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Public Bill Committee

FINANCIAL SERVICES AND MARKETS BILL

Second Sitting

Wednesday 19 October 2022

(Afternoon)

CONTENTS

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The Committee consisted of the following Members:

Chairs: † Mr Virendra Sharma, Dame Maria Miller

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

Bradley Albrow, Kevin Maddison, *Committee Clerks*

† attended the Committee

Witnesses

Sir Jon Cunliffe, Deputy Governor, The Bank of England

Paddy Greene, Head of Money Policy, Which

Natalie Ceeney CBE, Chair, Cash Action Group

Martin Coppack, Director, Fair by Design

William Wright, Managing Director, New Financial

Robert Kelly, Chief Executive Officer, Association of British Credit Unions Ltd

Robin Fieth, Chief Executive, Building Societies Association, and Director, Co-operatives UK

Mike Haley, Chief Executive, CIFAS

Adam Jackson, Policy Director, Innovate Finance

Martin Taylor, Former External Member, Financial Policy Committee, Bank of England

Public Bill Committee

Wednesday 19 October 2022

(Afternoon)

[MR VIRENDRA SHARMA *in the Chair*]

Financial Services and Markets Bill

2 pm

The Committee deliberated in private.

Examination of Witness

Sir Jon Cunliffe gave evidence.

2.1 pm

The Chair: We are now sitting in public and the proceedings are being broadcast. We will now hear oral evidence from Sir Jon Cunliffe, deputy governor of the Bank of England. For this panel, we have until 2.25 pm. Could the witness please introduce themselves for the record?

Sir Jon Cunliffe: I am Jon Cunliffe. I am the deputy governor for financial stability at the Bank of England.

Q76 The Financial Secretary to the Treasury (Andrew Griffith): Thank you, Sir Jon, for giving us your time today and for the work you and your team have done on the financial stability side for the past fortnight. I am sure it is very much appreciated on both sides of the House. Sir Jon, in your role you have an understandable natural bias towards the prudential side. Notwithstanding that, we heard this morning, particularly from all the industry participants, that they perceive there to be a real problem with international competitiveness, both in terms of the rulebook and its lack of agility, but also sometimes with the application of that. There are two axes: the rulebook itself and the way in which that is applied by regulators.

I do not reach a conclusion on those matters myself, but I thought it would be helpful if we could start with your evaluation of the United Kingdom's competitiveness in financial regulation, which is one of the core purposes of the Bill, and how well you think the Bill achieves that objective of improving our competitiveness. The other thing a number of our previous witnesses talked about was which markets in the world they consider to be our competitor set.

Sir Jon Cunliffe: I thank the Committee for allowing us to give some evidence on the Bill. This matters hugely to us. I will say at the outset—this goes to your questions, Financial Secretary—that the Bill is hugely important and it is hugely important for a number of reasons. This is relevant to the competitiveness question. The system we have at the moment is basically that we have onshored the European Union system. That system—I worked in it for many years in different jobs and have been involved in much of the legislation—is designed for, now, 27 member states. It needs to ensure the single market and, although the national competent authorities do the supervision, there is always concern in the single market that you will get differences among them. A huge amount of what in other jurisdictions' best practice is done in regulators' rules is hardwired in primary law, and you can see that if you look at the onshored law. That system is justified by the needs of the single market and the need to bring all these jurisdictions together. As a single jurisdiction, as the UK is now, we will have much more flexibility, and the ability to act nimbly and design regulation for our particular needs, than we had in the European Union.

I can give you some examples of that. For example, my colleague Sam Woods at the PRA has put forward ideas for a strong and simple prudential regulation framework for banking. We could not do that under the European Union because we were all locked in a maximum harmonisation phase. In the parts of the Bill that are more relevant to me, around payment systems, there is a schedule that deals with digital settlement assets, more generally known as stablecoins, where we can now develop a regulatory framework that is nimble and flexible on the financial market infrastructure side, where we will see huge technological changes brought about by some of the technology we now see around encryption and tokenisation. Again, we are developing a sandbox with the FCA and the Treasury, but we can bring those much more nimbly into rule. This is a much more flexible and adaptable system, which will help in competitiveness.

It will also help because many of the requirements and the processes in the legislation we have were designed for 27 or 28 countries, and not for one. We report on things—I was there when they were put into the legislation—that were important to other countries but not to us, so there is an on-cost in process. Things that are important to us are not always fully reflected, because all European legislation is a compromise. That flexibility and nimbleness will take time, because the European acquis is very large, but it is a huge advantage for us in designing the regulatory framework that we need.

But—and that is a very important "but". I might not agree with all the people that have given evidence, and I know the Financial Secretary would probably not expect me to either, but this needs to be underpinned by a strong, credible, regulatory system, and the independence of regulators is a key part of that. It is best international practice, but I think it is particularly important for the UK in two respects.

You can measure our financial system in different ways. The last IMF measure was £23 trillion—that is about 10 times GDP. When that system goes wrong, the cost to the nation is huge. That is not theoretical; we saw that in the financial crisis over 10 years ago. The recovery from the financial crisis, in terms of growth, was slower than our recovery from the great depression in the 1920s. The objective of sustainable growth in the medium and long term is entirely right, but strong, credible regulation is a necessity for sustainable medium and long-term growth. In the short term, there might be trade-offs, but in the long term, we can see what happens to growth if you get a financial sector of the size of ours wrong.

I might touch on the question of a call-in power, because I know you asked my colleague, Vicky Saporta, about that this morning. We have seen the power or the proposed amendment the Government intend to bring forward. Of course, we are subject to Parliament and the framework that Parliament sets for us, and we will work within that framework. However, for the two reasons I gave, I think a power to call in and rewrite veto rules that the regulator had made would, frankly, give us—me, anyway—serious concern given the history I have seen over 30 years in the UK financial sector.

Actually, it goes to competitiveness. We are—I gave you my £23 trillion number—probably the largest international financial centre in the world and we are one of the largest exporters of financial services. Regulators and regulatory authorities of other jurisdictions need assurance and need to be comfortable; they need assurance that they will not import risk from the UK or by their firms using UK financial services. That credibility of the institutional framework is very important to the competitiveness of London as a financial centre.

Of course, it is also important to the firms that locate here. They want to ensure that if they use our infrastructure—I am responsible for clearing houses and settlement systems—and if their banks locate here or trade with our banks cross-border on financial services, then they can be assured of the robustness of the underlying system.

I beg your indulgence, Mr Sharma, as I have one last point. All of that—the nimbleness, flexibility and, on the other side, robustness of the framework—needs to be fully, publicly accountable and accountable to Parliament. We welcome what is in the Bill in this area.

To the question of where our competitors are, I think the US is a large competitor in wholesale financial services. We have competitors in Asia as well, but that is more niche. A lot of particular products, asset management and the like, are located in Ireland and Luxembourg and are used by the UK.

Financial services are not linear. A service will very often be a bundling of products that come from different jurisdictions. That is very important for competition. People need to be assured that they will not import risks by dealing with the UK, and that when financial services are put together with elements from different jurisdictions or when we are competing, we actually are in line with international standards.

Andrew Griffith: I thank the deputy governor for his comprehensive comments.

Q77 Tulip Siddiq (Hampstead and Kilburn) (Lab): Thank you for coming to give evidence, Sir Jon. I wanted to ask a question about the intervention power, which you mentioned. We have seen in recent weeks the danger of Government signalling to markets that they are prepared to undermine or sideline national institutions. Is there a worry that, if intervention powers are brought in, the markets might think this indicates an undermining of the independence of the Bank of England?

Sir Jon Cunliffe: I have not seen the proposed amendment. I have only seen the Financial Secretary's comments to the Treasury Committee and comments from the previous Economic Secretary at the Treasury, so I would need to look to see. I would say that the Bill as drafted gives the regulator primary and secondary objectives to make the difficult decisions that some of the witnesses this morning were complaining about. It requires us to balance different things before we come to a decision, but underlying that is the primary objective of financial stability and the safety of the system.

I do not know how often a call-in power or an intervention power would be used, and I do not know what frameworks would be around it. Of course, one cannot always assume that the intention when introduced is actually what happens five or 10 years down the line with different Governments. It is something that gives Ministers the ability to take a second judgment on the judgment the regulator has made in line with everything in the "have regards"—the secondary objective—so it would, yes, affect the perception of the independence of the regulatory part of the Bank of England.

Q78 Tulip Siddiq: Andrew Bailey wrote a letter to the Treasury Committee in July, which I am sure you are aware of. It stated:

"Anything that would weaken the independence of regulators would undermine the aims of the reforms"

implemented by the Bill. Do you think he was referring to the proposed intervention powers?

Sir Jon Cunliffe: There has been a lot of discussion. There was discussion in the consultation about a number of aspects that might affect either the independence or balance of the regulators. I know there was a discussion on the competitiveness objective, and we think it has been drafted in a very sensible way. That came up in the consultation. At that point there was also talk of an intervention power, so it would apply to that as well, I guess.

Q79 Craig Tracey (North Warwickshire) (Con): You mentioned credible regulation before, and I do not think anyone would argue with that. There seems to be a need to have proportionate regulation as well. The FCA confirmed in its evidence that it saw the Singapore regulation as robust, which was good to hear because, on things like insurance-linked securities, they took our regulation, but, because they have this competitiveness duty, there have been 18 new firms set up in Singapore as opposed to five here. That is about $700 million-worth of business. It seems to suggest that the competitiveness duty needs to exist. Do you accept that there are areas where we could do better and we could be more proportionate in how we regulate, particularly where we deal with more sophisticated customers?

Sir Jon Cunliffe: I should say at the outset that our responsibility is the prudential regulation. The FCA deals with a different market. On the prudential and infrastructure side that I deal with, there is not a huge amount of commerce with Singapore. Would I accept that the competitiveness of our financial sector relative to Singapore's in the areas that I deal with has been damaged? No, I do not think I would. I do not know of any examples. I think the firms that you quoted were in the FCA area. The competitiveness of the financial system depends on many things. It depends on our openness to migration. One thing you hear most from international banks and the like is the overriding importance of getting the best talent. That is a huge advantage for the UK, which has been called into a little doubt recently, but I think is now being re-established.

The taxation regime plays a role, and then there are lots of things about the attractiveness of the location for people to live in. On making a comparison between two financial centres on how many firms have started one and how many firms have started another, and assuming that all of that is to do with the way regulation is designed, I would be careful about making comparisons on that basis. There is a lot more in it.

I will bring it back to my area if it helps. When I look at the technological changes that are coming, and when I look at the European Union, which is where we were, and look at areas where I know we have not had the flexibility to design the regulation that we would have wanted to design—there are pros and cons to being in the European Union, and we can argue about those—you have to be within a single market where the rules are pretty much set for everybody. On the rulebook as we have it now and instances where people have said, "We don't like that part of the rulebook. We will set up somewhere else", I do not have any instances where that has happened, but it probably has.

As these powers, which are now coming back to the UK and I think rightly coming into the regulator's rules, are exercised, where does the regulator put the balance? What is the scrutiny of the regulator? Is there accountability? In the end, those decisions, if I can encapsulate it, lie in the way the Bill has been set up with the primary and secondary "have regards", and those arrangements should ensure that we are competitive in future.

Q80 Craig Tracey: On the technological side of it and the flexibility, do you think there will be a culture shift as a result of the Bill to try and encourage the regulators to be more nimble and flexible?

Sir Jon Cunliffe: With the greatest of respect, I do not think I need my culture shifting, within the regulatory framework that we have at the moment. I have made a series of speeches on new technology and the benefits that new technology can bring and the importance of that, so I would not regard myself as in that position. Others might have a different view and are obviously entitled to it, but I certainly would not accept that, if I can make that point clear. You can look at the published statements of the Bank of England and the speeches we have made.

We welcome schedule 6 of the Bill because it will give us the powers to put in place a regulatory framework for stablecoin and digital assets used as payments. I would argue, because I hear this from lots of the fintech community in London, that they want a regulatory framework. They do not want a system where the public think, "This is unsafe. What happened to Terra and LUNA could happen to me. I could be scammed. I am betting in an unfair casino." They actually want a regulatory system. They want it to be designed to recognise their technology.

There will always be tension between where we put the risk cursor and where the private sector would like it to be put. That is a discussion we have to have. The importance of this Bill is that it will give us the powers to get on and do it. I do not think I would accept the criticism that our culture is anti-innovation and inflexible. We need the powers and the tools to do that job and that this Bill will give us them.

Q81 Martin Docherty-Hughes (West Dunbartonshire) (SNP): It is good to see you, deputy governor. In June this year, at the annual lecture of the Bank for International Settlements, the former Governor of the Bank of England—who I believe is your former boss—said in relation to stablecoin, the adoption of cryptocurrency and the concerns about systemic crises:

> "In baseball, it's three strikes and you're out. In cricket, it's only the equivalent of one. For systemic payment systems, one is too many. If that means, as it must, very rigorous oversight and rules for private stablecoins, what would then differentiate them from CBDCs?"

First, could you answer the former Governor's question—what then does differentiate them from a central bank's digital currency? Secondly, I am glad to hear you rightly say that the industry wants good regulation; is this regulation rigorous enough to enable that to happen?

Sir Jon Cunliffe: I do not normally contradict my ex-colleague and boss, Mark Carney, but I would say a number of things. On the landscape, let us be clear about what we are talking about: we are not just talking about new forms of payment systems; we are talking about new forms of money. Most of us do not realise it, but when we use our credit card, phone or cheques—if we use cheques—we are exchanging private money, which is our deposits at commercial banks. What these stablecoin proponents propose to do is create a new settlement asset—that is, a new form of money—to be used in transactions. I think that is why Mark said that when a payment system—the money going through it and the mechanism for transferring it—breaks down, then one of the basically essential services in the economy, like water or electricity, breaks down and transactions cannot happen. So you do not get one strike: if the payment system goes down, people cannot transact at scale. This is fundamental infrastructure, if I can put it that way.

The money that travels through these payment systems is also fundamental to society. It needs to be robust and safe, and history has lots of examples of what happens when people lose confidence in the safety of the money they are holding and transacting. That is why these things are crucially important. However, 95% of the money that we use in our economy is not public money from the Bank of England but private money from commercial banks, and I do not see, a priori, a reason why a new form of private money could not emerge using different technology in the way that stablecoins have proposed. What I will say, and the financial policy committee at the Bank has said this very clearly, is that the money that they use and the transaction machinery that they use must be as robust as the money we are using from commercial banks or the Bank of England. The public should not need to think, "Which money am I using?" It should all be one money of equivalent value.

I think there is a world in which you have a CBDC, stablecoins, commercial bank money and Bank of England cash, which we will produce as long as anybody wants it, and those things are interchangeable and people use them interchangeably—we use the moneys of different banks interchangeably now—but the regulatory system has to be strong and make it very clear that if what you are offering is a better service, an innovation, that is fine, but if it works because it operates to a lower standard, that is not fine.

Q82 Martin Docherty-Hughes: Let me say a little extra on that. I do not want you to conflict with your former colleague, but—

Sir Jon Cunliffe: No, no, it is fine. We are friends.

Martin Docherty-Hughes: He did say this, which I take in terms of stablecoin as well:

"Ultimately, crypto either has such extrinsic value without a use case, or has a use case as an NFT that perfects ownership (which is niche by definition in that it is non-fungible)."

His critique is that it becomes niche.

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

Q83 Emma Hardy (Kingston upon Hull West and Hessle) (Lab): Could the deputy governor write to the Committee with an answer to that question?

Sir Jon Cunliffe: I would be very happy to write something on—

Emma Hardy: Crypto.

Sir Jon Cunliffe: We will bring out a regulatory framework for stablecoin, but I am very happy to write on how we see it, if that helps.

The Chair: Thank you, Sir Jon.

Examination of Witness

Paddy Greene gave evidence.

2.26 pm

The Chair: We will now hear oral evidence from Paddy Greene, head of money policy at Which?. For this panel, we have until 2.45 pm. Will the witness please introduce himself for the record?

Paddy Greene: Good afternoon. I am Paddy Greene, the head of money policy at Which?. I welcome the opportunity to speak today. What is probably pertinent is that we have had some long-standing campaigns on access to cash and authorised push payment fraud.

Q84 Andrew Griffith: Good afternoon, Paddy, and thank you. I commend the work that you do on behalf of consumers to protect them in this domain and others. I am starting each panel by asking a general question as the Minister, and we then throw it open. Could you just tell us this, starting from first principles? I am familiar with your work, but there is, I hope you would accept, always a balance to be struck—it is for this Committee to try to ensure we get the right balance in the Bill—between consumer protection and putting obligations on firms that are operating in the sector. There are sometimes firms lifting away and creating pockets where people go unbanked or unprovided for, because we have put burdens on them. I wonder whether you acknowledge that and whether you could talk about where you think the right balance lies between a vibrant, competitive sector and a sector that fulfils its social obligations.

Paddy Greene: I do accept there is a balance to be struck, so thank you very much. The simple thing is that we need to make sure, when we are talking about the financial services sector and consumer protection, that we have the appropriate consumer protection baked in, so that we have a basic level that means all consumers can participate with confidence and they know that whatever they are transacting in they are looked after and they have a form of redress. Then, once we acknowledge that we have that basic consumer protection, we obviously have some judgment to make on how far the other regulations go. I must add that when we are talking about consumer protections we mean that a protected consumer is confident, has trust in markets and will participate well, and that can lead to a competitive market, an innovative market and a market that can help with growth.

Q85 Andrew Griffith: Let me invite you to bring that to life a little more. There is a lively debate with others—I am not sure it is the point that you will be drawn on—about consumer credit, for example. Consumer credit can be life changing. It can give people opportunities. It allows them to access capital that lets them make better lives for themselves and their families. Consumer protection can also—the more forms, checks, tests and hurdles that people have to overcome to access that provision—leave people unbanked, because providers withdraw entirely and then people are left with something that none of us would want, which is the unregulated credit sector. Can you bring that to life a little bit for the Committee with some examples of where you see that trade-off?

Paddy Greene: The trade-off between protections and consumer credit?

Andrew Griffith: Between putting in place—I am not making a point; I am just trying to open this up for the Committee—good, valuable seatbelts and protections versus over-protecting consumers to the degree that large numbers of participants exit the market and then consumers are left with door-to-door, unregulated providers of credit.

Paddy Greene: Affordable credit is absolutely essential for consumers, but we need to make sure that, first of all, access to credit is regulated. We do have a particular form of credit that people are accessing now with buy now, pay later, which is not regulated at all, but consumers presume that it is. There are some basic protections we need to build in. One is to ensure that the parts of credit that people access are regulated themselves and that it is clear that consumers understand what is regulated and what is not. Then there is some basic information, such as key terms and conditions.

I am aware that some of the details in the Consumer Credit Act 1974, which is exceptionally old, are onerous, and there will be a chance to review that—I think later this year. It is about making sure we have efficient information presented to consumers. There is a balance there, but there is key information that we must provide them and there are key protections that must be baked in.

Q86 Tulip Siddiq: The Bill does have provisions for access to cash, but not many provisions for free access to cash. Do you think that is a cause for concern?

Paddy Greene: Yes, it is a cause for concern. When we are talking about consumers, for the objective in the Bill on access to cash to be met, consumers must have free access to cash. Without that, I think the objective may be undermined. It is the case that we have paid-for provision—it is in theory available now—but it does not serve the market. We must ensure there is free access to cash. A huge raft of people rely on cash. It is massive numbers, but it is also the case that they tend to be vulnerable and on lower incomes. If it is the case that it is not free, when somebody goes to take out £10, they are paying £2 to get it. That is just an example, but that doesn't seem right. The fact is, we need to have a minimum, base level of free access to cash. We are delighted that the provisions have been brought forward and that we will have this in legislation, but for it to work effectively, it has to be free access.

Q87 Peter Grant (Glenrothes) (SNP): I do not know whether your responsibilities at Which? include consumer protection, particularly in relation to the financial services market, but from your perspective do the millions of small-scale retail consumers of financial services have confidence in the current regulatory framework of the United Kingdom?

Paddy Greene: I cannot speak for small and medium-sized enterprises—I am here to represent consumers—but fundamentally I do think that the regulatory framework in this country provides confidence. I think it has been robust, relatively speaking, over the years. If we compare it to some other international sectors, I think it is a framework that can provide people with confidence. We would be remiss to weaken that in any way.

Q88 Peter Grant: Does the Bill as it stands strengthen or weaken that regulatory framework? Or does it leave it as is?

Paddy Greene: We have some concerns about the current wording around competitiveness. I think we need to be mindful of that. I want to get across that whatever changes are brought in, the primary objectives of the FCA must not be inadvertently undermined. The FCA has a challenging time to balance those objectives at the moment. We would seek amendments that ensure that, from the consumer perspective, if we are going to see changes brought in, in no way shape or form do they undermine the consumer protections that are in place.

On the argument for competitiveness for consumer protection, I would add, similar to my earlier remarks, that a confident, well-protected consumer will lead to a competitive environment. It will lead to innovation and confident consumers interacting in that market.

Q89 Peter Grant: I was interested that the Minister in his question used the metaphor of a good seatbelt. Some of us think that the regulatory environment for road traffic should ensure that nobody needs to rely on a seatbelt, but that is perhaps a discussion for later.

I have had a number of representations, as I think other members of the Committee have, from individuals or groups of people who have been victims of financial services scams on a colossal scale. One of their common comments is that they do not think it is justifiable for the regulators to have such a strong degree of immunity from civil liability, even in cases where it is clear that the regulator has failed and that that failure has contributed to members of the public losing what for them are significant amounts of money. Do you have a view as to whether it is time to revisit that very broad immunity that so many of the regulators have?

Paddy Greene: I am struggling to hear your questions.

Peter Grant: I am sorry. I will try to speak into the microphone, so forgive me for not looking at you. Do you have a view on the numerous representations we have had from victims of financial scams who think it is time to revisit the very broad immunity from civil liability that the regulators have?

Paddy Greene: I will talk specifically to parts of the Bill. This is essential, but I am thankful for the provisions that have been brought forward to introduce a mandatory requirement for people who have been the victims of push payment scams to get their money back. In terms of a first step, that is crucial. On changing the regulatory framework, that is a first step and we welcome it.

Q90 Peter Grant: Is there a need to specify in the Bill, or to enable in later regulation, a widening of the mandatory compensation scheme to types of scams that we do not yet know about?

Paddy Greene: Yes, I believe there is. It is right that the Bill starts with faster payments—I think 87% of APP scams are run through faster payments. We do not want to delay action. It has taken too long: it has been six years since our super complaint to get to this point, so we must not slow that down. The revisions—the two-month and the six-month provision in the Bill—are ones that we absolutely endorse. As I said, we do not want to slow that down.

We need to make sure, though, that there is an obligation for further action—for example, to look at CHAPS payments. UK Finance figures show that 79 million on CHAPS and on-us payments are already there. We know that scammers and fraudsters are very good at adapting to change, so they will move. I know there have been some debates about what the Bill does or could allow, but we need to make sure there is an obligation so that we know what will happen next. Just because there is provision for the regulator possibly to act in the future, that does not mean the regulator will—there is a lot of pressure on regulatory time and resources—so we would really like to see some clarity on what happens after the changes to faster payments are made. As I said, this is the opportunity to look at the future. We know that change is happening, so we should set out a timeframe for what happens next.

Q91 Sally-Ann Hart (Hastings and Rye) (Con): Good afternoon. We were just talking about access to cash and the proposals in the Bill to safeguard access to cash and free ATMs. As an MP who represents a rural constituency, I am concerned about my residents being able to access cash. How far do you think people should be expected to travel to access free cash, or cash? Is it geographically dependent? Would you treat regions separately, on density of population?

Paddy Greene: I think we need community-based solutions. The fact is that it will not be one-size-fits-all. We need to recognise that communities have different challenges. When we look at the voluntary solution that the industry has put in place, it accepts that, first, we need not only a geographical spread but a community access point. We need the ability for communities to request a review of access in their areas.

Secondly, we need a raft of delivery channels. That again gets to the point of what is fit for purpose. An ATM might well be suitable in one town, but it might not be suitable for another town for a variety of reasons, be that geographical or the demographics of that part of that society. I do not think it is one-size-fits-all. It is very important that we get the policy statement from the Treasury soon, so that we and you can scrutinise properly what the close details will be, but it should be a basic geographical spread, with the option to interrogate further those who are not captured by the geographical spread and to ensure that we do not inadvertently leave people behind.

Q92 Sally-Ann Hart: So you are not necessarily specifying a mileage.

Paddy Greene: We need to acknowledge that if, let's say, you came down to a certain kilometre base that might sound reasonable in broad terms, it would under-serve some communities, so we need to be alive to that.

Q93 Siobhain McDonagh (Mitcham and Morden) (Lab): I thank Which? for all the work it has done about the imperative of free access to cash. I do not think any of us are surprised that the Post Office announced that it had £3.45 billion taken out in cash in August, which is the highest figure since its records began. Does the Bill ensure that people will have free access to cash, or is there a need for an amendment to be very specific about that?

Paddy Greene: I think we need to be specific about the need for consumers to have free access to cash. I have concerns that the Bill could be interpreted in a way that undermines those objectives. We absolutely welcome the provision of cash legislation and I am very happy to see it here, but this is our opportunity to get it right. Consumers need confidence that they will have free access.

Q94 Emma Hardy: I will be super quick. Do you think we need to see regulation of buy now, pay later firms?

Paddy Greene: Absolutely. We need to see it and we need to see it very quickly. We are in the situation where a lot of people use such buy now, pay later. I acknowledge that a lot of people use it safely, but a growing number of people are struggling with repayments. It gets to the point where people presume that it is regulated. It is an unfortunate reality that lots of consumers do not really differentiate between types of financial products when it comes to the payments and credits that they use, but we need to have buy now, pay later regulated and we need to have it regulated very quickly.

Emma Hardy: Thank you.

Q95 Tulip Siddiq: The Bill provides reimbursement only for fraud victims who send money using the faster payments system. Do you think other payment systems should be included? Will you tell us a bit about that?

Paddy Greene: Yes. Similar to the comments that were made before, it is right to start with faster payments. We need to move to a model where we are absolutely confident—I heard the tail end of the previous evidence about different payment mechanisms and those that are emerging. We must have consumer protection baked in. We want consumers to have confidence and we know people are going to use such systems but, as we have said previously, they do not necessarily understand what is backed and the type of payment mechanism that is used.

In terms of what we want to see next, we are delighted with faster payments, but £79 million is already lost on CHAPS, on-us items and international payments. First, we need to make sure that the PSR and the Bank are talking properly about CHAPS, because when we are talking about CHAPS, we are talking about house purchases. For the people who are scammed during such a payment, there is a huge detriment, not financially but emotionally, and we know that fraudsters will adapt.

Our next steps, after we have got faster payments, are CHAPS and on-us, and we need to look at international payments. We need to make sure the regulator is looking at all the other designated payments and those that will come down the line, because we are seeing innovation, in order to make sure that the appropriate consumer protections are built in from the very start.

The Chair: If there are no further questions from Members, I thank the witness for his evidence and we will move on to the next panel.

Paddy Greene: Thank you very much.

Examination of Witnesses

Natalie Ceeney and Martin Coppack gave evidence.

2.44 pm

The Chair: We will now hear oral evidence from Natalie Ceeney, chair of the Cash Action Group, and Martin Coppack, director of Fair by Design. We have until 3.10 pm for this panel. Could the witnesses please introduce themselves for the record?

Natalie Ceeney: I am Natalie Ceeney. I authored the independent access to cash review four years ago. I now chair the Cash Action Group, which is leading the industry's work to provide a voluntary solution, prior to legislation, for providing access to cash.

Martin Coppack: I am Martin Coppack. I am the director of Fair by Design at the Barrow Cadbury Trust. We exist to eliminate the poverty premium—that is, the extra costs that poorer people pay for essential services. I am also a commissioner on the Financial Inclusion Commission. Previously, I was a regulator, responsible for setting up the FCA's approach to consumer vulnerability and its engagement with third sector organisations.

Q96 Andrew Griffith: Thank you for the work that you do. For the benefit of the Committee, I want to open the conversation by rehearsing some of the interventions. We all represent constituents, and obviously this is a concern on both sides of the House. What are the mechanical options for a diligent Member of Parliament, for example, if they are concerned about access to cash in a particular location? Will you talk us through that?

Natalie Ceeney: We very much modelled the voluntary scheme that we set up as if the Bill, as currently drafted, were implemented. The model starts with a community need base. The premise is that all banks will have a responsibility to serve their business and retail customers, and if they are not doing it through their own branches, they have to do it through another means.

The mechanism we set up is that anyone—any MP, any member of the public—can request that their community's needs are reviewed. That is done independently by LINK. The form is very simple, free to fill out and on LINK's website. LINK is already getting applications. Equally, every time a branch or an ATM is closed, LINK will review the needs of that community. If those needs are not being met, it will consider a new solution. Since 1 January, that has already led to 25 new hubs being announced and 13 communities where we are going to explore pilot services, including deposit services. LINK has also set up a significant number of ATMs; I do not have that number at my fingertips.

Q97 Andrew Griffith: That is very clear. So there is a solution out there in the marketplace. What are the benefits of this industry-led initiative versus the legislative approach? Where do you think there are gaps, if there are any?

Natalie Ceeney: To be honest, we need both. There is a real competitive challenge for any bank that wants to go beyond what is necessary, because if it does that, it could be accused by its shareholders of wasting their money, unless all its competitors do the same. To be fair, it is the threat of legislation that has made everyone say, "Why don't we work together?". We do need this legislation for the industry scheme to continue in a viable way, but I am pleased that the industry has stepped up in advance of legislation.

We have worked hard not just with banks, but with consumer and small business groups, so the scheme we have designed truly has the input of everybody. We have run pilots for the last two years in communities to test that our models work, with really high satisfaction rates. We need both, but I think the scheme we have designed means that when the legislation is passed, we are ready to go; there will not be a gap.

Andrew Griffith: Thank you. I think you may get an invitation to some parts of the country.

Q98 Tulip Siddiq: Thank you for coming to give evidence. My first question, to Natalie Ceeney, is about the overlap between people who need access to cash and the people who require face-to-face banking services. I want to ask about the overlap between those pools of people, and whether you think the Bill protects banking services. I have a different question for Martin Coppack, but I will come to you later.

Natalie Ceeney: That is a very good question, and I am conscious that every time this issue is debated in Parliament or, frankly, every time I meet a community, the debate goes very quickly from cash to banking. It all merges. The reason is we are talking about the same population. If somebody needs face-to-face support with their money, which might be about getting money out, paying money in, a standing order or the fact that a payment they expected has not arrived, it is the same demographic group. We have recognised that in the voluntary scheme. When we set up a banking hub, it does not just have a counter where you deposit cash and get cash. There is also a private space where the banks provide a community banker to do basic banking services. As far as the legislation is concerned, the voluntary scheme we set up will cover that need on a voluntary basis.

There is one challenge that you might want to include in the legislation. I am going to stay neutral because of my members. The consumer groups and small business associations would say it should be included and the banks would say it should not, but if you do want to go there, defining what you mean by face-to-face banking services and particularly essential services is really important. I do not think anyone would expect you to offer wealth management or buy-to-let mortgage advice on every high street, but helping someone when they are stuck because a payment has not arrived or they have got locked out of their account feels different. Keeping that definition tight is important.

There is also a question about whether the FCA has the powers that it needs already. Those are the factors I would consider.

Q99 Tulip Siddiq: Thank you. My next question is for Fair by Design. It is about the additional costs that people on lower incomes face and the so-called poverty premium. Do you think the legislation in the Bill addresses the poverty premium, or could it be strengthened?

Martin Coppack: Absolutely not. I have worked in this sector for 20 years and we have the biggest opportunity right now to make a systemic change to how people who are excluded are addressed by both the regulator and the Government, and we need to take it. Recently I provided evidence to the Treasury Committee, which supported our call for a "must have regard to financial inclusion" for the FCA—importantly, alongside a requirement to publish once a year the state of financial inclusion, what it can do, what it cannot do, and who else can act. That is so important. If I could just give a little more context about why that is so important, I would appreciate it.

Thinking about where we are now, Governments of all different colours over the years have asked people to take responsibility for their own financial affairs—be a good citizen and look to the market, whether that is saving for a rainy day, saving for retirement, or protection products for insurance—but what happens if the market does not want you? What if the market says, "You are a higher risk and more costly to serve, so we are either going to make our products more expensive for you or we will just exclude you."? I think everybody can recognise that situation.

With competition-driven markets, we can all agree that firms will naturally design products that are profitable. That is okay if it is not an essential service, but if it involves basic financial products and services that everybody needs, some intervention needs to happen. Over the last 20 years or so, we have been asking amoral markets to make moral decisions about who gets what product at what price and who gets excluded. The biggest issues in the financial exclusion area that are not touched by the FCA's consumer duty coming out or by its consumer vulnerability guidance are those that lurk around income when people cannot afford a product.

I will give one example to bring this to life. It is on insurance—we have talked about this before, Craig. Increasingly, insurers are becoming ever so good at finding individualised risk per person. Technology is great for that. As a rule of thumb, the mark-up works really well if you are healthy and wealthy. If you are not wealthy and healthy, you are a higher risk, and increasingly you are asked to pay more for your insurance product.

We know, for example, that people in poverty pay about £300 more a year for their insurance because of their postcode, and they pay another £150 a year on top if they cannot pay up front and have to pay monthly. Those issues go across insurance. I and many of my colleagues in different organisations spend all our time going to the Treasury and saying, "This is an issue." The Treasury says, "We have not got the data. Go to the FCA." We go to the FCA and it says, "The pricing of risk is social policy. It is not for us. Go back to the Treasury."

Then you go to the Competition and Markets Authority, then the Equality and Human Rights Commission. Everybody points back to the FCA as the only body, often by law, that can get access to this information, but it refuses to because it is not a priority and not within its scope. So we are simply saying there should be a "must have regard to financial inclusion" with a requirement to publish—not to do social policy, but to allow the consumer market organisations to have a conversation about these issues that have been going on for decades. As an ex-teacher, I have a handout, which explains it in one slide.

Q100 Dr James Davies (Vale of Clwyd) (Con): Many thanks for all your work in this area. I am interested in your thoughts on the increasing number of businesses refusing to accept cash. If that becomes commonplace and we become a virtually cashless society, will that not pose a risk for SMEs, if payment transaction costs rise, for example?

Natalie Ceeney: That is a really important question. When we look at some other countries, that has been the real crisis point. In Sweden, for example, the crisis point hit when shops stopped taking cash. If you are dependent on cash, there is no point having it if you cannot spend it.

I have spoken to literally hundreds of small businesses. The main reason that they do not take cash is not hygiene or anything like it; it is the ability to bank cash. If you go back three or four years, a small retailer used to shut up for 10 minutes at lunch time, pop over the road, deposit their cash in the bank and pop back. What they might now have to do, with the local bank 20 miles away and open between 10 and 3, is to shut up for an hour in the peak of the day, drive, park, queue and drive back. No wonder many shops say, "You know what? It is only 20% of my customers. I will go cashless."

That is why in this legislation, deposit facilities are just as important as cash access. It is an area where the industry is behind. You can have deposit-taking ATMs—they are just as well tested as ATMs that issue cash. We do not yet have any mechanism in the UK for third parties to use them. It is something that I am working with the industry to solve, but this legislation is utterly critical. If small businesses can deposit cash easily, most will keep taking it.

Q101 Siobhain McDonagh: To both our witnesses, do you agree that there is a societal duty for the Government to ensure that the most vulnerable people in our society have free access to cash?

Natalie Ceeney: Yes, I do. The one thing I would say as you consider the drafting is that the Bill covers small businesses as well as consumers. Small businesses, typically, via their contracts, pay for their cash access. As you draft amendments, limiting that to retail consumers is going to be important. I do not think that there is any appetite for banks to want to charge for cash access, so I do not think that you would get any opposition to putting that in the legislation or empowering the FCA to take it through to regulation.

Martin Coppack: There is absolutely a need for this. Bearing in mind today's audience, I did a bit of research and looked at the poverty premium at a constituency level for different MPs. It might surprise you to know that a typical parliamentary constituency loses £4.5 million a year in terms of the poverty premium. That is money that could be going into your constituents' pockets. We have linked that to research that shows that the poorer you are, the more likely you are to spend that locally. The reason I am talking about this point right now, as well as it costing £2.8 billion across Great Britain, is that the poverty premium very much exists for people trying to access cash.

If you lived in, let us say, the Conservative constituency of Vale of Clwyd, people are paying about £40,000 to access their own money. If, for example, you were in Kingston upon Hull West and Hessle, you would be paying around £70,000 to access your own money. Say you lived in the SNP constituency of West Dunbartonshire—I cannot say it; I should have practised that before I came—people are paying £64,700 in that constituency to get access to their own money. I hope that is a good representation of why we need to tackle it.

Q102 Craig Tracey: Martin, as you alluded to, you gave some powerful evidence to our all-party parliamentary group last year on the poverty premium, which I think was off the back of a report from the FCA that said there were about 27 million people with characteristics of vulnerability. I think most of those were around buying insurance. In the last 12 months, has any progress been made? One of the areas we have talked about as much as cash machines is, when looking at things like insurance, the digital disadvantage that is a problem. There seems to be an ever-growing push to push people online. You are a former teacher, but I am a former insurance broker, and I think that the benefits of advice, in particular to vulnerable customers, should not be understated. What are you seeing now?

Martin Coppack: Unfortunately, not a lot of progress has been made. We have had numerous conversations with the Treasury, signposting to the FCA. Some days we have the conversation about how we do not have enough data, which we cannot get hold of—firms have their own data on insurance, how it is distributed and how the calculations are made—so, unfortunately, nothing can be taken forward.

We have now done a second piece of work. We did one with the Institute and Faculty of Actuaries, which agreed that there is a real positive premium issue. We are doing a second report with the Social Market Foundation, calling again for the FCA to collect the data and for the Treasury to understand how far prices are a market problem, so regulation can tackle it, or how far it is a social policy problem, so social policy makers can tackle it. However, we cannot get further than that. I have probably been having this conversation for the past 10 years. In our world, as an ex-regulator, if it does not get measured, it will not get done.

Craig Tracey: Do you have anything to add, Natalie?

Natalie Ceeney: No.

Q103 Craig Tracey: I have one quick follow-up. With that in mind, is the FCA the right one to have a remit for financial inclusion? If not, who should?

Martin Coppack: Importantly, when asking the FCA to do social policy, it would not allow it. What it is about is closing that complete spiral. Seventy-odd organisations have signed our call, and some firms. We are trying to close that loop so that we can have conversations about the most difficult things affecting the poorest of your constituents. That is all we are trying to do, and what I would urge you to support.

Q104 Emma Hardy: Thank you both for your work in this area. Martin, you might have heard Sheldon from the FCA earlier trying to reassure us all that we do not need to have regard to financial inclusion, and that it is all fine and there is nothing to see here. Will you elaborate? If the FCA had a "have regard" to financial inclusion, what difference would it make to the lives of people facing financial exclusion? Can you provide any examples of the interventions that the FCA could make if it had that "have regard"? What difference would it make? The FCA is saying, "It's all fine, and we do something anyway", and it pointed to the consumer markets—that was its answer.

Martin Coppack: Gosh, there was a bit there. Remind me if I do not get everything. First, the FCA will talk about the consumer duty and its vulnerability guidance. Neither of those touches anything to do with income. Vulnerability touches lots of things, like losing a partner or disabilities, which is great, but looking at income does not touch any of it. I have had numerous conversations with the FCA, and it is not supportive of this, but it recognises the issue, although it has not come up with an alternative.

On examples of how this would have worked well in the past—actually, I have a current one. How long has Natalie been trying to get some action here, on access to cash, before the infrastructure absolutely wilts away? It is a race against time. I was in the FCA 10 years ago, or whatever, and I saw all the letters going between Departments and the FCA to say, "Let's not touch that. It is not in our remit." That is a live one right now.

Past examples: the loyalty premium insurance everyone knew was an issue. It took Citizens Advice getting all its resources together to do a super-complaint to get any further on the loyalty premium in insurance. Access to basic bank accounts—Sian Williams at Toynbee Hall was going at this for years before we got any further. Those are the types of intervention that would be allowed.

On the difference at the ground level, I could go through a few more parliamentary constituencies. For example, tackling the insurance poverty premium would make a huge difference of £500 million to your constituents, James; it would make a difference of one million three hundred for your constituents, Emma. I could go on.

One other quick thing is that, when we talk to people in the community, they do not have a clue why the market is why it is. People like me can say, "Cost to serve—it's a rational way the market is working." But if you ring up and say, "I want car insurance," they say, "We don't serve you—it's your postcode." I have had people say, "If I cross the road in Glasgow, my life expectancy goes down by this much. The same applies in terms of my insurance going up." People say they are lying on their insurance forms by putting different postcodes on, because they need their car because they are disabled. This is how consumers react to a system that does not work for them.

Q105 Emma Hardy: You mentioned before the letter and the number of people supporting the "have regard" to financial inclusion. I wonder whether it is worth sharing with colleagues who the people who support the "have regard" to financial inclusion are, and whether they elaborate on the reasons why they have supported that. Even though you are a wonderful spokesman, it is not just you supporting it, is it?

Martin Coppack: No. We have Martin Lewis on board, for example. That might surprise some people. We have Andy Briggs, chief executive of Phoenix Group. We have Lord Holmes of Richmond, from the House of Lords. We have the Legal & General Group chief executive. That is as well as other organisations that you might expect, such as Citizens Advice. There are about 70. This is not a niche area. People see it and see the need for it. It is not just Fair by Design.

Q106 Martin Docherty-Hughes: I think both of you will agree with what I am about to ask you. Would you agree that those most in favour of a cashless society are those with the most money in their bank?

Natalie Ceeney: Yes.

Q107 Martin Docherty-Hughes: If you look at other countries that are far more digitally enabled than the UK and Northern Ireland, notably Estonia—let me declare a non-pecuniary interest as the chair of that all-party parliamentary group—the vast majority of Estonians, who do have more or less a cashless society, believe that a cashless society or access to cash, should I say, needs to be supported with the infrastructure that you mentioned earlier, Natalie.

Natalie Ceeney: I think that is absolutely true. One thing I would say, perhaps to connect to the points that Martin has made, is, "Wouldn't it be nice if everybody could participate in a digital society?" There is a risk that we talk about protecting cash for its own end. The reason why we are talking about protecting cash is that the most vulnerable need it, because it works better for them than digital.

We also, in parallel, need to work to a society where everyone is included in a digital economy. If you are dependent on cash, you shop locally; you cannot shop online. That means that you pay more for your goods and services. You cannot do direct debits. You probably have a prepayment meter. Actually, your costs of living, if you live on cash, are much higher. But the people who use cash are not stupid. They are not doing it because they have not worked that out; they are doing it because they have not got a choice, so I think that in parallel—this is not covered by this Bill, but it should be something that we collectively work on post the Bill—we need to work on how we include everyone in a digital society.

That is broader than financial services. In Britain, 4.5 million people do not have any kind of smartphone; 1.5 million people do not have any broadband or mobile connectivity; and 1.3 million people do not have a bank account. There are some bigger societal issues to tackle, but we have to really make sure that this is an inclusion debate.

The Chair: I think this will be the last question, asked by Stephen Hammond.

Q108 Stephen Hammond (Wimbledon) (Con): Martin, you have mentioned that you were a regulator, and I think I heard you say a moment ago, "If it doesn't get measured, it doesn't get done." Therefore I am keen to ask you about and understand—you have obviously looked at the Bill in its totality—the need for metrics on net zero, competitiveness and proportionality. Do you think there is enough in the Bill and that is testing and stretching enough? And do you think that there is enough transparency in relation to the regulators to show that they have met those metrics?

Martin Coppack: I am sorry: I just do not feel quite qualified to answer that one.

Stephen Hammond: Okay.

Q109 Gareth Davies (Grantham and Stamford) (Con): Martin, I want to ask you very quickly about all the data that you have been listing in the evidence. I take this evidence session very seriously. I think that it would be really helpful if you could share the constituency data, but also, importantly, the workings. Can you just confirm that the way in which you are working out the poverty premium is not based on a best-case counterfactual?

Martin Coppack: What do you mean by "best case"?

Q110 Gareth Davies: Well, it is based on either a best-case counterfactual or average consumers' costs. Which is it?

Martin Coppack: We have a whole list. We deal with Bristol University. We do a range. We work out an average. And then we have figures that go much higher. If it is one in 10 of people who are in poverty, we would have a higher one. We have a whole range that we can present to you.

Q111 Gareth Davies: But is the data that you have been rattling off today to all of us specifically on the best-case counterfactual or on an average cost per consumer?

Martin Coppack: I am not quite sure what you mean by "best case".

Q112 Gareth Davies: Okay. Maybe write to me with your workings and we will go from there. If you rattle off data in an evidence session such as this, it is important for you to know how that data was calculated.

Emma Hardy: How they have worked it out is on the website.

Martin Coppack: It is published by the Bristol University Personal Finance Research Centre.

Gareth Davies: That still does not answer my question. If you are going to come to a Committee such as this, please provide your data.

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

Examination of Witness

William Wright gave evidence.

3.10 pm

The Chair: We will now hear from William Wright. We have until 3.25 pm for this panel. Would the witness please introduce himself for the record?

William Wright: My name is William Wright. I am the founder and managing director of New Financial, a capital markets think-tank.

Q113 Andrew Griffith: Thank you very much for being with us this afternoon. I am asking each witness a general opening question before handing over to colleagues. To what extent do you think the Bill fully unlocks opportunities? We have not had ab initio financial services regulation for nearly a quarter of a century. In that period, technology and trade flows have changed, and the imperative for us to remain competitive as an economy remains constant. How well does the Bill meet that objective, and who are our competitive set in the world?

William Wright: Thank you for the question and for the invitation to join you. Overall, the Bill gets just about the right balance between, on the one hand, the opportunity to reframe, tailor and recalibrate the framework for UK banking and finance, and on the other, to address the post-Brexit imperative to do so.

Inevitably, now that the UK has left the EU, we have to rework the financial architecture around regulation—the processes—now that it no longer goes through the European Parliament, the European Commission, the ECON committee and so on. The FCA, PRA and the supervisory architecture need to change to reflect that. I would add that the Bill draws the right balance, broadly speaking, in terms of not going too far, not trying to intervene too much in the specific legislative briefs in different sectors, and focusing much more on setting the framework.

On the second part of your question, on competitors, it is important to divide—for want of a better word—the City into two; it is a tale of two Cities. There is no competitor to the UK domestic side of the City, which is all about providing the right support and finance for UK companies and investors, and oiling the wheels of the UK economy. On the international side, of course, the competitive environment has changed quite radically over the past few years. We are now competing simultaneously with the US, with rapidly growing markets in Asia, and with renewed competition—some of it motivated perhaps more from a regulatory perspective than a competitive perspective—from European financial centres.

Q114 Tulip Siddiq: Do you think there is a disconnect between the Government's stated ambition to become the world's first net zero financial centre and the actual levels of green finance in the UK today?

William Wright: Part of that question relies on how you measure it, so I can only speak to how we at New Financial have measured it. We recently looked at and reviewed green finance activity—more specifically, green capital markets activity—in the UK and the EU. We found that, on two key measures, the UK is actually significantly behind the EU, which suggests that there is a disconnect between the widely accepted and widely stated position that the UK is already a global leader in green finance, and the widely received ambition to become the leading international green finance centre.

We looked at it in two ways. First, when you look at the UK's market share of European activity in green finance, across equity bond and loan markets, it is about 14% of all EU plus UK activity. That is significantly lower—significantly lower—than the UK's share of other capital markets and financial services activity. On a narrow definition of capital markets, the UK has a share of about 20% or 22% of EU 28 activity; on a broader definition of banking and finance, it has a share of just over 30%. Strictly in green finance, the UK has a share of half to two thirds of where you would expect it to be.

We also looked at the penetration: what percentage of equity capital raising—loan market and bond market capital raising—is green, in both the UK and the EU? In every single sector that we looked at, the UK lags behind in terms of green capital raising as a proportion of total capital raising. To give an indication of scale, last year roughly 20% of all capital markets activity in the EU was green; in the UK it was 9%.

There is a disconnect. I think there is an opportunity for the UK to catch up, but there is, shall we say, quite a lot of catching up to be done.

Q115 Tulip Siddiq: On the catching up or lagging behind that you have mentioned, would you recommend any legislation? Is there a role that the Bill we are discussing could play to strengthen us and pull us forward?

William Wright: There is certainly a role for legislation; I am not sure that the right place for that role is this Bill in particular. It is important to step back and look at the huge amount of work that has already been done and is being done in and around green finance from a legislative perspective. The latest addition to that is the net zero review, and the green finance strategy is expected from BEIS early next year, maybe. There are sustainability disclosure requirements, the UK green taxonomy and the transition plan taskforce. That work, which is coming down the pipeline towards us, could contain a lot of the legislative impetus for the UK to close the gap.

More importantly, I think the industry is already beginning to fill the gap. Where the UK has a real opportunity in green finance in future is not so much in the level of capital raising by UK companies, but in the fact that it is in pole position to benefit from its existing expertise in markets such as risk management, derivatives and trading, as we see the emergence of a more sophisticated carbon market of green derivatives and green risk management, and in playing to its existing strengths, many of which have not been harmed or damaged in any significant way by Brexit.

Q116 Peter Grant: I know that your website describes one of your key aims as developing a larger capital market across Europe. There is a trick to be pulled off in encouraging all the right kinds of people to come and invest in your financial markets while keeping the wrong kinds of people out. How effective has the UK's previous regulatory regime been at keeping Russian money out of our financial markets?

William Wright: On the substance of that question, I will have to put my hands up and say it is not an area that we have done a huge amount of work on, although we have recently hosted some events on that theme—for example with Edward Lucas, talking about Russia, Ukraine and links back to the City.

One point I will make is that back in 2007, in a previous life as a financial journalist, I was at the official launch of NYSE Euronext—this was the merger of the New York stock exchange and Euronext, the European-based stock exchange. The founding chief executive, John Thain, who was then chief executive officer of NYSE, said he thought that London would come to regret its campaign in the previous five or six years to attract Russian companies to list on the London stock exchange. If we look back on those comments with the benefit of 15 years of hindsight, he was probably correct.

Q117 Peter Grant: A number of transparency and anti-corruption campaigners regularly say that London has become or is in the process of becoming one of the go-to locations of choice for money laundering and similar activities. Is that a concern that you think is grounded in fact? Or is it just an urban myth with nothing behind it?

William Wright: I will have to fall back on saying that it is not something I have specific expertise on. I have opinions and views. I have recently read some of the works by Oliver Bullough on different aspects of this—"Butler to the World" and "Moneyland"—and it made me quite angry to read them, but it is not an area where I can claim any professional expertise to answer a question in this setting.

Q118 Sally-Ann Hart: Good afternoon. I will pick up on a few things in respect of the competitiveness of the UK financial markets. Our competitiveness is really important for our economic growth; do you think the Bill goes far enough with regard to the deregulation of existing EU rules? When it comes to new regulation, does the Bill enhance the ability of Britain's financial services to be agile and dynamic and to look at the best possible outcomes? We are very good in Britain at gold plating our rules and regulations, so we need to make sure we are not putting ourselves on the back foot and can be the most competitive, agile, dynamic market.

William Wright: That is sort of the trillion-dollar question, isn't it? On EU rules, the Bill and the huge amount of work that the Treasury and others have done over the past three years address the obvious low-hanging fruit—the obvious areas of EU regulation and the framework that were not appropriate for the UK market, which has a unique dynamic within the EU. Most of those areas have been well addressed in the Bill.

On looking ahead at competitiveness, the Bill does create a more agile and nimble framework. By definition, one would hope that the UK can act more swiftly than the EU, and we are already seeing some signs of that. Again, it gets the right balance by making competitiveness a secondary objective and not a primary objective. It gets the right balance to ensure that it is something considered by supervisors and regulators but not something that overrides the fundamental purpose of supervisors to ensure a stable financial system that is competitive within itself, and where customers get appropriate protections.

We need to be very careful, in the debate on competitiveness, about assuming that competitiveness is a mechanical outcome of regulation and tax. One of the lessons we can take from the last few weeks is that a very important element of competitiveness is credibility, predictability and the robustness of independent institutions. It is important to bear that in mind when we talk about competitiveness.

In the short term, the biggest competitiveness threat to the UK—this comes back to the Minister's opening question—is probably from additional pushback and pressure from the EU as it requires more EU business to be conducted inside the EU. We have this interesting dynamic: the UK is increasingly focusing on making people want to do business in the UK because it is an attractive environment, whereas the EU in many areas is trying to attract business by requiring people to do it there. We also need to be very careful in this debate—

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

William Wright: Thank you.

Examination of Witnesses

Robert Kelly and Robin Fieth gave evidence.

3.26 pm

Q119 The Chair: We will now hear oral evidence from Robin Fieth, chief executive of the Building Societies Association and director of Co-operatives UK, and Robert Kelly, CEO of the Association of British Credit Unions Ltd. For this panel we have until 3.55 pm. Would the witnesses please introduce yourselves for the record?

Robin Fieth: My name is Robin Fieth and I am chief executive of the Building Societies Association. We represent the UK's 43 mutual building societies and seven of the large credit unions.

Robert Kelly: Good afternoon, everyone. My name is Robert Kelly and I am CEO of the Association of British Credit Unions Ltd. We represent 157 credit unions across Great Britain—roughly 62% of the market.

Q120 Andrew Griffith: Thank you, Robin and Robert. This is a general question. The Bill's objective is to bring the rulebook up to date nearly quarter of a century after the last piece of ab initio financial services legislation, the Financial Services and Markets Act 2000. There is obviously a lot in this Bill; I invite you to comment in general on how you think it achieves the objective of creating a competitive, well-regulated and vibrant sector. The Government are very supportive of a diverse range of financial services providers, which includes both of you, representing building societies, credit unions and co-operatives, and I am personally very supportive of that.

I would like to ask questions in both directions, if I may. First, does this legislation go far enough to meet your objectives? When I was in front of the Treasury Committee a week ago, I was challenged on the fact that it might give a greater ability to sell a broader range of products. That question came specifically in the context of co-operatives and credit unions. Do you have the necessary expertise and the regulatory rulebook to do that without prejudicing consumers? Sorry, there is a lot there, but hopefully that gives you something to open up with, and we will then hand the questioning to colleagues.

Robin Fieth: Shall I go first? We will try not to talk over each other. Thank you very much for the question, Minister, and thank you for inviting us this afternoon. From the very start we have been a strong supporter of the financial services framework review, and particularly of adherence to the original FSMA principles of setting a framework in legislation and delegating the vast majority of the detailed work to regulators.

On the first part of your question, the Bill largely achieves that objective. We can always ask for more. The areas in the framework side where we may be looking for further advancement are around, for example, the terms of reference or the operation of the Financial Ombudsman Service, as the third part of the regulatory framework. Within that, we have been very strong supporters of the PRA's "strong and simple" initiative, which is a manifest example of how we move away from the single banking rulebook—the EU body of legislation —in a way that fosters real diversity in financial services and allows us to have a far more proportionate approach to the smaller, simpler, UK-based domestic organisations, like building societies and smaller banks.

On the third part of your question on enabling services, I would observe that the UK's traditional approach to credit union legislation has been very much on a permissive basis: credit unions are permitted by legislation and regulation to do specific things and specifically not to do anything else. Perhaps the question that the Committee might like to consider more is the extent to which we can empower credit unions better to achieve their service to society and the communities that they are there to service, recognising that there is a regulator to make sure they do not stray too far. Those are my introductory comments.

Robert Kelly: Thank you for the opportunity to contribute today. I echo Robin's comments in the round, in terms of the general objectives of the Bill. I welcome the opportunity to see, in a post-Brexit world for the United Kingdom, that there is a movement towards regulation and a legislative framework that is proportionate and delivers excellent consumer outcomes. That is certainly something we would echo every day of the week, so it is to be welcomed.

In terms of whether the legislation goes far enough, to echo Robin's comments again, we have engaged on additional items with HM Treasury officials and regulators in recent times. We respect the fact that we are on a journey and that we have to ensure that a proportionality clause is applied. To go back to the Minister's comment about whether we have all the expertise and whether the Bill goes far enough, I think those two things go hand in hand. We need to make sure that we continue to showcase the ability of the credit union sector to be a genuine competitor within financial services, that our mutuality and co-operative values shine through, and that we deliver excellent consumer member outcomes.

There are a couple of particular items that we referenced in recent conversations. We have to remember that the legislative reform agenda for the Credit Unions Act 1979 has been going on for a long time. We respect the fact that this is the most significant change since the Act itself in 1979. We are on an innovation journey and we firmly respect the fact that we need to continue to engage with all stakeholders, so we are delighted to see the possibility of additional new products and services being available to the credit unions that want to take advantage of the opportunity to provide them. Hopefully, credit unions can garner a wider share of financial wallets across households throughout the country and make sure that we serve more than the 2 million people we currently serve—that that number continues to increase.

There are a couple of examples that we have talked about. We believe there is a need for a future conversation around the common bond field of membership reform—something we have flagged to HMT already—and also around the possibility of innovation for credit union service organisations. That model is so prominent in and brings many, many advantages to the North American credit union system.

Lastly, in terms of the question about expertise, on the basis that we have had a long-standing conversation around legislative reform, we have been proactive in the background to make sure that we talk to our member credit unions, in conjunction with the BSA and other trade bodies and interested parties, to make sure we have the relevant conversation behind the scenes. We are preparing the ground for credit unions to understand that with the opportunity for new products and services come additional requirements around good consumer outcomes, compliance requirements and in-house training and development. That is something we have been doing in tandem with the legislative reform agenda.

I am firmly confident that we will be able to hit the ground running quickly as and when the legislation goes through both Houses, and that we have the ability then to expand our product and service range and make sure we can serve many more people with ethical finance across the UK.

Q121 Tulip Siddiq: Compared with the US or the rest of Europe, in the UK we lack mutually and co-operatively-owned regional banks. You have touched on this already, Robin, but I want to hear a bit more about why you think that is. What is the role of regulators when it comes to that lack of access?

Robin Fieth: The first thing is to look at the tradition—the tradition of the UK has been that our regional mutual financial institutions have either been insurers or building societies, traditionally, or, in the last 30 or 40 years, credit unions—compared with the United States or large parts of Europe, where there is a very long tradition of mutually-owned community banks, co-operative banks, lifelines and so forth. Our tradition is very different. Apart from the Co-operative bank, we have never had a large, mutual, fully general-purpose bank. Nationwide is a full retail bank, but it does not do business lending, for example. We have never had that tradition.

As some of you will know, there are a number of small community banks in the mobilisation phase or coming to mobilisation phase. On the second part of your question, the Bank of England's new banks team has been very good at helping challenger banks to get through the process and start up, and we have seen so many start up. I am not sure that they have the same experience and expertise in respect of what the mutual model looks like and why it is different. If you talk to any challenger bank, they will say it was much more difficult to get through mobilisation than it should be. If you talk to the community banks, they say it is very difficult to get through mobilisation. There are at least three that we are working with on the side, if you like, that are going through that process.

The real challenge, where perhaps there is a role for Government, is in creating the forms of capital that mutual start-ups can follow, because they cannot be venture-capital backed, so you need some form of mutual capital. We have suggested to both the main parties, for example, that whichever version of the British Business Bank you want, it could have a mandate for part of its capital being mutual capital.

Robert Kelly: Robin has covered the vast majority of the salient points, and we would agree with his comments. In terms of taking it maybe a step further or down in respect of the community banking model, as Robin mentioned there is a development agenda in a few areas of the country. There is certainly space for innovation and competition in SME lending and around transactional activity and transactional accounts and making sure there is something different from a competition perspective—maybe where the bigger banks are not necessarily in those spaces or where there is perhaps an opportunity for some more partnership and co-operation. We have talked to some of the community banking models about what space they and the credit union sector could co-exist in. We acknowledge that credit unions are already able to do corporate lending and SME lending, and some have done so. I think around 20 or 21 credit unions across the country have taken advantage of that. The ongoing PRA consultation on the future supervision and regulation of the credit union sector has some reference to that, in terms of additional checks and balances.

We recognise that there is opportunity for the credit union sector to do more. A big part of the legislative reform package that will ultimately impact credit unions can be described as an enabling factor that allows product and service innovation and development. Alongside the community banking and mutual banking model, the development that we have seen, and all the background that Robin has already mentioned, it should be made clear that we in the credit union sector believe that we can also fill some of that space. If the overall objective is around competitiveness and enabling competition, we should be ready to act, and to respond to the needs of communities and small businesses across the country.

Q122 Peter Grant: Mr Fieth, let me first come to you and the comment that you made previously about the UK not really having a tradition of mutually owned lending banks. Was not the first trustee savings bank set up in Dumfriesshire in 1810? There has been a very long and proud tradition of locally and community-owned banks, which survived for a long time. They were basically wiped out in a series of corporate takeovers in the 1970s and '80s. Is that not the case?

Robin Fieth: Whether the term is "corporate takeover" or "demutualisation", which was very much encouraged by the Government of the day, is a moot point, but you are absolutely right: there is or was a very proud trustee savings bank tradition, and of course it started in the lowlands—well, the borders—of Scotland. Sadly, the last trustee savings bank went into run-off within the last five or six years. That was the Airdrie Savings Bank. It is a tradition that we no longer have. Again, those institutions were not a full service of the kind that the shadow Economic Secretary was talking about. They were not a full service model. They were very much a savings and loans model, largely for retail purposes. That is the tradition we had, yes, but it is now sadly part of our economic history.

Q123 Peter Grant: Thank you. Mr Kelly, a lot of the evidence that we heard earlier today—I do not know how much of it you were able to watch—came from the big institutions, which clearly have a large part of UK exports—a significant part of the UK economy. Could you briefly explain the importance of credit unions, particularly with regard to the promotion of financial inclusion?

Robert Kelly: Yes, of course; thank you for the question. Credit unions play a unique role in the economic infrastructure of this country. I mentioned that we serve 2 million people, but we have huge aspirations to make sure that that goes much further. After this session, I am joining a call on the cost of living crisis and the impact that the credit union sector is having in different parts of the country. A really good example is Bradford District Credit Union, which is working in tandem with the local authority on a range of products and initiatives that have built financial resilience and financial inclusion in that part of the country. There are many more examples across the UK.

The financial inclusion agenda chimes perfectly with our objectives, our ethics and the co-operation and mutual model that credit unions are built on. The important point to state is that we believe that that work can be accelerated and amplified in a significant way. We can do much more. The phrase that we would use is that we manage to put in place a balanced demographic of membership. The credit union should be seen as a safe and innovative place for any member of society, any consumer, to go to. It goes back to the comment that Robin made on full service. We believe the legislative reform package that is on the table for the credit union sector will allow us to do that. It will allow us to be more competitive, to look at risk-based pricing and to make sure that we are seen as more mainstream—and to serve a wider part of the population. Doing that creates an environment where additional financial inclusion initiatives and objectives are made possible, because we are building sustainability and the strength of balance sheets for credit unions across the country; those things go in tandem.

We have worked closely with a range of Governments over many years to deliver great value, and also financial inclusion objectives, but we need to make sure that there is a balance of products and services, and a balanced demographic that allows us to do much more of that. We have said that in the past, credit unions have unfortunately been seen as the poor person's bank. We have worked incredibly hard to move away from that area—with, I think, great success. The legislative reform package that is on the table for the credit union sector will allow us to do much more, and it should be seen as very positive.

Q124 Peter Grant: Thank you. You referred to the need to be competitive. When earlier witnesses used that phrase, they often clarified it with reference to overseas businesses or overseas financial services sectors. When you talk about being competitive, who are you competing with? Is there anything in the Bill that helps you to become competitive, or is there anything that could be added that would help?

Robert Kelly: I will give two examples. Credit unions will have, for the first time, the ability to offer car finance under personal contract purchase or hire purchase—conditional sale activity. We can also be immersed back into the general insurance mediation process. That means that we can diversify our product range. It should mean that we can diversify our income lines, which should result in greater sustainability for the sector. Those are two examples where we were very firmly part of the legislative programme that has been developed for the credit union sector.

On competition, we recognise that we are a small player overall in the financial services landscape, but we can do more, and have huge aspirations. We have that wider product and service range. Investment in technology will allow us to be seen as being more mainstream. A bigger part of the financial wallet for many households across the country could be maintained by the credit union sector. The Bill certainly has its elements there.

We talked about credit union service organisations. It is important that we continue to have that conversation with all relevant stakeholders, look at where in the sector there is innovation in the overall infrastructure, and consider how we can learn from the successes of the model used in North American and other parts of the world. The Bill goes a long way to allowing us to diversify, and to become more competitive and more mainstream. That is to be welcomed. There are certainly follow-on elements that we will undoubtedly talk to officials and regulators about in the weeks and months ahead.

Q125 Peter Grant: According to the Financial Conduct Authority website, in just over the last year, eight credit unions have gone into administration; only one did in the preceding three years. Is there something about the current financial services sector, or about the credit union model, that means there is a systemic problem? Or is it simply that, if we move from having a small number of big players to a large number of small players, inevitably we will lose some of the small players?

Robert Kelly: We recognise the difficulties in terms of reputational risk, and the challenges that failure brings. We are working tirelessly with our member base. We are a very broad church. Our members have asset sizes from a couple of hundred thousand to well over £220 million, and everything in between. We recognise that failure is difficult and painful. We are working extremely hard behind the scenes collaboratively with the BSA and other interested parties. Credit unions that fail often have a couple of items in common. There tends to be a lack of good governance, and sometimes there is key person risk. Covid has exacerbated some of that, just in terms of volunteer burnout and sustainability challenges, demand for lending and bad debts. We have been impacted by insolvency and mis-selling in many cases as well. We have identified that it can be difficult to maintain a smaller asset range using a volunteer base—not always, but sometimes. We are working tirelessly behind the scenes to make sure that credit unions look at their business plans and numbers on a regular basis, and take the tough decisions.

Let me bring that to life, very quickly. The original development of the fiscal principles was in 2002. In that year, we had 698 credit unions in GB; we are now down to fewer than 250. Most of that reduction in numbers came through consolidation and mergers or acquisitions. Some of it has been failure. We certainly believe that the number will continue to come down. It would be appropriate to find solutions that allow credit unions to come together as part of mergers or acquisitions and maintain services in their local communities.

Q126 Siobhain McDonagh: Would both our witnesses support giving the FCA and the PRA an explicit remit to report on how they have considered specific business models—including credit unions, building societies and mutual and co-operative regional banks—to ensure that they are given parity of esteem with other providers? If so, how would that support your sector?

Robin Fieth: That is a great question; thank you very much. We are already part of the way there with the PRA. It has had a secondary competition objective since the 2014 Act, and it was subsequently enhanced at the BSA's behest. Every time it consults, it has an obligation and a requirement to determine whether there are specific aspects that disproportionately affect the mutual sector, and that has been welcome. We have seen a real change in the PRA's approach to the financial mutuals since the financial crisis, and it has been largely positive.

There is a very important question as far as the FCA is concerned. We saw it last year with the proposed demutualisation of LV. It was apparent that the FCA was entirely agnostic on the business model, in terms of their competition objective and the good competition that achieves better customer outcomes on the conduct side. There is certainly a case for the FCA to consider that far more closely. I am always very careful when we talk about conduct outcomes with the FCA because, as a consumer, you should not have a different outcome, but you might experience a different journey. There are some nuances in there. As to how it best achieves that without adding ever more reports and burdens, that is in its annual reports, which are obviously open to examination and scrutiny. In the regulator's annual reports, it should report back on that; that would be the most straightforward way to achieve that.

Robert Kelly: Thank you again for the question. I echo Robin's comments, but I will try not to duplicate them. Credit unions have an ongoing consultation with the PRA on future supervision and the regulatory environment. We have a long track record of working in tandem with the PRA, and there is a move towards making sure that the supervision model is in tandem with the legislative reform agenda, which seems eminently sensible. It also allows us to take cognisance of the fact that there are many more larger, asset-based credit unions than there were five or 10 years ago—we have to factor in whether that comes through consolidation, or just through business growth—which is hugely beneficial for all parties.

In terms of the FCA, obviously the credit union sector is dual-regulated. We have a relationship from the conduct side. It will be interesting to see how that approach develops. Again, I would echo Robin's view: the FCA has such a broad remit, in terms of the firms that it looks after, and we are always championing the cause of proportionality. Consumer duties are an example of where we have to work in collaboration with all relevant stakeholders and interested parties to make sure that the good consumer outcomes that credit unions provide can be evidenced, and that we can go on that journey. There are live examples of those on both sides of the regulatory environment taking steps to be innovative and to future-proof the business development that we expect to see through this legislative programme. That is to be welcomed, but we are on a journey, and we are not yet at the end.

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

Examination of Witness

Mike Haley gave evidence.

3.55 pm

The Chair: We have until 4.10 pm for this panel. Would the witness please introduce himself for the record?

Mike Haley: Good afternoon. I am Mike Haley, chief executive officer of CIFAS, the UK's fraud prevention service. We are a not-for-profit membership organisation of 600 members. Member organisations are, in the main, financial services—banks, fintechs, alternative lenders and mortgage providers. We also share data and intelligence on fraud and financial crime.

The Chair: Thank you. Does anybody on the Government side wish to open the questioning?

Q127 Sally-Ann Hart: It is not a general question, but I want to ask about push payment fraud and APP. If we set a specific amount for APP fraud reimbursement, would a suggested £1 million limit encourage fraudsters to try to act like the victim? Would a limit set that high be an incentive for fraud?

Mike Haley: Yes. One of the issues with a contingent reimbursement model in any compensation scheme is that it is not a fraud prevention initiative in itself; it really just says who suffers the risk of the fraud. It passes the individual loss on to the banks. The emphasis is on a large amount that you could get away with without thinking that you have taken it out of an individual's pockets; a faceless bank will pay up to £1 million. Any limit of that size reduces any moral questions a fraudster might have about who they are stealing money from.

Q128 Tulip Siddiq: Thank you for coming to give evidence. You do not need me to tell you the amount of money directly stolen from people's bank accounts through fraud and scams—a record high of £1.3 billion, as you will know. Why do you think we have reached that amount?

Mike Haley: There are three interconnected reasons why scams have reached such frightening proportions. First, the reach of social media and online platforms means that scammers and fraudsters can reach millions of people—marks and vulnerable people—much more effectively.

Secondly, we have seen organised crime turn its hand to fraud because it is a low-risk, high-return crime. Their skills have grown in something called social engineering, which is how they to persuade someone that they are calling from the bank or from the police by impersonating others. They have become very skilled in that.

Thirdly, faster and instant payments mean that once a fraud has been successful, and you mandate a payment through your bank account, it is very hard for banks to tell that that is a fraudulent transaction, because it has been mandated by the customer. Then, there is a network of money mule accounts, which are either accounts that have been set up for those proceeds to go through, or accounts belonging to people who have been duped into allowing their accounts to be used for that money to go through. Instant payments mean that that is untraceable very quickly. I remember investigating a mass fraud—*[Interruption.]*

4 pm

Sitting suspended for a Division in the House.

4.15 pm

On resuming—

The Chair: Order. We resume our session. I think a question was put to you. Do you want it repeated?

Mike Haley: I do not need the question repeated.

On the question of what has created the significant increase in frauds—particularly authorised push payment frauds, known as scams—I was saying that there are three interconnected issues. First, there is the reach of social media. Secondly, organised crime has turned its attention to fraud. Thirdly, the faster payments regime has enabled fraudsters to quickly dissipate the scam funds.

One of the things we have seen with the dissipation of scam funds is that they often go into cryptoassets and crypto exchanges. That is why, as part of the Bill, we welcome extending the regulatory perimeter to cryptoassets—digital settlement assets—so long as, in that authorisation process, there is a risk assessment around economic crime. Authorised crypto firms should meet the same standards as banks, in terms of know your customer—customer due diligence—and should have in place the anti-money laundering, counter-terrorist financing and fraud operational standards that we expect from the other financial service players so that it is a level playing field.

Q129 Emma Hardy: Thank you for your answer. Fraud is a huge issue, and I am sure we all have individual stories from constituents who have been impacted by it. I just wonder what else could have been done in the Bill to tackle fraud. Specifically, should we have legislation on a single dedicated national strategy to tackle fraud, or should we have provisions to support investigators in the sector to prevent fraud and track stolen money? I asked a previous witness about putting in place data-sharing agreements that extend beyond just the banks to include fintech, electric money institutions, cryptoasset firms and payment system operators. What more can be done? Would you support what one of the witnesses—I forget who it was—said about data sharing?

Mike Haley: I will take those in reverse order. Provisions that facilitate greater data and intelligence sharing, particularly on suspicions of fraud and financial crime, would have the biggest impact in helping to prevent this type of crime. It is a crime that is at scale and at speed in the online environment. To be able to share the mobile numbers that are being used, the devices and the IP addresses at speed across the whole of the environment—payment providers, fintechs and telcos—would be enormously powerful. This is a volume crime, and we need to have prevention at the core of any national strategy. That would have a massive positive impact.

I would like to see it go further. I would like it to be mandatory, because why should an organisation sit on knowledge about fraud or financial crime, and not share that with others to protect the whole of the financial services industry? There should certainly be strong leadership saying it should be done. For those who do not, I would like it to be mandatory, but it should certainly be facilitated. There should be something in the Bill that facilitates that sharing.

Q130 Emma Hardy: Something on the face of the Bill that says that they have to do this.

Mike Haley: And that they can. A lot of the time, organisations feel, rightly or wrongly, that they cannot share this type of data and intelligence. They might quote the General Data Protection Regulation, but in my view the GDPR says that it is in the legitimate interests of businesses to share data to protect their services and consumers. There is a lack of confidence in doing that, so we should have something very explicit that says not only that it is allowable but that it is expected, because we are all part of the same ecosystem, in which people are being scammed and organisations are losing literally billions of pounds.

Absolutely, there should be a national strategy, and prevention should be at its core. We are looking forward to the Home Office publishing a national strategy; it has been much delayed, and it is very much anticipated. From what I have seen, I would like it to be more ambitious, and to cover the public and private sectors, as well as law enforcement. Fraudsters do not decide one day, "We only go after bounce back loans because that is a public sector fraud." They will go after a loan from the Nat West bank, or a mortgage. A lot of data is not being shared between the public and private sectors and law enforcement. That would be a powerful set of data and intelligence, which would make us more effective as a country in defeating fraud.

Q131 Emma Hardy: Fantastic. Are there any other things that you think could be done with the Bill to try and tackle fraud that we have not covered so far?

Mike Haley: If we are looking at some of the regulators' new rule-making powers, and also with the panels that have been suggested, with any rule or policy change they should be thinking about what the economic crime impact will be.

Q132 Emma Hardy: Like an economic crime assessment?

Mike Haley: Yes, because there can be unintended consequences some way down the line that were not thought of at the start. Faster payments are a really good example; they put the UK in a competitive position and most people would support faster payments. However, we find that they have been exploited. There could have been some thought about, for example, in what circumstances we slow that journey down to prevent fraud. With any new rule changes we should ask what the impact could be, and what unintended consequences there could be—does it open a gateway for fraudsters or criminals to exploit? I think that would strengthen the Bill and also give some real teeth to a regulator—to be held to account about whether they thought about it at the outset.

Emma Hardy: That is really helpful, thank you.

Q133 Andrew Griffith: Do you think this is a good example of an area where it is important that the Government have an intervention power? We have seen some patterns of behaviour emerge very rapidly and cause significant public policy concern.

Mike Haley: Yes, I think we have seen in the past that regulators have not moved quick enough when there has been widespread harm. We might look at payment protection insurance, for example, where consumers brought plenty of reports into MPs' and Government in-trays, and yet the regulator was rather slow in intervening in a market—a market that had been abused. I think that an intervention power could be very powerful.

Q134 Martin Docherty-Hughes: In terms of clauses 21 and 22 on digital settlement assets, how effective do you think the Bill will be in ensuring that we reduce fraud with digital settlement assets that use blockchain? I am not having a go at the technology, because that is a completely different discussion. How effectively will an open or closed blockchain, and the differences between the two, be regulated by this Bill?

Mike Haley: I think one of the problems of all legislation is how quickly it keeps up with changes in technology, and it being broad around principles. As I mentioned, with the authorisation of anyone who becomes a regulated entity dealing with digital settlement assets, it is important to have clear criteria for the onboarding—know your customer—and to know who the accounts are opened by. I find that already we are looking at money laundering through coin swap services, for which you do not need an account and may not be under this regulation. There are cross-chain bridges, where someone can move from one blockchain to another. I am not an expert on whether clauses 21 and 22 cover some of those services that have been created, which were probably not in the thinking when the Bill was starting to be drafted.

Q135 Martin Docherty-Hughes: My concern is that blockchain has been around for a long time. Fraud is not new—there is nothing new under the sun. Do you have a concern about the ability of the regulators to keep on top of this, as they do not have the knowledge that they should have, nor do they have the access to resources to develop it?

Mike Haley: There are a number of questions there. One is whether the legislation is broad enough to ensure that the regulator can act on some of those services. They need to be included in the perimeter. I do not think that some of these services—I talk about those coin swap services—are actually in the purview. There are cryptoassets and cryptocurrency exchanges, but some of these other services have been created, and from my reading of those provisions, I do not think they are covered.

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

Examination of Witness

Adam Jackson gave evidence

4.25 pm

Q136 The Chair: Order. We will now hear evidence from Adam Jackson, policy director for Innovate Finance. For this panel, we have until 4.40 pm. Will the witness please introduce himself, for the record?

Adam Jackson: I am Adam Jackson, director of policy and regulatory affairs at Innovate Finance. We are the trade association for fintech in the UK, representing, if you like, all of the new technology-based financial services that have emerged, maybe in the past 10 to 12 years, including payments, challenger banks, consumer credit and personal management tools—and crypto are part of that.

Q137 Andrew Griffith: Thank you, Adam, for being with us this afternoon. The UK has much to commend it as a location for fintech and the other segments that you talked about. We have a supportive Government, a conducive framework and good liquidity in many markets. Let us take that aside for one moment, and the good work that Innovate Finance has done itself, and look at where there are opportunities to go further, or delve into the areas where you think there is a gap. Telling us how good things are does not take us very much further forward. When you look at this Bill, and at the overall behaviour and corpus of regulation, how are we doing, and how could we do better?

Adam Jackson: I think that is a good phrasing, Minister, of looking ahead. I think we have in the UK a great 10 years. We are No. 2 for investment in fintech in the world, and have been consistently. The question is, how do we maintain that at a time when we are on the cusp or in the middle of a new wave of financial technology?

The first wave of fintech was very much about consumer interfaces. I think what we are then seeing, and will see over the next 10 years, is the application of technology to the whole of financial services—to the financial systems—to the plumbing, if you like, of financial markets, not just that consumer interface. The question is, how do we build on our superb record until now to ensure that we are at the forefront of what will be digital financial markets? That then becomes not just, "How do we maintain our lead in fintech?" but "How do we ensure that we are a global leader in finance?"

If I then look at the Bill and think about what is needed, I tend to categorise it in three ways. First, is there regulation that needs updating? Is the regulatory rules system fit for purpose? Does it enable—or actually open up—innovation? Is how we regulate agile enough, particularly as technology and the economy move quickly?

Looking at the Bill and "fit for purpose", the proposals, particularly on stablecoin, are really welcome. They tackle an issue that we have seen in the market this year and bring into scope that new technology.

Does it enable innovation? I think, there, the financial markets infrastructure sandbox is important for looking at how we support different ways of regulating. That gets into the agile regulators as well. Then, when we look at systemic stablecoin, that is about enabling innovation. We will only see stablecoin really developing as a fundamental part of payments systems, and therefore only see the UK maintain its lead in payment innovation, if we have new provisions around systemic stablecoins. The Bill covers all those.

Are there other areas that we would like to see? In terms of the regulatory behaviours, the competitiveness objective is very welcome. On the secondary objective, we would love to see it extended to the Payment Systems Regulator. We have heard quite a bit today about the Bill providing new powers to the PSR so there is a strong case for applying the competitiveness objective to them, as well as some of the other bits of the financial future regulatory framework.

On the question whether we could apply a competition objective to the Bank of England, when we think about things such as central bank digital currency, how that is implemented—as well as if—becomes really important. Central bank digital currency could crowd out innovation and stablecoin unless it is designed in a way that promotes competition. Sir Jon Cunliffe talked about how he absolutely sees a place for stablecoin and a CBDC alongside, but is thinking about some protections around that.

Then, two final pieces would be looking at whether there is scope to strengthen the competitiveness objective, moving from facilitate to promote, and finally, thinking about the Financial Ombudsman Service. A lot of our members raise concerns with us that they have agreed approaches with the FCA, only to find that FOS caselaw rules against things that they have already agreed with the FCA. So more to ensure that consistency, and if there is a way of ensuring that the FOS refers to the FCA for rulings on certain issues, that would help.

Andrew Griffith: That is very helpful, thank you.

Q138 Tulip Siddiq: You have touched on this very briefly. I would like you to expand a bit more on the comparison between our approach and the EU's approach to crypto regulation in general. You will be aware of the EU's regulation deal, which effectively brings together cryptoassets and activity into regulations, whereas we, at the moment, are limited to stablecoins. Are we at some sort of risk of falling behind because we have not had that sort of regulation? Does it compromise our competitiveness in the fintech sector because we have not had that sort of regulation deal?

The other thing I wanted to ask about is investment in the UK fintech industry, which was down to £9.6 billion in the first six months of this year, which is three times less than exactly the same period last year. Do you want to comment on the reason for that decline? What should we be doing as politicians to try and help with that?

Adam Jackson: Taking your first question, it is worth looking at the EU MiCA regulation and possibly the approach of a territory such as Singapore. It links a bit to the investment. We did some analysis of investment in just crypto alone, looking at that as a vertical within fintech, and again, the UK has always been the second location for crypto investment in the world, after the US, until the first half of this year, when we fell behind to Singapore. That might be a blip, but when you then look at regulatory mapping, you will see that Singapore possibly has the most forward regulatory system, particularly for stablecoin. The EU has a very comprehensive approach, but is has not come into force yet. Singapore has an established system, so I think that shows that if you get it right and have a proportionate regime, you attract the industry and the investment.

Is the EU approach right? There are strong arguments to say that it is possibly too comprehensive, and we come back to the notion that trying to find something that works for all 27 does not fit our circumstances. The UK is right to take a more iterative approach. We obviously have a common law approach as well, which means there are certain things we can do through case law. It is absolutely right that we are focusing on stablecoin and that is where some of the biggest volatility in the market was this year. The Bill addresses that, which will be really important in providing confidence for consumers and, critically, for investors in technology firms in that space.

The EU rule applies to not just stablecoin but cryptocurrencies more generally and exchanges, so should we also have a regulatory regime for other cryptoassets? I think the answer is yes. The question is how it fits within the Bill. The Government have said that they will introduce proposals for wider regulation of other cryptoassets. We expect something at some point, possibly soon.

That begs the question whether the Bill already enables the introduction of regulations. We probably need to ask Treasury counsel about the definition of a digital settlement asset. The Bill allows for the definition to be changed. Do the rules enable it to cover other cryptoassets? If it does, the powers are there to enable regulators to introduce systems subject to the proposals. If not, will we have to wait another 20 years before regulators are given the powers to regulate cryptoassets?

On cryptoassets, the important things that our members, including exchanges and cryptoasset firms, emphasise are an authorisations regime, a set of rules for initial coin offering—essentially, clear guidance on what information should be provided to consumers about individual assets—and custody. The Bill provides for applying rules on custody for stablecoin. If we do not have a parallel system, we will start to see some question marks over why those custody rules do not apply to cryptoassets as well.

On investment, there are different ways of looking at the figures from the first half of this year. Some investment, particularly VC, has really held up, but we know that globally we can expect a fall in investment, and we are just starting to see that trickle through. It is therefore a question of how the UK holds up against other countries.

We might even see more mergers and acquisitions. At the moment, the pound makes the UK a nice place to come to buy fintech firms, so there may be a bit of difference there. It comes back to maintaining that competitiveness. Our members tell us that the most important thing is to get the Bill through. It provides important powers. If we can strengthen it in some of the areas that I mentioned to the Minister, that is also critical.

The other thing that I would flag is that there are two other pieces of legislation that are either before the House or slightly in limbo. They are also important for the competitiveness of fintech. One is the Data Protection and Digital Information Bill, introducing digital ID and open data, which will really transform the open banking we have into open finance. Australia already has that, so there is a risk of us falling behind. That Bill is also really important.

We have heard a lot about fraud. The provisions in the Online Safety Bill around making the places where frauds are advertised—the social media platforms and search engines—responsible for fraud, as well as requiring banks to reimburse, are critical. That is starting to be a factor in investment decisions. Whatever happens to that Bill, ensuring that those provisions are introduced as soon as possible is key.

Q139 Martin Docherty-Hughes: Mr Jackson, you said earlier that Singapore had forward regulation. Some of us on the Committee might see that as meaning that it is less robust than what the EU is proposing. I have heard Singapore and offshore tax havens used as some kind of comparator for UK regulation. Do you think that it is useful for us to use, say, Singapore—a one-party state, effectively—and offshore tax havens as a comparator for good regulation?

Adam Jackson: I was not suggesting that we should necessarily compare the exact regulatory regime—the economy is a very different size—but I would take the wider point that a territory that has been seen to introduce some regulatory rules, as opposed to having none, is seeing increased investment.

The other place to look is the US. I was in Washington last month talking to policymakers, and the area where there is most likely to be a bipartisan Bill next year is regulating stablecoin. In terms of our international competitiveness, others are moving, and the Bill enables the UK to keep up.

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

Examination of Witness

Martin Taylor gave evidence.

4.40 pm

The Chair: We will now hear oral evidence from Martin Taylor, former external member of the Bank of England's Financial Policy Committee. For this panel we have until 4.55 pm. Will the witness please introduce himself for the record?

Martin Taylor: I am Martin Taylor. I have spent a lot of my life in finance and in policymaking work for the Government. What probably most interests you is that I spent seven years—until the end of March 2020—as a member of the Financial Policy Committee at the Bank of England, which is to do with macroprudential policy.

The Chair: It gives me pleasure to call the Minister.

Q140 Andrew Griffith: Thank you, Martin. It is relatively unusual to have individuals here, although we welcome your expertise. Do you have any party political affiliations to declare?

Martin Taylor: None.

Q141 Andrew Griffith: Have you acted as an adviser to any political party or Front Bencher?

Martin Taylor: I have acted as an adviser to Gordon Brown, Alistair Darling and George Osborne—eclectic, you might say.

Andrew Griffith: Thank you; that is very helpful. Nothing else to add.

Q142 Tulip Siddiq: Thank you for coming to give evidence. My question is very simple. It is about the intervention powers being proposed by the Government, which you will know about. I would like your opinion on whether you think the intervention powers will in any way undermine the independence of the regulators.

Martin Taylor: Let me speak plainly, because it is late in the afternoon. I think this is a shockingly bad idea. I think it will certainly undermine regulatory independence —without any doubt—simply because regulators who are subject to the whim of Treasury officials or Ministers are not independent. It is a major erosion of the institutional framework. One could even say it is a corruption of the framework. For me, the institutional framework is hard-won and very precious. I can only suppose that those proposing the powers either do not understand it or do not care about it.

Tulip Siddiq: I think that is quite clear. Anyone else?

Q143 Stephen Hammond: Good afternoon. That was a very clear expression of your views. I will ask three things. Do you think that we should wait and see how the intervention powers are actually defined, and how public interest is defined? Do you think there are other jurisdictions that use those powers? In terms of the definition, will it not matter how they are defined between "operational" and "strategic"?

Martin Taylor: The wording that I have seen is of course not final, but what I find strange is that it suggests the regulators are not acting in the public interest. If they have to be overruled in the public interest, clearly you think they are acting in some other interest. For me, the regulators are the public interest made flesh.

Q144 Stephen Hammond: That is a possible interpretation. The other possible interpretation is that they have acted in the public interest and on their behalf, but the Government want to have a reserve power potentially for future consideration.

Martin Taylor: The Government have enormous influence over the regulatory process. Sometimes people characterise the regulators as living in an ivory tower or something like that, as if they are academics who sit, removed from the real world, and think up rules without any feeling for what impact they might have. In fact, if you think about it, first of all, the independence of the regulators, such as it is, is circumscribed—it is set by Parliament. It is all set by primary legislation; that is No. 1.

Secondly, the wider Government and particularly the Treasury have tremendous powers to influence regulation. The Treasury appoints all the independent members of committees. The Governor and the deputy governors of the Bank of England are Crown appointments, so effectively No. 10 and the Chancellor have a certain say. The Treasury representatives sit on these committees and let the regulators know the Chancellor's view. The Chancellor, whoever it may be at the time, writes to the committee and sets out their views on the things they ought to take into account.

There are very close working relationships between the Governor, the Chancellor and the permanent secretary, and then all the way down the chain at the Bank of England. The regulators swim in the soup like everybody else.

Q145 Stephen Hammond: I do not think that regulators are in ivory towers. I spent 20 years in financial services. They came to visit me and what they did with our firm never make me think they were in an ivory tower. I sometimes thought I had regulators who were trying to regulate businesses in which they did not necessarily have experience, but that is another story and we will get on to that later.

May I ask your views on the secondary objective?

Martin Taylor: The new secondary objective?

Stephen Hammond: Yes, the new secondary objective as proposed in the Bill.

Martin Taylor: I have a curious view that the fewer objectives you have the better, because the more likely you are to hit them. I have no objection to the secondary objective, if I can put it that way. It does not seem to me offensive. I was very pleased to hear the then Chancellor say in the Mansion House speech that there was a clear hierarchy of objectives, and that seemed to me to be fine. I don't worry about that.

Q146 Stephen Hammond: I think it has been explicit all the way through that there is a hierarchy of objectives. Would you agree that the Bill should ensure that there is a clear set of metrics and there is transparency for showing how that objective is being met or is not being met?

Martin Taylor: If that can be done, I would certainly welcome it. One of the difficulties that the Financial Policy Committee has always had is that if your job is maintaining financial stability, it is not always very easy to see if you are succeeding. One can see that recently, for example, the Monetary Policy Committee has not been meeting its inflation objective. That is an objective in hard numbers, and for the FPC and for other regulatory bodies it is harder.

Q147 Emma Hardy: Thank you, Martin, for your candour. What risk could the intervention pose to financial stability and to the UK's reputation and global competitiveness if left as it is?

Martin Taylor: I do not want to exaggerate. I said this was a corruption of the system and corruptions work slowly, so it does not make us into Argentina or Turkey overnight but that is the direction of travel, if I can put it that way. Independent regulation is not an aesthetic choice; it is a practical one. I think the transparency of the regulatory process in London—the need for the regulators to explain themselves and especially the scrutiny by Parliament—is one of the cornerstones, along with the legal system and various other things we are familiar with, of London's attraction as a financial centre. The UK's reputation needs a bit of tender loving care at the moment, I would say, and bringing in unnecessary measures that risk damaging it seems to me unintelligible.

Q148 Emma Hardy: Would it be your recommendation to remove that from the Bill?

Martin Taylor: Completely—just knock it out. I see no advantage in its existence.

Q149 Emma Hardy: And do you think there is a risk that if the invention powers are left, they could be perceived by markets as a threat to the independence of the Bank of England or the PRA? We have seen such recent turmoil in the markets over concerns. Do you think it could have a similar impact?

Martin Taylor: One of the problems that led to the recent turmoil—a very English description of what has just happened—was that the Prime Minister and the former Chancellor chose not to subject the mini-Budget to the scrutiny of the Office for Budget Responsibility. Had they done so, the OBR might of course have objected to various parts of it, which is perhaps why they did not do so.

However, international investors looking at London will have noted this and it has a bad smell, if I can put it that way. I am not worried about the bond traders who price the market day by day. The volatility was extreme and very dangerous. It has been settled by the Bank for the moment, I hope. I am much more worried about the people running really big blocks of money—big foreign sovereign wealth funds or big institutional investors—who look at London and say, "Is it worth having an allocation to gilt-edged stock? Do we want to be exposed to sterling if this is the sort of thing that goes on?".

These are the strangers on whose kindness Mark Carney told us we relied and we antagonise them at our peril. That is what worries me more than anything else: that we suppose that foreigners will always want to buy gilts. Why should they? You could run a huge international portfolio and have zero allocation to sterling at the moment. If you were in Singapore or New York, you might be more tempted to do that than you would have been a month ago. We should not do anything else to make this worse. Everything is being done by the new Chancellor to steady the ship—thank goodness—but moves like this proposed measure just go in entirely the wrong direction as far as I am concerned. I think it is very dangerous.

Q150 Peter Grant: How effective has the UK been at keeping dirty money out of the financial services sector?

Martin Taylor: I do not know. I probably have the same suspicions that you have. London has a huge financial sector and dirty money is easier to hide in places where there is lots of money than in places where there is not very much. I have never worked in, or with, the Financial Conduct Authority, but sometimes it gets blamed when things go wrong, which is a bit like blaming the police for crime, if you know what I mean. There is a lot of dirty money in the world and a lot of it will try to come here. I think the regulators do their best.

Q151 Peter Grant: If there is a long-term downtick in the world's willingness to invest clean money in the United Kingdom, does that increase the risk that dirty money will replace it?

Martin Taylor: I would rather not accept the premise. We have to ensure that the world is happy to invest clean money in the United Kingdom. It is extremely important that we do that. No, I do not see us becoming a sort of sewer market—I mean, God forbid—but we have to be careful and we have to keep standards up. In taking out some European regulation—which we ought to do, because not all European regulation is good and valuable, and I am glad that the Bill allows us to do that—we need to be very careful. There are babies in the bathwater.

Q152 Peter Grant: Is there a replacement risk with the EU legislation? Certainly a number of our witnesses from the big institutions said that there are parts of it that they would like to see removed or changed. Is it not the case that what it gets replaced with is vital? If it gets replaced by weaker regulation, does that threaten the stability of the markets in the longer term?

Martin Taylor: The FPC, for every quarter that I was a member of it—and I think it is still doing it—was saying that the intention was that the regulatory framework, when Britain left the European Union, would be a least as rigorous as the EU's. In one or two places, it probably needs to be more rigorous than the EU's, because there is some lowest common denominator there. In others, the EU has unnecessarily gold-plated things, but it needs to be done very precisely and carefully.

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 witness on behalf of the Committee. The Committee will meet again at 9.25 am on Tuesday 25 October to begin line-by-line consideration of the Bill.

Ordered, That further consideration be now adjourned. —*(Joy Morrissey.)*

4.55 pm

Adjourned till Tuesday 25 October at twenty-five minutes past Nine o'clock.

Written evidence reported to the House

FSMB01 Hargreaves Lansdown

FSMB02 LINK Scheme Ltd

FSMB03 NoteMachine

FSMB04 Finance Innovation Lab

FSMB05 The Investment & Saving Alliance (TISA)

FSMB06 UK Cash Supply Alliance (UKCSA)

FSMB07 Cash 2.0 Working Group

FSMB08 Legal & General

FSMB09 Financial Inclusion Commission

FSMB10 London and International Insurance Brokers' Association (LIIBA)

FSMB11 Transparency task force

FSMB12 FX Liquidation Committee

FSMB13 Spotlight on Corruption

FSMB14 OneBanx

FSMB15 Nationwide Building Society

FSMB16 Circle Internet Financial, LLC

FSMB17 London Market Group (LMG)

FSMB18 Global Justice Now

FSMB19 WWF-UK

FSMB20 Barclays

FSMB21 Natalie Ceeney CBE, Chair, Cash Action Group

FSMB22 Phoenix Group

FSMB23 Association of British Insurers (ABI), British Insurance Brokers' Association (BIBA) and London Market Group (LMG) (joint submission)

FSMB24 Innovate Finance

FSMB25 All Party Parliamentary Group (APPG) on Mortgage Prisoners

FSMB26 Mobile UK

FSMB27 Association of British Insurers (ABI)

FSMB28 Which?

FSMB29 Positive Money

FSMB30 British Insurance Brokers' Association (BIBA)

FSMB31 Personal Investment Management & Financial Advice Association (PIMFA)