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Robin Fieth, Chief Executive

The beauty of simplicity in a complex world

Welcome back to Liverpool to an even bigger, even better BSA Conference.

Record numbers

A huge exhibition

Our fantastic sponsors

A new format

The same spirit of friendship, camaraderie, and commitment to our amazing sector.

Thank you all so much for being here and supporting the major event in Liverpool this week.

The 2023 BSA Conference.

Rather than the small sideshow that is going on next door.

There was a moment

What now seems like a fleeting moment

As we emerged from lockdowns

And started to see glimmers of hope that the worst of the pandemic might be over

That the government's mantra became about building back better.

We spoke of the opportunity for a new covenant between government, business and society.

A covenant which challenged the dogma that the purpose of business is to maximise return to shareholders

And fostered a greater debate on a much wider stakeholder purpose.

As we all know, the co-operative and mutual movement

Our world of building societies and credit unions

Was founded on such a very different purpose.

A social purpose.

To meet the needs of our society.

To address head on the exploitation of ordinary workers and their families in the early industrialising cities like Birmingham and Liverpool.

To foster financial and economic inclusion for those threatened with or suffering exclusion.

To maximise member value, not shareholder value.

With the current government seeking to deal in short order with forty years of European on-boarded legislation and regulation

And with a general election just round the corner

It is through the lens of that simpler model

The model that we at the BSA have championed since our foundation in 1869

That I want to consider today's agenda.

An agenda which amply demonstrates the complex world in which we live and operate.

As an indication of just how busy that agenda is, the first edition of the Regulatory Initiatives Grid published in May 2022 ran to 20 pages.

The February 2023 version is now 61 pages long.

There is far too much to cover in just twenty minutes

But please do ask questions through the App on other issues too.

OUR ECONOMIC SITUATION

In their latest forecasts, both the IMF and the OECD have put the boot into the UK's prospects for economic growth

Placing us at the bottom of the table with Russia and Germany.

Whatever our Chancellor might say about those forecasts being unduly pessimistic

I would suggest this is a stark reminder that no country has a right to growth.

It is something that must be earned through hard work and smart investment in infrastructure, innovation and talent.

Governments of all shades tend to be attracted by new shiny opportunities

The unicorns and gazelles

The latest technologies

High growth and blitz growth companies that offer the allure of changing the world

But too often not paying their taxes.

And that is all good (apart from not paying their taxes)

Although we should remind ourselves that unicorns are mythical beasts

And are vanishingly rare even in myth

And gazelles are pretty good at running away when threatened.

Long term, steady growth, sustainable businesses such as building societies and credit unions are, fortunately, not so elusive or skittish.

I have always felt that it is a good test to ask incoming chief executives and chairs how they feel about doubling the size of their societies or credit unions every ten to twelve years

The approximate rate that reflects their natural ability to grow capital through retained earnings.

How many public company CEOs would relish that sort of track record

Rather than the boom and bust that too often characterises high growth businesses?

Or the pathetic whimper of the next great thing that turns out not to be?

As we continue to emerge into a post pandemic economy, currently characterised by higher inflation, higher interest rates and monetary policy tightening, there should, in my view, be a premium on our sector's long term steady growth record

Our modest credit risk appetite

Our dedicated focus on the needs of members, without the distraction of demanding shareholders.

When we talk about the importance of diversity in UK financial services, this is what we mean.

And that leads us neatly on from the economy to prudential regulation.

BASEL 3.1, NON-SYSTEMIC FIRMS AND STRONG & SIMPLE

Last month, the Jacques Delors Centre argued that *"against the backdrop of recent bank failures in the US and Switzerland, which underline the fragility of the banking system, EU policymakers would be well advised to strengthen the resilience of banks rather than create new vulnerabilities by relaxing prudential regulation."*

And they were not alone.

The failures of Silicon Valley Bank and Credit Suisse provided plenty of opportunity for the capital and regulatory hawks to come out in force.

Banks must hold even more capital and be even more heavily regulated, they clamour.

Well, let me sound a note of discord

Even disagreement.

The answer is not always more capital and more regulation.

It is better risk management

Better governance

Better supervision

All supported by strong, effective and appropriate regulation.

Not more, but smarter.

That is one of the reasons the BSA has been such a committed supporter of the PRA's Strong and Simple programme.

And why we have been calling since at least last summer for the PRA to set out its stall for its future regulatory framework for the rest of the UK's non-systemic banks and building societies.

It is also the principle underpinning our recent response to the PRA's consultation on the UK implementation of Basel 3.1.

Without getting into the detail of the 1,400 pages of 'light reading' that was the PRA's pre-Christmas gift to us last year, let me make the following three observations:

Firstly, the Basel framework was designed to apply to 'internationally active' banks.

Without asking in its consultation, the PRA is perhaps exercising its greatest national discretion by remaining much closer to the European Union Single Rulebook approach than it needed to

Applying Basel 3.1 to all banks and building societies on IRB or with more than £20 billion of assets.

If you think about it, not even Nationwide counts as an internationally active

Let alone Coventry, Yorkshire, Skipton, Leeds and Principality.

Secondly, when lenders and borrowers enter a mortgage contract, they are typically entering a 25 to 40 year obligation.

Whilst recognising that the requirements for the continued use of original valuation are part of the Basel framework

Unless the borrower re-mortgages or makes a product transfer

It seems bizarre to me that prudential regulation will in practice ignore the long-term nature of the contract

And, quite probably, encourage shorter fixed terms

Leading to more churn (and less stability) in lenders' books.

Is that what they really want?

And thirdly, when it comes to specialist areas of lending

Such as custom and self-build or holiday lets

The PRA has asked for data, which we have provided

Which clearly demonstrates that the history of arrears and defaults is, if anything, lower than conventional owner-occupied lending.

Capital risk weightings for these important parts of the housing market and tourism economy should reflect reality.

As far as is possible, the UK's prudential framework should support our housing market

And our individual and collective dreams of home ownership

Not undermine the market by pushing up capital requirements unnecessarily

And with that the cost and potentially availability of mortgages.

And, I suggest, it should be promoting competition and diversity in the banking sector

Not constraining competition by penalising domestic mono-line mortgage lenders.

After all that we learnt in 2007 and 2008

The BSA will continue to serve our members by pushing back against regulatory proposals that have the effect of reinforcing the competitive advantage of the biggest banks

The very banks that were deemed too big to fail in the financial crisis.

I think the national discretion afforded to central banks by the Basel Committee around the definition of “internationally active” provides the PRA with sufficient room for manoeuvre to address these issues

Whilst achieving their strategic objective of the UK being substantially complaint with the Basel Framework.

Let’s see if they are bold enough to do so.

CONSUMER DUTY

When the FCA started its original consultation on a Consumer Duty, the BSA was one of many organisations that challenged the need.

We argued that the conduct regulator already had all the tools it needed to enforce existing requirements for treating customers fairly.

Well, that wasn’t one of our more successful campaigns

But we did succeed insofar as the proposals for a public right of action were dropped

(for now at least)

And firms were given a longer period for preparation and implementation.

So having embraced the fact that the Consumer Duty will soon be a reality

More and more of you have been telling us that the process of preparation has been of some real value

Or at least that you have sought to extract real value from the process.

Perhaps not surprisingly, the sense we have from the FCA is that they see our sector as relatively well-prepared and lower risk.

I sincerely hope that, with all the help from Elaine Morton, her team and many of our Associates, that assumption will prove well-founded when the FCA come looking

Be that through direct supervision, internal audit or information requests.

This might be slightly controversial

But the more I think about it, the more I welcome the principle that the concept of fairness is undefined.

To my mind that places an onus on the product provider to be clear about how they make their money

And to reduce or eliminate the information mismatch between provider and customer.

In short, this is the “would you sell this product to your mother” test

Or the “would you like to be treated like this” test.

The corollary, though, is that regulators

Both the FCA and the Financial Ombudsman Service

Need to have a far clearer understanding of the consumer’s duty

The customer’s responsibility to manage their own affairs

As is set out in the FSMA principles.

A DIGITAL POUND

We might also have a not unreasonable expectation of the Bank of England, when it comes to the question of whether the UK will need or benefit from a Digital Pound.

Described by the House of Lords Economic Affairs Committee as a solution in search of a problem

The IMF recently reported that around 100 countries are already exploring the development of their own central bank digital currencies

Be that El Salvador with its first mover adoption of Bitcoin

Or EU proposals for a Digital Euro.

A number of commentators have rightly pointed out that we all seem to manage to transact digitally just fine using established systems like Faster Payments or Apple Pay.

Why do we need a whole new central bank infrastructure?

And, importantly, who is going to pay for it?

If central banks are worried about unstable stable coins

Or big tech private digital currencies taking over the world

(Were they perhaps spooked by Meta's dalliance with Libra?)

Shouldn't they deal with that sort of development through regulation?

The fear, of course, is that if 100 central banks are already evaluating the case for central bank digital currencies, it turns into some form of central bank competitive ego trip.

My digital currency is bigger or better than yours!

When we look into the Bank of England and HM Treasury's current consultation, it looks rather like everyone having some form of Bank of England current account

A wallet into which you can have your salary paid

Pay your bills from

Initially capped at £20,000 and not paying interest.

And although it may be administered through your existing bank or building society

It won't sit on their balance sheet

Or count as their liquidity.

As a consumer, I guess that might look quite attractive.

As a deposit taker, it seems likely to change the nature and availability of retail funding quite fundamentally.

If existing current account balances have to be replaced by remunerated savings accounts

Then all else equal competition will push up savings rates (a good thing for savers)

And therefore also lending rates (not so good for borrowers) as banks and building societies seek to maintain their profitability.

Or, banks and building societies will be forced to depend more on wholesale funding, for our sector within the limits set by the Building Societies Act.

Reflecting on the legacy of 2007/08, is that really what the Bank of England wants?

On the other hand, as I said at this conference last year, it seems to me that among the significant opportunities from central bank digital currencies is that they should be more traceable than notes and coins

Increasing 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 and stolen goods

To terrorist financing.

Not only should the Treasury benefit from closing the tax gap.

Crime agencies should also be able to look at use of non-central bank digital currencies as prima facie nefarious and respond accordingly.

A final thought here.

If the digital pound is supposed to become the replacement for cash in your pocket, why £20,000?

Who carries that much in cash?

Let's do a quick poll.

Roughly, how much cash are you carrying right now?

DEVELOPMENTS IN AI AND TECHNOLOGY

And that brings me on to the exciting, rapidly evolving world of artificial intelligence.

Since last November our imaginations have been caught by the buzz around the abilities of ChatGPT

Other brands are becoming available.

After hearing the news that this revolutionary AI technology had proved capable of passing a Wharton MBA paper, we started discussions with the academic team at Loughborough University Business School about how the academic world will respond to this latest essay writing machine

So much neater than the flyers that used to be dotted round universities offering essay writing services.

Our own Andrew Gall has been experimenting with ChatGPT too.

As you can see, it gave a pretty good description of what a building society is

How to explain mutuality

And even how to do that in the language of Generation Z.

And I am aware that one of our credit union members is already trialling its use in helping answer member queries.

The opportunities seem boundless.

We have been talking about the fourth industrial revolution for years

And this breakthrough in AI could genuinely revolutionise the work place

And our lives.

But, and here's the link back to digital currencies, artificial intelligence is not the sole preserve of legitimate users and the legitimate economy.

The world's bad actors, from nation states to professional criminals, to amateur hackers, have the same access to these latest technologies

Are unconstrained by legislation and regulation

And will use them against us all.

They certainly will not respect some of the current calls for a pause in development while regulation catches up.

And they won't respect that regulation when it does eventually come into force.

As I mentioned last year in the context of quantum computing

In the wrong hands, that technology is already known to have the capability to break virtually all existing encryption systems.

The opportunities for mis-use of AI chat bots seem potentially boundless.

So exciting and so scary.

THE ROLE AND PURPOSE OF BUSINESS IN SOCIETY

And so to come full circle

Back to celebrating the role and success of building societies and credit unions as an essential part of a properly diverse and competitive UK financial services sector.

Societies like the Scottish celebrating its 175th birthday this year

The Skipton its 170th

Newcastle and Leek both 160 this year

And the Swansea marking its centenary.

Many congratulations to you all

And others achieving notable landmarks this year.

We have long championed the resilience of the mutual model, well run.

The latest set of building society and BSA member credit union results demonstrate once again how well you have dealt with the turmoil of the post pandemic economy

Including that induced by the government last autumn.

As we look forward to 2025 and celebrating the 250th anniversary of the founding of the first known building society by Richard Ketley at the Golden Cross Inn in Birmingham

We can reflect on a sector that has regained its confidence after the financial crisis

That has become stronger

Has taken market share

And has re-committed to its founding purpose of meeting the needs of the society and communities that it serves

The beauty of simplicity in our complex world.

Our healthy results provide capital for future growth and investment

Not dividends and share buybacks.

In closing I might suggest that the need for a strong financial mutual sector has rarely been greater.

With 19% of households having less than £100 in savings

Almost on in five children leaving education at 18 without basic qualifications

One in five people in the UK living in poverty

Including 3.9 million children

And one in five also lacking basic digital skills

There is so much for us all to do in meeting the needs of our society.

Hence the BSA’s new series of initiatives around the strapline of “no-one left behind”.

And why I am so delighted that Sacha Romanovitch, the Chief Executive of Fair4All Finance is here with us now to share her thoughts on how we build our futures.

Over to you Sacha…

Thank you