

UK bank authorisation guide

2025

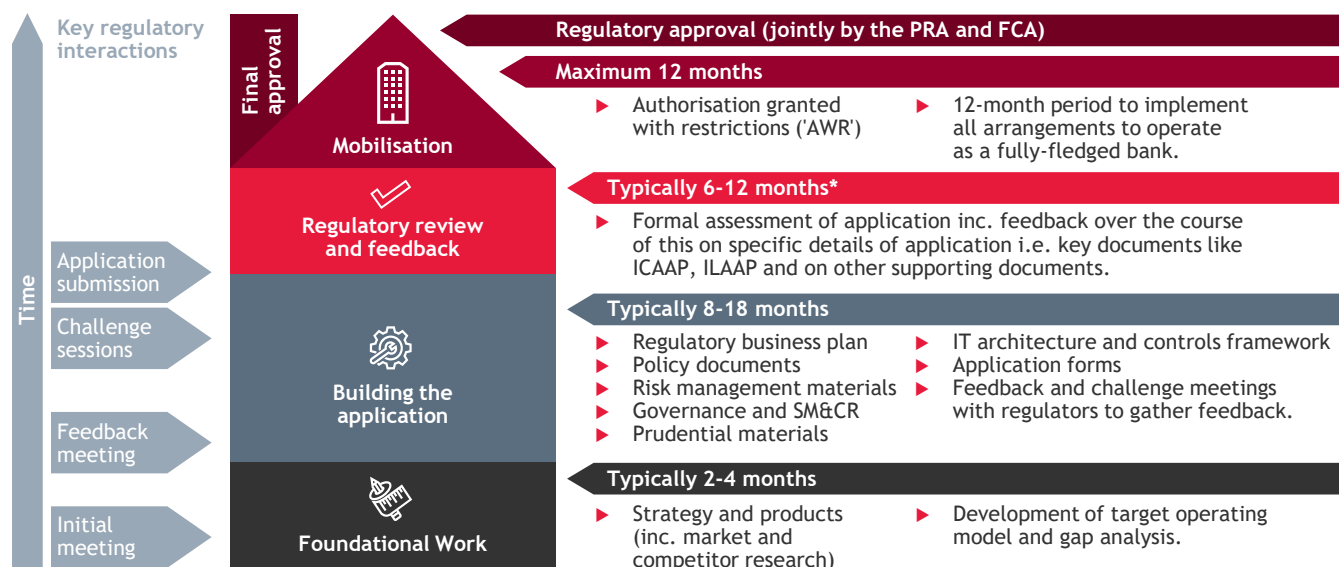
Introduction

Thinking of setting up a bank in the UK? If so, you are likely aware that applying for a deposit-taking licence from the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') can be a complex and lengthy process. The prospect of starting the application journey can be daunting; where does one begin and what exactly is involved in a bank licence application?

This guide outlines:

- ▶ The PRA's expectations and approach to the authorisations process including stages and expected timelines
- ▶ The common challenges and pitfalls (and how to avoid them) in these projects
- ▶ How BDO's Authorisations team can support you on your bank application journey.

The following graphic sets out the main steps of the journey:



* Refers to assessment of full application. Note that current review timescales are typically 8-12 months.



Application routes

Before exploring the approach to preparing and submitting an application, it is worth noting that there are two options available to applicants wanting to obtain a UK banking licence; 'Option A' and 'Option B' which are detailed below.

It is important to determine before meeting with the regulators for the first time, which of the two fit your plans best.

Option A

Full application submitted at the point of the applicant meeting all regulatory requirements including capital, liquidity, sufficient recruitment of people; fund raising and implementation of IT systems.

Option A is typically used by organisations **that already have established banking operations (typically overseas)** and therefore have existing IT infrastructure, as well as both the financial capital, liquidity and human resources available to support the application build and subsequent business launch **without the need for a mobilisation period**. While there is an expectation that overseas banks establishing subsidiaries and branches in the UK will adopt Option A, **start-up banks are able to make use of this route** should it be a better fit relative to their plans.

The focus of the remainder of this guide is on those establishing new banks in the UK with no existing operations and therefore will use Option B. If you are an overseas bank of financial services organisation looking to establish a UK bank subsidiary or a branch, please contact us and we would be happy to discuss our approach to supporting your type of business in more detail.

Option B

A more limited range of materials are prepared and submitted to the regulators with the remainder completed during a 'mobilisation' period of up to 12 months. The licence is initially granted with restrictions (known as authorisation with restriction or 'AWR') then upgraded to a full licence once bank is fully ready to go-live.

Option B is **the most adopted route to authorisation for start-ups** and those already carrying out non-bank regulated business in the UK. The key benefits to Option B is that it allows for a phased approach to hiring staff; implementing/testing of the IT infrastructure; and for most of the required capital raising to take place after achieving AWR. On entering AWR, an applicant is legally a bank and will appear on the UK Financial Services Register as such. It will however be limited to taking deposits totalling no more than £50,000 on aggregate.

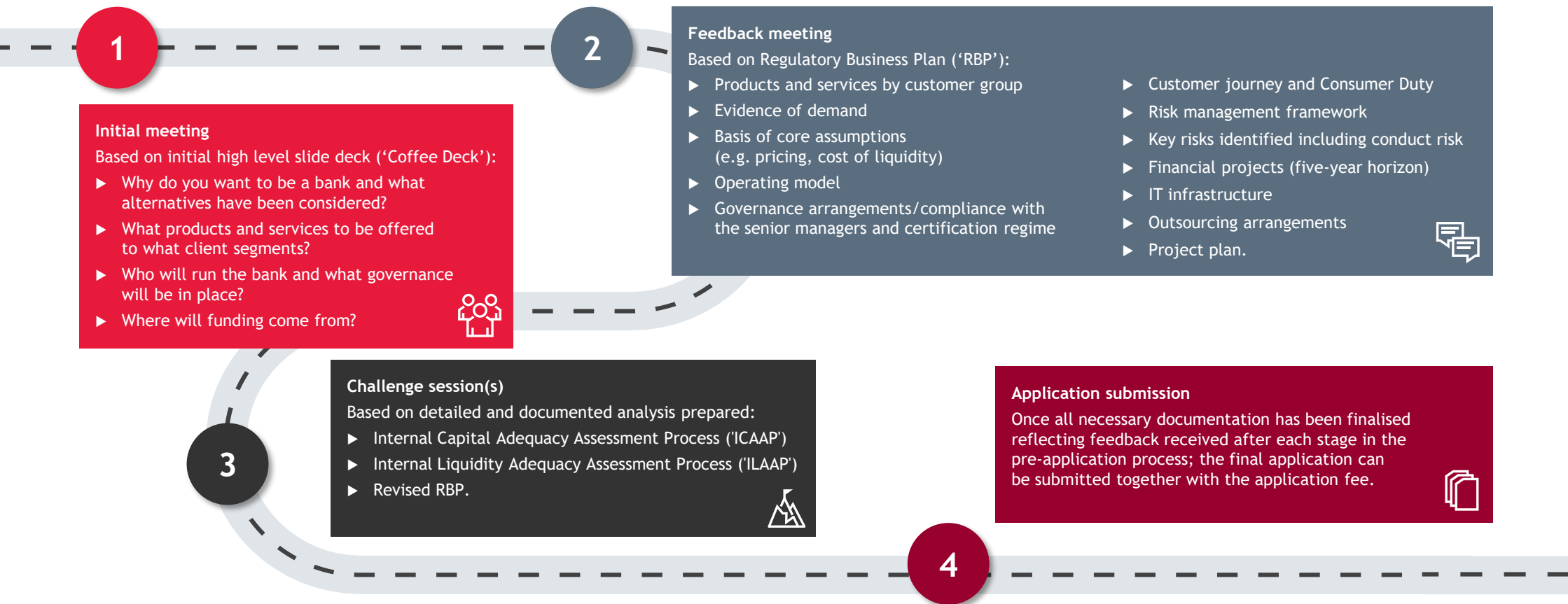
To reach AWR, an applicant must complete several application 'stages' each revolving around a formal meeting with the regulators, based on the submission of a range of supporting materials. On average, **applicants spend 12-24 months preparing for the ultimate application submission**, which is followed by a regulatory review period of up to 12 months. During the regulatory review period, **regular meetings are held with the PRA and FCA** who will also engage in several rounds of Q&A based on the materials submitted.



Pre-application

Regulatory focus at each stage

The pre-application period is carefully managed around several regulatory touchpoints involving submission and then feedback meetings (and written feedback) led by the PRA (and supported by the FCA). This has been put in place to encourage a constructive feedback loop to accompany the operational development of the proposition with a regulatory steer.



Foundational work

The regulators require several upfront conditions to be met by any prospective applicant before being willing to formally engage with them in an application process. These requirements include the applicant demonstrating:

- ▶ A clear opportunity in market having been identified (e.g. new/unexploited gap or inefficiencies/mispricing in incumbent offerings)
- ▶ A compelling and clear need to become a bank to execute the proposed business plan. The expectation is that alternative licence types to deliver the proposed business model have already been explored and deemed incompatible
- ▶ Market research has been carried out to identify customer demand for the proposed products and services; including competitor analysis (e.g. product availability and pricing) and consideration of the addressable market size. Core evidence relative to the business case and the financial projections
- ▶ An overview of the proposed governance and organisational structures and Board composition
- ▶ An understanding of the key risks the bank will be exposed to
- ▶ Plausible financial projections across balance sheet and P&L for a five-year horizon. Initially this can be high level, but will be required to be increasingly granular and refined over the course of the application journey.

Once the above has been completed, it is generally prudent to design (at least at a high level) the Target Operating Model ('TOM') for the bank. This serves a dual purpose of both providing the foundation for a first iteration of a RBP as well as supporting the creation of a project plan/timeline which the regulators would also expect to see at this early stage.

For those already operating a financial services business (whether regulated or not), it is often useful to complete a Gap Analysis against the current state of operations relative to the proposed TOM. This generates clarity of the volume and nature of work ahead which in turn and shows what can be leveraged from current operations.

The TOM together with the foundational work done will ultimately support the development of a 'Coffee Deck'; a slide pack developed for the purpose of being provided to the regulators ahead of the initial meeting which, if successful, would signal the starting gun for formally commencing the application process.

The deck should provide a high-level outline of the work completed in the Foundation Stage. For example, products and services, target customer segments, evidence of demand, financial projections, planned TOM including governance and risk management arrangements. In addition, information such as how the bank will be funded and a high-level project plan should be communicated.

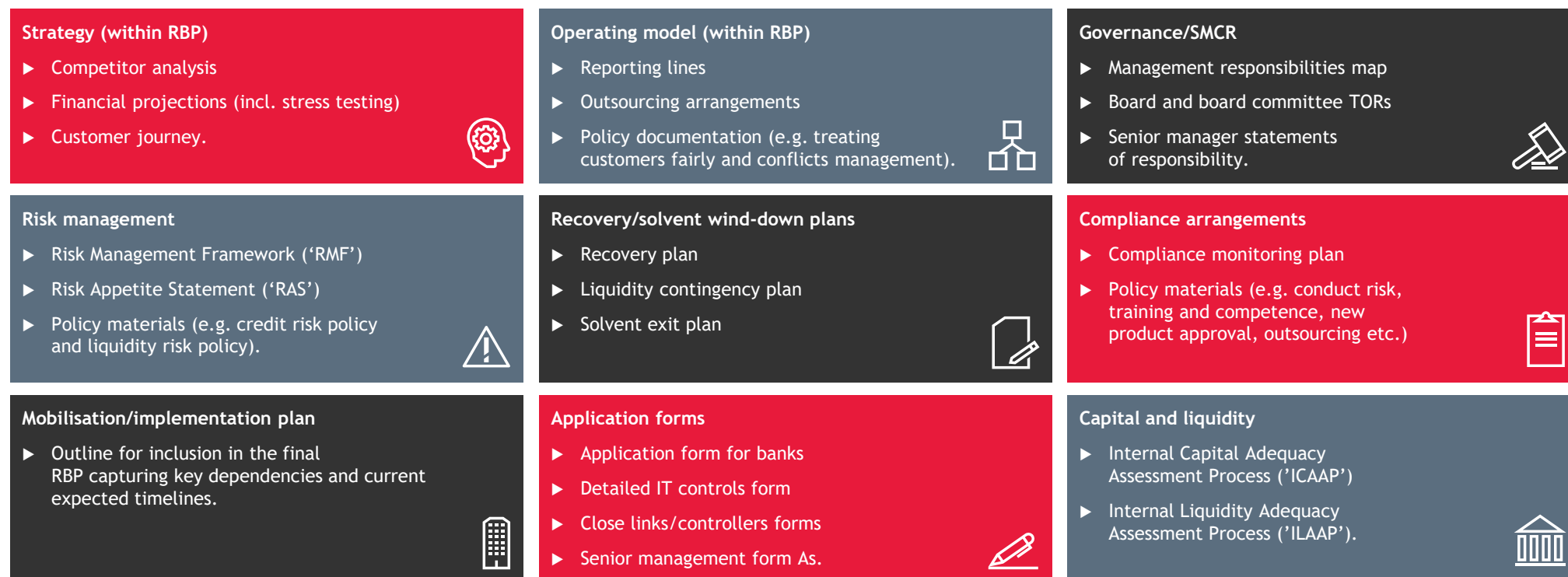


Foundational
work



Building the application

Following the completion of the foundational work and having had the initial meeting with the regulators, the next stage of the journey is to build the documentation required to support the application itself. An overview of the core suite of documentation needed is set out below:



As shown above, there are several groups of documentation that cover a diverse range of rules and standards which the bank must demonstrably be able to meet either at the point of being granted AWR or ahead of exiting from mobilisation. Having the right people involved in building and challenging these supporting materials is critical to the overall credibility and success of an application, whether through internal resources or in the form of third-party advisory support. The volume and complexity of the documentation required should not be underestimated.



Pre-application considerations



It is worth highlighting a couple of aspects in particular which will influence key early-stage decision making and preparation.

Senior recruitment

It is crucial to ensure that as the application develops, an appropriate mix of senior individuals is assembled to support the development of the bank. The firm will also need to demonstrate to the regulators that there is a credible Board and Senior Management team in place ready to steer the bank at the point of being authorised. All Board members and the majority (if not all) of the Senior Management in the bank will be required to be assessed by both the firm and the regulators as 'Fit and Proper' for their roles and in turn publicly registered to hold a Senior Management Function ('SMF').

In the pre-application stage, the regulators will expect a certain number of SMFs to be identified by the time the application is submitted (at a minimum often the CEO, CRO and/or CFO and a Non-Executive Chairperson). There is also an expectation that those identified have the suitable skills and experience for their proposed roles and it is likely that several proposed role holders will be interviewed by the PRA and FCA as part of the application assessment process.

Consumer duty

Unless planning to exclusively deal with wholesale markets only, applicants will also need to comply with FCA's Consumer Duty upon authorisation. The Duty sets out overarching standards, requirements and guidance relating to how firms are expected to consider the needs and objectives of their customers. This replaces the Principle for Treating Customers Fairly for retail consumers with a new Principle 12, 'a firm must act to deliver good outcomes for retail consumers', which imposes a higher and broader standard than previously. The Consumer Duty has four focus areas for delivering and evidencing good customer outcomes with increased focus on products and services, providing fair value, consumer understanding and ongoing provision of consumer support.

The FCA has been clear that it expects those preparing applications to become authorised to consider carefully how they will meet the objectives and requirements of the Duty. In particular, applicants should consider how they will achieve good customer outcomes wherever they are in the value chain (i.e. distributing such as when selling a manufacturer's product, providing advice which will lead to a sale of a product created outside the firm, or providing a service such as administration). Therefore, any documentation prepared as part of an application (e.g. RBPs and policies/frameworks focused on customer-facing processes) should clearly articulate how the Duty will be met and the outcomes and remediation should things go wrong be monitored to support continuous improvement.

IT architecture and system build

All banks require a 'stack' of IT systems to support the business, including a front-end system capable of dealing with customer interfaces with planned and potential future products. In addition, a core banking system, treasury systems and capability to produce accurate and timely regulatory reporting will also be required.

The length of time to undertake vendor selection, build, integration and testing, as well as being in a position to satisfy regulatory requirements should not be underestimated. Often, the ability to demonstrate a fully functional IT system is a crucial milestone to getting regulatory authorisation and therefore early planning and scheduling to enable the bank to reach this when at the later stages of the regulatory process is essential.

Submitting the application

When the regulators are satisfied with draft materials reviewed and discussions had to date, the PRA will formally invite the application to be submitted. This marks the completion of the pre-application process and signals that the applicant has done sufficient work in closing out any observations and queries raised by the regulators during the process. Submitting the application however, is in itself the most important milestone in the process as only at that point will the final assessment by the regulators commence following which a definitive 'yes/no' outcome will be arrived at.

When applying, it is expected that an applicant has:

- ✓ A CEO, a Board Chairperson and at least one other C-suite member in place (typically a CRO or CFO, or both).
- ✓ Completed all pre-application stages and has reflected all feedback received after meetings into supporting materials.
- ✓ Completed all supporting materials required after reviewing, challenging and approving these through appropriate internal governance channels.
- ✓ Raised the required minimum capital needed to enter mobilisation as determined the Internal Capital Adequacy Assessment Process ('ICAAP') completed by the applicant together with a credible funding plan capable of completing any outstanding fund raising needed to meet capital requirements after exit from Mobilisation.

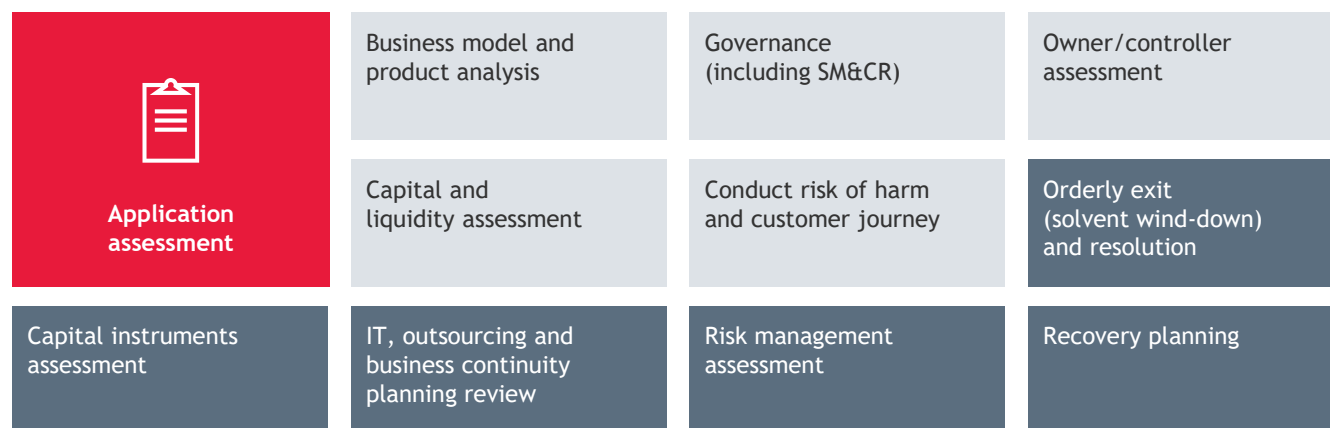


Building
the application



Regulatory review and feedback

Once the application has been submitted, the regulators will commence a rigorous assessment of the application involving several senior individuals as well as subject matter experts from across both the PRA and FCA. An indication of how the regulators typically 'box' the various assessment stands is shown in the graphic below.



These topics will also be a focus of discussions with regulators during the pre-application stage.

It should be noted that whilst the PRA will lead on the consideration of the application, the FCA is crucial in assessing the customer/market facing aspects of the application assessing whether the applicant has met conditions relating to conduct risk and consumer duty. It will also be the assessor of the bank's proposed IT arrangements and will employ a specialist team to review information related to the systems and controls that will underpin the IT set-up.



Regulatory review
and feedback



Final approval and mobilisation

Assuming the application has been successful, the not insubstantial task of successfully transitioning from an authorisation project to a fully functioning bank will now need to take place. Despite a bank licence having been granted, it is not a forgone conclusion that restrictions imposed on the licence will be lifted to allow exit from Mobilisation. There exist several examples of applicants failing to exit Mobilisation for a range of reasons.

It is necessary during Mobilisation to ensure that strong project management discipline is applied to the build of remaining documentation; recruitment and systems. It is also equally important to maintain open and continuous dialogue with the regulators to complete the application process.

To demonstrate to the regulators that you are ready to exit Mobilisation, the following conditions are generally required to be fulfilled:

- ▶ Credible mobilisation exit plans are developed and have been implemented with oversight by the Board
- ▶ Capital to cover the first 12 months (at least) of post-Mobilisation operations has been raised
- ▶ Realistic recovery and wind-down plans have been developed, documented and approved by the Board
- ▶ There is a fully tested (i.e. penetration and user acceptance) and operational IT environment in place (Board will be required to attest to its readiness for full launch)
- ▶ Once the above has been met, the regulators will often require the Board to attest to its readiness for full launch which may require some independent assurance work. Once satisfied of this, only then will both regulators will give their consent and allow your firm to operate as a fully-fledged bank.

Final
approval

Mobilisation

How can BDO help?

BDO does not provide a one-size-fits-all approach to bank authorisation support but offers a **structured and bespoke service** to ensure an exact match to your needs and requirements at all stages of the regulatory process.

For the purposes of synergies, our support is grouped into thematic modules which are in turn, supported by deep insight of regulatory expectations, the application process itself and the elements that are common to successful applications.

In addition, we also provide high quality project management to tie the project together overall.



Project management



Regulatory Business Plan



Governance



Prudential



Risk management



Policies and key documents



Consumer Duty



IT arrangements



Mobilisation support

Importantly, our approach is driven by **your needs** during the application journey. So for example, should the nature of support you require change as you progress deeper into the process, we can adjust the level of our support on any element of our project accordingly.

We offer flexibility throughout our engagement reflecting the often-changing needs of clients over the course of an application projects. BDO's regulatory applications team has extensive experience of handling different types of applications and client needs, ranging from piecemeal 'on-demand' support through to full hands-on drafting support to create first drafts of key materials required.

We offer three levels support reflecting this reality:



On-Demand

Occasional support as required with targeted review/challenge on documents and input on regulatory correspondence.



Hybrid

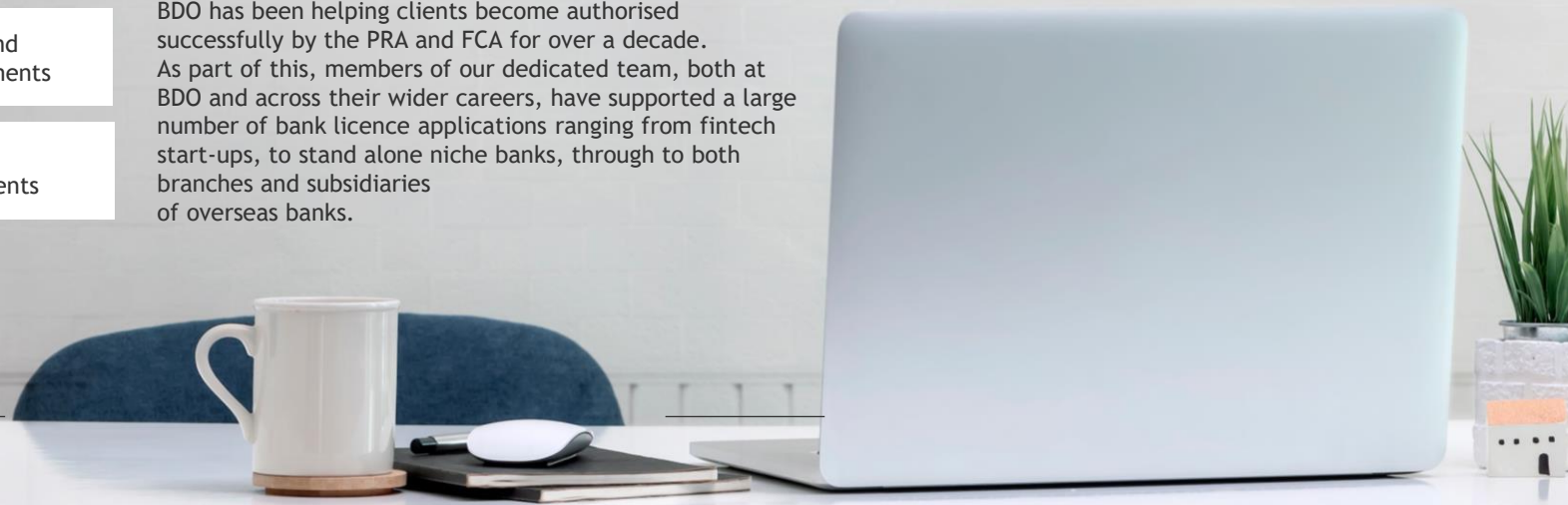
Review/challenge support as per the On-Demand option, combined with more targeted 'hands on' drafting assistance.



Enhanced

Full drafting support across most documents, with BDO providing first drafts and subsequent updates as the application progresses.

BDO has been helping clients become authorised successfully by the PRA and FCA for over a decade. As part of this, members of our dedicated team, both at BDO and across their wider careers, have supported a large number of bank licence applications ranging from fintech start-ups, to stand alone niche banks, through to both branches and subsidiaries of overseas banks.



FOR MORE INFORMATION:

Mads Hannibal

Partner, Financial Services Advisory

+44 (0) 7810 836 222

mads.hannibal@bdo.co.uk

Kevin Harabasz

Director, Financial Services Advisory

+44 (0) 7825 753 471

kevin.harabasz@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © 2025 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk