# Inside FCA Podcast: Chris Woolard interview on emergency regulation and future planning

**OI:** Welcome to the Inside FCA podcast. I'm Ozge Ibrahim and today I'm joined on the phone by Interim Chief Executive, Chris Woolard, who will share his thoughts and the FCA's plan as at a time of great difficulty and uncertainty for so many people, not least UK businesses across the spectrum who are all trying to adapt in a fast-moving situation brought on by the global Coronavirus pandemic. Welcome, Chris, and thank you for joining me today.

**CW** Thank you.

It wasn't long after you were appointed Interim Chief Executive that the world was hit by a pandemic. Since then the FCA has introduced a series of emergency measure and regulation. Can you talk us through the crisis planning process, the main areas of focus and why you've taken the approach that you have?

**CW** Probably the easiest way to think of this is the authorities and by that I mean the Treasury, the Bank of England and us are trying to build a bridge between one side of this crisis and the other in terms of its economic impact, and how do we ensure that as many firms and consumers can come out the other side in the best shape possible.

So when you look at our interventions, they fall broadly into three camps. The first has been around how do we ensure that people who have been impacted very quickly by what is an unprecedented situation are able to get some degree of temporary relief from payments or other commitments that they have that will help them cope with the crisis, so notably obviously around things like mortgages, credit cards, car loans, those kinds of things.

Second area is about making sure that financial markets work well, so we intervened very, very early in the crisis really with two things in mind – the first was to ensure that if we possibly could, we kept markets open and orderly but also that we then coped with the specific circumstances of coronavirus. So, for example, around the requirements for firms to make preliminary statements to the stock market which is obviously very, very difficult when their own auditors, for example, can't get access to premises.

And then finally we've intervened where there may be aspects of the market that don't appear to be working well during the crisis, so most notably around Business Interruption (BI) insurance but other issues of that nature and that's very much us, I think, doing our day job, but just in a specific set of circumstances related to the crisis.

**OI** And can you say a bit more about Business Interruption insurance please? Why is this important at the moment?

**CW** So it's really important in the sense that firms, particularly a lot of small firms, have taken business interruption insurance policies out over the years, now around 90% of those cover what we might term 'fire and floods', so they're very basic policies about damage to the property that they may be using to run their business. But there's another group which are really around dealing with a number of risks, so for example if the authorities close your premises if there is illness on the premises or if there's illness around the vicinity of the premises. Some of those Business Interruption policies are paying out in the pandemic but then there are others that are within dispute and obviously those disputes matter incredibly to the policyholders but obviously the insurers also have the right to defend their own wording.

And classically, I think if you were to look at a dispute between a policyholder and someone who's insured, we can see those play out within court but they often take many, many years to happen so what we're trying to do here is to shorten the timetable for that period of uncertainty and what we've announced is that we've secured agreement from a sample of insurers whose wording has applicability across quite a lot of the market to come to court with us on a voluntary basis, on an agreed basis, and what we will do is put the facts in front of a judge, hopefully we'll be able to do that in July and we'll be able to get a clear set of rulings that tell us which policies are likely to be engaged and therefore need to consider paying out, and which policies are not, so we'll get a really clear line, hopefully, from this action that helps resolve this for the market and obviously that's incredibly important for those policyholders but it's also incredibly important actually for the insurance industry as a whole to get that clarity.

**OI** Chris, you've recently announced further measures for consumers. Can you say a bit more about what you are trying to achieve?

**CW** We’ve got sort of two big groups, so there’s a series of interventions around mortgages and then a number of other credit products but if I start with mortgages. The Chancellor announced at the start of the crisis a mortgage holiday period of up to 90 days for people who are affected or thought they’d be affected by the crisis and we introduced a series of guidance rules to help support and make that happen.

What we’ve seen is about 1.7m people apply for a mortgage holiday, so in some banks and building societies that’s as many as 1 in 5 of their customers, and what we can also see is that about half of that group are people who perhaps thought they were going to lose a job or have some other kind of impact, and in fact they’re in a position where they could still afford to pay now that that ninety day period is coming to an end.

At the same time, about 40% of that group are still impacted by coronavirus, so for example you might be a hairdresser, you can’t get back into the salon or the barber shop because there are closures in place but we also know that as soon as those closures begin to lift and ease, there will be a queue of people probably all with quite dodgy lockdown haircuts queuing up to be served. So, for someone like that, there’s still the need for temporary help to continue beyond the 90 days and what we’ve proposed is that that should continue to be in place and the banks and building societies and other lenders should offer that and a range of options for people.

And then finally there’s a small group for whom unfortunately perhaps their finances weren’t in the best of health even before the crisis began and coronavirus has been the final straw and obviously those people do need to have formal structured debt advice and to have payment plans and that kind of forbearance put in place for them, but what we’re trying to achieve here is a situation with mortgages where if you need help, help is available from your bank or building society and it’s tailored to you to allow you to get through the worst effects of the immediate shock from coronavirus. If you can afford to pay, it’s in your best interests to start paying again and then clearly if you’re in this very small group who really have been very seriously impacted by coronavirus and need forbearance, then obviously you should get that too.

When it comes to other credit products, we put those measures in slightly later so in the next few weeks we’ll have to review what happens next with them but we were certainly trying to take a very similar approach at the start of the crisis for that group of people to say on a range of things whether it’s credit cards or whether it’s car loans, whether it’s the premiums you might be paying on your insurance every month, that if you are in financial difficulty as a result of coronavirus, then the firm that's selling you their products or that is providing your loans should be giving you the same kind of help in the sense of often a 90-day window in which you can freeze your payments.

Again, I think as we come to the end of this process for people who can afford to pay, it will absolutely be in their best interests to continue or to resume paying and then we will have to make sure that those who can't afford to do that do have a range of options that help them through what is obviously a difficult time for many people, and a very uncertain time for many people.

**OI** And I assume that you will carry this through and review it if lockdown measures are prolonged for any reason over the coming months?

**CW** Yes, I mean what we have to do here is strike a balance so all of these measures come at a price and on the whole that price is being borne by lenders in the short-term in terms of, for example, their own liquidity and their own ability to collect payments, and then it's obviously in most cases being borne then by consumers in the longer term because their mortgage has been extended or there's been additional interest rolled up and added to it, or whatever the particular circumstances might be.

So it's everyone's best interest to actually get back towards payment wherever that is possible or even partial payment, but we have to recognise that there's an ongoing situation here. So, what we will try and do, as I said, as authorities we're trying to build a bridge from one side of the crisis to the other, we've seen, if you like, the on-ramp to the bridge, that was what was done in the initial 90 days and what we're trying to do here is to make sure that we create a down-ramp on the other side as well where hopefully as many people return to being able to make payments and that's obviously because they've been able to get back to work as the crisis eases. Clearly, if there are further restrictions that need to be placed on for health reasons, if the situation becomes more complicated in some way, then we'll have to think about how we adjust to those circumstances but we're very much trying to provide a smooth way of getting as many people back to what feels almost like normality from the point of view of their finances, if we possibly can.

**OI** When the country went into lockdown, the FCA had to adapt in the same way as other businesses to a new way of life; this has meant a rapid rearrangement of work. What does this look like now and are there any changes to planned activity at this time?

**CW** For us, going into the period of heightened restrictions really was the same as for many, many organisations. So the bulk of our people are now working at home, I think the transition to that has been remarkably smooth given all the considerations and the fact that there is real strain on national infrastructure from the fact that everybody is doing this all at the same time and I've been really, really surprised and indeed I'm very proud of colleagues for coping as well as they have done. We still do maintain a small operation in the office and out on the ground particularly around our intelligence and our forensic services and also some of our enforcement activity, but for the most part we've been running the organisation remotely for about the last ten weeks.

In terms of our own work, we've clearly had to reprioritise quite significantly so about two thirds of the new planned activity that we had, we've postponed quite deliberately and what we've wanted to do is to get the firms we regulate to focus on serving their consumers through what's a very difficult time and also in particular looking after those who are vulnerable.

We will eventually bring back much of that new planned work, it was important, it was there to often protect or enhance the protection of consumers and so it's important that it does get done, but we will bring it back in a phased way, so from the summer through to the autumn you'll see us bringing back some of those key pieces of work.

In the meantime, we've also published a Business Plan which sets out both what we're doing around the Covid-19 emergency, but also gives some clear areas of real focus for us as part of our ongoing work, so one of those is around retail investments where there is still an awful lot of work that needs to be done, I think, to make sure that we've got a really good basis for protecting consumers, we've got work still ongoing around the consumer credit market which has been a focus for us for many years but I think is really a good moment to take stock and make sure that we've got protections there, we've got further work around payments and payments firms of which there are very many on which the public are increasingly relying and then finally we're taking a look at how big data and the growth of more open systems might affect pricing for consumers in the future and indeed the way competition works in our markets in the future.

And I think all of those pieces of work have to some degree a resonance with what we're seeing happening at the moment with Covid as well, so not only are they the right long-term issues over the next three years but they are also areas where, for example, on something like retail investments, we know people are looking for better rates of return as they see their savings or their investments impacted by what's happened with coronavirus, clearly again, you know, electronic payments instead of cash and what happens around the future of cash, they are all really important debates that are raised and exacerbated by the current situation as well.

**OI** The Business Plan also lays out future plans to strengthen markets and the importance of working towards the zero-carbon economy. How will the FCA deliver on these plans in light of current circumstances?

**CW** Had we not had the pandemic, I think this is probably one of the biggest issues we would have had within our overall Business Plan and clearly there was a lot of work in train and still is in train between ourselves and the Bank of England, and also the wider agenda being pursued by the UK Government. The adaptation of the economy towards zero carbon or very low levels of carbon is really important to the financial sector, one of the biggest areas of expansion that we've seen, certainly in London, has been a growth of so-called green finance and the issuance of, for example, green bonds or other sort of green investments and that poses some challenges.

First of all, we have to make sure that there's real confidence in that market, so how do we think about the standards that need to be adopted both in the UK but also internationally to ensure that when investors are putting their money into products that they think are green, that that's exactly what is happening, it's not just so-called green washing that's going on.

Secondly, the demands here on the financial system could be huge in terms of the global needs for decarbonisation, for example, and we need to make sure that the financial system can cope with those issues.

And then finally there's a really big piece of work in this space which is not only about asset managers but also for banks to consider around the assets they're holding, which is how far do people look for and account properly for the wider risks that they may be running in relation to climate change and reflect those accurately in what they own. So, for example, I think many years ago, you know, car manufacturers might have been regarded as a very safe, core, low volatility stock for firms to hold and an asset to hold but clearly if those manufacturers don't have their own plans of how they're going to decarbonise and how they're going to become part of a low-carbon economy, suddenly those assets become very risky.

So, how do we make sure that's accurately reflected in the balance sheets of banks and that's something the Bank of England has been concentrating on, but also how do we make sure that those wider environmental risks and impacts are accurately reflected in asset managers and in the balances they hold as well.

And then I suppose sort of finally there is also a huge opportunity here for UK finance in the sense that this is an area where many of our asset managers are seeing as world leading in terms of the disclosures and the packages they can put together for investors who are really worried about their environmental impact, so you see some of the big US pension funds, for example, investing in the UK, it's also a place where I think if you look at the work that's being done around the London Stock Exchange and elsewhere, there is some real forward thinking about how listings of these kinds of products can work and could work in the future.

So, there's an awful lot here to do to help the financial sector adapt and it's something that we will play our part in.

**OI** What are the focus areas for enforcement activity and how do you plan to continue with this work for the rest of the year?

**CW** So one of the areas where despite the crisis and despite everything else we just need to keep our focus is around both our routine supervision and our routine enforcement activity and you'll still see us active across the board and indeed during the crisis itself we've still been active in terms of seeking enforcement outcomes.

An area I think we will play particular focus to though is the wider question around scams. We've seen some traditional scams rebranded for coronavirus, we know that there could be an increased risk profile here for consumers, many of whom might be worried about, for example, the loss of value in their pension savings or other assets that they hold and might be tempted to go for schemes that seem to offer a greater rate of return. That's been a problem that's been with us in the low interest environment for many years but I think it's particularly accentuated by the crisis. But overall, when you look at our enforcement priorities, they will support our work overall and they'll support our wider business priorities. So, for example, we're looking at retail investments, we're looking at how the consumer credit market functions and so you can expect enforcement activity to support those wider Business Plan priorities, as well as our day to day work.

**OI** Finally, what are your ambitions for the transformation of the FCA? For example, the data we collect, how we analyse, manage and share intelligence across the organisation?

**CW** Yes, so the fifth priority within our Business Plan is our own transformation and I think this is really, really important for a number of reasons and the first is despite pandemics, despite everything else that's going on, the one thing we can be certain of is the switch from traditional financial services players and the challenge from incoming new players into the market is more and more they're relying on technology to run their businesses and they're relying on technology as the interface with their consumers. So we have to be really smart and we have to understand how those business models are developing and what are the benefits and what are the potential risks for consumers in the future, so we've got to have the right skills in the right quantity to understand those things.

Secondly, technology's a huge potential benefit for us and we've been running a series of pilots over the last couple of years to really see how can we use Big Data ourselves to better supervise markets, to see where there are risks and actually equip ourselves to be able to talk to firms about what we see across the market in a way that adds value for everybody. So, technology really does offer the prospect of us doing a better job as an institution and to serve the public better.

And then the final sort of core element of this for me, if we've got the people and the skills and the technology, is at the moment we have a lot of people focused on gathering intelligence, collecting that information, triaging it, making sense of that picture, is there more we can do to make that work efficiently and to make sure we're collecting the right information in the first place and we're drawing that from the widest possible range of sources that we can and that then obviously having got those insights, that we act quickly upon what we find to try and prevent harm before it gets too big. And I think one of the big lessons from the crisis is that importance of timely rapid information that really allows you in a matter of hours to assemble a picture on a market or a series of firms has been absolutely vital where we have it and that's something that I think we should have uniformly across every single market that we regulate, and we should make full use of it to deliver a better public service.

**OI** Thanks Chris, it's been great talking with you and hearing your thoughts at such a busy time for you and the FCA. That's all we have time for today. I'm Ozge Ibrahim, stay well and please join us soon for the next Inside FCA Podcast.

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