



HOUSE OF LORDS

Industry and Regulators Committee

Corrected oral evidence: Commercial insurance and reinsurance regulation

Thursday 31 March 2022

10.30 am

Watch the meeting

Members present: Lord Hollick (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Lord Cromwell; Baroness Donaghy; Lord Eatwell; Lord Reay; Lord Sharkey; Lord Trefgarne.

Evidence Session No. 8

Hybrid Proceedings

Questions 85 - 98

Witness

[I](#): John Glen MP, Economic Secretary to the Treasury, HM Treasury.

Examination of witness

John Glen MP.

Q85 **The Chair:** Good morning. I would very much like to welcome the Minister, John Glen, Economic Secretary to the Treasury. This is the eighth and final evidence session of our inquiry into commercial insurance and reinsurance regulation. We have a number of questions to put to you on that, Minister.

However, I would like to start with a general question about the steps the Government have taken to sanction certain Russians who are close to the Putin regime, and to hear from you, Minister, if we may, how effective those sanctions are proving, how difficult it is proving to implement them, and what changes you feel we might need to make, both from a practical and a legislative point of view, to ensure that should such a situation arise in the future we would be able to move rapidly and effectively.

John Glen: Thank you for the opportunity to come before the committee. I am desperately sorry I am not there in person, but needs must with Covid.

We are in uncharted territory, and we have sought to execute rapidly a whole range of interventions as regards economic sanctions against individuals and entities close to Putin himself. Understandably, when you do that, you are dealing with individuals and entities that have complex legal structures and tentacles around supply chains. It is very challenging to execute well, but I think we have moved forward well, in alignment with our friends in the EU and the US. As you know, we have also executed some legislative changes through Part 1 of the Economic Crime (Transparency and Enforcement) Act that have given us the legal flexibility to make that easier to happen.

My responsibility as a Treasury Minister is for the Office of Financial Sanctions Implementation—OFSI—which has surged its capacity to issue licences and the like in order to facilitate interventions. That has been augmented by the establishment of a “kleptocracy cell” in the National Crime Agency. We published an impact assessment that said that there would be a limited impact overall. We work closely with the PRA and the FCA.

It is too early to say what lessons we have learned for future execution, but there has been welcome alignment among allies to ensure that licensing is done as quickly as possible to try to minimise any unnecessary impact—for example, as some financial services firms exit positions—and in a way so as not limit the restrictions on the Russian entities we are seeking to inhibit.

The Chair: One problem that we have had for donkey’s years is concealment of ownership. Are you finding that in the new world of the issuing of sanctions? You referred to co-operation of the EU and the United States. What about co-operation from British Overseas Territories and other tax havens that have a long-established history of concealing

who owns what? Have they proved to be more helpful and co-operative?

John Glen: Yes, they have. They have all taken on board what we are doing and seek to replicate that, but they are sovereign independent legal entities, and we do not have the right to impose anything on them. It seems to me that we cannot say that they are both part of the United Kingdom and separate. They have shown great willingness to embrace what we are doing, but obviously they will do it through their independent legal means.

The Financial Action Task Force report in December 2018 was very positive about the UK. It said that there were elements that we needed to work on, and I am delighted that we are moving forward with the register of overseas beneficial ownership and bringing more transparency to that, and the Companies House reform. That work that was already under way. The Treasury gave BEIS £63 million to start that work, and obviously this will now accelerate it. We will see further details of how that will work through in the next Session in legislation that has been trailed by what the Prime Minister has said.

The Chair: I would have thought that many people were surprised to read in the paper last week that Mr Usmanov had distributed his assets in the UK to his family. Does that escape the sanctions?

John Glen: I am not at liberty to discuss individual cases, but as you will appreciate, and the committee will appreciate, the legal devices used by various individuals are of great interest to us in government, and that is why we made some of the immediate changes in the first part of the economic crime Bill. I cannot discuss the specific handling of individual cases and individual circumstances, and I am not personally privy to them. I certainly recognise the complexity in some of those individuals' financial and ownership arrangements. That is why, on the core point you are making about the desirability and necessity for greater transparency of ownership, we are acting very swiftly, and that will certainly assist us in the future.

The Chair: Talking more broadly, during this inquiry we have heard from reinsurance companies themselves that the sanctions have meant that the current insurance and reinsurance arrangements for many Russian-associated or Russian-based companies have been discontinued, so effectively their marine fleet is uninsured, to the extent that it was insured through London, or indeed any of the other countries involved in sanctions.

That has quite a significant impact on that market, but, more broadly, do you have any points of concern about the impact that the sanctions will have on the financial system generally? Is there a concern that this could undermine certain financial institutions closely held in Russia, which would then reverberate around the financial system, or do you think we are reasonably insured against that sort of event?

John Glen: The Ukraine crisis has introduced a degree of uncertainty into the economy, which is reflected in the OBR's observations and growth predictions for the economy. It creates instability, and overall in many dimensions creates an environment where people are less likely to commit capital and invest.

When it comes to the impact on the economy as a whole, as I said we have published an impact assessment, and we think that the overall impact will be limited. We work closely with the PRA and the FCA in the Treasury to ensure that we keep aware of the effect of the changes at an individual level and their systemic effect. We are, by design, seeking to be all-encompassing in the effect of sanctions in order to create a chilling effect on those close to Putin so that it influences behaviour. We recognise that that is not without some consequential cost. As to whether it will be fundamentally damaging to the economy as a whole, it has an impact on uncertainty, but it will not have a fundamental effect on systemic stability.

The Chair: We now come to our inquiry specifically.

Q86 **Baroness Bowles of Berkhamsted:** Thank you for coming, Minister, in the present circumstances. The proposed changes to Solvency II have been very much welcomed by industry and show that we can move to our own plans following Brexit. It is probably fair to say that, as well as adjusting to fit our own financial services industry, it is an opportunity to look at Solvency II in the light of experience. We have to acknowledge that it was a UK invention, as it used to be on the PRA website under Mark Carney's introduction, of which of course I am well aware. Do you plan to make any similar kinds of reform to improve the competitiveness of the London market, because that is not really touched by what has been announced so far?

John Glen: I will go on to mention Solvency II and what specifically we are doing there. Your question is about the London market as the largest reinsurance hub. I think it has \$110 billion of gross written-up premiums, which is larger than the next three combined. We touch 200 countries. It is a massive industry. The core strength of our regulatory regime is the high standard of regulation, which is globally recognised. The biggest change that we will be bringing will be through the Future Regulatory Framework reform, which will fundamentally rebase the way regulatory activity continues. We should see that as repealing EU law and setting regulators' objectives and accountability, and then, essentially, allowing them to make some of the changes that are needed.

What we cannot do is simultaneously create a model loosely based on FSMA by giving it the ability sequentially to appeal regulation and then reset new rules and parameters, and at the same time drive specific individual reforms. Since the Chancellor's Mansion House speech on 1 July 2021 until today, the end of this quarter, we have undertaken 30 consultations in the Treasury on various things that we can do. There is the wholesale markets reform. Lord Hill's review has brought a number of changes. There is the Kalifa review and there have been lots of other

smaller changes. The change that will be brought in consequential to the Future Regulatory Framework Review, which I hope to legislate for in the next Session, will be the framework that underpins what can happen subsequently for the London market.

Baroness Bowles of Berkhamsted: I understand that. As we all know, the future framework takes away power from Parliament and power from the Ministers that they had in the EU system. What will happen if the sorts of things that you have already announced—for instance, on Solvency II—do not happen because of the way in which the supervision happens; it may not be the letter of the regulations? There are things that sound very good in principle, but how will you be able to ensure that they actually happen?

John Glen: First, I would not accept the premise of what you are saying. Brexit has happened. As you probably know, I did not support it, but I am determined to make the best of it. We must not get into saying whether what happened before was better or not. We have to make the best of the circumstances we are in. We have world-class regulators, and London is renowned for high standards. I said in my visit to Brussels a couple of weeks ago, when I met the Commissioner, that high standards will remain the benchmark for London and for the United Kingdom system.

Obviously, Brexit must mean that there is more direct accountability to our Parliament in Westminster and not through MEPs and delegated authorities through the Commission, where, as you say, we had a leading role—for example, in Solvency II. What I think you are talking about is the level of assurance that we can have in what the regulators subsequently come up with. Am I essentially replacing the Commission, which I assume was seen as removed from direct accountability to Parliament, with a regulator that then assumes all that authority without any accountability to Parliament?

That is why we have had two in-depth consultations over 18 months, and when I bring forward the legislation in the next Session, if that is the will of Her Majesty, I will be able to set out what checks and balances need to be put in place; what powers of review; what terms the regulator will work under, which is why we have introduced the secondary growth and competitiveness objective; and what sort of accountability there is to Parliament. It will also be for both independent regulators, the PRA and the FCA, to account for how they engage with industry and deal with some of the ongoing concerns and issues that exist, which I think your committee has heard evidence on in recent weeks.

Baroness Bowles of Berkhamsted: Obviously, as you say, you cannot tell us what will happen in the next Session and whether you will get your legislation in. How does that affect your timetabling of the various other changes that might be needed? You have had a lot of consultations and there are a lot of other pieces of regulation that need attention, so objectives may have to be set, as objectives will have to be set for Solvency II. Will it be a lengthy process? Do you have a broad-brush

timetable as to how quickly all those things will come through?

John Glen: I very much hope the legislation will be brought to Parliament imminently—I hope in the next Session, and I hope before the Summer Recess, but I cannot be sure of that. That will then go through both Houses and we will pass the Act of Parliament.

What we repeal and what we replace it with is a matter of iterative conversations between the Treasury, informed by scrutiny by Parliament, and the regulators. Obviously, we are not going to repeal everything overnight because we have to replace it, so we will have to prioritise. There is no master chart, no Gantt chart, on my wall in the Treasury, but I have regular conversations with the PRA and the FCA. I go to enormous lengths to meet individuals, trade bodies and representative groups from different subsectors of financial services, to ensure that we are moving forward on the most pressing issues.

That means that when we are talking about MREL reform, about the things people want us to do with listings, and about the wholesale markets review, we are trying to execute specific reforms as quickly as possible, but bigger, more fundamental changes—Solvency II—need considerable engagement. We will be publishing a consultation on that after Easter, as I said in my speech in February, which is looking at the fundamental calibration of the assumptions behind the matching adjustment calculation, and where we can get to on that, and we will seek to bring forward legislation subsequent to the conclusion of that consultation. Then it will be for the PRA to put through the rules. I am doing that as quickly as I can, and it is a key ask of industry, but we have to get it right. By setting the direction of travel, we are giving quite a lot of clarity on where we want to go with it, and obviously we hold the pen on it.

Q87 **Lord Burns:** Minister, good morning. We have been told by the insurance industry that the regulators often take a one-size-fits-all approach to banking and insurance, and to different aspects of insurance. In response, the PRA says that proportionality is a key defining principle of its approach to supervising all sectors, and that it has to target its limited resources towards firms that pose the greatest risk to its objectives. How do you see the balance between those two views on the question of proportionality? Is it a subject that comes up in your discussions with regulators?

John Glen: Yes, it does, and I very much recognise it. It is absolutely at the core. The independent regulators are sovereign, but that does not mean that I do not make representations and challenge them. I think you have talked to them, and I see that the evidence you have accrued so far talks about the number of meetings that Hiscox has had, and how iteratively useful they are, what the gaps are between them, why they need to see board papers, et cetera. I am very familiar with those sorts of complaints and concerns.

The regulators are being brought right into centre focus, because, using the model that I outlined to Baroness Bowles, we are basically saying that they are licensed to create rules and they will then be accountable to Parliament and to the industry, through the consultations, on how they are dealing with them. It is and will be very often a fine balancing act between facilitating competition and growth while protecting policyholders and looking at innovation. What I say to Nikhil Rathi at the FCA and to Sam Woods at the PRA is that it would be helpful, and I think desirable, to think about the operating model, and the interface with industry, in the context of the new rebalancing, almost reframing, of their role under the new legislation.

What I see in different parts of financial services is strong and simple regulation, looking at capital requirements for smaller banks, for example, or looking at how we can create reporting exemptions and changes to thresholds to reflect the diversity across the range and size of firms in insurance. I think there was a conversation in one of your earlier sessions about the recent general insurance pricing reform on renewals, and how it was capturing larger policies that were not so generic—the unforeseen consequences and how they are dealt with.

I recognise that there is always more to look at and work to be done. There is no single set of interventions at one point in time that will deliver this. I think the regulators appreciate the call to look at flexibility and the efficiency of the interface. There needs to be robust independence, but there also needs to be accessibility and responsiveness. It is about getting the operating model right for the regulators. That is very important.

Lord Burns: Do you think there is any weakness in the way the original legislation was defined that has resulted in the concern about proportionality whereby the general approach, they fear, implies that different parts of the financial services industry, which are very different, have to be treated, in their eyes, in the same way?

John Glen: I am not sure. Your personal and professional expertise probably outwits mine on this, but what I would say is that industries evolve, and the fragmentation and competition that evolves in industry often necessitates change.

Next week, I hope to make some remarks about cryptocurrency and crypto assets. Twelve years ago, when I first became a Member of Parliament, it was barely considered. It is the same with fintech, which has been a great success. Regulation and the proportionality of that regulation has to evolve as industries evolve. Over the last seven years, a large number of new banks have formed; I cannot remember the number. I am not saying that they provide meaningful competition in all respects to the big four or five, but I think they necessitate a conversation about the proportionality of capital requirements. That has come out of something that has evolved over time.

Lord Burns: Thank you.

Q88 Lord Cromwell: Good morning. My question is not so much about the regulation itself, because there has not been much complaint about the regulation; it is about its application, and Terry Burns's question about proportionality feeds into that. We have heard an awful lot about a culture of caution in applying the rules, and examples of captives and insurance-linked securities have been given to us a number of times. What is your assessment of the culture in the regulators, particularly as regards the new entrants and new forms of business that are coming forward? You referred to that in other sectors. Is there a cultural problem?

John Glen: I have a very high regard for the leadership of the PRA and the FCA. We have excellent strong leaders who are doing a lot to deal with quite a lot of change at this time. The transformation programme under way at the FCA demonstrates the ambition of the chief executive to give a better and more data-driven assessment of where risks lie, to underpin the way that it regulates. The openness of the dialogue that I enjoy with both chief executives, and the responsiveness that Sam Woods and his colleagues have shown to the concerns that exist on Solvency II, again demonstrate willingness to engage with the issues of the day, and for them to become more responsive themselves.

Thinking about the two examples that you have just raised, Lord Cromwell, the Risk Transformation Regulations in 2017 led to a tax-efficient framework in the UK for insurance-linked securities. I recognise that we have only had eight over the last five years, but we are looking at what more we can do, what happens as regards the green link, and how we can make a more streamlined regime, to make that more effective.

I have been fortunate to be in this role for a while, and I remember celebrating the fact that the ILS stuff was coming in. It was hoped that there would be more, and we have to look at that. What we cannot do is remove the strong and high standards that we have for regulation, consequential to lobbying from one small sector. We have to think about that lobbying, reflect on it and get to the right point. I think the PRA is trying to do that. The speed of that is difficult for me to comment on specifically.

On the point you made about the captives market and the fact that there is a lack of a bespoke regulatory legal framework for hosting outside Lloyd's, we certainly see more captives operating in other jurisdictions. Again, the PRA is very aware of that, and it is right for further work to be done. I hope we see that, and see evolution in the way that insurance and reinsurance is offered to big corporates and is delivered by big corporates, and we find an appropriate way of developing that market in the UK.

Lord Cromwell: Quite a lot of the words from the industry are that there is a very cautious culture and an unwelcoming approach to novelty. That is inherent in protecting the reputation that you quite rightly outlined as a key advantage of our market. Nevertheless, there is a point beyond

which it becomes damaging to our success. Can you comment on that?

John Glen: It will be a balancing act. The industry will always press for more liberalisation. It will point to Bermuda. It will point to the number of people and the account management model that they use there, compare it unfavourably to the PRA and say, "Well, why don't we just do it like that?" I have had those conversations.

We have to hold true to the fact that London is much larger. It has a bigger reputation in a global context. That does not mean that we, or the PRA, should be shut off to evolution; it means that those high standards cannot be compromised.

To go back to the growth and competitiveness objective, I have said that I think that gives the PRA, as a secondary objective, the responsibility, alongside its "have regards", its principles, its remit letters and so on, and the obligation to look at what is happening in a global marketplace and to challenge itself on how aligned it is to that broader competitive landscape and whether it is getting that right. I think that is the right approach. I do not agree that it should be a primary objective. That would undermine the integrity and reputation of the PRA as a high-standard regulator and the systemic stability that we have seen in the markets over a long period.

Lord Cromwell: Thank you very much.

Q89 **Lord Trefgarne:** Minister, several witnesses have told us about significant delays in the regulatory processes, particularly with the FCA. Do you feel that the regulators have the capacity to meet their service standards? Following on from that, would you support regulators increasing their levies to enable more investment in resources to address the concerns of the industry?

John Glen: You seek to draw me into private matters for the regulators. The regulators will set their levy in consultation with the industry. They publish information on their standards and response times, and how they have met them compared with the objectives that they set themselves. I mentioned the transformation programme that the chief executive of the FCA has been undertaking in his now nearly 18 months in office. That has been quite radical. You will have seen in the press some of the implications of that. It is a desire to improve both the reliability and the responsiveness of what the FCA offers industry. It regulates 50,000 or 60,000 entities, and it is important that it focuses its resources on the right places.

What I have said to the chief executive, and I will say now, is that the complexity and evolution in financial services—in fintechs, in crypto platforms and in entities that are hybrids doing things that conventional financial services firms of 10 and 15 years ago did not do—means that some thought needs to be given to how the interface with those entities can be more streamlined and responsive. Equally, we are seeing new entrants into regulated activities that have no experience of dealing with

any authority or regulator. They need to recognise that if they want the, almost, sanctification of regulation in the sophisticated London market, and the UK generally, they need to adhere to high standards. Just not responding quickly to a request is not necessarily a bad thing if there are underlying flaws in the business model of an applicant.

When I read articles, which I read week in and week out, about concerns over the speed of X or Y, I think, "What are the risks of regulating and licensing something that is not sound and going to give us the positive societal benefits that we hope the innovation in financial services brings?", which it often does.

Lord Trefgarne: I am not quite clear whether you would approve an increase in the fees or not.

John Glen: It is not for me to approve. The FCA is an independent entity that sets its own levy. Clearly, there is a balancing act if it becomes a competitive pressure. It depends how the distribution of that levy works across small and larger firms, and what the upsides of the increased investments will be in speed of service. All of those are matters that the FCA would consult on in the context of any decisions in that regard. I assume we would be able to make our views known at that point, but at the distance I am from the issue now, in terms of the operational budgets of the FCA as an independent entity, I do not think it is appropriate for me to speak loosely about what I think about its budgeting or levy.

I can tell you that industry often challenges me about the size of the levy and the proportionality and relationship between the levy pots and the risks that it carries as an individual subsector. That is something the FCA chief executive is very open to examine. I think there is a consultation on that, or at least a paper in gestation.

Lord Trefgarne: Thank you. We will reflect carefully on your reply.

Q90 **Lord Eatwell:** Good morning, Minister. I too want to talk about the general issues of culture, speed and so on. Could I begin by harking back to our earlier discussion about the timing of legislation? We all know that there is a major rewrite of FSMA in process, and a rethinking of the regulatory framework. You referred to that. Side by side, there is the economic crime legislation. I realise that is primarily the responsibility of the Home Office, but it must be of great interest to the Treasury.

John Glen: Yes.

Lord Eatwell: We have had what is now referred to as economic crime Bill 1, which was the emergency Bill taken through a week or so ago. There were lots of assurances then about economic crime Bill 2 coming very promptly in the new Session. Do you have sight of that, as to when we might get it?

John Glen: I cannot comment on that. There is a two-stage Bill. I can reflect on what went in and what I think was useful to have in the first

part; what we did with unexplained wealth orders and the changes to the legal things and other aspects of it.

The second stage is led, as you say, by BEIS and the Home Office. We have input into it, but the configuration is literally above my pay grade. I obviously contribute across Whitehall to conversations about what needs to go in it. I am delighted that we are making this progress. It is something I wanted to happen subsequent to the December 2018 FATF report, which was very good on the whole. These were the little elements that we needed to bring in. I am thrilled that we are doing it. It is extremely timely that we are doing it in the circumstances that we are in.

Lord Eatwell: I do not think that the Companies House issue is a little element. That is a really major—

John Glen: It is a fundamental reform. The way colleagues sometimes speak about it in the House is, “Why didn’t you just do it years ago?” It is a fundamental challenge and change to do it well. We do not want to shut off the freedom to be able to set up companies in this country, but equally we do not want that freedom and flexibility to be misused by bad actors if there is a risk of that happening.

Q91 **Lord Eatwell:** Absolutely. Let me get on to the main theme I wanted to ask you about. It is the whole issue of flexibility and speed and so on, which you have just referred to in a quite comprehensive answer. What can we learn from our main competitors—Switzerland, Singapore, Bermuda, and of course increasingly Frankfurt—in the insurance space?

John Glen: We can always learn something from other jurisdictions. Indeed, we have good dialogue and very good relationships with those jurisdictions. With the Swiss particularly, we are in the process of developing a mutual recognition agreement. That is incredibly ambitious and I think it will be a boilerplate for the best that can be achieved, where you have synchronicity of aspirations and maturity of market offerings.

I mentioned Bermuda slightly. I am aware that they have account managers and have put a lot of resources into it. People come to see me and say, “This is wonderful. Why don’t we do it at the PRA?”, but we have to consider the number of people that would involve. The scale is different. It is not being arrogant; it is about reflecting the fact that we are a financial services centre globally and therefore we have to do things on a scale. The scale of the work that is undertaken in written-up premiums in London is very different.

There are probably some lessons for us to think about on how to engage with smaller entities and how to create responsiveness. The cultural problem with how a large, established, respected regulator evolves in a changing marketplace is complicated to resolve. You do not want to lose your integrity, but you do want to maintain your reputation in a different operating environment.

Lord Eatwell: I am pleased by your answer. It is very interesting that

you focus on the issue of scale and the way the sheer size of the London market means, if you like, that we are rather less nimble than others and perhaps a little more cautious. Am I interpreting you correctly?

John Glen: No. I think the scale point is both sides of the equation. It is, with respect, the scale of the entity and the scale of the regulator. That means that you have to have quite a sophisticated relationship to deal with what is quite a sophisticated firm, in some cases, that has potentially quite significant risks and a significant role in the economy. That cannot really be done light touch and nimbly, because you have to take account of quite a lot of implications.

Lord Eatwell: I was thinking of the size of the market as a whole, in the sense of referring to Bermuda and its account managers and so on. You said just now that if we did that, there would be a sort of employment explosion in the regulatory industry. Are we so big that we are slightly lumbering compared to others?

John Glen: No, we are not slightly lumbering. To me, we are well respected. I am aware of massive businesses that are desperate to get licences and validation in London. They are simultaneously frustrated that it cannot be done more quickly, but they still want it.

My view is that there is obviously a tension, but we should not be looking to be nimble at all costs. Yes, we want to be nimble. Yes, we want to adapt. Yes, we want to be responsive to a different scale and size of opportunities. We should absolutely be seeking to transform ourselves in the way we think about opportunities. When I think about cryptocurrency, it needs innovation. We will work very closely with the FCA on how we embrace the principles of new thinking and innovation in that industry, but we have to do it in such a way that we do not enfranchise and bring into our financial services sector actors that impose a certain risk profile that is undesirable.

I do not recognise that we are lumbering. We are large, but we are also respected. The challenge will be to remain effective in the evolving world that exists in financial services. It is a fast-moving and dynamic environment involving some of the sharpest minds in our economy. We have to be up to that.

Lord Eatwell: Thank you very much.

Q92 **Baroness Donaghy:** Good morning, Minister. We have had a lot of witnesses who strongly support making competitiveness a primary objective rather than a secondary objective. Their view is that a secondary objective would not provide sufficient focus and would not change culture, which they say is necessary.

You made very clear in answer to the previous question that you support a secondary objective and not a primary one. The committee is trying to tease out what metrics would be used to judge and make the organisations, the regulators, accountable. One of the witnesses said, in answer to a question about their relationship with a large company,

"Well, we meet them a lot more times than we would a small company", as if the frequency of meetings in itself was some qualitative judgment.

Would you say that was sufficient? Would you say that there needs to be something a little more systematic so that we in Parliament are able to hold those organisations, the regulators, accountable?

John Glen: I find the regulators keen to embrace scrutiny. They come before committees of both Houses very regularly. I want to go back and follow through on the logic of the primary objective.

The key concern, which I think means that it is a non-starter, is that it obviously questions the primacy of systemic stability and some of the broader economic concerns that the regulator is concerned about. If growth and competitiveness are the primary driver, it implies that you could throw caution to the wind and take risks with policyholder protection and other things in a way that would not be appropriate and in a consumer's interest. I think it gets the right balance, and provides meaningful challenge and opportunity for parliamentarians, industry and those who comment on this to say, "Well, what does it actually mean?"

The legislation that we bring forward will also involve a set of frameworks for checks and balances and cost-benefit analysis prior to regulations being able to be changed. We will look at the principle of a rule review, rather similar to Section 77 of the Financial Services Act 2012, which gives us the obligation to request a review of something that has happened. We have practitioner panels with, for example, the FCA. We have various industry forums for that. A lot exists currently, and will exist under the new Future Regulatory Framework model, that holds the regulators to account and gives meaningful scrutiny of their decisions and the behaviours that they exhibit.

I am not here to defend the regulators. They can defend themselves well. What I would say is that it is incumbent on them, as it is on every government Minister, to look creatively at what can be done to improve the situation and to be more responsive. I am not saying that nothing can change, but I think I have set out a reasonable set of obligations, checks and balances that together will serve the industry well.

Baroness Donaghy: On the Future Regulatory Framework Review, which you mentioned in answer to Baroness Bowles, we understand that the framework is based on principles and judgments rather than on detailed rules. In view of the fact that witnesses think the regulators are excessively cautious, will the move to a principle and judgment-based approach change that? Do you feel the regulators are ready to operate in that way?

John Glen: Thank you. I do not think I would accept the characterisation of principles and judgments. What we are doing is somewhere in between where we are now and where the French are, where everything is codified in law, with numbers and ratios in primary legislation. That is not where we want to be.

We want to say, "Look, we are outside the institutional framework of the EU. We have retained and onboarded all the legislation that was hard won and hard worked through by our engagement in that process. We will systematically repeal it, in a priority to be determined by dialogue between the Treasury, Parliament and the regulators, and then we will give rulemaking powers—not principles—to the regulators". They are the ones who have the expertise to write the technical standards, not with complete autonomy but under the authority of the primary legislation, with the review principles, the cost-benefit analysis, the scrutiny of Parliament, the "have regards", the remit letters, the objectives and the secondary objectives. All of that will then provide the context.

What we are not going to do is put every piece of relevant legislation into primary legislation in a way that happens in other places. This gives us and the regulator the opportunity to say, "Well, there is a problem here. We need to do a consultation over the next six weeks. We can then legislate with a statutory instrument or make a rule change, as is suitable". I think that is the nimbleness that Lord Eatwell was questioning me about earlier and which I think can be achieved if we do it that way.

There are checks and balances. There is not complete autonomy without accountability for the regulator, but equally there is no opportunity for a politicised rulemaking process whereby I come in one day and say, "Right, we'll do things one way or the other". That would not be appropriate and would undermine the integrity of what we are seeking to achieve.

Baroness Donaghy: Thank you. I think it is about the delicate balance that you referred to between rule makers moving, if you like, into the political arena and how we in Parliament can tease out whether that balance is working, and whether the rule makers, which is Parliament, and the rule interpreters, which are the regulators, are now taking on too much, in the sense of making a political judgment that sometimes, it has to be said, it would be convenient for the Government of the day for a regulator to do.

John Glen: Absolutely. I totally recognise that. I think about some of the things that I have had to deal with when thinking about the right way to deal with the small number of funeral plans that are not underpinned properly, with clarity over where the money is invested. We are now in the process of seeing the consequences of bringing that under regulation. I think about access to cash and who governs the distances between access points to cash.

As you say, there is an opportunity for political judgments to be infused in regulatory decisions. We need to make sure that, as we work through some of these complicated matters, we get the priorities right for who decides what when, and who is accountable for what where.

Baroness Donaghy: Thank you.

Q93 **Lord Reay:** Good morning, Minister. I would like to talk about the

Government's plans in the Future Regulatory Framework Review to strengthen the regulators' approach to cost-benefit analysis, which you touched on earlier. Does that derive from a concern that the regulators do not take sufficiently into account their impact on the industry? What effect do you expect it to have on the actions of the regulators? What would strengthening look like, in your view?

John Glen: It comes down to pre and post-regulatory change. Broadly, industry would want a cost-benefit analysis before changes are made, in order to validate the fact that they have happened. Broadly, regulators would be happier to rely on something that was done after they had taken effect, because they do not want to have to justify what they are trying to do. Those are the basic parameters of what is going on.

I think the consultation in November 2021 gave some clarity that there was a lot of interest in us having a pre-legislation, pre-regulatory change cost-benefit analysis assessment done. That seems a reasonable thing to do. Assessing the proportionality, the value and the impact of an intervention is a good thing to do. It needs to be done quickly, efficiently and in a fair-minded way. To me, that is where the conversation is at the moment, and we will reflect that when we bring forward proposals in the legislation.

Lord Reay: Do you think that the CBAs should be subject to independent scrutiny?

John Glen: We are at the moment thinking through the detail of exactly how we configure a panel, how the work is done and how that is reported. I do not think I can say any more on that, to be honest with you. It is obviously a judgment that we have to make imminently. We have to make it transparent. We cannot have people not clear being about how it was done and what inputs were made to make those judgments.

The key thing for me is to try to make the rationale for regulatory interventions and legislative innovations as transparent and clear as possible. The analysis that goes behind that should be as open as possible, because that gives the ultimate justification. We need to think about how we apply those principles in the rules that we come up with.

Lord Reay: Thank you.

Q94 **Lord Sharkey:** Good morning, Minister. I hope you are feeling slightly better than I am at this point.

The Government have acknowledged that the new rule-making powers for the regulators mean that greater scrutiny is needed. I have heard you say many times that it is up to Parliament to decide what form of additional parliamentary scrutiny would be appropriate in the circumstances.

In your long experience, do you believe that using the existing Select Committee system would be enough, or do you think there is a case for additional scrutiny? We very much welcome your thoughts on the matter.

For example, do you believe that regulators' legitimacy would be strengthened if they were required to appear at least biennially before a parliamentary committee to explain, critically, their performance against their objectives?

John Glen: I do not want to repeat myself. It is somewhat restrictive for me, because I am not the one who is licensed to do this. The immediacy of the Select Committee process and the scrutiny, that can have a direct effect on those scrutinised, can initiate a public consideration and discussion that can be highly impactful in the short term. The work of Select Committees reports can also drive policy agendas and, if done well and divorced of partisanship, can be a very powerful way of holding people to account. It will have to be for Parliament to consider how it augments or not, how it supplements with resources or not, the existing committee structure in order to meet the demands of a different operating environment for the regulators.

We want to make sure that the accountability of regulators to Parliament is rigorous and appropriate, given what they are trying to do. We also have to recognise some of the stuff they are doing on technical rules. I do not fully grasp the maths behind some of the assumptions behind matching adjustments, but I know what we are trying to get to and the end effect in releasing capital, for example, on Solvency II.

We also have to have a bit of humility as parliamentarians. When I am sacked or moved on, or perhaps one day have the opportunity to serve on a Select Committee, I still will not be able to bring a degree of expertise matching the technical expertise of an individual regulator. That is just not possible. What I can do, as I imagine you are doing now, is seek to ask questions that industry knows are relevant to the overall outcome of where we are going.

It is difficult to say more than that. We have to ensure that information provided to Parliament is sufficient and in a form that is verifiable and actionable. Different APPGs have put up a range of views, and I am sure the committee will have a view on how to do that, particularly given the experience of some Members in other environments. It will be a matter for Parliament over time—a short amount of time, I imagine—to resolve.

Lord Sharkey: Would you characterise Select Committee appearances as being of less value when there is a present problem to discuss rather than a routine analysis of performance against objectives? That regular and routine analysis of performance against objectives is one of the things that we are concerned about. I take the point about the immediate effectiveness of inquiries, with the difficulties that Select Committees can bring to bear, but we worry about the fact that there does not seem to be a mechanism for regular and routine inquiries into performance against objectives. That is the area where we are looking for some comment or input on.

John Glen: You are asking me, sort of, to comment on something that I am part of. I think it is about you having to decide what you think is the

appropriate way for you to scrutinise a new operating environment that I am in part instituting or seeking to institute through legislation. Forgive me; I am not a commentator, I am an actor in this, and I have to recognise the distinction between the two.

Lord Sharkey: I confess I have heard you say that before, something in the same direction.

- Q95 **Lord Cromwell:** Despite the interchanges you have just had with Lord Sharkey, we would all agree that accountability is very important here. To achieve accountability, you need proper metrics. The expertise that you have referred to in the industry could be very helpful in determining those metrics. Are you satisfied that the industry has enough ability to get real, rigorous metrics inserted into the process and adopted? I am rather uncertain about it.

John Glen: I am sure that there are means to do that. It needs to be worked through by Parliament. The scrutiny needs to be rigorous. If it is not, you would not be doing what is intended, which is to make sure that, in a world where we have left the institutional framework of the EU, the sovereignty of Parliament is upheld. That has to be done with tools and techniques that are appropriate in an operating environment for regulators that will have evolved significantly.

Lord Cromwell: Thank you. I guess my point was simply to underline the expertise, which may not all be on the committee but is in the industry. We need to draw that in more effectively.

John Glen: I was on the Defence Committee for two years when I first became a Member of Parliament. We greatly benefited from the input of recently retired senior officers and officials who gave advice and drafting advice to the committee which was very important. I think that all committees could usefully consider that.

Lord Cromwell: Thank you very much.

- Q96 **Lord Burns:** Minister, I was interested to read your Future Regulatory Framework Review. I was particularly interested in a chapter about the relationship with the Treasury and the way it envisages a stronger role for the Treasury in directing and overseeing regulatory behaviour.

John Glen: I thought you would be.

Lord Burns: In particular, you propose a new role for the Government in being able to direct the regulators to review their rules where the Government consider that it is in the public interest. How will you ensure that that is not seen to undermine the operational independence of the regulators?

John Glen: Again, it is a bit of a tension. I would draw on the precedent of Section 77 of the Financial Services Act 2012. We used that with respect to the review of LCF, the Dame Elizabeth Gloster review. It did not mean that the FCA did not select Dame Elizabeth Gloster. It did not

mean that it did not then have to respond, but there was an imperative. Indeed, it wanted to do so anyway.

We cannot have a situation where we have left the institutional framework of the EU and then give authority to independent regulators where there is no backstop provision for an elected politician and government Minister to initiate a review. It does not mean an abolition; it means a review based on a level of concern. I also recognise that in an environment where there was, say, a hung Parliament and a lot of political pressure from the periphery, shall we say, these powers could be used in a different way than they might be in a more stable environment with a majority Government of either type.

The issue is how we make sure that it does not lead to the regulators saying, "Well, actually, this undermines us, because it means that in the end we are not independent because you can overrule us". We have to get the right balance between those two concerns—institutionalising independence to a degree that means that they are apparently unaccountable, versus political interference that is too readily accessible and used and which therefore undermines the independence. It is very difficult. That is what we are trying to manage.

Lord Burns: I was struck by the phrase about operationalising the scope, conduct, timing and making of reports. It struck me that it was beginning to look very much like operations rather than overall assessment. It was beginning to look like quite strong direction.

John Glen: Well, I shall reflect on that. I obviously respect your deep experience in these matters, and I will look at that. It is like all areas of a role as a Minister and all areas of our lives: what is an operational intervention, what is a legitimate concern? When I ring up or write to my chief constable about the way he deals with a particular industrial dispute, he might say, "It's an operational matter. Butt out, MPs". He is very respectful, so he does not say that, but he might think it. Equally, I have to be able to have a moment where I can represent the concerns raised by my constituents.

Lord Burns: I fully understand that. Another point I picked up in that chapter was the proposal for a new statutory requirement for the PRA and the FCA to respond to HM Treasury recommendations, and that their reply should include how they have taken account of your recommendations. Does this imply that they have not been doing so in the past?

John Glen: No, I think they do that. We are in a situation where we are legislating for a new world, so why would we not put that in? It is institutionalising things that have existed anyway and that you will have seen in the past.

Lord Burns: This is not a big change.

John Glen: No. It is not a big change at all. I think we have a very positive relationship. My officials talk all the time to PRA and FCA officials. I speak to the chief executives and other board members too.

Lord Burns: That is very helpful, thank you.

- Q97 **Lord Sharkey:** I want to continue to ask a little about the FCA, Minister. The consultation that we have just been talking about emphasises the importance of stakeholder panels, yet the committee has heard that the FCA's Practitioner Panel operates in a one-way fashion, with the regulator taking the opportunity to tell stakeholders what they are doing rather than allowing a two-way dialogue that could provide more useful feedback. Do you recognise that, and what can we do about it so that panels operate in a more open, receptive, two-way fashion—so that they are capable of receiving as well as broadcasting?

The Chair: Minister, were you able to hear that?

John Glen: Most of it. I think the question was: does the FCA's Practitioner Panel work effectively, and how can it be improved? There are always more things that can be done. It will be for the FCA to reflect on that. It is not in its interests to have a panel that is not credible. I think it achieves quite a lot. I think there is an opportunity for routine dialogue there.

We have to be a little bit careful sometimes. When people do not get what they want from a process and engagement with the regulator, do you criticise the way it works? I get criticism all the time for things I have or have not done. Sometimes, it is based on a policy difference rather than anything more. We have to try to make that distinction.

This is a matter for the FCA to reflect on. I think it would want to know that it has a credible mechanism for people to be able to have meaningful dialogue. We responded to things on the Consumer Duty. The FCA iterated on that and listened to both sides. Again, where that has landed will not please everyone. We are in a world where there is no perfect solution to all these things. There are judgments to be made based on a range of inputs from different fora. I think the FCA's Practitioner Panel, the Consumer Panel and its other mechanisms are really important, and I hope they will evolve over time to improve.

- Q98 **The Chair:** Minister, thank you very much. I have a final question on another topic. Earlier this month, the committee published a report on the transition to net zero. A significant part of that report was on how the £50 billion a year, which was the assessed level of investment required, was to be found. One particular area, which has recently had a great deal of publicity and some enthusiastic backing from the Prime Minister, was how to fund investment in nuclear power stations.

The Treasury has made it very clear today that it would like to follow the regulated asset-based model, which essentially adds the cost of building the new nuclear power stations to the domestic and industrial bill. At a time when bills are at a sky-high level, adding another £200 to £400—the

assessed amount that would have to be put on—seems to me a move that is likely to be deeply unpopular.

Given the nature of the investment in nuclear, which is multi-decade, with a decade or more to build and then many decades when it would in fact reduce the cost of electricity and it would be clean electricity, the committee suggested that it would be more suitably funded by government debt. That is not government debt to fund current deficits, but government debt to fund an asset that was in fact going to generate a profit. In the light of the Prime Minister's and the Government's renewed enthusiasm for nuclear, I wondered whether the Treasury would look again at the merits of government debt instead of piling it on to already sky-high domestic bills.

John Glen: You are tempting me to go into areas that I am not responsible for. I am not sighted on that conversation. This happened without me. All I know is that this coming year we are spending £83 billion on debt interest payments, which is nearly quadruple what we had last year. It is £1,200 for every man, woman and child. How you characterise the debt as facilitating something more honourable or desirable than something else still does not detract from the fact that it is debt. It needs to be serviced, and that line item of debt interest stops us spending money on other things.

I am responsible for the green finance strategy, jointly with BEIS and Defra. We will be working on an iteration of that through this year. This is not a conversation that in my role, with my responsibilities, I have sight of or am engaged in. I am not briefed on the latest view of government, so I am sorry but I cannot help you further on that.

The Chair: I was not trying to tempt you into something that would get you into trouble, please be assured.

John Glen: It will not.

The Chair: I would fail completely. Perhaps you might mention it to the Chancellor next time you see him.

John Glen: I spoke to him about an hour and a half ago, just before this meeting, and I am sure I will speak to him again very soon.

The Chair: Thank you very much indeed for joining us, as it were from your sick bay. I thank the other members of the committee who are suffering from Covid for joining us. I wish you all a speedy recovery to negative testing. Thank you very much indeed, Minister, for your very helpful appearance before us today.

John Glen: Thank you very much indeed.