**Inside FCA Podcast: Interview with Andrew Bailey on the FCA Business Plan and future of regulation**

**ES:** Welcome to the inside FCA Podcast. I am Emma Stranack, Head of Business & Consumer Communications at the FCA and today I’ll be talking to our Chief Executive, Andrew Bailey, about our newly released [Business Plan](https://www.fca.org.uk/publications/corporate-documents/our-business-plan-2019-20) and his thoughts on the future of Financial Conduct Regulation. Hello, Andrew.

**AB:** Hello Emma.

**ES:** Thank you very much for joining me today.

**AB:** Pleasure.

**ES:** So, I’d like to start by asking how the uncertainties around Brexit have affected planning this year?

**AB:** Well, that’s a very good question, Emma, because unusually, I think probably uniquely actually, we started the business year, we started at the beginning of April, with what I might politely call a certain amount of optionality in our business plan even though we started. And the reason obviously is because we don’t know the outcome of the Brexit process, when we did the planning for it, we obviously thought there was a reasonable chance we might know the outcome before the business year started but that hasn’t happened.

And the reason that’s important is because we’ve got some other big strategic objectives in terms particularly for the FCA of investment, in particular data and data analytics. Like all organisations, we’ve got to do some quite heavy lifting on that front to keep ahead of the times as it were. But I, as Chief Executive, and the Board have to be very cognisant of what this institution can do with its given resources and of course Brexit is a pressing priority.

So, we have to balance that, we’re having to go back and do some re-planning at this stage because obviously we’re in a period of continuing uncertainty, we don’t quite know how long that’s going to be but we do know that we started the business year still in that position.

So, it is creating uncertainty, I would say almost unique uncertainty in that sense. It hasn’t stopped us obviously having a plan, let me make that clear, and having a plan with some very important elements in it which are not related to Brexit and which we want to press ahead on, but unusually there’s going to have to be quite a bit of what I might politely call ‘on the run’ adjustments for the Plan because obviously we are facing a situation where the uncertainty is continued and we don’t know how it’s going to evolve and indeed when it’s going to evolve.

**ES:** So, protected consumers is one of our core objectives, it’s been a longstanding priority for the FCA. How will this work develop do you think in this coming year?

**AB:** What, protecting consumers of course is at the heart of what we do as a conduct regulator, so it’s always going to be important. I think I would sort of highlight really two things, two streams, if you like. One, what particular initiatives and priorities have we got in the business plan addressing particular issues that we’ve identified. It’s always a bit invidious to sort of pick one over another but I pick a couple there I think – one is finishing off the work that we’ve done on High Cost Credit where we’ve got a number of initiatives now in fairly well-advanced stages of consultation and changes to rules. This is particularly important, we’ve obviously done a lot on payday lending, we’ve now introduced the measures on rent to own but there’s further to go particularly on overdrafts. So that’s an important area.

Second area I’d highlight in this respect is what we tend to call the “loyalty penalty” for consumers who are longstanding, don’t necessarily choose to shop around. Highlighted by Citizens Advice, making a super-complaint, which goes across a broader landscape than just financial services. Actually this is work that we’d already had underway in quite a number of important respects that we’ve been looking at in respect of mortgages, in respect of savings accounts and also in respect of insurance contracts particularly in the home insurance and motor insurance market. So, very important work, we’ve got a so-called market study which is one of our competition reviews on those two insurance areas and that’s a big priority.

I think alongside that, we’ve got very important work to do which we’ve started again already on what is the future approach to regulation going to look like and how might that affect our approach to consumer protection, frankly what can we do more effectively?

There, there’s been an issue around for a little while as to whether it would be preferable to have a more formalised duty of care, that is firms that provide financial services have a more formalised duty of care towards their customers, in other words, towards consumers. We’ve done quite a bit of work on that, we’ve virtually put a discussion paper out, we’ve got the feedback, we’ve got a lot of feedback interestingly. If I were to distil something from it, it is that I think there’s quite a bit of recognition that a formal legal statutory duty of care would be quite a difficult thing to do, might not hit the target but the clear message is there’s a lot more we can do and actually particularly a lot more we could do using our principles more directly and of course at the heart one of major principles is treating customers fairly. So, we will take that work forward as well.

**ES**: And what about vulnerable consumers in that, does that cover that important issue?

**AB:** Very much so, vulnerable consumers are a very important part of that so, again, what we intend to do this year, I hope during the course of the summer of this year, is that we are going to put out for consultation our proposed guidance which attempts to help in financial institutions in what is the – it’s not an easy issue which is you can define vulnerability on a piece of paper, you can write the words down, as it were, and say ‘This is how we would go about in principle defining it,’ but then you’ve to do it in practice and we know that financial firms have to do that, they have to translate the words into practice as it were, and it’s quite reasonable that they should look to us for guidance and assistance in doing that. So, we will do that but we will work closely with all groups, with consumer groups, with firms as well because we recognise that some vulnerabilities are, let’s face it, relatively easier to identify than others. Some consumers wish to actually, in a sense, make clear their situation, some don’t.

**ES:** Thank you. I can’t move on from consumers without talking about the PPI deadline, Andrew. And obviously the deadline is the 29th August 2019. What are the main areas that our supervision teams will be doing in terms of overseeing firms?

**AB:** Well, we are coming to this important moment. I think the PPI campaign’s gone very well. Obviously, we’ve expected and seen quite a pickup in consumers coming forward to put in their PPI claims, which is – sort of more in line with what I think we expected really. So, when the deadline happens, there will of course be – that’s the point by which you have to put the claim in, so there will thereafter be of course the sort of finishing off of the process and the handling of those complaints that are in the pipeline, so they met the deadline as it were, and it’s important obviously that we ensure and the firms ensure in the first instance – actually it’s more the firms ensure but we oversee it – that they do finish it off properly. And so we will continue to watch that carefully after the end of August to make sure it’s finished off.

ES: Thank you. Operational resilience, now that’s a really key part of protecting the UK financial system. Why is it important that firms start future-proofing their technology now?

**AB:** Well, it’s interesting. So, I would often say that ‘operational resilience’ is the risk that has come up the league table very rapidly in the what is now over a decade since the global financial crisis - a decade ago we were not really talking about operational risk in the same way that we do today. That’s a significant change. Also, operational risk of course takes several forms, it unfortunately doesn’t manifest itself in one form though one of the – if I had to list obviously I think probably the most acute risk in there is cyber risk because of the very difficult nature of it.

But there are a range of risks, actually the other one I would highlight as being I think very new, I always talk about this as the last two years is the risks around use of data, security of customers’ data. Again, something that’s growing very rapidly.

So this is something that is very important, very important for firms, very important for us. I should say that I detect in all my contact with firms no lack of agreement and awareness that it is important so it’s not an issue that I detect great complacency on because clearly there’ve already been some quite difficult and painful experiences on that front.

But, it’s therefore very important that firms are very active on this front. I have to say, and I don’t want to sound like a council of despair at this point, but one of the features of operational risk is, and particularly cyber actually, is that it’s never over. So there isn’t a conclusive action that any of us could take and say ‘That ends it once for all’ of course, because it continually evolves and mutates – I’m afraid that’s the sad reality of life.

So, when we talk about firms future-proofing their technology, they have to do everything they sensibly can do, they have to subject themselves to rigorous testing – we use and increasingly require very rigorous testing of systems but also they have to adopt the mindset that that is not it, that’s a stepping stone and unfortunately the world evolves around us and therefore this is something that we’ve always got to be very attentive to and on top of and it will never, in my view – ‘never’ is a difficult word to use but as far as we can see, it will not decline as a priority because of the fact that it continually in a sense evolves.

**ES:** A difficult issue. One of the FCA’s priorities is improving firms’ culture and governance. Why is this particularly important, I suppose both now and for the future?

**AB:** Well, it is important for us because we obviously as a regulator, we use a number of tools, we’ve got principles, we’ve got objectives, we’ve got rules, we supervise those rules, we enforce against those rules where we see serious misconduct but of course in the best of all worlds we never want to get to that point because the best of all worlds, and the one we’re striving for, it’s not an ideal, it’s very much a reality, is that of course firms have their own governance, their own culture and they do it themselves and it’s not that we can then be idle but we then have to do it in the way that sadly we have had to do it in years past.

Now, to do that, requires obviously strong governance but it also requires a strong culture running through the firm. One of the ways we put it is, it requires firms to realise that it’s in their interest to do the right thing rather than just do what the rule says, so don’t, in a sense, be minimalist – do the right thing and have a culture that emphasises doing the right thing and I would emphasise this, particularly obviously for consumers it’s a very important issue.

Now, it’s obviously in a sense an evolving picture because, again, the world evolves around us. I think we’ve seen some big changes in firms’ culture in recent years, I have to be honest with you, it’s not consistent across the very big landscape that we regulate – it’s worth remembering that we’ve got over 50,000 firms so there’s a very large array. But, we have seen some big changes but there’s a lot more to do. I think many firms recognise this. I think we’ve seen good progress, I would say, following implementation in some parts of our landscape at the senior managers’ regime, one of the business plan priorities for the year ahead is to complete the implementation of that regime across the rest of our very big landscape.

The other thing that I would highlight finally on this front is also how firms run themselves internally, so we can talk about culture and very importantly talk about culture towards consumers, towards outside parties but of course it’s also – it can’t be divorced from how they run themselves internally so when we see issues around conduct within firms, we see issues – where we see concerns about discrimination, frankly even some areas of areas like sexual misconduct which will come up – and people sometimes ask me, ‘Why is that relevant to the FCA given your sort of statutory responsibilities are all about conduct towards customers?’ and the answer to that to me is obvious which is I’m afraid what you do inside your firm and how you behave will have an effect on our objectives. So please don’t think that we are, you know, prepared to ignore what goes on and moreover, that we expect management not to ignore it.

And you talked in your speech about fairness and sustainability as part of this – where does that fit in?

Well, very much so because we have a balance, I think there’s a balance to strike within society and what I said in my recent speech was that I recognise because it sometimes get obviously to us as a regulator, well, you know, ‘You don’t want to see firms make any profit’, I say, ‘No, that’s ridiculous’ because frankly we wouldn’t have a financial services landscape, we have to have firms that earn returns, it’s what their shareholders expect but it has to be balanced and it’s always a balance because as I said, I’m very pleased to see a successful financial services industry - that will undoubtedly benefit consumers but it has to be fair and it has to be sustainable and we do come across, I’m afraid, practices which don’t fit that description and we act upon it where we do.

So, the reason that we emphasise fair and sustainable is to say, Look, there’s a balance to be struck here, there are what I highlighted are public interest objectives, not just for us – we’re a public interest regulator so we have public interest at the heart of what we do but also for firms – they are servicing the public interest, they’re in the private sector, yes, but ultimately they are servicing the public and the public’s interest.

**ES:** Thank you. So, moving a bit further into the future, clearly the financial and economic landscape is shifting and as that shifts, so does the role for regulation. What do you see as the main challenges ahead?

**AB:** Well, I think we are reaching a point interestingly where there are some quite big challenges ahead for regulation, it’s interesting that we’re just over ten years now since the financial crisis which in many ways of course was an existential challenge to all of us and a lot of the last decade has been spent repairing and dealing with the damage that was done by the financial crisis, both by the way in terms of prudential safety and soundness, and conduct because obviously there was unfortunately sadly at the same time a very large number of very big conduct issues revealed.

And I think we always like to think that we’re now very much at the tail end of dealing with those legacy issues and we can look forward but I think we have to accept because the world evolves and changes around us that our landscape doesn’t stand still. So obviously a dominant big issue in there is Brexit because – and it’s not, by the way, actually interestingly the issue of the day or many days as it were, which is the withdrawal agreement, it’s actually the next part of the Brexit negotiation which is I think what process which is very important for financial services which is what is the future relationship between the UK and the EU going to consist of?

And in there obviously I would expect is a debate about so called equivalence and open markets but also in there is a debate about what sort of regulation the UK as obviously one of the world’s major financial centres is going to want to have going forwards and obviously we have a strong voice in that process. And I think it is very important that that debate is had thoroughly. I want to be very clear that in saying that, I am not advocating lighter regulation, I’m not advocating heavier regulation either, but there are ways of regulating, there are different ways of regulating and the UK as a member of the EU has for much of our sort of space, but not all of it because the EU is only regulating and operating in part of it but quite a large part of it I should say has obviously had to in a sense find its way within the framework of the EU regulation.

I think it is the point at which we have to say, well, what choices do we want to exercise going forwards and how will those choices be consistent with what I hope and expect will be the open markets for financial services internationally that we want to see continue?

**ES:** Yes. So, Brexit uncertainty is looming large for us this year amongst many other things.

Finally though, Andrew, can you tell us what you are particularly looking forward to for the year ahead and beyond?

**AB:** Well, it’s interesting. When I look at our business plan and I’ve said this about recent years, I think one of the challenges all institutions in our place have in this country at the moment is that we are trying to balance the very big sort of Brexit agenda with the rest of the agenda and it’s very interesting when I go around the country – there are a very large number of very important issues that are not to do with Brexit.

**ES:** Yes.

**AB:** ...and it’s always interesting when I go outside London that I tend to spend far less time talking about Brexit and far more time talking about the other issues which is always actually quite a salutary reminder. I am very concerned that we must not lose sight of these other big issues, I think we’ve got big issues around, for instance, the inter-generational issues that this country - and our financial services is a part of that – so pension saving, indebtedness in the younger end of the population, access to housing finance, all of these things are big issues and, for me, in terms of what are we trying to do in the year ahead – we’re going to still be dealing with Brexit but I do want to make sure and see that we are making clear progress and can demonstrate what we’re doing on these other big issues because I do think our society here needs to see that progress and needs to see that there is frankly solutions and approaches coming out of bodies like the FCA – we can’t do it alone, by the way, but that we’ve not lost sight of these big issues because I think the public will be very disappointed if we lose sight of these other issues.

**ES:** Thank you so much, that’s all we have time for in this podcast. It’s been great talking with you, Andrew, and learning a lot more about this year’s packed agenda for the FCA. I’m Emma Stranack, thank you very much for listening and join us again soon for the next Inside FCA podcast.

**AB:** Thank you.