Personal Investment Management & Financial Advice Association (PIMFA) – Written evidence (SCG0025)

About PIMFA

The Personal Investment Management & Financial Advice Association (PIMFA) is the trade association for firms that provide wealth management, investment services, and financial advice. Our members provide a range of financial solutions, including financial advice, portfolio management, and investment and execution services. They assist everyone from individuals and families to charities and pension funds to trusts and companies. Our sector manages £1.65 trillion in private savings and investments and employs over 63,000 people.

Our response to this enquiry is focused on the secondary competitiveness and growth objective of the FCA (the 'Regulator'), as the majority of our members do not fall within the PRA remit.

PIMFA's submission on the FCA and PRA's secondary competitiveness and growth objective.

We welcome the opportunity to provide evidence to the Financial Services Regulation Committee (FSRC). As a general observation, we support the Regulator's secondary competitiveness and growth objective (the 'secondary objective'), which acknowledges the importance of the financial services industry to the UK's economic position. In our 2021 response to the HM Treasury Future Regulatory Framework Review and subsequent interventions since that time, we have consistently stated that such a secondary objective should be embedded within the Regulator's operational objectives (the 'primary objectives').

For this secondary objective to be valuable, it must be embedded in a way that can both champion UK financial services firms in a domestic and international context and ensure that the Regulator's primary objectives, such as protecting consumers from bad conduct, are equally maintained. In this regard, we firmly believe that this balance is both essential and achievable, and we have welcomed the Regulator consultation and engagement with our sector over the preceding period on this topic.

However, whilst supportive of the objective in general, we remain uncertain about how this can be measured going forward. We note the Regulator's decision to publish metrics, which set out how its work contributes towards meeting this objective. This is in line with the Regulator's general move towards more data transparency, which we welcome.

We would suggest that the metrics set out within its secondary objective report tend to be activities you would reasonably expect a regulator to be undertaking in spite of any specific objective. This is not intended as a criticism of the approach; it is simply an observation that the regulatory body overseeing an industry that is fundamental to the UK's international standing will likely already be undertaking a number of activities that contribute to competitiveness and economic growth. Appointing a Competitiveness Champion to drive the objective with regulators could help address this challenge, which we outline further in our response below.

Regarding the specific focus of your inquiry, we do believe that the Regulator is sufficiently focused on promoting international competitiveness and growth. However, it is not immediately clear whether this additional objective has had a demonstrable impact on the Regulator's activities, and if so, it is not clear from the metrics outlined in its report that it has.

We accept that the nature of the industry we represent means that our experience of regulatory change, which is primarily focused on meeting this new objective, will be different from others. However, for the rest of this submission, we would like to set out the following areas where we believe more could be done to help promote international competitiveness and growth.

Enhance transparency on the cost of regulation to highlight how it limits firms' ability to invest in growth activities.

For our member firms, the most significant barrier towards growth is the cost of meeting regulatory requirements.

We support strong and effective regulation and accept that a robust and stable regulatory framework is, in and of itself, conducive to growth. However, firms also face substantial costs to comply with this. The most prominent recent example is the introduction of the Consumer Duty, which carried a number of ancillary costs, most notably staff training, technology change, compliance and reporting activities, and legal and consultancy support. Smaller firms typically bear a disproportionate burden of these costs, as unlike larger firms, they may lack the requisite economies of scale or have in-house support and capacity.

Generally speaking, costs associated with large-scale regulatory change are knowable and predictable, although the cost-benefit analysis associated with the Consumer Duty in particular was disappointingly broad. However, this cost of regulation is more challenging to predict through the provision of ad-hoc and regular data returns from firms.

While we believe that it is right that the Regulator should move towards being more data-driven, firms remain unclear on precisely how this data is being used.

In our survey of members regarding the 2024 FCA Wealth Data Survey, 55% indicated that their understanding of how the Regulator would use the survey data was limited, impacting the value and the cost of the time spent on its collection[1]. Further, because of a lack of guidance and consistency on the survey data required from firms, over 47% of firms were required to spend over 100 hours of resourcing effort to complete the submission. As a multiple of the effort and cost for other data or reporting initiatives, then regulatory actions such as substantive data requests constitute a significant burden on firm time and resources. Improvements in how the Regulator collects, uses, and reuses data would lead to a corresponding decline in regulatory costs and an increase in firms' capacity to invest in business growth initiatives.

Further, the Regulator publishes aggregate and anonymised statistics on s166 reports that are commissioned. However, all other Skilled Person reports commissioned, whether a s166 or not, but still requiring the Regulator to receive a report with the consent of both a regulated firm and a Skilled Person firm, are not. The commission of formal s166 reports is fewer than 100 annually; however, all other Skilled Person reports commissioned are likely to be a multiple of the costs for firms. An additional metric on published statistics to include aggregate financial costs for s166 reports and all Skilled Person reports would increase transparency on regulatory costs and, therefore, the impact on the growth and competitiveness of firms.

Provide for a period of regulatory stability and clarity to give firms the time and confidence to invest in their business and long-term growth.

Regulation gives firms clarity about their responsibilities and obligations and, in turn, provides them with confidence to invest in their products, services and people and secure external investment, which plays a vital role in providing employment and services across all regions of the UK.

However, over the preceding years, the UK financial services industry has experienced significant change and upheaval. For example, the UK's exit from the EU and, in parallel, the introduction of Consumer Duty, an outcomes-focused regulatory intervention that places more emphasis on regulatory principles and consumer outcomes.

Whilst this period has brought opportunities, the current regulatory environment and the shift towards more outcome-focused regulation have

[1] This PIMFA member survey can be made available to the Committee on request.

brought about significant challenges for firms. In an environment increasingly governed by a focus on outcomes, firms still need clarity on the expectations placed on them. Prevailing uncertainty around obligations in a changing regulatory environment has, in some instances, acted as a barrier to growth for our member firms, whilst others have highlighted it as a barrier to external investment based on uncertainty about the regulatory attitude towards this sector. If firms are unable to provide investors with sufficient reassurance on how the future UK regulatory framework may be changed or interpreted in the medium term, this increases the risk of lower levels of investment in firms and their growth objectives.

Appoint a Competitiveness Champion to focus and drive the secondary objective with regulators to make the UK a destination of choice.

As set out above, whilst we are supportive of the secondary objective, it remains unclear to us exactly how this has been embedded within the Regulator's approach, nor do we consider that its published metrics necessarily articulate this. We believe that there is scope to both properly articulate what this would mean from a regulatory perspective as well as properly evaluate where we are in comparison to our international competitors and set a forward-looking strategy that any regulator would be responsible for enabling.

Our view, as set out in our agenda for government[2], is that this would best be facilitated through the appointment of a Competitiveness Champion who could oversee and drive the regulatory secondary objective in both a domestic and international context.

The recently announced HMT Call for Evidence on Financial Services Growth & Competitiveness will be an essential input in this regard, and a Competitiveness Champion to oversee the strategy would ensure its relevance and value to all financial sectors and firm sizes and, equally, provide an appraisal of the regulatory capability and infrastructure to deliver it.

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[2] https://publicaffairs.sites.pimfa.uk/our-agenda-for-government/