

Inside FCA Podcast: Interview with Chief Executive Nikhil Rathi on the pandemic response and transforming the FCA

OI: Hello, welcome to the Inside FCA podcast. I'm Ozge Ibrahim and today I'm joined on the phone by recently appointed Chief Executive, Nikhil Rathi, who will be talking about his vision for the organisation and the FCA's priorities at a time of great uncertainty.

Welcome Nikhil, thank you very much for joining me today.

You've recently joined the FCA, how's it been starting a new job as Chief Executive during a pandemic?

NR It's been quite an experience starting a new job remotely, working from home and then taking over as CEO of an organisation but I've been very impressed by how the FCA has responded, the way in which the systems and operations have been resilient and the warm welcome I've received. And the FCA's done incredible work in the last six or seven months handling the really big issues during the pandemic and I'm confident that we're well equipped to handle the next stage as well.

OI And what's your vision for the organisation at this point?

NR One month in, so I'm spending a lot of time listening and learning, talking to businesses small and large who work with the FCA, talking to our regulatory partners, meeting colleagues, I think one thing that's obviously clear is that we have a very large amount of work to do as we come through this pandemic on the many consumer issues that have arisen; the increased vulnerability of many consumers in the economy, changing behaviours during the pandemic as digital payments have taken off, what does that mean for those who rely on cash in our society?

And also we are still dealing with economic distress, we have 60,000 firms under our remit and those firms aren't insulated from the challenges that we're seeing in the economy and we would expect some of those firms not to make it through the crisis and we want to manage the process of supporting those firms in a way that mitigates any risks to consumers and the wider economy.

Looking much further ahead, building on a lot of the work that's been going on in the FCA over many years, we have to become more of a data-led regulator, data information intelligence is at the absolute core of what we do right across the organisation and we've put a huge amount of time and effort into transitioning to a new data platform in the cloud and that will be a big focus for the future as we think about how regulation's changing in the years ahead.

OI What attracted you to the role at the FCA?

NR The FCA is playing an absolutely central role in the recovery of the UK economy from the crisis and has a critical role to play in shaping the future of the financial industry as we leave the transition period after the UK's exit from the European Union. So, it was an exciting time to be joining and I felt that I had a good range of experience having worked in the government during the financial crisis managing some of the major banking interventions in 2008 and 2009, having spent some time in a regulated firm understanding the operational implications and the commercial implications of regulation and with that experience I could make a contribution to the future of the FCA and help us deal with the big challenges ahead.

OI And going back to the pandemic, it seems to have accelerated many of the changes already underway in financial services, and you've referenced some of them. How do you think the FCA should respond and adapt in this sense?

NR The FCA has to carry on doing what I think it did very well during the height of the crisis in March and April which is listen and respond with pace and agility as new challenges emerge. The FCA moved very quickly to support consumers with payment holidays, dealt with a number of challenges when it came to insurance contracts and there were many other issues, for example in the market area, where the FCA took steps to make it possible for companies to raise capital to replenish their balance sheets and support jobs and growth in the economy, and that nerve operation should continue to be the case as we're still managing through this crisis.

OI And how about the FCA's priorities? I mean, obviously they would have shifted and changed slightly and this is a very difficult time for firms and the UK economy, so where does the FCA sit with its priorities at the moment?

NR Well, the FCA business plan set five priorities: consumer investments; credit; payments; fair value and the transformation of the FCA and notwithstanding the pandemic, these remain core priorities, indeed, Covid and its impact has underlined that these need to continue to be our priorities. Of course, the situation may not have materialised as we expected, for example, the credit market is in a very different position to the one in January when the FCA business plan was published, many consumers have taken the opportunity of lockdown to actually pay down debt, others who have seen their hours reduced or lost their jobs are more reliant on credit to smooth income, so our approach will need to be flexible to adjust to these changed circumstances.

In the area of consumer investment, we remain very vigilant to the risks faced by consumers in a low interest rate environment; it's obviously natural that consumers are going to be looking for higher returns and also as people have more flexibility over how they deploy their savings, there's also the opportunity to take more risk as well. That can mean being exposed to scams particularly online and sometimes fraudulent activity and we're going to be very vigilant around those activities too.

And then the last priority I mentioned was transformation. Well, transformation of the FCA has been underway for some years now and in particular there's a big focus on our data and technology platform as we move towards more cloud-based systems, which will enable us to use data information and intelligence in a much more agile way and at scale across all areas of our organisation and that will be fundamental for how we supervise and regulate in the future because increasingly in parts of financial services regulation, we're seeing an overlap with data regulation too.

We're also looking at how we govern ourselves and how we make decisions so that we can build on the experience of the last six or seven months where we've able to respond with pace and with agility to emerging challenges.

The other very, very important part of our transformation work is to look at the diversity and inclusion of the FCA to make sure that throughout our organisation we have diversity of thought as well as diversity by gender, ethnicity, sexuality, disability and social mobility – those are very, very key objectives for us as we have an imperative to make sure we represent the communities across the United Kingdom that we serve, and also we're thinking about how we can use our influence and our regulatory and supervisory tools to support the diversity and inclusion agenda right across the industry.

We've made good progress with a number of firms in recent years on the Women in Finance Charter and have increased the portion of female colleagues at senior levels in our organisation, but like many organisations, we have further to go and that will be a big focus for the coming period.

OI And going back to the current situation, the pandemic, the prospect of firm failures unfortunately grows as the current situation continues. What has the FCA done to prepare for businesses failing following the coronavirus restrictions, and what are your plans to support firms in the future?

NR Well, of course the firms we regulate don't operate in a vacuum, they're subject to the same economic forces as any other business, and we know that that has resulted in financial pressure for a number of the firms we oversee. We cannot stop some of the firms that are under FCA oversight from failing; we are not nor should we be a zero-failure regulator. Instead, we work to ensure that we have the information we need to understand when firms are close to failure to help manage that process and ensure that risks are managed and consumers are adequately protected.

It's also worth recognising that there are wider economic challenges in the broader economy as well and investors run risks too. When they invest in companies, there's always a risk of losses and one of the things we're focused on is just making sure that products that are being marketed and that are being invested in by consumers are sold in such a way that the risks being taken are clear.

OI And moving forward, is there any contingency planning in place for the future?

NR Well, we work on a range of contingency plans for many different scenarios and I think that as we've seen in the crisis, we've been able to adjust very quickly with a resilient infrastructure and also supporting the market participants through our supervision of markets to ensure that payments and wholesale market infrastructure has also remained resilient as well.

OI Last year, the FCA announced 3 reviews into its own work. Can you give an update on these and what they might mean for the FCA?

NR These are important reviews and the work has been going on now for some time to make sure that all of the evidence is properly evaluated. We're expecting the reviews into the Connaught situation and London Capital & Finance to be finalised later this year.

I can't give a precise timetable as the reviews are independent and it's a matter for the reviewers as to when they precisely finalise their report. The third review into Interest Rate Hedging Products is likely to take until next year and coming in as the new CEO, into the FCA I'm fully expecting that there will be important lessons for us in the FCA to learn from these reviews and some of the lessons may well indeed be painful and difficult, but I also know that the FCA with the quality of colleagues that we have and the commitment that we have through the organisation will learn those lessons and build them into the transformation of the FCA that we're undertaking.

OI And what's the FCA's role in Brexit preparations?

NR In the FCA over the last few years now, we've been working hard to undertake all the preparations we can to limit the potential for disruption. So to give you some examples, together with the government and the Bank of England, we're ensuring there will be a robust legal regime on the first day after the end of the transition and we've done that by on-shoring EU law to the UK statute book and to our rule book, and by clarifying through use of what we call the temporary transitional power which on-shoring legal changes firms will have to comply with from the 1 January next year and which ones they will have until March 2022 to implement.

We've also introduced arrangements for Temporary Permission to allow EEA firms to continue providing services and EEA funds to continue to be marketed in the UK once passporting ends provided that they meet the relevant rules and make the relevant notifications. Over a thousand firms and six hundred fund managers have already notified us and we're going to keep accepting notifications through to the end of the year and from 2021, these firms will be called to apply for permanent authorisation to replace their Temporary Permission.

We plan to consult later this year on the approach we will take when we assess applications from overseas firms and for those EEA firms who do not notify for a Temporary Permission or who do not obtain a permanent authorisation in due course, the government has legislated to allow them to continue to service their pre-existing contracts in the UK.

We also strongly believe in deeper international regulatory cooperation and we have entered into a number of MOUs with EU and non-EU authorities to enhance supervision cooperation including sharing of the information and cooperation on cross border risks. We've provided technical advice to the Treasury on the assessments and equivalence between the UK and the EU, and we're also providing technical support to the government in its trade negotiations with the EU and countries around the world.

I know that firms have done a huge amount to prepare for the end of the transition and our message to them at this point is to continue to be focused on that preparation for any residual risks and to ensure that preparation is done by the end of the year so they can continue to serve their clients in as smooth a manner as possible from the 1 January.

OI And if you could just briefly explain what you mean by 'equivalence'?

NR Equivalence is the framework that exists in EU and on-shored UK law to enable different jurisdictions to recognise each other's regulatory regimes and enable a firm from their jurisdiction to operate in the third country's jurisdiction and vice versa. So, in the areas of markets, for example, there are a number of pieces of legislation where the EU can determine whether the UK as well as other countries outside the UK have an equivalent framework and that will allow UK firms to operate under EU rules and likewise the UK can do the same for EU firms.

OI And how is the FCA preparing for a post-Brexit world?

NR In terms of our approach for the end of the transition period, in many ways it will remain constant and predictable. We have for a long time been a committed multilateral player demonstrating our commitment to the highest international standards and playing a central role in shaping those standards and that will be at the heart of our approach, maintaining a strong and robust regulatory and supervisory system and achieving the strong international regulatory standards that we are known for as a global financial centre. We will continue to work hard on new areas of finance particularly supporting innovation and fintech to make sure that the regulatory framework continues to adapt to the significant changes that we're seeing around us.

OI Thank you for your time, Nikhil. It's been great to speak with you and understand your vision at the start of this new chapter for you and the FCA. I'm Ozge Ibrahim, stay well, and join us again soon for the next Inside FCA Podcast.

ENDS