

TANYA CASTELL

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?*

As it would be a conflict, I am not renewing my appointment to the board of Handelsbanken plc at the end of my term in early August which is before I start on the PRC in September.

A material conflict with my other commitments should not arise. I am a member of the Financial Conduct Authority's (FCA) Regulatory Decisions Committee (RDC). There is a chance that there could be a joint investigation into a firm or individual by the PRA and the FCA which, if disputed, could come to an FCA RDC panel which I could be asked to sit on. However in such a situation I would either not participate on that particular panel or recuse myself from discussions at the PRC.

I hold a small number of UBS shares remaining from awarded bonuses when I used to work there. However the value of these is less than £10,000. I intend to sell these when possible (as I need to seek permission from the various organisations where I am on the board in accordance with their Codes of Conduct/Personal Account Dealing policies).

My husband is a founding partner of a small venture capital firm in Edinburgh but the firm has no investments in PRA regulated firms. Currently my husband and I hold account balances in excess of the FSCS deposit compensation scheme level with one of the major clearing banks but this is a temporary situation (resulting from being from executor of and beneficiary from my mother's will) which should be addressed by September.

I am aware of the PRC conflicts of interest code of practice and the broader Bank's "Our Code". I would always check with the Bank's Conflicts Officer if I had any concerns that I could be conflicted.

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?*

I will continue to hold three other roles when I start on the PRC in September which are being a member of the FCA RDC (since 2019), an independent non-executive director for Border to Coast pension partnership (since 2018) and acting past President of Changing the Chemistry (CtC). In terms of time commitment:

- Being a member of the FCA RDC has a time commitment estimated at c. 25 days a year though this varies depending on the cases I am involved in.
- As a board member of Border to Coast Pension Partnership, an FCA regulated asset management company set up to support the government pension pooling initiative, owned by 11 Local Authorities I estimate that 40-50 days is the likely time commitment for the coming years
- I am currently in the process of stepping back from my executive volunteer and trustee role with CtC, a charity promoting diversity of thought in the boardroom, that I founded almost 10 years ago. The transition to a new leadership structure is due to complete in August this year. From then I will act as Past President (and

no longer a trustee) for one year with the time commitment expected to be 12-15 days, after which there will be a minimal time commitment as Founder Ambassador.

I therefore should have adequate capacity for the PRC role including additional time for induction requirements in the first year.

Whilst I have no plans to take on another board role during my time on the PRC, I might consider another position if there was no conflict and I had capacity. I would, however, only do this after consultation with the Bank's conflict officer.

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?

My entire career (almost 35 years to date) has been spent in financial services, with the majority of it being in banking. This has given me depth and breadth as I have worked in a range of organisations and been on the boards of banks, asset management companies and a financial markets infrastructure payments company (Faster Payments Scheme) in addition to being a pension trustee twice.

During my executive career, after a few years in corporate finance, I became involved in the project to implement risk return on capital. This led me into the risk world, which I have never left. My time running the UBS Investment Bank (IB) policy team, with responsibilities for the UBS IB Risk Committee and subsequently the UBS Group Executive Board Risk Committee, also gave me a very good grounding in corporate governance and policy.

I have long had an interest in regulation. During my executive career, I was involved in all types of risk control including contributing to regulatory consultations such as the Basel II capital requirements. Since starting a portfolio career, with nearly all my boards I am or have been on the audit and risk or risk committee and in many cases have been the committee chair. I therefore very much keep abreast of regulatory requirements and developments. I have also been a lay member on two regulatory sub-committees for the Law Society of Scotland (the Rules & Waivers Committee and the Rights of Audience Committee) and chaired the Institute and Faculty of Actuaries Quality Assurance Sub-Committee for three years focusing on the quality of actuarial work at an organisational level.

I have seen a range of operating models and cultures during my career. I have also learnt first-hand the impact of growth, mergers and culture on the risk profile of an organisation. I have also experienced both strong and weak cultures and how hard it can be to shift a culture when the momentum is taking things in a certain direction. This is very relevant for the PRC given the impact culture can have on risk profile (see question 11).

As my career has been predominantly in the banking sector, this is the area where I expect to have the most to contribute. However, my particular interests in risk management and corporate governance have general relevance to all organisations. Additionally I am keen to learn more about the insurance sector so that I can contribute across the full breadth of the PRC's remit.

I also bring extensive experience of diversity and inclusion from my years involved in women's/diversity networks and, for the last 10 years, more broadly in terms of diversity of thought from the creation and work of CtC. CtC is a peer support network which has not only filled over 260 board roles from its membership but has advised a wide range of entities on how to improve diversity at board level.

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?*

Since the global financial crisis of 2007-8, significant progress has been made by the PRA in strengthening both the capital and liquidity of regulated firms and tackling the excessive leverage that some firms had. The use of stress testing to assess the vulnerabilities of firms and promote sensible discussions with the regulators has been very positive. Additionally the introduction of the senior managers and certification regime has focused individuals on their responsibilities.

From what I have heard, observed and read, the PRA operates in a collaborative manner, not just with other relevant bodies in the UK, but also internationally. It is engaged with multiple regulators and related bodies across the globe and, from my understanding, is well-regarded which is positive for the country's reputation and supporting investment into the U.K.

I also have observed that the PRA has been very proactive in a number of areas in taking steps or stimulating activity in the industry. The PRA, in conjunction with the FPC, took swift action in response to the pandemic to ensure the banks did not restrict the provision of credit. Additionally, the Bank and the PRC have been very proactive and a leader, both in the UK and internationally, around highlighting the risks from climate change including issuing a supervisory statement in 2019 on how firms manage these risks (see Question 10). However there is still much more to do to ensure that the firms they regulate are adequately managing the physical and transition risks. Another area where the PRA has been vocal is the transition to SONIA from LIBOR.

The major focus on operational resilience that the PRA has taken over recent years has been very important particularly given the increasing reliance by firms on technology. The PRA has had tools to help firms with their cyber security for a number of years (such as CBEST). However cyber risk continues to evolve at pace and criminals are becoming more organised in their approach as demonstrated by their handling of Ransomware attacks which have increased significantly in the past couple of years.

Another area that the PRA has already started looking at in conjunction with the FCA is the impact of artificial intelligence and machine learning on financial services. With the increasing reliance on technology to deliver services and products to customers, it has become more difficult to provide the oversight and challenge to the processes and models used to ensure these are unbiased and appropriate. This is important both for those supplying products to and servicing customers but also for internal activities within firms. An extreme example would be the discovery some years ago that a certain make of automatic soap dispenser did not work for dark coloured skin. The additional conundrum for firms is how to deal with potential problems in coding and ensuring that challenges to outputs are heard – the post office treatment of sub-postmasters and mistresses was a, hopefully extreme (but unfortunately not unique), example of this.

Two areas where I think there could be more focus are the culture of firms regulated by the PRA and the lack of a trusted means of digital identification in the UK.

- The culture of an organisation has an impact on its riskiness (see question 11) and therefore I would be keen to hear the PRA talking more about the importance of culture.
- The PRA could engage with the financial sector to consider requirements for a digital ID and whether there were existing trusted official sources that could

facilitate such a concept. Not only would a digital ID help reduce fraud and protect consumers, but it should lower the costs of know your customer and anti-money laundering processes. It could also potentially expand access to those excluded from the financial system.

Automation, artificial intelligence, digitalisation and big data all have impacts not just for the firms regulated by the PRA but also on how it supervises them. I look forward to learning more about how the PRA is evolving its supervisory processes and the skills of the people conducting the supervision to enable them to provide the necessary oversight and challenge to firms.

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?

FSMA sets out the regulatory principle that the PRA should exercise its functions as transparently as possible and the PRA does communicate and consult on a regular basis. Members of the PRA are also regularly in the public eye giving speeches on relevant topics such as climate change or operational resilience. However I also recognise that the PRA has to be less transparency because of the sensitivity information it handles and the regulation of individual firms requires confidentiality. In order to ensure that firms are adequately transparent and open with the PRA, they need to be confident that the information they share will not be published.

In terms of visibility, I would be happy to support the PRC/PRA in its objectives by participating in the Bank's outreach programmes (e.g. to encourage diversity and/or national numeracy) such as school visits or participating in agency-related regional visits as appropriate to increase the visibility of the PRC.

The Parliamentary accountability and scrutiny by the Committee is a very important way in which the work of the PRC can be communicated to the public. I therefore understand the wish of the Committee to know how I am fulfilling my role and it may be that there is some feedback loop from the committee chair to provide that assurance or the committee may wish to hear back from me directly.

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

Whilst I have not started on the PRC, I would expect that the Committee's decision-making process would be informed not just by the statutory objectives but also by how these additional aspects had been considered when developing any new proposal or change to an existing approach. I would expect to have evidence-based accounts of the impact of a proposal on that issue. Additionally, whilst I am aware that the PRA consults on a regular basis, it will be important to ensure that there is adequate feedback from the right places and that this is heard and acted on appropriately.

Regulatory and policy issues

8. *What is your assessment of the risks to the safety and soundness of the firms and sectors regulated by the PRA arising from Coronavirus? How well has the PRA dealt with the situation to date, and what future challenges could emerge?*

The pandemic in the first instance had an impact on the liquidity of markets and longer term on the credit risk for lending institutions and also claims exposure for general insurance firms. The PRA's work in recent years has meant that banks and insurance companies in the UK are in a much better position to handle these challenges. Furthermore the quick actions taken by Treasury, the MPC, the FPC and PRC in a coordinated fashion helped the banks to respond in a supportive way to the unprecedented situation that arose.

The PRA's ongoing emphasis on operational resilience may well have been a contributory factor to the success that most firms regulated by them had in moving to home working. However there is also a recognition by many (though not all) that this change in operating model to remote working does have its challenges including the impact on culture, the time required for collaboration and the changes needed to control frameworks. This could provide future challenges for firms.

The introduction of scenario testing has been very useful. The reverse stress tests showed that the UK banks can withstand high levels of credit losses that might yet arise from the pandemic. Having said that, Covid has given rise to some companies taking on very high levels of debt and Governments have also done the same. Interest rates remain exceptionally low which makes net interest income levels very low for banks, while insurance companies have to work harder to secure the returns on investment they need.

9. *What is your assessment of the remaining and future operational challenges and risks to the safety and soundness of the firms and sectors regulated by the PRA arising from Brexit?*

Whilst a memorandum of understanding was announced in March to create a UK-EU financial regulatory forum, this does not guarantee market access to UK firms. There seems limited likelihood of the EU granting equivalence to many areas of financial services and the lack of agreement is causing a shift in business (e.g. derivatives trading moving out of London). Some of these changes may create fragmentation and inefficiencies leading to increased costs and lower profitability for firms. Furthermore, if over time more business is booked outside the UK, given the importance of the sector, it could be detrimental to the economy.

The UK has, however, taken an important first step in shaping its own financial services regulation outside the EU with the Financial Services Bill receiving Royal Assent in April. Its stated intention is to ensure that the UK remains an open and dynamic financial centre with the highest regulatory standards. Under the Government's proposals the PRA is expected to move from "rule taker" to "rule maker" for most areas of prudential policy within the PRA's remit which will be an increase in the scope of its responsibilities and therefore scrutiny.

10. *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?*

Last year Mark Carney said that achieving net zero will require a whole economy transition, with every company, bank, insurer and investor adjusting their business models accordingly. Climate change means we are likely to face more frequent or severe

weather events like flooding, droughts and storms. These bring physical risks that can impact the economy and also may make people more reliant on insurance to cover the costs of the damage caused by them. If the insurance claims increase and insurance companies have to pay out more, this would increase premiums or if people or companies don't have insurance they will have to pay to fix the damage themselves.

Climate change also brings transition risk as the world moves towards a greener economy. For some sectors there may be big shifts in asset values or higher costs of doing business. This would impact the credit quality of those businesses and the banks providing the credit. For insurers there is also liability risk arising from people or organisations wanting compensation for losses they have suffered from climate related events.

The Bank and the PRA have been very proactive in highlighting the risks with climate change, taking action and in working with other regulators and bodies, such as the Network for Greening the Financial System (a group co-founded by the Bank which is seeking to provide climate scenario analysis data in an open sourced way), to encourage and drive action. The PRA issued its supervisory statement for firms in 2019 relating to enhancements needed for managing the financial risk of climate change requiring firms to have fully embedded their approaches to managing climate-related financial risks by the end of 2021. Furthermore members of the PRA/the Bank have been very visible speaking about the risk from climate change on a frequent basis. This is important given the need for the firms it regulates to support the UK economy in making the transition and to take a very long term perspective when doing this. As the PRA noted in a recent speech the success of regulated firms in reaching net zero will "be driven by their ability to reduce the emissions of the businesses and household they lend to, insure or invest in" and hence the importance of the PRA continuing to play a lead role to ensure progress.

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

My experience throughout my career has demonstrated time and time again how important culture is in driving prudential outcomes for firms. Whilst inclusivity is not the only determinant of a good culture, my observation would be that there is a high correlation between the two. A strong positive culture is where people are willing and able to hear different perspectives and are receptive to challenge. There is no point having three lines of defence in firms (front office being first line, the risk and compliance teams second line and internal audit being the third line of defence) if those running the firm are not willing to hear the voices of the second and third lines.

The Treasury Committee's report from 2018 has a useful range of recommendations and the Treasury's Women in Finance charter has had an impact. The Bank of England is a strong believer in diversity as articulated in the section on inclusion and sustainability in its 19-20 annual report. Whilst I have not yet started on the PRA, it is clear, from those Bank employees speaking externally and my interaction with people working at the Bank in various capacities, that the Bank is focused on improving its diversity internally. I would be interested to see if there is a way I can contribute to this work by speaking at an internal network event or being a mentor.

When it comes to the consideration of the firms the PRA regulates, however, there is surprisingly little commentary based on searching on the word "diversity" or "inclusion" on the Bank's website. A letter from the Bank in 2016 on the PRA rules on diversity within firms' management bodies notes that "the rule on establishing a policy to promote diversity on the management body applies to all Capital Requirement Regulation (CRR)

firms” and that “firms must explain on their website how they comply with this requirement”. The letter also noted that an EBA survey that year showed that “just 15% of UK firms surveyed had a policy on promoting diversity on the management body”. However there does not appear to be any further information on how the implementation of the rule has progressed since then. When I join the PRC I will be keen to understand the current situation and would encourage the PRA to be more vocal on the topic of inclusion within the firms it regulates.

On a more positive note, a staff working paper was issued by the Bank in March this year, which defined and measured 20 indicators of bank culture. The data used was across 7 dimensions, one of which was inclusivity, and the paper noted that this sort of analysis could augment more traditional and resource intensive mechanisms for surfacing information on firm cultures via surveys and interviews with senior leaders at firms. The research found “strong evidence of a link between organisational culture and bank risk – banks with poorer cultures are significantly more risky”. It will be interesting to see how the results of this work can be used in the PRA’s supervisory approach.

12. 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?

The complexity of financial markets is increasing significantly and the rate of change is also a major pressure. Continuing to balance the need to innovate and evolve whilst also considering operational resilience and the robustness of processes and controls is likely to challenge regulated firms, particularly with the increasing tendency to outsource key activities (e.g. use of cloud) and the ever evolving and increasing risks from cyber attack. There is also a need to reflect on whether more can be done to ensure that consumers understand the products they buy and the risks involved e.g. cryptocurrencies.

The PRA’s regular horizon scanning seeks to identify new risks for firms. The structure of the financial sector is evolving with more disintermediation and Fintech having a material impact. The development of blockchain data management has led to the introduction of cybercurrencies (such as Bitcoin) and the potential for digital government currencies. Should a UK government digital currency be proposed, removing the need for customers to deposit their funds with banks would have a fundamental impact on the structure of financial markets and the banking industry.

Additionally it will be important to continue to consider what the next black or green swan might be and to ensure that complacency does not creep in.

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