FCA Response to the House of Lords Financial Services Regulation Committee Report: FCA and PRA's secondary competitiveness and growth objective

We thank the Committee for its report and continued engagement on our contribution to the UK's growth mission.

The UK is the second biggest financial services centre in the world, and we routinely rank highly in measures of regulatory favourability. The FCA is recognised globally as a leader in supporting innovation in financial services. Our innovation services have been in place for a decade, doing their part to retain the UK's place as the number one European destination for fintech investment, while being replicated across the globe.

There is, however, no room for complacency. We are focused on building on this reputation, using our secondary objective to advance measures which will help the sector harness growth.

We are pleased that we have work underway, or already completed, that addresses most of the Committee's recommendations, much of which we outlined in our recent second report on the secondary objective or announced as part of the Leeds reforms:[1]

- We continue to reduce authorisation times as evidenced by the new voluntary stretch targets we announced alongside those proposed by Government.
- A new 'concierge service' will be operational by October 2025 to promote our authorisation and innovation services and support international investment in the UK. In addition, we have established a presence in the US and Asia-Pacific.
- We are working with Government on a baseline for assessing administrative costs as part of reducing the administrative burden by 25%. We have already reduced data collections and will continue to do so.
- We will finalise our new rules for targeted support under the advice guidance boundary by the end of 2025.
- We are removing duplicative rules to rely on the Consumer Duty, already moving to simplify rules around mortgage lending and insurance. We will give an update on further planned work on concerns raised by wholesale firms in September 2025.
- Together with the FOS and HMT, we are modernising the redress system to ensure a consistent interpretation of our rules and requirements and have published a consultation as part of this.

[1] https://www.fca.org.uk/publication/corporate/sicgo-report-2024-25.pdf

- Our new strategy sets out plans to reform our supervisory model. To ensure we have the technical knowledge we need, we are recruiting from across the economy, as well as training our staff and using secondments.
- We are supporting new firms to start up and grow through our pioneering sandboxes and other authorisation and innovation services, including a new Scale-up unit which will complement existing support for firms that are regulated or new to regulation. We are working on a regime that will allow firms to conduct limited regulated activities with streamlined conditions.

We fully recognise that regulation has an important part to play in the competitiveness and growth of the UK. To achieve both requires system-wide coherence - public and private sector in partnership - an open discussion about systemwide risk appetite (including metrics), particularly with the Government and Parliament, and a willingness on the part of industry and consumers to take properly informed risks as the regulatory environment evolves. For the UK to remain a top destination for financial services businesses, our work needs to broadly align with the Government's new Financial Services Industrial Strategy and build on the commitments we made to the Prime Minister in January. We are committed to playing our part.

We address the Committee's recommendations below and will report within 12 months on progress.

<u>**Facilitating innovation and operational efficiency**</u>

The FCA and PRA must work to reduce authorisation timelines. This should be accompanied by a renewed cultural focus on consistent improvement of operational efficiency across all levels of the organisation. (Paragraph 92)

There is an apparent discrepancy between the progress that the FCA and PRA report on the efficiency of authorisations and the firms' experiences. The FCA and PRA should collect and publish further data in this regard. (Paragraph 94)

We have invested heavily in ensuring the authorisation process is smoother and faster. We have seen significant improvements in the timeliness of decisions, with over 99.1% of all applications decided within the statutory timeline and half of new firm authorisation applications decided within 4 months. Our data includes periods of time when we can and have stopped the clock as well as weekends and bank holidays.

We start the clock on the day we receive the application. The concept of stopping the clock is a statutory one and we stop the clock when we need further information. We can only stop the clock for three authorisation processes;

approved persons for SMCR; approved persons in Appointed Representatives and Change in Control notifications.

Many of our applications are already processed faster than existing deadlines, and the government has announced it will shorten statutory deadlines for new FSMA firm authorisations. We have also set out additional new voluntary stretch targets for senior manager regime applications and variations of permission. We will adjust targets for payments and e-money firms to align with the relevant new targets for FSMA firms.

Our October 2022 Authorisations Update sets out how we have reduced the overall workload relating to applications for authorisations.[2] We are improving communications with firms throughout the authorisations process. We will give regular and transparent feedback about progress, earlier signals about likely outcomes where we can, and more pre-application support to enable faster decisions.

We welcome suggestions on what other data it would be useful for us to collect. In 2022, we increased the frequency and granularity of performance reporting, a move welcomed by industry. We publish detailed figures on our authorisations activities that include lower quartile, median, and upper quartiles of the range of calendar days taken to reach a determination. We have committed to publishing our performance against our new faster targets, above, from January 2026.

The FCA and the PRA must review their operational processes and rule-making functions to explore how they might make better use of regulatory and supervisory technology. (Paragraph 106)

Technology is already helping us be a smarter regulator (SupTech) and we have long been a global leader in Regulatory Technology (RegTech). We are already exploring automation, the use of new technologies, and changing the way we use data within our risk appetite. For example:

- We are using predictive AI to assist agents in our Supervision Hub with real time knowledge and an AI voice bot to direct consumers to the right regulatory agency (FOS, FSCS or FCA) using conversational AI.
- We are experimenting with Large Language Models (LLMs) to analyse unstructured text to deliver efficiencies in our authorisations and supervisory processes. Combined with our staff's expertise this will help us make faster decisions and raise concerns earlier, without compromising quality.
- We are digitising authorisations forms with 41% of non-funds submissions now made using the gateway forms platform; firms are reporting how much

[2] https://www.fca.org.uk/publication/corporate/fca-authorisations-update-oct-2022.pdf

more intuitive and streamlined the forms are. This project is expected to complete in January 2027.

- My FCA, a new firm portal, launched in March, makes it easier for firms to see all the information relating to their reporting responsibilities in one place. We recently added all finance tasks as well.
- We intend to run a pilot with a small sample of firms on the Digital Sandbox service to explore machine-executability of the Handbook. The pilot will explore utilising a set of machine-readable rules which will make it easier for firms to fulfil their reporting requirements.

The FCA and the PRA should work together to develop a proposal for a 'concierge service', in the UK as part of broader efforts to instil a culture based on efficiency and an appropriate degree of flexibility. (Paragraph 112).

We are pleased to have worked with His Majesty’s Treasury (HMT), the Prudential Regulation Authority (PRA) and the City of London Corporation to design and launch a new concierge service (Office for Investment: Financial Services), as announced by the Chancellor in Mansion House. This will be operational by October 2025 as a true public-private partnership supporting international firms seeking to operate or invest in financial services in the UK.

Recognising major international investors want easier access to us, we established a presence in the United States in April and went even further, confirming the appointment of a senior executive to establish a regional office in Asia-Pacific from July. We are considering other opportunities.

These services will allow us to better promote our existing support services for new market entrants from our sandboxes and other innovation pathways to our Authorisations services including our Pre-Application Support Service and our Early and High Growth Oversight function.[3]

The FCA and PRA must do more to improve supervisory staff’s practical understanding of financial services firms. We recommend that the FCA and PRA explore developing a formal secondment system to both send supervisory staff out to regulated financial services firms, and from them. (Paragraph 130)

Front-line supervisory and regulatory roles draw on a wealth of experience from the financial and professional services sector, government departments, other financial regulators in the UK and abroad, the technology sector and law enforcement agencies. Our well-established group of technical specialists also provide deep industry expertise.

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[3] https://fcainnovation.co.uk/

We see the value in secondments and currently have 28 colleagues on external secondment to international regulators, the legal sector, other regulators and central government departments, and we are hosting 14 incoming secondees.

We have sent secondees out to, as well as hosted them, from industry. We will consider relevant opportunities for increasing numbers to and from industry, subject to consideration of the risks outlined like conflicts of interest and data confidentiality.

The FCA and PRA should review the compensation they offer to staff with a view to introducing appropriate incentives to help to attract talent with a practitioner's background in regulated financial services sectors. (Paragraph 131)

We are funded from levies we raise from the firms we regulate and must strike a good balance on the costs we impose.

We annually review colleague pay by benchmarking against salaries being offered externally. This approach has helped ensure we offer one of the best employment packages among UK public authorities. Our voluntary staff turnover is at its lowest since the FCA was established, currently at 6.3%, and we continue to be successful in attracting private sector talent, with highly competitive processes for many senior roles.

Of the 21 external hires recruited to our Senior Leadership team between April 2023 and the end of June 2025, (Head of Department and above, approximately the top 150 leaders) 9 joined from the private sector, including financial and professional services and a further 4 who joined from the public sector have financial and professional services experience. Half of our top 50 leaders (Executive Directors and Directors) have private sector financial and professional services experience.

We have successfully established new offices in Leeds and Edinburgh to support our growing remit with nearly 11% of our workforce now based there, with significant recruitment in both locations from the financial and professional services industry.

The FCA and PRA must review how their supervisory staff are deployed to ensure greater consistency in the staffing of supervisory teams and to address reports of frequent rotation amongst supervisors. (Paragraph 132)

Changes to our supervisory model are central to our strategy. We are streamlining our supervisory publications to make our priorities clearer. We moved swiftly at the end of April to remove/withdraw 92 historic Dear CEO letters and will use a smaller number of annual market reports to set out our priorities to give more predictability. We are also simplifying our multi-firm and thematic reviews and labelling those published before 2022 'historical'.

We are developing a model where more firms will have direct contact points with us, expanding the population of firms with specific FCA contacts beyond the 66 firms that already do. And we intend to less intensively supervise firms that are demonstrably seeking to do the right thing. For firms with a dedicated supervision resource, the Lead Manager and Lead Supervisor tenure is set at a maximum of 4 years which is recorded and monitored internally. Agreement by exception to extend the tenure requires appropriate governance.

A move to more outcomes-based regulation will mean we will not always provide prescriptive guidance, with firms having latitude to judge how best to meet our requirements. This is particularly important when the technological landscape is shifting fast.

Given our substantive programme to update our supervisory model we will not be taking forward a separate and specific review.

A lack of proportionality in regulation and supervision

We encourage the Government to work with the Bank of England and the FCA to explore how regulatory 'cliff edges' might be smoothed. (Paragraph 147)

We are supportive of working with Government to explore this issue. Thresholds in FCA rules lessen the regulatory costs for smaller firms but we have been thinking about how to mitigate the impact on firms approaching thresholds.

For example, in our Call for Input in April 2025, alongside a consultation by HMT, we are explicitly exploring how we should address cliff edge risk for growing alternative investment fund managers (AIFMs) as we think about our future approach to EU derived legislation. [4]

Flexibility for small and growing firms is also a key focus of the FCA's current work on the Consumer Duty Requirements Review.

Regulatory uncertainty

[4] https://www.fca.org.uk/publication/call-for-input/call-for-input-future-regulation-alternative-fund-managers.pdf

Any reform to the redress framework should be focused on ensuring that the FCA's and FOS's views on regulatory requirements are consistent. (Paragraph 175)

The FOS and the FCA's review of the redress system must result in clear actions setting out how they will ensure that there is a consistent interpretation of regulatory requirements associated with the Consumer Duty. (Paragraph 189)

Our joint Consultation Paper to modernise the redress system, coupled with the Government's plans for legislative change, address concerns around regulatory certainty, predictability and consistency.[5]

Our proposals aim to help firms identify and resolve issues before complaints escalate, giving businesses greater confidence to invest, innovate and support UK growth. They also seek to improve how the FCA and FOS work together to ensure a consistent interpretation of regulations.

These measures complement the Government's redress review, where the Government is consulting on proposed legislative changes including:[6]

- Adapting the fair and reasonable test, as applicable, to align with the regulatory approach for financial services.
- Giving the FCA more flexibility to manage mass redress events, including pausing complaint handling without industry consultation.
- A formal mechanism for the FOS to refer rule interpretation issues to the FCA before issuing a final decision on cases.
- An absolute time limit for bringing cases to the FOS of 10 years.
- Potentially requiring the FOS to publish quarterly thematic guidance documents on how it expects to see FCA standards applied to cases. These could replace or sit alongside publishing individual decisions.

We have also worked closely with the FOS, both before and since the Consumer Duty came into force, to provide training and ensure a consistent and aligned understanding of requirements, including in the complaints process. Both the FCA and the FOS are clear the Consumer Duty does not apply retrospectively.

The FCA must work to remove redundant or duplicative rules and requirements to provide firms with the certainty and clarity they need to maximise the Duty's benefits. (Paragraph 191)

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[5] https://www.fca.org.uk/publication/consultation/cp25-22.pdf

[6] https://www.gov.uk/government/consultations/fs-sector-strategy-review-of-the-financial-ombudsman-service/review-of-the-financial-ombudsman-service-consultation-accessible

The FCA must review the guidance it has provided on the Consumer Duty and engage with firms on uncertainty and identify where further clarification is needed of its expectations on how the Duty should be implemented. (Paragraph 192)

We issued a Call for Input on simplifying our requirements following the introduction of the Consumer Duty in July 2024.[7] In March 2025, we published details of targeted steps to amend or simplify discrete areas of our rules.[8] Many respondents to our consultation, including industry respondents, did not want a wholesale review of our Handbook but highlighted targeted changes instead. We indicated a willingness to move at pace, but many industry respondents asked for a slower timetable, with some asking us to prioritise wider reforms.

We are proceeding rapidly where we have identified a case for change. So far this year, we have:

- Reviewed our responsible lending and advice rules for mortgages and updated or removed detailed and prescriptive requirements now covered by the Duty, along with retiring two pieces of guidance. [9]
- Consulted on simplifying our insurance firm rules to ensure protections for larger commercial insurance firms are more proportionate as against the protections that small businesses and retail consumers need, among other proposals that may reduce costs for firms.[10]
- Launched a discussion paper in June 2025 on the future of the UK mortgage market to better support innovation and the customer journey.[11]
- Consulted on changes to Assessment of Value reporting.[12]

We will also:

- Review the financial promotion rules for consumer credit and consult next year on removing unnecessary prescription.
- Pilot additional support for small firms in implementing outcomes-based regulation to provide more certainty.
- Assess concerns about how the Consumer Duty impacts firms primarily engaged in wholesale activity and report back to the Chancellor on our plans to address them, as announced at Mansion House.

We have been gathering views on the prioritisation of several other proposed actions and will publish a further update later this month.

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7 https://www.fca.org.uk/publication/call-for-input/call-for-input-review-retail-conduct-rules.pdf
8 https://www.fca.org.uk/publication/feedback/fs25-2.pdf
9 https://www.fca.org.uk/publication/policy/ps25-11.pdf
10 https://www.fca.org.uk/publication/consultation/cp25-12.pdf
11 https://www.fca.org.uk/publication/discussion/dp25-2.pdf
12 https://www.fca.org.uk/publication/consultation/cp25-16.pdf

We have held more than 150 events since the Duty came into force to prepare firms and help them understand what we expect. We have published information on firm queries relevant for the wider market including our approach to supervision and enforcement, provided examples of the Duty in action as well as cascading good and poor practice areas for improvement.

We have heard public support for the Duty. In a recent Treasury Select Committee hearing, firms cited the Duty as being beneficial for challenging them to deliver better outcomes for consumers. One firm noted the Duty had encouraged them to compete outside of price, driving innovation for consumers, for example using young people's rental payments as an indicator for mortgage approvals, supporting home ownership.

The Duty also enables us to be more risk permissive, for example as part of our approach to AI, which the City of London Corporation has indicated 'allows firms to innovate and for the FCA to manage risks without creating new rules and compliance costs'. [13]

We will continue to consider whether firms could benefit from further support and how best to deliver that.

Savings and investment

HMT must work with FCA and industry to support adults in attaining financial literacy and numeracy. (Paragraph 281)

We agree with the Committee that financial literacy remains a significant issue, holding back many consumers from engaging meaningfully with financial services that could benefit them. A recent survey by Aberdeen sets out how financial literacy is undermining people's ability to build a financially secure future and found 44% of respondents, equating to 23.3 million UK adults, would be classified as having poor financial literacy. [14] Our research found nearly a quarter of adults (24%) had low levels of confidence in managing their money. [15]

Tackling that issue is not simple, not least because there is no one body responsible. For example, the FCA does not have the remit or powers to tackle all financial inclusion issues, however it is important we continue to work with Government, Money and Pensions Service and other partners to address low financial capability. To help people engage with financial services to get the right support, when they need it, such as through innovative ideas to access credit or

[13] https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Regulating-for-growth.pdf
[14] https://www.aberdeenplc.com/en-gb/news-and-insights/savings-ladder-1-financial-literacy
[15] https://www.fca.org.uk/financial-lives/financial-lives-2024

targeted support, below. Our statement on workplace savings schemes, to provide clarity on the main rules, is an example of a joint effort between us, government and other authorities to help millions of consumers start saving regularly. [16] We are playing an active role in the Government's Financial Inclusion Committee.[17]

FCA must allocate resource to prioritise the delivery of the Advice Guidance Boundary Review. (Paragraph 282)

The Advice Guidance Boundary Review (AGBR) was launched in December 2022 as part of the Edinburgh Reforms. A joint FCA/Government discussion paper was published a year later, and we are currently consulting on rules for pensions and investments which we will finalise this year. In our evidence to the Committee, we set out how we have accelerated the pace of this work and been innovative in our approach.

AGBR is complicated, as multiple factors contribute to the 'advice gap'. We have engaged widely with stakeholders, gathered evidence for our proposals and tested them with firms and consumers. This has included running an innovative Policy Sprint with firms, testing the proposed reforms ahead of consultation.

We are focussed on delivering this new regulatory regime as quickly as possible but also making sure we get it right. This means making sure the new regime is future proof, evidence based, trusted by consumers and sufficiently certain for firms so that they have the confidence to deliver it. In our consultation, we have proposed a new form of regulated support – targeted support – across pensions and retail investments. Alongside this the Government are also consulting on legislative changes.

We will open the authorisations gateway before our rules come into effect and have extended our Pre-Application Support Service to firms planning to apply for targeted support permissions, with this service having already opened in August 2025.

We are investing £3.7 million this financial year to deliver our policy proposals, prepare for the implementation of targeted support in 2026 and support for firms to do the same.

The Government is also considering whether legislative changes are required to the Privacy and Electronic Communications Regulations 2023 (PECR) to facilitate the delivery of targeted support, which will require legislative changes.

[16] https://www.fca.org.uk/publications/corporate-documents/statement-workplace-savings-schemes
[17] https://www.gov.uk/government/publications/financial-inclusion-committee

We want to see a continuum of services for consumers to navigate their financial lives. This includes access to guidance, targeted support, simplified advice and full financial advice. So, we are also working to reform the regime for simplified advice, and we are proposing to consolidate, simplify and clarify existing guidance on the boundary next year.

The Government, the FCA, and the PRA should engage with industry to identify the key regulatory barriers to addressing the gap in growth funding. (Paragraph 306)

We agree on the need to engage with industry to understand more about the gap in growth funding and the impacts of regulation. For example, venture capital and growth capital provides finance for early-stage companies as well as research and development. Our Call for Input: Future regulation of alternative fund managers,[18] asked respondents about whether there needs to be a separate regime for this sector to give qualifying funds more eligibility in their investments. While changes to the legislation are a matter for HMT we will act accordingly if any legislative changes are made.

We are also working with the Government on a new streamlined authorisation regime for innovative start-ups to allow relevant firms to conduct limited regulated activities with streamlined conditions and strong oversight. The Government will consult on these proposals this Autumn.

We currently provide several services to support firms through their funding journey including:

- Letting more firms know we are 'minded to approve' applications for authorisation which may support them to obtain funding and investments.
- Launching a new Scale-up Unit for fast growing, innovative firms.
- Our world-leading sandboxes that help firms test new products live in the market which is proven to help firms obtain investment.
- Our Early and High Growth Oversight function to help firms meet their regulatory obligations in the early years and to scale.

<u>The cost and complexity of regulatory compliance</u>

The FCA and the PRA should work with their respective CBA Panels to develop a rigorous approach to assessing the cumulative burden of compliance, accounting for monetary and resource demands. (Paragraph 62).

[18] https://www.fca.org.uk/publication/call-for-input/call-for-input-future-regulation-alternative-fund-managers.pdf

To improve regulatory decision-making, we recommend that the FCA and the PRA, in conjunction with their respective CBA Panels, create a joint cost of compliance working group to study how the regulators may develop their understanding of cumulative compliance cost and integrate this into their CBA process. (Paragraph 63)

The FCA CBA Panel has made similar recommendations in its interim annual report. We will work with our CBA Panel to understand more about what can be done to assess and understand these types of cost. However, we are mindful assessing cumulative costs is a complex exercise likely requiring us to request a large volume of information from regulated firms, adding to their costs.

We are focused on meeting the Government's target to reduce the regulatory administrative burden by 25%. We have been working with the Government on a common approach for assessing this.

We have already made significant progress in reducing our information gathering burden on firms and will continue to review this. We are retiring old data returns and reducing frequency where we can, saving an estimated £25m annually so far for around 40,000 firms.

We are encouraging firms to highlight through our consultation and rule review processes where they have concerns about unnecessary cumulative costs and burdens arising from different regulatory regimes.

We recommend that the FCA and the PRA include an assessment of actual costs imposed after the implementation of large-scale regulatory reforms as part of their post-implementation reviews. (Paragraph 64)

We are pleased to report we already do this on a case-by-case basis. For example, we have conducted post implementation reviews of our interventions on travel insurance and investment pathways as well as evaluating the costs and benefits of our interventions in a number of our impact evaluations to date.[19] Examples include:

- EP 25/2: Our general insurance pricing practices (GIPP) remedies[20]
- EP25/1 Ban on contingent charging and other remedies[21]
- EP18/1 Guaranteed asset protection[22]

[19] https://www.fca.org.uk/publications/corporate-documents/evaluating-our-work
[20] https://www.fca.org.uk/publications/corporate-documents/evaluation-paper-25-2-general-insurance-pricing-practices-remedies
[21] https://www.fca.org.uk/publications/corporate-documents/evaluation-paper-25-1-ban-contingent-charging-other-remedies
[22] https://www.fca.org.uk/publications/corporate-documents/evaluation-guaranteed-asset-protection-insurance-intervention

We will continue to revisit our CBA estimates in future impact evaluations and Post Implementation Reviews (PIRs). We also conduct PIRs on significant interventions on rules to assess whether our intended outcomes have been achieved. This is part of our rule review framework.

Metrics

A comprehensive review and revision of the secondary objective metrics is required. This should be commenced as soon as possible after the publication of the regulators' second secondary objective progress reports, due by summer 2025. As part of this review, HM Treasury and the regulators should prioritise introducing more granularity to the metrics, ensuring there is enhanced transparency around the operational effectiveness of the regulators which better reflects the experience of firms of all sizes. (Paragraph 331)

HM Treasury should undertake research, in collaboration with the FCA and PRA, on how the UK regulators' performance can be effectively measured against their international counterparts. (Paragraph 333)

We have just revised our own published metrics for our new Strategy. These will evolve to match initiatives we are taking forward year on year, with more granular metrics if appropriate. The National Audit Office report from 2023 suggested we looked to reduce the complexity of our previous metrics and provide even greater clarity.[23] We have therefore moved to fewer and less complex metrics under our new Strategy, including specific metrics on growth.

TheCityUK and Freshfields published a report last year that concluded our current metrics 'provide world-leading transparency and accountability' and 'few, if any, jurisdictions publish quantitative metrics equivalent to those of the UK regulators'.[24] For example, as we set out above, we report quarterly on our performance against statutory deadlines for authorisations. Most other regulators, if they publish data on authorisations or licensing at all, will publish at most annually.

[23] https://www.nao.org.uk/wp-content/uploads/2023/12/Financial-services-regulation-Adapting-to-change.pdf
[24] https://www.thecityuk.com/media/jlxk0uct/advancing-international-competitiveness-and-economic-growth-how-do-financial-regulators-compare.pdf