

# IMAS's Quarterly Review of FSA Trends

Changes in  
Corporate Authorisations & Cancellations and  
Registered Individual Joiners & Leavers

Third Quarter 2009

## Trends in UK regulated financial services

IMAS's Quarterly Review of FSA Trends for Q3 2009 now includes additional analysis of FSA-registered people as well as authorised business entities. Highlights from the following report include:

### Weakness continues

- Seventh successive quarter to see a contraction of FSA-registered individuals employed in control functions in the industry
- However, the rate of decline in FSA-registered individuals employed in control functions has slowed in the last two quarters
- New authorisations of business entities at its lowest level since Q1 2007. Decline in overall number of authorised entities continues

### Selected pockets of activity in Financial Advisory, General Insurance and IFAs

- Although overall authorisations are down, Financial Advisory, General Insurance and IFAs continue to dominate new authorisations
- Specifically, corporate finance advisers, fund management and mortgage brokers sub-sectors have demonstrated resilience in recent quarters

### London continues to show resilience

- Best-performing UK region although net decline weaker than flat performance of Q2 2009

## IMAS

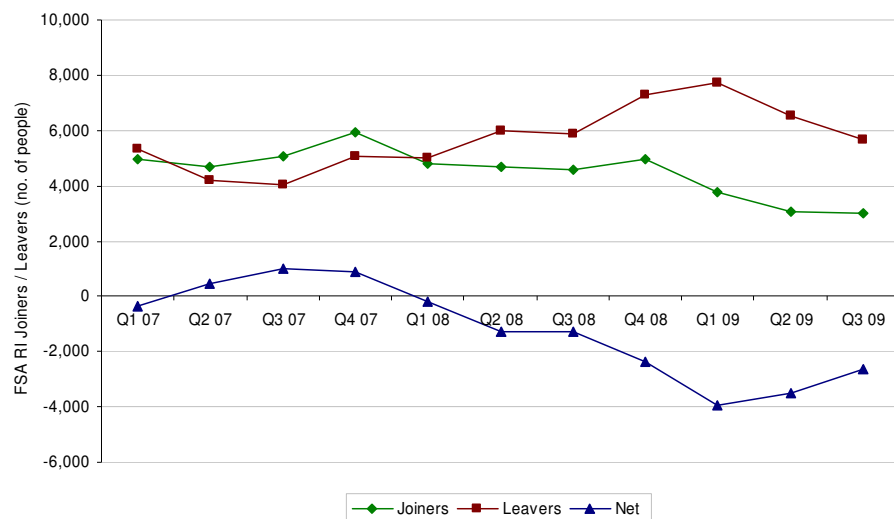
IMAS is a corporate finance adviser specialising in selling unquoted companies across the UK financial services sector.

Having completed over 100 transactions, IMAS's key differentiator is its proprietary knowledge management system, MaxImas, that 'maps' the UK entire financial services industry thereby identifying the fullest possible range of buyers, including from overseas.

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## Historic quarterly trends in FSA-registered people since Q1 2007

FSA Registered Individuals<sup>(1)</sup> Q1 2007 - Q3 2009



Year	Joiners by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	4,972	4,659	5,040	5,936	20,607
2008	4,787	4,707	4,600	4,944	19,038
2009	3,784	3,038	3,020		9,842

Year	Leavers by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	5,346	4,189	4,043	5,067	18,645
2008	4,993	5,985	5,884	7,304	24,166
2009	7,735	6,517	5,639		19,891

Year	Net Joiners / (Leavers) by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	(374)	470	997	869	1,962
2008	(206)	(1,278)	(1,284)	(2,360)	(5,128)
2009	(3,951)	(3,479)	(2,619)		(10,049)

Source: FSA Register

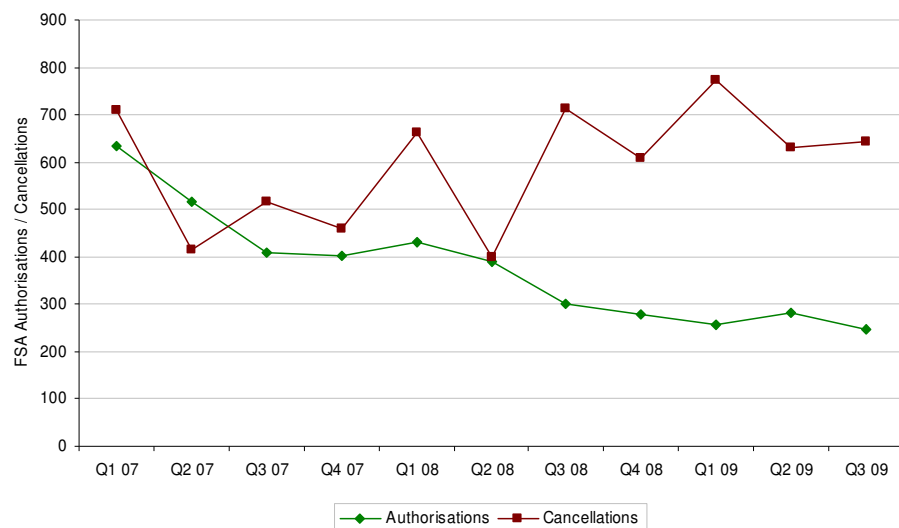
<sup>(1)</sup> Represents individuals registering as having a FSA control function role for the first time (or last time for leavers)

### Highlights

- Q3 2009 is the seventh successive quarter to see a net contraction in FSA-registered individuals<sup>(1)</sup> (“RIs”) i.e. more leavers than joiners, although the rate of decline has slowed in the last two quarters
- The financial crisis has resulted in over 10,000 net leavers from the regulated financial services industry in 2009 up to 30 September, compared to 5,100 net leavers in 2008 and 2,000 net joiners in 2007
- The industry continued to hire over 3,000 new individuals into control functions per quarter in 2009
- However, quarterly hiring numbers are at their lowest since Q1 2007 and c. 50% down on the Q4 2007 peak of 5,900 individuals
- Quarterly leaver numbers are continuing to fall following peak levels in Q4 2008 and Q1 2009 of 7,300 and 7,700 individuals respectively
- We expect the industry will require a significant turnaround in business confidence before seeing net additions to the industry.
- An analysis of FSA registered individual changes by sex since 2007 reveals that females have consistently made up around 24% of joiners and 21% of leavers. We expect the overall female mix to increase slowly over time given that females currently account for 18% of the c. 162,000 current RIs

## Historic quarterly trends in FSA-authorized business entities since Q1 2007

FSA Authorisations and Cancellations<sup>(2)</sup> Q1 2007 - Q3 2009



Year	Authorisations by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	633	516	410	403	1,962
2008	431	390	300	278	1,399
2009	257	282	247		786

Year	Cancellations by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	711	416	515	461	2,103
2008	663	399	713	607	2,382
2009	773	631	643		2,047

Year	Net Authorisations / (Cancellations) by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	(78)	100	(105)	(58)	(141)
2008	(232)	(9)	(413)	(329)	(983)
2009	(516)	(349)	(396)		(1,261)

Source: FSA Register

<sup>(2)</sup> Represents businesses being authorised or cancelling their authorisation with the FSA in the quarter

### Highlights

- Q3 2009 shows that the weakness in the sector remains with new authorisations down to its lowest level since Q1 2007 and cancellations up on the previous quarter
- Authorisations are now running at less than 40% Q1 2007 levels and, with the exception of temporary blips in the data in Q1 2008 and Q2 2009, have been declining steadily since then
- Cancellations continue to outnumber new authorisations by almost three-to-one in Q3 2009, again demonstrating underlying weakness in the sector's health
- Although generally more volatile than authorisations, the latest cancellations data is consistent with a steady increase in cancellations since Q2 2007
- The quarterly latest data appears to support our thesis that overall confidence in the sector continues to be fragile and that last quarter's increase in authorisations represent a temporary blip in the data

## FSA authorisations and cancellations by business sector<sup>(3)</sup>

Authorisations were down relatively uniformly c. 10% across all business sectors in Q3 2009 compared to the previous quarter. Analysed cancellations continue to be slightly more volatile with the majority (after motor dealers) related to the Financial Advisory sector.

Financial Advisory, General Insurance and IFAs continue to dominate new authorisations, accounting for 76% (Q2: 71%) of authorisations in the quarter.

Business Sector	2009 Authorisations						2009 Cancellations					
	Q3 09 No.	Q3 09 Mix	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix	Q3 09 No.	Q3 09 Mix	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix
Financial Advisory	67	27%	76	27%	65	25%	42	25%	16	10%	33	20%
Financial Trading	16	6%	22	8%	17	7%	4	2%	4	3%	7	4%
General Insurance	40	16%	48	17%	36	14%	22	13%	17	11%	19	12%
Life Insurance	80	32%	76	27%	85	33%	6	4%	8	5%	15	9%
Lending	23	9%	23	8%	26	10%	16	9%	11	7%	15	9%
Other financial services	2	1%	6	2%	2	1%	3	2%	1	1%	3	2%
Other non financial services	10	4%	25	9%	20	8%	75	44%	96	61%	71	44%
Other	9	4%	6	2%	6	2%	3	2%	5	3%	0	0%
<b>TOTAL ANALYSED SAMPLE</b>	<b>247</b>	<b>100%</b>	<b>282</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>171</b>	<b>100%</b>	<b>158</b>	<b>100%</b>	<b>163</b>	<b>100%</b>
<b>TOTAL ALL ENTITIES</b>	<b>247</b>		<b>282</b>		<b>257</b>		<b>643</b>		<b>631</b>		<b>773</b>	

Source: MaxImas; FSA Register

- Within financial services, cancellations were most active in the Financial Advisory and General Insurance sectors, reflecting continued turmoil in these sectors
- In absolute terms, Life Insurance (IFAs) again represents the greatest number of new authorisations in Q3 2009 closely followed by Financial Advisory
- In relative terms, the mix of new authorisation by sector remained stable in Q3 2009 compared to the previous quarter. The only notable exception to this was the Life Insurance sector (which includes IFAs) which had a 32% share of new authorisations in Q3 versus 27% in Q2

<sup>(3)</sup> Based on IMAS definitions of business sector. Note that General / Life Insurance and Lending includes entities taking underwriting risk as well as distributors. Other non financial services includes, inter alia, motor car dealers. Cancellations are analysed where entities' net assets are above £100k

## FSA authorisations by business sub-sector<sup>(3)</sup>

IFAs have shown consistently high levels of authorisations throughout each quarter of 2009 typically accounting for over one third of total quarterly authorisations.

This is followed by corporate finance, fund management and mortgage brokers sub-sectors. These sub-sectors have consistently delivered c. 20 new authorisations per quarter during 2009.

Business Sector	Sub-sector	2009 Authorisations		
		Q3 09 No.	Q2 09 No.	Q1 09 No.
Financial Advisory	Corporate Finance	19	12	14
	Fund Mangement	21	20	19
	Hedge Fund Management	8	17	18
	Private Client Wealth Management	4	9	5
	Private Equity	13	18	8
Financial Trading	Stockbroking	3	8	8
General Insurance	Commercial Lines	18	21	10
	Personal Lines	6	10	9
Life Insurance	IFAs	75	74	81
Lending	Mortgage brokers	21	23	23

Source: MaxImas; FSA Register

- The Commercial Lines insurance sub-sector has featured strongly over the past three quarters, reflecting the relative resilience of selected insurance sub-sectors during the financial crisis
- The declines in hedge fund and private equity new authorisations compared to Q2 2009 are consistent with the recent mixed fortunes that each of these two sectors has experienced over the past few months
- Many of the start ups are being led by ex-Lehman staff and other major casualties of the credit crunch

(3) Based on IMAS definitions of business sector. Note that General / Life Insurance and Lending includes entities taking underwriting risk as well as distributors. Other non financial services includes, inter alia, motor car dealers

## FSA authorisations and cancellations by geography <sup>(4)</sup>

Overall, the UK has seen a 1.9% weighted average fall in net FSA authorisations (authorisations less cancellations) in Q3 2009, down from a 1.7% fall in Q1 2009.

Regionally, London continues to demonstrate relative resilience and although its net 0.7% decline is the strongest regional performance, this does represent a deterioration in performance compared to Q2 when London was flat with no net change in authorisations.

Geography	Total Authorisations 30/09/09		Q3 09 Authorisations / Cancellations				Q2 09
	No.	Mix	Authorisations	Cancellations	Net Change	Net Growth	Net Growth
London	5,422	27%	81	117	(36)	(0.7)%	-
South England (excl. London)	6,209	31%	83	218	(135)	(2.1)%	(2.4)%
Midlands and East Anglia	2,628	13%	31	78	(47)	(1.8)%	(1.8)%
North England	3,743	18%	32	134	(102)	(2.7)%	(2.5)%
Scotland	1,249	6%	9	51	(42)	(3.3)%	(1.2)%
Wales	617	3%	8	26	(18)	(2.8)%	(1.2)%
Northern Ireland	389	2%	3	19	(16)	(3.9)%	(4.5)%
<b>TOTAL</b>	<b>20,257</b>	<b>100%</b>	<b>247</b>	<b>643</b>	<b>(396)</b>	<b>(1.9)%</b>	<b>(1.7)%</b>

Source: MaxImas; FSA Register

- Although all regions experienced a deterioration in overall authorisations, only London (-0.7%) and Midlands & East Anglia (-1.8%) performed better than the national average reduction in total authorisations of -1.9%
- The continued strength of London is partially attributed to the implosion of certain larger organisations resulting in numerous start-ups from the exiting staff
- Scotland and Wales experienced the most material deteriorations compared to the previous quarter of -3.3% and -2.8% respectively in Q3 2009 compared to -1.2% for both regions in Q2 2009
- Northern Ireland again suffered the greatest regional quarterly contraction of -3.9% in Q3 2009 (Q2 2009: -4.5%)

(4) Authorisations exclude EEA Authorisations

## FSA authorisations and cancellations by legal structure

The major shift continues to be away from unincorporated to that of limited liability partner as demonstrated by the relative weight in unincorporated entity cancellations and limited liability partner authorisations in Q3 2009.

Legal Structure	2009 Authorisations						2009 Cancellations					
	Q3 09		Q2 09		Q1 09		Q3 09		Q2 09		Q1 09	
	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix	No.	Mix
Limited	151	61%	199	71%	188	73%	404	63%	407	65%	484	63%
Limited Liability Partnership	65	26%	68	24%	45	18%	28	4%	20	3%	34	4%
Public Limited Company	1	0%	1	0%	1	0%	5	1%	4	1%	5	1%
Building Society	0	0%	0	0%	0	0%	2	0%	3	0%	1	0%
Unincorporated	30	12%	14	5%	23	9%	204	32%	197	31%	249	32%
<b>TOTAL ANALYSED SAMPLE</b>	<b>247</b>	<b>100%</b>	<b>282</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>643</b>	<b>100%</b>	<b>631</b>	<b>100%</b>	<b>773</b>	<b>100%</b>

Source: FSA Register

## Composition of FSA regulated firms

Whilst this report focuses on FSA authorised entities, as they account for the bulk of the financial services industry in terms of turnover and value, three times as many firms are FSA registered rather than FSA authorised.

Whilst the number of FSA authorised entities continued to decline in Q3 2009, FSA registered entities grew c. 2% during the quarter.

FSA Status	Q3 09	Q3 09	Q2 09	Q2 09	Q1 09	Q1 09
	No.	Mix	No.	Mix	No.	Mix
FSA registered	72,626	73%	71,088	72%	69,935	72%
FSA authorised	20,257	20%	20,681	21%	20,866	21%
EEA authorised	6,416	6%	6,382	7%	6,329	7%
<b>TOTAL</b>	<b>99,299</b>	<b>100%</b>	<b>98,151</b>	<b>100%</b>	<b>97,130</b>	<b>100%</b>

Source: FSA Register

### FSA Registered firms

FSA Registered firms generally fall into two broad categories:

1. Those firms whose principal activity is not financial services related but have some element of their business caught under the definition of financial services e.g. the travel industry selling travel insurance.

Typically they become an appointed representative of a regulated entity and act as a distributor of one company's products.

2. Firms who are purely financial services focussed but have chosen to be regulated indirectly by a firm specifically set up for this task, commonly referred to as "networks".

The largest three appointed representatives are Tesco, Sainsbury and Wal-Mart.

The largest IFA firm that operates as an appointed representative has a turnover of around £10m. The vast bulk of IFAs who are appointed representatives have income of less than £1m.

## About this report

All base data for this report has been sourced from the FSA Register with further analysis undertaken by IMAS Corporate Advisors to provide a breakdown by business activity, geographical spread and legal structure using its proprietary knowledge management system, MaxImas (see below).

If you would like to receive further FSA quarterly review reports produced by IMAS, please go to [www.MaxImas.uk.com](http://www.MaxImas.uk.com) and request a copy by going to the Enquiries & Feedback tab.

## About IMAS

Founded in 1992, IMAS is a corporate finance adviser with unparalleled expertise in selling unquoted companies across the UK financial services sector. We have completed over 100 transactions since inception.

IMAS's principals all have extensive experience in working for major UK financial institutions. IMAS combines in-depth knowledge and understanding of the specific issues affecting the financial services sector with our corporate finance experience to provide our clients with discreet, experienced and independent advice.

In addition, MaxImas allows us to present a range of options to our clients that would otherwise be unavailable. For further details, please contact us or visit our website: [www.imas.uk.com](http://www.imas.uk.com)

## About MaxImas

MaxImas is IMAS's proprietary knowledge management system that 'maps' the UK financial services industry, analysing over 40,000 UK financial services businesses and over 300,000 individuals registered.

MaxImas provides us with detailed knowledge and insight into individual sectors within the UK financial services industry, including the participants within them as well as financial and other trends. We use this proprietary knowledge to help our clients' achieve their strategic objectives.

Summary data derived from the underlying analysis on MaxImas can be viewed on a public access website: [www.MaxImas.uk.com](http://www.MaxImas.uk.com)

## Contacts for further information

If you are interested in buying or selling in the UK financial services sector and would like to increase the range of options available to you, please contact:

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