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SPEECH FOR FSA ANNUAL MEETING

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Good Morning

The financial services industry and the way it operates has remained under intense scrutiny over the last year. Those of us who work in and in some capacity seek to represent the industry have had to continue to re-look at assumptions from the past and face up to the demands of the present and future. We continue to see challenge and change ahead – not least in the shape of the future structure of regulation, where there are of course to be major changes as announced by the Chancellor last week.

The role of the Practitioner Panel is to provide an industry voice at the earliest stages of FSA policy making. I want to begin by thanking all my colleagues on the Practitioner Panel for their commitment to the work of the Panel, which they do in addition to their day jobs. In particular I would like to record thanks to Nick Prettejohn, who expertly chaired the Panel for two years until last November.

Our work has been made easier by the willingness of the FSA at every level to engage with us and to seek our input into the myriad of issues they are dealing with, in a thoughtful and constructive manner. We feel that this attitude has been led from the top: Adair, Hector, other FSA Board members and senior management have been willing to listen and consult during a time of huge change in the way that the FSA regulates, and in the face of many other more pressing demands on their time. I am very pleased personally that Hector has agreed to stay on, so that we preserve continuity at this time of change.

The FSA has continued to work its way through a large and demanding agenda over the past year, and this has been set within a context of uncertainty over its own future, as well as economic uncertainty for the UK and the worldwide financial system.

As practitioners I believe that we and the FSA ultimately want the same thing, and that is a safe and prosperous financial services sector in which confidence is restored and that serves the interests of all stakeholders on a sustainable basis playing a significant and constructive part in the UK economy.

The crisis of the past few years has shown us that there were major failings in the financial services industry and in its regulation, and that fundamental changes were necessary. However, in bringing about change, it must not be forgotten that a vibrant financial services sector is essential for economic recovery and long term prosperity overall. If the regulatory task was simply to prevent failure it would be relatively straightforward. In reality it is the far more complex task of establishing a framework which regulates the level of risk society is willing to tolerate, prevents the possibility of catastrophic failure, but also allows financial services to flourish in a way which is beneficial to all stakeholders.

We have supported the FSA's agenda in many of its overall principles and its direction of travel over the past year. But we have been concerned in some areas generally about the implementation, or the translation of, the overall objectives into practice.

Three recurrent themes have emerged through our engagement with the FSA over the past year. The first is the FSA's approach to balancing the costs and benefits of regulation. There have continued to be occasions where we have felt Cost Benefit Analysis is inadequate or not given sufficient weight. This is not just about highlighting costs. It is as much about considering the consequences of new policy and then being sure that actions proposed are proportionate and will be effective in what they are seeking to deliver.

The second theme is what we perceive as the FSA's occasional tendency to adopt a "**one size fits all**" approach. It is natural that banking should have been the focus of attention in the last two years and tempting to make a straight read across to other sectors. In many instances we do not believe this to be justified, and we have spent a good deal of time making this case when we think it is appropriate.

And finally we have also seen a number of instances where we believe the FSA has not taken sufficient account of **industry feedback**. This is particularly so with the Retail Distribution Review, where we strongly support the direction of travel but registered considerable concerns about transitional arrangements, not least because of what we perceive to be the negative impact on the availability of advice to consumers. We continue to register concern about the resolution of issues in respect of PPI. Clearly there have been unacceptable practices, and whilst widespread, these have not been universal. Some of what is proposed we feel amounts to retrospective regulation and the disparity between the industry and the regulatory assessment of redress costs is highly material. For this reason we welcome the further period of consultation. And with the Mortgage Market Review, continue to have significant concerns about the market impact of current proposals. In none of these areas are we seeking to defend the indefensible, indeed in most cases we agree with the end goal, but given what is at stake we believe that getting it right is at least as important as doing it quickly.

We are always keen to question the FSA on the cost effectiveness of new policies, and to ensure that value for money is obtained for all. We recognise the inevitability of increased cost of regulation and indeed have frequently welcomed further investment where it is clear that it will deliver better outcomes but we will continue to make the case for improved value for money and greater efficiency. In this context we were pleased to see the reform of the fee allocation structure and the greater transparency it has delivered.

The FSA's Supervisory Enhancement Programme has been a major undertaking, with significant costs in time and money by the FSA and firms. We have supported the broad thrust of this programme and have consistently encouraged the FSA to focus on quality and outcomes. An increased number of supervisors is not a measure of success; better quality of supervision and better regulated firms are. We recognise it is not easy to measure quality of outcomes and in particular to measure the extent to which failure has been avoided. This is an area where we have contributed some ideas of our own and where we very much welcome the greater focus from the FSA in this area.

We have also welcomed the FSA's moves to develop a specific focus on conduct strategy which looks to identify and avoid future failures at a very early stage. We would all benefit from such a strategy if it is successfully executed. It clearly puts a lot of onus on FSA, and carries the risk of stifling beneficial innovation and competitiveness. This is an area where we hope to work closely with the FSA as the conduct strategy develops.

Many of the fundamental reforms of the regulatory framework are rightly being developed in a European and wider international context . We share the view that there must be proactive engagement on financial services policy in Europe to ensure a level playing field is maintained. It is vital that the UK's voice is heard. We have welcomed the FSA's engagement in Europe and have been keen to support this wherever possible.

In terms of the changes which were announced by the Chancellor and Governor of the Bank of England at the Mansion House last week, we are keen to be involved as practitioners. We see it as vital that the regulator works in the best interests of all its stakeholders, and believe that the current independent Panels at the FSA could provide a useful forum for consultation and debate as plans move forward. We certainly stand ready to assist in that debate.

Our main aims will be to work for clarity, effectiveness and proportionality in regulation particularly for larger firms whose operations spread across wholesale and retail activities and across the globe.

In his speech at the Mansion House last week, the Governor of the Bank of England acknowledged the work of the FSA and stated a wish to build on the improvements in prudential regulation that have been made over the past three years. We support this and believe it is important to minimise uncertainty for FSA staff.

In his statement to the House of Commons last week the Financial Secretary stated one of the principles for the transition as being “minimising uncertainty and transitional costs for firms”.

And the Chancellor ended his Mansion House address with an acknowledgement of his wish to resolve the debates hanging over the financial services industry so that we can focus our energies on building our businesses and helping to create the prosperity that our country deserves. We echo those sentiments and look forward to the Practitioner Panel playing its part in this over the coming year.

Thank you.