

Financial Services Trade Associations Review

Next Steps

July 2015

Disclaimer

This document presents an update on the progress of the Financial Services Trade Associations Review following the release of an initial consultation document in January 2015¹. It does not present an evaluation of the legal, regulatory and related implications, if any, of the assessment and ideas presented in this paper. Legal, regulatory and related implications will be evaluated in detail as part of a due diligence process.

¹ Rethinking the UK financial service trade association landscape (www.tradeassociationsreview.com)

The organisations

The organisations referred to in this document are listed below:

Trade associations

ABFA	The Asset Based Finance Association
AFME	The Association of Financial Markets in Europe
BBA	The British Bankers' Association
BSA	The Building Societies Association
CML	The Council of Mortgage Lenders
EBF	The European Banking Federation
FLA	The Finance & Leasing Association
IA	The Investment Association
IMLA	The Intermediary Mortgage Lenders Association
LIBA	The London Investment Banking Association
PUK	Payments UK (formerly the Payments Council)
SIFMA	The Securities Industries and Financial Markets Association
TISA	The Tax Incentivised Savings Association
UKCA	The UK Cards Association
WMA	The Wealth Management Association

Others

PA	UK Payments Administration Ltd
FCA	Financial Conduct Authority
FSCS	Financial Service Compensation Scheme
PRA	Prudential Regulation Authority
PSR	Payments Systems Regulator

Table of contents

Disclaimer	2
The organisations	3
Table of contents	4
Table of Figures	6
Table of Tables	6
Foreword	9
Executive summary	11
1 Formal responses to the January document	15
1.1 <i>Introduction</i>	15
1.2 <i>Consultation process</i>	17
1.3 <i>Assessing the status quo</i>	17
1.4 <i>Case for change</i>	17
1.5 <i>Scope of the review</i>	17
1.6 <i>Objectives of a trade association</i>	18
1.7 <i>Solutions proposed in the January document</i>	19
1.8 <i>Practical issues</i>	22
1.9 <i>Summary</i>	22
2 Evidence from key external stakeholders	23
2.1 <i>Introduction</i>	23
2.2 <i>What the trade associations do well</i>	24
2.3 <i>How the trade associations can improve</i>	24
2.4 <i>Summary</i>	26
3 The cases for and against change, and related challenges	29
3.1 <i>Introduction</i>	29
3.2 <i>The cases for and against change – overview</i>	29
3.3 <i>Potential benefits to members of increased scale and scope</i>	30
3.4 <i>Risks and potential disadvantages to members of increased scale and scope</i>	32
3.5 <i>Market forces</i>	34
3.6 <i>Related challenges</i>	34
3.7 <i>Summary</i>	35
4 Commonality of interest and scope	37
4.1 <i>Introduction</i>	37
4.2 <i>Commonality of interest</i>	37
4.3 <i>Sources of common interests in financial services</i>	37
4.4 <i>How retail and commercial focused are the original nine trade associations?</i>	40
4.5 <i>Additional trade associations for consideration</i>	42
5 Models for change	45

5.1	<i>Introduction</i>	45
5.2	<i>Model A - enhanced coordination</i>	45
5.3	<i>Model D - full integration under the maximum scope</i>	50
5.4	<i>Model C - integration to create a largely retail and commercial banking focused association</i> .	51
5.5	<i>Model B - integration to create a retail and commercial banking focused trade association</i>	52
5.6	<i>Summary of models for change</i>	53
6	Designing an organisation to achieve optimal balance	55
6.1	<i>Introduction</i>	55
6.2	<i>Purposes</i>	55
6.3	<i>Attributes</i>	57
6.4	<i>Organisational design to deliver the purposes</i>	62
6.5	<i>Summary</i>	65
9	Evaluating the models	67
9.1	<i>Introduction</i>	67
9.2	<i>Evaluation of the models</i>	68
9.3	<i>Summary</i>	69
10	Practical implications of merging/creating a new trade association	71
10.1	<i>Introduction</i>	71
10.2	<i>Continuity of service</i>	71
10.3	<i>Staff and pensions</i>	72
10.4	<i>Premises</i>	72
10.5	<i>Operational Issues</i>	72
10.6	<i>Legal/Contingent liability</i>	73
10.7	<i>Governance</i>	73
10.8	<i>Communications</i>	73
10.9	<i>Brand</i>	74
10.10	<i>Management of operational responsibilities</i>	74
10.11	<i>Summary</i>	74
11	Next steps	77
11.1	<i>Introduction</i>	77
11.2	<i>Questions for response</i>	77
11.3	<i>Next steps</i>	78
	Appendix 1: The January document	79
	Appendix 2: Models for change	84
	Appendix 3: Trade associations in other countries	87
	Appendix 4: Stated purposes, objectives, or similar of a number of trade associations within the sector	89

Table of Figures

Figure 1: Responses by theme and by respondent type.....	16
Figure 2: Concerns relating to scope by respondent type	18
Figure 3: Comments relating to representation by respondent type.....	22
Figure 4: Range of common interests that could be covered by the review.....	40
Figure 5: Overlap of membership between key trade association groups.....	42
Figure 6: Overlap of membership IA, WMA and TISA.....	43
Figure 7: Models of coordination.....	45
Figure 8: Model A - under maximum scope.....	46
Figure 9: Model D - full integration under the maximum scope	50
Figure 10: Model C - integration to create a largely retail and commercial banking focused trade association.	51
Figure 11: Model B - could be used as an interim step if consensus for integration cannot be achieved .	52
Figure 12: An illustration of the design of a trade association under Model C or Model B	63

Table of Tables

Table 1: Number of responses by type of respondent	15
Table 2: Recurring themes from formal responses	15
Table 3: Additional objectives and guiding principles for a trade association suggested by respondents	19
Table 4: The main arguments put forward by respondents in favour of Model C	20
Table 5: The main concerns put forward by respondents regarding Model C	21
Table 6: Summary of views from external stakeholders	23
Table 7: Overview of key financial services sectors.....	38
Table 8: Retail and commercial proportions of the original nine trade associations' membership bases	40
Table 9: Other trade associations to be considered.....	42
Table 10: Overview of key financial services sectors.....	44
Table 11: Model A – mechanisms for enhanced coordination	49
Table 12: Proposed core purposes of a trade association in the banking and financial services sector....	56

Financial Services Trade Associations Review: Next Steps

Table 13: Potential key attributes for a trade association in the financial services sector 58

Table 14: Key attributes for a trade association in the financial services sector 67

Table 15: Summary of models 69

Table 16: Questions for response 77

Foreword

In May 2015 a steering committee of the heads of ten retail and commercial banks in the UK² asked me to lead a small team examining the effectiveness of the financial services trade association landscape operating in the UK, and whether it could be improved. Our remit is to provide an independent assessment of what steps may be taken to achieve this aim, considering the views of as many interested parties as possible and taking all views and perspectives into account.

This document is the next step in this process. It draws on the original work of the steering group, the formal responses received to the consultation document³ published in January 2015, and discussions that I and my team have had with many people and organisations. During its production we have met and spoken to organisations from across the sector, including:

- 21 banks (large retail, investment/wholesale, small, private and challenger);
- 23 trade associations;
- 10 monoline consumer finance businesses/merchant acquirers/payment schemes;
- a series of current and former representatives of key external stakeholders (PRA; FCA; PSR; HM Treasury; Department for Business, Innovation and Skills; the Bank of England; the Banking Standards Board; the City of London Police; and Parliament); and,
- a number of expert commentators.

I am personally committed to ensuring that this review adheres to the principles of openness, transparency and wide engagement. We will maintain these principles as we continue to work with a broad range of stakeholders.

I am clear that the debate must now move forward from the January document, while recognising that developing consensus is critical to the chances of successful change. We have made significant strides forward in the last ten weeks, but there is still more ground to cover. That is why, while this document provides materially revised proposals, we have not at this stage reached a definitive recommendation to the industry.

This document presents a series of new proposals and we now seek views and evidence from interested parties to assist our analysis. We look forward to robust and thought provoking contributions from across the sector. If you would like to take part in this debate please send your responses by email to feedback@tradeassociationsreview.com by 5pm on 30th September 2015⁴. The feedback we receive will

² The ten included a building society and are Barclays, Clydesdale Bank & Yorkshire Bank, The Co-operative Bank, HSBC, Lloyds Banking Group, Nationwide, RBS, Santander, TSB, Virgin Money. Unless specifically stated 'banks' also includes building societies throughout this document

³ *Rethinking the UK financial services trade association landscape*, 2015, www.tradeassociationsreview.com

⁴ Anyone wishing to respond but who feels they will have difficulty in meeting this deadline should let the review team know using the feedback@tradeassociationsreview.com email address or via our website at www.tradeassociationsreview.com.

Financial Services Trade Associations Review: Next Steps

inform further dialogue which I hope will allow us to build a consensus on both the best model for financial services trade associations, and the best way of proceeding to that goal. We would like to publish responses to this document. However, if you would like your contribution to be excluded and kept completely or partially confidential, please make this clear in your response.

The financial services industry contributes a huge amount to the UK, and its voice needs to be heard clearly, but also regarded as a constructive participant in a wider debate. I hope that this document and the continuing work of the review team will contribute to this.

Ed Richards, 16th July 2015

Executive summary

The January consultation sought to establish whether the effectiveness and efficiency of the financial services trade association landscape could be improved as the industry faces the challenges of regulatory change, rebuilding public trust and significant new market developments. It focused on nine existing trade associations and proposed for consultation three possible models for change.

Forty formal responses were submitted from a range of trade associations, their members and other interested parties. There was a consensus that there is an opportunity to improve the current arrangements, but some disagreement on how to go about it and on the merits of each model. Concern was expressed about the right scope for consideration and about the risks to effective representation of diverse and small players under an integrated model. Respondents also highlighted practical obstacles to reform, such as risks to existing work and the costs of change.

We have subsequently collected evidence from policy makers, regulators and others to assess the current effectiveness of the financial services trade associations. These stakeholders were complimentary about trade associations' technical advice and expertise, and about trade associations' handling of a number of recent issues. However, they identified a real opportunity for improvement. The key areas where our interviewees suggested improvements are in coordination; weight of voice; quality of policy engagement; ability to operate as a fully effective conduit for a complex sector; and in offering a greater strategic, as well as, operational focus.

This evidence creates a strong prima facie case for change. Equally, it is important to examine the question from first principles. Choosing the right scale and scope of activity is critical to optimising the value of a trade association's work for its members. There are a range of likely benefits that may arise from integration and some potential dis-benefits. On balance, we believe that there are considerable benefits available from increased scale and scope (such as greater weight of voice, visibility and access to senior stakeholders) but that these need to be weighed against identifiable risks (including the risk of loss of voice for small and niche organisations or loss of agility). Many of these issues are linked to the central question of what is the common interest among members and how cohesive is it?

In order to be successful a trade association must bring together members with a strong underlying common interest. If a membership base's interests are too diverse it will result in member dissatisfaction and fragmentation. While a larger trade association may bring the opportunities to capture additional benefits it may also risk stretching the underlying common interest too far.

There are four financial services sectors that could be considered for this review: retail and commercial banking; wealth and asset management; investment/wholesale banking; and insurance. We believe including insurance would stretch the underlying common interest between members too far, whilst also making it harder to implement any agreed changes. Instead any reform should concentrate on the retail and commercial banking sector, which was established as the central common interest in the previous consultation paper. In addition we also consider how best to treat the wealth and asset management sector and investment/wholesale banking.

We have analysed the membership bases of the nine trade associations that were identified in the January document⁵, to see what proportion of their membership base consists of retail and commercial banks:

- A significant proportion of the CML, IMLA, PUK and UKCA members are retail and commercial banks. These members are likely to share a strong common interest on matters relating to the retail and commercial banking sector.
- The BBA has a diverse membership base, a third of which are retail and commercial banks. But wealth and asset managers and investment/wholesale banks have told us that they value highly being part of a cross-sector trade association and this should therefore be an important consideration in any reform of the trade association landscape.
- The proportion of ABFA and FLA members who are retail and commercial banks is smaller, raising questions about their suitability for integration with a retail and commercial banking focused trade association.
- The membership of TISA and the WMA is even more diverse and lies even more outside of retail and commercial banking. As a result there are serious reservations about seeking to include them in a banking focused trade association.

We have identified two further trade associations and one company that could also be considered for inclusion in the review.

- The BSA's members have a distinct business model and legal status but operate very firmly in the retail and commercial banking sector.
- The IA represents investment managers and may have synergies with other trade associations in the wealth and asset management sector.
- The PA provides services mainly to UKCA and PUK.

We have revised the original models presented in the January document, in line with our analysis:

- **Model A** has been updated to reflect cross-sector coordination between retail and commercial banking, wealth and asset management and investment/wholesale banking. We propose mechanisms for enhanced coordination.
- **Model B** has been updated to represent a clear retail and commercial banking focus, with integration between the BBA, PUK, UKCA, PA, CML and IMLA only, while also representing a UK voice for investment/wholesale banks and with a capability in wealth and asset management.
- **Model C** now represents an integrated largely retail and commercial focused trade association with a capability for representation of wealth and asset management and a UK focus for investment/wholesale banking. The ABFA, FLA and BSA are now included for consideration, but the

⁵ Asset Based Finance Association (ABFA), British Bankers' Association (BBA), Council of Mortgage Lenders (CML), Finance and Leasing Association (FLA), Intermediary Mortgage Lenders Association (IMLA), Tax Incentivised Savings Association (TISA), Wealth Management Association (WMA), Payments UK (PUK), UK Cards Association (UKCA).

IA, WMA and TISA remain independent, albeit with a role for improved coordination where appropriate.

- **Model D** has been introduced to show a model of maximum integration across all three sectors, including the three additional organisations under consideration.

If a more integrated trade association is created, clarity of purpose and thoughtful organisational design will be critical to ensure that potential benefits are secured and that risks are mitigated. We consider how a more integrated trade association would need to strike a number of balances inherent in representing a wide range of members' interests such as ensuring the voices of both small and large members are heard, balancing executive autonomy with member control in fast moving situations, and balancing the interests of members against the need to work collaboratively with government and other key stakeholders.

Any successful trade association must be clear about its core purposes. We have reviewed the existing financial services trade association landscape and propose nine possible core purposes. We then consider what the characteristics of a world class trade association might be. In order to develop a clear sense of what might be achieved by any reform we identify 15 attributes of an effective trade association and outline the kind of organisational design which might support these aspirations. These purposes and attributes represent a proposed template for best practice and will assist evaluation of alternative models.

We do not make a final recommendation between the revised Models A, B, C, and D described above. However, in order to advance discussion we have made a provisional assessment of these alternatives. This suggests that each model represents a real opportunity to deliver enhanced benefits for members and more effective trade associations. However, Model A may be limited in the extent to which it can deliver the full range of enhanced benefits, while Model D may stretch the underlying common interest among members too far to be consistent with an effective and responsive organisation. At present, and subject to the responses we receive to this document, our initial assessment is that Models B and C are most likely to offer the right balance between securing enhanced effectiveness while minimising the risks associated with increased scale and scope. We look forward to receiving comments on this preliminary view.

The additional benefits that may be delivered from any structural reform must be weighed against the costs of delivering that reform. There are a number of practical issues which also need to be fully considered should any integration proceed. These include: continuity of service; staff; premises; operational issues; legal status and other legal matters; governance; communications; brand; and management of operational responsibilities. The most critical of these relate to the people currently employed in the relevant trade associations and lie in ensuring that they are able to continue to focus on the valuable work they are already doing.

The review team will immediately begin work on the next phase. This will include continued engagement; a cost benefit analysis; more detailed analysis of the practical implications and development of a potential timeline for change. We will also continue to consider refinement to scope, alternative models for change and organisational design in line with responses we receive.

Financial Services Trade Associations Review: Next Steps

There are six questions to which we are seeking feedback:

Q1. Do you agree with our assessment of the benefits and risks of increased scale and scope?
Q2. Have we identified the underlying common interests which are likely to support an effective trade association?
Q3. Do you agree whether the revised models present the most sensible options for consideration?
Q4. Are there any other purposes or attributes that an effective and efficient trade association should seek to achieve?
Q5. Recognising that we do not have a detailed cost-benefit assessment at this stage, in principle, which is(are) your preferred model(s) and why?
Q6. Are there any further practical implications which should be highlighted for more detailed consideration in the next phase of this review?

In order to help shape the direction of this review interested parties are invited to respond with their comments on the questions in this document by 5pm on 30th September 2015, by emailing feedback@tradeassociationsreview.com.

1 Formal responses to the January document

1.1 Introduction

- 1.1.1 This chapter reports and summarises the comments that have been presented by respondents to the January Document. We summarise the January document in Appendix 1. Forty formal written responses to the January document were submitted from various interested parties. For the purposes of analysis we have sorted respondents into seven broad categories, based on their primary UK offering. The split of responses is set out in Table 1.

Table 1: Number of responses by type of respondent

Category	Number of responses
Major retail banks	6
Investment/wholesale banks	7
Other banks (including small, private, and challenger)	3
Trade associations	10
Monoline consumer finance businesses and merchant acquirers	7
Other	7
Total	40

- 1.1.2 Most respondents submitted their responses in confidence, therefore this section provides a flavour of the responses without direct attribution⁶. Some respondents gave direct answers to the questions posed by the January document. However, the majority did not, and instead provided a narrative covering their particular areas of concern or interest.
- 1.1.3 The comments provided in the consultation responses suggest a number of recurring themes which fall into two broad groups, strategic/governance and operational, summarised in the following table.

Table 2: Recurring themes from formal responses

Strategic/Governance	
Trust and reputation	Industry-wide reputational issues and stakeholder trust
Standards	Setting and enforcing standards across the industry
Market and competition	Supporting a healthy market, including research
Customer	How trade associations promote the customer interest
Policy	The formulation of industry-wide policy
Representation	Communication and engagement with government/regulators/media/public on behalf of members
Scope	Which sectors/organisations should be included in the scope of the review or the possible outcomes of the review/any ultimate solution?
Governance	Organisational structure, board composition, voting rights etc

⁶ The January document told respondents that, "Individual responses to this consultation will be kept confidential and a summary of responses, including anonymous quotes, will likely be published."

Operational	
Innovation	The promotion of innovation in processes, systems, products etc
Best practice	The optimisation of activities and sharing of best practice between members and elsewhere
Technical	Technical expertise, education and training
Coordination	Issues surrounding coordination/duplication of activity between different trade associations
Cost	The costs of today's landscape, any new structure, and the costs of implementation

1.1.4 Figure 1 summarises the comments by theme and type of respondent. While an inexact science, we have found grouping comments into these themes helpful in giving a sense of the most prevalent concerns and by whom these have been raised. For instance, it is clear from Figure 1 that many more comments were raised in respect of the scope of the review, and proposed solutions, by the seven investment/wholesale banks, than any other respondent type. This was also an important theme for the monoline consumer finance businesses and merchant acquirers.

1.1.5 Representation was also an area of major discussion for many of the respondent groups, in particular the ten trade associations.

1.1.6 Somewhat surprisingly issues relating to trust and reputation were raised comparatively infrequently compared with other areas of concern. This is possibly because such issues are taken as read.

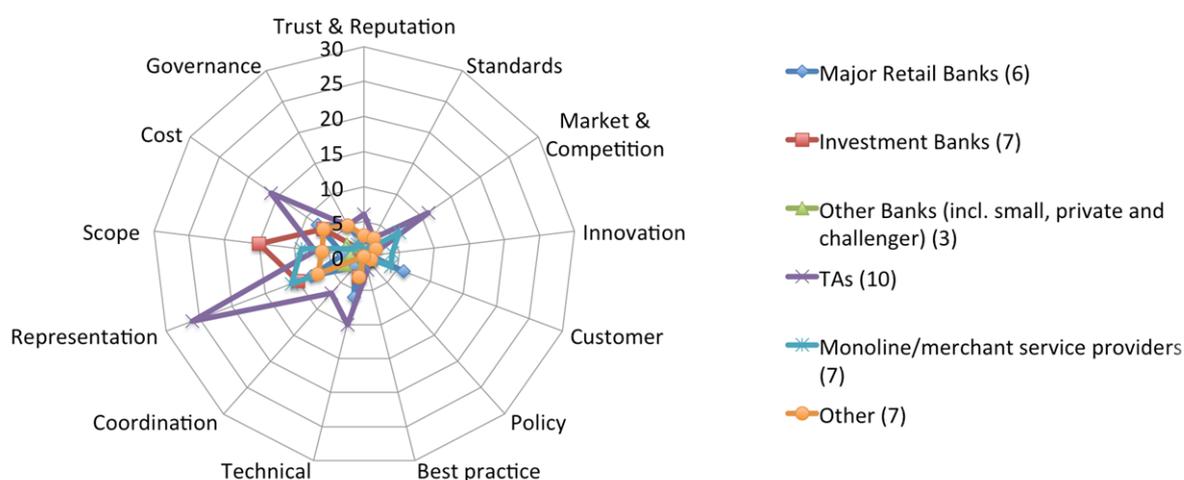


Figure 1: Responses by theme and by respondent type

1.1.7 The responses to the January document can be summarised under seven topics, as follows.

1.2 Consultation process

- 1.2.1 While many respondents welcomed the opportunity to debate the issues raised by the January document, a number of respondents voiced concerns about the process leading up to its publication. These comments largely focused on an apparent lack of transparency surrounding the process and took the view that it was being driven by the major retail banks, with insufficient input from elsewhere. There was a particular concern that no monoline consumer finance businesses appeared to have been given the opportunity to influence the proposals in the January document.

1.3 Assessing the status quo

- 1.3.1 In response to questions raised in the third section of the January document (*Context: the need for change*) respondents almost across the board accepted that there is potential for increased coordination and would welcome improved effectiveness and efficiency of trade associations. Areas noted as having particular room for improvement were engagement with the European Union and coordination on public policy and government affairs. However, a small number of banks and non-banks were positive about the status quo. Four banks felt their needs are currently met effectively. Similarly, four trade associations argued that they are already successful in cooperating with other trade associations and avoiding or minimising duplication. A number of examples of such activity were cited, particularly in the mortgage and payments sectors.

1.4 Case for change

- 1.4.1 Some respondents felt that the analysis presented was not detailed enough for them to provide a meaningful assessment of the options. Two respondents in the cards and merchant acquiring fields commented that the document failed to make the case for change.
- 1.4.2 There was also a feeling that the high-quality work done by trade associations in the current landscape, particularly in relation to coordination and the avoidance of unnecessary duplication, was not sufficiently acknowledged.

1.5 Scope of the review

- 1.5.1 Figure 2 demonstrates the concern amongst some respondents regarding the scope of the review. The need for clarification of the scope was particularly felt by the seven investment/wholesale banks. Concern was also expressed by the seven monoline consumer finance businesses and merchant acquirers, and the ten trade associations.
- 1.5.2 There were significant nuances within the responses. Some respondents felt the scope of the proposed changes was too narrow and ignored important market sectors. Others felt that the scope was too wide and that their particular sector would be better served by a dedicated sector-specific trade association.

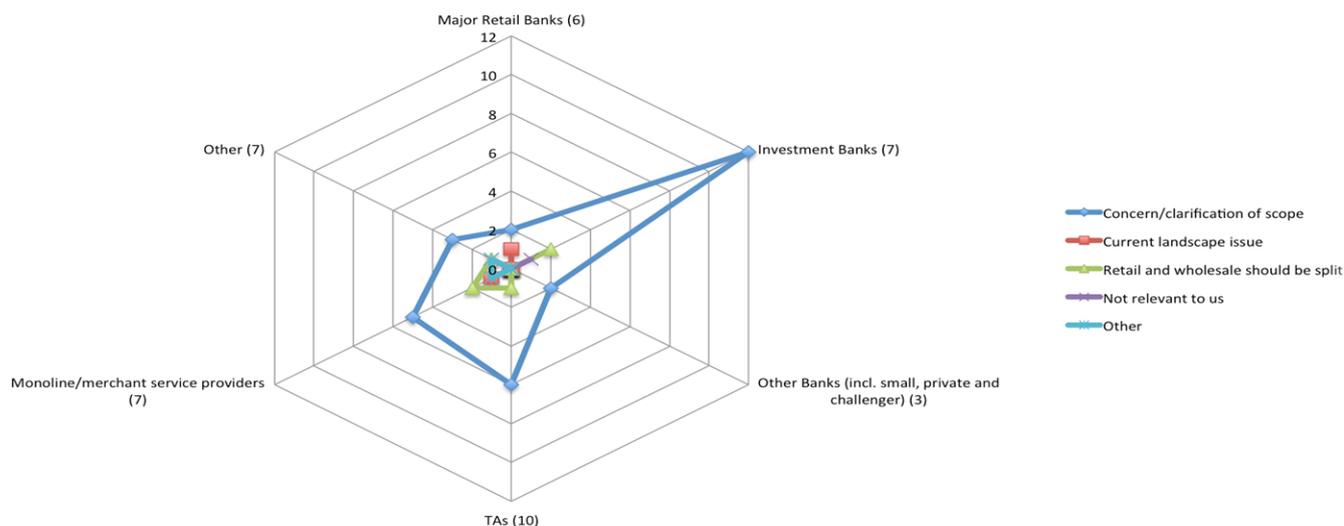


Figure 2: Concerns relating to scope by respondent type

- 1.5.3 Questions were raised about the selection criteria for the group of nine trade associations cited as ‘in scope’ in the January document. One respondent suggested that the selection of this particular group was illogical and another felt it was arbitrary. Another respondent, from one of the trade associations classified as ‘in scope’, argued that, as most of its members are not involved in traditional banking activities and operate in specialised areas, the review was not directly relevant to it at all.
- 1.5.4 A small number of respondents suggested that, rather than a new single entity (as in Model C), two new entities should be created with a split in coverage between retail and investment/wholesale. One respondent suggested this as a reflection of the way the Financial Conduct Authority (FCA) divides its policy coverage, and another suggested it in light of the Vickers reforms.
- 1.5.5 Evidently, the scope of this review and any proposed solution is an area of significant complexity and concern. We have considered this issue in detail in Chapter 4.

1.6 Objectives of a trade association

- 1.6.1 Section 4 of the January document (*Looking to the future*) proposed a set of generic objectives for the UK trade association landscape (set out in Appendix 1 of this document) and invited comment.
- 1.6.2 Most who commented on this area considered the objectives to be sensible. However, there was some discussion as to whether the list identified represented “ways of working rather than objectives”. A distinction was drawn between ‘what’ a trade association is there to do and how well it does these things.
- 1.6.3 Respondents suggested a number of further objectives, along with more general guiding principles. These are set out by theme in Table 3. In this phase of the review we have given further consideration to the question of what a high-performing trade association should deliver for its members. This is discussed in detail in Chapter 6.

Table 3: Additional objectives and guiding principles for a trade association suggested by respondents

Theme	Additional objectives proposed in responses
Trust and Reputation	<ul style="list-style-type: none"> • Management of reputational risk • Improving trust • Promotion of the image and reputation of the industry
Standards	<ul style="list-style-type: none"> • Setting and enforcing standards • Raising standards
Market and Competition	<ul style="list-style-type: none"> • Provision of industry-wide research and data • Making the market function well • Reducing barriers to entry • Fraud prevention • Promotion of associated markets • Engagement with trade associations from other industries • Promotion of competition • Networking
Innovation	<ul style="list-style-type: none"> • Thought leadership • Promotion of innovation
Customer	<ul style="list-style-type: none"> • Focus on UK business and personal customers • Customer education and communications • Promotion of positive consumer outcomes • Ability to build consumer interests into policy processes – i.e. facilitating a dialogue with consumer groups
Policy	<ul style="list-style-type: none"> • Forum for policy formulation
Best practice	<ul style="list-style-type: none"> • Identification and promotion of best practice
Technical	<ul style="list-style-type: none"> • Technical expertise and collaboration • Provision of education and training
Representation	<ul style="list-style-type: none"> • To be member driven • Inclusivity • Stakeholder engagement • Balance between EU and domestic policy debates • To influence government and commentators • Interaction with regulators
Governance	<ul style="list-style-type: none"> • One member one vote • Promotion of good governance • Focus and simplicity rather than overstretching
Cost	<ul style="list-style-type: none"> • Value for money

1.7 Solutions proposed in the January document

- 1.7.1 The January document presented three potential models for a more effective trade association landscape. Comments from respondents on these models are summarised as follows:
- 1.7.2 **Model A** (*maintain current landscape and enhance coordination*): There was a small amount of support for Model A. Those who did express support suggested enhancements, for example; the creation of a series of crosscutting steering and working groups; or collaboration between existing trade associations on a project-by-project basis – described by one respondent as “collapetition” – i.e. collaboration and competition. Support came mainly from

respondents who felt this was a less risky and less costly option, or who were concerned about being relatively excluded under Model C. One of the trade association respondents reported the absence of a strong appetite for change within its membership.

1.7.3 **Model B** (*integrate trade associations operating in similar domains*): The bulk of the support for this model was concentrated within the group of investment/wholesale and other banks, with a small number of trade associations also voicing some support. Two of those in favour of Model B sought the preservation of the BBA as an influencing factor, others viewed it as an improvement on the status quo while being less risky than Model C, particularly in the short-term.

1.7.4 **Model C** (*create single trade association representing retail, consumer finance, wealth and commercial banking*): This was the preferred model put forward in the January document, and as such attracted most comment overall. Support was concentrated among the major retail banks. There is broad consensus on this proposal within each type of respondent. But there was disagreement between the different groups:

- Major retail banks – broadly supportive, subject to further analysis.
- Investment/wholesale banks – either felt under-represented in Model C or that they should be separately represented.
- Other banks (including small, private and challenger banks) – concerned about speed of change and representation; tended towards Model B.
- Trade associations – broadly unsupportive or silent on the topic.
- Monoline consumer finance businesses and merchant acquirers – broadly unsupportive.

1.7.5 The main arguments made in favour of Model C, and set out in Table 4, tended to echo those made in the January document. Most supporters cited the benefits of a single authoritative voice and single point of contact for policy makers and regulators as a key consideration. The opportunity to improve customer trust and broader reputational issues were also central to their views.

Table 4: The main arguments put forward by respondents in favour of Model C

Theme	Comments made by respondents
Trust and reputation	<ul style="list-style-type: none"> • Clean break with historical reputational issues • Opportunity to rebuild customer trust
Customer	<ul style="list-style-type: none"> • Better reflects the way customers view financial services
Innovation	<ul style="list-style-type: none"> • Enables cross-industry responses to technological change
Technical	<ul style="list-style-type: none"> • Technical expertise of product/segment councils could inform coordinating council
Coordination	<ul style="list-style-type: none"> • Increased coordination
Representation	<ul style="list-style-type: none"> • Single, authoritative voice could strengthen influence

1.7.6 The main concerns regarding Model C are set out in Table 5.

Table 5: The main concerns put forward by respondents regarding Model C

Theme	Comments made by respondents
Trust and reputation	<ul style="list-style-type: none"> • Reputational risk should not be concentrated in one organisation • Some firms may be uncomfortable coexisting with others from a reputational perspective
Market and competition	<ul style="list-style-type: none"> • Reduced competition amongst trade associations is undesirable
Innovation	<ul style="list-style-type: none"> • Reduced innovation
Technical	<ul style="list-style-type: none"> • Loss of technical expertise • Loss of talent
Coordination	<ul style="list-style-type: none"> • Implementation of Model C is not necessary in order to improve coordination
Representation	<ul style="list-style-type: none"> • Issues of inclusivity for small/emerging/wholesale/foreign/non-bank/niche organisations • Over generalisation and dilution of messaging • Loss of voice • Risk of splinter groups • Loss of senior level engagement • Alienation of people who currently sit on trade association boards or are otherwise significantly involved
Scope	<ul style="list-style-type: none"> • Not clear regarding solution for international/investment/wholesale banks or for niche, monoline, merchant acquiring and emerging providers
Governance	<ul style="list-style-type: none"> • Increased complexity • Governance structure would unduly favour the major retail banks • Confusion on ownership of issues between coordinating councils and product/segment councils
Cost	<ul style="list-style-type: none"> • Timing, impact and cost of transition • Disruption at a time of regulatory change

1.7.7 Respondents raised concerns about potential risks to effective representation posed by Model C, and the most common arguments against Model C were those related to representation. There was a high level of concern about representation among investment/wholesale and other bank respondents as well as monoline consumer finance businesses and merchant acquirers.

1.7.8 There was also significant concern about how diverse interests might be represented effectively by a single body without the risk that communications and representation would become bland and diluted. A number of respondents suggested that smaller members may feel under-represented and hence form splinter groups, undermining the proposed model.

1.7.9 Figure 3 below shows the distribution of comments on representation by type of comment and by respondent type. By far the most common issue raised was the perceived representational risk posed by Model C, as shown by the blue line. Respondents across all categories recognised this risk, but it was clearly of particular concern to the ten trade associations who raised the matter 17 times between them.

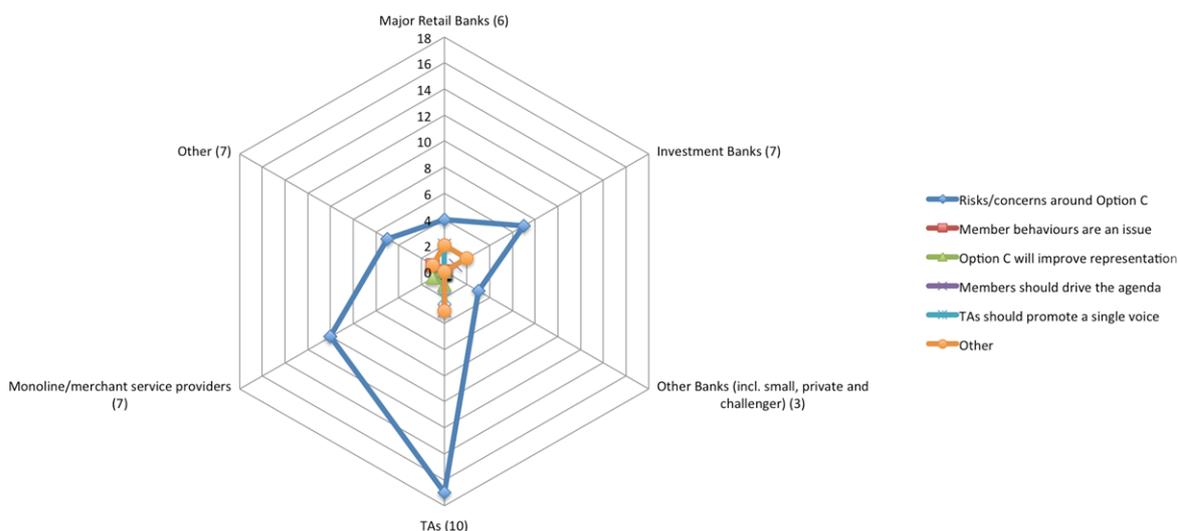


Figure 3: Comments relating to representation by respondent type

1.7.10 Section 4 of the January document also sought feedback on the governance and membership structures proposed for Model C. Most respondents focused on the wider question of the feasibility of Model C as a whole, rather than on the specifics of its internal design. The concerns raised largely focused on the level of autonomy of the proposed product/segment councils from the coordinating council, and the differing levels of influence between general and focused members. We reflect on this set of issues in Chapter 6.

1.8 Practical issues

1.8.1 Respondents across the board have also highlighted a number of practical obstacles to restructuring the trade association landscape. These include the cost implications of dealing with existing liabilities such as any pension fund deficits were these to crystallise, office leases and staff contracts. Concerns were also raised in respect of contingent liabilities such as those relating to on-going regulatory investigations, especially those involving the BBA and LIBOR, and how these would be addressed.

1.8.2 Aside from cost issues, many respondents raised concerns about timing. The principal concern was the disruption any restructuring may cause at a time of significant regulatory change. These are important considerations, and we discuss them in this document in Chapter 8.

1.9 Summary

1.9.1 The consultation responses demonstrate widespread acknowledgement that there are opportunities for the improvement of effectiveness and efficiency in the sector. However, there is disagreement about the way in which to achieve this, and some significant concerns of principle and practicality need to be resolved.

2 Evidence from key external stakeholders

2.1 Introduction

- 2.1.1 The key external stakeholders for the trade associations are regulators and policy makers, including both government and non-government agencies. At the time of writing we have completed the majority of a series of meetings with these stakeholders, which will continue through the summer. So far we have spoken to senior representatives or recent former senior employees of the PRA, FCA, PSR, HM Treasury, Department for Business, Innovation and Skills, the Bank of England, the Banking Standards Board, the City of London Police, and Parliament. We have also spoken to several individuals with considerable experience and expertise in the field and in the media. By the end of the summer we will also have met more interested parliamentarians and representatives of the EU. Participants in our discussions spoke confidentially, but very candidly, and we are grateful for their time and support.
- 2.1.2 External stakeholders gave wide ranging views and the key points are summarised in the Table below. They provided examples of what financial services trade associations are doing well, as well as what was being done less well. On balance, virtually all external stakeholders thought there was significant room for improvement.

Table 6: Summary of views from external stakeholders

What trade associations do well	How trade associations can improve
Technical expertise is valued	Greater focus on strategic matters is essential
Trade associations can be a good vehicle to communicate with the industry	More effective 'reach' across banks is required
Mixed views on duplication of representation*	More evidence-based representation
Some trade associations have built considerable trust and credibility	Greater consideration of policy effects on the end consumer and the wider economy
There is considerable expertise and talent in many of the trade associations	Greater speed and agility
	Proposing solutions rather than describing objections
	Better stakeholder management and avoidance of overpromising
	Greater sign-posting e.g. stakeholders have a single 'go-to' contact
	Representation that is not based on the lowest common denominator
	Maintain trust and confidentiality at all times

*However, stakeholders often said this was because they would "not bother with" smaller trade associations.

- 2.1.3 Several external stakeholders made the parallel point that trade association members need to improve their own conduct in order to rebuild trust in the sector. Some also stated that members need to give trade associations greater access to senior management in order to improve representation on matters of strategic importance.

2.2 What the trade associations do well

- 2.2.1 Technical expertise in trade associations is highly valued by all stakeholders, who find it especially helpful to deal with specialists who are involved in an issue day-to-day. A number of associations were cited as being helpful on technical consultations. Those trade associations with a good reputation for technical expertise are consistently engaged by stakeholders to provide technical input to policy detail.
- 2.2.2 At the same time the stakeholders are, on the whole, indifferent to the source of technical expertise, and are equally happy to deal with trade associations or directly with members. Trade associations can either provide specialist expertise themselves, or direct enquiries to the most suitable person from among their members: “it is technical expertise that we value, we don’t mind where it comes from.” Indeed, many banks make unilateral representations to stakeholders on both technical and other matters alongside their trade associations. While in some cases this may undermine trade association activity, stakeholders tend to find unilateral engagement helpful and efficient.
- 2.2.3 Trade associations can be useful to stakeholders as delivery vehicles. As well as advising a stakeholder on how a policy might be received and how best it might be implemented, a trade association's network can also distribute information and communicate with the industry. These functions can be used by stakeholders to great effect. However, not all stakeholders agreed on this point, and some criticised the ability of the current trade association landscape to deliver this function: “there is no clear transmission mechanism from the trade associations to the banks, even for matters of clear public interest.”
- 2.2.4 A number of trade associations were named as having good, trusted, and fruitful relationships with stakeholders. One example cited was collaborative work between the CML and a regulator on interest-only mortgages. They jointly collected data and ran a marketing campaign. The regulator told us that, “collaboration over mortgages was very good and productive for both sides.”
- 2.2.5 Most of the stakeholders we spoke to did not hold strong views on how the trade association landscape is organised, only that there is significant scope for improvement. They see it as a matter for the industry itself to determine. However, there was a consensus that in any reorganisation the retention of technical expertise is paramount.
- 2.2.6 Some stakeholders said that they had not necessarily suffered from duplicate representation or overlap from different trade associations. However, this may be explained by the fact that most stakeholders we spoke to are, or have been, very senior and only tend to deal with the larger more well-known trade associations and were not aware of others. Indeed the point can be illustrated by one senior interviewee involved in banking and financial services in Parliament who told us that he could not name another trade association apart from the BBA.
- 2.2.7 A more common concern was that fragmentation limits the sector’s ability to offer a strategic view; to reach across a range of areas and to present a voice which is of sufficient weight and clarity. Stakeholders said that the more fragmentation there is among trade associations, the less visible they are and the less influence they have.

2.3 How the trade associations can improve

- 2.3.1 There were a number of comments made that policy support could be improved by being more evidence based. Examples were given where a trade association had approached a

policy maker with a proposal, but they had been unable to support it empirically. This makes it difficult for the policy maker to act on the proposal. “It is helpful when they give us evidence to back up their views, but they all struggle to do this. This makes it difficult for us to work out how to address their concerns.”

- 2.3.2 Stakeholders told us time and again that member engagement in trade associations is insufficiently senior and too operational at present. This compromises trade associations’ strategic input. One stakeholder told us that, “the problem at the moment is that the conversation is all about widgets and not enough about strategy” and another said, “trade associations are missing an opportunity for strategic input.” For engagement to be strategic, we were told, it must be at a more senior level: “getting things done is really hard because the trade associations don’t have traction and they can’t reach the most senior people. X is a good example of where strategy is separate from operations. They absolutely need to come together.”
- 2.3.3 The more trade associations there are, the harder it is for stakeholders to engage with them all. As a result, some stakeholders choose not to bother. Many stakeholders want to be able to call one 'go-to' trade association who can put them through to the right person, especially those operating at a strategic level. One stakeholder observed that he had to talk to a series of different people to deal with one particular issue and was left feeling frustrated with the lack of coordination and silo mentality he had encountered. Another stakeholder said, “it’s incredibly hard to engage with the sector compared to the X and Y sectors. I can’t engage at all on a cross-banking basis, it’s limited in what it can do because of fragmentation. We need a better single point that can reach into and across banking.”
- 2.3.4 Trust is critical for effective cooperation between trade associations and stakeholders. Stakeholders need to be able to rely on the confidentiality of sensitive discussions; the risk of leaks is a significant consideration. One told us that they had experienced a leak following a conversation with a trade association and as a result stopped using that trade association, to the detriment of both its members and the stakeholder. However, once a trade association has developed a good reputation with stakeholders, the relationship can be invaluable to both parties. The AFME was identified several times as a trade association with a good reputation for analysis and for integrity, with which policy makers can have trusted conversations at a senior level: “AFME is completely non-leaking”. While we were given a number of positive examples in this area, the general view was that there is room for improvement.
- 2.3.5 We heard frequently that in attempting to reflect the views of all members, many trade associations face a real challenge in avoiding the risk of presenting a lowest common denominator view: “the more general a trade association’s view the less valuable it is”. Furthermore, it can take trade associations so long to canvass members’ views that the policy debate moves on and the opportunity for input is missed. This has created some sharp opinions: “I can’t think of anything over the last two or three years which would have been different had there not been trade association X”.
- 2.3.6 Equally we heard that some associations appear to find it hard to present a stance which goes beyond a straightforward interpretation of their members’ interests. We were told by one interested party that the input into policy making from a particular trade association was so predictable in its representation of a narrow industry interest that it often went unread. In these circumstances stakeholders prefer to engage directly with members.

- 2.3.7 Trade associations need more speed and agility to be effective policy partners with governments, legislators and regulators: “trade associations have to be one step ahead of the political mood if they want to have influence”. One stakeholder told us, “trade association X has been carried along by the tide as opposed to promoting change. The process of engagement is too slow. Therefore we tend to use them more as a communication mechanism than a policy making partner.”
- 2.3.8 One of the reasons suggested for this slow pace was that trade associations often have to go back and forth between stakeholders and members to secure agreement and cannot make prompt executive judgements. In some cases trade associations have over-promised to stakeholders: “being in a position to strike a balance between being an effective policy partner with government and delivering to members requires honesty with government about what they can deliver and what they cannot. The government does not appreciate trade associations over-promising then going back on their promise when their members put their foot down.”
- 2.3.9 We were told that trade associations often present objections to policy proposals without suggesting solutions. A number of our interviewees suggested that trade associations could improve their effectiveness and credibility by presenting stakeholders with constructive solutions, going with the grain of the policy agenda, rather than presenting objections. For example, when one major bank approached the government about cheque imaging they had a specific and detailed proposal of what was needed and how to do it. This helped the government to achieve one of its own policy goals and was implemented in a matter of weeks. Although this was an individual bank, it was suggested that if trade associations operated closer to this model they would be more effective.
- 2.3.10 We heard consistent and strong encouragement for trade associations to take a wider view of their industry’s role in society. One interviewee said that trade associations often failed to strike a balance between promoting members’ interests and the public interest. He said that while the government was trying to handle crises in the banking sector, trade associations were only willing to talk about the effects on the sector itself, and not on the wider economy or society. Another told us, “a trade association which can root its arguments in the customer view will have more impact.”
- 2.3.11 On issues of industry reputation and public trust, it was recognised that there is a limit to what trade associations can achieve alone: “the issue is not the messenger – if the big banks are on the back foot that then they can’t influence policy.” Stakeholders told us that the industry will only re-establish its credibility through raising its standards of conduct and that, while trade associations would and should play an important role in this, the conduct of members was more fundamental.
- 2.3.12 We heard repeatedly from trade associations that getting the trade association landscape right is only part of the solution. Member engagement is just as important, including how members work with their trade associations to get the most out of them. This was supported by stakeholders. One in particular told us about his experience of members “fighting competitive battles through their trade association” and thus weakening its influence.

2.4 Summary

- 2.4.1 The evidence we have gathered from stakeholders so far contributes to the case for change. Whilst we have tried hard to present the evidence in a balanced way, interested parties should

be left in no doubt about the improvement their external stakeholders believe is both possible and necessary.

3 The cases for and against change, and related challenges

3.1 Introduction

3.1.1 The previous chapters have outlined the areas in which participants and stakeholders in the financial services industry believe the existing trade association landscape could be improved, and indicates an impetus for change. This chapter focuses on the potential benefits and risks of a more integrated landscape.

3.2 The cases for and against change – overview

3.2.1 Broadly, trade associations in financial services are currently divided into two groups: large scale associations with a broad scope of involvement across the sector, such as the BBA and the FLA; and smaller scale, more narrowly focused associations, such as the IMLA and the UKCA.

3.2.2 Scale and scope are critically important in terms of optimising value to an association's members. Increasing the scale and/or scope of a trade association has the potential to deliver considerable benefits to members, such as delivering gains from synergies that will improve the overall organisational effectiveness, and by reducing the cost base through economies of scale and scope.

3.2.3 A trade association with increased scale and scope could present important opportunities for the sector:

- Better coordination, integration and effectiveness with external partners.
- Greater weight of voice, visibility and access to senior stakeholders.
- Ability to speak with a single unified voice for the industry, where appropriate.
- Ability to offer a range of perspectives, when helpful.
- Policy synergies between products/segments.
- A more attractive place to work for scarce talent.
- Reduced costs through economies of scale and scope.
- Streamlining the use of senior management time within member organisations.

3.2.4 It is important to note that should benefits that relate to greater effectiveness for members be realised, these are also likely to improve the experience of key stakeholders as well. This would result in a virtuous circle of greater favourability and sense of partnership with the trade association, and with members and industry in general.

3.2.5 However, alongside the potential benefits there are also risks. That is, after a certain point the value to members of the trade association may diminish as it increases in scale or scope. These dis-benefits would primarily be experienced in terms of reduced quality of output or effectiveness, rather than increased costs, given the relatively small scale of trade associations collectively.

3.2.6 The specific risks that arise with increased scale and scope in this instance are:

- Role of the association becomes poorly defined or vague;
- Loss of productivity, agility or speed of response;
- Poor quality or bland representation;
- Loss of voice for small or niche organisations;
- Loss of technical expertise in specific areas; and,
- Lack of transparency regarding use of resources and value for money for members.

3.2.7 Should these risks materialise and affect the experience of the key stakeholders, there is clearly the risk of a further deterioration in the quality of these relationships.

3.2.8 The question of the costs of change is a material consideration. We consider the complexity of this and the issues that will need to be addressed in Chapter 8. However, we need to separate these issues from the fundamental questions of principle governing the cases for and against change. Detailed consideration of the costs of any change will be undertaken in the next phase of the review.

3.3 Potential benefits to members of increased scale and scope

3.3.1 This section sets out the potential benefits that we would anticipate arising from consolidation within the trade association landscape in more detail, with some examples and evidence given to us during the course of our work where helpful.

3.3.2 **Promote better coordination, integration and effectiveness with external partners.** Improved coordination was identified by many respondents to the January document, and by many stakeholders in interviews, as a potential benefit of integration. The reduction or removal of organisational boundaries, and the reduction of competitive behaviour between trade associations, should improve coordination in terms of information sharing and decision making.

3.3.3 There is no doubt that some significant instances of policy overlap (and/or coordination) exist. For example:

- The fact that payments may be the legitimate subject of policy statements by all three of the PUK, UKCA and the BBA.
- The BBA has a Private Banking, Wealth Management Group, which is attended by the WMA, in the interests of coordination.

3.3.4 However, we note that some trade associations already make considerable efforts to ensure that coordination on such matters is as effective as possible. It has been recognised that coordination already takes place in many areas, with some success. The BBA has successfully coordinated some tricky policy debates on behalf of the industry. For example, it successfully lobbied in concert with other interested trade associations against EU plans to force banks to repossess the houses of mortgage borrowers who were more than 90 days in arrears. The mortgage default limit was eventually agreed to be 180 days.

3.3.5 Anti-money laundering activity is an example of a truly crosscutting industry issue where coordination appears to be working reasonably well. The Joint Money Laundering Steering Group, for example, is made up of 18 trade associations including those in the retail and

commercial sector as well as wholesale, and wealth and asset management. It provides coordination across sectors to address a common interest.

- 3.3.6 Nevertheless, the costs associated with such coordination would be likely to be reduced in an integrated entity; as would the risk of stakeholder confusion.
- 3.3.7 A number of respondents to the January consultation felt that integration of the trade association landscape is not necessary to promote better coordination. We consider this position in some detail when we review alternative models of change in Chapter 5.
- 3.3.8 **Bring greater weight of voice, visibility and access to senior stakeholders.** A larger trade association covering a greater scope of activities is likely to have a higher profile amongst stakeholders. Its ability to speak on behalf of many may add weight to its position. Stakeholders told us that the more trade associations fragment around specific products or interests the less influence they have, and the less visible they are to government and regulators. Some stakeholders believe trade associations are currently fragmented and weak. In these circumstances stakeholders would be more likely to approach members directly, disempowering the trade associations.
- 3.3.9 It is worth noting that where a product is a niche or specialist one, then it maybe that only a few policy makers or regulators are interested in the area, and that engagement may take place at a level below the most senior staff in a particular agency or department. This is not necessarily an argument for a niche trade association, but is certainly an argument for retaining niche skills and expertise.
- 3.3.10 **Permits the industry to speak with a single unified voice.** The ability of the industry to speak with a single unified voice when required is a valuable attribute when seeking to engage with certain key stakeholders. It should also enable more efficient dialogue through provision of a single point of contact in fast moving situations.
- 3.3.11 Some key stakeholders value a smaller number of 'go-to' organisations when looking for industry views. The CBI feels that its ability to speak with one voice is very important.
- 3.3.12 **Permits a greater range of perspectives to be offered.** The ability of the industry to provide a range of perspectives when required is also highly valued by some stakeholders. One trade association told us that politicians prefer to attend market-wide events where they can hear a range of views from a cross-section of people, rather than to attend specialist events with a single homogenised view. This was echoed by other stakeholders who told us that they value a range of views and would not want a single broadly-scoped trade association unless it could deliver this variety.
- 3.3.13 A well-managed and well-designed trade association should be capable of speaking authoritatively on pan-sectoral issues, such as public trust and standards, while at the same time convening groups and offering perspectives which reflect differences as well as agreement among members.
- 3.3.14 The crucial point is to be capable of achieving the benefits of a broadly-based underlying common interest without seeking to eliminate differences in perspective. On the contrary, differences in view on specific issues within a fundamentally coherent association should be regarded as a strength.

- 3.3.15 **Allows policy synergies across products/sectors to be realised.** In an integrated trade association, the reduction or removal of organisational boundaries should permit the cross-pollination of work across products, such as credit cards and unsecured personal loans, and between different sectors, such as retail banks and card issuers. This should result in more rapid progress and more effectiveness across the board. Examples might be structural reform, financial crime and fraud, and issues of corporate governance.
- 3.3.16 **Makes trade associations more attractive to scarce talent.** Several commentators indicated that the most important element of the best trade associations is their people. Government stakeholders explicitly told us that they tend towards the trade associations they perceive to be well resourced, with highly capable and professional individuals. They also told us that they consider strong leadership to be critical. We heard from several observers that a more integrated trade association would attract more talent and present an opportunity for existing talent to flourish in the context of a broader remit.
- 3.3.17 A larger trade association with broader scope, and access to senior member executives and stakeholders, would be a more attractive place to work than one without these career development opportunities. On the other hand we have been warned about the risk that structural reform poses in terms of the potential impact on existing talent.
- 3.3.18 **Promotes opportunities for economies of scale and scope, resulting in reduced costs.** Increases in efficiency, can typically be gained from increasing volume of the same activity, and/or by increasing the volume of different activities - in other words by broadening the scope of activities.
- 3.3.19 At present the number of staff allocated to specific issues varies significantly from trade association to trade association. However, under an integrated body, there would be opportunities to reconsider the overall scale and mix of resources.
- 3.3.20 We note that several trade associations already seek to reduce overall costs to members by sharing back office functions, for example, UKCA and the PUK, and, IMLA and CML.
- 3.3.21 **Streamlining the use of senior management time within member organisations.** A larger trade association with better coordination and information sharing should result in a benefit arising within its member organisations in terms of management time. This theme has surfaced on numerous occasions during meetings with member organisations. One bank told us that they had had to invest a lot of time in encouraging trade associations to talk to each other regarding a significant regulatory issue, and that this was highly inefficient, primarily because of the misuse of their own senior managers' time.

3.4 Risks and potential disadvantages to members of increased scale and scope

- 3.4.1 As these arguments make clear there is much to be gained through integration. However, these potential benefits need to be set against the risks associated with such an increase in scale and scope. These are important considerations that must be aired, partly because they may provide sufficient reason to decline a proposed integration and partly in order to identify the risks that would need to be mitigated should integration be the preferred solution. This section addresses the potential risks and disadvantages of increased scale and scope in turn.
- 3.4.2 **The role of the organisation becomes poorly defined or vague.** There are currently highly varied views on what constitute the objectives, or purposes, of a trade association.

- 3.4.3 We were told in interviews that an excessively broad scope can mean the organisation loses sight of its core purposes, and that there may be functions that trade associations should even refuse to perform, such as operational matters.
- 3.4.4 **Productivity, agility or speed of response are lost.** Speed and agility are seen as crucial by a number of stakeholders. A large trade organisation may end up with too much bureaucracy, or with an over-extended span of managerial control. It may also end up needing to consult constantly with a diverse membership. These issues will all result in slow decision making. Some stakeholders already view existing larger trade associations as unresponsive, leading them to bypass the association and contact members directly.
- 3.4.5 **Tendency towards blandness.** A broadly-scoped trade association with a diverse membership, some of whom are likely to have diverse and competing interests, could end up defaulting to a 'lowest common denominator' view. This risk was raised by a number of respondents to the January document, as well as by interviewees in this phase of work. An example external to the UK was given of the European Mortgage Federation, which we were told is excellent technically, but which struggles to produce a single voice because it has diverging views across 28 countries. Some stakeholders feel that the BBA can suffer from this as well.
- 3.4.6 **Smaller or niche organisations and sectors lose their voice.** There is a risk that a broadly-scoped trade association, limited in its capacity to accommodate the competing interests of some of its members, will favour the position of the major members, who pay a greater share of the association's subscription income, or who generate a greater share of the trade association's activity. This concern has been raised several times by many contributors. Some feel that trade association policy and engagement is already too strongly influenced by the largest banks.
- 3.4.7 **Technical expertise is lost.** There is a risk that technical expertise is lost as pools of experience become more distant from the leadership of the organisation. A number of stakeholders have expressed concern that highly valued technical expertise at both larger and smaller trade associations should be protected in any reform. An example is the work done to combat fraud by UKCA. This is highly valued and has resulted in the UK leading the world in some areas such as chip-and-pin. It is worth noting that a number of commentators felt the BBA was strong in a variety of technical areas.
- 3.4.8 The FCA is an example of a key stakeholder that values highly the deep technical expertise held in a number of trade associations and expressed concern that such expertise should not be lost.
- 3.4.9 **Use of resources and value for money is less transparent.** Broadly-scoped trade associations are likely to attract members who have different degrees of interest in the suite of services provided. Large trade associations often differentiate between members, therefore, when setting their fee structures. This always needs to be managed carefully to prevent different members feeling that others are getting a better deal, both in terms of cost and deployment of resources.
- 3.4.10 Both trade associations and members have raised the question of value for money. Some members feel the current distribution of member fees do not fairly reflect the level of benefit that they derive from the services provided. Others have raised the issue of fee structure in the context of any proposed reform, and the importance of ensuring that value for money for

members is clear. The key point for present purposes is the risk that in a trade association of greater scale and broader scope this may be a sharper concern. Equally, any economies of scale and scope which arise should offer comfort.

3.5 Market forces

- 3.5.1 As well as the risks posed above from increased scale and scope, some contributors objected to any planned integration of the trade association landscape on the grounds that this should be left to market forces. Their argument is that if members were not satisfied with the current arrangements they would simply cease to be members. Similarly, in this way successful trade associations will ultimately grow and take over poorly performing ones.
- 3.5.2 While this is a seductive argument, and one with some merit, it overstates the case. The pure 'laissez-faire' doctrine of trade association evolution fails to account for the real set of considerations facing a typical member. In reality the choices are between leaving or seeking to influence a trade association's activity and performance by expressing views within the organisation. Both these options are seen through the prism of the members' loyalty to the association and its purpose, which may be very strong. A variety of behavioural responses are possible (and rational) including exit, expressing views to promote change or even passive neglect while retaining membership.⁷

3.6 Related challenges

- 3.6.1 In considering the underlying case for change it is important to recognise that trade associations often manage a number of inherent tensions, both between their members and in their role in representing their members to the various stakeholders, including government and regulatory bodies, consumers, and the wider public. The extent to which any change to the current landscape may affect the ability of the associations to strike these balances must also be considered as part of the case for and against change. These challenges are described and briefly discussed in this section.

Speaking for all members

- 3.6.2 Trade associations must speak for a wide range of members, who will often have differing interests and agendas. In the present context an issue raised consistently by commentators is the need to ensure that the voices of smaller banks, challenger banks and building societies are heard. Investment/wholesale banks have also expressed concern that an integrated trade association could be dominated by the major retail banks.

Representing members' interests while engaging with the wider public interest

- 3.6.3 Members expect their trade association to represent their interests. This can mean fighting their corner with stakeholders such as government and regulators to protect members' interests when a collective view is required. However, trade associations also need to act as trusted intermediaries with stakeholders. Governments, regulators and others expect the best trade associations to consider policy issues from a broader perspective than that of an individual member or group of members.

Retaining technical expertise while offering integrated representation

- 3.6.4 Members and stakeholders value the technical expertise of trade associations, particularly that of specialised organisations. Indeed technical expertise is the *raison d'etre* for some of

⁷ See *Exit, Voice, and Loyalty*, A. Hirschman, 1970, and subsequent literature.

the smaller trade associations. Wider representation and greater heft may be attractive but the retention of technical expertise must also be prioritised.

Balancing executive autonomy with member control in fast moving situations

3.6.5 A trade association is often required to speak on behalf of members to a range of stakeholders, including the press. With 24hour news and social media it can be vital to develop and articulate an industry position quickly and clearly, and to respond to critics in a timely fashion. Government policy can move quickly and unexpectedly at times, requiring rapid industry input.

Resource deployment

3.6.6 Inevitably different members, and groups of members, will want the trade association to focus on different issues, so resource deployment will always be a sensitive issue. This is true for a trade association of any size, but could become more problematic in a larger, integrated trade association.

3.7 Summary

3.7.1 The essence of the argument for change is that an increase in scale and scope through reform of the trade association landscape would deliver improvements both in effectiveness and efficiency. The case against is that in a larger entity there are risks of diseconomies of scope. An important backdrop to this is the series of tensions and balances that trade associations must strike in carrying out their work.

3.7.2 From the evidence we have seen and heard (from responses to the January document and our subsequent meetings with trade associations, their member organisations, other interested parties and key external stakeholders) we believe that there are considerable potential benefits available from increased scale and scope in this case. The critical question becomes whether the risks or disadvantages of increasing scale and, especially, scope, can be avoided or satisfactorily mitigated, and whether change will help or hinder striking the right balances which lie at the heart of the challenge for trade associations.

3.7.3 To move towards an answer to these questions we must consider three areas:

- What are the really key areas of common interest; the unifying interests that form the basis of any successful voluntary association?
- How do these inform our view of what the optimal scope of a trade association in this sector might be?
- And if structural reform is proposed, how should we think about designing an organisation which is capable of securing the benefits of increased scale and scope, and delivering the balances, while avoiding the associated potential risks, and what would that organisation look and feel like?

3.7.4 We consider each of these questions in the subsequent chapters.

3.7.5 As noted above, careful consideration must also be given to the costs of any change. We begin to consider this question in Chapter 8.

Question:

Q1. Do you agree with our assessment of the benefits and risks of increased scale and scope?

4 Commonality of interest and scope

4.1 Introduction

Chapters 1, 2, and 3 set out the case for change considering the evidence that we have heard and by examining the idea that moving to a more integrated landscape could create the opportunity to capture benefits, leading to increased effectiveness and efficiency. Chapter 3 noted the risk of encountering dis-benefits and how these would need to be addressed through a combination of clear organisational design and by carefully considering the scope of the organisations that may be integrated.

- 4.1.1 This chapter explains why it is essential that a trade association is built around a set of underlying common interests. Creating a more integrated trade association landscape provides potential opportunities to deliver benefits but it would also create a trade association covering a more diverse set of interests. If members' interests become too diverse, a trade association may fail to represent its membership effectively.
- 4.1.2 This chapter considers what the core set of common interests should be for this review. We consider where common interests in financial services overlap and hence provide opportunities to deliver benefits, we also consider at what level of integration interests may begin to become too diverse and thereby risks the emergence of dis-benefits. An optimal set of common interests is then used to inform which trade associations might be best considered together. Chapter 5 explains how this would be applied in alternative models for change.

4.2 Commonality of interest

- 4.2.1 In *Managing Trade Associations*,⁸ Mark Boleat examines the idea of commonality of interest; he observes that, "the members of a trade association must have sufficient common interest to hold them together". This is an important idea that we have adopted. Boleat observes that a trade association that attempts to appeal to a membership that is too broad will result in dissatisfaction amongst members and ultimately lead to the fragmentation of the association.
- 4.2.2 This is a difficult balance to strike as some members may be focused on a niche part of the market whilst other members may operate more diversified business models. Any two members may have a number of common interests where they share the same objectives (eg. a stable regulatory environment) but other interests may in fact cause the same members to disagree on matters of policy (eg. approaches to customer switching.)

4.3 Sources of common interests in financial services

- 4.3.1 The financial services industry covers a vast array of products and services, which can be grouped into a number of sectors. Firms operating within a particular sector of the financial services industry will have some common interests specific to that sector as well as common interests that are shared with other sectors. The January document established that the common interests relating to the retail and commercial banking sector would be central to this review and highlighted the opportunity to cover common interests relating to the wealth and asset management sector. Two other sectors have been suggested to us by interested parties for inclusion in this review: investment/wholesale banking and insurance. All four of these sectors are summarised in Table 7 together with the trade associations that represent

⁸ *Managing Trade Associations*, Mark Boleat, 2003, page 1

them. Trade associations that were part of the original nine identified in the January document are highlighted in bold

Table 7: Overview of key financial services sectors

Category	Customer Base	Example Products and Services	Associated trade associations
Retail banking	Mass market personal customers	Personal current accounts, credit cards, savings and mortgages. Also includes retail banking infrastructure such as payments.	BBA, CML, FLA, IMLA, PUK, UKCA, (TISA)
Commercial banking	Small and Medium Enterprises (SMEs) and large corporates	Business current accounts, small business loans, factoring and asset based finance, commercial mortgages and buy-to-let.	BBA, ABFA, FLA, CML
Wealth and asset management	Mass market personal customers and high net worth individuals	Investment products, stockbroking services and private banking services. Includes custody banks.	BBA, TISA, WMA,
Investment/wholesale banking	Large organisations accessing capital markets	Corporate bonds, government bonds, IPOs, M&A.	BBA, AFME
Insurance	Personal customers and businesses	General insurance, life assurance products and pensions.	ABI and others

Note: Retail and commercial banking are separated by a dotted line as they are distinct areas of financial services. However, as they are the central to this review they are referred to as one sector for simplicity.

4.3.2 Each sector noted above has its own range of sector specific common interests. However, there are also many examples of common interests that may be shared by two or more sectors. Examples of this include:

- Public trust and reputation;
- Professional Standards;
- Tax, accounting, and reporting; and,
- Financial Crime (e.g. Cyber-crime, money laundering).

4.3.3 The insurance sector is represented by the Association of British Insurers (ABI) and a number of other insurance related trade associations. Whilst some retail and commercial banks are members of insurance trade associations such as the ABI, their membership base is diverse. Bringing insurance into the review is likely to introduce a largely distinct set of common interests. Therefore, despite the fact that such an approach has its advocates, we are not proposing to include insurance in the review. We believe that to do so would present a clear risk of stretching the common interest too far whilst also making it even harder to implement any agreed changes.

- 4.3.4 The banking sector falls under the broad umbrella of ‘professional services’, which also covers the insurance, asset management, law and accountancy sectors. These sectors are brought together through the trade association TheCityUK, which primarily promotes their contribution to the UK economy. Given TheCityUK’s diverse membership base, it is also excluded from detailed consideration. We note that interested parties have highlighted opportunities to improve coordination between trade associations in the round and to establish a clearer delineation of respective purposes. There are also opportunities to strengthen coordination with The City of London Corporation which has three key objectives relating to attracting new business, increasing skills and employment and supporting culture.
- 4.3.5 Some interested parties have also raised the importance of delineation between trade associations representing them in the UK and trade associations representing them in the EU. There are two trade associations that were frequently discussed in this context:
- **The Association of Financial Markets in Europe (AFME)** is a pan-European trade association. It represents investment/wholesale banks primarily in relation to European policy. Given its pan-European membership, its primary focus is not the UK and is not the ‘go-to’ trade association for investment/wholesale banking policy in the UK. However, it does occasionally carry out work, such as contributing to the transposition of EU policy, at the national level in the UK and other countries.
 - **The European Banking Federation (EBF)** which brings together national banking associations, including the BBA, with the aim of creating a stronger financial services sector in the EU. It represents 32 national banking associations that in turn represent 4,500 banks.
- 4.3.6 Investment/wholesale banks have outlined to us the effectiveness of AFME in influencing EU policy and how they see it as distinct to their representation in the UK. Investment/wholesale banks have stressed the importance of retaining UK focused representation to complement their European representation; when influencing EU policy-makers, it is useful to feed in a holistic national UK view as well as the pan-European one. The investment/wholesale banks we have met with to date do not see a benefit in bringing the two together but favour enhanced coordination and establishment of clear delineation of objectives.
- 4.3.7 Similarly, the EBF influences EU policy but covers retail and commercial banking, wealth and asset management, and investment/wholesale banking by representing national trade associations across Europe. Given the vast membership base of EBF and its European focus, it is clearly out of scope. However, it is important to note since its relationship with any reformed model would be very important.
- 4.3.8 Having discounted the inclusion of European-focused trade associations, more broadly-based entities and insurance, there are three primary areas of common interest as shown in Figure 4. As established in the January document, retail and commercial banking is central to this and represents the minimum set of common interests. There is then an option to expand to cover the sets of common interests relating to wealth and asset management and investment/wholesale banking. Covering all three sectors we refer to as the ‘maximum scope’.

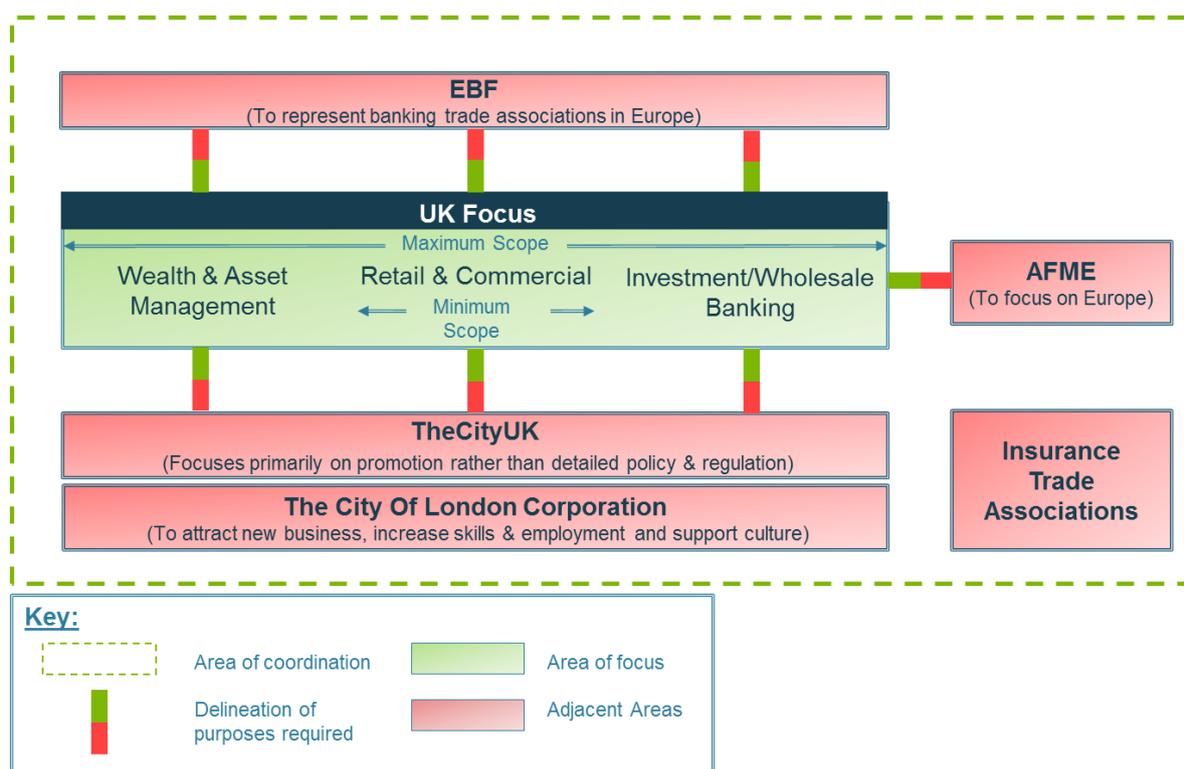


Figure 4: Range of common interests that could be covered by the review

4.4 How retail and commercial focused are the original nine trade associations?

4.4.1 The January document included nine trade associations within the scope of the review. By reviewing each of their membership bases, it is possible to establish to what degree they share a common interest relating to retail and commercial banking.

4.4.2 Table 8 summarises the analysis that we have carried out on the membership of each of the original nine trade associations. It estimates what proportion of the membership base is active in the retail and commercial banking sector as described in Table 7. For example, if a member has a business line providing retail mortgages it is classified as a retail and commercial bank. If all of a member’s business lines are outside of retail and commercial banking it is classified as a non-retail and commercial bank.

Table 8: Retail and commercial proportions of the original nine trade associations’ membership bases

Trade Association	ABFA	BBA	CML	FLA	IMLA	TISA	WMA	PUK	UKCA
R&C Proportion	50%	35%	90%	25%	95%	15%	5%	75%	85%
Total Members	46	164	126	139	29	155	106	37	31

Note: We carried out this analysis in June 2015 using member lists on trade associations’ websites, Full Members only. It is based on number of members i.e. not volume of business or any other measure.

4.4.6 A number of conclusions can be drawn from Table 8 based on four groups of trade associations:

- The CML, IMLA, PUK and UKCA all have a significant proportion of their membership bases active in retail and commercial banking. This suggests there is likely to be a substantial

common interest shared between these four trade associations and their members. It is therefore logical to explore what opportunities there are to capture any benefits between these trade associations as they are essentially retail and commercial banking focused.

- The TISA and WMA have a minority of members who provide retail and commercial banking services as the majority of their members operate in the wealth and asset management sector. This suggests bringing them together with retail and commercial banking focused trade associations would introduce a new set of common interests and raise at least some risk of excessive scope and consequential dis-benefits.
- Approximately a third of the BBA's membership base provides retail and commercial banking services. A significant proportion are wealth and asset managers and investment/wholesale banks. The BBA is an important part of this review and so despite it having only a minority of members who are retail and commercial banks, it is important to consider how this issue might be managed. If there is a desire to create a trade association landscape that focuses solely on retail and commercial banking then it would mean splitting up the BBA. However, a number of wealth and asset managers and investment/wholesale banks have stressed the need for the continuation of a core UK representation through a cross-sector organisation and that any loss of this kind would be undesirable. It is clear from our discussions that a substantial number of existing members would prefer the new landscape to include a body that covers all of retail and commercial banking, as well as having a UK voice for investment/wholesale banking and a strong capability in wealth and asset management. This is largely because many of the retail and commercial banks and private banks have operations in this sphere. We can also see the benefit of having a trade association that represents the entire UK banking sector due to the number of cross-sector common interests, such as tax and remuneration, it would be able to represent.
- Although both the ABFA's and the FLA's members provide finance to businesses, significant proportions of their membership bases are not retail and commercial banks and incorporating them into the new landscape is likely to introduce a number of members whose interests are somewhat different to those of the retail and commercial banking members. The FLA is comprised of three parts, Motor Finance, Asset Finance and Consumer Finance. The Consumer Finance element however would have a much more obvious synergy with the underlying common interests in retail and commercial banking. This would suggest that there is clear scope for considering the role of consumer finance in a reformed trade association landscape. Conversely, a number of retail and commercial banks are also members of the Motor Finance and Asset Finance parts of the FLA as well.

4.4.7 Figure 5 below illustrates how bringing together non-retail and commercial banking focused trade associations with retail and commercial banking focused trade associations would greatly expand the total membership base and therefore the range of member interests that need to be represented.

4.4.8 In Figure 5 the data shows the overlap in membership between the four groups of trade associations discussed above. Across the four retail and commercial banking focused trade associations (IMLA, CML, PUK and UKCA) there are 153 unique members. There is an overlap of 46 members between the four retail and commercial banking focused trade associations and the BBA. The majority of the 118 BBA members who are not also members of the four

retail and commercial banking focused trade associations are mainly wealth and asset managers and investment/wholesale banks. Figure 5 illustrates that membership overlap between the TISA and WMA and the four retail and commercial banking focused trade associations is very limited. It is a similar picture for the ABFA and FLA. Synergies between the WMA and TISA, and the ABFA and FLA with the four retail and commercial trade associations may be limited and risk stretching the common interest too far.

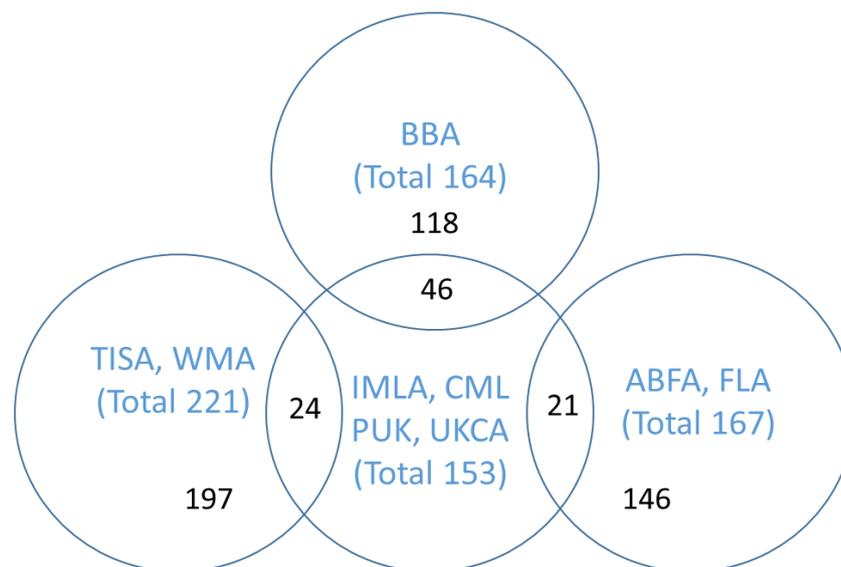


Figure 5: Overlap of membership between key trade association groups

4.5 Additional trade associations for consideration

4.5.1 Through our research and discussions with interested parties we have identified two additional trade associations and one other company as possible candidates for being brought in to consideration by the review. These are summarised in Table 9 below.

Table 9: Other trade associations to be considered

Trade associations	Purpose	Comments
Building Societies Association (BSA)	Represents 50 building societies and other mutuals.	Whilst there is a clear common interest in retail and commercial banking there is a difference in legal status and size.
Investment Association (IA)	Represents 198 investment managers.	The IA was formed from a merger of the Investment Management Association with the Investment Affairs Division of the ABI in 2014. Its members mainly 'manufacture' investment products in contrast to the WMA's members who mainly distribute investment products.
UK Payments Administration (PA)	Is not a trade association but a service company providing people, facilities and expertise to the UK payments industry.	Manages the development and launches of innovations in payments (e.g. CASS) and maintains the UK payments infrastructure.

Building Societies Association

4.5.2 All of the BSA’s 50 members operate purely in retail banking so there is likely to be a large overlap of common interests with the four retail and commercial banking focused trade associations (IMLA, CML, PUK and UKCA): 65% of the BSA’s members are also members of the CML and 20% are members of IMLA. In total, ten BSA members are members of two or more of the original nine trade associations. There may well be benefits that could accrue to BSA members from the kind of reform being considered in this review. However, it is clear that any reform would need to reflect the unique nature and needs of building societies as distinct legal entities which bring important diversity to the sector.

Investment Association

4.5.3 The Investment Association has a degree of overlap with the membership bases of the WMA and TISA. This is set out in Figure 6. There are 356 unique members between them with the most substantial overlaps being between the IA and TISA (55 members), and the TISA and WMA (40 members).

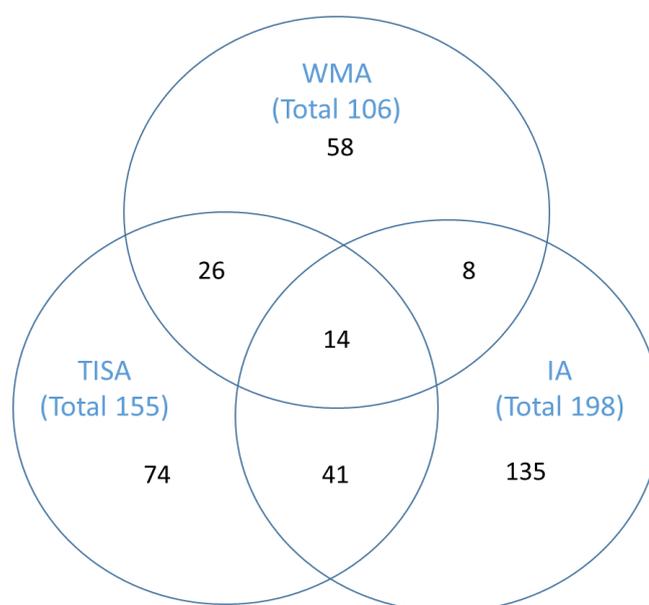


Figure 6: Overlap of membership IA, WMA and TISA

4.5.4 There may be synergies between these three trade associations, although there are distinct differences between them and their membership bases. The TISA describes itself as a not-for-profit, industry association that develops a broad range of savings and investment policies to support consumers in meeting their savings needs for all stages of their life. It covers a range of both savings and investment, whereas the IA and WMA are focused on investment.

4.5.5 The IA’s members mainly manufacture investment products and the WMA’s members mainly distribute investment products. Whilst they may share some common interests, we have also heard examples where the WMA’s members’ and the IA’s members’ interests may conflict. There is already a degree of coordination between the WMA and IA as they have open lines of communication and share best practice (for example by encouraging staff to train and job shadow at the other trade association).

UK Payments Administration (PA)

- 4.5.6 The PA is not a trade association but a company that provides human resources to the payments industry. It provides services to the PUK and the UKCA, which account for a significant proportion of its income. The PA also provides services to payments systems including CHAPS and BACS. It has c.20 shareholders who are mainly retail and commercial banks.
- 4.5.7 Previously the CEO of the PA has also been the CEO of the Payments Council (now PUK), illustrating how closely these two organisations work together. The current CEO of the PA is also the CEO of CHAPS. The PA plays a key role in payments and therefore could be brought in to consideration for the review.
- 4.5.8 Table 10 reproduces Table 7 but has been updated to include all the trade associations that could be considered as part of this review. Trade associations that were not part of the original nine identified in the January document are highlighted in bold with the PA, Building Societies Association and Investment Association now also included.

Table 10: Overview of key financial services sectors

Category	Customer Base	Example Products and Services	Associated trade associations
Retail banking	Mass market personal customers	Personal current accounts, credit cards, savings and mortgages. Also includes retail banking infrastructure such as payments.	BBA, CML, FLA, IMLA, PUK, TISA, UKCA, PA, BSA
Commercial banking	Small and Medium Enterprises (SMEs) and large corporates	Business current accounts, small business loans, factoring and asset based finance, commercial mortgages and buy-to-let.	BBA, ABFA, FLA, CML
Wealth and asset management	Mass market personal customers and high net worth individuals	Investment products, stockbroking services and private banking services. Includes custody banks.	BBA, TISA, WMA, IA
Investment/wholesale banking⁹	Large organisations accessing capital markets	Corporate bonds, government bonds, IPOs, M&A.	BBA

Question:

Q2. Have we identified the underlying common interests which are likely to support an effective trade association?

⁹ Interested parties will note that no additional trade associations representing investment/wholesale banks have been identified in Table 10. There may be additional investment/wholesale banking focused trade associations that could be considered for inclusion in this review where they have an essentially UK only focus. These will be assessed in the next phase if there is support to do this.

5 Models for change

5.1 Introduction

- 5.1.1 This chapter sets out proposals for alternative models for change which have evolved from the three models set out in the January document. The main driver behind the evolution of these models is the fact that the review could be extended from retail and commercial banking to cover wealth and asset management and investment/wholesale banking, and a number of additional trade associations could be brought into consideration.
- 5.1.2 The three models contained in the January document ranged from greater coordination in Model A to full integration in Model C:
- Model A - maintain current landscape and improve coordination: In this model the trade associations would continue to operate independently. Members of these trade associations would encourage greater coordination between trade associations.
 - Model B - integrate trade associations operating in similar domains (product or segments): In this model trade associations operating in the same (or similar) space, with similar mandates and common membership, would combine.
 - Model C - create a single trade association: In this model, a single trade association would be created to represent a wide range of products/segments.

The evolution of each of these three models is set out below.

- 5.1.3 Model A, enhanced coordination, represents the least disruptive and is discussed first. At the other end of the spectrum is Model D (a new addition since January), which is based on integration across the three sectors that form the maximum scope (retail and commercial banking, wealth and asset management and wholesale/investment banking).
- 5.1.4 In between these two ends of the spectrum are Model C and Model B. Model C is discussed next and is focused on integration largely within the retail and commercial banking sector. Model B is discussed last as we believe this is best seen as a more focused version of Model C, arising because of the specific circumstances of the ABFA, FLA and BSA. These four models are set out below in Figure 7.

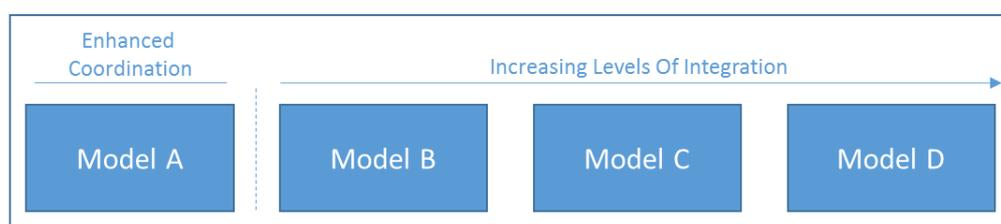


Figure 7: Models of coordination

- 5.1.5 In developing these models we have reflected on the many and various models used in other countries. Some of these are discussed in Appendix 3.

5.2 Model A - enhanced coordination

- 5.2.1 The essence of Model A is enhanced coordination. The reason Model A has evolved since the January document is that if the maximum scope is adopted, it needs to be designed to enable coordination across the full range of trade associations. This is illustrated in Figure 8 below.

5.2.2 The Figure highlights in purple the additions from the previous Model A i.e. the possible inclusion of the BSA, PA and IA. In addition, it also notes the possible interest of UK focused investment/wholesale banking trade associations. The trade associations’ names are shown within the sector they represent and are boxed by a solid line to illustrate they are currently distinct entities. The BBA and TISA are listed multiple times to highlight that they represent multiple sectors. A dashed line is used to illustrate the area of enhanced coordination.

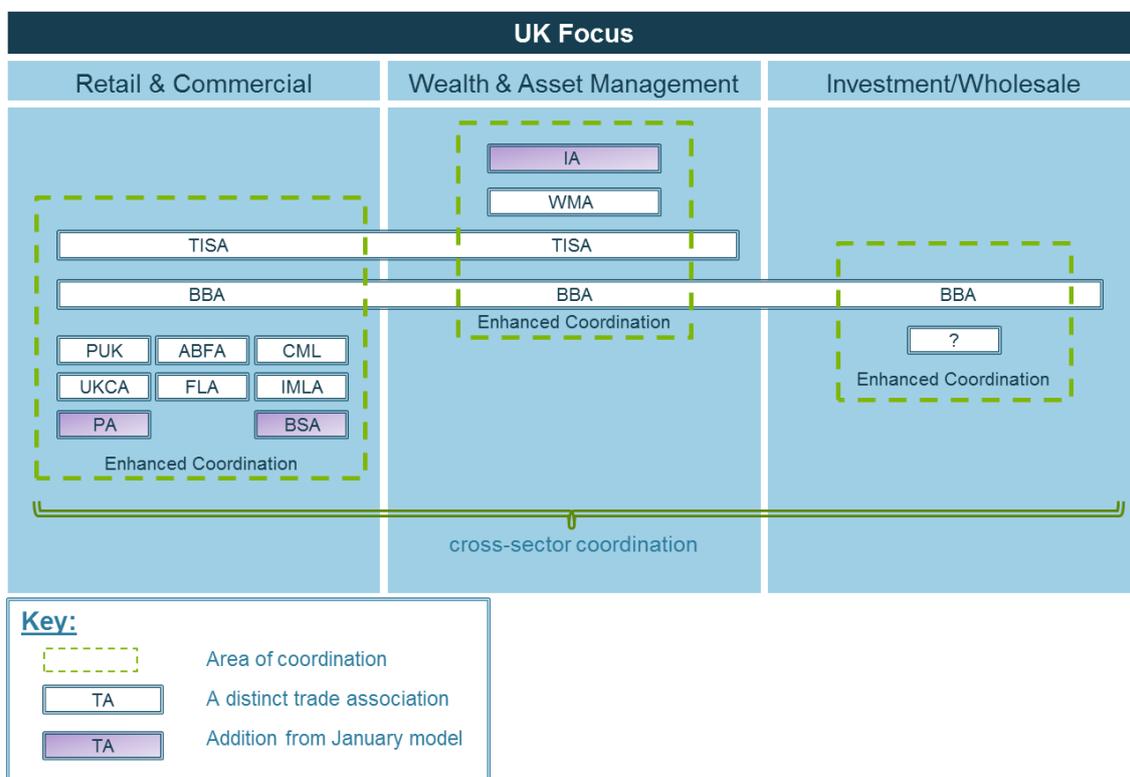


Figure 8: Model A - under maximum scope

5.2.3 Figure 8 shows three hubs of coordination within each of the three sectors as well as coordination across all three sectors. As set out in Chapter 3, we believe that, as a minimum, there is an opportunity for trade associations within each sector to increase coordination. In addition, there are a number of shared common interests across sectors, as discussed in Chapter 4, suggesting that there are further synergies to be derived from enhanced cross-sector coordination.

How enhanced coordination could be structured

5.2.4 Model A retains the existing trade associations in their current form and is therefore the least disruptive of the models. It introduces mechanisms to increase coordination between trade associations with a view to improving effectiveness and efficiency. This idea has received some support (mostly, but not exclusively, from trade associations) and we have asked those supporters to provide detail on how this model could be designed.

5.2.5 In his book, *Models of Trade Association Co-operation*¹⁰, Mark Boleat suggests that ad hoc cooperation between trade associations can occur in the following areas:

- Policy issues;

¹⁰ *Models of Trade Association Co-operation*, Mark Boleat, 2000, Chapter 4

- Services (such as joint seminars, conferences and commissioning joint research); and,
 - Administration.
- 5.2.6 An example of existing coordination on policy issues is the Capital Markets Union proposal, involving TheCityUK, the BBA, ABI, AFME and IA among others. This steering group allows participants to share research, prevent duplication, and coordinate communications on this specific issue.
- 5.2.7 In relation to services, an example is the arrangement between the CML and BSA on regulatory transactional returns. We were told it would have cost the CML and BSA £100,000 each to develop the ability to do this work so they agreed the CML would do it and that the BSA would pay an access fee for the data, leaving both parties better off.
- 5.2.8 On administration, trade associations in the payments field, for example, already coordinate their administration by sharing back office costs.
- 5.2.9 Cooperation already takes place between trade associations in all three of these areas. However, in many areas it is informal in nature and not systematically organised. The benefits of such coordination could be extended if there were a formal mechanism for identifying opportunities to work together.
- 5.2.10 There is a clear consensus that value can be gained from enhanced coordination. The bulk of discussion on Model A has focused around the introduction of a coordinating council. This would involve regular (perhaps quarterly) meetings of trade association Directors General and Chief Executive Officers. There would be a formal agenda, possibly including a list of standing agenda items set by members. This would enable the exchange of information about influencing and research priorities. It would be a systematic way for trade associations to:
- Improve clarity about each trade association's remit;
 - Identify possible areas of duplication;
 - Identify opportunities to work together on policy, services or administration;
 - Decide who should lead on certain issues; and,
 - Coordinate communications on strategic issues.
- 5.2.11 The role of chairman could rotate regularly, with minimal secretariat services provided by each chairman's association in turn. This would minimise cost and promote inclusivity.
- 5.2.12 Such a council could exist on three levels:
- 1) Across trade associations operating in the same product area;
 - 2) Across trade associations operating within the same sector; and,
 - 3) Across all trade associations as they seek to address pan industry issues such as customer trust. This may require the ability to set up sub-committees on specific issues where necessary.
- 5.2.13 The role of the coordinating council is one of strategy and oversight; it should not restrict the everyday interactions of trade associations with one another. In between meetings of the

coordinating council, trade associations would continue to cooperate and communicate with each other where necessary, enabling an agile response to changing situations.

5.2.14 Other suggestions we have received include the establishment of a memorandum of understanding between key trade associations to improve clarity on what each takes responsibility for, and the establishment of a formal association of associations. These represent respectively the minimum and maximum extremities of the range of possible designs for Model A. Most support falls between these two, towards a coordinating council.

5.2.15 A Model A type approach has been attempted in other industries. For example, the pharmaceutical industry has created an umbrella group, Pharmacy Voice, which sits across existing trade associations. It brings together the three leading pharmaceutical trade associations to coordinate on strategic leadership, government policy, and developing a single voice for communications. The organisation has an independent chairman and a board comprising four nominees from each of the partner organisations, each of which continues to operate independently as well.

5.2.16 Aside from the mechanism set out above, there is a range of general suggestions made by commentators on how trade associations could enhance their coordination. These are an important part of Model A, but are not specific to Model A. They are relevant in some form under all models.

- Developing a members' charter of rights and responsibilities with a view to maximising effectiveness. Member responsibilities are likely to include such things as: ensuring that people of appropriate seniority attend sessions, and ensuring that steps are taken to coordinate effectively internally.
- Specific and more clearly defined purposes to help develop an understanding of areas of common interest between trade associations.
- Proper consideration of which responsibilities a trade association should take on or step back from.
- Developing a culture whereby cooperation between trade associations is considered the normal method of working, for example consideration of possible trade association partners should be part of the process of setting up a project group.
- Where coordination takes place, goals must be clearly understood at the outset to ensure that expectations are aligned.
- Developing and sharing a register of staff in trade associations to ensure that all are aware of their counterparts in other trade associations and where remits overlap, and to consider secondments as part of career development and to enhance informal coordination.

5.2.17 In establishing coordination mechanisms, consideration should be given to the following challenges:

- The extent to which trade associations, which are to a degree in competition with each other - and each want to show they are leaders in their area – can truly coordinate;

- Much turns on the leadership given by the individuals running trade associations. Regardless of any structure put in place, if the people concerned do not want to work with others it will not happen;
- Cost and human resources required for cooperation in such a structure may be material, especially for small trade associations.

5.2.18 At the European level, trade associations already coordinate in some areas on high level issues where they have a common view. However, a number of respondents and discussants have commented on the potential for greater collaboration in that area. This would need to be handled separately to any coordination at the national level because of the vastly different approach needed for representational work.

5.2.19 Table 11 summarises the key initiatives for enhanced coordination under Model A

Table 11: Model A – mechanisms for enhanced coordination

Mechanism	Aim
Coordinating council of Directors General and Chief Executives	To identify opportunities to coordinate on policy, services and administration
More clearly defined trade association purposes	To help establish areas of common interest with other trade associations
Proper consideration of responsibilities	To help delineate distinct areas of activity across trade associations
A culture of cooperation	To enhance informal coordination
Clearly defined goals of cooperation	To ensure that expectations are aligned
Register of staff and secondment opportunities	To encourage informal coordination
Members’ charter	To establish rights and responsibilities for members to maximise effectiveness

5.2.20 We recognise that a considerable amount of informal, ad hoc coordination already takes place between trade associations. Adopting the mechanisms described above would not hinder existing forms of coordination, but would provide a more strategic and formal structure.

5.3 Model D - full integration under the maximum scope

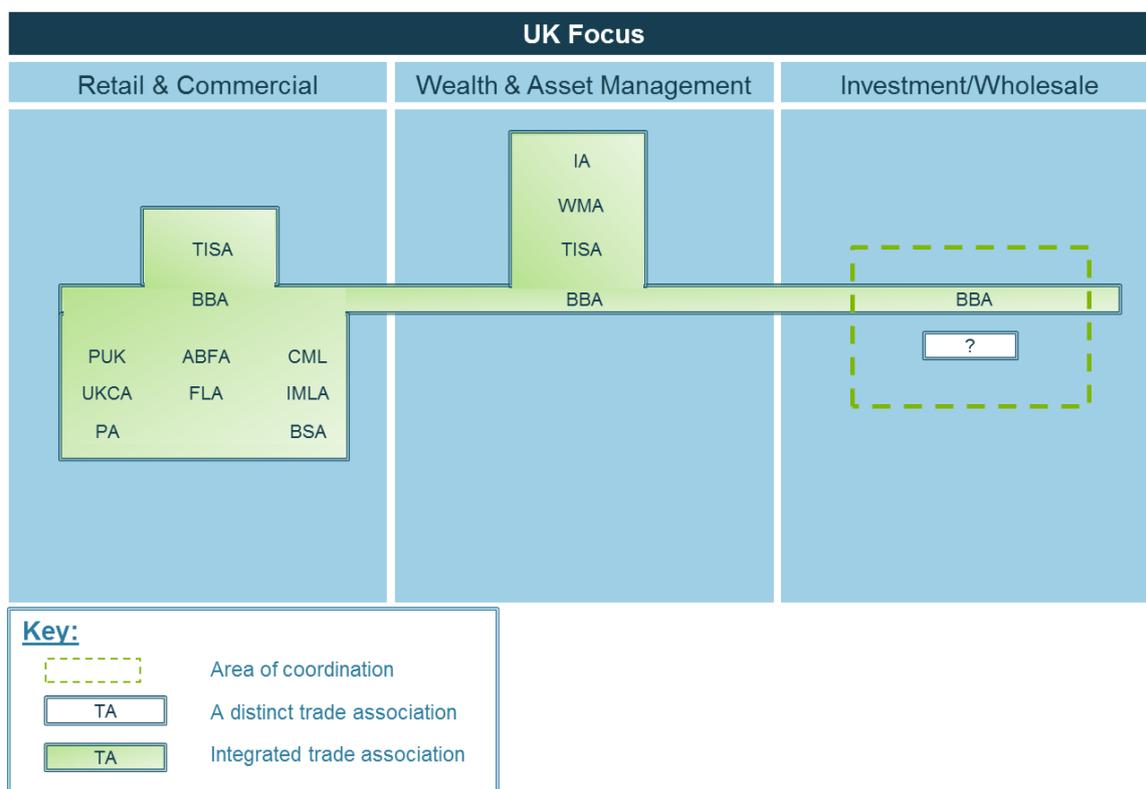


Figure 9: Model D - full integration under the maximum scope

- 5.3.1 Model D has been developed to illustrate the opportunities arising from full integration under the maximum scope. Model D creates the opportunity to capture the greatest number of synergies between trade associations but it is also the highest risk.
- 5.3.2 Under Model D a number of interests specific to each sector would be unified in one trade association. However, we believe there are a number of cross-sector common interests that make Model D a tenable option.
- 5.3.3 Model D would be the most complex change to implement and may therefore represent a long-term proposition rather than a change that could be delivered in the near term.
- 5.3.4 Model D is shown in Figure 9 and includes all the trade associations we have identified to date as well as noting there may be further small trade associations that might be candidates for consideration where they are essentially UK focused.

5.4 Model C - integration to create a largely retail and commercial banking focused association

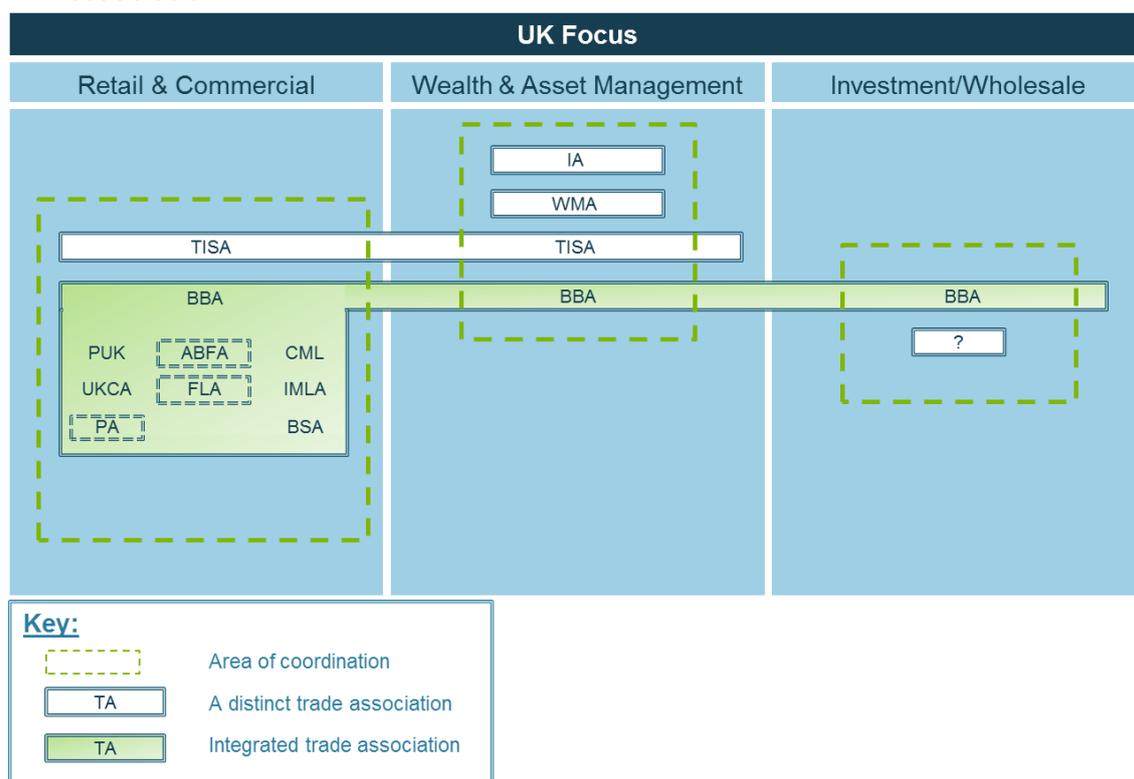


Figure 10: Model C - integration to create a largely retail and commercial banking focused trade association.

5.4.1 Model C focuses on integration based on a largely retail and commercial banking focused trade association. In comparison to Model D, Model C would be more desirable if it is believed that incorporating niche wealth and asset management and investment/wholesale banking trade associations would create an entity with too diverse a set of member interests.

5.4.2 There have been five key changes in comparison to the original Model C (presented in the January document):

- The wealth and asset management focused trade associations are assumed to continue operating independently from the integrated trade association, albeit with enhanced coordination between the two. The limited overlap of members between the TISA and the WMA with the retail and commercial banking focused trade associations is shown in our analysis of current membership (Figure 5).
- The BBA currently represents all three sectors and Model C highlights the continuation of cross-sector representation even if a largely retail and commercial banking focused trade association is established. This is based on the existing capability and services the BBA currently provides. This cross-sector representation has been included following input from wealth and asset managers and wholesale/investment banks who have expressed a desire to be part of a body that represents all three sectors (even if niche trade associations remained separate).
- The two additional retail and commercial banking focused trade associations we identified as potential candidates for inclusion in this review, the BSA and PA, are shown as part of the Model C integrated trade association.

- The two business finance focused trade associations, ABFA and FLA, have been highlighted as it is unclear as to their full suitability for integration as part of a retail and commercial banking focused trade association. Our analysis of current membership (Figure 5) shows that including the ABFA and FLA would add an additional 146 members and that many of these members are not retail and commercial banks and may have limited common interests with the core membership base.
- This is not an insurmountable challenge as some the ABFA and FLA members could choose to be 'Focused' or 'Subscriber' members rather than 'General' members and only access the services relevant to them. A further option is that the FLA, which contains a consumer finance arm, could be integrated into the new trade association with the remainder of the FLA continuing to operate independently. However, this may well be sub-optimal and we note that some retail and commercial banks are also members of the Asset Finance and Motor Finance arms of the FLA.
- Finally, the PA is highlighted because of its distinct nature as a company providing services.

5.5 Model B - integration to create a retail and commercial banking focused trade association

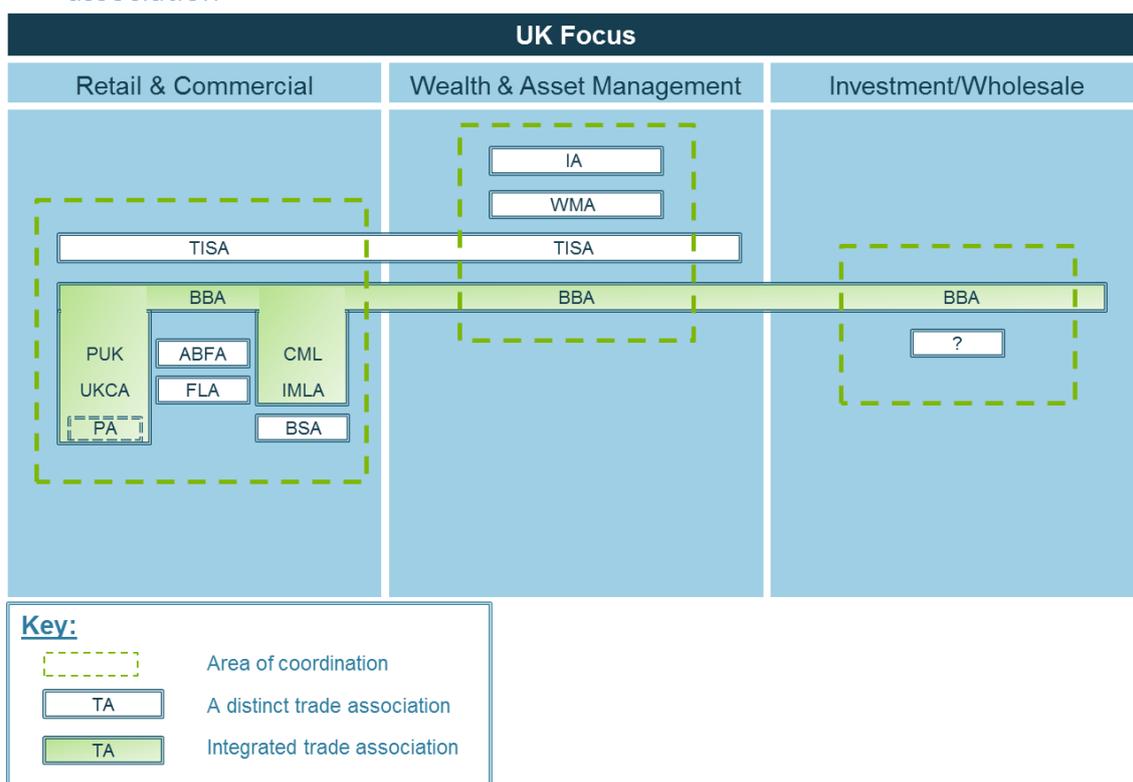


Figure 11: Model B - could be used as an interim step if consensus for integration cannot be achieved

5.5.1 Model B has evolved to focus on the integration of retail and commercial banking focused trade associations. It differs from the previous Model B in the following ways:

- The level of integration has been extended to include integration with the BBA to create a larger new trade association. The previous Model B, as presented in the January document, included integration between the payments focused trade associations (the UKCA, PUK and now possibly also the PA) and the mortgage focused trade associations (CML and IMLA). However, if this level of integration is to take place, there is the

opportunity to capture further synergies by integrating these two groups into the new larger trade association. This opportunity arises from the fact that there are a number of shared common interests between the BBA's members and the members of the payment and mortgage focused trade associations. Evidence of this can be found from the overlap of membership bases i.e. 60% of the UKCA, PUK and PA members are also members of the BBA. For the CML and IMLA it is slightly lower but still significant at 30%.

- Model B no longer includes integration of the WMA with TISA as the new Model B is focused on consolidation within the retail and commercial banking sector. However, the opportunity for enhanced coordination is still shown.
- In contrast to the original Model B, the merger of the ABFA and the FLA does not take place. As noted in Model C above, the level of synergies between ABFA and FLA and retail and commercial banking focused trade associations may be limited.
- Model B will also require enhanced coordination between the integrated trade associations.
- Model B now also highlights the continuation of a trade association that represents all three sectors based on the same rationale as set out in Model C above i.e. that wealth and asset managers and wholesale/investment banks have told us how they value a trade association that can represent all three sectors.
- We omit the BSA from inclusion in Model B, partly because our consideration of it is new to this phase of the review and therefore has not been considered openly so far, and partly to recognise the distinct nature of building societies and therefore to avoid a careless assumption that there might be a straightforward case for integration with a body primarily focused on retail and commercial banking.
- And finally the PA is highlighted because of its distinct nature as a company providing services.

5.5.2 Model B could represent an end-state in its own right but it could also be a stepping stone to consider further potential integration (such as Model C) in due course. Model B may be simpler and lower risk to implement than moving straight to a more expansive model. It would serve to demonstrate whether or not the synergies can be captured through integration and therefore form the basis of a subsequent move towards Model C or Model D. We note that the disadvantage of this approach is that two reforms would be required rather than potentially one.

5.5.3 We have presented Models B, C and D as distinct models. However, it is possible that interested parties believe the optimal model may be at a different point on the spectrum of integration. For example, it is clear that a hybrid between Model B and Model C which includes the BSA and excludes the ABFA and FLA would be entirely plausible. Whilst interested parties might wish to focus their considerations on the four models presented, the models can be adapted to reflect emerging views.

5.6 Summary of models for change

This chapter has set out the high level models for change. We reproduce each of the models in graphical form alongside each other in Appendix 2 for ease of reference and comparison.

In considering options which would involve significant structural change (Models B, C, D) it is essential to consider also how such new bodies might be designed. This is important since it is impossible to make an assessment without at least a working idea of the way in which a

new organisation might be established in order to secure the potential benefits and to mitigate potential risks.

Question:

Q3. Do you agree whether the revised models present the most sensible options for consideration?

6 Designing an organisation to achieve optimal balance

6.1 Introduction

- 6.1.1 In previous chapters we have discussed potential approaches to reforming the trade association landscape to improve overall effectiveness and efficiency. Model A proposes greater coordination within the existing structures; Models B, C and D suggest the formation of new, integrated trade associations. The creation of any such new entity would represent a considerable change.
- 6.1.2 In this chapter we propose a set of purposes for a trade association serving the financial services industry, and the attributes that would be required for such an organisation to perform at the highest level. Finally we comment on some specific elements of organisational design that we believe would enable a more integrated trade association to deliver the core purposes and to demonstrate the attributes recommended for an effective association.
- 6.1.3 We recognise that many of these key features will be well known to experienced trade association executives. There have been previous attempts to characterise best practice purposes and attributes of a trade association¹¹. However, in considering potentially significant reform we believe that it is important to lay out a clear sense of the objectives which any reformed trade association should be trying to meet and the characteristics that we should expect to see in an effective association. This provides a template against which we can evaluate alternative options and a sense of what we are aspiring to achieve with any reform.

6.2 Purposes

- 6.2.1 A trade association needs a clear set of purposes defining the expectations of its members. A range of purposes for financial services trade associations has been described to this review, demonstrating considerable variation both in what current trade associations do and in the expectation of what an integrated trade association should do.
- 6.2.2 A review of the objectives¹² of a number of trade associations as published on their websites reveals that the specificity of associations' objectives varies widely (see Appendix 4). At a superficial level the objectives of the larger trade associations appear to be more general than those of smaller ones, but it may be that there are internally communicated objectives or purposes for these organisations that are clearer.
- 6.2.3 We have distilled our thinking to a list of nine potential purposes, on which we are seeking feedback from respondents. These are set out below in Table 12. Each is then examined briefly in turn.

¹¹ *A best practice guide for the Model Trade Association*, Department of Trade and Industry, London (United Kingdom), 1996.

¹² Trade associations themselves use a variety of words including: objectives, priorities, aims, services, member benefits, roles, remits, missions, etc.

Table 12: Proposed core purposes of a trade association in the banking and financial services sector

Key Purposes	
1	Represent members' interests to UK governments, regulators and other third parties
2	Promote the wider public interest in a successful and competitive banking and financial services sector
3	Help to build and maintain trust in banking and financial services
4	Promote a stable and effective regulatory and legal environment
5	Provide high quality, insightful industry data, analysis and research
6	Promote high professional standards and support accepted industry codes of practice
7	Seek to understand the future of the sector and to remain relevant and effective at all times
8	Support innovation which delivers value for consumers and industry
9	Promote and offer high quality training and development where appropriate

Represent members' interests to UK governments, regulators and other third parties

6.2.15 The financial services industry operates under intense political, regulatory and media scrutiny, and the views of governments and regulators can be highly contested and fast moving. At the same time decisions taken by these stakeholders can have a significant impact on the trade association's members' businesses.

6.2.16 To be useful to its members, a trade association must ensure that its voice is heard before decisions are taken. This requires a credible, strong and determined voice, which utilises relationships with senior individuals in the relevant stakeholders to represent members' interests and positions effectively. This in turn requires a well-resourced trade association with experienced staff operating at senior levels with stakeholder organisations.

Promote the wider public interest in a successful and competitive banking and financial services sector

6.2.17 The financial services sector employs a large number of people in the UK, both directly and indirectly, as well as making a considerable contribution to the UK's public finances. The sector is also a flagship of the UK economy and plays a significant role in putting the UK at the top table in global affairs.

6.2.18 An outward looking and ambitious trade association should convey the significance of these contributions. Public facing representatives of the trade association must be confident and credible in making the case that when banking and finance does well, the UK does well.

Help to build and maintain trust in banking and financial services

6.2.19 Any trade association in banking and financial services must be an effective partner and competent in the crucial task of building and maintaining trust in the sector. All industry members and their conduct is fundamental to the level of trust, but there is no doubt that a trade association should be able to offer a strong and clear voice in this area.

Promote a stable and effective regulatory and legal environment

6.2.20 A trusted and respected trade association will have a diverse range of relationships with relevant stakeholders so that it can influence debate on regulatory and legal matters early on, rather than respond to the terms of a debate set elsewhere. It can play an active role in engaging with key stakeholders in government, political parties and regulatory bodies both with a strategic emphasis on a stable regulatory environment which supports business and investment.

Provide high quality, insightful industry data, analysis and research

6.2.21 Industry data, analysis and research is highly valued by members and stakeholders as a basis for robust evidence in support of policy positions and debates at both the industry-wide level and in more specialist areas. A trade association should seek to provide the highest quality information, raising the level of evidence based argument and debate with government, regulators and providing a valued service to members.

Promote high professional standards and support accepted industry codes of practice

6.2.22 The trade association should support initiatives to promote the highest professional standards set by the industry.

Seek to understand the future of the sector and to remain relevant and effective at all times

6.2.23 The financial sector faces a huge array of challenges and opportunities over coming years, from new legislation and regulation to continued advances in mobile and payment technology. A trade association should be at the forefront of debate on on-going changes and how to respond to them.

Support innovation which delivers value for consumers and industry

6.2.24 A trade association should identify, develop and spread sector wide best practice, as far as competitive differences will permit. A high-performing trade association will drive innovation and change by linking members in disparate parts of the industry who may have complementary knowledge or interests. It will link with counterparts in other industries or internationally to find and spread new ideas.

Promote and offer high quality training and development where appropriate

6.2.25 The trade association should provide high quality training and development of staff of member organisations at all levels, as well as its own staff. Training and development may be enhanced by its own industry data, research and analysis; by its access to senior industry and stakeholder figures as contributors; and by its expert understanding of the changing regulatory environment.

6.3 Attributes

6.3.1 We have also considered what potential attributes we would expect to associate with a highly-effective trade association. Again we are seeking feedback on these from respondents. These are set out in Table 13. We then provide further thoughts on what it would mean for these attributes to be present.

Table 13: Potential key attributes for a trade association in the financial services sector

	Theme	Attribute
1	Serving members	Understands and meets members’ interests both strategically and, where appropriate, in detail, balancing differences within the overall common interests that unite members
2	Serving members	Ensures all members feel they are represented appropriately and their voice is heard regardless of size
3	Serving members	Capable and effective at establishing a forward looking policy agenda; avoiding a tendency to be reactive only
4	Policy partner	A trusted and effective interlocutor for government, regulators and other interested parties
5	Policy partner	Performs advocacy using informed and evidence based arguments
6	Policy partner	Works towards goals that reflect the broader public interest and a healthy competitive market delivering good outcomes for consumers
7	Policy partner	Acts as a facilitator, supporter and sometimes catalyst for innovation
8	Effectiveness	Offers a highly-coordinated policy capability that ensures that members are consulted and which identifies inter-relationships between different areas
9	Effectiveness	Is agile and responsive. Able to respond quickly to changing circumstances and communicate externally at speed
10	Effectiveness	Cooperates with other trade associations and interested groups, respecting delineations between responsibilities to ensure maximum mutual effectiveness
11	Value for money	Consistently demonstrates effectiveness and value for money and communicates this to members
12	Value for money	Utilises members’ senior management time in an efficient and effective way, recognising that this is a scarce and valuable resource
13	High performance	Maintains strong technical knowledge and expertise in key areas of policy
14	High performance	Attracts and retains a high-quality team capable of matching industry standards
15	High performance	Promotes professional standards in the industry and is an exemplar of these standards

Attribute 1: Understands and meets members’ interests both strategically and, where appropriate, in detail, balancing differences within the overall common interests that unite members

6.3.2 For this attribute to be present in a high performing trade association the following characteristics are likely to be observable:

- The trade association has a ‘founding charter’ or equivalent document which provides a clear set of shared values and principles which all members and trade association staff can refer back to when necessary.
- The membership of the main board includes industry leaders and is representative of the wider interests of the full membership and acts in a collegiate fashion.
- A regular two-way flow of information is maintained between the trade association and its members, so that the trade association is both aware of the on-going concerns of its

members and members are aware of the activities the trade association is conducting on its behalf.

- The detailed policy concerns of members, including differences between members, are understood where necessary throughout the trade association. Governance and working practices of the trade association can accommodate different perspectives among members.
- The trade association has a clear mandate to consider the long-term health of the industry and the environment its members operate in, and can take decisions accordingly.
- The trade association is open and responsive to feedback from members.

Attribute 2: Ensures all members feel they are represented appropriately and their voice is heard regardless of size

6.3.3 The following characteristics are likely to be observable:

- The trade association has a clear governance model that treats all members – whatever their size, membership level or fee contribution – fairly and with due respect.
- The ethos of the trade association welcomes and appreciates the diversity of the membership base. Staff and members recognise that diversity makes the trade association stronger, more vibrant and more credible with stakeholders.
- The interests of smaller members are fully protected. This may be performed by an independent, sufficiently resourced internal ‘watchdog’, or maybe a specific role for one or more Board members.
- The board and senior leadership team are vigilant in ensuring that that the trade association does not become, and is not perceived to have become, aligned with any one part of the industry spectrum.

Attribute 3: Capable and effective at establishing a forward looking policy agenda; avoiding a tendency to be reactive

6.3.4 The following characteristics are likely to be observable:

- Well integrated policy and advocacy divisions that work effectively together and are capable of identifying emergent issues presenting, and developing cogent cases for change.
- A senior executive team that is abreast of the latest thinking inside government and regulators and ready to work with the grain of this thinking.
- An internal culture at all levels that welcomes new ideas and ways of working.

Attribute 4: A trusted and effective interlocutor for government, regulators and other interested parties

6.3.5 The following characteristics are likely to be observable:

- The trade association becomes the first port of call for government, regulators and other stakeholders. They respect the trade association’s industry-wide data, research and analysis capabilities and know that it speaks thoughtfully on behalf of the whole sector.

Financial Services Trade Associations Review: Next Steps

- High standard of governance, transparency and accountability encourage stakeholders to engage with the trade association at all levels.

6.3.6 Commercial confidentiality and data protection legislation are observed at all times in the use of data from members and any other sources. If necessary appropriate internal Chinese Walls are put in place. Confidential discussions remain confidential and do not leak.

Attribute 5: Performs advocacy using informed and evidence based arguments

6.3.7 This attribute will mean that the policy and research function provides high quality and useful evidence based briefing and analysis, and has a reputation among stakeholders for doing so. Arguments based on assertion are avoided.

Attribute 6: Works towards goals that reflect the broader public interest and a healthy competitive market delivering good outcomes for consumers

6.3.8 The trade association recognises the wider context in which its members operate, and can demonstrate through its policy and analysis capability the ways in which a strong and competitive financial services sector benefits customers and the wider public.

Attribute 7: Acts as a facilitator, supporter and sometimes catalyst for innovation

6.3.9 This attribute would mean that the trade association promotes and supports new ideas across the sector; it builds and maintains working relationships with members' policy teams, relevant government departments, regulators, political parties, academics, journalists and think tanks. It has a strong reputation for an open and collegiate culture which encourages the exchange and free flow of ideas.

Attribute 8: Offers a highly coordinated policy capability that ensures that members are consulted and which identifies inter-relationships between different areas

6.3.10 This attribute would mean that:

- Senior representatives of the trade association can engage with emerging situations as required, fully briefed by the association's policy and communication teams.
- The trade association is flexible enough to respond to new developments either publicly through the media, or privately with key stakeholders; and the senior team is able to decide an appropriate approach in any given situation.
- The trade association has clearly defined and established relationships with its member organisations that can be called upon at short notice if circumstances merit it. Response paralysis because of inflexible governance and internal communications is always to be avoided.

Attribute 9: Is agile and responsive. Able to respond quickly to changing circumstances and communicate externally at speed

6.3.11 This attribute would mean that:

- The communications capability of the trade association is of the highest quality, with excellent relationships with different media. It has a permanent 24/7 footing and responds rapidly to

relevant issues and stories, including fielding high quality and well briefed spokespeople on behalf of the industry on all relevant media.

Attribute 10: Cooperates effectively with other relevant trade associations, and interest groups, respecting delineations between responsibilities to ensure maximum mutual effectiveness

6.3.12 The following characteristics are likely to be observable:

- The trade association has a strong understanding of the boundaries of the interests of the members it represents, and focuses its work accordingly.
- Where other trade association interests overlap, it builds and maintains a constructive working relationships that seeks to deliver a consistent collective voice, and divides work streams as appropriate. On wider issues the trade association works cooperatively and respectfully with other trade associations, and other interest groups (e.g. consumer groups, trades unions, professional bodies) in the sector and across other sectors, and other countries, when necessary.

Attribute 11: Consistently demonstrates effectiveness and value for money and communicates this to members

6.3.13 The following characteristics are likely to be observable:

- The organisation maintains high standards of budgeting and financial discipline, and publishes regular accounts and statements. The process for agreeing budgets, and demonstrating value for money, is codified in the trade association's founding governance arrangement.
- The executive team make themselves available to discuss the accounts and value for money in person with representatives of any interested members.
- The trade association runs strictly within its budget, including in its start-up phase.
- The trade association produces regular value for money and effectiveness statements to members setting out how their fees have been spent and the value delivered.

Attribute 12: Utilises members' senior management time in an efficient and effective way, recognising that this is a scarce and valuable resource

6.3.14 The culture of the trade association is that it is there to lighten the burden on its members, not add it to it. Working practices with its members are established that reflect this. Governance, policy development and consultation is designed to make the most of members' senior managers' time. The input required by members' senior managers is the least necessary for the trade association to do a very good job.

Attribute 13: Maintains strong technical knowledge and expertise in key areas of policy

6.3.15 The following characteristics are likely to be observable:

- The trade association has a well-staffed policy team that is intimately familiar with the policy framework in which the industry is operating. In-house specialists have deep knowledge in their respective fields, and the trust and confidence of colleagues from members and stakeholders.

- The policy team proactively recruits from members and stakeholders to renew its pool of knowledge and experience. It engages outside experts on short-term or a freelance basis if necessary.
- Senior trade association managers understand and value the contribution of technical and operational specialists who are essential to the performance of the sector.

Attribute 14: Attracts and retains a high quality team capable of matching industry standards

6.3.16 The trade association has some of the brightest and best working for it. The background of those employed is varied, but includes member organisations, existing trade associations, government and other stakeholders.

- The senior executive team comprises highly-respected individuals, comfortable operating at the highest levels of business, government and the media. Remuneration structures are sufficiently competitive to retain high-performing staff.
- The trade association is open to new talent in order to keep standards high. It expects to have staff moving to and from member organisations.

Attribute 15: Promotes professional standards in the industry and is an exemplar of these standards

6.3.17 This attribute would mean that:

- The trade association works with members, government, regulators and bodies such as the Banking Standards Board in the communication and promotion of professional standards.
- The trade association proactively engages with other trade bodies, both at home and abroad to share best practice.
- The trade association would deliver high quality training for all staff.

6.4 Organisational design to deliver the purposes

6.4.1 Under a model of increased integration (B, C, or D) it will be necessary to consider carefully the features of organisational design that would optimise the ability of a new association to achieve these purposes and attributes. The January document proposed a possible structure that we have developed further in Figure 12.

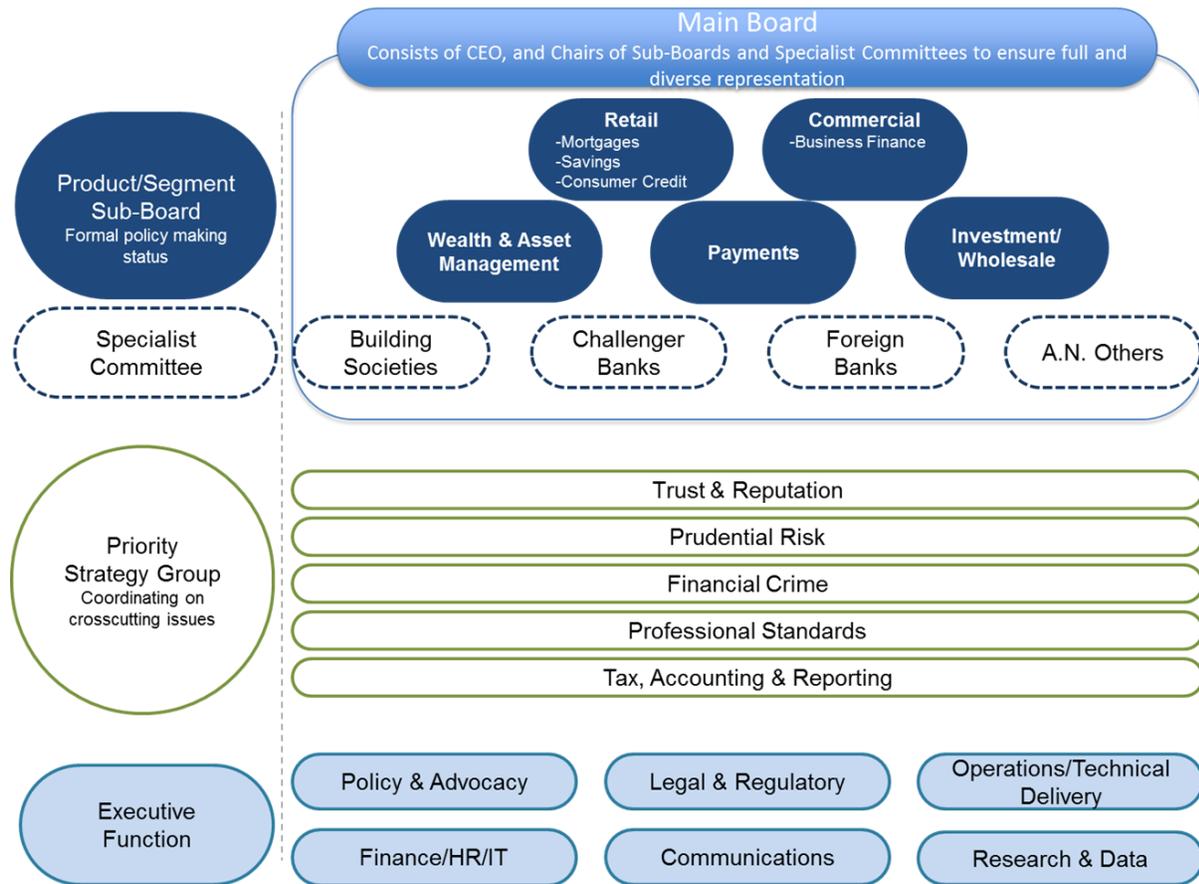


Figure 12: An illustration of the design of a trade association under Model C or Model B

6.4.2 The structure proposed features a Main Board with an industry-wide, strategic focus. The Main Board would:

- Ensure alignment of policy, strategy, and stakeholder engagement across segments;
- Have overall responsibility for coordinating government relations and communications on cross-cutting issues;
- Lead on prudential matters that affect the wider industry;
- Agree codes of practice for member organisations;
- Ensure a focus on trust and reputation; and,
- Manage overall operations and administration.

6.4.3 The Main Board sits above a number of Sub-Boards, each with focus and technical expertise on their individual products or market segments. The product/segment Sub-Boards might separately cover:

- Payments (including cards);

Financial Services Trade Associations Review: Next Steps

- Retail;
- Wealth and asset management;
- Commercial; and,
- Investment/wholesale.

6.4.4 Product/segment Sub-Boards would:

- be responsible for all issues related specifically to that product/segment;
- be responsible for segments/product policy development and codes of practice; and,
- oversee technical work, which would be drawn from existing knowledge bases and owned within the relevant segment or product area.

6.4.5 Product/segment boards would enable members to focus their engagement in the trade association, as they will give them a strong voice in their priority area whilst maintaining a stake in the wider work of the trade association.

6.4.6 In addition to the Main Board and Sub-Boards, it is proposed that a number of Specialist Committees could be established which do not set product policy but foster association among interest groups and advise the Main Board and product/segment Sub-Boards. In addition, some Specialist Committees might have a policy responsibility in specific cases (for example if building societies were part of the new entity they would clearly need a distinct policy remit). The Chairs of each Sub-Board and Specialist Committee could sit on the Main Board to ensure both vertical and horizontal interests are represented.

6.4.7 The governance model operating within this structure must recognise and protect the interests of smaller members as well as larger. This could be done in a number of ways, such as through a clear 'founding charter,' guaranteeing seats on the board for categories of members and/or using a form of qualified majority voting for key decisions. Such steps would protect the rights of smaller members without unduly penalising the larger ones.

6.4.8 A new trade association would need a tight but transparent process for agreeing lines and positions in relation to external parties. A clear understanding would be required amongst members and stakeholders that whilst the trade association reflects the general position of the industry, it speaks officially only for itself. Individual members would remain entitled to express separate, and potentially different, views on specific issues if they believe it is in their overriding interest to do so.

6.4.9 At the operating level, functions such as policy and advocacy, communication and strategy setting would exist at both the Executive level, serving the Main Board, and within Product/Segment areas and in some cases among the Specialist Committees too. Individuals working at the Executive level would be responsible for coordinating activities across the Product/Segments and specialist cases, with overarching, cross-sectoral decisions taken by the Board.

6.4.10 There is a strong incentive to ensure that any new body enabled broad membership and the effective representation of diverse views. In order to achieve this, the membership structure

would allow members to sign up to all of the trade association's activities, including those of the Main Board (General Members); to the activities of specific product or segment Sub-Boards (Focused Members); or simply to access specific services such as data, research and communications updates (Subscriber Members).

- 6.4.11 In terms of fees payable, a flat rate for each tier may be unfair on some members. Instead a structure which reflects size would be explored. Other industry trade associations have fee structures that potentially read across well.
- 6.4.12 To demonstrate the industry's commitment to openness and competition the trade association could consider a reduced membership fee for new entrants into the market.
- 6.4.13 Consideration could also be given to some form of in-house independent 'watchdog' whose role is to protect the integrity of the new trade association in giving sufficient weight to the views of its smaller members. Alternatively a similar function could be performed by a designated Board member or members.
- 6.4.14 A balance will need to be struck between ensuring that the new trade association looks and feels different from those it replaces, but does not lose the assets of the predecessor trade associations - in particular technical expertise.
- 6.4.15 Transparency and accountability would be key features of the governance of a new organisation. This would encompass transparency in resource allocation, so that all members are able to make informed judgements on the value for money they receive. Similarly, decision making would require clear and equitable voting rights structures. In addition to meetings of the Main Board and Product/Segment Boards, the trade association would provide regular written updates, through bulletins and an annual report. These would clearly state what the achievements of the trade association are and its current challenges and activities.

6.5 Summary

- 6.5.1 Chapter 5 recommended options for change. In three of these reform and integration is proposed. In order to make sense of what this might mean we have set out the fundamental purposes and the key attributes of a successful trade association – all of which would need to be at the heart of any new entity. We have then sketched out the shape of an organisational design intended to support these purposes and attributes. With this in mind, we can now turn to an initial evaluation of the alternative models.

Question:

Q4. Are there any other purposes or attributes that an effective and efficient trade association should seek to achieve?

7 Evaluating the models

7.1 Introduction

7.1.1 We have made a provisional assessment of the effectiveness of each of the models in delivering the proposed purposes and attributes, although we note that the model does not necessarily influence all attributes.

Table 14: Key attributes for a trade association in the financial services sector

	Theme	Key Attributes	Likely to be influenced by model
1	Serving members	Understands and meets members' interests both strategically and, where appropriate, in detail, balancing differences within the overall common interests that unite members	Yes
2	Serving members	Ensures all members feel they are represented appropriately and their voice is heard regardless of size	Yes
3	Serving members	Effective at establishing a forward looking policy agenda; avoiding a tendency to be reactive only	Yes
4	Policy partner	A trusted and effective interlocutor for government, regulators and other interested parties	Yes
5	Policy partner	Performs advocacy using informed and evidence based arguments	Yes
6	Policy partner	Works towards goals that reflect the broader public interest and a healthy competitive market delivering good outcomes for consumers	Yes
7	Policy partner	Acts as a facilitator, supporter and sometimes catalyst for innovation	Yes
8	Effectiveness	Offers a highly coordinated policy capability that ensures that members are consulted which identifies inter relationships between different areas	Yes
9	Effectiveness	Is agile and responsive. Able to respond quickly to changing circumstances and communicate externally at speed	Yes
10	Effectiveness	Cooperates with other trade associations, respecting delineations between responsibilities to ensure maximum mutual effectiveness	No
11	Value for money	Consistently demonstrates effectiveness and value for money and communicates this to members	Yes
12	Value for money	Utilises members' senior management time in an efficient and effective way, recognising that this is a scarce and valuable resource	Yes
13	High performance	Maintains strong technical knowledge and expertise in key areas of policy	Yes

	Theme	Key Attributes	Likely to be influenced by model
14	High performance	Attracts and retains a high quality team capable of matching industry standards	Yes
15	High performance	Promotes professional standards in the industry and is an exemplar of these standards	No

7.1.2 The models put forward for consideration in Chapter 5 were:

- Model A: enhanced coordination
- Model B: partial integration
- Model C: integration to create a largely retail and Commercial focused association
- Model D: full integration under the maximum scope

7.2 Evaluation of the models

7.2.1 Any evaluation is, of course, subjective. Nevertheless, in order to help advance the debate we offer an initial view for consideration.

7.2.2 Each of the proposed models have their strengths and weaknesses, and offer different potential benefits and risks. In this light, and by drawing on some of the key conceptual arguments and studies undertaken in this field, we make the following observations.

7.2.3 Model A offers some potential benefit. By building on what has evolved through time and which therefore reflects current choices of a wide range of companies, enhanced coordination mechanisms offer the ability to tackle some of the most important deficiencies in the current arrangements. However, it is clearly limited in the degree to which it truly represents better coordination. More importantly, it would still leave the landscape bereft of a clearly authoritative voice for UK banking able to cover all of the critical and strategic issues in the area. Weight of voice and integrated policy capability would remain absent.

7.2.4 Model D offers a dramatic change. It would certainly represent a powerful cross sector voice and present the greatest opportunity to capture economies of scale and scope, and to deliver synergies across the broadest range of policy issues. However, it stretches the definition of the underlying common interest among members to its greatest point and, by doing so, carries the greatest risk of overstretch and the dis-benefits associated with this. By extending fully into the diverse area of wealth and asset management trade associations it may well be a step too far and one which leads to a lack of agility and clarity of purpose. It may also prove hard to design an effective form of governance.

7.2.5 Model C also represents a significant change but it has a more coherent centre of gravity around the products and market segments associated with retail and commercial banking. It is not itself without challenges, particularly in complex operational areas such as payments, and in reflecting

the particular interests of both investment/wholesale banking and building societies, and equally of specialist business finance. However, it does represent an opportunity to offer an integrated capability and to represent a serious presence on behalf of the sector, potentially capable of engaging across a range of issues and upon the biggest issues of the day.

7.2.6 Model B identifies the more challenging areas of Model C and revises the proposal to reduce these risks. It retains a clear UK banking voice, covering retail and commercial, private and wholesale banking. It reflects the distinctive nature of building societies and the fact that the BSA has not hitherto been part of this review, and the fact that the business finance organisations (APFA, FLA) have a wide and diverse range of members.

7.3 Summary

7.3.1 With any trade association in any sector the performance of the organisation is a function of many factors, not least the quality of the leadership and the commitment of the members. With this obvious point made, we offer our provisional view of the options proposed at this stage of the review in the table below. We emphasise that this represents only an initial assessment and we look forward to detailed views from interested parties.

Table 15: Summary of models

Model	Likely Effectiveness	Risk
A	Low/Medium	Lowest
B	High	Medium
C	High(er)	Medium/High
D	Medium	Highest

Question:

Q5. Recognising that we do not have a detailed cost-benefit assessment at this stage, in principle, which is (are) your preferred model(s) and why?

8 Practical implications of merging/creating a new trade association

8.1 Introduction

- 8.1.1 Many respondents to the January document identified practical issues which would need to be addressed in order to proceed with any new trade association. These include the treatment of the most valuable asset of any trade association - namely their staff. We must also consider pension schemes, the future of multiple premises that are subject to varying lease terms, and the handling of various outstanding contractual and legal obligations.
- 8.1.2 The question of the costs of change is a material consideration. As noted previously, this document seeks to separate these issues from the fundamental questions of principle governing the case for and against change. However, in the interests of ensuring a clear sense of what reform would involve, this chapter identifies the range of practical implications that would arise from any decision to pursue structural reform. A detailed cost-benefit analysis is expected to be carried out in subsequent work.
- 8.1.3 The practical implications to be considered are as follows:
- Continuity of service (maintaining focus on key issues);
 - Staff: redundancies, pension arrangements, benefits;
 - Premises ;
 - Operational issues: 3rd Party Vendors, IT, Finance, accounting and banking arrangements, research library and intellectual property;
 - Legal status and any other legal matters;
 - Governance;
 - Communications;
 - Brand; and,
 - Management of operational responsibilities, e.g. payments systems.
- 8.1.4 In addition, an important decision would need to be made as to whether any new entity is created afresh or is built up from existing legal entities. This decision is likely to be influenced by the final recommendation and consideration of the above factors such that the greatest advantage may be gained with minimal cost and disruption.

8.2 Continuity of service

- 8.2.1 There is a significant risk of the loss of continuity of service in the period between the decision to create a new body and when it is fully formed. If a proposal for change is made the existing trade associations may see increased staff turnover and an impact on employee engagement. However until such a new trade association is fully fledged, existing trade associations would need to continue to represent their members effectively.

- 8.2.2 There could be a particular challenge if during a transition period there is further proposed government legislation or a sustained media handling issue for which the UK financial services industry needs a clear voice.
- 8.2.3 Many existing trade associations will be mid-way through important pieces of work. Steps would need to be taken to ensure that this work is completed to a high standard, or at a minimum the work already done is not lost.
- 8.2.4 It would not be possible simply to close existing trade associations one day and open a new one the next. It would probably be necessary to run some trade associations in parallel with any new trade association for a period to ensure no break in service for members.

8.3 Staff and pensions

- 8.3.1 Any new trade association structure needs the essential component of existing trade associations - skilled and experienced staff who can develop and engage on relevant policy matters. Whether a wholly new trade association is created or trade associations are merged, recruitment of staff would be likely to be substantially through existing staff.
- 8.3.2 An assessment would be needed of what roles would be required in the new structure and a mapping exercise of existing staff to new roles. For some more specialist roles there may be little duplication. For others, especially administrative and back office functions, duplication may be anticipated.
- 8.3.3 There may be TUPE implications that would require legal advice to ensure adherence with the appropriate legislation.
- 8.3.4 If a trade association were to close, any pension arrangements would require a review to consider the type of scheme, the numbers on each scheme, the impact on any defined benefit scheme of the change, and how any shortfalls may be met.

8.4 Premises

- 8.4.1 Fewer premises would be needed in the event of a more integrated proposal. This would have obvious cost reduction advantages and coordination benefits. This would be likely to include, inter alia:
- Legal fees – any new leases, exit leases no longer required etc.
 - Lease termination fees – would depend upon the terms of the lease, but in some cases could be substantial
 - Removal costs – desks, IT equipment, cabling, telecoms, storage etc.

8.5 Operational Issues

- 8.5.1 An assessment would be required of any existing contracts trade associations hold with third party vendors for supplied services, contracting or external agency memberships. The assessment would consider whether these contracts would need to be changed or whether they could continue to be valid under the new structure.

8.5.2 A range of IT issues would need to be explored in more detail once any new organisation is agreed. For example:

- Historic website content;
- Historic domain names;
- Email accounts, including retention of historic emails, and handling email traffic related to historic email accounts;
- Electronic document storage – shared drives, personal drives etc; and,
- Back up/contingency arrangements.

8.5.3 Both soft and hard copy historical research would need to be chronicled and unified. Decisions would need taken on whether existing contracts for research should be continued/renewed.

8.5.4 A judgement would be needed on who continues to own any Intellectual Property rights that current trade associations possess.

8.6 Legal/Contingent liability

8.6.1 A full assessment by relevant experts would be required of any on-going litigation or other legal matters which might be pertinent to a final decision. There would need to be an understanding of the timeframe for any litigation.

8.6.2 Some trade associations which are to be integrated, may need to continue to exist on a separate legal basis until outstanding legal issues had been fully resolved, depending on the approach adopted.

8.7 Governance

8.7.1 This includes the structure of the trade association, the composition, determination and voting rights of the Boards and the reporting of their decisions, in addition to the appointment of the Chief Executive and Chairman. Full consideration would need to be taken of existing Board structures to ensure that the transition between old and new could be as seamless as possible and that no member felt that their ability to influence the trade association had been reduced.

8.7.2 Analysis to date has shown there to be a wide range of formulae for calculating subscriptions of different sizes and classes (full, associate etc.) of members. A consistent and transparent approach should be adopted, and ideally no member would feel the new subscription arrangement disadvantages them financially. On the contrary, there may well be financial advantages. The possibility of transition arrangements should also be explored.

8.8 Communications

8.8.1 It would be critical to the success of any new trade association to communicate the right level of information at the right time to potentially affected staff in existing trade associations, to suppliers, and to other potentially affected individuals/companies and other stakeholders.

8.9 Brand

- 8.9.1 Consideration would be required of the name and branding of any new trade association and the implications for names that may no longer exist. The name for a new trade association would require careful consideration to ensure that it fully and properly represented the new organisation.

8.10 Management of operational responsibilities

- 8.10.1 Important examples have been brought to our attention of operational activities undertaken by trade associations, which are arguably outside the orthodox core purposes of a trade association. For example the UKCA works with FFA UK on card fraud prevention. These are extremely important matters and would need to be fully considered and addressed in the event of any significant change.

8.11 Summary

- 8.11.1 While some of the issues noted here may well present significant challenges, and carry material financial implications, none of them are in our view insuperable. Indeed, each represents an obstacle which has been successfully overcome in analogous cases.
- 8.11.2 One such example lies in the financial services sector itself, the creation of the Association of Financial Markets in Europe. This example, outlined below, shows both that successful integration is achievable but also that it is important to learn lessons from precedents and analogous cases.

Case Study – Creation of the Association of Financial Markets in Europe

Background

The Association of Financial Markets in Europe (AFME) was formed in November 2009 through a merger of the London Investment Banking Association (LIBA) and the European arm of the Securities Industries and Financial Markets Associations (SIFMA), which comprised six product specific associations. The intention of the merger was to allow the AFME to offer a single voice on behalf of those working in Europe's wholesale financial markets. Prior to the creation of the AFME there was lack of clarity about who spoke for the sector, and hence what its position was on key issues. The merger is widely regarded as a success with the AFME now well established and well regarded. Its creation offers important insights when considering further trade association reform.

Analysis

The AFME had a strong board, a clear remit and the buy-in of the big firms but it nonetheless faced a number of challenges in its early years. This was of particular consequence to the industry as the merger occurred at the same time as a very significant period of change in financial services regulation.

Specific challenges the AFME faced included:

- Finding the right staff, especially senior staff and those with technical expertise;
- Changes to the structure of membership fees with corresponding concerns over value for money;
- Initial lengthy internal discussions and debates about the composition and work practices of various committees and working groups; and,

- Recognising that it takes time to establish a new brand, and hence to become a recognised and trusted interlocutor for key stakeholders.

Key Learning Points

- The importance of securing early the right staff, especially at senior and technical levels.
- The need to establish early, and agree with members, clear governance and working practices.
- The membership fee for a new organisation needs to be set at a level commensurate with the need to attract and retain well qualified staff and deliver what members expect.
- Those working on the external facing elements, such as communications and advocacy, must not be drawn excessively into internal issues, such as administration and governance.
- The need for a recognition from members that when they set up a new trade association that building a strong reputation will inevitably take time.

Question:

Q6. Are there any further practical implications which should be highlighted for more detailed consideration in the next phase of this review?

9 Next steps

9.1 Introduction

9.1.1 In developing this document we have sought to achieve a number of important objectives:

- To build on the work presented in the January document including reflecting responses made by interested parties;
- To increase as far as possible in the available time the level of engagement to ensure that all key perspectives and interests are considered and reflected within the debate;
- To consider further evidence, in particular from key audiences for financial services trade associations and by conducting detailed membership analysis;
- To apply a framework to the case for change that supports a logical and dispassionate consideration of the various issues at stake;
- To identify new models for change, which build on the original January proposals but include important revisions in scope and mix;
- To evaluate the various options for reform with particular reference to the key purposes and attributes of an effective trade association; and,
- To outline some of the features of organisational design and the practical issues that would arise should a route towards a more integrated approach be adopted.

9.2 Questions for response

9.2.1 We are now asking interested parties to respond to a limited number of core questions. They are:

Table 16: Questions for response

Q1. Do you agree with our assessment of the benefits and risks of increased scale and scope?
Q2. Have we identified the underlying common interests which are likely to support an effective trade association?
Q3. Do you agree whether the revised models present the most sensible options for consideration?
Q4. Are there any other purposes or attributes that an effective and efficient trade association should seek to achieve?
Q5. Recognising that we do not have a detailed cost-benefit assessment at this stage, in principle, which is(are) your preferred model(s) and why?
Q6. Are there any further practical implications which should be highlighted for more detailed consideration in the next phase of this review?

9.2.2 We note that a number of interested parties will wish to discuss this document at Board meetings and that the next opportunity to do this is likely to be in September. Respondents are therefore

asked to provide their comments by 5pm on 30th September 2015. Responses should be submitted by email to feedback@tradeassociationsreview.com. We will carry out a detailed analysis of the responses and reflect this back to interested parties. We would prefer to publish responses to the review paper. However, if you would like your response to be excluded and kept completely or partially confidential, please make this clear in your response.

9.3 Next steps

9.3.1 Following the publication of this document, we will enter a new phase of work. It is our expectation that this phase will primarily consist of the following streams of work:

Continued engagement

9.3.2 We will continue the process of engagement. There are some stakeholders with whom we have not yet met but would like to. We expect that there will be a good response to this document that we will wish to explore in greater detail through open dialogue.

Refinement of scope and options

9.3.3 We will work to refine the scope of the proposed options that we have put forward, reflecting further responses and other feedback. We would expect to make a final recommendation during the autumn.

Analysis of the practical implications and development of potential timelines for change

9.3.4 We will seek to deepen our understanding of the practical considerations presented in this document such that we are able to present an initial timeline for the implementation of any proposed change alongside our final recommendation should this be appropriate. This will include identification of the major elements of work to be carried out and the steps necessary to address major issues and risks.

9.3.5 In particular we will consider as priority next steps two areas. Firstly, more work on organisational design which is extremely important if the promise of a more integrated approach is to be realised. Secondly, we will conduct a cost benefit analysis as a means of establishing a grounded business case for any potential reform, alongside the more principled arguments explored in this document. This will also be critical in informing our final recommendation.

Appendix 1: The January document

This review was initiated by a steering committee of the heads of nine retail and commercial banks in the UK and a building society. The steering committee released a consultation document in January 2015 (the January document). Its intention was to initiate a debate about what could be done to improve the effectiveness and efficiency of services provided by the trade associations that serve the industry, and to facilitate an industry-wide discussion on the potential for change.

The impetus for the review has come as the banking sector seeks to address a number of significant and diverse challenges. For example:

- Loss of public trust in the banking sector resulting from a series of scandals including foreign exchange and LIBOR fixing, and the mis-selling of PPI;
- New and diverse entrants to the market sparking greater competition; and,
- Significant change to the regulatory and legislative environment.

Many stakeholders feel that an effective trade association landscape is central to supporting the sector to meet these challenges.

In the January document three potential models were proposed for consultation, and nine trade associations were considered of direct relevance to any likely solution, and were, therefore, deemed 'in scope' for the review. These were:

- The Asset Based Finance Association;
- The British Bankers' Association;
- The Council of Mortgage Lenders;
- The Finance & Leasing Association;
- The Intermediary Mortgage Lenders Association;
- The Tax Incentivised Savings Association;
- The Wealth Management Association;
- The Payments Council (now Payments UK); and,
- The UK Cards Association.

The rest of this appendix sets out, in summary form, the contents of the January document.

Summary of the January document

To demonstrate that trade associations could be more effective, the January document focused on a perceived lack of coordination among different associations. It argued that this:

- prevents the development of an industry-wide strategic view;

Financial Services Trade Associations Review: Next Steps

- results in duplication of activities where mandates (and membership) overlap; and,
- has led to 'stakeholder fatigue', where multiple trade associations engage with the same stakeholder on similar issues.

The document also raised concerns about the need:

- for greater inclusivity;
- to prevent larger members dominating policy;
- to re-establish credibility of trade associations where this has been damaged in recent years; and,
- to improve the pace of innovation in the industry.

In terms of efficiency, the January document suggested that the cost to members (both in fees and in management time) of membership of multiple trade associations is unduly high. This arises from a perceived duplication of infrastructure, staff, back-office functions and physical premises.

The following questions were posed for consultation (question numbering reflects original throughout this chapter):

Q3.1: Do you agree there are opportunities to improve the trade association effectiveness and efficiency for the retail banking, consumer finance, wealth and commercial banking industry?

Q3.2: In your opinion, what specific opportunities are there to improve the effectiveness and efficiency in the current landscape?

The document proposed a set of generic objectives for trade associations within the sector:

- Coordination on crosscutting matters;
- Clearly defined, distinct mandates;
- Effective engagement with stakeholders;
- Cohesive approach to communication;
- Inclusivity; and,
- Continued technical expertise with strong strategic oversight.

The following consultation questions were posed:

Q4.1 What are your views on these potential objectives?

Q4.2 Do you think trade associations should fulfil any other objectives?

The document went on to outline three possible models of delivering these objectives. These were:

- **Model A:** Maintain the current landscape of existing trade associations while improving coordination among them.

Financial Services Trade Associations Review: Next Steps

- **Model B:** Integrate trade associations operating in similar domains (product or segment).
- **Model C:** Create a single trade association that represents the retail banking, consumer finance, wealth and commercial banking segments.

The January document suggested that Model C would be most likely to achieve the proposed objectives. The following consultation questions were posed:

- Q4.3 Do you agree that Model C is most likely to deliver the objectives outlined above?
- Q4.4 Are there other models that could more effectively increase effectiveness and efficiency of the industry's trade associations?

The structure of Model C put forward had a coordinating council sitting above a number of product/segment councils, each with focus and technical expertise on their individual products/market segments. The product/segment councils would separately cover:

- Payments (including cards);
- Mortgages;
- Retail banking (including savings);
- Wealth; and,
- SME and commercial banking.

It was proposed that this structure would enable a more streamlined dialogue amongst the industry, and with regulators and government bodies, particularly on crosscutting issues. It was also argued that it would boost innovation through cross-pollination of ideas across product/segment councils.

The coordinating council would:

- ensure alignment of policy, strategy, and stakeholder engagement across segments;
- have overall responsibility for coordinating government relations and communications on crosscutting issues;
- lead on prudential matters that affect the wider industry;
- ensure a focus on trust and reputation; and,
- manage overall operations and administration.

Product/segment councils would:

- be responsible for all issues related specifically to that product/segment;
- be responsible for policy development; and,
- oversee technical work.

The entity would need to support a broad membership to achieve effective representation of diverse views. As such, the January document proposed a three-tiered membership structure which would allow members to sign up to all of the trade association's activities, including those of the coordinating council (General Members); to the activities of specific product or segment councils (Focused Members); or simply to access specific services such as data, research and communications updates (Subscriber Members).

The following consultation questions were posed in respect of the proposed organisational design:

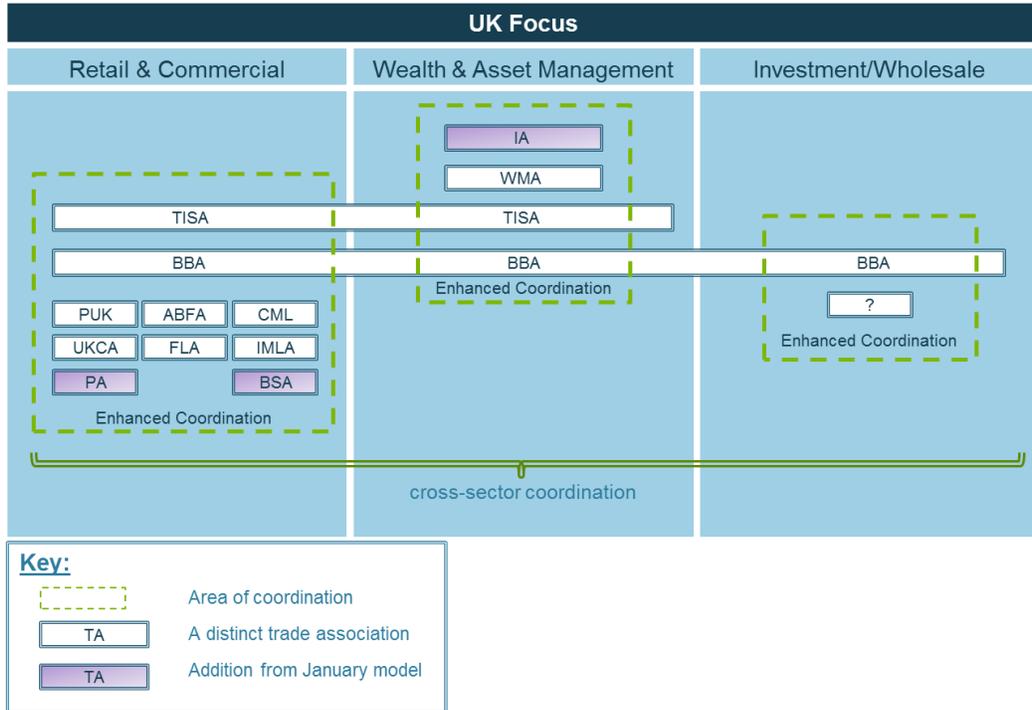
- Q4.5 What are your views on this potential structure? What are its strengths and weakness?
- Q4.6 Given the importance of international, non-retail and non-commercial banks in the industry, what could be the best way to ensure that their voice is adequately represented?
- Q4.7 Are these the right segment or product councils, to ensure important issues are addressed appropriately and that overlap between the segments and products is minimal?
- Q4.8 What are your views on this potential membership model?
- Q4.9 What measures would need to be built in to ensure sufficient representation and share of voice for diverse members?
- Q4.10 How could governance structures be constituted to ensure that opinions of a diverse membership are sufficiently represented?

The final substantive section of the document discussed potential approaches to implementation; either through leveraging existing trade associations or by building a new trade association "from the ground up." The document acknowledged that there are advantages and disadvantages to each method. The following consultation questions were posed:

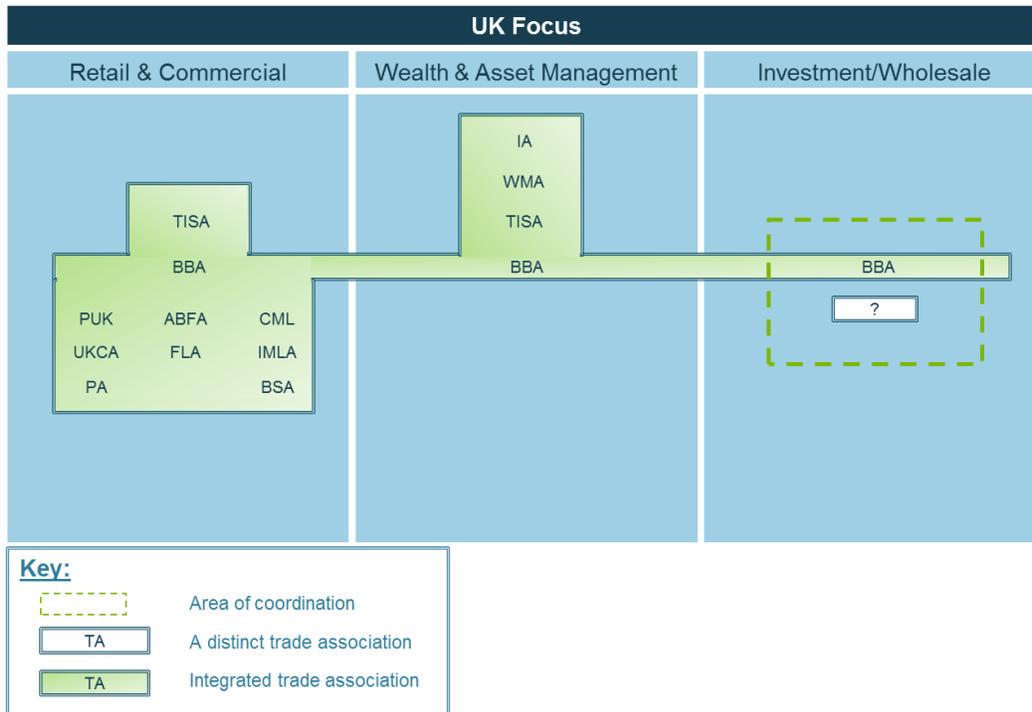
- Q5.1 What are your views on each of these approaches? On balance, which approach would be most effective for the retail banking, consumer, wealth and commercial banking industry?
- Q5.2 What other approaches could be more effective and/or less disruptive?
- Q5.3 What other factors should be considered to ensure effective implementation?
- Q5.4 How would you ensure effective governance of the process, ensuring representation of various views around the industry?

Appendix 2: Models for change

Model A

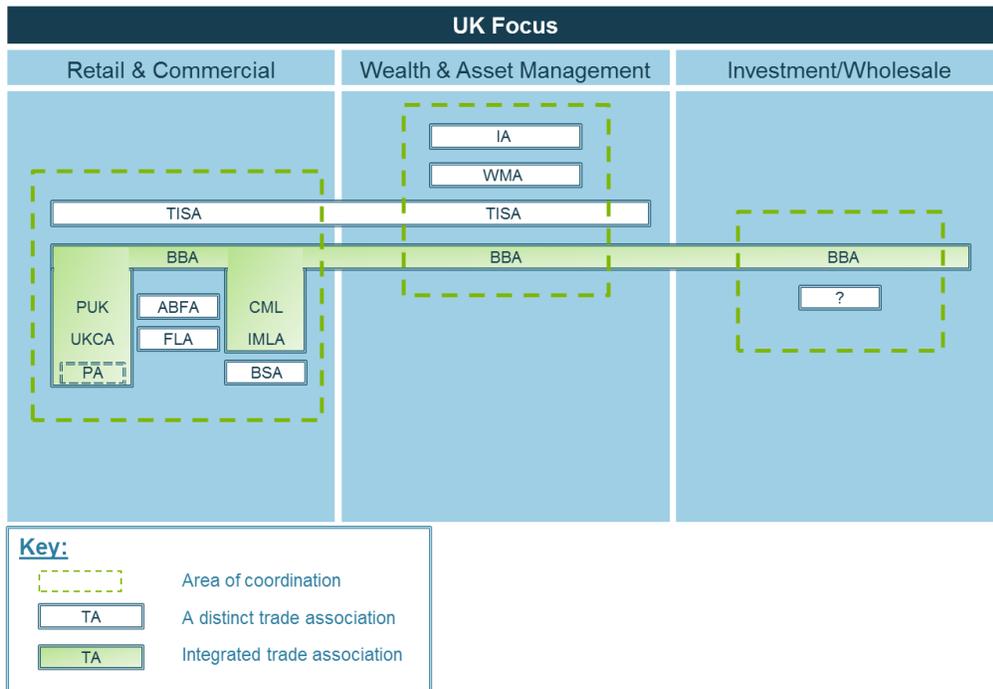


Model D

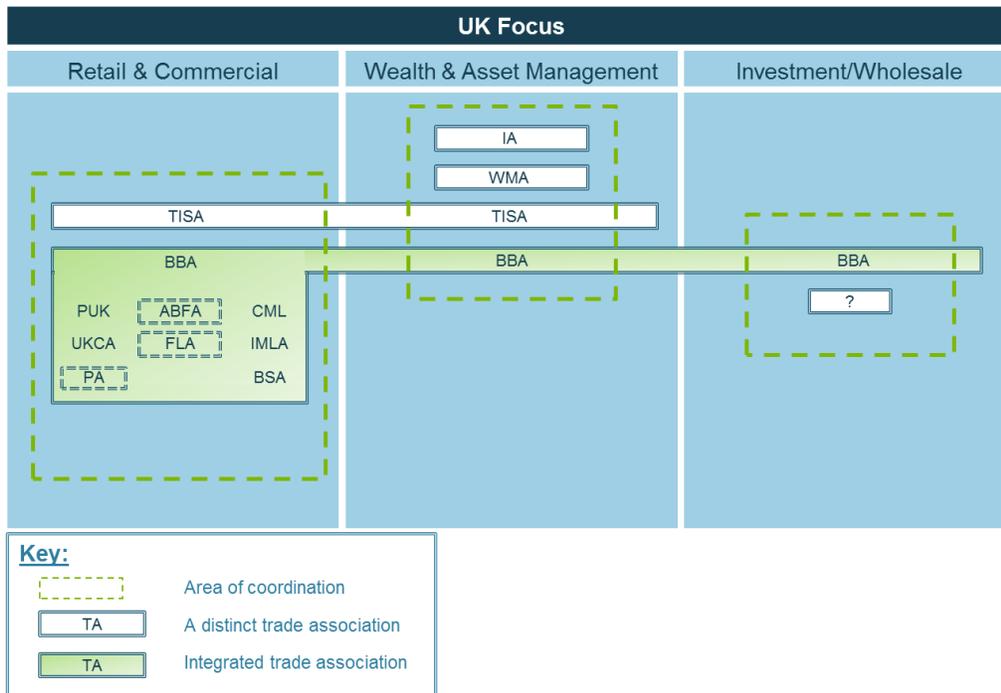


Financial Services Trade Associations Review: Next Steps

Model B



Model C



Appendix 3: Trade associations in other countries

We have carried out a preliminary assessment of the financial services trade association landscape in other countries. Our analysis has focused on France and Germany as, following the UK banking sector, their banking sectors are the largest in Europe. Our analysis has been supplemented by insight into trade associations in Ireland, Spain the Netherlands and Italy.

Our initial analysis does not point to one dominant model but highlights a range of approaches that have evolved in response to the history, size and structure of each market. It is clear that European countries generally have historically seen a much clearer division than the UK between savings banks, commercial banks, cooperative banks/building societies and public/development banks. Our analysis does show that, where there is a strong desire to enhance the trade association landscape, change can and does take place which bridges these divides and when it happens it gives the relevant trade associations a strong and clear voice.

France:

The French Banking Federation (FBF) represents all French banks and foreign banks with operations in France. It was formed in 2000 in line with the desire to bring together all financial institutions in the banking sector. It serves commercial banks (which already enjoyed membership of the French Bankers Association (AFB) and continue to do so) as well as cooperative, savings and mutual banks. There are c.400 members of the FBF covering the full spectrum of business models including universal banks, online banks and private banks.

The legal entities that founded the FBF are automatic members of the executive committee and they can only be represented by the chairman or chief executive officer ensuring there is senior engagement at all times. The main board meets very regularly to ensure continuing cohesion of the organisation. There are 10 dedicated committees which utilise technical expertise to support the work of the federation covering, amongst others, retail banking, investment/wholesale banking and payments.

The FBF is recognised as being effective at pulling together the institutions from across the French financial services sector and working as a vehicle for them to agree common positions, and hence speak with one voice. They are seen as powerful and credible with their stakeholders as a result.

Germany:

The German trade association landscape reflects the very rigid – mandated in law – division between the different categories of banks inside Germany. The different categories of banks have their own associations, with the German Banking Industry Committee (DKW) acting as the umbrella trade association for the five leading German trade associations:

- The Association of German Banks (BdB) represents private banks;
- The German Savings Bank Association (DSGV) represents regional savings banks;
- The National Association of German Cooperative Banks (BVR) represent cooperative banks;
- The Association of German Pfandbrief Banks (VDP) represents banks issuing covered bond secured on residential and commercial properties and other assets; and,
- The Association of German Public Banks (VOB) represents regional banks (Landesbanken) and state owned banks.

DKW was formed in 2011 out of the central committee of the credit sector (ZKA) and has played a role in standardising Germany's payments infrastructure and in particular card payments. The leadership of the DKW rotates annually between the trade associations and the DKW has no permanent office or address.

Whilst each individual trade association is viewed as effective in their own area because of the very clear divide, between them they do not necessarily have reach on wider issues, and neither does the DKW itself.

Ireland:

The Banking & Payments Federation Ireland (BPFI) was established in 2014 following the integration of the Irish Banking Federation (IBF) and the Irish Payment Services Organisation (IPSO). IBF was established in 1973 on Ireland's accession to the European Economic Community to represent the sector's interests abroad as well as domestically. IPSO was set up in 1997 in line with international standards requiring payments systems to be set up as companies. BPFI is now structured to provide services through three membership groups: domestic banks, international banks and payments. BPFI represents over 70 members. The merger is in its early days but views so far suggest that it has worked well and certainly has not diminished the wider sector's representation capacity and indeed may well have enhanced it.

Other Countries:

Italy and the Netherlands both have national banking associations (ABI and NVB respectively), which represent virtually all banks operating in their jurisdictions. The NVB also merged with the Employer's Association in 2001 and now also represents wider interests. The NVB are supplemented by a number of specialist, smaller trade associations such as the Dutch Payments Association. The Italian ABI originally represented saving and commercial banks but after Italian financial services liberalised in the 1990s it expanded to include credit unions and cooperatives. It is now seen as a model of representing diverse interests in a collegiate and effective manner. There is also a debate in Spain as to whether it makes sense to have an integrated banking federation, and given the recent difficulties around the savings banks sector it is expected to go in that direction.

All of the national banking associations noted above are represented in Europe by the European Banking Federation (EBF), which represents 32 national banking associations in total. The EBF is represented globally by the International Bankers Federation (IBF). The IBF represents a wide range of leading economies with major financial centres enabling it to function as the key global forum for representing banks towards international regulatory standard setters.

Our preliminary review of the trade association landscape in other countries has shown how the models in France, Germany, Ireland, Italy and the Netherlands have undergone different degrees of change in recent times. We will supplement this with further analysis on how effective these trade association landscapes are with evidence from the European Union, which we plan to gather in the next phase of this review.

Appendix 4: Stated purposes, objectives, or similar of a number of trade associations within the sector

Trade association	Term used	Purpose/Objectives, etc.
ABFA	Objective	To promote and represent Membership of the Association in a national and global environment.
	Objective	To ensure that all of the ABFA Members embrace the principle of treating customers fairly and that they maintain the highest standards of professional conduct in their dealings with clients, guarantors and/or indemnifiers.
BBA	Priority	Helping customers – both consumers and businesses
	Priority	Promoting growth, including supporting the UK as a global financial centre
	Priority	Raising standards – both professional and ethical
CML	Aim	Our aim is to help to foster a favourable operating environment in the UK housing and mortgage markets.
	Aim	We are the representative voice for the residential mortgage lending industry
	Aim	And the central provider of economic, statistical, legal, research and other market information.
FLA	Services	One of the most important services we offer is making sure that our members' views are heard by those shaping the business environment in which they operate. We lobby on industry issues, both at home and in Europe, and also as a member of Eurofinas and Leaseurope, the European umbrella bodies for the sectors we represent.
	Member benefit	Keeping you up-to-date with industry developments
	Member benefit	Meeting the right contacts
	Member benefit	Developing your workforce
	Member benefit	Marketing your firm as a member of the FLA
IMLA	Role	IMLA represents the views and interests of UK mortgage lenders involved in the generation of mortgage business via professional financial intermediaries.
	Role	IMLA fosters discussion and debate between members through regular meetings of its Executive Committee to which all members are invited. At present we have 5 meetings a year. These meetings are focused around the key business issues facing intermediary based mortgage lenders and decisions taken there are then implemented by IMLA
PUK	Remit	The body that represents the payments industry in the UK

Trade association	Term used	Purpose/Objectives, etc.
	Remit	Listens to a wide range of stakeholders to drive innovation in payments and implement change so that individuals and businesses have access to payments for their current and future needs.
TISA	Primary purpose	To increase personal savings and investments.
	Mission	To work with all relevant stakeholders to review, develop and implement effective policies, regulations, products, advice and services; thereby encouraging individuals to have the appropriate savings and investments to support them, and their families, throughout their lives.
	Consideration	To further national, consumer and the industry’s interests by promoting sound and objective policy, regulation, advice, products and services.
	Consideration	To deliver practical improvements through collaborative and constructive dialogue with industry, government, regulators, consumer groups and sector trade bodies.
	Consideration	To increase interaction, communication and understanding across all sectors of the industry.
	Consideration	To improve the industry’s infrastructure, its processes and operations to make firms more efficient and their products and services more straightforward and effective for the customers they serve.
UK Cards Association	What we do	The UK Cards Association provides a dedicated representative voice for the card payments industry.
	What we do	Through engaging on behalf of our members with partners and stakeholders, we strive to ensure the UK card payments industry works as effectively as possible in the interests of consumers and retailers.
	Priority	Promoting good outcomes for consumers through choice and transparency
	Priority	Ensuring consumer protection, with extra support for vulnerable customers
	Priority	Facilitating payments innovation
	Priority	Providing leadership in fraud management
WMA	Objective	To be an advocate for the sector with governments, regulators and the wider financial services community;
	Objective	To influence policy and also decision makers within the wider sector to the benefit of WMA members and their clients
	Objective	To research and provide definitive information about the sector as required for members and in support of the influencing and advocacy objectives
	Objective	To be a thought leader, to lead and stimulate debate and make members aware of emerging trends; challenging and provoking change
	Objective	Facilitating the sharing of good practice, enabling the membership as a whole to benefit from the latest developments affecting the sector as well
	Objective	as providing support to enable them to develop good practice and overcome challenges