



Four core elements of risk management

Verena Ross
Director of Strategy & Risk
Financial Services Authority

Foundation of Science & Technology
9 May 2007

Introduction

Four core elements of risk management ...

- Risk-based
- Evidence-based
- Principles-based
- Practicalities of risk-based regulation

Underpinning the above ...

- Measuring outcomes

Foundation of Science & Technology
9 May 2007

A broad range of Statutory Objectives

Financial Services and Markets Act (2000)

- **market confidence:** maintaining confidence in the financial system;
- **public awareness:** promoting public understanding of the financial system;
- **consumer protection:** securing the appropriate degree of protection for consumers; and
- **the reduction of financial crime:** reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

Principles of Good Regulation

In pursuing our functions under FSMA, we are required to have regard to additional matters that we refer to as 'principles of good regulation'. These are:

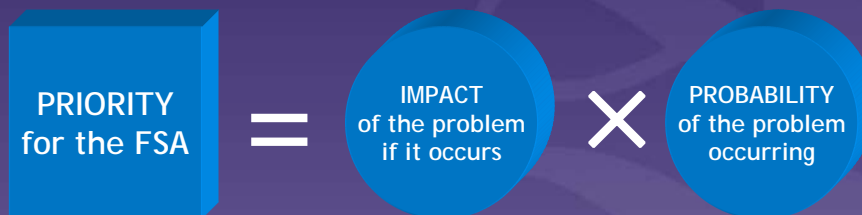
- Efficiency and economy
- Role of management
- Proportionality
- Innovation
- International character
- Competition

Four core elements of risk management

- Risk-based
- Evidence-based
- Principles-based
- Practicalities of risk-based regulation

How do we measure risk?

Combination of quantification and judgment



Non-Zero Failure & Risk Appetite

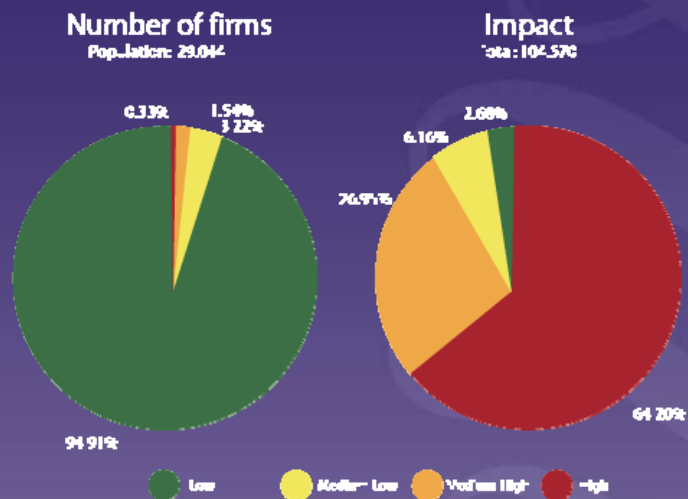
Non-Zero Failure ...

We do not seek to eliminate risk entirely, rather we seek to act only where our actions produce an outcome that does not impose prohibitive costs on the industry and consumers.

Risk Appetite ...

As the FSA accepts it can never remove risk entirely from the financial system, it regularly reviews how much risk it is prepared to tolerate.

FSA Firms Portfolio



Four core elements of risk management

- Risk-based
- **Evidence-based**
- Principles-based
- Practicalities of risk-based regulation

Four core elements of risk management

- Risk-based
- Evidence-based
- **Principles-based**
- Practicalities of risk-based regulation

Four core elements of risk management

- Risk-based
- Evidence-based
- Principles-based
- **Practicalities of risk-based regulation**

Growing complexity of markets and risk

- Globalisation of financial markets and infrastructure
- Dominance of global firms
- Sophistication of financial products
- Regulatory change
 - International (BaseI)
 - EU
- Consumer capability and vulnerability
- Changing nature of financial crime

Measuring regulatory outcomes

Strategic Aim	Indicator Number	Definitions
Help retail consumers achieve a fair deal	1	Consumers receive and use clear, simple and relevant information from the industry and from us
	2	Consumers are capable and confident in exercising responsibility when dealing with the financial services industry
	3	Financial services firms treat their customers fairly and so help them to meet their needs
Promote efficient, orderly and fair markets	4	Firms are financially sound and well managed
	5	Firms and other stakeholders understand their respective responsibilities and mitigate risks relating to financial crime and arising from market conduct
	6	Financial markets are efficient, resilient and internationally attractive
Improve our business capability and effectiveness	7	The FSA is professional, fair, efficient and easy to do business with
	8	The FSA is effective in identifying and managing risks to our statutory objectives
	9	The costs and benefits of regulation are proportionate