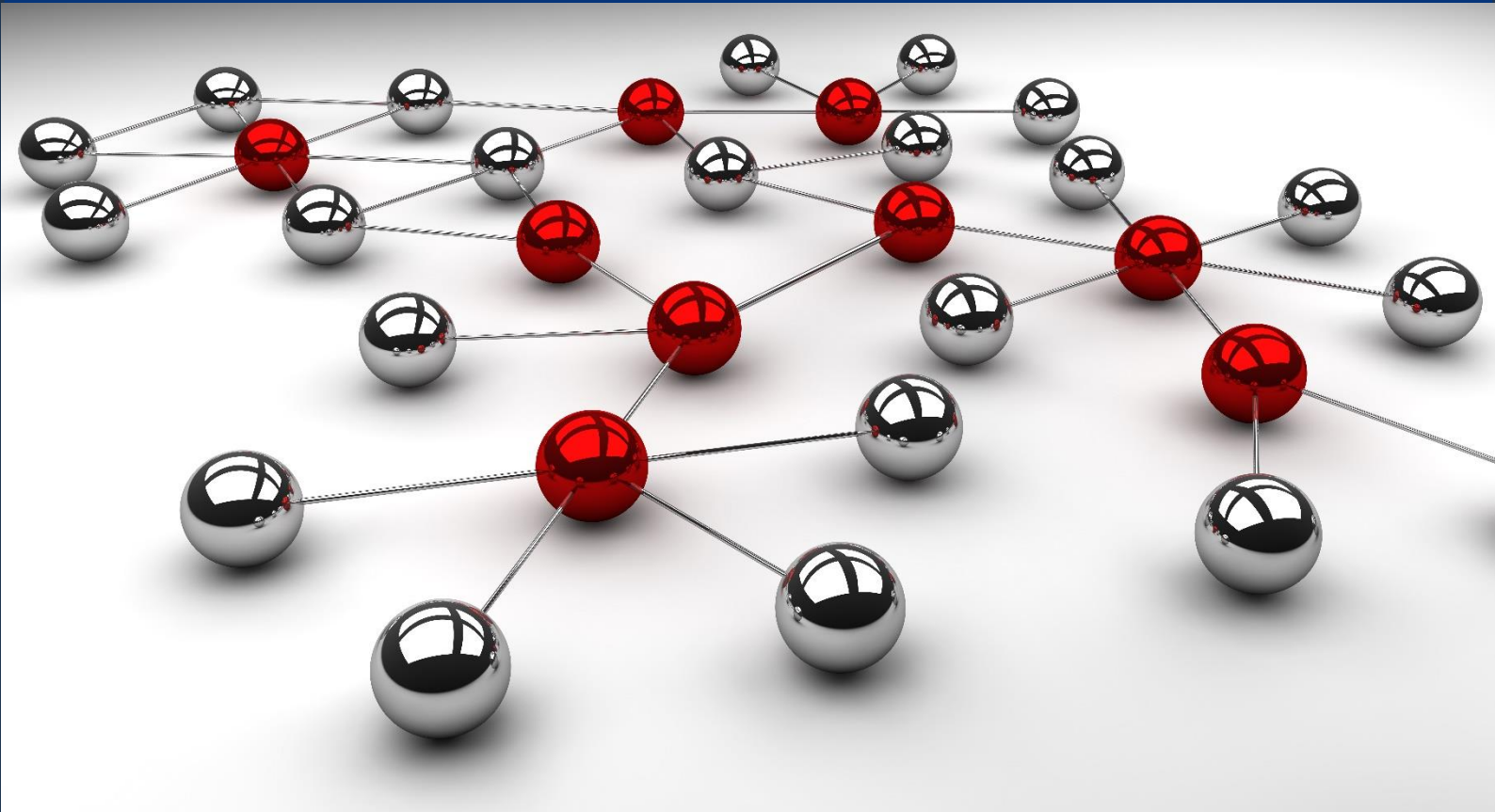


The deterrence effects of the Financial Conduct Authority's authorisations activities

A report for the Financial Conduct Authority



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Executive Summary

The Financial Conduct Authority (FCA) regulates financial markets and financial services firms in the UK. One way in which the FCA achieves its strategic objectives is by requiring firms to be authorised to operate in regulated markets.

This report aims to quantify the **deterrence effects** of FCA authorisations activities and gain a deeper understanding of how firms seeking authorisation respond to the requirements of the process. The report provides three main outputs:

- **Deterrence multipliers** capturing the deterrence effect of the authorisations process relative to the direct effect.
- An indicative estimate of the **value of prevented harm** attributable to the FCA's authorisations activities.
- **Insights into different aspects of the authorisations process** and their impact on firms.

We define deterrence as firms changing their behaviour *before* FCA awareness of their intention to make an application for authorisation. Changes in behaviour could include dropping or desisting with an application to become authorised or making substantive changes to business plans. Conversely, we define direct effects as changes in behaviour *after* FCA awareness of an application.

We conducted a survey of compliance consultants registered with the Association of Professional Compliance Consultants (APCC)¹ and use the results to populate a theoretical framework to estimate deterrence multipliers and the value of prevented harm. We also use the survey to gain a deeper understanding of different aspects of the authorisations process.

The key results of the study are as follows:

- **The deterrence effects of authorisation are larger than the direct effects.** Amongst firms seeking authorisation, for every firm which changes its behaviour as a direct effect of FCA engagement, 1.49 change their behaviour due to deterrence effects.
- **The deterrence effect is larger in terms of deterred infringements.** We estimate that for every infringement prevented due to the direct effect of authorisations, 6.6 are prevented due to deterrence effects.
- **The FCA authorisations process generates substantial value due to prevented harm** (though these estimates rely on some important assumptions). The framework of prevented harm suggests that the FCA authorisations process may generate value of between £866m and £1.4bn through prevented consumer material harm (e.g. monetary losses) and wellbeing harm.
- **Some aspects of the authorisations process are more effective in deterring potentially harmful firms than non-harmful firms.** Specifically, concerns about a firm's business model, checks into the background of the Directors, and pre-application calls generated stronger deterrence effects for potentially harmful firms.
- **The authorisations process has an inherent trade-off whereby introducing a barrier to prevent harmful firms from entering the market creates an administrative burden for firms.** Understanding application requirements and the length of time to process applications are important considerations for firms seeking authorisation.

¹ The APCC website is available at: <https://apcc.org.uk/>.

Figure 1 Key findings from the study



To ensure that the authorisations process is targeted at firms with the potential to cause harm, the FCA could focus more resources on the aspects of the process which have the greatest deterrence effect for potentially harmful firms whilst taking steps to reduce the administrative burden of the process more generally. The aspects of the authorisations process with the greatest deterrence effects for potentially harmful firms include checks into the background of company Directors and checks into financial issues.

The results from the study are subject to some key limitations. These are:

- **A small sample size** of 45 responses for the compliance consultant survey (despite a high survey response rate). The small sample size reduces the precision of the numerical estimates (the deterrence multipliers and value of prevented harm) and limits our ability to disaggregate the deterrence model across different sectors and products. Despite this, the sample does capture a relatively large proportion of the 120 firms listed by the APCC as offering compliance advice to firms seeking FCA authorisation and is large enough to allow for robust inference on the aggregate data.
- **Sensitivity of model results to key input parameters.** Some model inputs rely on key assumptions due to a lack of existing data to draw on. This affects the estimates of the value of prevented harm. For example, the results for prevented wellbeing harm are sensitive to an assumption regarding the length of time an individual is affected by the wellbeing impacts of an infringement.
- **Defining harm only in terms of material harm and wellbeing harm due to fraud.** We chose to do this because we felt there was insufficient robust evidence to incorporate other types of harm into our estimates of prevented harm. As the estimates of the value of prevented harm do not incorporate these types of harm (such as structural harm due to markets functioning ineffectively), they miss important channels through which the authorisations process creates value.

The numerical findings of this study – namely the deterrence multipliers and the value of prevented harm – should be viewed in the context of these limitations. It should be noted that the **deterrence multipliers are subject to fewer assumptions than the prevented harm estimates**. Future work

could build upon the methodology to address the limitations and develop a fuller picture of the extent to which FCA authorisations create value and prevent serious harm.

It should also be noted that the FCA has recently made changes to the authorisations process, including improving assessment times and the user experience of the application system. The results of these changes may not have fully filtered through at the time of main fieldwork, and hence may not be reflected in the fieldwork data and numerical estimates developed in the report.

1 Introduction

1.1 Authorisations and the Financial Conduct Authority

The Financial Conduct Authority (FCA) regulates financial markets and financial services firms in the UK. There are four topline outcomes the FCA expect from financial services: fair value, suitability and treatment, confidence, and access. The FCA's strategic objectives focus on three key commitments:

- reducing and preventing serious harm;
- setting and testing higher standards; and
- promoting competition and positive change.²

One way in which the FCA regulates UK financial markets is through authorisation. Firms wishing to provide regulated services must be authorised by the FCA to do so. The aim of the authorisations procedure is to ensure that firms and individuals meet minimum standards set by the regulator, known as 'Threshold Conditions'. The Threshold Conditions include:

- **capability to be supervised effectively by the FCA;**
- **appropriate resources;**
- **suitability;** and
- **business model** to carry out the regulated activity.³

Once authorised, firms are expected to abide by an ongoing commitment to meet the FCA's minimum standards, comply with the rules and principles relevant to their respective business and send regular reports to the FCA.

A critical way in which the FCA's authorisations regime creates value is through **detering potentially harmful firms from entering the marketplace**. For example, such a firm may drop an attempt to become authorised because it expects it may not meet the Threshold Conditions. In the absence of such a process, the firm would be able to operate freely in financial markets, potentially causing harm to consumers.

1.2 Study objectives

The main objectives of this study are:

² FCA. (2022). "Our Strategy: 2022 to 2025." <https://www.fca.org.uk/publication/corporate/our-strategy-2022-25.pdf>.

³ FCA. (2023). "Threshold Conditions." <https://www.handbook.fca.org.uk/handbook/COND.pdf>.

- To assess the deterrence effect of the FCA authorisations process, expressed as a **deterrence multiplier** capturing the number of firms who change their behaviour *before* the FCA becomes aware of their application for authorisation (for example by dropping or modifying an application) relative to the number who change their behaviour *after* FCA engagement.
- To estimate an indicative **value of prevented harm** attributable to the FCA's authorisations process. This value arises from avoided infringements from (a) deterred applications (b) blocked and withdrawn applications, and (c) modified applications. Firms in each of these categories are associated with 'infringement propensities' representing the likelihood that they would have infringed the FCA's rules and thus caused consumer harm, had they been allowed to operate without going through the authorisations process.
- To gain a **deeper understanding of the characteristics of firms seeking FCA authorisation** and the **effectiveness of different aspects of the FCA authorisations process in deterring harmful firms**.

To achieve these objectives, this study **combines a survey of compliance consultants advising firms seeking FCA authorisation with a theoretical framework of firm deterrence**. The survey is used to generate numerical inputs to populate the theoretical framework and to derive wider insights into the authorisations process.

For both the deterrence multipliers and value of prevented harm, we present results separately for firms seeking new authorisations and firms seeking Variations of Permission from the FCA.⁴ We also present overall estimates combining the results for new authorisations and Variations of Permission.

1.3 Existing literature on deterrence effects

Quantifying the size of the deterrence effects and the value of prevented harm to consumers is crucial to appraising the FCA's authorisations process. However, deterrence is difficult to measure. By definition, deterred firms are not directly observable as they do not participate in regulated markets.

Previous studies examining the deterrence effects of competition authorities' activities have used surveys to generate deterrence multipliers (or ratios) measuring the **deterrence effects of these activities relative to their direct effects**.

For example, Deloitte (2007) examined the deterrence effect of competition enforcement by the Office for Fair Trading (OFT). The study used a combination of interviews and surveys of competition lawyers, economists, and UK companies to estimate the deterrence effects of the OFT's activities on company mergers and other anti-competitive behaviour such as cartel formation. The report found that for each merger blocked or modified by the OFT on competition grounds, five were abandoned or modified prior to OFT awareness of the merger.⁵ The report found multipliers of similar magnitude for other types of anti-competitive behaviour. For example, for every cartel directly blocked by the OFT, five were prevented due to deterrence effects.

A report by London Economics (2011) built upon the Deloitte study to assess the deterrence effect of the OFT's activity on cartel formation, commercial agreements, and abuses. Again, the report

⁴ Variations of Permission are given by the FCA to authorised firms who wish to change the scope of their regulated activities.

⁵ Deloitte. (2007). "The deterrent effect of competition enforcement by the OFT." https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181127/http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/oft962.pdf.

used surveys of competition professionals and businesses to derive multipliers capturing the deterrence effect of the OFT's activities relative to their direct effect.⁶

The London Economics study used a larger sample of UK companies and, unlike the Deloitte study, included a set of 'small firms' (defined as having fewer than 200 employees). The multipliers found in the London Economics report were higher than in the previous Deloitte study. For example, the report estimated that for every cartel directly blocked by the OFT, 28 were prevented due to deterrence effects. However, the results from the two studies may not be directly comparable, as the London Economics report used a wider sample of firm sizes.

More recently, the Competition and Markets Authority carried out a literature review of studies examining the deterrence effects of competition law enforcement.⁷ They found strong evidence for the existence of deterrence effects, with quantitative estimates suggesting that deterrence effects are larger than direct (or observable) impacts of competition policy.

The methodological approach taken in the present study is conceptually similar to that of the reports by Deloitte and London Economics. We use a survey of professional compliance consultants registered with the APCC active in advising firms seeking FCA authorisation to develop estimates of the size of the deterrence effect of the authorisations process relative to the direct effect. It is worth noting that this sample does not include professionals working in larger consultancies or in-house consultants working within large firms.⁸

Throughout the study, we define deterrence as relating to changes in firm behaviour *prior to FCA awareness of the firm's application*. These changes include deciding not to pursue an application, dropping the application, and making substantive modifications to the application before engaging with the FCA. We define direct effects as relating to changes in behaviour *after FCA awareness and engagement*. These changes include applications which are withdrawn or blocked by the FCA, and applications which are substantively modified after FCA engagement.

The rest of the report proceeds as follows: **Section 2** outlines the theoretical framework adopted in this study, describes the survey of compliance consultants, and outlines some limitations of the methodology. **Section 3** details the key results including deterrence multipliers and estimates of prevented harm. **Section 4** discusses some of the key implications of the study, while **Section 5** concludes. **Annex 1** contains a copy of the survey of compliance consultants.

⁶ London Economics. (2011). "The impact of competition interventions on compliance and deterrence." https://webarchive.nationalarchives.gov.uk/ukgwa/20140402142426/http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/oft1391.pdf.

⁷ Competition and Markets Authority. (2017). "The deterrent effect of competition authorities' work: Literature review." https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/642801/deterrent-effect-of-competition-authorities-work-lit-review.pdf.

⁸ We discuss the potential limitations of the chosen sample in Section 2.5.1.

2 Methodology

The aim of this report is to construct **deterrence multipliers** quantifying the deterrence effect of the FCA's authorisations process and to **estimate the value of prevented harm** to consumers due to this process. We conduct a survey of compliance consultants who advise firms seeking to become authorised by the FCA. We use results from this survey in a theoretical framework to estimate the deterrence multipliers and value of prevented consumer harm.

The methodology developed in this report is exploratory, and the existing evidence in some areas is limited. As a result, we make several assumptions to derive our key findings, particularly in relation to prevented harm. The implications of these assumptions (i.e. whether they are likely to over- or under-estimate the degree of prevented harm) are discussed further in Section 2.6.

We construct our methodological framework at the overall market level – in other words we do not distinguish between firms operating in different sectors or providing different products. This choice was due to the limitations of working with a small survey sample. Future work examining the deterrence effects of FCA authorisations could seek to apply our methodology at the sectoral level to generate more disaggregated estimates of the impact of the authorisations process on firm behaviour.

The main fieldwork for this report was carried out in July 2023. It is important to note that the FCA has recently made changes to the authorisations process, including improving assessment times and the user experience of the application system. These results of these changes may not have fully filtered through at the time of main fieldwork, and hence may not be reflected in fieldwork responses.

2.1 Theoretical framework

The theoretical framework adopted in this study considers several ways in which the FCA's authorisations activities prevent harm to consumers:

- **Deterring market entry** by firms/persons posing significant risk of harm.
- **Blocking entry** of firms which pose significant risk of harm, either through refusal or indicating major concerns that cause withdrawals of their applications.
- **Improving business models** and other potential risk factors before firms enter the market.

In addition to the above, the FCA also offers **proactive support to enter** the market for innovative firms that are deemed to comply with the Threshold Conditions. While this activity does not relate to deterrence and so is not considered as part of our estimation of deterrence effects and prevented harm, our study does provide some survey-based insights on the effectiveness of this FCA support to firms.

Deterrence

The FCA's authorisations activities contribute to creating a regulatory environment that limits the opportunities for potentially harmful firms to achieve gains from misconduct in regulated markets. Deterrence is achieved by setting high standards for prospective firms including having appropriate resources, suitability, sound business models, and effective supervision.

The costs of meeting these requirements are higher for firms that are more likely to be harmful since their systems will be further from the necessary standards. As such, the deterrence effect of these requirements should be greater for potentially harmful firms than for non-harmful firms.

Blocking entry

Firms cannot obtain authorisation if they fail to satisfy one or more Threshold Condition(s). The authorisations process therefore creates value by preventing firms who fail to meet minimum standards from entering the market and potentially harming consumers.

Improving business models

In light of the Threshold Conditions for FCA authorisation firms may change their business plans or internal systems, even before the FCA becomes aware of their application. Furthermore, as part of its authorisations processes the FCA engages with firms and helps them to address concerns regarding business models, adequacy of resources and other risk factors.

These modifications reduce the probability and intensity of harm from unsuitable products and services, from excessive charges and poor quality, as well as deterioration in confidence and negative effects on the wider economy.⁹

Supporting innovative entry

Authorisations processes increasingly include the proactive support of entry, especially for firms launching innovative products and services. The FCA is helping firms navigate the authorisation process, advising on the impacts of regulatory change and developing new and innovative ways of working with firms to give them the confidence and assurance they need to take the final steps to satisfying the Threshold Conditions.

For example, the FCA has recently introduced a new Early and High Growth Oversight approach, which provides enhanced supervision for newly authorised firms in the first few years after authorisation. The aim of this approach is to ensure that firms understand their obligations so they can meet required standards as they grow and ensure that potential harm is identified and addressed more quickly.¹⁰

2.2 Classifying firms by type

The FCA authorisations process impacts the behaviour of different firms in different ways. To account for this, in our framework we divide firms seeking FCA authorisation into several types, namely the following:

- Firms who **did not apply to the FCA** (i.e. firms who desisted from becoming authorised prior to commencing the authorisation process).
- Firms **whose application was blocked or withdrawn** after commencing the authorisation process.

⁹ For instance, some consumer credit firms have been authorised only after amending systems and controls, adjusting procedures (e.g. APR calculations) to FCA rules, and enhancing IT infrastructure to improve data protection. This results in significant decrease in the probability and intensity of harm, in comparison to entry without these amendments.

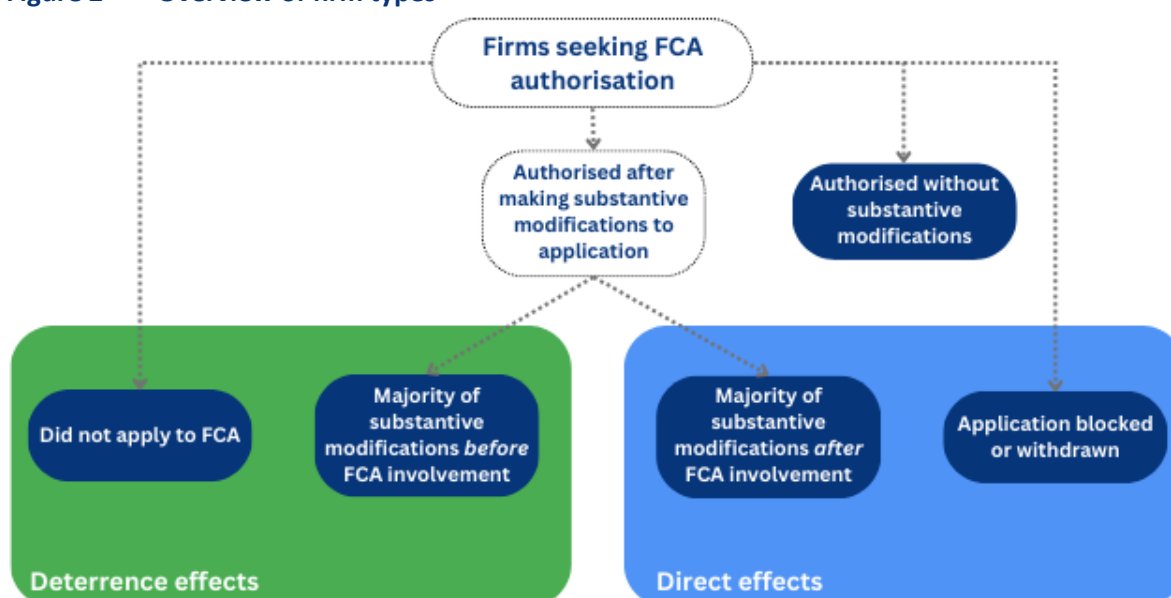
¹⁰ FCA. (2023). "Early and High Growth Oversight." <https://www.fca.org.uk/firms/authorisation/early-high-growth-oversight>.

- Firms who became authorised after **making substantive modifications¹¹ to their application**. This group is subdivided into:
 - Firms who became authorised after making **substantive modifications to their application, the majority of which being before direct FCA involvement**.
 - Firms who became authorised after making **substantive modifications to their application, the majority of which being after direct FCA involvement**.
- Firms who became **authorised without substantive modifications**.

In the context of this study, prospective firms are considered ‘deterred’ if they do not submit an application to the FCA or they make substantive modifications to their application prior to FCA engagement. In effect, the **deterrence effect** captures the effect of the FCA’s authorisations process which occurs before the FCA is aware of the application.

The **direct effect** of the FCA authorisations process includes applications that are withdrawn or blocked *after* FCA engagement, or where substantive modifications are made to the application *after* the FCA becomes aware of the application.¹² An overview of the different firm types is shown in Figure 2.

Figure 2 Overview of firm types



Source: London Economics’ analysis.

The framework allows for different firm types to have **different propensities to cause consumer harm** through infringements of the FCA’s rules.¹³

¹¹ Substantive modifications are defined as changes to the application for authorisation which substantially alter the characteristics of the application. Such modifications could include a change to the proposed business model or changes to the proposed directorship of the firm.

¹² This approach is conceptually similar to previous work to estimate the deterrence effect of regulatory policy – for example a study for Office for Fair Trading (2007) examining the deterrence effect of competition policy: Office for Fair Trading. (2007). “The deterrent effect of competition enforcement by the OFT.” https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181127/http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/oft962.pdf.

¹³ For example, firms who do not submit an application to the FCA following consultation with compliance consultants may be more likely to generate harms in the absence of authorisation than those who make substantive modifications after engaging with the FCA.

Using survey results alongside data on the number of new authorisations and Variations of Permission provided by the FCA for the financial year 2022-23, we estimate the total annual number of firms falling under each type. These estimates are used to construct the deterrence multipliers and the annual value of prevented harm. We report our key results at the annual level, because the survey relates to the past year and to allow for these results to be interpreted alongside other FCA benefits such as those reported in the most recent Positive Impact report.¹⁴

The following sections detail the methodology for constructing our main numerical estimates. Section 2.3 details the methodology for constructing the deterrence multipliers, whilst Section 2.4 describes the approach to estimate the value of prevented harm due to the FCA's authorisations activities. Section 2.5 outlines key aspects of the compliance consultant survey. Finally, Section 2.6 addresses some of the key limitations of the methodology.

2.3 Deterrence multipliers

A key aim of the study is to estimate multipliers capturing the deterrence effect of the FCA's authorisations process. The deterrence multiplier is defined as the **ratio of the deterrence effect of FCA authorisations activities to the direct effect of these activities**.

Deterrence effects are defined as relating to firms who do not submit an application to the FCA or make substantive modifications to their application prior to FCA engagement. Direct effects are defined as relating to firms whose applications are withdrawn or blocked *after* FCA engagement, or who make substantive modifications to their application *after* the FCA becomes aware of the application.

2.3.1 Firm deterrence multiplier

We first construct a 'firm deterrence multiplier', defined as:

$$M^{firm} = \frac{N_{did\ not\ apply} + N_{modified\ before}}{N_{blocked+withdrawn} + N_{modified\ after}}$$

where N represents the number of firms of each type (denoted by the subscript, see Section 2.2), which is estimated using the survey of compliance consultants (see Section 2.5).

This multiplier can be interpreted as 'the number of firms who change their behaviour due to the deterrence effects of the FCA's authorisations process for every firm which changes its behaviour as a direct result of the process'. For example, a multiplier of 2 would imply that for every firm which changes its behaviour as a direct result of the authorisations process, two change their behaviour due to the deterrence effect.

We calculate this multiplier separately for new authorisations and Variations of Permission, and also calculate a total multiplier combining both types of authorisation.

¹⁴ FCA. (2023). "Our Positive Impact 2023." <https://www.fca.org.uk/publication/corporate/positive-impact-2023.pdf>.

2.3.2 Infringement deterrence multiplier

In addition to the firm deterrence multiplier, we calculate an ‘infringement deterrence multiplier’ which accounts for differing infringement propensities between firms. The infringement deterrence multiplier is defined as:

$$M^{infringement} = \frac{(N \times i)_{did\ not\ apply} + (N \times i)_{modified\ before}}{(N \times i)_{blocked+withdrawn} + (N \times i)_{modified\ after}}$$

where i represents **the impact of the FCA authorisations process on the infringement propensity by firm type**.¹⁵ The infringement propensity for each firm type is defined as the **probability that a firm of that type would go on to infringe if it were to operate in FCA-regulated markets**. For each firm type we estimate the infringement propensity by taking the ratio of the number of harmful firms to the total number of firms (of the firm type in question), where these inputs are derived from the compliance consultant survey.

The rationale for the equation for this multiplier (above) is that the FCA authorisations process can be expected to impact the infringement propensities of different firm types in different ways. For example, for firms who do not apply to the FCA or who are blocked having started the authorisation process, the impact of the authorisations process is equal to the propensity of that firm to infringe, *should it have gone on to operate in the market*.

Moreover, the propensity of a firm to infringe, *if it had gone on to operate in the market*, may differ between firm types (for example, those with a higher potential to cause harm may be more strongly deterred by the authorisations process, due to the higher costs to them of adapting their systems to achieve the Threshold Conditions).

For firms who make modifications prior to becoming authorised, the authorisations process impact is equal to the *difference in that firm’s propensity to infringe having made modifications relative to the situation where those modifications were not required*. For example, a firm making substantive modifications to its business model may be less likely to cause consumer harm than if it had not made such modifications.

We denote the multiplication $N \times i$ as I , which is the **expected impact of the FCA authorisations process on the number of infringements by firm type**. Therefore, the infringement deterrence multiplier can be expressed as:

$$M^{infringement} = \frac{I_{did\ not\ apply} + I_{modified\ before}}{I_{blocked+withdrawn} + I_{modified\ after}}$$

This multiplier can be interpreted as ‘the expected number of infringements prevented due to the deterrence effect of the FCA’s authorisations process, for every infringement prevented as a direct result of the process’. For example, an infringement deterrence multiplier of 5 would imply that for every infringement prevented due to the direct effect of the authorisations process, five are prevented due to its deterrence effect.

As for the firm deterrence multiplier, we calculate the infringement deterrence multiplier separately for new authorisations and Variations of Permission and calculate a total combined multiplier.

¹⁵ In other words, the change in infringement propensity for a given firm type induced by the authorisations process.

2.4 Value of prevented consumer harm

We use results from the compliance consultant survey to generate estimates of the annual value of harm prevented due to the FCA's authorisations process. Our framework has two primary components of harm:

- A **material harm** component intended to capture direct monetary harm avoided due to the FCA's authorisations procedures – for example direct financial losses due to fraud.
- A **wellbeing harm** component reflecting the wider impacts of infringements on the personal wellbeing of customers – for example increased anxiety or stress following mistreatment by firms.

These estimates are intended to be indicative of the value of the deterrent effect of FCA authorisations. Due to the limitations outlined in section 2.6, these should not be interpreted as exact values.

It should be noted that our model does not account for other types of non-consumer harm such as the impact of financial misconduct on the functioning of wider markets, reduced confidence, and business-to-business harms. Preventing and mitigating these types of harm is an important facet of the FCA authorisations process. However, based on our literature review and scoping, we did not find any robust methodologies to convert these harm types into monetary values. As such, we do not include them in the analysis.

For both material and wellbeing harm, we estimate the *average harm per infringement*, h . We then multiply the estimated harm per infringement by the expected *annual number of infringements prevented due to the authorisations process*, denoted $I_{prevented}$. The product of these two inputs gives the annual value of prevented material harm and wellbeing harm, $H_{material}$ and $H_{wellbeing}$. The overall value of prevented harm is calculated as the sum of total prevented material and wellbeing harm:

$$H_{total} = H_{material} + H_{wellbeing}$$

$$H_{total} = (h_{material} \times I_{prevented}) + (h_{wellbeing} \times I_{prevented})$$

Estimating the expected number of prevented infringements

A key input into both the material harm and wellbeing harm components is an estimate of the **total annual expected number of infringements prevented by the FCA authorisations process** ($I_{prevented}$). To estimate this, the framework uses the following equation:

$$I_{prevented} = (I_{did\ not\ apply} + I_{blocked+withdrawn})(1 - \eta) + I_{modified\ before} + I_{modified\ after}$$

Where $I_{did\ not\ apply}$, $I_{blocked+withdrawn}$, $I_{modified\ before}$ and $I_{modified\ after}$ represent the total number of prevented infringements by type. The first term of the equation (within the large brackets) represents the expected number of infringements prevented for firms who do not apply to the FCA or whose application is blocked or withdrawn. The final two terms represent the expected number of prevented infringements for firms who are authorised by the FCA having made substantive modifications to their application. The overall sum therefore represents the **total annual expected number of infringements prevented due to the FCA's authorisations process**.

The term η represents the **fraction of firms who continue to operate unauthorised having failed to achieve authorisation**. These firms still have the potential to cause consumer harm. Therefore, the expected number of prevented infringements for firms who are not authorised by the FCA must be adjusted by multiplying by $(1 - \eta)$, which represents the fraction of firms who comply with the FCA's decision not to authorise them, and hence are counted as being prevented from causing harm.

The parameter η is estimated directly from the survey of compliance consultants (see Section 2.5), where respondents were asked to estimate the share of firms who continue to operate unauthorised having failed to achieve authorisation. The framework does not include firms authorised without substantive modifications, as the authorisations process has not materially impacted the applications of these firms.

Estimating the total number of firms by type

The total number of firms by type is estimated via the survey of compliance consultants (see Section 2.5). Survey respondents were asked how many firms they had advised in the previous year falling into each type (dropped, blocked, withdrawn, authorised with modifications).

We use this data to estimate the proportion of each firm type among the set of firms seeking FCA authorisation. Next, we use FCA data on the total number of new authorisations and Variations of Permission approved in the past year to estimate the total number of firms seeking FCA authorisation by type.

Estimating infringement propensities by firm type

The infringement propensity for each firm type is defined as the **ratio of potentially harmful firms to the total number of firms (of that type) seeking FCA authorisation**.

In addition to questions on the total number of firms advised in the past year by type, survey respondents were also asked to estimate **how many of the firms they had advised in the past year would have gone on to harm consumers had FCA authorisation not been required**. Respondents were asked this question separately for new authorisations and Variations of Permission.

We assume the infringement propensity for different firm types is constant across new authorisations and Variations of Permission. In other words, a firm who withdraws their application after starting the authorisations process would have the same propensity to infringe, whether they were applying for a new authorisation or a Variation of Permission.

The infringement propensity across firm types for new authorisations and Variations of Permission is therefore estimated as **the ratio of harmful firms to the total number of firms by firm type**. The overall infringement propensity, by firm type, is calculated using a weighted average of the infringement propensity for new authorisations and Variations of Permission, weighted by the total number of firms in each category.¹⁶

In other words, the calculation uses the following two steps:

¹⁶ The infringement propensities are estimated as a weighted average to mitigate the issue of a low sample size of observations for firms seeking Variations of Permission. Not all survey respondents had experience advising firms seeking Variations of Permission. Therefore, the estimated infringement propensities for firm types in this group are imprecise. Pooling the estimated infringement propensities using a weighting method helps to mitigate the issue of low sample size.

Calculate the ratio of the number of firms advised who would have caused harm in the absence of authorisations to total number of firms advised by firm type, separately for new authorisations and Variations of Permission.

Take the average of the resulting infringement propensities for new authorisations and Variations of Permission by firm type, weighted by the estimated number of firms seeking new authorisations and Variations of Permission.

2.4.1 Prevented material harm

Material harm is a key input into the calculation of total prevented harm. For the purposes of this study, material harm is defined as direct monetary losses due to an infringement – for example financial loss due to fraud. To estimate prevented material harm, we use the following equation, where $H_{material}$ represents the monetary estimate of prevented material harm:

$$H_{material} = h_{material} \times I_{prevented}$$

The parameter $h_{material}$ represents the average material harm per infringement and $I_{prevented}$ captures the expected number of prevented infringements due to the FCA's authorisations process (defined in Section 2.4).

We use two separate methods – Method 1 and Method 2, described below – to estimate the average material harm per infringement. The two approaches help to test the robustness of our estimation framework. Estimates of prevented harm are presented separately for each method.

Method 1: Personal financial losses from the Crime Survey of England and Wales

In this approach, the estimated average material harm per infringement $h_{material}^1$ is defined as the product of two components:

- **The average individual material harm** suffered due to a financial infringement.
- **The average number of customers** targeted by a firm seeking FCA authorisation.

The average individual material harm per infringement is derived based on recent research into the impact of financial fraud conducted by Simetrica Jacobs (2021).¹⁷ The report used data from the Office for National Statistics' Crime Survey for England and Wales (CSEW) to study the financial and wellbeing impacts of fraud victimisation. The research was based on a pooled sample of around 17,000 responses to the 2017-20 waves of the survey, of which around 1,100 respondents had been victims of fraud.

In the CSEW, fraud is defined as 'incidents that involve a person dishonestly and deliberately deceiving a victim for personal gain of property or money or causing loss or risk of loss to another'. Types of fraud observed in the CSEW include bank and credit account fraud, consumer and retail fraud, and advance fee fraud. The most common type of fraud was bank and credit account fraud, making up around two-thirds of observed incidents.

Survey respondents who had experienced fraud were asked to directly state the value of the financial losses suffered due to the fraud. We take the average value of reported financial losses

¹⁷ Simetrica Jacobs. (2021). "Scams and subjective wellbeing: Evidence from the Crime Survey of England and Wales." <https://media.product.which.co.uk/prod/files/file/gm-e6cd8e2d-afd0-4e93-b1df-f95bdfb42ca2-618a9277c9439-scams-and-wellbeing-report-v2-2.pdf>.

across each year of the pooled sample, uprate these values to 2022 prices, and estimate the average overall financial loss (in 2022 prices). We estimate that the average losses suffered by victims was **£695**. In Method 1 we use this figure as our estimate for average individual material harm.¹⁸

Not all instances of consumer harm caused by FCA-regulated firms are due to fraud. Therefore, we are making an implicit assumption that the average individual material losses due to fraud are representative, on average, to the individual material losses for all types of consumer harm caused by regulated firms who infringe the FCA's rules.

If the average individual material losses from other types of infringement (for example mis-selling of products) are lower (or higher) than for fraud, our framework would overestimate (or underestimate) the prevented material harm due to the authorisations process. However, we did not find robust evidence on the individual material harm caused by other types of financial infringement and so, in absence of any alternative inputs, we use the estimated impact of fraud in our framework.

The average number of customers per firm is derived from the survey of compliance consultants (see Section 2.5). Combining the average number of customers with the average individual material harm per infringement, we estimate the average harm per infringement $h_{material}^1$ using the formula:

$$h_{material}^1 = \text{Customers} \times \text{£695}$$

where *Customers* is the average number of customers per firm seeking FCA authorisation. The assumption underlying this calculation is that every customer of an infringing firm would be affected by the infringement.¹⁹ This assumption may lead to an overestimate of prevented harm, since we use an upper bound on the estimated number of customers affected by an infringing firm (see Section 2.6 for more detail).

Method 2: Using FCA fines and complaints data

In this alternative method, the average material harm per infringement is estimated using two components – fines levied by the FCA on infringing firms and redress paid due to customer complaints:

$$h_{material}^2 = h_{fines} + h_{complaints}$$

The rationale behind adding the two components together is that fines and complaints deal with different problems and harms that can be caused by firms. Fines may not always relate to direct harm caused to identifiable consumers but instead relate to practices which make harm more likely. For example, firms may be fined for not dealing appropriately with conflicts of interests or for misconduct at the wholesale level. Such misconduct ultimately impacts the consumer but does so indirectly.

¹⁸ One limitation of using this figure is that the CSEW asks respondents to quantify financial losses within ranges (for example £600-700) as opposed to providing an exact value. In estimating the average loss, the report authors assume losses lie at the midpoint of each range. This is a reasonable assumption provided average losses are distributed uniformly within ranges. The use of ranges also helps to mitigate potential recall errors by survey respondents, where it may be difficult to specify the exact financial loss.

¹⁹ This assumption is open to challenge. However, in the absence of robust data on the average proportion of a firm's customers who are impacted by an infringement, we assume that all customers are liable to be impacted.

Symmetrically, redress paid for upheld complaints may deal with harms that do not necessarily lead to fines. For example, redress may be paid for mishandling individual cases, but if no systematic infringement exists, fines may not be appropriate.

The same infringement may relate to harms recovered through fines and complaints. For example, in the case of the mis-selling of payment protection insurance harm was recovered through both fines and redress.

The average material harm based on fines (h_{fines}) is calculated as the product of two inputs:

- The **average material harm as a proportion of total firm revenue**.
- The **average annual revenue per firm**.

To find the **average material harm as a proportion of revenue**, the framework links data on the magnitude of fines imposed by the FCA on infringing firms to data on UK financial firm revenues in the Bureau van Dijk Financial Analysis Made Easy (FAME) database. The FCA Handbook states that fines issued to infringing firms are set to remove any financial benefit from the infringement and should be proportionate to the level of the breach.²⁰ Therefore, FCA fines should provide a good approximation for the direct material harm to consumers caused by an infringing firm.

The FAME database provides financial accounts for 11 million firms in the UK and Ireland, including annual revenues. Of all the firms represented in the FCA's publicly available information on Final Notices between 2013 and 2023, 93 had corresponding revenue information in the FAME database for the year in which they were fined. This corresponds to around 75% of Final Notices applied to firms.

For each firm, the average fine as a percentage of revenue is calculated as the ratio of the fine to the firm's revenue. Then, the average of this quantity is taken across all firms in the dataset. Using this method, the average fine is estimated to be **7% of total revenue**.

Another potential method to estimate the average material harm would be to use the **disgorgement figure determined by the FCA at Step 1 of its fining protocol**. As this figure does not adjust for the seriousness of the breach, it would represent **a lower bound on the material harm caused by an infringement**. Out of the firms represented in the FCA's Final Notices, 55 had both disgorgement data and revenue information available. Based on this data, we estimate the average disgorgement amount as **1.2% of total revenue**.

It should be noted that this figure is based on a small number of Final Notices where disgorgement made up a large proportion of the total fine. For the majority of the 55 firms, the disgorgement figure was £0 because the FCA did not find evidence that the firm had benefitted financially from the infringement.

To estimate **average revenue per firm**, the framework also uses firm revenue data from FAME. We estimate the average revenue per FCA-regulated firm by taking the average revenue for firms in the FAME database with SIC codes relating to sectors regulated by the FCA for the most recent financial year of available data (2021-22).²¹

²⁰ FCA. (2023). "Chapter 6: Penalties." *The Decision Procedure and Penalties Manual*. <https://www.handbook.fca.org.uk/handbook/DEPP/6.pdf>.

²¹ Specifically, we focus on the subset of firms with SIC codes falling under 'Section K – Financial and Insurance Activities' in the UK SIC Code classification (<https://resources.companieshouse.gov.uk/sic/>).

Some firms did not report revenue data. Furthermore, the probability of reporting revenue data was increasing in the firm size. To correct for the potential bias caused by non-random missing data, we apply a probability-weighting method (Horvitz-Thompson estimator) to estimate the mean revenue per FCA-regulated firm. Using this method, we estimate the average annual revenue per FCA-regulated firm to be **£9.1m**.²²

Therefore, we estimate the average harm per infringement (using fines data) as:

$$h_{fines} = 0.07 \times £9.1m = £637,000$$

If we were to instead use disgorgements, the corresponding figure would be £109,200. For the rest of the analysis, we use the figure based on total fines in our primary calculations.

The reason for this decision is that using disgorgements alone may underestimate the harm or potential caused by an infringement. The FCA Handbook states that Step 2 of the fining procedure determines a figure reflecting the **seriousness of a breach or infringement**. This step contains important information about the potential of a given infringement to cause harm. Using only disgorgement may miss out on important information on the degree of harm or potential harm caused.

To estimate the average harm per infringement corresponding to redress paid due to customer complaints ($h_{complaints}$), the framework combines an estimate of the average redress paid per customer complaint with the survey-based estimate of the average number of customers per firm seeking FCA authorisation.

To estimate the **average redress paid per complaint**, we use bi-annual data published by the FCA on the number of complaints against firms and the total value of redress paid (in pound-sterling) to consumers. This data can be used to calculate the average redress paid to consumers.

We focus on upheld complaints only. Although redress may be paid for claims that are not upheld, this type of redress may be based on procedural problems. For example, redress may be paid if a financial firm does not respond quickly enough to a complaint, even if the complaint is ultimately not upheld.

Using the most recent available complaints data (H2 2022), the average redress per complaint is estimated to be **£188.98**.²³

The average of £188.98 redress paid for upheld claims is then multiplied by the **average number of customers per firm seeking FCA authorisation** to arrive at an estimate of harm per firm. The estimated material harm based on complaints can be expressed as:

$$h_{complaints} = Customers * £188.98$$

²² The mean revenue per financial firm without applying this probability weighting method was £73.1m.

²³ FCA. (2023). "Aggregate complaints data: 2022 H2." <https://www.fca.org.uk/data/complaints-data/aggregate-complaints-data-2022-h2>.

2.4.2 Prevented wellbeing harm

Wellbeing harm from financial infringements relates to the indirect impacts on the victim’s mental and physical health. To estimate the monetary value of prevented wellbeing harm, the framework uses the following equation:

$$H_{wellbeing} = I_{prevented} \times Customers \times t \times \Delta_{satisfaction} \times WELLBY$$

where $I_{prevented}$ represents the number of infringements prevented due to the authorisations process and $Customers$ is the average number of customers affected by an infringing firm. The parameters of wellbeing harm in the framework are defined in more detail in Table 1.

Table 1 Parameters for prevented wellbeing harm framework

Name	Description	Estimation method
$I_{prevented}$	Expected number of infringements prevented due to authorisations process.	Estimated using survey inputs.
$Customers$	The average number of customers affected by an infringing firm.	Estimated from survey.
t	The average duration of an infringement (expressed as a fraction of a year).	Derived from Simetrica Jacobs (2021). ²⁴
$\Delta_{satisfaction}$	The average change in life satisfaction due to fraud victimisation.	Derived from Simetrica Jacobs (2021). ²⁵
$WELLBY$	The HM Treasury value of a WELLBY (the monetary value of a one-unit change in life satisfaction for one year).	Derived from Green Book supplementary guidance on wellbeing valuation and updated to 2022 prices. ²⁶

For wellbeing, the framework estimates the number of individuals that would have been affected by infringing firms ($I_{prevented} \times Customers$) and multiplies this by the estimated value of the decrease in wellbeing associated with being the victim of an infringement ($t \times \Delta_{satisfaction} \times WELLBY$). As in the Simetrica Jacobs paper looking at financial fraud, we assume that the average duration of wellbeing harm from being victim of an infringement is one year.

The $WELLBY$ value is derived from recent HM Treasury supplementary Green Book guidance on wellbeing valuation in policy appraisal. The guidance presents two alternative methods to calculate the monetary value of changes in personal wellbeing. The first method is tied to the value of a Quality-Adjusted Life Year²⁷ (QALY) whilst the second is based on the ‘three-stage wellbeing

²⁴ Ibid.

²⁵ Ibid.

²⁶ HM Treasury. (2021). “Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance.” https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1005388/Wellbeing_guidance_for_appraisal_-_supplementary_Green_Book_guidance.pdf.

²⁷ Krekel, Christina, and Frijters, Paul. (2021). *A Handbook for Wellbeing Policy-Making: History, Theory, Measurement, Implementation, and Examples*. Oxford: Oxford University Press.

valuation' approach developed by Fujiwara (2013).²⁸ The QALY-based method estimates the value of a WELLBY as £10,000, whilst the three-stage valuation estimates the value at £16,000.

We use both methods to present the estimated prevented wellbeing harm as a range. We uprate the two estimated values to 2022 prices using the methodology outlined in the Green Book supplementary guidance. Our estimated range for a WELLBY is therefore between **£10,907 and £17,451**. This result implies that if an individual reported a one-unit decline in subjective life satisfaction for one year, the resulting wellbeing cost would be between £10,907 and £17,451.

Simetrica Jacobs find that the average decrease in reported life satisfaction for victims of financial fraud is 0.168 points on a 0-10 scale. Combining this estimate with the value of a WELLBY and the assumed duration of time affected, we estimate the average individual wellbeing cost due to a financial infringement to be **£1,832 to £2,932**.

2.5 Compliance consultant survey

London Economics and OMB Research conducted a telephone survey of compliance consultants who advise firms seeking FCA authorisation. The survey was jointly designed by London Economics and OMB Research and was carried out in July 2023. The survey aimed to generate insights into different aspects of the FCA's authorisations process and their effectiveness in deterring potentially harmful firms, and to derive inputs to use in the calculation of deterrence multipliers and the value of prevented harm due to the authorisations process. Survey respondents were asked to consider firms they had advised over the past year when responding to the questions.

The survey was used to estimate:

- **the average number of firms of each type**²⁹ advised by compliance consultants on new authorisations and Variations of Permission in the past year;
- **the number of firms of each type which would have gone on to cause harm** in the absence of the FCA's authorisations process;
- **the average number of customers** per FCA-regulated firm; and
- **the proportion of firms who continue to operate unauthorised** having failed to achieve authorisation.

These estimates were used as inputs in our theoretical framework to generate deterrence multipliers and estimate the value of prevented harm due to the FCA's authorisations process.

The survey also contained questions designed to gain a deeper insight into aspects of the FCA's authorisations process and their effectiveness in deterring harmful firms. Further questions were used to understand which types of consumer harm might be caused by potentially harmful firms, and how firms responded to the authorisations process through modifications to their application. A copy of the survey questions is provided in the annex.

²⁸ Fujiwara, Daniel. (2013). "A General Method for Valuing Non-Market Goods Using Wellbeing Data: Three-Stage Wellbeing Valuation." CEP Discussion Paper 1233. <http://eprints.lse.ac.uk/51577/1/dp1233.pdf>.

²⁹ See the bullet point list on page 7.

2.5.1 Survey sample

The survey sample was derived from the **Association of Professional Compliance Consultants (APCC)**. The APCC is a body for compliance consultants who advise FCA-regulated firms in the UK. The APCC maintains a directory of member firms, including the sectors in which these firms operate.

It should be noted that **the APCC does not include larger firms engaged in compliance consultancy**. Drawing our sample from the APCC also means that we do not consider consultants working in-house for larger companies. This may mean that the set of firms advised by survey respondents is different to the overall set of firms seeking FCA authorisation.

This would only be an issue if the propensity to infringe is different across firms advised by APCC consultants relative to those advised by larger consultancies or by in-house consultants, and if APCC-advised firms made up only a small share of authorised firms.

As discussed below, APCC-advised firms make up a relatively large share (around 60%) of newly authorised firms. In terms of infringement propensities, it is difficult to argue *a priori* why firms advised by APCC consultants would differ substantially from firms advised by larger consultancies, but this caveat should be considered when interpreting the subsequent analysis.

For example, larger firms may be under-represented if they are more inclined to use larger consultancies or in-house specialists. Our estimates may therefore be biased if the distribution of firms across firm types or the infringement propensities differ for larger firms relative to smaller firms. The limitations of the survey approach are discussed further in Section 2.6.

All firms in the APCC directory who listed FCA authorisations as one of their practice areas were initially contacted by email. In total, we contacted 129 firms in the directory. We explained the objectives of the study and invited firms to nominate someone within the organisation to participate in a telephone interview with OMB Research. The survey was piloted with a small number of compliance consultants, with revisions made prior to main fieldwork.

The final sample comprised of 45 respondents, of which four were pilot interviews. The response rate was therefore 34.9%. Survey respondents had typically advised firms across multiple sectors in the 12 months prior to interview. Table 2 provides a summary of which sectors the respondents reported operating in. The most common sector was retail investments, with 26 out of 45 respondents reporting having advised firms seeking authorisation in this sector.

Table 2 Number of respondents reporting advising firms, by sector

Sector	Frequency
Retail banking	2
Pensions and retirement income	15
General insurance and protection	23
Retail investments	26
Retail lending	9
Investment management	19
Payment services and e-money	12
Wholesale	13
Consumer credit	8
Funeral planning	3
Mortgage brokers	4
Other	5

Note: Multiple responses possible. N = 45.

Market share covered by the survey

The sample size for the compliance consultant survey was 45. The average total number of firms advised per consultant was 14.4 for new authorisations and 9.2 for Variations of Permission. **Therefore, assuming no overlap between clients, the results imply that the total number of firms advised by survey respondents on new authorisations was around 650 and the total number advised on Variations of Permission was 412.** These estimates come from multiplying the sum of the average number of firms advised across categories by the number of compliance consultants responding to the survey.

The APCC directory lists 129 firms offering ‘Authorisations – FCA’ as a service line.³⁰ Multiplying the survey-based estimate of the number of firms advised per consultant by 129, **we estimate the total number of firms advised by APCC compliance consultants each year** (shown in Table 3).³¹

Table 3 FCA authorisation applicants advised by APCC firms

Firm type	Survey	APCC total	FCA data	Share advised by survey respondents	Share advised by APCC consultants
New authorisations					
Total advised	650	1,863			
Total successfully authorised	420	1,205	2,032	20.7%	59.3%
Variations of Permission					
Total advised	412	1,180			
Total successfully authorised	394	1,129	1,387	28.4%	81.4%

Note: The estimated percentage coverage in column 4 of the table is derived by dividing the estimated number of successfully authorised firms advised by survey respondents (column 1) by the total number of firms successfully authorised by the FCA (column 3). The percentage coverage by APCC consultants is estimated in a similar way by dividing the estimated total number of successfully authorised firms advised by APCC members (column 2) by the number successfully authorised by the FCA (column 3).

For new authorisations, we estimate that 1,863 firms were advised by APCC consultants, **of which 1,205 were authorised.** This estimate is derived by taking the average number of firms advised per consultant which achieved authorisation (9.34) and multiplying this by the number of consultants (129). For Variations of Permission the total number of firms advised was 1,180, **of which 1,129 were authorised.**

The survey results therefore imply that around 64.7% of firms advised by APCC consultants seeking new authorisations were successfully authorised. This is a lower rate of successful authorisation than that in the **FCA’s most recent Annual Report, which states that 75% of firms seeking authorisation were successfully authorised.**³²

However, these figures are not directly comparable because the survey-based percentage includes firms which did not submit an application to the FCA, while these firms are not included in the FCA

³⁰ https://apcc.org.uk/apcc_directory/.

³¹ We assume that survey respondents are representative of the overall population of compliance consultants – in other words the average annual number of firms advised by survey respondents is similar to the average number advised by all consultants within the APCC.

³² FCA. (2023). “Annual Report and Accounts 2022/23”. <https://www.fca.org.uk/publication/annual-reports/annual-report-2022-23.pdf>.

data. Removing these firms from the survey-based estimates, we find that around **86.9% of firms advised by survey respondents who applied to the FCA were successfully authorised**.

This figure is higher than the rate reported by the FCA. One potential explanation for this finding is that firms who engage with compliance consultants are more likely to achieve the FCA's Threshold Conditions and therefore become authorised than those who do not.

We estimate **the share of successfully authorised firms advised by survey respondents and by APCC consultants** by combining these results with data from the FCA's authorisations team. In the financial year 2022-23 there were 2,032 new authorisations and 1,387 approved Variations of Permission.³³

The share of firms advised by survey respondents is estimated to be **20.7%** for new authorisations and **28.4%** for Variations of Permission. One caveat on the deterrence multipliers and value of prevented harm is that they are estimated using only a proportion of the overall population of firms seeking authorisation.

However, this would only present an issue if the characteristics of firms advised by survey respondents are systematically different to those not advised by survey respondents – for example, if they had a higher propensity to infringe. If there are no systematic differences between these groups of firms, the survey-based estimates can be applied across the population of firms.

The survey results combined with FCA data suggest that around **59.3% of newly authorised firms engaged with APCC consultants**. For Variations of Permission, the corresponding figure was **81.4%**.

There are two potential reasons why these figures are below 100%. Firstly, some firms seeking new authorisations may not engage at all with APCC consultants. Some firms may rely on in-house compliance consultants. In addition, some firms who offer compliance consulting services (such as larger consultancies) are not listed as a member of the APCC. Secondly, the survey asked respondents to consider only firms which they had personally advised in the past year. It is possible that this approach fails to capture firms who engaged with other compliance consultants within the same firm as the survey respondent.

2.6 Limitations of the methodology

The methodology developed in this report comes with a few caveats. **Firstly, the sample size for the compliance consultant survey was small – 45 responses**. Despite the high survey response rate, the overall population of compliance consultants is small (129 firms are listed on the APCC website who offer support to firms seeking FCA authorisation).

This reduces the precision of the numerical outputs of the survey – both for the multipliers and value of prevented harm. For example, the standard deviations of the estimated number of firms advised by type in Table 4 are high relative to the point estimates. The small sample size also limits our ability to disaggregate the model over different sectors and product types.

A further limitation of the survey methodology is that by sampling from the APCC we may **under-represent firms who are less likely to use APCC consultants in our analysis**. For example, larger firms may rely on larger consultancies or use in-house compliance experts instead of using APCC members. Therefore, key model inputs such as the infringement propensities across firm types may

³³ Source: FCA internal data.

be generated based on a non-representative sample of the overall population of firms seeking FCA authorisation.

The effect of this potential bias on the multipliers and estimated prevented harm is ambiguous. If larger firms (who are potentially under-represented in the survey sample) have a higher propensity to infringe than smaller firms, our results would under-estimate the magnitude of the multipliers and value of prevented harm. If larger firms have a lower propensity to infringe, we would over-estimate these quantities.

Furthermore, the theoretical framework for the value of prevented harm makes several assumptions with a limited supporting evidence base. **We assume that all customers of an infringing firm are affected by the infringement. In addition, we assume that the average impact of being a victim of fraud (both direct financial impact and wellbeing impact) is similar to the impacts of other financial infringements.** These assumptions are necessary due to a lack of robust evidence in the existing literature on which to base parameters of our framework.

The estimates of the value of prevented harm results are sensitive to these assumptions. For example, since the average number of customers per firm enters the wellbeing harm calculation multiplicatively, if we instead assume that 90% of an infringing firm's customers are affected by an infringement, the estimated prevented wellbeing harm would fall by 10%. **The assumption that all customers are affected by an infringing firm is an upper bound on the number of people affected, so the framework is likely to overestimate the prevented harm.**

While it is difficult to draw conclusions regarding the wellbeing impacts of different types of financial infringement, it could be argued that fraud is a relatively serious and intrusive form of infringement, and hence the **wellbeing impacts of fraud may be higher than for other types of infringement** such as mis-selling of products. Again, in this instance **the framework would overestimate the value of prevented harm.** The sensitivity of model results to key input assumptions is discussed further in Section 3.3.6.

Finally, **our model does not account for other types of harm infringing firms have the potential to cause.** For example, harmful firms may inhibit the effective functioning of markets by reducing confidence or engaging in anti-competitive behaviour.

We did not incorporate wider definitions of harm into our model because we did not feel there was sufficient evidence from the literature to robustly estimate the value of prevented harm in these contexts. It should be noted, however, that by not incorporating these broader types of harm we potentially miss out on important channels through which the authorisations process promotes effective functioning of markets and prevents serious harm.

It should be noted that the **deterrence multipliers are based on relatively fewer assumptions than the value of prevented harm estimates.** The main limitation applying to the multipliers is the small survey sample size, which may lead to relatively wide confidence intervals around the numerical estimates. The value of prevented harm calculations rely on several additional assumptions and secondary data sources.

3 Results

In this section, we present the main findings of the study. In Section 3.1 we present the estimated deterrence multipliers, and Section 3.3 provides the estimated value of harm prevented due to the FCA's authorisations process. Finally, Section 3.2 details findings on characteristics of the FCA's authorisations process and their effectiveness at deterring potentially harmful firms.

3.1 Deterrence multipliers

This section details the key survey inputs used to generate the deterrence multipliers, as well as the estimated final multipliers. Sections 3.1.1 and 3.1.2 detail numerical outputs from survey relating to the number of firms advised by type and the impact of the authorisations process on the infringement propensities for each firm type. Section 3.1.3 presents the estimated firm deterrence and infringement deterrence multipliers.

3.1.1 Number of firms advised

Table 4 displays the distribution of firms advised by firm type. Standard deviations are shown in brackets. Across both new authorisations and Variations of Permission, around half of firms seeking authorisation were authorised without substantive modifications. This result implies that **around half of firms change their behaviour due to the authorisations process**. Among new authorisations, firms were more likely not to submit an application to the FCA than to withdraw their application or make substantive modifications.

Table 4 Number of firms advised by type

Firm type	New authorisations	Variation of Permission
Didn't submit application to FCA	3.7 (9.68)	0.3 (0.86)
Blocked or withdrawn after starting application	1.4 (3.47)	0.1 (0.29)
Authorised – majority of substantive modifications made prior to FCA engagement	1.8 (3.7)	1.5 (3.28)
Authorised – majority of substantive modifications made after FCA engagement	0.7 (1.8)	3.2 (15.8)
Authorised without substantive modifications	6.8 (15.97)	4.1 (11.37)
Total	14.4³⁴ (20)	9.2 (19.3)

³⁴ Survey respondents were also asked to state how many firms in total they had advised in the previous year. There was a slight discrepancy between the reported total number of firms advised and the sum of the number of firms advised by category. For example, the survey suggests that the average total number of firms advised on new authorisations was 15.38, but the sum of firms advised by firm type is equal to 14.44. The difference between these two figures could be explained by the cognitive difficulty associated with recall of firms advised over the past year. For the rest of the analysis, we assume that the total number of firms advised is equal to the sum of the firms advised across categories (in other words, equal to 14.44).

The standard deviations are high relative to the point estimates. This may be due to the small sample size of survey respondents, and the fact that responses were relatively widely dispersed.³⁵

3.1.2 Infringement propensities

Survey respondents were asked to estimate the total number of firms they had advised by firm type which, in their opinion, **would have gone on to cause harm to consumers in the absence of the authorisations process**. These estimates are used as a component in the estimation of the infringement propensities.

Respondents were not asked to identify the number of potentially harmful firms authorised without substantive modifications. The reason for this is that these firms have not been materially affected by the authorisations process, so the process does not impact the potential for future harm in the case of these firms.

Table 5 Proportion of firms perceived as likely to have caused harm absent authorisations process, by type

Firm type	New authorisations	Variation of Permission
Didn't submit application to FCA	7%	31%
Blocked or withdrawn after starting application	5%	0%
Authorised – majority of substantive modifications made prior to FCA engagement	14%	0%
Authorised – majority of substantive modifications made after FCA engagement	3%	0%

The proportion of firms perceived as likely to go on to cause consumer harm by type is shown in Table 5. This proportion is calculated as the ratio of the total number of perceived harmful firms by type to the total number of firms advised by type.

For most firm types seeking Variations of Permission, the estimated proportion of potentially harmful firms was zero. This finding may reflect the fact that firms seeking Variations of Permission are already authorised by the FCA, and therefore may be less likely to cause harm than previously unauthorised firms.

Using the results in Table 4 and Table 5, we estimate the infringement propensity for each firm type. The infringement propensity is defined as the ratio of the number of (perceived) harmful firms advised to the total number of firms advised by type and is calculated using a weighted average of the infringement propensity for new authorisations and Variations of Permission for that firm type (see Section 2.4). The unweighted infringement propensities are shown in Annex 2.

The estimated infringement propensities by firm type are displayed in Table 6. **The highest infringement propensities are for firms who did not submit an application to the FCA and firms who made the majority of substantive modifications prior to FCA engagement.** For example, the

³⁵ For example, the reported number of firms advised on new authorisations who did not submit an application ranged between 0 and 50.

estimated infringement propensity for this latter group of 0.09 implies that, on average, for every 100 firms in this category, 9 would have caused harm in the absence of the authorisations process.

Table 6 Infringement propensities by firm type

Firm type	Infringement propensity
Didn't submit application to FCA	0.09
Blocked or withdrawn after starting application	0.04
Authorised – majority of substantive modifications made prior to FCA engagement	0.09
Authorised – majority of substantive modifications made after FCA engagement	0.01

The estimated infringement propensity is highest for firms who change their behaviour earliest in the authorisations process (before the FCA is aware of the application). This is intuitive since firms with the potential to harm consumers may be more likely to realise this potential harm and drop or modify their application earlier in the process than firms with less potential for harm.

These results suggest that infringement propensities are higher for firms which are impacted by deterrence effects (i.e. didn't submit an application or whose application was blocked/withdrawn) than by direct effects. This finding suggests that the deterrence effects of the authorisations gateway are likely to be stronger for firms with a higher propensity to infringe.

It should be noted that firms who are blocked or withdraw their application may choose to reapply having made changes to the application based on feedback from the case officer and then go on to operate in the market.

3.1.3 Estimated multipliers

This section presents the estimates of the deterrence multipliers. We calculate the firm deterrence and infringement deterrence multipliers separately for new authorisations and Variations of Permission. Finally, we generate a combined multiplier including both new authorisations and Variations of Permission.

The firm deterrence multiplier is defined as:

$$M^{firm} = \frac{N_{did\ not\ apply} + N_{modified\ before}}{N_{blocked+withdrawn} + N_{modified\ after}}$$

The inputs into the firm deterrence multiplier are presented in Table 7. The table shows the annual estimated total number of firms by type separately for new authorisations and Variations of Permission.

Table 7 Estimated total number of firms by type

Firm type	New authorisations	Variation of Permission
Numerator		
Didn't apply to FCA	796	48
Authorised – majority of substantive modifications made before FCA engagement	400	230
Denominator		
Blocked or withdrawn after starting application	314	15

Firm type	New authorisations	Variation of Permission
Authorised – majority of substantive modifications made after FCA engagement	158	501

Source: London Economics/OMB survey.

The results in Table 7 are used to generate the firm deterrence multipliers. Table 8 presents the estimated firm deterrence multiplier for new authorisations, Variations of Permission, and the combined set of firms seeking FCA authorisation.

Table 8 Estimated firm deterrence multipliers

Authorisation type	Main multiplier (M^*)
New authorisations	2.53
Variation of Permission	0.54
Both types of authorisation (combined)	1.49

Taking the combined multiplier for both types of authorisation, the results suggest that **for every firm which changes its behaviour as a direct result of the FCA authorisations process, 1.49 change their behaviour due to its deterrence effects**. In other words, the estimated deterrence effect of the FCA's authorisations process is larger than the direct effect of authorisations activity.

The multiplier is higher for new authorisations than for Variations of Permission. This could be explained by the fact that firms applying for Variations of Permission are already authorised by the FCA. Therefore, they may be more familiar with the FCA handbook and the authorisations process than firms seeking new authorisations.

The estimated infringement deterrence multipliers are presented in Table 9. These multipliers extend the firm deterrence multipliers by adjusting the number of firms in each firm type by their estimated infringement propensities. Therefore, these multipliers isolate the deterrence effect and direct effect of FCA authorisations activity on potentially harmful firms.

Table 9 Estimated infringement deterrence multipliers

Authorisation type	Infringement deterrence multiplier ($M^{infringement}$)
New authorisations	6.91
Variation of Permission	5.55
Both types of authorisation (combined)	6.60

Table 9 shows that **for every infringement prevented as a direct result of the FCA's authorisations activity, 6.6 are prevented due to the deterrence effect**. This result suggests that in terms of prevented infringements, the FCA's authorisations process has a greater deterrence effect relative to direct effect.

The infringement deterrence multipliers are higher, for both new authorisations and for Variations of Permission, than the firm deterrence multipliers. This finding implies that **the deterrence effects of the authorisations process are larger for firms who are more likely to cause consumer harm**.

3.2 Characteristics of the FCA's authorisations process

In addition to quantifying the deterrence effect of FCA authorisations, it is important to gain insight into the characteristics of potentially harmful firms, the types of consumer harm they may generate, and the mechanisms through which the authorisations process deters this harm. This section

provides more detailed information on the views of respondents regarding different aspects of the FCA’s authorisations process and its effectiveness in deterring potentially harmful firms from entering the market.

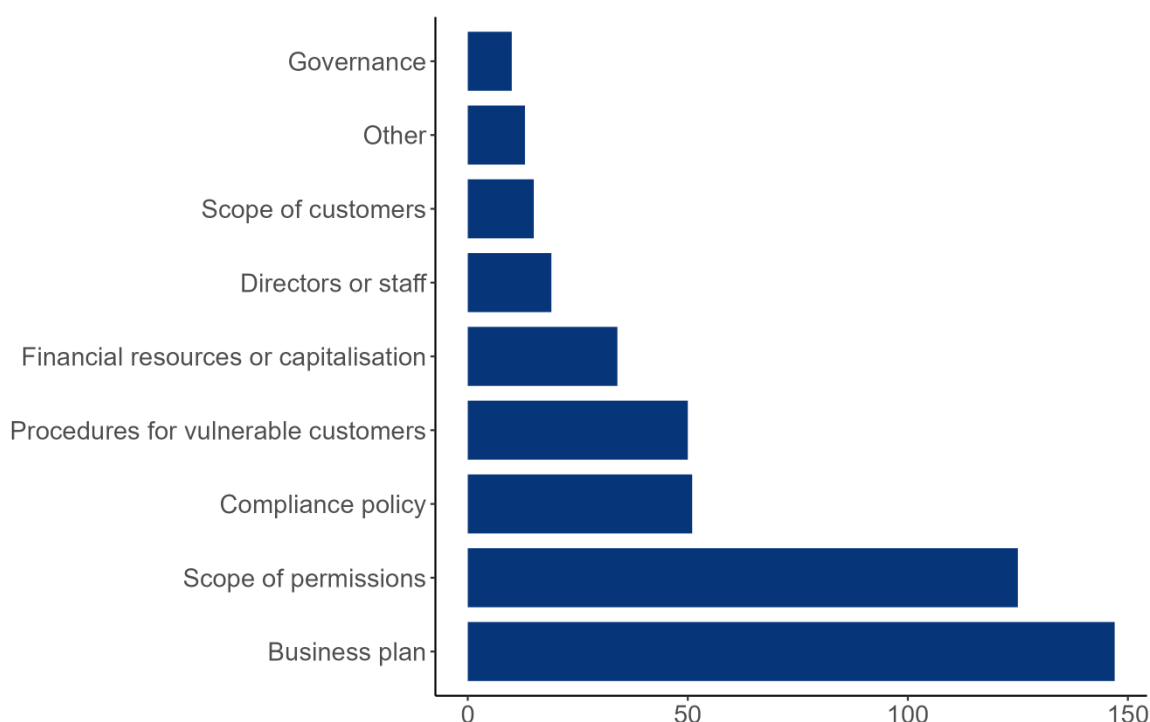
3.2.1 Substantive modifications and consumer harm

The survey results suggest that a meaningful proportion of firms seeking new authorisations and Variations of Permission make substantive modifications to become authorised. **Around 27.5% of newly authorised firms made substantive modifications to become authorised. The corresponding figure for Variations of Permission was 52.8%.**

Figure 3 shows the frequency of different types of modification among firms making substantive modifications to become authorised by the FCA. Survey respondents were asked how many of the firms they advised had made the substantive modifications listed on the horizontal axis. The vertical axis displays the count of the total number of firms reported to have made the corresponding substantive modification by survey respondents.

Among firms making substantive modifications to become authorised, **the most common modifications were in relation to business plans or scope of permissions.** For example, 147 firms were reported to have made modifications to their business plan to become authorised. Substantive modifications to business plans could include changes to the sectors in which the firm operates or to the services provided. Modifications in the ‘Other’ category included changes to office locations or critical outsourcing, risk frameworks, and modifications in relation to money laundering.

Figure 3 Type of substantive modification made

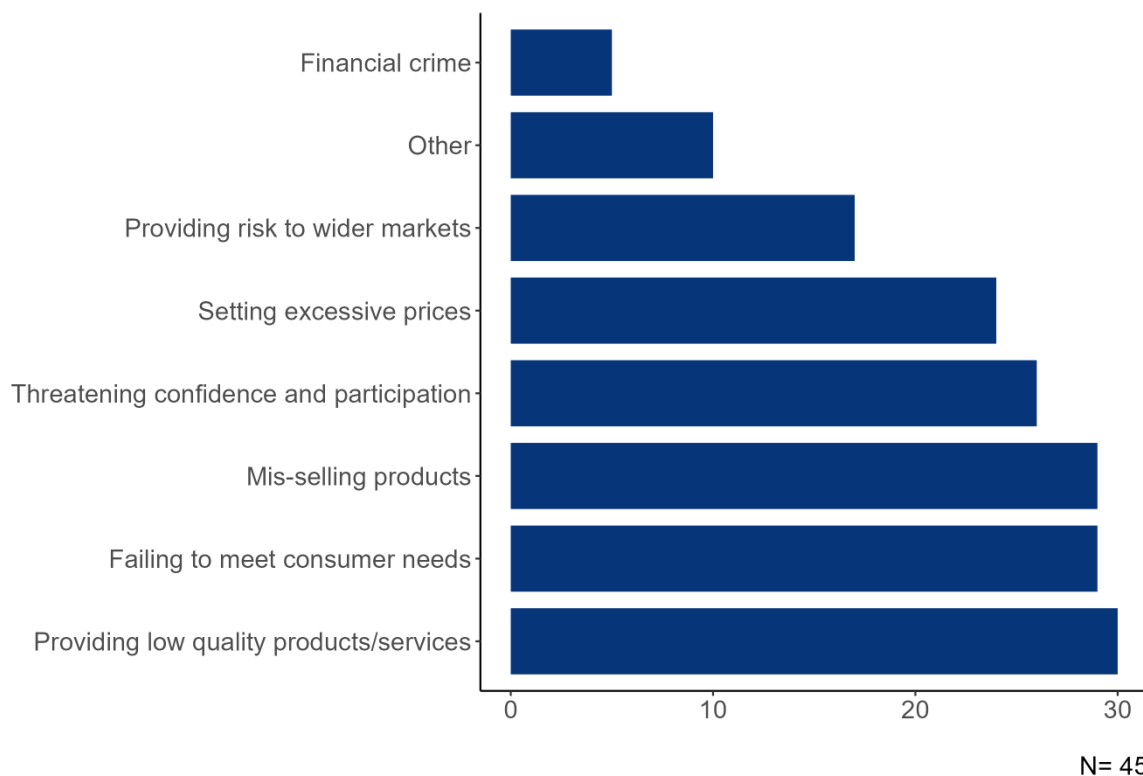


N= 28

Firms who operate unauthorised can cause various types of harm, including poor quality service or treatment of customers, or mis-selling of products. The survey asked consultants to identify which types of harm unauthorised firms might cause to consumers.

Figure 4 shows a relatively even distribution across different harm types, with the most common harm being providing low quality products or services. Out of 45 respondents, 30 indicated that unauthorised firms might cause harm by providing low-quality products or services. Within the 'Other' category, several respondents identified firm failure and non-compliance with the FCA's Consumer Duty as potential sources of consumer harm.

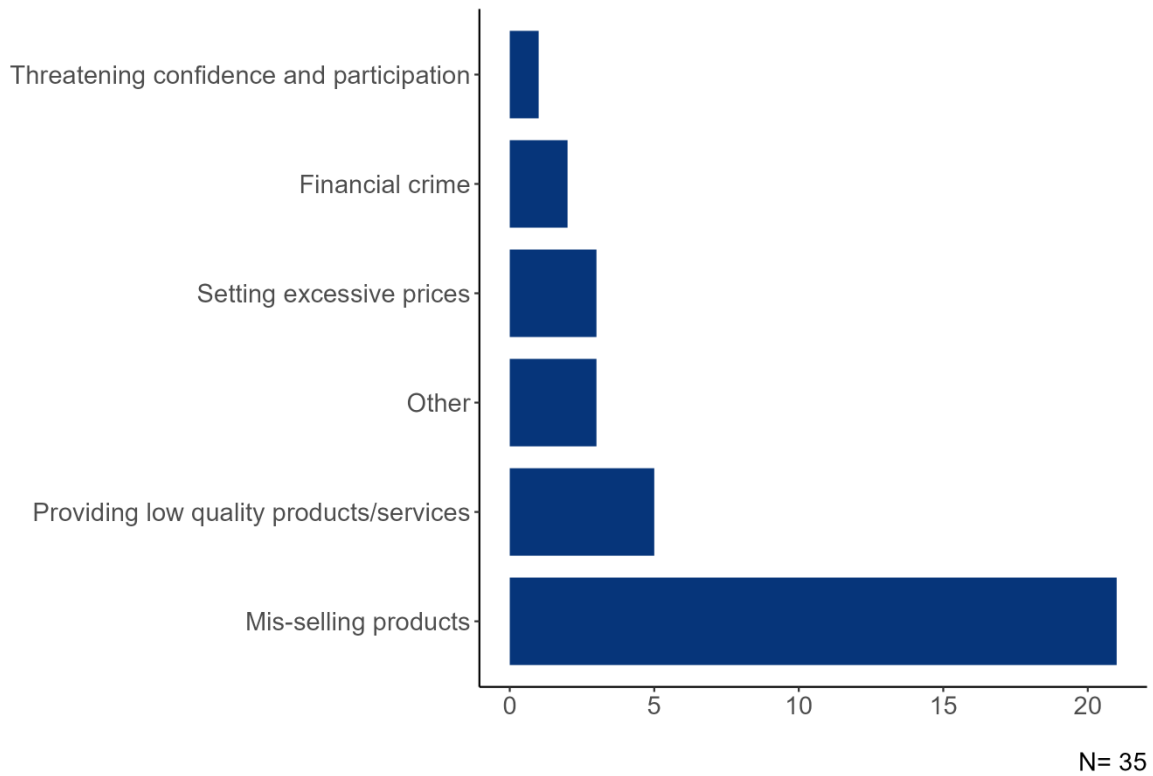
Figure 4 Types of harm most likely to be caused by unauthorised firms



Note: multiple responses possible.

Given that different types of infringement may cause different levels of harm to consumers, the survey also asked respondents which harm type would have the potential to cause the *most* harm to consumers. Figure 5 shows that most survey respondents identified **mis-selling products as being likely to cause the most harm to consumers**. These findings suggest that the FCA authorisations process has the highest potential to mitigate harm in relation to the mis-selling of products or services.

Figure 5 Harm type which would cause most harm to consumers

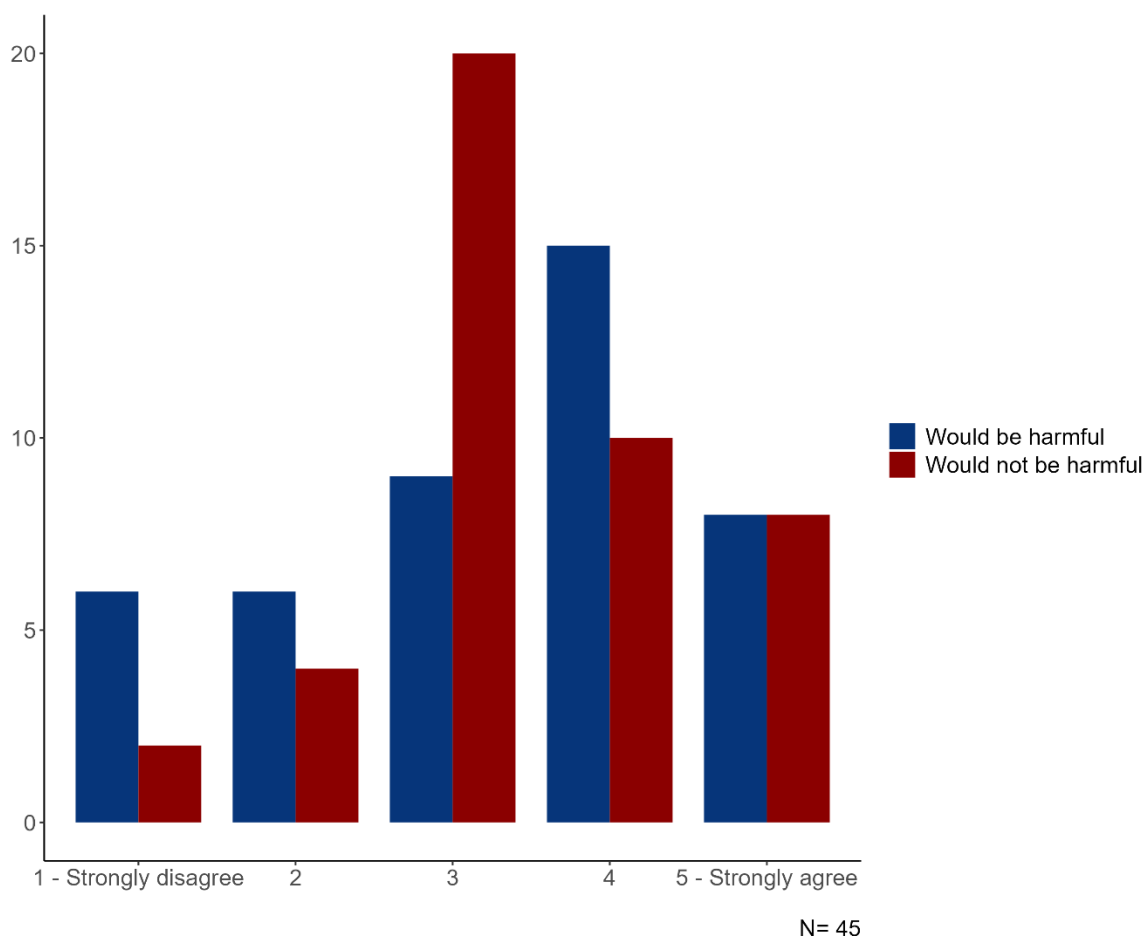


3.2.2 Deterrence effects

The costs associated with the authorisations process have the potential to deter both harmful and non-harmful firms from entering FCA-regulated markets. To quantify the deterrence effects of FCA authorisations on harmful and non-harmful firms, the survey asked respondents to rate their level of agreement with the following statements:

- 1) “The FCA Authorisations process is effective in deterring firms that **would be harmful** from applying for an authorisation and entering the market”.
- “The FCA Authorisations process is effective in deterring firms that **would not be harmful** from applying for an authorisation and entering the market”.

Responses were given on a scale from 1-5, with 1 being ‘Strongly disagree’ and 5 being ‘Strongly agree’. Figure 6 displays the distribution of responses to statements 1) and 2).

Figure 6 Extent to which FCA authorisations process deters harmful/non-harmful firms

For both harmful and non-harmful firms, respondents were more likely to agree than disagree that the FCA’s authorisations process is effective in deterring firms from entering the market. Out of 45 respondents, 23 either agreed or strongly agreed with the statement that the FCA’s authorisations process is effective in deterring firms that would be harmful from entering the market. For non-harmful firms, the corresponding figure was 18. **These results suggest that the FCA’s authorisations process has deterrence effects for both harmful and non-harmful firms seeking to enter the market.**

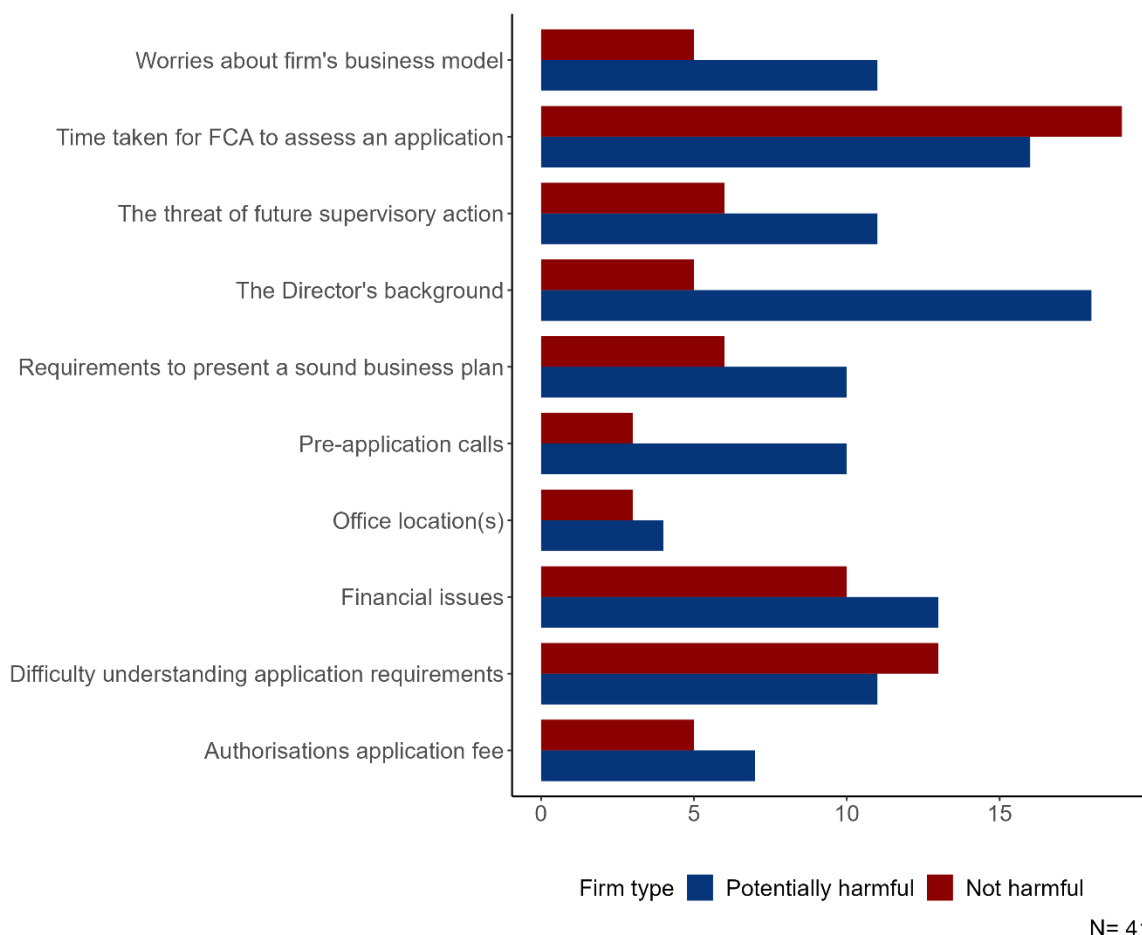
The extent to which the deterrence effects for **non-harmful firms** are important and could be detrimental depends on the competitiveness of the market these firms intend to operate in. In a competitive marketplace with many firms operating, entry of additional firms should not have a significant impact on the price or quality of services purchased by consumers.³⁶ The FCA should be more concerned about deterrence of non-harmful firms in markets where competition is deemed to be weaker.

The survey also gathered evidence on which aspects of the authorisations process were most effective in deterring harmful and non-harmful firms from becoming authorised. Figure 7 shows the

³⁶ This is because, in theory, competition between firms should have reduced any individual firm’s ability to profit by setting prices above the market equilibrium. It is possible that blocking entry of firms slows the diffusion of innovation and ideas into the marketplace, but the overall effects of this are likely to be lower in a competitive market than for a market with few competing firms.

number of survey respondents answering either 4 or 5 on a scale of 1-5 (5 being ‘to a critical extent’) to whether each aspect of the authorisations process deters prospective firms.

Figure 7 Number of respondents rating each aspect of authorisations process as important or very important in deterring prospective firms



Several of the regulatory requirements associated with FCA authorisations had relatively larger deterrence effects for potentially harmful firms than non-harmful firms. **Worries about a firm’s business model, checks into the background(s) of the firm’s Director (or Directors), and the threat of future supervisory action** were more effective in deterring harmful firms than non-harmful firms.

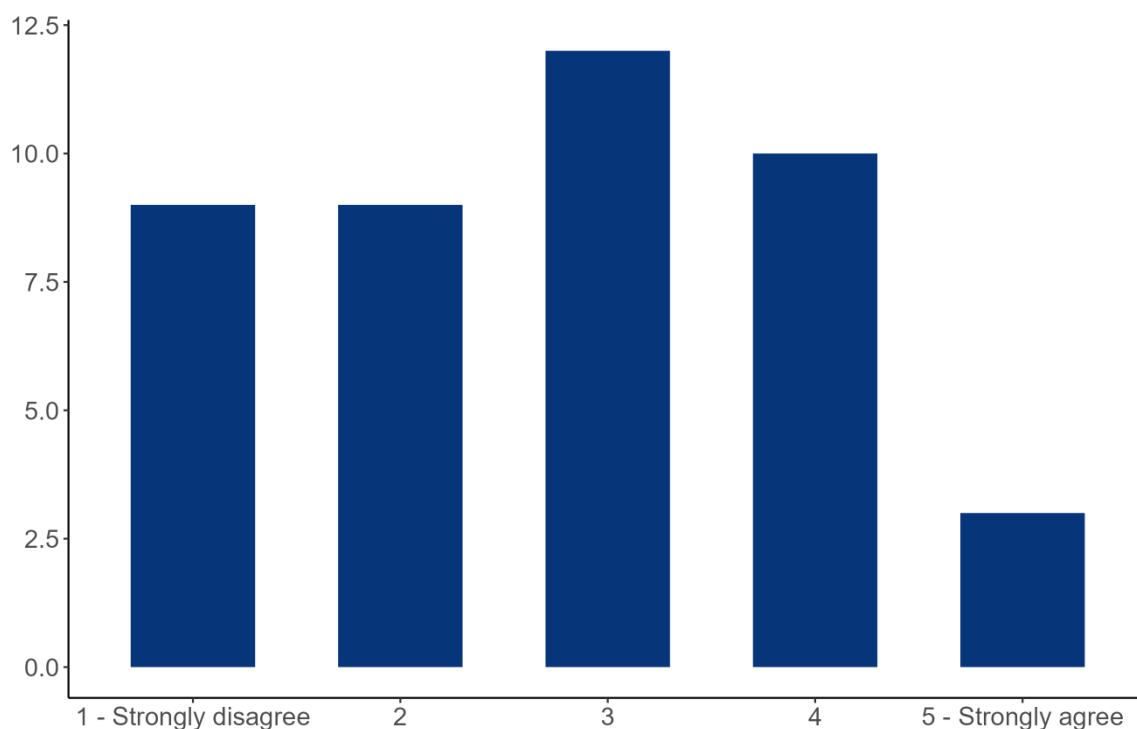
For non-harmful firms, the largest deterrence effects arose from factors such as **the time taken for the FCA to assess the application** and **difficulty understanding application requirements**.

It should be noted that the FCA has recently taken steps to speed up the authorisations process and provide additional guidance to firms on the application requirements. The administrative aspects of the process may therefore be relatively less important in deterring firms in future.

The FCA Authorisations team operates across multiple markets and sectors. It is therefore possible that authorisations activity in one sector has spillover effects on firm behaviour in other sectors. For example, an increased number of rejected applications in the consumer credit sector may induce firms seeking authorisation in the mortgage sector to make substantive changes to their applications to become authorised.

To test the degree of spillovers from FCA authorisations activity, the survey asked respondents to rate the extent to which they agreed with the assertion that: *“The FCA’s decisions and updates in the Authorisations space have a greater deterrence effect in the market which they relate to.”* Figure 8 displays the distribution of responses to this statement.

Figure 8 Extent to which FCA authorisations activity has a greater deterrence effect in the market in which it relates to



N= 45

The distribution of responses is relatively even for responses in the middle of the spectrum (2-4). However, fewer respondents answered ‘5 – Strongly agree’ than answered ‘1 – Strongly disagree’. **These results suggest that the impacts of the FCA’s authorisations activity in one sector spill over into other regulated sectors.**

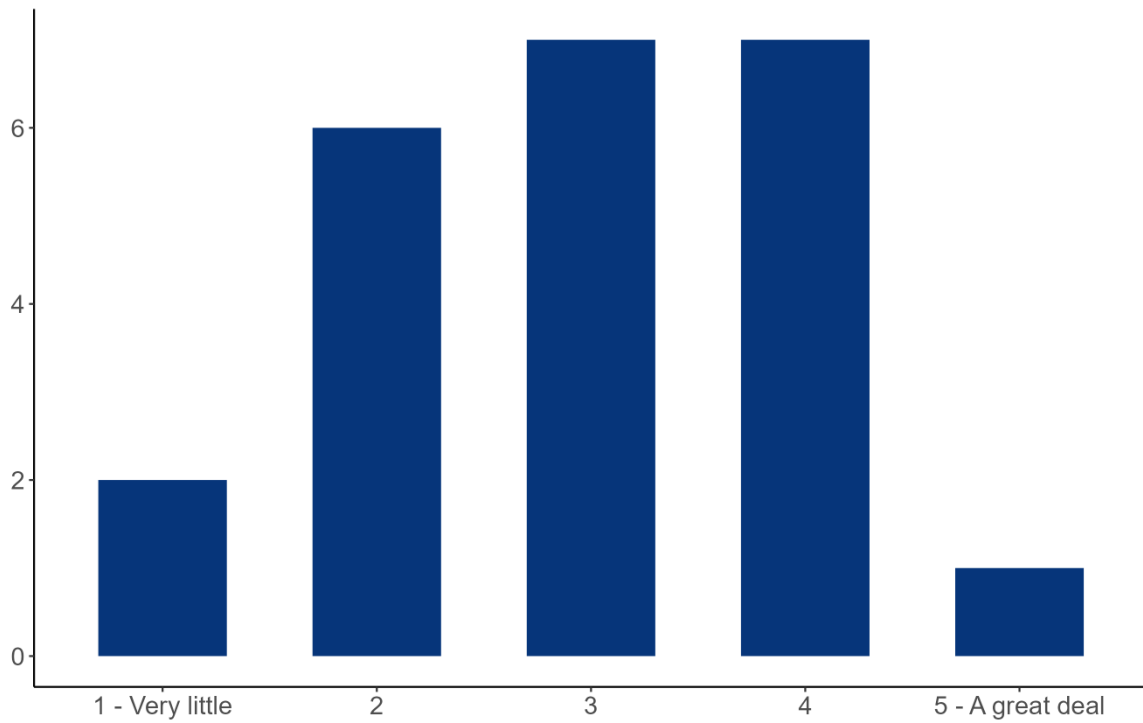
3.2.3 Support for firms during authorisations process

The FCA’s authorisations processes increasingly include proactive support of entry, with initiatives to support firms launching innovative products and services. These activities include giving firms ‘Minded-to-Authorise’ letters so they can raise capital or make significant investment secure in the knowledge that they will be authorised, allowing firms with novel or innovative products, services or business models access to direct support (including tailored advice) and a commitment to deal with their applications in a timely manner.

Respondents to the survey were asked to indicate how many of the firms they had advised in the past year had received proactive support from the FCA during the authorisations process. Combining this data with the total number of firms advised, we can estimate the percentage of firms who received proactive support during the authorisations process. The results suggest that **around 25% of firms advised by compliance consultants received proactive support during the authorisations process.**

Respondents were asked to evaluate to what extent FCA support was helpful to firms during the authorisations process (using a 1-5 scale, with 5 being ‘A great deal’). Figure 9 displays the results. There were few responses at the extremes of the distribution. Of the 23 consultants with experience of advising firms who received FCA support, 20 said this support was of some (i.e., more than ‘very little’) but not ‘a great deal’ of help to the firms.

Figure 9 Extent to which FCA support helped firms during authorisations process



N= 23

Together, these results imply that around one in four firms seeking authorisation receives proactive support from the FCA, and that this support is perceived to help these firms at least to some extent.

3.3 Value of prevented harm

In this section, we present the indicative monetary estimates of the annual value of prevented harm due to the FCA’s authorisations process. Sections 3.3.1 and 3.3.2 outline key inputs into the framework of prevented harm, while Sections 3.3.3, 3.3.4, and 3.3.5 present the estimates of prevented material harm, wellbeing harm, and total harm respectively.

3.3.1 Number of prevented infringements

A key input into the prevented harm framework is the number of prevented infringements due to FCA authorisations activity. We estimate the number of prevented infringements using the methodology outlined in Section 2.4.

Specifically, for each firm type we multiply the estimated total number of firms (Table 7) by the infringement propensity for that firm type (Table 6). To account for firms who continue to operate unauthorised, we adjust the estimated number of prevented infringements for firms who are not authorised by the proportion of firms who go on to operate unauthorised (η). Lastly, to estimate

the total number of prevented infringements we sum the estimated number of prevented infringements across firm types.

Table 10 Estimated total annual number of prevented infringements

Firm type	New authorisations	Variation of Permission
Didn't submit application to FCA	796 x 0.09 x (1-0.12)	48 x 0.09 x (1-0.06)
Blocked or withdrawn after starting application	314 x 0.04 x (1-0.12)	15 x 0.04 x (1-0.06)
Authorised – majority of substantive modifications made prior to FCA engagement	400 x 0.09	230 x 0.09
Authorised – majority of substantive modifications made after FCA engagement	158 x 0.01	501 x 0.01
Total	109.4	28.5

Note: Estimated total number of firms shown in blue, infringement propensities in green, and adjustment factor for firms operating unauthorised in red.

The estimated total annual number of prevented infringements for new authorisations was **109.4**, and for variations of permission was **28.5**. Therefore, the estimated total number of annual prevented infringements was **137.9**.

3.3.2 Other inputs

The estimation framework for prevented harm uses as inputs the average number of customers targeted per firm seeking authorisation and the proportion of firms who continue to operate having failed to achieve authorisation from the FCA. Survey respondents were asked to estimate the average number of customers that would be targeted by firms they had advised, and the percentage of firms who continue to operate having failed to achieve authorisation.

The estimate for the **average number of customers per firm** was **2,789** (with a median of 200)³⁷. The average estimated **proportion of firms seeking new authorisations who continue to operate unauthorised** was **12%**. The corresponding proportion for firms seeking Variations of Permission was **6%**.

Most survey respondents (e.g., 21 out of 35 who answered the question for new authorisations) reported that the proportion of firms who would continue to operate having failed to achieve authorisation is zero (i.e., having failed to achieve authorisation most firms would not operate, as would be expected). Among those respondents who estimated a proportion above zero, the estimates were quite varied. For example, for new authorisations, nine respondents estimated between 1-20% of firms would still go on to operate, but three respondents gave estimates of over 50%.

³⁷ We would argue against using the median because, although we might be concerned about outliers in a small sample, the responses may simply reflect the fact that financial firms vary significantly in size and scope (i.e. there are many small firms with limited scope and some very large firms with a large scope). In this case, the resulting distribution of firm sizes would be non-normal, and we would expect the median customers to be much lower than the mean. If we were to use the median, we would miss out on these large firms in our analysis.

3.3.3 Prevented material harm

The estimated prevented material harm is derived by multiplying the number of prevented infringements by the average material harm per infringement. The average material harm per infringement is calculated using the methods described in Section 2.4.

Method 1: Based on CSEW

Given an average individual harm of £695 and an average number of customers of 2,789, the estimated average material harm per infringement is around **£1.94m**. In other words, an infringing firm would cause on average £1.94m of harm to consumers via direct financial losses.

To calculate the total estimated annual prevented material harm, the estimated prevented harm per infringement is multiplied by the estimated number of prevented infringements (137.9). The total estimated prevented material harm, split by new authorisations and Variations of Permission, is displayed in Table 11.

Table 11 Total annual prevented material harm – CSEW method

Activity type	Material harm prevented
New authorisations	£212.1m
Variation of Permission	£55.3m
Total	£267.4m

Note: Totals in the table may not match exactly with calculations based on other data tables due to rounding.

Method 2: Fines/complaints-based

The estimated annual average material harm based on FCA fines and complaints data is calculated using the following equation:

$$h_{material}^2 = h_{fines} + h_{complaints}$$

$$h_{material}^2 = 0.07 \times £9.1m + Customers * £188.98$$

Given the estimated average number of customers of 2,789, the estimated annual average material harm per infringement using this method was **£1.16m**.³⁸ Applying the same estimated number of prevented infringements as in Method 1, the estimated total prevented material harm using Method 2 is displayed in Table 12.

Table 12 Total annual prevented material harm – Fines/complaints method

Activity type	Material harm prevented
New authorisations	£127.4m
Variation of Permission	£33.2m
Total	£160.6m

Note: Totals in the table may not match exactly with calculations based on other data tables due to rounding.

Using the fines/complaints method, the estimated annual prevented material harm was roughly £107m lower than using the personal financial loss estimates from the CSEW (i.e. Method 1 above). One explanation for this may be that complainants receiving redress for financial infringements do not, on average, recover the full value of their financial loss. The CSEW estimates suggest that

³⁸ If we were to use the disgorgement-based method, the average material harm per infringement would instead be £636,293.

victims suffer a loss of around £700 on average, but the complaints data suggest that the average redress paid is under £200.

A further possible explanation may be that as the CSEW estimates are based on self-reports of financial losses, upward recall bias in CSEW respondents might overestimate material financial harm.

3.3.4 Prevented wellbeing harm

The average annual wellbeing harm per infringement is presented as a range. The estimated individual wellbeing harm per infringement was estimated at **£1,832 to £2,932**. This result implies that, on average, individuals who fall victim to a financial infringement suffer roughly between £1,800 and £2,900 of harm due to the reduction in wellbeing resulting from the infringement.

To generate the overall annual value of wellbeing harm prevented due to the FCA's authorisations activity, the average personal wellbeing harm per infringement is multiplied by the average number of customers per firm (2,789) and the estimated number of prevented infringements (137.9). Table 13 displays the range for the total estimated annual prevented wellbeing harm, categorised by new authorisations and Variations of Permission.

Table 13 Total annual prevented wellbeing harm

Activity type	Wellbeing harm prevented
New authorisations	£559.2m - £894.7m
Variation of Permission	£145.8m - £233.3m
Total	£705m - £1,128m

The results suggest that the annual prevented wellbeing harm due to the FCA's authorisations procedures is between £705m and £1,128m. Using the CSEW method, prevented wellbeing harm was between 2.5 and 4.5 times as large as prevented material harm, suggesting that the majority of the benefit of the FCA authorisations process may be due to the prevention of harm via wellbeing effects.

3.3.5 Total annual prevented harm

The total annual prevented harm is calculated as the sum of the prevented material harm and prevented wellbeing harm. We present the estimated total annual prevented harm separately for each method for calculating prevented material harm. The total estimated prevented harm due to the FCA's authorisations activity using the CSEW method for material harm is presented in Table 14.

Using the CSEW method, we estimate the total annual prevented harm due to the deterrence effect of the FCA's authorisations process as between **£972.4m and £1,395.4m**, depending on whether the upper/lower bound is used for wellbeing valuation.

Table 14 Total annual prevented harm – CSEW method

Activity type	Total harm prevented
New authorisations	£771.3m - £1,106.8m
Variation of Permission	£201.1m - £288.6m
Total	£972.4m - £1,395.4m

Table 15 shows the estimated total annual prevented harm using the fines/complaints method for material harm. Using the CSEW method leads to a roughly 8-12% increase in the estimate of total prevented harm, driven by the higher estimate of prevented material harm.

Table 15 Total prevented harm – Fines/complaints method

Activity type	Total harm prevented
New authorisations	£686.6m - £1,022.1m
Variation of Permission	£179m - £266.5m
Total	£865.6m - £1,288.6m

Together, the estimates suggest that the annual value of the prevented harm due to the FCA’s authorisations process is large – between £866m and £1.4bn – **somewhere in the range of 1.5-2.4 times the FCA’s total group operating costs for 2021/22 (£586.8m)**³⁹ or 9-15% of the FCA’s annual average benefits as measured in its 2023 Positive Impact report⁴⁰. Most of this benefit is derived from improvements to personal wellbeing due to the prevention of financial infringements.

3.3.6 Sensitivity of results to key assumptions

The estimates for the value of prevented harm are subject to three key assumptions, namely:

- the duration of the wellbeing harm from an infringement is **one year**;
- **every customer** of an infringing firm is affected by an infringement; and
- the material individual harm from a given infringement is **equal to the material individual harm suffered due to fraud**.

To illustrate the impact of varying these assumptions on the overall result, we need a single ‘central estimate’ to use as a benchmark (as can be seen in previous sections, we present ranges). Hence, for this sensitivity analysis we use the midpoint of the estimated lower and upper bounds for total prevented harm (£866m and £1,400m) as our ‘central estimate’ to provide a basis for comparison. Under the baseline assumptions, the central estimate for prevented harm due to the authorisations process is £1,130m.

Figure 10 shows the sensitivity of the central estimate of total prevented harm to changes in these assumptions. Each line in the figure shows the sensitivity of the estimated total harm to changes in one assumption, holding all other inputs constant at their central values.

The x-axis shows the percentage change in each assumption.⁴¹ For example, we examine the change in total prevented harm given a 10% reduction in the duration of the wellbeing impacts of an infringement. This would correspond to assuming that the wellbeing impacts of an infringement persist for 0.9 years (around 11 months) instead of one year.

For example, each point on the green line shows the estimated value of the total prevented harm for a given percentage change in the average material harm per infringement. Since the baseline assumptions used in the central estimate for the duration of wellbeing harm (the blue line) and the proportion of customers affected by an infringement (the red line) represent upper bounds, we do

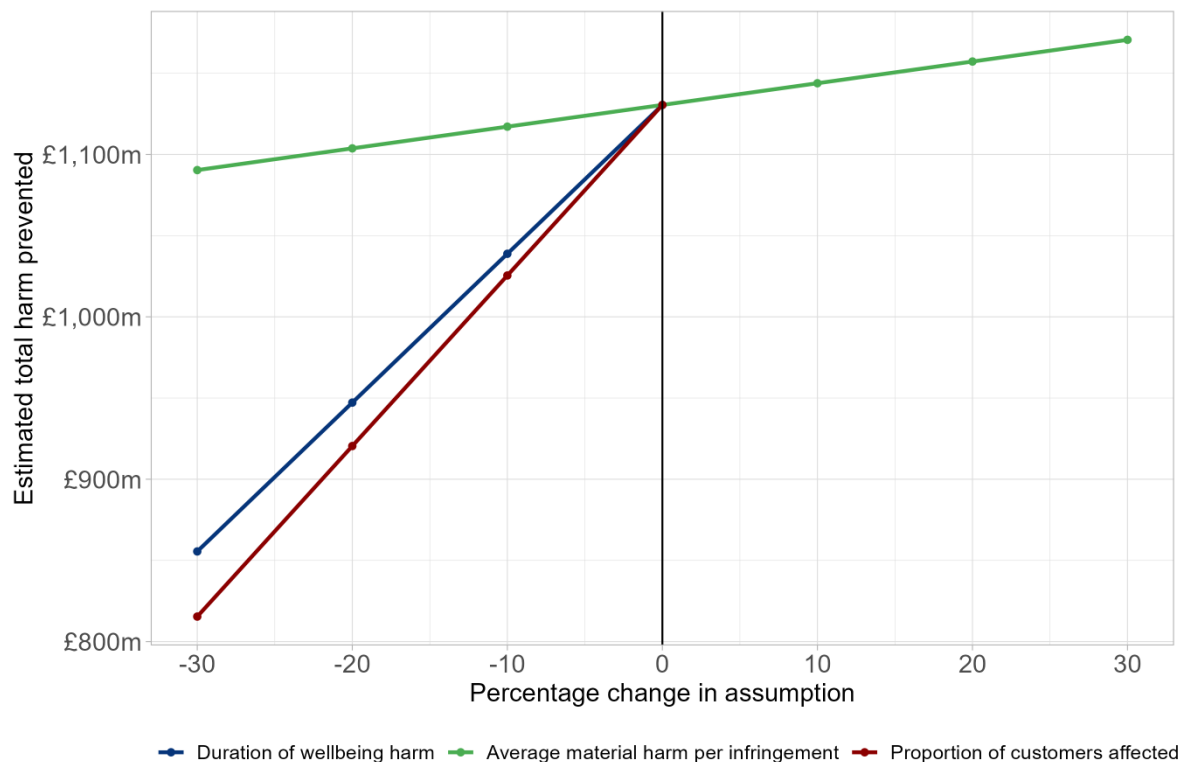
³⁹ FCA. (2022). “Annual Report and Accounts 2021/22”. <https://www.fca.org.uk/publication/annual-reports/2021-22.pdf>.

⁴⁰ FCA. (2023). “Our Positive Impact 2023”. <https://www.fca.org.uk/publication/corporate/positive-impact-2023.pdf>.

⁴¹ Zero on this axis, where the red, green, and blue lines intersect, corresponds to the baseline assumptions and central estimate.

not show the impact of increasing these inputs (e.g. the proportion of customers affected cannot exceed 100%).

Figure 10 Sensitivity of total prevented harm estimate to input assumptions



Note: the above graph shows the impact of varying the key input assumptions into the model of prevented harm due to the FCA's authorisations process. Each line corresponds to varying a given assumption, holding the other assumptions constant. The x-axis shows the percentage change in the assumed input value. The y-axis shows the central estimate of prevented total harm (the sum of prevented material and wellbeing harm). The central estimate of prevented harm is calculated as the midpoint of the lower and upper bounds for total material harm presented in the main report findings.

Source: London Economics' analysis.

The results indicate that the prevented harm estimates are **most sensitive to changes to the assumptions regarding the proportion of customers affected by an infringement and the duration of wellbeing harm**. For example, a 10% decrease in the proportion of customers affected by an infringement reduces the central estimate of total prevented harm from £1,130m to £1,025m, a fall of 9.2%. The estimates of total prevented harm are less sensitive to changes in the assumed material losses due to being victim to an infringement.

Figure 10 shows that the estimates of total prevented harm are sensitive to the underlying modelling assumptions – particularly the assumptions regarding the duration of wellbeing harm and the proportion of customers affected by an infringement. Our assumptions represent an upper bound for these quantities. Therefore, when interpreting the results, it should be noted that our model has more scope to overestimate than underestimate the degree of prevented harm due to the authorisations process.

4 Discussion

The results presented in this report show that the FCA authorisations process has deterrence effects for potentially harmful firms. The results also suggest that some non-harmful firms are also deterred by aspects of the authorisations process.

The survey results imply that **some aspects of the authorisations process are relatively more important in deterring potentially harmful firms than non-harmful firms** (see Figure 7). Specifically, worries about a firm's business model, checks into the background of company Directors, and pre-application calls were found to be relatively more important factors in deterring potentially harmful firms.

The most important aspects of the authorisations process in deterring non-harmful firms related to **the administrative burden of authorisation** – specifically the time taken to process an application and difficulties in understanding the application requirements. One potential way to mitigate this issue would be to take steps to make the application requirements clearer and to speed up processing times.

However, the administrative burden of authorisation also has meaningful deterrence effects for potentially harmful firms. Therefore, reducing these costs would theoretically reduce the deterrence effects for both potentially harmful and non-harmful firms. **There is a trade-off between minimising the number of non-harmful firms who are blocked access to the market and ensuring that the costs associated with authorisation are sufficient to deter firms with the potential to cause consumer harm.**

One way to refine the authorisations process could be to **invest more effort in the aspects of the process which have the greatest deterrence effect for potentially harmful firms** (checks into firm business models and company directors, for example) whilst taking steps to reduce the processing times for applications and make application requirements clearer.

The benefit of this approach is that it would focus resources specifically on aspects of authorisation with greater deterrence effects for potentially harmful firms, offsetting the reduced deterrence effect from administrative costs. For non-harmful firms, the reduced administrative burden should reduce overall deterrence effects.

5 Conclusion

Deterring firms with the potential to cause harm from entering the regulated marketplace is a key objective of the FCA's authorisations process. In this report, we use a survey of compliance consultants alongside a theoretical framework to generate **multipliers capturing the size of the deterrence effect** relative to the direct effect of authorisations activity, **quantify the value of prevented harm**, and **gain insight into aspects of the authorisations process** and their impact on firm behaviour.

Three key conclusions emerge from the analysis:

- **The deterrence effects of authorisation are larger than the direct effects.** Amongst firms seeking authorisation, the number of firms who change their behaviour prior to FCA awareness of their application is larger than those who change their behaviour as a direct result of FCA involvement. The overall firm deterrence multiplier suggests that for every firm which changes its behaviour as a direct result of FCA involvement, 1.49 change their

behaviour due to the deterrence effect. Among firms seeking new authorisations, the estimated multiplier is 2.53.

- **The deterrence effect is larger in terms of prevented infringements.** The infringement deterrence multipliers are larger than the firm deterrence multipliers. The overall infringement deterrence multiplier suggests that for every infringement prevented as a direct result of the FCA's authorisations activity, 6.6 are prevented due to the deterrence effect. This finding suggests that firms who are more likely to infringe are also more likely to respond to the deterrence effects of the authorisations process.
- **The FCA authorisations process generates substantial value due to prevented harm.** The framework of prevented harm suggests that the FCA authorisations process generates between £866m and £1.4bn in benefits annually due to prevented infringements. Most of these benefits are due to prevented wellbeing harms.

Qualitative findings from the survey suggest that the authorisations process deters harmful firms, but also has some deterrence effects for non-harmful firms. Amongst harmful firms, the greatest deterrence effects are generated by checks into the background(s) of the firm's Director (or Directors), the time taken during the application process, and scrutiny of financial issues. Deterrence effects for non-harmful firms are primarily generated by the time to process applications and difficulty understanding application requirements. These deterrence effects may be relatively less important in future due to recent changes to the authorisation process made by the FCA.

A significant proportion of firms make substantive modifications to become authorised. Of firms making modifications, the most common modifications were in relation to business plans or scope of permissions. Although harmful firms have the potential to cause various types of consumer harm, survey respondents identified mis-selling of products as being likely to cause the most harm.

Deterrence is a difficult concept to measure, as by definition deterred firms are not observed operating in the marketplace. However, the framework developed in this report suggests that the deterrence effects of the FCA's authorisations process are larger than the observable direct effects. Furthermore, deterrence effects are largest for firms that have the potential to engage in harmful behaviour.

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Annex 1 Survey questions

INTRODUCTION

READ OUT TO ALL

Good morning/afternoon, my name is [...] and I am calling from OMB Research, an independent market research company.

We have been commissioned by the Financial Conduct Authority (FCA) to carry out a survey among compliance specialists to inform the FCA's practices regarding firm authorisation.

We would like to speak to someone within your organisation who is responsible for assisting firms that seek your advice on targeting activities, customers and/or markets that require FCA authorisation. We are specifically interested in firms applying under the Financial Services and Markets Act (FSMA) and Alternative Investment Fund Managers Regulations (AIFMD)

Applications for FCA Authorisation mean applications for any or all of the following: Authorisation with the FCA; Registration with the FCA; Change in control of a firm; Variation of permission; Waivers and modifications; Capital requirements permission; and change in legal status.

ONCE THROUGH TO PERSON BEST QUALIFIED TO TALK TO ABOUT FCA AUTHORISATION.

ADD AS NECESSARY:

- The research is being conducted in accordance with the Market Research Society Code of Conduct and the Data Protection Act 2018, which means the discussion will be treated in strict confidence, and input used for statistical purposes and published in aggregate form only.
- We will not disclose to the FCA who has taken part in the research unless given express consent. Your personal details will be stored securely separately to your survey responses and destroyed within 12 months, and we will ask whether you may wish to participate in further research at the end of this interview.
- Your business was selected from a list of firms registered as compliance consultants with the Association of Professional Compliance Consultants (APCC).
- You should have received a letter outlining the aims and objectives of this research.

REASSURE AS NECESSARY:

- If you would like to speak to someone about this survey, please contact Hannah Gorry at OMB Research on 01732 220582 or hannah.gorry@ombresearch.co.uk. Alternatively, if you wish to verify the authenticity of this research you can contact Tim Burrell at the FCA on 0207 066 4322 or by email: tim.burrell@fca.org.uk
- To check OMB's credentials you can call the Market Research Society on 0800 975 9596.

IF NECESSARY, INTERVIEWER TO OFFER TO SEND EMAIL WITH FURTHER INFORMATION ABOUT THE SURVEY

The interview will take about 15 minutes, depending on your answers. Is it convenient to speak to you now or would you prefer to make an appointment for another time?

Yes	1	CONTINUE WITH INTERVIEW
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No	2	MAKE APPOINTMENT (RECORD NAME, PHONE NUMBER AND TIME)
Refused	3	RECORD REASON AND CLOSE

GDPR CONSENT

The information you give us will be used for research purposes only and we will not disclose who has taken part or divulge specific details about your organisation unless you agree to this at the end of the survey.

We comply with the requirements of the GDPR, and you can find out more information in our Privacy Notice, which is on our website (IF NECESSARY: www.ombresearch.co.uk/privacy).

All calls are recorded for training and quality purposes.

ASK ALL

Z1 Before I continue, can I just confirm that you are happy to participate in the survey on this basis?

Yes, agreed to participate in survey	1	CONTINUE
Requested more information	2	SEND INFO EMAIL
No, declined to participate	3	CLOSE

SECTION A: BACKGROUND

READ OUT TO ALL

I would like to begin by asking some questions to understand the sectors and markets that you work in.

ASK ALL

A1. First of all, can I just confirm that you are a compliance specialist that advises on FCA authorisation?

SINGLE CODE.

Yes	1	CONTINUE WITH INTERVIEW
No	2	SEEK REFERRAL
Refused	3	RECORD REASON AND CLOSE

ASK ALL

A2. Thinking specifically about the advice on FCA authorisation you provide, including on applications for variation of permission, which of the following types of firm have you advised over the past year?

READ OUT. MULTI CODE.

Retail Banking	1	
Pensions & Retirement income	2	
General insurance & Protection	3	
Retail Investments	4	
Retail Lending	5	
Investment management	6	
Payment services and e-money	11	
Wholesale	7	
Other (SPECIFY)	8	
DO NOT READ OUT: None of these	9	CLOSE
DO NOT READ OUT: Don't know	10	

ASK ALL

A3. In the last year, approximately how many firms seeking FCA authorisation have you personally advised on the following...?

AS NECESSARY: If you don't know the exact figure, please provide your best estimate.

A) New authorisations	WRITE IN NUMBER	Don't know
B) Variation of Permissions	WRITE IN NUMBER	Don't know

A4 DELETED

READ OUT

For the rest of the survey, unless otherwise noted, we are interested in all advice you have given for both new authorisations and Variations of Permission.

ASK ALL

A5 Of firms you have personally advised in the past year, please could you estimate the average number of consumers and average number of B2B customers that these firms were seeking to engage with in their operations? Again, please provide your best estimate. So firstly...?

AS NECESSARY: If you don't know the exact figure, please provide your best estimate.

A) Consumers	WRITE IN NUMBER	Don't know	Not Applicable
B) B2B Customers	WRITE IN NUMBER	Don't know	Not Applicable

A6 DELETED

SECTION B: FIRMS MOVING THROUGH THE AUTHORISATION PROCESS

READ OUT TO ALL

I would now like to move on and ask about the FCA authorisation process itself.

ASK ALL

B1 Please can you tell me how many of the <IF A3A>1: INSERT FIGURE FROM A3A> firms that you have personally advised on new authorisations in the past year that each of the following applies to?

AS NECESSARY: I'll ask about Variation of Permissions at the next question

READ IF ASKED BY PARTICIPANT: By 'substantive modification', we mean any change to the application that fundamentally changes the application, for example an overhaul of the business model or change to the proposed directorship. Small changes, such as simple clarifications, should not be seen as substantive.

RECORD NUMBER FOR EACH ROW.

a) Firms which, after receiving your advice, decided not to submit an application to the FCA	RECORD NUMBER	Don't know
b) Firms whose application was withdrawn or refused having started the application process	RECORD NUMBER	Don't know
c) Firms authorised having made the majority of their substantive modifications to their application <u>prior</u> to engaging with the FCA	RECORD NUMBER	Don't know
d) Firms authorised having made the majority of their substantive modifications to their application <u>after</u> engaging with the FCA	RECORD NUMBER	Don't know
e) Firms authorised <u>without</u> making substantive modification to their application	RECORD NUMBER	Don't know

ASK IF A3B>0

B2 And please can you tell me how many of the <IF A3B>1: INSERT FIGURE FROM A3B> firms that you have personally advised on seeking a Variation of Permission (VoP) in the past year that each of the following applies to?

READ IF ASKED BY PARTICIPANT: By 'substantive modification', we mean any change to the application that fundamentally changes the application, for example an overhaul of the business model or change to the proposed directorship. Small changes, such as simple clarifications, should not be seen as substantive.

RECORD NUMBER FOR EACH ROW.

a) Firms which, after receiving your advice, decided not to submit an application to the FCA	RECORD NUMBER	Don't know
b) Firms whose application was withdrawn or refused having started the application process	RECORD NUMBER	Don't know
c) Firms authorised having made the majority of their substantive modifications to their application <u>prior</u> to engaging with the FCA	RECORD NUMBER	Don't know
d) Firms authorised having made the majority of their substantive modifications to their application <u>after</u> engaging with the FCA	RECORD NUMBER	Don't know
e) Firms authorised <u>without</u> making substantive modification to their application	RECORD NUMBER	Don't know

ASK IF SUBSTANTIVE MODIFICATION MADE (B1C>0 OR B1D>0 OR B2C>0 OR B2D>0)

B3 Thinking about firms which made substantive modifications during the authorisation process, how many firms made the following modifications?

READ IF ASKED BY PARTICIPANT: By ‘substantive modification’, we mean any change to the application that fundamentally changes the application, for example an overhaul of the business model or change to the proposed directorship. Small changes, such as simple clarifications, should not be seen as substantive.

READ OUT. RANDOMISE CODES 1-6 & 8.

Business plan	1	RECORD NUMBER	Don't know
Compliance policy	2	RECORD NUMBER	Don't know
Directors or staff	3	RECORD NUMBER	Don't know
Scope of permissions	4	RECORD NUMBER	Don't know
Scope of customers	5	RECORD NUMBER	Don't know
Financial resources or capitalisation	6	RECORD NUMBER	Don't know
Procedures to ensure that vulnerable customers are treated fairly	8	RECORD NUMBER	Don't know
Something else (SPECIFY)	7	RECORD NUMBER	Don't know

B4 DELETED

B5 DELETED

ASK ALL

B8 I'm now going to read out a list of aspects that relate to the authorisation process. I'd like you to tell me the extent that each of these deters both potentially harmful firms and firms that would not be harmful. Please answer on a scale from 1 to 5 where 1 is 'to no extent' and 5 is 'to a critical extent'

READ IF ASKED BY PARTICIPANT: By a ‘harmful firm’, we mean a firm that through deliberate and inappropriate actions causes (economic) loss and detriment to consumers or other market participants (in the case of wholesale markets).

INTERVIEWER TO REMIND AS NECESSARY: To what extent does this deter firms?

RANDOMISE STATEMENTS A TO J

a) Authorisations application fee
b) Requirements to present a sound business plan
c) Worries about the firm's business model
d) The Director's background
e) The threat of future supervisory action
f) Difficulty understanding what is required in an application and the permissions to be applied for
g) Office location(s)
h) Financial issues, such as insufficient financial resources to operate as a regulated entity
i) Time it takes for the FCA to assess an application

j) Pre-application calls

	Potentially harmful firms	Firms that would <u>not</u> be harmful
1 – to no extent	1	1
2	2	2
3	3	3
4	4	4
5 – To a critical extent	5	5
(Don't know)	6	6
(Not applicable)	7	7

ASK IF EXPERIENCE WITH AUTHORISED FIRMS (B1C>0 OR B1D>0 OR B1E>0 OR B2C>0 OR B2D>0 OR B2E>0)

B6 Thinking about all firms you advised that obtained authorisation in the last year, how many received proactive support from the FCA's authorisations team in the authorisation process?

WRITE IN NUMBER	1	
Don't know	2	
Refused	3	

ASK IF EXPERIENCE WITH AUTHORISED FIRMS RECEIVING HELP FROM FCA (B6>0)

B7 To what extent do you feel this support helped firms with the authorisation process?

Please answer on a scale of 1 to 5, where 1 is very little and 5 is a great deal.

1 – Very little	2	3	4	5 – A great deal	(Don't know)
1	2	3	4	5	6

SECTION C: PROPENSITY OF DOING HARM

READ OUT TO ALL (B1A>0 OR B1B>0 OR B1C>0 OR B1D>0 OR B2A>0 OR B2B>0 OR B2C>0 OR B2D>0)

I'd like to move on to ask about the firms that have not been authorised or had to provide substantive modifications to their submitted application.

READ IF ASKED BY PARTICIPANT: By 'substantive modification', we mean any change to the application that fundamentally changes the application, for example an overhaul of the business model or change to the proposed directorship. Small changes, such as simple clarifications, should not be seen as substantive.

ASK IF ADVISED FIRMS ON 'NEW AUTHORISATION' NOT AUTHORISED/MADE SUBSTANTIVE MODIFICATIONS (B1A>0 OR B1B>0 OR B1C>0 OR B1D>0)

C1. In the last 12 months, do you think any of the following types of firms you advised on new authorisations would have gone on to cause harm if authorisation had not been required?

IF B1A>0: a) Firms which, after receiving your advice, decided not to submit an application to the FCA	YES/NO
IF B1B>0: b) Firms whose application was withdrawn or refused having started the application	YES/NO
IF B1C>0: c) Firms authorised having made the majority of their substantive modifications <u>prior</u> to FCA engagement, had they been authorised without making any modifications	YES/NO
IF B1D>0: d) Firms authorised having made the majority of their substantive modifications <u>after</u> FCA engagement, had they been authorised without making any modifications	YES/NO

ASK FOR ALL WHERE RESPONSE TO C1 = YES

C2 Of firms you have advised in the last 12 months, how many of each of the following types would have gone on to cause harm?

AS NECESSARY: **If you don't know the exact figure, please provide your best estimate.**

a) Firms which, after receiving your advice, decided not to submit an application to the FCA	WRITE IN NUMBER
b) Firms whose application was withdrawn or refused having started the application	WRITE IN NUMBER
c) Firms authorised having made the majority of their substantive modifications <u>prior</u> to FCA engagement, had they been authorised without making any modifications	WRITE IN NUMBER
d) Firms authorised having made the majority of their substantive modifications <u>after</u> FCA engagement, had they been authorised without making any modifications	WRITE IN NUMBER

ASK IF ADVISED FIRMS ON 'VOP' NOT AUTHORISED/MADE SUBSTANTIVE MODIFICATIONS (B2A>0 OR B2B>0 OR B2C>0 OR B2D>0)

C3 Do you think any of the following types of firms you advised on seeking a Variation of Permission (VoP) in the last 12 months would have gone on to cause harm if this had not been required?

IF B2A>0: a) Firms which, after receiving your advice, decided not to submit an application to the FCA	YES/NO
IF B2B>0: b) Firms whose application was withdrawn or refused having started the application process	YES/NO
IF B2C>0: c) Firms authorised having made the majority of their substantive modifications <u>prior</u> to FCA engagement, had they been authorised without making any modifications	YES/NO
IF B2D>0: d) Firms authorised having made the majority of their substantive modifications <u>after</u> FCA engagement, had they been authorised without making any modifications	YES/NO

ASK FOR ALL WHERE RESPONSE TO C3 = YES

C4 Of firms you have advised in the last 12 months, how many of each of the following types would have gone on to cause harm?

AS NECESSARY: **If you don't know the exact figure, please provide your best estimate.**

a) Firms which, after receiving your advice, decided not to submit an application to the FCA	WRITE IN NUMBER
b) Firms whose application was withdrawn or refused having started the application process	WRITE IN NUMBER

c) Firms authorised having made the majority of their substantive modifications <u>prior</u> to FCA engagement, had they been authorised without making any modifications	WRITE IN NUMBER
d) Firms authorised having made the majority of their substantive modifications <u>after</u> FCA engagement, had they been authorised without making any modifications	WRITE IN NUMBER

ASK ALL

C5 More generally, to the best of your knowledge, what percentage of firms failing to get a new authorisation go on to operate in market segments for which they are not authorised?

AS NECESSARY: **As mentioned previously, your response will be treated in strict confidence and we will not disclose your responses to the FCA without express consent. Furthermore, we are NOT asking you to disclose any information about firms you may know operating without authorisation. Your response here will not be used by the FCA in any way except for the purpose of this specific research.**

RECORD PERCENTAGE.

WRITE IN PERCENTAGE (0-100)	1	
Don't know	2	
Refused	3	

ASK ALL

C6 And, similarly, to the best of your knowledge, what percentage of firms failing to get a Variation of Permission (VoP) go on to operate in market segments for which they are not authorised?

RECORD PERCENTAGE.

WRITE IN PERCENTAGE (0-100)	1	
Don't know	2	
Refused	3	

SECTION D: CONSUMER AND MARKET HARM

READ OUT TO ALL

I'd like to finish by asking some questions about the potential for harm to consumers and other market participants.

ASK ALL

D1 Thinking about firms that fail to achieve the threshold conditions for authorisation from the FCA, which of the following types of harm would they most likely cause to consumers and other market participants?

READ OUT. CODE ALL THAT APPLY. RANDOMISE CODES 1-6.

Setting excessive prices	1	
Providing low-quality products/services	2	
Mis-selling products to consumers (e.g. selling unsuitable products)	3	

Failing to meet important, specific consumer needs (e.g. excluding certain types of consumers)	4	
Providing risk to wider markets and the UK economy	5	
Threatening confidence and participation (e.g. by market abuse, unreliable performance, or disorderly failure)	6	
Other (SPECIFY)	7	
DO NOT READ OUT: Don't know	8	

ASK IF D1 HAS MORE THAN ONE RESPONSE

D2 And which of these do you feel would cause most harm to consumers and other market participants?

READ OUT. SINGLE CODE

ONLY INCLUDE ANSWER OPTIONS FLAGGED AS YES IN D1

Setting excessive prices	1	
Providing low-quality products/services	2	
Mis-selling products to consumers (e.g. selling unsuitable products)	3	
Failing to meet important, specific consumer needs (e.g. excluding certain types of consumers)	4	
Providing risk to wider markets and the UK economy	5	
Threatening confidence and participation (e.g. by market abuse, unreliable performance, or disorderly failure)	6	
<INSERT FROM D1 OTHER SPECIFY>	7	
DO NOT READ OUT: Don't know	8	

ASK ALL

D3 On a scale of 1 to 5, where 1 is 'strongly disagree' and 5 is 'strongly agree', to what extent do you agree with the following statements.

READ OUT. SINGLE CODE.

	1 – Strongly disagree	2	3	4	5- Strongly agree	(Don't know)
a) The FCA Authorisations regime is effective in deterring firms that <u>would</u> be harmful from applying for an authorisation and entering the market	1	2	3	4	5	6
b) The FCA Authorisations regime deters firms that would <u>not</u> be harmful from applying for an authorisation and entering the market	1	2	3	4	5	6

c) The FCA's decisions and updates in the Authorisations space have a greater deterrence effect in the market which they relate to.						
AS NECESSARY: For example, Authorisations decisions regarding debt management have a greater deterrence effect against harmful practices in the debt management market than they do in other markets.	1	2	3	4	5	6

ASK ALL

D4 Do you have any suggestions on steps to ensure that the Authorisation deters firms that would cause harm, while making it easy for non-harmful firms to become authorised?

OPEN RESPONSE

E. END OF INTERVIEW

READ OUT TO ALL

Thank you very much for your time. I just need to check a couple of things before you go.

ASK ALL

E1 The FCA may be conducting some further follow up work on this topic to improve their understanding. Would you be willing for us to re-contact you to invite you to take part?
DO NOT READ OUT. SINGLE CODE.

AS NECESSARY: You may not be contacted and, if you are, there is no obligation to take part.

Yes	1	
No	2	

ASK IF CONSENT TO RE-CONTACT

E2 And is <TELEPHONE NUMBER> the best number to call you on? DO NOT READ OUT. SINGLE CODE.

Yes	1	
No – WRITE IN NUMBER	2	

ASK ALL

E3 Can I just confirm that your name is <CONTACT NAME>? DO NOT READ OUT. SINGLE CODE.

Yes	1	
No – write in name	2	

ASK ALL

E4 Can I just confirm that your firm is <FIRM NAME>? DO NOT READ OUT. SINGLE CODE.

Yes	1	
No – write in name	2	

READ OUT TO ALL

Finally, I would just like to confirm that this survey has been carried out by OMB Research and within the rules of the MRS Code of Conduct.

THANK AND CLOSE

Annex 2 Unweighted infringement propensities by firm type

The following table presents the unweighted infringement propensities by firm type. These infringement propensities are weighted by the number of firms seeking new authorisations and Variations of Permission and used as inputs in Table 6.

Table 16 Infringement propensities

Firm type	New authorisations	Variations of Permission
Didn't submit application to FCA	0.07	0.31
Blocked or withdrawn after starting application	0.05	0.00
Authorised – majority of substantive modifications made prior to FCA engagement	0.14	0.00
Authorised – majority of substantive modifications made after FCA engagement	0.03	0.00



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