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How banks are authorised in the UK

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- In line with its financial stability and competition objectives the Bank of England has been, and will remain, supportive of firms wishing to become banks and enter the UK banking sector.
- The UK's approach to authorising banks aims to strike an appropriate balance between ensuring robust control around the creation of new banks and not being so burdensome that it discourages suitably qualified firms from entering the market.
- Forty-six new banks have been authorised by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) since April 2013.

Overview

An effective process for authorising new banks is crucial for an efficient and well-functioning financial system. Robust controls around the creation of new banks give confidence that they are trustworthy places for people's money. But it is also important, from a competition perspective, that authorisation requirements for new banks are not unduly burdensome and do not discourage firms that meet the appropriate standards from entering the market.

In the UK, responsibility for authorising new banks is split between the PRA and the FCA. The PRA decides whether to authorise a new bank but can only do so if the FCA consents. In 2016, the PRA and FCA launched the New Bank Start-up Unit (NBSU) to provide information, guidance and support to prospective applicants. The NBSU aims to make setting up a new bank as clear and straightforward as possible, encouraging increased competition in the banking sector while ensuring high standards at prospective banks.

'Pre-application' is a core part of the NBSU process, helping firms to understand the authorisation process and the regulatory framework, before they submit a formal application. Regulators can give feedback at an early stage to help improve any subsequent formal application, before firms' business propositions are too advanced for them to be easily changed.

Once a firm has applied for authorisation the PRA and FCA assess it against a set of 'threshold conditions' specific to each regulator. The PRA focuses on the safety and soundness of a firm. The FCA focuses on protecting consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers.

Individuals who intend to take important roles in running and governing a new bank are also assessed, as part of the Senior Managers and Certification Regime (SM&CR). This helps to ensure these individuals have the skills, capabilities and behaviours required and can be held to account for their actions or inactions.

Many new start-up banks are choosing to enter mobilisation — or authorisation with restriction — as a first step towards becoming fully operational as a new bank. Mobilisation enables new banks to benefit from the certainty of being authorised to help them to secure further investment, recruit staff, invest in IT systems and commit to third-party suppliers, etc, in exchange for limitations being imposed on their business.

Introduction

An effective process for authorising new banks is crucial for an efficient and well-functioning financial system that prevents undue risks to stability and protects consumers. By ensuring robust control around the creation of new banks, regulators can give confidence to customers and the broader public that new banks have been properly assessed, are trustworthy places for deposits and savings, and the people running them are suitable and qualified for this significant responsibility.

At the same time, it is important that authorisation requirements for banks are not unduly burdensome and do not discourage firms that meet the appropriate standards from entering the market. As highlighted by a review of barriers to entry in the banking sector, published by the Financial Services Authority (FSA) and Bank of England in 2013, in an open economy, new entrants can play a key role in providing healthy competition, helping to keep down prices, provide choice, and improve services for customers.

New firms can be major drivers of innovation in a time of rapid technological change. Without complex existing IT systems, they are often more agile and better able to adopt new technologies than existing firms, allowing them to provide customers with innovative products and solutions.

A diversified banking sector can also be more resilient to financial shocks. As highlighted by the 2007–08 financial crisis, the failure of one or two large firms in the UK's concentrated banking sector required government intervention at significant cost to the taxpayer. It may take new entrants some time to grow large enough to increase competition in the UK banking market, but in the interim, new banks can increase diversification and resilience.

This article looks at the authorisation process for banks in the UK. It sets out what it is to be a bank in the UK, the roles and responsibilities of regulators in authorising banks, the process that a firm goes through when it wants to set up a bank, and the criteria banks must meet to be authorised, focusing on banks and subsidiaries rather than branches.(1)(2)

What makes a bank a bank?

Many different types of banks operate in the UK. People and companies use banks to access a wide range of financial services, such as arranging a mortgage to buy a house, taking out foreign currency to spend on holiday abroad, putting money away in a savings account for a rainy day, transferring money to a foreign company to import raw materials, paying wages to staff, or buying a washing machine on credit. But there is only one activity that defines what it is to be a bank in the UK and that is taking deposits. Specifically, the Prudential Regulation Authority (PRA) defines a bank as:

> **a firm with a Part 4A Permission to carry on the regulated activity of accepting deposits and is a credit institution, but is not a credit union, friendly society or a building society.**(3)

What this means is that all banks in the UK have obtained permission from the financial regulators to accept deposits.(4) This may not be the only (regulated or unregulated) activity a bank undertakes but it is the minimum activity all banks do. Apart from banks, the only other firms that have permission to accept deposits in the UK are credit unions, friendly societies(5) and building societies (see Box 1), so if a UK firm accepts deposits and does not have the special characteristics that make it a credit union, friendly society or a building society, it is a bank.

(1) Further information on the PRA's approach to the authorisation of branches has been set out in Supervisory Statement 1/18.
(2) This article does not cover the authorisation approach for inward passporting European Economic Area (EEA) branches, which are seeking authorisation in the UK after the EU exits the European Union.
(3) The PRA definition of a bank also separately identifies EEA banks. EEA banks can operate in the UK as branches or on a freedom of service basis and are, in general, subject to regulatory regimes in their home countries. They have therefore been excluded from this discussion of what makes a bank a bank.
(4) A deposit-taking permission will define the type of customers from which a firm can take deposits: not all firms will have a permission to take deposits from all customer types. In addition, a limitation is sometimes placed on firms at authorisation restricting them to wholesale deposits only.
(5) Some friendly societies established before 1974 can accept deposits. Friendly societies established since then are not permitted to accept deposits and as such will not be subject to the authorisation process for banks.

Box 1
Examples of firms similar to banks

Some other firms might at first glance seem very similar to banks, providing similar types of services to consumers and businesses. While similar to banks, the types of firms listed below either differ in their characteristics or do not carry out the activity of accepting deposits. This means they are not banks and must not call themselves banks.

Credit unions: Not-for-profit financial firms owned and controlled by their customers. They can accept deposits, offer savings, lending and other services to customers that meet criteria set out in a 'common bond' — such as living and working in a particular area or working for a certain employer. There are limitations to the extent of business they can undertake and they also have different regulatory requirements compared to banks. A credit union requires authorisation by the PRA and FCA, but the requirements are generally simpler than for a bank. Eligible deposits held by UK credit unions are protected by the Financial Services Compensation Scheme (FSCS).

Building societies: Mutual institutions(1) whose principal purpose must be to make loans that are secured on residential property and are funded substantially by their members. Building societies can accept deposits and carry out a wide range of other activities, including other types of lending, investment advice and insurance mediation services, while subject to certain limitations on their business, funding and treasury activities. Building societies also require authorisation by both the PRA and FCA. Eligible deposits held by UK-authorised building societies are protected by the FSCS.

Loan-based crowdfunding: Where lenders are matched to borrowers, and enter into a loan agreement, without involving traditional financial firms such as banks. Lending is done through online marketplaces or platforms, with the firms that operate these platforms charging fees to cover arrangement and ongoing administration costs (these firms are usually responsible for collecting interest and capital repayments on the loans). This activity is regulated by the FCA if it involves peer-to-peer, peer-to-business or business-to-peer lending. These firms do not accept deposits and their customers are not FSCS protected.

Electronic money institutions (EMIs): EMIs take money and store it electronically so their customers can use it to make payments. They differ from banks because they do not lend the money they take from their customers and the electronic money they take is excluded from the definition of accepting deposits. Money taken by EMIs is not protected by the FSCS if the EMI fails. Instead, EMIs protect customer money either by segregating it from the firm's own money and placing it in a safeguarded account with a regulated bank(2) or the Bank of England, by investing it in secure, liquid assets and placing them with an authorised custodian, or by guaranteeing it with an approved insurance policy. While these arrangements should provide significant assurance, they mean that, if an EMI fails, there is a greater risk of customers not being paid back in full and/or having to wait longer than seven days to get their money back. EMIs are authorised by the FCA and are subject to a different regulatory regime from banks and different authorisation requirements and threshold conditions.(3)

Payment institutions (PIs): PIs provide payment services that allow transactions to take place between different parties. This includes allowing shops to accept payments through credit and debit cards and allowing money to be transferred between bank accounts or overseas. PIs require authorisation (smaller PIs can choose registration instead of authorisation) from the FCA. These firms do not accept deposits and their customers are not FSCS protected.

(1) A company owned by its members and run for the benefit of its members.
(2) In the event of the failure of an EMI using the segregation method, the claims of e-money holders are paid from the asset pool formed from the segregated funds before all other creditors.
(3) FCA (2019), 'Payment Services and Electronic Money – Our Approach'.

Deposits come in different forms, from money held in a current account to make everyday payments to long-term savings tucked away in an Individual Savings Account. But a key part of the UK definition of 'accepting deposits' is that the money accepted by a bank is repayable to the customer and has to be taken with the intention of lending it to someone else.(6) This means that, for example, a furniture retailer taking a £100 deposit from a customer ordering a new bed is not accepting a deposit, because the money is being taken as part of a purchase and is not intended to be lent to someone else.

Similarly, someone who puts money in an e-wallet with an electronic money institution (EMI) to make online payments or to withdraw money abroad is not making a deposit (under the definition of the regulated activity). This is because EMIs are not permitted to lend the money they receive from customers.

These distinctions are important because only eligible deposits (as defined in the depositor protection part of the PRA Rulebook), no matter if they are held at banks, building societies or credit unions, are protected by the UK's Financial Services Compensation Scheme (FSCS). This means that each depositor is eligible for automatic compensation on deposits, up to £85,000 per bank (or £170,000 for joint accounts), in the event that a determination is made that deposits are unavailable, in accordance with the depositor protection rules.(7) FSCS compensation is explicitly designed to be relatively quick, ensuring customers have access to their funds as soon as possible. The FSCS targets paying out to most depositors within seven days of deposits being unavailable due to a firm's financial failure, although more complex claims may take longer.

An overview of the authorisation process

Any firm wanting to accept deposits and become a bank needs to seek authorisation. The status of being a bank is therefore a privilege and restricted — with limits placed on which firms can call themselves a bank and when under the sensitive business names regime (see Box 2).

In the UK, banks can be authorised either as an entity incorporated in the UK or as the UK branch of a foreign bank. Branches of firms from other EEA countries can currently operate in the UK through a passport. This is expected to change when the UK exits the European Union: the PRA and FCA websites provide more information on the future status of EEA passporting firms.(8) Branches from other countries that want to take deposits in the UK need to seek authorisation from the PRA and FCA, a single joined-up process is used.

Between April 2013 (when the PRA and FCA were created) and September 2019, 46 new banks have been authorised in the UK, an increase from an average of 4.5(9) in the previous 4 years to an average of around 7 a year. There is a current population of around 150 UK-incorporated banks and 85 branches of non-EEA firms.(10) The newly authorised banks since April 2013 split between 19 domestic UK firms, three new UK ring-fenced(11) banks (authorised in 2017 as a result of the structural reform changes(12)), and 24 subsidiaries and branches of foreign firms wanting to do business in the UK(13) (**Chart 1**). Around 40 firms have requested cancellation of their authorisation as a bank in this period.

The population of 19 new domestic UK banks features firms with a wide range of business models including: wholesale banks, specialist mortgage and consumer credit lenders, retail banks offering digital-only banking platforms, banks targeting business and small and medium-sized enterprise (SME) customers, and private banks (**Chart 2**). Most of these firms were completely new to the financial sector at the point of authorisation but some were existing financial institutions, which have now become banks and started accepting deposits.

In the UK, responsibility for authorising new banks is split between the PRA and the FCA. The PRA decides whether to authorise a new bank but can only do so if the FCA consents for the firm to be authorised. Both regulators therefore carry out their own assessment of every applicant.

(6) Or the firm finances its business to a material extent from the capital or interest on the money received as a deposit.
(7) Note that certain deposits are not eligible for FSCS protection, such as those held by insurers, pension funds, investment firms and large public authorities. For further details see the depositor protection part of the PRA Rulebook.
(8) See www.bankofengland.co.uk/eu-withdrawal/authorisation-of-eea-banks-and-insurers.
(9) See www.fca.org.uk/publication/corporate/ep18-3.pdf.
(10) There are currently around 70 inward passporting branches of EEA banks with permission to accept deposits in the UK.
(11) Large UK banks have been required to legally separate or 'ring-fence' some of their banking services from other parts of the bank — see www.bankofengland.co.uk/knowledgebank/why-are-retail-banks-being-ring-fenced-and-how-will-this-affect-me.
(12) Structural reform, also known as ring-fencing, requires separation of banks' retail banking activities from their wholesale and investment banking activities.
(13) This includes one new branch authorised as a result of structural reform.

Box 2
What's in a name?

The use of certain words in a company's name — such as 'bank' and 'banking' — is controlled by legislation to prevent the public from being misled. Firms must apply to the FCA for consent to be able to use these terms in their name. There are similar restrictions on using internet domain names that include sensitive words like 'bank' and 'banking'.

A new firm cannot call itself a 'bank' until it has been authorised by the PRA with the FCA's consent. A firm that has applied for authorisation may therefore call itself 'Example Name' during the process but can only call itself 'Example Name Bank' once it has been authorised.

Further information on sensitive names is available on the FCA website.

Figure 1 Examples of words companies cannot use in their names without FCA consent

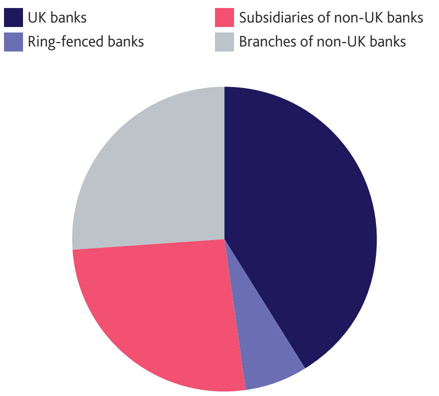
As the prudential regulator, the PRA focuses its assessment on its statutory objective to promote the safety and soundness of firms, while also considering its secondary objective to facilitate effective competition. The FCA's assessment focuses on its statutory objectives of protecting consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers.

While the regulators carry out their own assessments, they work together closely during the authorisation process, including through the jointly run New Bank Start-up Unit (NBSU). Launched in 2016, following the Bank of England's and the FSA's publication of a review of barriers to entry to the banking sector, the NBSU brings together the key staff in the PRA and FCA involved in authorising a firm, focusing on new start-up banks where the need for additional support is likely to be greatest.

The NBSU provides information and guidance to ensure that the process of setting up a new bank is as clear and straightforward as possible.(14) By giving firms a single, accessible point of contact, it helps applicants to understand the new bank authorisations process and the regulators' expectations, as well as helping to ensure a joined-up and co-ordinated approach between the regulators and applicants during the application process.

(14) Guidance includes the NBSU Guide, which provides more detail on the processes described in this article.

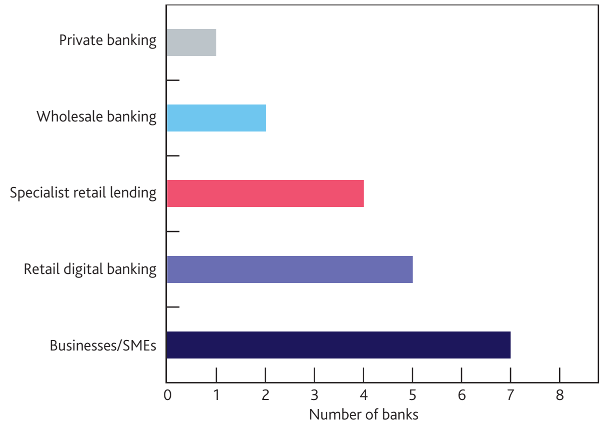
Chart 1 Breakdown of new bank authorisations since April 2013[(a)]



Source: Bank of England.

(a) Branches of non-UK banks includes one branch authorised as a result of structural reform.

Chart 2 Focus of new UK-based banks authorised since April 2013[(a)]



Source: Bank of England.

(a) The business focuses shown are indicative. Some firms may classify their business models differently or be active in more than one area.

The new bank authorisation process has a number of stages. For many firms, the first step in the authorisation process is pre-application. At this stage, firms interested in applying to be a bank can engage with regulators to discuss their business ideas. The main purpose of pre-application is to give prospective applicants the best chance of being able to submit a credible application for authorisation to accept deposits. The process will put a firm in the best position to submit a high-quality formal application.

When a firm decides it is ready to do so, it can apply for authorisation by submitting an application form to the PRA and paying a fee. For complete applications, the regulators have six months to make their assessment. For an incomplete application they have up to a year.

Both the PRA and the FCA assess applicants against a set of threshold conditions, and each regulator decides independently whether it will authorise the firm and the people who run it. The assessment process is rigorous to ensure that:

- customers and the wider public are protected; and
- banks succeed (but can be resolved in an orderly way if they fail).

An important finding of the Bank of England's and the FSA's 2013 review of barriers to entry to the banking sector was the need for a flexible authorisation approach to cater for firms' differing circumstances. This led to the creation of an alternative route to authorising a bank. Mobilisation, or authorisation with restriction, sees a new bank authorised earlier than it might otherwise be. In return, the amount of business the new bank can undertake is limited, while it invests in systems, recruits staff, sources additional capital and/or tests its capabilities.

Mobilisation has proved a popular and successful route. Since April 2013, 22 firms have entered mobilisation (mainly made up of the new 'start-up' banks), of which 16 have now exited as fully authorised banks.

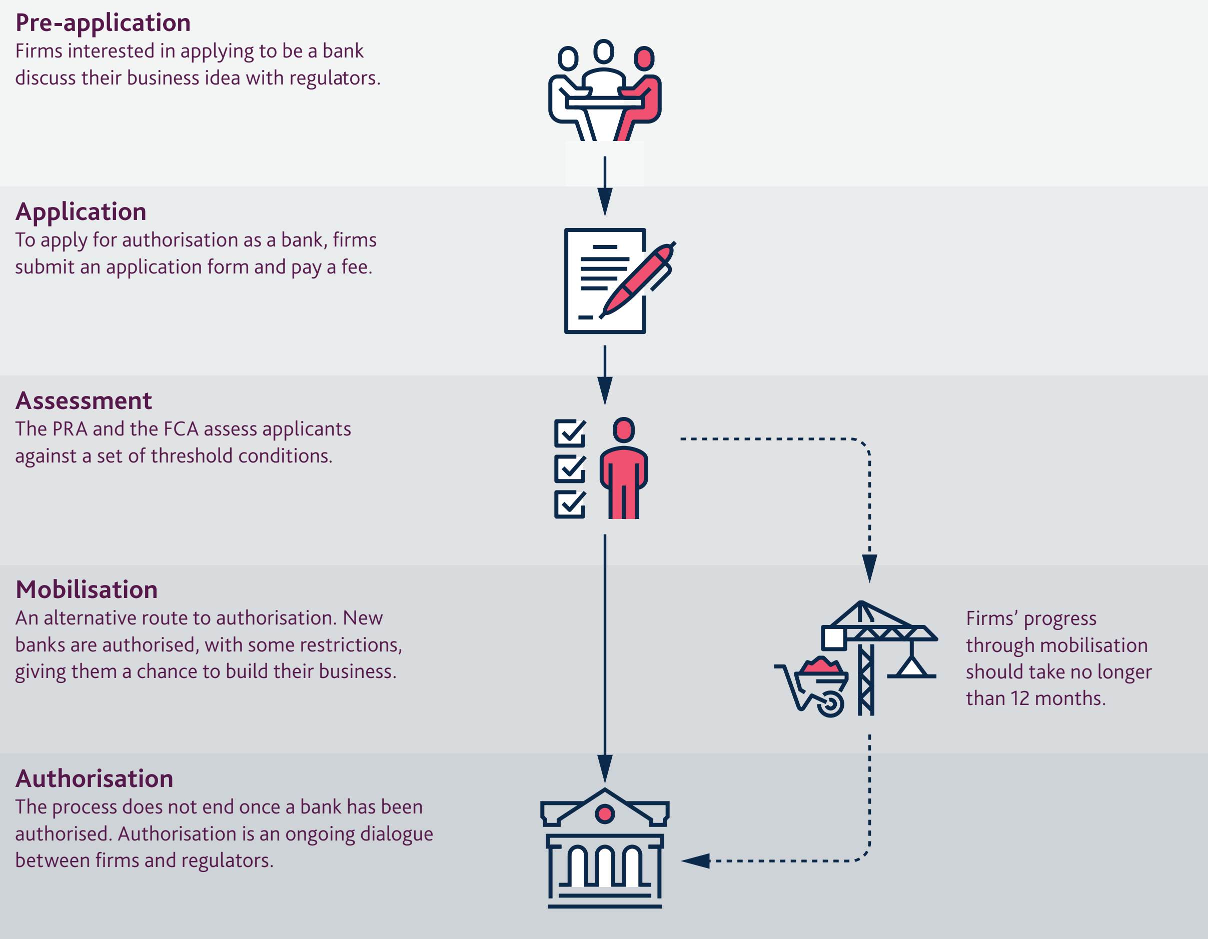
The authorisation process in more detail[(15)]

Pre-application

Individuals and firms wishing to set up a new bank may never have dealt with UK financial regulators before, and the requirements for authorisation may seem obscure or opaque due to their complexity. An open and accessible pre-application process has been developed to support firms along the journey to potential authorisation.

(15) For a full description of the authorisation process, see Bank of England (2018), 'New Bank Start-up Unit'.

Figure 2 The authorisation process



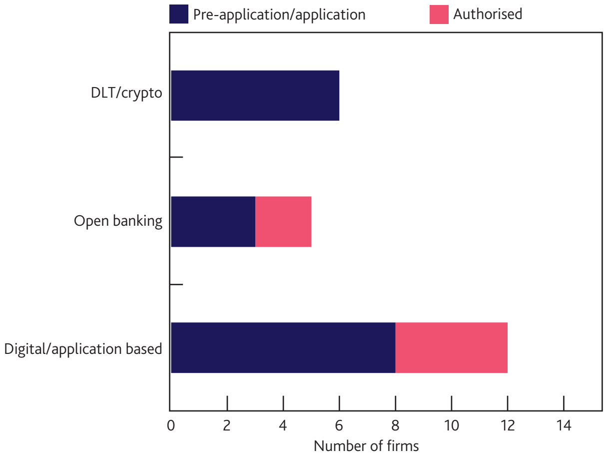
Typically, the PRA and FCA meet 10 to 20 new firms a year that have requested an initial conversation about becoming a bank. Some of these firms approach the regulators with fully-formed business plans, while others are at an earlier developmental stage. On average, around a quarter of firms that attended an initial meeting go on to submit a bank application. The others may choose to apply to the FCA for authorisation to carry out other regulated activities (for example, because they decide they do not need to accept deposits and become a bank), look at other jurisdictions, or choose not to pursue their business idea.

Through a series of pre-application meetings, firms can get a better understanding of the authorisation process and what is expected of an applicant, as well as hear any early concerns that regulators may have about the firm's proposals. Firms should demonstrate an increasing level of sophistication and degree of preparedness as they progress through pre-application. Firms that act early in the process to take on feedback given by the regulators often avoid some of the challenges associated with setting up a new bank, ultimately making a successful application more likely.

Firms seeking authorisation typically spend around 12 to 24 months in pre-application before formally submitting an application to be a bank, reflecting the complexity and robustness of the requirements needed to become a bank.

Recently, there has been increased interest from firms with innovative technologies at the heart of their strategies seeking authorisation as a bank. Since 2015, around 30 of these so-called fintech firms have had at least an initial meeting with the PRA and FCA, compared with around 40 non-fintech firms. The business models of these fintech firms have been wide-ranging, including firms proposing exclusively digital banking services, firms wanting to use open banking legislation[16] to provide customers with aggregated information across accounts, firms looking to use distributed ledger technology (DLT),[17] and firms wanting to work in crypto-assets (**Chart 3**).[18] Six of these firms have so far reached authorisation.[19] Fintech firms are subject to the same authorisation process and requirements as any other applicant.

Chart 3 Business areas of fintech firms seeking authorisation as banks[a]



Source: Bank of England.

(a) The business model areas shown are indicative. Some firms may classify their business models differently or be active in more than one area.

Application and assessment

To apply for authorisation, a firm needs to submit an application form, with supporting documentation, and pay a fee of £25,000.

The regulators will first assess whether an application is 'complete', which determines the time available to make a final decision. The PRA and FCA have six months to determine a complete application and up to 12 months for an incomplete application. For a complete application, the relevant application forms must be full and correct, with the information provided being of sufficient quality and detail to enable assessment of the firm.

For the authorisation decision, the Financial Services and Markets Act 2000 (FSMA) requires the PRA and FCA to assess whether a new firm will meet each regulator's 'threshold conditions' both at the time of authorisation and on an ongoing basis.

As shown in **Table A**, there are commonalities between the two regulator's threshold conditions. However, the PRA's assessment focuses on its objective to promote the safety and soundness of PRA-authorised persons. The FCA's assessment focuses on its objectives of protecting consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers.

In broad terms, the PRA's Threshold Conditions require firms to have capital and liquidity of appropriate amounts and quality, supported by adequate risk management processes. Firms must be able to comply with regulatory requirements and need to be run by people with adequate skills and experience. Firms must conduct their business prudently and be capable of being effectively supervised by the PRA. The PRA expects firms not merely to meet and continue to meet these requirements, but also to consider the overriding principle of safety and soundness. As with the PRA's Threshold Conditions, the FCA's Threshold Conditions represent the minimum conditions for which the FCA is responsible, which a firm is required to satisfy, and continue to satisfy, in order to be given and to retain a Part 4A permission.

(16) Open banking allows banks to securely share customer data with others so that they can provide services, such as displaying multiple accounts in one place.
(17) In DLT-based systems, multiple participants can propose, validate and record updates to a single synchronised ledger (a form of database), which is shared between the participants.
(18) There are thousands of different types of crypto-assets — www.bankofengland.co.uk/knowledgebank/what-are-cryptocurrencies.
(19) See www.bankofengland.co.uk/bank-overground/2019/what-are-the-business-models-of-new-fintech-firms-in-the-uk.

Table A Summary of the PRA and FCA Threshold Conditions for banks

PRA Threshold Conditions:	FCA Threshold Conditions:
• Legal status	• Effective supervision
• Location of offices	• Appropriate non-financial resources
• Prudent conduct of business	• Suitability
• Suitability	• Business model
• Effective supervision	

Assessment

The type and nature of the material covered in an authorisation assessment is broad ranging, including information on a firm's business plan (such as the firm's intended products, delivery channels and target market), financial resources, risk management and control framework, and corporate governance (Box 3).

When assessing whether threshold conditions are met, the regulators take an approach proportionate to the nature, scale and complexity of a firm's business plan, as well as the potential risks to the regulator's objectives. For example, for a firm intending to use innovative technology, the regulators may pay closer attention to the firm's IT infrastructure and systems, as well as its controls around key risks, such as money laundering, investor protection and data security.

Regulators will also consider how all of the individual appointments to the board will collectively contribute to the creation of a balanced and effective board at the new bank.

Senior Managers and Certification Regime

As well as assessing the firm, any individuals who will have key roles in running and governing the firm are reviewed to ensure they are suitable and have the skills, capabilities and behaviours required. This assessment is part of the Senior Managers and Certification Regime (SM&CR),[20] developed in response to the report of the Parliamentary Commission on Banking Standards.

Firms are required to ensure that individuals seeking to perform one or more 'Senior Management Functions' (SMFs) obtain approval from the relevant regulator before taking up their position. The regulators must be satisfied of a candidate's:

- honesty, integrity and reputation, eg that they will be open and honest in their dealings and able to comply with the requirements imposed on them;
- competence and capability, eg that they have the necessary skills to carry on the function they are to perform; and
- financial soundness.

For some roles, one or both regulators will interview applicants.

Deciding on an application

Both regulators decide independently whether or not to authorise a new bank. While the PRA makes the final decision, it can only authorise a new bank with the FCA's consent. Both the PRA and the FCA must therefore agree that a firm should be authorised.

The decision to authorise a firm is made by an independent decision-maker at each of the regulators who has not been involved in the assessment process.

(20) The SM&CR is discussed further in Allen, T (2018), 'Strengthening the link between seniority and accountability: the Senior Managers and Certification Regime', *Bank of England Quarterly Bulletin*, 2018 Q3.

Box 3
Information typically reviewed in a new authorisation

When prospective banks are being assessed, regulators consider a wide range of factors including:

- the business plan: including the types of business the firm intends to carry out, how it will make money, and the viability of the plan;
- financial resources, such as financial projections, capital and liquidity strategy and how regulatory requirements will be met;
- sources of funding/proposed funding model, where is the funding coming from;
- proposed owners and controllers;
- corporate governance, such as the structure, board, senior management and governance arrangements;
- risk management and control framework;
- customer journey, including products, pricing, complaints handling and on-boarding arrangements;
- outsourcing arrangements;
- IT infrastructure and systems;
- operational and regulatory policies and procedures;
- recovery and resolution, as appropriate;
- business continuity plans; and
- views of the home-state supervisor (if applicable).

Mobilisation

New banks can apply to carry out their activities on an unrestricted basis from the point of authorisation but many choose to take an alternative route to authorisation called mobilisation. Mobilisation is a popular option for new banks and has helped to increase the number of banks being authorised: this supports the regulators' competition objectives and can, in turn, benefit consumers.

Mobilisation was developed because it can be difficult for bank applicants to secure all the investment they need to support their plans without the certainty of being authorised. But without seeing evidence of adequate investment to place a firm on a secure financial footing, regulators could be unwilling to authorise a new bank. A similar challenge can apply to recruiting staff, investing in IT systems and committing to third-party suppliers, which firms may be reluctant to do without having the certainty of authorisation — but if a firm does not have these things in place, regulators may not have confidence that the firm will be able to manage its risks properly.

Mobilisation — or authorisation with restriction — helps to break this Catch-22 situation by enabling new banks to be authorised at an earlier stage so that they can invest and gain investment with confidence. In return, the amount of business the new bank can undertake is restricted until it is fully operational, thereby reducing the risks to the PRA and FCA objectives, posed by the firm. The restrictions placed on a firm during mobilisation usually involve a cap on the amount of deposits a new bank can take to £50,000 in total. Firms also need to provide a plan setting out the actions they will take during mobilisation so that the restrictions can be removed. Once fully operational, the cap is lifted and the bank can start to trade normally. Firms do not have to go through mobilisation but many have found it useful to do so due to the flexibility it offers.

During mobilisation, a bank is an authorised firm and must meet the standards set by the PRA and FCA and requirements set out in European legislation, including meeting and being able to continue meeting the PRA's and FCA's Threshold Conditions like any other firm. The difference during mobilisation is that the restrictions in place on the firm mean the requirements for meeting the threshold conditions are proportionately lower. For example, the acceptable documentation required for a firm in mobilisation may be less well developed or at a higher level, than the documentation required for a fully authorised firm. And among SMFs, only the chief executive, chair of the governing board and one other executive member would be expected to be in place at the start of mobilisation (though for some firms additional SMFs may be required).

To exit mobilisation, a bank must be able to demonstrate that it can meet the threshold conditions as if the restrictions on its business were not in place.

Firms are expected to progress quickly through mobilisation — taking no longer than 12 months. Some newly authorised banks (four since 2013) have found it too difficult to complete the necessary build-out during mobilisation and have cancelled their authorisation as a bank.

After authorisation

Once a firm has been authorised (including those firms in mobilisation), its details are published on a public register, along with those of its senior managers approved under the SM&CR regime. The Bank of England also publishes a list of firms with permission to accept deposits in the UK on its website.

The regulatory process does not end once a bank has been authorised; indeed staying authorised is an ongoing dialogue between firms and regulators.

The PRA's and FCA's supervisory approaches recognise the challenges faced by newly authorised banks as they try to establish themselves in their target markets and establish how they control their firms. In these early stages, new banks are subject to a higher level of scrutiny from regulators to ensure they are meeting their obligations and developing in line with expectations. As well as meeting capital requirements, newly authorised firms are expected to hold enough capital to ensure that they are able to wind down their business in an orderly manner should the need arise.

Conclusion

Over the past six years, the PRA and FCA have taken a number of measures to improve the authorisation process for banks: successfully removing potential barriers to entry to the UK banking market without lowering minimum standards.

The NBSU provides firms with extensive guidance and information on the authorisation process. By giving a single point of contact through the NBSU, applicant firms and regulators are able to communicate and co-ordinate effectively. Since the introduction of the NBSU, the average number of new banks authorised each year has increased.

With the development of the pre-application process, regulators have been able to engage earlier with firms to help them understand the authorisation process and see potential pitfalls in their business propositions. As well as leading to improvements in the quality of eventual applications, pre-application has helped some firms decide they do not need to be a bank in order to pursue their chosen business model.

The PRA and FCA have also been able to highlight common challenges that previous bank applicants have faced. For example, applicants must demonstrate that their business plans are viable and that they have sufficient understanding of the minimum standards and criteria against which they will be assessed when applying to be a bank.

Finally, mobilisation has proved a popular and successful route to authorisation. It gives new banks the certainty of being authorised (with restrictions) at an earlier stage so that they can, for example, secure further investment, recruit staff and invest in IT systems.

Alongside these improvements to the authorisation process, regulators continue to be responsive to industry trends and developments. A current challenge comes from technological innovation and change, as firms propose novel business models and people from non-financial services backgrounds look to set up banks. It is crucial that firms from a fintech background are subject to the same high standards as other applicants, while ensuring regulators do not stifle or discourage financial innovation which could bring significant benefits to consumers. As regulators, the PRA and FCA do not seek to operate a 'zero failure' regime, and this applies to the authorisation process for new banks as it does to the supervision of existing firms.

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