

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Sir David Walker
c/o Financial Services Authority
25 The North Colonnade
Canary Wharf
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30 September 2009

Dear Sir David,

A review of corporate governance in UK banks and other financial industry entities

The Consumer Panel welcomes the recommendations of the Walker review. The financial crisis highlighted deficiencies in the governance of banks which will need to be addressed. We would like to offer a few observations on the recommendations in the report.

As pointed out in the introduction to the review, 'the fact that different banks operating in the same geography, in the same financial and market environment and under the same regulatory arrangements generated such massively different outcomes can only be fully explained in terms of differences in the way they were run.' It is self-evident that governance failings contributed to excessive risk-taking in the financial sector and that non-executive directors failed to give an appropriate degree of challenge. Indeed the unprecedented release of the exchanges between the FSA and HBOS illustrate all too clearly the failings.

Non executive directors (NED's) require sufficient financial industry capability and critical perspective to provide independent challenge. Individuals who have reached a senior level in other businesses may be well placed to deliver this. This said, we note the comment at para 3.7 that 'it is noteworthy that bank boards where the previous CEO became Chairman appear to have performed relatively well both over a long period and in the recent crisis phase'. This may indicate that retired senior executives who really understand the business have a role to play. What is clear is that firms will have to ensure that there are appropriate measures in place to guarantee that the NED's have access to the skills and support they need, and that an appropriate induction programme is in place to enable them to understand the business.

It is the case that even with appropriate skills, the complexity of modern financial institutions makes it difficult for NED's to exercise detailed oversight of the organisation. As the report points out, an effective relationship between the NED's

and the Chief Risk Officer is likely to be a very important aspect of good governance. However, in order for the NED's to be able to exercise effective oversight of the organisation's level of risk it is also important that the NED's are able to engage with the FSA supervisory team independently when they feel it is necessary.

We welcome the FSA's enhanced regulatory powers over people with significant influence and we believe that in the course of supervision, there should be a review of the composition of the board. We support the suggestion that the suitability of NED's should be independently assessed and that they should be expected to give at least thirty days a year.. We also believe that the non execs need a specific role in challenging the reward structures of the executive so that incentives do not cause undue risk within the firm and we welcome the proposals in the report.

The principal focus of the review has been on banks, but just as it is suggested that there are lessons to be learned for other firms, we believe there are lessons to be learned for the FSA too. As it is suggested that NEDs' should spend at least 30 days a year in connection with their duties, a proposal with which we agree, we believe that the same expectation should apply to FSA NED's. We understand that new recruits to the FSA Board are warned to expect to give 35 days to their FSA duties.

Following the Equitable life episode, in order to improve governance in the life assurance industry, firms were required to appoint an independent person, or committee, to represent policyholders. This enabled a custodian of the consumer interest to feed in to decision-making at a senior level. Given the benefit for all stakeholders in rebuilding customers' trust in banks we believe there would be value in strengthening consumer representation on the boards of major firms.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Adam Phillips', with a long horizontal flourish extending to the right.

Adam Phillips
Chairman
Financial Services Consumer Panel
30 September 2009