

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

# FINANCIAL SERVICES AND MARKETS BILL

*First Sitting*

*Wednesday 19 October 2022*

*(Morning)*

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### CONTENTS

Programme motion agreed to.  
Written evidence (Reporting to the House) motion agreed to.  
Motion to sit in private agreed to.  
Examination of witnesses.  
Adjourned till this day at Two o'clock.

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**not later than**

**Sunday 23 October 2022**

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**The Committee consisted of the following Members:**

*Chairs:* †MR VIRENDRA SHARMA, DAME MARIA MILLER

Bacon, Gareth ( <i>Orpington</i> ) (Con)	† Hardy, Emma ( <i>Kingston upon Hull West and Hessle</i> ) (Lab)
† Bailey, Shaun ( <i>West Bromwich West</i> ) (Con)	† Hart, Sally-Ann ( <i>Hastings and Rye</i> ) (Con)
† Davies, Gareth ( <i>Grantham and Stamford</i> ) (Con)	† McDonagh, Siobhain ( <i>Mitcham and Morden</i> ) (Lab)
† Davies, Dr James ( <i>Vale of Clwyd</i> ) (Con)	† Mak, Alan ( <i>Havant</i> ) (Con)
† Docherty-Hughes, Martin ( <i>West Dunbartonshire</i> ) (SNP)	† Morrissey, Joy ( <i>Beaconsfield</i> ) (Con)
Eagle, Dame Angela ( <i>Wallasey</i> ) (Lab)	† Siddiq, Tulip ( <i>Hampstead and Kilburn</i> ) (Lab)
† Grant, Peter ( <i>Glenrothes</i> ) (SNP)	† Tracey, Craig ( <i>North Warwickshire</i> ) (Con)
† Griffith, Andrew ( <i>Financial Secretary to the Treasury</i> )	Twist, Liz ( <i>Blaydon</i> ) (Lab)
† Hammond, Stephen ( <i>Wimbledon</i> ) (Con)	Bradley Albrow, Kevin Maddison, <i>Committee Clerks</i>
	† <b>attended the Committee</b>

**Witnesses**

Victoria Saporta, Executive Director of Prudential Policy, Prudential Regulation Authority

Sheldon Mills, Executive Director of Consumers and Competition, Financial Conduct Authority

Sarah Pritchard, Executive Director of Markets, Financial Conduct Authority

Emma Reynolds, Managing Director, Public Affairs, Policy and Research, TheCityUK

David Postings, Chief Executive Officer, UK Finance

Chris Hemsley, Managing Director, Payment Systems Regulator

Charlotte Clark CBE, Director of Regulation, Association of British Insurers

Karen Northey, Corporate Affairs Director, Investment Association

## Public Bill Committee

Wednesday 19 October 2022

(Morning)

[MR VIRENDRA SHARMA *in the Chair*]

### Financial Services and Markets Bill

9.25 am

**The Chair:** I have a couple of preliminary announcements to make. *Hansard* colleagues will be grateful if Members could email their speaking notes to [hansardnotes@parliament.uk](mailto:hansardnotes@parliament.uk). Please switch electronic devices to silent. Tea and coffee are not allowed during sittings.

We will first consider the programme motion on the amendment paper. We will then consider a motion to enable the reporting of written evidence for publication and a motion to allow us to deliberate in private about our questions before the oral evidence session. In view of the time available, I hope that we can take those matters formally, without debate.

*Ordered,*

That—

1. the Committee shall (in addition to its first meeting at 9.25 am on Wednesday 19 October) meet—

- (a) at 2.00 pm on Wednesday 19 October;
- (b) at 9.25 am and 2.00 pm on Tuesday 25 October;
- (c) at 11.30 am and 2.00 pm on Thursday 27 October;
- (d) at 9.25 am and 2.00 pm on Tuesday 1 November;
- (e) at 11.30 am and 2.00 pm on Thursday 3 November;

2. the Committee shall hear oral evidence in accordance with the following Table:

Date	Time	Witness
Wednesday 19 October	Until no later than 10.10 am	Prudential Regulation Authority Financial Conduct Authority
Wednesday 19 October	Until no later than 10.40 am	TheCityUK UK Finance
Wednesday 19 October	Until no later than 10.55 am	Payment Systems Regulator
Wednesday 19 October	Until no later than 11.25 am	Association of British Insurers Investment Association
Wednesday 19 October	Until no later than 2.25 pm	The Bank of England
Wednesday 19 October	Until no later than 2.45 pm	Which?
Wednesday 19 October	Until no later than 3.10 pm	Access to Cash Group Fair by Design
Wednesday 19 October	Until no later than 3.10 pm	New Financial

Date	Time	Witness
Wednesday 19 October	Until no later than 3.55 pm	Association of British Credit Unions Ltd. Building Societies Association
Wednesday 19 October	Until no later than 4.10 pm	CIFAS
Wednesday 19 October	Until no later than 4.25 pm	Innovate Finance
Wednesday 19 October	Until no later than 4.40pm	Mr Martin Taylor

3. proceedings on consideration of the Bill in Committee shall be taken in the following order: Clause 1; Schedule 1; Clauses 3 to 7; Clause 2; Schedule 2; Clause 8; Schedule 3; Clauses 9 to 13; Schedule 4; Clauses 14 to 20; Schedule 5; Clause 21; Schedule 6; Clauses 22 to 46; Schedule 7; Clause 47; Schedule 8; Clause 48; Schedule 9; Clause 49; Schedule 10; Clause 50; Schedule 11; Clause 51; Schedules 12 and 13; Clauses 52 to 63; Schedule 14; Clauses 64 to 73; new Clauses; new Schedules; remaining proceedings on the Bill;

4. the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 3 November.—*(Andrew Griffith.)*

*Resolved,*

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Andrew Griffith.)*

*Resolved,*

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Andrew Griffith.)*

**The Chair:** Copies of written evidence that the Committee receives will be made available in the Committee Room and circulated to Members by email. We will now go into private session to discuss lines of questioning.

9.27 am

*The Committee deliberated in private.*

### Examination of Witnesses

*Victoria Saporta, Sheldon Mills and Sarah Pritchard gave evidence.*

9.31 am

**The Chair:** Before we start hearing from the witnesses, do any Members wish to make any declarations of interest in connection with the Bill?

**Stephen Hammond** (Wimbledon) (Con): I guide the Committee and witnesses to my entry in the Register of Members' Financial Interests.

**Craig Tracey** (North Warwickshire) (Con): I chair the insurance and financial services all-party parliamentary group and am a former insurance broker.

**Peter Grant** (Glenrothes) (SNP): I have money saved and invested with Nationwide building society, which has submitted evidence on its own account. I am also with a credit union that I believe is affiliated to the association of one of the witnesses.

**Martin Docherty-Hughes** (West Dunbartonshire) (SNP): I am chair of the all-party parliamentary group on blockchain.

**Gareth Davies** (Grantham and Stamford) (Con): I am a vice-chair of the APPGs on environmental, social, and governance and on financial markets and services. I also spent 14 years in financial services and my wife works in financial services.

**Shaun Bailey** (West Bromwich West) (Con): I am chair of the all-party parliamentary group on financial resilience.

**Sally-Ann Hart** (Hastings and Rye) (Con): My husband and two sons work in financial services.

**The Chair:** Anybody else? No.

We will now hear oral evidence from Sheldon Mills, interim executive director of strategy and competition at the Financial Conduct Authority; Sarah Pritchard, executive director of markets at the Financial Conduct Authority; and Victoria Saporta, executive director of prudential policy at the Prudential Regulation Authority. Before calling the first Member to ask a question, I remind all Members that questions should be limited to matters within the scope of the Bill and that we must stick to the timings in the programme order that the Committee agreed. For this panel, we have until 10.10 am. Will the witnesses please introduce themselves for the record?

**Sarah Pritchard:** I am Sarah Pritchard, the executive director of markets at the Financial Conduct Authority.

**Sheldon Mills:** I am Sheldon Mills, the executive director for consumers and competition at the Financial Conduct Authority.

**Victoria Saporta:** I am Vicky Saporta, the executive director of prudential policy at the Prudential Regulation Authority.

**Q1 The Financial Secretary to the Treasury (Andrew Griffith):** Good morning. Thank you for appearing before the Committee. I have a general framing question to open up the conversation. I suspect that the Chair would like you to keep your answers short, because I know many colleagues on both sides of the Committee want to come in.

The opportunity of the Bill, which will be the first piece of *ab initio* legislation for 23 years in the financial services domain, is to help the effective functioning of financial markets in society and to help the economic prosperity on which we all depend. Will you talk a little about how you see the opportunities in the Bill? How do you think about the competitiveness of the UK regulatory corpus? How would you advise the Committee on making the best advantage of changes in technology—such as digital ledger technology, but that is just one—and of the opportunity to pare back the corpus of inherited European legislation to those purposes?

**Victoria Saporta:** Thank you, Minister. I very much agree with your comment that the Bill presents a unique opportunity to set a framework for financial services that is world leading and the best in practice internationally. In my view, the Bill as introduced on First and Second Reading achieves that.

I will pull out a couple of things that I think are particularly important. Best international practice, as set out by international standards setters and the IMF, is for operationally independent regulators to pursue technical rule making based on the framework and objectives set by Government. That is because there is plenty of empirical evidence that the operational independence of regulators is associated with better financial stability and economic stability outcomes. That is very much recognised among the financial regulatory community internationally, and it supports competitiveness.

That is important, particularly for a global financial centre, which we have the pleasure to have here in London and the UK, because, as the IMF said in its recent FSAP of the UK, financial stability is a global public good within the UK. Our actions over here, as we have seen in recent events, can spill over to other markets. It is therefore very important that we have this high international standing so that regulators who allow firms to come to London to be regulated by us can have trust in that.

The Bill achieves all of that, but it gives us greater powers, and with greater powers must come greater accountability. We at the PRA and the Bank really welcome that greater accountability. We always have seen our policy frameworks as being supported by accountability to Parliament, and the various provisions and amendments support that.

On competitiveness, there is a new secondary objective that did not exist before, which says that we must pursue competitiveness and growth in the medium and long term as a secondary objective. That is, as long as we are advancing safety, soundness and financial stability within the PRA's remit, we should look at the options that advance competitiveness and growth in the medium and long term.

We think that is the correct balance. It will allow us to take a very proactive approach to competitiveness. The PRA issued our approach to the Bill, as it currently stands, to aid accountability to you. In that discussion paper, we set out some thoughts about how we would go about doing that. The Bill also has certain areas that would help fintech in the UK.

**Q2 Andrew Griffith:** Does anyone want to more directly address my question on competitiveness and opportunity?

**Sheldon Mills:** I will be brief, in the interests of time. Clearly, the Bill represents a significant opportunity—almost a once-in-a-generation opportunity—to transform financial services regulation. There are a few components to that. The first is the fact that the regulators will be given the powers to transpose the retained EU law into UK law. That provides an opportunity for us to think in terms of the UK financial services system and what we need to support UK financial services and ensure that we are a leading centre, worldwide, for financial services.

We welcome the other opportunity in the Bill—the secondary competitiveness objective—on the basis that it provides a spur to us to think about growth and competitiveness as we pursue our primary objectives of competition, consumer protection and market integrity.

The final point, which goes to your point about the corpus of rules, is that I think some of the powers, and some of the exhortations in the Bill for us to review our

rules, are important. It is important for us always to have an efficient rule book and system so that we do not place as much burden on business as we otherwise would, and so that the system is certain, consistent and effective. There are genuine opportunities in the Bill.

**Q3 Tulip Siddiq** (Hampstead and Kilburn) (Lab): I thank the panel for coming today. The Government announced on Second Reading that they intend to introduce an intervention power enabling the Treasury to direct a regulator to make, amend or revoke rules in matters of significant public interest. Do you think such a move would represent a significant departure from the UK's model of regulatory independence, and would such a power affect your regulatory decision making process? Sheldon Mills, you touched briefly on that, so may I ask you first?

**Sheldon Mills:** Of course. It is a matter for Government as to what amendments they put to Parliament, and it is then a matter for Parliament as to what you do with them. You always have to be careful as a regulator not to tell Parliament what to do, but I will put some thoughts forward.

Independence needs to be at the heart of the regulatory system, so I think it will be important, if and when that amendment is put forward, to think about how the independence of the regulators is sustained. I understand from Government pronouncements that there is a commitment to the independence of the regulators, and that the proposed amendment, which I have not seen, is meant to ensure that where a public interest mechanism is needed—where the Government wish to think about the public interest—there is one to bring forward.

I have worked in regimes with public interest tests. I ran the mergers division at the Office of Fair Trading and the Competition and Markets Authority, and my learning from that is that, if put in place, such a test should be used exceptionally and with care, and that there should be specificity about the matters of public interest—in this case, financial services—on which it would be used.

We are working constructively with HMT in relation to this, and we would do so if such a power were introduced. The only point I would make—Vicky may come to this—is that the standing of the UK financial system is also built on its independence and its consistency of regulation, and it is important that we think through that as we design this regime.

**Victoria Saporta:** I very much agree with what Sheldon said. We have not yet seen the amendment, so we have to reserve judgment on it, but it will depend on the formulation.

A formulation whereby the Government can force or direct us to make or amend rules that we have already made, and that fall squarely within the statutory objectives that Parliament has given us, may be perceived as undermining operational independence and all the benefits that I talked about earlier. That could have adverse implications for our international standing and, ultimately, our competitiveness.

A formulation that is squarely outside our objectives—for matters of national security, for example—and does not have to do with safety and soundness, or the other objectives and “have regards”, could be a different matter if it is tightly done.

Finally, sometimes I have read in the press and in previous ministerial comments that it makes sense in a parliamentary democracy to ask the regulators to take another look. I just want to say that in clause 27 there is a review power that gives the Treasury powers to force us—to direct us—to take another look and, indeed, to appoint a third party to do so.

**Q4 Peter Grant:** Good morning to the witnesses. Mr Mills, you mentioned to Ms Siddiq that you had not seen the proposed amendment. Has the FCA been consulted at all about the text or the principle behind that amendment?

**Sheldon Mills:** Of course we have had discussions with HMT in relation to the proposed amendment. I personally have not seen it.

**Q5 Peter Grant:** Thank you. When you appeared before the Public Accounts Committee earlier this year about the British Steel pensions scandal, you and your colleague indicated that many of the things that MPs might have expected you to do to protect British Steel pension holders, you did not have the power to do at that time. Does the Bill, as it currently stands, give you sufficient powers to intervene in the way that we would have liked in the event of another pension scheme getting into difficulty?

**Sheldon Mills:** That was some months ago, but I recall that in the context of the British Steel pension scheme we have a power that allows us to do some particular things that provide redress en masse for British Steel pension holders. That is what we are using. We have most of the powers that we need to support British Steel pension scheme holders. The Bill does not interfere with any of our existing powers. I do not think it gives us any additional powers that are relevant to the British Steel pension scheme holders issue.

**Q6 Peter Grant:** I was thinking particularly about the powers to stop the damage from being done, rather than simply the power to pay financial redress, which usually takes a long time, is very stressful for victims and sometimes comes too late for victims who do not live long enough to see the compensation. The gross misbehaviour of a large number of financial advisers led to that scandal and many others. Are you telling us that, as it stands, the Bill does not give you significantly greater powers to intervene and get these people out the market as soon as you realise there is a problem?

**Sheldon Mills:** I think that what we would have said—I would need to look at the record to see the context—is that, effectively, we have to go through due process and understand the evidence and the data that would be there to see how those independent financial advisers are behaving. Therefore, the speed and processing of that may be what we were referring to.

If I remember at the time in relation to the British Steel pension scheme, the law was changed to allow people to exit their pensions under pensions freedoms. There was a range of issues in relation to understanding how independent financial advisers were going to respond to that. The speed and pace with which they did respond led to issues such as some of the challenges that British Steel pension holders have now. To confirm: there is nothing the Bill that specifically gives us additional powers in relation to those individuals.

**Sarah Pritchard:** I want to come in on a slightly broader point, which is that in the transfer of retained EU files, which encompasses part of the Bill, there are some EU files where, at the moment, the FCA will have limited lawmaking powers. The Bill will provide a framework that, file by file, the FCA will need for rule-making and enforcement powers to be considered at that time. That does not answer your question specifically in relation to British Steel, but it provides a mechanism, so you go through that analysis and assessment file by file.

**Q7 Stephen Hammond:** I thank the panel for coming this morning. I have two questions. Can we be clear that in the UK regulatory landscape and the international financial regulatory landscape there are public interest tests that are operated but do not affect the operational independence of regulators?

**Victoria Saporta:** In the financial regulatory space, the only example I know of where there is a test whereby the Government—I am not talking about Parliament—can intervene and revoke regulatory rules is in Australia. APRA—the prudential regulatory authority in Australia—has never been exercised. Whenever the IMF has done financial sector assessments, it has been critical. There are provisions, again in Canada, but the US system does not have any. It is Congress who can revoke material pieces of regulatory standards within 60 days. This is my understanding of it in financial regulation, which is separate to how it might exist in other types of regulation.

**Q8 Stephen Hammond:** But in the US there is obviously a different system in terms of the scrutiny of the financial system, which is probably why that power is vested there. I think that, from what Mr Mills said, there is actually already a public interest test in the CMA.

**Sheldon Mills indicated assent.**

**Stephen Hammond:** I just wanted to ensure that was on the record. Can we talk a bit about the metrics and transparency you might use to show that you are meeting the secondary objective—that the cost-benefit panel’s analysis will be transparent—and also how you consider you will need to show that you have met the accountability tests?

**Sheldon Mills:** Sure. I am happy to start with that. We are waiting to see the final description of the clause on competitiveness. Its current iteration talks about competitiveness and growth. It also talks in terms of the medium and long-term growth of the financial services sector and the UK economy. We have started to think about what the input measures we might see. Those are the things we can act upon ourselves.

A good example of that would be our gateway—our authorisations process. Is it as efficient as it can be? Does it place unnecessary burdens on time, pace and the application of it? That can help with the entry of firms into the UK. That is important. We are doing work on our gateway now. That is something on the input measures, but we then need to think about the outcomes. It is important to think about what data and metrics are available that have a causal chain between some of the activity we have—our authorisations activity, our policy activity and so on—and the outcomes we are seeking to achieve. One of the challenges we have is that

the data on the link between financial services activity and growth and competitiveness—regulatory activity—is not significant. That said, we are looking proactively to see what measures we can find.

There are also two components to those outcomes. There is the activity that our financial services industry is providing, such as lending and support in terms of insurance and so on to UK firms and overseas. Then there is an outward form of competitiveness, thinking about how our UK plc financial services industry is doing in exporting financial services across the world. Both of those will be outcomes we will need to find measurements on.

Finally, there is the meta outcome. There is certainly Office for Budget Responsibility data that talks about sustainable growth. What is the higher level growth-type outcome you can look at and seek to link? I do not have the full gamut of that, but we are working very closely on it, so that we can provide measures and metrics that can support our use of the objective.

**Q9 Stephen Hammond:** And those would be transparent?

**Sheldon Mills:** Of course, absolutely. We will be transparent on that.

**Q10 Emma Hardy (Kingston upon Hull West and Hessle) (Lab):** Good morning. Sheldon, I read a speech of yours before about financial inclusion; I know it is something you care about. On the Treasury Committee, we have had a conversation similar to the one we are about to have. You probably know what I am going to ask you.

The Government have opted so far to not have a “have regard” for financial inclusion in the Bill. Do you believe that such a “have regard” for the FCA would ensure financial inclusion as a greater priority for the regulator? What else could be done with the Bill to ensure that financial inclusion is given a greater prominence?

**Sheldon Mills:** I hope we won’t have the same conversation as before. We have done some more work on financial inclusion following our conversations. Our position is still the same: we do not think we need a “have regard” on inclusion. We don’t think that that would add to our ability to act within our remit in line with our objectives. We have our consumer protection power and we have put in place our new consumer duty, which asks firms to meet a higher standard. We feel that we have sufficient powers to fix any problems that we feel we need to solve.

As we discussed last time, the regulator’s role is to support firms and the market to deliver to as many consumers as possible, including those who are vulnerable or might be excluded. However, we do not do that alone; we do that with partners such as Government, local authorities, charities and others. In relation to that, we are taking a proactive role and arranging a financial inclusion policy sprint in the autumn, working with Fair4All Finance and others. We will bring as many actors as possible into that space, using our innovation labs to work through the types of innovative activity we can put the financial services industry to in terms of tackling financial inclusion.

At the moment, we do not think we need a “have regard” given our current remit and the powers we have.

**Q11 Emma Hardy:** As we have discussed before, the current system is not working for everyone because too many people are excluded. We have also previously asked what happens to the customers who nobody wants, in terms of financial inclusion. Are there any other opportunities in the Bill to strengthen your role within financial inclusion? With respect, what has happened so far has not been altogether successful.

**Sheldon Mills:** I have worked with HMT and supported the inclusion of a few things in the Bill that might help with this matter. One reason why the financial services sector has adopted more of a risk-based approach to the customers it serves relates to the risks it faces of follow-on redress and other damages. There is always a balance between what you pay out to consumers who might well be harmed now and what happens with future consumers.

In the Bill, we have a duty of co-operation between us, the Financial Ombudsman Service and a few other regulators. We will try to ensure that we are managing some of the extensive use of claims management companies, which puts quite a lot of pressure on firms. Firms should pay redress and compensation where that is necessary, but there is a lot of pressure on those firms. We have to have a reality as to how things work in how the commercial world. That means that boards can then become more risk averse in terms of the services they offer.

I am keen to get some of our largest and smaller institutions innovating around expanding the number of customers they serve. People are keen, but we have to have the balance of how the system works in order to support that.

Another area in the Bill, or in our proposals, that will help is in relation to credit unions. After our action against certain high-cost, short-term credit firms, we are already seeing that credit unions are taking more of a share of credit being provided to people who might be in a category that borders on exclusion. Anything that can support credit unions safely expanding—I have the PRA to my left—will be really helpful for the communities underlying this discussion.

**Emma Hardy:** Did you want to add anything, Victoria?

**Victoria Saporta:** No, I think Sheldon has covered it.

**Q12 Gareth Davies:** Good to see you again, Sheldon. Can you confirm whether you know of any country in the world that has a competitive objective for its regulators?

**Sheldon Mills:** I'm not aware of one. Vicky?

**Victoria Saporta:** Singapore has one. Its financial stability, however, is primary; it overrides the competitive objective, which is secondary. There is the Hong Kong Insurance Authority. Otherwise, it is not common, particularly for prudential authorities, which is what I know about.

**Q13 Gareth Davies:** Australia and Japan also have regulators with a competitive objective. Would you regard Singapore, Hong Kong, Japan and Australia as being robust regulatory financial centres?

**Sheldon Mills:** We do not like to comment on other financial centres, but, yes, I would consider them to be robust financial centres.

**Q14 Gareth Davies:** You consider them to be robust financial centres. Would you consider those financial centres of Japan, Australia, Singapore and Hong Kong to be competitive financial centres to the United Kingdom?

**Sheldon Mills:** Yes, in certain respects.

**Gareth Davies:** Which respects?

**Sheldon Mills:** I think they are competitors to the financial services system. The UK is extremely strong, varied, and has a multiplicity of financial services. Some of the competition that comes from some of those regions is quite specific in terms of what it seeks to compete with. We have a very broad-based financial services system.

**Q15 Gareth Davies:** Thank you. Sarah, how do you believe the secondary competitiveness objective might change your behaviour and your policy making?

**Sarah Pritchard:** From an FCA perspective, it is very much as Sheldon has said. It is important to say we support the Bill as it is currently framed. We think a secondary competitiveness objective can work alongside our primary statutory objectives. It will give us another lens through which to look at the policy work and the development of the regulatory agenda that we are taking forward. Back to the points raised previously on transparency and accountability, it will give us another method by which we will be reporting and considering our outcomes against. We will take that into account. We think it can work as a secondary objective.

On the various elements that make up competitiveness that have been touched on earlier, I think that innovation and ensuring that we can stay ahead of the game with the pace of development across the financial services markets is really important. You can see the financial markets infrastructure sandbox proposals contained within the Bill. There are proposals there on critical third parties as well, so you can already see on the face of the Bill in those particular areas a real desire to make sure that the UK can stay in lockstep or stay competitive as a country enabled through the way in which the financial services regulatory framework is developed going forward.

I think the agility is important. We often hear that regulators are too slow. Sometimes we hear that regulators are too fast in terms of putting out too many consultations. Clearly there is a balance there. We have shown ourselves able to act at speed through the Russia-Ukraine conflict and introduced new rules on side pockets to enable support in that context of war. We will need to maintain that flexibility to be agile when we need to, while retaining the checks and balances that are really important in terms of transparency and accountability.

**Q16 Siobhain McDonagh (Mitcham and Morden) (Lab):** The FCA announced in June that you would be strengthening the protection of access to banking services. Some might say that this was closing the stable door after the horse has bolted, given that 50% of branches in town centres have now closed. What powers does the FCA currently have to protect banking services, and why were you not doing that before?

**Sheldon Mills:** Thank you very much for the question. The first framing point to this question is to understand that banking services have and are changing, and there



are many, many benefits of those changes. The move towards digitalisation of banking services provides a huge amount of support to many people who are vulnerable. My mother is deaf and the change to a digital means of banking services has transformed her life completely.

The starting point must be that we have to consider the variety of ways in which people can provide banking services. That said, we know that, locally, branches can be important for communities. It is not just branches. It is a point at which people can deposit money and take out money. You can have a variety of those. They can be branches or post offices. They can be what we are trying to encourage the industry to develop when they close branches.

**Q17 Siobhain McDonagh:** Sorry, but my question is: what powers do you have and what are you doing?

**Sheldon Mills:** I am coming to it. In the light of that, what we have sought to do as we have seen firms decide to close their branches in the face of changing to digitalisation—there is the cost of keeping branches, which are very underutilised—is ensure that they look very closely at the alternatives to those branches when they go through those closure plans. We have had branch closure guidance in place for almost a year now. We work very closely with all the largest lenders and institutions to monitor their branch closure activity and ensure that they are providing appropriate services to those who need them in those localities as they seek to close some of those branches.

In terms of access to cash, the majority of the population—99.7% of the UK population—is within 5 km of a free-access cashpoint. We welcome the Government's proposals on access-to-cash legislation so that we can get greater powers to ensure certain aspects of access to cash.

**Q18 Siobhain McDonagh:** I am really pleased that your mother gets good access to banking services. Unfortunately, that does not extend to a lot of the people in my constituency who do not feel able to use online services, either because they do not have access to the internet or know how to use the internet or because they are frightened because they are worried about being scammed. As I understand the current rules, it is only when the last bank in town closes that there is there any consideration of banking hubs or other facilities. That is far too late for the vulnerable customers that my hon. Friend the Member for Kingston upon Hull West and Hessle referred to in her earlier question. What power does the FCA have to do something real to help those excluded customers, and what extra powers would you need in order to make that real?

**Sheldon Mills:** We are using our existing “treating customers fairly” principle in order to put pressure on banks to ensure that they are looking after those customers that you talk about, who are vulnerable, in those communities and providing them with alternatives to branches if they close. Our updated guidance, which is stronger, asks for those alternatives to be in place before they close that last branch in town. It also deals with partial closures and issues such as that. I have been out to many local communities in order to see the impact of branch closures, and I have been public in terms of saying to the banks that they need to pick up the pace in relation to the alternatives for those communities: banking hubs, mobile banking and other activity. We are working

very closely with LINK, which is currently helping the banks with the banking hubs, and seeking to get them to pick up that pace.

**Q19 Siobhain McDonagh:** But you are not slowing the number of branch closures, and people are still experiencing these difficulties in Mitcham. Please: I would love you to come to Mitcham—

**Sheldon Mills:** I would be very happy to do so.

**Siobhain McDonagh:** And I will show you around. It is a great place. I will even buy you lunch in one of the cafés.

**Sheldon Mills:** I am sold—I will come.

**Q20 Siobhain McDonagh:** In the case of the Halifax, I could not even convince the Halifax to come to a public meeting to talk to people about their experiences. The banks are just carrying on in the way they have always carried on—with hope of some service tomorrow. We are told that the post office will be great, but what if the post office is not accessible? What if people are worried about accessing cash right in the middle of other people and fearful of not being able to hang on to their money? What if they are disabled and just cannot get into their post office branch? These are the things that are really happening, whatever the current regulations are.

**Sheldon Mills:** Yes, these are real, genuine issues for people and I do understand them. We have researched some of the ways in which people access cash but also branches. It is important that all the institutions—I will not mention individual institutions—should be willing to speak to their customers and their communities as they close branches, because that is the way to understand what alternatives they need to be providing to those services. We recently worked with a major provider and we got it to pause its branch closures while it made a significant assessment and researched the needs of the local community, and then it was able to provide for that, so we are proactive in relation to this. I would be very happy to come to Mitcham and understand what is going on there.

**Q21 Siobhain McDonagh:** Lovely. You will be very welcome; the people there would love to meet you. Finally—I crave your indulgence, Mr Sharma—I want to ask about access to cash. For most people's constituents, access to cash is only any good if it is access to free cash withdrawal.

**Emma Hardy:** Yes.

**Siobhain McDonagh:** If people have to pay £1.99 every time they try to access £10 from a machine to keep them going for the week, that is a huge premium on being poor. In Pollards Hill in my constituency, we have only two pay-for machines, and that is what happens on a daily basis—people have to pay £1.99 for every bit of money that they get out. People take small amounts of money to try to control their budgets. We were delighted when the Co-op came to the parade, but it could not get free cash machines because its lease prevented it from having one.

**The Chair:** Order. I am afraid that brings us to the end of the time allotted for this panel.

**Siobhain McDonagh:** Can we just have a few words about free cash?

**The Chair:** No. That is the time allotted for the Committee to ask questions.

**Sheldon Mills:** We would be very happy to write to you.

**The Chair:** I thank our witnesses on behalf of the Committee.

### Examination of Witnesses

*Emma Reynolds and David Postings gave evidence.*

10.11 am

**The Chair:** We will now hear oral evidence from David Postings, chief executive officer of UK Finance, and Emma Reynolds, managing director of public affairs, policy and research for TheCityUK. We have until 10.40 am for this panel. Will the witnesses please introduce themselves for the record?

**Emma Reynolds:** Emma Reynolds, managing director of public affairs, policy and economic research at TheCityUK.

**David Postings:** David Postings, chief executive of UK Finance.

**Q22 Andrew Griffith:** Good morning. We will alternate questions; I will try to be brief and give you a broad opening question for the benefit of the Committee. Representing practitioners in the industry, could you give us your assessment of our competitiveness, how it has changed over time and how it compares internationally? Could you give us your views on the competitiveness duty in the Bill and where that should sit, and on any other matters that relate to how the Committee should use the Bill to make the most of the economic opportunities available to us? Could each of you take that question in turn?

**David Postings:** Thank you, Minister. The UK is an extremely competitive financial services centre, and has been for decades. The exit from the EU provides us with some challenges and some opportunities. The Bill has been worked on by my team in conjunction with HMT and the regulators, and we are very pleased with the content, particularly with regard to wholesale and capital markets. The amendments to EU legislation that it contains are quite detailed and technical, but they help with the competitiveness of the market and of the UK in that market.

**Q23 Andrew Griffith:** What is your members' view on the competitiveness duty in the Bill?

**David Postings:** They welcome it. I think it is really important. It gives us balance and the opportunity to make sure that the regulator has regard to that. Ultimately, being a more competitive financial services centre will generate greater tax revenues for the UK and growth—which are really important—as well as stability.

**Q24 Andrew Griffith:** Emma, the same question to you.

**Emma Reynolds:** Thank you, Minister. I reiterate that the UK is one of the world's leading international financial centres. I agree with David that exiting the EU has brought both challenges and opportunities. On the

opportunities that the Bill presents, we absolutely welcome the new secondary objective on international competitiveness and economic growth. The industry has been calling for that for some time. The Bill is a result of many years of the Treasury consulting our industry, and overall we are very supportive of it.

If the objective is done properly and the regulators meet it, it gives us an opportunity to tailor the UK's regulation to our market. Obviously, we do not have 27 member states to negotiate with any more, so we have an opportunity to tailor to our market. However, we want high standards, not low standards. We want the benefits of regulation, and any changes to regulation, to outweigh the costs. We want regulation to be proportionate to the risk involved. Obviously, all that will be rooted in many international agreements to which we have signed up as a country.

We think there are great opportunities here to enhance our competitiveness, but the proof will be in the pudding, rather than the Bill itself. The Bill enables that to happen, but it is very important that the Treasury and Parliament hold the regulators to account on their new secondary objective.

**Q25 Andrew Griffith:** I have one supplementary. Thank you both for those answers. It was put to me this morning that the UK capital markets raised just 1% of all global equity issuance last year. I will have to verify that statistic, but does that worry you, and should it worry us?

**David Postings:** If it is true, it should worry us—absolutely. I think the Bill is a good first step in addressing some of those issues. We have had the Lord Hill review, and its recommendations are contained in the Bill. The changes to the double volume cap and the share trading obligation will help the UK's competitiveness and our ability to grow that share.

**Emma Reynolds:** We are in a very competitive environment, and I think the UK is losing out to New York, when it comes to listings. We need to focus on that. We should not be complacent. Obviously, there is very big competition from the Asian international financial centres, too.

**Q26 Tulip Siddiq:** Thank you very much for coming in to give evidence. I will ask about the intervention powers and whether TheCityUK and UK Finance have seen or been consulted by the Government on the intervention powers that they are bringing forward. When the intervention powers come in, what risks are there to the international reputation and stability of UK financial services?

**Emma Reynolds:** First, let me say that we have discussed this power with Treasury officials, and we have submitted a paper to the Treasury and this Committee about how it could be defined. As one of the regulators said earlier, with greater power—obviously, this Bill and the exit from the EU confer a lot of new powers on the regulators—comes greater accountability.

There is a balance to be struck between enhanced regulatory accountability and maintaining the day-to-day independence of the regulators, which is something that international investors and businesses appreciate, because it leads to a stable regulatory environment. If the intervention power is tightly defined and used as a matter of last resort, you can minimise the risks. We

think it could be a very reasonable instrument and power to take, given the circumstances and the transfer of power.

**David Postings:** The EU regulation was constructed through primary legislation in the main, with the agreement of a number of countries in the EU. That is now being put into the rulebook in the UK, so the regulators have tremendous capability to amend those regulations. It is not unreasonable to have a power that allows Parliament to scrutinise that kind of thing. We have not seen a draft clause, but we have talked to the Treasury and the regulators about this.

The most important thing is that it is used sparingly and drawn tightly. The best overseas example that we could come up with was the Australian example. I believe that it has never been used, but it is there in extremis. It should be something that is very rarely used and not politicised. We need to get the balance between the scrutiny of the regulators and not politicising it. That is a very difficult trick to pull off, but we should be able to do it.

**Q27 Tulip Siddiq:** I have a quick follow-up. How do you think “significant public interest”, which is the phrase that is being used, should be defined? At what threshold do you think such a power should be triggered?

**Emma Reynolds:** The first question is very difficult to answer. I think it is probably one for the Government, if you do not mind me saying.

The answer to the second question is that there are occasions where regulation is not designed to meet the expected outcome—there could be a case where the regulator is not aware of national security risks—so there are occasions where such a power could be used. As I said before, it needs to be tightly defined. Defining a trigger would be useful, but equally you do not want to define it so tightly that it could never be leant on or even used. Given the amount of power that the regulators are being given, we think it is important that the broader societal and economic impact of the regulation is something that both Government and Parliament have the power to have a say in, if that regulation is deemed not fit for purpose.

**Tulip Siddiq:** Do you have anything to add, David?

**David Postings:** I don’t really, no.

**Q28 Stephen Hammond:** Good morning, panel; thank you for coming. In their evidence to us a moment ago, the regulator said they would be transparent with regard to their responsibilities for accountability in the metrics and reporting of CBA, but Emma, in your written evidence to us, you suggest:

“The Financial Services and Markets Bill should be amended to include a power to require regulators to transparently report metrics”.

I wonder if you could comment on that a little, please.

Secondly, you have mentioned proportionality, and again in your written evidence to us you suggest that there may necessarily need to be more of it when we consider the risk, the nature and the scope of businesses, who they are there for and who their customers are. Does the Bill set the right tone for proportionality, or do you think there is still more we should consider?

**Emma Reynolds:** To take your first question, we think it is important that the regulators are not marking their own homework with regard to the secondary objective. We welcome what the PRA said earlier and the discussion paper it has put out, but we do think the Treasury could take upon itself a power to demand that the regulators report more frequently and when the Treasury has some concern about whether they are meeting the new secondary objective. We do think the Bill should go further in that regard. We do not want this objective to just be in an Act of Parliament and for it to never really be a reality. The question is, “Does this bite?” That is what a lot of our members are saying. We think there are ways that you could hold the regulators to account on that.

Does the Bill set the right tone on proportionality? At its core, it is an enabling Bill, so the proof will really be in the pudding. We hope so. Hopefully, the secondary objective will mean that the regulators will take that very seriously—that their regulation should be proportionate—so we hope so, but it remains to be seen.

**Q29 Stephen Hammond:** So, like you have just said with regard to the first question, we should look at ways of making sure that that is firmly set down, rather than just a principle.

**Emma Reynolds:** Indeed.

**Q30 Martin Docherty-Hughes:** May I ask you both about clauses 21 and 22, and digital settlement assets? Ms Reynolds, you talked about high standards. I wonder if you could both say whether you agree that the definition of a digital settlement asset is satisfactory and robust enough to safeguard consumers. It is rather broad.

**David Postings:** I think it needs to be broad, because the digital asset environment can change quickly, and if you define things too narrowly, you risk missing the next wave of change. Yes, I think it is good and wise to define it broadly.

**Q31 Martin Docherty-Hughes:** But if the technology is moving that fast, how is Parliament—and, therefore, any legislation—going to keep up with it? That is a concern.

**Emma Reynolds:** The definition is broad and, as I understand it, it gives both the Government and the regulators a way to regulate in this area and bring things into the regulatory perimeter. It is our understanding that stablecoins will be the first of those digital assets. This is a very fast-moving area; the EU has its MiCA—markets in cryptoassets—regulation, which you will be aware of, which is a very broad framework. I think there is some advantage for the UK in being the second mover here, because there is some concern about some of the things MiCA has closed down. For example, it is not allowing stablecoin wallets to accrue interest. We are watching very carefully in this space, but I understand your concern about consumer protection. I think that is front of mind for our firms, and they want a level playing field as well.

**Q32 Martin Docherty-Hughes:** Would that include the smaller and medium-sized companies that might be involved, not just the big players? That halo effect is a concern for others, because the definition is literally to safeguard them, not the smaller and medium-sized players in the market.

**Emma Reynolds:** That could be a concern, yes.

**Q33 Emma Hardy:** David, may I ask you about the role of banks in tackling fraud? The legislation focuses narrowly on APP scams. Would you welcome the introduction of a broader national strategy to tackle fraud, delivered by key Government Departments and agencies, law enforcement, major banks and wider partners in the financial services sector? Would you welcome something on fraud that is a bit broader than what is in this Bill?

**David Postings:** I am not sure this Bill is the right mechanism for it. We have been working closely with Government and regulators on a fraud strategy for some time, so anything that takes the agenda forward has to be welcomed, because fraud is a huge burden on society and a rising crime, but I am not sure that this Bill is necessarily the right Bill.

**Q34 Emma Hardy:** For example, would you support new provisions in this Bill to facilitate data sharing agreements on financial crimes that extend beyond the banks to include fintechs, electronic money institutions, cryptoasset firms and payment systems operators? Wider data sharing agreements could be covered by the Bill. Would you find that helpful?

**David Postings:** The ability to share data is one of the key things in terms of helping to prevent fraud and, after fraud has taken place, sending money back to the right place. I would need to look at the wording, because that is not in the Bill at the moment.

**Q35 Emma Hardy:** It is not, but, in principle, something in the Bill to facilitate ways—

**David Postings:** Anything that we can do as a country to stem fraud has got to be welcome.

**Q36 Emma Hardy:** Would you welcome something else in the Bill to look at banks unlocking suspended accounts so that money can be used for fraud prevention?

**David Postings:** There is provision to do that already, or at least we have taken steps to do that.

**Q37 Emma Hardy:** Okay. So, in general, would you welcome anything that we can do to strengthen provisions against fraud?

**David Postings:** Yes.

**Q38 Gareth Davies:** I just want to pick up on one thing you said, David. Can you confirm that the removal of the share trading obligation will make the UK a more competitive and open market?

**David Postings:** Yes, it will.

**Q39 Gareth Davies:** Thank you. More broadly, concern has been expressed about the Bill in some quarters that a freer derivatives market will push up commodity prices. Do you have a view on that?

**David Postings:** I do not have a view on that, I am afraid.

**Q40 Gareth Davies:** Do you believe that derivatives in general and competitive trading markets push up commodity prices?

**David Postings:** They can change the volatility in the market. They do not necessarily push the price up, but they can change the volatility.

**Q41 Gareth Davies:** Thank you. Do you have a view on that, Emma?

**Emma Reynolds:** I defer to David.

**Q42 Peter Grant:** Clause 1 proposes to repeal around 250 pieces of European legislation, pretty much at the stroke of a pen. The rest of the Bill then expects the Treasury to replace all those bits of legislation by a process that will allow for very minimal parliamentary oversight. Do you have concerns either that there may be a period where parts of the market are inadequately regulated or, alternatively, that there is uncertainty as to what the regulations are, because of the process of repealing something before you know what is going to replace it?

**Emma Reynolds:** From what is in the Bill, I do not think that is the Government's intention. As I understand it, the Bill gives the power to the Treasury to transfer—restate—EU legislation, and we have encouraged the Treasury to think of this as a sequence, because we do not want big regulatory change in one go, as the compliance costs are quite high. We absolutely see that there is an opportunity to tailor EU legislation to our markets, so I do not think it is the case that this legislation would not apply; I think this is going to be done in a phased way.

**Q43 Peter Grant:** You are using terms such as “transpose” and “translate”, and the representatives from the FCA that we heard from earlier used similar terms. Are we talking about almost literally translating all these documents into the English of the United Kingdom or are we talking about significantly changing the legislation as part of that process?

**Emma Reynolds:** That is a matter for the Government. The Bill gives the Government broad legislative powers to amend the legislation that they have transferred, as I understand it.

**Q44 Peter Grant:** I have another question for both you. There have been suggestions that the Bill should place responsibility on the regulator to promote competitiveness. There have been suggestions that matters such as consumer protection and compatibility with the UK's climate change obligations should be given the same importance in the regulator's responsibilities as international competitiveness. If the Bill was amended to put that in place, would it cause significant difficulties for the financial services sector?

**David Postings:** It is not in the Bill at the moment. We would need to see the wording of what was proposed and the timescale. If you think about your first point, which I did not respond to, the difference is that the regulation will now be through rules rather than in legislation. We have had a fruitful working relationship with the Treasury and the regulators over the past year and a half since Brexit to produce what is in the Bill. Those changes have been well thought through with industry involvement and therefore get the balance right between protection, regulatory stability and the ability to be commercial. I would hope that, as the rules get translated over time, that process would continue.

On the green agenda, it is difficult for me to comment on something that is not in the Bill at the moment. What I would say is that we need to be thoughtful about the transition to net zero, as opposed to just the taxonomy

and the drive to get to net zero. There is a danger that, in prescribing that financial institutions have a balance sheet in a particular form by a particular day, you risk not having a transition to net zero, so that whole thing needs to be well thought through. We risk financial exclusion on the back of that for consumers as well. I would urge caution rather than lumping something into the Bill at this late stage.

**Q45 Peter Grant:** Are those comments made within the context that achieving a permanent change in net zero targets is not optional? It is absolutely necessary.

**David Postings:** The banking industry is 100% behind that transition, but the transition is the important point, not just greening the balance sheets of the firms.

**Emma Reynolds:** May I add to that? There is a huge commitment from financial services, and we also represent related professional services, in playing a part in enabling the transition to net zero. Financial services and financial regulators are an important part of a much broader picture, which is why green finance is actually led by the Department for Business, Energy and Industrial Strategy, not His Majesty's Treasury. It is about not just the supply of green finance, but the demand for such products. If we have a transition to net zero, it has to be about every sector pursuing a transition. Financial services has a critical role to play, but that has to be done in tandem with the transition in other sectors too.

**Q46 Sally-Ann Hart:** Good morning. Looking at the culture in the regulatory system and the culture of the regulators, do you think our regulators need a culture change? For example, do they need more commercial experience? We are looking at rules. There is a need for speed. Speed is of the essence when trying to make decisions or make things happen. Is that something we need to focus on?

**Emma Reynolds:** I certainly think there is room for a more commercial mindset in the regulators. This is not just about regulation by the way; it is about operational efficiency. One of the things we have been working on is delays in authorisations for senior managers, which can slow things down. There are other authorisations as well. We are encouraging the regulators to have a more commercial mindset and to be aware of the businesses' priorities. It is not just about regulation; it is about how efficient they are. If, for example, you want to bring in a senior manager to a bank or other institution in the UK and it takes you 18 months to 2 years, you could be doing that elsewhere, and that puts us at a competitive disadvantage. So, absolutely, we think that there is room for improvement in having a commercial mindset in the regulator.

**Q47 Sally-Ann Hart:** And more speed and less regulation.

**Emma Reynolds:** Proportionate regulation and—we have not got into the cost-benefit analysis panels—careful consideration of the benefits of regulation to make sure that the costs and burdens of regulation do not outweigh the benefit.

**David Postings:** I agree with Emma. To give a couple of examples, the cost-benefit analysis of the consumer duty had costs but no benefits—no financial benefits. The intent in the Bill to ensure that the FCA and FOS are aligned is really important as well, because it is very difficult for a financial services firm to operate in an

environment where we are not clear what the rules are when it comes to interpretation down the line. That makes people cautious, which can add to financial exclusion. The point that Emma made about authorisations is also really valid: there are still significant businesses awaiting authorisation post Brexit from large foreign institutions.

**Q48 Sally-Ann Hart:** That causes serious hold-up and affects our economic growth.

**Emma Reynolds:** And our competitiveness. If that can be done more quickly in another jurisdiction, business might well go there to set up or expand.

**David Postings:** Fundamentally, what we want is a competitive UK. We are only a small island off the mainland of Europe, but we want to generate big tax revenues to support growth in the economy. Anything we can do to help that is vital. Good, strong regulation is a key aspect of that. A nimble, commercially minded set of regulators to set that stronger regulation is vital.

**Q49 Andrew Griffith:** We have a few minutes left. One perception is that this is about the City of London. Your members, I assume, hail from all parts of the UK, creating employment and wealth in Edinburgh, Glasgow and some of our other great cities. Will you expand on that a little for the Committee?

**Emma Reynolds:** Sure. We represent the financial and related professional services industry, which employs 2.2 million people, and two thirds are outside London, contrary the characterisation that financial services are mainly in the City of London. We are the biggest net exporting industry, and more than 40% of our exports come from outside London.

**David Postings:** Yes, we produce higher-paid jobs, and there are big concentrations in Glasgow, Belfast, the north-east, the north-west and down on the south coast. It is a thriving industry and one that we need to support and nurture.

**The Chair:** We have two minutes left. Any quick questions for a quick response?

**Q50 Sally-Ann Hart:** Very quickly, the hon. Member for Mitcham and Morden raised the issue of access to cash and the reduction in banking services. The Bill contains substantial provisions to safeguard access to cash and halt the decline in banking closures and free-to-use ATMs. Do they go far enough? Will the Bill work?

**David Postings:** Absolutely it will work. This is something that we have been working on. We kicked this off as an industry 18 months ago. I have worked with the Treasury, the FCA and the consumer groups for the past 18 months on this. The aim is to make sure that cash provision for the most vulnerable—indeed, for all of society—is protected. The Bill will absolutely do that—through cashback without purchase, ATMs that are free for consumers to use, post office counters and shared banking hubs. Twenty-five shared banking hubs have been announced so far, and that number will increase. All that will provide the right level of cash access going forward. The banks will be subject to LINK as a body to decide what goes where, based on detailed local analysis, and then there is an operating company that banks own, which will implement the solution.

**Q51 Sally-Ann Hart:** Is there anything you want to add, Ms Reynolds?

**Emma Reynolds:** No. I defer to David. UK Finance provided leadership in this area—that is where the expertise sits.

**The Chair:** Order. I am afraid that brings us to the end of the time allotted for the Committee to ask questions. I thank the witnesses on behalf of the Committee.

### Examination of Witness

*Chris Hemsley gave evidence.*

10.40 am

**The Chair:** We will now hear oral evidence from Chris Hemsley, managing director of the Payment Systems Regulator. For this panel we have until 10.55. Could the witness please introduce himself for the record?

**Chris Hemsley:** I am Chris Hemsley, managing director of the Payment Systems Regulator.

**Q52 Andrew Griffith:** Thank you, Chris. I think we would all agree that payment systems are an increasingly important feature of our financial system. To be fair to them, I am trying to ask all the witnesses today broadly the same open, wide question, which is this: as we think about the Bill and the importance of the United Kingdom as a location for financial services—they are a really big part of our economy and, as we have just heard, produce jobs and prosperity across the whole United Kingdom—where do you think the opportunities for us are in the Bill, not just as we diverge from European-mandated regulation, but as we embrace new technology and seek to make ourselves more competitive? I will lead you a little, because some of the witnesses have struggled to get there: who is your competitive set when you think about the corpus as well as the operation of regulation? I hope that is open enough to give you the chance to speak.

**Chris Hemsley:** First off, I agree with your premise. The payment systems sit behind our day-to-day lives. They underpin what our businesses can do and our daily experiences as individuals paying and receiving. They genuinely underpin our productivity, economy and society. I absolutely agree.

In terms of the opportunity in the Bill, one of the key things that we will no doubt pick up is that it provides an opportunity to correct a specific problem that we have today. Some of the powers in the original financial services banking reform framework that the PSR was created under were turned off by some European legislation, and that prevents us from acting with that full suite of powers. That is really important for competitiveness, because if we can get the rules in the system right, that allows us to build trust in digital payments, which will support the economy and growth.

The other issue that I would pull out is that there are some quite important definitional clarifications in the Bill that ensure that the payment systems regulatory framework works for cryptopayments—stablecoin. We are now a regulator of the sterling finality system, which is a distributed ledger system. That bit of future-proofing, again, allows us to seize that opportunity of new technologies and new ways of payment and to make sure that they are appropriately regulated.

**Q53 Tulip Siddiq:** Do you think that the PSR has the expertise and resource to effectively regulate payment systems using digital assets such as stablecoins? What I am getting to is the pros or the challenges and risks that stablecoins might pose in terms of consumer access and competitiveness. I want to hear your opinion on that.

**Chris Hemsley:** I think that the short answer to that is yes, but it is a challenge. We are always seeking to recruit and make sure that we have the right balance of skills in the organisation. We have a range of specialists who cover different technologies and payment systems, so it is not something to be complacent about.

The other observation I would make is that some of the risks and issues—and some of the opportunities—presented by things such as cryptopayment and distributed ledger are familiar problems, but with a different technology behind them. We are worried about our consumers' money. Is it safe? Are arrangements for getting access to these systems fair and open? Are there competition problems? It is really important—the Bill does this—to make sure that that regulatory framework to tackle those familiar problems is also turned on for these new technologies, and that is the balance we need to strike.

**Q54 Tulip Siddiq:** I hear what you are saying, but it is not the same thing. I know those issues still exist with other forms of payment, but for stablecoin and digital assets, consumer protection levels need to be monitored more; consumers are more vulnerable, just because of the lack of knowledge. I am trying to get to whether you have specific tactics to ensure access, consumer protection and competition.

**Chris Hemsley:** We need to continue working closely with the two other principal regulators that tackle these issues—the FCA and the Bank of England—as we do today. We do that today with other technologies. We want the full framework to be turned on. With the FCA, we for example ensure that individual payment firms protect people's money. You are absolutely right; in a world where people might not understand what a particular asset is, and its potential to reduce or substantially change in value, there is a really important role for the FCA in ensuring that firms are dealing with their customers properly. There is then a role for us in ensuring that the systems work, and that the rules are open, transparent and protect consumers, system-wide. The Bank of England ensures there is sufficient security and resilience, so that the systems actually work when we need them to, as we increasingly rely on them.

**Q55 Martin Docherty-Hughes:** Perhaps we could come back, Mr Hemsley, to the issue of stablecoin. Some countries have actually banned its use; the European Union, as we have heard from the markets in cryptoassets regulation, is going ahead, along with the United States in terms of the Commodity Futures Trading Commission and the Securities and Exchange Commission, both at state and federal level, with getting regulation in process.

I am glad to see that there is some regulation in the Bill, but you used terms such as “future-proofing”. With this technology, we bandy around terms such as “innovation” and “future-proofing”. What does that actually mean, in real financial terms? Frankly, it is not the type of language that I, as a legislator, would like to see used in regulation of a market. It is not just that it is

unfamiliar; it does not seem like the correct kind of language or descriptives to use when we can have an impact, predominantly on consumers who might use these commodities and assets digitally. What do you mean by “future-proofing”?

**Chris Hemsley:** That is a very good challenge. I want to ensure that the full regulatory framework that we have in the UK is turned on and applies properly, so that we can manage consumer protection and competition risks. That is what I mean in terms of that definition. That applies particularly to how payment systems regulation works. We have some relatively broad definitions of what can be covered. The Bill helpfully clarifies that those broad definitions of where regulation can apply are sufficiently broad. The way that the regulation works is that it still requires the Treasury to issue a designation—the Minister issuing a designation of a system—and our statutory duties and checks and balances then kick in. It is shorthand. If I try a slightly more precise framework, you need to ensure that the initial definition is sufficiently broad, so that those subsequent decisions on if and how something should be regulated can apply.

**Q56 Martin Docherty-Hughes:** Forgive me, but you said there are similar issues. Frankly, there is nothing new under the sun. I am a fan of the technology, but it is the technology that has changed, not the issue. My concern is that these broad definitions, using terms such as “innovation” and “future-proofing”, do not give us the proper ability to scrutinise what is in front of us, because we are not talking about the reality on the ground. You face the same issues either in a fiat currency or a digital fiat currency.

**Chris Hemsley:** I agree with what you said. There are some familiar risks, and some new ones, that we need to be alive to. The fact that for the first time we could see the use of mass payment systems that are not linked to fiat is a new issue, and one that we need to manage.

I come back to an earlier point, which may help you to take decisions on the elements around definitions of what can be regulated. There is a series of gateways, almost: before something is regulated, it needs to fall within the definition of the Bill, and the Bill helps with that. There is then a test in the Financial Services (Banking Reform) Act 2013 that turns on the PSR’s powers: something needs to be designated by the Secretary of State for it to be regulated, and then our powers can apply. I want that to work. I want the definitions, the designation and our powers to work in this new context. I can see these new issues, as well as the familiar competition access issues that we have had to deal with in the past.

**The Chair:** I call Emma Hardy. You have five minutes.

**Q57 Emma Hardy:** I will be super-quick. The Bill provides for the reimbursement of fraud victims who send money using the faster payment system. Could that result in a legislative barrier that prevents you from implementing mandatory reimbursement for fraud on other payment systems?

**Chris Hemsley:** The short answer is no. There is an additional requirement for us to bring forward proposals on the faster payment system, and we have already set

them out in anticipation of that. We fully support that. The Bill does something broader. It removes this unintended consequence of European law for all payment systems. We will have the ability to use our full suite of powers, including in respect of fraud prevention, for all the payment systems.

Our powers vary slightly depending on which system we are talking about. We could apply these issues to, say, the cheque system or the BACS system, not just faster payments. We take a different approach on those systems, but the Bill allows you to turn on our full suite of powers to tackle the issues across the full suite of payment systems.

**Q58 Emma Hardy:** David Postings said that anything we could do to improve fraud prevention would be welcome. Are there any other areas of the Bill that could be strengthened to improve fraud prevention?

**Chris Hemsley:** I agree with what was said in the conversation you had earlier: it is really important to share data. I am not aware of particular barriers, but if there are any, I would of course support addressing them. The Bill gives us what we need: we need our FSBRA powers to be turned on. That allows us to move from the current approach, through which we have been indirectly tackling fraud, to being able to tackle it directly through the system rules.

**Q59 Emma Hardy:** Do you support data-sharing agreements and things like that?

**Chris Hemsley:** Indeed. We have work under way to encourage and support that.

**Q60 Sally-Ann Hart:** PayPal Europe decided to exit accounts, including those of the Free Speech Union and the Daily Sceptic, and although PayPal reinstated the affected accounts, what happened raised concerns about the protection of freedom of speech in the UK. Are the regulators—you and the FCA—able to address the apparently unchecked ability of financial service operators, such as PayPal, to effect private economic sanctions and censorship in the UK through denial of service actions? Are legislative safeguards needed in the Bill, or in other relevant legislation?

**Chris Hemsley:** This is principally a matter for the FCA, so it might be best for me to follow up on it in writing, and potentially with the FCA.

**Sally-Ann Hart:** That would be good.

**Chris Hemsley:** The PSR’s powers allow us to make sure that people have fair access to payment systems. The access to a particular payment firm’s services would be something for the FCA. I am happy to take that away and make sure that the Committee has a reply.

**Q61 Sally-Ann Hart:** That would be helpful. Even though they are part of the temporary permissions regime, should operators such as PayPal be subject to the UK’s Financial Ombudsman Service, so that dissatisfied customers can seek redress?

**Chris Hemsley:** Again, that is more for the FCA, but I can offer you a general view. It is in everyone’s interests that the same risks and regulations apply to people carrying out payments business, including payment systems

and payment firms. That is my general answer, but perhaps I could pick that up in correspondence, given that it falls principally to the FCA.

**Sally-Ann Hart:** That would be great; thank you. Maybe we can take that up with the FCA.

**The Chair:** Order. I am afraid that that brings us to the end of the allotted time for this panel. On behalf of the Committee, I thank our witness.

### Examination of Witnesses

*Charlotte Clark and Karen Northey gave evidence.*

10.55 am

**The Chair:** We will now hear oral evidence from Charlotte Clark CBE and Karen Northey. We have until 11.25 am for this panel. Would the witnesses please introduce themselves for the record?

**Charlotte Clark:** I am Charlotte Clark, director of regulation at the Association of British Insurers.

**Karen Northey:** I am Karen Northey, director of corporate affairs at the Investment Association.

**Q62 Andrew Griffith:** Good morning, and thank you for being with the Committee. I have been trying to ask every witness an open, framing question. The Bill is designed to bring our corpus of financial services regulation up to date, with a view to sustaining and, ideally, improving the competitiveness of a really important part of the UK economy that touches everybody's life up and down the country. How important is that? Where are the opportunities in the Bill? I know this will come up, so I will lead a bit: what are your thoughts on what is referred to as the competitiveness objective, and on a potential intervention power? If you think that those would have utility for financial services firms operating in this space, why?

**Charlotte Clark:** Like all the other witnesses, we welcome the Bill. A lot of work has obviously gone into trying to get the right structure. That is really key in terms of how this works for the next generation. I think it was you who said that it had been 23 years since our last Financial Services and Markets Bill, so the legislation needs to work for a very long time.

On the specifics that you talked about, the competitiveness objective is key. Financial services regulation has been made in Europe for the last however many decades. As we onshore it, getting the structure right and making sure that the regulators balance different objectives is really key. We have argued for a primary, rather than secondary, objective around sustainable economic growth, partly because—as today's debate has probably shown—competitiveness is quite a difficult thing to articulate, whereas for sustainable economic growth, it feels to me a bit easier to say how you are doing, why you are doing it and whether or not you are successful.

Culture change—I cannot remember who mentioned it—is important as regulators take on greater responsibility, particularly around policymaking. That comes to your point about the call-in power. None of us has seen it—I certainly have not seen it; I do not know whether Karen has—but nobody wants to undermine the independence

of the regulators. It is incredibly important that they have their independence, particularly in their roles as supervisors and regulators. Political interference in that is not something that benefits the UK economy.

Policymaking, to me, is about trade-offs. If you are trading off economic growth against stability—we have mentioned financial inclusion and net zero—it is about balance. Sometimes, the regulator is not going to be all-knowing, and sometimes it is the role of Government and Parliament to step in and say, “Actually, we have a slightly different opinion.” I don't think that is about undermining the independence of the regulators, though.

**Karen Northey:** I will focus on competitiveness and international competitiveness. The Investment Association represents investment managers in the UK who manage £10 trillion-worth of assets on behalf of clients. Of those assets, £4.6 trillion are from overseas investors. The investment management industry in the UK is truly global, and a global success story.

Our industry has two parts: the fund domicile and the activities that go behind the fund, and then the management of those assets—so the investment management side. We are a world leader in investment management, second only to the US, but the US is a very domestic market, whereas London—London and the UK; I must not forget my colleagues, particularly up in Edinburgh—is international. The international competitiveness is absolutely key to our industry.

We support the Bill. We support the secondary objective of international competitiveness; we think it is really important for our industry. Our position as an international global leader is at risk. We are the second largest and the most international, but we cannot be complacent about it. More can definitely be done to support our industry in continuing to be that world leader. That brings investment decisions closer to home. It enables greater opportunities, in terms of products and services for the wider economy, for investors, and for pension funds and so on in the UK.

**Q63 Andrew Griffith:** What is the competitive set you look at? Can you give us examples of jurisdictions that we are in competition with?

**Charlotte Clark:** It is the United States, Bermuda, and Singapore—Europe as well, but particularly for reinsurance.

**Karen Northey:** For investment management, I mentioned before that the US is the largest investment management centre. We are seeing growth in other centres, close to home in Europe, but there is also a very significant China and Asia investment management centre. On fund domicile, which is more the back office where the funds are registered, Ireland and Luxembourg are obviously the key places where funds are often established.

**Q64 Tulip Siddiq:** Charlotte Clark, you mentioned net zero. Do you think the provisions relating to net zero in the Bill will have a significant impact in your sector, in terms of the green transition?

**Charlotte Clark:** I do not think that there is anything in the Bill specifically around net zero. I understand the debate about whether there should be an additional objective for the regulators around it. Obviously, net zero is incredibly important for the insurance sector. We



bear the cost of climate events. The incentive on us to think about and support the transition, particularly financially, is very apparent.

I think our regulators do a pretty good job when it comes to net zero. If you think about the things they are doing, such as the stress test, the establishment of the climate financial risk forum and the work they are doing on disclosure, they are pretty much ahead of most other regulatory organisations on net zero. I guess one of the questions is: what would you want to do differently? This comes back to whether they have an objective. One of the concerns about them having an objective is whether it would be their responsibility to direct investment. Again, that comes back to what the role of the regulators in this is. In some ways, put bluntly, I think it is the Government's responsibility to deliver net zero. We all have accountability in that, but I would not necessarily say that giving an objective to the regulator should change what they are currently doing, so I would question why you would do it.

**Q65 Tulip Siddiq:** I was referring to provisions in the Bill relating to net zero—as you say, it is not direct—but I hear what you are saying. I have a similar question for you, Karen. How should the regulators' new secondary objective on long-term growth take account of investment in green industries, which is what Charlotte was talking about?

**Karen Northey:** Again, I would highlight that the UK is a centre for green finance and has done very well in it. It is a big part of what our members do. For risk management, investment managers have to take a long-term view, and that long-term view, by its nature, has to take into account climate change. Additionally, they play a huge role in directing finance towards transition, so there is a dual role for our industry.

In terms of a competitive and growth objective for our regulators, I agree with Charlotte that the regulators are generally doing a very good job. One of the key things in green finance is international standards and compatibility between them. There is a cross-border element to all forms of capital movement and investment, and alignment with international standards, so taking into account what is happening elsewhere is a key part of a regulator's activity, particularly in green finance.

**Q66 Craig Tracey:** I think Charlotte partially answered my first question, which was about whether you think the objective should be a primary or secondary one. Karen, I think you said that you were happy with it as a secondary objective. First, do you think it will be enough to shift the culture of the regulator as a secondary objective? Secondly, when the FCA gave evidence it was unable to say, at this stage, what its key performance indicators or metrics would be; in the interests of helping it to form its opinions, do you have any views on that and how it could be effectively reported?

**Karen Northey:** On your question of whether the secondary objective is enough to change culture, I think an objective is necessary but I do not think it is sufficient—so it is necessary but insufficient. Culture absolutely has to follow. What we do not want is for it to be a check in the box when you are making a new rule for the handbook—“Yes, it will contribute to this.”

There does have to be an overall culture change, but to do that you do need the objective. I think that a lot of the ideas put forward this morning by TheCityUK

around, for example, disclosure and transparency reporting on exactly how the objective is being met in each decision, will be key to that. I think we will continue to work with our regulators on that, as we currently do, but we would definitely encourage more transparency and disclosure around how individual measures are meeting that secondary objective.

**Q67 Craig Tracey:** Let me follow up before Charlotte comes in. Where do you see Parliament—not just Government but Parliament—sitting in that process?

**Karen Northey:** Parliament plays an important role. If I think of the various roles that, for example, the FCA plays as a rule-maker or a law-maker, as well as in supervision and enforcement, we are specifically talking about the rule-making function of regulators, which will be significantly increased. European directives are created through a process of Parliament, as well as through the Commission and Council, so if the regulators are taking on those responsibilities, it is important that Parliament then also plays a significant role in holding them to account. These are quite significant powers coming back from Europe and Parliament has a legitimate and important role that to play.

One important thing, from our perspective, is that that review and that holding to account of the regulators when they are being reviewed must be sufficiently well resourced and have access to sufficient expertise. Certainly our industry—I know this is true across financial services more generally—is willing and available to provide and help with that expertise, as appropriate. I understand that there are balances that need to be made, but ensuring that level of expertise is important, because there is a lot of this regulation and it is also very technical and across lots of different areas. Parliament absolutely has an important role to play and will need the resources and expertise to do that.

**Charlotte Clark:** My response is pretty similar. Part of the reason for arguing for the primary objective is that a lot of our experience is coloured or shaped by the debate around Solvency II. The Government proposed three objectives for the review of Solvency II. One was around a vibrant industry, the second was around policyholder protections and the third was around investment—getting investment in infrastructure, net zero and those sorts of things.

I would say that the regulator is still very focused on policy holder protection. While no one would want to undermine that—financial stability is the absolute bedrock of everything—it is a necessary but insufficient condition for everything else that needs to happen with regard to investment and growth. That is part of the reason why we have argued for the importance of a primary objective: that culture shift is needed. Could it be done through a secondary objective? I hope so. It is about whether there is the right reporting and the right accountability and whether the challenge is there.

These are very complicated issues. This is the joy of discussing Solvency II—I apologise if I have inflicted that on any of you. These are very complicated issues and it is very difficult to get that wider challenge. Those people who embed themselves in this day to day can slightly overrule things, rather than find a balance for the way these things are implemented.

**Q68 Craig Tracey:** I have a final question. How much of a barrier to investment is the current regulatory framework? We have heard about the time that it takes to get regulated, and the insurance and financial services all-party parliamentary group has had reports on the cost—that it is up to 14 times more expensive to be regulated in the UK. How much of a barrier do your members see that as? Will the Bill help to address it?

**Karen Northey:** I think that is a barrier. Previous conversations have covered authorisations of individuals and firms. If there is something unique in our sector, it is that our products also need to be authorised—the funds themselves need to be authorised. I mentioned the examples of Ireland and Luxemburg as key competitors in fund domicile: in Ireland it is possible to have approval for a fund within 24 hours. The FCA target is a month, but that does not always happen. There are definitely instances where in-depth review is important—we want to make sure that funds are meeting obligations—but sometimes they are very similar to previously authorised funds, run by managers who have a long history and so on. Definitely when it comes to fund domiciles it is something that is considered as important.

I know that the Bill focuses a lot on bringing EU legislation back, which is absolutely essential in terms of targeting certain areas so they are more fit for purpose for the UK market, but there are other areas of reform that are more homegrown that have led to challenges for our members in terms of our international competitiveness—the consumer duty was mentioned, for example, and there is the financial services compensation scheme and a number of others. It is not the only factor in making a decision, but it is definitely a factor.

**Charlotte Clark:** Similarly, I cannot recall a new insurance company being set up in this country—certainly not in the last 10 or 15 years. They are being set up in Gibraltar, Bermuda and other places where there is equivalent regulation. There is something about how we attract it, do it quicker and ensure that people feel that this is a good place to do business.

I will make a broader point with regard to investment and slightly contradict something I said previously about net zero. One of the things we talk about is that it is harder to invest in a wind farm than it is in coalmines. Those sorts of regulatory barriers need to be changed so that we are investing in the right things for the UK economy, particularly when it comes to net zero.

**Q69 Emma Hardy:** Karen, I wonder whether you heard the back and forth between me and Sheldon on financial inclusion. What are your thoughts about introducing a “have regard” provision for the FCA on financial inclusion? What else could be done through the Bill to strengthen financial inclusion?

**Karen Northey:** Financial inclusion is probably not relevant to our industry, in terms of access to bank accounts, but financial wellbeing is critical to our industry, in terms of how money is invested for the long term—particularly later in life—for individual investors. Three quarters of households use an investment manager through their pensions, for example, so it is about making sure they get the most out of their investments.

We have suggested that you address as quickly as possible the advice-guidance boundary. That might sound quite technical, but there are a large number of individuals who simply do not get financial advice because of the

way the regulations work at the moment. We are encouraged to hear that the FCA fairly recently announced a comprehensive review of the advice-guidance boundary, but there are definitely things that can and should be done around enabling more people to get help, whether that be more bespoke guidance—there is lots of technology and innovation that will help without giving regulated advice, which absolutely should be the bedrock of complicated financial planning—or simplified advice. In terms of financial wellbeing, that is something we would like to see.

**Q70 Emma Hardy:** Would you have supported a “have regard” provision for the FCA on financial inclusion?

**Karen Northey:** On financial inclusion, it is not something that we thought was necessary, in terms of the powers that the regulators have and the role that regulators have versus the wider Government on financial inclusion.

**Charlotte Clark:** Our position is similar. Nobody doubts the importance of financial inclusion. Particularly at the moment when people are making very challenging decisions, things like savings and insurance can feel like a luxury. The regulator and the FCA in particular have given great importance to things like consumer duty, vulnerable customers—not a title that I particularly like because it is basically almost all of us at some point in our lives—and ensuring services are available to people in difficult and challenging circumstances. The review of advice and guidance is really important. For us, the point of retirement is key. At the moment, less than 10% of people are getting advice at that point.

**Q71 Emma Hardy:** So would you like to see measures within the Bill to strengthen that and make it mandatory that advice, guidance and financial barriers are addressed?

**Charlotte Clark:** I think the Bill allows for a review of MiFID—this is horribly technical, isn't it? There is a lot of regulatory change going on at the moment and we need to get the definitions right. Whether it is simplified advice, broader guidance or just more help for people, all those things need to be thought through. I am not sure that will be done in the time and space in which this Bill will be taken forward, but it certainly gives the FCA and the Treasury the powers to make the changes that could be helpful for people.

**Emma Hardy:** Is there anything you want to add, Karen?

**Karen Northey:** No, I think I covered it earlier.

**Q72 Stephen Hammond:** May I refer to my themes of transparency, accountability and proportionality? Charlotte, in your written evidence you say that the Bill should be amended to achieve the correct balance between customer protection and proportional regulation, and that the opportunity for improved accountability is falling short. I rather detect from your evidence that you agree with what Emma Reynolds said about the regulators marking their own homework. Will you comment on that? Karen, in your written evidence you talk about an evolutionary rather than a revolutionary approach to regulation. Could you explain what you mean by that?

**Charlotte Clark:** That language is really important. How do we get things like transparency and challenge into the system? I am not sure that writing it into legislation necessarily leads directly to it, but there is something about getting the right mechanisms, the right debate and the right challenge between Parliament and

the regulators, without undermining their independence. This is such a big change. I do not think any of us could be completely certain that we have got it right, but it is about making sure that we have got the right balance and the right mechanisms to hold people to account.

**Q73 Stephen Hammond:** So you are suggesting that we should make some other amendments to the Bill to make sure that those things are there. Sally-Ann asked another witness earlier about the need for culture change.

**Charlotte Clark:** A good example is the cost-benefit analysis panel. At the moment, the regulators appoint people to that panel. That could be fine; it might not be. You might want a bit more independence in there and a bit more scrutiny. You might want to think about what those processes are. It is those sorts of areas where they could imbue cultural change. Dave Postings had the example of the consumer duty, whereby they told us what the cost was but not the benefits. We all have our favourite examples of regulatory change where we think, “You haven’t quite made the argument for this; you haven’t quite shown that this is going to be beneficial.” Making sure that changes is one of the things we would want to see.

**Karen Northey:** I will pick up on the second part of your question, on evolution versus revolution. It comes back to the fact that there is a significant amount of legislation to be reviewed. This is kicking off and enabling a significant review. Our members believe there are a lot of things in European legislation that work, and we do not want everything to go.

I harp back to the figures I mentioned before: £4.6 trillion out of £10 trillion is overseas assets. That relies very heavily on a concept called delegation, which allows UK asset managers to manage European funds. From our point of view, it is fundamental that we operate in a global regulatory framework in a way that does not put at risk what is a significant success story and a significant source of revenue and growth for our country.

The reviews that the Bill enables should be done in a targeted way, focused on those measures that will make the most amount of difference in terms of allowing the UK industry to work better. But we have always said that we are not looking for regulation to be torn up and suddenly having no regulation. This is about making modifications that will make a significant difference to our industry here in the UK.

**Q74 Stephen Hammond:** The Bill intends to do that; it is not intending to rip up regulation. It intends to make us more competitive, while ensuring the primary objective.

**Karen Northey:** Absolutely, and I think the process that comes has to be done in a way that is sequenced in the right way to allow proper consultation and proper input.

**Q75 Peter Grant:** Ms Clark, can I come back to your comment earlier about insurance companies having been set up in Gibraltar and elsewhere offshore but not in the UK? Do you have reasonable grounds to believe that the UK regulatory environment has been a significant factor in those decisions? Can you point to particular regulatory requirements that are preventing people from setting up insurance companies here?

**Charlotte Clark:** Why would you set up in Gibraltar and sell into the UK market? There is not a big market in Gibraltar.

**Peter Grant:** There could be a number of reasons why UK business owners choose to set up companies offshore, including in Gibraltar, and they are not always reasons that have the best interests of consumers at heart.

**Charlotte Clark:** I think that is fair. I am certainly not casting aspersions on the Gibraltar regime, because they should have the same regime as the UK—equivalence with Gibraltar was in the last financial services Bill. The question would be: why would they do that if we haven’t got the right regulatory environment for companies to set up here and to have the oversight of our regulators?

Bermuda is probably a good example. If you speak to the regulators there about how they think about it, how they work with businesses and what they need to do, they have a slightly different culture. I do not think that is to the disadvantage of consumers. The Bermuda market is very similar to the London market in insurance. I do not think it is to the detriment of consumers; it is to the advantage of business, and I do not think that those two things are necessarily against one another.

**The Chair:** Order. I am afraid that brings us to the end of the time allotted for the Committee to ask questions and the end of this morning’s sitting. I thank our witnesses on behalf of the Committee. The Committee will meet again at 2 pm this afternoon here in the Boothroyd Room to continue to take oral evidence.

11.25 am

*The Chair adjourned the Committee without Question put (Standing Order No. 88).*

*Adjourned till this day at Two o’clock.*

