

**FSA PRACTITIONER FORUM -
1999 SURVEY OF FINANCIAL
SERVICES FIRMS**

Prepared for: **FSA Practitioner Forum**

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INTRODUCTION

Background

The FSA Practitioner Forum is a high-level group drawn from organisations in the financial sectors which will in the future be regulated by the Financial Services Authority (FSA). The Forum's role is to review the effectiveness of FSA policies and operations from an industry standpoint, as well as being available to the FSA for consultation on specific high level issues.

Last June, the Forum commissioned BMRB International to carry out a programme of research, using both qualitative and quantitative methods, to gauge industry views and opinions on the performance of the FSA. The intention is to carry out such studies on a regular basis, in order to identify trends in performance over time.

To provide a full picture, views were sought at different levels within the industry. The two key groups whose views were investigated were Chief Executives and Heads of Compliance in financial organisations.

The objectives of the research were originally defined as follows:

- to provide top level assessment from chief executives on their perceptions of the performance and areas of priority of the FSA
- to provide industry wide views of the operational efficiency of the FSA in dealing with firms
- to provide information which can be used by the Practitioner Forum in suggesting to the FSA how it should set its priorities and guide the delivery of its operations.

However, because the first survey was carried out during a period of transition to the new regulatory system, it was decided that the scope should be widened to cover the performance of all the current regulators. The measures collected in the survey can thus be used as a benchmark against which the FSA's performance as a single regulator can be assessed in future years. The other regulators covered in the survey were the Personal Investment Authority (PIA), the Investment Management Regulatory Organisation (IMRO), the Securities and Futures Authority (SFA), the Building Societies Commission (BSC), the Friendly Societies Commission (FSC), and the Treasury.

At the time that the survey was carried out, the FSA had taken over full responsibility for supervising banks from the Bank of England. It also had interim responsibility for some firms previously regulated by the Insurance Brokers Registration Council (IBRC), while they were waiting for authorisation by the PIA. The other regulators meanwhile retained their separate

responsibilities, and will continue to do so until the Financial Services & Markets Bill comes into force. At the time of the survey, therefore, all firms except banks and a small number of ex-IBRC firms were still being regulated under the existing arrangements.

However, by early in 1999, staff formerly employed by the Bank of England, the SROs (IMRO, PIA and SFA), the SIB, the RFS and HM Treasury's Insurance Directorate had already transferred to new contracts of employment with the FSA, operating under a single management structure. Under contracts agreed with the FSA, these FSA staff have been providing services to the other regulators to enable them to continue to carry out their responsibilities during the transitional period.

This situation is likely to have led to some understandable confusion among regulated firms, with some firms believing that they were already regulated by the FSA, when formally they were still regulated by one of the existing regulators.

Methodology

The research programme consisted of a qualitative developmental phase to identify the key issues of importance to regulated firms; the main survey carried out by self-completion questionnaires to provide results based on a large, representative sample; and telephone interviews with non-responders to the postal survey, using the same questions, to help check and validate the findings.

This document reports the findings from both the initial qualitative study and the main survey. For the latter, the data from the postal questionnaires and the telephone interviews have been merged together, and the results weighted to be representative of regulated firms as a whole.

All interviews were carried out between June and September 1999.

Qualitative study

The developmental component of the research was undertaken by staff of *BMRB Qualitative*, using qualitative methods. The research was exploratory in nature and consisted of 17 in-depth interviews with a mix of Chief Executives and Heads of Compliance in financial services firms.

The sample on which the developmental study was based was constructed from the industry regulators' lists, provided by the FSA. Eight financial sectors were included in the study: banks, building societies, insurance companies, asset and investment managers, securities and derivatives, independent financial advisers, friendly societies and credit unions.

Interviews were undertaken at the respondent's place of work. Each interview lasted an hour and used a topic guide to structure the interview. A copy of the topic guide may be found in the Appendix. Interviews were tape recorded and transcribed for analysis using Matrix Mapping, a sophisticated form of content analysis.

The qualitative results have been invaluable both in identifying a range of issues that needed to be explored in the survey, and in enhancing our understanding of how regulation affects practitioners and firms in the industry. However, as with any qualitative investigation, the study was not designed to provide a representative picture of the industry as a whole and results should not be interpreted in this way.

Survey sample

It was decided that the survey should include all regulated firms, with the exception of the smaller IFA firms (less than 10 employees) regulated by the PIA, where the total number of firms was very large and a random sample of one in three firms was therefore selected. This under-representation of small IFAs was corrected by weighting at the analysis stage.

Most firms were sent both versions of the questionnaire, for separate completion by the chief executive and the senior person responsible for compliance. Both versions of the questionnaire contained the same core set of questions, but the compliance version covered some additional topics and obtained fuller information using more open-ended questions.

Friendly Societies, ex-IBRC firms and small IFAs were only sent the compliance version of the questionnaire. Only one contact was listed for these firms on the FSA databases, and it was felt that in these smaller organisations there was unlikely to be a separate person responsible for compliance. The results for these small organisations – four-fifths of which were small IFA firms – have been analysed separately.

The survey results shown in this report are based on an achieved sample of **1,440 Chief Executives** (CEOs), **1,565 Heads of Compliance** (HOCs) and **990 Small Organisations** (SOs).

The table which follows shows the composition of the three samples by the main current regulator which each firm identified in the survey, and about which many of the questions were answered. A few respondents named more than one regulator as the one with which their business had most contact, so some figures add to slightly more than 100%.

Firm's main regulator	<i>Chief Executives</i>	<i>Heads of Compliance</i>	<i>Small organisations</i>
Unweighted base	1,440 %	1,565 %	990 %
PIA	10	13	71
IMRO	21	24	-
SFA	29	30	*
BSC	2	2	-
FSC	1	2	5
FSA	33	30	26
Treasury	2	2	*

* less than 0.5%

It should be noted that, while the regulator profile for chief executives and compliance heads was, as would be expected, very similar, the majority of small organisations were regulated by the PIA. It should also be noted that some of the firms which stated that their main regulator was the FSA may have been misled by the transitional arrangements mentioned above, under which FSA staff were working under contract for current regulators. This issue is discussed further in Chapter 4.

Response rate and validity

Because a comprehensive central listing of all regulated firms did not exist at the time of the survey, the names and addresses of firms and individuals had to be taken from separate databases for individual regulators, provided by the FSA. There was no common format between these databases, and it was therefore not possible to eliminate the large amount of duplication which existed between them. Although respondents receiving duplicate questionnaires were encouraged to notify BMRB so that duplicate serial numbers could be removed from the database, we know from the follow-up telephone interviews that many did not do so.

We cannot be absolutely certain therefore of the exact number of individuals and firms to whom questionnaires were sent. If only **known** duplicates are removed from the issued sample, the overall response rate for the survey was c.**58%**.

To check on the validity of the postal survey results, a follow-up telephone survey was carried out, also among a representative sample of firms, but limited to those who had not responded to the postal questionnaire. The two modes of interview produced broadly similar results, indicating that there was no major bias in the postal survey.

A substantial proportion of those contacted by telephone at this stage said that they had already returned a questionnaire. The fact that they were still classified as a non-responder to another questionnaire indicates a large amount of residual duplication which was not notified. If this duplication was replicated among the firms who were not contacted by telephone, the real response rate would be higher than 58%, possibly as high as 69%.

We can be confident therefore that questionnaires were completed by a very high proportion of regulated firms and that the results reported here are representative of those held by senior managers in the industry as a whole.

Full details of the qualitative and quantitative methodologies, and the response rates, are given in the Appendix.

Arrangement of this report

The next section of the report contains a Management Summary of the key findings from the research programme and the conclusions that can be drawn. This is followed by a more detailed description of the survey results under the following chapter headings:

1. General attitudes towards regulation
2. Requirements from a regulator
3. Effectiveness of current regulator
4. Performance of individual regulators
5. Provision of guidance
6. Supervision and investigation
7. Enforcement
8. Transitional period
9. Knowledge and views of the FSA

10. FSA's consultation procedures
11. Costs and efficiency
12. The Practitioner Forum
13. Overall priorities for the FSA

The charts illustrating the report are based on the figures included in separate volumes of computer tabulations. In these tabulations, responses to each question are analysed by a number of different variables, including the main regulator and main area of operation identified by each firm.

SUMMARY AND CONCLUSIONS

Methodology

The results reported here are based on a survey of 3,995 senior executives in regulated financial services firms. The main survey was carried out using postal questionnaires, to which were added a small number of telephone interviews. Because of duplication, it is not possible to calculate an exact response rate, but overall response is estimated to have been between 58% and 69%. The survey results are representative of all regulated firms in the industry.

Apart from IFAs with less than 10 employees, one in three of which were randomly selected, all regulated firms on FSA databases were included in the survey. In most cases, two versions of the questionnaire were sent to firms, for separate completion by the chief executive and by the senior person with specific responsibility for compliance. Ex-IBRC firms, friendly societies and the smaller IFAs were only sent the compliance version and these smaller organisations are looked at as a separate group.

The main survey was carried out in July/August 1999.

1. General attitudes to regulation

There was strong support among all sectors of the financial services industry for the principle of strong regulation. More than eight in ten practitioners thought this was for the benefit of the industry as a whole, and a similar number agreed that the regulatory system in the UK needed to change. The need for change was advocated most strongly by small IFAs, life/pensions firms and complex groups providing a range of different products, and received least support from building societies.

Three out of four practitioners – over nine in ten in small organisations - believed that the current system places too great a burden on the industry, and more agreed than disagreed that it gives too much weight to the interests of consumers. Strong views about the burden of regulation, and about the undue weight given to consumer interests, were most prevalent among IFAs and compliance heads in firms providing life assurance and pensions.

2. Requirements from a regulator

Twelve out of 13 different criteria were all seen as very important by practitioners, for evaluating the effectiveness of a regulator. Two aspects of the regulatory role stood out as particularly important – taking a firm line with businesses which persistently broke the rules, and providing reliable guidance when needed. Also near the top of the list were: interpreting rules in a flexible, common-sense way; establishing a good working relationship with regulated firms; listening to industry views when deciding policies and procedures; and employing high calibre, well-trained staff.

Slightly lower in overall ranking but still all very important to practitioners were: enabling the UK to remain competitive as an international financial centre; having efficient administrative procedures; maintaining consumer confidence in financial products and services; looking at the behaviour of the business as a whole rather than focussing on small details; not hindering the development of new financial products and services; and being efficient and economic in use of its own resources.

Encouraging the education of the public about financial products and services was seen as the least important of the different criteria which practitioners were asked to consider.

There was a high level of consistency between chief executives and compliance heads, and across different industry sectors, in the importance that practitioners attached to different criteria. Among small organisations, greater emphasis was placed on interpreting rules in a flexible, common-sense way and on being economic with resources.

3. Effectiveness of current regulator

Practitioners were also asked to rate the effectiveness of their current regulator, on each of the same criteria, by allocating a score from 1 to 10 with high numbers indicating a high level of performance. Average scores for most criteria ranged between 5 and 7 (4 and 7 in the case of small organisations), suggesting that most practitioners judged their regulator's performance as average rather than good. Building societies and firms whose main area of operation was banking or general insurance tended to give the highest ratings, and IFAs and life/pensions firms almost invariably gave the lowest. The ratings given by chief executives and compliance heads were very similar (average of mean scores across all 13 criteria 6.1 and 6.2), but those given by small organisations – predominantly small IFAs – were much lower (average of mean scores 4.8). Small organisations gave particularly low scores to their regulators for interpreting rules in a common-sense way and looking at the behaviour of the business as a whole.

For both chief executives and compliance heads, the attribute which was judged to be most important for a regulator – taking a firm line with persistent offenders – achieved the highest performance rating, while consumer education, which was seen as the least important, achieved the lowest. The largest gaps between importance and performance scores – and therefore the biggest shortfall between expectation and delivery – were for interpreting rules in a flexible, common-sense way, providing reliable guidance, listening to industry views and enabling the UK to remain competitive.

4. Performance of individual regulators

There are some interesting differences between the ratings given to individual regulators:

The **PIA** stands out as having received consistently lower performance ratings than other regulators from all three groups. The firms which regarded the PIA as their main regulator were primarily IFAs and life/pensions firms.

IMRO and the **SFA** were given broadly similar performance ratings by both chief executives and compliance heads, with IMRO scores lagging slightly behind on some dimensions. In most cases scores were lower than for all other regulators except the PIA. Those rating IMRO nearly all stated their main area of business as investment management; most firms who saw their main regulator as the SFA were in the securities and derivatives business, but there were also some whose main business was investment banking or investment management.

With few exceptions the **BSC** consistently received the highest performance ratings. The **FSC's** ratings were better than those for the PIA, IMRO and SFA, but lower than those given to the BSC.

The **Treasury** was rated highly on some criteria – establishing a good relationship, providing reliable guidance – but badly on others, especially taking a firm line with businesses which break the rules, maintaining consumer confidence and encouraging consumer education. The majority of firms which regarded the Treasury as their main regulator were offering general insurance products, the remainder were in the life/pensions business.

Both chief executives and compliance heads rated the **FSA** as equal or superior in performance to all regulators except the BSC for listening to industry views and employing high calibre staff. Among chief executives, it received higher ratings than any other regulator for enabling the UK to remain competitive internationally and encouraging consumer education. For nearly all criteria, ratings were higher than for IMRO and the SFA. These ratings came primarily from firms whose business was banking or general insurance.

Among the small organisations which regarded the FSA as their main regulator – mainly IFAs and those offering insurance or life/pensions products - ratings were uniformly poor, on a par with those given to the PIA. Ratings were particularly poor for interpreting rules in a common-sense way, looking at the behaviour of the business as a whole, and maintaining consumer confidence. The latter may refer to the FSA's role in publicising the pensions mis-selling review.

As already noted, during the transitional period there is clearly some confusion about the responsibilities of the FSA for regulation, because FSA staff are working under contract to the existing regulators.

5. Provision of guidance

Three quarters of compliance heads and half of small organisations which had sought guidance felt that their current regulator made decisions promptly, although most described this as 'fairly promptly' rather than 'very promptly'. One in five indicated that their regulator took a long time to make decisions. A quarter of small organisations but only one in ten compliance heads claimed that they avoided making decisions altogether.

Only a third of compliance heads thought that the guidance received from their regulator was always clear, although this rose to half of those who regarded the FSA, the BSC or the FSC as their main regulator, and nearly two-thirds for those regulated by the Treasury. Less than one in ten compliance heads thought guidance was often unclear. Practitioners in small organisations were much less likely than compliance heads to say that guidance was always clear, and more likely to say it was often unclear.

A similar pattern emerged with regard to the consistency of guidance over time. About two fifths of compliance heads felt that guidance from their regulator had always been consistent, and this rose to three fifths for the Treasury and four fifths for the BSC. The FSA was below these two and the FSC, but above the other regulators. The PIA again had the most negative responses, with only a fifth saying guidance had always been consistent. Among small organisations, the PIA and the FSA were seen as equally poor.

The highest priorities identified for improvement in the FSA's new regime were the provision of clear, concise and unambiguous guidance, and for guidance to be based on broad principles rather than narrow rules.

6. Supervision and investigation

A substantial majority of practitioners – around eight in ten – thought that their current regulator applied a reasonable level of supervision for a business of their type and size, and that the regulator was willing to hold a dialogue with them about compliance issues. Those able to give an opinion also expressed quite positive views about the regulatory approach during an investigation.

There were however other aspects where opinions about the regulator's approach were more mixed. Almost two thirds of chief executives thought their regulator tended to look at processes rather than outcomes, and about half felt they were asked for too much detailed information about their business. Only a third agreed that their regulator gave praise as well as criticism, and the same proportion felt that they were adversarial in approach. Compliance heads held very similar views to chief executives.

Looking in more detail at the views of chief executives and compliance heads on individual regulators, a clear pattern emerges in which the PIA was again regarded least favourably, especially for looking at processes rather than outcomes, giving praise as well as criticism and being adversarial. The FSA did better than average on all three of these dimensions, and was in line with the average on the rest.

The views of practitioners in small organisations, as for previous questions, were much more negative than others on all dimensions, with particularly strong differences – in a negative direction – on the regulator being adversarial, being willing to hold a dialogue about compliance issues, looking at processes rather than outcomes, and giving praise as well as criticism. The views expressed by small organisations were equally critical of both the PIA and the FSA, which again probably stems from firms misunderstanding the respective transitional responsibilities of the two regulators.

7. Supervisory staff

On the positive side, around eight in ten compliance heads felt that their regulator's supervisory staff had a fairly good understanding of the nature of their business, had quite good interpersonal skills, took the trouble to read information sent out to them, and treated the firm's staff as trustworthy. Only a small minority felt that site visits were too frequent.

However, there were also a number of less favourable impressions. About half felt that staff stuck rigidly to the rule book rather than interpreting rules pragmatically, that they just followed a checklist rather than focussing on broad issues of principle, and that, rather than being consistent, the regulatory approach varied according to the individual. One in three thought that staff did not really take into account the level of risk arising from their business.

Compliance heads in firms where the PIA was the main regulator consistently expressed more negative views than others, especially on following a checklist, sticking rigidly to the rule book, and treating the firm's staff with suspicion. BSC staff received most approval on all dimensions. Responses from compliance heads in firms regulated by the FSA were always among the two or three most positive, overtaken only by the BSC and, in some cases, the Treasury or the FSC.

The views of small organisations about their regulator's staff were again much more unfavourable, driven by the high proportion of these firms which had the PIA as their regulator. Views of both the PIA and the FSA among this group were equally negative, the latter in sharp contrast to the positive views about the FSA expressed by compliance heads in the larger organisations.

Among compliance heads whose firm had more than one regulator, the balance of opinion was that co-ordination between different regulators was fairly or very ineffective. Those working for complex groups, or in the areas of investment management or life/pensions were the most likely

to feel that co-ordination was ineffective. Among small organisations, those who could express an opinion were fairly equally divided on the effectiveness of co-ordination.

8. Enforcement

About 13% of practitioners had been subject to enforcement procedures in the last three years. The figure was lower for building societies and friendly societies and higher for complex groups and life/pensions firms. Over half of chief executives and compliance heads in these firms, but only a quarter of practitioners in small organisations, felt that their regulator had been justified in starting these procedures.

This pattern was repeated in responses to other questions about the enforcement process. For chief executives and compliance heads, there was a fairly equal split between those who agreed and those who disagreed that their firm had been treated fairly during enforcement, and a majority view that the timescale for the investigation and enforcement process had been reasonable, and that the rationale for the penalty had been made clear. However, the balance of opinion was that the penalty imposed was not reasonable. Small organisations also supported the view that the timescale for the process was reasonable, and that the rationale for the penalty had been made clear. However, there was strong disagreement that their business had been treated fairly by the regulator and that a reasonable penalty had been imposed.

There was an overwhelming preference for the FSA to lay down broad principles of conduct, as a basis for enforcement, rather than to draw up a very detailed rule-book, with about eight in ten practitioners voting for the first option. This response was consistent across all three practitioner groups and all sectors of the industry.

The same preference was reiterated by compliance heads when asked to suggest what the FSA's main priority should be, in their approach to supervision and enforcement in the future. One in four made a plea for the application of broad principles rather than narrow rules. The next most common answers were for the new regulator to recognise diversity and make regulation appropriate to the organisation, and to understand and work together with firms, rather than against them.

In spite of the importance ascribed to punishing persistent offenders in an earlier question, only one in ten compliance heads suggested that this should be the FSA's main priority. This suggests that in their answers to this question, practitioners were thinking more about the ways in which their own relationship with the regulator could be improved, rather than the FSA's consumer protection role. In any case, as we have seen, this is one area where practitioners felt that most regulators were already performing reasonably well.

9. Transitional period

Around half of practitioners had noticed some recent changes in regulation which they attributed to the creation of the FSA. For most the changes were only slight and between two fifths and a half had not noticed any changes at all. The majority of changes described in answer to a subsequent question were negative rather than positive. They included more bureaucracy, a more prescriptive approach and more suspicion and aggression. The main positive change was an improvement in communication and dialogue.

Around three-quarters of practitioners were expecting to see further change, and one in three thought there would be a lot of change. However, when asked whether the new regulatory regime would be better, worse or the same for their business, about two fifths of practitioners did not think there would be any difference. One in four expected the new regime to be better, a similar proportion expected things to be worse, and the remainder were unsure. The practitioners most likely to anticipate an adverse effect from the new regime were those in firms currently regulated by the BSC, the FSC and the Treasury.

Compliance heads who thought their business would be worse off expected increased bureaucracy and regulation, inappropriate regulation, a more dictatorial approach, an increase in costs and poorer understanding by staff. Those who were more optimistic about the change hoped for more consistency and cohesion, a more pragmatic approach, better understanding by staff, less administration and complication, and increased efficiency, communication and consultation.

10. Knowledge and views of the FSA

For all sectors of the industry, the main sources of information about the FSA were its own booklets and consultation papers. Other important sources included the trade press (especially for small organisations), direct contact with FSA staff (especially for compliance heads), the national press, trade associations and other representative bodies. Nine in ten chief executives and compliance heads (two thirds of small organisations) had had some face-to-face or telephone contact with FSA frontline staff, but only a third (one in ten small organisations) had had any contact with FSA policy-makers.

There were mixed views on how the switch to the new regulator would affect the way in which rules and regulations were applied. Two fifths of chief executives and a third of the other two groups thought that the FSA would not be any different from other regulators in this respect; two fifths of each group expected the FSA to apply the rules more rigidly, and only around one in ten chief executives and compliance heads – one in seven small organisations - thought the new regulator would take a more flexible approach.

Around half of practitioners thought that the advent of the FSA would be beneficial to the industry, compared with only one in six who thought it would be harmful. About a third either did not know or thought it would make no difference. Practitioners in small organisations were less likely than others to think the changes would be beneficial and more likely to think it would make no difference. The reasons given for the change being good or bad for the industry were very similar to those previously mentioned by practitioners, as to why it would be good or bad for their own business. However, when taking an industry-wide view, rather than focussing just on their own firm, the positive outcomes expected outweighed the negative.

In answer to a further question about specific aspects of the FSA's role, six out of ten practitioners gave the regulator credit for being as open and responsive as possible in the way in which it was operating. A similar proportion thought it was taking too long to get the FSA up and running. In both cases, only one in five disagreed, with the remainder not expressing an opinion. There was slightly less agreement among small organisations.

There still appear to be a number of concerns about the way in which the FSA will operate, fuelled perhaps by comment in the trade and national press in the period leading up to the survey. Six in ten chief executives and compliance heads, and two thirds of small organisations, felt that the FSA's proposed powers were too extensive, with only one in five dissenting. Conversely, well over half disagreed that there were sufficient safeguards in place to ensure the FSA would be accountable for its activities, against only one in four – one in five small organisations - who believed this to be the case.

There was also evidence of much suspicion about the relationship between the FSA and the government. Less than a fifth of small organisations believed that, in setting up the FSA, the government had listened to industry views, and only a quarter believed the regulator would operate independently of government, compared with at least three fifths who disagreed with these propositions. The perceptions of chief executives and compliance heads were less negative, but there was still a balance of opinion towards the view that the government had not listened to the industry, and an equal split between those who agreed and disagreed that the FSA would operate independently. The pattern of these responses was repeated with only slight variation across all sectors of the financial services industry.

11. Consultation procedures

Seven in ten compliance heads recognised that the FSA was making a lot of effort to consult the industry, compared with one in five who felt that this was not so. However, there were clearly doubts about the effectiveness of the consultation process. Nearly three-quarters of compliance heads felt that consultation papers should be more concise, and six in ten asserted that their business did not have time to respond to FSA consultation papers, with stronger levels of agreement from smaller firms. Opinion was divided on whether there had been sufficient

feedback from the results of consultation exercises, and on the question of whether or not the FSA actually took account of industry views, with a small majority giving a positive answer to both questions.

Small organisations expressed more negative views about the consultation process on all dimensions.

Among chief executives, over half thought the FSA's consultation process had been ineffective in collecting the views of their business, compared with a third who took the opposite view. For compliance heads, opinion was more evenly split. Nearly two thirds of small organisations thought the process had been ineffective.

For both chief executives and compliance heads, the most popular method of consultation was to communicate their views directly to the FSA, although a substantial proportion preferred to put forward their views via their trade body. Slightly fewer preferred to communicate via surveys such as the Practitioner Forum had undertaken. For small organisations, however, surveys were a clear first choice, followed by contact via a trade association or representative body, and only then direct contact with the FSA. Industry meetings or conferences were the least popular alternative for all three groups.

When compliance heads and small organisations were asked to suggest improvements to the way the FSA conducts future consultation exercises, around two thirds did not have any suggestions to make. The positive ideas which were put forward were very fragmented and were mainly a reiteration of points that had already been made. They included face-to-face discussions, shorter and simpler consultation documents with up-front summaries, targeting documents at relevant firms, forums and seminars, and increased use of new technologies.

12. Costs and efficiency

Less than a quarter of chief executives and compliance heads thought their business's total compliance costs (both fees and internal costs) were reasonable, with over two fifths of each group thinking costs were high but not excessive. Just over a third of chief executives and a quarter of compliance heads felt the costs were excessive. The responses from small organisations present a different picture; only one in 20 thought the costs were reasonable, and nearly two thirds saw them as excessive.

Only a quarter of chief executives and compliance heads, but over two fifths of small organisations, felt that the internal costs of compliance had been affected by the creation of the FSA. The proportion was higher among firms whose current regulator was either the FSA or the BSC, and especially among chief executives of complex groups, banks and building societies, and among small organisations offering insurance products.

A large proportion of practitioners – two thirds of chief executives and compliance heads, and just under half of small organisations – could not say how efficient the FSA had been in controlling its own costs and making prudent use of its resources. Of those who gave an answer, the majority of chief executives and compliance heads believed that the FSA had been at least fairly efficient in this respect. However, small organisations took the opposite view.

13. Practitioner Forum

Only a quarter of small organisations, around one in three chief executives, and a slightly higher proportion of compliance heads had heard of the Practitioner Forum before they received the letter informing them of the survey. Large firms were much more likely to have done so than small firms. Consequently, many were unable to express an opinion in answer to subsequent questions about the Forum's role.

Among those who did give an answer, the balance of opinion was extremely positive. Around two thirds agreed, and only a very small proportion disagreed, that the Forum had an important role to play on behalf of the industry with the FSA. By a large majority, practitioners also felt that the Forum was helping the FSA to understand industry views, and was independent of the FSA.

There were more mixed views about the Forum's ability to represent the industry as a whole, and to influence FSA policies and decisions, with about one in three of those who expressed an opinion feeling that this was not the case. There was also more disagreement that it was easy for firms to express their views to Forum members.

14. Overall priorities for the FSA

All practitioners were asked to describe what they saw as the most important priorities for the FSA, when it takes over the role of the single regulator. Most of the issues mentioned in response to this question had been identified in the qualitative interviews, and covered elsewhere in the questionnaire, but this provided an opportunity for practitioners to sum up their priorities overall.

From an industry viewpoint, the most important priority for the FSA is to establish a style of regulation that involves the application of broad principles rather than narrow rules. About one in five practitioners mentioned this, more than any other issue. The next most important priority is to recognise the diversity of regulation needed and make it appropriate to the type and size of organisation.

Several other issues were each a priority for around one in ten practitioners. These included: the even-handed application of rules and regulations; understanding and working together with firms; clear, concise guidance; protection for consumers; and (particularly for compliance heads) consolidating and streamlining regulatory practice. Chief executives felt it was equally important

for the new regulator to promote the UK as an international financial centre, and to punish persistent offenders, while small organisations were more likely to see reducing the cost and administrative burden of regulation and building consumer confidence as priorities.

CONCLUSIONS

The survey results provide a valuable benchmark against which the FSA's performance as a single regulator can be assessed in future years. During this transitional period, many regulated firms have had little direct experience of the FSA, and many of the measures collected therefore relate to the current regulators.

Nevertheless, most firms do have strong views about aspects of the FSA's role and performance, no doubt heavily influenced by the FSA's own publications, and by press and industry comment. Firms also have strong views about the regulatory approach which they would – and would not - like to see in the future. Linked with this, they have hopes and fears about the FSA as their future regulator.

Current performance of FSA

Chief executives and compliance heads in financial services firms which already regard the FSA as their main regulator – the majority are banks and general insurance firms - are, on the whole, fairly positive in their assessment of the regulator's performance. They give the FSA particular credit for listening to industry views, employing high calibre staff, enabling the UK to remain competitive internationally and encouraging consumer education.

The FSA, as we have seen, is not viewed so favourably by small organisations, and this appears to be the result of some confusion between the respective roles and responsibilities of the FSA and the PIA during the transitional period. These practitioners' evaluation of the FSA's performance is similar to their assessment of the PIA, which consistently received lower performance ratings than any other regulator. They see the FSA as particularly poor at interpreting rules in a common-sense way, looking at the behaviour of the business as a whole, and maintaining consumer confidence.

In its approach to supervision, the FSA tends to be seen by small organisations as adversarial, unwilling to hold a dialogue and process-oriented. FSA supervisory staff are felt by many small organisations to be over-suspicious, to ask for too much detail and then to just follow a checklist rather than concentrating on broader issues. Many also feel they do not take into account the level of risk that a business poses.

There is clearly much room for the FSA to improve industry perceptions of its performance in the future, when it assumes complete control over the regulatory process for all firms.

The FSA's consultation procedures also leave room for improvement, according to practitioners, and this is something which clearly merits attention in the short term.

Hopes and fears

A substantial proportion of practitioners believe that the new regulatory regime will bring changes, both for their own business and for the industry as a whole, and the majority expect the changes to be beneficial. They hope the single regulator will ensure greater consistency and cohesion of regulation across all sectors of the industry, and that this will lead to less administration and more efficiency. They also hope for better communication and consultation, and a more pragmatic approach.

The greatest fear is that the new regime will turn out to be more bureaucratic and dictatorial, with no account taken of the level of risk from different types of businesses and inappropriate regulation for some. This might lead to higher costs. Many practitioners fear that the FSA will apply the rules more rigidly than has happened in the past.

There are also more general concerns about the role and powers of the FSA. The perceptions of a majority of practitioners are that the FSA's proposed powers are too extensive, and that insufficient safeguards are in place to ensure accountability. Many also are doubtful about the FSA's independence from government. Regulated firms need more reassurance on these issues, if the FSA is to command their respect and trust.

Overall priorities for the FSA

From the industry viewpoint, the most important priority for the FSA is to establish a style of regulation which involves the application of broad principles rather than narrow rules. There is overwhelming support for this approach from all sectors. In addition, practitioners want the FSA to recognise the diversity of regulation needed, and to ensure that it is appropriate to the type and size of the organisation and the level of risk.

Beyond this, there is an extensive wish list, much of which is concerned with the working relationship with the regulator and the style of supervision. The regulator's role, as practitioners see it, should be to understand and work with firms rather than against them, and that encompasses a range of behaviours which were explored in the survey.

Establishing a good working relationship means listening to firms' views, and being willing to hold a dialogue with them on compliance issues. Of course, practitioners acknowledge the importance of punishing those who persistently break the rules, but most firms do not fall into this category and are trying to do a good job. In supervising their businesses, they would like the regulator to recognise and praise positive results, not just criticise failings. Above all, firms are adamant that the new regulator should not adopt a rigid rule-book approach, but be pragmatic and interpret the rules in a flexible, common-sense way. To do all this, the FSA will need to employ high calibre staff, preferably with experience of the businesses they regulate.

Of similar urgency is the need to consolidate and streamline regulatory practice; to provide clear, accurate and consistent guidance to regulated firms when the need arises; to apply regulation in an impartial and even-handed way; and to protect consumers. For chief executives, it is equally important for the FSA to promote the UK as an international financial centre, while for small organisations reducing cost and administrative burden and building consumer confidence are higher priorities.

1. GENERAL ATTITUDES TOWARDS REGULATION

The **qualitative study** indicated that senior people in the financial services industry were generally in favour of being regulated. They felt that this was important for their businesses because it reassured customers that their dealings were above board.

“It’s too easy to mislead the consumer so we need to have regulation...It reassures clients.”

HOC IFA

“Absolutely, because regulation keeps out the cowboys and it is important to have a regulated industry.”

CEO Bank

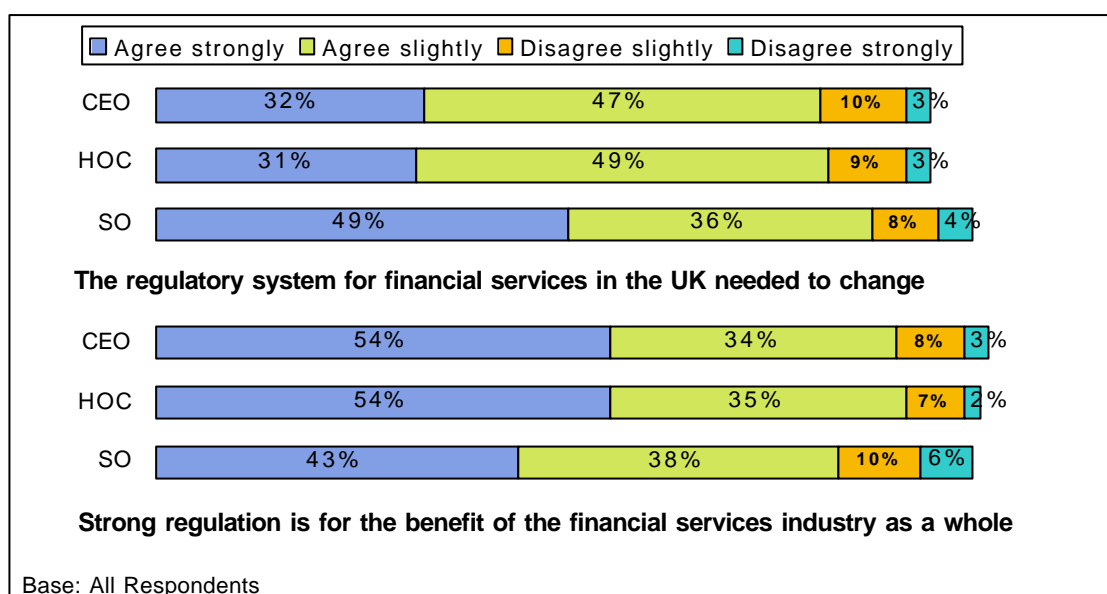
In the **survey**, we asked firms to indicate how much they agreed or disagreed with four general statements about the current regulatory system in the UK, using the following four point scale:

- Agree strongly
- Agree slightly
- Disagree slightly
- Disagree strongly

A ‘no opinion’ category was also provided.

The support for regulation indicated by the qualitative research was confirmed. At least 80% of practitioners agreed that ‘the regulatory system for financial services in the UK needed to change’, and that ‘strong regulation is for the benefit of the financial services industry as a whole’. Around half expressed strong agreement with the second statement.

CHART 1 General attitudes towards regulation 1

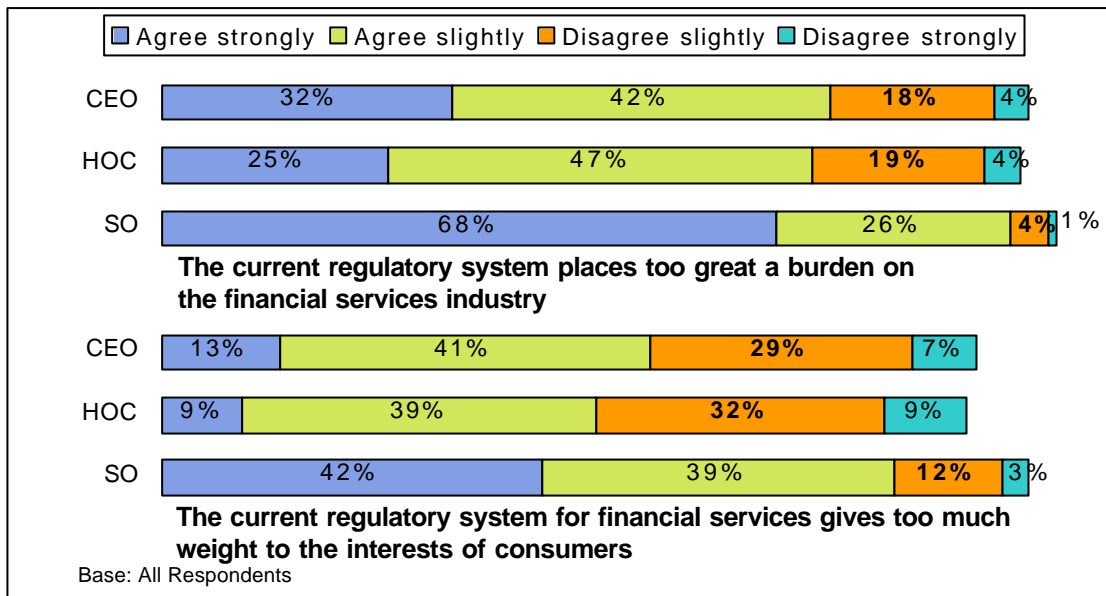


The need for change was advocated most strongly by small IFAs, pensions/life assurance firms, and complex groups, and received least support from building societies. There was more even support across different types of firm for the concept of strong regulation.

Around three-quarters of practitioners – over 90% of those in small organisations - agreed that ‘the current regulatory system places too great a burden on the financial services industry’. The results for chief executives and compliance heads were very similar. There was more difference of opinion on whether ‘the current regulatory system for financial services gives too much weight to the interests of consumers’. Compliance heads were fairly evenly divided, chief executives were more likely to agree than disagree, whilst practitioners in small organisations felt overwhelmingly that the current system was weighted too heavily towards consumers.

Those who agreed that the burden of regulation was too great were in the majority in all sectors of the industry. Strong views about this, and about the undue weight given to consumer interests, were most prevalent amongst IFAs and in firms providing life assurance and pensions, probably influenced by their experiences during the recent review of personal pensions mis-selling. General insurance firms were most likely to indicate some level of disagreement.

CHART 2 General attitudes towards regulation 2



2. REQUIREMENTS FROM A REGULATOR

The **qualitative study** suggested that people from all parts of the industry had a number of requirements in relation to their regulator.

Firstly, they felt that regulators should maintain a **good on-going working relationship** with the firm being regulated which engendered **trust on both sides**. They wanted the regulator's role to be more that of a consultant rather than a policeman or bureaucrat. In this sense, they felt that regulators should be **impartial**, assuming that practitioners are innocent of malpractice until proved guilty, rather than treating them as potential criminals. Very importantly, they wanted a regulator to be **flexible**, looking at the principles of compliance and the broad aims of client/consumer protection, rather than simply being rule book based and picking on small details where mistakes had been made. This meant that they should **listen to the point of view of practitioners** and take into account their individual needs and requirements.

“Someone that engenders trust and someone who wants to strike up a relationship and work with a company...and doesn't come down as a schoolteacher or dictatorial and punish any misdemeanour however slight. Someone who doesn't follow the rule book by the letter and can override that with some common sense.”

HOC Bank

“Talks in terms of principles rather than very precise regulations, that there can be flexibility...one in which there's a degree of trust, guidance rather than saying we're not going to tell you until you've done it, one that's prepared to consult and one that applies regulations appropriate to the circumstances.”

CEO Friendly Society

A good regulator was also believed to be one that was **knowledgeable** about the firm and the type of business that he or she was regulating; someone who was accessible on the phone and sufficiently capable of giving **reliable advice** and answering questions. This meant that the staff employed by regulatory bodies needed to be of **a high intellectual calibre**, with good interpersonal skills, so that they could deal with the practitioner firms on an equal basis. In this respect, it was felt to be important that regulatory personnel should be sufficiently mature and well trained to understand the complexities of the business they were dealing with. Preferably, they needed to have experience of working in the industry concerned, so that they knew how the business actually operated.

“First and foremost who understands the business we operate and who is able to make a distinction between those organisations who are governed by a proper system of corporate governance and a framework of controls and those which are not. He needs to have some degree

of intellectual ability because he's talking to fairly senior people and he's got to have negotiation or interpersonal skills.Someone at junior level doesn't have the status to talk on a par with our chairman."

HOC Bank

"How well they understand the business, how well they understand the rules, to what extent they're prepared to discuss issues with you...I'd like to be able to ring up my regulator and talk to him off the record."

HOC Securities & Derivatives

"If they don't know what they're doing, they do make life difficult for the Compliance OfficerThis is part of the problem, most of them have never been in a brokerage house... They do miss the fact that the world is not perfect all of the time."

HOC Securities & Derivatives

Practitioners also stressed that a regulator should not **cost** the company large amounts of money, in terms of compliance officers' and senior management's time, over minor and inconsequential mistakes they had made, when they were complying overall with the broad principles of regulation in their industry. They also felt that that the company should be given the opportunity to rectify problems before disciplinary action was taken, if a genuine mistake had been made. In this sense, practitioners believed that regulators should be looking to **punish the real criminals** rather than penalising well-intentioned companies for minor errors.

"If you treat people like criminals they'll react badly...You've got to clap people on the back...The rules are changing incredibly fast and it takes time to change systems...You're being hit indiscriminately for small infractions as if they're big ones.....I have to set up nit picky people internally. It costs between one and two million pounds in people..... Make up your mind whether we're a crook or not."

CEO Bank

"When problems are discovered ...it's cost us millions of pounds in most cases unnecessarily. We've known what the problems are, we've known what needs to be done to put them right. What we needed was consultation and a co-operative approach...If you are dealing with an organisation that has proper corporate governance in place it's completely unnecessary. We will as a matter of course put these problems right. We haven't set out to defraud our customers. They need to get away from the concept that they're a court sitting in judgement."

HOC Bank

Overall, practitioners summed up their needs from a regulator as the requirement that they should apply **common sense** to the process of regulation.

“Someone who doesn’t follow the rule book by the letter and can override that with some common sense.”

HOC Bank

Maintaining **consumer confidence** in the financial services industry was also felt to be important, particularly by the retail sector.

“The consumers need to be reassured that we are not all two headed monsters.”

CEO Bank

There was certainly a requirement that regulators should not take any action that might undermine this confidence, and which might be counterproductive to both companies and consumers in the long run.

“The reputation of the UK Life industry is probably the lowest of any developed country in the world because of the regulatory approach and retrospective reviews....The way the PIA has gone about and still goes about issuing alarmist press releases.”

CEO Insurance Co.

Some respondents had seen the FSA’s pensions mis-selling advertising campaign that was running around the time that the qualitative study was conducted (June 1999). This campaign had produced some concern. Some felt that the message that was being communicated suggested that all pensions salesmen had misled their customers, which did nothing to help consumer confidence. Others maintained that the advertising had confused some consumers into thinking that they were owed money back on their pensions no matter what pension they had bought.

“The basis of the advertising is, ‘Have you been ripped off?’ It embeds the wrong ideas....This starts on the basis these people are tacky, it engenders fear, mistrust, a desire to put your money under the bed.”

CEO Bank

“Take the pensions advertisements on the television, people ring up and say, ‘Where’s my money, where’s my cash?’ ”

HOC Insurance Co.

Not everyone felt that **consumer education** should be part of the regulator's remit, and this was explored more thoroughly in the qualitative study than in the survey. As a single regulatory authority, the FSA was expected to be better able to educate the consumer than the plethora of different bodies that have hitherto existed. However, there was some division in opinion whether, in fact, it was actually the job of the FSA to become involved in consumer education. Some practitioners on the retail side, particularly IFAs, felt that it would be beneficial because well-educated consumers would mean fewer problems for the industry. They were clearly referring to the issues arising from the pensions mis-selling issue.

"It's a good idea. The more informed people are about financial services or financial products, the better... Make people aware of the different types of markets, the risks."

HOC IFA

"Nothing wrong with that. If they understand how the processes work and the products, stakeholder pensions etc."

HOC Insurance Co.

On the other hand, there were others in the retail trade who were concerned that over-confidence on the part of consumers might result in their buying the wrong product which would then rebound on the industry, if things went wrong.

"The problem with giving the little old lady education is that she will say 'Ah ha, now I can go and invest in the stock market 'cos I know all about it.'"

CEO Building Society

There was also some concern that the FSA's involvement in consumer education would push up the fees that practitioners would have to pay to the FSA.

"You have to see...who ends up paying for it. At the end of the day, the FSA is funded by the membership fees that we pay and if those are being used for consumer education, you've got to think, well is that the right way of going about it?...I think that my principal feeling would be no, on that basis.....I think that we are in danger at the moment, again it is the government as much as the FSA, of telling people what they should and shouldn't be doing."

CEO & HOC Asset Management

Firms which operated internationally believed that regulation of the market was an important element in reassuring people from other countries when doing business in London. UK regulators (along with the USA) were perceived by several respondents as leading the world in the quality of their regulation. They were thought to have arrived at a good balance between

being effective but not so draconian as to hamper the financial services industry, or the **competitive position of London as an international financial centre.**

“I think regulation is more thorough in the UK. I think we’re probably more flexible than the SEC in the USA.....The UK is probably going to be teaching the rest of Europe.”

HOC Securities & Derivatives

“The FSA and the SEC in the States would be regarded as the two leading lights in financial regulation all over the world.”

HOC Bank

“I was at a European conference and they said ‘We think the UK is ten years ahead of us.’ I think it does make London attractive.”

HOC Securities & Derivatives

Some of those interviewed were less sanguine about the prospect of keeping the UK and the City competitive as an important centre for financial services. A minority of people, typically banks or insurance companies, felt that this competitiveness was being eroded, or would be eroded, by the more aggressive, consumer-orientated style of regulation that they had recently experienced.

“What we don’t want is to see UK financial institutions disadvantaged in European and global competitiveness terms. I think there is a real risk, in our side of the business, the retail side, that that has been happening and may continue to happen.”

CEO Insurance Co.

A final point that was made in the qualitative interviews was the need for all regulators to be **accountable** and that practitioners should have the right of appeal, if necessary in a court of law. They should not be in the position of being judge, jury and executioner.

“The quid pro quo has to be an efficient appeals system...some kind of independent review thing.”

CEO Insurance Co.

“We must always have the right of appeal to another body, be that the courts.”

CEO Friendly Society

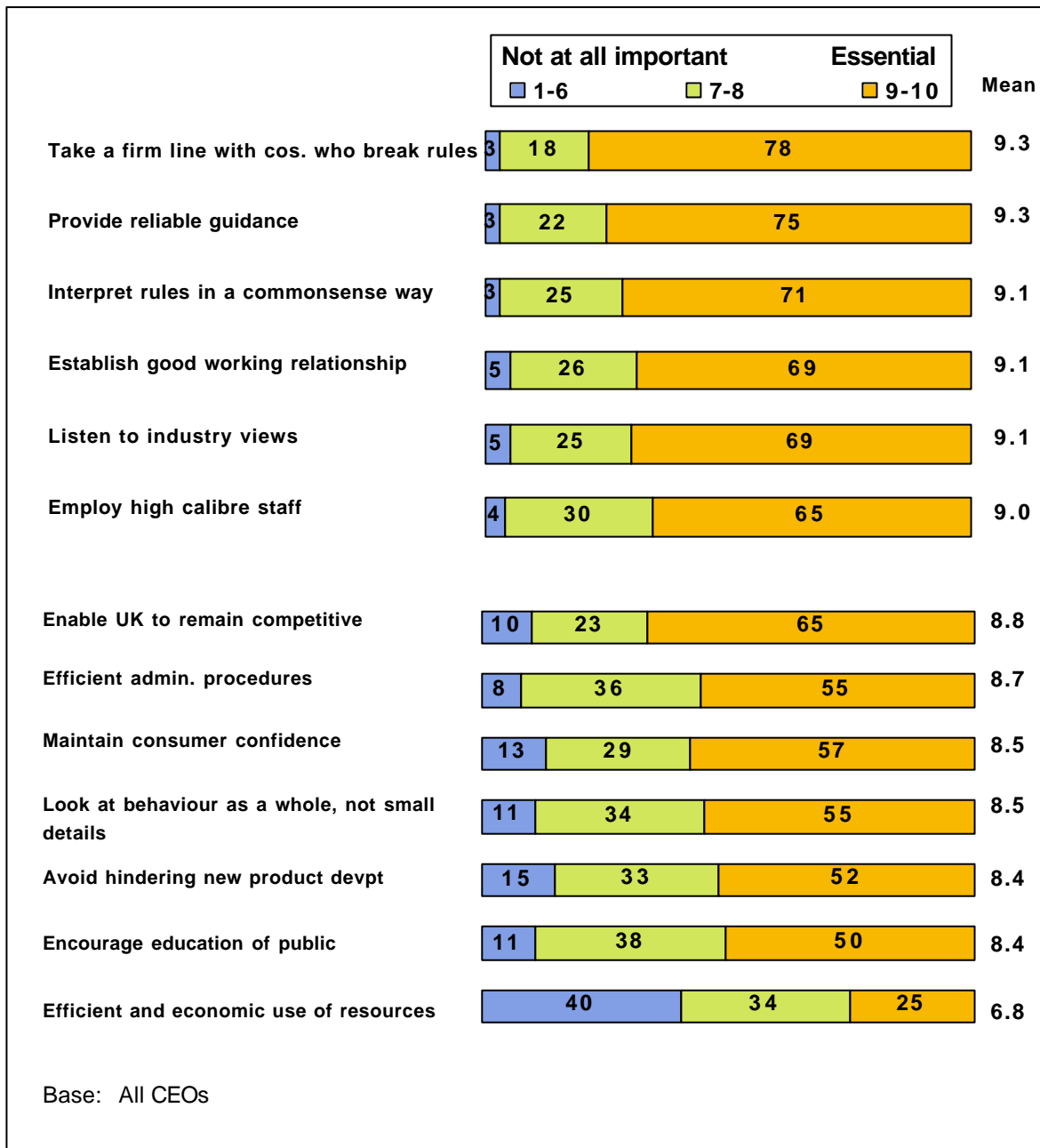
“There should be the right of appeal...It’s a natural right.”

CEO Bank

In the **survey**, we set out to quantify the **relative importance** to practitioners of the various requirements identified in the qualitative research, and then to measure their perceptions of the **performance** of individual regulators on each of the same criteria. The main findings from these questions are reported in this chapter and in the two chapters which follow. More detailed issues about practitioners' relationship with their regulator and with the regulator's staff were also explored in the survey, and these results are reported in later chapters.

Thirteen broad criteria for evaluating a regulator's effectiveness were agreed with the Forum, mainly based on the qualitative research but also taking into account the FSA's stated aims and objectives as a single regulator. Practitioners were invited to indicate the relative importance to them of these criteria by giving each one a rating from 1 to 10. The lowest rating of 1 would indicate that the criterion was 'Not at all important' to them, and the highest rating of 10 would indicate that they believed the criterion was 'Absolutely essential' – or, of course, they could choose any number in between. The 13 criteria are shown in the charts which follow, ranked in order of mean score i.e. the average of all the numerical ratings given.

CHART 3 Most important criteria for evaluating regulator – Chief Executives



The first point to note is that nearly **all** the criteria were seen as very important – average ratings for all except one were between 8.4 and 9.3. This is not surprising, since the criteria were largely based on what practitioners had said was important during the qualitative research. Only one aspect – consumer education – achieved a noticeably lower score. Two of the criteria – ‘take a firm line with businesses which persistently break the rules’ and ‘provide reliable guidance when needed’ stood out as particularly important aspects of the regulator’s role. Three-quarters of chief executives gave these two aspects of regulation the highest possible ratings of 9 or 10, with mean scores of 9.3 in each case.

It is notable that these same two criteria consistently achieved the highest ratings among the chief executives of all types of firm, except for complex groups. For the latter, it was more important – by a narrow margin – for their regulator to ‘interpret rules in a flexible, common-sense way’, ‘establish good working relationships with regulated firms’ and ‘listen to industry views when deciding policies and procedures’.

The latter criteria were close runners-up to discipline and guidance for the chief executives of the other business types, together with ‘employ high calibre, well-trained staff’. All these criteria achieved average ratings of 9 or more among chief executives as a whole.

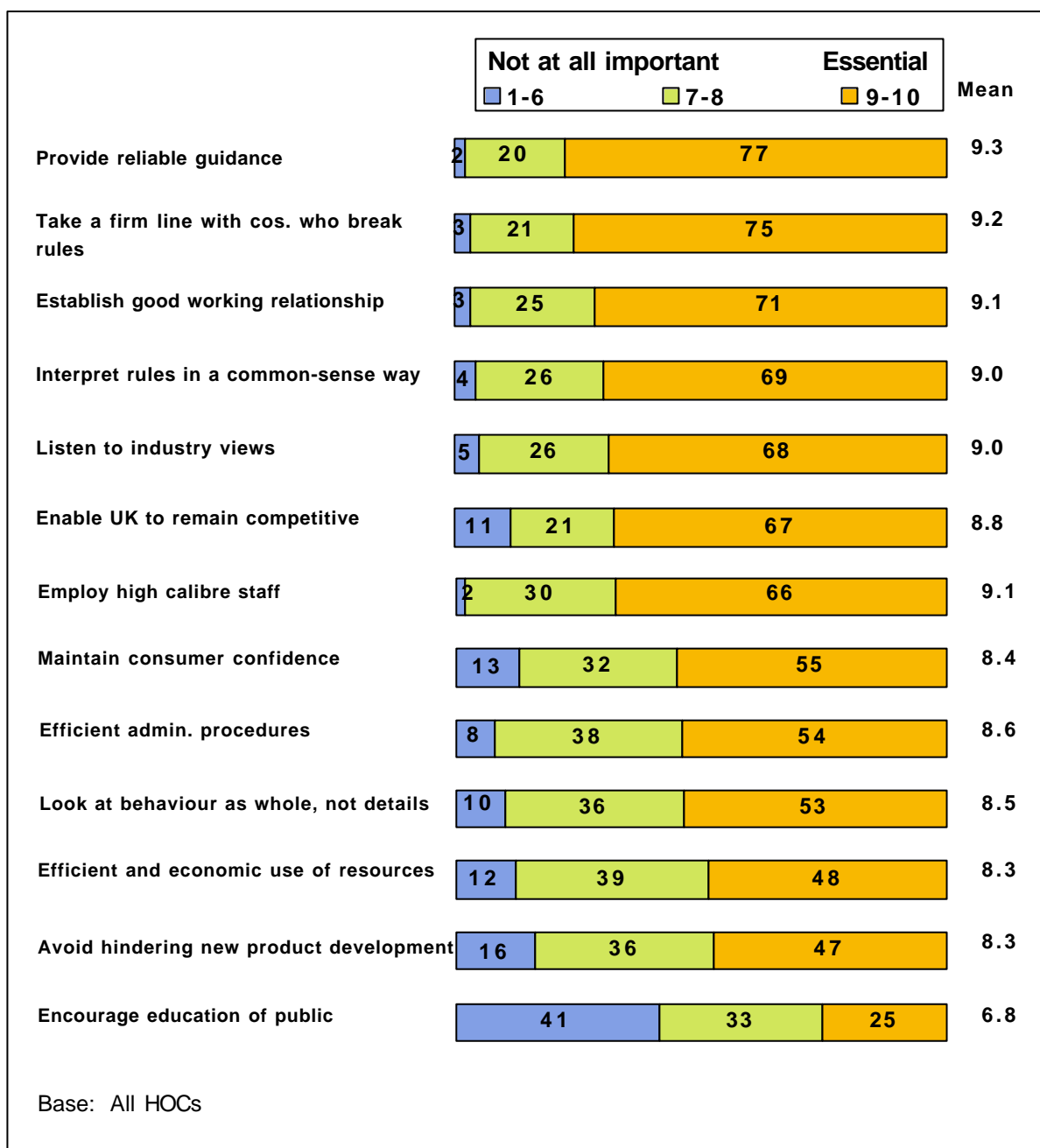
Slightly lower in overall ranking but still all very important to chief executives, with average rating scores ranging from 8.4 to 8.7, were: enabling the UK to remain competitive as an international financial centre; having efficient administrative procedures; maintaining consumer confidence in financial products and services; looking at the behaviour of the business as a whole rather than focussing on small details; not hindering the development of new financial products and services; and being efficient and economic in use of its own resources.

There were some further minor differences across industry sectors, but the pattern of responses was more noticeable for its similarities than its differences.

There was also a remarkable degree of consistency between chief executives and compliance heads in the importance that they attributed to different criteria. The five most important criteria for chief executives were the same for compliance heads, and the top two – ‘take a firm line with businesses that persistently break the rules’, and ‘provide reliable guidance when needed’, were also identical although in a different order.

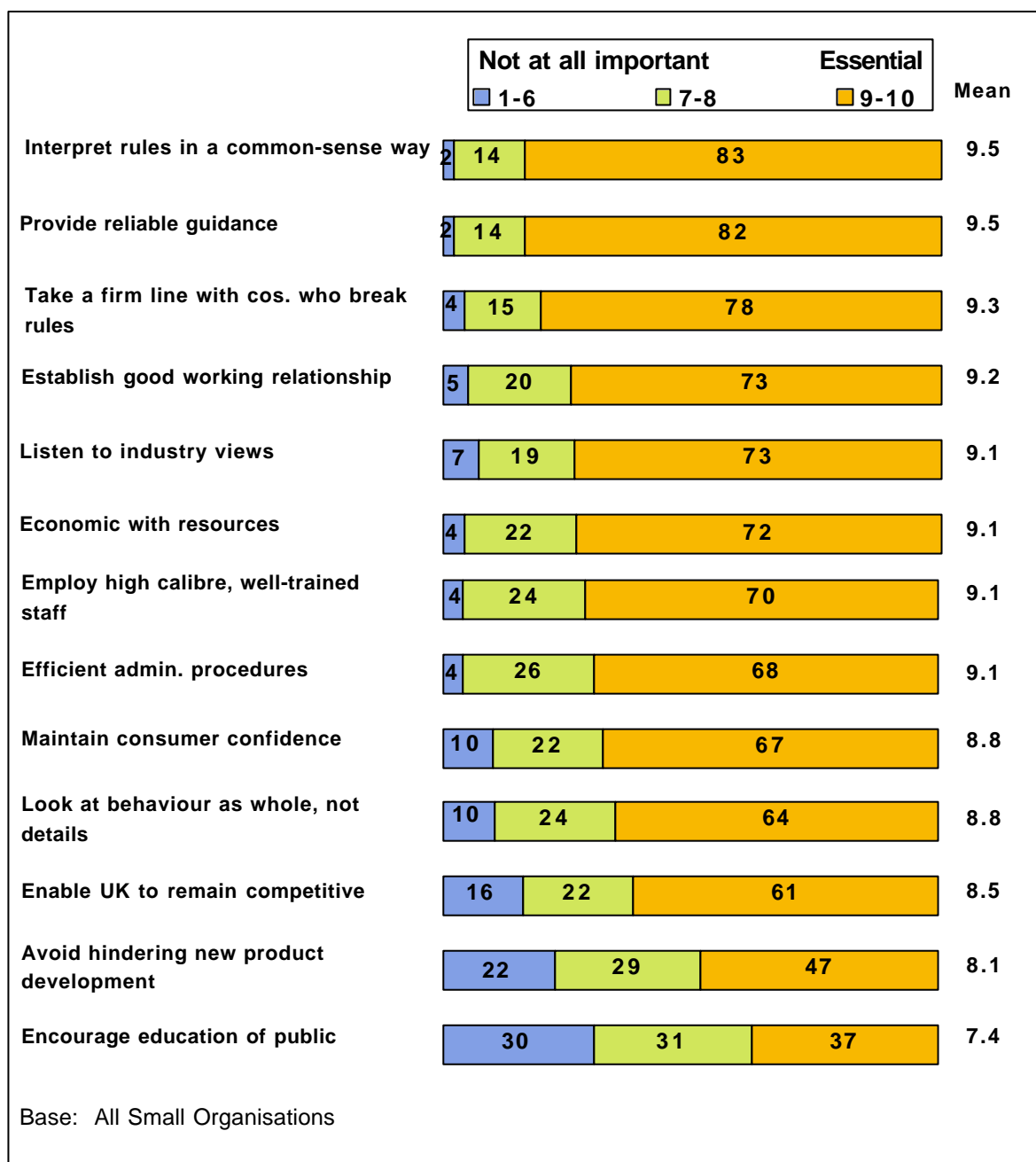
There were only minor variations across different industry sectors in the importance that was attached to the different criteria. All types of firms were in complete agreement that the **least important** attribute for judging the effectiveness of a regulator was ‘encouraging the education of the public about financial products and services’, confirming the findings of the qualitative research that this was not necessarily seen to be part of a regulator’s role.

CHART 4 Most important criteria for evaluating regulator – Heads of Compliance



For small organisations, the pattern was slightly different. The most important requirements for practitioners in these firms were for a regulator to ‘interpret rules in a flexible, common-sense way’ and to ‘provide reliable guidance when needed’. It was also relatively more important for small organisations than for other firms that the regulator should be ‘efficient and economic in the use of its own resources’ and it was relatively less important to ‘enable the UK to remain competitive as an international financial centre’.

CHART 5 Most important criteria for evaluating a regulator – Small Organisations



3. EFFECTIVENESS OF CURRENT REGULATOR

In the **qualitative study**, the majority of the practitioners interviewed did appear to have a good relationship with their current regulator, which was the result of an evolutionary process over the years.

“We have built up a good relationship with the ones we have got at the moment because they have grown to understand our business and we have grown to understand what they want. When you are dealing with the same people over and over, year in year out, it becomes that much easier.”

CEO & HOC Asset Management

Concern was expressed, however, by some people, about the high turnover of regulatory staff, which meant that practitioners had to go through the whole process of educating their new regulator about the nature of their particular business.

“We’ve had three different regulators in three years. . . . You no sooner get someone broken in and understanding your business than they’re gone and someone else comes along.”

CEO Bank

Some people were unhappy about the overall approach of their regulatory body and its regulatory personnel, whom they had found to be adversarial and check list /rule book based, rather than looking at whether the firm had complied with the broad principles of regulation. There were also some criticisms made about the calibre of the staff employed, both in terms of their intellectual ability, their lack of understanding of the business they were regulating, and the unreliability of the advice that they provided.

“They have some very poor people at the coal face. . . . They would be the people who are on the detailed monitoring team, they are. . . of low quality. The only way they can regulate is through what one might call a checklist approach. . . tick the boxes. . . . You’ve got to have people who think beyond that, to actually understand how the business really operates, what they should be looking out for. . . . The people do not understand the instruments of the industry.”

CEO IFA

“They tick and bash, pretty low grade staff...anything that they can’t instantly tick is a cross...Absolutely no balance in them whatsoever about what’s good...What I call aggressive regulation....They can’t tell the wood from the trees. They send along rather uneducated people.”

CEO Bank

Some practitioners felt that their regulator generally facilitated rather than hampered the introduction of new products and services.

“I would say they’re facilitating, providing we explain clearly”

HOC Securities & Derivatives

However there were also some criticisms that regulators were unhelpful.

“They are very reluctant to look at new things...If you come up with something different or try to be innovative, then they are naturally suspicious...You are left on your own, you have to make a decision ‘Am I going to be right? Should I proceed or shall I stand back and not do it?’.....If it goes wrong, they come down on you like a ton of bricks...There is no feedback.”

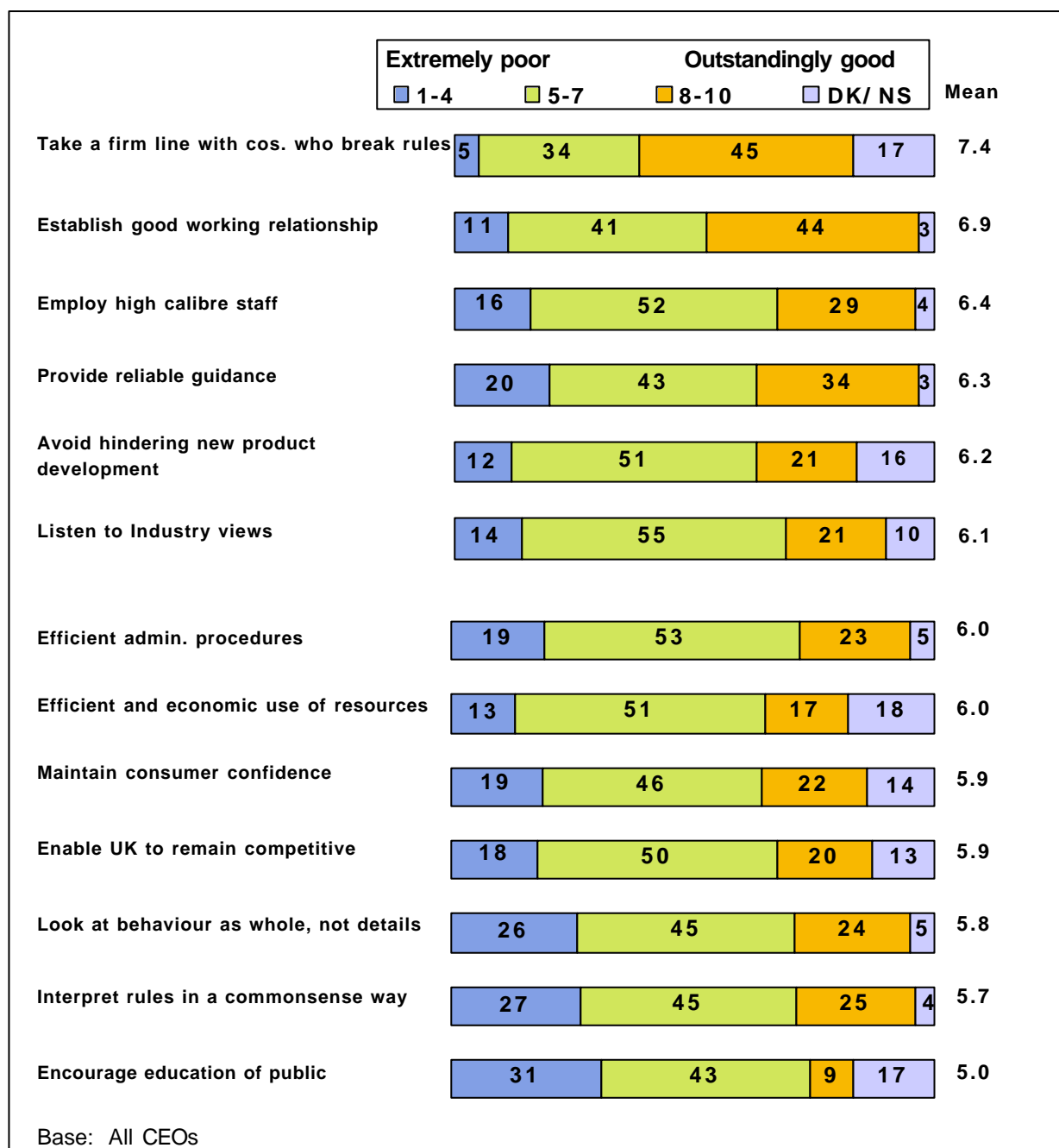
CEO & HOC Asset Management

Clearly, practitioners’ perceptions about the effectiveness of their regulator could vary, depending on the particular personnel they dealt with. Importantly, these perceptions also varied according to which body or bodies they were regulated by. These differences will be covered in the next chapter of the report.

The **survey** provides more robust evidence, drawn from a representative sample of the industry, of how firms feel about their current regulators. Having been asked about the importance of different criteria in judging a regulator, practitioners were then asked to give another rating, from 1 (Extremely poor) to 10 (Outstandingly good), to show how they rated the **performance** of their current regulator on the same criteria. Those who dealt with more than one regulator were asked to reply (on this, and subsequent questions) about the one with which their business had most contact.

The performance ratings generally ranged between 5 and 7, suggesting that most practitioners judged their regulator’s performance as average rather than good.

CHART 6 Performance of current regulator – Chief Executives

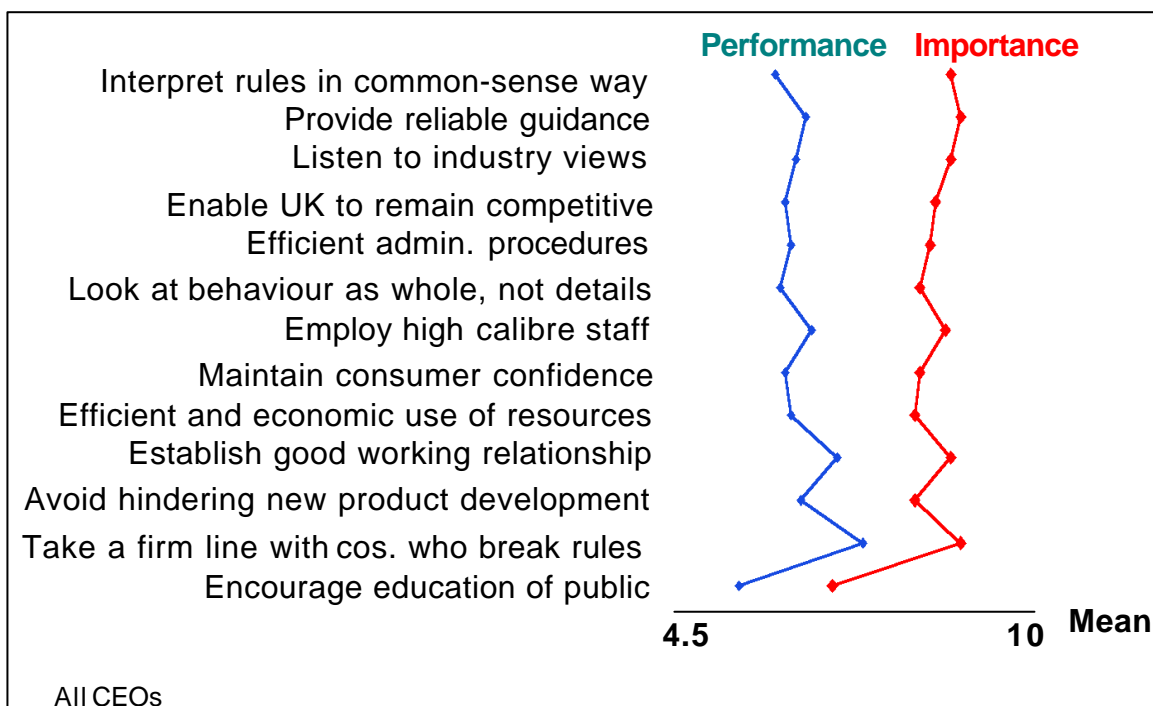


The aspect of their regulator’s performance which was most highly rated by chief executives, with an average score of 7.4, was that also shown to be one of the most important – ‘take a firm line with businesses which persistently break the rules’. Most regulators also received reasonable ratings (average 6.9) for establishing a good working relationship with regulated firms. Average rating scores for most other criteria fell quite close together within a relatively narrow band - from 6.3 down to 5.7 – with consumer education, which has not up to now generally been regarded as part of a regulator’s role, receiving the lowest score of 5.0.

Building societies and firms whose main area of operation was banking or general insurance tended to give their regulator the highest ratings, and IFAs and life/pensions firms almost invariably gave the lowest.

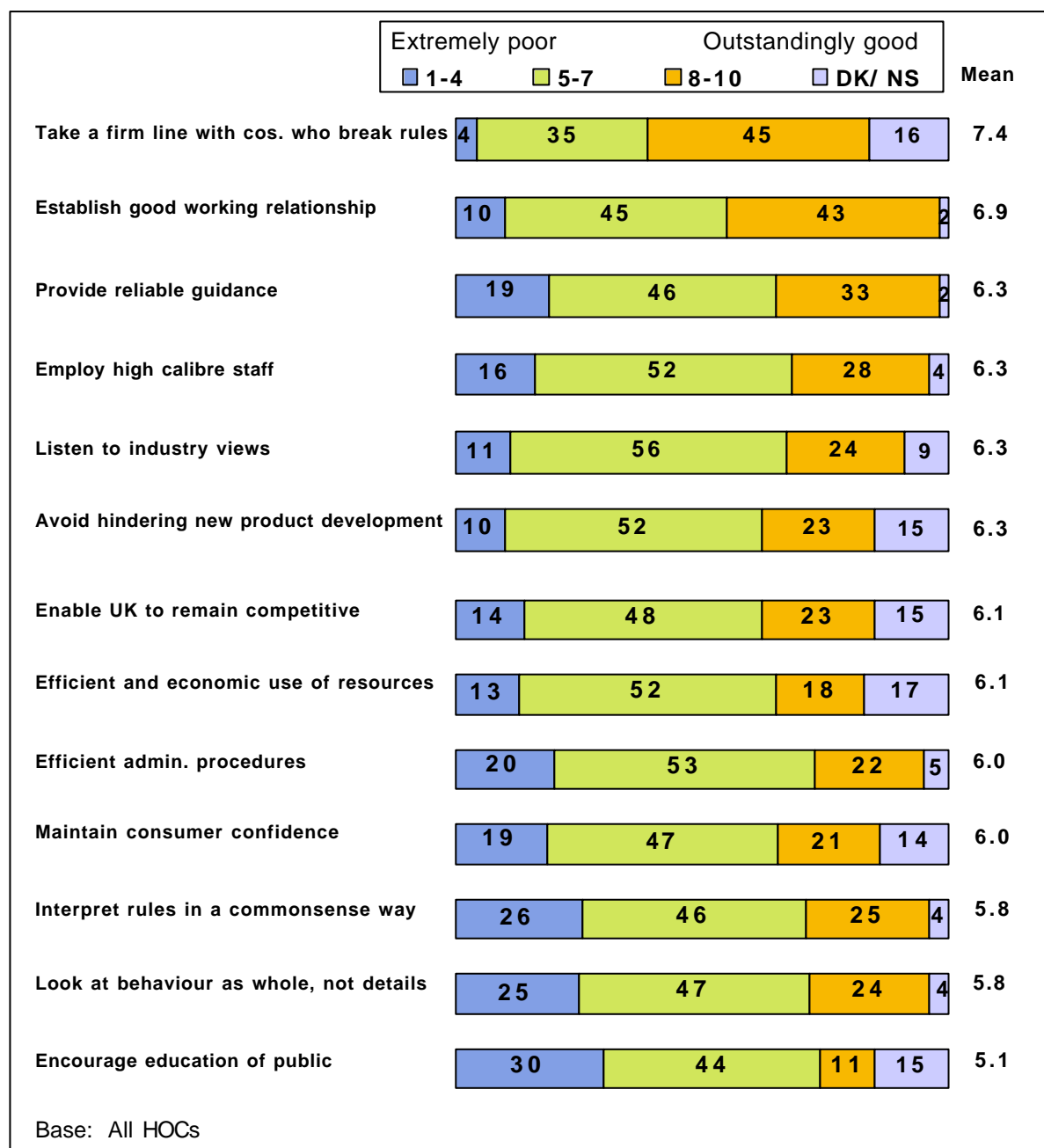
The relative distance between what is most important to practitioners and how current regulators measure up can be seen by plotting the mean scores for both importance and performance on the same chart. For chief executives, the largest gaps between importance and performance were for interpreting rules in a flexible, common-sense way, providing reliable guidance, listening to industry views and enabling the UK to remain competitive. The smallest gaps were on taking a firm line with firms which persistently break the rules, and on encouraging the education of the public.

CHART 7 Importance vs. performance – Chief Executives



The performance ratings given to regulators by compliance heads were almost identical to those given by chief executives.

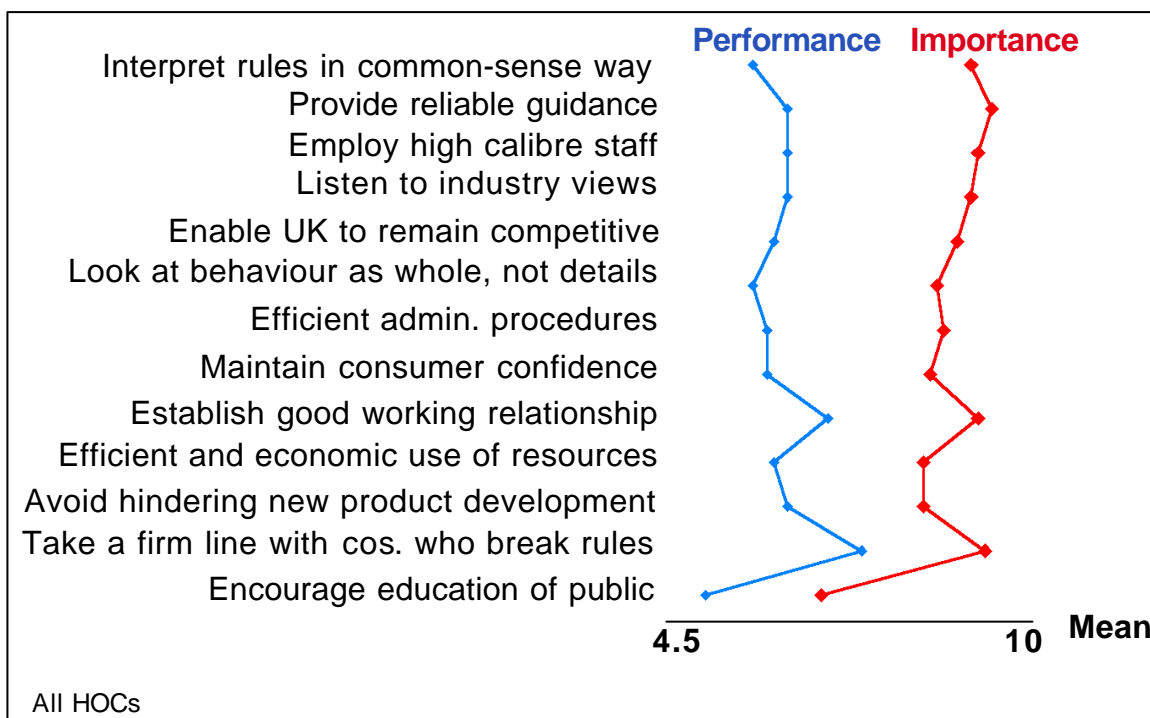
CHART 8 Performance of current regulator – Heads of Compliance



For compliance heads, the largest gaps between the importance of specific criteria and the performance of the regulator were similar to those for chief executives. They included interpreting rules in a common-sense way, providing reliable guidance, listening to industry views and enabling the UK to remain competitive. However, for compliance heads there was an

equally large shortfall in regulators' performance for employing high calibre staff, and looking at the behaviour of the business as a whole, rather than focussing on small details.

CHART 9 Importance vs. performance – Heads of Compliance



The performance scores given to regulators by small organisations were much lower, in most instances, than the ratings by other practitioners. If mean scores are averaged across all 13 criteria, the average of the means is 6.1 for chief executives, 6.2 for compliance heads and only 4.8 for small organisations. The small organisations gave particularly low scores to their regulators for interpreting rules in a flexible, common-sense way, and looking at the behaviour of the business as a whole. In comparison with chief executives and compliance heads, they also felt their regulators performed poorly on establishing a good working relationship.

For practitioners in small organisations, as for other firms, the largest gaps between importance and performance were for interpreting rules in a flexible, common-sense way, and for providing reliable guidance. For these firms, the regulator also fell far short of the ideal in terms of the efficient and economic use of its resources, looking at the behaviour of the business as a whole, and establishing a good working relationship.

CHART 10 Performance of current regulator – Small Organisations

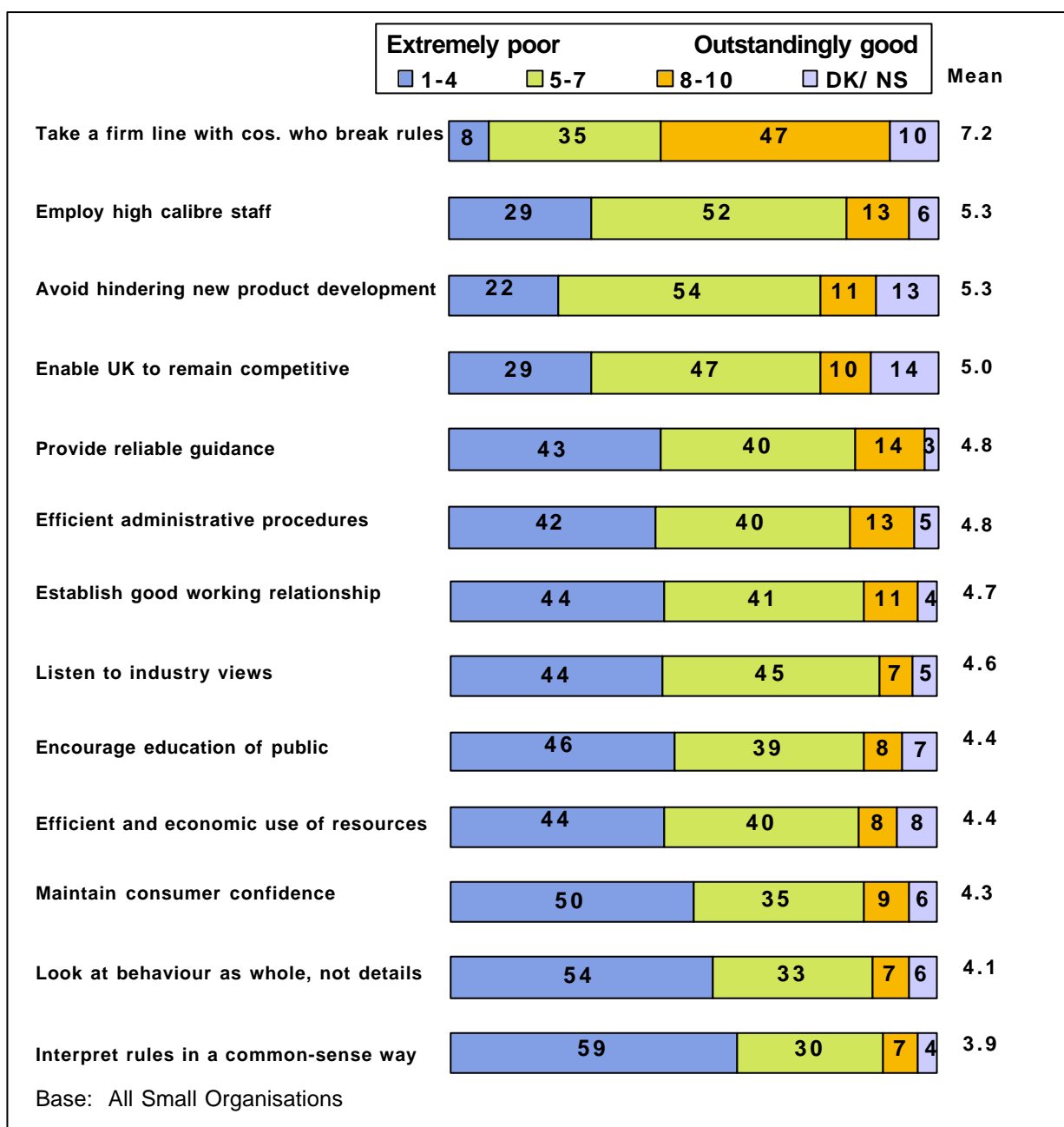
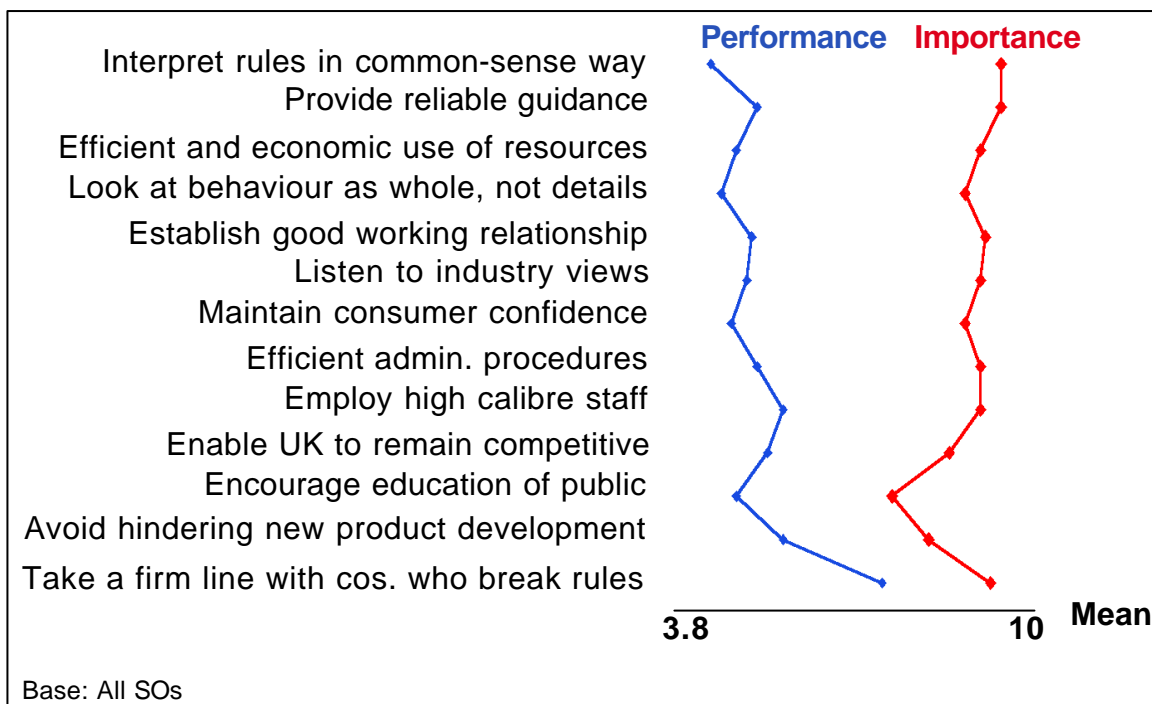


CHART 11 Importance vs. Performance – Small Organisations



Both the qualitative study and the survey also identified some interesting differences in practitioners’ perceptions of individual regulators, and these are explored in the next chapter.

4. PERFORMANCE OF INDIVIDUAL REGULATORS

PIA, IMRO and SFA

The **qualitative study** suggested that the three Self Regulating Organisations (SROs) tended to be more rule book based, more likely to pick on small mistakes and sometimes to create disproportionately high compliance costs for something that was not particularly important, rather than looking at the principles involved or the end result. They were often felt to act more in a policing role, rather than being willing to have a genuine dialogue.

“The SFA are very rules and regulations orientated and they write a rule book saying thou shalt not breach rule x, y or z at pain of some fine.”

HOC Bank

Although, on balance, firms that were regulated by the PIA had a good relationship with the staff concerned, the PIA was seen as the most draconian of the three bodies. Some practitioners felt they were generally suspicious of the practitioner firms and appeared to assume that the firm was guilty before they even started, particularly when looking at the issue of pensions mis-selling. Practitioners pointed out that a check list approach to supervision would not ensure that the principles of consumer protection were maintained or that actual criminals would be caught.

“Sometimes they may be a bit overzealous in terms of the rules... Their approach to certain things like pensions mis-selling, our experience when they come here is that they’ve set out with ‘Right, we’re going to fine these people and we’re going to find something to do that’. A heavy handed approach. You’ve got to take each firm on its merits. They’ve got to be impartial.”

HOC IFA

“The only way they can regulate is through what one might call a checklist approach, ‘Have you done these things?’ Tick the boxes. Well that is where you get things wrong... They will never identify the real potential problems through that because the people who are going to run a serious scam... will design systems that will allow them to have ticks in all the boxes.”

CEO IFA

Building Societies Commission, Friendly Societies Commission and Registry of Friendly Societies

The building societies interviewed at the qualitative stage tended to feel that the BSC was reasonably flexible in its approach, willing to have a dialogue and apply a more common-sense approach to compliance.

“Occasionally they get overzealous but you can bring them back to the real world. Reasonably intelligent and they are able to interpret the rules and regulations in a common-sense form, as opposed to here are the dots and there are the commas, rather than what is to be achieved.”

CEO Building Society

There seemed to be a feeling that the FSC was not particularly demanding. The Commission was felt to do an acceptable job of regulation.

On the other hand, there was some concern that the RFS was rather slow in terms of registering new credit unions. There was some belief that the Registry did not really understand credit unions properly and their particular problems of employing volunteer staff.

“At the moment they seem to be operating incredibly slowly, requests for registration...(Understand business?) Not really, no. We’ve got problems motivating volunteers, that’s not acceptable to the Registry...They shouldn’t expect Credit Unions to provide the same information as those organisations because we don’t have the resources.”

CEO Credit Union

FSA/Bank of England

At the qualitative stage, banks, which are now under supervision by the FSA, tended to make comparisons with the Bank of England, their previous regulator. They felt that the Bank of England had been an extremely effective regulator because it looked at the broad aims and principles of regulation, rather than being rule book based. The Bank had applied a light touch and had been highly flexible. Importantly, it had very high calibre staff who understood the banking business. The Bank of England personnel had built up good working relationships with banks and treated them as partners. They had always been ready to give advice and have a two-way dialogue.

“The Bank of England is by far the highest calibre in terms of people and understanding. Their previous style was pretty intimate and they got into the guts of the business pretty quickly. They listened to what you had to say and assume that you’re a reasonable human being.”

CEO Bank

“The Bank of England was never rules based.”

CEO Bank

In contrast, banks were critical of the FSA as their new regulator. Those interviewed felt that the approach of the FSA had changed considerably from that of the Bank of England. The FSA was

seen as more adversarial and more aggressive in its application of regulation, even though the monitoring teams had often remained the same. The FSA was felt to be too rule book based and picked on small errors, rather than looking at the broad principles of regulation. This had resulted in increased compliance costs because more executive time had to be spent collecting extra data, rectifying small mistakes and spending time with regulatory teams when they visited.

“What’s happened is that our paperwork’s gone up like that, on compliance. It’s costing us at least three percent of our profits. They’re inventing interpretations of existing rules which are different from what they had before....What most people are objecting to is that we’re getting aggressive regulation of people who are mainly law abiding....The style of regulation is much more aggressive than it used to be in practice.”

CEO Bank

“More documented, less informal....developing a rule based approach rather than the informal ‘We understand your business, you understand us, let’s see if we can solve this problem’. We’re talking a process of change certainly on a monthly basis and almost on a weekly basis...The FSA has its own Enforcement department and we’ve seen it used already. We end up in a much more ..Us and them. Not happy about that.”

HOC Bank

This approach may vary according to the team employed but there did appear, from the qualitative stage, to be a perception of a change in the overall atmosphere in which regulation was being conducted by the FSA.

In the **survey**, some of these qualitative findings about individual regulators were confirmed by a more detailed analysis of the performance ratings for the regulators with which businesses had most contact. The number of respondents giving answers about a particular regulator varies, and responses about the BSC, FSC and the Treasury are based on quite small sample sizes. The results for these bodies are less reliable, therefore, than for the other four regulators, although they do add weight to the qualitative findings. For small organisations, only three regulators, the PIA, FSC and FSA, were relevant.

It should be noted that the firms which judged the different regulators were themselves different, both in their main area of business and their priorities. The firms which regarded the PIA as their main regulator were primarily IFAs and life/pensions firms. Those rating IMRO nearly all stated their main area of business as investment management. Most firms whose main regulator was the SFA were in the securities and derivatives business, but there were also some whose main business was investment banking or investment management. The BSC and the FSC clearly had their own highly specialised constituencies. The majority of firms which regarded the

Treasury as their main regulator were offering general insurance products, the remainder were in the life/pensions business.

For the FSA, ratings from chief executives and compliance heads came primarily from firms whose main area of business was banking or general insurance (the latter from the Insurance database), although some firms from the SFA database were also included. Two out of three small organisations which regarded the FSA as their main regulator were IFAs drawn from the PIA database, the rest being made up of ex-IBRC firms offering insurance or life/pensions products.

As already indicated, there is evidence of confusion about the FSA's role during the transitional period, particularly among firms whose main regulator is still the PIA. These firms are indeed being supervised by staff employed by the FSA. However, these FSA staff – who in many cases are former employees of the PIA – are at present working under contract to the PIA, which retains responsibility for regulation until the FSA assumes its full powers. Confusion between the responsibilities of the FSA and the PIA during the transitional period is therefore not surprising and this has clearly contributed to the ratings given to the FSA.

The situation is comparable for those chief executives and compliance heads who identified the FSA as their main regulator, but were drawn from the SFA or Insurance databases.

Echoing the qualitative findings, the **PIA** stands out as having received consistently lower performance ratings than all other regulators on 12 of the 13 criteria, and across all three groups of practitioners. Particularly low ratings – with mean scores of 4.9 or less from all three groups – were given for looking at the behaviour of the business as a whole, interpreting rules in a flexible, common-sense way, having efficient administrative procedures, maintaining consumer confidence, and encouraging the education of the public.

IMRO and the **SFA**, the other two SROs, were given broadly similar performance ratings by both chief executives and compliance heads. In most cases scores were lower than all other regulators except the PIA. IMRO scores tended to lag slightly behind those given to the SFA.

With few exceptions, the **Building Societies Commission** consistently received the highest ratings from both chief executives and compliance heads. The **Friendly Societies Commission** tended to receive ratings which were better than for PIA, IMRO and the SFA, but lower than those given to the BSC. Credit unions (regulated by the RFS) were not included in the main survey.

The **Treasury** was quite highly rated by chief executives (but not by compliance heads) for establishing a good relationship with regulated firms, providing reliable guidance, interpreting rules with common sense, looking at the behaviour of the business as a whole, not hindering the development of new products, and enabling the UK to remain competitive.

On the other hand, the Treasury received the lowest rating of any regulator, from both groups, for taking a firm line with businesses which persistently broke the rules. It also received the lowest rating after the PIA for maintaining consumer confidence and encouraging the education of the public (both groups), and for having high calibre staff and making efficient and economic use of its resources (compliance heads only).

The **FSA** received very similar ratings from both chief executives and compliance heads. It was perceived as equal or superior in performance to all regulators except the BSC for listening to industry views and employing high calibre staff. Among chief executives, it received higher ratings than any other regulator for enabling the UK to remain competitive internationally and encouraging consumer education. For nearly all criteria, ratings were higher than for IMRO and the SFA.

Among the small organisations which regarded the FSA as their main regulator, ratings were uniformly poor, on a par with those given to the PIA. As already noted, confusion between the responsibilities of the FSA and the PIA is likely to have affected the FSA ratings. Ratings were particularly low for interpreting rules in a common-sense way (3.9), looking at the behaviour of the business as a whole (4.1), and maintaining consumer confidence (4.2). The latter may relate to the FSA's role in publicising the review of pensions mis-selling through TV advertising, which attracted some criticism in the qualitative research.

5. PROVISION OF GUIDANCE

In the **qualitative study**, most respondents had, over the years, sought advice and guidance about rules or regulatory policy from their regulatory team. However the reliability and consistency of advice given did appear to vary somewhat, as did the length of time taken to respond to the request for guidance. Some practitioners were very satisfied with the guidance that they had received. Others, however, were more critical. The main criticisms from practitioners were that junior regulatory staff had insufficient knowledge about their business to be able to provide accurate guidance or that they had not been prompt enough in giving advice. There was a feeling here that, because of this, it was important to make sure that the advice came from a senior level. For example, there was some suggestion that the PIA in particular, via the PIA Helpline, had been more likely to take a long time to give advice and that the guidance given by junior staff was sometimes incorrect.

“My peer group very often will write to somebody in a more senior position to get chapter and verse on a particular issue, because they don’t trust the helpdesk or the monitoring teams because of lack of experience.”

CEO Building Society

On the other hand, the fact that the PIA Helpline is anonymous had been appreciated, because it meant that practitioners had not needed to worry, when they called up for guidance, that the regulator might take action against them because they had done something wrong.

“The members helpline which was great because it was anonymous. You could ring up and say ‘I’ve got a problem, how would the PIA deal with it?’ ”

HOC Investment Management

In the future, practitioners wanted the FSA to provide clear and unambiguous guidance within a reasonable time frame. They felt that they should be able to ask advice without any fear of putting themselves in the wrong and encountering investigation or disciplinary action against them.

In the **survey**, compliance heads and practitioners in small organisations (not chief executives) were asked a series of questions about their experience in relation to the provision of guidance by their current regulator. They were also asked to say what they saw as the most important priorities for the FSA, in their future provision of guidance for the industry.

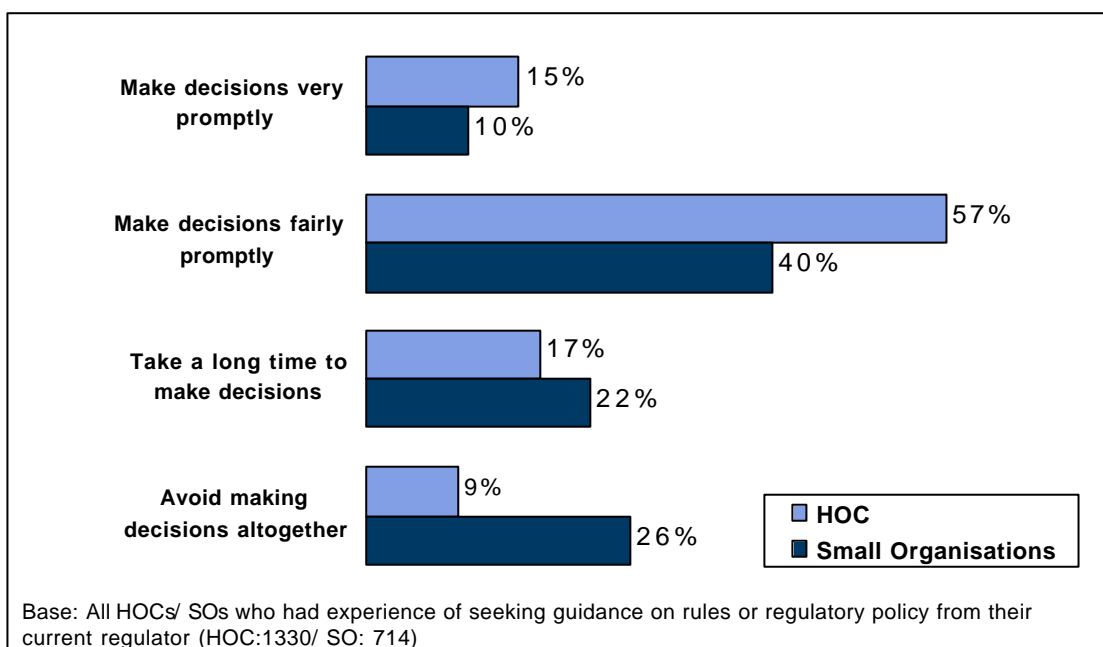
85% of compliance heads and 72% of small organisations had had experience of seeking guidance on rules or regulatory policy from their current regulator. The experience was less

common for friendly societies, and firms providing general insurance products, where only about two-thirds said they had done so.

Those who had sought guidance were asked to comment on the **promptness, clarity and consistency** of the guidance provided.

Three quarters of compliance heads and half of small organisations felt that decisions were made promptly, although most described this as ‘fairly promptly’ rather than ‘very promptly’. Around one in five indicated that their regulators took a long time to make decisions. A quarter of small organisations, but only one in ten compliance heads claimed that they avoided making decisions altogether.

CHART 12 Promptness of decision-making by current regulator



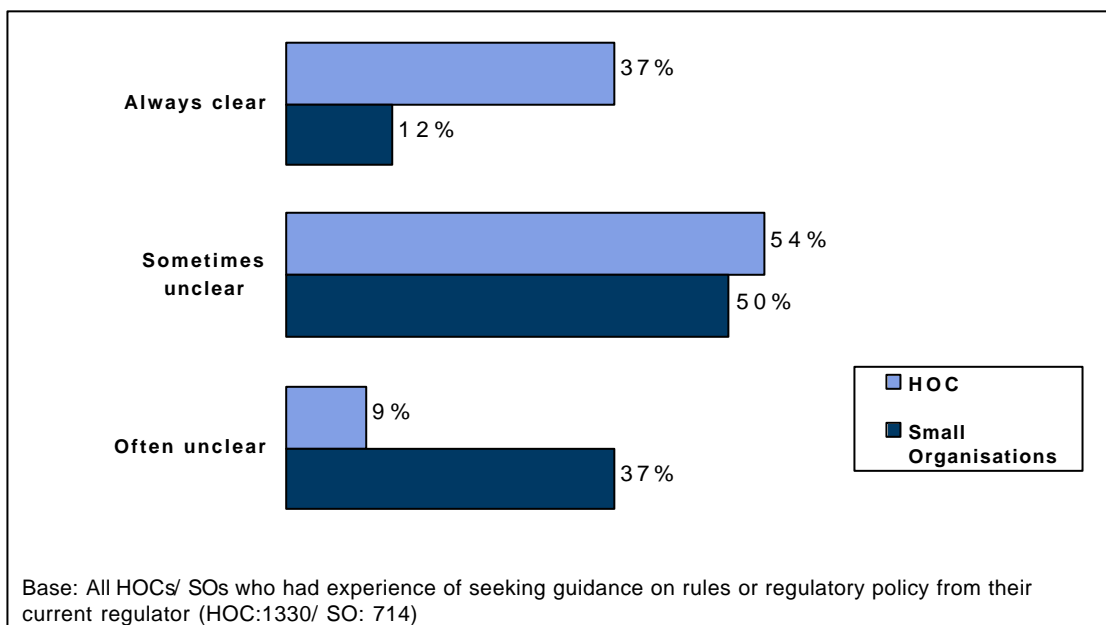
The regulator which was felt to be worst at decision-making was the PIA, with almost half stating the regulator either took a long time to make decisions or avoided making them. Opinions were most negative among small organisations. The regulators most highly regarded by compliance heads were the Treasury and the BSC, which were more frequently felt to make decisions very promptly and never thought to avoid making them altogether. Views about the FSA, IMRO and the SFA fell between these two extremes.

However, among practitioners in small organisations, views of the FSA’s ability to make decisions were almost as negative as those of the PIA, and feelings about the FSC were only slightly more favourable.

Practitioners were then asked about the clarity of the guidance provided. Only a third of compliance heads felt that the guidance they received from their regulator was ‘always clear’, but this rose to half of those whose main regulator was the FSA, the BSC or the FSC, and nearly two thirds for those regulated by the Treasury. Less than one in ten compliance heads thought guidance was ‘often unclear’. Practitioners in small organisations were much less likely than compliance heads to say that guidance was always clear, and much more likely to say it was often unclear.

Again the PIA was seen in the most negative light, with only 13% of compliance heads and 11% of small organisations feeling that guidance from this regulator was always clear; 18% of compliance heads and 37% of small organisations felt it was often unclear. IMRO and the SFA both performed rather better than the PIA but less well than the other regulators. Regarding the FSA, there was a major difference in opinion between the two groups. Whilst compliance heads rated the FSA’s guidance as above average, practitioners in small organisations placed the FSA below even the PIA, with 42% saying that guidance was often unclear. Once again, confusion about the respective roles of the PIA and the FSA has affected these results.

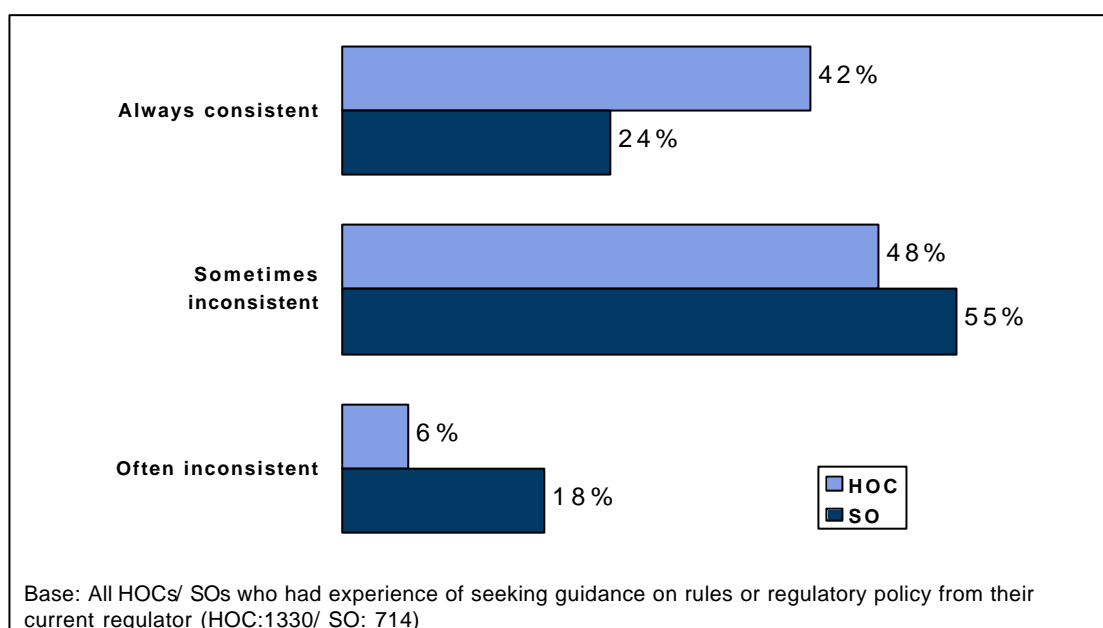
CHART 13 Clarity of guidance provided by current regulator



A similar pattern emerged in relation to the consistency of guidance over a period of time. Overall, about two fifths of compliance heads felt that guidance from their regulator had always been consistent and this rose to 63% for firms regulated by the Treasury and 79% for the BSC. The FSA was below these two and the FSC but above the other regulators with 53%, while the PIA had the most negative responses with only 21% saying guidance had always been consistent.

Among small organisations, the PIA and the FSA were seen as equally poor.

CHART 14 Consistency of guidance provided by your current regulator



Practitioners were then asked an open question about the most important priorities for the FSA in their future provision of guidance. Most provided very full answers, suggesting a variety of issues that the FSA needed to consider. Only those mentioned by at least 6% are discussed here.

The most frequent plea across all industry sectors was for the FSA to provide guidance which was clear, concise and unambiguous, mentioned by over a third of compliance heads and almost a third of practitioners in small organisations. A quarter of small organisations and a fifth of compliance heads asked that the new regulator should apply broad principles rather than narrow rules - this figure was higher than average for both complex groups and small IFAs.

It was also important for both groups that the FSA should try to understand and work together with firms rather than against them, and should understand the diversity of regulation that was needed. For compliance heads, consolidating and streamlining regulatory practice was an even higher priority.

Employing individuals who understand the business, the even-handed application of rules and regulations and encouraging innovation were all cited as priorities by compliance heads, while small organisations placed greater emphasis on protecting consumers, reducing costs and the administrative burden and building consumer confidence.

CHART 15 Priorities for FSA in future provision of guidance – Heads of Compliance

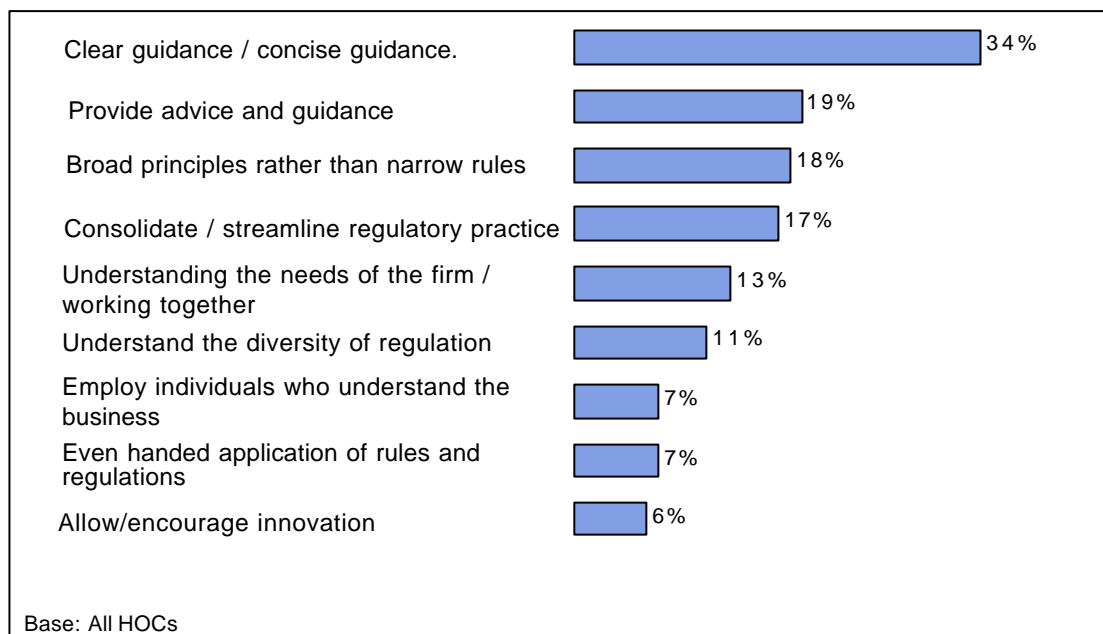
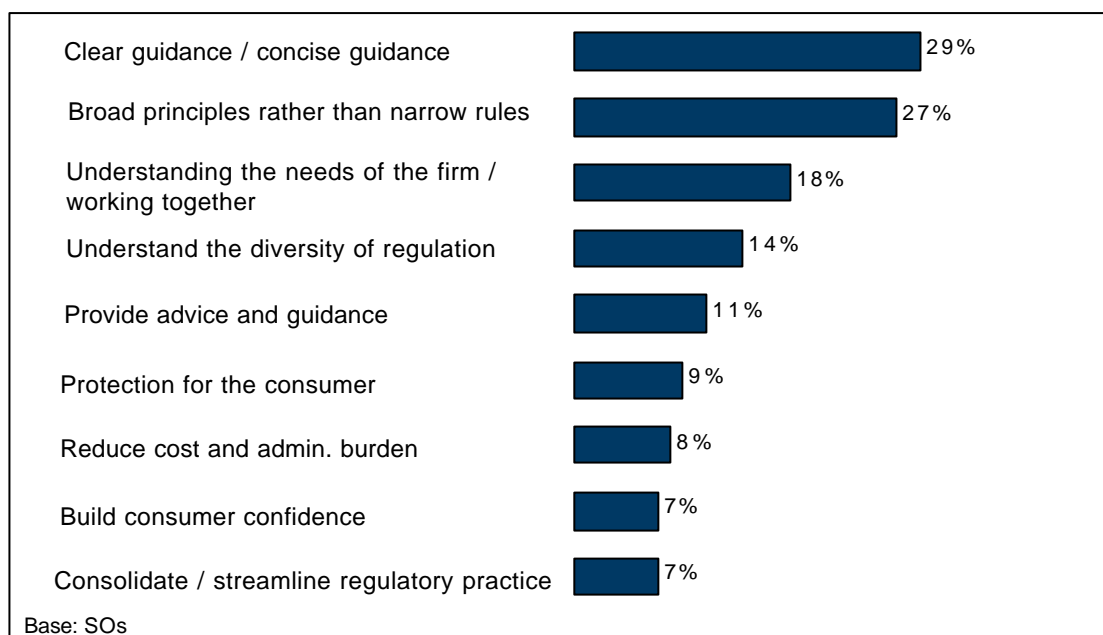


CHART 16 Priorities for FSA in future provision of guidance – Small Organisations



There were some additional priorities identified in specific sectors of the industry :

Heads of Compliance

Banking	Not to restrain development of London as a financial centre (9%)
Investment banking	Maintain balance between control and innovation (8%)
Insurance – general	Maintain balance between control and innovation (10%)
Life/pensions	Reduce cost and administrative burden (8%)
Building societies	Maintain balance between control and innovation (12%)
	Encourage consumer education (10%)
	Reduce cost and administrative burden (9%)

Small Organisations

Insurance – general	Punish persistent offenders (8%)
Life/pensions	Maintain balance between control and innovation (8%)

6. SUPERVISION AND INVESTIGATION

The **qualitative study** suggested that there was a variation in the approach to supervision according to the particular regulatory body involved. The PIA and the FSA were seen as more **adversarial**, assuming that a firm was guilty unless proved otherwise, and tending to look for the things that were wrong rather than praising things that had been done well. They appeared to adopt more of a **box-ticking, rule book approach**, finding fault with small mistakes rather than looking at whether the firm was complying overall with the **broad principles of regulation**.

“They’ve got an attitude of ‘You are the regulated, we are the regulators so do as you’re told’, whether it’s a stupid thing that bears no resemblance to what happens in the real world or not.”

HOC Investment Management

The other regulatory bodies seemed to be more balanced in their approach to supervision, although there were also complaints from some practitioners regulated by other bodies that their regulators looked **more at the processes than at the principles** or the overall result that was supposed to be achieved by regulatory supervision.

“Any mistake big or small. In order to correct a mistake for policyholders in total value of three thousand pounds, we might have to spend fifty thousand pounds sorting it out, which is absurd.”

CEO Friendly Society

Although some practitioners believed that their regulator made a proper **assessment of the risk** involved in their business, others felt that this was not the case and that they were being treated more stringently than the nature of their business required.

The **frequency of site visits** varied enormously depending on the market sector. In the main, the frequency was felt to be acceptable. Some banks felt the FSA had increased the frequency of site visits, which was found unnecessary and time consuming.

With some exceptions, site visits and close-out meetings seemed to have passed reasonably successfully and supervision staff were, in the main, **willing to hold a dialogue** on site about compliance issues. Compliance heads were in favour of themed visits, concentrating on a particular aspect of the business, rather than trying to deal with all the minutiae.

“When they come and visit, the areas that they look at they will look at in great detail, but they will not look at every single aspect....Every eighteen months to two years, that’s absolutely fine.”

HOC Securities & Derivatives

However, sometimes **information which had been requested** to be sent prior to the visit was not actually used by the regulator when visiting the firm or was requested again when on site, giving the impression that different parts of the regulatory team were not in touch with one another. This was annoying because preparing this data took up staff time.

“Within the PIA at the moment the left hand doesn’t know what the right hand is doing, and on a pre-visit they ask you for a lot of information to be sent over first. When they come down they ask for all this information all over again for whatever reason, maybe in the same format, maybe in a different format.”

HOC Investment Management

There was some criticism, particularly from those supervised by the PIA and the FSA, that the post - visit reports sometimes raised issues that had not been brought up during the site visit, or that the emphasis of the report had been more negative than had been indicated during the site visit.

“But the actual report bears no relation at all to the debriefing, ‘Yes you did very well’, and then the report slams you.”

HOC Investment Management

A further problem was that some supervisory staff appeared unwilling to give **recognition to the overall high standard of compliance**, focusing only on, often small, mistakes. This was disheartening for practitioners who had spent considerable time trying to ensure that they were complying with the rules.

“Letters saying we notice this, this and this was bad, not saying that everything else is glittering.”

CEO Bank

Post- visit reports were generally on time and gave sufficient time for firms to reply to any issues raised.

A number of the firms, because of the varied nature of their business, had more than one regulator. They tended, however, to have one main regulator who supervised their business. Some, particularly those regulated by IMRO and the PIA, felt that there was no real **co-ordination between the various regulatory bodies**.

“They don’t talk to each other it seems. They’ll come back and ask you for a lot more information that you’ve already given. A will ask for all the information to be given to B, B

will ask you for the information that C has already got and has agreed is okay. They seem to be in almost like little towers, they don't communicate."

HOC Investment Management

However, others seemed reasonably happy with the level of co-ordination between the different regulators.

"It's reasonably co-ordinated."

HOC Securities & Derivatives

In the **survey**, these detailed comments were used as input to the design of questions about supervision and investigation, responses to which confirmed many of these qualitative findings. A question about the current regulator's general approach to supervision was included for all practitioners. Compliance heads and practitioners in small organisations were asked additional questions about the regulator's supervisory staff and, if the business had more than one regulator, about the effectiveness of the co-ordination of supervision.

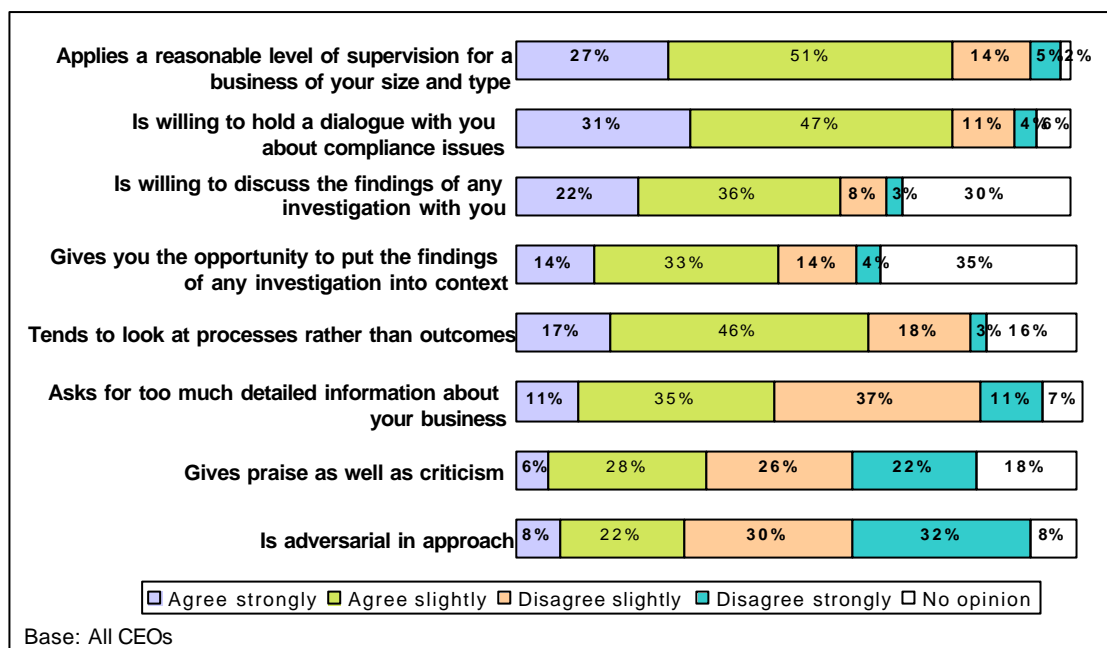
First of all, everyone was asked how much they agreed or disagreed with eight descriptions of their current regulator's approach to supervision. As for previous questions of this type, practitioners could choose their answers from a four point scale, from 'Agree strongly' to 'Disagree strongly', or they could select a 'No opinion' option.

Looking first at the answers given by chief executives, it is clear that their views about some aspects of their regulator's approach are surprisingly positive. Nearly 80% of chief executives agreed that their regulator applied a reasonable level of supervision for a business of their size and type and that the regulator was willing to hold a dialogue with them about compliance issues.

Those who were able to give an opinion also expressed quite positive views about the regulatory approach during an investigation. 58% agreed (against only 12% who disagreed) that their regulator was willing to discuss the findings of any investigation with them, and 47% agreed (against 18% who disagreed) that the regulator gave them the opportunity to put the findings of any investigation into context.

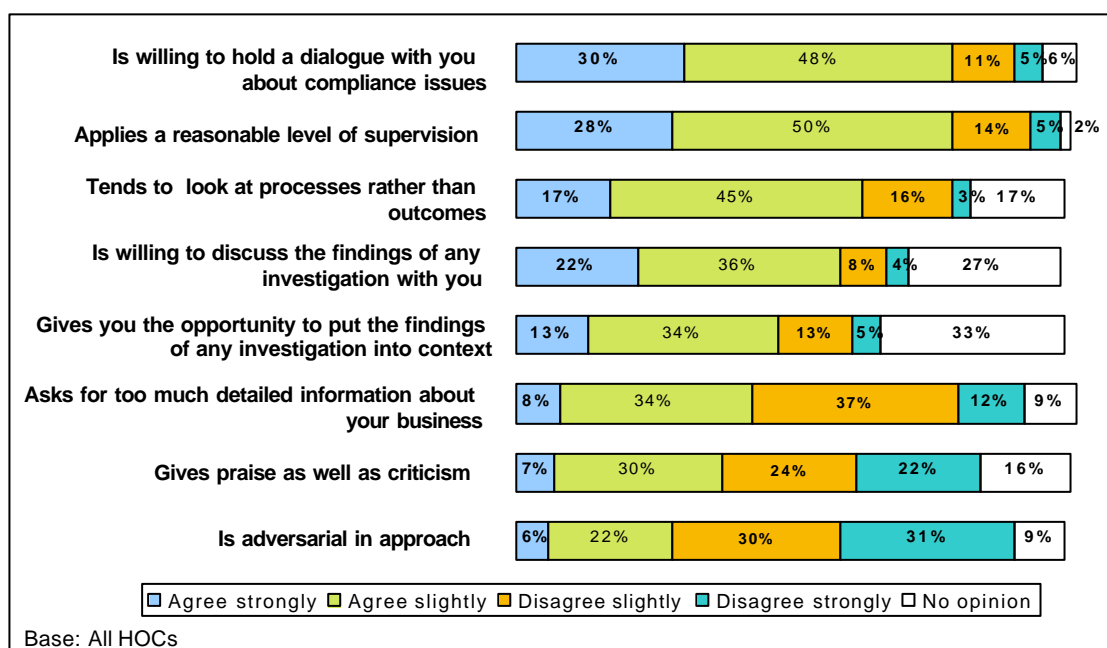
There were, however, other aspects where opinions about the regulator's approach were more mixed. Almost two thirds of chief executives indicated that their regulator tended to look at processes rather than outcomes, and about half that they asked for too much detailed information about their business. Only a third agreed that their regulator gave praise as well as criticism. A similar proportion felt that their regulator was adversarial in approach.

CHART 17 Current regulator's approach to supervision – Chief Executives



Compliance heads held very similar views to chief executives about their regulator, and overall levels of agreement were within 1-2% for most of the descriptions.

CHART 18 Current regulator's approach to supervision – Heads of Compliance

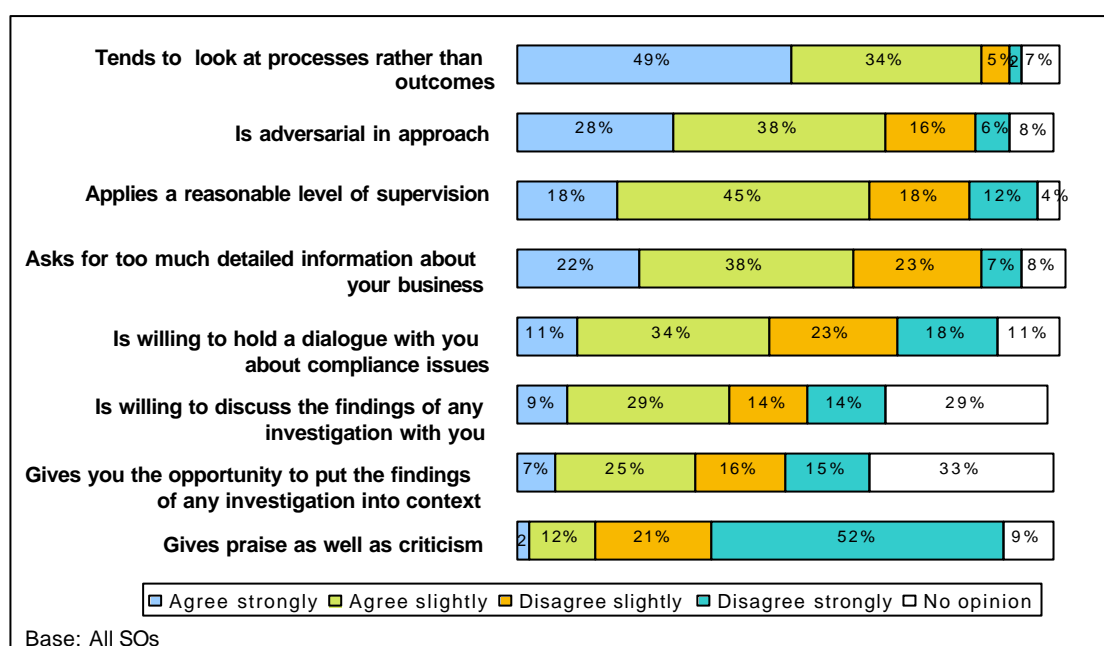


Looking in more detail at the results in relation to individual regulators, a pattern emerges in which the PIA was again regarded least favourably, especially for looking at processes rather than outcomes (eight in ten agreed), being adversarial (over half agreed), and giving praise as well as criticism (less than one in five agreed). The FSA did better than average on all three of these dimensions, and was in line with the average on the rest.

The views of practitioners in small organisations, as for previous questions, were much more negative than others on all dimensions, with particularly strong differences – in a negative direction – on the regulator being adversarial (two thirds agreed, compared with less than a third for the other practitioner groups); being willing to hold a dialogue (45% agreed cf. 78% for other groups); looking at processes rather than outcomes (83% cf. 62-63%) and giving praise as well as criticism (14% cf. 35-36%).

The views expressed by small organisations were equally critical of both the PIA and the FSA, although again some firms were clearly confused about which of these was now their main regulator.

CHART 19 Current regulator’s approach to supervision – Small Organisations

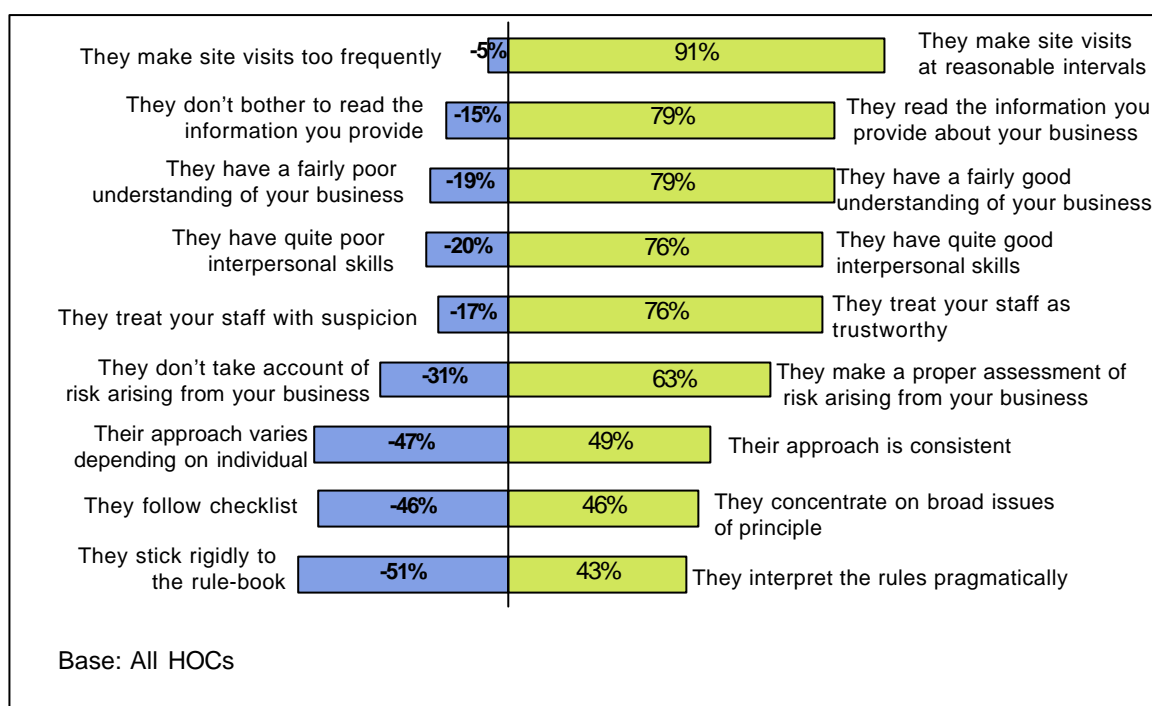


Compliance heads and small organisations (not chief executives) were asked a further question about their regulator’s supervisory staff. In this question, pairs of opposing statements about supervisory staff were presented and practitioners had to choose the one which came closer to their own views.

On the positive side, around eight in ten compliance heads felt that their regulator’s staff had a fairly good understanding of the nature of their business, had quite good interpersonal skills, took the trouble to read the information they provided about their business, and treated their own staff as trustworthy. Only a small minority felt that site visits were too frequent.

However, there were also a number of less favourable impressions. About half indicated that staff stuck rigidly to the rule book rather than interpreted rules pragmatically, that they just followed a checklist, rather than concentrating on broad issues of principle, and that, rather than being consistent, the regulatory approach varied according to the individual. One in three felt that staff did not really take into account the level of risk arising from their business.

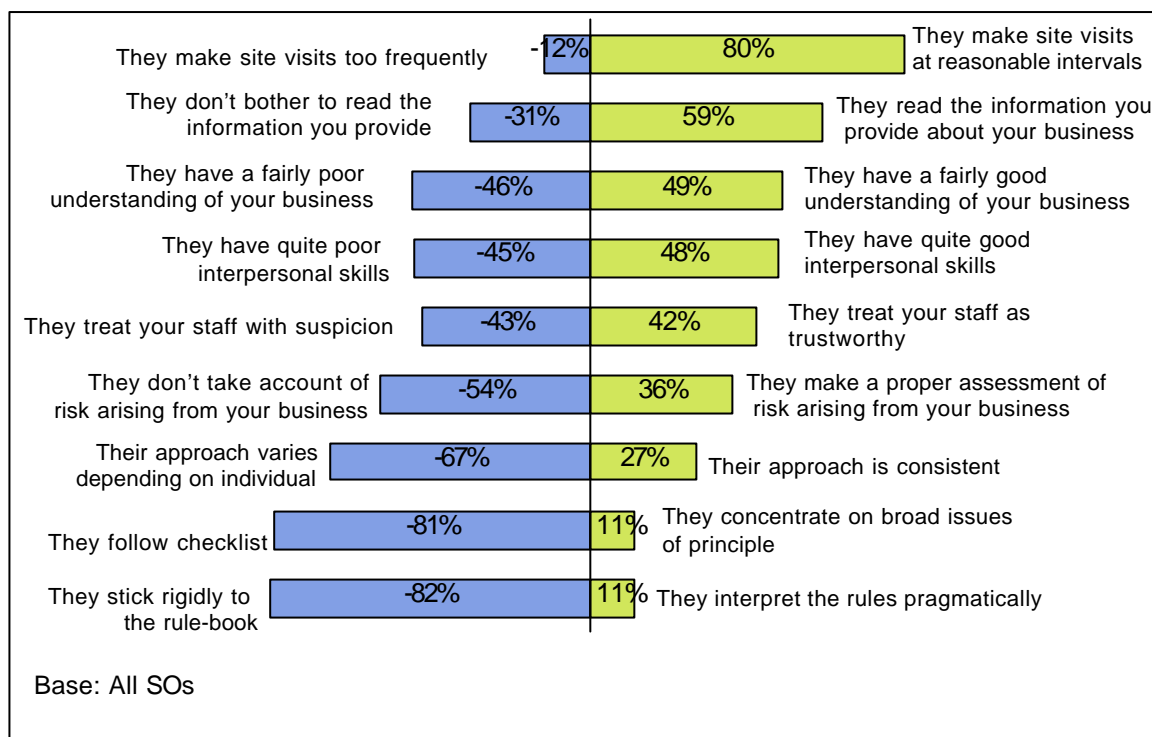
CHART 20 Opinions of current regulator's supervisory staff – Heads of Compliance



As might be now be expected, compliance heads in firms where the PIA was the main regulator consistently expressed more negative views than others. 76% believed the PIA staff just followed a checklist (average 46%), 80% that they stuck rigidly to the rule book (average 51%), and 41% that they treated the firm's staff with suspicion (average 17%). BSC staff received most approval on all dimensions. Responses from compliance heads in firms regulated by the FSA were always among the two or three most positive, overtaken only by the BSC and, in some cases, the Treasury or the SFA.

The views of small organisations about their regulator's staff were again much more unfavourable, driven by the high proportion of these firms regulated by the PIA.

CHART 21 Opinions of current regulator's supervisory staff – Small Organisations



As in previous questions, views of both the PIA and the FSA were equally negative, and views of the FSA from practitioners in these smaller firms were in sharp contrast to those expressed by compliance heads. Thus only 50% of small organisations thought that FSA staff had a good understanding of their business (cf. compliance heads 83%), 52% that they had quite good interpersonal skills (cf. 77%), and 41% that they regarded their own firm's staff as trustworthy (cf. 80%). 80% of small organisations believed that FSA staff just followed a checklist (cf. 34% for compliance heads), 79% that they stuck rigidly to the rule-book (cf. 42%) and 57% that they did not take into account the level of risk from their business (cf. 28%).

Compliance heads whose business had more than one regulator were asked how effective they had found the co-ordination of supervision by different regulators. Of those who answered this question, the balance of opinion was that co-ordination was fairly or very ineffective. Compliance heads working for complex groups, or in the areas of investment management or life/pensions, were the most likely to feel that co-ordination was ineffective.

Among small organisations which had more than one regulator, opinion was fairly equally divided about the effectiveness of co-ordination.

7. ENFORCEMENT

At the **qualitative stage**, only a small minority of firms had experienced any disciplinary proceedings. In these particular cases, there were complaints that disciplinary proceedings had been started before firms had been given the opportunity to rectify the mistakes that they had made. Because these people did not feel that the mistakes had been intentional, they had found this unfair. Moreover the costs of disciplinary proceedings had been extremely high, both in terms of time and money, particularly if the firm had been required to bring in and pay for outside auditors. In addition, there were complaints that there had been lengthy delays before the proceedings were finally closed, which had caused a certain amount of concern as well as expense.

“When problems are discovered we are asked to throw huge resources at it, in terms of investigating the problem, bringing in outside accountants and it’s cost us millions of pounds, in most cases unnecessarily. We’ve known what the problems are... what needs to be done to put them right. What we needed was consultation and a co-operative approach....The philosophy is ‘You’ve been naughty boys, we’ll make you suffer’. We haven’t set out to defraud our customers. The penalties have been out of all proportion to the scale of the problem.”

HOC Bank

Overall, the vast majority of practitioners wanted the FSA, in the future, to lay down broad principles of conduct rather than simply adopting a rule book approach to enforcement and to allow companies to put things right, before disciplinary proceedings were undertaken. They felt that the aim should be to punish criminals rather than those who had made a genuine error.

In the **survey**, less than one in five practitioners were aware of their firm ever having been subject to enforcement or disciplinary proceedings, and this dropped to about 13% who had had this experience in the last three years. These figures were lower for building societies and friendly societies and higher, not surprisingly, for complex groups and life/pensions firms.

Practitioners in firms which had experienced enforcement procedures in the last three years were asked further questions about it.

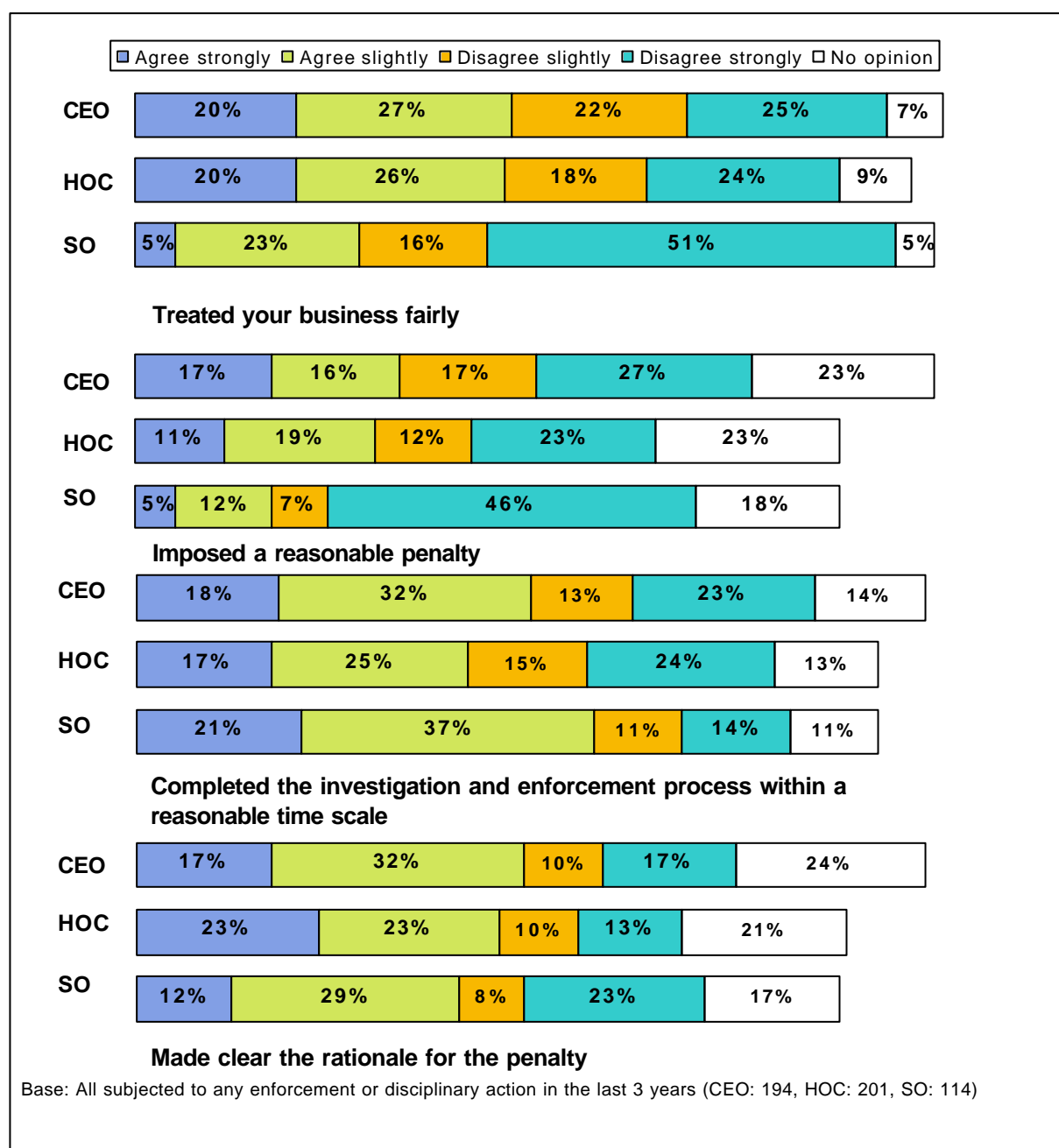
First of all, they were asked if they thought the regulator was justified in starting enforcement procedures. 55% of chief executives, and 57% of compliance heads, but only 25% of practitioners in small organisations agreed that the regulator was justified.

This pattern was repeated in other questions. For chief executives and compliance heads, there was a fairly equal split between those who agreed and those who disagreed that the regulator had treated their business fairly during enforcement; the majority of those expressing an opinion agreed that the regulator had completed the investigation and enforcement process within a

reasonable timescale, and had made clear the rationale for the penalty. However, the balance of opinion was reversed on whether a reasonable penalty had been imposed – the majority thought not.

For small organisations which had experienced enforcement procedures, the majority of firms also supported the view that the timescale for the process had been reasonable, and that the rationale for the penalty had been made clear. However, there was strong disagreement that their business had been treated fairly by the regulator and that a reasonable penalty had been imposed.

CHART 22 Behaviour of regulator during enforcement



Practitioners were then asked to think about the FSA's task of establishing new guidelines on conduct for the financial services industry, as a basis for enforcement, and asked which of the following they would prefer the FSA to do:

Draw up a very detailed rule-book covering all aspects of conduct

OR

Lay down broad principles of conduct but leave individual businesses to make decisions about detailed aspects

There was overwhelming support for the second of these two options. 82% of chief executives, 78% of compliance heads and 81% of small organisations expressed a preference for guidelines based on broad principles rather than a detailed rule-book. This pattern was repeated across all sectors of the industry.

An additional open question was included for compliance heads and small organisations, asking practitioners to describe in their own words what they saw as the most important priorities for the FSA, in its approach to supervision and enforcement in the future. Many of the answers given to this question echoed those given in response to an earlier open question about the provision of guidance.

The suggestion most frequently put forward was in fact a reiteration of the preference already indicated – that the FSA should apply broad principles rather than narrow rules. About one in four of those asked this question indicated that this should be the FSA's main priority, especially those in firms currently regulated by the PIA.

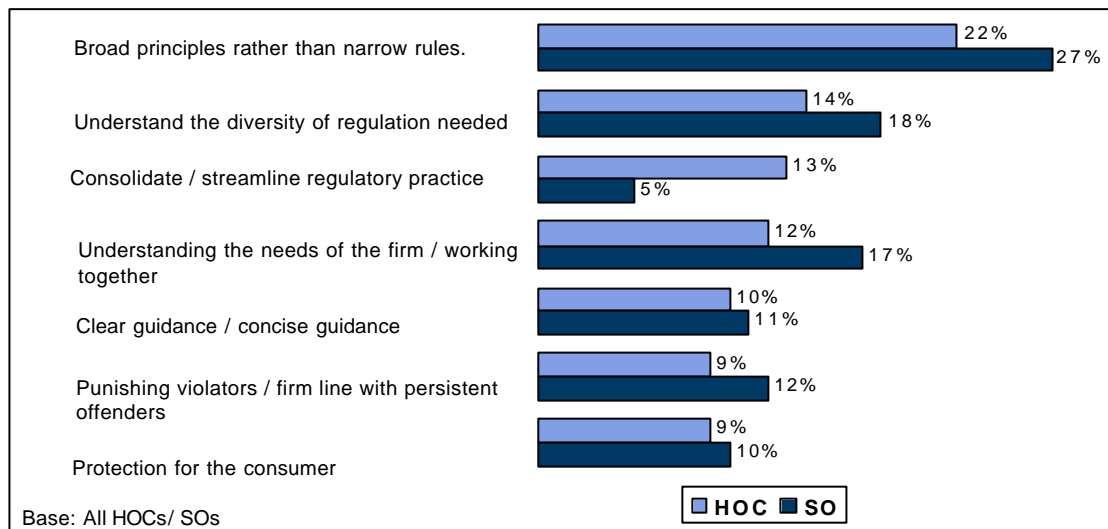
A substantial number – around 15% overall - felt that it was important for the new regulator to recognise diversity and make regulation appropriate to the organisation – organisations currently regulated by the BSC were the most likely to mention this – or that the FSA should give priority to working together with firms and listening to their point of view.

As reported in chapter 2, practitioners initially indicated that the most important thing for a regulator to do was to take a firm line with businesses which persistently broke the rules. However, in answer to this question, only about one in ten practitioners suggested that punishing persistent offenders should be the FSA's main priority. Most compliance heads, in thinking about priorities for supervision and enforcement, were obviously thinking more about the ways in which their own relationship with the regulator could be improved, rather than focussing on the more over-arching consumer protection role of the FSA. In any case, as we have seen, this was one area where practitioners felt that current regulators were already performing reasonably well.

Around one in ten compliance heads also identified a need for clear, concise and unambiguous rules and guidance, for consumer protection, and for the FSA to consolidate and streamline regulatory practice.

Small organisations had similar priorities, although consolidating and streamlining practice was of less importance for these firms, presumably because their businesses were not so multi-faceted.

CHART 23 Priorities for FSA in future approach to supervision and enforcement



8. TRANSITIONAL PERIOD

In the **qualitative study**, many of those interviewed did not appear to have noticed any real change in the way their businesses were regulated since the FSA had been set up. They commented that the only change for them had been a change of address and notepaper.

“It seems apart from the letter heading...in terms of our day to day relationship no, no change at the moment.”

HOC and CEO Asset Management

Others, particularly banks - which were the first institutions to be regulated by the FSA - had noticed a change. As already mentioned, this change was seen as a more aggressive approach to regulation and supervision, with more emphasis on the rule book and picking on small details, rather than applying broad principles. This had meant more paperwork and administrative time for the practitioners, resulting in an increase in costs to the firm.

The qualitative study suggested that the majority of practitioners were either broadly in favour of moving to a single regulator, or at least not negatively disposed to the idea. Those in favour believed that a single body would apply common standards across the industry, and provide greater co-ordination, less overlap and less duplication between regulatory bodies. It would also provide an opportunity to change the existing rule books and simplify codes of practice that had become too labyrinthine. They also felt that it would make things easier for the consumer.

“I think in principle I feel it’s the right move. There are a number of complex organisations...One can certainly see some advantages in having more co-ordination.”

CEO Insurance Co.

“I think as much as anything else, it’s going to be an advantage to Joe Public, in so far as they find it very confusing at the moment....I think from our perspective as well, it would be good to have one common standard.....When we look at what our competitors are doing, particularly on advertising, they seem to be getting away with a lot more than we can.....because they are under a different regulator.”

CEO & HOC Asset Management

Some people did not envisage that there would be a great deal of change in the FSA’s approach to regulation, in comparison to that of their existing regulator. They reasoned that the staff would remain the same so that there was no reason for change.

“No, because I wouldn’t imagine the direct people we talk to on a day to day basis will actually change.”

CEO IFA

Others however, even though they were not against the idea of moving to a single regulator, did have some concerns that there might be changes which would have a negative impact on their particular firms. The most prominent concern was the fear that the FSA, because it was such a large organisation, might be more bureaucratic and therefore less flexible and more rule book based.

“The risk that accrues to any large organisation, the risk that it becomes monolithic and inflexible and driven by rule books rather than a pragmatic application of common sense.”

HOC Bank

“It could become monolithic, blanket regulation that is rules based. Because there’s a preponderance of rules based regulators within the FSA and they’re moving back to a set of rules, one size fits all”

CEO Bank

Certain sectors within the financial services industry, particularly smaller building societies, friendly societies and credit unions, were worried that their particular needs might not be taken into account if they were regulated under one authority. Some saw a single regulatory system as favouring larger businesses or applying rules that were more suitable for high risk/more commercial businesses than their own.

“The concern is that this will be huge and that if they deal with huge Eurobond dealers and Friendly Societies whether we’ll be told, ‘This is the way we do things’, and that the same selling rules apply to someone who’s selling one thousand pound a month saving contracts and someone who’s selling a twenty pounds a year contract. You can’t afford to follow all those rules.”

CEO Friendly Society

“There is a danger that, in setting up such a mega regulator, that tiny little Credit Unions will just get forgotten about...they’ll wither on the vine.”

CEO Credit Union

There was also some apprehension that current regulatory staff might be changed and they would then have to build up a new relationship with another team and re-educate them about how their company operated.

“When the FSA comes in, I would imagine we will start again and have brand new

monitoring teams and it will be jumbled around and we will start afresh.”

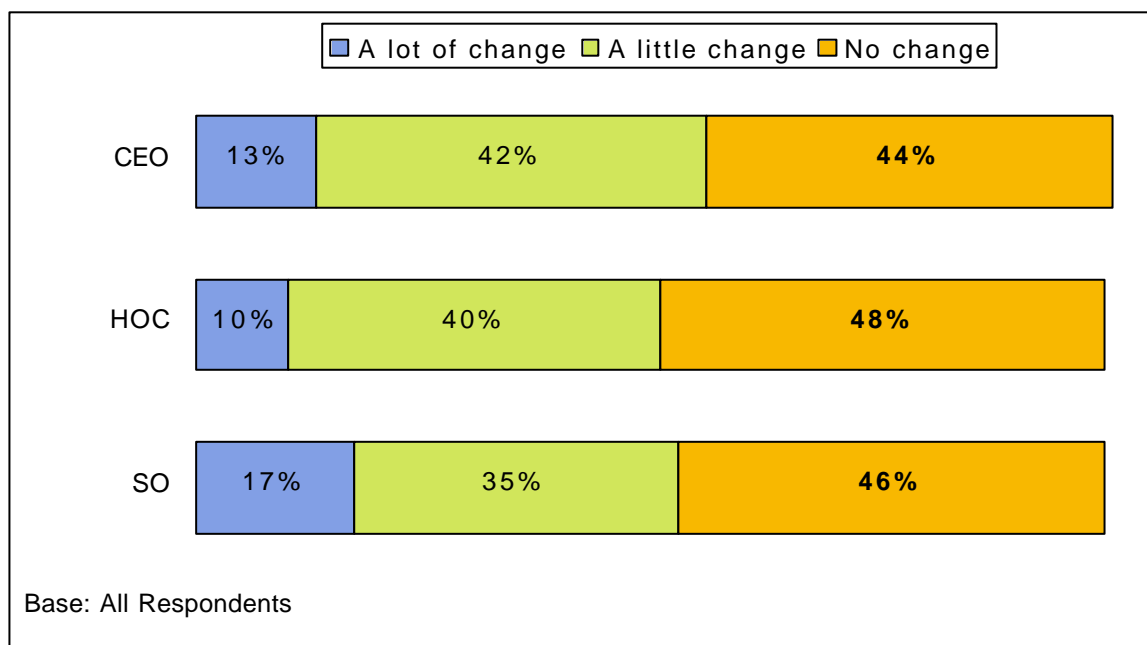
CEO & HOC Asset Management

At the qualitative stage, there only appeared to be a very small minority who were firmly opposed to the whole idea of moving to a single regulatory authority. They felt that there was no advantage to this and that the FSA would become more adversarial and inflexible in its approach to regulation. They expected this to cost their firms money in terms of increased time spent on compliance administration. This expectation of a more aggressive approach to regulation tended to stem from the notion that the government had set up the FSA with a political agenda to favour consumers at the expense of practitioners.

In the **survey**, practitioners were asked a number of questions about any changes they were experiencing during the transitional period, and about their expectations of the new regulatory regime.

Around half of practitioners had experienced some change in regulation during this period, which they attributed to the creation of the FSA. Most of these indicated that the changes were only slight, and between two fifths and a half had not noticed any change at all. Firms involved in banking and complex groups were most likely to have noticed a lot of change.

CHART 24 How much change attributable to creation of FSA



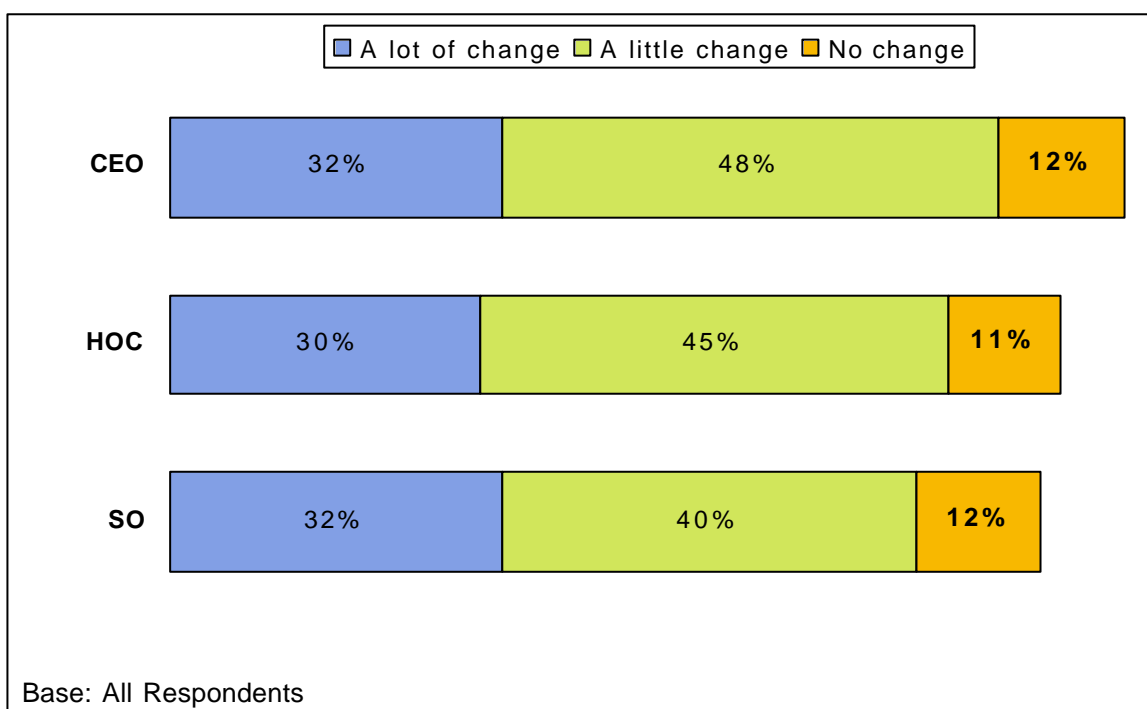
Compliance heads and practitioners in small organisations who had noticed any changes were asked to describe them. The main differences mentioned were increased bureaucracy, paperwork and administration, but also more communication, contact, consultation and dialogue. Other negative changes identified were a stricter, more prescriptive approach; more aggression and

suspicion; frequent changes in rules; turnover in the regulator’s staff; an increase in costs. Positive changes mentioned by some practitioners included less confusion (although others felt there was more); more helpful and responsive staff (again, others felt they were less helpful and responsive); a better understanding of the business. Although most changes were only mentioned by small numbers, the overall balance leaned more towards negative than positive comments, particularly from small organisations.

All practitioners were then asked how much further change they were expecting in the regulation of their business, when the FSA fully takes on the role of single regulator. Around three-quarters were expecting to see some further change, and one in three thought there would be a lot of change. All three practitioner groups held very similar views on this.

The proportion expecting a lot of change ranged from one in four for firms currently regulated by IMRO and the SFA, to between two fifths and a half for those regulated by the BSC, FSC and the Treasury.

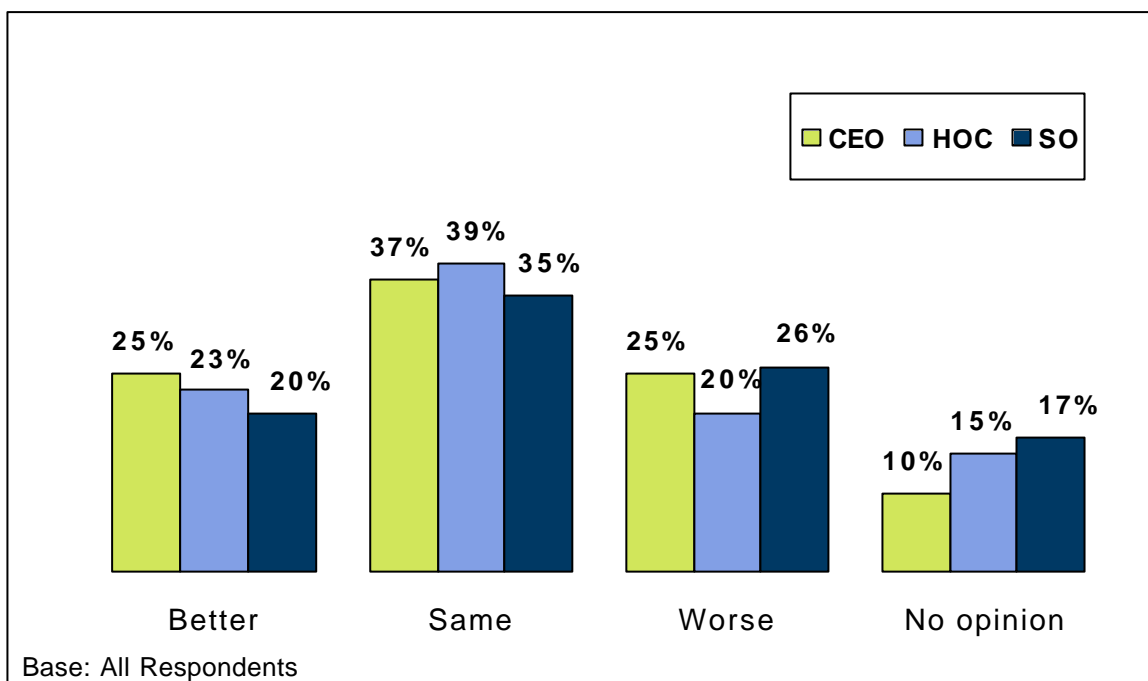
CHART 25 How much further change expected



Regardless of their expectations of the level of change, practitioners were then asked whether they expected the new regulatory regime to be better, the same or worse for their own business. The largest group, around two fifths of practitioners, did not think there would be any difference. One in four expected the new regime to be better, a similar proportion expected things to be worse, and the remainder were unsure. The firms most likely to anticipate an adverse

effect from the new regime were again those currently regulated by the BSC, the FSC and the Treasury.

CHART 26 Whether expect new regime to be better, worse or same for own business



Compliance heads and practitioners in small organisations went on to explain the ways in which they expected the new regime to affect their business. Those who thought that their business would be worse off expected increased bureaucracy and paperwork, increased regulation, inappropriate style of regulation for smaller businesses, a more dictatorial approach, an increase in costs and poor understanding by staff. Those who were more optimistic about the change hoped for consistency of rules, a more pragmatic approach, better cohesion, a high level of understanding by staff, greater efficiency, a reduction in administration, less complication and increased communication and consultation.

9. KNOWLEDGE AND VIEWS OF THE FSA

The **qualitative study** indicated that people in the financial services industry were generally aware that the legislation to give the FSA statutory powers was currently in parliament. They expected it to come into force some time in the year 2000. They felt that, because the legislation was still being discussed by parliament, they would not know the exact details of what the FSA's statutory powers would be until the legislation was finally passed. However, they tended to assume that the FSA's regulatory objectives would be similar to those under self-regulation. At the point of interviewing, practitioners had not heard anything about these details because they had not received any feedback from the FSA following the consultation process.

The main channel of knowledge about the FSA had been the consultation papers that practitioners had received. There had also been some dissemination of information about the FSA in newspapers, particularly in the trade press but also in national papers. Some people had received information from their trade associations who had, in certain cases, actually summarised the key points of FSA consultation documents and circulated them to their members. In rare cases, practitioners had visited the FSA web site. A small minority had had personal discussions with FSA personnel, sometimes at a high policy-making level.

The great majority of respondents either expected that the FSA as a single regulator would be beneficial to the financial services industry, because it would make the rules more consistent through the industry, or they imagined that the changeover would make very little difference. They felt that the financial services industry would continue to operate successfully. Some practitioners in banks were concerned that the change would have a harmful effect, because the new regulator might have a more aggressive approach to regulation and be more rulebook orientated. They felt that this would cost the industry money in terms of time spent on compliance procedures.

At the qualitative stage there did not appear to be any real concern about the fact that the FSA would be regulating both the retail and the wholesale side of the financial services industry and respondents tended to feel that they would be able to distinguish sufficiently between the two sides of the business. However, as already mentioned, there were concerns from smaller sectors of the industry that their needs would be neglected under the new single authority.

Within the industry as a whole, practitioners generally believed that the FSA would take into account the importance of maintaining the competitive international position of the City.

*"I'm sure that will continue."
HOC Securities & Derivatives*

However there was some concern expressed in the City that a rule based approach would not help competitiveness. Some merchant banks maintained that a more draconian approach to regulation could drive operations out of the UK.

“They do so at their peril. This is an international business and I could run (our business) without sitting here.”

CEO Bank

Some of the smaller organisations or smaller sectors of the financial services industry were unaware of the potential powers of the FSA. However, many others expressed concern that the powers that the FSA would have, when it became the new single regulator, would be extremely extensive. They were not sure whether there would be a right of appeal or whether they would only be able to appeal to the FSA itself, rather than to the courts. They were worried that they would not be able to sue the FSA if mistakes were made. In this context, some practitioners referred to a perceived conflict with the European Human Rights legislation. They felt that the FSA should not have powers that were any greater than those of any other UK institution or establishment.

“The big issue that’s still bubbling is judge, jury and executioner. You can appeal to the FSA about the FSA!.....It stands outside normal equity common law principles. It will be a breach of Human Rights Conventions.”

CEO Bank

“He should not have any more powers than the police.....I know the sort of powers they are asking for and appear to being granted, and I just think they are out of step with, for example, the police.”

CEO IFA

“The judicial process within the FSA and the fact that it may be all too powerful. The fact that they can impose sanctions and effectively take your trade away from you without giving you any chance to put your case as you would have, say, in a court of law.”

HOC Investment Management

It should be mentioned that there was a feeling amongst many practitioners that the FSA could not operate independently of the government since it was being set up specifically by government, with political appointments being made and a political agenda.

“Most appointments at senior level are political appointments. Most people who have accepted those appointments have other aspirations, therefore, no matter what they say, they will be dictated to not only by government but by the Treasury.”

CEO IFA

There were some concerns about the perceived close relationship between the government and the FSA and that the pendulum was swinging against practitioners in favour of consumers.

“They’re much more driven by the consumers’ agenda than by the practitioners’ agenda. Consumers vote, practitioners don’t. It’s political.”

CEO Bank

Moreover, because practitioners had not yet had any feedback from the consultation process, there was little awareness of whether the government had actually listened to the views of the financial services industry when making decisions about the FSA. This question of feedback will be dealt with in more detail in the following chapter.

In the **survey**, practitioners were asked several questions about their knowledge and views of the FSA.

Compliance heads and practitioners in small organisations (but not chief executives) were asked where they had seen or heard most of their information about the new regulator. The prime sources of information, by a wide margin, were booklets and consultation papers. 87% of compliance heads and 83% of practitioners in small organisations had obtained most of their information about the FSA in this way, and this was the main source for all sectors of the industry.

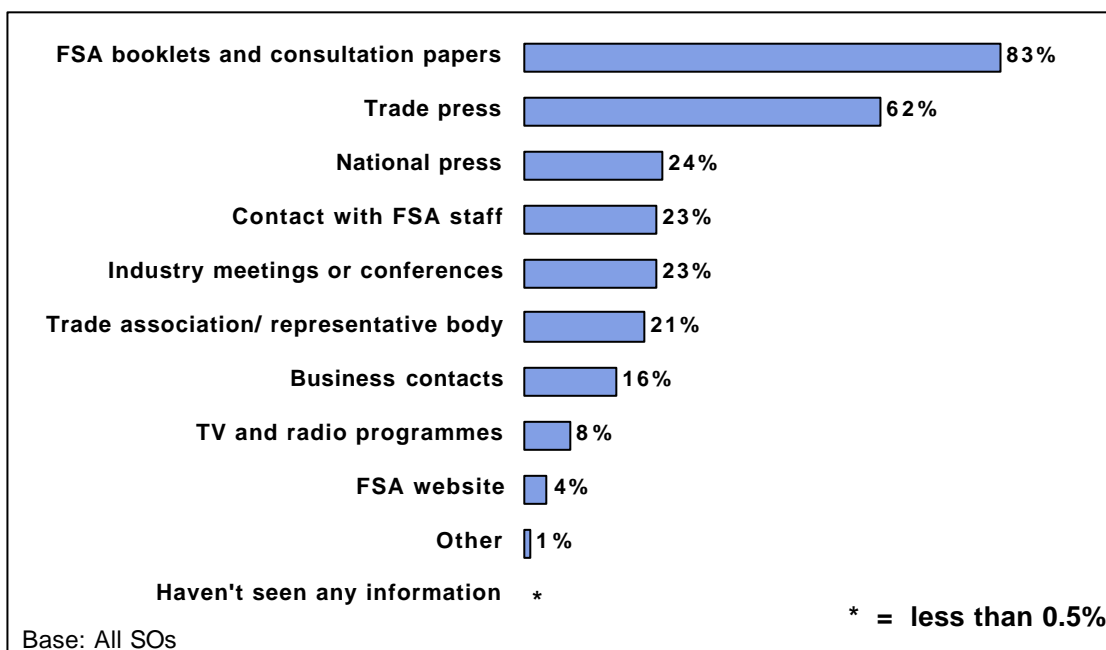
The pattern was then somewhat different for the two groups. Small organisations tended to have picked up information in the trade press, rather than through direct contact with FSA staff, whereas for compliance heads it was the other way round.

Two fifths of compliance heads (a quarter of small organisations) had gained information through contact with FSA staff – this proportion was higher for firms whose main business was banking (61%) or who were part of complex groups (63%). Compliance heads were also more likely to have used the national press. Other sources such as trade associations, industry meetings and business contacts were mentioned by between a quarter and a fifth of each group. Less than one in seven compliance heads and only 4% of small organisations mentioned the FSA website.

CHART 27 Main source of information about FSA – Heads of Compliance



CHART 28 Main source of information about FSA – Small Organisations

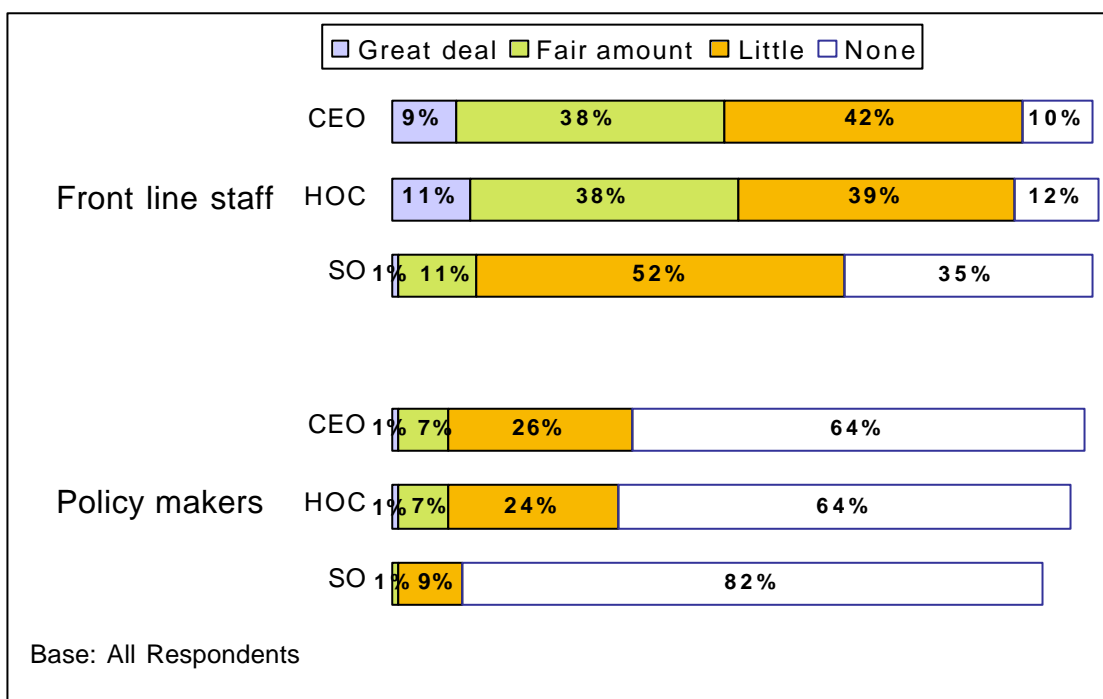


For many practitioners therefore – particularly in small organisations – impressions of the FSA at this stage were based either on the FSA’s own publications or on what had been said or written about the regulator by third parties.

A specific question was then asked about the level of face-to-face or telephone contact with FSA staff. This was answered by all three practitioner groups. While chief executives and compliance heads had had a reasonable amount of contact with FSA staff, practitioners in small organisations had had much less.

Across all industry sectors there has been much more contact with frontline FSA staff than with policy-makers. Nine in ten chief executives and compliance heads, and two thirds of small organisations, had had some contact with front-line staff, although this tended to be ‘a little’ or ‘a fair amount’ rather than ‘a great deal’. It is not clear what form this contact had taken for firms not yet regulated by the FSA. Only a third of chief executives and compliance heads, and one in ten small organisations had had any contact with FSA policy-makers, and the great majority of these had had only a little contact.

CHART 29 Amount of contact with FSA staff

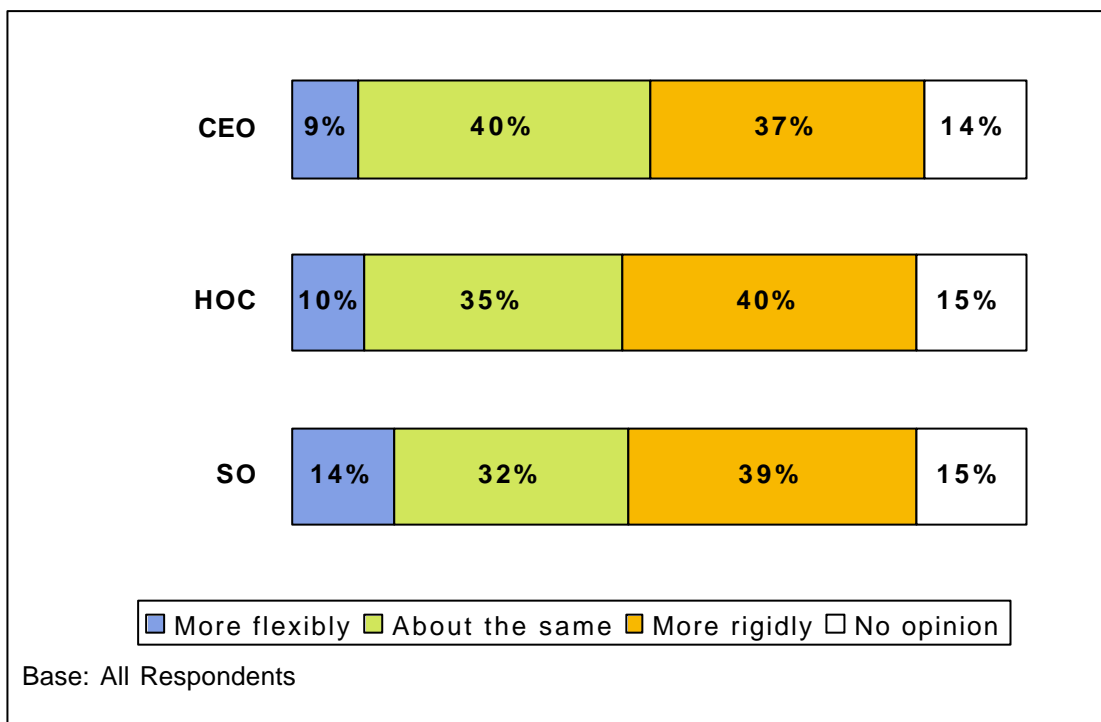


Practitioners were then asked how rigidly or flexibly they thought the FSA would apply the rules, compared with their current or (if they were already regulated by the FSA) their previous regulator.

Two fifths of chief executives, and a third of compliance heads and small organisations thought the FSA would be about the same as other regulators in this respect. Two fifths of each group

expected the FSA to apply the rules more rigidly, and only around one in ten – one in seven small organisations - thought the new regulator would take a more flexible approach. The proportion expecting more flexibility from the FSA was higher among firms whose main area of business was life/pensions.

CHART 30 How flexibly will FSA apply the rules



A question was also asked to gauge opinion on whether the FSA, in its proposed policies, was distinguishing sufficiently between the regulation of wholesale and retail business ('wholesale' was defined as business where the end-user was professional or institutional, 'retail' where the end-user was the individual consumer). Between two-fifths and a half of practitioners did not know the answer to this question. Of those who did respond, the majority of firms with wholly or mainly wholesale business thought that insufficient distinction was being made. Among retail firms, opinion was fairly evenly divided.

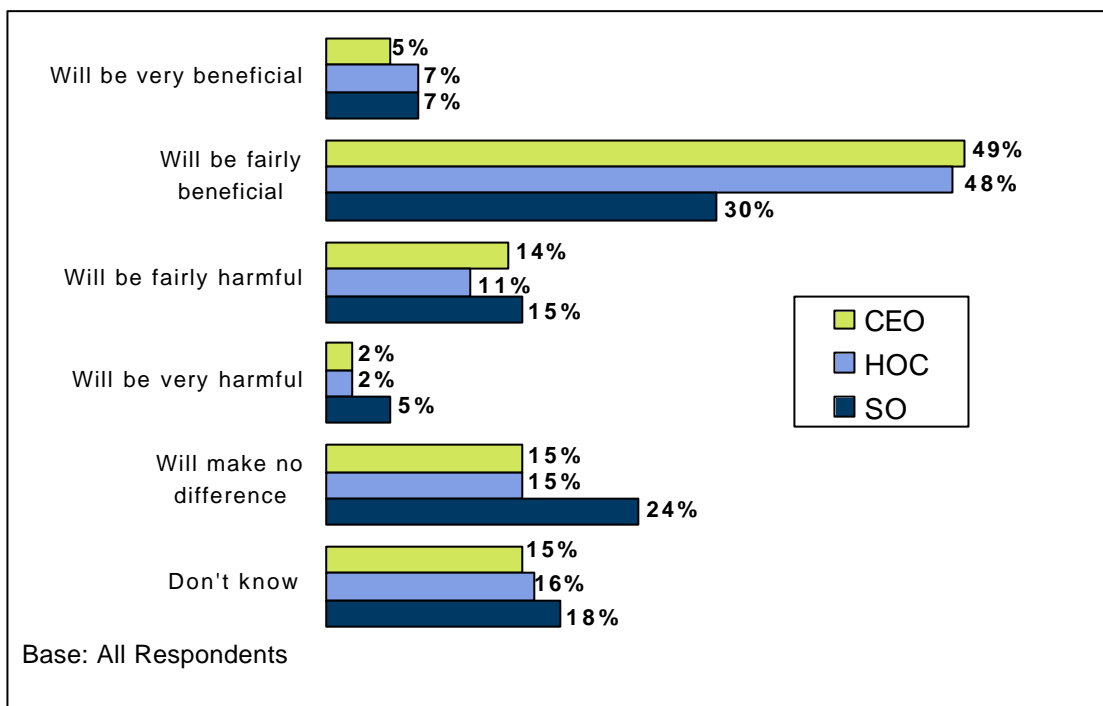
Practitioners were asked whether they thought the change to the FSA as a single regulator would be beneficial or harmful to the financial services industry as a whole. Among all sectors of the industry, a much larger proportion thought that the change would be beneficial than believed it would do harm.

Overall, just over half of chief executives and compliance heads expected the change to be of some benefit to the industry (although only a small minority thought it would be 'very beneficial'). About a third of practitioners either did not know, or thought that it would make no difference, and only one in six thought it would be harmful. Of the three groups, practitioners in

small organisations were less likely to think the change would be beneficial and more likely to think that it would make no difference.

This strength of opinion in favour of the change to a single regulator is greater than might have been expected given that, as reported earlier, only one in four practitioners thought the new regime would be better for their own business.

CHART 31 How change to single regulator will affect industry as a whole



Compliance heads and practitioners in small organisations had the opportunity to explain why they thought the change would be beneficial or harmful to the industry.

The main reason given by those who thought the change would be beneficial was that the change would lead to greater consistency and cohesion between the regulation of different sectors of the industry. It would also bring about increased consumer confidence, and would be less complicated and more efficient. Those opposed to the change felt that it would favour larger businesses, and would lead to increased bureaucracy, regulation and cost.

CHART 32 How change will be beneficial

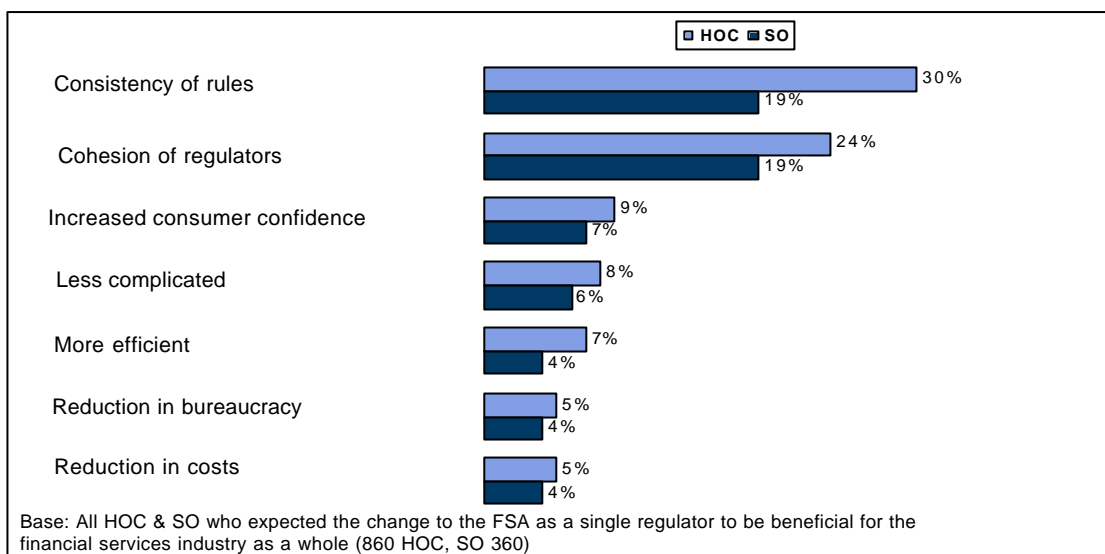
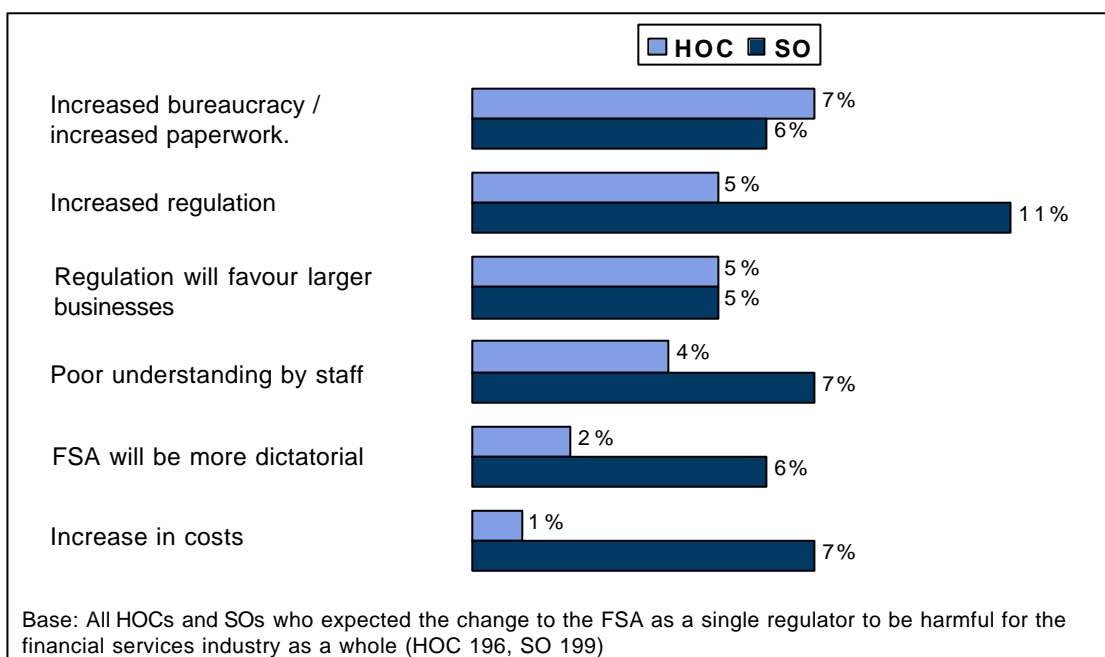


CHART 33 How change will be harmful



In other words, the reasons given for the change being good or bad for the industry were very similar to those mentioned by practitioners in relation to it being good or bad for their own business. When practitioners took an industry-wide view, however, rather than focussing just on their own firm, the positive outcomes expected from the change outweighed the negative.

A further question was included to test the strength of opinion on specific aspects of the FSA's role, most of which had emerged as issues for practitioners during the qualitative research. The question consisted of six statements with which practitioners were invited to agree or disagree, using the same four-point scale as for previous questions of this type.

The FSA has publicly expressed its wish to be seen as an open and responsive regulator. It should be encouraged to see that the majority of practitioners do indeed give it credit for being as open and responsive as possible in the way in which it is operating. Six out of ten chief executives and two thirds of compliance heads agreed with this, although only about one in ten agreed strongly. One in five disagreed, with the remainder not expressing an opinion. There was slightly less agreement among small organisations.

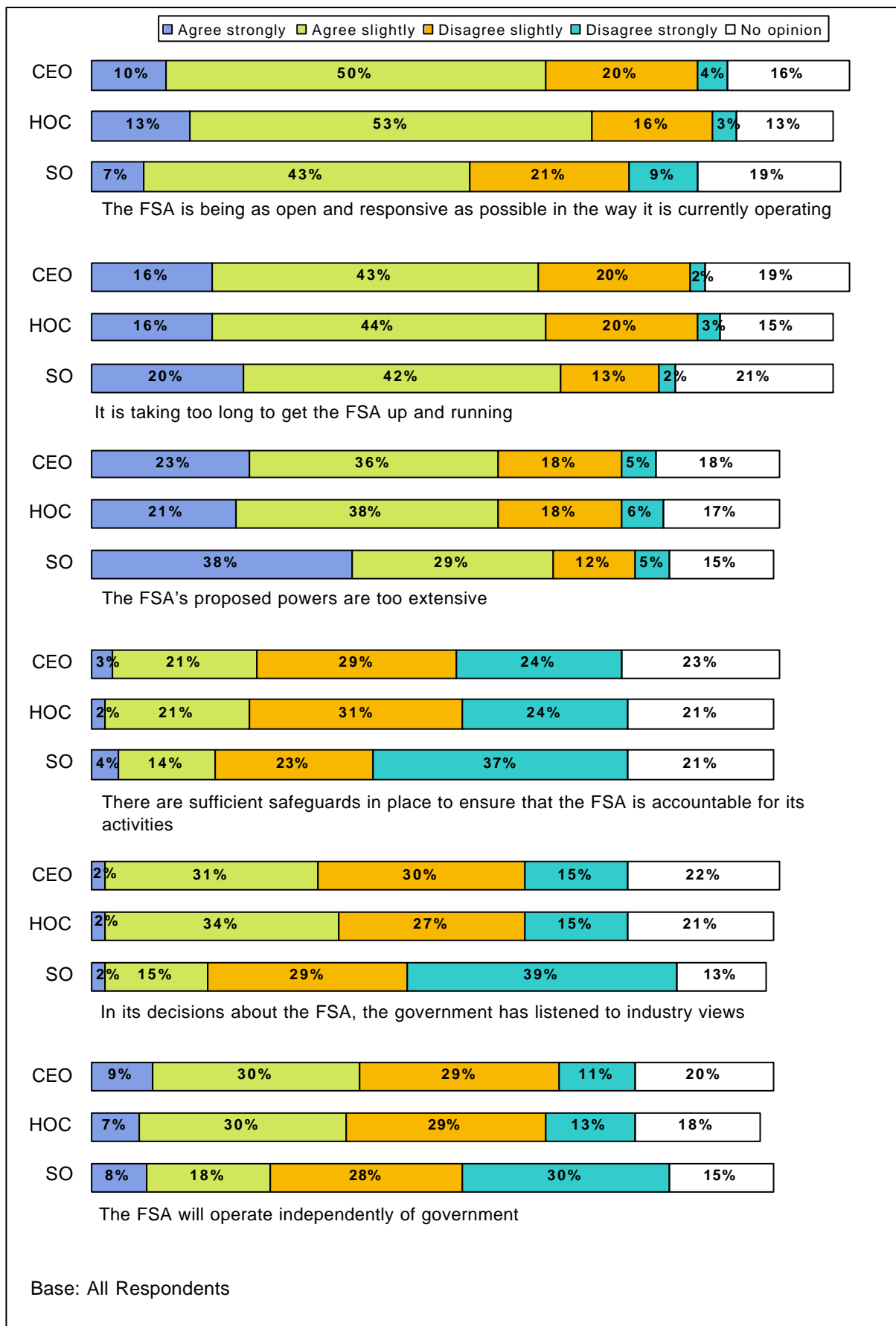
There was an equally substantial majority view that 'it is taking too long to get the FSA up and running' which, taken together with the strong level of support for a change to the current system, suggests that the industry is behind the FSA in wanting to see the legislation in place and an end to the transitional period. Six in ten, among all three groups of practitioners, agreed it was taking too long, compared with around one in five who disagreed.

However, there are clearly still a number of concerns about the way in which the FSA will operate.

A substantial majority of practitioners - six in ten chief executives and compliance heads, and two thirds of small organisations - supported the assertion (which, at the time of the survey, was frequently being put forward by industry sources in the press) that 'the FSA's proposed powers are too extensive'. Only one in five dissented from this view. Conversely, well over half **disagreed** that there were sufficient safeguards in place to ensure that the FSA would be accountable for its activities, against only one in four - one in five small organisations - who believed this to be the case.

The FSA is not a government body and is not supported by government funding. Like regulators in other industries, it needs not only to **be** impartial but also **perceived** to be impartial, and out of the political arena, in order to retain the confidence of practitioners and to perform its job effectively. Because comments were sometimes made in the qualitative interviews about the FSA's relationship with the government, this was another issue we needed to follow up.

CHART 34 Attitudes towards the FSA



In fact, there were mixed views about the extent to which the FSA was 'a child of government', as one of those interviewed in the qualitative study had maintained. Practitioners in small organisations were the most suspicious, with less than one in five believing that, in setting up the FSA, the government had listened to industry views and only one in four feeling that the FSA would operate independently of government, against three fifths who did not subscribe to these views. The perceptions of chief executives and compliance heads were less negative, but there was still a balance of opinion towards the view that the government had not listened to the industry, and an equal split between those who agreed and disagreed that the FSA would operate independently.

Although there were variations in the exact proportions agreeing or disagreeing with each of the statements in this question, the balance of opinion was the same across all sectors of the industry.

10. CONSULTATION PROCEDURES

All of those interviewed at the **qualitative stage** welcomed the FSA's consultation process, and there did not appear to be any real concern that consultation was slowing down the process of setting up the FSA as a single regulatory body.

"I think it's better if they consult everybody. . . . It gives everybody a chance to say something."

HOC Investment Management

However, there was some feeling that the consultation process itself had only been a partial success. There were various issues here. Firstly, there were complaints that the volume of consultation papers had been too high, that the documents themselves had been too long and sometimes too technical or difficult to read. This meant there had been insufficient time for some firms to reply to the papers. It must be remembered that these practitioners were all very busy people and often simply did not have not enough time to read through lengthy papers. Indeed some practitioners, particularly the IFAs, had read through very few of the documents.

"It certainly has published a lot of stuff on it but half the problem is that all the consultative papers that they publish are never written in precise English, they always seem to be 385 pages long and written in all sorts of peculiar language."

CEO & HOC Asset Management

"The last consultation document I trolled through was 80 pages. A lot of people are not going to read an 80 page document. . . . there are going to be sections in the financial community who are not going to respond to a written consultation. . . . It's a factor of time."

HOC Securities & Derivatives

Some practitioners welcomed the fact that their trade associations had sent round summaries of the consultation documents, particularly in terms of how they would affect their particular industry sector. Indeed, some trade associations appeared to have played a substantial role both in informing members about what was going on and also in making representations to the FSA about issues that concerned their particular industry sector.

"The Building Society Association, they communicate on a global basis and each individual Society, if they have their own points, goes directly to the Building Society Commission."

CEO Building Society

“We rely a hell of a lot on the BBA.....I’m very busy. Sometimes I don’t read them (consultation papers). I just read the précis that’s provided by the BBA which they do for all the documents.”

HOC Bank

A further reason for the feeling that the consultation process had only been partially successful was that some practitioners wanted to have a more direct and personal interaction with the FSA. In general, the practitioners who were interviewed at the qualitative stage did not like the idea of attending conferences for this consultation process. These were perceived as too time consuming and were not felt to be a suitable place for chief executives, because they were too large and did not provide enough opportunity for them to express their ideas. Chief executives, particularly of large organisations based in London, believed that they should have been invited to meetings with senior FSA personnel.

“I would have liked someone pretty senior to come down and knock on my door.”

CEO Bank

“They need to attract the senior management of firms, not just the compliance officers. They need to sit down and chat to people one to one.”

HOC Securities & Derivatives

Suggestions were made that there could be small meetings of industry personnel, rather than larger scale conferences.

“Forums with groups of people. Call the chief executives together within the insurance industry.”

HOC Insurance Co.

“One approach would be to sit down with half a dozen experienced individuals whose job is giving advice to consumers...It could be done by sitting down in a room for a day or two.”

CEO Insurance Co.

Indeed, many respondents welcomed the qualitative research interviews because they felt that their individual views were being sought. They felt that a similar process could be useful when putting out consultation documents.

“Somebody like you coming round and saying ‘We’re doing a survey on the latest consultation paper, if you’d like to answer some questions on it or give some feedback on it’. We’d be delighted.”

HOC Investment Management

Other practitioners had been happy to communicate their opinions via their trade association, who they felt could effectively represent their sector views back to the FSA.

Overall, there was some feeling of dissatisfaction from a number of practitioners because there had been no feedback so far from the FSA, in response to the consultation process. There was, therefore, little knowledge about whether the FSA had taken account of industry views.

“I don’t recall anyone picking up the phone or writing to us saying ‘Oh that’s an interesting point, our concern is this, what’s your comment about it?’ There’s no two way dialogue to reach a sensible conclusion. It’s almost like a consultation because they’ve got to....So far we haven’t had a lot of feedback.”

CEO Insurance Co.

“If you do get a lot of answers, the least you can do is explain to your respondents what you’ve done, what you haven’t done, why you’ve dismissed some ideas.”

CEO Bank

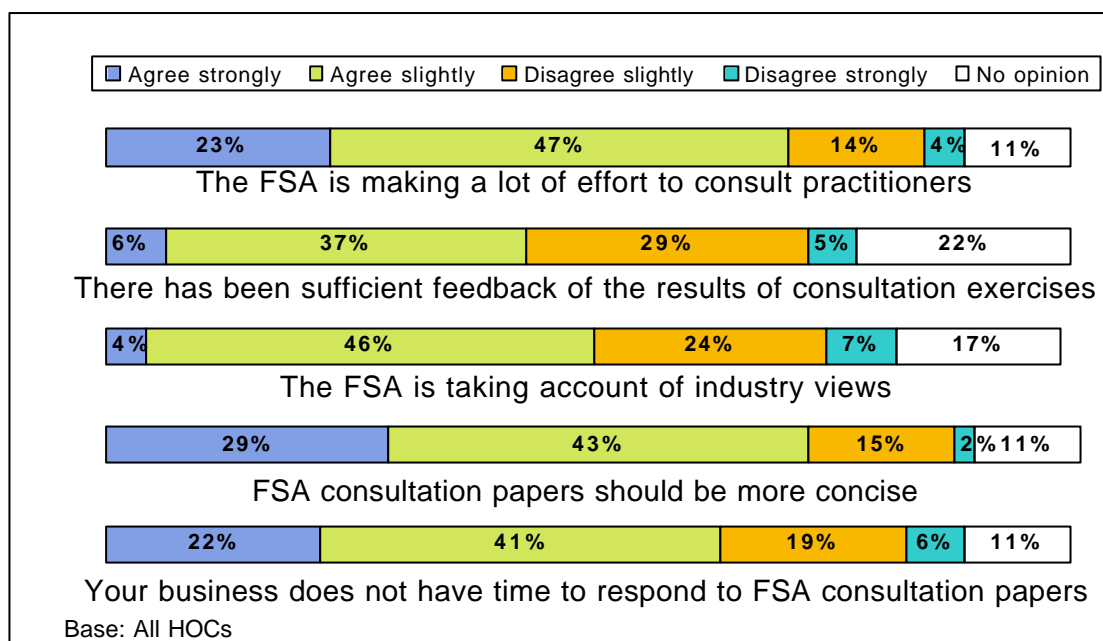
“You can only tell by feedback on the policy statement that comes back, how much they’ve taken on board and so far we haven’t had a lot of feedback on policy statements.”

CEO Building Society

In the **survey**, compliance heads and small organisations were asked several questions about the FSA’s consultation procedures.

First, practitioners were asked for their views on five different aspects of the FSA’s consultation process: the effort made to consult those in industry; the feedback of results from consultation exercises; the extent to which industry views were taken into account; the length of consultation papers; and the time needed to respond.

CHART 35 Opinions of the FSA's consultation procedures – Heads of Compliance

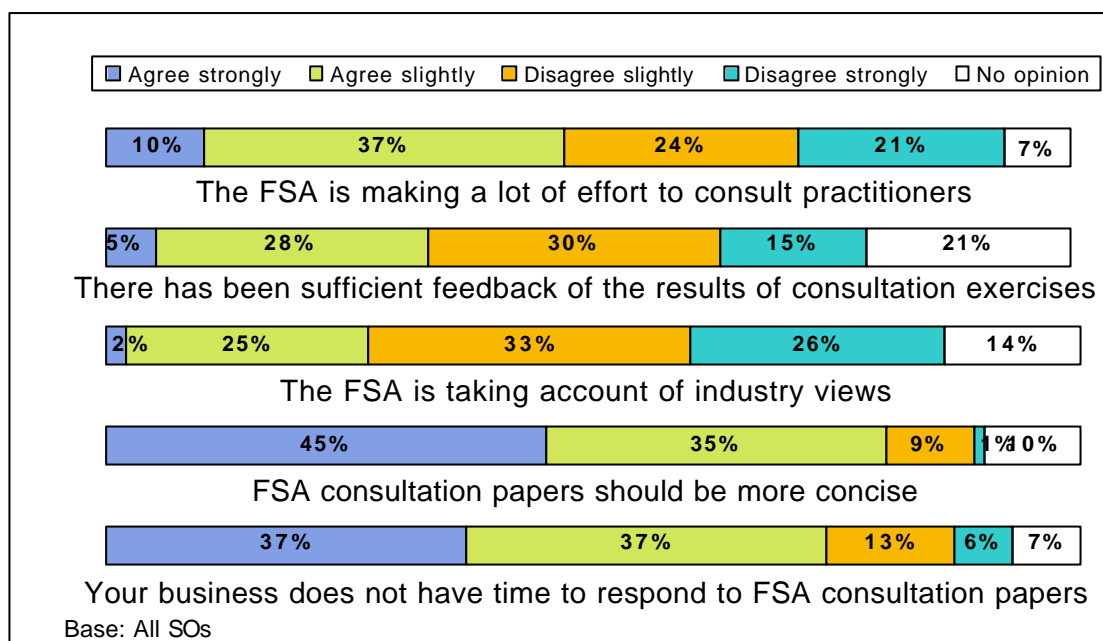


Seven out of ten compliance heads agreed that the FSA was making a lot of effort to consult practitioners, compared with less than one in five who disagreed. One in five compliance heads did not know whether or not there had been sufficient feedback of the results of consultation exercises. Of those who expressed a view, more agreed than disagreed that this was so. On the question of whether the FSA actually took account of industry views, opinion was also divided - the balance of opinion (50% to 31%) was that they did.

However, there was an even higher level of agreement – from nearly three-quarters of compliance heads - that the consultation papers should be more concise. Six in ten also asserted that their business did not have time to respond to FSA consultation papers, with stronger levels of agreement from smaller firms.

Small organisations expressed more negative views about the consultation process. They were more likely to disagree that the FSA was making a lot of effort to consult practitioners (although the majority did agree that this was the case), that there had been sufficient feedback from consultation exercises, and that the FSA took account of industry views. Small organisations also felt much more strongly that the consultation papers should be more concise, and that their business did not have time to respond.

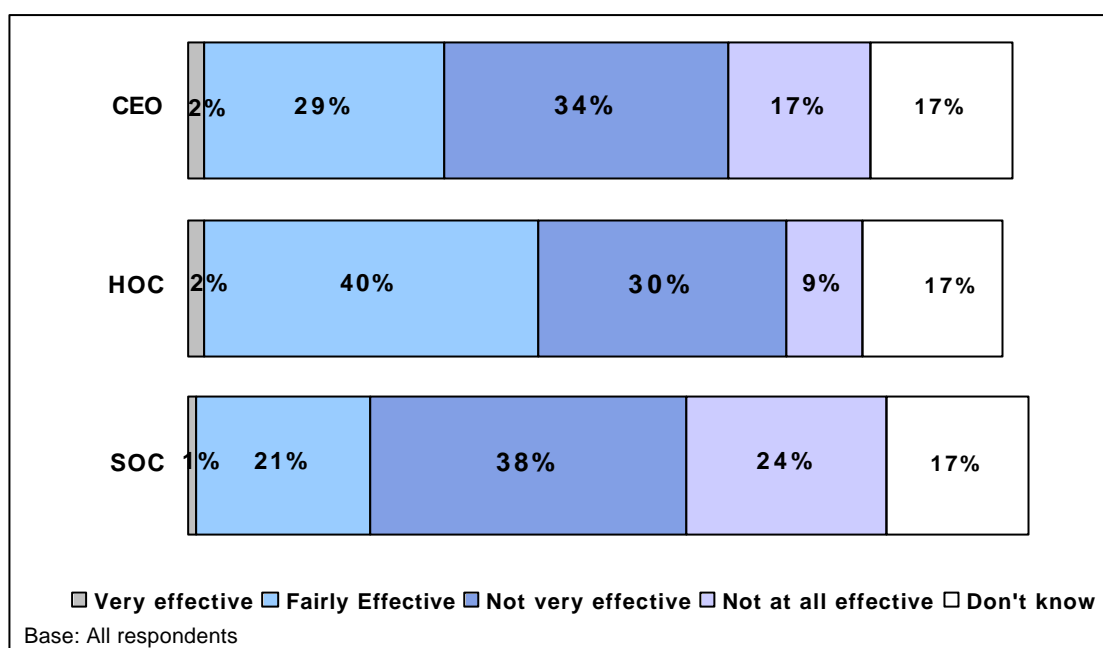
CHART 36 Opinions of the FSA's consultation procedures – Small Organisations



All practitioners were asked how effective they thought the FSA's consultation process had been, as a way of collecting their own business's views. Among chief executives, over half thought the process had been ineffective, compared with a third who felt the opposite, but for compliance heads views were equally divided. There were some exceptions to this – both chief executives and compliance heads in banks and complex groups generally felt the process had been effective.

Small organisations were much more strongly of the opinion that the process had been ineffective. Among all practitioner groups, IFAs were the most likely to feel the process had been ineffective.

CHART 37 Effectiveness of FSA’s consultation process

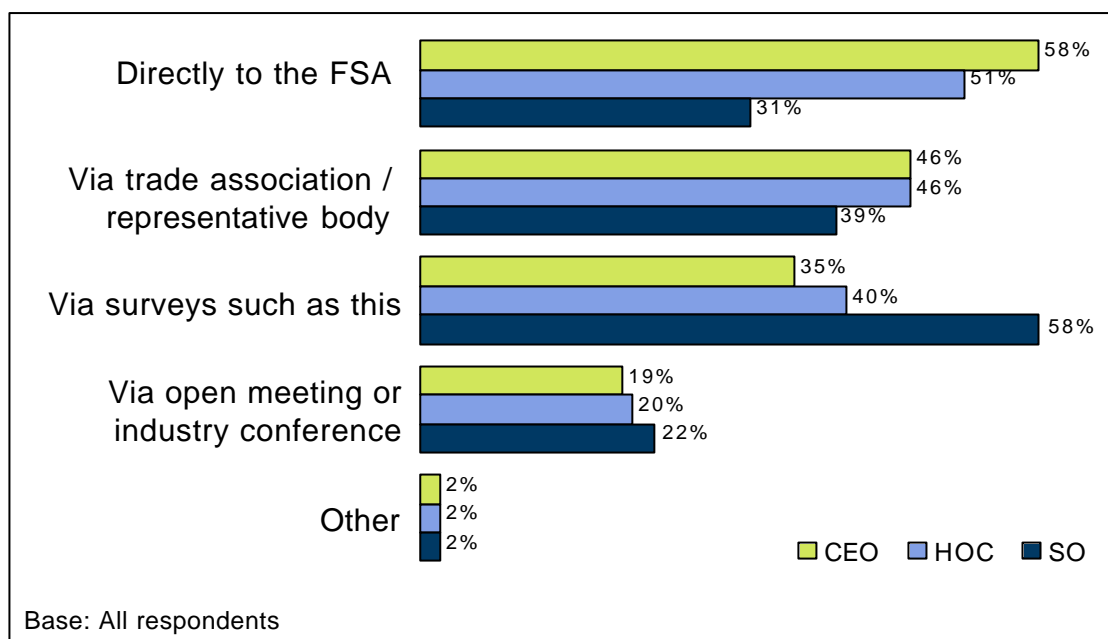


A number of options were suggested for a business to communicate its views to the FSA, and practitioners were asked which methods they preferred.

For chief executives and compliance heads, the most popular method was to communicate directly with the FSA, although a substantial proportion preferred to put forward their views via their trade association or other representative body. Surveys such as the current one were more popular than open meetings or industry conferences.

For small organisations, on the other hand, the clear first choice was surveys, followed by contact via a trade association. Less than one in three preferred to make direct contact with the FSA. Again, industry meetings or conferences were the least popular alternative.

CHART 38 Preferred method of communicating firm's views to FSA



Compliance heads and small organisations were then asked to suggest possible improvements to the way that the FSA conducts consultation exercises in the future. Around two thirds did not have any suggestions to make. The positive ideas which were put forward, albeit by small numbers, included: one-to-one discussions; simpler and more concise consultation documents with up-front summaries; targeting consultation documents at the relevant firms; allowing more time to respond; seminars, forums or regional consultation meetings; surveys and questionnaires; listening to trade bodies; more communication with smaller organisations; and increased use of technologies such as e-mail and the Internet.

11. COSTS AND EFFICIENCY

The **qualitative study** revealed that only smaller organisations felt that compliance fees were too high. However, when it came to internal costs, i.e. the costs of staff time and possibly external auditors' fees, there was some feeling that these had been steadily increasing. Some people accepted these costs as being reasonable but others found them excessive. Some small organisations complained that, overall, compliance costs were disproportionate to the assets managed.

Banks, in particular, felt that costs had increased since the FSA had become their regulator because they had, as already mentioned, adopted a more rule book approach which had increased administration time spent on compliance issues.

Others did not attribute the increase in costs to the creation of the FSA but blamed their current regulator for this.

“Absolutely phenomenal...All I get at directors meetings is ‘I see the costs have gone up again’, and it’s a worry, it’s a worry for small companies...More and more regulations coming in, more and more requests to outside bodies to help prepare this, help prepare that.”

HOC Investment Management

Some PIA-regulated companies also felt that compliance costs had increased because of an increased rule book approach to regulation, particularly since the pensions mis-selling issue.

“I guess the costs of compliance is what this company has seen rising more and more over the past few years...With all the rules getting diverse and training in competence coming in, with all those things, the necessity is to have more and more staff time focused on it.”

CEO & HOC Asset Management

In fact, at the qualitative stage, there appeared to be an expectation on the part of very many practitioners that compliance costs would continue to rise. This was often seen as a natural progression over time, rather than being attributed to the setting up of the FSA.

“I don’t see that the new regime is necessarily going to cost more. I think that it’s unlikely to cost less.”

HOC Securities & Derivatives

Banks, on the other hand, who had already seen costs rising since the FSA had taken over their regulation, expected this to continue.

“It’s completely OTT and I expect those costs are going to rise because it’s going to get more and more aggressive.”

CEO Bank

Some building societies, friendly societies and credit unions anticipated that their compliance costs could rise under a single regulator, because they might have to pay towards the costs of more commercial organisations or those which involved more risk, like banks lending to developing countries or insurance companies.

“The area of concern for me is that...Building Societies will be used as cash cows to bail out other organisations that are not as secure...lending to Brazil, and we have to pick up the bill, if we have to contribute towards the insurance if something goes wrong.”

CEO Building Society

In fact, many of the retail organisations were ultimately not particularly concerned about rising costs, because they expected to pass them on to their customers.

“It’s the customers’ money ultimately. It’s never the organisation’s, because we pass it on.”

CEO Building Society

Wholesale organisations were more concerned about increased costs because they did not have the same option to pass on costs, if they wished to remain competitive.

At the qualitative stage, there did not appear to be much knowledge about whether the FSA had been successful in controlling its own costs or making prudent use of its resources.

“How do I know? Do I read the report of the accounts of the FSA which they send me? No I don’t.”

CEO Bank

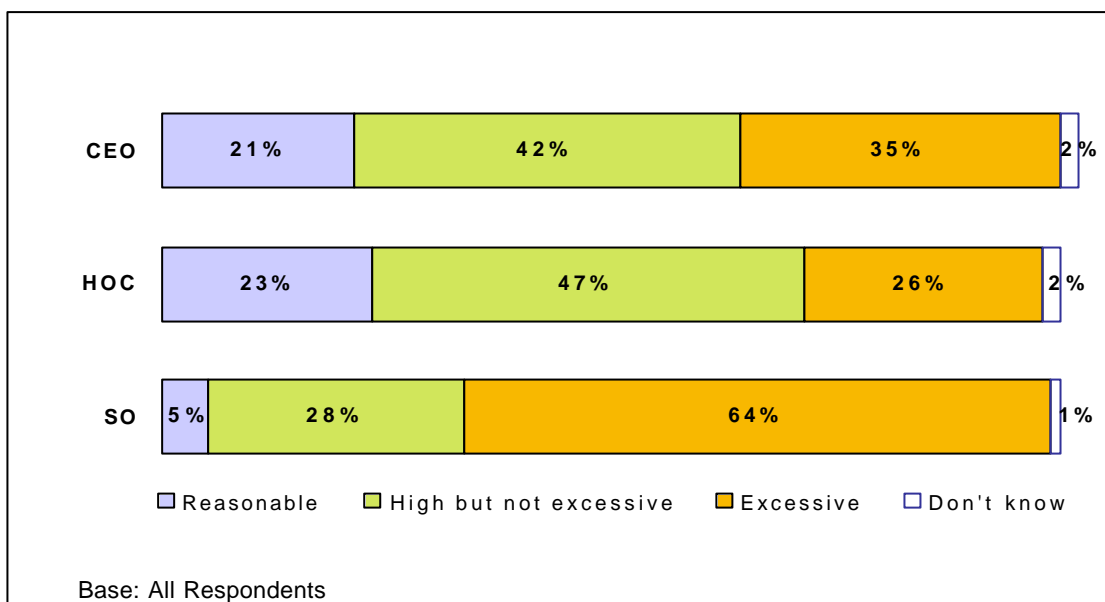
A small minority was aware that a cost-benefit study had been undertaken, but no-one knew what the findings were or had any idea about the criteria on which such a study could be based.

Similar questions about costs and efficiency were put to practitioners in the **survey**.

Less than a quarter of chief executives and compliance heads thought that their business’s total compliance costs (both fees and internal costs) were reasonable, with over two fifths of each group thinking costs were high, but not excessive. Just over a third of chief executives and a quarter of compliance heads felt the costs were excessive.

When we look at the responses from small organisations, a very different picture emerges. Only one in twenty felt that the costs were reasonable, and nearly two thirds saw them as excessive.

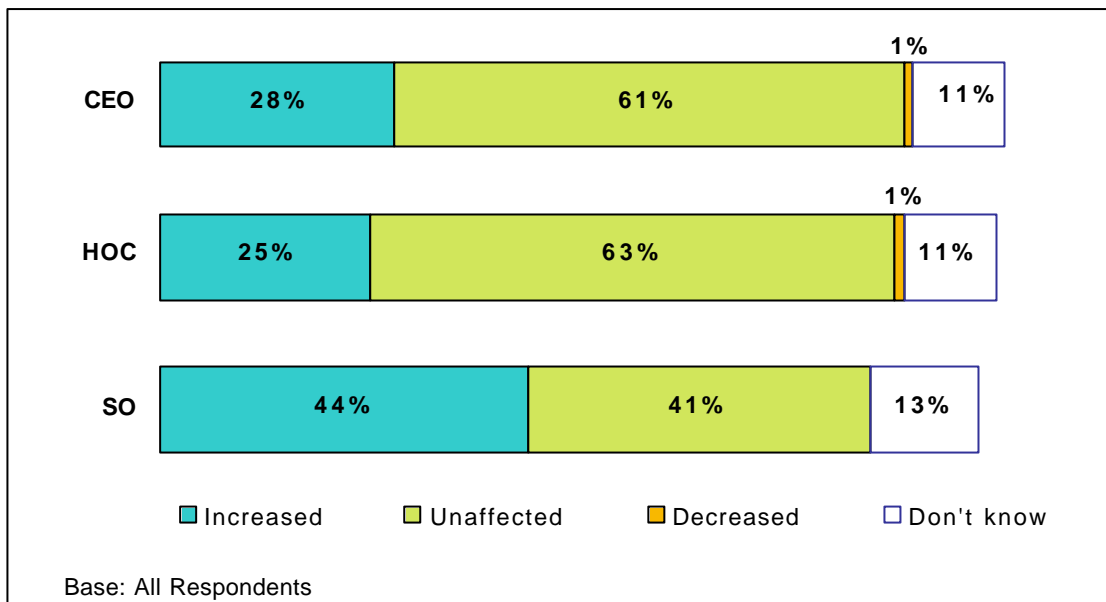
CHART 39 Views on current costs of compliance



Costs were more likely to be seen as excessive by IFAs, building societies and friendly societies.

Only a quarter of chief executives and compliance heads, but over two fifths of small organisations, felt that the internal costs of compliance had been affected by the creation of the FSA. However, these proportions were higher among firms whose main regulator was currently either the FSA or the BSC, and especially among chief executives of complex groups, banks and building societies, and among small organisations offering insurance products.

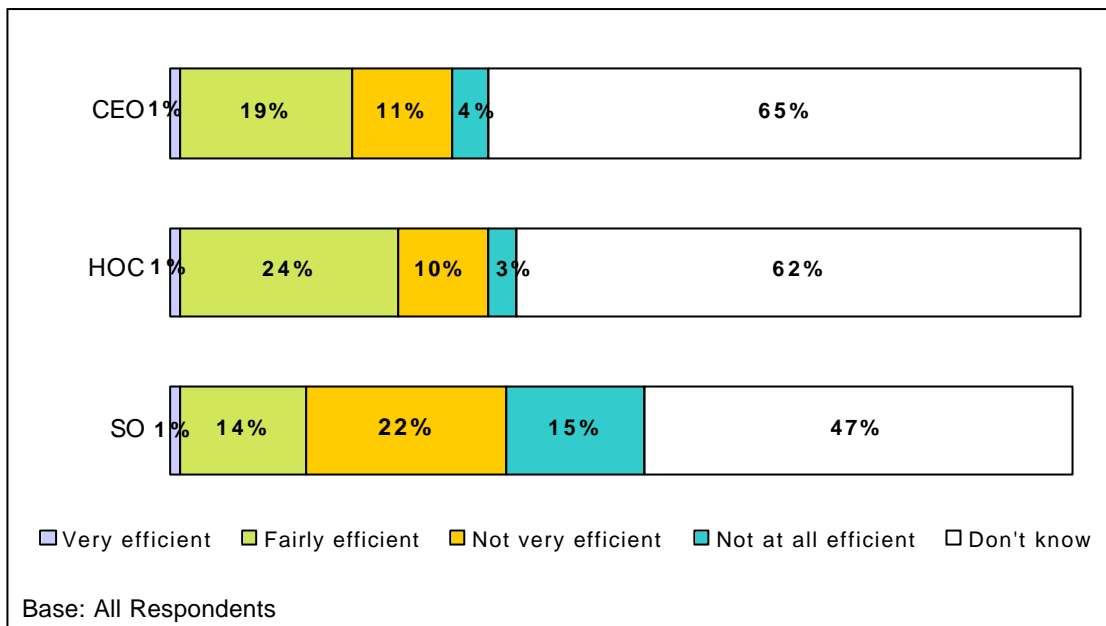
CHART 40 How costs have been affected by creation of FSA



When asked how efficient they thought the FSA had been in controlling its own costs and making prudent use of its resources, the majority of practitioners – two thirds of chief executives and compliance heads, just under half of small organisations – were not able to give an answer. Of those who responded, the majority of chief executives and compliance heads believed that the FSA had been at least fairly efficient in this respect. However, small organisations took the opposite view.

Among both groups, those most likely to believe that the FSA had been inefficient at controlling costs were IFAs, and the chief executives of life/pensions firms, complex groups and building societies.

CHART 41 How efficient FSA has been at controlling own costs



12. FSA PRACTITIONER FORUM

The **qualitative study** suggested that many practitioners had not previously heard of the Practitioner Forum. Those in larger organisations were more likely than others to have done so. The Forum was broadly expected to be representative of the financial services industry as a whole, although small building societies, friendly societies and credit unions were not sure whether they would be represented.

“Except for the fact that they’ll probably tend to have practitioners just from the large organisations.”

CEO Building Society

There was little knowledge about the actual composition of the Forum. Because of their lack of knowledge, most respondents were not sure how independent it was of the FSA. However, they felt that the Forum could play a potentially important role by representing the voice of practitioners to the FSA, and encouraging the regulator to take a common-sense, pragmatic approach to regulation.

“A mediator, trying to find some middle ground between those people who want to burn and pillage and those people who want a light touch. To provide some common sense and information as to what actually goes on in the marketplace, where the risks are.”

HOC Bank

“A facilitator to listen to the industry....They will have quite a voice, if it’s listened to. They’re a powerful entity. If they were to totally criticise the FSA and the FSA didn’t respond to that. It’s similar to the Consumers’ Association, the voice would become louder and louder....I think you’ve probably got a pretty wide spectrum (throughout the financial services industry).”

HOC Insurance Co.

“From what we have read and heard, it’s very much to have this opportunity really, to give feedback to the FSA, for them to get a feel of what industry is thinking at any one time.”

CEO& HOC Asset Management

Because there was no knowledge about the Forum’s activities to date, however, respondents were not able to assess whether they have actually been able to influence the FSA’s policies or decisions, or whether they have been able to help the FSA understand the views of the financial services industry. Moreover, because many of those interviewed had not hitherto known of the existence of the Forum, they did not know whether practitioner firms would be able to express

their views easily to the Forum. The fact that this research study was being conducted, however, encouraged respondents to feel that the Forum was taking steps to seek out practitioners' views, which they hoped they would then represent to the FSA.

Some respondents suggested that Practitioner Forum sub-committees could be set up and convened on an ad hoc basis. This could be useful when looking at particular financial products like pensions or ISAs. Some practitioners thought that this might be more productive than convening sub-committees based on industry sectors, which might simply become conduits for lobbying or special pleading. The sub-committees could examine issues relating to specific products that were raised either by the FSA or by themselves. They could be comprised of people who worked on these products on a day to day basis, not just senior personnel.

“You could have it by product, a pension practitioner forum, a unit trust practitioner forum... so that the people who are actually doing the business could be included and consulted, so that if the FSA says ‘Do this’, someone could say, ‘That won’t work because. Why don’t you do it this way?’ ”

HOC Bank

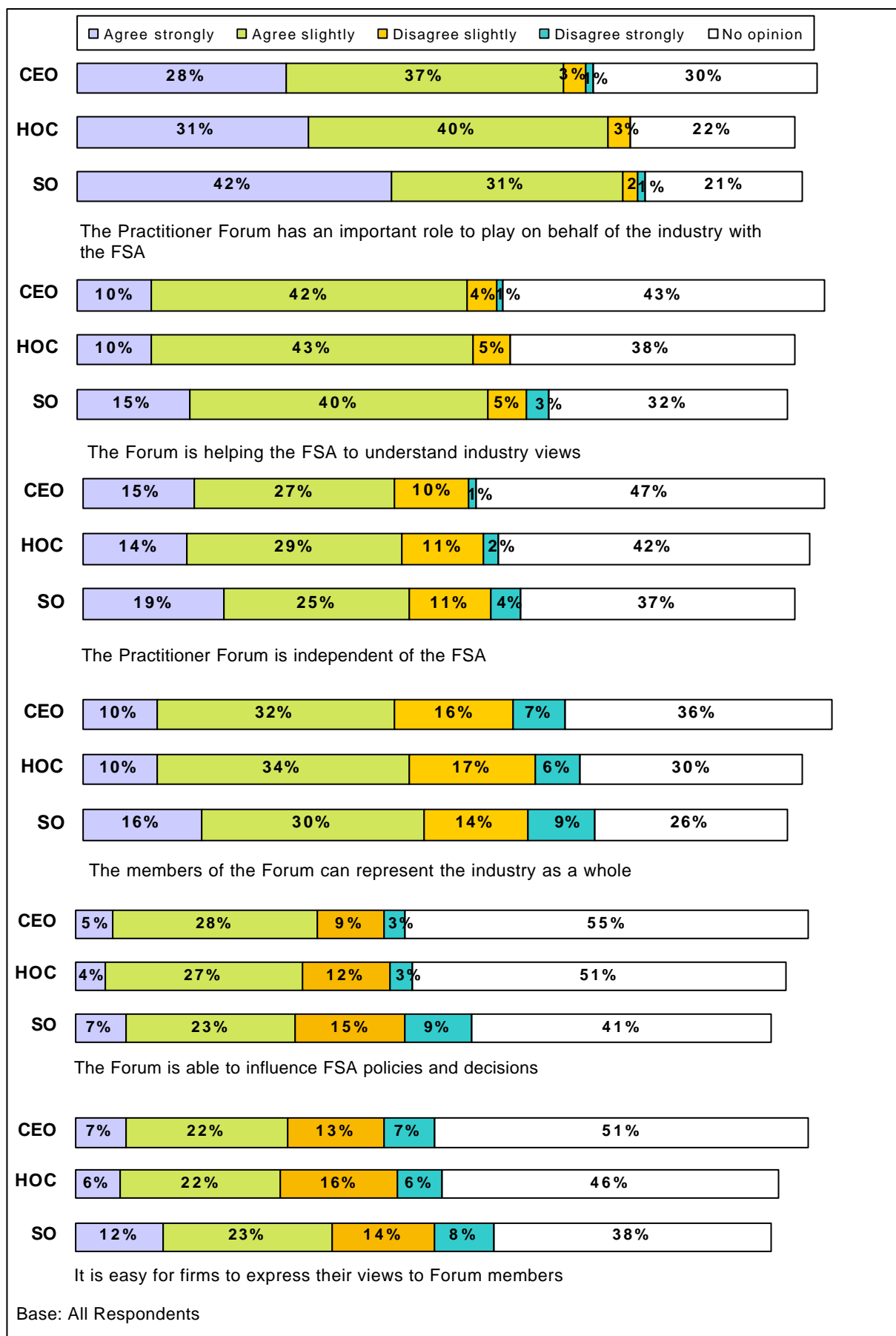
The **survey** results were very much in line with the qualitative findings. Over a quarter of small organisations, around one in three chief executives, and a slightly higher proportion of compliance heads had heard of the Practitioner Forum before they received the letter informing them of the survey. Large firms were much more likely to have done so than small organisations.

Consequently, substantial numbers of practitioners – ranging from a fifth to a half - were unable to express an opinion in answer to subsequent questions about the role of the Forum. The questions were designed to explore practitioners' views about the importance of the Forum's role; its ability to represent the industry; its independence of the FSA; its role in helping the FSA to understand industry views; its ability to influence FSA policies and decisions; and the ease with which practitioners felt they could express their views to Forum members.

Among those who did give an answer, the balance of opinion was extremely positive towards the Forum.

Around two thirds agreed, and only a very small proportion disagreed, that the Forum had an important role to play on behalf of the industry with the FSA. A large majority of practitioners also felt that the Forum was helping the FSA to understand industry views, and was independent of the FSA. The results were very similar for all three practitioner groups, although small organisations were most likely to express strong agreement with these views.

CHART 42 Views about the Practitioner Forum



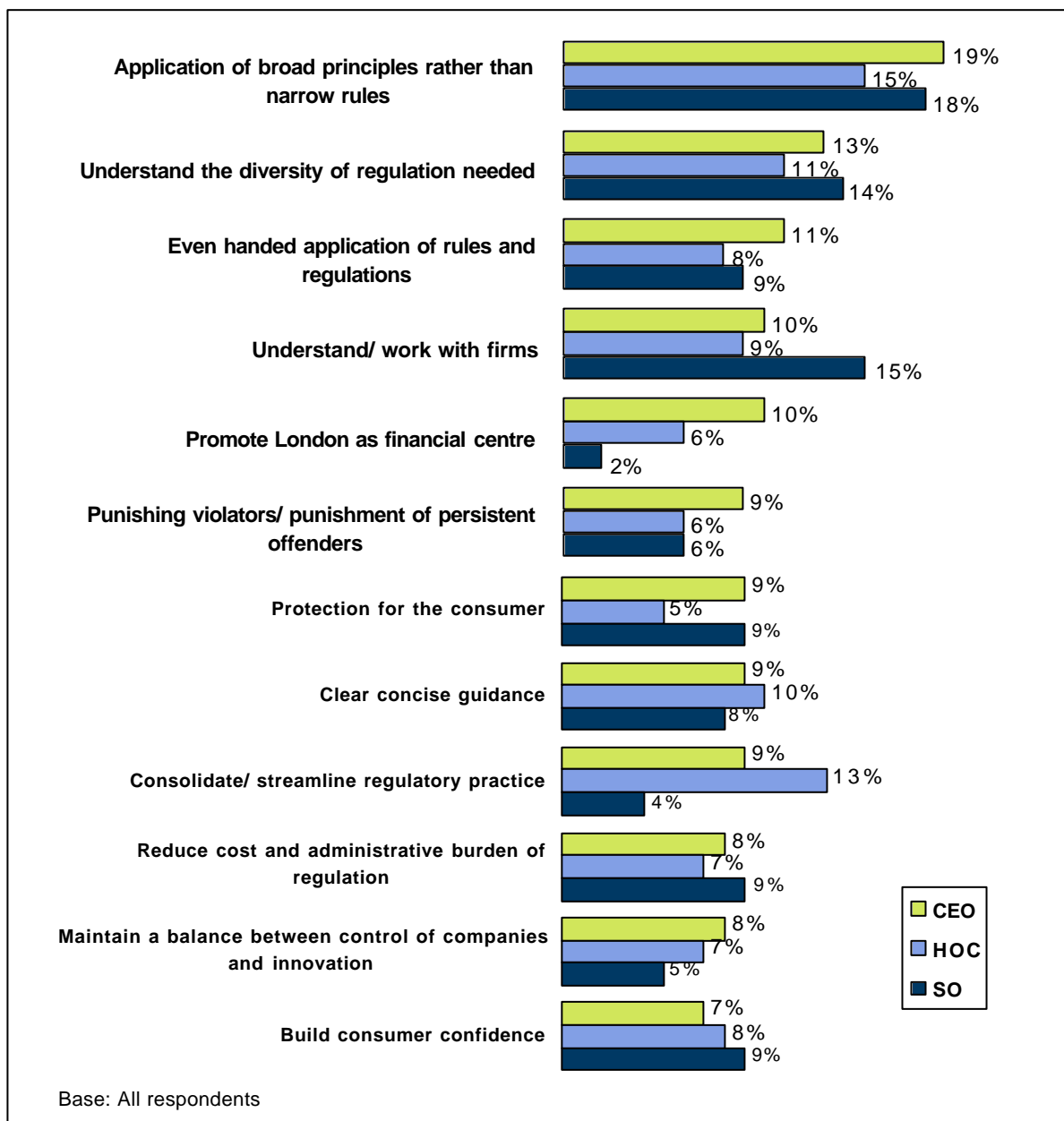
There were more mixed views about the Forum's ability to represent the industry as a whole, and to influence FSA policies and decisions, with around one in three of those who expressed an opinion feeling that this was not the case. Around one in three practitioners agreed that it was easy to express their views to Forum members, but one in five felt the opposite. A high proportion of respondents just did not know the answer to these questions.

Practitioners in larger firms, who were more knowledgeable about the Forum, were more positive in their views about the importance of its role, its independence, and its ability to influence the FSA. But they were also more likely to **disagree** that the Forum can represent the industry as a whole, and that it is easy for firms to express their views to Forum members.

13. OVERALL PRIORITIES FOR THE FSA WHEN IT TAKES OVER THE ROLE OF THE SINGLE REGULATOR

All practitioners were asked what they saw as the most important overall priorities for the FSA, when it takes on the role of the single regulator for the financial services industry. Respondents answered this final open question in their own words. Most of the issues mentioned had already been identified in answers to earlier questions, but this question provided an opportunity for practitioners to sum up their priorities overall.

CHART 43 Important priorities for the FSA to address



The most important priority for the new regulator, mentioned by about one in five practitioners, is clearly a style of regulation that involves the **application of broad principles, rather than narrow rules**. This theme, which was frequently reiterated throughout the survey findings, was mentioned more often than any other issue in the responses to this question, both overall and within each individual sector of the industry except for friendly societies. Chief executives in complex groups, life/pension firms and investment banking were particularly likely to stress this point.

The next most important priority for the FSA, mentioned by around 13% of all practitioners, is to **recognise the diversity of regulation needed**, and make it appropriate to the type and size of organisation. This was a particularly important issue for friendly societies, but was also a high priority for small IFAs and complex groups.

Several other issues of importance to practitioners were all mentioned by 9-11%. The priorities were not exactly the same for all groups – small organisations wanted the FSA to give priority to understanding the needs of firms and working with them, whilst compliance heads stressed the importance of consolidating and streamlining regulatory practice. For all groups, top priorities included:

- the even handed application of rules and regulations (especially for building societies and for chief executives in life/pension firms);
- understanding and working with regulated firms (especially for small organisations and the chief executives of complex groups);
- clear, concise guidance.
- consolidating and streamlining regulatory practice (very important for compliance heads, especially those in life/pensions firms);
- protection for the consumer (especially for life/pensions firms and friendly societies);

Chief executive felt it was equally important for the new regulator to promote the UK as an international financial centre (especially chief executives of banks) and to punish persistent offenders (especially chief executives of building societies and larger IFAs).

A slightly lower proportion of practitioners, around 6-9%, hoped that the FSA would:

- reduce the cost and administrative burden of regulation (especially small organisations, building societies and friendly societies);
- maintain a balance between the control of companies and innovation;
- distinguish between wholesale and retail business (especially complex groups and firms involved in securities and derivatives);
- build consumer confidence (especially small organisations and life/pensions firms).

Technical appendix

APPENDIX 1 RESEARCH METHODS

Developmental Research

The developmental component of the research was undertaken using qualitative methods. It was exploratory in nature and based on 17 in-depth interviews with a mix of Chief Executives and Heads of Compliance in financial services firms.

Sample

The sample on which the developmental study was based was constructed from the industry regulators' lists, provided by the FSA. Eight interviews were conducted with chief executives, and nine with compliance heads¹. Eight financial sectors were included in the study: banks, building societies, insurance companies, asset and investment managers, securities and derivatives, independent financial advisers, friendly societies and credit unions. A sample profile may be found in the table below.

Sector	Number interviewed	Additional information
Banks	4	2 retail; 2 investment
Building Societies	2	
Insurance Companies	2	
Asset and Investment Managers	2	
Securities and Derivatives	3	2 ISD category A; 1 ISD category B
IFAs	2	1 network IFA
Friendly Society	1	
Credit Union	1	

Of the 17 organisations taking part in the study, 11 had more than one regulator and four had been involved in a disciplinary or enforcement procedure.

¹ One interview was a paired depth interview and included both the chief executive and the compliance head.

Qualitative methods

Practitioners were initially invited to participate in the research by letter from the FSA Practitioner Forum. This was followed up by a telephone call from ***BMRB Qualitative*** to arrange a mutually convenient time for interview. Interviews were undertaken at the respondent's place of work by a ***BMRB Qualitative*** researcher. Each interview lasted an hour and used a topic guide to structure the interview. A copy of the topic guide may be found in Appendix 2.

Interviews were tape recorded and transcribed for analysis using Matrix Mapping, a sophisticated form of content analysis.

The qualitative fieldwork took place during June and a debrief of the results was given to the Practitioner Forum on **22nd June**

Survey

Questionnaire design and piloting

The findings of this developmental research helped to identify the key issues to be included in the postal survey questionnaire. Two versions of the questionnaire were drafted, a short version for completion by Chief Executives, and a longer version for completion by Heads of Compliance. Both versions of the questionnaire contained the same core set of questions, but the Compliance version covered some additional topics and obtained fuller information using more open-ended questions.

The questionnaires were developed over a number of drafts with guidance from a sub-committee of the Forum, appointed to oversee the research process. Draft questionnaires were completed by 12 pilot respondents, with BMRB researchers present as observers to note any difficulties with instructions or question wording, and to conduct follow-up interviews with respondents. Pilot interviews were carried out in two stages during June and July, five with chief executives and seven with compliance heads in a range of sectors. The questionnaires were then revised and final versions agreed with the Forum sub-committee.

Sample

It was decided that the survey should include all regulated firms, with the exception of the smaller IFA firms (less than 10 employees) regulated by the PIA, where the total number of firms was very large and a random sample of one in three firms was therefore selected. This under-representation of small IFAs was corrected by weighting at the analysis stage.

Most firms were sent both versions of the questionnaire, for separate completion by the Chief Executive and the senior person responsible for compliance. Friendly Societies, ex-IBRC firms and the small IFAs were only sent the Compliance version of the questionnaire. Only one contact was given for these smaller organisations on the FSA databases, and it was felt that there was unlikely to be a separate person responsible for compliance. Correspondence was usually addressed to the named contact taken from the databases. However, in some instances this information was not available, in which case either 'The Chief Executive' or 'The senior person responsible for compliance' was used. In the case of firms taken from the Insurance database, where only the name of the Chief Executive was listed, chief executives were sent both versions and asked to pass on the Compliance version to the appropriate individual in their firm. Serial numbers on the questionnaire identified the database from which the contract had been taken.

Duplication

Because a comprehensive central listing of all regulated firms did not exist at the time of the survey, the names and addresses of firms and individuals had to be taken from separate databases for individual regulators, provided by the FSA. Where firms had more than one regulator, they could therefore appear in the sample several times. There was no common format between these databases, and it was therefore not possible to eliminate the duplication which existed between them.

Where duplication of the same individual was found within the same database – for example, because they were responsible for several different firms with the same regulator – an effort was made to limit the number of questionnaires they received by randomly eliminating some duplicate names from the sample. However, because it was possible that in some firms there might be other individuals responsible for compliance, but whose names did not appear on the databases, some duplicates were allowed to remain. The procedure used was as follows:

- If an individual appeared in the same database twice, they were sent two questionnaires
- If they appeared between three and five times, two entries were randomly selected to receive questionnaires
- For individuals with between six and eight entries, three entries were randomly selected
- A few individuals appeared nine or more times. These were contacted by telephone in order to ascertain how many questionnaires it was appropriate for them to receive, and the mailing was dealt with on an individual basis.

To reduce the impact of the duplication problem for respondents, the covering letter which accompanied the questionnaires explained what to do if more than one copy of the questionnaire was received. If the duplicate was addressed to the same individual at the same firm, only one copy of the questionnaire should be completed. If they received duplicate questionnaires addressed to them at different firms, these could either be passed on to another relevant individual in these firms, if such a person existed, or discarded. Recipients of duplicate questionnaires were asked to return surplus questionnaires (marking them as 'duplicate') to BMRB in the pre-paid envelopes provided, or to telephone BMRB with the serial numbers of the questionnaires being discarded. This enabled us to identify duplicate questionnaires as such on the sample database.

Fieldwork procedures

At the beginning of July, sample members were sent an advance notification about the survey from the Chairman of the Practitioner Forum, together with a press release with further details about the survey. The questionnaires were sent out two weeks later, on 19th July. The questionnaires were sent with a covering memorandum from the Chairman of the Forum, requesting co-operation. Respondents received one of four versions of this memorandum, dependent on their status and the type of firm. A reminder letter was sent three weeks later to all sample members who had not returned their questionnaire or informed BMRB that it was a duplicate.

Follow-up telephone survey

One week after the postal stage closing date, all sample members who had neither returned a questionnaire nor informed BMRB that the questionnaire was a duplicate were entered into a separate sample database for the follow-up telephone survey. Some further de-duplication was carried out at this stage, by linking contact name and firm name.

The follow-up telephone survey was carried out among a representative sample of practitioners to check the validity of results from the postal survey. Response to a postal survey requires greater effort, and may be affected by the views that people hold about its subject matter (which they will be aware of in advance by reading the questionnaire). The views of those who are sufficiently motivated to respond may therefore not be representative. With a telephone method, bias is reduced because the detailed questions cannot be seen in advance. Non-response is more likely to be situational, and less related to the views people hold in relation to the survey subject matter.

Quotas were set for the telephone interviews, based on the profile of the issued sample for the postal survey. Interviews were conducted between **6th and 24th September**, using

CATI (Computer Assisted Telephone Interviewing), by experienced telephone interviewers, working under supervision at BMRB's Telephone Unit in West London. The questionnaire was adapted from the postal survey, again with separate versions for chief executives and compliance heads. Additional questions were included to find out people's reasons for not returning the postal questionnaire.

The target number of telephone follow up interviews was 400. However sample was exhausted with **342 interviews** achieved. A substantial proportion of those contacted by telephone told the interviewer that they had already returned a questionnaire. The fact that they were still on the sample database indicates a large amount of residual duplication which was not notified. The serial numbers of these respondents were recorded as additional duplicates on the sample database. It is likely that a similar amount of duplication existed among the sample members who were not contacted, either because the quota to which they belonged had already been filled, or the telephone number listed for them on the FSA database was unobtainable, or because no direct contact could be made with them during the fieldwork period.

Among those who were interviewed, the main reasons given for non-response to the postal survey were either that they had not received the questionnaire or lack of time (both around a quarter). A further 13% said they had been on holiday. There were very few references to the subject matter of the survey, indicating that non-response was not influenced by attitudes towards regulation or the regulators.

The two modes of interview, postal and telephone, produced broadly similar results, also indicating that there was no significant bias in responses to the postal survey.

Response rate

Before the response rate was calculated, duplicates were removed from the issued sample. Duplicates were identified in two ways:

Postal duplicates were identified either from questionnaires that were returned to BMRB marked as duplicate, or from the questionnaire numbers that were notified to BMRB by telephone calls from respondents.

Telephone duplicates were identified either by identifying duplicate names of firms and individuals on the CATI sample database, or by interviewers when they contacted non-respondents during the telephone follow-up survey, as described above.

With all **known** duplicates removed from the issued sample, the overall response rate for the survey was **58%**. Response was the same for Chief Executives and for Heads of

Compliance, and slightly higher for small organisations. Response differed by type of organisation, ranging from 96% for the chief executives of Building Societies, to 29% for Friendly Societies. A detailed response breakdown is shown in **Table 1** at the end of this appendix.

However, because we did not contact all non-responders by telephone, there will be some residual duplication which we have not identified. We cannot be certain, therefore, of the exact number of individuals and firms who should have been included in the issued sample. If the duplication found among sample members who were contacted by telephone was replicated among those who were not contacted, the effective issued sample would be smaller and the real response rate would be higher than 58%, possibly as high as **69%**.

Whatever the exact figure, we can be confident that questionnaires were completed by a very high proportion of regulated firms and that the views reported here are representative of those held by senior managers in the financial services industry as a whole.

Weighting

The telephone and postal stage data were weighted independently to the same target profile, and were then merged together for analysis. Separate analyses were carried out for the three groups: Chief Executives, Heads of Compliance, and Small Organisations.

The data were weighted to the profile of the issued sample, based on the FSA database from which the sample members had been taken, but with all known duplicates removed. In the case of IFAs with less than 10 employees, sampled from the PIA database, the weighting was adjusted to take account of the fact that only one in three were selected to be in the sample. **Table 2** at the end of this appendix shows the effect of the weighting on the three samples.

Table 1 Response rates

Database	Questionnaires sent	Postal Duplicates	Telephone Duplicates	Sent less duplicates	Questionnaires returned	Response rate
Chief Executives (CEO questionnaire)						%
Institutions	107	15	34	58	46	79
Banks	230	33	40	157	138	88
Building Societies	70	12	4	54	52	96
Insurance	720	112	136	472	212	45
PIA Non IFA	455	134	112	209	105	50
PIA IFA (with 10 or more employees)	109	7	24	78	57	73
SFA	1303	140	243	920	480	52
IMRO	901	120	246	535	350	65
Total	3895	573	839	2483	1440	58.0
Heads of Compliance (HOC questionnaire)						%
Institutions	97	13	26	58	45	78
Banks	227	41	17	169	107	63
Building Societies	70	13	8	49	32	65
Insurance	720	119	189	412	174	42
PIA Non IFA	455	98	20	337	142	42
PIA IFA (with 10 or more employees)	109	11	9	89	54	61
SFA	1258	116	138	1004	600	60
IMRO	916	160	153	603	411	68
Total HOC	3852	571	560	2721	1565	57.5
Small Organisations (HOC Questionnaire)						%
Ex-IBRC	405	0	12	393	266	68
Friendly Societies	267	27	7	233	67	29
PIA IFA (with less than 10 employees)	1053	3	25	1025	657	64
Total	1725	30	44	1651	990	60.0
TOTAL	9472	1174	1443	6855	3995	58.3

Table 2 **Effect of weighting on sample profiles**

Database	Unweighted totals	Unweighted profile	Target profile	Weighted totals
Chief Executives		%	%	
Institutions	46	3.19	2.34	34
Banks	138	9.58	6.32	91
Building Societies	52	3.61	2.17	31
Insurance	212	14.72	19.01	274
PIA Non IFA	105	7.29	8.42	121
PIA large IFA (with 10 or more employees)	57	3.96	3.14	45
SFA	480	33.33	37.05	534
IMRO	350	24.34	21.55	310
TOTAL	1440	100.00	100.00	1440
Heads of Compliance				
Institutions	45	2.88	2.13	33
Banks	107	6.84	6.21	97
Building Societies	32	2.04	1.80	28
Insurance	174	11.12	15.14	237
PIA Non IFA	142	9.07	12.39	194
PIA large IFA (with 10 or more employees)	54	3.45	3.27	51
SFA	600	38.34	36.90	577
IMRO	411	26.26	22.16	347
TOTAL	1565	100.00	100.00	1565
Small Organisations				
Ex-IBRC	266	26.87	10.62	105
Friendly Societies	67	6.77	6.30	62
PIA IFA (with less than 10 employees)	657	66.36	83.09	823
TOTAL	990	100.00	100.00	990

