

Sam Woods: Acclimatised

Speech by Mr Sam Woods, Deputy Governor for Prudential Regulation of the Bank of England and Chief Executive of the Prudential Regulation Authority (PRA), at the Mansion House, London, 22 October 2025.

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I know what you're thinking.

This man has given this speech nine times before. How can he possibly have anything left to say?

It's a good question. And I have noticed in my role that the longer CEOs are in office the more verbose they tend to become. Once I met a CEO for the first time and he spoke continuously for 40 minutes before I could even ask, "Would you like a cup of tea?".

Luckily the Lord Mayor sets me a strict time limit so I will be brief tonight and simply ask: where are we? Clearly we are in the Egyptian Hall, which I have always found confusing because the columns around us are so obviously Corinthian.¹ But I mean "where are we?" in the sense of "where are UK financial services at today, where have we come from and where are we going?".

Now people in my line of work are sometimes referred to as "Doomsters", always focused on the downside and plunging everyone into a funereal gloom. And looking at the world around us we are clearly in dangerous terrain. So I have a tasty bit of doom to serve you at the end of my remarks, but it may surprise you to hear that I am in an optimistic frame of mind. Maybe this shows that I have fallen into another trap for the long-serving CEO, by becoming thoroughly delusional. But I think I can identify some reasons for optimism.

First, after a very long and arduous climb since the Global Financial Crisis it seems to me that the UK banking system has acclimatised. Capital, liquidity and governance standards have all been massively strengthened. For a long time the market clearly had doubts about whether the banks would ever reach the summit. But this is no longer the case with the share prices of the listed major UK banks up by more than half over the last twelve months, and their price-to-tangible-book ratio at 1.3x at the end of September. This suggests to me that a resilient banking system and the profit motive can comfortably co-exist with one another.

Second, we must remember that "acclimatised" in banking today means a system that is twenty times leveraged. In my experience banks of many different shapes and sizes fail, even if they meet all regulatory requirements, and doubtless that will continue to be the case. But our tools for handling these dramas on the mountainside have improved. Since the PRA's inception in 2013, we have handled the exit of around 28 banks and building societies – with no disruption to financial stability. Working with our international partners, we have dealt successfully with very high speed events like Silicon Valley Bank and with the collapse of a major global bank in the form of Credit Suisse. Now you are only as good as your last expedition when it comes to climbing

mountains, and there is always a wild card element to these situations – but we are demonstrably better equipped than we used to be.

Third, after two major overhauls with new regimes in 2016 and 2024, and following vigorous debate on some aspects, I believe we are now also into a more settled period for the prudential regime for insurers. This should create more clarity and bandwidth for our insurers to focus on protecting policyholders, investing in the economy and delivering returns for their shareholders – noting that the large listed annuity writers have seen an increase in their share price of about a quarter over the last twelve months.

Fourth, we have clambered out of the EU without major mishaps in financial services. And as that strenuous challenge of climbing out has now fallen away, we have been able to admire the view from our position outside the EU and focus more on seizing the opportunities Brexit provides to make our regime a better fit for our market.

And finally, the system has successfully weathered some quite severe blizzards and gales in recent years – with our banking and insurance sectors remaining robust and able to support the UK economy throughout. It is worth observing, however, that our financial system was shielded by fiscal and monetary policy from much of the impact of the most severe macro downturn we have experienced in recent years – Covid and the energy impacts of the Ukraine war² – future downturns may look different.

So these are my grounds for optimism. We've climbed the mountain and are still in one piece. Commercial returns have now caught up. And scanning the world from our new vantage point, we can see opportunities afforded by technological change.

Set against this, we can also see that the world is a dangerous place. The geopolitical landscape is bleak. Cyber attacks are relentless. New technologies, if not well governed and controlled, have the potential to cause significant disruptions. And within the financial services sector, there is plenty to worry about – including opaque and complex private lending by non-banks, recent cracks emerging in US credit, the risk of an AI bubble, and overly concentrated life reinsurance structures.

But my point is this: given the hazardous terrain in which we now find ourselves, we seem reasonably well-equipped. So how does all this sit with the objective we have from Parliament to facilitate competitiveness and growth, and the government's desire to boost growth by easing the burden of regulation?

Well, as we've been climbing the mountain since the Global Financial Crisis we've been learning how to use our new equipment, and which bits matter most. There are some spare ropes, back-up tents and other bits of kit that we now know we can live without. Maybe we can get rid of that wing-suit we packed just in case we needed to leap off a cliff. But we must keep our crampons, our ice-axe, and our warm sleeping bag. We will face many future avalanches and storms and we must survive them. We will also surely face in the future many more laboured sporting analogies from regulators, which may be harder to tolerate.

Now I promised you a nice slice of doom to accompany the Lord Mayor's excellent wine, and in closing here it is.

There is one idea which has been floated in the UK and elsewhere that I believe carries real risk: taking higher-rated government bonds out of the leverage ratio. My view is that this would be a profound – and highly risky – change. First, it would allow a very large increase in bank leverage given the size of banks' sovereign holdings. Second, given the way these bonds are already treated in the other leg of our regime (risk-weights), it would largely remove sovereign risk from the bank capital framework where banks hold such bonds in their banking books. And third, unless supervisors top up capital requirements in other ways it would risk forgetting one of the main lessons from the 2023 banking failures – that even bonds issued by sound governments, if liquidated in size, can pose serious risks to banks' balance sheets due to interest rate risk. In my view such a change would be equivalent to ripping off our jacket, warm hat and gloves and throwing them all over the nearest cliff.

I see the Lord Mayor looking askance at me and his watch. Perhaps he thinks I am going to nick it, as I was admiring it over dinner. Anyway I dare not risk his wrath so I will conclude. In short, I think we are well equipped in tricky terrain. And you in this room have now reached a major summit, because you have just endured my final speech at the Mansion House. In fact the best evidence of the resilience of our financial sector is that some of its leaders have survived all ten of my Mansion House speeches while climbing the mountain, which I think shows a quite staggering level of endurance. But the real test is still to come, because you are going to have to put up with another four speeches from Nikhil in coming years. If taking sovereigns out of the leverage ratio doesn't finish you all off then I guess that will.

My thanks to Aaron Schroeder-Willis and colleagues across the Bank and PRA for their help in preparing this speech.

¹ My colleague Elisa Albini, who is deeply passionate about Ancient Egypt, has looked into this question in her spare time. She tells me that this could be a reference to the last period of Ancient Egypt's long history: the Ptolemaic Period. The Ptolemaic dynasty was a Macedonian Greek royal house. This period was characterized by intense interactions between the Greek and Egyptian cultures, including with respect to architectural styles. Elisa tells me that this intermingling of architectural traditions would have been a feature of, for example, the city of Alexandria, which was the capital of the Ptolemies. It's remarkable the things one can sometimes learn from colleagues in the Bank of England.

² Although we do of course explore this thoroughly through our stress testing regime.