

FPC Appointment Questionnaire of Dame Colette Bowe

4th June 2019

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 an external member of the FPC?

No.

I am, as noted below, the chairman of the Banking Standards Board until December 2019, but have no other current connections with the financial sector.

None of my family is involved in work in the financial sector.

2. What other work and other responsibilities will you have while you are a Member of the FPC? How will you manage any conflicts of interest that may arise?

Until December 2019, I will continue as chairman of the Banking Standards Board. The Treasury and Bank have agreed during the appointments process that this role does not pose any conflict with membership of the FPC.

Other roles:

- Trustee of the Nuffield Foundation, a grant giving body focussed on research relating to economic welfare and social justice
- Trustee of the International Financial Reporting Standards (IFRS) Foundation
- Trustee of the Tablet, a weekly RC journal
- Trustee of the RC Diocese of Westminster
- Governor, Highbury Grove School , a 1200 pupil secondary school in north London

None of these roles poses any conflict with the FPC.

3. Do you intend to serve the full term for which you have been appointed?

Yes.

Do you intend to apply for a further term?

I don't know as yet.

4. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the FPC.

- I have long and wide experience of working in and around the financial services sector - mainly in the UK but also in France and Germany - as a regulator, as an executive and as a non executive member of a number of boards.
- I led the regulator responsible for regulating consumer facing financial services business in the 1990s.
- I was executive head of an investment business later in the 90s/early 2000s.
- I have served on the boards of a major bank (Morgan Stanley), an investment management business (Axa Investment Management), a large building society (Yorkshire Building Society) and a private equity business (Electra). I therefore have significant experience of the financial services sector both inside and outside the banking sector.
- I have also served on the board of a transport business and a water business, and have chaired the regulator responsible for media and telecoms in the UK, Ofcom.
- I established and chaired two significant consumer facing bodies: the Telecoms Ombudsman Service (now Ombudsman Services) and the Ofcom Consumer Panel.

I believe that my wide experience of financial services, including non bank business, and my knowledge of other sectors of the economy, will assist in what I consider to be a core role of the external members of this committee, namely to assist in the identification of so called “tail risk”.

In addition, my demonstrable commitment to understanding the needs of, and risks faced by, consumers, give me a range of experience which will, I hope, contribute to the width and depth of the Committee’s deliberations. And will help to keep focus on what is the ultimate purpose of this committee as indeed all the work of the central bank.

What areas of the FPC’s work do you believe you will make a particular contribution to?

I hope I will be able to contribute across the board. But I would also hope that I could help with the external communication of the FPC’s salient role, both to people working in other sectors of the economy, and to people across the country who may not realise it exists, or what it does. For example, as I note below, I have been impressed by the work that the committee has carried out, and published, on the risks around various Brexit scenarios. But I am struck by how little of this work has entered the mainstream of debate.

5. Which do you think are currently the greatest threats to financial stability facing the UK?

- In the immediate future, the risks to financial stability of what is called a disorderly Brexit need to be understood and insofar as is possible, mitigated. The FPC has carried out and published very thorough work on various Brexit scenarios, combined with a severe global stress, if it were to emerge at the same time. . This is, and I assume will remain for some time, a key responsibility of this committee. The FPC's published work on this is at this moment reassuring. But obviously this work needs to continue to be done with the utmost vigilance, especially in the light of the possibility of the UK's leaving the EU co-occurring with a global downturn.
- The consequences of failures in cyber security. I note that the committee has in prospect a further exploration of "severe but plausible" scenarios in the near future. involving failures in payment systems and uncertainty about the rate of their recovery. I also note that further work will be needed to develop acceptable cyber tolerances and also data corruption. These scenarios and tests, and the subsequent development of a view on cyber resilience, are of obvious macro and micro prudential importance. I would emphasise also that this whole area, including forming a publicly acceptable view of cyber tolerances, is of the utmost importance in maintaining public trust in the banking system.
- The risk of new business models in banking moving the operation of significant parts of the system into unregulated areas.
- Possible build up of riskier mortgage lending as competition in that market increases, with consequences for the resilience of lenders.
- A build up of household debt with (related to the point above) a large component of mortgage borrowing, i.e. affecting the resilience of borrowers.
- The build up of debt elsewhere in the global economy, notably in China.
- Complacency.

Of these, which is the most significant?

Complacency.

6. What have been the FPC's greatest successes so far, in your opinion?

- Implementing the Countercyclical Buffer regime with clarity.
- Ensuring, along with the PRC, that the major UK banks are better capitalised than they were in 2008
- Developing and articulating a clear and public framework for the Annual Stress Test.
- Publicising the state of preparedness for Brexit, in the EU as well as in the UK.

Of all of these, I regard the detailed and comprehensive work done under the last of these headings as the most significant and helpful, although as already noted, it has not received the widespread dissemination and recognition that it should have.

Where is there still work to be done?

Making sure the established tools , including the powers of direction and powers of recommendation, to the regulators, continue to be developed to meet changing demands, e.g. of course new sources of stress. The FPC has already signalled its intention to do this, and this is plainly a key area of work and challenge.

7. Do you think the FPC has the tools it needs to meet the Bank's Financial Stability Objectives?

At this stage, I think yes. But see above.

Are there any additional tools you think are required?

My view at the moment is that the macro prudential regime is sufficiently recent that what is needed is clear evidence over a period of time about how the various tools have operated and interact with other elements of the supervisory regime.

8. The FPC generally reaches its views and decisions by consensus rather than a vote. Do you think this is the most appropriate method of decision-making? What risks do you see with this approach?

Given that the FPC is not making binary decisions, but assessing a wide range of things that COULD happen, I regard consensus as a perfectly sensible method of decision-making. As it is in other areas of life. For a consensus mode to be effective does, of course, require there to be a good culture inside the committee.

9. What is your assessment of the FPC's core indicators?

I consider them to be comprehensive and appropriate for a major global financial centre such as the UK with a large domestic financial sector. Glad to see the VIX in there.

Which indicators are the most important?

Most important in my view is to be fully alive to rates of change as well as absolute levels, and alert to the fact that rates of change can alter very fast in stress conditions.

Are there any additional indicators you think should be considered?

Not at this moment.

10. What is your view of transparency with regard to the FPC? Do you think it is appropriate that the FPC only published records of its meetings, as opposed to more detailed minutes?

What matters I think is the comprehensiveness of the record. It is of the utmost importance that it gives a clear, accurate and balanced view of what was discussed, and the range of views. Detailed minutes, might, as we know, (paradoxically) inhibit full discussion in this, as in any committee.

11. What is your assessment of the public profile of the FPC, both within the industry and among the wider public? How important is it that the public understands the role of the FPC and the decisions it takes?

I think that the public profile of the FPC is quite low both in the industry and even more in the country at large. This MIGHT be because of its name, which does not accurately convey that its prime concern is financial stability. I have not seen any evidence concerning public views on the FPC, but I would regard increasing public awareness of its role as an important contributor to supporting public trust in the efficacy of the work of the central bank.

12. What challenges does Brexit pose to the work of the FPC and how should it manage them?

I think that the way the FPC has addressed the various risks arising from both the ongoing uncertainty around the nature and timing of Brexit, and the possible outcomes, has been very good. I have particularly welcomed its decision to publish its Brexit checklist.

13. Are there any skills or areas of knowledge that you feel that you have to refresh or bring up-to-date to carry out your duties as an external member of the FPC? If so, what are they and how do you intend to increase these skills/areas of knowledge?

Ahead of joining the committee, and having carefully kept abreast of its published work, I am not conscious of any gaps. But if I needed to increase my understanding in particular areas, I can give an assurance that I will have adequate time to devote to doing this.

14. Where do you think there is scope for further research work into financial stability?

- As the development of macro prudential tools and their application is still relatively new, I would suggest that continued work, with an international dimension, on the effectiveness of different tools could be the best use of resources.
- I am also interested however in the interplay between what is regarded as micro prudential supervision and what is regarded as macro prudential. Does this division risk our becoming too siloed in our approach? For example, would an adverse risk culture in one or more systemically-important banks move from being a micro to a macro prudential issue? How do the FPC and PRC work together to understand and tackle such issues?