Britain badly prepared for market crash, says Andrew Bailey

New Bank governor warns of fall in asset values

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Andrew Bailey says people must take responsibility for their investments and not expect regulators to bail them out

The incoming Bank of England governor has admitted that he is concerned about how ill-prepared the UK is for a prolonged fall in the stock market or house prices.

Andrew Bailey, chief executive of the Financial Conduct Authority, the City regulator, said that increased exposure to asset values had been accompanied by declining understanding of the fallout from a decline in prices, saying that the issue was "one of the things that worries me most".

Mr Bailey added: "There hasn't been a major fall in asset prices now since the [global financial] crisis and of course, we don't want one to happen, but they do happen. I do think that there is not as great an understanding of what the consequences of that could be."

Mr Bailey, who is due to become the 121st governor of the Bank of England on March 16, said that Britons had become “far more exposed to asset prices”, partly because of changes to pension rules.

George Osborne, when he was chancellor of the exchequer, redrew the retirement savings landscape in 2014 by letting the over-55s in defined-contribution schemes cash in their pension pots.

Before the reform, about 400,000 pensioners a year were automatically bought annuities, which paid a secure income for life. As low interest rates reduced people’s incomes and made annuities less appealing, Mr Osborne’s pension freedoms have seen people instead invest their retirement savings in equities and property in the search for yield.

Equity markets have been on an unprecedented bull run stretching back to 2009 while average UK house prices are near record highs.

Mr Bailey said many people were planning their retirement income based on assumptions on asset values that may prove to be unduly optimistic. He added: “When that correction of asset process does happen, it will land on [the FCA’s] doorstep.”

Mr Bailey’s period in charge of the Financial Conduct Authority was marked by a series of investment scandals, including the £237 million London Capital & Finance collapse and the freezing of the stock-picker Neil Woodford’s investment funds.

Speaking on an internal FCA podcast ahead of his departure from the organisation, Mr Bailey, 60, said that people must take responsibility for their investments and not expect regulators to bail them out.

“We cannot live in a world where people think that the FCA will protect them against falls in asset values, that will not happen. It’s not a society we can live in. It’s not an economy we can live in,” Mr Bailey said.

“People need to understand the risks they’re taking and . . . manage their exposure to those risks accordingly.” This week, the FCA wrote to the bosses of investment management companies warning them of the risks of liquidity crunches in funds and the potential for conflicts of interest with their authorised corporate directors, the firms appointed to handle fund governance.

The regulator warned fund managers that such conflicts could exist if an authorised corporate director “cannot oversee the fund properly because, for example, it is concerned to avoid a loss of revenue from the investment manager if it were to offer more assertive challenge”.

The role of authorised corporate directors and the danger of lack of liquidity have come in for scrutiny after the collapse of Mr Woodford’s investment empire last year, which led to criticism of the Financial Conduct Authority’s oversight of his fund management company.

On the podcast, Mr Bailey said the importance of the Bank and the FCA would grow in the wake of Brexit as they would no longer be part of a “collective decision-making process” with European counterparts. “We will have more responsibility,” he said. “We will be doing things on our own that in the past, we've more tended to do as part of the European Union. So it will put more emphasis on the Bank and the FCA as domestic institutions."

Bailey to face questions from minibond scandal inquiry

Andrew Bailey will be interviewed as part of an independent investigation into the Financial Conduct Authority's handling of the £237 million London Capital & Finance scandal, the former Court of Appeal judge leading the inquiry has revealed.

Dame Elizabeth Gloster told a meeting yesterday of investors who bought London Capital & Finance's minibonds that the FCA's outgoing chief executive had given an assurance that he would be available for an interview.

She declined to give details of what Mr Bailey, the incoming Bank of England governor, might be asked or when the meeting would take place. An FCA spokeswoman to comment.

London Capital & Finance collapsed a year ago after raising £237.2 million by selling high-risk minibonds to 11,625 small investors, who now face heavy losses. The FCA has faced criticism for its handling of the company and Dame Elizabeth was appointed last July to lead an inquiry.

Many of the minibond investors were elderly and put their life savings into the debt securities. Dame Elizabeth said that some of the correspondence she had received from investors had made for distressing reading.

She is due to complete her inquiry by July and said there had been delays in getting some of the documents and information from the FCA after the regulator encountered technical difficulties with data production.