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|  | **5 May 2022**  Robin Fieth, Chief Executive |

Big challenges, even bigger opportunities

Thank you all for making this one of the biggest and most successful BSA Annual Conferences for years.

Much of the last ten years have felt like years in which decades have happened. A real period of history in the making. From global financial crisis to the worst pandemic the world has experienced in a century. From breaking a forty year relationship with the European Union, to living though the most serious international conflict in Western Europe since 1945.

And let me pay tribute to the bravery and resilience of the Ukrainian people facing the violence and horror of this wholly unjustified and unjustifiable war; to celebrate the generosity and humanity of so many people here in the UK in offering their homes to Ukrainian refugees; and of so many UK businesses for their amazing offers of support on the frontline in Europe and of assistance and jobs for those arriving here.

In the years following 2008, we openly spoke of the tsunami of new financial services legislation and regulation. Since we last all met in Manchester in May 2019, the unconventional monetary policy of quantitative easing has started to look decidedly conventional compared with furlough, mass payment deferrals in secured and unsecured lending and the prospect of negative interest rates.

And through all that has passed since 2008, building societies and large credit unions have gone from strength to strength. Despite ultra-low interest rates, an incredibly tough competitive environment, all the regulatory change, our sector and our members:

* Have delivered outstanding service and support to their members and communities;
* Have taken market share;
* Have delivered record surpluses and strengthened capital bases; and
* Have transformed much of their businesses, and their boards.

This is all something that we should celebrate and be immensely proud of. Something that those who are retiring or moving on to the next stages of their careers should look back on with tremendous satisfaction; and those who are leading building societies and credit unions today should take as inspiration for the next stage of the journey.

For, if the past ten years have been some of the most challenging in our history, the themes I want to talk about today might well make us look back on the last ten years as not being so revolutionary after all. The fact that Consumer Duty, Basel 3.1 and changes to the Building Societies and Credit Unions Acts don’t make the cut serve to emphasise the transformational magnitude of each of these themes.

Encouraged by Mark Bogard’s opening remarks yesterday that we should all be ready to challenge groupthink – in a constructive way of course – I would like to share with you some thoughts on five major themes that are (or should be in my view) on all of our current board strategy agendas:

* Climate change and Net Zero 2050;
* HM Treasury’s Future Financial Services Framework Review;
* The regulation of diversity and inclusion;
* Central Bank Digital Currencies; and
* Super-computing to quantum computing.

Climate change and Net Zero 2050

Talking last month about balancing the zero-carbon tightrope, yesterday’s keynote speaker, Sarah Breeden, highlighted some of the potential unintended consequences along the route to 2050.

In our mutual world of savings and mortgages, one stands out for me in particular – our version of the investment managers’ strategic question. Do we green our own balance sheets by restricting new lending to homes and properties that achieve the magic (if flawed) EPC A to C rating? Or do we invest in the UK’s overall just transition to Net Zero by working will all households to reduce carbon emissions? Do we in fact put the greatest emphasis and direct the greatest effort to supporting those living in the oldest and the energy-leakiest properties?

I have cautioned our regulators on a number of occasions to take steps around climate change stress testing and regulation very sensitively. To be wary that when regulators whisper, large parts of the regulated market jump. The only question is how high.

Collectively, in partnership with government and both prudential and conduct regulators, it is beholden on us all to seek to navigate this route such that we do encourage householders and landlords to invest in clean energy and greater energy efficiency. And that we do all we can to avoid creating swathes of new mortgage prisoners, trapped in energy inefficient homes that are falling in value.

Government needs to take some big steps – such as determining the future of the natural gas grid. We need to take lots and lots of small steps to help the transition happen as fairly, as cost effectively and as smoothly as possible.

And let’s recognise that there is no clear right answer to Net Zero transition. Some paths will be more optimal, some less so. Some technologies will be intermediate, some more enduring. Honesty here is critical to allaying fears about conduct and mis-selling minefields, drawing the clear distinction between practices and behaviours of rogue firms designed to rip customers off, and products and solutions sold in good faith which might, with the benefit of hindsight, prove to be sub-optimal.

Big challenges, even bigger opportunities.

Future Financial Services Framework Review

Back in the summer of 2016, in the aftermath of the Brexit referendum, Dick Jenkins (then BSA Chairman) and I wrote a short paper for the Treasury on what taking control back in financial services might look like. We argued for a far more proportionate regulatory regime for smaller, simpler, lower risk building societies and banks; for a regime that worked far more with the grain of mutual businesses, rather than trying to force them down regulatory paths designed almost exclusively for shareholder owned banks, be they the too-big-to-fail monoliths or the high growth, higher risk, venture capital backed challengers and start-ups.

Persistence sometimes pays off. We are hugely supportive of the PRA’s Strong and Simple initiative, which in parts bears a striking resemblance to our 2016 paper. We are delighted that the initiative has strong support from the Treasury. We continue to encourage Sam Woods and the rest of the PRA team to be ambitious about what can be achieved over the medium to long term.

In our long running campaign to place building societies, credit unions and financial mutuals at the heart of the future of UK financial services, we have consistently called for a prudential regime that is both proportionate to size and risk, and is appropriate to different business models. But now that challenge, and the opportunity that goes with it, is even greater.

Having brought forty years of EU financial services legislation and regulation into UK legislation, the Future Financial Services Framework Review gives us all the opportunity, and the obligation, to review that enormous array through the lens of what works best for the UK. Rather than what was needed to reflect the different cultures and stages of development of the then twenty-eight EU member states. This is enormous. It affects all parts of the UK’s financial services industry. It affects both prudential and conduct regulation. It represents many years work – and the world and the markets won’t pause while we get on with it.

The BSA strongly supports the Treasury’s approach of using the existing FSMA framework as the basis for the review, with the emphasis of placing as much of the responsibility as possible with expert regulators, held properly to account by Parliament.

We too often talk about once in a lifetime opportunities. This probably is one. The opportunity to set the regulatory framework for the next forty to fifty years. As long term, mutual businesses committed to good stewardship, to passing our member-owned organisations on to future generations in a better state than we inherited them, we should all have a lot to say about the future regulatory framework. We should all be thinking beyond our own time in office.

This is one of those opportunities. We can leave a positive legacy for future generations: a framework that underpins the future strength and diversity of the UK’s financial services sector.

Big challenges, even bigger opportunities.

The regulation of diversity and inclusion

Ronald Reagan is quoted as saying the one of the scariest phrases you can ever hear is, “hello, I’m from the government and I am here to help.” Something of that sentiment strikes me when it comes to the regulation of diversity and inclusion in financial services. Don’t get me wrong here. There is no way that I am defending the status quo. We have a huge need in this country and this sector to remove the generations of barriers that have stood in the way of women, of people from different ethnic and social backgrounds, of people who just don’t fit the club.

We need to celebrate the Power of Difference, as our friend and speaker at this conference, Simon Fanshawe has set out so clearly in his latest book (and no, I am not on commission). It is wonderful to see the difference in so many recent building society CEO appointments. We have celebrated at previous conferences – and we continue to celebrate – that half our students and graduates on the Loughborough University MSc in Strategic Leadership for Financial Mutuals are women; and half didn’t have a first degree. And we recognise that we need to do more. Much more.

And we agree that our regulators need to do much more as well, not only in terms of visible diversity (where we have seen real progress in recent years), but in terms of cognitive and socio-economic diversity too. Groupthink is as much a threat to the regulator as it is to the regulated. So, we have encouraged the Bank, the PRA and the FCA, as they take forward their Discussion Paper on Diversity and Inclusion into a consultation phase to think very carefully about:

* How we encompass that power of difference in all its aspects into our assessment of diversity and inclusion;
* What we actually measure, and especially how we assess cognitive and socio-economic diversity;
* How we protect the individual’s right to privacy in regulatory and statutory reporting, particularly at board level (assuming annual reports will include data and disclosures about the diversity of the board) and in smaller businesses, where small numbers of employees can lead to individuals being identifiable in the data);
* How we benchmark diversity and inclusion – and against what populations. Smaller, regional businesses will more naturally reflect the demographic of their localities than national census data, for example; and
* How regulatory approaches to supervision support rather than constrain that real power of difference.

If diversity and inclusion are to become regulated activities – as is clearly the direction of travel – rarely has there been a stronger case for that regulation to be truly smart, nuanced and reflective of the real needs and aspirations of our society.

In my personal view, for example, the latest guidance from the FCA for listed companies, published last month, falls short, taking a simplistic quota driven approach to gender and ethnic diversity on public company boards; without regard for any broader measures of difference. As Amanda Blanc, the CEO of Aviva, said on a recent webinar, “It’s a bit circular in the gender space with everyone recruiting each other’s women”. We need to go further, much further.

Big challenges, even bigger opportunities.

Central bank digital currencies

Mark Bogard and I have had a few interesting conversations about Central Bank Digital Currencies over the past twelve months. He couldn’t understand why I kept putting it on the agenda for our meetings with the Bank and the PRA. Until Sir Jon Cunliffe gave a clear exposé of the Bank’s thinking at a roundtable meeting with building society chief executives earlier this year.

Should the UK decide to adopt a Central Bank Digital Currency (and ultimately this is a matter for Parliament rather than the Bank), then over time we would expect to see further significant shrinkage in the use of notes and coins, and a pretty fundamental change in the nature of retail deposits.

I don’t think it is a secret that the Bank of England has no appetite for every UK citizen to have a Digital Currency account with the Bank itself. So those accounts would in practice be held by banks, building societies and credit unions, amongst others. Others might of course include big tech companies. Facebook / Meta’s dalliances with digital currencies could be seen as an early sign of this intent – or they might just be flying kites.

We have spoken to the Bank and PRA about an interesting aspect of moral hazard. Whilst Bitcoin and other crypto-currencies might claim to provide complete anonymity, should a Central Bank Digital Currency do the same? Are digital currencies actually untraceable? With notes and coins, central banks and national mints have historically avoided any responsibility for how their currencies are used. Many of us will remember that one of the challenges around the time that the European Union adopted the Euro, was the millions, or even billions of Deutschmarks stuffed under mattresses around the world that needed to be re-laundered.

It seems to me that among the significant opportunities from traceable central bank digital currencies is the scope to reduce illicit use of the national currency, whether in terms of the cash economy or the whole wider criminal use of cash, from people and drug trafficking to illegal trade in arms, stolen goods, animals, to terrorist financing. Not only should the Treasury benefit from closing the tax gap, but crime agencies should be able to look at use of non-central bank digital currencies as prima facie nefarious.

Privacy campaigners will be up in arms. But perhaps having central banks actually take responsibility for how their currencies are used could pay a huge dividend for our society. Or perhaps I am just being naïve!

Whatever, as we all know from last year’s Christmas quizzes, El Salvador has led the way by adopting Bitcoin as its central bank digital currency. I can’t see us going down that route here in the UK, but we should all be watching how the Bank’s thinking develops with a close interest and all be considering carefully how our organisations will respond and adapt to a progressive switch to digital currencies.

Big challenges, even bigger opportunities.

Super-computing to quantum computing

The fact that all our headline sponsors and many of our exhibitors here in Liverpool are tech businesses emphasises the magnitude of the transformation that we are all going through in our personal and business lives, (and let me pause here to add my sincere thanks to DXC Technology, Finastra, Mutual Vision and Target for their tremendous support).

There has been much talk about the fourth industrial revolution. I first asked whether Moore’s Law (the doubling of computer processing power every eighteen months to two years) was the biggest strategic question of our age back at our 2018 Conference in Manchester. The pandemic has often been said to have advanced the digital agenda by five or ten years in one, both in terms of our ways of working and in the demands and expectations of our customer-members.

Developments in quantum computing look likely to bring a complete revolution in almost everything we know about technology. Bigger and faster is likely to become instantaneous and simultaneous. We may be getting a little ahead of ourselves with talk of quantum computing becoming mainstream, but as with the development of Fintech over the past five to ten years, it is vital that boards understand the likely opportunities and the challenges.

Just as it being important that tech partners understand the specific business models of building societies and credit unions, and their current and future members. We can all recall the early clamour that everyone must have an App. For what? How many times a day do you check your savings balances or your outstanding mortgage liability? Rightly in my view, our members initially approached fintech propositions with a degree of caution; taking time to evaluate which solutions were most suitable for their businesses; investing heavily in broker portals and back office automation; upgrading websites and, yes, introducing Apps too that reflect the specific nature of our businesses. Some may have been a little behind the curve. In truth, some still may be. That may be one of the natural consequences of taking a cautious approach and having limited resources. It is not a bad thing. It is often good to learn from the mistakes and mis-steps of others, as long as you are not too far behind the curve!

The point for boards about quantum computing, of course, is that it may herald a revolution – a period when continual improvement is not sufficient. To borrow an overused phrase from back in my dotcom days – when there is a genuine paradigm shift.

Big challenges, even bigger opportunities.

Concluding remarks

There is opportunity for all BSA members in each and every one of these themes, alongside the evident challenges and threats. Throughout out histories, we have demonstrated the resilience of mutual businesses, adapting and trading profitably through world wars, pandemics, depressions, and periods of economic growth and prosperity.

With a clear sense of our mutual purpose; a deep commitment to our members and communities; sound, forward looking, ambitious strategies; strong and truly diverse boards and management teams, we can and will navigate the challenges and the opportunities of the years and decades ahead successfully.

Thank you.