Financial Conduct Authority

Annual Public Meeting

Thursday, 17th July 2014

The QEII Conference Centre, London

Introduction

John Griffith-Jones, Chairman, Financial Conduct Authority

Opening Remarks

Thank you very much for attending today on a nice sunny day, and welcome to the FCA's first Annual Public Meeting. Just over a year ago in our FCA Approach document, I wrote – and I quote – 'Regulation has to strike the right balance between allowing the industry to thrive and assuring it retains its integrity and delivers what consumers expect.' Well, I make no claims to success at such an early stage in our lives, but there is much to be proud of in the progress we have made working with industry, trade, and consumer bodies alike, that gives [BREAK IN AUDIO] that this [BREAK IN AUDIO] vision that is capable of being realised. And today is an important opportunity for us to reflect on what we've actually achieved over the past year, and in particular what we have done to meet our operational objectives whilst still acknowledging that there is a lot more to do.

So, we started as a new organisation with three high-level objectives around consumer protection, market integrity and effective competition. We have made considerable strides over the year to further define what these mean, and most importantly mapped out a regulatory approach which brings them to life.

Achievements

So, what have we actually achieved? Well, first and foremost, I believe we have put conduct firmly on the map. The split of the old FSA into the FCA and the PRA has enabled both bodies to do what they do well. On our side of the fence, I hope it is now abundantly clear that firms need to have regard to the interests of their consumers if they want a long-term sustainable business in the regulated financial sector. My sense, especially in the retail space, is that the winning firms of tomorrow have not only got the message, but are also working hard on how to benefit from it and embed it in their business models for the benefit of all concerned. This will take much longer than one year, but we will be encouraging and indeed requiring continued progress in this area. The picture in the wholesale space is, in my opinion, still more nuanced, with several incidents, some very large, continuing to emerge, and this will continue to be a focus in the coming year.

Operational building blocks

- *Good governance*

Now, many of our achievements have been well acknowledged in the public arena, and Martin Wheatley will in a moment take you on a journey of our first year following my remarks. But what I want to focus on in the balance of my speech are some achievements that the public do not always see, and these are the operational building blocks which allow us to operate in the outside world, make interventions, and ultimately successfully fulfil our objectives. There are three such blocks that I want to talk about: good governance, good processes and, most importantly, good people. If I may, I'm going to take each in turn.

Firstly, good governance as a starting point. I believe an effective organisation runs on good governance, and over the past year I have as your chairman led our new board with its diverse and knowledge mix of executive and non-executive directors. And with their expertise and input, we have been able to challenge the proposals presented to the board and provide constructive critique prior to their approval. Now, this of course only happens with a strong working relationship with the executive team as well, which is something which I consider has been developed and nurtured well over the past 18 months.

- *Transparency and accountability*

Another area where the board has made a real difference over the past year has been through its drive for greater transparency and accountability in the services and the activities that the organisation carries out. In our Approach document, we made a commitment to be more upfront, open, outward-facing, and to tell industry when we initiate work rather than when we complete it. So, for example, we now routinely try to let industry know about upcoming thematic reviews so there are fewer surprises and key stakeholders can engage properly with our proposals rather than having them thrust upon them.

On the customer side, we have greatly – and I mean greatly – increased our capacity and willingness to listen through our Radar unit. We want to use the eyes and ears of millions of people to help inform and direct our work. In addition, our own panels provide invaluable input to our policy deliberations, for which we are extremely grateful. Our practitioner panel and independent stakeholder research carried out earlier this year, at the beginning of this year, indicates that this approach has already made a difference. They have fed back that we are clearer, more engaging and easier to do business with than the FSA. In fairness, they also feed back that we could do much better, so there is no room for complacency amongst us at the FCA.

- *Performance framework*

The board, in coordination with the executive, has also developed a performance framework and related measures which provide us with metrics to help show how we are actually achieving our intended outcomes. So, this is not always wholly straightforward, as we can obviously never measure the bad things we deterred from ever taking place, whilst things we are late to act on are obvious immediately to all of you. Whatever. These metrics, alongside other methods such as post-implementation reviews and measuring the progress against business plan commitments, are just some of the ways we are holding ourselves to account, including setting standards for ourselves that we would expect of the firms that we regulate. Industry and consumers alike expect us to meet these standards, which in my opinion is only reasonable, and it is in this spirit that the FCA board commissioned an independent enquiry into the events surrounding the publication of this year's business plan, which will be published once it is completed.

- *Organisational efficiency*

So, my second building block was organisational efficiency, and running an effective organisation isn't just about good governance, but it's about what we actually do: good processes, making sure we deliver projects and programmes that meet their purpose in a timely fashion and within budget. So, this year there have been some significant pieces of work the organisation has delivered which don't make the headlines but which I consider are actually very important successes, and I'll just illustrate this very briefly with three examples: embedding our competition approach, taking on consumer credit and our new supervision model.

So, example A. When we became the FCA, we gained the new objective to promote effective competition in the interests of consumers, and over the past year we've built from the group up – literally – our internal processes and capabilities to help us achieve this. And already, we have looked at general insurance add-ons, cash savings and retirement income markets, and very recently we've published a call for inputs in the wholesale market. And along with adapting our toolkit, we've also made sure that we have the technicians to actually wield the said tools. We've appointed competition experts, have taken significant strides to further both our competition objective and our understanding. This will prove essential as we are taking on concurrent competition powers from April 2015.

Example B, transfer of consumer credit from the Office of Fair Trading. Such a transition has required us to engage and consult with key stakeholders to develop a new regime with the right regulatory approach to protect risks to consumers, and this also has involved developing new tools, scrutinise business models, design a bespoke risk framework, and conduct consumer research to inform our thinking. So far operationally we've had what I consider a major success, with nearly 50,000 firms registering for their interim permission by the 1st April deadline. However, this is a brand new area for us, so I also remain cautious on this. We are already seeing practices that do not meet our expectations, and the potential for consumer detriment is already evident. You will indeed have read about our proposals for the payday lending cap which we published earlier this week.

Example C is the embedding of our new supervisory approach. It was well publicised that one of the biggest changes from the FSA to the FCA was going to be our aim to be more risk-based and proportionate in our supervisory regime. This means that we have a flexible approach to meet the supervisory challenges we face, be it with a particular firm, sector, or the sales practices surrounding certain products, and a major part of this approach is essentially moving conduct from the back office to the boardroom. We are now talking to boards and executives rather than just compliance officers about whether they are operating their businesses in the best interests of their customers. This change has to be right, as conduct and consumer trust in financial services should be a matter for boards. There will be much more to do over the coming year to ensure that our model is fully effective and becomes business as usual for the firms we regulate, but again I think we've made a good start and these and many other achievements have all been carried out with a very strong focus on value for money. Our fees for firms have remained almost flat on a like-for-like responsibility basis in the current year, and we have had our first National Audit Office report conducted for the year just ended which, while including some challenges, provided us with positive reinforcement that we were moving in the right direction.

- *Attracting and retaining staff*

And my third and final building block is one that the NAO itself raised, which is attracting and retaining the right staff will be our most significant issue. I cannot agree more, because it is our people that are our most precious resource. Firms also tell us, not surprisingly, that we need people with industry expertise and knowledge of the sector they operate in, in order to regulate them. It is essential that these people are experienced and able to maintain mature relationships with key stakeholders and their boards, as well as with firms more generally.

Now, to ensure that this is going to happen or is happening, we've launched a three-year people strategy, brand new, which focuses on strengthening the skills and knowledge of our staff in the regulatory space. In the past year, we have formed partnerships with the Saïd, Cranfield and Henley business schools, and we have just launched an MSc in Financial Regulation – obviously for regulators – which will be a first in the sector. We consider that these measures will ensure the FCA is an attractive proposition to attract new talent, retain our good people and build a stronger organisation for the future. We know, of course, that we are in danger of becoming a victim of our own success in the people space, because as firms build their own conduct capability they look to the FCA as a rather obvious point of call for their recruitment consultants. But encouragingly, we have found ourselves able to recruit some experienced individuals back from industry during our first year. And whilst we must always have regard to regulatory capture or cosiness, there is no substitute for true expertise in the field of regulation.

Conclusion

So, to conclude, I've used my remarks to talk about building blocks not maybe so exciting in themselves, but key to our future success. And I would describe our first year as one of solid progress.

But it's not just been about building. We've also had an exceptionally busy year doing our job, and I'm now going to ask Martin Wheatley, our Chief Executive, to run you through some of our major actions during the past year, because as he and I are only too well aware these are the things that you're going to judge us by. Thank you very much. Martin.