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Reducing the cost of compliance:

Unlocking efficiency, competitiveness and growth for the UK financial services sector



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Contents

Executive summary: the opportunity for change 3

Introduction: setting the scene for competitiveness and growth 5

Approach to the report 5

The measurement challenge 6

The UK regulatory framework: moving from gold-plated to gold standard 7

How financial services firms can reduce the cost of regulatory compliance 14

Conclusion 17



Executive summary: the opportunity for change

This report sets out to explore the evolving cost of regulatory compliance across the UK's financial services sector. It draws on a combination of primary research (interviews and a survey of Chief Compliance Officers (CCOs)) and sectoral experience to provide insights into the drivers of compliance spend, and outlines recommendations for the UK regulators and financial services firms. Taken together, these have the potential to reduce the overall cost of regulatory compliance in the UK, contribute to growth and create an attractive environment for investment.

It represents the perspectives of the UK's compliance leadership community, who are at the forefront of responding to and managing the evolving regulatory landscape. Respondents to our survey reported significant concern about the increasing cost of regulatory compliance: 84% agreed that their cost of regulatory compliance had increased or increased significantly over the past five years (53% and 31% respectively). The Chancellor recognised concerns about the cost and complexity of doing business in the UK, writing in the Financial Times that "no other globally competitive financial services hub places such relentless bureaucracy on its businesses and nor should we". To achieve the government's commitment to cut administrative costs for business by 25% by the end of the Parliament, a change in the UK's approach to regulatory compliance is necessary. There is a clear need to simplify the design and execution of the UK's regulatory regime to address the cost and complexity of doing business.

As part of our research, we sought to estimate the true cost of compliance in the UK. This is uniquely challenging, given a lack of a standard framework to define the scope of compliance-related activities which span the three lines of defence (i.e. overall arrangements for managing risk and exercising control within an organisation). The scope of this report is focused on the cost of regulatory compliance (i.e. costs incurred by firms to meet regulatory requirements relating primarily to conduct and financial crime regulation). It does not cover the broader cost of regulation, such as capital requirements, ring-fencing obligations, or other prudential measures. The challenge of measuring the cost of regulatory compliance is compounded by complex regulatory environments, evolving expectations, and inherent operational challenges with apportioning and measuring costs pertaining to compliance activities.

The interviews and survey results substantiate this. No firms had developed a systematic framework to quantify the overall cost of regulatory compliance across the three lines of defence. Typically, what is measured relates to the costs of the compliance function. However, given this is a subset of the overall cost of regulatory compliance, the reported cost in most organisations likely significantly underestimates the true cost.

Through our research we asked CCOs to estimate the total cost of regulatory compliance across their organisations as a percentage of operating costs. This is a complex question: the costs of compliance that are typically measured today ('directly attributable' costs such as compliance function costs, fines or enforcement actions, and regulatory change) significantly underestimate the scope and complexity of regulatory compliance. From our research, the directly attributable costs of regulatory compliance were estimated to be 2.6% of operating costs per annum; however, the 'organisation-wide' costs (i.e. costs associated with supporting compliance requirements across the enterprise) were estimated to be over four times larger than the directly attributable costs on average, equating to a total cost of regulatory compliance of over 13% of operating costs per annum. Based on an extrapolation of the average operating costs for the top 20 largest financial services firms in the UK, the total cost of regulatory compliance in the financial services sector is estimated to be around £33.9bn per annum. This does not include the opportunity costs of high compliance burdens, which may diminish investment in innovation and/or new products or services.

While a proportion of these costs will always be necessary, significant opportunities exist to reduce costs by streamlining, simplifying, and better targeting regulatory efforts without eroding the quality of risk management. Now is the time to focus on delivering on this objective. The government, regulators and industry are all focused on making progress on it, including through the delivery of the regulators' secondary objective for competitiveness and growth. In this report, we set out recommendations for regulators to consider, building on the momentum of the past 12 months.

Cost-cutting responsibilities

The government's proposals to streamline the Senior Managers and Certification Regime (SM&CR) and overhaul the Financial Ombudsman Service (FOS) framework as part of the Leeds Reforms, plus efforts by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) to make the regulatory framework more streamlined and proportionate, provide a valuable foundation for further refinement and alignment.

The responsibility of reducing the cost of compliance does not solely sit with the regulators. Rising costs and rapid developments in technology also put the onus on organisations to design compliance environments that are both effective and efficient. Compliance spend has typically been channelled towards regulatory response and remediation, rather than a strategic plan to upgrade the compliance operating model. Once largely shielded from cost-cutting, compliance functions are now increasingly expected to play their part in cost reduction targets. But responsibility does not sit with the compliance function alone: reducing the cost of compliance is an enterprise-wide responsibility that requires deliberate and strategic action at executive level across the organisation. Advancements in Artificial Intelligence (AI), coupled with an evolving trend of the compliance discipline moving towards a more proactive risk management stance, acts as a catalyst to rethink how organisations can transform their compliance activities, to instil effectiveness, trust and efficiency.

There is broad agreement between the government, regulators and industry on the need to foster innovation by placing competitiveness and growth more squarely at the centre of the regulatory discussion.

The convergence of regulators' desire for simplification, industry need to optimise operations and increasingly rapid advances in technology are creating the conditions for a drive to reduce the cost of compliance. In the context of this alignment of trends, our report sets out practical and deliverable recommendations for regulators and for firms to support the development of the UK's regulatory framework and reduce the cost burdens of regulatory compliance.

Three key principles to develop the UK's regulatory framework and summary of recommendations for regulators

1. A more accessible and proportionate regulatory framework

- Review rulebooks systematically to reduce complexity, duplication and outdated requirements.
- Fundamentally review requirements for wholesale firms to ensure proportionality and bolster the UK's competitiveness.
- Take a more proportionate approach for non-systemically important investment firms.
- Provide early clarity on the scope of regulation, and on key areas of ambiguity under principles-based regulation.
- Strengthen cost benefit analysis, including cumulative impact assessment and post-implementation reviews.

2. A smarter, more supportive supervisory approach

- Embed proportionality in day-to-day supervision.
- Clarify the FCA's new flexible and less intensive supervisory model, with a clear framework for measuring what constitutes 'doing the right thing'.[1]
- Strengthen supervisory continuity, expertise and resourcing.
- Coordinate and streamline supervisory requests across the FCA and PRA.

3. Embracing technology and data analytics

- Deliver the FCA's machine-readable Handbook at pace.
- Further modernise data collection and analytics.
- Support industry adoption of shared utilities (e.g. KYC and reporting) by setting standards and convening stakeholders.

1 FCA, 'Strategy 2025-30', (March 2025), available at: https://www.fca.org.uk/publication/corporate/our-strategy-2025-30.pdf

Three key recommendations to help financial services firms reduce the cost of regulatory compliance

1. **Adopt a holistic approach to compliance cost optimisation:** Address cost drivers across all three lines of defence using an integrated framework that promotes simplification, digitisation, better data, and stronger first-line ownership of risk.

2. **Embed a business case mindset and measure tangible change:** Treat compliance transformation as an enablement strategy, focusing on long-term efficiency, cultural improvement, and decision-making agility, not just cost reduction. Define quantitative and qualitative Key Performance Indicators (KPIs) to measure and track success against objectives, as part of a pragmatic and prioritised roadmap for change.

3. **Leverage AI and technology strategically:** Develop a digitisation strategy focused on enterprise-wide adoption of AI (with compliance as the pioneer for driving AI adoption and digitisation through use cases with unstructured data that do not drive high risk exposure to customer data), and develop a codified compliance and risk capability to manage AI agents effectively.

Introduction: setting the scene for competitiveness and growth

The years following the global financial crisis (GFC) of 2007–08 witnessed a period of significant regulatory reform. Since then, regulatory change has become a near-constant feature of the UK's financial services sector. In recent years, this has been driven by geopolitical uncertainty, the emergence of new risk types, and the increasing complexity of modern financial institutions. In response to these priorities, as well as other factors including market developments, macroeconomic pressures, societal expectations and political shifts, the regulatory landscape continues to evolve.

As the breadth of the regulatory framework has expanded, regulatory expectations have increased and compliance costs have risen substantially. Many of these costs are justified, representing reasonable expectations of firms and the need to apply sound risk management and governance. It is also important to recognise that both the evolution of the regulatory framework and firms' investment in compliance have delivered real benefits for firms, customers and the wider economy.

Firms are safer, more resilient and better governed than before, and even in the absence of regulation, robust risk management would remain a non-negotiable requirement for financial services firms. However, layers of regulatory rules and supervisory demands have accumulated to the point where firms believe that regulation is delivering diminishing returns, impeding efficiency and innovation and ultimately the UK's productivity, growth and competitiveness. Against a backdrop of broader macroeconomic challenges and cost pressures, the challenge is to ensure regulation and regulatory compliance remain effective, efficient and proportionate and support positive economic outcomes.

Successive UK governments and regulators have acknowledged this challenge. In 2023, the FCA and the PRA were given a statutory secondary objective to support the international competitiveness and growth of the UK economy and the financial services sector. Building on this, the government's 'Financial Services Growth and Competitiveness Strategy' called for a regulatory environment that is "proportionate, predictable and internationally competitive", and identifies the regulatory framework as a key pillar for boosting growth. Policy initiatives, such as the Edinburgh Reforms and Leeds Reforms, reflect a growing emphasis on ensuring that regulation remains proportionate, risk-based, and designed to reduce unnecessary cost burdens while maintaining resilience.

The task now is not deregulation but ensuring that resources devoted to compliance are proportionate, aligned with desired policy outcomes, and that regulators and firms can work together to strike the right balance between informed risk-taking and effective oversight.

While this report focuses on the UK environment, the issues are global. Most firms we engaged with in developing this report operate internationally and highlighted regulatory divergence as a key driver of cost. In a globally interconnected industry, firms are seeking opportunities to apply consistent global minimum standards across their international operations. Greater alignment between regulators across jurisdictions and a more proportionate merging of global standards would not only help manage costs but also strengthen the resilience and competitiveness of the financial system.

This is a key moment for regulators, the government and industry to work collaboratively to address unnecessary costs and complexity while preserving robust standards, enhancing productivity and competitiveness. This is vital to ensuring that the financial services sector can continue to deliver stability, trust and growth for the UK and beyond.

Approach to the report

The insights and findings in this report are informed by in-depth interviews with 19 CCOs across a broad range of financial services firms, including retail and investment banks, insurers, asset managers and financial market infrastructure providers. These discussions offered qualitative insights into the main costs of regulatory compliance, ways in which the UK could reduce the cost and complexity of regulations, and how firms themselves are approaching the imperative of reducing the cost of compliance. The interviews were supplemented by a targeted survey designed to capture quantitative data on compliance operating models, resource allocation, and trends in technology investment.

Alongside this primary research, PwC has drawn on its experience in advising clients across the financial services sector, providing a practical lens through which to interpret emerging themes and compare approaches taken across firms.

It is important to note that the scope of this report is focused specifically on the cost of regulatory compliance (i.e. the cost incurred by firms due to the processes they undertake to meet regulatory requirements relating primarily to conduct and financial crime regulation). It does not cover the broader cost of regulation, such as capital requirements, ring-fencing obligations, or other prudential measures. While these elements also carry significant financial implications, they fall outside the remit of this report.

This approach aims to support industry participants, regulators and policymakers in understanding the cost and complexity firms face in regulatory compliance, and identify strategic responses to build on the government and regulators' momentum and focus to date on competitiveness and growth.

The measurement challenge

From our research, it was clear that there is no common methodology to quantify and measure the cost of regulatory compliance. The evolving nature of principles-based regulation makes it difficult to systematically delineate between activities that are solely for compliance purposes and those built to drive good risk management. Many activities - such as financial crime controls, monitoring, or operational resilience - serve both risk management and compliance purposes and are activities firms would likely carry out in the absence of regulations, making it hard to attribute costs consistently to one category. There are also inconsistencies in how compliance is defined: often, the compliance function covers only non-financial risk types, while prudential and financial compliance is governed across the first and second lines of defence.

Similarly, compliance permeates the whole organisation, making it difficult to allocate the specific costs associated with regulatory compliance. At the highest level, boards and executive committees must devote significant time and resources to ensuring regulatory obligations are met, as well as engaging with the regulators. Within the second line of defence, compliance functions are tasked with oversight and challenge, requiring ongoing investment in skilled personnel, technology, and reporting processes. Testing and monitoring are embedded across the enterprise, touching everything from customer onboarding to financial crime surveillance.

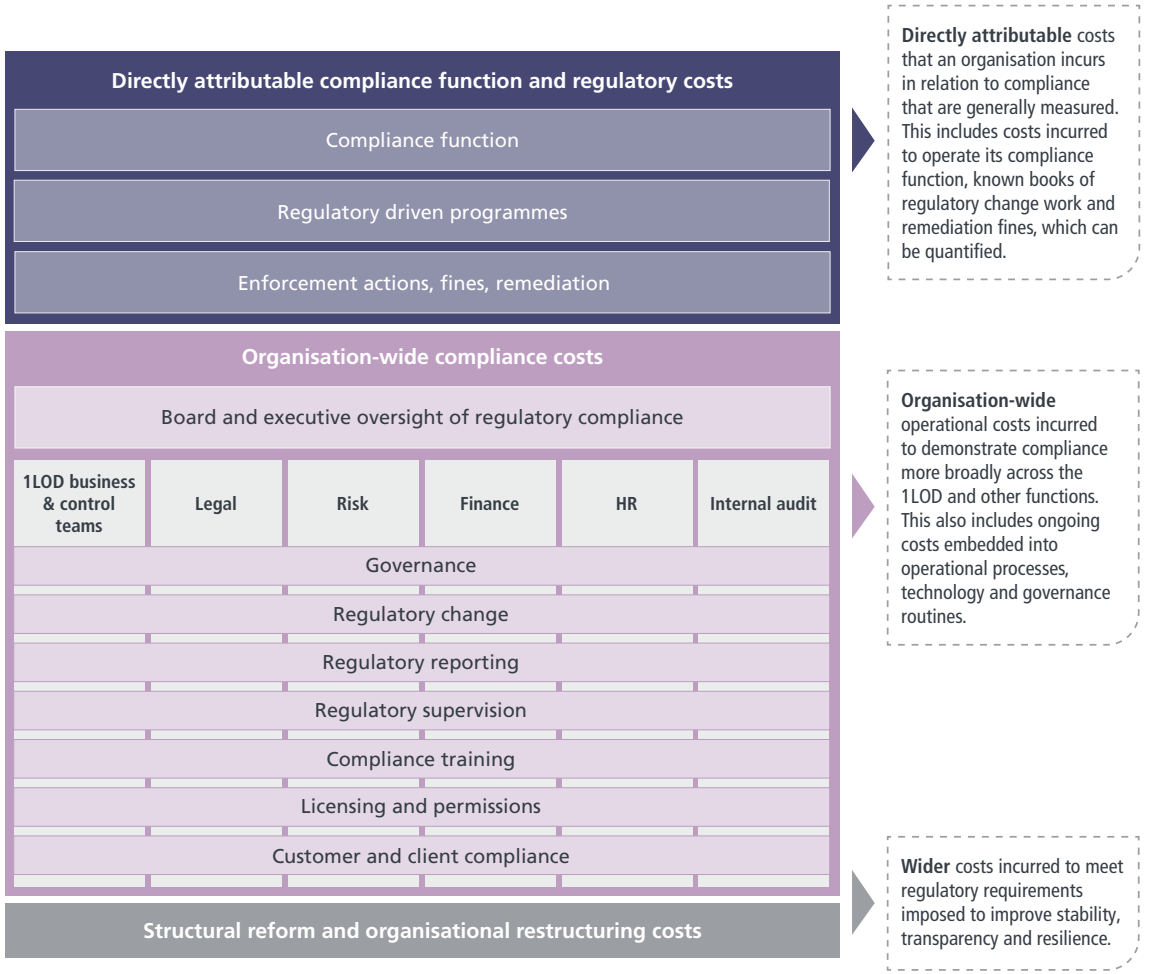
This complexity means that there is often an oversimplification of the reality of compliance costs, by relying on proxies such as headcount in the compliance function. Several leaders expressed concern that these proxies risk underplaying the true scale of regulatory compliance costs, particularly the costs absorbed by the business.

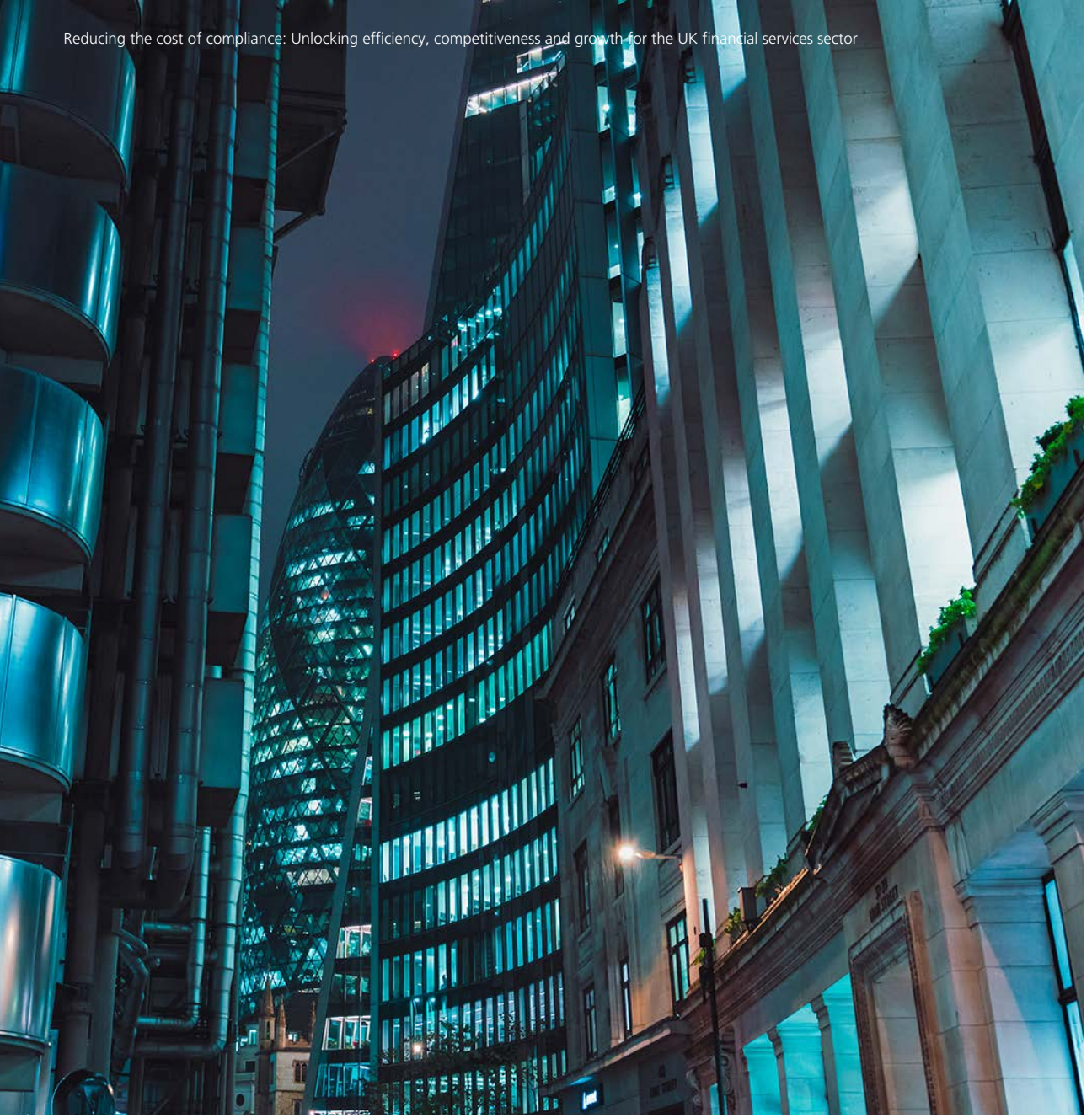
Most of the CCOs we interviewed and surveyed confirmed that they measure and track costs associated with the compliance function, but none of them had yet developed a structured way to capture, quantify and track wider costs systematically.

Mounting cost pressures, driven by macroeconomic conditions, increasingly require greater maturity and consistency in the definition of compliance-related costs in order to streamline and simplify across the organisation. This will also set the foundation for delivering on the government's commitment to reduce the administrative costs of regulation for business by 25% by the end of the Parliament. Firms are already evolving the way that they manage compliance risks, for example, in looking to manage complementary risks more holistically (such as conduct and operational risks) and in embedding compliance in existing processes and controls ('compliance by design'). Gaining a a fuller and more accurate picture of costs across the organisation will further enable firms to identify efficiencies and areas for investment, demonstrate value, and engage more meaningfully with regulators and policymakers on how to address the cost and complexity of doing business in the UK.

We have set out a measurement framework that categorises the types of activities that contain embedded compliance costs, split across directly attributable, organisation-wide and structural costs. This provides a consistent framework for firms to better understand the scope of compliance costs across their organisation and enable them to define and implement strategic initiatives to reduce related costs.

Figure 1: Total cost of regulatory compliance measurement framework





The UK's regulatory framework: moving from gold-plated to gold standard

The UK's regulatory framework and its regulators are widely regarded as among the most sophisticated in the world. The IMF has stated that: "The U.K. financial system enjoys a strong reputation for the quality of oversight and the design of the financial stability framework set up after the 2007–09 GFC."[2]

Following the GFC, the UK moved to a twin-peaks model with separate conduct and prudential regulators (the FCA and the PRA). While this structure has strengthened oversight, it has introduced overlap and sometimes divergent approaches between the FCA and PRA. Layered on this are numerous specific regimes; for example, the SM&CR for individual accountability, extensive wholesale conduct rules such as UK Markets in Financial Instruments Directive (MiFID), consumer protection initiatives such as the Consumer Duty, and a complex set of rules sitting in legislation and regulatory rulebooks derived from EU regulations.

Our interviewees believe the current framework has become overly complex. The rulebooks have developed piecemeal over time, and the combination of prescriptive EU-originated rules and newer, more principles-based requirements can lead to inconsistencies and a lack of clarity in approach, especially from a supervisory perspective. In addition, how the rules are written and implemented can greatly influence compliance costs.

Eighty-three per cent of respondents to our survey reported that the total cost of regulatory compliance in their organisation has increased or increased significantly over the last five years, primarily driven by additional regulatory requirements and scrutiny. In addition, 53% of respondents whose firms operate outside the UK stated that the total cost of regulatory compliance in the UK is somewhat or considerably higher compared to other jurisdictions.

As noted, policymakers, including the House of Lords Financial Services Regulation Committee, whose report 'Growing pains: clarity and culture change required'[3] included a focus on the cost of compliance, have recognised these concerns. The government and regulators' actions provide important context and significant momentum for the recommendations in this report. They should be seen as part of a broader journey toward making the UK's regulatory framework a differentiator in enhancing the UK's competitiveness as a global financial centre. There is a need for ongoing focus to make the UK's regulatory framework more internationally competitive - the job is far from done.

Shifting the dial on the cost of regulatory compliance

The government and regulators must work in partnership with industry to ensure the UK's regulatory framework is recognised as the most business friendly in the world, while also protecting financial stability, market integrity and consumers. This means shifting

2 IMF, 'United Kingdom: Financial Sector Assessment Program-Financial System Stability Assessment', (February 2022), available at https://www.elibrary.imf.org/view/journals/002/2022/057/article-A001-en.xml

3 House of Lords Financial Services Regulation Committee, 'Growing pains: clarity and culture change required - An examination of the secondary international competitiveness and growth objective', (June 2025), available at https://publications.parliament.uk/pa/ld5901/ldselect/ldfsrc/133/133.pdf

from overly complex and prescriptive regulation (which can lead to gold-plating, by regulators and firms), to proportionate and principles-based standards that promote competitiveness while maintaining trust and oversight (gold standard).

To achieve this, we set out three key principles to develop the UK's regulatory framework and recommend specific actions that regulators can take to reduce regulatory compliance costs while still meeting their objectives.

1 A more accessible and proportionate regulatory framework

More streamlined and proportionate rules

There is a clear need for a fundamental assessment of the cumulative impact of regulation, building on the progress already made by the government and regulators in recent years.

Our survey shows strong industry appetite for this: 72% of participants ranked 'reducing complexity and duplication in the rulebook' among their top three recommended interventions to cut compliance costs. The FCA's review of the rulebook in light of the Consumer Duty is welcome and should be extended to a regular, formalised review by both the FCA and PRA. Simplifying and clarifying regulatory requirements is essential, particularly as regulators bring EU-derived rules into their own handbooks, with an opportunity to strip out unnecessary obligations at the same time.

In addition, firms highlighted that compliance costs are exacerbated by overlapping or inconsistent requirements across multiple regulatory and legal bodies – for example, between the FCA, PRA, The Pensions Regulator (TPR), and the Information Commissioner's Office. While recent measures to address overlap challenges — such as the proposed FCA and Payment Systems Regulator merger — are welcome, regulators should further explore mechanisms to better coordinate their expectations and reduce duplication.

Firms also emphasise that the regulatory framework must be proportionate to the size, nature and sophistication of firms and market participants. Survey respondents identified "making the regulatory framework more tailored and proportionate depending on firms' size/complexity" as one of the most impactful interventions regulators could make to reduce compliance costs. This was ranked as the top intervention by 44% of respondents and in the top three by 72%.

While recent progress, such as the PRA's Small Domestic Deposit Takers Regime, is welcome, there remains scope to go further, particularly for firms that pose low risks to financial stability or consumers.

Bearing in mind the importance of both domestic and international wholesale activity to the UK's financial services sector and the intense international competition for this business, there is merit in focusing more work on ensuring the proportionality of wholesale regulation in the UK. The FCA focuses on the concept of 'wholesale harm' to clients, market functioning and the wider UK economy. For the majority of FCA solo-regulated firms, the level of wholesale harm is likely to be low. Therefore, there may be scope to examine whether the regulatory requirements applied to non-systemically important firms with professional or eligible counterparts are proportionate.

Recommendations:

- **Periodically review the rulebooks:** Regulators should formalise a structured review of their rulebooks at least once every five years, with a clear methodology to work with the industry to prioritise areas of greatest complexity, duplication or burden. This process should focus on ensuring requirements remain proportionate, clear, and streamlined, removing those that no longer serve their purpose. It should also assess whether major consumer protection frameworks have had unintended consequences for product innovation and availability. Such a review would directly support the government's Regulation Action Plan aim of reducing complexity and duplication across the regulatory system. (See case study 3 on the US approach to rulebook review, p.13).

- **Strengthen cross-regulator coordination:** Regulators should establish clearer mechanisms to manage overlaps and conflicting requirements across the UK's regulatory and legal landscape. This could include a lead regulator model for cross-cutting obligations - where one body takes responsibility for aligning and communicating consolidated expectations, and provides 'safe harbour' assurances where compliance with one regime satisfies others. The existing Regulatory Initiatives Grid should be enhanced to deliver this coordination in practice - moving beyond a static list to a genuinely strategic tool that sequences regulatory initiatives, identifies areas of overlap, and signals where joint regulator efforts or exemptions will apply.

- **Fundamentally review requirements for wholesale firms:** While the UK's regulatory framework does differentiate between retail and wholesale activity, there is an opportunity to pose more fundamental questions about the necessity for certain rules for wholesale firms, where a more 'caveat emptor'-based model may be appropriate. We welcome the government's request to the FCA to review the application of the Consumer Duty to wholesale business and the FCA's response. However, this is only one aspect of the regime. We recommend a more comprehensive assessment of regulatory requirements applied to wholesale firms that interact with sophisticated market participants and are, therefore, likely to pose relatively limited harm to markets and consumers. This should ensure that the level of protections built into the regulatory framework is commensurate with the risks posed.

- **Take a more proportionate approach for non-systemically important investment firms:** The FCA should accelerate its planned review of the market risk framework for the Investment Firms Prudential Regime (IFPR) and consider whether further changes are required to ensure the regulatory framework for non-systemically important investment firms is proportionate to their risk profiles. The approaches of Australia and Singapore's regulators provide more tailored prudential requirements and impose less stringent governance and remuneration requirements compared to the IFPR.

- **Provide early clarity on the scope of regulation:** The FCA should reflect on the implementation of Consumer Duty requirements, where wholesale firms incurred unnecessary costs due to late clarification of scope. For future initiatives, the FCA should clarify at the outset which business types, products, and services are in scope and issue clearer guidance on the wholesale/retail distinction.

Cost benefit analysis (CBA)

Enhancing industry expertise within the regulators would improve the robustness of CBA. Several participants noted that existing CBAs often underestimate implementation costs and overstate benefits – in part due to a lack of operational insight. The Consumer Duty was cited as a prominent example, with one large firm reporting actual implementation costs of £70m, compared to the FCA's estimate of just £1.4m for a large firm. Interviewees agreed with the FCA's CBA Panel that the current CBA process should be expanded to evaluate cumulative impacts. Participants also highlighted that current processes fail to account for compliance burdens arising from 'regulation by expectation', where supervisory guidance or 'Dear CEO' letters introduce quasi-obligations that fall outside formal rule changes and therefore escape statutory CBA requirements. Enhancing engagement with industry earlier in the policy lifecycle, to better capture indirect and opportunity costs is seen as an effective way to improve the quality and credibility of CBAs.

Recommendation:

- **Improve CBA processes:** Regulators should strengthen CBAs by embedding greater industry expertise within their policy and supervision teams, enabling a deeper understanding of the granular operational impacts of regulatory change. The role of the Practitioner Panels could also be strengthened to allow greater pre-consultation input on the likely impact of emerging regulatory proposals. For the most significant reforms, they should plan post-implementation reviews to test the accuracy of original CBA assumptions and refine future analyses. The FCA and PRA should fully implement their respective CBA Panel's recommendations, including evaluating the cumulative impact of regulatory requirements across the framework.

Striking the right balance in a principles-based regime

There is strong industry support for the UK continuing to move from overly detailed, prescriptive rules towards principles- and outcomes-based regulation. As one senior compliance officer at a bank said, when regulators set the what (the desired outcome) and give flexibility on the how, "the onus is on the compliance function to interpret" requirements in a way that best fits the business. This approach reduces costs by enabling firms to meet regulatory objectives through their own governance processes, rather than following a one-size-fits-all checklist.

However, respondents also cautioned that a principles-based regime and the level of interpretation and judgement it requires can lead to uncertainty and ambiguity, which can increase costs. This is particularly the case where firms are unclear on regulators' expectations. This can lead to the potential unintended consequence of reducing some firms' risk appetite as they apply undue caution (or take a 'gold-plated' approach) due to uncertainty on what is acceptable from a regulatory perspective. Some firms have encountered examples where supervisory teams have challenged firms' approaches where they differ from peers. While this is to some extent inevitable under a principles-based regime, the regulators should reduce ambiguity through early supporting guidance (at the policy development stage) and early supervisory engagement before firms incur high implementation costs.

Recommendation:

- **Focus on optimising the approach to principles-based regulation:** Regulators must work with industry to reduce ambiguity, through supporting guidance (e.g. incorporate good/poor practice examples at the policy development stage, rather than after implementation) and early supervisory engagement. Early engagement is essential to avoid firms taking action based on their own interpretation of requirements, only to change course later to align with supervisory expectations.

2 A smarter, more supportive supervisory approach

Enhanced supervisory practices

Both the PRA and FCA are well-regarded and respected by firms for their supervisory capabilities. The PRA, in particular, is recognised as bringing significant industry and market expertise, with one respondent describing it as being in the "Premier League" of regulators. In its five-year strategy, the FCA committed to reforming its supervisory approach and will adopt a more flexible approach, providing less intensive supervision for firms that can clearly demonstrate they are "seeking to do the right thing". The FCA will also significantly streamline how it sets supervisory priorities and share broader insights from its supervisory work.

While firms welcome the intent behind these reforms, there is a need for further clarity on how the FCA's approach will work in practice. Our recommendations propose how the FCA should clarify and operationalise these changes.

The day-to-day approach of supervisors, i.e. how they assess and interact with firms, can significantly influence the cost of regulatory compliance. Firms universally support the concept of risk-based supervision, but many reported that in practice some supervisory teams seek a significant – and in some cases disproportionate – level of detail, even on relatively low-risk issues, which can drive up effort for marginal gains. One firm reported that their supervisor expected to be notified of a minor operational change that they would not deem significant enough to inform their board. Furthermore, interviewees observed inconsistency in supervisory approaches: "the level of scrutiny really depends on who you get [as a supervisor]", noted one asset manager.

The regulators' secondary competitiveness and growth objective does not apply to individual supervisory or enforcement decisions. However, it does apply to the principles and policies that govern them. This must permeate throughout supervisory practice, ensuring day-to-day supervision is delivered in a way that supports efficiency, proportionality, clarity and innovation.

Bolstering supervisory resources

A recurring theme across the interviews was the impact of the regulators' supervisory resources on regulatory compliance outcomes and the cost of regulatory compliance. Firms reported that when supervisory staff lack sufficient experience or knowledge (particularly of a firm's business models or operations), or rotate too quickly, it increases the workload and uncertainty for the firm. An asset management firm noted that "every 18 months there's a new supervisor who doesn't understand our business – we have to re-explain everything". As noted above, the levels of professionalism, commitment and expertise found in UK regulators are seen as a key strength for the UK.

However, interviewees noted there is scope to build deeper industry expertise in certain areas and minimise the impact of staff rotation.

Streamlining supervisory requests

Another area where there is clear scope to reduce costs and improve efficiency is in the volume and coordination of supervisory data requests from the FCA and PRA. When asked which regulatory interventions would have the greatest impact in reducing compliance costs, 44% of survey respondents ranked 'reduced reporting requirements/information requests' as their top priority.

While the two regulators engage extensively on dual-regulated firms, and this coordination is recognised by industry, interviewees consistently highlighted duplicative and time-consuming data requests as a significant and avoidable cost driver. For firms regulated by both the FCA and PRA, this burden is exacerbated by occasionally inconsistent or uncoordinated actions which require separate responses to similar questions, sometimes in different formats or on different timelines.

For example, topics such as operational resilience, counterparty management and risk capability are rightly of interest to both regulators - the PRA from a safety and soundness perspective, and the FCA from a market integrity lens. However, multiple interviewees reported receiving overlapping data requests, duplicative prudential and conduct information requests, and instances of one regulator requesting information similar to that which had recently been provided to the other.

Firms also highlighted some similar challenges in the overlap between the FCA and TPR, noting the need for closer supervisory liaison to align expectations and reduce duplication for firms.

A further concern is the lack of clarity on how the information collected will be used, and when and whether the regulators will follow-up. One firm reported receiving follow-up questions to a survey completed almost a year earlier. This uncertainty makes it harder for firms to prioritise and plan their regulatory compliance resourcing efficiently, compounding the cost and effort involved. While regulators have publicly committed to reducing the number of regulatory returns, firms report that they are not feeling the benefit of this. To address this, regulators should together carry out a fundamental review of all regulatory data requests by assessing their supervisory value, eliminating duplication, and being transparent about how the information is used.

Recommendations:

- **Embed proportionality in supervisory practice:** Set clear standards to ensure supervisory teams consistently apply risk-based principles in day-to-day interactions. This includes by focusing on material issues and avoiding excessive scrutiny of low-risk activities, and by ensuring expectations which may be proportionate for Systemically Important Institutions are not applied to smaller organisations. Foster a more collaborative, forward-looking relationship between supervisors and firms, not only focused on mitigating downside risk but on enabling innovation and growth. Create channels within supervision to explore how supervisory dialogue can support innovation and economic growth, alongside risk mitigation.
- **Clarify FCA supervisory reforms:** Define clear criteria or indicators for assessing whether a firm is "doing the right thing", and transparent guidance on what firms can expect under this revised supervisory approach (see: case study 4, p.13).
- **Strengthen supervisory continuity and expertise to reduce disruption when supervisors rotate:** Invest in training supervisors on industry operational issues and expand the role of central expert units to provide strengthened, consistent support. Develop the future capabilities that supervisors will need in emerging areas (e.g. digital assets and AI), aligned with the government's 'Financial Services Growth and Competitiveness Strategy'.
- **Coordinate and streamline supervisory requests:** The FCA and PRA should set out how they will coordinate supervisory activities, including data requests and scheduling. Where topics overlap, one regulator should lead and issue a single request. Requests should avoid asking for information already disclosed or previously submitted and use technology to reduce the burden of reporting. Regulators should clearly explain the purpose, timing, and intended use of requests, and provide timely feedback to support firms' resource planning.

3 Embracing technology and data analytics

Both industry and regulators increasingly recognise the potential for technology to transform regulatory compliance. Many firms are already investing heavily in automation, AI and data analytics to meet regulatory obligations more efficiently. However, interviewees believe regulators could go further in adopting and utilising technology to reduce the burden of regulatory compliance for firms.

Firms welcome the steps taken so far. Regulators are becoming more data-led, and initiatives like regulatory sandboxes, TechSprints, and the FCA's AI and digital testing programmes are viewed positively. More broadly, the move towards a principles-based approach to regulation has helped create space for innovation. The FCA's planned machine-readable Handbook is a particularly promising development, as it could enable firms to automate the interpretation and implementation of regulatory requirements. Interviewees were keen to see this rolled out at pace.

That said, a consistent ask from firms is for regulators to modernise how they collect and analyse data. Rather than requiring bespoke firm-by-firm reports during every supervisory cycle, regulators could more consistently leverage advanced analytics to analyse structured firm data and automatically detect anomalies or emerging risks.

Interviewees pointed to the Monetary Authority of Singapore (MAS), which uses AI tools for supervisory analytics, reducing the need for repeated data requests. Firms also raised the potential of shared industry utilities (for example, centralised platforms for Know Your Customer (KYC) checks, transaction reporting, or due diligence) as a means of eliminating

duplicated compliance activities across the market. We believe regulators could play a stronger convening role here, setting standards or endorsing common utilities that the industry can safely rely on.

The Transforming Data Collection (TDC) programme, led by the Bank of England and FCA, is a promising vehicle for driving change in this area. While the development of utilities will require industry to drive them, the regulators have an important role to play in accelerating these initiatives and should consider how they do so in the context of TDC. One simple but impactful example suggested was a central knowledge base where regulators and firms could share Q&A, clarifications and interpretations of key rules, helping to reduce duplication of legal advice and compliance effort across firms. Regulators could pilot this initiative with a narrow focus (e.g. Consumer Duty clarifications) and expand it over time. Input could be drawn from supervisors and industry bodies, with the regulator curating and validating entries to ensure accuracy.

Recommendations:

- **Deliver and extend the machine-readable Handbook:** The FCA should accelerate delivery of its machine-readable Handbook to support automation of compliance processes. It would also help firms if other sources of regulatory expectations, including guidance, policy statements, Dear CEO letters and speeches, are made as accessible as possible, including by making them more concise and grouping them by theme on topic-specific webpages.
- **Further modernise data and information requests and analytics:** Build on the TDC initiative by automating analysis of structured firm data, using analytics to identify supervisory risks rather than relying on bespoke manual submissions.
- **Support shared industry utilities and standardisation:** Convene industry to develop shared compliance solutions (e.g. KYC and supervisory clarifications) and consider endorsing trusted utilities to drive adoption and reduce duplicated compliance effort.



Case studies

1. Consumer Duty

Many firms broadly support the principles behind the Consumer Duty and believe it has driven positive cultural change. However, they also highlighted significant challenges with its implementation and cost. One large firm noted that the FCA had estimated implementation costs at £1.4m for a large firm, yet in reality it spent £70m – a 50-fold discrepancy.

While many welcomed the Duty's focus on outcomes, firms reported that uncertainty in interpreting expectations and supervisory approach often drove them towards process-heavy compliance. One compliance officer remarked that "it should be part of business as usual to help consumers find the best product," but in practice, it became a "massively prescriptive compliance project". Others questioned whether the Duty delivered material benefits beyond the previous Treating Customers Fairly framework.

Wholesale firms were particularly frustrated at the lack of early clarity on whether the Duty applied to their business, leading to unnecessary compliance costs and complexity. The government's recent request for the FCA to review the Duty's application to wholesale markets, and the FCA's response, are therefore welcome.

Why this matters: The development and implementation of the Consumer Duty illustrates why regulators must provide early clarity on scope, issue guidance before firms incur major costs, and ensure rules are proportionate to the risks they target. It reinforces our recommendation that the FCA's current review of the Duty for wholesale firms should be expanded to a wider assessment of proportionality across wholesale regulation, with clear scope boundaries set out from the outset for all future regulatory initiatives.

2. Senior Managers and Certification Regime (SM&CR)

Interviewees widely agreed that the SM&CR has strengthened governance and accountability. However, they also described it as one of the most resource-intensive regimes, with burdens and costs that often outweigh the benefits.

The certification regime attracted the most criticism, with firms calling the annual re-certification process duplicative of HR checks and disproportionate for non-critical roles such as junior traders or overseas staff. Several firms branded it a "paperwork-heavy compliance exercise" with limited value for consumer or prudential outcomes.

Under the Senior Managers Regime, delays in pre-approvals were also a major concern (something the regulators have acknowledged and sought to address). Firms reported difficulty filling key leadership roles due to slow and inconsistent approval processes, with one noting this "creates costly uncertainty and deters international candidates". Firms suggested exemptions for already-approved individuals moving between equivalent roles.

Why this matters: The government's July 2025 proposals to remove the certification regime from legislation, streamline senior manager approvals, and reduce the number of SMF roles directly respond to these concerns. The SM&CR experience also demonstrates the importance of more rigorous CBA at the design stage of major reforms, informed by operational insights, to prevent future regimes from repeating these costly inefficiencies.

3. US rulebook reviews

The US 'Economic Growth and Regulatory Paperwork Reduction Act' (EGRPRA) requires the federal banking agencies (the Federal Reserve, FDIC, and OCC) to review their regulations at least once every 10 years. These reviews involve:

- Publishing rules by category and inviting public comment.
- Assessing whether regulations are outdated, unnecessary, or unduly burdensome.
- Reporting findings to Congress with recommendations for statutory or regulatory change.

This cyclical, structured review process has allowed US regulators to identify and eliminate duplicative or obsolete requirements in a systematic way, giving firms greater certainty that regulatory burdens are periodically reassessed.

Why this matters: A similar approach in the UK would directly support the government's Regulation Action Plan commitment to reduce regulatory complexity and duplication. Formalising a statutory review of rulebooks every five years - in line with regulators' long-term strategies - with a clear methodology. to prioritise the most complex or burdensome areas, would help ensure UK regulation remains proportionate, streamlined and fit for purpose over time.

4. Principles for assessing whether firms are "doing the right thing"

For the FCA's new flexible and less intensive supervisory approach to be effective, firms need clarity on what behaviours and evidence would demonstrate that they are "doing the right thing" and therefore merit less intensive supervision. We suggest the following principles should guide the FCA's assessment (recognising that these are not exhaustive and the FCA may consider other factors and firm-specific circumstances):

Transparent and open engagement between firms and the FCA

- Early notification of rule breaches.
- Constructive, collaborative relationships between firms' regulatory teams and FCA supervisors.
- Senior leadership actively engaging with the FCA openly and cooperatively, taking issues seriously and responding promptly.

Prompt and proactive remediation

- When issues arise, firms take swift corrective action without FCA prompting.
- Root cause analysis is undertaken, with systems and controls improved to prevent recurrence.

Strong governance, risk management and internal challenge

- Boards provide robust scrutiny of management.
- Clear accountabilities among Senior Management.
- Clear and robust risk management frameworks and capabilities.

Positive culture and conduct

- Robust and appropriate action to identify and tackle non-financial misconduct.
- Healthy and inclusive workplace culture, underpinned by meaningful purpose and active leadership, where employees feel empowered to raise concerns and challenge.

Sustained compliance performance

- Consistently meeting or surpassing supervisors' expectations, as demonstrated by low levels of rule breaches, and positive outcomes of supervisory activities.

Embedding these principles would help the FCA apply its supervisory reforms consistently, while giving firms clarity on what constitutes good practice and how they can earn greater supervisory trust.

How financial services firms can reduce the cost of regulatory compliance

The actions that regulators can take, explored in the previous chapter, are likely to contribute to reducing the cost of regulatory compliance across the UK economy and for individual firms. However, interviewees agreed that several internal factors within their organisations amplified the cost of regulatory compliance they experience. These include duplicative or inefficient compliance-related activities across the lines of defence, highly manual processes, legacy systems, data management challenges, and unnecessarily complex governance (including accountability) arrangements. These are often exacerbated by firms' lack of clarity on exactly which compliance obligations and supervisory expectations they need to comply with, or by their aversion to risk from a regulatory perspective.

The context for strategic transformation

Firms continue to face significant cost pressures, operating in an environment where they must do more with less. While in the past the industry may have deemed compliance-related budgets as somewhat immune to cost and budgetary reduction pressures, current trends and conditions are bringing all aspects of the enterprise into scope for cost optimisation.

The recommendations in this report, combined with advancements in technology (including generative AI) and the pro-innovation stance adopted by the UK regulators, present a unique opportunity for firms to transform the way they manage and deliver compliance, and reduce costs.

To maximise this opportunity, firms should view this as an enterprise-wide opportunity to transform their compliance operating model, rather than reduce costs tactically and in a siloed way. Our research highlights that the cost of regulatory compliance across the enterprise is likely to be far higher than what is currently measured (notwithstanding challenges in quantifying the true costs), presenting a clear business case for change.

This section explores the insights and priorities from both our research and PwC's market experience on how organisations can approach reducing the cost of compliance by adopting a strategic outlook.

Cost reduction in the compliance function

To meet increasingly stringent budget and cost reduction targets, compliance functions have worked to reduce costs using approaches that have been focused on the function itself. Our research indicated that the following interventions were common strategies CCOs had implemented or were seeking to implement within their functional operating models to drive cost optimisation.

- **Organisational structure optimisation:** Many firms are looking to review and rationalise the compliance function through streamlining internal roles and responsibilities, consolidating duplicative teams or activities, and optimising reporting lines within the compliance function. This helps the function to operate more efficiently, for example, by rationalising activities such as reporting and governance.
- **Optimising the regulatory engagement model:** Our survey found that in the case of 68% of respondents, the regulatory engagement function sits within compliance. These teams, which play a vital role in managing a firm's relationship with its supervisory team at the regulators, have an important role to play in ensuring the right information flows from and to the regulators. Effective supervisory engagement can reduce compliance costs significantly by avoiding repeated information requests and reducing the need for very frequent senior engagement with the regulators due to challenges in the relationship. Many leading organisations are exploring how to optimise their supervisory engagement model, including through the use of technology, recognising the cost benefits an effective model brings.
- **Process automation:** Functions are automating key processes, mainly routine monitoring, reporting, and testing activities. This frees up compliance resources for higher-value advisory work and reduces manual effort and minimises error rates. It also improves the speed and consistency of compliance processes, driving efficiency and cost savings within the function.
- **Offshoring:** Most of the CCOs interviewed are using offshoring and nearshoring to manage costs. Standardised and repeatable compliance activities such as monitoring, surveillance, and low-complexity regulatory reporting are being shifted to lower cost locations, while higher judgement and specialist tasks remain onshore. However, offshoring decisions are no longer made solely based on cost arbitrage. Firms are increasingly applying a strategic lens, considering factors such as language capabilities, time zone alignment, and the maturity of local talent pools.
- **Shared services/utilities:** Another approach is the creation of shared service hubs in the compliance function. These hubs centralise specialist expertise (such as financial crime investigations or policy development) so that smaller business units can draw on these resources without maintaining their own full-scale teams. Shared service models are being expanded beyond operational tasks to include analytical and investigative functions, where centralising expertise can yield higher-quality outcomes at lower overall cost.

There are also newer initiatives that have a cost reduction impact on the compliance function. For example, efficiencies can also be realised through optimising the skillset mix through a skills reprofiling exercise. Compliance functions of the future will need fewer manual checkers and more data literate, multi-skilled professionals who can partner with the business. This reduces the need for narrow and duplicated roles and allows for the flexible deployment of agile resources to high-risk areas. In parallel, upskilling and empowering teams to use automation tools effectively can reduce repetitive, manual work and drive more value-added work.

Enterprise-wide cost reduction

Reducing compliance costs is not solely the responsibility of the compliance function, and some firms are taking a more enterprise-wide view in compliance cost reduction. Enterprise-wide changes, including streamlined governance, improved data quality, and embedding compliance into the first line of defence, will unlock the greatest impact by creating lasting efficiencies and strengthening ownership of regulatory risk across the business. The top three enterprise-wide interventions cited by survey respondents (end-to-end process simplification (59%), adoption of technology (54%) and improving data quality (48%)) are highly correlated: they act as mutually reinforcing enablers of transformation that drive both short- and long-term efficiency and effectiveness.



Initiatives we identified through our research that have an impact across the enterprise include:

- **'Home of best fit':** There are often significant costs driven by compliance teams carrying out duplicative work or work that should sit elsewhere. By reallocating activities through an end-to-end process review, opportunities for efficiency and effectiveness can be identified. This supports 'right-sizing' of the compliance function, aligning capacity, capability and cost with actual demand and then adjusting the workforce to reflect risk appetite and priorities through risk-based resourcing. Firms that were able to demonstrate cost reduction combined the reallocation of compliance activities with other mechanisms, such as offshoring or automation, to create efficiencies, rather than a movement of costs.
- **Policy, process and control simplification:** Firms are increasingly focused on the need to simplify the often-complex compliance policy, process and control landscape to increase efficiency and improve compliance and risk management. Challenges around the quality of control also came out strongly from the interviews, with respondents noting that poor control data leads to significant manual time being spent on activities such as risk assessments, and often increased monitoring requirements by compliance functions.
- **Monitoring, testing and assurance rationalisation:** Having a coordinated approach to monitoring, testing and assurance across the lines of defence could reduce the cost of compliance by reducing similar or duplicative work. This means that the compliance function can move towards more dynamic monitoring and away from periodic testing, creating more efficient and effective risk management. A number of firms reported this as an area they were seeking to explore in their strategic plans.

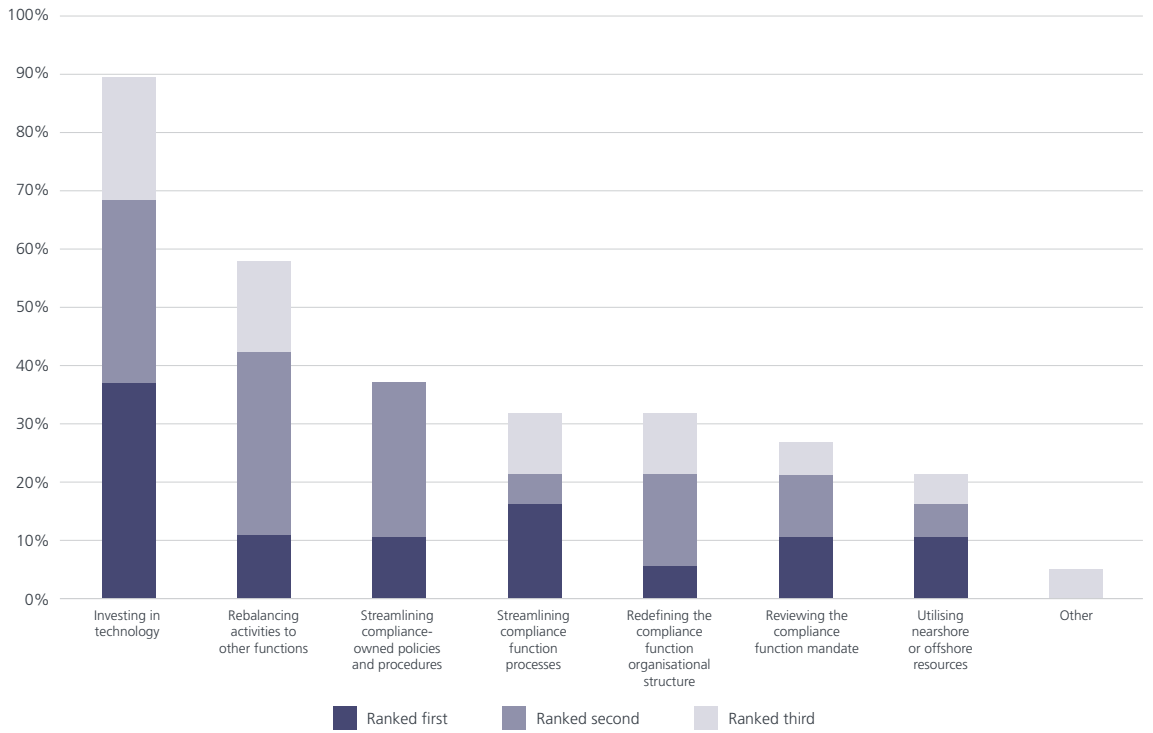
The technology and AI promise

Compliance functions have traditionally been slower to adopt new technology compared to revenue-generating parts of the business, but there is now a recognition that AI and other advancing technologies are mature and accurate enough to deliver real efficiency benefits. This was reflected in the survey results: investment in technology was by far viewed as the most impactful intervention that the regulatory compliance function could make in reducing compliance costs, ahead of other operating model changes (such as rebalancing of activities and streamlining policies and processes).

The majority of technology spend in recent years for compliance functions has centred around the acquisition and licensing of vendor solutions (e.g. surveillance and regulatory technology), along with some in-house development. Some firms have focused on leveraging low-code technologies such as workflow and case management solutions. However, our experience has shown that historically, compliance functions have been unable to realise the technology dividend. Seventy-one per cent of survey respondents who had invested in compliance technology said costs had not reduced. This may be because the costs associated with implementing technology are still high, with benefits to be realised in the future. Common technology implementation challenges include managing technology vendors who overpromise on available functionalities and ease of deployment, obtaining adequate data, and securing support and funding to move beyond point solutions to implement end-to-end solutions across the firm.

An area of significant industry interest centres around leveraging generative AI to transform compliance activities. There are proven use cases in areas such as trade surveillance and transaction monitoring. Many firms are now exploring the use of AI tools for regulatory obligations management, risk assessments and monitoring, and regulatory reporting, which has the potential to drive scalable and sustained benefits. Adoption of AI is a strategic priority across the industry and compliance-related processes offer significant opportunity for the compliance function to drive AI adoption and digitisation, given they are important process areas with examples of unstructured data that are typically less exposed to customer-facing risks and/or customer data. It is recognised that AI is not without its risks (including challenges around data quality and bias, model explainability and transparency, and the potential for overreliance on automated outputs) and compliance functions lead by example in the use of governance and validation in their use of AI and in their oversight of the business' use of technology.

Figure 2: The most impactful interventions that can reduce compliance function costs



Recommendations:

- **Embrace a holistic approach to optimising compliance costs:** Our research and experience highlights the need to consider the key drivers of compliance costs in a holistic manner that spans activities across the three lines of defence. The suggested measurement framework on page 6 offers a mechanism to establish a common scope across the organisation and design initiatives that have a transformative impact, rather than driving incremental benefit solely across the Compliance function. For example, the business can drive significant and sustainable cost transformation through reducing complexity, digitising controls, improving data capabilities and strengthening the capabilities of the first line to reinforce risk ownership, which all have downstream benefits for the Compliance function. This will enable investment cases to maximise and magnify returns, whilst embedding resilience and agility into the operating model.
- **Adopt a business case mentality:** The benefits stemming from adopting a business case mentality (enhancing the compliance operating model and embracing AI and technology) have the potential to drive sustained cost reduction but also contribute towards a number of qualitative benefits. Specific examples we discussed with Compliance leaders include enhanced compliance awareness and culture, greater agility and transparency in business decision making. It is important to view such an initiative as part of an enablement strategy for the firm, with senior sponsorship, rather than a bespoke cost reduction exercise.
- **Embrace AI and technology:** Compliance has the opportunity to act as a digital pioneer and articulate the benefits of leading technology, not only in terms of cost savings but also in terms of increased trust for internal and external stakeholders. Key recommendations to realise the benefits from AI and technology are as follows:
  - Develop a clear digitisation strategy focused on enterprise-wide adoption to realise long-term savings and improve compliance risk management.
  - Contribute to the design of an effective and proportionate 'human-in-the-loop approach' to enhance the performance, reliability, and ethical standards of AI systems.
  - Emphasise the importance of developing a codified compliance and risk capability to control AI agents effectively, particularly as firms embrace the trend to develop AI agents for customer-facing activities.

Now is the moment to act boldly and invest in transformation that reduces cost and enhances quality and resilience. Our survey shows that some firms are putting these principles into action and are seeking to proactively leverage the opportunity as a means of building a model that is ready for the future.

Conclusion

The cost of regulatory compliance will always be a cost of doing business for the UK's financial services sector, but it need not be a drag on UK growth and competitiveness. The challenge, and opportunity, lies in ensuring that regulation is proportionate, predictable, and purposeful and that there is a collaborative approach to achieving the necessary regulatory compliance outcomes.

There is already encouraging momentum: the government has made clear its commitment to regulatory reform and reducing the cost of regulation, and the regulators are taking action to reform in support of their competitiveness and growth objectives. This creates a platform for change, further enabled by advancements in technology that offer a unique opportunity for firms and regulators. The time is now for firms to invest in the optimisation of regulatory compliance activities across the enterprise, to serve as a platform for cost reduction, future cost containment and development of operating models that are primed to respond to productivity, growth and competitiveness opportunities.

This is a crucial moment to drive real change, with the industry, regulators, and government working collaboratively in their ambition to deliver on the aim of securing the UK's position as the leading international financial centre.



TheCityUK

TheCityUK, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF

www.thecityuk.com

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