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News release

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Prudential Regulation Authority and Financial Conduct Authority publish review of barriers to entry for new banks

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have today published a review of the changes introduced last year which were put in place to reduce the barriers to entry for new financial institutions. The purpose of the measures was to enable increased competition in the banking industry, to the benefit of customers. The changes focussed on two key areas: reforms to and a simplification of the authorisation process for new banks; and a major shift in the prudential regulation, such as capital requirements, for new entrants.

The review shows that the changes introduced last year have led to a number of positive developments. In the twelve months following the changes, the PRA authorised five new banks and there has been a substantial increase in the number of firms discussing the possibility of becoming a bank with the regulators. In the twelve months to 31 March 2014 the regulators held pre-application meetings with over 25 potential applicants. These firms have a range of different business models from retail and wholesale banking to FCA-regulated Payment Services firms who are looking to enter the banking market and offer deposits and lending to their current client base (including small SMEs) and others who are proposing to offer a mixture of SME or mortgage lending funded by retail and SME deposits.

The review found that the new 'mobilisation' option (where authorisation is granted when a firm has met key essential elements but with a restriction on their activities due to some areas still requiring completion) has been helpful for applicant firms that may previously have faced challenges in raising capital or investing in expensive IT systems without the certainty of being authorised. In the twelve months to 31 March 2014, three of the five newly authorised banks used the mobilisation option, and a number of firms in the pre-application stage have also shown an interest in this route.

Capital and liquidity requirements for new entrants are now lower than before, but are set against a requirement for a firm to show the regulators that it has a clear recovery and resolution plan in place in the event of it getting into difficulty in the future. These changes are a real reduction in the barriers to entry, and now mean that the minimum amount of initial capital required by a new entrant bank is £1m compared to £5m under the previous regime.

Commenting on the review, Andrew Bailey, Chief Executive of the Prudential Regulation Authority said:

“It is clear that the changes introduced last year have been positive for new entrants and will make a contribution to increasing competition and thus benefit customers. Reducing barriers to entry can be achieved alongside continuing to ensure new banks meet basic standards that prevent risks to the safety and soundness of the UK financial system. The feedback we have received from the new banks has been very encouraging.”

Martin Wheatley, Chief Executive of the Financial Conduct Authority said:

“The changes will ultimately offer consumers greater choice and encourage innovation. In any sector newcomers to the market bring fresh thinking, and challenge established firms to consider how they can offer a better deal or improve the service they offer. I'm keen we maintain this progress, and want to see greater competition in retail banking work for the benefit of consumers.”

The PRA intends to publish statistics regarding banking authorisation annually.

Note to Editors

The five banks authorised between 1 April 2013 and 31 March 2014 are Axis Bank UK Limited; Union Bank of India (UK) Limited, FCMB (UK) Limited, UBA Capital (Europe) Limited and Paragon Bank plc.

[A review of requirements for firms entering into or expanding in the banking sector: one year on](#)