

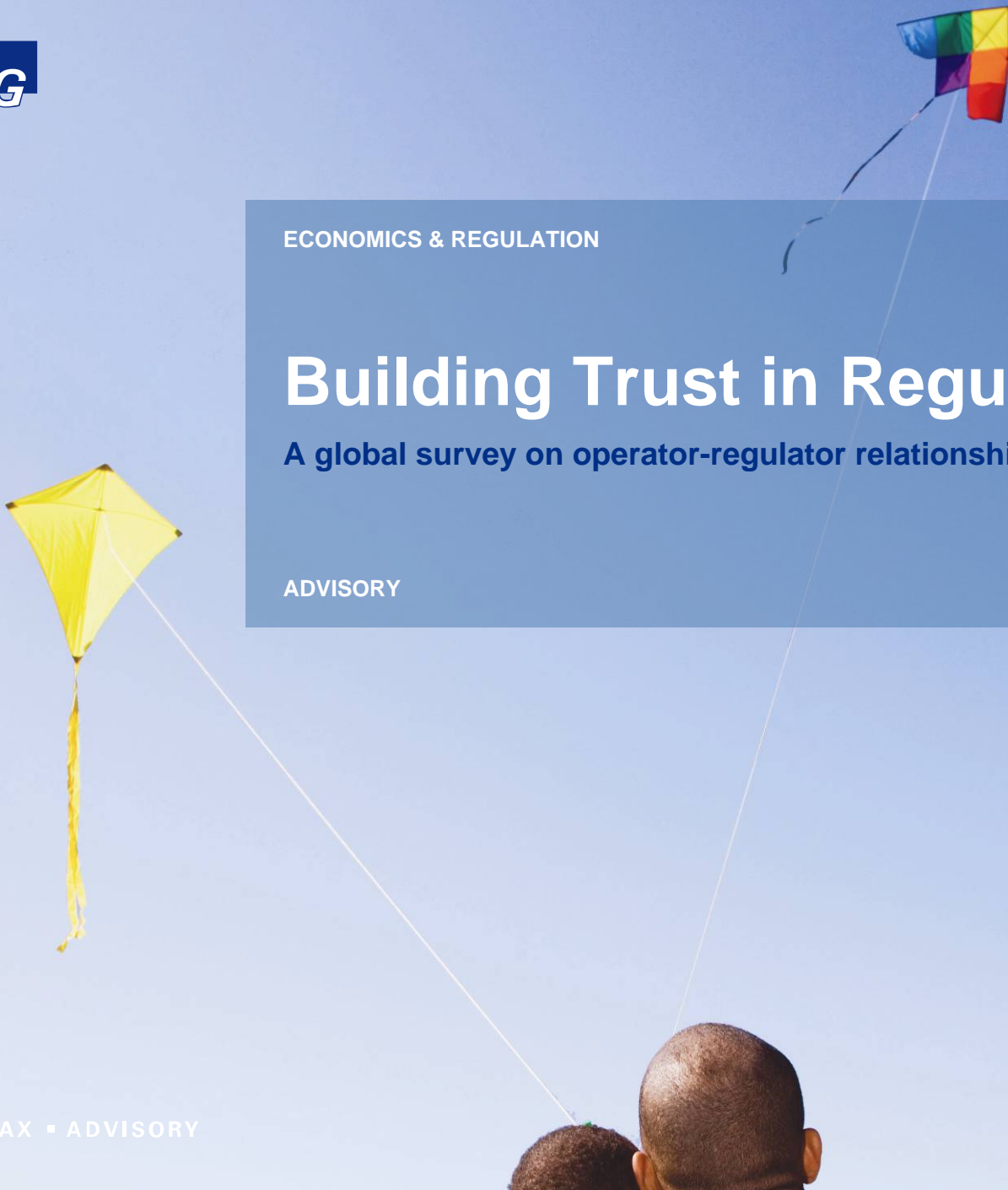


ECONOMICS & REGULATION

# Building Trust in Regulation

A global survey on operator-regulator relationships in industry

ADVISORY



# Agenda

- Context
- Key findings
- So what?
- Next steps

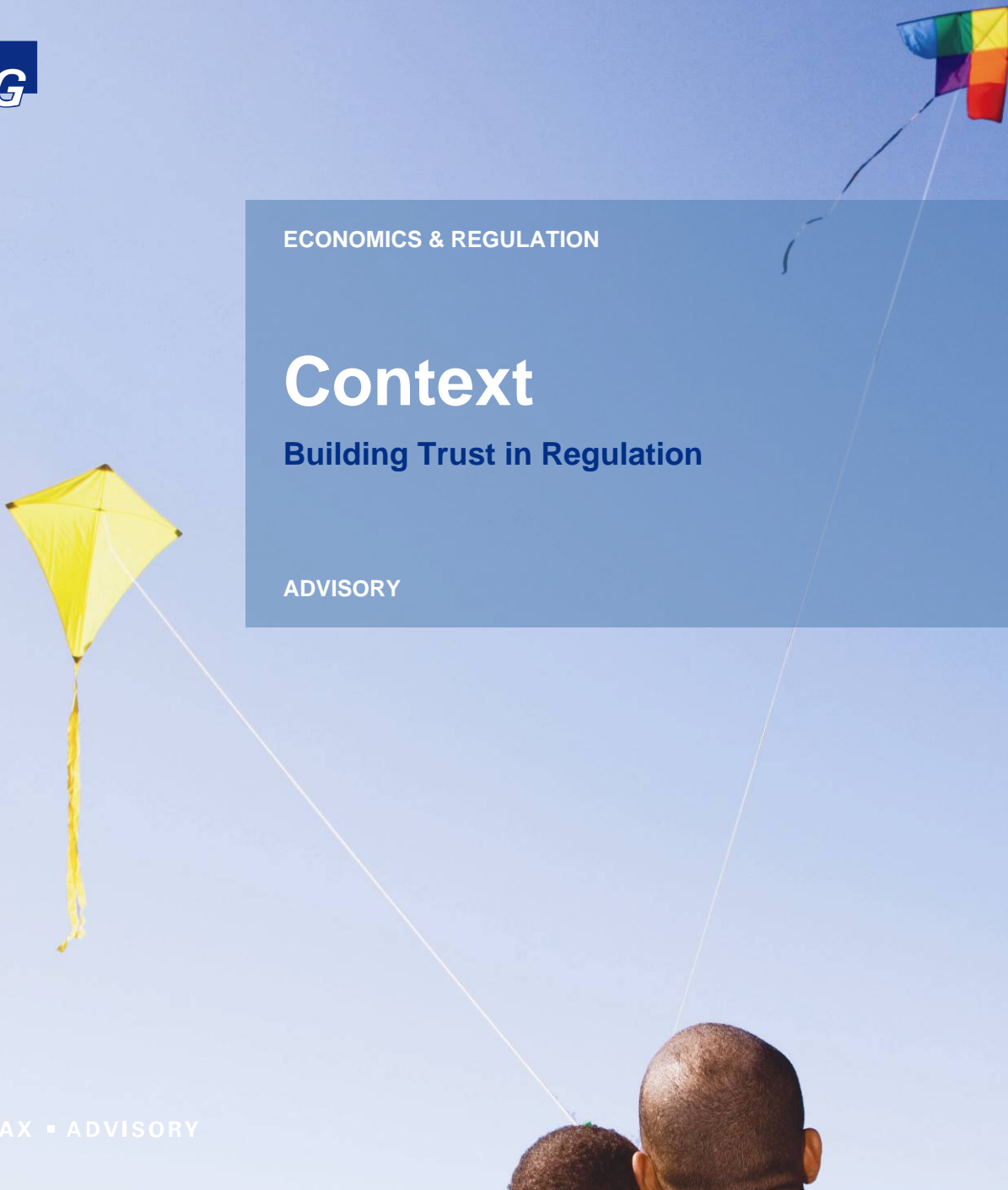


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# Context

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# December 2007 - Bringing regulation into the boardroom

- View from “across the table”
- KPMG assignment experience
- Building global regulatory capability

## Findings

- Strengthen regulatory function’s relationship with the board
- Improve management of talent and performance in the regulatory function
- Improve communication with the rest of the business
- Learning lessons from other sectors
- ...and the regulator relationship?



# August 2009 – Building trust in regulation

- 213 senior executives participated
- An additional 13 were interviewed
- Across 54 countries
- Covering 5 sectors
- From operators and regulators
- From CEOs to heads of regulation
- From Ministers to heads of department
- 25,000 data points



# Roles of respondents



## Executives from economically regulated industries:

- Communications (44%)
- Power (12%)
- Water (7%)
- Transport (8%)
- Post (6%)

## Regulators:

- One industry (11%)
- Two industries (5%)
- More than two industries (7%)

# Economist Intelligence Unit

## EIU commissioned to:

- Survey operators and regulators from economically regulated industries to comment on the state of relationships
- Analyse results
- Interview leading industry and regulatory figures
- Reported on findings

**Economist Intelligence Unit**

**The  
Economist**

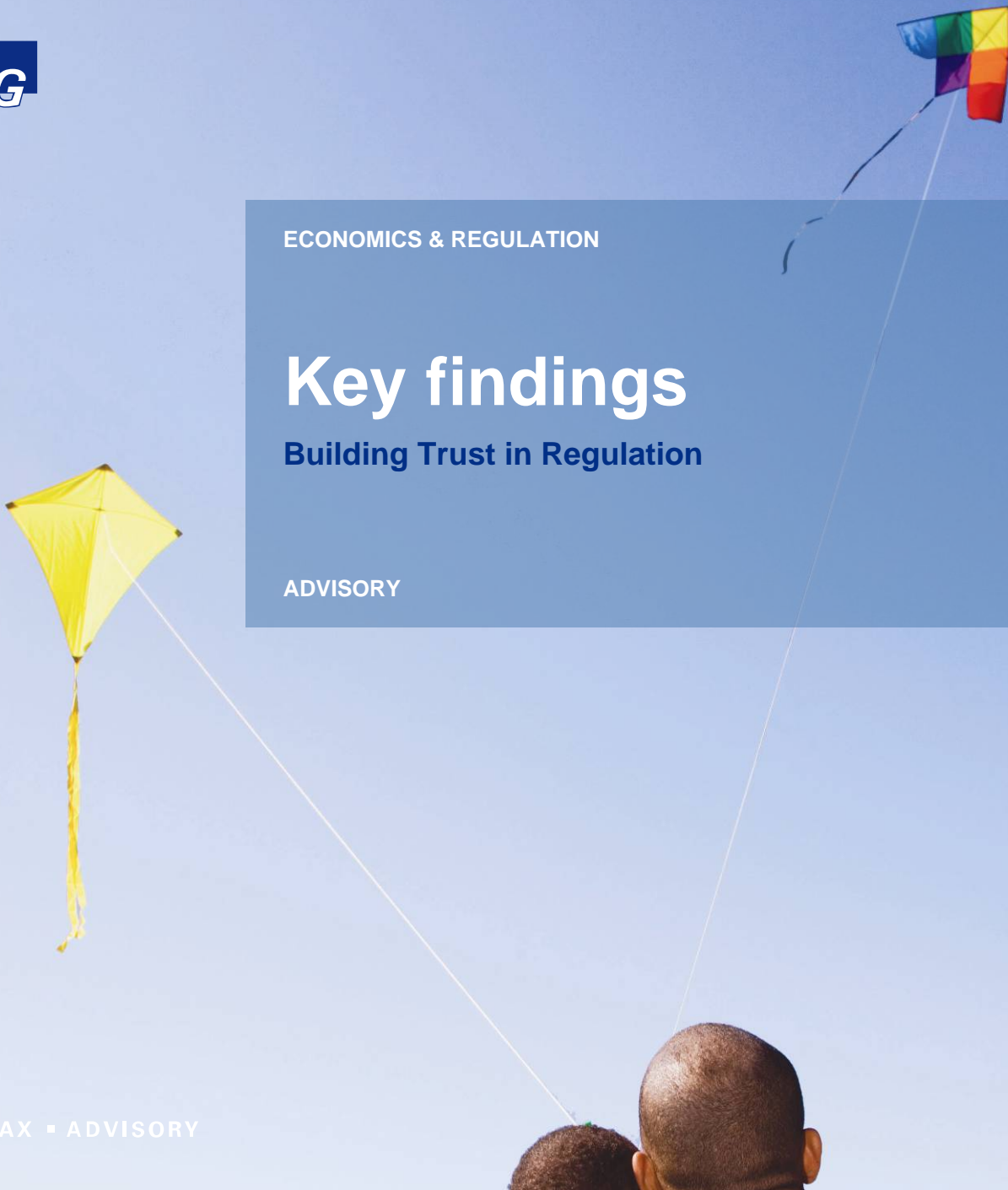


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# Key findings

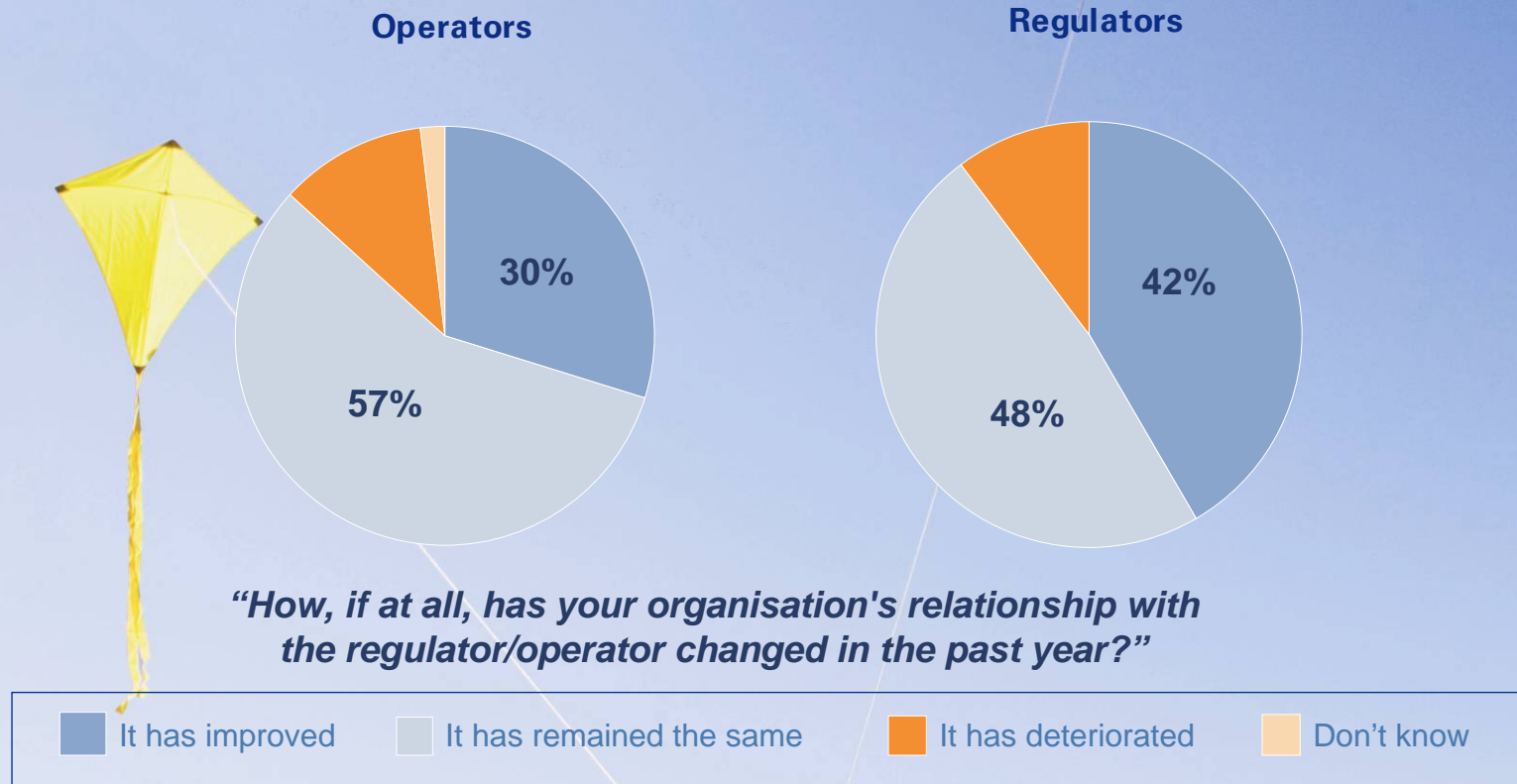
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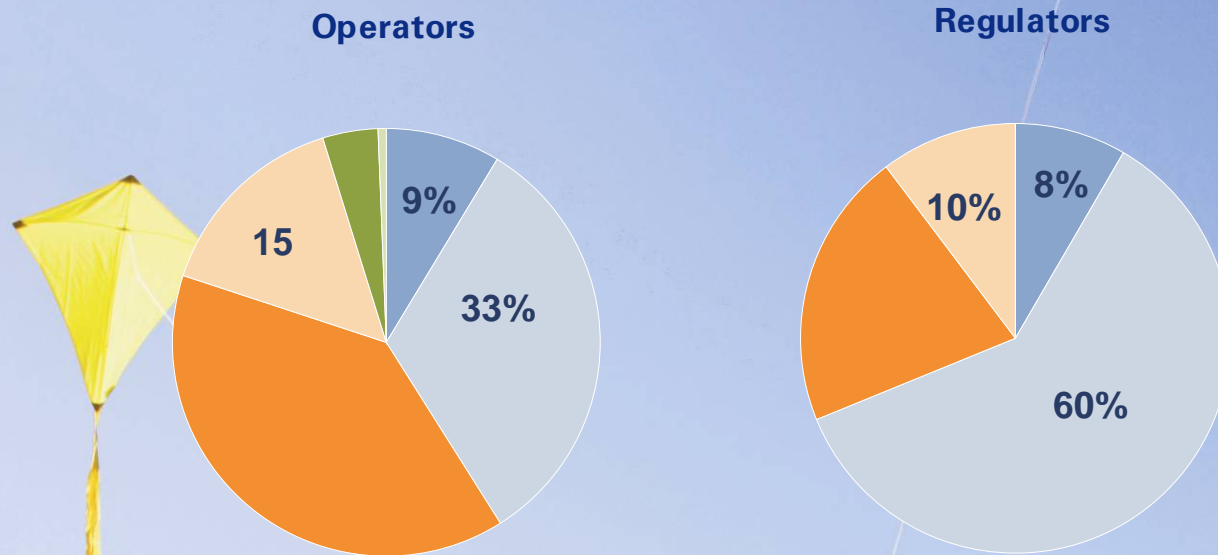


# Operator-regulator relationships are evolving for the better

*“As a consequence of the economic crisis, we are in a fundamentally different place than we were five years ago” Lord Carter*



# But operators remain more sceptical

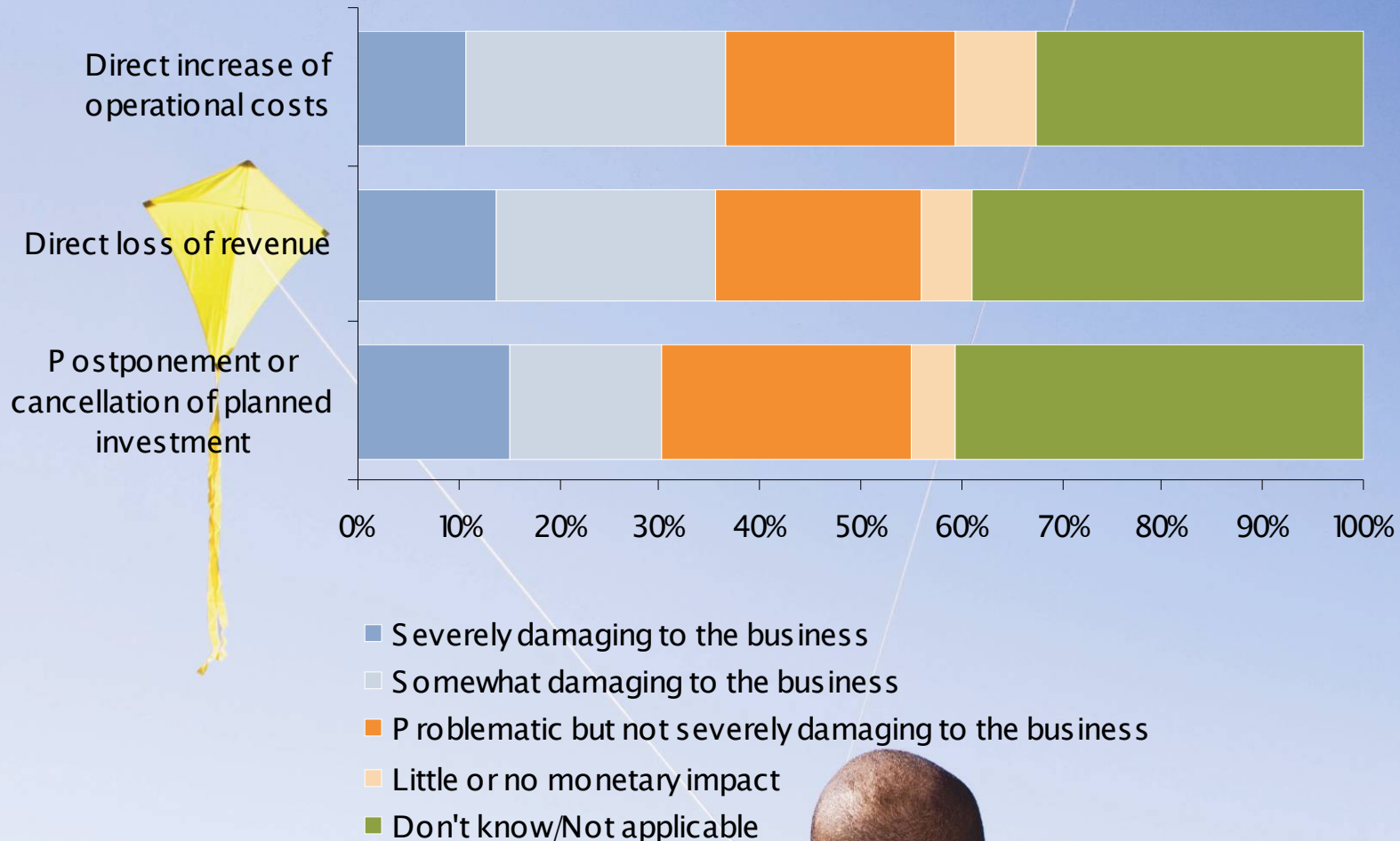


***“How would you characterise the overall level of trust that exists between your organisation and the regulator/operator?”***

■ Very high   ■ High   ■ Neither high nor low   ■ Low   ■ Very low   ■ Don't know

# Operators see a lot at stake from the trust/regulatory uncertainty agenda

“If regulatory uncertainty has impacted on planned investments, revenue or costs, please characterise the nature of the impact in terms of its monetary value”



# Achieving genuine trust hinges on the development of a mutual understanding

**To operators: “Which of the following measures or developments would be the most beneficial for improving the overall level of trust between operator and regulator?”**



# Achieving genuine trust hinges on the development of a mutual understanding

**To regulators: “Which of the following measures or developments would be the most beneficial for improving the overall level of trust between operator and regulator?”**



# But there must be a solid institutional foundation for trust to flourish

*“If there have been instances of regulatory uncertainty in your industry in the past three years, which of the following have been the primary causes?”*

Causes by importance	Operator	Regulator
1	<ul style="list-style-type: none"> <li>Policy uncertainty at Govt level</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient resources available to regulator</li> </ul>
2	<ul style="list-style-type: none"> <li>Policy uncertainty within the regulator</li> </ul>	<ul style="list-style-type: none"> <li>Inadequate/inaccurate information provided by operator</li> </ul>
3	<ul style="list-style-type: none"> <li>Excessive Govt influence over regulator</li> </ul>	<ul style="list-style-type: none"> <li>Undue delay in provision of information by operator</li> </ul>
4	<ul style="list-style-type: none"> <li>Inadequate knowledge/skills of regulator’s staff</li> </ul>	<ul style="list-style-type: none"> <li>Policy uncertainty at Govt level</li> </ul>
5	<ul style="list-style-type: none"> <li>Poor understanding/communications between executives</li> </ul>	<ul style="list-style-type: none"> <li>Poor understanding/communications between executives</li> </ul>

# Industry consultations, a key tool in building trust, will widen the gap if they are more form than substance

*“The [regulatory] engagement is not sincere. They know what they want to do, they go ahead and they do it”* Regulatory manager

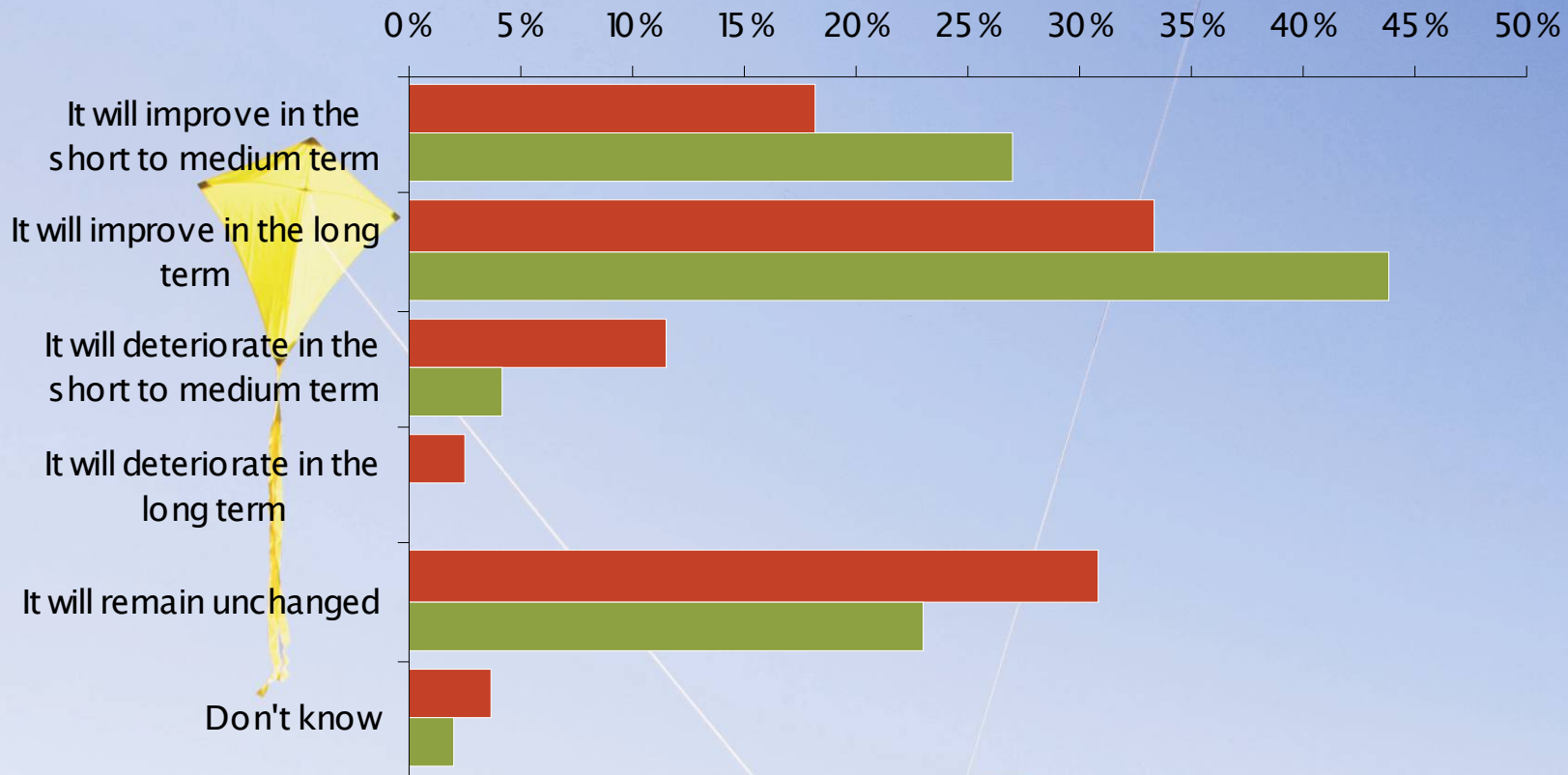


# Processes and frameworks are important, but people and personal relationships are the critical ingredients

- “What do you view as the most important contributors to an effective operator-regulator relationship?”
  - Good personal rapport between senior executives at both organisations
    - Operators – top answer at 46%
    - Regulators – top answer also at 46%
- And the tone at the top flows down through both organisations

# And the prospects for the future?

*“How do you think the operator-regulator relationship will change in the future?”*



■ Operators ■ Regulators



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