

Third Survey of the FSA's
Regulatory Performance

*THE FINANCIAL SERVICES
PRACTITIONER PANEL*

December 2004

Undertaken and written on behalf of the Panel by:
NOP Financial, part of the NOP World group

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The Financial Services Practitioner Panel commissioned NOP Financial, part of the NOP World group, to undertake this research on its behalf. The NOP project team comprised; John Banerji, James Bance, Richard Gaze and Lucy Cobby.

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Further copies of this report, and further information concerning the work of the Panel, can be obtained from the Panel's website – www.fs-pp.org.uk

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Panel Chairman's Forward

This report represents the findings of the third survey by the Financial Services Practitioner Panel (the Panel) into the FSA's regulatory performance. Over 3,000 firms responded to the survey, which aims to gauge the industry's view of its regulator. The report looks at how these views have changed in the two years since the last survey was conducted in 2002.

The survey raises a number of issues regarding the industry's perception of its regulator. While some encouraging signs emerged from its findings, there is clearly still much room for improvement. The Panel has identified a number of priorities and the FSA must now reflect on these and decide how it is going to work with the industry to address them.

The Panel welcomes the improvements the FSA has made in recent times, including the reduction in the number of Consultation Papers issued during 2004 and the work it has done, and continues to do, to make the Handbook easier to use. We also welcome the greater reliance on market-led solutions, a more careful and pragmatic approach to the application of EU directives and the work to enhance the overall capability and approach of FSA staff. We are particularly pleased that the FSA has agreed to work with the Practitioner Panel to commission an independent piece of work on the costs of compliance.

The Panel believes that the key issues emerging from the research are set out in the following paragraphs.

The industry recognises the benefits of strong regulation and is keen to work together with the FSA, seeing the move to an integrated, single regulator as a positive step. However, it believes that the current regulatory system places too great a burden on firms, is harmful to the development of new products and services and is therefore working to the detriment of consumers. Smaller firms in particular feel that the regulator gives little consideration to the impact of policy development and regulation on their businesses.

The cost of compliance is seen as possibly the single largest issue. Generally, firms complain about the level of investment required to ensure they are

compliant and are concerned that these costs are likely to increase still further in the future. Unsurprisingly, this is particularly keenly felt by smaller firms. It is also felt that these costs will result in reduced consumer choice and have a negative impact on the UK's international competitiveness.

The industry is supportive of the FSA's efforts to reduce financial crime and to secure the right degree of protection for consumers, but feels that the FSA has become too focused on consumer protection, to the detriment of other objectives. It is felt that the FSA is doing less to meet its objectives of maintaining confidence in and promoting understanding of the UK financial system.

There is broad support for placing emphasis on the implementation of policy rather than on the development of new policies. However, while credit is given to the FSA for trying to improve its understanding of the businesses it regulates, there is still concern regarding the consistency of its approach in this regard. In addition, there is considerable frustration with what firms perceive to be the varying standard of the FSA's staff, particularly in relation to supervision and the provision of guidance. The FSA's Handbook, while improved in the last year, is still considered unclear and difficult to use.

There is widespread feeling that the FSA does not give sufficient priority to international issues and, as a consequence, does not take a lead on matters concerning international regulation but rather responds to them. The FSA's implementation of EU directives is often seen as over-zealous.

Overall satisfaction with the FSA has increased slightly over the last two years, with 22% of firms agreeing that their relationship had improved, while only 8% thought it had deteriorated. However, the Panel considers that any actions that the FSA takes to improve its relationship with firms may well struggle to have a significant impact on overall satisfaction while the majority of practitioners expect compliance costs to rise inexorably.

And finally...

The Panel enjoys an open and constructive relationship with senior management at the FSA. We have already begun the process of dialogue to

ensure that the opinions emerging from the survey are properly understood and taken on board. We shall continue to press these points going forward, both as high-level issues of principle and in the context of our representations on specific regulatory developments. But we are confident that the FSA recognises the importance, value and authority of this research, and will respond – as it did in 2002 and as the industry has a right to expect – positively, and in the spirit of collaboration and advancement with which we believe practitioners have expressed these views.

Lastly, I would like to take this opportunity to recognise the efforts of Matthew Bullock, Roy Leighton and Michael Quicke who, on behalf of the Panel, formed a sub-group to oversee the day-to-day direction of this survey. Similarly, I would also like to thank the team at NOP Financial – who undertook the fieldwork and analysis – and our own Secretariat support staff, for helping ensure that the operational aspects have been handled in a smooth and professional fashion. Along with my fellow Panel members, I believe that we have produced a worthy document of record and an eminently reliable basis on which to continue effectively representing the views and interests of the industry at large as part of the FSMA and FSA accountability framework.

Jonathan Bloomer

December 2004

1.0 Introduction

Background

The Financial Services Practitioner Panel (the Panel) is an independent, senior-level group – established under the Financial Services and Markets Act 2000 – which is drawn from organisations in the financial sectors that are regulated by the Financial Services Authority (FSA). The Panel's role is to review the effectiveness of FSA policies and operation from an industry standpoint, as well as being available to the FSA for consultation on specific high-level issues.

The Panel commissioned surveys of regulated firms in 1999 and 2002, and in early 2004, NOP Financial was appointed to conduct the third survey to gauge industry views and opinions on the performance of the FSA.

The objectives of the 2004 research programme can be defined as follows:

- To provide top-level assessment from chief executives / principals on their perceptions of the performance and areas of priority for the FSA
- To provide industry-wide views on the operational efficiency of the FSA in dealing with firms
- To provide the Panel with information on the effect of the FSA on the industry (in areas such as costs, innovation and competitiveness)
- To provide information which can be used by the Panel in advising the FSA how it should set its priorities and guide delivery of its main objectives and responsibilities
- To provide a basis on which to track and compare the effectiveness of the FSA over time

The 1999 survey was carried out during the period of transition to the new regulatory system, and the 2002 survey took place just over six months after the FSA had assumed the consolidated responsibility for regulating the financial services industry. In responding to the 2004 survey nearly all firms will have had more than two years of experience of being regulated by the FSA.

Methodology

In 2002 most firms received two versions of the questionnaire, one for completion by the chief executive and the other for completion by the most senior person responsible for compliance. Smaller organisations, where the FSA typically had just one contact, were sent one questionnaire. In 2004, to avoid duplication of effort, it was decided to send one questionnaire to all regulated firms, to be completed by the most senior executive in the business.

The research programme in 2004 included a qualitative stage to provide insight into the current thinking of practitioners with regard to regulation and to ensure that the quantitative questionnaire reflected all relevant issues. Following the qualitative stage the quantitative questionnaire was drafted and agreed with the Panel. It was then piloted to check comprehension and adjustments were made as a result.

The main survey was carried out using a self-completion questionnaire (practitioners were also offered the option of completing the questionnaire online). Towards the end of the fieldwork period, a reminder exercise was conducted and some practitioners completed the survey by phone. The telephone questionnaire was a shorter version of the main postal survey.

All questionnaires were completed between 30th June and 6th September 2004.

A copy of the 2004 questionnaire and further details of the sample, response rate and analysis techniques employed are included in appendix 3.

The data in this report have been weighted to ensure that the results are representative of the population of regulated firms. For full details of the weights applied see appendix 3.

In the charts and tables the base sizes refer to the number of respondents interviewed. These are shown *unweighted* as statistical tests are based on unweighted numbers.

As weighting has been applied, readers should not try to make calculations from combinations of weighted data and unweighted base sizes.

Arrangement of this report

The next section of this report contains a summary of the key findings of the research and the conclusions that can be drawn from the data. The detailed findings are divided

into two main sections:

- Views of the FSA as the regulator of the industry, including:
 - General attitudes to regulation
 - Views of the costs of compliance
 - The FSA's performance against its objectives
 - Overall effectiveness of the FSA
 - The new FSA structure
 - The FSA and smaller firms
 - The FSA and international issues
- Regulated firms' relationship with the FSA, including
 - Overall satisfaction
 - The drivers of satisfaction
 - Views on the FSA's performance.

In this report comparisons are made to the 2002 survey where appropriate. In the report of the previous survey, results from smaller organisations were always shown separately to CEOs and Heads of Compliance from larger businesses. Therefore, in the latest report comparisons are made between the views of smaller organisations in 2002 and smaller organisations in 2004 – the definition for 'smaller' being less than 20 approved individuals – and between larger firms in 2004 and CEOs from larger organisations in 2002.

The FSA has established separate business units to regulate retail and wholesale firms and the analysis of the 2004 survey has reflected this structure. In addition, the responses in respect of firms falling within major financial groups have been examined as a distinct category.

2.0 Executive Summary

Third survey of the FSA's regulatory performance

This report is based on a survey of 3,117 senior executives in regulated financial services firms. Initially, one questionnaire was sent to the most senior person within each firm. The majority (2,503) completed the paper version of the questionnaire, a smaller number (123) completed the questionnaire online and 491 were interviewed by telephone. The overall response rate was 48%. The survey results are representative of all regulated firms in the industry.

A census of regulated firms was conducted, with the exception of smaller IFAs, Authorised Professional Firms and Discretionary Investment Managers, where a random one in three sample was taken.

A qualitative study was undertaken – involving around 50 firms from across all sectors and sizes of business – to help provide depth and to aid the development of the quantitative work.

The main quantitative survey was carried out between 30th June and 6th September 2004.

Views of the FSA as industry regulator

Attitudes to regulation

In 2004 the majority of regulated firms continued to express support for the idea that strong regulation is for the benefit of the whole industry. Eight out of ten practitioners agreed with this statement and half of these were in strong agreement.

The qualitative study found that the concept of having an integrated, single regulator was not just accepted by practitioners, it was positively supported. An effective regulator was viewed as essential to ensuring that the industry was seen as clean, trustworthy and otherwise competent.

In the qualitative study practitioners expressed the desire to work with the FSA towards the betterment of their own businesses, their sector generally and the competitive position of the UK industry.

However, the quantitative survey found that half of all practitioners agreed strongly that the current regulatory system placed too great a burden on firms and a further third

agreed to a lesser extent. This sense of burden was consistent across most firms within the industry, but it was particularly strongly felt amongst smaller retail firms. The proportion of practitioners who agreed that there was too great a burden from regulation had not changed significantly from the 2002 survey.

The combination of support for the principle of regulation and the feeling of heavy burden from the current regulatory system led some practitioners in the qualitative study to express a sense of frustration with the FSA. This then led some to point to examples of perceived unfair treatment - public 'dressing downs' and retrospective judgements. The quantitative survey found that nearly half of the industry considered that the FSA did exercise the principle of fairness, but four in ten disagreed.

The majority of practitioners also felt that the regulatory burden that they carry is ultimately detrimental to consumers' interests and, as might be expected, retail firms were more likely to hold this view.

One aspect of the FSA's perceived detrimental impact on consumers was the view that the working practices of the FSA hinder the development of new products and services, a view with which the majority of practitioners agreed.

In the qualitative study, practitioners expressed the feeling that they were often at odds with the FSA from a cultural perspective. Many felt that the FSA retained a civil service view which led to the FSA continually developing policy and being over-zealous when implementing regulations.

The majority of practitioners, having had over two years to judge the performance of the FSA, disagreed that the FSA had delivered in the way that they had hoped. Specifically, firms had been hoping that the level and pace of change in regulation would reach something of a plateau shortly after N2, rather than continue unabated. The industry also hoped that the establishment of a single regulator would have had a more positive and tangible effect on the marketplace as a whole.

Costs

The costs of compliance came through as a major issue in the 2004 survey. The qualitative study found that comments about costs tended not to relate to the levy charged to meet the costs of the FSA, they were more concerned with the range and level of investment that firms had to make to ensure compliance.

The majority of all firms categorised the total current costs of compliance as 'excessive'

and only one in ten saw costs as reasonable. Smaller retail firms were particularly likely to view compliance costs as excessive.

The 2002 survey asked for practitioners' views about the ongoing cost of compliance after an assumed 'bulge' of costs associated with the establishment of the FSA. The majority did expect ongoing costs to be higher than under their previous regulator.

But in the 2004 quantitative survey, nine out of ten practitioners believed that the costs of compliance would continue to rise for the foreseeable future. Many practitioners also felt that cost benefit analyses within FSA consultation papers were not robust – i.e. that they underestimated the cost of new regulations and overstated the anticipated benefits.

In the qualitative study many practitioners stated that compliance costs were significant and they felt that that this would have an adverse impact on consumer choice, as firms would reduce the range of services they offered or curb new product development.

The negative impact of costs was confirmed in the quantitative survey. The majority agreed that the costs of compliance had been detrimental to innovation and to the international competitiveness of the UK industry.

The costs of compliance were believed to have affected consumer choice in that over half of firms said that they had reduced the nature or types of business they conducted as a result of costs. IFAs and Authorised Professional Firms (mainly accountants and solicitors) were most likely to have reduced the types of business they conducted.

When asked to estimate the costs of compliance as a proportion of total costs, 29% of all practitioners and 36% of those from smaller retail businesses, stated that compliance costs were 15% or more of total costs. Larger businesses typically saw compliance costs as a lower proportion of total costs.

Statutory objectives

In 2002 the majority of practitioners felt that the regulatory system gave too much weight to the interests of consumers. In 2004 nearly two thirds of practitioners agreed that the FSA focused on consumer protection to the detriment of its other objectives.

When rating the FSA on its performance against its objectives, practitioners gave a higher score for reducing financial crime and securing the right degree of protection for consumers. But practitioners were much less favourable about the FSA's performance

in respect of maintaining confidence in and promoting public understanding of the financial system in the UK.

In the qualitative study comments were made about confidence having been undermined by the perceived 'naming and shaming' of firms enforced against and the apparent erosion of the caveat emptor principle. This in turn would lead to some firms taking a more cautious approach - in effect, being 'over-compliant' - to the ultimate detriment of their customers.

The quantitative survey found that on questions about the effectiveness of the FSA, the regulator was rated poorly on the issue of 'giving praise as well as criticism' and 'encouraging the education of the public about financial products and services'.

Recent structural changes to the FSA

The majority of practitioners welcomed the statement from the FSA's senior management that the emphasis would now be on policy implementation rather than the development of new policies. They also thought that the restructuring of the FSA should - in theory - make it an easier and better organisation to deal with.

In the qualitative survey some practitioners did note improvements in the FSA's regulatory approach – focusing on risk and trying to have a better understanding of the nature of the business – but there were nevertheless concerns about consistency of application and the variable quality of FSA staff in relation to supervision and the provision of guidance.

In both the qualitative and quantitative research, practitioners were generally undecided as to whether the changes would prove to have a positive impact on their business and their relationship with the FSA.

The FSA and smaller firms

The 2004 survey shows that practitioners from smaller firms consistently have a more negative view of the current regulatory system. In terms of the general sense of burden and the impact of the costs of compliance, smaller firms felt more adversely affected.

In addition to the general distinction between smaller and larger firms, there is also a notable difference between small retail and small wholesale firms. Broadly, smaller retail firms felt more strongly that the current regulatory system placed too much of a burden on them and that the costs of compliance were excessive.

The majority of firms, both small and large, do not agree that the FSA either shows sufficient understanding of smaller firms in the development of regulatory policy or that it recognised and sought to accommodate the impact of regulation on smaller firms.

The way that the FSA deals with smaller firms is particularly important given the fact that a significant number of smaller organisations will be entering (or have recently entered) the FSA's statutory remit for the first time, upon the introduction of mortgage and general insurance regulation.

The FSA's international role

European Union (EU) and international issues were not seen as a top priority for the majority of practitioners; this reflected the high proportion of smaller retail firms in the sample. International issues were a top priority for major groups and the majority of wholesale firms large and small.

Among those practitioners who had an opinion on the subject, the majority did not agree that the FSA had adequately prioritised international issues and they were more likely to see the FSA as responding to developments in international regulation rather than leading or influencing.

In the section on costs it was seen that the majority of practitioners believed that the costs of compliance had had a negative impact on the UK's international competitiveness and the majority also disagreed that the FSA had improved the UK's ability to innovate internationally.

While practitioners were more likely to be positive about the FSA's perceived performance in consulting on international issues and co-ordinating with other EU regulators, they were concerned that the FSA would implement EU directives more quickly and in more detail than other regulators, to the disadvantage of the UK industry.

Firms' day to day relationship with the FSA

Overall satisfaction

When asked about their satisfaction with the relationship between their own business and the FSA, practitioners typically gave a moderate score, few gave a very high (9 or 10 out of 10) and few gave a very low score (1 or 2). The average score was 6 out of 10.

The qualitative study presented a mixed picture; on the one hand the overall burden was still high and felt to be growing, but on the other some practitioners could point to good relationships with FSA staff and recognised a gradual improvement in some practices.

The quantitative survey found that the majority of practitioners had not seen any change in their relationship with the regulator in the last two years, but one in five had seen an improvement and less than one in ten had seen a deterioration.

Larger firms were more likely to have seen an improvement in their relationship with the FSA. Smaller retail firms were more likely to say that there had been no change over the last two years.

Priorities for improvement in day to day relationships

The 2004 survey asked practitioners about their views on the performance of the FSA in a wide range of areas such as consultation, guidance, supervision and enforcement. Analysis was conducted to identify the main issues, to determine the relative importance of each issue and to identify the issues that, from the industry perspective, should be the main priorities for the FSA to improve.

The main issues identified were:

Understanding business

The qualitative study found that practitioners were concerned about the variable quality of FSA staff particularly in the context of supervision and the provision of guidance. There were also concerns about the lack of continuity of staff.

The quantitative survey analysis determined that the ability of FSA staff to understand practitioners' businesses was the main priority for improvement, because it was of high importance and the FSA's current performance in this regard was seen as weak. Many practitioners disagreed that FSA staff had a good understanding of their business and its technicalities. The majority also disagreed that FSA staff took account of commercial realities, reinforcing the view mentioned earlier that there is a culture and knowledge gap between many practitioners and the FSA.

Effective guidance

The majority of practitioners believe that the guidance they received from the FSA was sometimes or often unclear and sometimes or often inconsistent.

The problems with guidance remain largely the same as in 2002 – quick, definitive guidance was not always forthcoming and half of practitioners felt that FSA staff were often reluctant to provide committed or decisive answers.

The qualitative study found that seeking guidance was a source of concern and the problems that practitioners encountered added to the overall sense of burden that they felt.

Handbook

In addition to the concerns about obtaining effective guidance from FSA staff, the Handbook of rules was also seen to be a priority for improvement.

Although the FSA had made a number of improvements to the Handbook since 2002, such as introducing a number of guides, the majority of practitioners in 2004 were still of the opinion that it was not easy to use and that it was difficult to find the information that they needed.

Effective administration

Overall ease of dealing with the FSA is an important area which applies to guidance, supervision and various administrative functions. The FSA was seen to be relatively good at carrying out processes such as authorisations, approvals and waivers – the majority of practitioners thought that such processes were carried out efficiently.

However, around a third of practitioners disagreed with this view and so this remains a key area for the FSA to address.

Open discussions

Although practitioners were frustrated with the effectiveness of guidance, they were more positive about the general attitude of the FSA. The majority of practitioners agreed that discussions with the FSA could be open and frank on both sides.

Although practitioners were more satisfied in this area, it is vital that the FSA at least maintains its performance, as it is an important area and any improvements would have a positive impact on practitioners' overall satisfaction.

Conclusions

As the FSA is the regulator of the financial services industry – its 'policeman' – it may be unrealistic to expect that a large proportion of regulated firms will ever give very high satisfaction scores. That said, the notion itself of strong and effective regulation is supported by the vast majority.

However in this survey a greater number of firms thought that their relationship had improved (22%) rather than deteriorated (8%) in the last two years – which suggests that overall satisfaction with the FSA has increased in this period.

In day to day areas, where comparisons were possible with 2002, practitioners tended to see slight improvements in the FSA's performance, reflecting the fact that a higher proportion felt that their overall relationship with the FSA had improved in the last two years rather than deteriorated.

The two most important priorities for improvement (understanding business and effective guidance) are inevitably linked to the capabilities of FSA staff, and therefore practitioners' future satisfaction with the FSA will depend significantly on the consistency, continuity and overall quality of staff at all levels and in all departments.

But any actions that the FSA takes to further improve its day to day relationship with firms will struggle to have a significant impact while the majority of practitioners think that compliance costs, which many think are excessive currently, will rise inexorably.

Smaller firms, particularly in the retail sector, are most affected by the perceived general burden of regulation and the costs of compliance. The FSA was not seen to have a great understanding of the impact of regulation on smaller firms and it was not seen by the majority of practitioners to be sensitive to the needs of smaller businesses.

The majority of practitioners, particularly in the retail sector, believe that the burden of regulation on the industry means that ultimately the consumer suffers as many firms have reduced the types of business that they conducted and had become more averse to new product development. This is buttressed by the sense that the FSA focuses on consumer protection to the detriment of its other objectives.

The FSA's approach to regulation was also seen to be a concern in the international sphere. Practitioners believe that international competitiveness has already been damaged and they fear that the FSA will implement EU directives with more rigour than its European counterparts and that this will further erode competitiveness and innovation.

In making this report, it is acknowledged that the FSA is undergoing a period of structural and cultural change which the industry would not have felt the benefit of at the time the survey was undertaken. Taken at face value, the effect of these changes should help see improvement in a number of areas. This is in addition to any direct action that the FSA takes as a result of the findings herein.

The Panel intends to undertake a similar research exercise in 2006.

3.0 The FSA as Industry Regulator

3.1 General Attitudes Towards Regulation

Support for regulation

The previous Practitioner Panel survey was conducted in 2002, approximately six months after the FSA assumed responsibility for regulating the industry. The 2002 survey found that whilst in some areas many practitioners found it too early to give a view on the FSA's performance or its impact on their businesses, they were broadly positive about the need for regulation and the benefits of having a single regulator.

In 2004 a key theme emerging from the qualitative study was the considerable good faith towards the concept of regulation and a belief that effective regulation was a positive attribute of the UK financial environment. Practitioners wanted to continue developing a successful working relationship with the FSA and accepted the pragmatic need for Government and industry to work together. They also appreciated the fact that regulation was now under one body rather than several; the fragmented nature of previous regulatory systems was still in practitioners' minds and there was little discernible appetite to return to such a system.

The concept of regulation was also seen to be a key driver in helping practitioners improve their businesses, sectors and the broader financial industry. It was also thought to be an effective means of restoring consumer confidence.

"It's good to be regulated so stringently, it's one step ahead of other professions that are getting away with murder at the moment."

IFA

"Having the FSA on all headed paper reassures clients. Their presence is becoming a bit more known."

IFA

"When it started, something needed doing to the industry because there were crooks."

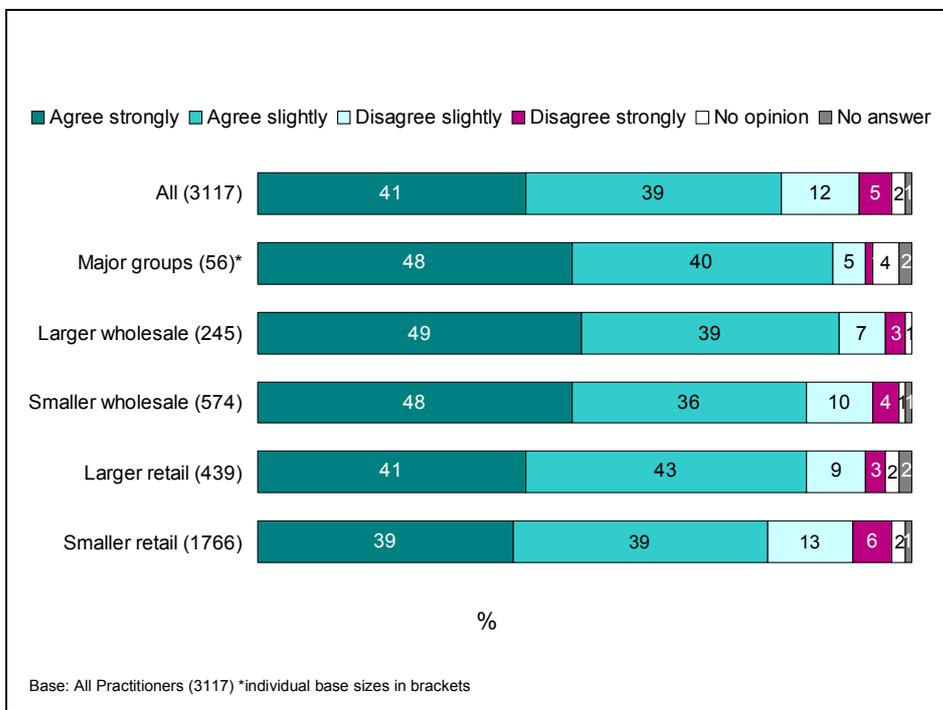
IFA

“From the client’s perspective, they know we are regulated, and that creates a very positive effect”

Chief Executive Officer, Lloyds Market

The quantitative survey confirmed that the industry firmly supports the principle of strong regulation; 80% of practitioners agreed with the statement ‘strong regulation is for the benefit of the financial services industry as a whole’. This level of agreement was consistent by size and type of business.

Chart 3.1: Strong regulation – ‘strong regulation is for the benefit of the financial services industry as a whole’



Practitioners’ attitude to the desirability of strong regulation had not changed since 2002. In the last survey 81% of smaller organisations and 88% of larger organisations agreed with the same statement.

Burden on the industry

In the qualitative study many practitioners thought that the regulatory burden they faced was significant. This was of particular concern to IFAs, smaller organisations in general and those organisations that were regulated in only one part of their overall business.

“The FSA hasn’t taken into account the effect on morale in the FS industry. The effect of change and the constant pressure.”

Head of Compliance, IFA Network

For many the burden they faced manifested itself in the time it takes to keep up with regulation. Many practitioners commented on the weight of documentation they were sent by the FSA, together with the need to ensure that they remain compliant in their business dealings.

“They seem to have people creating subjects to write about simply to keep themselves busy.”

Compliance officer, IFA Network

“I get something everyday from the FSA. Much of it goes straight in the bin because it has nothing to do with my business. It’s a complete waste of money.”

Partner, Law Firm

Undoubtedly this burden was felt to be more onerous on the smaller firms interviewed in the qualitative study, where the resources that could be applied to compliance were more limited, and where responsibility for this area was likely to be combined with other duties.

“Compliance can never be a full time job in a firm like ours. If they do expect this, then they will price advisors like us out of the market, which will be very much to the detriment of the client market.”

Chief Executive Officer, Authorised Professional Firm

“We are burning a lot of midnight oil. It has taken its toll on staff who are having to sit up late reading all this stuff.”

Chief Executive Officer, Securities and Derivatives Management

A common feature of the burden for smaller firms was uncertainty. Many had a lower level of specialisation and it was frequently hard for them to understand whether a new instruction or regulation applied to their business, or how it applied to their business.

These practitioners found it hard to differentiate between their obligations and the obligations of others, particularly when the onus of working this out was on them rather than with the FSA. One of the most significant reasons why practitioners thought that the burden has become too great was because of the FSA's policy of seemingly sending all communication about new regulation requirements and updates to everyone.

"We're always looking over our shoulders just to comply. We do find that quite a struggle."

Chief Executive Officer, Building Society

Additionally, many practitioners in the qualitative study also thought that the regulatory burden was compounded by the perpetual worry that at some stage they were going to inadvertently slip up. This meant that some were complying in more areas than was necessary.

"The problem we've got is that we are having to spend more and more time, resource and energy on checking the stuff that they send out.... It's not fair because if they screw up, it's us that the consumer comes looking for."

IFA

In the qualitative interviews with larger firms it was clear that more resources could be applied to compliance, that higher levels of specialisation often existed within the firm and the responsibility was not having to be juggled in the same way in the midst of other business priorities. Accordingly the perspective on the regulatory burden amongst larger firms was more balanced; the commitment was a significant one to the business but the resources were available to meet this.

"If we were half the size, I think the cost base [of regulation] would make it very difficult."

Head of Compliance, Lloyds Market

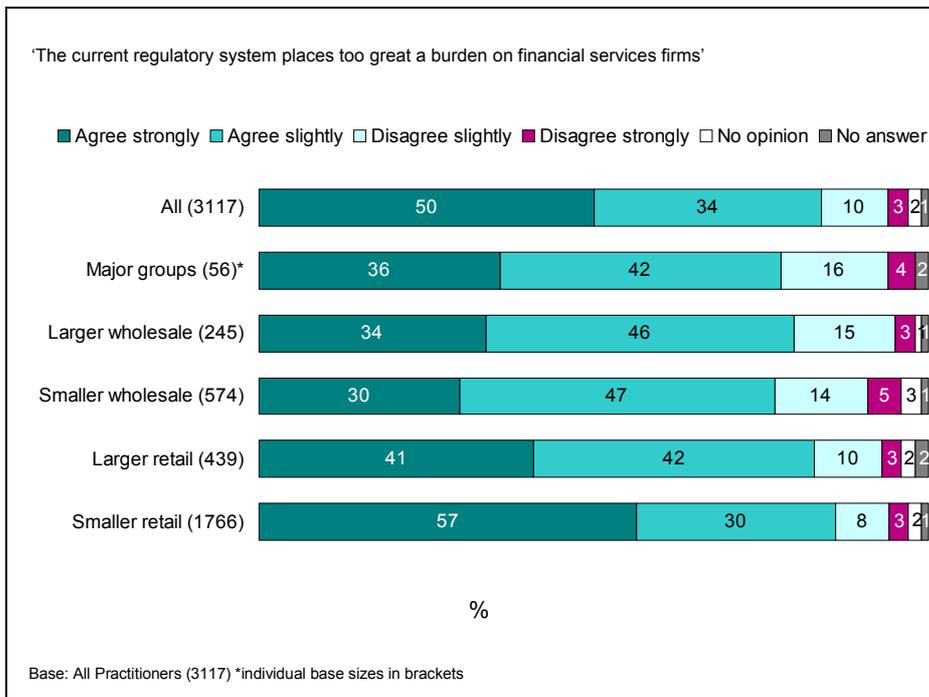
Indeed not everyone in the qualitative sample believed that the burden of regulation was inappropriate. A few, particularly those in the insurance markets and those in larger businesses, felt that it was simply part and parcel of business life and a necessary threshold to market entry.

“There is meant to be a regulatory burden. If there wasn’t, it wouldn’t be working. It has increased massively (in the last two years) but I think it is a very good thing. I am totally supportive of it.”

Chief Executive Officer, Lloyds Market

Although the principle of strong regulation was endorsed again in the 2004 quantitative survey, the majority of practitioners also believed that ‘the current regulatory system places too great a burden on financial services firms’ – half of all practitioners agreed strongly with this statement and a further 34% agreed slightly. Whilst the overall level of agreement was consistent across the sample, the strength of feeling did vary by type of business with smaller retail firms more likely to agree strongly compared to wholesale businesses.

Chart 3.2: The burden of regulation - ‘the current regulatory system places too great a burden on financial services firms’

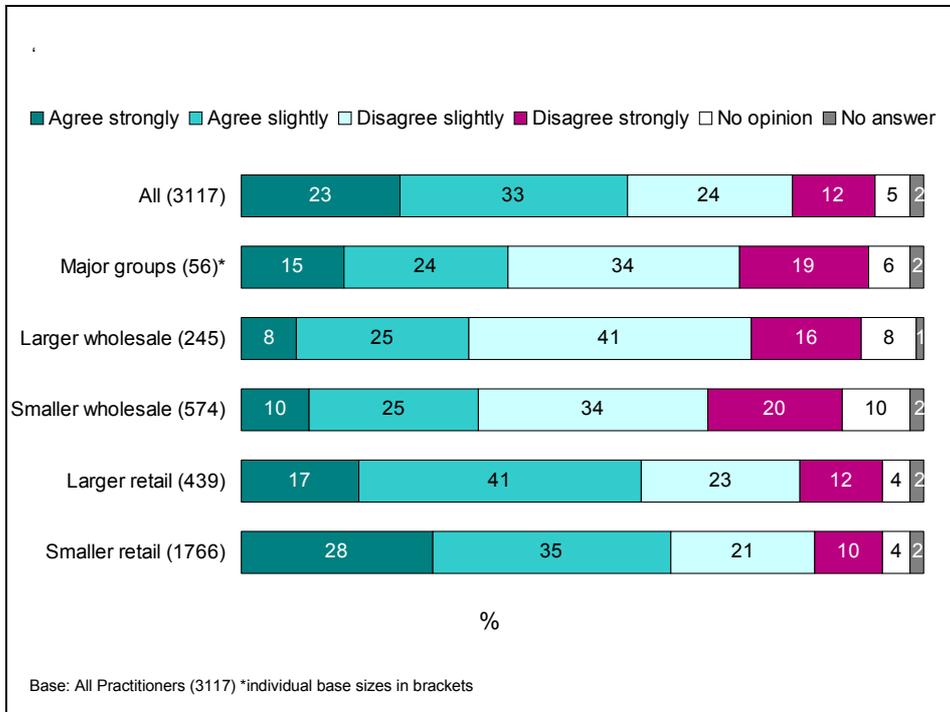


The sense of burden has not changed over time, in the 2002 survey 82% of CEOs from

larger organisations agreed that the current regulatory system was too great a burden and in 2004 exactly the same proportion of practitioners from larger firms agreed. Among smaller organisations the figures were also similar, in 2002 90% agreed compared to 85% in the 2004 survey.

Just over half (57%) of practitioners believed that the burden of regulation was also detrimental to consumers’ interests, however there was a difference of opinion between retail (62% agreed, 32% disagreed) and wholesale (35% agreed, 55% disagreed). This statement was not included in the 2002 questionnaire.

Chart 3.3: Interests of consumers – ‘the level of regulation on the industry is detrimental to consumers’ interests’



Within the major groups category there was a difference between major retail and major wholesale groups – two thirds of retail agreed with the statement and two thirds of wholesale disagreed (however small sample sizes make the difference indicative rather than statistically significant).

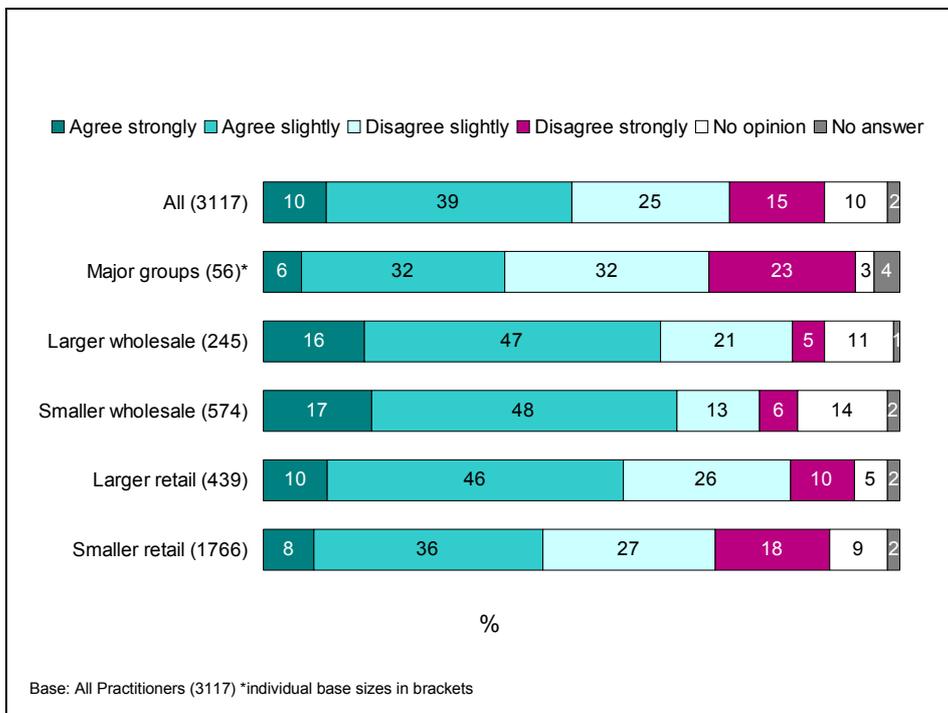
The principle of fairness

In the qualitative study concerns were expressed about the whether the FSA was always fair in its dealings with the industry. This concern comes forward in regard of a number of issues that are detailed elsewhere in this report:

- The balance struck between the interests of consumers and the industry
- The apparent lack of any positive messages from the FSA on industry behaviour, or the social and financial contribution of the industry to life in the UK
- The worry over enforcements being applied retrospectively

The quantitative survey found that the practitioners were quite evenly divided on whether ‘the FSA exercises the principle of fairness in its dealings with the financial services industry’ as 49% agreed with this statement and 40% disagreed (one in ten had no opinion). The types of firms that were least likely to agree that the FSA exercised the principle of fairness were at the two extremes of the industry in terms size – major groups and smaller retail firms.

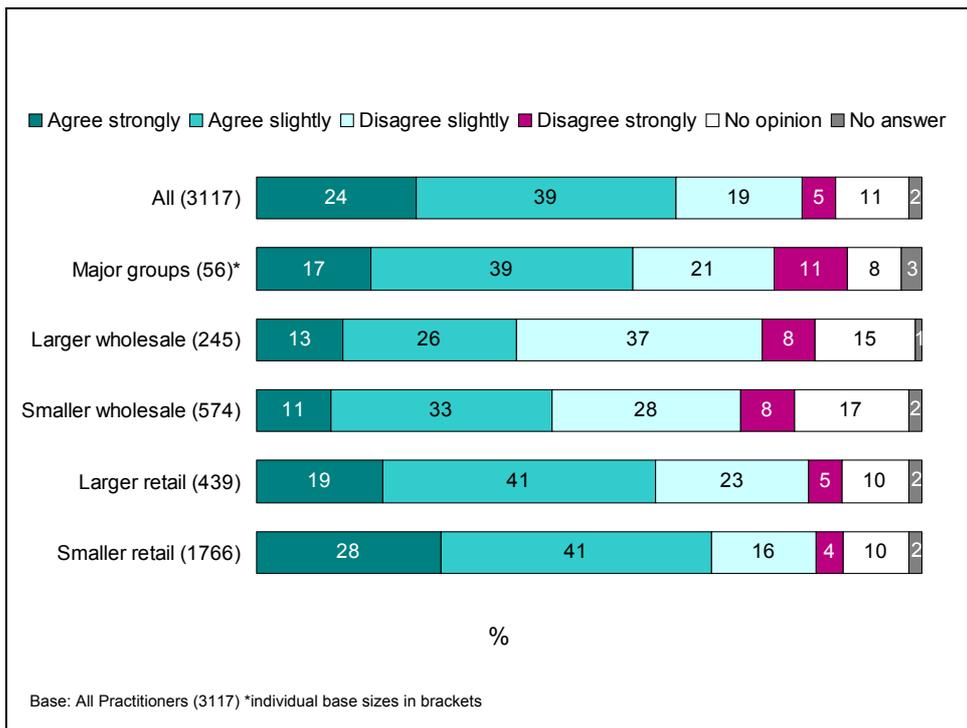
Chart 3.4: Principle of fairness – ‘the FSA exercises the principle of fairness in its dealings with the financial services industry’



One aspect of ‘unfairness’ identified by some practitioners in the qualitative study was

the perception that the FSA follows an overly ‘consumerist’ agenda. The quantitative survey found that just under two thirds (63%) agreed that ‘the FSA focuses on consumer protection to the detriment of its other objectives’. As might be expected, it was consumer facing, retail firms that were more likely to agree (67%) with this statement than wholesale (42%).

Chart 3.5: Focus on consumer protection – ‘the FSA focuses on consumer protection to the detriment of its other objectives’



In the 2002 survey the majority of practitioners felt that the regulatory system gave ‘too much weight to the interests of consumers’.

New product development

Many practitioners in the qualitative sample, especially smaller firms and those in the retail sector, believed that FSA regulation acted to hinder new product development. Smaller firms generally believed that that the costs they incurred through regulation curbed organisational competitiveness and enforced consolidation. Others believed that industry sometimes ‘spiked’ new product ideas at the outset if they think that the FSA is going to respond negatively to them in the future.

“They sometimes take the view that it’s not worth the effort.”

Compliance Officer, Authorised Firm

“In terms of their effort and expenditure, it’s much bigger than in a big firm...the fact that the smaller firm is having to spend tens of thousands on advisors, extra procedure and extra staff”

Partner, Law Firm

“There is no doubt in my mind that the legislative background does reduce competition”

Chief Executive Officer, Bank

“It constrains business in a way that’s not healthy”

Chief Executive Officer, Insurance Company

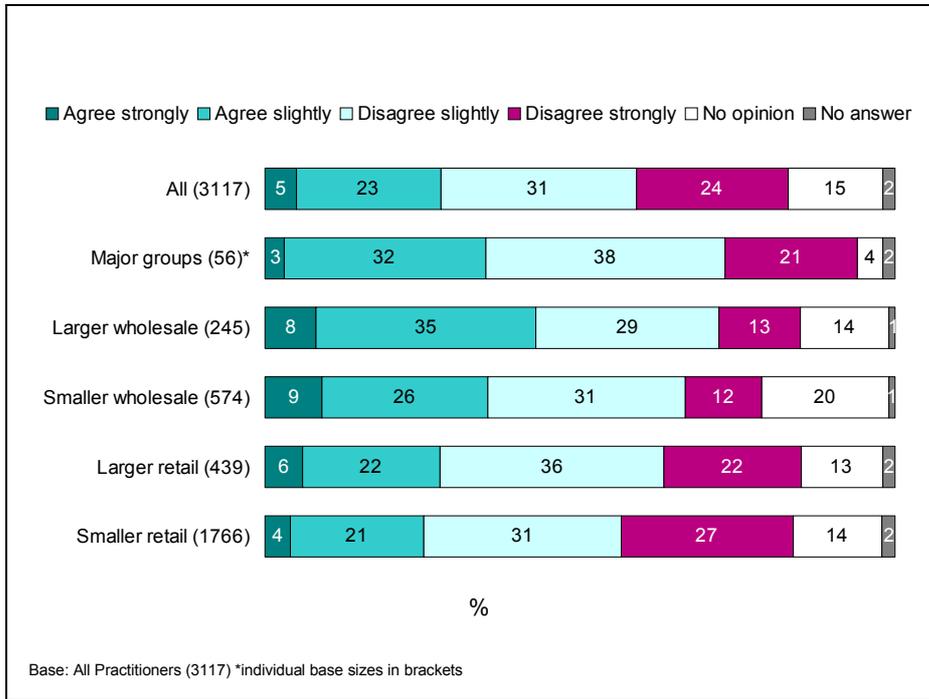
Some of the larger firms interviewed in the qualitative study were rather more positive in this respect. These firms saw that the stringent regulation reassured many clients, but also appreciated the fact that the relatively high compliance costs do not encourage new product development.

“It’s not driving people off-shore yet, as far as I can tell. London is still the place to come”

Partner, Law Firm

In the quantitative survey just over half of practitioners (55%) disagreed with the statement ‘the working practices of the FSA do not hinder the development of new financial services and products’.

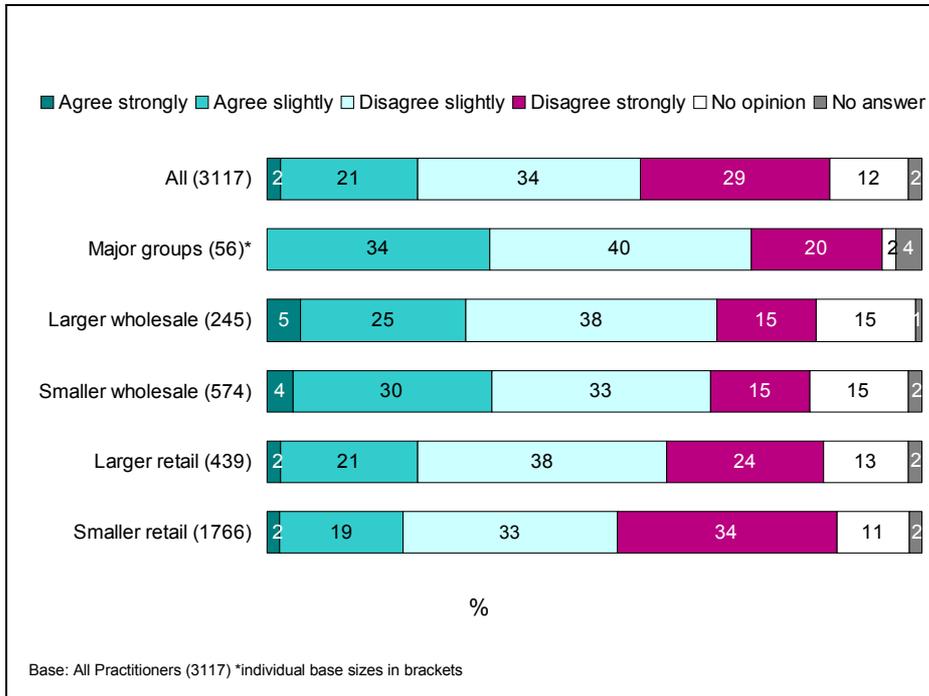
Chart 3.6: New product development – ‘the working practices of the FSA do not hinder development of new products and services’



Expectations of the FSA

After more than two years of being regulated by the FSA, the majority of practitioners (63%) disagreed that ‘the FSA has delivered in the way that the industry hoped it would’. Smaller retail firms, and IFAs in particular, were more likely than wholesale to disagree, but half of wholesale firms did not think that the FSA had delivered.

Chart 3.7: Whether the FSA has delivered – ‘the FSA has delivered in the way that the industry hoped it would’



The perceived failure to deliver must be linked to the continuing perception that current regulation is too great a burden and the sense of burden is likely to be linked to the costs of compliance which are discussed in the next chapter.

3.2 Costs

Attitudes to costs

The concern over the cost of regulation for many firms interviewed in the qualitative stage focused not on the headline levy figure charged by the FSA but on the various and increasing investments that needed to be made in systems, training, administration, legal fees etc. in order to ensure the business was complying with the requirements of the FSA. Having said this, some of the largest firms interviewed felt they received poor value for the combined expenditure of levy and regulatory investment. Given the sizeable sums they paid, the level of systems and personnel devoted to this area, and the amount of senior management time involved in dealing with the regulator, they felt that they saw little in return from the FSA by way of expertise or engagement.

“We don’t seem to get the intellectual challenge that we expect and that, frankly, we need from them”

Head of Compliance, Insurance Company

Regulatory burden was also thought by many to have a significant effect on profit margins, both in terms of time required to be compliant and keep up with developments, as well as the direct costs incurred.

“We are charged £3750 to authorise us to do mortgage lending. It’s basically unacceptable, we have done mortgage lending all our lives as a building society”

Chief Executive Officer, Building Society

Many thought that regulatory practice could, if unchecked, start to take over most of one’s business generation time. In addition the qualitative sample also pointed out that the cost of compliance also ultimately affects the consumer, since without a (broad) financial industry, consumers would have less choice.

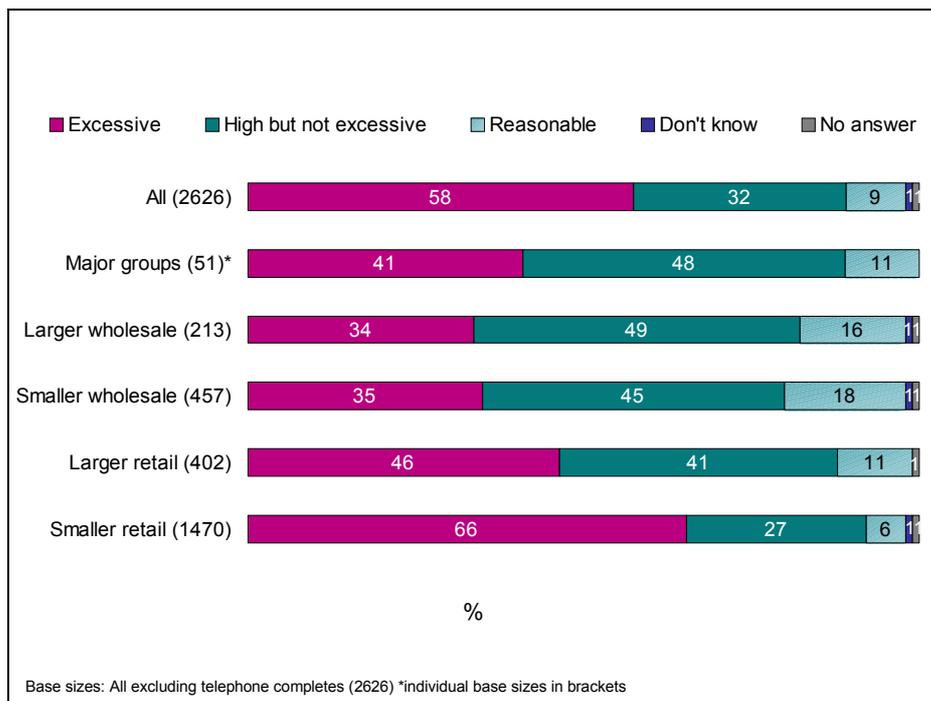
“The costs to industry have been gigantic. We’re talking about very serious sums of money. Costs have gone up hugely.”

Chief Executive Officer, Insurance Company

However a small minority of practitioners interviewed in the qualitative phase believed that costs had diminished, in light of the FSA's risk-based approach or in relation to previous regulators. Those who were considered to be very low risk (such as Friendly Societies, for example) were most likely to be of this mindset.

In the 2002 survey the majority (64%) of smaller organisations stated that the total costs of compliance were excessive and just under half (48%) of CEOs of larger firms held the same opinion. The results of the 2004 survey were very similar with 61% of smaller organisations and 42% of larger businesses believing that costs were excessive. Practitioners from smaller retail firms were the most likely to state that costs were excessive.

Chart 3.8: View of total current costs of compliance (taking both fees and internal & external costs into account)



IFAs were particularly likely to see costs as excessive (76%), followed by Life Insurers and Authorised Professional Firms.

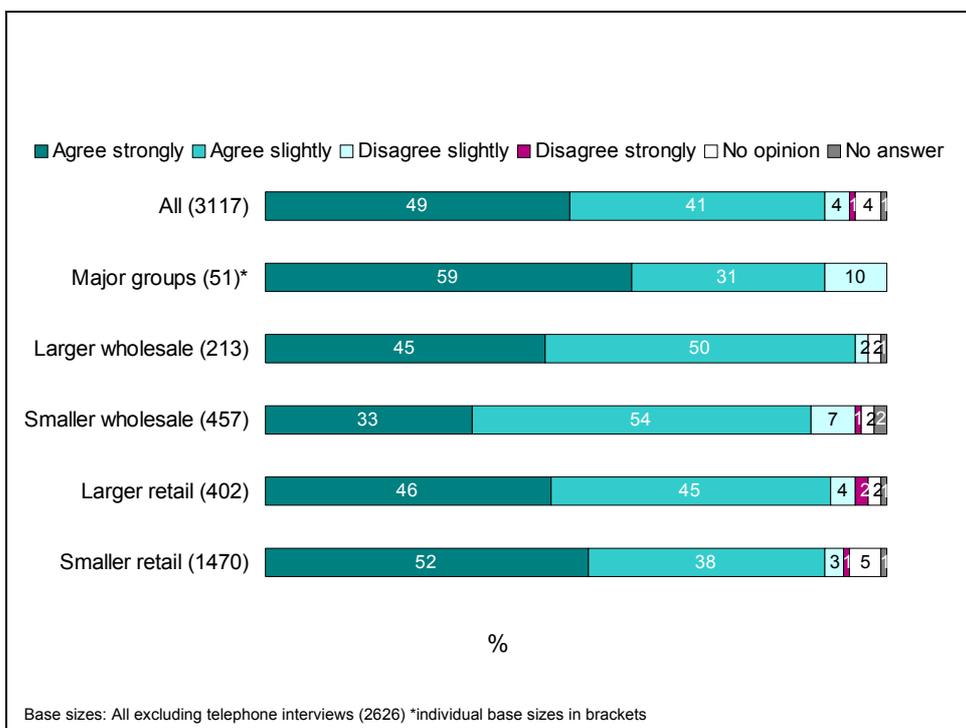
Banks, Investment Managers, Venture Capital and Corporate Finance firms were less likely to see costs as excessive, but they still categorised costs as high, rather than reasonable.

The 2002 survey took place six months after N2¹ and it was found that the majority of practitioners expected that the ongoing costs of compliance, after an assumed 'N2 bulge' of one-off costs, would be higher than in 1999.

In the 2004 qualitative survey, practitioners were concerned that not only was the current cost burden already heavy but also that there was no indication that it would abate.

The quantitative survey confirmed that the fear of continually rising compliance costs was very widespread with 49% of all practitioners agreeing strongly with the statement 'the overall cost of compliance will continue to rise for the foreseeable future.'

Chart 3.9: Future costs of compliance – 'the overall costs of compliance will continue to rise for the foreseeable future'

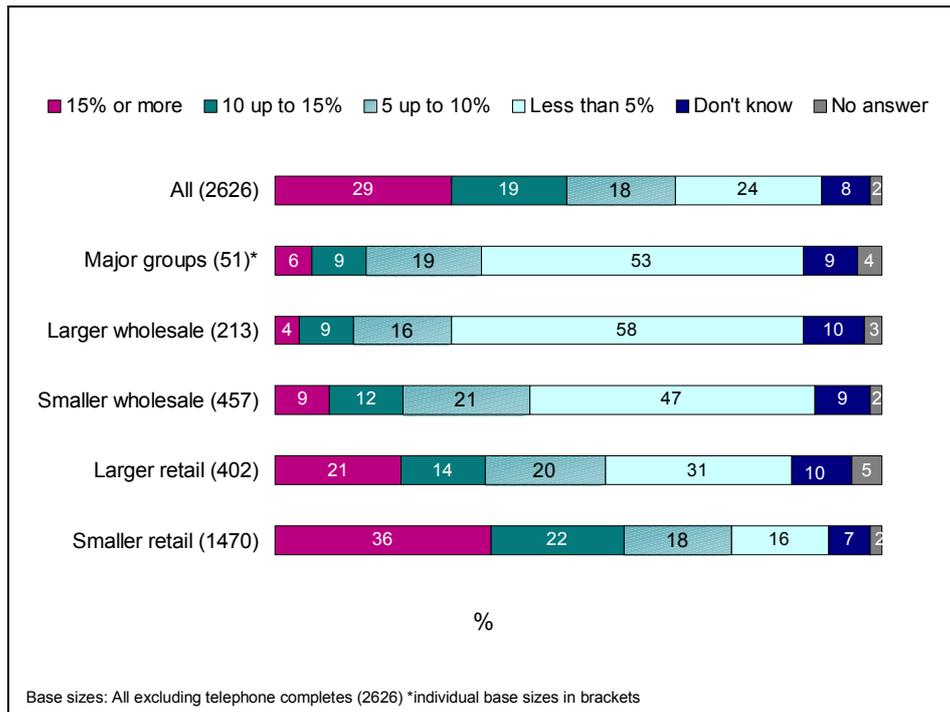


¹ N2: 1st December 2001, the date when the FSA assumed its role as the main regulator of the financial services industry.

Estimate of compliance costs

In the quantitative survey practitioners were asked to give an estimate for the total costs of compliance as a percentage of their total costs.

Chart 3.10: Total internal and external identifiable current costs of compliance, as a percentage of total costs



As might be expected larger firms saw the overall cost of compliance as a smaller proportion of total costs.

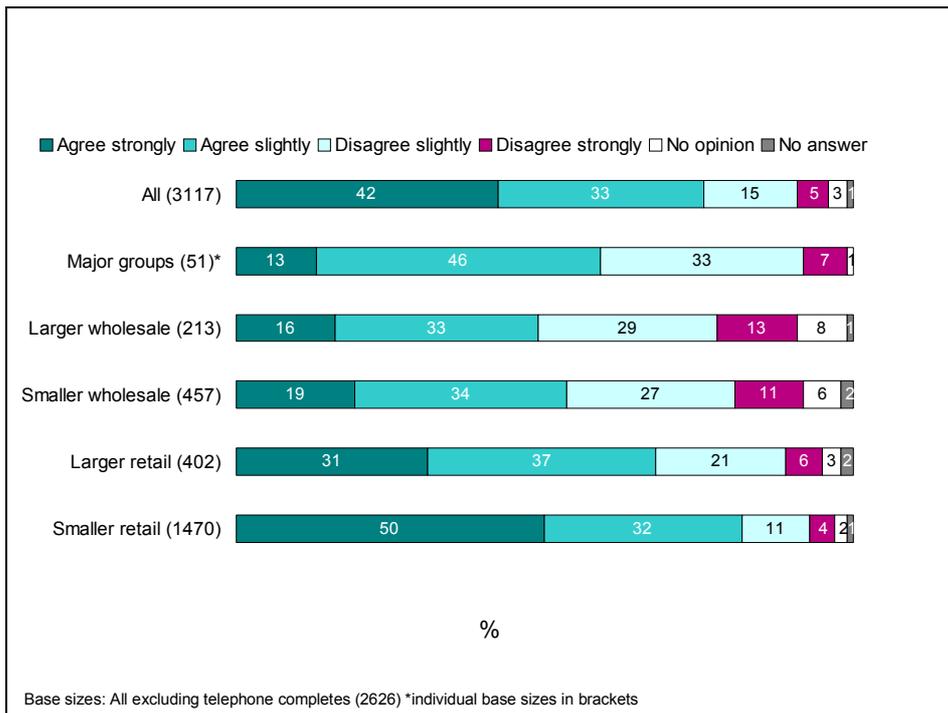
In general smaller firms felt that compliance costs were a major proportion of their total costs and within this category IFAs were much more likely to say that their compliance costs were more than 15% of total costs (43%).

In 2002 '10% or more' was the highest level on the questionnaire and 35% of smaller organisations said that the cost of compliance was at this level – in 2004 this had risen to 52%. For larger firms the proportion that said '10%' or more rose from 15% in 2002 to 26% in 2004.

Impact of costs

Three quarters of practitioners agreed that ‘the costs of compliance were harmful to their business’. Smaller retail firms were more likely than other categories to see costs as harmful and half agreed strongly with the statement.

Chart 3.11: Impact of costs – ‘the costs of compliance are harmful to my business’



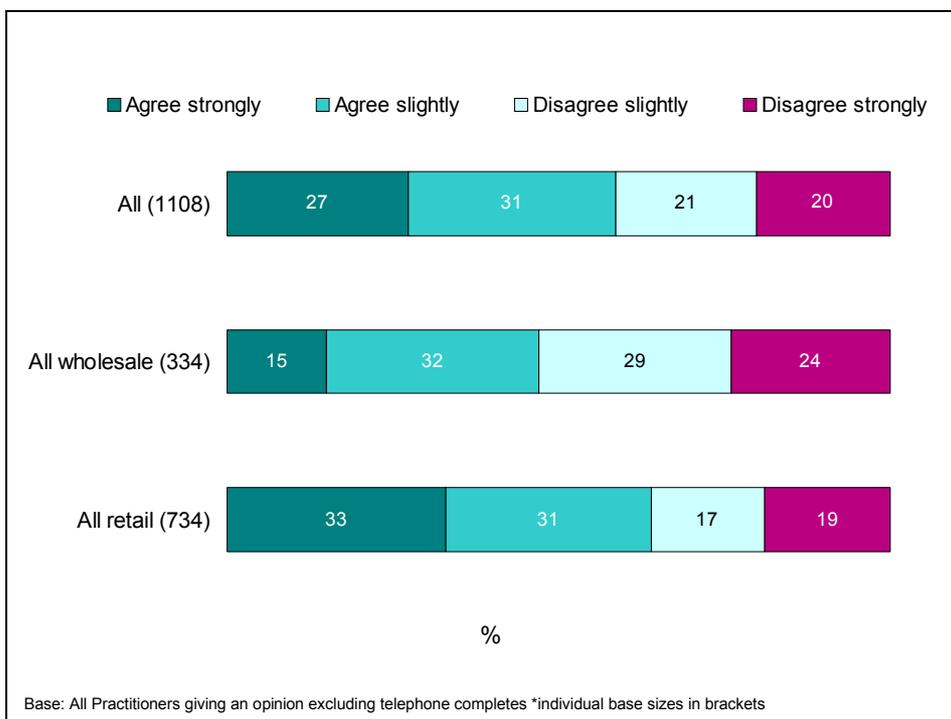
The majority of practitioners also agreed that the costs of compliance were detrimental to innovation in the industry (69%) and to the international competitiveness of the UK financial services industry (64%).

The costs of compliance have affected the types of business that many firms conduct. Just over half (58%) of practitioners agreed that costs of compliance had led to a reduction in types of business offered. This was more pronounced in retail, where two thirds had reduced types of business offered, than wholesale (a third having done so). The individual sectors most likely to have reduced the type of business they offer were IFAs (77%) and Authorised Professional Firms (66%).

To a much lesser extent costs had led to some firms selling parts of their business – 17% said that they had sold some part.

The cost of compliance with FSA regulation also affects UK firms when competing for international business. Although many practitioners did not have an opinion (60% in retail, 26% in wholesale), of those that did, the majority agreed that they were at a disadvantage compared to competitors based abroad. However there was a difference between wholesale and retail, with just over half of those in wholesale giving an opinion (53%) disagreeing that the cost of FSA regulation placed them at a disadvantage.

Chart 3.12: Impact of costs – ‘FSA regulation places my business at a disadvantage compared to our competitors abroad, when competing for international business’



3.3 The FSA's Performance Against its Statutory Objectives

The Financial Services and Markets Act which established the FSA set out four statutory objectives for the regulator and the Panel considered it appropriate in the 2004 survey to ask practitioners to assess the performance of the FSA on these objectives.

In the qualitative interviews, practitioners thought that the FSA was effective in securing the right degree of protection for the consumer and ensuring the smooth-running of the regulatory process across the financial industry. In light of this, many welcomed the FSAs upcoming involvement in the growing mortgage and (to some extent) general insurance markets.

Practitioners in the qualitative sample were less convinced that the FSA had, in equal measure, managed to improve consumer confidence in the UK financial system. There was a great desire expressed by practitioners in the interviews for this to be made more of a positive activity by the FSA. Practitioners wanted to see the FSA working in equal measure to achieve the objectives of protecting the consumer and promoting industry, rather than seeing one achieved more than, and sometimes to the detriment of, the other.

“They need to find the right balance between protecting the consumer and ensuring that the financial community remains vibrant”

Chief Executive Officer, Retail Bank

Many practitioners also felt that the FSA could do more to promote an understanding of the financial system and encourage greater competition and new product development.

In the quantitative survey practitioners were asked to rate the performance of the FSA on a scale from one (extremely poor) to ten (outstandingly good) – they could also give any score in between one and ten.

In previous Panel surveys and in the qualitative study in 2004, practitioners agreed that an important aspect of regulation was to ensure that ‘crooks’ were removed from the industry. Looking across the four objectives the FSA was most highly rated on ‘helping to reduce financial crime’. Over a third of practitioners gave the FSA a high (7 – 10) score on this objective and this was consistent by size and type of business.

The FSA was also seen to perform relatively well on ‘securing the right degree of

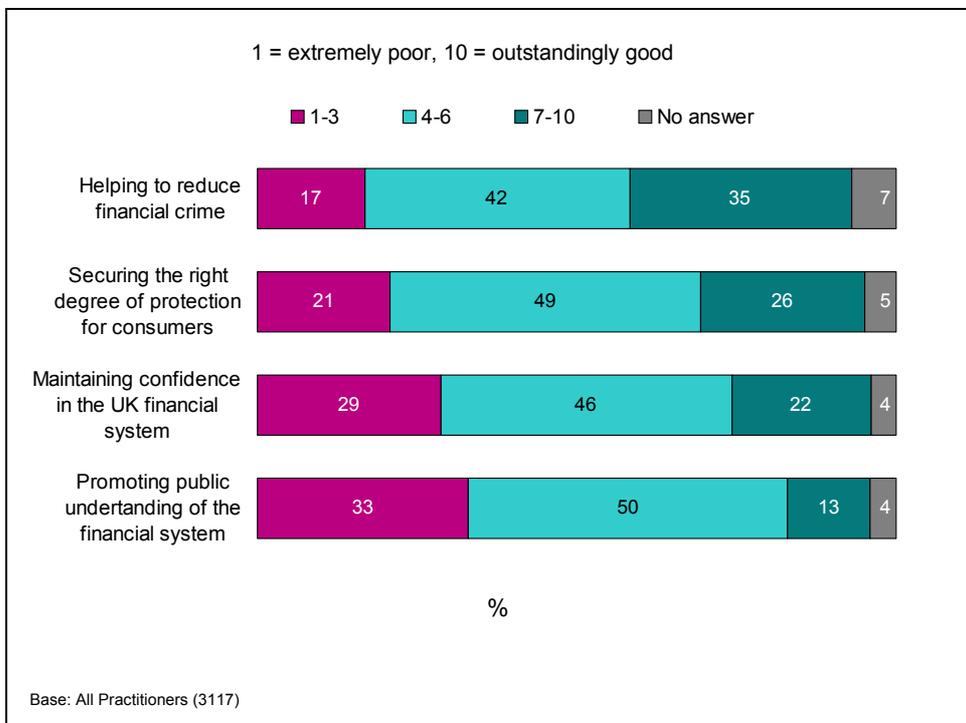
protection for consumers’ with slightly more practitioners giving a high score than a low (1 – 3) score. However as has been noted earlier in this report (section 3.1), the majority of practitioners felt that the FSA focuses on this objective to the detriment of its other objectives. Smaller retail firms were more likely to give the FSA a low score on this objective – 25% gave a score between one and three.

For ‘maintaining confidence in the UK financial system’ and ‘promoting public understanding of the financial system’, scores were more negative with the proportion of practitioners giving low scores outweighing those giving high ones.

‘Maintaining confidence in the UK financial system’ was the objective where there was the greatest difference between retail and wholesale firms. While four in ten of practitioners from wholesale businesses gave a score of 7 – 10, only 17% of retail firms gave a similar score.

Promoting public understanding of the financial system was the area rated lowest overall by practitioners. Again retail firms were more likely to give the FSA lower scores, particularly IFAs of whom 44% gave a 1 – 3 score.

Chart 3.13: The FSA’s performance on its statutory objectives



3.4 Overall Effectiveness of the FSA

In 1999 and 2002 practitioners were asked to rate the importance of various criteria for evaluating the effectiveness of the FSA. They were then asked to rate their perception of the FSA's performance on each of the effectiveness attributes. In the 2004 survey performance rating was retained but the importance rating exercise was dropped because:

- In 1999 and 2002 the ratings produced little differentiation – nearly all attributes were seen to be very important
- Between 1999 and 2002 there was very little change in the stated importance scores.

The removal of the importance rating exercise also created space in the 2004 questionnaire for other issues.

Practitioners rated the effectiveness of the FSA using a ten point scale where ten was 'outstandingly good' and a score of one was 'extremely poor'.

Looking at the mean scores for each attribute, practitioners were most positive about the FSA 'placing clear and reasonable responsibilities on firms' senior management' and 'listening to industry views when deciding policies and procedures'. The lowest scores were for 'giving praise as well as criticism' and 'facilitating innovation and competitiveness in the UK'. However the range of scores was not great – from 3.8 to 5.4.

Chart 3.14: Overall effectiveness of the FSA

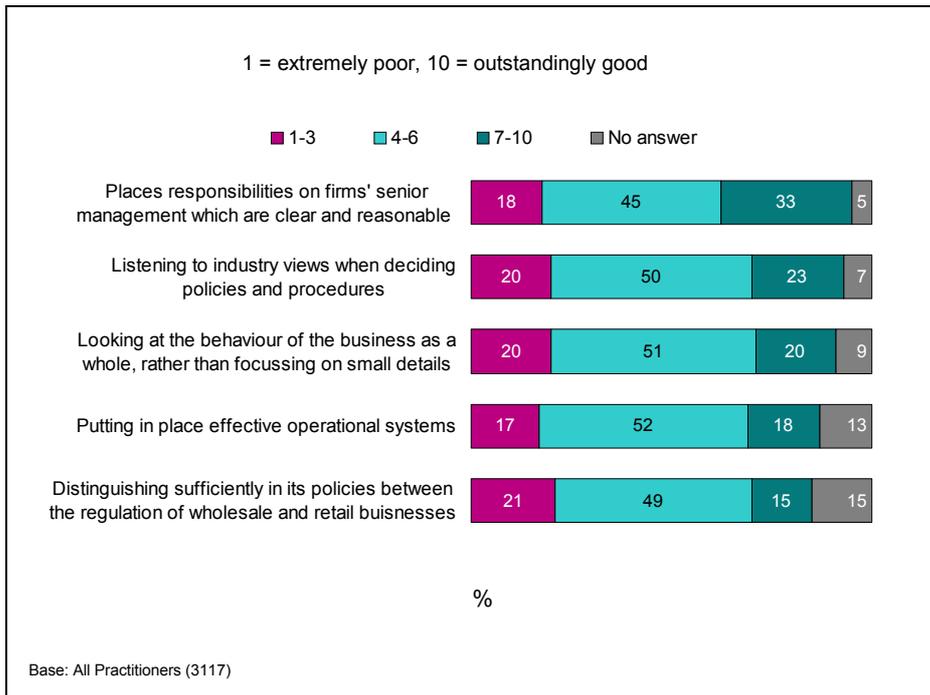
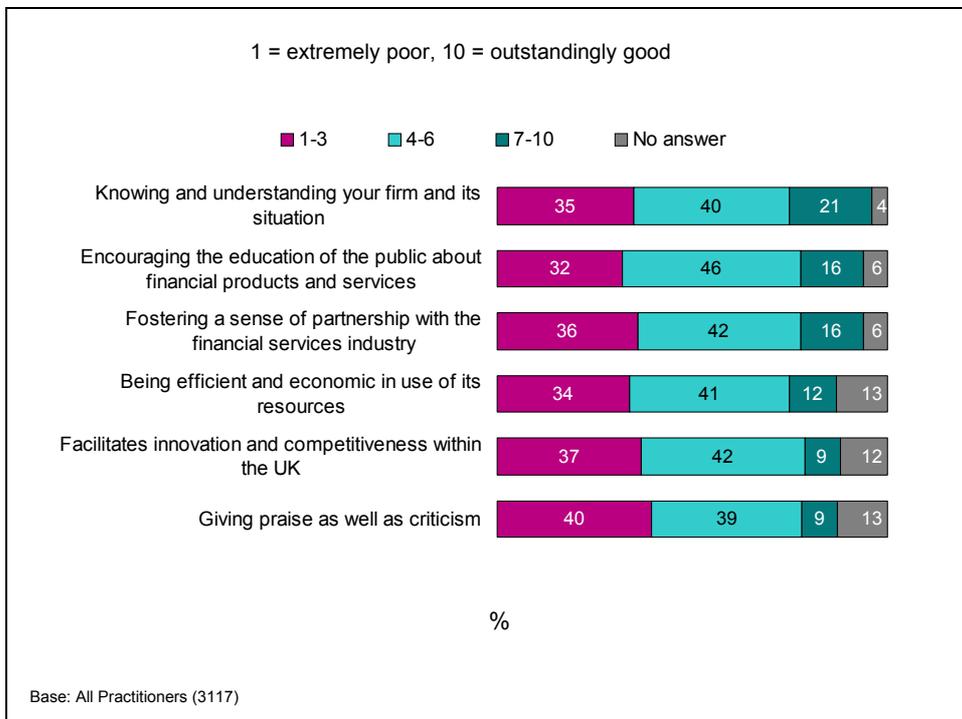


Chart 3.15: Overall effectiveness of the FSA (cont.)



Wholesale firms gave the FSA higher performance ratings than retail firms, particularly smaller ones, on all attributes. There were bigger gaps between wholesale and retail firms scores for 'knowing and understanding your firm' and 'placing clear and

reasonable responsibilities’.

Many of the effectiveness attributes had changed from 2002, where comparisons could be made scores were generally in line with 2002. However in 2004 both larger and smaller firms rated the FSA less well than in 2002 on ‘being efficient and economic in use of its resources’ and ‘encouraging the education of the public about financial products and services’ and as has been noted earlier in this report, promoting public understanding of the financial system was the objective where the FSA was least highly rated.

3.5 Structure of the FSA

Practitioners in the qualitative interviews commented on the positive aspects of the FSA's re-organisation and its improved alignment to sector.

"I see much more of a specialisation going on in the FSA now. They want to have people who know that sector and I think that is a positive step"

Chief executive Officer, Lloyds Market

The commitments being made by FSA senior management concerning the switch from policy formulation to consolidation and implementation were welcomed by practitioners. This was seen as entirely appropriate and timely – if not indeed overdue in the opinion of a number of practitioners.

At the time of interviewing practitioners felt that they had yet to see the fruits of this change and some caution was expressed over the ability to deliver this. In this regard the FSA was seen as somewhat at the mercy of other organisations such as the European Union and HM Treasury – in being able to moderate or stop the flow of new regulation. The quantitative survey found that the majority of practitioners (78%) agreed that 'there are too many regulatory reviews being undertaken of financial services'.

Despite these cautions, the more realistic and pragmatic movement of the FSA was welcomed in the qualitative study.

"It's very encouraging that John Tiner is talking about less noise, less bits of paper and more streamlining."

Chief Executive Officer, Bank

A significant improvement for many in the qualitative sample was the perception that the FSA was taking a more realistic and pragmatic approach to regulation, focusing on risk levels and having a better understanding of the nature of the businesses they are dealing with. Some organisations felt that the FSA was also thinking more about the context of the issues that they faced, rather than approaching everything with a blanket and 'tick box' mentality. There was therefore a broad satisfaction with the ARROW process, believing it to be a sensible approach to regulation, although some practitioners did not believe that it was applied as effectively as it could be.

“It’s a fairly intelligent process, but it’s only as good as the people who are leading the teams and the dialogue they have with the management of the bank concerned”

Chief Executive Officer, Bank

“The FSA regime is the best one I’ve ever seen. Their risk-based approach is fine. Its focus on the consumer is right”

IFA

“They would only find out what we were doing if they thought there was a good reason. I think it is very sensible”

Partner, Law Firm

“I would certainly say that the impression is it is trying to be an organisation which is risk based and that is sensible”

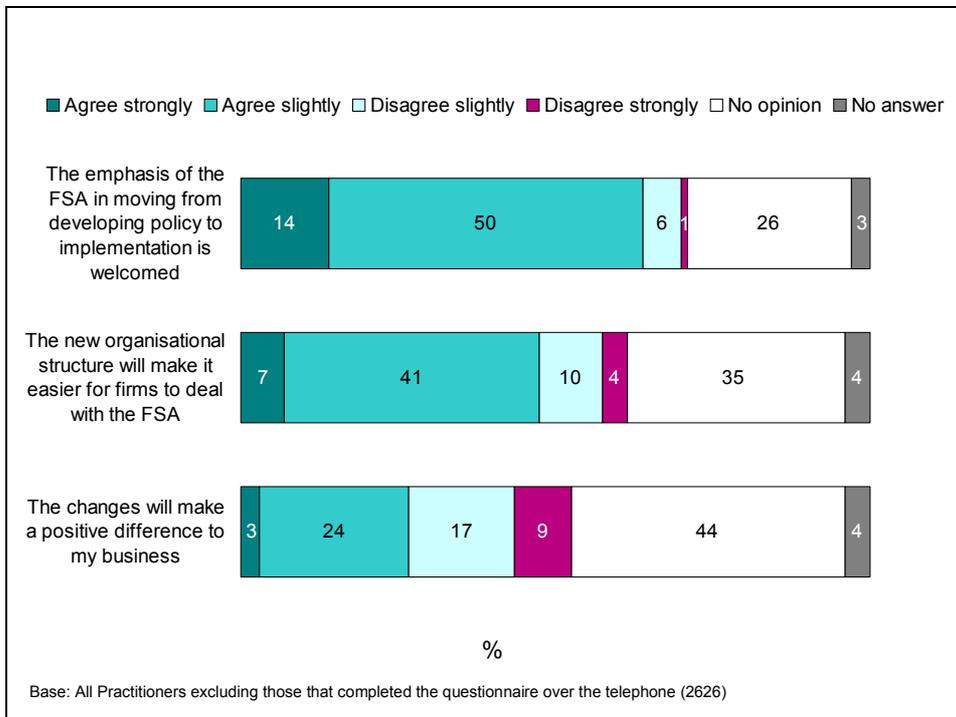
Chief Executive Officer, Regulated Authorised Firm

The quantitative survey largely confirmed these opinions – nearly two thirds (64%) agreed that the focus on implementation was welcome and only 7% disagreed (although just over one in four had no opinion).

Practitioners were less likely to give an opinion on the FSA’s restructure. Overall 35% had no opinion on whether the new organisational structure would make it easier for firms to deal with the FSA and this was consistent by size and type of business. However a clear majority of those who had an opinion did think that the changes would make the FSA easier to deal with.

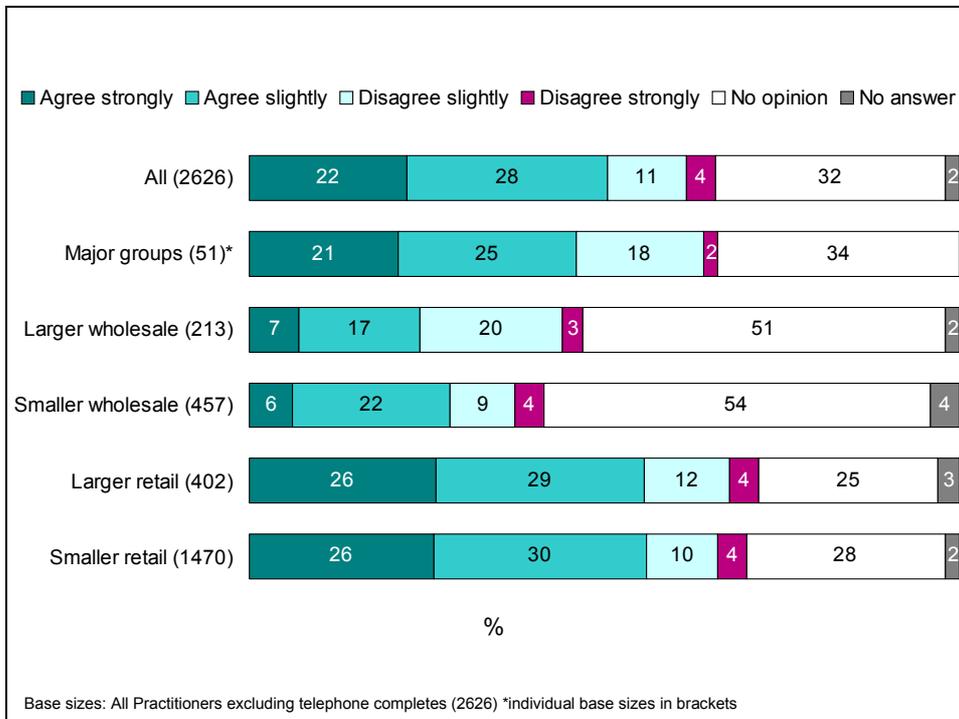
Many businesses (44%) were unable to say whether they thought the changes in approach and structure would benefit their own businesses. Those who did have a view were evenly divided, 26% agreed that the changes would be beneficial and exactly the same proportion disagreed.

Chart 3.16: Views on recent FSA changes



Whilst many practitioners were positive about changes at the FSA to promote ease of dealing and reduce new policy initiatives, one in two were concerned that the Financial Ombudsman Service was, in effect, setting policy through its case decisions.

Chart 3.17: The Financial Ombudsman Service – ‘by its case decisions the Financial Ombudsman Service is assuming a policy setting role that is the responsibility of the FSA’



3.6 The FSA and Smaller Firms

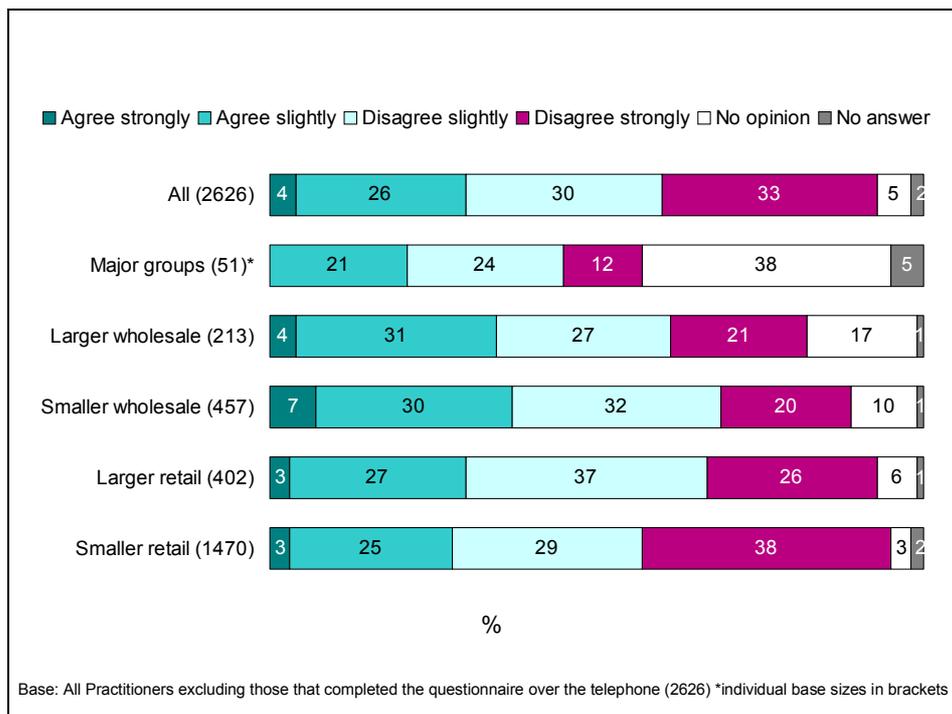
The FSA set up the Small Business Practitioner Panel in 1999 to represent the interests of small regulated firms. There is no single definition to the term ‘small’ as it is recognised that measures such as market share, number of employees, financial performance and legal status are not ideal segmentation dimensions. Even though ‘small’ is not tightly defined, both the FSA and the industry recognise the importance of smaller businesses to the health of the sector.

In the qualitative study it was found that many of the concerns or worries about regulation were common to all firms but the perceived impact and burden varied by size of firm.

Two questions were included in the quantitative survey to gauge industry opinions of the FSA’s relationship with smaller firms.

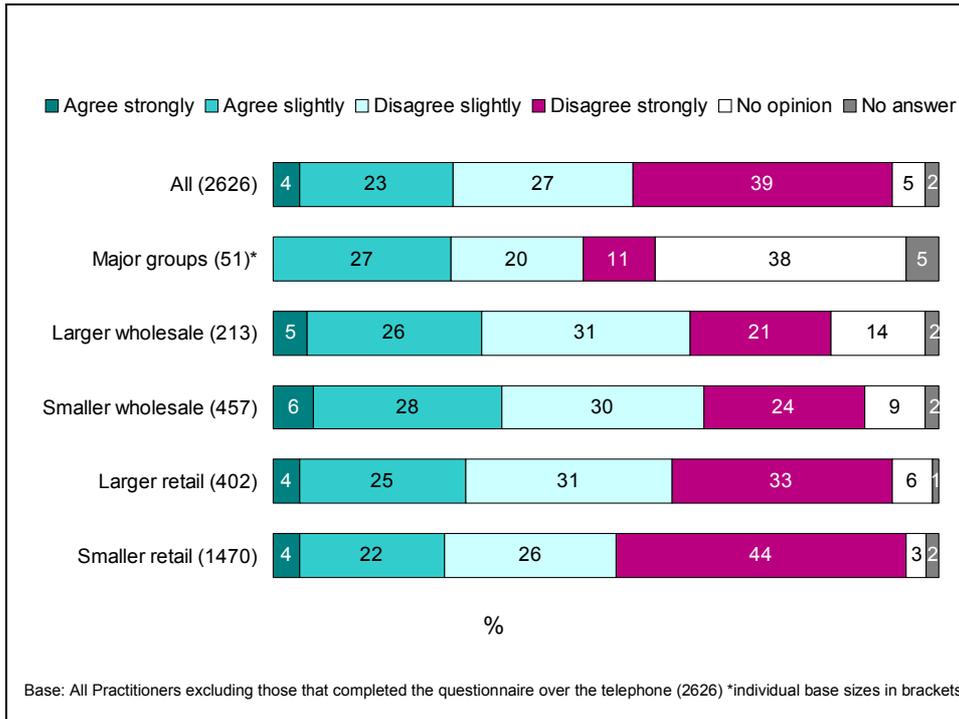
One in three of all practitioners disagreed strongly with the statement ‘the FSA shows understanding of smaller firms in the development of regulatory policy and operation’ and a further 30% disagreed slightly.

Chart 3.18: The FSA and smaller firms – ‘the FSA shows understanding of smaller firms in the development of regulatory policy and operation’



Practitioner views were similar with regard to the statement ‘the FSA recognises the impact of regulation on smaller firms and seeks to appropriately accommodate them’ – two thirds disagreed in total and 39% disagreed strongly.

Chart 3.19: The FSA and smaller firms – ‘the FSA recognises the impact of regulation on smaller firms and seeks to appropriately accommodate them’



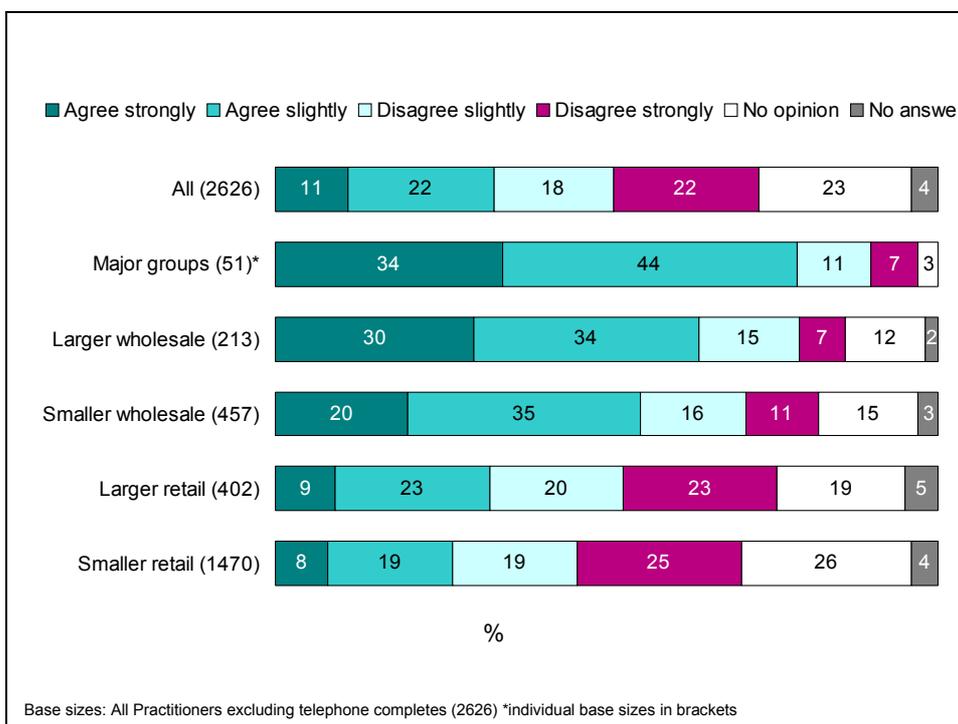
3.7 The FSA's International Role

International activities, such as working with overseas regulators to agree international standards and monitor global firms and markets, form an important part of the FSA's role and one of the principles which the FSA operates under is the maintenance of the international competitiveness of the UK financial services industry.

The FSA places particular priority on European issues as the UK must implement into UK law legislative decisions made at the European Union (EU) level. The quantitative survey found that the industry believes that the task of harmonisation and integration will be difficult – just over half (55%) agreed that 'UK regulations and EU standards are too different to be satisfied by a single EU requirement' and only 15% disagreed with the statement (30% had no opinion).

Overall a third of practitioners agreed that EU and international issues were a top priority for their business in the future, but slightly more (40%) disagreed and many had no opinion. However these figures reflect the preponderance of smaller retail firms in the industry and it would be expected that these firms place less emphasis on international matters. The majority of major groups and wholesale firms agreed that EU and international issues were a top priority.

Chart 3.20: Perceived importance of international issues - ‘EU and international issues are a top priority, looking forward’



Similarly, in the qualitative interviews the international dimension only featured directly in a small number of discussions, among the larger organisations that were involved in this sphere and could comment on it. In these interviews the ability of the FSA to coordinate on regulation across borders was seen as mixed, with some very harmonious working arrangements being reported. Where there was criticism it was in the background perception of regulation as implemented in the UK, versus that applied in other countries – and especially in other European countries where, nominally the over-arching directives were the same.

“The other European regulators are better in that they ignore ... ignore? Oh I didn’t say ignore. They interpret differently some of the industry European directives.”

Head of Compliance, Wholesale Bank

“You hear a lot of that from the FSA, you know, you can’t do that because the European rules say you can’t. You don’t hear that from anyone else.”

Chief Executive Officer, Bank

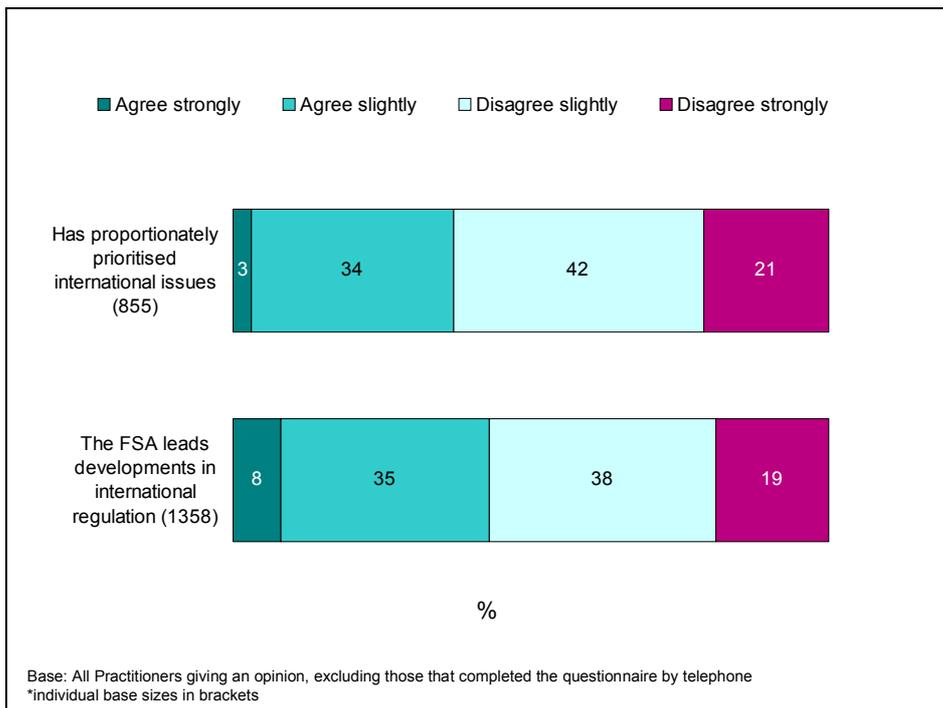
“Although we have European directives that are supposed to harmonise financial services...financial services are far more heavily regulated in the UK than they are in the rest of the EU. There is a very real risk that eventually people will walk away from the UK.”

Head of Compliance, Bank

As many firms do not see international issues as a main priority, the results from the quantitative questions assessing the FSA’s performance are shown excluding ‘no opinion’ responses.

The majority of practitioners expressing an opinion did not feel that the FSA has proportionately prioritised international issues. Also, the FSA was not seen to be leading developments in international regulation by the majority (57%) of practitioners and just 8% agreed strongly that they were leading as opposed to responding.

Chart 3.21: The FSA and international issues

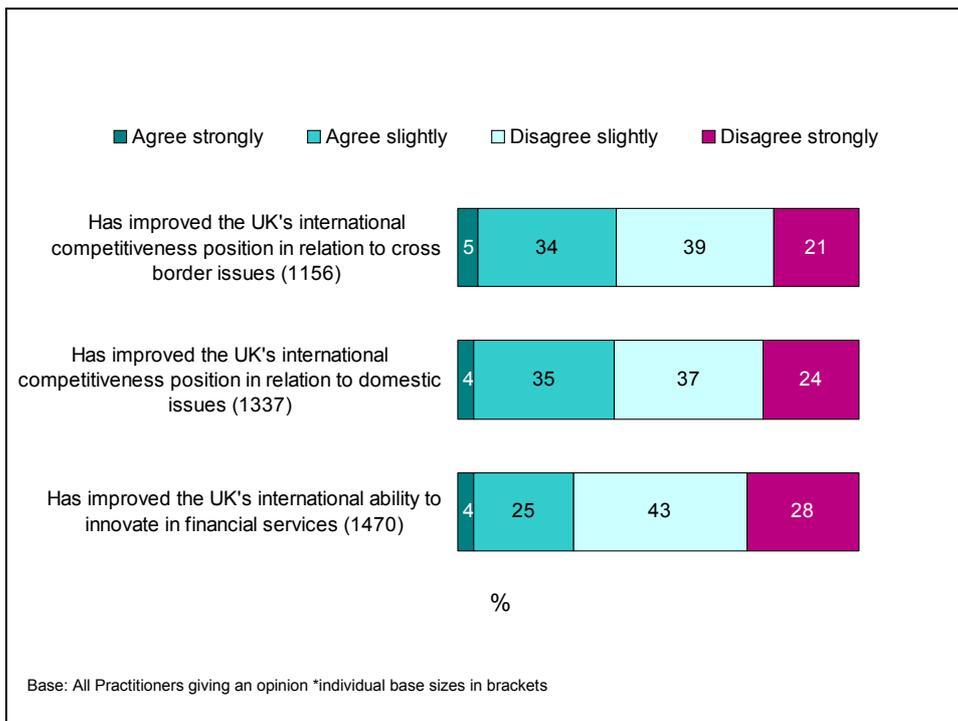


Just over half (56%) of those with an opinion agreed that the FSA had consulted well on EU issues arising from its role within the Committee of European Securities Regulators (CESR), although this tended to be at the ‘agree slightly’ level rather than strong agreement.

The quantitative survey also asked about whether the FSA had co-ordinated well its activities with regulators in other parts of the world – pan EU, individual EU jurisdictions, the United States and the rest of the world. In each of these areas over three quarters of practitioners could not give an opinion. Where they could, practitioners were fairly equally divided on whether the FSA had co-ordinated well with pan EU and individual EU regulators. In the case of the United States and the rest of the world a majority of those giving an opinion disagreed that the FSA had effectively co-ordinated.

Seven out of ten practitioners, with an opinion, disagreed that the FSA had improved the UK’s international ability to innovate in financial services. The majority also disagreed that the FSA had improved the UK’s international competitiveness.

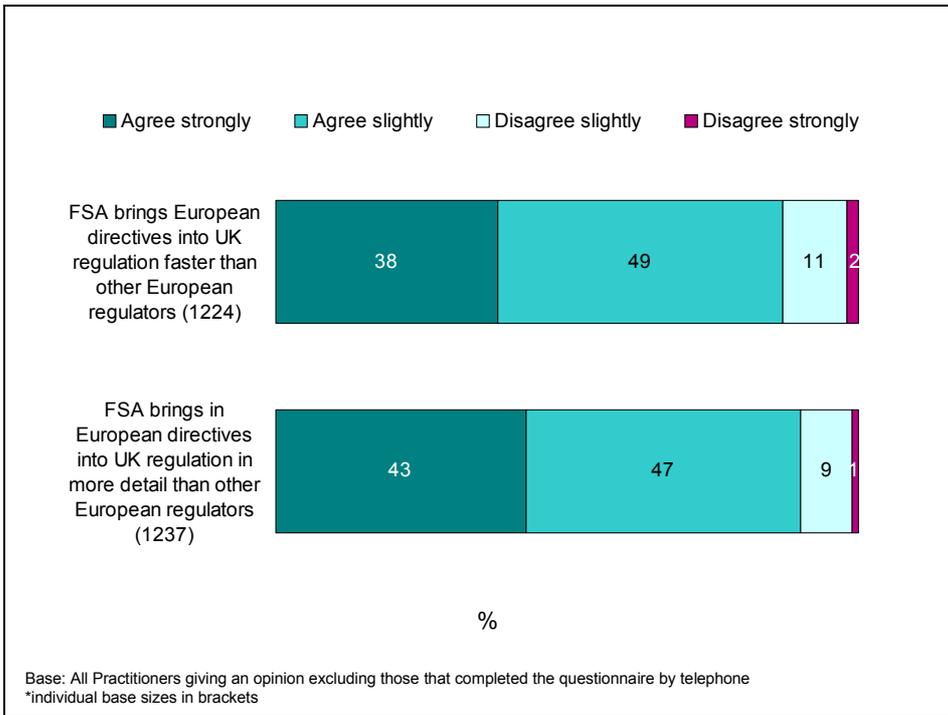
Chart 3.22: The FSA and international competitiveness and innovation



In the qualitative study some practitioners expressed fears that UK firms would be disadvantaged because other regulators would take a less rigorous approach to the implementation of EU directives than the FSA.

The quantitative survey confirmed that these fears were widespread with 87% agreeing that the FSA brings European directives into UK regulation faster than other EU regulators and 90% agreeing that the FSA applies directives in more detail than other regulators.

Chart 3.23: The FSA and European directives



These views were consistent by size and type of business.

4.0 Firms' Relationship with the FSA

4.1 Overall Satisfaction with the FSA

The qualitative interviews presented a mixed picture of how satisfaction had changed over the last two years. They echoed the expectation that the initial regulatory burden ('the N2 bulge') would have abated and the disappointment that it had seemingly failed to do so; they also paid tribute to the significant achievement of what the FSA had accomplished in a short period since conception; they welcomed the latest strategic moves and the ongoing investment in staff and systems; they expressed disappointment that day-to-day shortcomings still affected interaction with the organisation and its staff. Underlying the assessment of the last two years in the qualitative interviews was the concern over how the stream of new regulation would extend into the future.

"A feeling of gradual improvement is how I would put it... it's moving in the right direction."

Chief Executive Officer, Authorised Professional Firm

"We can just get on with things. Overall I'd say we've been fine. We've been very happy."

Chief Executive Officer, building Society

"I think the FSA is growing up. I think that it was a hard and fast aggressive regulator three years ago that sent out dicta after dicta."

IFA

"It's about getting the balance right. If you make regulation too onerous, people will just go elsewhere."

Chief Executive Officer, IFA Company

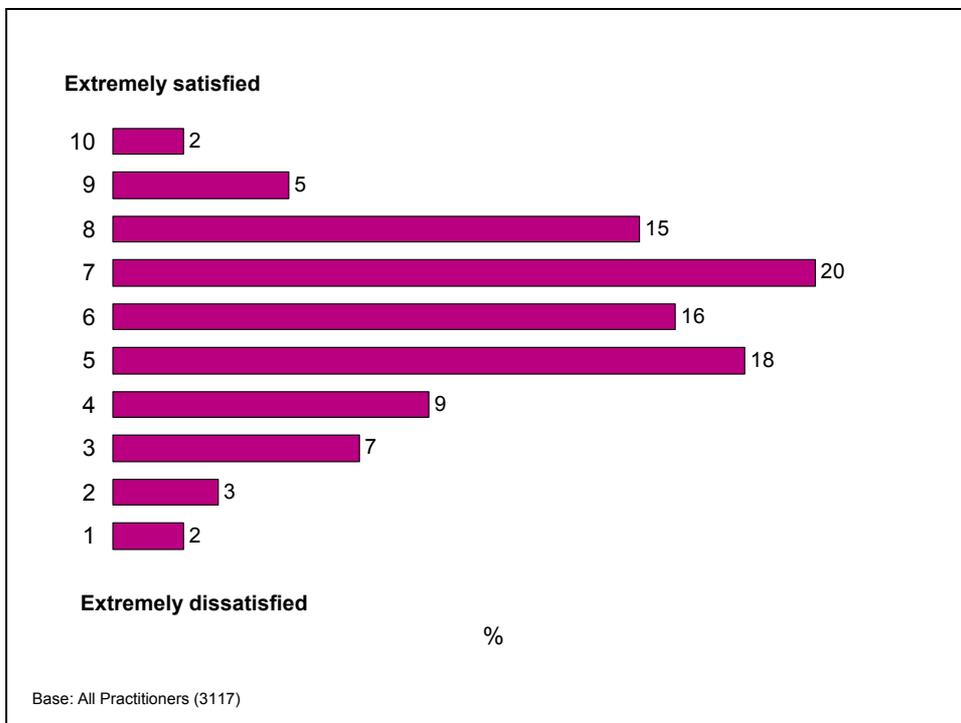
"The degree of intervention is such that we almost operate in a climate of fear, and that is no way to run a business and no way to run an industry."

Chief Executive Officer, Securities and Derivatives Management

As more than two years had elapsed since N2, the Panel felt that it would be reasonable to ask practitioners in the quantitative survey to rate their overall satisfaction with the relationship between the FSA and their own business.

Practitioners were asked to rate their satisfaction on a scale from one (extremely dissatisfied), to ten (extremely satisfied). The majority of survey respondents gave the FSA a score in the middle range of the scale, with few giving scores of either nine or ten, or one or two. The mean satisfaction score was six.

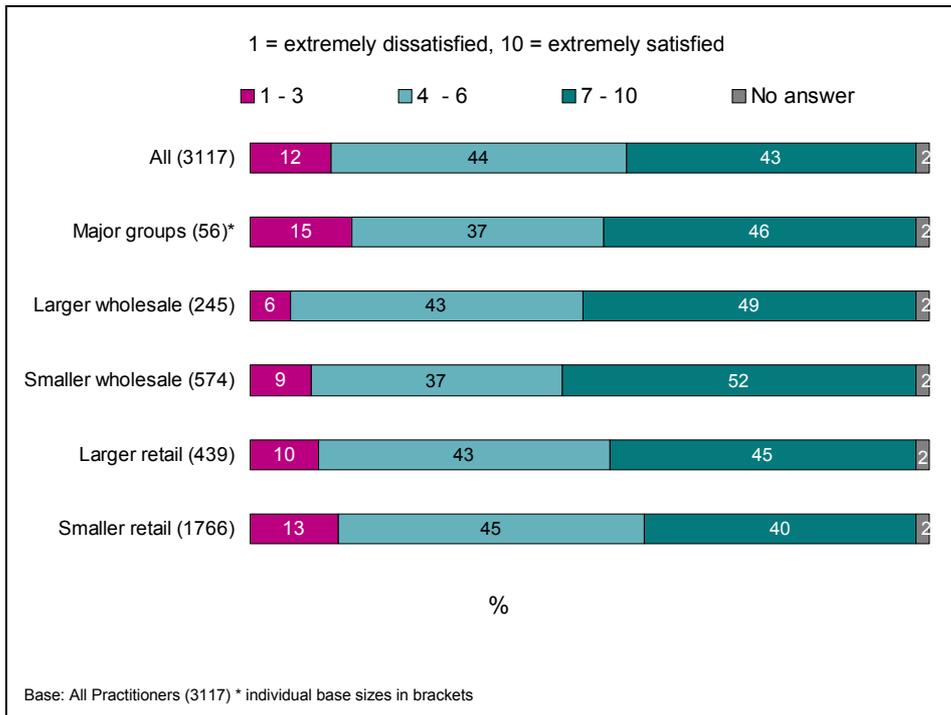
Chart 4.1: Overall satisfaction – ‘taking into account all your business’ dealings with the FSA, how satisfied are you with the relationship?’



In chapter three of this report it has been shown that when assessing the FSA’s performance as the regulator of the industry retail firms, particularly smaller ones, were more critical than wholesale in many areas.

However, when asked about the relationship with the FSA in terms of their own business, although there is a statistically significant difference in mean scores between retail and wholesale, satisfaction levels were quite similar.

Chart 4.2: Overall satisfaction by size and type of business



The individual sectors that gave the highest satisfaction scores were Banks (67% gave the FSA a score of 7 – 10), Venture Capital (55%) and Investment Management firms (51%). Those that gave the lowest scores were Authorised Professional Firms (31% gave the FSA a score of 7 – 10), Life Insurers (36%) and IFAs (39%).

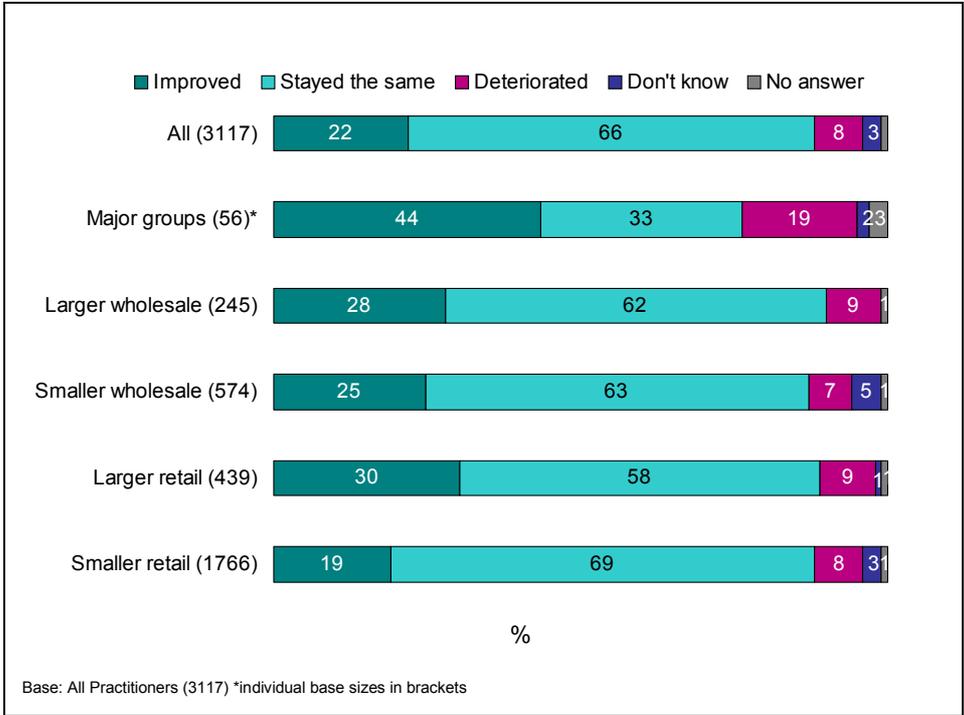
Changes in firms’ relationship with the FSA

Overall satisfaction was not asked on the 2002 Panel survey, but in the 2004 survey practitioners were asked if they felt that their firm’s relationship with FSA had improved, deteriorated or stayed the same in the last two years.

The majority (66%) believed that that there had been no change in the relationship, but just over one in five practitioners felt that there had been an improvement. Fewer than one in ten practitioners had seen a deterioration in their relationship. Small retail firms were less likely than other types of businesses to have seen an improvement, but they were not more likely to say that there had been a deterioration.

Major groups were least likely to say that the relationship had stayed the same over the last two years with four in ten reporting an improvement, but as these firms have the most dealings with the FSA this would be expected.

Chart 4.3 Changes to relationship with FSA in the last two years



4.2 The Drivers of Satisfaction

Which areas are more important to practitioners?

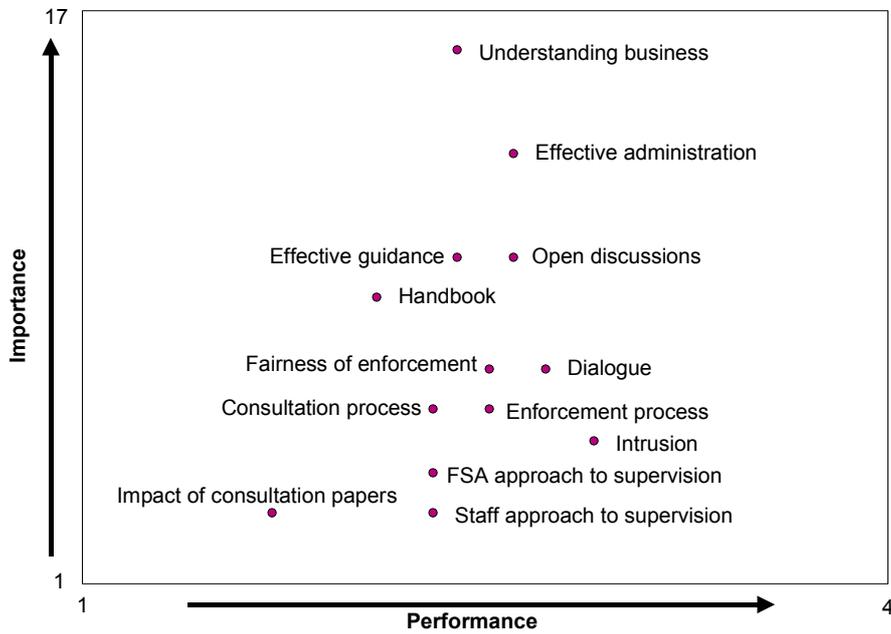
One of the main objectives of the survey was to provide the Panel with guidance on where, from the industry's perspective, the FSA should prioritise efforts to improve its service to regulated firms. In order to identify these priorities the following analysis approach was taken:

- **Individual questions were grouped into thirteen factors.** The survey contained a large number of questions about specific aspects of the relationship between the practitioner's firm and the FSA. A factor analysis was conducted to group questions into key themes. The outcome of the factor analysis is that the battery of questions around the performance of the FSA are grouped by a standard statistical process into sets or factors that have an underlying theme or connection. These factors provide a more manageable summary. (Details of the factor analysis methodology can be found in appendix 3.)
- **Derived importance scores were calculated for the factors.** Regression analysis was used to calculate the relative importance of the factors. This analysis looked at the strength of the relationship between the performance of the FSA on the questions in each factor and overall satisfaction with the FSA - the higher the correlation the more important the factor. (Details of the regression methodology can be found in appendix 3.)

Priorities are therefore those factors which are important (having the most impact on overall satisfaction) and where the FSA's current performance is low.

The following chart maps each factor by importance and performance. The importance score is derived from the regression analysis and the performance score is the mean score across all the questions within the factor (a score of four would be where all respondents agreed strongly – or disagreed strongly for a negative statement).

Chart 4.4 Importance and performance map



The thirteen factors were composed of the following underlying questions:

Factor	Underlying questions
Understanding business	<p>Supervision and investigation -</p> <ul style="list-style-type: none"> • FSA staff understand the technicalities of your business • FSA staff try to take account of the commercial realities of your business • The FSA makes good use of the information we provide to inform its dealings with us • FSA staff don't really take into account the level of risk arising from your business • The FSA has a good understanding of your business • The FSA applies a reasonable level of supervision for a business of your type and size

	<p>Guidance -</p> <ul style="list-style-type: none"> • FSA staff have sufficient knowledge to understand my business
Effective guidance	<ul style="list-style-type: none"> • There is consistency of guidance from different members of staff • FSA staff generally give definitive guidance promptly • Staff have the authority to answer my questions • There is co-ordination of response and action by the FSA across departments and teams • FSA staff avoid making decisions altogether <p>Although from the section on supervision, the following question was closely related to the above:</p> <ul style="list-style-type: none"> • FSA staff have good interpersonal skills
Handbook	<ul style="list-style-type: none"> • The Guides to the Handbook have been useful • The handbook is clear and easy to understand • The level of detail in the Handbook is about right • The ease of use of the Handbook has improved over the last year • It is difficult to find the rules and guidance that you need in the Handbook
Effective administration	<ul style="list-style-type: none"> • The FSA handles waiver requests and other administrative functions satisfactorily • The FSA operates straightforward and efficient processes for dealing with authorisation and approval issues

	<ul style="list-style-type: none"> • The FSA has the necessary IT capabilities for delivering effective regulation.
Open discussions	<ul style="list-style-type: none"> • It is possible to be open and frank in discussions with the FSA • The FSA is open and frank in discussions with us • The FSA's emphasis is on preventing problems arising rather than enforcement • It is difficult to work through things informally with the FSA without involving legal people.
Fairness of enforcement	<ul style="list-style-type: none"> • The FSA's enforcement procedure treats businesses unfairly • The FSA's enforcement procedure imposes unreasonable penalties.
Dialogue	<p>In supervising your business the FSA</p> <ul style="list-style-type: none"> • Is willing to discuss the findings of any investigation of your business • Rarely gives you the opportunity to put the findings of any investigation into context • Is willing to hold a dialogue with you about compliance issues <p>FSA staff</p> <ul style="list-style-type: none"> • Treat your staff as trustworthy • It is difficult to give feedback to the FSA on their supervisory staff.

Enforcement process	<p>The FSA's enforcement procedure</p> <ul style="list-style-type: none"> • Completes investigations and the enforcement process within a reasonable timescale • Is being implemented in a way that serves to better protect the consumer • Is being implemented in a way that is beneficial to the industry • Is being implemented in a fair and appropriate manner • Makes clear the rationale for the penalty.
Consultation process	<ul style="list-style-type: none"> • There has been sufficient feedback of the results of consultation exercises • The FSA is committed to reducing the volume of consultation papers • The basis for policy decisions following consultations are generally reasonable • Cost benefit analyses within consultation papers have been carried out robustly.
Impact of consultation papers	<ul style="list-style-type: none"> • Your business does not have sufficient time to respond to FSA consultation papers • FSA consultation papers should be more concise.
The FSA's approach to supervision	<ul style="list-style-type: none"> • The FSA tends to look at processes rather than outcomes • The FSA is adversarial in approach.

Staff approach to supervision	<ul style="list-style-type: none">• FSA staff, their approach varies depending on the individual• They (FSA staff) concentrate on broad issues of principle.
Intrusion	<ul style="list-style-type: none">• FSA staff make site visits too frequently• The FSA asks for too much detailed information about your business.

The next section looks at the performance of the FSA on each factor in more detail.

4.3 FSA Performance on Drivers of Satisfaction

4.3.1 Main priorities for the FSA

Understanding business

This factor had the highest importance score but performance was relatively low, which means that from the industry's perspective this area should be where the FSA focuses its efforts to improve practitioner perceptions.

The qualitative study found that there was considerable variability in practitioners' views of their relationship with FSA staff. Some had long established relationships (sometimes from pre FSA days) which they valued highly, whereas others were unhappy with a lack of continuity, or the calibre of FSA contacts.

Practitioners in the qualitative sample also, however, indicated that sometimes the FSA were particularly poor to deal with and there certainly appeared to be a big difference between the abilities of different staff members. Some practitioners, from a range of different sized firms, believed that smaller firms were more likely to be allocated less competent, more junior FSA staff members for compliance and guidance assistance than those allocated to larger firms. Some practitioners also thought that staff were not easy to deal with when it was uncertain as to the seniority of that particular staff member.

"The smaller companies get delegated to officials who are lower down the chain and have less discretion and therefore it is a less friendly approach."

Senior Partner, Law Firm

"I think they need a lot more interaction. They need market people with market knowledge to be coming into the FSA and then going back out again – some kind of secondment backwards and forwards."

Partner, Law Firm

Additionally, FSA staff turnover was also considered to be exceptionally high by a few practitioners in the qualitative study (particularly those in small organisations), making it more difficult for the FSA to understand the firm's business. There was also a belief that staff were frequently moved around the FSA from department to department, making it difficult for practitioners to build up a relationship with them.

“We have a compliance officer, his name keeps changing which is quite unpopular”

Chief Executive Officer, IFA Firm

“There’s now no point trying to develop relationships”

Compliance Officer, IFA Network

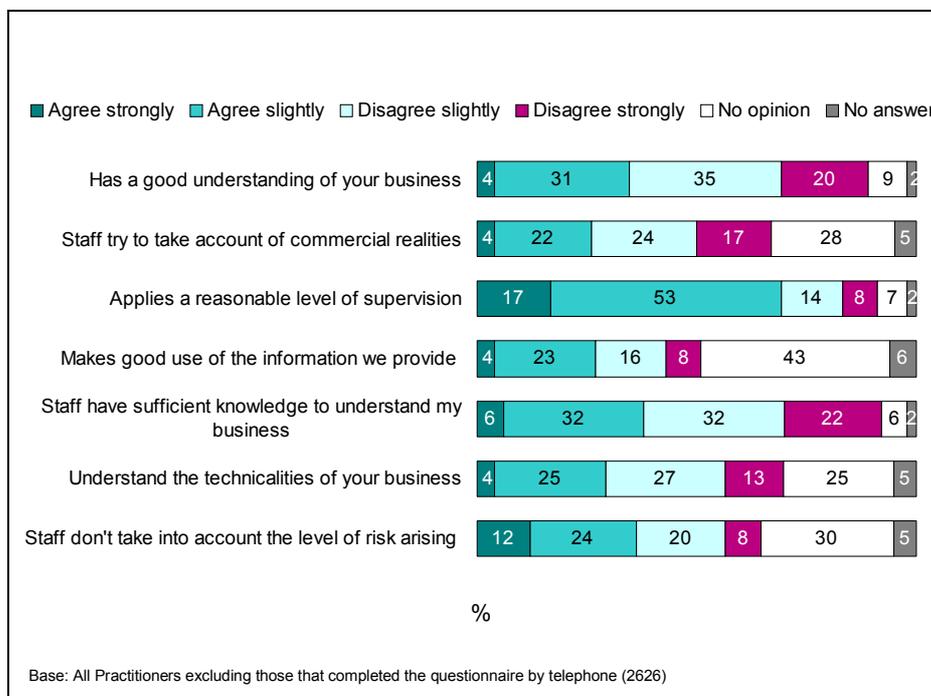
“I think we are on to our third or fourth person responsible for us in eighteen months to two years. There is a huge learning curve”

Chief Executive Officer, Lloyds Market

In the quantitative survey the majority of practitioners (70%) agreed that the FSA ‘applies a reasonable level of supervision for a business of your size and type’ and, of those giving an opinion, just over half agreed that the FSA ‘makes good use of the information we provide to inform its dealings with us’.

However for all the other attributes in this factor the majority of practitioners had a negative view of the FSA’s performance.

Chart 4.5: Performance on ‘understanding business’



Just over half (58%) of practitioners from major groups agreed with the statement ‘the FSA has a good understanding of your business’ and wholesale firms were fairly evenly divided, but the majority of retail firms (57%) disagreed. Firms with a Relationship Manager as their primary supervision arrangement were more likely to agree that the FSA had a good understanding of their business (52%) than those supervised through the FCC (31%).

Overall, many practitioners in the qualitative sample believed that the FSA’s approach to supervision was reasonably positive, in that it offered Relationship Managers to some and that it seemed to be becoming more practical and realistic overall. Some practitioners thought that the FSA was becoming more approachable when practitioners asked questions about supervisory matters. Regulatory visits were also, on the whole, thought to be reasonable, effective and worthwhile (although these were very much dependent on the staff involved).

“I’ve found they’ve got generally more helpful, they’re a little bit more open to helping people.”

Head of Compliance, IFA Firm

Additionally, when things were not that satisfactory, some practitioners accepted that this might not be the direct fault of the FSA personnel visiting at the time.

“There are simply some issues in relation to which they can’t give an opinion because they are industry type issues.”

Head of Compliance, Bank

However, the FSA’s approach to supervision was criticised to some extent because it was still seen as too ‘hands off.’ The approach was described as one where the FSA would officially be there to answer supervisory questions and help with obligations, but in reality would try to stay uninvolved. This was thought to reflect the FSA’s belief that practitioners were ultimately responsible for their own compliance. Some even went as far as to say that the ethos of the FSA tended to be ‘guilty until proved innocent.’

In the qualitative study levels of competency among staff, and styles of approach, were believed to vary a great deal although on the whole many practitioners complained that the staff that visit them were too inexperienced and tended not to have sufficient authority and expertise. This was of particular concern to those at the larger banks and financial institutions.

“When we supply them with information that they ask for, we don’t expect them to come back with ridiculous questions. That does happen from time to time.”

Head of Compliance, Bank

“Supervisors really do need more authority. The big city banks are responsible for provision of financial services to a large percentage of the population. I don’t think the FSA have quite organised themselves appropriately to deal with institutions of that level.”

Chief Executive Officer, Bank

Some practitioners were satisfied with the FSA staff member allocated to them on a personal level, but felt that he / she was also limited in the service that could be offered because of increasingly rigid rulings by the FSA.

“Over the last two years, I have seen him get more and more frustrated, evidently frustrated, because he’s now into committees and people who don’t understand what he is trying to do.”

Chief Executive Officer, Insurance Company

Some criticisms in the qualitative study also focused on call centre staff, as being unable to sufficiently assist callers with queries. Much of this was attributed to the staff member’s lack of regulatory knowledge. A common complaint was that call centre staff were liable to simply re-iterate the handbook, rather than being able to go beyond this level of guidance.

In the quantitative survey, it was possible to compare two statements to the 2002 survey – ‘has a good understanding of your business’ and ‘applies a reasonable level of supervision’. For larger firms there was little change on either statement, for smaller firms there was a slight improvement on ‘level of supervision’ (58% agreed in 2002 compared with 69% in 2004) and an improvement on ‘having a good understanding’ – in 2002, 23% agreed but in 2004, 34% agreed.

Effective guidance

Despite the fact that many in the qualitative sample believed that the FSA was becoming both more approachable and informal, the provision of guidance was considered to be very poor indeed. This played a significant part in adding to the regulatory burden faced by many practitioners.

The principal complaints about guidance were that the FSA appears to both be unable to provide it (amongst some of its staff) as well as being unwilling to provide it. A few practitioners said that they do not even attempt to ask the FSA anything any more because they knew that they were not going to get a satisfactory answer.

“You tend to get a ‘do whatever you think is right,’ which I find deeply unhelpful”

Chief Executive Officer, Bank

There was a perception that some FSA staff also have insufficient levels of knowledge about regulation requirements to really help and that their approach was sometimes thought to be too legalistic. There was the additional concern that even when guidance was offered, it was often too general and failed to take into account the complexities and nuances of the particular circumstances of that organisation. Many practitioners blamed the culture of the FSA for this; whilst they were trying to become more realistic, practitioners nevertheless sensed that FSA individual staff members feared stepping out of line by offering too much guidance.

“They’re not allowed to be open. They are frightened of their own shadows.”

Chief Executive Officer, Building Society

As noted in the previous factor, high staff turnover within the FSA was also not thought to help, since newer staff were less likely to be able to understand the individual firms’ needs.

Poor provision of guidance was mentioned most vociferously in the qualitative sample either by smaller firms (particularly IFAs) or those offering more specialist services. For these firms the guidance offered was either not specific enough, or did not take into account their particular business situation. Some IFAs thought that it would be useful to be presented with more case studies to back up guidance procedures.

Some IFAs also criticised the FSA for not promoting the fact that the FSA ethos had moved away from 'tick box' towards quality of advice (logic over procedure). Without this awareness, many organisations were believed to waste a lot of time focusing unnecessarily on procedure.

“There is no such thing as informal guidance. There is no one at the FSA who is willing to give you informal guidance. They put it back on you. That’s the rule, you interpret it as you want.”

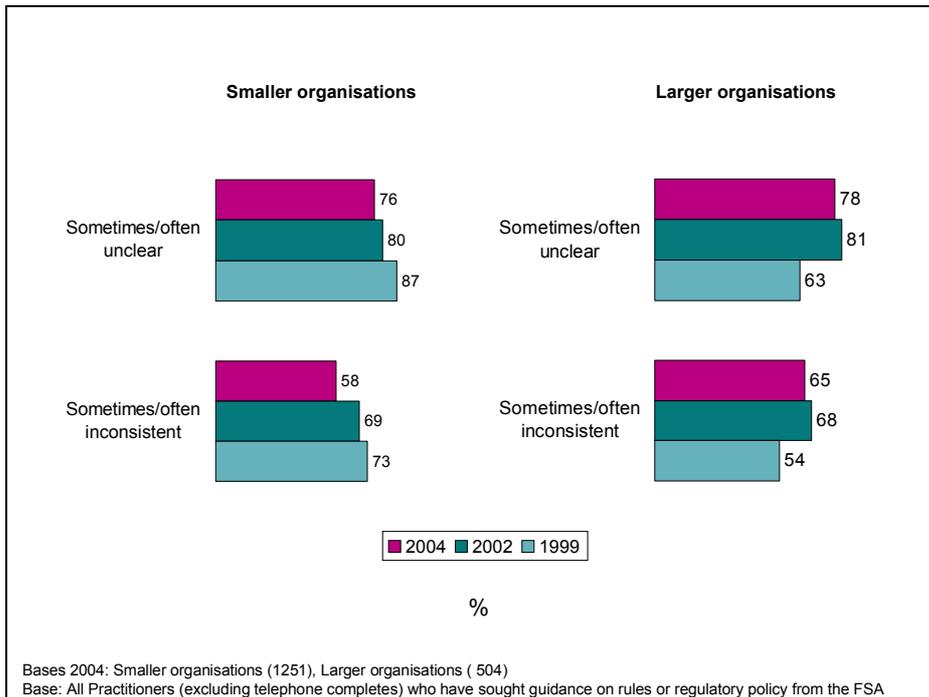
Head of Compliance, IFA Network

In the quantitative survey it was found that two thirds of practitioners had some experience of seeking guidance from the FSA. Larger firms had sought guidance mainly from their Relationship Manager and smaller firms mostly used the FCC.

Of those who had experience of seeking guidance on rules or regulatory policy from the FSA just under one in five (17%) said that it was 'always clear'. The FSA was seen to be better at providing consistent guidance – 29% of practitioners stated that the FSA's guidance was 'always consistent'.

For smaller organisations both clarity and consistency have improved over time, although the majority still feel that guidance is sometimes or often unclear or inconsistent. For larger organisations the level of clarity and consistency in 2004 has declined from previous surveys.

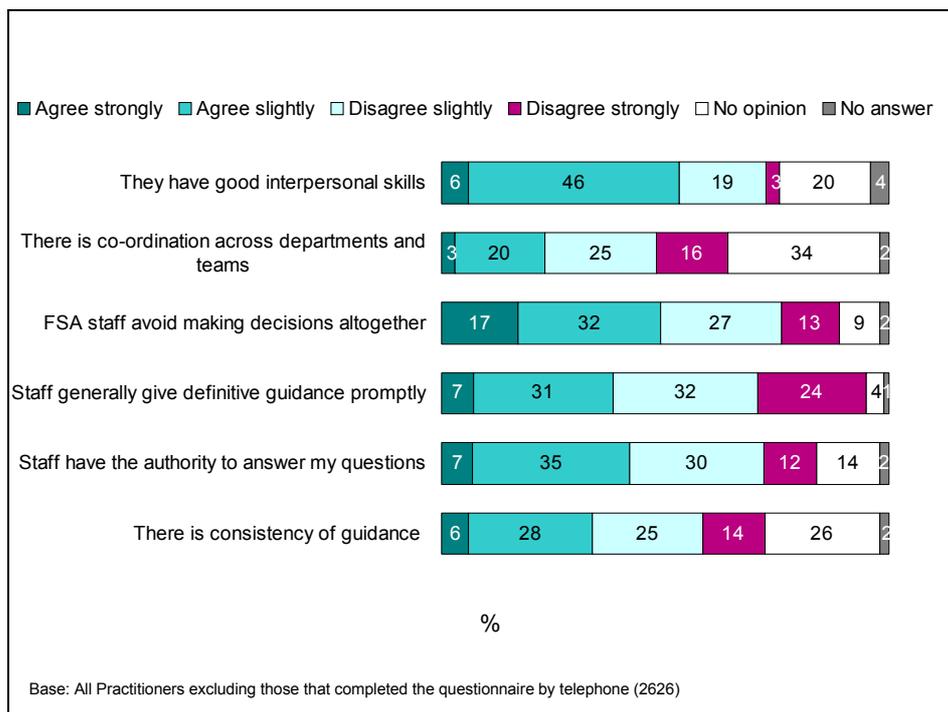
Chart 4.6: Clarity and consistency of guidance over time



Looking at the specific attributes within the ‘effective guidance’ factor, FSA staff were generally seen to have good interpersonal skills by practitioners, but all other areas in this factor could be improved.

Reflecting the earlier questions on clarity and consistency, many practitioners did not believe that FSA staff provide timely, definitive guidance; one in four disagreed strongly with this statement. On this aspect larger firms were more likely to disagree than smaller firms - 71% of larger wholesale and 65% of larger retail.

Chart 4.7: Performance on ‘effective guidance’



Compared to the 2002 survey there were some improvements on ‘avoiding decisions’ and ‘giving definitive guidance promptly’ and this was more noticeable amongst smaller businesses than large.

Handbook

Following criticism of the Handbook of rules and guidance in the 2002 Panel survey, the FSA took action to improve its usability by introducing guides.

Some practitioners in the qualitative sample appreciated the fact that work appears to have occurred to improve the handbook. Its availability online impressed some practitioners although there were a few criticisms of not being able to print off specific sections or single pages.

“A wonderful resource online, easy, navigable, readable chunks”

Head of Compliance, Accountancy Firm

However, the handbook still attracted criticism.

“They are doing some things in terms of their rule book, they are trying to make it easier and simpler and streamlining it. At the moment it really is still a mish-mash of the old ones, just being stuck together...technically you sometimes end up in situations which are illogical.”

Head of Compliance, Wholesale Bank

Principal complaints about the handbook were that it remains confusing and complicated to navigate, a fact made worse by its lack of a definitive glossary. Some practitioners also find it to be somewhat contradictory and others complained that it was difficult to interpret the relevance of the rules for their own situation.

Smaller organisations and those in specialist markets were more likely to feel that the handbook was a greater challenge - providing less help and lacking specific relevance - than was the perception amongst larger organisations. This was exacerbated by the fact that only larger organisations had named contacts to help them with regulation. Those in the investment banking business also found the handbook difficult because it tends to promote rulings which seemed to be illogical for the way in which the business usually operates. For example the handbook was thought to hinder risk-taking, because of its prescriptive nature.

“It’s written in the same absolutely incomprehensible gobbledegook as all the circulars we get off them.”

IFA

“As a smaller organisation, it’s difficult to find the time to go through it all and work out the implications for us”

Chief Executive Officer, Building Society

“You could make a career out of it, you could stop your business and do nothing but read it. That is why Canary Wharf is as big as it is, because there are people whose job it is, is to turn this stuff out for no useful benefit at all other than the fact that they think it looks good. It’s guff, I’m sorry, but it really is, 90% garbage”

Chief Executive Officer, Building Society

The guides to the handbook, however, were well received, and these (together with the FSA website) were seen to make the handbook more accessible.

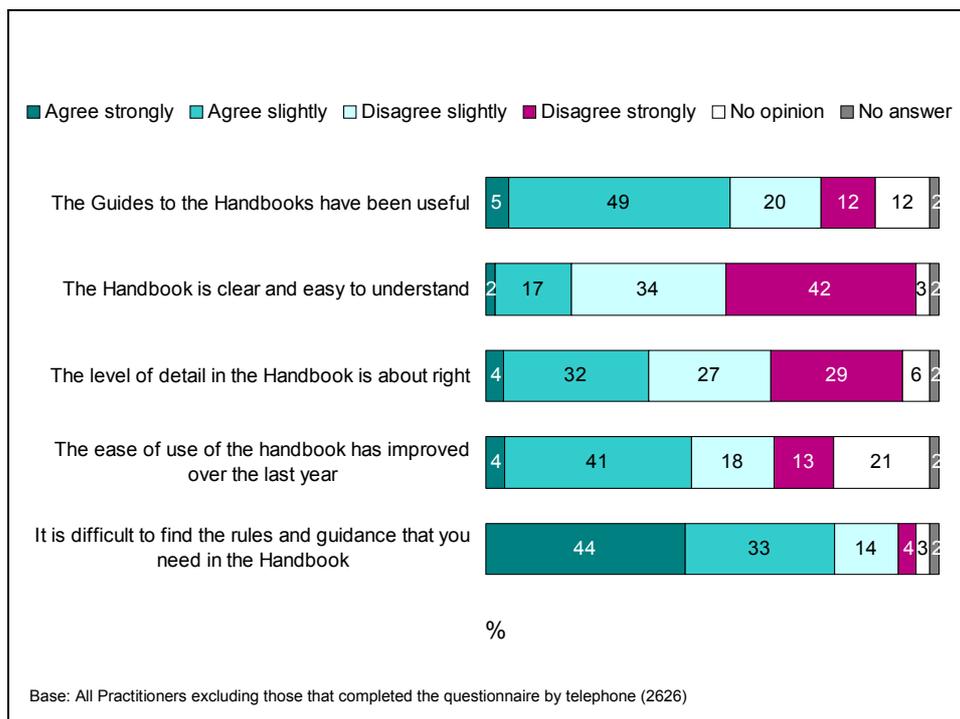
“I used to think their internet site was awful, terribly un-user friendly, but when you start getting a bit more used to using it, and look round it a little bit, it’s actually not too bad to use”

Head of Compliance, IFA firm

A majority of practitioners in the 2004 quantitative survey did agree that the guides had been useful, but this tended to be slight rather than strong agreement. Similarly a majority of those giving an opinion agreed that the ease of use of the handbook had improved in the last year.

However clear majorities disagreed that the handbook was ‘clear and easy to use’ (74% in total, 42% strongly) and agreed that it was ‘difficult to find advice and guidance needed’ (77% in total, 44% strongly). These scores were similar for retail and wholesale firms; major groups were slightly more positive in their response, but this reflects the greater resources that they have for compliance issues.

Chart 4.8: Performance on ‘handbook’



The responses in 2004 to the questions ‘the handbook is easy to understand’ and ‘it is difficult to find the rules’ were very similar to 2002 from both smaller and larger organisations.

4.3.2 Other priorities

The FSA’s performance on the four factors in this section was relatively highly rated compared to those in the previous section, but many practitioners were not satisfied. As these factors are also relatively more important any improvements by the FSA should have a positive impact on overall satisfaction.

Effective administration

Many practitioners in the qualitative sample did not believe that the FSA currently operates as efficiently as it could. Partly this was put down to the fact that there was still a great deal of internal change going on within the FSA, both in terms of team restructuring as well as high staff turnover rates. Additionally, whilst the restructuring at the top of the FSA might prove very constructive, the practitioners in the qualitative sample pointed out that the lower levels of staff may well need time to adjust to these changes, hindering the administrative efficiency of the FSA further and even destabilising it.

“It is partly the problem of it being such a huge organisation and it is like turning an ocean liner. It is a huge organisation and they should stop trying to take on too much. It is easy for Parliament to shift it onto them and I think they need to say stop - let’s sort out our house and get the thing going properly.”

Senior Partner, Law Firm

“Yes it’s become much more bureaucratic”

IFA

Within the qualitative interviews, the FSA was criticised on occasion for failing to make a decision at all about a query raised by a practitioner. Practitioners believed that this stemmed from the FSA’s fear that by making a decision they would set an unfavourable precedent.

“They’re clearly very nervous about taking a decision as someone will say, hang on, you’re setting a precedent.... In the end we were just told ‘do what you think is right”

Head of Compliance, Insurance Company

“Sitting on the fence in terms of advice sometimes, well yes, you can do this, you could do that”

IFA

Other practitioners felt that a lengthy waiting period for an FSA decision was also unfair, since the FSA usually demanded prompt responses from them in return. On occasion, the FSA were also known to have broken promises about response times, for which they were never held accountable.

“We want to move quite fast on several issues and the key will be can they move at the speed we need or will we still be waiting for answers in six months’ time and lose a chunk of our business cycle because we’re waiting for a response?”

Chief Executive Officer, Lloyds Market

“If the FSA has taken two months to respond then they should give an equal period. Frequently you have to reply by close of business three days hence. It is totally unreasonable in my view.”

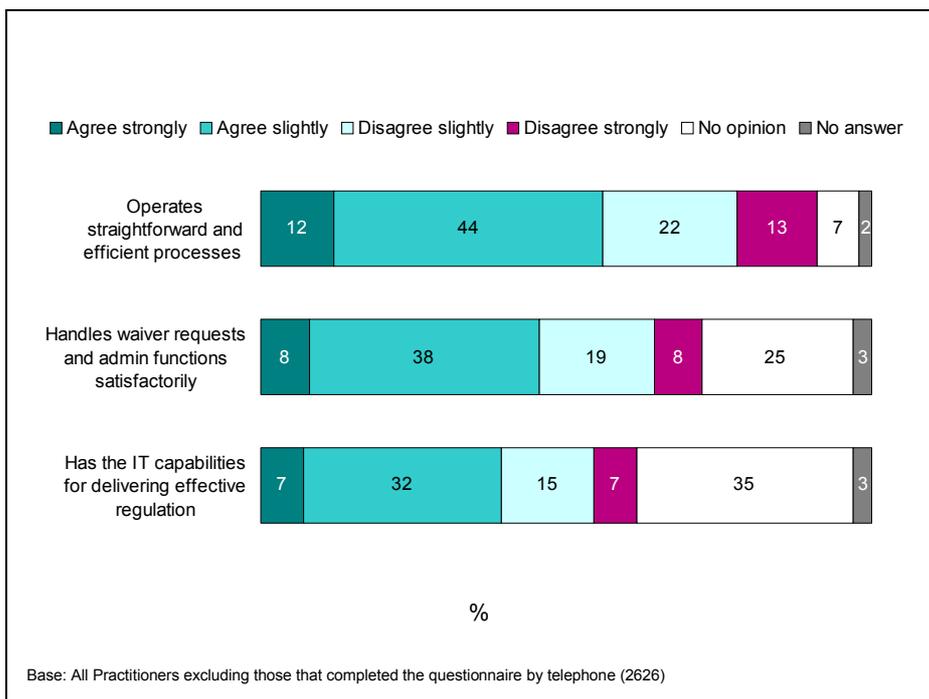
Partner, Law Firm

“It’s surprising that it has taken that long (2 years, to get our first ARROW letter) to get round to a firm of our size. I don’t want to get 2 years on and then get smacked around the head”

Chief Executive Officer, Large Financial Institution

When answering the quantitative survey, there were practitioners who had not had any experience of dealing with the FSA in some areas of administration, but where they held an opinion the majority were positive about these aspects of their relationship. This was consistent by size and type of business.

Chart 4.9: Performance on 'effective administration'



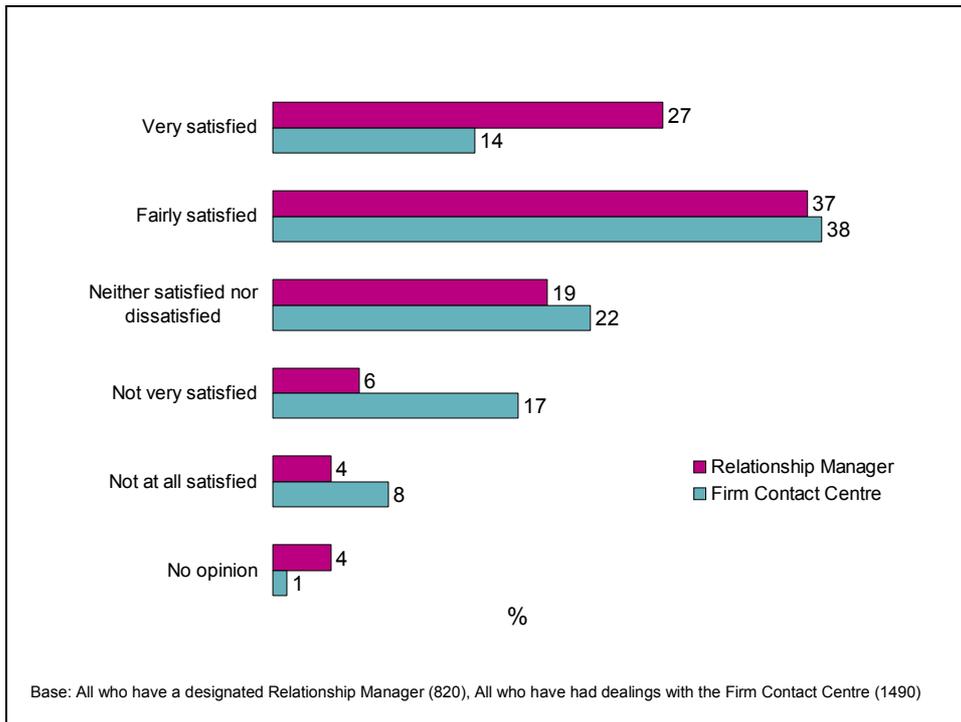
Although the majority of practitioners agreed that the FSA was efficient in these areas, improvement was still a priority as it is an important area.

In the qualitative interviews there were a few practitioners who complained that they didn't receive as much acknowledgement or feedback about the forms / information / applications that they were submitting as they would have liked. They felt that this added to their unease as to whether or not they were complying satisfactorily and the overall sense of burden that they faced. Many practitioners suggested that a brief piece of communication, to acknowledge receipt, or indicate that compliance was satisfactory, would reassure them considerably.

Practitioners were also asked if they experienced an occasion where maladministration by the FSA had provided a valid basis for making a formal complaint. Overall 16% said that they had experienced maladministration, but of this group only 14% had actually made a complaint. Four in ten of those who were dissatisfied with the FSA overall (that is gave a score of 1 – 3) had experienced maladministration.

A quarter of practitioners said that their business had a designated Relationship Manager and over half (58%) had had dealings with the Firm Contact Centre (FCC). One in four of those who had used the FCC were dissatisfied with the service.

Chart 4.10: Satisfaction with Relationship Manager and Firm Contact Centre

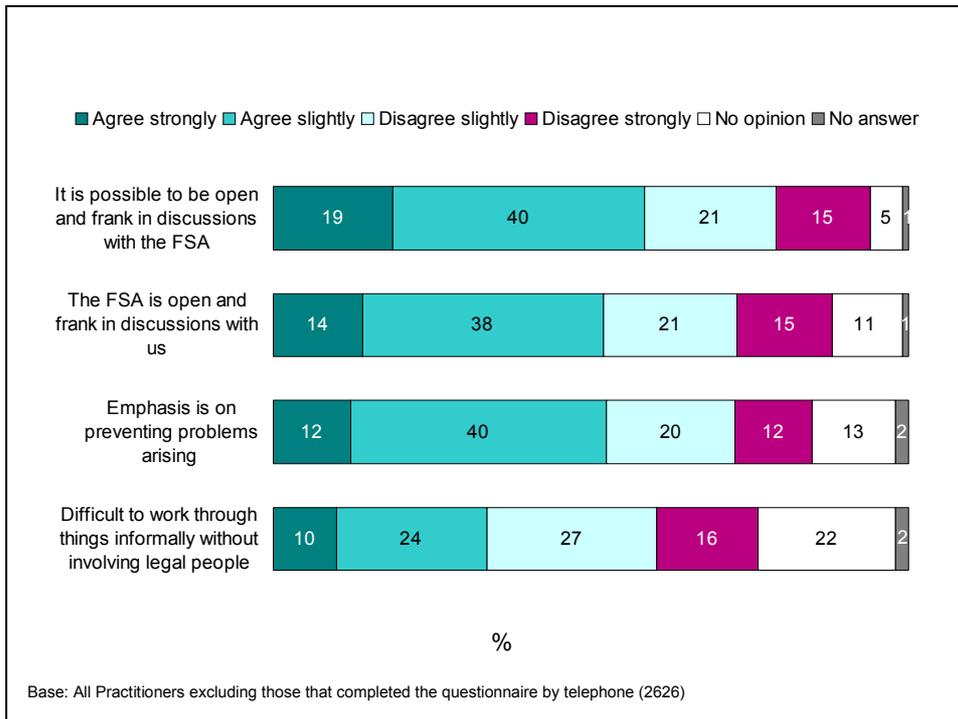


Open discussions

The attributes in this factor also relate to guidance and in contrast to the ‘effective guidance’ factor, the FSA is seen to perform relatively well.

The majority of practitioners agreed that discussions were characterised by openness on both sides and that the FSA’s attitude was one of preventing problems arising rather than looking for enforcement opportunities. However around a third of practitioners disagreed, so there is room for improvement.

Chart 4.11: Performance on ‘open discussions’



Across all of these attributes major groups were more positive about the FSA’s attitude, which would be expected as they have an ongoing relationship with a dedicated FSA team.

In the qualitative study comments were made about the fear of making mistakes when interpreting FSA rules and the consequent growing use of legal advisers, to ensure that problems did not occur. Although in the quantitative survey a majority of those giving an opinion disagreed with the statement ‘it is difficult to work through things informally with the FSA without involving legal people’, a third agreed that legal advice was necessary.

Fairness of enforcement

Within the qualitative interviews numerous practitioners expressed the view that they took the enforcement process to be unfair. Those who’d experienced enforcement had generally found the process hostile and costly. Some criticised the fact that there wasn’t an appeal process available, apart from a judicial review.

“The FSA process is just completely inequitable and it’s only when you’re on the receiving end of it that you think it’s sort of Stalinesque in what happens”

Chief Executive Officer

“The RDC [Regulatory Decisions Committee] is chaired by someone who is an FSA employee and you have no right in representation.... You are quite deep into the process at that stage, so people have started to form views and the RDC has heard the case from one side only...it wasn’t a process that had anything to do with equity or justice or fair play...the reason we didn’t go to Tribunal is...the price of going to tribunal is high.”

Chief Executive Officer

Overall, those who’d experienced enforcement found it to be very procedural and the FSA was accused of placing an inappropriate emphasis on less important activities, such as filing errors. Practitioners pointed out that this inappropriate emphasis was compounded by the fact that the FSA were then slow to react to more significant issues.

The FSA was also criticised by some practitioners in the qualitative sample for their poor level of dialogue (often non-existent) with industry at these times. This was seen as particularly galling because good practice was never commended nor made public by the FSA.

“Needs to be a sensible discussion with the FSA rather than spanking one institution or another with a great big fine”

Chief Executive Officer

“A potential mindset within the consumerist part of the regulator that says one way or another we will find a way to fine these large banks because we need to be seen to be doing something”

Head of Compliance

Some practitioners also suggested in the qualitative interviews that being fined was almost losing its power of deterrence because it was becoming so commonplace and was also reinforcing the lack of consumer confidence at a sector, rather than company level.

“Naming and shaming is a two edged sword. It certainly concentrates peoples’ minds in the industry, but the problem is it has a drip, drip effect on consumer confidence.”

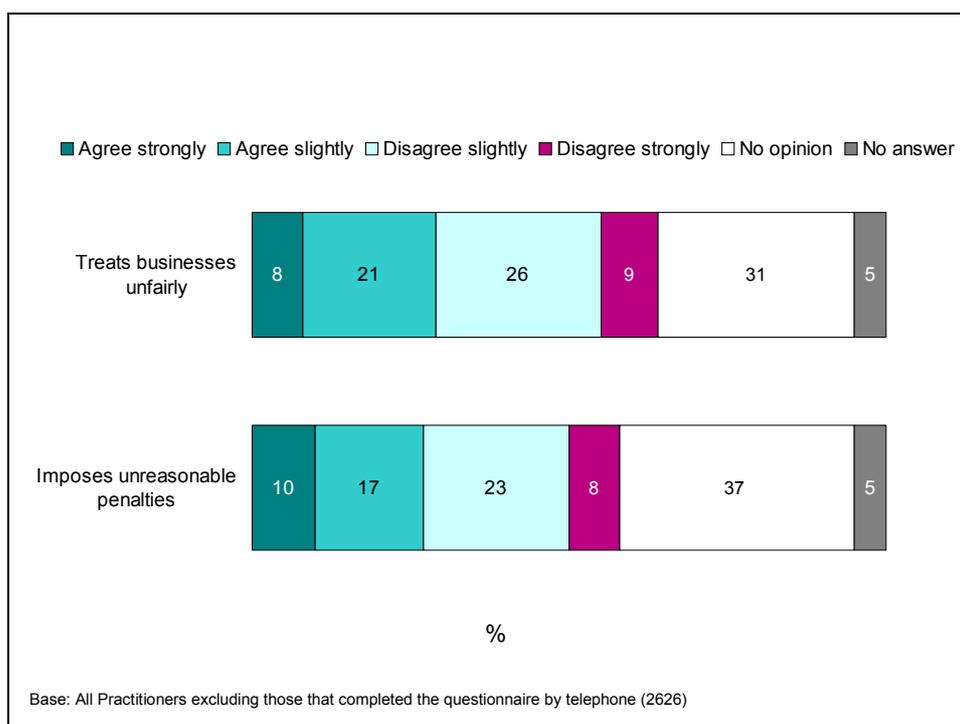
Chief Executive Officer

In the quantitative survey practitioners were asked to comment on the way that the FSA handles enforcement based on their experience, or on what they had seen or heard about the FSA in this area. Many preferred to give no opinion and those that did would not generally be basing their views on first hand experience FSA enforcement action.

No comparisons are possible with previous surveys in this area. In the earlier surveys enforcement questions were only asked to those who had experienced enforcement.

In 2004 a slight majority of practitioners who gave an opinion did not agree that in its enforcement procedure the FSA treats businesses unfairly, or that it imposes unreasonable penalties.

Chart 4.12: Performance on ‘fairness of enforcement’



Major groups and retail firms were more likely to agree that the FSA's enforcement process 'treats businesses unfairly' (53% and 52% respectively, of those giving an opinion) than wholesale firms, where 33% agreed.

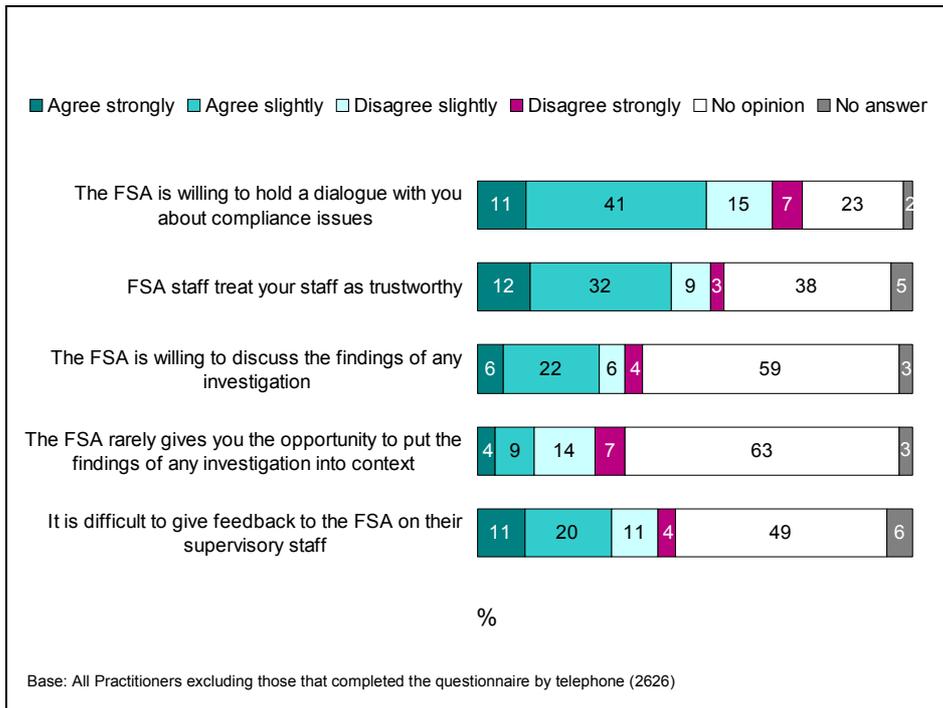
Dialogue

In the qualitative study some organisations did not feel that they were sufficiently informed about FSA decision-making. A compliance officer from an IFA Network provided an example. His organisation was told specifically to change their Terms of Business. At the same time, the FSA realised that this was in fact an industry wide problem and rescinded instructions. However, they failed to tell his organisation, so the firm went ahead and changed all stationery unnecessarily and at great cost.

The attributes in this factor relate to supervision and investigation. Those questions specifically about investigations had a high proportion of practitioners giving 'no opinion' and in the quantitative survey 38% said they had never had a supervisory or investigative visit by the FSA. One in five practitioners had had a visit in the last two years.

The majority of those that did give an opinion agreed that the FSA was willing to discuss findings of any investigation and disagreed that there was rarely an opportunity to put findings into context. Overall, both smaller and larger organisations were more positive about the FSA on these two areas than in 2002.

Chart 4.13: Performance on ‘dialogue’



4.3.3 Secondary areas for improvement

These factors were relatively less important to practitioners in terms of their impact on overall satisfaction. However this does not mean that they should be classed as unimportant. The analysis simply indicates that were the FSA were to improve its performance in these areas there would be less of an impact on overall satisfaction.

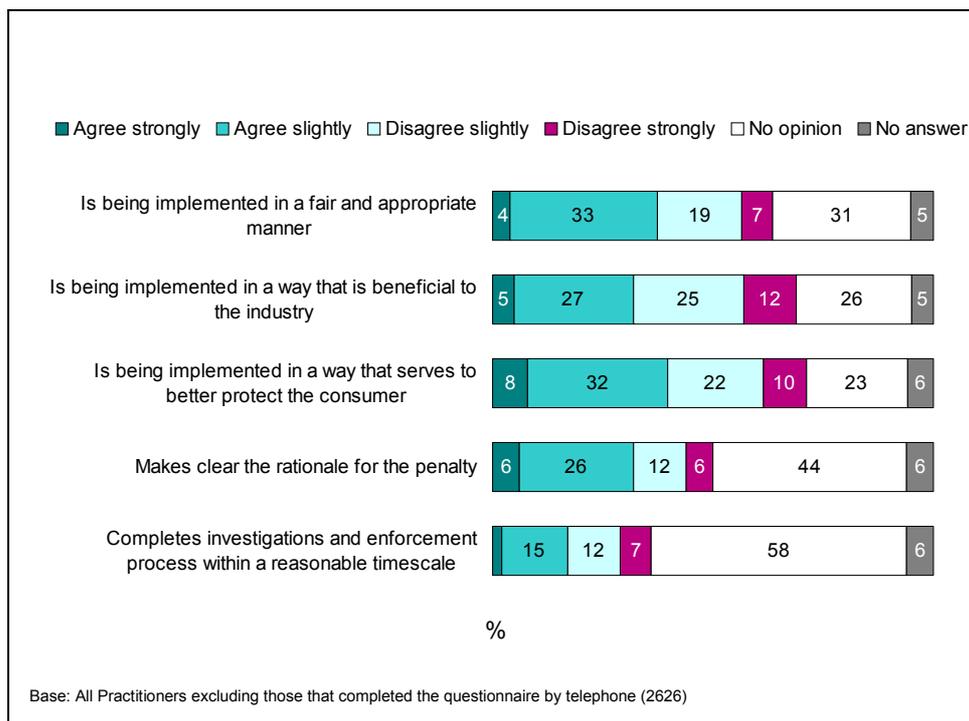
Enforcement process

Many practitioners did not give an opinion on the attributes in this factor, reflecting their lack of direct experience or knowledge of enforcement procedures.

Practitioners were generally positive about the FSA ‘making clear the rationale for the penalty’ and that ‘enforcement was being implemented in a fair and appropriate manner’. A majority of those giving an opinion also agreed that enforcement was ‘being implemented in a way that serves to better protect the consumer’.

The qualitative study found that some practitioners were concerned that ‘naming and shaming’ was having an adverse affect on the industry. In the quantitative survey of practitioners a majority of those giving an opinion disagreed that enforcement was ‘being implemented in a way that was beneficial to the industry’.

Chart 4.14: Performance on ‘enforcement process’



Consultation process

Amongst the qualitative sample FSA consultations were believed to be a good idea in terms of empowering practitioners and offering them the opportunity to air their views. However, they were sometimes criticised for over-burdening practitioners (especially small businesses). For these practitioners they were often seen as time-consuming, relentless and overly confusing in their layout, in which important information wasn't always highlighted.

Some practitioners were also doubtful as to how representative the process was, in that they are unconvinced that everyone was asked to participate, nor that a representative sample replied. For some, the suspicion was that the FSA was simply going through the motions by having a consultation process, whilst their decision had already been made.

Some practitioners (particularly smaller businesses and IFAs) consequently suggested that they'd like to see more face-to-face discussions about the consultation process with the FSA.

“There’s no sense that they’re actually reading them. They’ll just file them, then if we breach something, they’ll then dig them out. We often don’t get responses. There’s no obligation from their side”

Chief Executive Officer, Building Society

“Very ineffective as there are so many of them and they are so confusing”

Chief Executive Officer, Authorised Firm

“It takes a brave man to put their head above the parapet...No one steps out of line so the FSA carry on believing that they have got it right.”

Head of Compliance, IFA network

“I think that consultation’s a good thing, it’s just it’s unfortunate that... the papers are so long”

IFA

“There are lots of consultation papers, here is CP24, 25, 26, 27, 28, it’s not even like an instruction, it’s just what they’ve been talking about and look, you know, would you be kind enough to let us have your input. What, at the rate of one a day, I don’t think so”

IFA

As such, the consultation process was thought to fail to encourage people to really get involved or become motivated by regulatory developments. However, it should be noted that not everyone criticised the consultation process. Very occasionally the blame was put on the industry instead.

“I have to say, that having sat in on various committees, it’s no wonder they don’t listen to various responses, because the standard is so bad!”

Chief Executive Officer, IFA Firm

Moreover, not everyone believed that the FSA was poor at communicating. Practitioners in Credit Unions, for example, welcomed the communication and exchange of information that the FSA offered through its newsletters, CD Roms and through CRED (Credit Union Sourcebook). Those who belong to a representative body also shared this sentiment, believing that the FSA responds well to a united, consistent body with whom to deal with.

“The FSA are becoming slicker and slicker, their communications are adequate, their material is well thought-out, it’s not full of jargon”

Head of Compliance, Credit Union, large

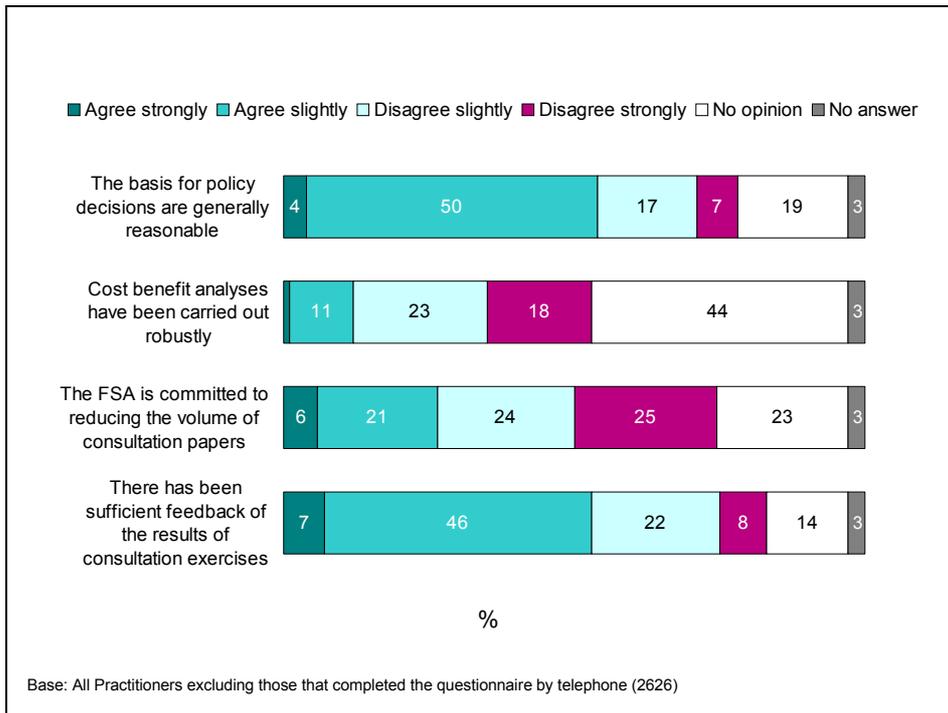
The majority of practitioners in the quantitative survey agreed that the FSA had given sufficient feedback on consultation exercises and that the basis for policy decisions following consultations were generally reasonable. The level of agreement on ‘sufficient feedback of the results of consultation exercises’ was similar to 2002 for both larger and smaller businesses.

On both of these issues larger businesses were more likely to agree than smaller businesses. As noted earlier, many smaller businesses felt that the FSA does not show an understanding of smaller businesses in the development of regulatory policy and operation.

In chapter three of this report it was seen that the majority of practitioners welcomed the FSA’s stated change of direction from policy development to implementation (section 3.5). However only 27% of practitioners agreed that the FSA was committed to reducing the volume of consultation papers.

Although nearly half had no opinion on whether the cost benefit analyses within consultation papers had been carried out robustly, the majority of those giving an opinion disagreed.

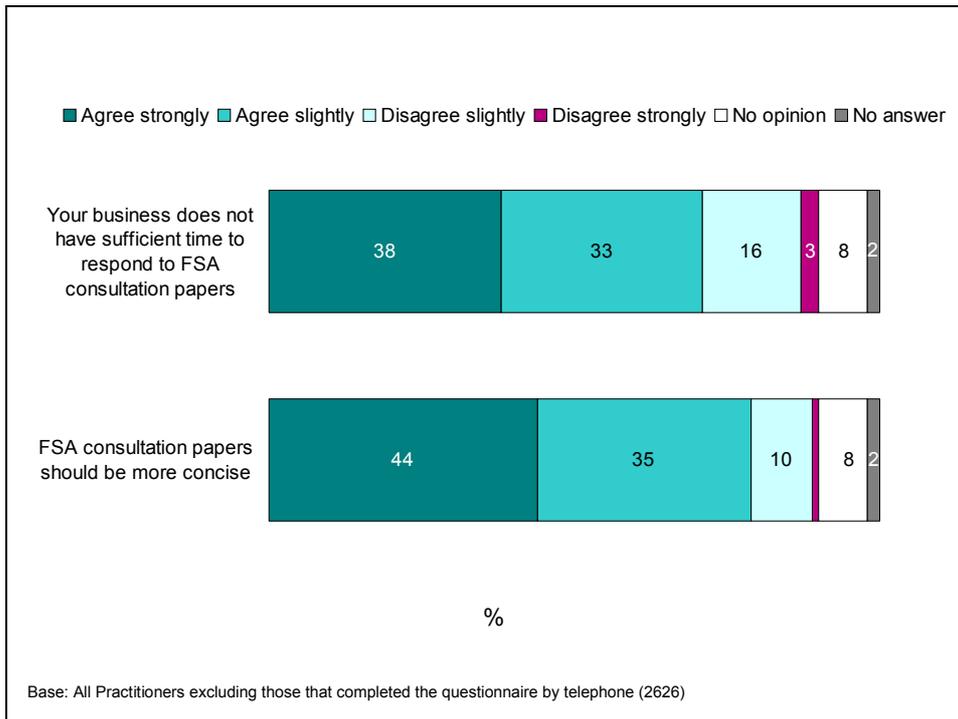
Chart 4.15: Performance on ‘consultation process’



Impact of consultation papers

Given the earlier comments about consultation papers it is unsurprising that the majority of practitioners felt that papers should be more concise. The volume and length of papers means that the majority also agreed that they do not have time to respond to consultation papers.

Chart 4.16: Performance on ‘impact of consultation papers’



All sizes and types of firms agree that papers should be more concise. Major groups, with greater resources available, were more likely to feel that they have time to respond, but half of these still agreed that they do not have sufficient time.

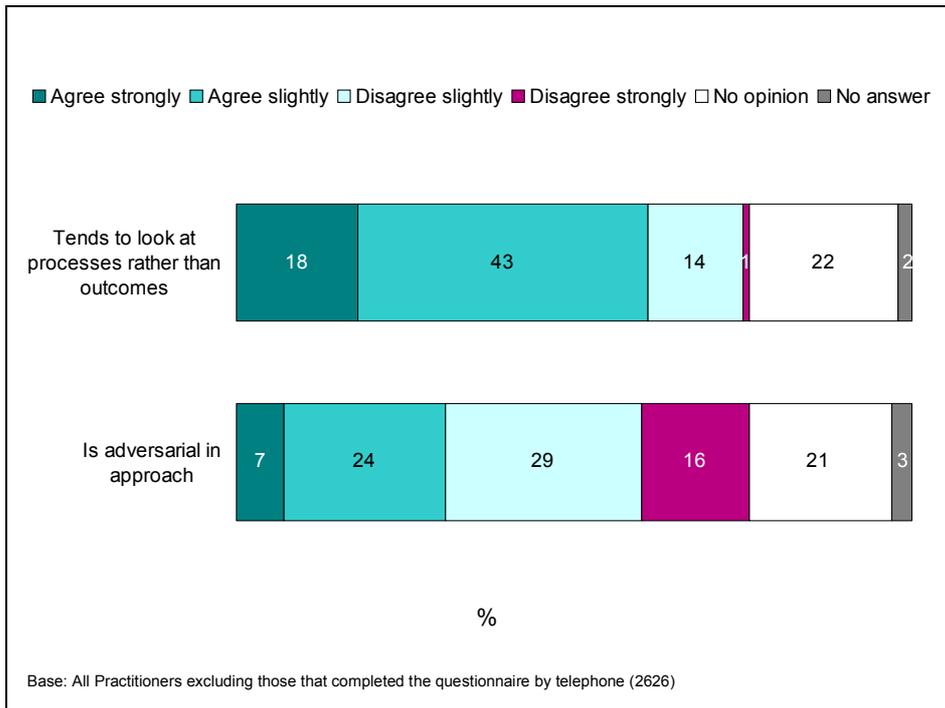
The level of agreement with the two statements was consistent with the 2002 survey.

The FSA’s approach to supervision

The majority of practitioners agreed that the FSA ‘tends to look at processes not outcomes’. This view was consistent by size and type of business but smaller firms had seen a slight improvement compared to 2002.

The majority of practitioners who expressed an opinion disagreed that the FSA was adversarial in its approach and those with a Relationship Manager were more likely to disagree. Again smaller firms saw a slight improvement in this area compared to the 2002 survey.

Chart 4.17: Performance on ‘approach to supervision’

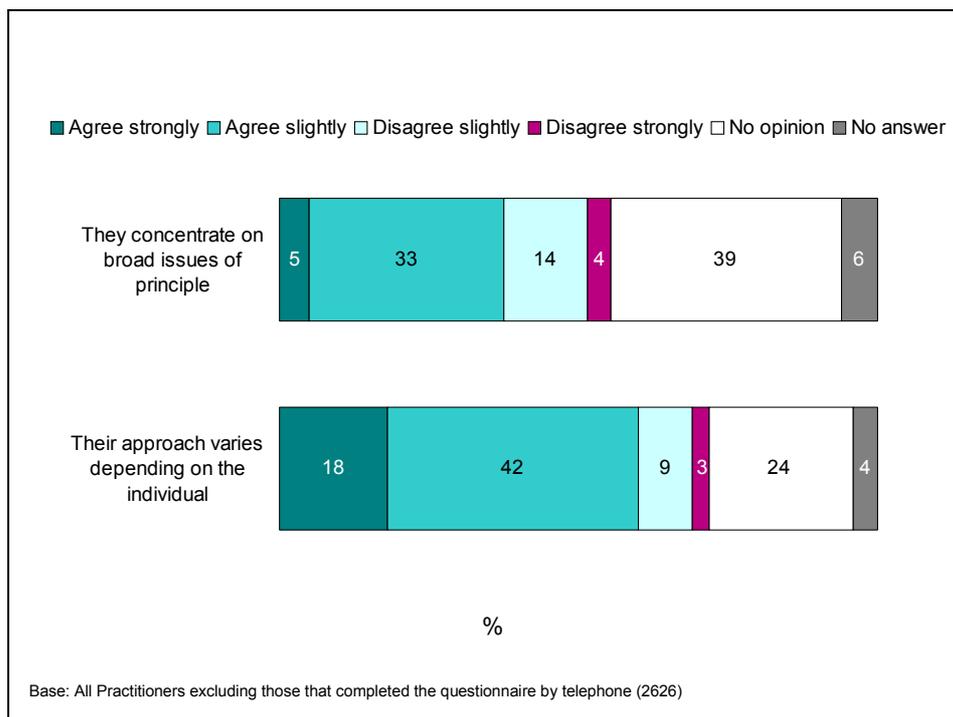


Staff approach to supervision

In the qualitative study practitioners commented on the variability of FSA staff and, in relation to supervision, the quantitative survey confirmed that the majority agree that ‘the approach does vary depending on the individual’.

Practitioners generally agreed that ‘FSA staff concentrate on broad issues of principle’, those who had had a monitoring visit in the last twelve months were more likely to express an opinion and of this group 56% agreed with the statement.

Chart 4.18: Performance on ‘staff approach to supervision’



Intrusion

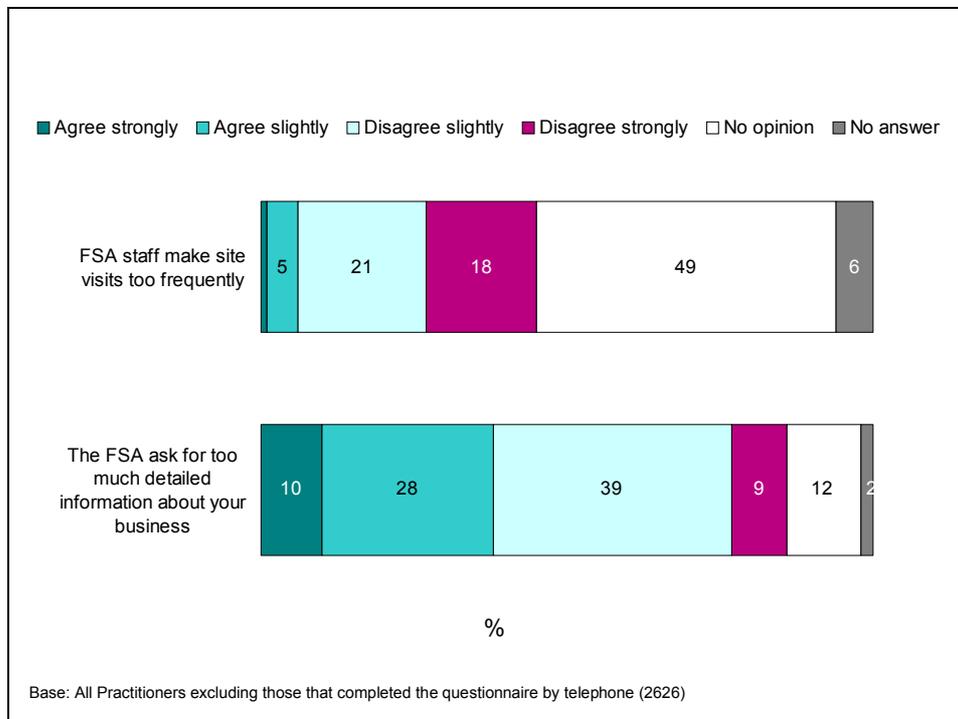
On balance the qualitative sample tended not to find the FSA too intrusive. With the exception of a few, practitioners found the FSA to be too *unobtrusive*. In some respects, this hands-off approach appealed to a minority, particularly smaller organisations, who had recently been classified as ‘low risk.’ For the majority, however, the hands-off approach was criticised for being too extreme.

Whilst most valued the notion of being left alone, they nevertheless felt that the FSA had gone too far the other way. It was, instead, considered to be too distant, too unhelpful and too far removed from any semblance of the good working relationship that practitioners desired with the FSA. Some practitioners thought that they had very little contact with the FSA apart from times of enforcement. This was particularly galling for one large firm, which would have expected more interaction given their size and the fees that were levied on them.

In the quantitative survey many practitioners had had no experience of site visits, but of those who had received a monitoring visit in the last twelve months the majority (62%) disagreed that ‘FSA staff make site visits too frequently’.

In general the FSA was not seen to be asking for too much detailed information. Views on this statement had not changed since 2002.

Chart 4.19: Performance on ‘intrusion’



4.4 The importance of the FSA’s staff

Many of the questions in the survey related to practitioners’ perceptions of the FSA’s staff and two of the three main priority factors (understanding business and effective guidance) are all about the consistency and quality of staff.

Whilst the FSA was commended for its efforts and its emphasis on becoming more realistic in its approach, many practitioners in the qualitative interviews remained frustrated with the FSA’s poor awareness of the way in which their businesses work. Retail and wholesale practitioners in particular appeared to criticise the FSA for its poor knowledge of their respective markets (practitioners in wholesale sometimes thought that the FSA’s knowledge of their business has actually decreased over time). This was thought to detrimentally affect some FSA decision-making and requirements and demonstrate further drift between industry and FSA.

“I don’t think they’ll ever employ the right people because those people are actually in the industry...I think the industry would pay more for better quality”

Head of Compliance, Wholesale Bank

“They need to improve their product knowledge as new financial products come onto the market. They need to be experts.”

Manager, Credit Union

“The problem with FSA staff is that they understand the legislation but they do not understand the market, or the products within the market.”

Manager, Credit Union

“They need to look more at how the world actually works rather than the ways they would like it to work”

Partner, Authorised Professional Firm

The FSA was also sometimes criticised for not moving sufficiently with the times. An example of this was their implementation of punitive judgements based on previous levels of acceptance, irrespective of the fact that such judgements were no longer particularly relevant. Similarly the implementation of a perceived super-equivalence was often seen as indicative of a bureaucratic, civil service mentality that did not understand business.

In the quantitative survey practitioners were most satisfied with the FSA in relation to supervision. Major groups and wholesale firms were more satisfied than retail firms. The difference may be due to retail firms being much more likely (74%) to have the Firm Contact Centre (FCC) as their primary supervision or regulatory arrangement than wholesale firms, where 48% had a designated Relationship Manager.

Many practitioners in the qualitative sample appreciated the efforts that the FSA appeared to be making in this area although much could still be done in this respect. It should be remembered that the FSA is its staff and that a continued focus on staff delivery would be greatly appreciated.

Many thought that the FSA had tried to make themselves more approachable than they were in 2002, and this was reflected in some willingness to work with industry rather than against it. This was seen in practical measures such as giving out direct dial telephone numbers and individual contact points. Some also spoke about the value of the telephone help line (FCC) as well as the ability to now make contact via email. Some practitioners in the qualitative sample also thought that some FCC staff were also speedier in their response to questions, although there appeared to be some inconsistency in this.

It's nice to be able to phone someone up, speak to someone on first name terms, friendly voice, not officious in the slightest and you can develop a relationship."

Head of Compliance, Accountancy Firm

Practitioners also believed that staff had improved somewhat in the overall tone they used when dealing with industry and that better training was likely to have been key in improving these staff attitudes.

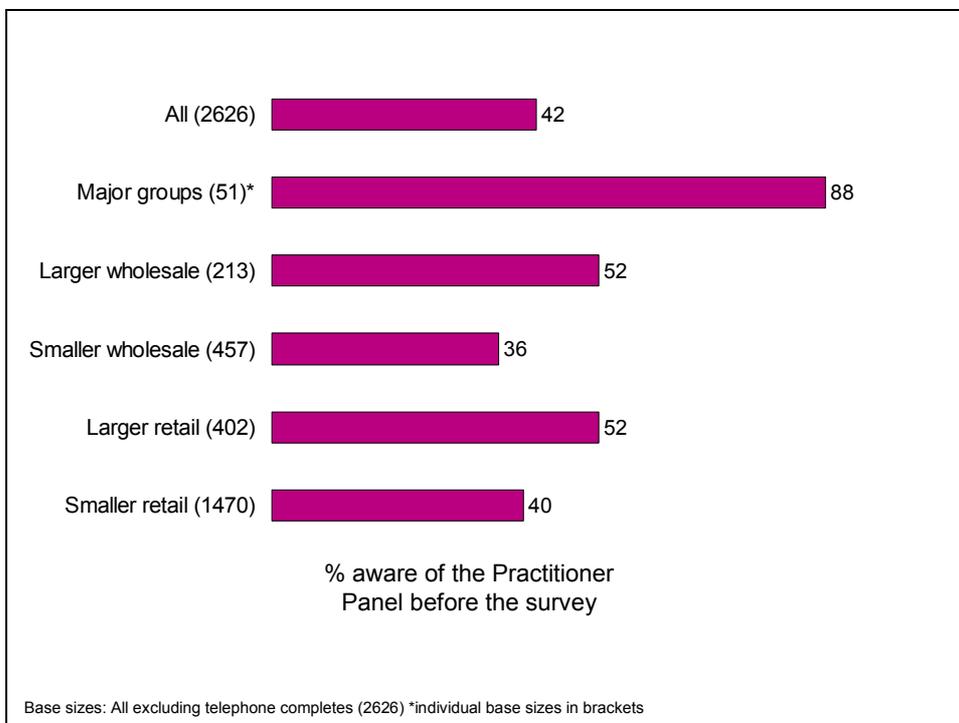
Appendix 1

Views about the Practitioner Panel

The Financial Services Practitioner Panel

In the quantitative survey practitioners who completed the postal or online version of the survey were asked if they had seen or heard anything about the Financial Services Practitioner Panel prior to receiving the letter about the survey. Over two in five practitioners said that they had seen or heard something about the Panel before the survey. Major groups had the highest awareness of the Panel with nearly nine in ten practitioners here saying that they had seen or heard of the Panel before the survey.

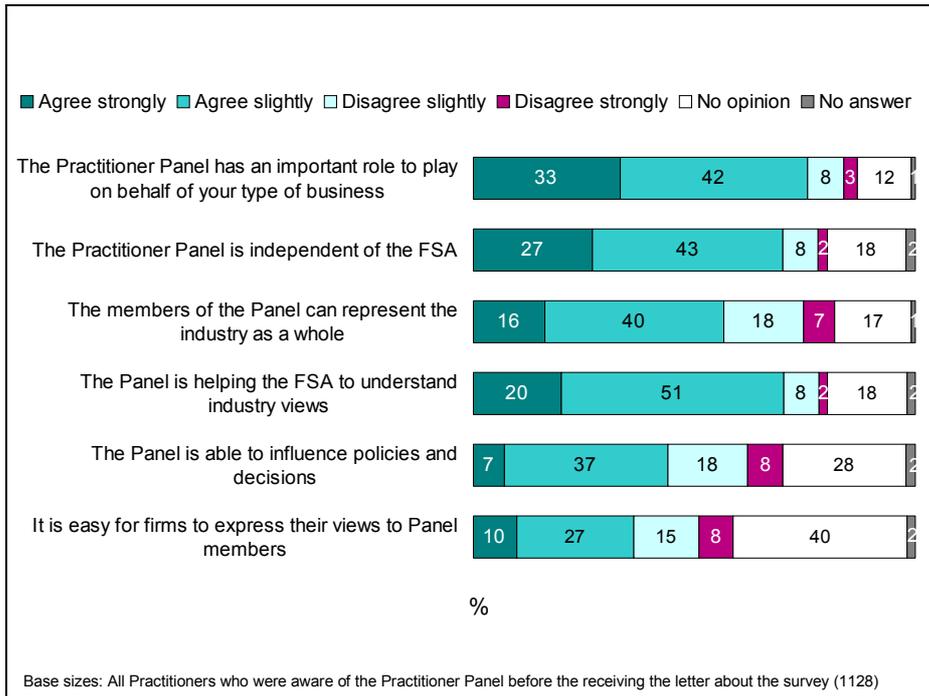
Chart A1: Awareness of the Financial Services Practitioner Panel before the survey



Awareness of the Financial Services Practitioner Panel had increased since 2002. In the 2004 survey 39% of smaller organisations and 54% of larger organisations said that they had seen or heard about the Practitioner Panel before the survey. This compared with 27% of smaller organisations and 35% of larger organisations in 2002.

As in the 2002 survey, those aware of the Panel were asked whether they agreed or disagreed with six statements about the role of the Panel. Opinions on the role of the Financial Services Practitioner Panel in 2004 were similar to those in the previous survey.

Chart A2: Opinions on the role of the Financial Services Practitioner Panel



Three in four practitioners agreed that the Panel 'has an important role to play on behalf of your type of business', with a third agreeing strongly. Major groups and smaller retail firms had even higher levels of agreement (four in five). Slightly lower levels of agreement were found among wholesale firms, with two thirds of larger and 60% of smaller wholesale firms agreeing that the Practitioner Panel had an important role to play on behalf of their business.

Seven in ten practitioners believed that 'the Practitioner Panel is independent of the FSA' with just over a quarter agreeing strongly. Agreement did not vary greatly across type or size of firm, but agreement was higher among major groups (91%).

Over half (57%) of practitioners agreed that 'the members of the Panel can represent the industry as a whole', however a quarter disagreed. Levels of agreement were slightly lower among wholesale firms, particularly larger wholesale firms (45%). Wholesale firms were also less likely to give an opinion than retail firms (23% of wholesale firms gave 'no opinion' compared with 15% of retail firms).

Around 70% of all practitioners agreed that 'the Panel is helping the FSA to understand industry views' with 20% agreeing strongly. The level of agreement was higher among major groups (88%) and larger wholesale firms (75%).

Of all practitioners 44% agreed (55% among major groups) and 26% disagreed that 'the Panel is able to influence policies and decisions'. Although only slightly less likely to agree, retail firms were more likely to disagree (28%) than wholesale firms (19%). Almost three in ten practitioners were unable to give an opinion.

Only 36% of firms agreed that 'it is easy for firms to express their views to Panel members'. Levels of agreement were slightly higher for major groups (42%) and smaller retail firms (39%). A large proportion of practitioners (two in five) gave 'no opinion'; this may be because they have never tried to express their views to the panel. Levels of 'no opinion' were particularly high among smaller wholesale firms (49%).

Appendix 2

Survey Questionnaire

THE FINANCIAL SERVICES PRACTITIONER PANEL

THIRD SURVEY OF THE FSA'S REGULATORY PERFORMANCE

Who should complete the questionnaire?

The questionnaire should be completed by the most senior person (Chief Executive or equivalent) in your firm or group.

Sections one to eight cover broader aspects of both your firm's relationship with the FSA and regulation of the financial services industry in general. These sections should be answered by the most senior person as should sections 13 and 14.

Sections nine to twelve focus on your firm's working relationship with the FSA. If there is another senior person within your firm who is responsible for these aspects, the questionnaire may be passed on so that they can complete the relevant sections.

If a question or section is not relevant to your firm, but you have a personal opinion please complete the question or section.

How to complete the questionnaire

For each question, please put a cross in the box next to the answer which comes closest to your view about that issue. For some questions you may be able to cross more than one box or may need to write in your answer. We estimate the questionnaire should take about 30 minutes to complete.

If you feel you do not have the experience to answer any question or section please leave blank or put a cross in 'no opinion' as appropriate. Partially completed questionnaires are still important for us to have.

Confidentiality

Your individual responses to the survey will be totally confidential. No questionnaire will be returned to the Practitioner Panel or the FSA. In reporting the survey answers, NOP World will always group responses together to ensure that no individual's or firm's answers can be identified.

Survey results

The survey plays a valuable part in the Practitioner Panel's policy discussions with the FSA. A summary of the results will be given in the Panel's Annual Report, which is due to be published in the first quarter of next year. A copy of the Annual Report will be sent to all regulated firms.

Returning your questionnaire

Please return your completed questionnaire to NOP Financial in the pre-paid envelope provided **in the next two weeks** if possible and at the latest so that it arrives at NOP Financial no later than **11th August 2004**.

Questions

If you have any questions about the survey please call Richard Gaze on 020 7890 9182 or Lucy Cobby on 020 7890 9327 at NOP Financial.

1. YOUR OVERALL SATISFACTION WITH THE FSA

Q1 Taking into account all your business' dealings with the FSA, how satisfied are you with the relationship?

PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>										

Q2 In the last two years would you say your business relationship with the FSA has...

PUT A CROSS IN ONE BOX ONLY

Improved

Stayed the same

Deteriorated

Don't know

2. FSA's PERFORMANCE AGAINST ITS MAIN OBJECTIVES

Q3 Please give a rating from 1 to 10, where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good*. If you really cannot give an opinion on a particular aspect, just leave that line blank.

PUT A CROSS IN ONE BOX FOR EACH LINE

	Extremely poor						Outstandingly good			
	1	2	3	4	5	6	7	8	9	10
Maintaining confidence in the UK financial system	<input type="checkbox"/>									
Promoting public understanding of the financial system	<input type="checkbox"/>									
Securing the right degree of protection for consumers	<input type="checkbox"/>									
Helping to reduce financial crime	<input type="checkbox"/>									

3. GENERAL ATTITUDES TOWARDS REGULATION

Q4 How much do you agree or disagree that...
PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Strong regulation is for the benefit of the financial services industry as a whole.	<input type="checkbox"/>				
The current regulatory system places too great a burden on financial services firms.	<input type="checkbox"/>				
The FSA focuses on consumer protection to the detriment of its other objectives.	<input type="checkbox"/>				
The FSA exercises the principle of fairness in its dealings with the financial services industry.	<input type="checkbox"/>				
The level of regulation on the industry is detrimental to consumers' interests	<input type="checkbox"/>				
The FSA has delivered in the way that the industry hoped it would	<input type="checkbox"/>				
The working practices of the FSA do not hinder the development of new financial products and services	<input type="checkbox"/>				

4. OVERALL EFFECTIVENESS OF FSA

Q5 Please give a rating from 1 to 10, where 1 means you think the FSA's performance has been *extremely poor* and 10 means you think their performance has been *outstandingly good*.
If you really cannot give an opinion on a particular aspect, just leave that line blank.
PUT A CROSS IN ONE BOX FOR EACH LINE

	Extremely poor					Outstandingly good				
	1	2	3	4	5	6	7	8	9	10
Listening to industry views when deciding policies and procedures	<input type="checkbox"/>									
Distinguishing sufficiently in its policies between the regulation of wholesale and retail businesses	<input type="checkbox"/>									
Looking at the behaviour of the business as a whole, rather than focussing on small details	<input type="checkbox"/>									

	Extremely poor					Outstandingly good				
	1	2	3	4	5	6	7	8	9	10
Being efficient and economic in use of its resources	<input type="checkbox"/>									
Putting in place effective operational systems	<input type="checkbox"/>									
Fostering a sense of partnership with the financial services industry	<input type="checkbox"/>									
Knowing and understanding your firm and its situation	<input type="checkbox"/>									
Facilitates innovation and competitiveness within the UK	<input type="checkbox"/>									
Places responsibilities on firms' senior management which are clear and reasonable	<input type="checkbox"/>									
Giving praise as well as criticism	<input type="checkbox"/>									
Encouraging the education of the public about financial products and services	<input type="checkbox"/>									

Q6 The senior management of the FSA have recently made changes regarding the organisational structure, including where it has split its regulatory activity between wholesale and retail business. To what extent do you agree or disagree with the following?
 PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The emphasis of the FSA in moving from developing policy to implementation is welcomed	<input type="checkbox"/>				
The new organisational structure will make it easier for firms to deal with the FSA	<input type="checkbox"/>				
The changes will make a positive difference to my business	<input type="checkbox"/>				

Q7 Regarding smaller firms, to what extent do you agree or disagree that the FSA...?
 PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Shows understanding of smaller firms in the development of regulatory policy and operation	<input type="checkbox"/>				
Recognises the impact of regulation on smaller firms and seeks to appropriately accommodate them	<input type="checkbox"/>				

5. OVERALL PRIORITIES

Q8 What do you see as the most important specific issues for the FSA to address as the regulator for the financial services industry?

6. COSTS AND EFFICIENCY

Q9 Given the size and nature of your business and its level of risk, how do you feel about the total current costs of compliance for your business (taking both fees and internal & external costs into account)?

PUT A CROSS IN ONE BOX ONLY

- They are excessive
- They are high, but not excessive
- They are reasonable
- Don't know

Q10 What would you estimate are the total internal and external identifiable current costs of compliance for your business as a percentage of total costs?

PUT A CROSS IN ONE BOX ONLY

- Less than 2%
- 2% - less than 5%
- 5% - less than 10%
- 10% - less than 15%
- 15% or more
- Don't know

Q11 How much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The overall costs of compliance will continue to rise for the foreseeable future	<input type="checkbox"/>				
The costs of compliance are harmful to ...					
(a) My business	<input type="checkbox"/>				
(b) Innovation in the industry	<input type="checkbox"/>				

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
(c) The international competitiveness of the UK financial services industry	<input type="checkbox"/>				

The costs of compliance have resulted in...

(a) Reducing the types of business we conduct	<input type="checkbox"/>				
(b) Selling some parts of the business	<input type="checkbox"/>				
FSA regulation places my business at a disadvantage compared to our competitors based abroad, when competing for international business	<input type="checkbox"/>				

7. WIDER ENVIRONMENT

Q12 How much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
There are too many regulatory reviews being undertaken of financial services	<input type="checkbox"/>				
By its case decisions the Financial Ombudsman Service is assuming a policy setting role that is the responsibility of the FSA	<input type="checkbox"/>				

Q13 And thinking of European and international issues, how much do you agree or disagree that the FSA...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Has consulted well on EU issues arising from its role within the Committee of European Securities Regulators - CESR	<input type="checkbox"/>				
Will implement European Directives in a proportionate way	<input type="checkbox"/>				
Has improved the UK's international competitiveness position in relation to:-					
cross border issues	<input type="checkbox"/>				
domestic issues	<input type="checkbox"/>				

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Has improved the UK's international ability to innovate in financial services	<input type="checkbox"/>				
Has proportionately prioritised international issues	<input type="checkbox"/>				
Has co-ordinated well its activities with regulators in:					
(a) Pan EU institutions	<input type="checkbox"/>				
(b) Individual EU jurisdictions	<input type="checkbox"/>				
(c) The United States	<input type="checkbox"/>				
(d) The rest of the World	<input type="checkbox"/>				

Q14 And as far as your business is concerned, how much do you agree or disagree that...
 PUT A CROSS IN ONE BOX ONLY

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
EU and international issues are a top priority, looking forward	<input type="checkbox"/>				
UK regulations and EU standards are too different to be satisfied by a single EU requirement	<input type="checkbox"/>				
The FSA leads developments in international regulation as opposed to responding to them	<input type="checkbox"/>				
The FSA brings European directives into UK regulation faster than other European regulators	<input type="checkbox"/>				
The FSA brings European directives into UK regulation in more detail than other European regulators	<input type="checkbox"/>				

8. CONSULTATION PROCEDURES

Q15 Overall how would you rate the effectiveness of the FSA's consultation process?
 PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>										

Q16 How much do you agree or disagree that...
 PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
FSA consultation papers should be more concise.	<input type="checkbox"/>				
There has been sufficient feedback of the results of consultation exercises	<input type="checkbox"/>				
Your business does not have sufficient time to respond to FSA consultation papers	<input type="checkbox"/>				
The basis for policy decisions following consultations are generally reasonable	<input type="checkbox"/>				
The FSA is committed to reducing the volume of consultation papers	<input type="checkbox"/>				
Cost benefit analyses within consultation papers have been carried out robustly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	+ <input type="checkbox"/>

Q17 How would you prefer to communicate your business's views to the FSA?
 YOU MAY PUT A CROSS IN MORE THAN ONE BOX

- Directly to the FSA
- Via open meeting or industry conference
- Via trade association / representative body
- Via consultants or legal advisors
- Via surveys such as this
- Other
- Don't know

9. DEALING WITH THE FSA

Q18 Overall, how would you rate the ease of dealing with the FSA?
 PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>										

Q19 Regarding general administration, to what extent do you agree or disagree that the FSA...
 PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Operates straightforward and efficient processes for dealing with authorisation and approval issues	<input type="checkbox"/>				
Handles waiver requests and other administrative functions satisfactorily	<input type="checkbox"/>				
Has the necessary IT capabilities for delivering effective regulation	<input type="checkbox"/>				

Q20 Has your business experienced an occasion where it considered that maladministration by the FSA provided a valid basis for making a formal complaint (whether or not any such complaint was actually made)?
 PUT A CROSS IN ONE BOX ONLY

- Yes - and your business made a complaint
- Yes - but your business did **not** make a complaint
- No
- Don't know

Q21 How much face-to-face or telephone contact have you or your senior colleagues had with...
 PUT A CROSS IN ONE BOX FOR EACH LINE

	A great deal	A fair amount	A little	None at all
Frontline FSA staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FSA policy makers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q22 Does your business have a Designated Relationship Manager at the FSA?

- Yes GO TO Q23 AND THEN TO Q24
-
- No
- Don't know GO STRAIGHT TO Q24

Q23 How satisfied are you with the service provided by your Designated Relationship Manager?
PUT A CROSS IN ONE BOX ONLY

- Very satisfied
- Fairly Satisfied
- Neither Satisfied nor dissatisfied
- Not very satisfied
- Not at all satisfied
- No opinion
- Don't know

Q24 Has your business had dealings with the FSA's Firm Contact Centre?

- Yes GO TO Q25
-
- No
- Don't know GO TO Q26

Q25 How satisfied are you with the service provided by the Firm Contact Centre?
PUT A CROSS IN ONE BOX ONLY

- Very satisfied
- Fairly Satisfied
- Neither Satisfied nor dissatisfied
- Not very satisfied
- Not at all satisfied
- No opinion
- Don't know

10. PROVISION OF GUIDANCE

Q26 Have you had any experience of seeking guidance on rules or regulatory policy from the FSA?

- Yes GO TO Q27
- No GO TO Q32

Q27 Overall, how would you rate the helpfulness of the FSA's guidance?
PUT A CROSS IN ONE BOX ONLY

- | | | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------|
| Extremely poor | | | | | | | | | | Extremely good |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| <input type="checkbox"/> | |

Q28 Have you sought guidance mainly from...
PUT A CROSS IN ONE BOX ONLY

- Designated Relationship Manager
- Firm Contact Centre

Q29 When approaching the FSA for guidance, how much do you agree or disagree that...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The FSA's emphasis is on preventing problems arising rather than enforcement	<input type="checkbox"/>				
It is possible to be open and frank in discussions with the FSA	<input type="checkbox"/>				
The FSA is open and frank in discussions with us	<input type="checkbox"/>				
It is difficult to work through things informally with the FSA without involving legal people	<input type="checkbox"/>				
FSA staff generally give definitive guidance promptly	<input type="checkbox"/>				
FSA staff avoid making decisions altogether	<input type="checkbox"/>				
FSA staff have sufficient knowledge to understand my business	<input type="checkbox"/>				
Staff have the authority to answer my questions	<input type="checkbox"/>				
There is consistency of guidance from different members of staff	<input type="checkbox"/>				
There is co-ordination of response and action by the FSA across departments and teams	<input type="checkbox"/>				

Q30 In your experience is the guidance provided by the FSA...

PUT A CROSS IN ONE BOX ONLY

- Always clear
- Sometimes unclear
- Often unclear
- No guidance provided

Q31 And in your experience, is the guidance provided by the FSA...

PUT A CROSS IN ONE BOX ONLY

- Always consistent
- Sometimes inconsistent
- Often inconsistent
- No guidance provided

**Q32 Thinking about the FSA Handbook of rules and guidance, how much do you agree or disagree...
PUT A CROSS IN ONE BOX FOR EACH LINE**

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The level of detail in the Handbook is about right	<input type="checkbox"/>				
It is difficult to find the rules and guidance that you need in the Handbook	<input type="checkbox"/>				
The Handbook is clear and easy to understand	<input type="checkbox"/>				
The Guides to the Handbook have been useful	<input type="checkbox"/>				
The ease of use of the Handbook has improved over the last year	<input type="checkbox"/>				

11. SUPERVISION AND INVESTIGATION

**Q33 Overall, how satisfied are you with the FSA's supervision of your business?
PUT A CROSS IN ONE BOX ONLY**

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>										

**Q34 In applying the rules for the Conduct of Business Standards, how would you describe the FSA?
PUT A CROSS IN ONE BOX ONLY**

- Highly flexible
- Fairly flexible
- About right
- Fairly rigid
- Highly rigid
- No experience
- Don't know

**Q35 In applying the rules for Prudential Standards, how would you describe the FSA?
PUT A CROSS IN ONE BOX ONLY**

- Highly flexible
- Fairly flexible
- About right
- Fairly rigid
- Highly rigid
- No experience
- Don't know

Q36 How much do you agree or disagree that, in supervising your business, the FSA...

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Asks for too much detailed information about your business	<input type="checkbox"/>				
Has a good understanding of your business	<input type="checkbox"/>				
Applies a reasonable level of supervision for a business of your size and type	<input type="checkbox"/>				
Tends to look at processes rather than outcomes	<input type="checkbox"/>				
Is adversarial in approach	<input type="checkbox"/>				
Is willing to hold a dialogue with you about compliance issues	<input type="checkbox"/>				
Is willing to discuss the findings of any investigation of your business	<input type="checkbox"/>				
Rarely gives you the opportunity to put the findings of any investigation into context	<input type="checkbox"/>				

Q37 When did your business have its last supervisory or investigatory visit by the FSA?

PUT A CROSS IN ONE BOX ONLY

- Less than a year ago
- At least a year but less than 2 years ago
- At least 2 years ago
- Never
- Don't know

Q38 What is your firm's primary supervision or regulatory arrangement with the FSA?

PUT A CROSS IN ONE BOX ONLY

- Designated Relationship Manager
- Firm Contact Centre

Q39 In terms of supervision, what is the main way in which your firm deals with the FSA on a day-to-day basis?

PUT A CROSS IN ONE BOX ONLY

- Designated Relationship Manager
- Firm Contact Centre

Q40 When considering the FSA staff who handle your supervision, how much do you agree or disagree with each of the following?

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Their approach varies depending on the individual	<input type="checkbox"/>				
They have good interpersonal skills	<input type="checkbox"/>				
They make site visits too frequently	<input type="checkbox"/>				
They concentrate on broad issues of principle	<input type="checkbox"/>				
They don't really take into account the level of risk arising from your business	<input type="checkbox"/>				
They treat your staff as trustworthy	<input type="checkbox"/>				
It is difficult to give feedback to the FSA on their supervisory staff	<input type="checkbox"/>				
They understand the technicalities of your business	<input type="checkbox"/>				
They try to take account of the commercial realities of your business	<input type="checkbox"/>				
The FSA makes good use of the information we provide to inform its dealings with us	<input type="checkbox"/>				

12. ENFORCEMENT

Q41 Based on your experience, or what you have seen or heard, how satisfied are you with the way the FSA handles enforcement?

PUT A CROSS IN ONE BOX ONLY

Extremely dissatisfied										Extremely satisfied
1	2	3	4	5	6	7	8	9	10	
<input type="checkbox"/>										

Q42 How much do you agree or disagree that FSA's enforcement procedure....

PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Is being implemented in a fair and appropriate manner	<input type="checkbox"/>				
Is being implemented in a way that is beneficial to the industry	<input type="checkbox"/>				
Is being implemented in a way that serves to better protect the consumer	<input type="checkbox"/>				
Treats businesses unfairly	<input type="checkbox"/>				

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
Imposes unreasonable penalties	<input type="checkbox"/>				
Makes clear the rationale for the penalty	<input type="checkbox"/>				
Completes investigations and the enforcement process within a reasonable timescale	<input type="checkbox"/>				

13. THE FINANCIAL SERVICES PRACTITIONER PANEL

Q43 Had you seen or heard anything about the Practitioner Panel before you received the letter about this survey?

Yes GO TO Q44

No GO TO Q45

Q44 How much do you agree or disagree that...
PUT A CROSS IN ONE BOX FOR EACH LINE

	Agree strongly	Agree slightly	Disagree slightly	Disagree strongly	No opinion
The Practitioner Panel has an important role to play on behalf of your type of business	<input type="checkbox"/>				
The Practitioner Panel is independent of the FSA	<input type="checkbox"/>				
The members of the Panel can represent the industry as a whole	<input type="checkbox"/>				
The Panel is helping the FSA to understand industry views	<input type="checkbox"/>				
The Panel is able to influence FSA policies and decisions	<input type="checkbox"/>				
It is easy for firms to express their views to Panel members	<input type="checkbox"/>				

14. ABOUT YOUR BUSINESS

Q45 Is your business owned by a parent company?

Yes

No

Q46 How many full time staff (or equivalents) are employed by your business in the UK?
PUT A CROSS IN ONE BOX ONLY

0-9

10-19

20-49

50-99

100-499

500-999

1000 or more

Q47 And which description best describes your business?
PUT A CROSS IN ONE BOX ONLY

- Retail/Personal bank
- Corporate/investment bank
- Insurance - General
- Insurance - Life/Pensions
- Investment management
- Securities and derivatives business
- Complex group - no main area
- Building society
- Friendly society
- Independent financial adviser
- Lloyd's of London
- Legal firm
- Accountancy firm
- Other professional firm
- Other

Q48 This questionnaire may have been completed by one or more individuals. Under which of the following roles has this questionnaire been completed?
PUT A CROSS IN EVERY BOX WHICH APPLIES

- Chief Executive/MD
- Group/Head of Compliance (responsible for 2 or more regulated areas or authorised activities)
- Senior/Principal Compliance officer (responsible for single area or regulated activities)
- Partner/Principal in firm
- Financial Director
- Other

Q49 How would you describe the type of business you conduct?
PUT A CROSS IN ONE BOX ONLY

- All retail
- Mainly retail
- Part retail, part wholesale
- Mainly wholesale
- All wholesale

Q50 And where are your customers located?
PUT A CROSS IN ONE BOX ONLY

- Only in the UK
Partly in the UK, partly overseas
Only overseas

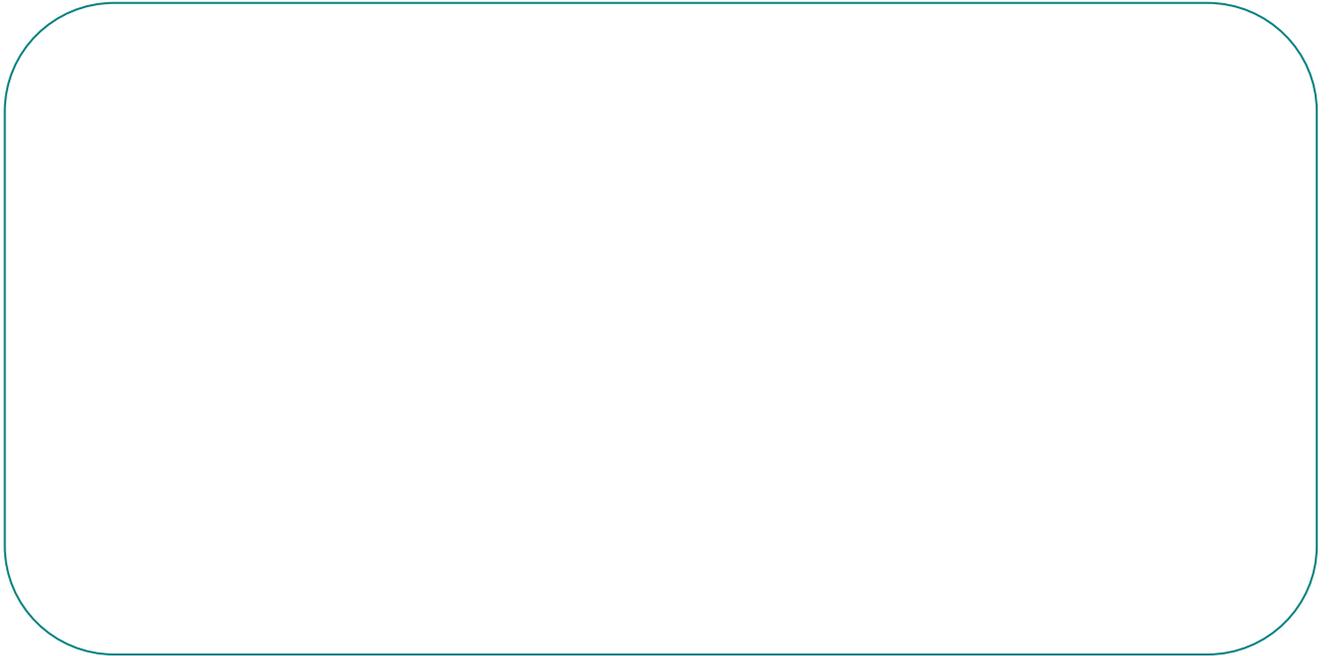
Q51 In which country is your Prudential Regulator sited?
PUT A CROSS IN ONE BOX ONLY

- UK
France
Germany
Italy
Spain
Netherlands
Luxembourg
OTHER (PLEASE WRITE IN)

Q52 When did your business last receive a monitoring visit from the FSA?
PUT A CROSS IN ONE BOX ONLY

- Less than six months ago
More than 6 months, but less than 1 year ago
More than 1 year, up to 2 years
More than 2 years, up to 3 years
More than 3 years ago
Don't know

Q53 If you have any further comments regarding this survey, please write them in the box below



**THANK YOU FOR TAKING THE TIME TO COMPLETE THE QUESTIONNAIRE.
PLEASE RETURN IT TO NOP WORLD IN THE REPLY-PAID ENVELOPE PROVIDED**

Appendix 3

Methodology

Qualitative Study

Outline and role

A programme of 36 exploratory in-depth interviews and two mini-group discussions were conducted with Chief Executive Officers and Heads of Compliance functions representing a range of different firm types and sizes. These interviews were conducted in order to meet the objectives set for the qualitative phase of the research, being:

- To take an initial view from the industry on current issues and performance
- To check the relevance of issues current at the time of the 2002 study, and furthermore to assess the likely importance of 'hot topics' identified by the Practitioners Panel working party
- Overall, to gain an early indication of major themes

The prime role of the qualitative phase was to assist in the development of the quantitative questionnaire, optimising the degree to which the research captured the issues that were of importance to the sector. Additionally the qualitative research would enhance the understanding that we could bring to bear on the results overall.

Qualitative method and sample

In order to develop the approach and discussion for the qualitative study, a short programme of internal interviews were also conducted. Three members of the Panel were interviewed and three interviews conducted with senior FSA management in this early stage.

In-depth interviews allowed us to understand the specifics that each respondent brought to their view on FSA performance;

- The business context and challenges that framed their interaction with the FSA
- The history of their firm's interaction, being the detail of what had happened, how it had affected the business etc.
- The view they took on regulation in principle and how this practically impacted on their business

Individual interviews were also appropriate in terms of capturing the views of busy senior personnel and allowed them to speak in detail and in confidence.

Two sessions were also convened with practitioners representing smaller firms. In these sessions we brought together discussion groups to ensure that the small firm voice was reflected in the research. This also gave us the opportunity to compare the experiences and views of practitioners from small firms – by hearing the views of other respondents and discussing these in open forum. The mini-group sessions were convened in London and Birmingham with practitioners representing IFA and Accountancy firms.

All practitioners included in the qualitative study represented either a CEO function or a Head of Compliance function – given that some in some sectors these titles do not directly apply but the responsibilities are intrinsic to firm operation. We wanted to include the perspectives from both senior management and senior compliance responsibilities, though there was considerable cross-over between these two roles, especially in smaller firms.

The sample was derived from the FSA TARDIS database (the listing of all regulated firms) and respondents were screened to ensure their responsibilities enabled them to comment on FSA performance.

Table A1: The sample breakdown for the depth interviews

Firm Type	Interview total
A. IFA firms	5
B. Investment Management firms	3
C. Accountants	3
D. Law Society	2

E. Law Society Scotland	2
F. Lloyds Market	2
G. Major Financial Groups Division	3
H. Securities and Derivatives Management	3
I. Building Societies	2
J. Friendly Societies	3
K. Insurance Companies	3
L. Banks (including Credit Unions)	5 (3 Banks, 2 Credit Unions)
Total	36 depth interviews

The depth interviews and mini-groups were conducted from March through to May 2004. The qualitative fieldwork was conducted by senior personnel from NOP Financial. All research sessions were audio recorded (unless notes were taken on the basis of respondent preference/appropriateness) and analysed for reporting to the Panel.

Questionnaire design and piloting

In previous years larger organisations (with 20 or more approved individuals) were sent two versions of the questionnaire, one for completion by the Chief Executive (CEO) and one to be completed by the Head of Compliance (HOC). Smaller organisations received one questionnaire only. For the 2004 survey the Panel wished to change this approach and a single questionnaire was sent to all organisations. The reason for the change was that when apparent non-response was investigated it was found that the CEO and HOC had collaborated to return one questionnaire.

Findings from the qualitative phase of the research were used to identify key areas to be included in the quantitative questionnaire. This research, along with guidance from a sub-group of the Panel, was used to develop the 2002 questionnaire for the 2004 survey. A draft version of the questionnaire was then piloted. Questionnaires were sent out to representatives from larger organisations (recruited from the qualitative phase of the research) and to a selection of Small Business Practitioner Panel members (SBPP). In-depth telephone interviews were carried out during May and June with six pilot participants (four with members of the SBPP and two with representatives from larger organisations). Findings from the pilot were used to identify areas where the questionnaire required changes or improvements. The questionnaire was then revised and the final version agreed by the sub-group of the Panel.

Sampling frame

As with the 2002 survey, a comprehensive listing of all regulated firms, known as TARDIS, was available, from within the FSA, for the 2004 survey. The names and addresses of firms were taken from this database. There was some duplication of firms, particularly where firms had more than one area of operation. De-duplication was undertaken by the FSA prior to the database being sent to NOP Financial. NOP Financial then undertook further de-duplication and formatting of the database. All non-UK firms, along with those without a contact address or any approved individuals, were removed from the database.

The FSA also supplied NOP Financial with a separate list of all MFG (Major Financial Groups) and their main contacts. The correct contact for each MFG was identified and flagged in the database as a Major Group; all other contacts for that group were removed from the database. For other non-major groups one firm was selected from each group and all other firms in that group were removed. In this process banks were

selected over life insurers and life insurers were selected over insurance companies. The net result was a single database with one identifiable contact for 8,670 firms.

Survey sample

The full database of 8,670 firms was sorted on the basis of primary reporting type and then used to draw the sample.

With the exception of IFA firms with less than 20 approved individuals, the total universe size for each primary reporting type was relatively small and so a census was taken. For smaller IFA firms where numbers were large only a sample was needed to ensure that the views of the total were represented. Separate stratified random samples (one in three) of IFA firms with less than 10 and between 10 and 19 approved individuals were taken. The under-representation of these firms in the sample was corrected by weighting at the analysis stage. Similar sampling procedures for smaller IFA firms were applied in 2002 and 1999. In 2002 only a sample of those with less than 10 approved individuals was taken and in 1999 sampling was done on the basis of the number of employees in each firm rather than the number of approved individuals.

The questionnaire was sent to a total of 6,630 firms. Correspondence was addressed to the named contact taken from the FSA database. Where this information was not available 'Senior Partner/Chief Executive' was used.

Profile of achieved sample

The survey results in this report are based on an achieved sample of 3,117 firms.

Table TA1 shows the composition of the achieved sample by primary reporting type, as identified by TARDIS.

In the report small organisations are defined as having less than 20 approved individuals and large firms are defined as having 20 or more approved individuals. Wholesale and retail firms are defined using information on TARDIS supplied by the FSA.

Table A2: Composition of achieved sample by primary reporting type

Primary Reporting type	<i>All</i>	<i>Smaller organisations < 20 approved ind.</i>	<i>Larger organisations 20+ approved ind.</i>
Unweighted base	3117	2387	730
Weighted base	3117	2593	524
	%	%	%
Advising and arranging intermediary	3	3	4
Advising only intermediary	1	1	*
Authorised professional firm	9	11	2
Bank (other than wholesale only)	3	2	7
Building Society	1	1	1
Corporate finance firm	4	4	4
Credit Union	7	6	12
Discretionary investment manager	10	9	16
General insurer	3	4	2
IFA	44	49	22
Life insurer	2	2	4
Lloyds managing agent	1	1	*
Stock broker	1	*	6
Venture capital firm	2	1	2
Wholesale market broker	1	*	3
Other	3	2	8

Not stated	5	5	5
Total	100	100	100

* less than 0.5%

Fieldwork procedures

During late June, sample members were sent advance notification of the survey from the Chairman of the Practitioner Panel. Questionnaires were sent out one week later on 30th June. The questionnaires were sent with a covering letter from NOP Financial containing information on how to complete the survey along with a web address for those that preferred to complete the survey online. A reminder letter was sent two weeks later to all sample members that had not returned by post or completed their questionnaire online. Those who informed NOP Financial that they did not wish to take part in the survey, that their questionnaire was a duplicate or that their firm had ceased trading, were also excluded from this mail out. A second reminder, which included a second copy of the questionnaire for completion, in case the original had been mislaid, was mailed out by the FSA on 6th August. Practitioners received one of three versions of the reminder letter, dependent on their business unit. At the same time a letter was sent from Jonathan Bloomer to the Head of Compliance of all non-responding firms informing them that their CEO had been sent the second copy of the questionnaire.

Between 30th August and 6th September NOP Financial telephoned firms that had still to return their questionnaire. Firms were asked to take part in a shortened version of the questionnaire containing key questions from the full survey. 500 interviews were completed over the telephone but this number was reduced to 491 due to nine of the firms also completing the postal or online version of the questionnaire during the telephone fieldwork period.

Completed questionnaires were accepted up until 6th September 2004.

At all times, confidentiality of actual responses was maintained. Panel members or FSA staff were not privy to completed individual questionnaires.

Response Rate

The overall response rate for the survey (including telephone completes) was 48%. This compares to 50% of firms and 42% of all questionnaires mailed out in 2002 and 58% in 1999. The response rate was calculated by taking the number of completed surveys and dividing by the effective sample size (number of questionnaires mailed out minus 123 firms that had ceased trading or moved address).

Response rates differed by type of business, primary reporting type and by size of firm. Table TA3 shows the response rate by size and type of firm. Table TA4 shows response rate by primary reporting type.

Table A3: Response rate by type and size of firm

Type of firm	<i>Response rate %</i>
Major Groups	62
Larger wholesale (20+ approved ind.)	54
Smaller wholesale (<20 approved ind.)	47
Larger retail (20+ approved ind.)	50
Smaller retail (<20 approved ind.)	45

Table A4: Response rate by primary reporting type

Primary reporting type	<i>No. of firms in sample</i>	<i>Response rate</i>
Advising and Arranging Intermediary	308	54%
Advising only Intermediary	60	53%
Alternative Trading System Operator	18	28%
Arranging only Intermediary	38	47%

Authorised Professional Firm	863	42%
Bank (other than Wholesale only)	246	64%
Building Society	63	73%
CIS Administrator	8	63%
CIS Trustee	6	83%
Clearer/Settlement Agent	12	58%
Composite Insurer	23	61%
Corporate Finance Firm	370	47%
Credit Union	605	31%
Custodial Service Provider	8	63%
Discretionary Investment Manager	923	48%
E-money Issuer (non-bank)	3	67%
Energy (including Oil) Market Participant	40	38%
General Insurer	315	39%
Independent Financial Advisor	833	51%
Life Insurer	221	40%
Lloyd's Managing Agent	69	43%
Lloyd's Member Agent	14	14%
Market Maker	38	55%
Media Firm	4	75%
Mortgage Lender	2	0%
Non-discretionary Investment Manager	11	55%

Own Account Trader	33	33%
Service Company	12	8%
Stockbroker	112	57%
Venture Capital Firm	139	50%
Wholesale Market Broker	50	46%
Wholesale only Bank	17	76%

Reasons for non-response

During telephone fieldwork reasons for non-response were collected from those that refused to take part in the survey over the telephone (192). The reasons for refusal for those that actively refused during the postal stage were also recorded (62).

The reasons for non-response are shown in table TA2.

Table A5: Reasons for non-response

Reasons for non-response	%
Too busy	31
Too little exposure to the FSA	18
Company policy - no surveys	12
No longer regulated by the FSA	6
Do not personally believe in surveys	4
Not available during fieldwork	4
No reason given	19

Weighting

To ensure that the sample was as representative as possible of the universe the data were weighted to the profile of TARDIS (after duplicates had been removed).

Statistical Techniques

NOP Financial used two main statistical techniques in their analysis of the data, Factor Analysis and Ridge Regression. These techniques are described below.

- **Factor Analysis**

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction, by identifying a small number of factors which explain most of the information observed in a much larger number of manifest variables. By examining the correlation among the questions, we may reveal a significant overlap among various subgroups of items e.g. questions about ISA's tend to correlate with each other, questions about financial advisors may correlate with each other, and so on. These correlated questions will group together to form factors. These factors are essentially the underlying or latent dimensions that often exist in a battery of, say, attitudinal questions.

Factor scores for each individual can then be generated as an input to regression modelling. The benefit of using factor scores in regression modelling is that when they are computed, they are orthogonal, i.e. they are completely uncorrelated so the regression does not suffer from multi-collinearity. If correlated variables are used in a regression model, a technique known as Ridge Regression is used.

- **Ridge Regression**

In market research regression analysis is often used to work out how much influence different service attributes have on overall satisfaction. If the service attributes we measure are in some way correlated (for example as one improves another one is also likely to improve) ordinary regression cannot deal with this and tends to give most of the influence to just one of the attributes. Ridge regression is a special type of analysis used to overcome this problem (often called collinearity). Unlike ordinary regression, ridge regression shares the communal influence between the service attributes and a less biased picture is presented.

