Questions for Sam Woods, from House of Commons Treasury Committee

Personal/General

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

My wife, Mary Starks, is the Director of Competition at the Financial Conduct Authority (FCA). I have agreed with the Chairman of the FCA that I will declare this potential for a conflict at the start of the first FCA Board meeting I attend. In that meeting, and ahead of all subsequent meetings of the FCA Board that I attend, the Chair will assess whether any conflict might arise for any of the items on the agenda and, if so, require me to recuse myself. In practice, it is my understanding from the Chairman of the FCA that any such items are likely to be rare.

A small insurance company, MGM (a Category 4 firm in the PRA's impact scoring system, under which the largest firms are Category 1 and the smallest Category 5), is chaired by William Proby, who is one of my godparents. I have therefore recused myself from any MGM-specific supervisory activity.

I have no other business or financial connections or other commitments which might give rise to a conflict. I have a current account, a general insurance policy, a life insurance policy and an ISA with four PRA-regulated firms, all of which I have previously declared and recorded on the PRA's internal register. In addition, I have pensions from my former employers.

2. **Please explain how your experience to date has equipped you to fulfil your responsibilities as head of the PRA**

My experience has equipped me with the technical and management expertise required to fulfil the Chief Executive Officer for Prudential Regulation (CEO PR) and Deputy Governor for Prudential Regulation role.

Technical expertise. I have a strong core of financial services experience, including 6 years of dealing with the sharp end of the financial crisis in a number of different roles.

In a UK context, my experience of the crisis is unique in that it combines:

- creating and then acting as the government's shareholder function as it came to own banks at the height of the crisis;
- a central role in financial policy-making in the UK, through my role leading the secretariat for the Independent Commission on Banking (ICB); and
- front-line supervisory experience, with a lead role in dealing with prudential issues in the UK banking sector.

More recently, I gained experience of macroprudential policy-making during my year running the Financial Stability, Strategy and Risk directorate, and I have built a thorough understanding of prudential regulation of insurers over the last year, which I have spent supervising the UK's insurance sector and implementing Solvency II.

Prior to this, I have broad experience of commercial matters and policy-making from my time at McKinsey, INSEAD, Diageo and HM Treasury.

Management expertise. I have a strong track record as a leader of people ranging from small teams to my current directorate of over 300 staff. I enjoy leadership roles and am comfortable providing clear direction and decisive action as needed. I also have a deep interest in people, which helps me get the best out of my staff and navigate difficult personnel challenges. Within a PRA context, our staff know that I will lead from the front at times when our task is most challenging and hazardous. I am also known across the wider Bank as a team player who approaches issues in a collaborative way, which I intend to continue in my wider leadership role as Deputy Governor.

Further experience. Technical and management expertise, while necessary for this role, are not in my view sufficient. Borne out of my experience during the financial crisis, and as a supervisor of banks and insurers, I am personally committed to the PRA's objectives of safety and soundness, policyholder protection and facilitating competition. Without that commitment, I think it would be impossible to do the job well, or indeed to enjoy it. Prudential regulation and supervision are difficult tasks in which we frequently have to make hard decisions under conditions of considerable uncertainty. When firms fail, despite our clear intention not to run a zero-failure regime, there will inevitably be some pressure on the prudential regulator. So to do this job well, and successfully navigate the day-to-day challenges of the role in pursuit of the PRA's statutory objectives, I believe that it is vital for me to have a strong belief in the value of what we are doing, and in the importance of making sure that London, as a leading global financial centre, is properly regulated.

3. Are there any areas where you feel that your experience or knowledge falls short of what is required? How do you intend to rectify this?

I do not think there are any areas where my experience or knowledge falls short of what is required.

One area in which I intend to develop further is my experience of international supervision and policy-making, although I have had experience of this in my last three roles:

- as Director of UK Banks Supervision, I was a member of the Senior Supervisors Group, a group of Director and Executive Director-level supervisors from major countries, led by the New York Federal Reserve, which meets regularly to discuss shared issues and facilitate cross-border supervision;

- in my Financial Stability role I was a member of the Financial Stability Board's Analytical Group on Vulnerabilities; and

- in my current insurance role I am a member of the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA).

Nonetheless, in the CEO PR role I intend to develop my expertise in international policy-making further – particularly in order to be an effective participant in the Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision, and as a member of the European Banking Authority.

Another area where I intend to develop my expertise is in financial conduct issues. I have some experience of these from my time at the FSA, and through regular interactions with

FCA colleagues, but I will need to develop a broader expertise as a member of the FCA Board.

Financial stability and Prudential Regulation Authority

4. What do you think is currently the most significant risk to financial stability facing the UK?

In the near-term, I think the biggest domestic risk to financial stability is the uncertainty surrounding the upcoming referendum. In this context, I am particularly focused on any risks that uncertainty might pose to the safety and soundness of PRA-regulated firms. To date, there has been no major impact on firms, but it is possible that there could be a significant impact should the uncertainty manifest in the form of turbulence in the financial markets.

It is not possible to predict with confidence precisely what form any such turbulence might take, but it is possible to identify some of the more obvious channels through which firms might be affected:

- bank funding;
- the potential for banks to experience losses on traded financial instruments; and
- the impact that any major movements in domestic and global financial markets could have on the solvency position of insurers.

In the longer-term, in the event of a British exit from the EU there are scenarios in which there could be material changes to asset prices (notably property) and in which the business models of some PRA-regulated firms might have to adapt significantly.

Alongside this, I see material global risks to UK financial stability – in particular the risks from emerging market economies, recent changes in the functioning and liquidity of financial markets, and the impact of persistent low rates on the business models of banks and insurers. Domestically, there are financial stability risks from property markets. Cutting across all of these, I see significant risks from cyber and from the weaknesses of some major financial institutions' IT systems. I expand on each of these points in my response to Question 5.

5. What is your assessment of risk in each of the following areas:

i) Market liquidity

No market can be guaranteed to be perfectly liquid at all times, and it is therefore important that the liquidity characteristics of different financial assets are understood and priced accordingly. Liquidity characteristics may have changed over the past few years as market structure has evolved and financing conditions have changed, and there is evidence that liquidity – the ease with which one asset can be traded for another – has declined in some financial markets since the last financial crisis. For example, the Financial Policy Committee (FPC) has observed signs of reduced trade sizes in corporate bond markets, along with a larger impact on prices caused by asset sales, and there is evidence of reduced volumes in gilt-repo markets. Changes in liquidity also appear evident in episodes of market turbulence, such as the 'flash rally' in the US Treasuries market on 15 October 2014. However, the FPC has also noted that other measures of liquidity – bid-ask spreads in particular – do not indicate a fall in levels of liquidity.

One driver of reduced liquidity appears to be that in market segments that are reliant on core intermediaries being willing and able to warehouse risk, that willingness has fallen since the global financial crisis. But this has in turn been driven by new regulatory requirements (such as higher bank capital requirements for trading activities) that are designed to make these entities more robust, and have succeeded in that aim. Another driver appears to be changes in the microstructure of some financial markets. For example, thinly-capitalised non-bank market makers have become more important participants in some government bond markets over the past few years. While such participants can often be associated with lower bid-ask spreads, they do not put capital at risk and hence their participation in markets in an unfolding stress event is uncertain. The growth in the use of electronic and automated trading may be another factor.

What needs to be kept under scrutiny, then, is the possibility that movements in market prices in response to news become amplified by sudden changes in market conditions. This can arise in a number of ways, including where a reliance of critical trading infrastructure on a relatively small number of firms is exposed in stressed circumstances, impeding market access, as those firms naturally seek to protect themselves from incurring losses. An important such example followed the surprise removal of the Swiss National Bank's peg of the Swiss franc to the euro in January 2015. A number of banks' automatic trading platforms tripped built-in circuit breakers or were manually suspended as prices moved, heightening uncertainty among investors and leading to further disorderly trading flows.

We have tested our major banks' resilience to such shocks through our stress-testing programme, but need to remain vigilant.

ii) Global risks that could trigger an adjustment

I see two main risks.

First, there are risks to UK financial stability from emerging market economies (EMEs). There has been a rapid build-up of private sector credit in EMEs since the financial crisis, and particularly in China where private sector debt as a percentage of annual output has risen from around 120% in 2008 to close to 200% today. As part of this trend, there has been a significant increase in foreign-currency-denominated EME debt, notably a tripling since 2009 of the volume of foreign-currency-denominated debt securities of EME non-financial companies.

This build-up of debt, together with slowing growth in EMEs, presents risks to the UK through several channels. The most obvious is the direct exposures of the major UK banks to EMEs, which in 2015 totalled close to three-and-a-half times the value of those banks' Common Equity Tier 1. This vulnerability was thoroughly explored in the 2015 stress test, which concluded that the banking system would be able to maintain its core functions in a severe downturn, albeit with a significant reduction in capital.

Second, interest rates in many advanced economies have remained low in the wake of the financial crisis. This low rate environment interacts with many aspects of financial markets and can present risks to financial stability. Lower rates have placed strain on the business models of banks and insurers. The need for institutions to re-think how their business models should operate and in which markets has impacted investor confidence, as seen in the relatively low price-to-book ratios of some major financial institutions. For banks, the pressures arise mainly from margin compression in a low rate environment, which reduces their ability to generate capital; for life insurers, there is a pressure to search for yield in the form of more risky investments, and for general insurers in the London Market we have seen consistent downward pressure on pricing.

More widely, low rates have fuelled a search for yield which – particularly given reduced liquidity in some financial markets – could unwind if and when rates rise significantly, or in the face of a shock which led to a rapid re-appraisal by investors of credit and/or liquidity risks.

iii) Conduct and Cyber risks

Conduct – or rather, misconduct – is not first and foremost a prudential issue, and as a member of the FCA Board, I will need to engage with misconduct issues more broadly than I have in the past. However, misconduct has also been a major prudential issue throughout my time as a supervisor – particularly in relation to banks. This has partly been due to the impact of a direct and very large drain on bank capital, with £43 billion paid out or provided for in claims and fines by the major UK banks between 2009 and 2014. But it has also presented a wider risk to the PRA's objectives and financial stability, for instance through the impact on market confidence of well-publicised abuses of financial indices, and through business model challenges some firms face due to the necessary response of the authorities to conduct failings.

We are implementing a series of reforms to tackle these problems. In my view the most important of these are the new Senior Managers Regimes, the new rules on remuneration and the programme of work being taken forward following the Fair and Effective Markets Review.

In the last few years cyber risk has emerged as a key threat to institutions of all sizes and types. This emergence has occurred alongside an increasing drive from financial services firms to become more digitally connected with their customers and counterparties, and difficulties faced by firms with ageing IT infrastructures and bolted-on systems from past acquisitions.

We have seen various manifestations of IT breakdowns at financial institutions, both self-inflicted (e.g. failed systems software upgrades) and as a result of cyber attacks (e.g. target DDoS attacks). The FPC has overseen our efforts to test and bolster the ex-ante resilience of the UK financial system, and to improve the effectiveness of firms' ex-post capability to respond and recover from cyber attacks.

Separately from this effort around firm resilience, we have been taking a close interest in the development of cyber insurance in the London Market. Our chief concern at this point is not about cyber insurance products *per se*, but about the extent of exposures firms may have picked up under other policies such as Business Interruption policies.

This is a fast-moving and challenging area where we, together with the FCA and other public authorities, will need to maintain our focus and build our expertise further.

iv) Domestic economic risks

Beyond the referendum, my main concern is the housing market. We have seen strong growth in the buy-to-let market since the financial crisis (5.9% growth in lending per annum on average since 2008, compared to 0.3% growth in lending to owner-occupiers), and there is some evidence of some lenders applying less rigorous underwriting standards than the market norm. Lenders' future growth plans are ambitious, and there is a risk that firms seek to relax underwriting standards in order to meet those targets, particularly given recent tax changes which may impact the demand for buy-to-let loans. Our recent supervisory statement should lean against any risks to safety and soundness from these developments, but we will need to continue to monitor developments carefully.

More widely on housing, the history of financial crises includes many instances in which housing has contributed to financial instability. In 2014 I was involved in work for the FPC on measures to limit risks to financial stability from the housing market.

At the time, the FPC highlighted two key risk channels from housing. The first was a direct risk to lenders, given that housing is the single largest asset on banks' balance sheets. The 2014 stress test indicated that the banking system would continue to provide core services in the event of a severe drop in UK house prices, but we will refresh this analysis with this year's test. The second was an indirect risk via indebtedness, given that mortgages are the single largest liability on household balance sheets. The specific concern was growth, driven by house price growth and enabled by low interest rates, in the proportion of new residential mortgage lending at high loan-to-income (LTI) ratios. The FPC and the PRA Board (PRAB) intervened to limit the proportion of new lending above 4.5x LTI from any one bank to 15% – this sat a short distance outside the position in the market at that time, and so was intended as a guardrail to prevent further increases in LTI. I think this measure has been effective, both in a direct sense in that the latest LTI figures have 4.5x+ lending at 8.9% of the market, and because of the signal it sent to lenders and borrowers about the Bank's concerns. Nonetheless, risks remain: there are indications that risks from household indebtedness may be picking up – for instance, the proportion of new mortgages extended with LTI ratios just below the FPC threshold has doubled since 2008/09.

Aside from housing, rapid growth in commercial real estate prices from 2009 to 2015, following the crash in CRE values which was a major contributor to banks' losses during the financial crisis, may present risks to safety and soundness and financial stability, although major UK banks are less exposed than they were in 2008. It is too early to form a view on what may result from the more recent slowing of activity in this market. In addition, the FPC has identified potential risks from the UK's current account deficit, which has in recent years been large by historical and international standards. The main risk, from a financial stability point of view, is that such a large current account deficit makes the UK more vulnerable to a loss of confidence by foreign investors.

6. What do you regard as the main challenges facing the PRA?

The main challenges we face in relation to the firms we regulate are set out above. However, I would add two further internal challenges for the PRA.

First, I think the most important thing PRA staff need to do is maintain a single-minded focus on our statutory objectives of safety and soundness, policyholder protection, and facilitating competition, as memories of the last financial crisis begin to fade. For the PRA, the last few years has been dominated by three broad efforts:

- on the banking side, a major reform programme which has included significantly increasing the overall level of bank capital, alongside dealing with firm-specific issues;

- on the insurance side, implementing (in the form of Solvency II) a once-in-a-generation set of reforms to prudential regulation for insurers; and

- for the organisation, bringing prudential regulation into the Bank and establishing the PRA's approach.

Each of these efforts has been demanding, but collectively they have given all of us in the PRA a strong sense of momentum. As each of these moves into implementation, it is vital that we do not lose that sense of momentum, and that we remain absolutely focused on delivering the approach to regulation and supervision to which we have publicly committed.

Second, the PRA is in the middle of a major task in implementing structural reform. I am confident that our work is on track, and that the legislation is being implemented robustly. It is a very significant undertaking and it will require high commitment and discipline from all PRA staff involved to ensure that the reforms are enacted to a high standard and on time.

7. What have been the successes of the PRA so far, and where is there still work to be done?

One of the challenges of our line of work is that the successes, particularly on the supervisory side, are rarely celebrated publically and also often take the form of crises avoided. In my years as a supervisor I have seen many such individual successes and it is the accumulation of such regulatory successes (or failures) that will in my view largely determine the success of the PRA. But if I take the question more broadly, then the main successes I would highlight are:

- the complete overhaul of our bank capital framework, resulting in a step-change in the level of capitalisation of the banking system versus its pre-crisis position;

- the delivery of Solvency II;

- the rule-making (and support to HM Treasury in proposing the legislation) delivered so far to enable structural reform;

- the recent introduction of the Senior Managers and Senior Insurance Managers Regimes to enhance individual accountability;

- the work we have done, alongside colleagues from the FCA, to reduce barriers to entry for new banks; and

- the implementation of the PRA's judgement-led approach to supervision.

There will always be a need to make further improvements, as both the challenges we face and the regulatory tools and techniques available to us will evolve through time. At the moment, the main areas where I believe we need to improve are:

- simplifying our governance (I expand on this in my responses to Questions 9 and 10);

- strengthening our framework for and capabilities in assessing operational resilience (as discussed in my response to Question 5 iii above); and

- further improving our use of supervisory data and taking full advantage of the opportunities we have, with massively increased data availability and the strong analytical culture of a central bank, to develop our capabilities in data analytics.

8. Are there additional tools or powers which you think it would be useful for the PRA to have?

No. At this stage I think that the PRA has been given the tools and powers it needs to deliver its statutory objectives. The position may be different in relation to the FPC. Macroprudential policy-making is still in its infancy, and the FPC may need to seek Parliament's agreement to equip it with more tools through time, as has already occurred in relation to owner-occupied housing and is currently being discussed in relation to buy-to-let.

9. How do you think the PRA and the FPC working relationship could be improved?

I think the relationship between the PRA and the FPC works well. The fundamental challenge is that although the objectives of the two committees are different, and macro- and microprudential perspectives and analytical techniques and tools are often very different, in some areas it is difficult and/or undesirable to disentangle the two fully. This calls for intensive coordination, without losing the distinct perspectives that different lenses bring.

The most obvious and important example of this is the level of capitalisation of the largest UK banks, in which both the PRAB (and in future, the Prudential Regulation Committee - PRC) and the FPC have a strong interest. We have developed the Bank's concurrent stress-testing programme in response.

The stress-testing programme has many benefits (I expand on this in my response to Question 14), but one of the most important is that concurrent stress-testing provides a regular, transparent and orderly mechanism through which the PRAB and the FPC can jointly consider the capitalisation of the largest UK banks, and coordinate any policy decisions.

There are also other examples of where the PRA and the FPC have worked well together to further their objectives. On substance, the recent work on buy-to-let is one such; and in process terms, joint meetings of the PRAB and FPC now occur four to five times a year and allow both committees to understand the priorities and focus of the other.

There are ways in which we could improve the working relationship further. I would highlight two things:

- First, a cultural point. The knowledge, expertise and career backgrounds of staff working in supervision and financial stability respectively can be quite different. This is a good thing, in that the jobs are different and having a variety of perspectives on financial stability and microprudential regulation within the Bank strengthens our policymaking. However, we need to make a continuous effort to make the tensions between these different perspectives consistently fruitful. One example from my own experience was the need to build a shared culture across macro- and microprudential staff in areas where they work together on cross-cutting issues like stress testing. We are making progress on this, for instance in areas such as Financial Stability Strategy and Risk (which I and other colleagues set up in 2014) and Supervisory Risk Specialists, which are both now integrating macro- and microprudential expertise.

- Second, Bank staff working on topics in which both PRAB and FPC have a strong interest can inevitably face quite a heavy governance burden. This is manageable but can increase the workload and present logistical challenges when the work needs to be conducted at a fast pace. We need to keep looking for ways to progress the work on these sorts of topics in the most efficient way.

10. What do you expect to be the practical effects of the changes to the PRA governance structure included in the Bank of England Bill?

The main practical impact of the changes to the PRA governance structure is the move to put all three committees on the same footing, and specifically the move from the PRAB to the PRC along with the de-subsidiarisation of the PRA. I believe this is a welcome simplification of our governance and legal structure. I have never been strongly persuaded by the rationale for having the PRA as a separate subsidiary and particularly disagree with any idea that it would provide insulation for the wider Bank from the risks of supervision, both because I do not think such insulation would work, and because such a philosophy is clearly divisive.

For most of our staff most of the time I think the Bill will deliver a positive, but modest, improvement on status quo, largely in two ways:

- first, despite clear guidance to the contrary from my legal colleagues, staff (particularly new staff) are sometimes concerned that the PRA's status as a subsidiary might of itself present a barrier to information-sharing across the Bank – however, with de-subsidiarisation this issue will fall away; and

- second, it will be easier for staff to understand and navigate a governance structure in which all three committees are on the same footing, separate from Court.

For myself as a future member of the PRAB and PRC, I hope that the new structure will present an opportunity to streamline some of the management-related materials and discussions in the PRC. However, particularly in view of the need to PRC members to report on the adequacy of resources, high quality supervisory data, robust assurance processes (including the work of the PRA's Supervisory Oversight Function) and strong risk assessment and mitigating action by supervisory teams will all be important enablers for this.

11. What do you expect to be the practical implications of the PRA operating under a remit set by the Chancellor of the Exchequer?

Under the Bill, the PRC will be required to have regard to aspects of the Government's economic policy, as set out in a letter from the Treasury at least once in each Parliament.

This requirement has no impact on the PRA's statutory objectives of safety and soundness (including the specific responsibility for implementing and monitoring ring fencing), policyholder protection and its secondary objective of facilitating competition. Those objectives will therefore continue to drive all of the PRA's activities, and decision-making in the PRC. If aspects of the Government's economic policy, as highlighted by HM Treasury in its letter to the PRC, were contrary to the objectives of the PRA, then the PRC would have to take note of this tension but should then proceed with the pursuit of its objectives.

It is normal and indeed sensible for public sector institutions to understand what other institutions in related parts of the public sector are trying to achieve. For instance, prudential regulation is ultimately about supporting the performance of the UK economy, and it is clearly not the only lens through which to view the economy, though it is a very important one. It is therefore sensible for those leading the PRA to understand what other colleagues in the public sector are trying to achieve in areas such as monetary and fiscal policy. In my view the new requirement in the Bill will simply formalise such activity as it relates to the PRA's consideration of the Government's economic policy – the PRA will retain full independence and will remain focused on delivering the objectives given to it by Parliament.

12. How will you ensure the PRA can operate independently from not only external political pressure but also internal group think from the Bank?

First, the existence of an active, engaged and expert non-executive membership on the PRAB (and in future, the PRC) is a very important check and balance for the executives, both in rule-making and in supervision. My own experience through the first three years of the PRA's existence is of non-executives who are very engaged and challenging, and in no sense susceptible to group think.

Second, there is the responsibility of the CEO PR as an individual in two respects:

- under the Bill, as CEO I will have specific statutory responsibility, delegated from the PRC, to prepare a prudential strategy and budget, to implement that strategy and manage the Bank's functions as the PRA. I will be accountable to the PRC and to Parliament for the effective despatch of those responsibilities; and

- in addition, as CEO I will take on Senior Management Functions 1 (CEO) and 2 (CFO) under the Senior Managers Regime, and will take on a number of Prescribed Responsibilities (currently: 1 – applying SMR to the PRA; 8 – adoption of the PRA culture; 17b – use of the PRA levy; 20 – the PRA's business model).

In performing those responsibilities I will be interested in perspectives and analysis provided by colleagues from across the Bank, but ultimately I will need to form my own view in view of the statutory objectives of the PRA and my specific responsibilities under the statute and the SMR. Given the nature of the business conducted by the PRA, it is inevitable that situations will arise in which there is a difference of views amongst Bank executives; in such situations I have a good track record of presenting my own view, and will continue to do so as CEO. An important objective of our governance structure is to provide suitable fora, in my case the PRC and FPC, in which difficult issues of this kind can be debated and decided upon.

Third, I see a very important role for the CEO PR in actively fostering a multiplicity of views and a lively debate amongst PRA staff, and between PRA staff and other staff within the Bank. I have always made a particular effort to do this – for instance, most recently in my insurance role I have made this point very clearly in personal face-to-face meetings with every member of a 300-strong directorate.

I will be passionate, as CEO PR, about encouraging staff to speak up and will make this happen by setting a strong personal example, holding my direct reports to the same standard and communicating my expectations directly to staff. I believe no one person has a monopoly of wisdom on the sorts of challenges we face in prudential regulation and supervision, and that a diversity of perspectives will promote our objectives. The one caveat I add to this is on efficiency: we must debate things fully and properly, but we also need to make decisions in a timely way and avoid re-litigating issues which have been settled following full and open debate.

Fourth, as supervisors I and PRA colleagues are constantly on the look-out for group think within the firms that we supervise. This does not preclude the possibility that we ourselves become prey to group think, but it does at least mean that it is a risk of which we are constantly aware.

On political pressure, I think the first two points above apply equally, as does my response to Question 11. In short, I consider it sensible for me to make an effort to understand what the Government is trying to achieve in areas related to the PRA's activities, but should any pressure be brought to bear (by the Government, or any other political body) with the aim of impeding the PRA's pursuit of its objectives then I would resist it vigorously. I will constantly remind staff that our task is to deliver our statutory objectives.

13. How well do you think the public understands the work of the PRA, and how important do you think it is that they do? What do you intend to do to increase the public profile of the PRA, and the understanding of its work?

As with all parts of the Bank, it is essential that the PRA holds itself to the highest standards of transparency and accountability. As part of this, we should ensure that any member of the public who wants to understand more about the PRA and what it does can easily do so, for instance by the PRA keeping up to date the Supervisory Approach documents which explain what we do and making them available online. However, I don't think it is necessary or realistic to try and ensure that a large proportion of the general public has an active awareness of the PRA as an institution, or a detailed understanding of what the PRA does. Rather, I think the public – as customers and taxpayers – want to know that we are delivering safe and sound banking and insurance sectors.

Given this, I think we should focus on getting key messages across to the public, and to wide sections of the public directly involved in the financial services industry, as and when needed. This should promote the confidence that the public has in the safety and soundness of the financial institutions we regulate, alert interested parties to developments in policy and (more narrowly) build the reputation of the Bank as a prudential regulator to aid staff retention and recruitment. With these aims in mind, I think that it is worth senior PRA staff continuing to pursue a variety of communication channels including:

- carefully controlled regular engagement with the media;
- speeches and articles; and
- regular Agency visits to the regions, both to get across messages and to ensure that our view does not become London-centric.

Beyond these efforts, our accountability to Parliament, through the Treasury Select Committee, for delivery of our statutory objectives is obviously of paramount importance. In times of crisis, when issues of safety and soundness are likely to be more to the fore in the minds of the public, there may be a case for increasing the level of engagement we have through the channels above – but as a steady-state perspective, I don't currently share the implicit assumption of the question that we should do more to raise the public profile of the PRA as an institution.

14. How do you intend to develop the Bank of England's stress testing programme?

I was responsible for the delivery of both the Bank's first concurrent stress test in 2014 and the "capital headwinds" exercise which was carried out in early 2013. The Bank's concurrent stress testing activity for banks has already made considerable strides since the first round in 2014, and has become well embedded in both macroprudential policymaking and microprudential supervision. Nonetheless, there are some important areas where I would like us to develop our thinking further.

First, there is the development programme already set out by the PRAB and FPC, which will be a major undertaking. Most importantly in the near term, the successful delivery this year of the first Annual Cyclical Scenario, and then the addition to this in 2017 of an Exploratory Scenario, are priorities. We will also develop our capabilities in top-down stress testing, and in exploring feedback loops. Additionally, in due course we will want to develop a better ability to factor in the impact of our stresses on other, non-bank, financial institutions and understand what their behavioural response might be.

Second, there are important questions around data. So far we have not pursued the path taken by the Federal Reserve Bank in the US in its CCAR programme, in which all of the detailed firm-specific modelling is undertaken by the Fed itself at a very granular level. Instead, the banks undertake some of the modelling which is then robustly challenged and benchmarked by Bank staff. For our purposes, I think the path we have chosen is the right one. But as ever more granular data become available from financial institutions (for instance the loan-level mortgage data used by the FPC in its analysis of the housing market and the detailed ISIN-code level asset data we are now receiving from insurers under Solvency II) we need to keep this design choice under review.

Third, I think we need to develop our thinking around stress testing for insurers. There are two main angles to this.

- First, the fundamental difference between the capital frameworks for banks and insurers is that the *entire* capital requirement for an individual insurer is now set directly on the basis of a 1-in-200-year, whole-firm idiosyncratic stress test for that firm (whereas for banks, the capital requirement comprises minimum requirements, which include varying degrees of stress, plus buffers some of which are informed by stress testing). We do carry out concurrent (i.e. multi-firm) stress testing for insurers, including this year's PRA-led general insurance stress test and EIOPA-led life insurance stress test, but our thinking (and that of other regulators) about the role of such stress testing is in my view insufficiently developed.

- Second, there is a deeper question about the relative merits of the differing approaches taken to whole-firm stress testing for banks vs insurers. At present, for banks we specify a small number of economic scenarios in considerable detail, and aim to assess what the impact of those scenarios would be on banks' capital positions. For insurers we have approved stochastic models which run tens of thousands of scenarios in order to try and work out which ones would hit the firm hardest. I would like to see some research and analysis comparing the two approaches, in order to inform the development of both.

A final point on stress testing, which may be incompatible with the points above, is that I would like if possible to find some efficiencies in our resourcing of bank stress testing activity. I would hope that as stress testing becomes more embedded in business as usual for the Bank there will be some resource dividend, which could be reinvested in further developing our stress testing capabilities or used in other ways.

15. What are your key concerns regarding international regulation? What still needs to be done, and how much influence does the UK have over these decisions?

The UK has a strong influence on international policy-making in the financial services arena, with effective engagement in the main policy-making bodies including the Financial Stability Board, the Basel Committee, the International Association of Insurance Supervisors (IAIS) and European institutions. These bodies themselves have also made a concerted effort in recent years to become more joined-up and consistent in their policy-making.

As noted above in my response to Question 2, this is an area where I intend to develop my expertise and further views, but as a starting point my key concerns are:

- in relation to banks, that we complete the post-crisis reforms to ensure effective loss-absorbency – in particular, that the Total Loss-Absorbing Capacity (TLAC) work of the FSB is properly implemented across jurisdictions in order to ensure that large financial institutions can fail without disruption to the financial system, avoidable interruption to critical economic functions, or recourse to taxpayer-funded bail-outs;

- on the insurance side, that we make real advances towards an International Capital Standard (ICS) through the work being led by the IAIS;

- across both sectors, that we have consistent implementation of minimum standards but that enough room is left for individual countries to exceed those standards where that is necessary to promote their own financial stability; and

- more broadly, we have almost completed the design phase of post-crisis regulation and are well into the implementation phase. It is important that we provide clarity about the steady-state framework, particular in areas such as bank capital requirements where the GHOS has stated that further changes will not result in a significant increase in levels of capital required. We also need to review the new regulations and assess whether they are working as intended; it would be remarkable if all of the recent regulatory changes worked seamlessly together, and we may need to make some refinements – while resisting any industry pressure to move backwards, and making sure we preserve the benefits of a much more resilient regulatory framework.

16. What do you intend to achieve as CEO PR? How should we measure your success?

For me, the measures of success are:

- a strong and stable banking system;

- no taxpayers' money spent on bailing out a PRA-regulated financial institution;

- no policyholder in a PRA-regulated insurer losing out because prudential supervision has been deficient;

- tangible progress on delivery of the PRA's secondary competition objective;

- the PRA seen as a tough but fair, world-leading prudential regulator; and

- the PRA seen as a stimulating, rewarding and worthwhile place for talented people to spend their careers.