Marjorie Ngwenya – Prudential Regulation Committee appointment questionnaire

5 July 2022

Personal

1. Do you have any business or financial connections, or other commitments, that might give rise to a conflict of interest in carrying out your duties as an external member of the PRC?

   I am not aware of any conflicts that might arise in carrying out my duties as an external member of the PRC. Should an unforeseen conflict arise, I will recuse myself from the relevant PRC matter. I will also speak with the Bank's Secretary in the event of a potential conflict.

   I am a board member of Tangerine Life which is a Nigerian insurance company and Tangerine Financial, its parent company registered in the UK. Neither company is regulated by the PRA.

2. Do you intend to serve out the full term for which you have been appointed?
   Yes

3. Do you have, or do you intend to take on, any other work commitments in addition to your membership of the PRC? If so, how will you fit them alongside your commitments at the PRC?

   While I have other work commitments, membership of the PRC has high priority and I am comfortably able to service the role's requirements from a capacity perspective. I have been self-employed for a number of years and this has required me to actively manage my workload in line with my available time. Before taking on a new assignment, I will continue to assess my capacity and the need to rebalance my portfolio of activities. For example, earlier in 2022 I stepped down from two of my board positions which subsequently created the capacity to undertake the PRC appointment.

4. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the PRC. To which areas of the PRC's work do you expect to make particular contributions?

   I have spent more than twenty years working in the financial services sector and predominantly in insurance. I have worked in a range of organisations including audit firms, reinsurers and multi-national insurers. My roles have included oversight for risk management across insurance, asset management and banking divisions.

   Most of my career (16 years) was spent in the UK assisting insurance firms to fulfil statutory and regulatory requirements, including Solvency II. I have also worked internationally - across Africa, in the Netherlands and in Canada. I have had exposure to a variety of regulatory frameworks and I have an appreciation for a wide range of cultures and practices.

   I qualified as a Fellow of the Institute of Actuaries in 2006 and I have a good grasp of actuarial techniques, having worked in pricing, product development and valuations roles. In 2017/18, I had the honour of serving as the president of the Institute and Faculty of Actuaries (IFoA). The IFoA is itself a regulator of its members, many of whom work in PRA-regulated firms.

   For the last fifteen or so years I have worked in the risk management domain. I was Chief Risk Officer for Old Mutual Africa (2010-2013), covering thirteen countries in Africa and a wide spectrum of risk types. During my time at Swiss Re (2007-2009), I was a senior risk actuary looking at best practices for setting terms of trade for reinsurance contracts.

In my last executive role (2016-2017), I served as chief strategist at Liberty, a pan-African financial services provider. I hold a master's degree in leadership and strategy from the London Business School (2013). I have an interest in organisational culture and matters relating to diversity, equity and inclusion (DEI).

I have served as the executive level in an insurance context and, in the last five years, as a board member of several insurers and a bank. I have a sound appreciation for the governance requirements of regulated firms. I have served as the chairperson of actuarial and risk management board subcommittees. I have also been a member of several other committees including audit, social and ethics, and nominations and governance.

Due to the breadth of my experience, I anticipate contributing broadly to the PRC agenda. I expect to make particular contributions to matters relating to actuarial, insurance and risk management topics. I also expect to be able to contribute my perspective of international approaches. I am looking forward to deepening my knowledge of the banking sector.

The Prudential Regulation Committee and Prudential Regulation Authority

5. What is your overall assessment of the track records of the PRA and the PRC to date? In your opinion, what are the areas of most success and in which is there still the most work to be done?

   The PRA and PRC have established a resilient UK banking and insurance sector through the post-financial crisis reforms. The PRA is active in global fora, contributing to development of post-crisis reforms internationally, for example through the Basel Committee. The PRA has implemented reforms to strengthen both financial and non-financial resilience. These changes range from strengthening the capital framework through the Capital Requirements Directives, Capital Requirements Regulations, the leverage ratio, and Solvency II, supplemented by the stress testing framework jointly with the Financial Policy Committee, to more recent policies to address the risks from climate change and to enhance the operational resilience of the sector. The liquidity framework has been greatly enhanced through the adoption of the LCR, and more recently the NSFR. The announcement of a cyber stress test, again working with the Financial Policy Committee, will complement the wider operational resilience policies which have become a central feature of the PRAs more recent work.

   The PRA has been a leader in the global financial services sphere and was the first financial regulator to articulate supervisory expectations on the management of climate-related financial risks.

   This resilient framework is based on a robust supervisory approach, predicated on assessing and mitigating the risks to the PRA's primary and secondary objectives – to promote safety and soundness of regulated firms, and for Insurers, to secure an appropriate degree of protection for policyholders.

   This resilience was tested through the COVID 19 pandemic with the July 2021 Financial Stability Report concluding that the UK banking system is strong enough to provide the support households and businesses need as the economy recovers.

The PRA has also demonstrated it will take action to respond to and address issues which arise from risks crystallising in the financial sector which may have a broad impact, for example conducting a supervisory review of global equity finance businesses following the default of Archegos Capital Management in December 2021. This review highlighted root cause issues, in particular a lack of accountability for risk ownership within organisations and a lack of standing of independent risk functions.

The PRA and PRC have promoted competition in the UK financial system, relevant to the PRA's secondary competition objective. For example, the PRA authorised seven new insurers and four new banks in 2021/22.

As the COVID-19 pandemic began, the PRC and PRA demonstrated their desire to promote proportionality by alleviating operational burdens on PRA-regulated firms. This allowed banks and insurers to respond to the significant impact of COVID-19 while continuing to support the UK economy.

While it is difficult to isolate the track record of the PRC, one can get a flavour from the PRA's performance against its strategic objectives and the PRC's report to the Chancellor of the Exchequer published in the PRA's annual report.

From my observation, the PRA takes a collaborative approach by actively engaging with third country counterparts for the purposes of information sharing. Notably during 2021/22, the Bank and PRA signed a number of Memorandums of Understanding with such counterparts.

There is further work to be done on:

- Assessing and responding to emerging risks such as those resulting from technological and wider societal developments, including cyber risk
- The framework for managing risks arising from climate change
- The maintenance of a resilient regulatory framework in relation to emerging digital currencies
- Delivering a robust, flexible and agile future regulatory framework which safeguards regulatory independence and delivers accountability post-Brexit.
- The 'strong and simple' regime for non-systemic banks and building societies and reforms to Solvency II.

6. The PRC has a lower public profile and is less transparent than the Bank's two other policy-making committees (for example, it does not publish meeting records or minutes). How appropriate do you think this is, and do you think there is a need for the PRC and PRC members to promote greater transparency and public engagement?
    a. Because the PRC does not publish such information, it will be difficult for this Committee to assess your contribution to the PRC. Do you intend to give speeches, or be visible in some other way?

The nature of the PRC's work is such that it must achieve its objectives while also meeting certain obligations relating to the handling of confidential and market sensitive information.

By way of external communication and public engagement, the PRA consultations papers, discussion papers and other statements which consolidate its work and the contributions of the PRC.

Where I expect transparency and public engagement to increase is over the PRC's new rule making responsibilities under the HMT's proposed Future Regulatory Framework. There, the premise is that rather than banking and insurance rules being drafted in primary legislation, it will now be captured within regulators rulebooks for which the PRC is ultimately responsible. While we await HMT's final proposals, it already seems clear that these new responsibilities will come with increased Parliamentary and public engagement, both of which I welcome.

In line with common corporate governance practice, I am open to feedback from the chair of the PRC on my performance and contribution to the PRC.

I am willing to support the PRC to promote its visibility, including public speaking as needed. I am also willing to participate in the Bank's school outreach programme.

7. The current remit letter from the Chancellor recommends that the PRC have regard to eight aspects of the Government's economic policy: competition; growth; competitiveness; innovation; trade; 'better outcome for consumers'; climate change; and the Government's energy security strategy. As a PRC member, what will be your approach to balancing these against the PRC's statutory objectives?

   My approach will be to support the PRC to achieve its statutory objectives while also seeking to constructively challenge how we have regard to the eight Government economic policy aspects. This would entail starting with the PRA's primary objectives – to promote the safety and soundness of firms, and for insurers, the additional objective of contributing to securing an appropriate degree of policyholder protection. The PRA also has a secondary competition objective, to as far as is reasonably possible, facilitate effective competition. These objectives will be expanded when HMT passes its new Future Regulatory Framework and gives the PRC additional objectives and have regards.

   This resilient framework is based on a robust supervisory approach, predicated on assessing and mitigating the risks to the PRA's primary and secondary objectives – to promote safety and soundness of regulated firms, and for Insurers, to secure an appropriate degree of protection for policyholders.

   I would expect that, subject to meeting the primary and secondary objectives, as the PRC deliberates matters, it does so with due regard to the eight aspects of the Government's economic policy. For example, when the PRC is exercising its rule making power, sufficient consideration should be given to the Government's economic policy when assessing the benefit and costs of the proposed rules.

   The PRA and PRC will need to remain conscious of the need to regulate while not unnecessarily constraining the firms which in effect interact directly with consumers and through which these Government outcomes can be achieved.

Regulatory and policy issues

8. How well can the PRA measure and regulate operational risk?

   The PRA can offer guidance and set principles in relation to the management of operational risk and to promote firms' operational resilience. In 2021, the PRA published Supervisory

Statement SS1/21 on operational resilience with the Bank and the FCA, setting expectations of firms' operational resilience capabilities, among other objectives. The later published Supervisory Statement SS2/21 relates to 'Outsourcing and third-party risk management'.

HM Treasury's collaboration with the Bank to explore 'direct regulatory oversight' of critical third-party services; and come up with a framework to manage risks to financial stability is a further initiative relevant to the management of operational risks.

The PRA also has an opportunity to play a leadership role in evolving regulatory frameworks that relate to changes in technology and sharing best practice for options to deal with emerging risks. For example, CBEST is a joint PRA and FCA framework for assessing the cyber resilience of firms' important business services through threat intelligence-led penetration testing and it has played a major role in assessing firms' cyber defence capabilities. The PRA conducted ten CBEST assessments during 2021.

The PRA can highlight areas of concern across the industry by making use of thematic assessments. In 2021, there were 191 cyber questionnaire thematic assessments (using the CQUEST tool).

Through continual engagement with firms, the PRA can assess the adequacy of approaches proposed by the most systemic firms, and assess the effectiveness of firms' operational risk management frameworks, linked to operational resilience outcomes. Where concerns arise, the PRA may propose stress testing approaches to ascertain the market-wide impact of particular risks.

Each firm will have different operational considerations and consequently the PRA is reliant on firms to identify their important business services, set impact tolerances, and take action to remain within impact tolerances. This approach offers firms flexibility in identifying and prioritising the services which could impact financial stability. This means that the costs of implementing PRA policy will be proportionate to the size and complexity of the firm. This outcome is important for competition.

Finally, the Senior Managers and Certification Regime which applies to all PRA-regulated firms is another means to create accountability and promote effective risk management (including of operational risks) within these firms.

9. What is your assessment of the risks to financial services arising from climate change and what the PRA is doing to ameliorate those risks? What role can and should the PRC and PRA play in promoting the transition to net zero carbon emissions?

Assessment of the risks to financial services arising from climate change
There is a variety of risks to financial services arising from climate change which can broadly be categorised as physical or transition.

Physical risks include factors such as severe weather events and rising sea levels. The impact of these risks on the insurance sector could be through the increased frequency or severity of claims leading to increased pricing and/or reserving. Within the banking sector, the risks may lead to the loss of value of physical assets held as collateral with impact on credit risk exposures. The cost of these risks may be borne by both firms and consumers.

Transition risks are those arising from the progression towards a low-carbon economy. These risks may be influenced by factors such as policy changes (for example energy regulation), scientific advancements (for example lowering the value of assets with outdated technology) and the speed of adaptation of organisations to the changing landscape.

There is potential for risks from climate change to have significant impact on the financial system as these risks are common across a number of industries and business models. The risks, should they occur, would affect more than one firm within the financial ecosystem at the same time. The risks are highly uncertain and difficult to quantify as there is insufficient and potentially irrelevant past data to employ. In my view, the mitigation of these risks requires industry, national and global collaboration and financial services firms will not be able to rely on their own actions to mitigate them.

Assessment of the PRA's work to ameliorate those risks

The PRA has been clear in articulating its expectations of firms in relation to climate change risks. It issued its supervisory statement for firms in 2019 (SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change). The expectation was for firms to have embedded as fully as possible their approaches to managing climate-related financial risks by the end of 2021. The PRA has since assessed firms' progress against these expectations.

In the summer of 2021, the PRA issued the climate biennial exploratory scenario (CBES) in order to explore the resilience of major UK banks, insurers, and the financial system to climate-related risks. This work is supportive of the Government's commitment to an economy-wide transition to net-zero emissions.

Since the beginning of 2022, the PRA has also begun to embed climate change proportionately into its own supervisory approach.

I believe the PRA has taken a proactive approach to the management of climate risk and should continue to exercise its authority as a regulator to require firms to identify their material exposures and demonstrate that they are holding adequate capital against them where relevant.

The PRA collaborates with UK and international partners to produce guidance and share best practice on how to address climate-related financial risks and opportunities. The PRA also chairs the Sustainable Insurance Forum (SIF), a United Nations-convened global partnership of insurance supervisors.

The role the PRC and PRA can and should play in promoting the transition to net zero carbon emissions

The PRC is motivated by statutory objectives and this requires firms and the financial system to be resilient to a range of risks, including those relating to climate change. Specifically, the Financial Services Act 2021, which requires the PRA to have regard to the target for net-zero emissions when using certain rule-making powers.

Climate change is a priority reflected in HMT's March 2021 recommendations letter for the PRC, stating that the PRA should 'have regard' to the Government's 2050 commitment, when considering how to advance its objectives and discharge its functions. This objective should be attended to in the PRC's determination, review and revising of the PRA's strategy.

The Climate Change Committee has warned (29 June 2022) that the UK's strategy for decarbonising the economy will not deliver net-zero emissions by 2050 if progress continues on its current trajectory. An economy-wide response is therefore necessary.

The PRA is well-positioned to engage with regulated firms on their roadmaps to address the supervisory requirements of risks arising from climate change. In this regard, it plays a leadership role in gathering best practices across the UK financial services and ensuring the sector is adequately capitalised to withstand these risks.
The assessment of risks arising from climate change is an area where there is still much to do to quantify financial exposures, respond to potential scenarios which may arise and establish appropriate risk management frameworks. It appears from the CBES exercise that not all firms have embedded appropriate risk management techniques and scenario analysis capabilities. This is an area where the PRA's global collaborations and knowledge gathering can assist the financial services sector.

Disclosure is an important part of knowledge sharing as well as providing confidence within the sector that firms can withstand climate change risks. The PRA is part of government/regulator taskforce seeking to determine an effective way to approach disclosure, including exploring the appropriateness of making reporting mandatory.

10. What is your assessment of the PRA's approach to promoting diversity and inclusion in the firms it regulates?

In July 2021, the FCA, PRA and Bank of England issued a Joint Discussion Paper seeking input on improving Diversity & Inclusion (D&I) in the financial sector. This was followed up in October 2021 by a survey to all FCA and PRA dual-regulated firms, a sample of FCA solo-regulated firms, and a selection of Financial Market Infrastructures. The regulators intend to publish their policy proposals in a Consultation Paper to be published in Q3 2022.

The regulators' shared ambition is to ensure the financial system is better able to support the economy as a result of well-run firms and sound financial markets meeting the diverse needs of consumers.

Once again the PRA is taking a proactive approach to progress an issue which affects the firms it supervises. The PRA is signalling the importance of D&I, encouraging debate and encouraging solution-finding.

Multiple research exercises have shown that greater diversity (in particular diversity of thought) and inclusion lead to better decision making and greater innovation. These benefits would lead to improved outcomes for consumers and in turn support financial stability. If diversity and inclusion is embraced by the financial sector, with the PRA's encouragement, this can only be positive outcome for the financial services industry.

Important parts of the work of the PRA in future will be to seek appropriate disclosures and to exercise appropriate monitoring. While demographics that evidence (visual and non-visual) diversity may be objective to assess, diversity of thought will require more consideration to consistently measure across firms. Organisational culture is another important factor driving the inclusivity of an organisation. It is equally less objective to establish. The survey issued by the PRA in October 2021, will assist with providing a baseline from which to measure progress.

D&I is an area of interest for me. My understanding is that many firms across the UK economy have begun the journey to mature D&I practices and to ascertain the cultural nuances that may add to or impede their success. The PRA is well-positioned to share best practice of factors leading to the successful execution of D&I initiatives within firms and to facilitate this knowledge sharing process across the industry, in collaboration with other regulators and bodies. It will no doubt take further learnings from the work being undertaken within the Bank in relation to D&I.

11. Apart from the issues highlighted above, would you highlight any other emerging or possible risks to the safety and soundness of firms in any of the sectors regulated by the PRA?

    Emerging technology risks coupled with changing consumer behaviour and preferences could lead to the emergence of unprecedented business models. Recent years have seen the emergence of digital currencies and their associated risks. The PRA helpfully undertakes horizon scanning which seeks to identify new risks. In its annual report for 2021/22 the PRA indicates that further investment in its own technology is required to maintain and improve its operational effectiveness. Further, I believe that the PRA will require an adaptive culture that is open to continuous learning in order to ensure the continued safety and soundness of firms in a constantly shifting context.

    There will always remain the risk of unexpected shocks to the system for example the emergence of another severe global event shortly following or overlapping with the Coronavirus would be devastating to global economies. The PRA’s stress testing regime may anticipate the potential impact of some of these shocks. For those shocks which are not foreseen, the PRA will need to remain agile and innovative to maintain resilience in the UK financial system.

The Treasury Committee will publish your answers to this questionnaire. Please provide a full CV when returning your questionnaire.