

Treasury Committee

Oral evidence: Appointment of Jill May as external member of the Prudential Regulation Committee, HC 704

Wednesday 12 September 2018

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[Watch the meeting](#)

Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Alison McGovern; Wes Streeting.

Questions 1 - 49

Witnesses

I: Jill May, Appointed External Member of the Prudential Regulation Committee.

Written evidence from witnesses:

– [CV](#), [Questionnaire](#)

Examination of witness

Witness: Jill May, Appointed External Member of the Prudential Regulation Committee.

Q1 **Chair:** Thank you very much indeed for coming today for what I would say is your pre-appointment hearing; I think things are already underway. Perhaps you could just introduce yourself for the benefit of those watching.

Jill May: Good afternoon. I am Jill May, and I am the new external member of the Prudential Regulation Committee.

Q2 **Chair:** Thank you for completing the questionnaire and sending us your CV as well. I wanted to start just with a broad question about the committee and the balance between its work on resolution and

resilience. How tolerant of failure of firms that are overseen by the committee should the committee be?

Jill May: Would you mind just repeating that question one more time, please?

Q3 **Chair:** Obviously there are firms that the committee oversee. How tolerant of those firms failing should the committee be? Should the committee sometimes be prepared to let firms fail rather than stepping in?

Jill May: Yes. The Prudential Regulation Authority is not there to not see firms fail. It is quite clear that in some cases firms should be able to fail in order not least to be able to enable new firms to fill the gap. It is a competitive process. The important thing is that firms should be able to fail in an orderly fashion without an impact on the public purse and without impacting on the core business services that individuals, households and firms rely on.

Q4 **Chair:** If a firm were allowed to fail but it was done in an orderly manner, that would not count as a black mark against the PRA or the regulatory system more broadly?

Jill May: Clearly, I am sure that before any firm was allowed to fail it would have been subject of a great deal of scrutiny and it would not be a decision taken lightly. In the event that that firm was a failing firm, yes, that is a decision that the PRC should be prepared to take.

Q5 **Chair:** I want to talk about operational resilience, which is obviously something that has really risen up the agenda. We had some questions in the questionnaire about it. The PRA published their joint discussion paper, and Sam Woods touched on it when he came before us in the summer. Do you think that the joint paper addresses operational resilience issues arising from cyber attacks, or is there more to do?

Jill May: Operational resilience has risen up the agenda very fast and has been brought into sharp relief by recent cyber attacks, which appear to be newsworthy virtually daily in different parts of the economy, and also by failings such as those at TSB. Failings on the operational resilience score can clearly be just as significant as financial risk. That has been pressing, as you say, due to the cyber incidences and the operational change that a lot of these organisations are going through, whether it is through ring-fencing or due to technological innovation. In addition, a number of the bigger banks not least have legacy IT infrastructures that are probably fragile and thus are vulnerable to operational problems. It is clearly something that concerns the PRA and indeed all of the authorities, and the PRA wishes to engage with firms to put further focus on this critical area of their resilience.

The joint discussion paper is, to my knowledge, the first time that we have had an open discussion as to the right sort of structure for this in order that we can have an effective supervisory approach. It suggests that firms focus on business services rather than underlying processes and have a good understanding of which business services are critical both for their own objectives but also for our broader objectives

of safety, soundness, and stability. Armed with that understanding, they have an understanding of the sort of impact that disruption to those services would have, which enables them to test the resilience of their services against those tolerances and therefore then make decisions as to where processes, governance, and communications need to be bolstered in order to be able to continue to provide critical services in disruption. It is early stage, and there will clearly be a great deal of feedback, discussion, and refining, but it is a first and really critically important step in this whole worrying arena.

- Q6 **Chair:** We explored this in the Committee again with Sam. It is easier to manage financial risk or financial resilience, particularly in terms of obviously bank capitalisation, than it is necessarily to measure operational resilience. Do you have any thoughts on how the PRC should approach actually measuring operational resilience in an organisation? You mentioned legacy IT issues, which is very interesting. How do you measure how close somebody's IT system is to falling over?

Jill May: As I understand it, the idea is that firms will set impact tolerances, which will be in terms of hard metrics. It will be "we can see a way whereby for an hour the customer might be without access to some service, but providing we can get backup systems and we have the resilience to be able to provide that service within that space of time"—it is maybe two hours for payments, or whatever it is—then we can judge whether we have the right infrastructure and capabilities. The whole thrust of it is trying to put hard metrics around it. Otherwise, it is a very slippery concept and very hard for us to supervise against.

- Q7 **Chair:** Do you think there are enough people at the PRA with the right skills? In evidence, Sam said there were just 42 people at the Bank working on operational resilience. Do you think that is enough? Is that something that as a non-exec board member you would be asking questions about? You talked about capabilities.

Jill May: That is very fair. It is early for me to judge. The primary focus in the short term at the PRA, balanced against a lot of other work that it is doing, is delivering the right Brexit outcomes. Operational resilience is so critical that it is absolutely essential that work progresses with the right level of resourcing and urgency. I for one would be very keen to make sure that if it is not the primary objective after Brexit, it is certainly right up there near the top of the list.

Chair: I can assure you we are going to get on to Brexit, but not quite yet. I am going to bring in Stephen.

- Q8 **Stephen Hammond:** Good afternoon. Thank you for coming. I see from your CV and response to the questionnaire, at the moment you have seven outside commitments including five non-execs. In your response, you talk about how those positions will enhance your ability to understand what is going on in the PRA. I wonder if you could just give us some flavour about the scale and time of the commitments, and why you see them as enhancements.

Jill May: It does look a long list, but I would assure you that it is not all that it might appear. First, probably the most significant time

commitment is Durham University, where I have been a member of Council for six years. I am standing down from that, with some reluctance, because I want to focus the right level of commitment on this role. Durham sadly will be struck off that list.

The other commercial commitments I have include two investment companies. There are clear responsibilities for the directors, but the time commitment is relatively light; it is quarterly board meetings and occasional ad hoc telephone calls. I was actually in Guernsey yesterday for one of them, but that was the quarterly meeting and there will not be another meeting until December.

I would say that clearly I have responsibilities to perform, but they are not particularly onerous on the time front. The property company, which invests in German property, also currently has five board meetings per year. That may as it grows bigger—it is an ambitious company—stretch to six board meetings per year, but I can absolutely assure you that my primary focus and my time commitment is going to be this role, because with the best will in the world, there is a great deal for me to learn.

- Q9 **Stephen Hammond:** You spoke about the investment companies. I noted your response to the question about your discussion with the conflicts officer that, broadly speaking, these are governance roles and the asset allocation and stock selection is left to the trust manager. There is an issue of governance, is there not, in that you will have a fiduciary duty, and if the stocks or the asset allocation are wrong, you as the board will have to have some influence on the trust manager? Was there any issue raised about whether that might be a conflict for you?

Jill May: I did discuss it with the conflicts officer at some length, and in fact reverted back to one of the investment companies where the actual list of responsibilities of directors was not quite as clear as I would wish it. In fact, it was amended. If the investment strategy of one of those companies failed in some way and it was no longer fit for purpose, then the board would have a role in adjusting their investment strategy, or in extremis changing the manager. I am absolutely clear that there is no involvement of directors in any sort of individual stock selection or indeed asset allocation.

- Q10 **Stephen Hammond:** Absolutely, but there is potential, is there not, that if the asset allocation by the manager was so substantially wrong, there would be a duty on the directors to sort that out?

Jill May: There would be a duty on directors in conjunction with the manager to assess whether the investment strategy was still the right one.

- Q11 **Stephen Hammond:** And you are clear that is not going to be a conflict in any way.

Jill May: I have given it a great deal of thought, largely because I want to make sure that any perceived or real conflicts are dealt with at the start. I am satisfied—and I believe the Court, the PRC, and the Treasury, because I raised it in my interview, are satisfied, having looked at it really in some detail—that there is not a conflict. If something emerged

where I did feel uncomfortable and conflicted, I would stand down from those investment companies.

- Q12 **Stephen Hammond:** In your response, you were clear, and rightly so, that the conflicts officer said after your discussion that he sees no conflict of interest. Can you just confirm for the Committee that he has not suggested there are any areas of discussion from the PRA you should recuse yourself from?

Jill May: No, he has not.

- Q13 **Stephen Hammond:** I have just one final question, if I may. I looked at your response to question 3, in which you talked about, as you just rightly stated to us, that your primary responsibility and commitment over the next three years is to the PRC. It says you would not necessarily rule out seeking any additional board position, only in the event that one of the existing commitments concluded and that you thought that role was likely to enhance your knowledge. I know it is hypothetical, but is there at this stage any area in which this would interest you? Do you think it might have been better just to rule out taking on future commitments at this stage?

Jill May: Just to be clear, I am not looking for anything more. As I said, I have my hands full. I did not want to rule out irrevocably if something came along. I do not know; it might be in the property world. I have no conversations going on at the moment, so this is not with something in the back of my mind. Should something come along that might be relevant to or at least consistent with an understanding of investment markets or property, I would not want to unequivocally rule it out at this stage, but there is nothing in prospect.

- Q14 **Wes Streeting:** Can I just begin by asking how your experiences to date have equipped you to be able to sufficiently challenge the PRA executive team?

Jill May: My experience, as you know, is in financial services. My executive career was in financial services. I had a spell of 10 years or so in M&A in S.G. Warburg, which equipped me with robust analytical skills and attention to detail not least. My latter period as a managing director at UBS, while I was not on the markets or trading side, so I did not have first-hand knowledge of some of the practices or behaviours, gave me a pretty good understanding of global complex financial institutions, the ways they work, and their behaviours and culture. I would hope that that would be helpful.

More recently, I spent five years as a panel member at the CMA reviewing merger inquiries and being a member of the market inquiry on retail banking and SME lending. That has given me first a taste of the public sector and the very different ways of operation and culture there, and it has also given me clearly some experience of competition regulation, which I hope might be relevant in my work at the PRA.

I am used to challenging boards; my non-executive roles are helpful in that, and I can give you one or two examples if you are interested. Most importantly, on one level, my USP is as a complete outsider. I do not

have any involvement with the Bank or its committees, and that is why I have a lot of learning to do. Equally, it does give me the opportunity to challenge, and I very much hope it is a role to which I can bring constructive challenge, and maybe also ask the less obvious questions—and sometimes the silly questions like, “Why do we do it this way?”—that can provoke a broader debate and uncover issues that might have been taken as given.

- Q15 **Wes Streeting:** Are there particular policy areas or issues that you are keen to take up proactively? Do you already have a list in mind?

Jill May: No. I do not come to it with any preconceptions. The debate just now has spurred me more to think about cyber and operational resilience, but at the weekend I was thinking through what the major risks confronting regulation are, and that is right up there. I have an interest in diversity. Having been at UBS and played a role there in chairing the women’s group, I am quite keen to reignite that involvement, whether it is at the Bank level or amongst the organisations we regulate.

- Q16 **Wes Streeting:** We might have further questions along those lines down the track. We take a strong interest in those areas too, so that is good to hear. You mentioned coming in as an outsider and the very positive benefits that could bring. PRC discussions are likely to be highly technical in nature. How has your career and experience to date prepared you so that you can engage constructively with those most technical parts of the discussions?

Jill May: My experience in investment banking and M&A has bred in me a determination to get the bottom of complicated matters and to see the wood for the trees. I am analytical, detail-driven, and pretty focused, but I acknowledge what you say: there is a great deal for me to learn. That banking experience, coupled with the experience of a panel member on the CMA where you are confronted with cases you know nothing about—my last case was a mental hospital merger involving the National Health Service, commissioning, and all manner of things that I know nothing about—mean I am quite used to having to do deep dives, trying to see the wood for the trees as I say, and then reaching sensible, evidence-backed decisions. There is lots for me to learn.

- Q17 **Wes Streeting:** If you have navigated your way around the NHS architecture, then financial services should be a doddle, I would have thought. One of the objectives specifically is around contributing to the securing of an appropriate degree of protection for those who are or may become insurance policyholders. In what ways will you be able to constructively input into discussions around insurance business models?

Jill May: That is an area, if I am being honest, I have to learn a lot about. My focus and background, as you know, is in banking, and insurance is very different. In both cases, there is a strong case for prudential regulation. I have been spending a little time in the last six weeks trying to understand insurance regulation, the changes that Solvency II has brought in, and some of the esoteric issues—and

I have to say quite technical issues—around the risk margin and the concerns about equity release mortgages.

None of it has been something that you can immediately master, but give me some time and give me some exposure to these companies. I have a good understanding as a practitioner on the banking side, but I am looking forward to meeting senior management of insurance companies and really understanding on a practical level how we supervise them and what the key issues are from their point of view as well.

- Q18 **Wes Streeting:** That ties neatly into the next question I had, really. You mentioned the meetings undertaken by external PRC members with senior managers of regulated firms. That is partly, as you have already alluded to, an educational process of fact-finding. How do you intend to draw on some of those conversations in terms of your work on the PRC?

Jill May: I have not done any yet, but I am hoping to schedule some before the end of the year with one or other of the external members. I am not sure yet quite the construct of those meetings and how conventionally that conversation goes, but as I understand it, it is an opportunity to hear off-the-record observations on the PRC, policies, the way we supervise, and ideally then for us to be able to feed that information back in a constructive fashion to the discussions we have with the PRC. Indeed, we have a lot of discussions that are not in the formal PRC setting, and we have very many briefings with the teams ahead of the meetings. I have not had a week go by without probably half a dozen briefings, either with other members and of course in an induction sense.

- Q19 **Wes Streeting:** My final question is in terms of existing engagement between PRC members and PRA regulated firms. What is your sense of the quality of engagement? Do you have any views about how that engagement might improve?

Jill May: This is between external PRC members and regulated firms?

Wes Streeting: Yes.

Jill May: I do not have a detailed knowledge of that, Mr Streeting. As I understand it, it is judged by the existing external members to be an important role that they play, and that they have fruitful and insightful conversations with the chairmen, board members, and senior management of the organisations. I have not heard anything to suggest that there have been any themes to be concerned about, but until I embark on it myself, I am afraid I cannot say more than that.

- Q20 **Alison McGovern:** I just want to turn to the stress testing process for a moment. In your questionnaire, you say, "The rigours of the annual stress testing process, which applies very severe shocks to banks, gives comfort that there is considerable resilience across the sector". It is still relatively new as a process, and so to what extent do you think it is proven or not proven as a method of establishing resilience?

Jill May: I will know more when I have been through a cycle, and actually even next week there is a joint meeting with the FPC on the plans for stress testing this year. As I understand it, and having just read the papers and the briefing I have been given, the stress testing is very comprehensive and provides a set of economic and market scenarios that are very severe, the calibrations of which are more severe than in the financial crisis. My understanding is it is extremely robust in that respect. The process—I accept it is a relatively new process—is a sound one, and the results appear to show that our main financial firms are in a pretty resilient state. It has been mentioned in the context of disorderly Brexit that even the worst-case Brexit probably falls within the parameter that we have set for that stress testing. As I say, I am looking forward, starting next week, to understanding more about it and to getting a better feeling so I can answer your question comprehensively.

- Q21 **Alison McGovern:** I totally accept what you say. You mention a disorderly Brexit. Do you think that that demonstrates that, as far as we know, the stress test process shows resilience to a severe exogenous shock?

Jill May: As far as I understand it, that is exactly what I am saying.

- Q22 **Alison McGovern:** I have just two more sets of questions. First, what do you think of the climate at the moment in the United States, where the discussion seems to be towards rolling back some of the measures that were designed to solidify stability in the banking sector?

Jill May: That is an interesting question and quite a topical one. Having lived through the financial crisis—and believe me, it was quite a deeply shaming and searing experience—I would always be in favour of ensuring the highest possible global and international standards, notwithstanding the pressure sometimes for a lightening of regulation to provide competitiveness. I can understand why there is pressure to lighten regulation on banks, but if the same pressure was applied to the UK, I would firmly be in favour of putting safety and soundness first and not lightening up on prudential regulation. By ensuring safety, soundness, and financial stability, there is a better chance of having a more enduring and attractive long-term investment climate, and thus long-term competitiveness. In short, it would not be something that I would want to countenance here.

- Q23 **Alison McGovern:** You mentioned that the crisis was a shaming experience. What about it was shaming?

Jill May: I have really terrible memories. UBS, as I am sure you know, was a respected institution, in Switzerland almost revered, which had enjoyed phenomenal growth. What was shocking was the sheer speed at which it just unravelled, and that we could have such vast losses across various different businesses that could appear so quickly and where there were clear management and risk management failings. Tens of thousands of people lost their jobs and we lost billions. We were bailed out by the Swiss Government three times. My memory is going to Switzerland once and Swiss pensioners pelting UBS employees with

eggs, because they had invested their pensions imagining that UBS and Credit Suisse were as strong as could be. That was pretty shocking.

- Q24 **Alison McGovern:** With that in mind, do you think that the stress tests therefore do enough to model shocks that are within the banks themselves, whether that is business practices or internal risk? Do stress tests look at that sufficiently?

Jill May: If we look at the stress testing, there are aspects of the stress tests that clearly include bank-specific matters, whether it is operational resilience or conduct costs. It would address much of my concern over what went on in the crisis and think that alongside the stress testing, we also have the introduction of the Senior Managers' Regime, and indeed much stricter rules on remuneration, the right equation between performance and reward, and ensuring accountability and risk taking is properly reflected in remuneration structures. The stress testing does give some considerable comfort, but we have to supplement that level of comfort with comfort derived from the different structures put in place to address the lack of responsibility for risk, the lack of proper accountability, and the very short-term, revenue-driven culture that drove individual reward at the end of the day.

- Q25 **Charlie Elphicke:** While we are looking at stress testing and all the rest of it, can I ask you what you mean when you talk about disorderly Brexit?

Jill May: I am borrowing phrases from my colleagues. What I mean is leaving the European Union in March 2019 without a transition period—a cliff-edge Brexit, if you like. Some of the risks have been ameliorated to some extent by the prospect of a temporary permissions regime, but it still carries with it some risks.

- Q26 **Charlie Elphicke:** What risks do you think the temporary permissions regime poses to the PRA's objectives?

Jill May: What I would say about the temporary permissions regime is my understanding is that the primary advantage is that it extends the statutory time limits for the PRA authorising insurance firms, banks and counterparties. It gives a proper period of time when that great deal of work can be conducted in an orderly fashion. It gives us time to deal with a huge amount of work in authorising firms that previously passed.

- Q27 **Charlie Elphicke:** Do you think we should allow that in a scenario where it is not subject to reciprocity going the other way around? Is there a risk of unfair competition on that?

Jill May: I would turn that around and say that the imperative or the ideal thing would be to have reciprocity, not for us to be obstructive because the EU do not see it our way. We need that time, and without it, it would be a pretty clear scramble to try to get the work done.

- Q28 **Charlie Elphicke:** At what point would you say the temporary permissions regime would interfere with the PRA's statutory safety and soundness objective?

Jill May: These firms are for the most part operating in the UK through the passporting regime at the moment. A proper period in which to authorise these firms, and indeed subject them to the Senior Managers' Regime, should protect our interests by giving us time to make sure that process is properly done, that our threshold conditions are met, and that these firms absolutely have the right characteristics to ensure their safety and soundness.

Q29 **Charlie Elphicke:** Looking at your CV, I see you did not just do a degree in economics. You also won the Adam Smith Prize.

Jill May: It is a long time since anyone reminded me of that.

Q30 **Charlie Elphicke:** Some of us think that is a very sound thing. Could I just ask you for your considered views on the stress testing that was touched upon? The stress test for a disorderly or no-deal Brexit modelled a house price fall of 33%. Do you think that is a realistic parameter for a no-deal Brexit scenario?

Jill May: I find that a difficult question to answer. It sounds very extreme to me. Having said that, I am cautious. I do not necessarily believe that house prices will continue to rise. Indeed, in parts of the country, it is not the case now. Do I think that 33% is a very extreme figure? It sounds an extreme figure, but I do not think anything is impossible.

Q31 **Charlie Elphicke:** That seems extreme. The stress tests also model a UK GDP fall of 4.7%. Do you think that is realistic, or is that also somewhat extreme?

Jill May: That sounds extreme too. There have been a lot of different projections as to what Brexit might mean for the UK economy, and indeed what this whole process might mean in terms of slowing down the attractiveness of the UK to investors and uncertainty among firms in their investment decisions. While growth currently is pedestrian and perhaps a little disappointing, it is still growth. In light of that, and in light of what I can see to be, by and large, a high level of preparedness for a worst-case outcome, that sounds maybe not extreme but certainly prudent.

Q32 **Charlie Elphicke:** This is the 2017 stress test. The year before that, the Treasury said that the whole Brexit thing could lead to 800,000 jobs being lost, house prices down by 18%, GDP down by 6% and borrowing going up by £39 billion. Do you think that is a realistic parameter, or is that perhaps also a little extreme?

Jill May: I would probably fall into the "little extreme", but the most important thing is we have to plan for all eventualities. My understanding on the current state of assessment of job losses on day 1 is that in the financial services industry, it is somewhere probably a little north of 5,000—between 5,000 and 10,000, but probably at the lower end. Quite what the day 2, or more to the point probably the day 1,000, situation looks like, it is too early to say, because we do not have enough clarity on what the ultimate relationship is going to be, and therefore what sort of resources are going to have to be deployed in Europe.

Q33 **Charlie Elphicke:** That is incredibly important. We have dealt with 2016 and 2017. The 2018 stress test challenge is most recently the Treasury says we should base it on the basis GDP will fall by 10% and borrowing will rise by £80 billion. That was more recently in choreographed correspondence with this Committee. Do you think that is going a little far, and it is not going to be quite that eventuality?

Jill May: People have such different views on this, so I can only really venture my own views. These are not the Bank views. I fundamentally am an optimist and am probably slightly less concerned and less inclined to have those rather scary statistics at the front of my estimates. The UK is a very attractive place to do business on many different parameters. Providing we stick, as the PRA, with our remit of providing safety and soundness as the fundamental underpinning of financial stability, added to which we have a vibrant fintech sector, there are lots of good reasons why we can continue to be prosperous even in the event of a no-deal Brexit. That is very much a personal view.

Q34 **Charlie Elphicke:** How prepared do you think the PRA regulated firms are for the impact of Brexit and all eventualities?

Jill May: My assessment, as I say, having only been at the organisation for exactly seven weeks now, including over August, is that most firms are well prepared. The focus tends to have been on the bigger firms, because that is clearly where much of our energy is directed. My understanding is that in most of the internationally headquartered firms here and the domestic firms, there is a very high level of preparedness. The PRA has been instrumental in being in very close dialogue with those firms, and they have been encouraged to prepare for all eventualities, including the worst case. My understanding is that process is well advanced.

Q35 **Charlie Elphicke:** Yesterday we had a whole load of big banks in to discuss the issue of having to move people into the EU area. There was much discussion about the risk of fragmentation and it leading to inefficiencies and increased costs to borrowing and capital for, ironically, EU businesses. My question to you is: will increasing fragmentation of firms' business models make prudential regulation harder as well?

Jill May: It has the potential to make it a more complicated matter. For firms that maybe were once headquartered in the US and then used their UK hub to do business in Europe, the supervisory conversation would have been fairly straightforward and bilateral. The more fragmented these structures are, and if these firms now have to establish a European hub or more than one European hub, you have immediately more complexity. Some of them then might branch back into the UK. The permutations are many, and I for one do not have great visibility on the firm-by-firm detail. I can absolutely see that the more complex the structure is, the more difficult it is to supervise effectively, and the more critical it is to have a very close relationship with the regulators in all of the relevant jurisdictions so we have the proper visibility and ability to regulate effectively.

Q36 **Charlie Elphicke:** I have just a very short supplementary to that. Will you also be very vigilant on any dodgy tier 1 capital schemes that risk weakening the prudential regulation and prudential capital side of things?

Jill May: Absolutely. I am not familiar with these schemes that you are referring to. Forgive me; can you just explain to me?

Q37 **Charlie Elphicke:** Tier 1 capital is meant to be effectively equity, but sometimes it is really debt that is characterised as equity. In those sorts of cases, really, it is not true risk money; it is ultimately repayable. It is less so now than it was.

Jill May: Yes. I do not know a great deal of detail about that, so I can certainly go away and get a better understanding. I am fairly certain not least that the larger banks are well capitalised with significant headroom at the moment. I am absolutely certain that that sort of engineering will be in our focus.

Chair: I suspect the word “dodgy” does not appear in the PRC’s handbook, but they will find a longer form of words to say the same thing Mr Elphicke just did.

Rushanara Ali: Good afternoon. First of all, congratulations. It is great to have two women giving evidence to this Committee. It feels like Christmas has come early. We are very pleased that the Treasury and the Bank have heeded the Chair’s remarks previously, when we had a stream of men—very good, impressive men—coming through.

Chair: They were still men.

Q38 **Rushanara Ali:** Yes. Thank you for what you have said so far. I just wanted to touch on a couple of quick points in relation to Charlie’s questions and your answers. You mentioned that some of these figures were on the more pessimistic or extreme end. Where would you place the cost dimension to a no-deal Brexit in terms of your assessment? Obviously those figures have come from the Treasury, but also certain members of the Bank of England. The Governor has been quoted over the summer saying at the worst end, house prices in a no-deal scenario would be going down by a third. We all hope that that is not the case. Where would you put those numbers?

Jill May: I find it very difficult to judge what the right level of impact would be. You only have to read the paper and you get such different assessments from respected organisations, whether it is the Bank or various statistical authorities. I just do not know the answer. As I say, I am naturally probably less of a pessimist. Clearly economic growth has already slowed and there have been impacts in investment and probably house prices, but it is quite difficult to disaggregate some of these trends and say, “That is Brexit”, “That is trade concerns”, or whatever it might be.

Q39 **Rushanara Ali:** There are specific costs that are associated with Brexit. There is no getting away from that, is there?

Jill May: There are potential job losses, clearly. There is an impact on business confidence. There could be an impact on sterling. There are

many different potential consequences. What I do not feel able to do is necessarily crystallise those and put those in a sort of Brexit impact bucket, because there are so many other influences that might determine how the UK performs going forward.

Q40 Rushanara Ali: You described earlier UBS's own experience of what happened in the banking crisis. Obviously, the confidence in the banking sector still remains shaken by that experience for the very reasons you set out and the fact that the austerity programme has gone on for a decade as a consequence of the banking crisis. Now we are going to see some of the costs of Brexit—those that are known costs as well as unknown costs—that are going to be borne by the taxpayer—things that we could have spent on alternative services.

Given the context of your own experience being very involved at UBS on the women's network and promoting diversity, how confident are you that you can change the culture of the banking sector to be much more forward thinking and actually improve equality, particularly gender equality but also equality across the board? How confidently do you feel that the culture has changed, the institutions are much more receptive to change, and actually we can see progress rather than having to wait another generation before things really improve?

Jill May: Can I tackle that just primarily on your diversity point? In terms of general culture, some great strides have been made, particularly at the senior management level. That should cascade down into the roots of the organisation, although culture change takes time. It is terribly important that at every level, the same values are pressed down. In terms of diversity, I was the chairman of the women's group at UBS for five years until I left in 2012. I have to say it was an uphill battle, and my experiences chimed very much with the findings of the Treasury Committee report and the Virgin Money report.

In short, there were virtually no women at senior levels, and those who were tended to be in HR or parts of the organisation that were probably less respected. There were very few frontline women. There were a multitude of causes. What was quite clear was that nowhere in the organisation would anyone recognise that the decisions they were taking on promotion and recruitment were anything other than meritocratic. There was no deliberate bias, but it was a matter of unconscious bias and recruiting in one's own image. As a consequence, we had an astonishingly leaky pipeline and virtually no women. I do not even know what the statistics were, but probably 11% or 12% at senior levels. It is a far cry from where we are now.

Rushanara Ali: Except that the hourly fixed pay for women in UBS in 2017 was 31% lower than for men. There is a bigger trend, as you can see, in terms of the pay audit and so on. In our own experience, when our Chair asked for the banks that had not responded, some of them wrote—BNP Paribas Personal Finance, BUPA, Coventry Building Society, PIMCO, and others—asking why they should do this. That says a lot about the culture. They have now done it.

Chair: Some of them.

Q41 **Rushanara Ali:** Some of them; not all of them. My question is really about looking forward in terms of your new role. How will you challenge the PRA executive team to deliver on diversity objectives, but how will you ensure that the banking sector takes this seriously, and that if they do not show results and address this pay gap, there will be consequences? How is that message going to be got across so that there are results, instead of women in society continuing to be patronised and excuses being made even when it is in business interests?

It is rational to do it, it is more profitable to have more diversity, and it is right to eliminate discrimination whether or not it is called unconscious bias, which I think is a euphemism, frankly, for indirect discrimination against women but other groups too. How will that happen? All of us have been involved in this debate for a long time across different sectors. We have seen some progress, but it is not really enough, is it, given the statistics?

Jill May: Having struggled for five years, I failed, in spite of every persuasive effort, to really move the needle, because it was just not prioritised. We had countless management changes, and even if the guy at the top at one time said it was important, it soon became relegated when there were a lot of other problems to deal with. Just looking at UBS, it and many other organisations really have come a long way in five years or whatever the period is. I hear what you say about it not being where we need it, but the pace of change, from my point of view, is really encouraging.

That has been driven in very significant part by this gender reporting, whether it is reporting on targets you set for women or on the pay gap. That really focuses the mind, and that means it has to be taken seriously at the most senior parts of the organisation and at board level. To my mind, reporting on pay gap and gender targets is the single most important thing that we can do. I was heartened that UBS have actually just joined the Women in Finance Charter since 2018. If you will forgive me, I did reach out to one of my diversity colleagues at UBS to find out if anything had changed, in anticipation of this question. I quote: "A great deal has changed there. Massive top management focus on diversity, including gender equality. There are numerous business-led initiatives to get a proportional number of women at all levels. It is now a formal part of promotion and recruitment".

Q42 **Rushanara Ali:** Is there a percentage or number?

Jill May: I do not know what their target is. I am trying to say that it takes time; you cannot suddenly produce gender equality at an organisation that probably had 10% of senior women.

Q43 **Rushanara Ali:** On pay, has there been a change? Did you get anything?

Jill May: The gender pay gap is really a reflection of there not being enough women at senior levels.

Rushanara Ali: It is interesting that even within a year, if the concentration is there, then actually you can make progress. I just have

one final question. You are absolutely right: lots of progress has been made. But it is like pulling teeth, frankly, as you know from your own experience and others know. Where is the pressure going to come from to make that big leap to address the pay gap over the next five to 10 years? How will you use your position to make your mark in order to ensure that this is driven through and people are all on the same page in getting the result required? Frankly, if men in leadership positions discovered men who were not being paid equally in this sector, they would probably not be as patient as the women in financial services have been. I suspect that patience will run out at some point, as we have seen in the BBC in the high profile cases.

Jill May: Can I give you a couple of examples? I used to lead with this when trying to persuade my male colleagues that this had to be taken seriously. It was no good putting it in the fluffy category; this had to be driven as a business imperative because it was going to create better results, and the McKinsey evidence is incontrovertible. With luck, this additional gender representation, and indeed diversity beyond gender, will result in the businesses and companies that adopt these making real progress.

Q44 **Rushanara Ali:** What are you going to do specifically? That is what really matters here. You have a huge leadership role.

Jill May: I will do whatever it takes and whatever I can within the Bank, where, actually, by the way, there has been some very good progress; I know we are a little short of our target of 35%, but that still seems to me good progress. I am happy to use my position, whether it is with the various employee networks we have or whether it is very much demonstrating that women can achieve a great deal even at my rather advanced stage in life. There is an ageism thing here as well. Women in their 50s can have career changes and leadership positions. I will lead by example. Equally, I would be really interested to do what I can and be an evangelist in financial services firms.

Q45 **Rushanara Ali:** The men are going to be made to get with the project.

Jill May: Absolutely. In short, I am an optimist and I am happy to do what I can.

Q46 **Stewart Hosie:** On diversity, I agree with everything you have said, but of course diversity is about more than gender. I am looking at your CV: economics at a decent university, Warburg, UBS, on the council of the National Trust, at the CMA, Governor at Wellington College, and then a nice little collection of non-executive portfolios at the end with Sirius, J.P. Morgan, Ruffer Investment and so on. It is not very diverse; it is conventionally successful. Let me ask you: should you be the last person appointed to the PRC with such a non-diverse CV?

Jill May: I am going to do my best to do a good job on the PRC. My CV might overstate my conventional credentials in that my family actually live in Dorset, I was brought up in the country, my brother is a farmer, and my other brother runs a small business. I do not come at this from a big business or particularly conventional lens. I am very focused on the

issues not least of consumers and financial firms outside of London, where two-thirds of financial services employees reside.

I do not look at this just through a City lens. It may all look conventional, but I have experience on the council of the Durham University not least, where we are very focused on trying to broaden access and ensure that we are not just a home for privileged children. My husband ran a charity that seeks to employ ex-offenders and chairs an academy school in a particularly disadvantaged part of London. I like to think actually that more broadly I have a perspective that my CV does not necessarily illustrate.

Stewart Hosie: That is very helpful. Thank you.

Q47 **Mr Clarke:** Climate change.

Chair: A handbrake turn.

Mr Clarke: Yes. I normally practice my questions and find a clever segue from a previous topic, but I cannot. You identify climate change in your questionnaire as a core financial and strategic risk, which is absolutely right. In terms of how that manifests itself, obviously we do not know the full effects of climate change. They are as yet unknown, although we have a sense of the broad parameters. How does that affect the PRA's ability to accurately assess the potential impact on the soundness of business models given that the risks themselves are unknown?

Jill May: It is a very good question. It is early days, but it has been established that climate change is increasingly seen as a financial risk and could therefore pose safety, soundness and financial stability problems if it is not addressed early and a proper framework for assessment put in place. You know more about it than I do, but it is not just the physical risks; it is also the risks to assets and lending for assets that may suffer from the transition to a low carbon economy, whether that is investments in diesel cars or mortgages to buy-to-let homes on flood plains or have the wrong EPC ratings. There are plenty of examples of how this might just come home to roost and have a real impact on financial stability.

We have done a certain amount of work on the insurance sector. There was a review done in 2015, and climate risks were included in the 2017 insurance stress test. This year, we have just started to engage more fully with companies in the banking sector as to the financial risks. The review is going on as we speak as to the financial risks, which will examine the full suite of impacts and the various different sorts of climate-change-related problems. We are due to be setting out our supervisory expectations in this regard later in the year.

It is also worth saying that clearly this is an international problem, and it is very important that we use best practice internationally and engage with international fora to make sure we have the best possible information. The Governor, as you know, is very focused on this. We participate in the Network for Greening the Financial System, which looks to share thoughts on the best way of mitigating these risks, and indeed

on the Task Force on Climate-related Financial Disclosures, which is another really interesting piece of co-operative work, given, as I mentioned with gender, the importance of full disclosure that can itself drive awareness.

Q48 Mr Clarke: How do you go about seeking that external advice? I quite appreciate you are consulting with the Bank of Canada, say, about the lessons they have learned. From the climate specialist sector, do you have experts you go to? I am trying to understand how you garner the awareness, because obviously it is fragmented.

Jill May: I believe the Bank is working with certain climate specialists on this, but I do not know the detailed answer to your question.

Mr Clarke: It would be quite interesting if you could write to give us a sense of it. That would be helpful.

Jill May: I am very happy to do that.

Q49 Mr Clarke: You talked earlier about the fact that gender at some points by some people has been seen as a fluffy issue. Climate change probably falls into that same category; it is seen as a "nice to have" rather than a financial necessity. That has been brought into some context by the fact there has been the issue with ClientEarth, which has taken three large insurers, Lancashire, Admiral and Phoenix, to account over the fact that in their 2017 annual reports they made no reference whatsoever to climate as a factor. ClientEarth are then working on the basis that this is actually negligent. What is your take on that assessment?

Jill May: I do not know the specifics of the cases you are talking about, but, as I mentioned at the start, climate change is clearly seen as a core financial risk. It is not any longer in the CSR bucket, and it must be properly analysed, assessed and reported on. I would really like to come back to you, if I may, on the detail of our work on this area.

Chair: Thank you very much indeed for your time this afternoon. We are very grateful to you for the evidence. We will obviously consider our report on your appointment, but I am sure we wish you very well for the future. Thank you.