

The Impact of Regulation and Skills on SMEs in the East of England (2004): an overview

Summary

The Financial Services Sector is one of the most heavily regulated industries in the UK and ensuring firms meet regulatory responsibility is high priority. The East of England Development Agency (EEDA) funded research by the Financial Services Skills Council (FSSC), over the September 2003 – March 2004 period, to examine finance sector firms' understanding and awareness of

- regulation
- its impact
- and related issues including skills and training

The report identifies a need for Financial Services Sector (FSS) businesses to develop further awareness and understanding of regulation. Current employer training provision and spend significantly contributes to addressing regulatory issues but there could be further improvements in terms of access and timeliness.

The report concludes that FSSC and other agencies could help Small and Medium Size Enterprises address the challenge of regulatory changes more effectively. Proposals include the development of

- targeted public training
- easily accessible information, advice and guidance from public agencies.

Background

Financial services employers have to make sure anyone they employ for regulated activity is 'competent', which is defined as

- i. having appropriate qualifications
- ii. being appropriately supervised

Any regulatory change will have an impact on competence and skills levels of staff, as well as the wider business environment, so firms need to identify which regulations are relevant to them.

One thousand questionnaires were sent out to finance sector firms in the East of England Development Area, gathering data regarding their

- individual business activity
- approach to training and skills
- awareness of sector-specific and generic regulation.

There were 101 responses. Participant businesses had been trading, on average, for over 30 years and employed over 20 people; the largest sector activity being insurance followed by independent financial advice.

Understanding and awareness of regulation

Sector-specific regulation

A minority of firms felt they were well informed and understood the effects of sector-specific regulation, whilst the majority had limited appreciation of the impact.

When questioned about their awareness of regulatory impact on business, 63% identified sector-specific regulations – both general references and specific pieces such as the forthcoming mortgage and insurance regulations. However, only 25% of businesses showed awareness of regulation covering consumer protection. A number of financial services sector regulations were not mentioned by any of the respondents, which is surprising because of their immediate importance for responding firms, particularly as certain proposed regulations directly affect the status of their business.

These responses may highlight the need to improve upon some of the channels the FSA uses to publicise regulations. Awareness was expected to be higher than the survey indicates. The survey provides support for this theory when it reveals that 87% of those who responded found out about specific regulation through the national press followed closely by 85% finding out from the FSA website.

Generic regulation

Only a minority of businesses felt that generic regulations have significant impact on them. For example,

- 70% felt that the National Minimum Wage had no impact
- 49% felt that data protection laws have no impact
- 59% felt that racial and sexual discrimination have no impact

A significant proportion of firms found out about generic regulations through newspapers and websites. These views could possibly be addressed in any programme to inform, advise and guide businesses in financial services.

Impact of regulation

Most businesses intended to address regulatory issues by retraining staff.

The survey found that

- 71% would retrain existing staff to address regulatory issues
- 18% would restructure
- 6% did not know how they were going to address change
- 9% were not going to do anything.

When asked more specifically about the skills deficiencies to be addressed, a fifth of respondents felt they did not have skills deficiencies. Businesses that did identify skills deficiencies centred particularly on administration staff who lacked knowledge of the industry.

To address the competence challenge in the regulatory environment, 38% of business allocated more resources whereas 31% of firms recruited staff to address skills gaps.

On average businesses spent £8000 a year on training. The majority of financial resources were spent on technical and professional training. Public sector providers delivered training for higher level skills and qualifications, including regulatory issues. 'Cost' implications mean that micro firms are less likely to encourage staff development

and training compared with larger businesses and 39% of businesses suggested e-learning would be a useful and favoured delivery tool.

Surprisingly the firms' commitment to training in general was at odds with the relatively low levels of awareness about forthcoming regulation. Of particular issue is how businesses actually decide to train. The statistics below show a fairly equal spread of responses in terms of when they respond (upon first knowing; before the implementation; after the regulations have come into force), which could be accounted for by the size of the firm, requirements of the regulation and method of implementation. However, a reliance by 46% of firms on training providers may suggest a need for a significant improvement in information, advice and guidance from public agencies.

When businesses decide to train

- 26% decide to train when they first know a regulatory change will be happening
- 44% decide to train before the implementation of regulations
- 30% decide to train after regulations have come into force.

How businesses decide to train

46% of firms rely on the guidance of training providers and 26% rely on the guidance of professional bodies.

Related issues including skills and training

Responsibility for awareness and information

Given the shortfall of detailed knowledge of regulation in the sector, it is not surprising that only 16% of employers responded with a view as to where responsibility lay for supporting businesses in understanding regulation. Only half believed responsibility lay with the employer and a third believed it lay with the Financial Services Authority which presents a problem because the FSA provides general guidance on its regulations, but the senior management of firms have responsibility for interpreting the regulations.

Responsibility for skills and training

The vast majority of businesses (94%) had participated in training over the last 12 months with the most common training being for new regulations (66%) followed by technical skills training (57%).

The survey revealed a strong belief that technical and professional development, regulatory understanding and competence, and supervisory and management skills were better addressed by employers. Interestingly, it was felt that staff should take responsibility for their own training and development.

The survey contained questions about responsibility for basic skills and ICT skills which underpin the effective application of regulation. 85% felt that it was the responsibility of the state education system to provide basic skills training and 63% felt that the state education system had responsibility for ICT skills.

Conclusions

The findings indicate that firms in the East of England Development Area need more assistance to understand and address sector-specific regulation.

Most businesses felt confident about the future, with positive signs regarding their

- attitude to business and market prospects
- commitment to training and skills.

The high level of training, low skills gaps and low labour turnover, suggest SMEs in the East of England are well placed to meet the regulatory challenge.

However, existing training infrastructure, whilst sufficient, could be enhanced to address the lack of awareness and understanding of regulatory obligations and their impact on the sector.

There is also a need for better use of ICT to improve productivity and facilitate learning which may need to be supported through targeted public research and intervention.

Agencies, such as EEDA, the Learning & Skills Councils (LSCs) and the Financial Services Skills Council appear to have a receptive audience among regional Small and Medium Size Enterprises to ensure appropriate training and up-skilling policies and strategies are in place.

Potential actions arising from this study

The Financial Services Skills Council (with its partners, as appropriate) will give consideration to the following actions:

- Addressing the provision of e-briefings for SMEs on regulatory matters and their implication
- Sharing the results of this study within the Skills for Business Network and EEDA with a view to identifying partner Sector Skills Councils with whom the FSSC can develop a joint strategy to help SMEs to meet their information needs;
- Providing affordable resources that enable SME decision makers to develop their skills in assessing the use of training as a business solution. This could include FSSC's accreditation scheme and training directory and work with Business Links to draw Small and Medium Sized employers' attention to the advisory services available to them.