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# **Association of Financial Mutuals**

## **Good Practice for Non-Executive Directors**

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# Introduction

- Diversity in Financial Services
- Good Practice for Non-Executive Directors
- The PRA Supervisory Approach
- Questions



# Diversity in Financial Services

- PRA objectives:
  - The promotion of safety and soundness of firms
  - Contribute to securing an appropriate degree of protection for policyholders.
- No mandate to promote diversity, however:
- Section 138K Financial Services Act 2012: the regulator must consider whether the impact of a proposed rule has a different impact on proprietary firms and mutual societies.
- A strong mutual sector contributes to the wider industry by providing wider choice, competition and helps maintain continuity of services.
- No dividend expectations, potentially less market exposure / volatility



# Diversity in Financial Services

- Flexibility Challenges: constitutional challenges, capital raising
- My team recognise the particular challenges that the mutual sector faces and should exercise judgement accordingly.
- We will be held accountable for maintaining effective contact with the FCA, particularly important for those firms with with-profits funds.



# Good Practice for Non-Executive Directors

- What we are looking for:
  - Sharp focus on existing and evolving key risks for the organisation
  - Clear understanding of the firm's strategy and risk appetite
  - Evidence of challenge
  - Effective governance and control arrangements
  - Integrity of financial and management information
  - Underlying arguments for judgements exercised
  - Rigorous approach to personal development
  - An appropriate balance of skills on the Board
  - Flexibility
  - Self reflection



# Good Practice for Non-Executive Directors

- Further considerations:
  - Independence
  - Management accountability
  - Remuneration
  - Succession
  - Stretch – plural directors should allow time for contingency
  - Diversity
    - Outlook
    - Experience
  - Non-Executive only meetings
  - Understanding of our regulatory agenda
  - Contact with the PRA



# PRA Supervisory Approach

- Objectives: financial stability, insurance objective: policyholder protection.
- Differentiated by firm impact:
  - Category 1&2: “continuous assessment”
  - Category 3&4: annual cycle of supervisory assessment
  - Category 5: data driven, more reactive approach
- “Forward-looking, judgement-based approach” in practice
- Category 5:
  - Data driven, peer group approach
  - Limited firm visits, contact point: “Firm Enquiries Function”
  - Authorisations, Part VIIs, changes in control, Approved Persons, waivers, permissions variations
  - Will evolve further







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**Questions?**