders (column percentages)				
Awareness of changes regarding consumer credit regulation	**Total**	**Lenders**	**Sellers**	**FCA type trade body members**	**Other financial type trade body members**
Aware of transfer to the FCA (unprompted)	10	42	3	*11*	47
Aware of transfer to the FCA (prompted)	36	*26*	*28*	*42*	*27*
Aware of transfer to the FCA (total)	46	*69*	*32*	53	75
Not aware	54	31	68	47	25

B1b What changes are you aware of? And B2a In fact, regulation of consumer credit is going to move from the OFT to the Financial Conduct Authority, the FCA (formerly the Financial Services Authority, the FSA. Had you heard about this transfer before today?

Base: All licence-holders in the retain population (944); Lenders (65); Sellers (421); FCA type trade body members (184); Other financial type trade body members (67).

5.2 Sources of information on any changes regarding consumer credit regulation

Licence-holders with awareness, spontaneous or prompted, of forthcoming changes in consumer credit regulation, had gained their information from a wide range of sources, predominantly press, trade bodies, and the FCA and the OFT. Interestingly, finance providers also emerged as an information source for almost one in ten of those aware spontaneously or on a prompted basis. Other less common sources of information included networks, compliance consultancies, own companies and radio. Details of the most widely mentioned information sources are given in Table 5.3. Results are shown for all those with awareness of the transfer (spontaneously or on a prompted basis) and separately for those with spontaneous and then prompted awareness; this shows the greater impact of trade bodies among those with spontaneous awareness.

Table 5.3 Sources of information about forthcoming changes in consumer credit regulation

	All retain licence-holders with spontaneous and/ or prompted recall of the forthcoming changes in consumer credit regulation (row percentages)		
Source of information	**Spontaneous & prompted**	**Spontaneous only**	**Prompted only**
Any press	36	*35*	*36*
Own trade body	12	25	8
Finance providers	9	*9*	7
FCA including website	13	19	11
OFT including website	6	12	4

B2b Can you recall how you heard about this?

Base All licence-holders in the retain population with spontaneous and/ or prompted recall of the forthcoming changes in regulation(425); Spontaneous & prompted (425); Spontaneous Only (94); Prompted only (331).

Specifically among the spontaneously aware who were members of other financial trade bodies, over six in ten (61%) mentioned their trade body as a source of their information, compared with only a fifth (22%) of those who were spontaneously aware and members of FCA type trade bodies.

5.3 Views on the decision to transfer responsibility for consumer credit regulation from the OFT to the FCA

5.3.1 Proportions of licence-holders favourable and unfavourable

Few licence-holders had an unfavourable opinion about the transfer, and, as Table 5.4 shows, this was almost equally true for licence-holders already regulated by the FCA (11%) and for those only regulated by the OFT (16%). Of the balance, more FCA regulated firms were favourable (50%) and more OFT only organisations were neutral (56%).

Table 5.4 Views on the decision to transfer responsibility for consumer credit regulation from the OFT to the FCA

	All retain licence-holders (column percentages)		
	Total	**FCA[48]**	**OFT only**
Favourable	38	*50*	*28*
Unfavourable	14	*11*	*16*
No opinion	49	*39*	*56*

B5b Given what you know currently, what is your opinion of the decision to transfer responsibility for consumer credit regulation from the OFT to the FCA?

Base: All licence-holders in the retain population (877); FCA (388); OFT only (489). Excluding don't know (7%)

Among FCA regulated firms, more favourable opinions were found among FCA DA firms (59%) and those that were members of a trade body (57%). Significantly fewer FCA ARs (42%) are favourable. FCA regulated sellers have the least formed views, with nearly six in ten (58%) having no opinion.

Among OFT only firms, where just fewer than three in ten (28%) expressed a favourable view, more favour was found among members of other financial trade bodies (46%) and among organisations conducting higher risk activities (38%). Again, a high proportion (64%) of OFT only sellers has formed no view.

5.3.2 Reasons for favourable and unfavourable views

Those favourable and unfavourable about the decision to transfer responsibility for consumer credit regulation from the OFT to the FCA who were able to comment further gave a wide range of reasons in support of their views. That said, four in ten (41% of those favourable, and 40% of those unfavourable) were not able to explain their view.

The most common reason given by those favourable (25% of all favourable) was that the transfer would bring regulation of financial services under one body; more licence-holders already FCA regulated expressed this view (34%, compared with 10% of OFT only organisations) and they tended to be a little more detailed in their responses. Complementary reasons given were that the FCA will have tighter powers; regulation will improve; and consumers will be better protected.

> *Because the FCA are looking after all aspects of general insurance.*
>
> Insurance broker; corporate; FCA DA

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[48] Includes FCA DA and FCA AR.

I think it will be better regulated. Sometimes consumer credit falls under finance and not compliance and gets missed. I think this will be picked up in audits more now.

Insurance broker; corporate; FCA DA

Because the two organisations with two different skills combined will make a better product. I am hoping the strong influences of the FSA will come into the debt management side, as there is no formal qualification or regulation for debt management.

Debt adviser; corporate; FCA AR

Because it is going to be easier if it is one regulator looking after all consumer credit. It gives consumers more confidence and will get rid some of the rogue companies.

Debt counselling; corporate; OFT only

I think the Office of Fair Trading are involved in a lot of other issues. I think it will be better for one body to deal with this issue only.

Home collected credit; sole trader; OFT only

The most common reason given by those unfavourable (20% of all unfavourable) was that they were unclear on why the transfer was happening, with little difference in the proportions of OFT only and FCA regulated firms expressing this view. Complementary reasons given were that the OFT has a good approach and regulation of consumer credit has worked well, and the new regulator will be taking on too much responsibility and be inefficient, according to some, and too powerful, according to others.

The OFT have always specialised in consumer credit, so why move it to an organisation that does not have any experience.

Financial adviser; corporate; FCA AR

The FCA have got enough to do in terms of regulation. The Office of Fair Trading are doing an okay job, so I do not see the point.

Mortgage broker; sole trader; FCA AR

Because it is a level of bureaucracy we don't need. Why change something that isn't broken?

Mortgage broker; corporate; FCA DA

I don't know why they are doing this. It has worked well in the past.

Estate agent; sole trader; OFT only

I feel the change is unnecessary. The OFT were doing a good job. This just means more paperwork and red tape.

Home collected credit; sole trader; OFT only

The second most common reason for their view, given by 14% of all unfavourable, was increase in cost, while one in ten (9%) was concerned specifically about increased compliance and administrative burden.

I just think they'll get hold of it, make it harder and cost everyone more money. A few bad people ruined it for the rest!

Mortgage broker; partnership; FCA AR

On one hand it makes sense to simplify the regulation of consumer credit. I'm not happy if it incurs high costs.

Financial adviser; sole trader; FCA AR

I just deal with mortgages and there is lots of red tape involved. We are not making a huge profit and it will kill mortgage brokers. Also a lot of problems will be created due to the paperwork involved.

Financial adviser and mortgage broker; sole trader; FCA DA

It's more work for me as we will have to apply for a different licence and when OFT brought in a new licence we had to do a lot of work for that, so I know we will have to do a lot of work and learn about it all again for the FCA. Also no one knows where we stand at the moment.

Home collected credit; partnership; OFT only

It would be more expensive to run the business initially. The ability to offer credit would be more expensive, possibly prohibitively expensive.

Art gallery; corporate; OFT only

Probably means a new application, which we've already gone through – which means more cost and more time-consuming activities. It means everything we've already done becomes irrelevant.

Debt management; corporate; OFT only

5.4 Knowledge about when the transfer of consumer credit regulation to the FCA will occur

Given the low levels of awareness of the transfer, it is unsurprising that only one in ten licence-holders are broadly aware of when the transfer will occur: 10% think it will occur in March or April 2014, and under half of these (4% overall) knew that the transfer date is 1 April 2014. Only a quarter of licence-holders in total (22%) felt able to suggest when the transfer would occur, most suggesting a month in 2013 or 2014.

Compared with the one in ten overall giving March or April 2014 as the date of the transfer, above average awareness of the timing was demonstrated by members of other financial trade bodies (33%), lenders (30%), FCA DA firms (18%) and by licence-holders conducting higher risk activities (14%). Conversely, below average awareness was demonstrated by OFT only organisations (7%), very small licence-holders as defined by consumer credit related turnover and by sole traders (both 6%), and by sellers and by licence-holders conducting lower risk activities (both 4%).

Of those licence-holders who were aware, unprompted, of forthcoming changes in consumer credit over a third (34%) suggested March or April 2014 as the time when the transfer will occur.

5.5 Expectations about what licence-holders will have to do in order to continue to conduct consumer credit business

In the context of now knowing, through the survey if not before, that consumer credit regulation will transfer to the FCA, licence-holders' expectations for what this may mean for them was assessed. Given the three options set out in Tables 5.5 and 5.6, only a third (36%) of licence-holders thought they would have to undertake any activity, while over half (55%) thought they could continue to conduct consumer credit business, without taking any action related to the transfer; a further one in ten (9%) did not know whether they would have to take any action, or not.

Of the third (36%) thinking some action would be necessary, more than half (21% overall) thought they would have to provide the FCA with some basic information and pay a 'small fee', while somewhat fewer (15% overall) thought they would have to submit a new full application to the FCA and pay a 'fee'. Either of these answers could be 'right', depending on whether the licence-holders were thinking about what they may have to do for the transfer or to remain regulated after the transition period.

Tables 5.5 and 5.6 indicate a good degree of difference in expectations by type of licence-holder.

Table 5.5 shows the types of licence-holders where greater proportions were expecting to have to take action. Once again, we note that members of other financial trade bodies are much better informed than average, with seven in ten (69%) expecting to have to take action. Lenders, FCA DA firms, and those licence-holders conducting higher risk activities all also demonstrate higher than average expectations of needing to take action.

Table 5.5 Licence-holders showing above average expectations of needing to take action to continue to conduct consumer credit business on transfer to the FCA

	All retain licence-holders (column percentages)				
Expectation of activity needed to continue to conduct consumer credit business	**Total**	**Other financial type trade body members**	**Lenders**	**FCA DA**	**Higher risk activities**
No action	55	22	*26*	46	49
Provide some basic information to the FCA and pay a small fee	21	37	*39*	*26*	25
Submit a new full application and pay a fee	15	32	*23*	21	18
Don't know	9	*8*	*12*	*7*	*7*

B7 Given the transfer of regulation to the FCA, which of the following do you expect will happen?

Base: All licence-holders in the retain population (944); Other financial type trade body members (67); Lenders (65); FCA DA (182); Higher risk activities (535).

Of those licence-holders who were aware, unprompted, of forthcoming changes in consumer credit only a third (35%) expected not to have to take any action.

Conversely, as Table 5.6 shows, many types of licence-holder had little expectation that they would have to take any action on the transfer of consumer credit regulation to the FCA. Up to around six in ten of very small organisations, of sellers, of organisations only regulated by the OFT and of licence-holders conducting lower risk activities did not expect they would have to take any action.

Table 5.6 Licence-holders showing below average expectations of needing to take action to continue to conduct consumer credit business on transfer to the FCA

	All retain licence-holders (column percentages)				
Expectation of activity needed to continue to conduct consumer credit business	**Total**	**Up to £50K consumer credit turnover**	**Sellers**	**OFT only**	**Lower risk activities**
No action	55	*57*	*60*	58	61
Provide some basic information to the FCA and pay a small fee	21	*20*	*18*	20	17
Submit a new full application and pay a fee	15	*14*	*11*	13	11
Don't know	9	*8*	*11*	*9*	*11*

B7 Given the transfer of regulation to the FCA, which of the following do you expect will happen?

Base: All licence-holders in the retain population (944); Up to £50k turnover (442); Sellers (421); OFT only (541); Lower risk activities (409).

5.6 Expectation of when the FCA will start accepting notifications for interim permission

Although at the time of the survey notification for interim permission was no more than three months away, only six in ten licence-holders were able to suggest when the notification period might start and just 6% were correct in saying September 2013.

There were practically no differences in result by type of licence-holder. Even among members of other financial trade bodies, only one in ten (11%) thought the notification period would start in September, and awareness is low too (12%) among those licence-holders that had been aware, spontaneously, of the transfer of regulation to the FCA.

6 Communicating with consumer credit licence-holders

This chapter summarises the further information about notifying for interim permission licence-holders would find useful, and their preferred sources and channels of information. Licence-holders were only surveyed on these topics if they had not by that point in the interview ruled out notifying for interim permission after having been told a little about what notification will involve.[49]

It also reports on licence-holders' perceived level of knowledge, and their opinions, of the FCA.[50]

Key findings in this chapter are:

- Few licence-holders, both FCA (13%) and OFT only (10%), have unfavourable opinions about the FCA, placing the FCA in a good position to communicate with them.
- The FCA *and* the OFT are popular providers for information on the transfer.
- Licence-holders want to receive or access information about notifying for interim permission in a number of ways: most popularly by email, by post and/ or via the regulators' websites. There is little appetite for twitter and other forms of social media.
- Nearly four in ten (37%) licence-holders could not specify further information needs about notification, or did not know whether they had any needs. Those with information needs expressed these quite generally, for example wanting guidance on how to notify and information on timings and cost.

6.1 Information providers

Asked about three potential providers of detailed information concerning the transfer of consumer credit regulation to the FCA, almost all (92%) licence-holders wanted to receive information from the FCA, while four in five (81%) thought the same of the OFT.

Just under half (46%) of licence-holders wanted to receive information from a relevant trade body. Interestingly, only just more than half of these licence-holders (26% overall) were members of a trade body themselves.

Indeed of all trade body members, fewer than half (44%) wanted to receive information about the transfer from a relevant trade body, this proportion rising, however, to three-quarters (76%) for members of other financial trade bodies.

When asked if they would want information from anyone else, only one in ten (9%) licence-holders made any suggestion, the two most common being finance companies

[49] The survey sequence was that respondents were given a brief description of the interim permission process and then asked how likely they were to notify. See details in Section 7.2.1. Only those that did not say they were 'certain not to notify' (at question C1a) were asked the subsequent questions on information requirements and preferred sources.

[50] These questions were asked of respondents representing all of the retain population.

(mentioned largely by licence-holders in the motor trade) and networks (mentioned largely by financial advisers and mortgage brokers).

6.2 Preferred information channels

Licence-holders rated the usefulness of ten different channels of information, as shown in Table 6.1, for receiving or accessing information about the transfer.

Email, post, the FCA's website and the OFT's website were all scored as very or fairly useful by two-thirds of licence-holders, with nine out of ten (92%) and three-quarters (75%) rating email and post in this way.

A combination of email and post would satisfy virtually all the organisations potentially considering notifying for interim permission, since 97% rated email and/ or post as very or fairly useful.

Table 6.1 Usefulness of different channels of communication for receiving or accessing information about the transfer of consumer credit regulation to the FCA

	All retain licence-holders excluding those certain not to notify for interim permission (column percentages)			
Information channel	**Very useful**	**Fairly useful**	**Not very useful**	**Not at all useful**
Email	*69*	*23*	*2*	*5*
Post	*49*	*26*	*13*	*12*
FCA website	*38*	*34*	*13*	*16*
OFT website	*30*	*36*	*15*	*19*
Free regional FCA roadshow	*17*	*28*	*23*	*31*
Trade press	*12*	*31*	*27*	*30*
FCA call centre	*13*	*29*	*25*	*33*
Trade body website	*15*	*26*	*26*	*34*
Social media (other than FCA twitter channel)	*2*	*8*	*26*	*64*
FCA twitter channel	*3*	*6*	*26*	*66*

C3a-j How useful would it be for you to receive or access information about the transfer in the following ways?

Base: All retain licence-holders excluding those certain not to notify (907); Email (904); Post (904); FCA website (899); OFT website (901); FCA roadshow (902); Trade press (898); FCA call centre (897); Trade body website (897); Social media (903); FCA twitter (901).

6.3 Further information required

When asked what further information about notifying for interim permission they would consider useful, a third (32%) of licence-holders wanted no further information, and one in twenty (5%) did not know – perhaps unsurprisingly so, given that most had not been aware of the transfer and were learning about interim permission for the first time during the interview.

Only four answers were given by around one in ten, or more, licence-holders: guidance on how to apply (26%), timings for notification (22%), costs (13%) and possible dates for becoming authorised (8%).

There were no statistically significant differences in responses by types of licence-holder.

6.4 Views on the FCA

Few licence-holders had an unfavourable opinion about the FCA, and, as Table 6.2 shows, this was almost equally true for licence-holders already regulated by the FCA (13%) and for those only regulated by the OFT (10%). Of the balance, more FCA regulated firms were favourable (55%) and more OFT only organisations were neutral (49%).

Table 6.2 Licence-holders' opinions of the FCA

	All retain licence-holders (column percentages)		
Opinion	**Total**	**FCA**[51]	**OFT only**
Favourable	47	55	41
Unfavourable	11	*13*	*10*
No opinion	41	32	49

B5a Given what you know currently about the FCA, what is your opinion of it?

Base: All retain licence-holders (880); FCA (386); OFT only (494). Excluding don't know (7%).

Among FCA regulated firms, more favourable opinions were found among FCA DA firms (68%) and those that were members of FCA type trade bodies (62%). Significantly fewer FCA ARs (44%) are favourable. FCA sellers have the least formed views, with nearly four in ten (42%) having no opinion.

Among OFT only firms, where four in ten expressed a favourable view (41%), more favour was found among members of other financial trade bodies (58%) and among organisations conducting higher risk activities (49%). Again, a high proportion (57%) of OFT only sellers had formed no view. More OFT only firms were favourable to the FCA (41%) than they were to the decision to transfer consumer credit regulation to the FCA (28%).

Licence-holders' views on the FCA are similar to those expressed by licence-holders on the decision to transfer responsibility for consumer credit regulation to the FCA, as reported in Section 5.3.

[51] Includes FCA DA and FCA AR.

7 Calculating the interim permission and full regime populations

This chapter provides a brief description of the methodology used to move from the survey results to estimating the likely populations of those notifying for interim permission and applying for the full regime.[52] This is useful background to the following chapters.

It describes the need to use an algorithm to calculate population estimates from raw answers and explains the choice of the 'base' algorithm used in the report.

It then reproduces the descriptions of interim permission, full authorisation, limited permission and Appointed Representative status that were given to respondents during the interview.

Finally, it highlights some important caveats and limitations of the calculations and explains how the full regime population estimates were calculated, including the allocation between direct authorisation and Appointed Representative.

7.1 Approach to estimating the interim permission and full regime populations

One objective of the research was to provide a first insight into the proportions of existing licence-holders who were likely to notify for interim permission and subsequently to apply for the full regime.

Such estimates can only be very approximate as in nearly all cases the brief descriptions of interim permission and of the full regime given in the interview were the first time participants had heard of them.

Furthermore, it was necessary to choose an algorithm to convert the raw answers given into a single estimate of anticipated population numbers. This need stemmed from the deliberate choice made regarding the structure of the questions about intention to notify for interim permission and to apply for the full regime. In both cases, the options provided were:

- Certain to
- Probably will
- Probably will not
- Certainly will not
- Don't know (not read out)

It was decided to offer this level of detail since a straightforward Yes/ No question would generate a high proportion of 'don't know' responses. Nonetheless, the absence of a 'midpoint' served to encourage respondents to indicate whether, on balance, they were more likely to notify/ apply or not to do so.

In the absence of a straight Yes/ No dichotomy, it was necessary to decide how to interpret the responses so as to derive an estimate of the proportions and numbers

[52] Full details are available in the accompanying Technical Report.

likely to notify/ apply. Reflecting the absence of a midpoint, the 'base' algorithm used was to assume the following proportions would notify/ apply:

- 100% of those saying 'certain to'
- 100% of those saying 'probably will'
- 0% of those saying 'probably will not'
- 0% of those saying 'certain will not'

Additionally, those who said 'don't know' were allocated pro rata to the four 'definitive' responses.

A review of the technical literature showed that this approach is widely adopted to analyse intention questions structured without a mid-point.

In this specific example, it may be that the selected algorithm will generate an estimate that represents an upper rather than a base case. This is because respondents' answers were strongly skewed towards 'certain to' or 'probably will'. Therefore, were a proportion of those saying 'probably will' to fail to notify/ apply while a proportion of those saying 'probably will not' in fact did so, the resulting population estimate would be smaller (those 'lost' from 'probably will' would exceed those 'gained' from 'probably will not').

To assist the FCA in its internal resource planning, spreadsheets were provided that allowed the regulator to model the outcomes of different algorithms and hence to understand the scale of difference in population estimates across a range of assumptions. Nevertheless, all population estimates in this report, for interim permission and full regime, are based on the 100%:100%:0%:0% approach with 'don't know' allocated pro rata.

7.2 Informing respondents about the choices they will face

As the questioning on awareness of the transfer to the FCA revealed (see Section 5.1), the great majority of respondents were unaware of the choices they were going to face regarding whether to notify for interim permission and to apply for the full regime.

Within the constraints of a telephone interview, descriptions were provided which aimed to give sufficient information for respondents to offer an initial response regarding their likely future behaviour.

7.2.1 Description of requirements for interim permission

Survey participants were given the following explanation of interim permission by Critical Research's telephone interviewers:

> *The current expectation is that transfer to the Financial Conduct Authority will occur on 1st April 2014. If that happens and you wish to continue carrying on regulated consumer credit activities after this date you will need to notify the FCA before April 1st to obtain **interim permission** to do so.*
>
> *Notification will usually be online only and you will have to provide the following information:*
>
> - *Name, address & email of the person providing the information*
> - *Your consumer credit licence number*
>
> *You will then be shown the company name, any trading names and legal formation information held by the OFT. You will have to confirm it is correct, or contact the OFT to have it changed if it is not.*
>
> *You will also have to confirm, by tick boxes, what consumer credit activities you are undertaking.*
>
> *You will also have to pay a fee and the current proposal is that this will be [SOLE TRADERS] £150/ [ALL OTHERS] £350. The fee will usually only be payable online by credit or debit card*
>
> *If you meet the requirements to obtain interim permission (including paying the relevant fee), that will allow you to continue to carry on consumer credit activities covered by your current OFT licence until a deadline set by the FCA.*
>
> *The current expectation is that you will then be required to make a more detailed application for what is to be called **authorisation** in the period October 2014 to October 2015 (**If already FCA directly authorised**, but as you are already directly authorised by the FCA this would be a Variation of Permission). A further fee will be payable at that time. If you fail to make an application by the date specified by the FCA you will have to cease your consumer credit activities by March 2016 at the latest and possibly earlier.*

The description was given before any information had been provided regarding the nature and details of the full regime and respondents were asked:

> *Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so?*

Subsequently, details were provided of the different options that will be available under the full regime (see Section 7.2.2). If participants gave responses that suggested they would not apply for authorisation under the full regime they were asked if they wished to change their initial expectation as to whether they would notify for interim permission. Specifically, they were asked:

*As you may well not apply [to be authorised/ for a variation of permission], or to be an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for **interim permission**? Earlier you said that you would [ANSWER @ C1a]? What do you say now?*

The logic here is that if an organisation has decided they are unlikely to apply for the full regime they may have cause to reconsider whether it is worth notifying for interim permission.

The results given in this report have taken into account any modifications made in the light of the descriptions given of the full regime.

7.2.2 Description of requirements for full authorisation, limited permission and becoming an Appointed Representative

Respondents who did not rule out notifying for interim permission were subsequently informed briefly of the different likely requirements for each of the options under the full regime.

Those who were involved in any higher risk activities were given a description of full authorisation while those involved only in lower risk activities were provided with a description of the requirements for limited permission.

Subsequently, a description of the alternative option of acquiring Appointed Representative status was provided to all those with lower risk activities and the majority of those conducting higher risk ones. The only exceptions were higher risk lenders and credit reference agencies as these are not eligible to be Appointed Representatives.

The three relevant descriptions from the questionnaire are:

Full authorisation

*If you decide to apply for authorisation [**FCA DA**: a variation of permission], the current expectation is that you will have to submit an application between October 2014 and October 2015 providing details of your consumer credit activities including a full business plan and details of the organisation's owners.*

There would also be a non-refundable application fee. The level of this is not decided and will be the subject of a consultation in the Autumn. However, for now, imagine it might be approximately:

FCA DA	£500
Other	£1,000

*If you are granted full authorisation [**FCA DA**: variation of permission], you will then have to provide (**NOT FCA DA:** detailed) reports to the FCA about your consumer credit activities on an at least annual basis.*

There would also be an annual fee payable. Again, this has not been set and will be the subject of a consultation in 2014. However, for now, imagine it might be in the region of £1,000 ***[ADD IF consumer credit turnover or income is £250,000 or above****: plus an extra turnover related amount].*

*Based on this description, how likely do you think you will be to apply for limited permissions authorisation [****FCA DA****: variation of permission], given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application for full authorisation is decided after that date).*

Limited permission

*Your organisation is likely to be eligible to apply for something called limited permissions authorisation [****FCA DA****: a variation of permission].*

The current intention is you would have to submit an application providing some details of your consumer credit activities and of the organisation's owners.

There would also be a non-refundable application fee. The level of this is not decided and will be the subject of a consultation in the Autumn. However, for now, imagine it might be approximately:

FCA DA	£250
Other	£500

*If you are granted limited permissions authorisation [****FCA DA:**** variation of permission], you will have to provide reports to the FCA about your consumer credit activities on an annual basis.*

There would also be an annual fee payable. Again, this has not been set and will be the subject of a consultation in 2014. However, or now, imagine it might be in the region of £500 ***[IF consumer credit turnover or income is £250,000 or above****: plus an extra turnover related amount].*

*Based on this description, how likely do you think you will be to apply for limited permissions authorisation [****FCA DA:**** variation of permission], given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application for limited permission is decided after that date).*

Appointed Representative

*As an alternative to full authorisation, the current intention is you could consider becoming an Appointed Representative of one or more organisations that [****Full Authorisation****: have themselves got full authorisation for their consumer credit activity;* ***Limited Permission****: are themselves authorised for their consumer credit activity]. It would make sense for them to be organisations with whom you work regularly.*

If an organisation appointed you as an Appointed Representative they would be responsible to the FCA for your behaviour and you would not, yourself, have to be authorised by the FCA. You would come to a commercial agreement with the organisation as to the services they would provide for you and the fees you would pay to them.

*[**FCA AR**: Please note that, although you currently have FCA Appointed Representative status, you would still have to become an Appointed Representative for your consumer credit activity and may need to do so with a different principal].*

7.2.3 Limitations on the calculations

It is emphasised that the findings from the research can only provide an early, indicative estimate of the numbers of existing licence-holders that may notify for interim permission and apply for the full regime via direct authorisation (full authorisation/ limited permission) or as an Appointed Representative.

The key caveats are:

- The findings represent organisations' views at a specific point in time
- At that point they had little or no prior knowledge of the options that will face them
- Only limited information details could be provided to them in the interview
- The results presented are based only on participants' expressed intentions

Importantly, the survey found that a substantial number of organisations are likely to wish to become Appointed Representatives. However, it may well be the case that sufficient organisations are unwilling to come forward to act as principals to accommodate the level of demand. Internal FCA planning may wish to take account of this potential short-fall but in this report only the raw results of the survey, based on respondents' preferences, are shown.

Finally, the survey can only report on the likely intentions and behaviour of existing consumer credit licence-numbers; its projections do not include any allowance for any new or currently unlicensed organisations that may also wish to apply for direct authorisation or to become an Appointed Representative.

7.3 Calculating the full regime population and its distribution between direct authorisation and Appointed Representatives

The results from several questions[53] were combined to produce an estimate of the total number of organisations likely to proceed to the full regime and their distribution between full authorisation/ limited permission (as appropriate) and Appointed Representative status.

The building blocks of the calculation were as follows:

- The 'base' algorithm was used whereby:

[53] The questions used were D3a, D4b, D5a, D7a, D8b and D9a. See Annex B of the Technical Report for the full questionnaire.

    - All those describing themselves as ‘certain to’ or probably will’ apply were assumed to do so
    - All those describing themselves as ‘probably will not’ or ‘certain not’ to apply were assumed not to do so
    - All those who did not know whether or not they would apply were allocated pro rata to the responses of those who had chosen one of the substantive options
- Those assumed to apply according to the above algorithm were allocated either to direct authorisation (full authorisation/ limited permission) or Appointed Representative status based on the following rules:
    - Those having indicated a higher preference for direct authorisation than for Appointed Representative status were assumed to apply for direct authorisation, and vice versa (e.g. a respondent who was ‘certain’ to apply for direct authorisation and ‘probably will’ apply for Appointed Representative status is allocated to direct authorisation).
    - All respondents who indicated the same preference for direct authorisation and Appointed Representative status were allocated 50:50 between these.
    - Respondents who did not know what they would do at the full regime were allocated pro rata to those giving a substantive answer. Thus, it was assumed that some of those saying ‘don’t know’ would not apply for the full regime at all, whilst others would. Similarly, those assumed to apply were distributed between direct authorisation (full authorisation/ limited permission) and Appointed Representative status in line with the responses of those that had provided a substantive answer.

8 The population of consumer credit licence-holders intending to notify for interim permission

This chapter summarises the estimation process to produce a forecast of the size and segmentation of the likely interim permission population.

It reports the raw results from the survey and the process for deriving a population estimate from those results; it also provides a confidence interval and explores the effect of using alternative forecasting algorithms. Information is also provided on the expected make-up of the IP population, when they expect to apply and the reasons for that.

Key findings in this chapter are:

- Over eight in ten (86%) retain licence-holders initially described themselves as ‘certain to’ or ‘probably will’ notify, falling to three-quarters (77%) after hearing information about the full regime.
- Using the ‘base’ algorithm, this produced an estimate of 51,033 for the IP population.
- Those more likely to notify were larger organisations, those involved in higher risk activities and existing FCA DAs. Less likely were small organisations and those involved in lower risk activities including sellers.
- Those ‘certain’ to notify, or who would ’probably’ do so, were spread across the period September to March in terms of when they expected to notify, although with an initial spike in September and subsequently in January and March.
- Only a financial incentive would have any impact in encouraging those planning to notify from December onwards to do so earlier.

8.1 Calculating the number of licence-holders likely to notify

8.1.1 Overall estimates

As detailed in Section 7.2.1, the results relied upon in this report regarding notification for interim permission are those which, where appropriate, have been modified after respondents had been provided with information about the full regime options.

Overall, a high proportion of the retain population anticipate that they will wish to be authorised for consumer credit activities after March 2014 and so will notify for interim permission.

The total sample results, expressed as a proportion of the entire retain population, and the number of organisations they are estimated to represent, are shown in Table 8.1. In this table, for comparison purposes, are also shown respondents’ initial answers regarding notification before they were given information about the full regime.

Table 8.1 Licence-holders' expressed intention to notify for interim permission

	All retain licence-holders (numbers; column percentages)			
	Initial responses		**Modified responses**	
Expressed intention to notify	**Number**	**%**	**Number**	**%**
Certain to notify	40,205	66	36,501	60
Probably will notify	11,897	20	10,100	17
Probably will not notify	4,011	7	5,513	9
Certain not to notify[54]	2,603	4	3,530	6
Don't know	2,220	4	5,292	9
Total	**60,936**		**60,936**	

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944).

The modified results were then used to produce an overall estimate of the number of licence-holders likely to notify for interim permission by:

- Assuming that 100% of 'certain' and 'probably will' and 0% of 'probably will not' and 'certain not' will notify.
- Allocating the 'don't know' responses pro rata to the other responses.

This produced an overall estimate that 51,033 licence-holders will notify for interim permission, as detailed in Table 8.2.

[54] Those 'certain not' to notify also include respondents who said 'will not notify' when asked, a little later in the questionnaire (C6a) by when they expected to notify.

Table 8.2 Estimated number of licence-holders that will notify for interim permission

	All retain licence-holders (numbers)		
Expressed intention to notify	**Modified answers**[55]	**With 'don't know' responses allocated pro rata**	**Estimated will notify**
Certain to notify	36,501	39,972	39,972
Probably will notify	10,100	11,061	11,061
Probably will not notify	5,513	6,037	0
Certain not to notify	3,530	3,866	0
Don't know	5,292	-	-
Total	**60,936**	**60,936**	**51,033**

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944).

8.1.2 Confidence interval

As the number of licence-holders that will notify was estimated from random survey responses it was possible to calculate the statistical confidence interval that applied to the best estimate figure of 51,033.

Working at the 95% confidence level, and including the impact of the design effect, the confidence interval was calculated to be +/- 2.9%.

Consequently, the confidence interval range was 49,569 to 52,497.

8.1.3 Impact of using alternative algorithms

As indicated, throughout this report estimates of those likely to notify and/ or apply for the full regime have been derived using a base algorithm. This assumes that 100% of those stating they are 'certain' or 'probably will' notify/ apply will do so and that 0% of those saying 'probably will not' or 'certain not' will do so.[56]

[55] See Table 8.1.

[56] Those saying 'don't know' are allocated to these categories pro rata based on all the answers of those who did not say 'don't know'.

However, an additional deliverable from the project was a calculator spreadsheet to enable the FCA to model the impact of using different algorithms. For most 'realistic' alternative approaches the resulting population estimate was not greatly different but typically was lower than that produced by the base algorithm. As an illustration of the scale of differences, the estimated numbers likely to notify for interim permission from three alternative algorithms are shown in Table 8.3.

Table 8.3 Estimated numbers of licence-holders likely to notify for interim permission based on alternative algorithms

Percentage allocation by likelihood to notify				**All retain licence-holders (numbers)**		
Certain	**Probably will**	**Probably will not**	**Certain not to**	**Lower estimate**	**Higher estimate**	**Best estimate**
100	100	0	0	49,569	52,497	**51,033**
95	75	40	10	47,891	50,250	49,071
95	75	25	5	46,736	49,207	47,972
90	70	25	5	44,255	46,585	45,420

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944).

8.2 Variations by segments

Although a high proportion of licence-holders indicate they are likely to notify for interim permission, there are some variations between segments.

Likelihood to notify is greater among larger organisations, those who are involved in higher risk activities and existing FCA DAs. Conversely, it is lower among smaller organisations and those involved only in lower risk activities, including sellers.

Interestingly, even among those who are not currently using their consumer credit licence, just over a quarter (27%) described themselves as 'certain' to notify.

Detailed results for segments that were more or less likely to notify are given in Tables 8.4 and 8.5.

Table 8.4 Intention to notify for interim permission: risk, size and current regulatory status

	All retain licence-holders (column percentages)						
Expressed intention to notify	**Total**	**Higher risk activities**	**Lower risk activities**	**Up to £50k consumer credit turnover**	**Over £500k to £5m consumer credit turnover**	**FCA DA**	**OFT only**
Certain to notify	60	69	48	53	83	74	52
Probably will notify	17	12	22	20	*11*	9	20
Probably will not notify	9	7	11	14	*0*	6	12
Certain not to notify	6	4	9	2	*0*	3	8
Don't know	9	*8*	*10*	*11*	*6*	*8*	*8*

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944); Higher risk activities (535); Lower risk activities (409); Up to £50k CC turnover (442); Over £500k to £5m CC turnover (55); FCA DA (182); OFT only (541).

Table 8.5 Intention to notify for interim permission: primary business group and active use of licence

	All retain licence-holders (column percentages)						
Expressed intention to notify	**Total**	**Lenders**	**Primary brokers**	**Debt advisers**	**Sellers**	**Active**	**Not active**
Certain to notify	60	*71*	70	*70*	49	65	27
Probably will notify	17	*14*	12	*17*	22	*16*	*22*
Probably will not notify	9	4	*7*	*10*	*10*	7	24
Certain not to notify	6	*7*	3	*0*	8	4	17
Don't know	9	*4*	*8*	*2*	11	*8*	*10*

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944); Lenders (65); Primary brokers (350); Debt advisers (26); Sellers (421); Active (813); Not active (131).

The estimated make-up by various segments of the forecast interim permission population is detailed in Table 8.6.

Table 8.6 Estimated numbers of licence-holders that will notify for interim permission by segment

		All retain licence-holders certain to or will probably notify (column percentages; numbers)	
Segment		**Number**	**Proportion**
Primary business group	Lenders	3,479	7
	Primary brokers	20,359	40
	Debt advisers	1,327	3
	Sellers	21,841	43
	Others	4,028	8
Activities	Higher risk	30,129	59
	Lower risk	20,905	41
Legal formation	Sole traders	13,038	26
	Not sole traders	37,995	74
Regulatory status	FCA DA	10,728	21
	FCA AR	13,023	26
	OFT only	27,282	53
Consumer credit turnover	Up to £50k	23,007	58
	Over £50k to £500k	12,364	31
	Over £500k to £5m	3,762	9
	Over £5m	1,237	3

C1a Given that you will have to notify the FCA in order to continue your regulated consumer credit activities after March 2014, how likely are you to do so? Modified where relevant by D6a/D10a As you may well not apply [to be authorised] or an Appointed Representative and so would have to cease your regulated consumer credit activities no later than March 2016 and possibly earlier, does that have any impact on how likely you are to apply for interim permission? Earlier you said that you would [ANSWER @ C1a]? What do you say now?

Base: All licence-holders in the retain population (944). Lenders (65); Primary Brokers (350); Debt Advisers (26); Sellers (421); Others (82); Higher Risk (535); Lower risk (409); Sole traders (246); Not sole traders (698); FCA DA (182); FCA AR (221); OFT Only (541); Up to £50k consumer credit turnover (442); Over £50k to £500K consumer credit turnover (201); Over £500k to £5m consumer credit turnover (55); Over £5m consumer credit turnover (18).

8.3 Predicted timing of notifying for interim permission

8.3.1 Numbers projected to notify when

Notification for interim permission will be open from September 2013 to March 2014. Respondents were asked when, during that period, they expected they would choose to notify.

Analysis was conducted using only the replies from those who indicated they were either ‘certain’ to notify or that they ‘probably will’ notify. These showed an uneven distribution across the period, with spikes recorded in September, January and March.

The high proportion predicting they would notify in the first month is felt likely to be unrealistic, especially as detailed information on how to notify was only sent out at the start of September.

The full results are shown in Table 8.7.

Table 8.7 Predicted date of notifying

	All retain licence-holders certain to or will probably notify (column percentages; numbers)		
Expected date	**%**	**Number in month**	**Cumulative**
September	30	15,310	15,310
October	9	4,593	19,903
November	6	3,062	22,965
December	10	5,103	28,068
January	16	8,165	36,233
February	7	3,572	39,805
March	16	8,165	47,970
Later	1	510	48,480
Don’t know	5	2,552	51,032
TOTAL	100	51,033	51,033

C6a The current expectation is that you will be able to choose when to notify between September 2013 and March 2014. You would have to pay the £150/350 fee when you do so and the process would take about 10 minutes online. By when would you expect to go online to notify?

Base: All licence-holders in the retain population certain to or probably will notify (907).

8.3.2 Reasons for choice of when to notify

Respondents gave logical reasons for their choices of when to notify. For analysis purposes they were divided into three groups:

- Early (September to November)
- Middle (December to January)
- Later (February onwards, including those saying ‘don’t know’)

The three groups revealed a clear pattern in the reasons they had for choosing when to notify. Those in the early group tended to stress wanting to deal with things as soon as possible and to ensure they had time to spare in case anything went wrong. Those in the middle group often mentioned it coincided with new accounting or budgeting periods, while those classified as ‘later’ typically wanted to delay paying the fee as long as possible. The leading reasons given by each group are summarised in Table 8.8.

Table 8.8 Leading reasons given for choice of when to notify for interim permission

	All retain licence-holders certain to or will probably notify (column percentages)		
Leading reasons	**Early**	**Middle**	**Later**
Deal with as soon as possible	61		
Ensure success before the deadline	8		
Convenient/ quiet time		28	
Time to look into it/ sort out any issues		16	
New Year/ new accounting or budgeting period		13	
No incentive to apply early		7	
Hold on to fee as long as possible			62

C6b Why do you say that?

Base: All licence-holders in the retain population certain to or probably will notify providing a date (832); Early (354); Middle (228); Later (228).

Examples of individual comments made are:

Applying early:

Because we like to get things done now rather than later and don't put things off. If there are any issues we have still got time to resolve it.

Debt advisers; corporate; OFT only

Better to be ahead rather than doing it all last minute. Might prevent problems that may occur in the last minute rush.

Motor sales; partnership; FCA DA

Applying in the middle:

We do all the housekeeping over the Christmas period.

Financial adviser; corporate; FCA AR

Start of the New Year. We would look to plan then for the next 12 months.

Insurance broker; corporate; FCA DA

Applying later:

I'd rather keep £350 in my account. It doesn't make us any money, so therefore the longer we can stretch it out the better.

Hire and finance consultancy services; corporate; OFT only

If we don't need it until April and it won't take effect until April then there is no point.

Mortgage broker; corporate; FCA AR

8.4 Encouraging earlier notification for interim permission

Respondents who intended to notify in December or later were asked, in an open-ended question, if there was anything that would encourage them to apply earlier. The responses showed essentially that only a financial incentive would have any impact.[57] The distribution of responses is shown in Table 8.9.

Table 8.9 What might encourage earlier notification for interim permission

	All retain licence-holders certain to or will probably notify in December 2013 or later (column percentages)
Might encourage earlier notification	
Discounted fee	39
Free	17
If I have all the information necessary	5
A reminder	4
A fast-track process	1
A payment plan/ instalments	1
Other	6
Nothing	30

C6c Is there anything that would encourage you to apply early in the process, or in a specific timeslot, to help the FCA avoid bottle-necks caused by a last-minute rush?

Base: All retain licence-holders whose notification date is expected to be December 2013 onwards (531).

[57] At the time of the survey, the decision to offer a discounted fee until the end of November had not been taken. Nor had the Government's decision been announced about an OFT rebate.

9 The population of consumer credit licence-holders intending to be authorised or an Appointed Representative under the full regime

This chapter explores how many organisations are likely to proceed to the full regime.

It first reviews what choices respondents stated they might make when they had been told about the direct authorisation options but not about the concept of being an Appointed Representative; it also reviews the reasons given by those who indicated they were unlikely or certain not to apply.

It then summarises respondents' views about an Appointed Representative alternative to authorisation, including reviewing how many were able to identify a potential principal.

Next, it estimates the full regime population, including the numbers projected to apply for full authorisation, limited permission and preferring to become an Appointed Representative, and how those vary by segment.

Finally, it summarises the scale and distribution of the projected fall off between interim permission and the full regime and also estimates what choices might be made by those interested in becoming Appointed Representatives if insufficient principals were available.

Key findings in this chapter are:

- In advance of being informed about Appointed Representative status, two-thirds (67%) of those involved in higher risk activities and just over half (53%) of those conducting only lower risk activities were 'certain' or 'probably will' apply for the full regime, representing 36,906 organisations.
- Around four in ten (43%) had a potential principal in mind.
- Organisations were evenly divided in their preferences between direct authorisation (34%), Appointed Representative status (38%) and being uncertain between the two (28%).
- Combining responses on direct authorisation and Appointed Representative status, overall it is forecast that 45,757 organisations might apply for the full regime, of which 24,490 could be directly authorised (16,406 full authorisation and 8,084 limited permission), 17,417 might seek to become Appointed Representatives, and a further 3,850 could not be definitively allocated between the two.
- Those opting for full authorisation are projected to be predominantly primary brokers (59%), while limited permission would be dominated by sellers (89%). Appointed Representatives would largely be primary brokers (47%) and sellers (45%).
- Cost dominates the reasons given by those 'certain not' or 'probably will not' apply for direct authorisation while among those rejecting Appointed Representative status the major reason was lack of information about the concept.
- The projected full regime population is approximately 90% of that forecast for interim permission; the greatest decline is predicted among sellers, where 85% of those with IP are expected to proceed.
- The level of interest in Appointed Representative status is high and there may be insufficient principals available to accommodate it, at least in the early stages of the regime. Analysis suggests that around four in ten of those interested in becoming

an Appointed Representative may choose to leave the market if they cannot do so, while about six in ten would opt instead for direct authorisation.

9.1 Likelihood to apply for full regime in the absence of an Appointed Representative option

In the survey respondents, other than those who were certain not to notify for interim permission, were given a description of either full authorisation or limited permission depending on whether their consumer credit activities were higher or lower risk. At this stage they had not been told about the possible alternative of becoming an Appointed Representative.

9.1.1 How likely to apply for the full regime

They were then asked how likely they were to apply for the full regime. There was a sharp difference between those eligible for full authorisation, where almost half (46%) said they were 'certain' to apply and those who could opt for limited permission where only just over a quarter (27%) did so.

Looking at the proportions who were either 'certain' to apply or stated that they 'probably will' do so, that was two-thirds (67%) of those involved in higher risk activities (i.e. eligible for full authorisation) and just over half (53%) of those conducting only lower risk activities (i.e. eligible for limited permission). Details are shown in Table 9.1.

Table 9.1 Likelihood will apply for authorisation (before being informed of the Appointed Representative option): proportions

	All retain licence-holders excluding those certain not to notify for IP (column percentages)		
Expressed intention to apply	**Total**	**Higher risk activities – eligible for full authorisation**	**Lower risk activities – eligible for limited permission**
Certain to apply	38	46	27
Probably will apply	23	*21*	*26*
Probably will not apply	18	14	23
Certain not to apply	15	*14*	*17*
Don't know	6	*5*	*7*

D3a/D7a Based on this description, how likely do you think you will be to apply for full authorisation/ limited permission, given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application is decided after that date)?

Base: All retain licence-holders excluding those certain not to apply for IP (885); Higher risk activities (514); Lower risk activities (371).

The estimated numbers that would apply (using the base algorithm) are 23,171 who would be eligible for full authorisation, and 13,735 who would be eligible for limited permission, making a total of 36,906. Details are provided in Table 9.2. This shows the raw answers in the first column, for each of full authorisation and limited permission, and then the modified answers as a result of allocating 'don't know' responses pro rata. The final column in each case shows the total projected to apply for authorisation based on the sum of 'certain' and 'probably will'.

Table 9.2 Likelihood will apply for authorisation (before being informed of the Appointed Representative option): estimated numbers

	All retain licence-holders excluding those certain not to notify for interim permission (numbers)					
	Full authorisation			**Limited permission**		
Expressed intention to apply	**Initial answers**	**Don't know responses Allocate pro rata**	**Estimated will apply**	**Initial answers**	**Don't know responses Allocate pro rata**	**Estimated will apply**
Certain	15,105	15,824	15,824	6,589	7,098	7,098
Probably will	7,014	7,348	7,348	6,161	6,637	6,637
Probably will not	4,626	4,846	0	5,397	5,814	0
Certain not	4,661	4,883	0	4,096	4,412	0
Don't know	1,494	0	0	1,718	0	0
Total	**32,899**	**32,900**	**23,171**	**23,962**	**23,961**	**13,735**

D3a/D7a Based on this description, how likely do you think you will be to apply for full authorisation/ limited permission, given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application is decided after that date)?

Base: All retain licence-holders excluding those certain not to apply for IP (885).

9.1.2 Variations by segment

Quite substantial differences emerged by segment in the proportions stating they were either certain to apply or probably will apply for full authorisation or limited permission. Larger, specialist consumer credit organisations were more likely to state that they would do so, while smaller and non-specialist ones were less positive.

Detailed results are shown in Tables 9.3 and 9.4.

Table 9.3 Likelihood will apply for authorisation (before being informed of the Appointed Representative option): legal formation, size and current regulatory status

	All retain licence-holders excluding those certain not to notify for interim permission (column percentages)						
Expressed intention to apply	**Total**	**Sole traders**	**Not sole traders**	**Up to £50k consumer credit turnover**	**Over £500k to £5m consumer credit turnover**	**FCA DA**	**OFT only**
Certain to apply	38	26	42	25	65	55	32
Probably will apply	23	*22*	*24*	*24*	*19*	*19*	*24*
Certain & Probably will combined	61	48	66	49	85	75	57

D3a/D7a Based on this description, how likely do you think you will be to apply for full authorisation/ limited permission, given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application is decided after that date)?

Base: All retain licence-holders excluding those certain not to apply for IP (885); Sole traders (233); Not sole traders (652); Up to £50k CC turnover (442); Over £500k to £5m (55); FCA DA (178); OFT only (494).

Table 9.4 Likelihood will apply for authorisation (before being informed of the Appointed Representative option): primary business groups and active use of licence

	All retain licence-holders excluding those certain not to apply for interim permission (column percentages)						
Expressed intention to apply	**Total**	**Lenders**	**Primary brokers**	**Debt advisers**	**Sellers**	**Active**	**Not active**
Certain to apply	38	63	44	*39*	29	41	18
Probably will apply	23	14	*22*	*14*	*25*	*23*	*23*
Certain & Probably will combined	61	77	67	*54*	54	64	40

D3a/D7a Based on this description, how likely do you think you will be to apply for full authorisation/ limited permission, given that if you do not become authorised you will have to cease all consumer credit activities at the latest by end of March 2016 (unless your application is decided after that date?

Base: All retain licence-holders excluding those certain not to apply for IP (885); Lenders (62); Primary brokers (340); Debt advisers (25); Sellers (382); Active (776); Not active (109).

9.1.3 Reasons given for not applying for full authorisation or limited permission

Those who said they were certain not to apply for full authorisation/ limited permission, or probably would not do so, were asked briefly to explain their reasons.

Responses were dominated by reference to costs, as shown in Table 9.5.

Table 9.5 Reasons given for not applying for full authorisation or limited permission

	All retain licence-holders stating probably will not or certain not to apply (column percentages)
Reasons for not applying	
Consumer credit business won’t cover the fees	41
Do not want to pay increased fees	33
Not worth the administrative burden	8
Intend to terminate licence	8
Need more information	7
Winding down business	4
Not suitable for us	3
Already an AR	3
Other	12

D3b/D7b Will probably not apply/ Certain not to apply – Why do you say that?

Base: All retain licence-holders who may apply for IP who stated they were certain not to apply for full authorisation/ limited permission or probably will not do so (319).

9.2 Becoming an Appointed Representative

After the initial discussion of the full regime, respondents were introduced to the concept of becoming an Appointed Representative. The description provided is reproduced in Section 7.2.2.

9.2.1 Whether licence-holders have in mind a possible principal

Before being asked about their attitude to the Appointed Representative model, respondents were first asked if they had in mind one or more organisations they could approach to act as a principal.

Around four in ten (43%) did have a principal in mind, while slightly more (46%) did not; the remaining 11% were uncertain.

The groups where significantly above average proportions had a principal in mind were existing FCA ARs (61%), those with a consumer credit turnover in the range over £50,000 to £500,000 (60%) and sole traders (54%). Interestingly, the smallest organisations, those with consumer credit turnover of up to £50,000, were no more likely to have a principal in mind (41%) than the average.

The types of organisations respondents had in mind were finance providers/ brokers (21%), networks (6%), vehicle financiers (6%) and trade bodies (5%).

Among those who did have a principal in mind, specific organisations mentioned most frequently were Close Finance (12%), St. James’s Place (6%), Black Horse (3%) and Sesame (3%).

9.2.2 *Preference between full authorisation/ limited permission and Appointed Representative*

Once respondents had been given details of the relevant direct authorisation option (full authorisation or limited permission) and Appointed Representative status, they were asked which they were more likely to pursue.

Table 9.6 reports the results from all except respondents who indicated that they were certain not to apply either for direct authorisation or Appointed Representative status. This shows that the respondents who were considering applying for some aspect of the full regime were broadly evenly divided between those leaning towards full authorisation/ limited permission (34%), those thinking more of becoming Appointed Representatives (38%) and those who were unable to choose (28%).

The results also show that there was more uncertainty from those eligible for limited permission.

Table 9.6 Preference between direct authorisation and Appointed Representative status among all those not ruling out proceeding to the full regime

	All retain licence-holders excluding those certain not to apply for the full regime (column percentages)		
Expressed intention to apply	**Total**	**Higher risk activities – eligible for full authorisation**	**Lower risk activities – eligible for limited permission**
More likely to apply for direct authorisation	34	39	28
More likely to seek to become an Appointed Representative	38	*40*	*37*
Uncertain which option to take	28	21	35

D4b/D8b Given what we have told you, do you now think you would be more likely to apply for full authorisation/ limited permission in your own right or try to become an Appointed Representative?

Base: All retain licence-holders eligible for AR excluding those certain not to apply for the full regime (775); Higher risk activities (404); Lower risk activities (371).

A number of variations were found between different segments in terms of preferences between direct authorisation and becoming an Appointed Representative. Larger organisations, those involved in higher risk activities and current FCA DAs were more likely to show a preference for direct authorisation. Interestingly, there was a clear divide according to whether organisations had in mind a potential principal; among those that did so, two-thirds (65%) preferred the Appointed Representative option while among those that did not, only 14% stated a preference to become an Appointed Representative.

Examples of statistically significant variations by segment are shown in Tables 9.7 and 9.8.

Table 9.7 Preferences between direct authorisation and Appointed Representative status: current regulatory status, legal formation and size

	All retain licence-holders excluding those certain not to apply for full regime (column percentages)							
Expressed preference	**Total**	**FCA DA**	**FCA AR**	**OFT only**	**Sole traders**	**Not sole traders**	**CC turnover up to £50k**	**CC turnover over £50k to £500k**
Full authorisation/ Limited permission	34	63	15	*32*	24	38	*27*	*31*
Appointed Representative	38	15[58]	64	*35*	52	33	*42*	*50*
Unsure	28	*23*	22	33	*24*	*29*	32	19

D4b/D8b Given what we have told you, do you now think you would be more likely to apply for full authorisation/ limited permission in your own right or try to become an appointed representative?

Base: All retain licence-holders excluding those certain not to apply for the full regime (729); FCA DA (145); FCA AR (190); OFT only (394); Sole traders (201); Not sole traders (528); CC turnover up to £50k (366); CC turnover over £50k to £500k (169).

[58] In practice, it will not be legally possible for existing FCA DA firms to benefit from AR status for their consumer credit activities, unless they are able to adopt AR status for all of their regulated activities, and choose to do so. FCA DA firms in the survey were unaware of this restriction.

Table 9.8 Preferences between direct authorisation and Appointed Representative status: primary business groups, risk and whether have a principal in mind

	All retain licence-holders excluding those certain not to apply for full regime (column percentages)							
Expressed preference	**Total**	**Primary brokers**	**Sellers**	**Other activities**	**Higher risk activities**	**Lower risk activities**	**Principal in mind – yes**	**Principal in mind - no**
Full authorisation/ Limited permission	34	39	25	48	39	28	16	56
Appointed Representative	38	*40*	*39*	25	*40*	*37*	65	14
Unsure	28	21	35	*27*	21	35	18	*30*

D4b/D8b Given what we have told you, do you now think you would be more likely to apply for full authorisation/ limited permission in your own right or try to become an appointed representative?

Base: All retain licence-holders excluding those certain not to apply for the full regime (729); Primary brokers (322); Sellers (327); Other activities (56); Higher risk activities (384); Lower risk activities (345); Principal in mind - yes (335); Principal in mind – no (312).

9.3 Estimating the full regime population

9.3.1 Method of calculation

As described in Section 7.3, answers from several questions were combined and compared in order to estimate for each survey respondent what choice they were most likely to make with respect to the full regime. The estimation process again used the 'base' algorithm which assumed those stating they were 'certain' or 'probably will' apply would do so, while those who 'probably will not' or were 'certain not' to do so would not seek to be authorised under the full regime; 'don't know' answers were again allocated pro rata.

As a result of the estimation process, each survey respondent was allocated to one of the following categories:

- Will apply for full authorisation/ limited permission
- Will seek to become an Appointed Representative
- Equally likely to apply for full authorisation/ limited permission or to seek to become an Appointed Representative
- Will not apply for any aspect of the full regime
- Don't know what decision they will take (in the grossing up process these respondents were allocated pro rata between will apply for the full regime and will not apply, based on the distribution of responses from those that had given a definitive answer)

9.3.2 *Forecast full regime population*

Overall, an estimated 75% of the total retain population, totalling 45,757 organisations, are forecast to proceed to the full regime, based on their survey responses.[59] The distribution of these responses is shown in Table 9.9.

Table 9.9 Forecast numbers for the full regime

	All retain licence-holders (column percentages; numbers)	
Full regime forecast	**Proportion**	**Number**
Full authorisation	27	16,407
Limited permission	13	8,083
Total direct authorisation	**40**	**24,490**
Appointed Representative	29	17,417
Unsure which option[60]	3	1,650
Allocated 'don't know' answers[61]	4	2,200
Total full regime	**75**	**45,757**
Will not apply for full regime	25	15,179

Critical Research estimates

Base: All retain licence-holders (944).

For those in the 'unsure which option' and 'allocated don't know' categories, it was not possible to be certain whether they would opt for direct authorisation (full authorisation or limited permission, as appropriate) or Appointed Representative status.

[59] Those who indicated they would not notify for interim permission are included in the 25% forecast not to apply for the full regime.

[60] The 'unsure which option' group are those who gave equally positive responses to direct authorisation and to becoming an Appointed Representative. They represented 2.7% of the retail population (shown as 3% in the table).

[61] Overall, 4.7% of the retain population did not know what decision they would make. These have been allocated pro rata between those forecast to apply for the full regime and those forecast not to do so. Consequently, 75% of them, totalling 3.6% (shown as 4% in the table), are included in the 'allocated don't know answers', while the remaining 25% are included in 'will not apply for the full regime'.

9.3.3 Variations by segment

The overall proportions forecast to apply for the full regime do not vary widely by segment of the retain population. However, the distribution within segments between direct authorisation (full authorisation/ limited permission) and Appointed Representative does show significant variation.

In most segments, a greater proportion of organisations are forecast to opt for direct authorisation rather than applying to be an Appointed Representative. However, the reverse is true among FCA AR organisations and sole traders, while there is also an even split among those involved in lower risk activities and those with a consumer credit turnover in the range of over £50,000 to £500,000 a year.

Overall, twice as many organisations are forecast to apply for full authorisation than for limited permission.

Full details for each of the main segments are provided in Tables 9.10 and 9.11.

Table 9.10 Full regime forecasts (proportions): primary business groups and regulatory status

	All retain licence-holders (column percentages)								
Expressed intention	**Total**	**Lenders**[62]	**Primary brokers**[63]	**Debt advisers**[64]	**Sellers**	**Other activities**	**FCA DA**	**FCA AR**	**OFT only**
Full authorisation	27	73	42	44	6	30	60	20	18
Limited permission	13	0	0	0	26	21	7	4	19
Total direct authorisation	**40**	**73**	**42**	**44**	**32**	**51**	**67**	**24**	**37**
Appointed Representative	29	0	35	34	29	19	12	53	24
Unsure & allocated don't know	6	4	5	5	8	3	4	6	7
Total full regime	**75**	**77**	**83**	**83**	**68**	**73**	**83**	**83**	**69**

Critical Research analysis.

Base: All retain licence-holders (944); Lenders (65); Primary brokers (350); Debt advisers (26); Sellers (421); Others (82); FCA DA (182); FCA AR (221); OFT only (541).

[62] Lenders are only permitted to apply for full authorisation.

[63] Primary brokers can only choose between full authorisation and applying to be an Appointed Representative.

[64] Debt advisers can only choose between full authorisation and applying to be an Appointed Representative.

Table 9.11 Full regime forecasts (proportions): size,[65] risk and legal formation

	All retain licence-holders (column percentages)								
Expressed intention	**Total**	**Up to £50k consumer credit turnover**	**Over £50k to £500K consumer credit turnover**	**Over £500k to £5m consumer credit turnover**	**Over £5m consumer credit turnover**	**Higher risk activities**	**Lower risk activities**	**Sole traders**	**Not sole traders**
Full authorisation	27	23	29	51	48	47		18	30
Limited permission	13	11	13	28	29		30	7	15
Total direct authorisation	**40**	**34**	**42**	**79**	**77**	**47**	**30**	**25**	**45**
Appointed Representative	29	32	42	12	6	28	30	40	25
Unsure & allocated don't know	6	7	5	3	9	5	8	7	6
Total full regime	**75**	**74**	**90**	**93**	**91**	**81**	**68**	**72**	**76**

Critical Research analysis.

Base: All retain licence-holders (944); Up to £50k consumer credit turnover (442); Over £50k to £500K consumer credit turnover (201); Over £500k to £5m consumer credit turnover (55); Over £5m consumer credit turnover (18); Higher risk activities (535); Lower risk activities (409); Sole traders (246); Not sole traders (698).

The total numbers forecast to opt for each status by segment are shown in Tables 9.12 and 9.13.

[65] Not all survey respondents provided an estimate of their consumer credit turnover.

Table 9.12 Full regime forecasts (numbers): primary business groups and current regulatory status

	All retain licence-holders (numbers)								
Expressed intention	**Total**	**Lenders**	**Primary brokers**	**Debt advisers**	**Sellers**	**Other activities**	**FCA DA**	**FCA AR**	**OFT only**
Full authorisation	16,406	2,865	9,716	655	1,557	1,613	7,132	2,886	6,390
Limited permission	8,084				6,948	1,136	793	629	6,661
Total Direct Authorisation	**24,490**	**2,865**	**9,716**	**655**	**8,505**	**2,749**	**7,925**	**3,515**	**13,051**
Appointed Representative	17,417		8,113	505	7,801	998	1,484	7,512	8,420
Unsure & allocated don't know	3,852	164	1,230	73	2,230	155	490	888	2,473
Total Full regime	**45,757**	**3,029**	**19,059**	**1,233**	**18,536**	**3,902**	**9,899**	**11,915**	**23,944**

Critical Research analysis.

Base: All retain licence-holders (944); Lenders (65); Primary brokers (350); Debt advisers (26); Sellers (421); Others (82); FCA DA (182); FCA AR (221); OFT only (541).

Table 9.13 Full regime forecasts (numbers): size,[66] risk and legal formation segments

	All retain licence-holders (numbers)								
Expressed intention	**Total**	**Up to £50k consumer credit turnover**	**Over £50k to £500K consumer credit turnover**	**Over £500k to £5m consumer credit turnover**	**Over £5m consumer credit turnover**	**Higher risk activities**	**Lower risk activities**	**Sole traders**	**Not sole traders**
Full authorisation	16,406	6,538	3,680	1,933	590	16,407	0	2,954	13,452
Limited permission	8,084	3,085	1,705	1,046	356	0	8,083	1,173	6,911
Total Direct Authorisation	**24,490**	**9,623**	**5,385**	**2,979**	**946**	**16,407**	**8,083**	**4,127**	**20,363**
Appointed Representative	17,417	9,013	5,326	455	73	9,472	7,945	6,341	11,077
Unsure & allocated don't know	3,852	2,000	649	110	110	1,800	2,051	1,121	2,729
Total Full regime	**45,757**	**20,636**	**11,360**	**3,544**	**1,129**	**27,679**	**18,079**	**11,589**	**34,169**

Critical Research analysis.

Base: All retain licence-holders (944) ; Up to £50k consumer credit turnover (442); Over £50k to £500K consumer credit turnover (201); Over £500k to £5m consumer credit turnover (55); Over £5m consumer credit turnover (18); Higher risk activities (535); Lower risk activities (409); Sole traders (246); Not sole traders (698).

The data in Tables 9.12 and 9.13 can be expressed in another way to reveal the make-up of each of the forecast populations of full authorisation, limited permission and Appointed Representatives. These results are shown in Tables 9.14 and 9.15.

For full authorisation, almost six in ten (59%) are primary brokers, while around four in ten (43%) are existing FCA DAs and a similar proportion (40%) have a consumer credit turnover of up to £50,000.

Among the limited permission population, seven out of eight (86%) are sellers and 82% are OFT only. The distribution by consumer credit turnover and by legal formation is very similar to that for full authorisation.

[66] Not all organisations provided information on their consumer credit turnover. Consequently, the number of organisations accounted for in the Table is 36,669 and not the total number projected for the full regime of 45,758. The forecast distribution of those organisations that did not provide a turnover estimate (9,089) is: full authorisation (3,666), limited permission (1,891), Appointed Representative (2,550) and unsure/ allocated don't know (982).

The population of those likely to seek to be Appointed Representatives is evenly divided between primary brokers (47%) and sellers (45%) and also between existing FCA ARs (43%) and OFT only organisations (48%). There is also a reasonably even division between those involved in higher risk activities (54%) and lower risk activities (46%).

Table 9.14 Full regime population proportions: primary business groups and regulatory status

	All retain licence-holders (row percentages)								
Expressed intention	**Total**	**Lenders**	**Primary brokers**	**Debt advisers**	**Sellers**	**Other activities**	**FCA DA**	**FCA AR**	**OFT only**
Full authorisation	16,406	17	59	4	9	10	43	18	39
Limited permission	8,084	0	0	0	86	14	10	8	82
Total Direct Authorisation	**24,490**	**12**	**40**	**3**	**35**	**11**	**32**	**14**	**53**
Appointed Representative	17,417	0	47	3	45	6	9	43	48
Unsure & allocated don’t know	3,852	4	32	2	58	4	13	23	64
Total Full regime	**45,759**	**7**	**42**	**3**	**41**	**9**	**22**	**26**	**52**

Critical Research analysis.

Base: All retain licence-holders (944) Lenders (65); Primary brokers (350); Debt advisers (26); Sellers (421); Others (82); FCA DA (182); FCA AR (221); OFT only (541).

Specifically among those likely to seek to be Appointed Representatives, out of the 53% who are not primary brokers, 25% are from the motor trade and 9% are retail. Among other organisation types interested are sports clubs, dentists, house builders and estate agents.

Table 9.15 Full regime population proportions: size,[67] risk and legal formation

	All retain licence-holders (row percentages)								
Expressed intention	**Total**	**Up to £50k consumer credit turnover**	**Over £50k to £500K consumer credit turnover**	**Over £500k to £5m consumer credit turnover**	**Over £5m consumer credit turnover**	**Higher risk activities**	**Lower risk activities**	**Sole traders**	**Not sole traders**
Full authorisation	16,406	40	22	12	4	100	0	18	82
Limited permission	8,084	38	21	13	4	0	100	15	85
Total Direct Authorisation	**24,490**	**39**	**22**	**12**	**4**	**67**	**33**	**17**	**83**
Appointed Representative	17,417	52	31	3	0	54	46	36	64
Unsure & allocated don't know	3,852	52	17	3	3	47	53	29	71
Total Full regime	**45,759**	**45**	**25**	**8**	**2**	**60**	**40**	**25**	**75**

Critical Research analysis.

Base: All retain licence-holders (944) ; Up to £50k consumer credit turnover (442); Over £50k to £500K consumer credit turnover (201); Over £500k to £5m consumer credit turnover (55); Over £5m consumer credit turnover (18); Higher risk activities (535); Lower risk activities (409); Sole traders (246); Not sole traders (698).

9.4 Reasons for not wanting to proceed to the full regime

Those who indicated they probably would not apply for direct authorisation and/ or to be an Appointed Representative or were certain not to do so were asked the reasons for that.

In the case of direct authorisation, cost dominated the reasons given by those choosing not to apply. For Appointed Representative status the barriers were more about lack of knowledge of the concept since it was not possible in the survey to give an indication of realistic cost levels. The top responses given in each case, via open-ended questions, are summarised in Table 9.16.

[67] Not all organisations provided information on their consumer credit turnover.

Table 9.16 Main reasons for not applying for direct authorisation and Appointed Representative status

	All retain licence-holders probably will not or certain not to apply[68] (column percentages)	
Reasons for not applying	**Direct authorisation**	**Appointed Representative**
Need more information	7	37
Do not know enough		10
Costs too high/ already paid/ do not want to pay fees	33	8
Not worth the expense/ consumer credit activities won't cover it	41	7
Not sure if need it/ not suitable for our business	3	5
Not worth the admin time	8	5
Do not need a licence/ will terminate	8	4
Will be winding down the business	4	
Already an Appointed Representative	3	2

D3b/ D7b Why do you say that? (All retain licence-holders probably not/ certain not to apply for direct authorisation)

D5b/D9b Why do you say that? (All retain licence-holders probably not/ certain not to apply to become an Appointed Representative or don't know if they will apply)

Bases: All retain licence-holders probably not/ certain not to apply for direct authorisation (319); all retain licence-holders probably not/ certain not to apply to be an Appointed Representative or don't know if they will do so (171).

Examples of specific comments were:

Full authorisation:

> *We are a small business and all these fees are way too expensive for the limited use we would make of the licence.*
>
> Financial adviser; corporate; FCA DA

[68] In the case of Appointed Representative this was also asked of those stating they didn't know if they might apply.

I wouldn't pay those fees. I'd rather pack it all in than pay the fee and stay as a business adviser if required ….. The barriers are extremely severe.'

Debt management; sole trader; OFT only

I've turned 70 and near retirement so I only do business that suits me anyway so it would be uneconomic due to the cost to do it.

Hire purchase; corporate; OFT only

Limited permission:

It would cost us more than we make from the credit.

Dental practice; corporate; OFT only

Things are a struggle at the moment so I don't want to have to lay out any more money.

Car sales; sole trader; OFT only

It's too much money and too much hassle. All we use it for is the administration for the right to work scheme …. So we'd rather just stop doing that.

Property consultant; corporate; OFT only

Appointed Representative:

I would need to look in more detail. I have no understanding of it and if I need it.

Tyre fitting; corporate; OFT only

Looking at the business it is not enough. I won't be doing any activity so don't see the point in applying for something I may not use.

Insurance broker; sole trader; OFT only

It is just so much more complicated, having to pay more than one fee. I thought the government was stopping red tape.

Musical instrument retail; corporate; OFT only

9.5 Nature of the fall-off between interim permission and full regime

As indicated, the forecast number expected to notify for interim permission is 51,033 while those projected to continue to the full regime are 45,757. This represents just over 10% of those notifying deciding not to continue through to the full regime.

The survey did not ask the reasons why organisations might choose to notify but then not continue to the full regime. However, it is likely that reasons might include:

- Needing time to phase out of activities and otherwise to reorganise business models to remove the need for consumer credit authorisation.
- Feeling it might still be cost effective to continue consumer credit activities given a notification fee of £150/350 but not once annual fees of around £1,000 become payable.

There were some variations in the scale of the drop-off, which was greatest among the sellers. Details are given in Table 9.17.

Table 9.17 Drop-off between interim permission and full regime

	All retain licence-holders (numbers; row percentages)		
Segment	**Interim permission**	**Full regime**	**Full regime population as a proportion of the interim permission population**
Total	51,033	45,757	90%
Lenders	3,479	3,029	87%
Primary brokers	20,359	19,059	94%
Debt advisers	1,327	1,233	93%
Sellers	21,841	18,536	85%
Other activities	4,028	3,902	97%
FCA DA	10,728	9,899	92%
FCA AR	13,023	11,915	91%
OFT only	27,282	23,944	88%
Higher risk activities	30,129	27,679	92%
Lower risk activities	20,905	18,079	86%
Sole traders	13,038	11,589	89%
Not sole traders	37,995	34,169	90%
Up to £50,000 consumer credit turnover	23,007	20,636	90%
Over £50,000 to £500,000 consumer credit turnover	12,364	11,360	92%
Over £500,0000 to £5m consumer credit turnover	3,762	3,544	94%
Over £5m consumer credit turnover	1,237	1,129	91%
Unknown consumer credit turnover	10,663	9,088	85%

Critical Research analysis.

Base: All retain licence-holders (944). Lenders (65); Primary brokers (350); Debt advisers (26); Sellers (421); Other activities (82); FCA DA (182); FCA AR (221); OFT only (541); Higher risk activities (535); Lower risk activities (409); Sole traders (246); Not sole traders (698); Up to £50k consumer credit turnover (442); Over £50k to £500K consumer credit turnover (201); Over £500k to £5m consumer credit turnover (55); Over £5m consumer credit turnover (18); Unknown consumer credit turnover (204).

9.6 Potential impact of a shortage of opportunities for Appointed Representatives

The research has identified a significant level of interest among existing licence-holders to become Appointed Representatives. As indicated in Section 9.3.2, a total of 17,417 potential Appointed Representatives are estimated.

However, it is possible that insufficient principals will be available to accommodate this number of ARs. Consequently, further analysis was undertaken to estimate what might be the reaction of organisations wishing to be an Appointed Representative who found they were unable to be so. This was conducted by substituting into calculations the initial choice made by these organisations before they were informed about the Appointed Representative option.

The findings revealed that 32% of projected Appointed Representatives would opt instead for full authorisation, 27% would opt for limited permission, and 42% would decide not to proceed to the full regime at all.

These results suggest that around four in ten of any organisations that wish to become Appointed Representatives but cannot find a principal may choose to leave the consumer credit regime in preference to becoming directly authorised.