House of Commons

Treasury Committee

Oral evidence: Retail Banks, HC 1117

Tuesday 7 February 2023

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Watch the meeting

Members present: Harriett Baldwin (Chair); Anthony Browne; Douglas Chapman; Dame Angela Eagle; Emma Hardy; Andrea Leadsom; Anne Marie Morris.

Questions 1 - 81

Witnesses

I: Matt Hammerstein, CEO, Barclays UK; Charlie Nunn, CEO, Lloyds Banking Group; Ian Stuart, CEO, HSBC UK; Dame Alison Rose, CEO, NatWest Group.

Examination of witnesses

Witnesses: Matt Hammerstein, Charlie Nunn, Ian Stuart and Dame Alison Rose.

Q1 **Chair:** Thank you all for coming in to speak to us this morning. I just wanted to draw everyone's attention to my declaration in the register of interests that, before I became Chair of the Committee, I was a guest of Lloyds Bank to the Chelsea Flower Show last year.

I am going to suspend the session after about an hour for a five-minute comfort break but I would like to start by asking the witnesses to introduce themselves, starting from my left.

Ian Stuart: My name is Ian Stuart. I am the CEO of HSBC UK.

Dame Alison Rose: I am Alison Rose, CEO of NatWest Group.

Charlie Nunn: I am Charlie Nunn, the CEO of Lloyds Banking Group.

Matt Hammerstein: I am Matt Hammerstein, CEO of Barclays UK.

Q2 **Chair:** Welcome. We really do appreciate you coming in this morning. We know how busy you all are. We know that this is a very busy time of year. It is fair to say that you are the best remunerated panel that we have had in front of our Committee for some time. Our team have estimated over £10 million a year between you.

We also know that you have about 60% of the UK retail market. We know that, since the Bank of England started to raise rates, your net interest margins—the difference between what you charge on mortgages and what you pay savers—has increased substantially, helping your profitability. Yet we hear from our constituents, on an ongoing basis, about their disappointment that you are closing branches in our constituencies, and that, when mortgage rates go up, you raise rates very quickly and yet they do not see the increases on their savings rates at the same sort of pace.

I just wanted to ask you that open-ended question at the beginning. How do you respond to that?

Ian Stuart: There are a lot of questions there. We should start with the savings rates. We have a clear responsibility to our customers, and we try to encourage our customers into sensible savings products. When I look at what we have done over the last six to seven months, we have really tried to encourage our customers into consistent savings. We have some excellent products for that today. We have a product up to 5% interest for regular savers. In fact, we have part of our group paying 7% for regular savers.

On the back of the mini-Budget, we changed some of the rules of our savings products to give customers instant access. We have products today where you can put your money on deposit, if you have more than £2,000, where you can either earn 3.5% for one-year money or 3.75% for two-year money. The difference is that we waived any penalties in early October for people who, because of cost of living, had to come out of those products. It really is instant access to the tune of 3.75%.

Dame Alison Rose: We recognise and welcome the chance to come and talk to the Committee. I would echo some of Ian's comments. We have focused on helping our customers where we know there is real hardship and helping them develop savings habits. We know that one in four people in the UK have less than £100 in their account. We have focused on targeting where there is real hardship—people who do not have savings and need particular help—and then on encouraging people to save.

We work really closely with our customers. We do financial health checks to find the right option for them. Our digital regular saver, which is paying 5%, is encouraging people to build those savings habits. We know that works very well for our customers, 80% of whom have less than £5,000 in their account.

There are things like our round-ups. We have helped 1 million people use that on a regular basis to start saving money. Equally, we have a range of products to make sure that we are matching to what customers need, whether that is the fixed accounts paying 3.75%, instant access or the digital regular saver. Then, in particular, we are targeting people who are in real hardship, working with our charity partners to help those people who are in real budget deficit and struggling with the cost of living crisis at the moment.

On the mortgage side—you touched on mortgages—we know there was huge disruption during the mini-Budget when we saw gilts and the swap rate grow very quickly. We put in place, very quickly, a tracker mortgage to help inoculate those people from the immediate crisis. That was paying 3%, and we gave them the option at any point to move on to a fixed product or a product of their choice if they needed to. We are seeing mortgage rates come down, but particularly we are trying to help our customers look at their whole balance sheets and find the right answer for them.

Charlie Nunn: I am grateful to be here today, Chair. Building on Ian's and Alison's points, we have really looked at, as Alison said, who is most stressed in this environment. We know that the last year has been very difficult for a number of our customers.

We think of it in three areas when we look at our customer base. The first is that group of customers who are really struggling to make ends meet. When you look at the consumers and the retail customer base in the UK, about 1% of customers really cannot make ends meet and are struggling to make ends meet on a daily basis. We have put in place a whole series of interventions, reaching out to customers, trying to provide tools and planning, and then providing support around financial services and debt consolidation, as well as advice to debt charities. That 1% is hugely important.

The second group, which is quite distinct, is those getting an income shock from mortgages. Similarly, when you look at it, about 10% of our customers are going to be getting an increased mortgage cost this year through coming off a fixed-price mortgage. We see about 1% of them having an increase in interest payments that will take them above 40% of their income. We have been laser focused, in the same way that both Ian and Alison were talking about, on how we support them, how we provide them tools and how we provide them ways of restructuring their debt to manage their outcomes.

You talked about savers, who are really important as well, but typically people with money to invest and save are not struggling with the cost of living and with the day-to-day living expenses and they typically do not have a mortgage. The average mortgage customer has £75,000 of income. For savers, it is the same story. Eighty per cent of customers in the UK have less than £5,000, so they are the ones we really worry about from a mortgage and cost of living perspective. There is a relatively smaller percentage who are looking for returns, and we really believe in transparency and fairness. We have products similar to Alison and Ian that can provide 4% or 5% returns for those customers. It is all about transparency, choice and access that we really focus on for them.

Matt Hammerstein: Without wanting to repeat, I will echo what my colleagues have said. The thing I would amplify is that this is a period of dynamic adjustment for every individual in the UK, whether you are a borrower or a saver. We have had 10 to 15 years of ultralow interest rates and we have a generation of people who have not seen interest rates. Even at 4%, the base rate is still not at its historical average. Adjusting from where we were to where we are is causing challenges for people right across the spectrum. Our responsibility is to tailor what we do to people's individual circumstances, depending upon what those are.

For savers, as colleagues have said, over that 10 to 15 years, with all the extensive research we have done with consumers, they say to us they have lost the savings habit that they would historically have had. Even for those who have ended up with excess savings because of Covid, it was not because of a habit but because of the forced nature of Covid and lockdown. Finding ways to put in place incentives to encourage them to rebuild those habits is the most important thing. Fundamentally, that requires subtle influences in the product range we put in place and how we put the rate in place, but ultimately building their confidence and their ability to save regularly rather than just get an interest rate on whatever savings they happen to have.

Q3 **Chair:** You have all mentioned that and we will get into some more questions on savings accounts. Your instant saving rates, for most of you, are still below 1%. In terms of the rapidity with which you have moved, it seems as though you have raised those rates more quickly since we invited you in front of this Committee than you were doing before. We were wondering whether we ought to be inviting you in on a more frequent basis as a result.

I will just drill down a bit further in terms of this big increase that you are seeing in your net interest margins, because that is undeniably something that you are enjoying at the moment. I wondered whether the Bank of England's term funding scheme has been a factor in you keeping your savings rates as low as you have for as long as you have. Does anyone want to say yes to that question? No, okay, the term funding scheme has had no impact whatsoever.

Right, let us move on then to the question of variable compensation. I wondered if you could each summarise what metrics go into measuring your variable compensation.

Ian Stuart: We have a balanced scorecard. I get measured against a scorecard every year.

Q4 **Chair:** What is in that scorecard?

Ian Stuart: There are many measures. There will be financial measures and customer measures.

Q5 **Chair:** What sort of financial measures?

Ian Stuart: Returns on capital will be one of those measures but our customer measures will include NPS and growth in our mortgage book. We will have ESG targets.

Chair: Can you avoid the acronyms for the benefit of the public?

Ian Stuart: Sorry, I beg your pardon. Net promotor scores are important because that is your customer feedback on you. Then, when we get into things like climate and sustainability, which plays a big part in our bank today, we are measured against that.

Chair: Net interest margin would feed into that through the profitability metrics, then.

Ian Stuart: I do not have a net interest margin.

Chair: No, but you have a profitability goal, it sounds like.

Ian Stuart: Yes. We want to be a profitable bank and HSBC is prudent. It is always run on a prudent basis. We think that is good. Over the next 25 years, we want to be an active investor in UK plc.

Q6 **Chair:** I am asking very specifically at the moment about the factors. You have summarised three there that I heard. Were there any others you wanted to highlight?

Ian Stuart: In summary, it is a balanced scorecard. We have customer measures, financial measures and colleague measures in there. We want to be a good employer. We have wellbeing, and we have diversity and inclusion, all going on the scorecard.

Q7 **Chair:** Alison, is there anything different in your variable compensation metrics?

Dame Alison Rose: In terms of the variable, around 70% of it is deferred and linked to financial performance over time and, therefore, the success of the company. Ours is a balanced scorecard as well. Included in there will be risk, making sure that our risk measures mean the bank is safe and secure, and that will look at things like capital, lending and making sure that the business is well managed. We will have purpose measures in our scorecard that are linked to our commitments around financial education and learning, the numbers of new startups and enterprise companies that we help. We have climate measures on our scorecard as well.

There will be people scores that look at diversity and inclusion metrics, wellbeing, colleague satisfaction across a number of measures, and then financial performance, which will be linked to clear measures at each business level.

Q8 **Chair:** That is where the net interest margin will feed into profits.

Dame Alison Rose: Yes, but we would not be able to meet performance by meeting net interest margin. It is around capital, so capital generation, which is safe deployment of capital. It would be return on tangible equity. It would be cost measurement. It would be satisfaction as well. Those are all in the balanced scorecard.

Q9 **Chair:** Charlie, is there anything different in yours?

Charlie Nunn: We have some underpinnings, which is the way we talk about it, around resilience, risk management and overall outcomes for the bank. We have 50% financial, 50% non-financial. Some of the financial, like cost, are not driven by NIM but some, to your point, have a net interest margin impact. The non-financial, very similar to Ian and Alison, cover inclusion and diversity, sustainability and customer feedback—the core stakeholders that we are committed to making progress on. The overall performance award is a decision for our remco—for our board—so there is always a judgment underpinning what the metrics say.

Q10 **Chair:** Matt, is there anything different in your metrics?

Matt Hammerstein: The only thing to add is less about the metrics and more about the fact that what we have talked about so far relates to mostly the very senior people in the organisation. There is quite a lot of differentiation as you go through the organisation based on the role different people play and the contribution they can make to the range of balanced metrics that have just been described.

Q11 **Chair:** Would there be anyone in your organisations who is purely remunerated on your net interest margin?

Matt Hammerstein: Not on net interest margin specifically. You will have technical teams—what we would call a treasury team—who, since interest rate volatility is not a good thing in a business like the business I lead, carefully manage how you balance the various factors that influence net interest margin over time through things like hedging strategies. But, no, they are not targeted on a net interest margin. They are targeted on the safety and the prudence that they help build around the balance sheet.

Q12 **Chair:** Are any of you planning to respond to the consultation that is currently open on ending the bonus cap, as it is called? None of you is going to write in. Alison, you are not shaking your head. Everyone else is shaking their head.

Dame Alison Rose: The end to the bonus cap is not something that we advocated or lobbied for. NatWest is operating on a one-times, unlike most of the industry, which is on two-times, but it is not something we will be advocating for.

Q13 **Chair:** None of you has an opinion on that.

Can any of you speak to specific examples of when the senior manager's regime has prevented you bringing in a senior manager you wanted to bring in? Do any of you have any specific examples on that?

Charlie Nunn: Not preventing me from bringing in someone, but it has definitely been a part of the process for bringing in talent and there has been strong engagement with the PRA and the FCA on assessing talent with respect to the senior managers regime. It is right at the front of the discussion we have. I am a newer CEO but I have been through a process of building my team and that has been a core part of the discussion.

Q14 **Chair:** Does anyone have any examples of this being a barrier to you recruiting the right people in your organisations?

Ian Stuart: I would say that it has led to some challenging conversations but it has not been a barrier. We have managed to work with good people to bring good people into the industry who understand why it is there.

Matt Hammerstein: To the extent that it is a challenging conversation for people from outside financial services, it is helping them recognise that, even though they cannot necessarily control all of the things that might influence that, it is not about necessarily controlling all those things. As the regime describes, it is about taking reasonable steps to make sure that you understand the circumstances and that you are making your best judgment based on the facts available to you, and then constantly paying attention, in the way Alison described.

Risk and control would be an important component of that balanced scorecard. Once people understand the common-sense nature of it, even though it potentially has that significant influence on compensation, people generally get comfortable with it.

Q15 **Chair:** Are any of you planning to put in formal representations to those consultations for the senior managers regime? Matt, you are the only one not shaking your head this time.

Matt Hammerstein: I cannot speak on behalf of the whole of Barclays because that will be a different part of Barclays. My general sense from my colleagues is that we think it is a very sound regime. As with anything like it, evidence and experience will help us find ways of simplifying it and making it even more effective. My colleagues would say there are some opportunities for deferrals. There is some complexity in how the deferrals misalign between SMRs and MRTs. Sorry to use the acronyms but they are embedded in the regime.

Chair: Again, for the public it would be helpful.

Matt Hammerstein: Material risk takers and senior managers. There may be opportunities just to simplify it, not for the sake of anything other than just continuing to make it as simple as possible and as effective as possible.

Q16 **Anne Marie Morris:** Rather than ask each of you to answer every single question, if I may, I will probably pick one of you. If there are particular views others want to add, then make your position clear and we will come to you.

Dame Alison, do you think that, in what is sometimes described as the wild west world of crypto, banks like yours have any role in protecting customers from the challenges? If you see a customer looking as if they are going to be using their funds for a crypto investment, is there anything you can or should be doing?

Dame Alison Rose: Crypto—and maybe broadening it to a question of fraud, which is clearly the big concern—is a new way of investing. We have quite strict rules in terms of restricting our customers investing in crypto. We know that around 74,000 of our customers have looked at crypto. We have seen crypto exchanges in fraud being used quite significantly, and so we have blocked a number of platforms and exchanges, which has seen a drop in the amount of fraud from crypto. We look at it through a fraud perspective. That is one aspect and we can come on to the broader question of fraud, which is obviously a significant concern.

From our perspective, we are restricting people investing in crypto because we are concerned. There is a role to help educate and inform people around crypto and what is available. The primary element we are looking at is scanning those exchanges where we are seeing high levels of fraud, and we have blocked platforms where we have seen our customers have significant fraud. We know that can cause frustration for customers because they may want to invest—it is their money—but, if we are evidencing significant fraud, we will block them.

Q17 **Anne Marie Morris:** The challenge is the lead time because, until you discover a platform is not good and you block it, there is very little you can do to stop the customer dealing with their own money.

Dame Alison Rose: Yes, it is the customer's choice. We have taken a pretty hard line as a bank on crypto and we are blocking retail and wealth customers from transferring into crypto assets because of the volatility and the stability of the platform. We use quite sophisticated tracking where we see trends of fraud happening, so where we see customers experiencing fraud.

Just to give you a sense, there were 3 million customers in the UK last year who were victims of fraud—not all crypto. In Q4, our customers who were subject to scams and frauds were telling us that 60% of those frauds were originated on social media platforms and technology platforms. Therefore, as we are combating this crime against customers, not just crypto but fraud generally, we need to stop it at root cause. Where we are seeing persistent fraud and scams, we monitor it closely and then we will block platforms. We are restricting customers from investing in crypto.

Q18 **Anne Marie Morris:** Thank you, that is helpful. Charlie, the Government are consulting on regulating crypto assets. The consultation went out in February. We do not yet need to hear your full detailed response as to what you think but do you have any initial first thoughts as to what needs to be in such a regulatory system?

Charlie Nunn: Just building on Alison's point, we have a very similar risk appetite, which is that we do not offer crypto to our customers directly and we do manage it through fraud. The other build, which is important—I am guessing all of us do it—is that we have really significant teams focused on vulnerable customers. Part of our conversation is helping them understand if their financial vulnerability is as a result of crypto, and then providing support and guidance to customers to rebuild their financial resilience.

In terms of the engagement, yes, our view has been that we welcome that there is going to be regulation to look at how we regulate cryptocurrencies. As Alison said, customers have a choice and we need to enforce that choice or support that choice. In fact, there are a whole set of regulations around payments that require us to enable customers to use their choice. Today, if we do see customers and we do not believe it is a fraudulent platform, we have to enable customers, rightly, to support those other platforms. If the regulation can make those crypto services safer for customers, that will be good for customers and for the financial system. We are very supportive of the regulation and the regulators looking at the regulation of crypto.

Our focus will always be about customer outcomes in that context and, unless things materially change, Lloyds Banking Group will not want to be promoting cryptocurrencies. But we want to make sure that, if our customers choose to put money into cryptocurrencies, it is as safe as can be.

Q19 **Anne Marie Morris:** Matt, can I now turn to central bank digital currency? It seems to me to be the topic of the moment. Do we need it and what are the risks and opportunities?

Matt Hammerstein: There are definitely benefits to it, if it is done well. The most significant potential benefit is some reformation in the way in which the plumbing infrastructure works around payments to simplify and modernise that. That takes a lot of time and there is a huge amount of risk associated with it, as we have seen from the new payments architecture that the Payment Systems Regulator is trying to put in place today.

There are two big things I would say. First, a roadmap or consultation was talked about last night. We have not had a chance to study the detail of it. There are huge public interest questions to be addressed as a part of it. Introducing a digital currency that is led by a central bank on behalf of the Government runs the risk of creating a two-tier payment system between those who are enabled to be on that digital currency and those who are still wed to cash. That whole access to cash question has to be resolved as a part of whatever would be done with the digital currency so that we do not create a two-tier system in a more formal way than we may even have today.

Secondly, it has huge opportunities in terms of increasing the competition around payments but that has to be done carefully and thoughtfully from a financial stability standpoint. Again, one of the critical questions raised, at least as far as I could see, in the roadmap introduced last night is this idea of public hoarding and this risk that you then create runs on financial institutions. There is a real risk in that. It can be managed but the way in which the currency gets introduced and the way in which it is then managed through the existing payment infrastructure and system, as well as new competition, has to be very thoughtfully carried out. That is not something that gets done quickly.

Q20 **Anne Marie Morris:** That is fair. Ian, on CBDC, the central bank digital currency, do you see particular strengths, weaknesses, opportunities and threats specifically for wholesale as against retail? Do you think that the progress of the two should go at different paces to deal with many of the issues that Matt has raised?

Ian Stuart: They should not go at different paces. I can see digital currencies helping people with trade transactions in the future. It might help speed it up. I do not want to repeat everything Matt said. It will be on the execution. It is really important that we get it right but I see it as just another currency to help people move goods around the world much faster—or faster. I can see the benefits. I go into it with a degree of caution because it is really important we get it right.

Q21 **Anne Marie Morris:** I have one final quick question, moving away from crypto. One of the challenges, from what I am reading—we will get to mortgages later—is the buy-to-let group because they do not have the general Government support systems, and the consequence will be that a number of social housing opportunities, which we use the private rented sector for, will disappear. Charlie, what do you think the issues are when we are talking about this particular buy-to-let problem? Is there any route or role that you think the bank can play, given it is important when we are looking at maintaining property for the private rented sector for social housing?

Charlie Nunn: Lloyds Banking Group is not the biggest participant in the buy-to-let segment but we do support customers in that segment.[1] You are right. It is challenged from two fronts. One is the cost of maintaining a mortgage and borrowing in the context of their buy-to-let property but they also have quite strong sustainability commitments—net-zero commitments—for 2026. Those two things together are making the business case for some of our customers really difficult to stay in the buy-to-let space.

As we look at higher interest payments, just as I said earlier—it sounds like we will get to mortgages—we are very focused on those customers who are going to have an income stretch that is not sustainable and how we support them. Lloyds Banking Group is committed to working with customers and seeing whether there are ways we can support them around the debt and then the payments they have, to make it more sustainable through a period of higher interest rates. That is the first thing we can do.

When you think about affordable housing and social housing, we play a really important role in multiple ways. Lloyds Banking Group provides about £12.4 billion of financing to social housing and then we have a housing growth partnership where we work with local authorities to support financing social and affordable housing. I am sure my colleagues here have something similar. We are very committed to continuing to enable financing for those sectors because access to good, sustainable housing is right at the core of our purpose.

Banks do have a role but it does not take away from the really significant challenges that that sector or that segment is experiencing.

Q22 **Chair:** What I heard there, in terms of the central bank digital

[1] Lloyd's Banking Group made the following correction: According to the latest available UK Finance figures, Lloyds Banking Group has the largest value of Buy-to-Let mortgages outstanding in the UK.

consultation that was only really launched yesterday, is that there are going to be lots of practical implementation issues. There is potentially a risk of disintermediating the entire banking sector. I assume, from what I heard in your evidence, that this is a consultation that your teams will go through very carefully and then put informal responses to.

Charlie Nunn: That is right, yes.

Q23 **Dame Angela Eagle:** There is some cynicism among my constituents that all of you, as bank CEOs, seem to be much better at putting up interest rates on borrowers and those with mortgages than at giving back some money to those who are your savers. What would be your reply to that cynicism?

Ian Stuart: I speak to customers all the time and they say the same thing to me. To give you some reassurance, when interest rates started to go up, we looked back at the minutes of meetings of rate committees of years gone by to make sure that we were being honourable and passing savings rates on in the right way.

I would just like to touch for a minute on instant access, which is usually the product that creates quite a lot of noise in the market.

Q24 **Dame Angela Eagle:** Where all of your rates are currently under 1%, even though the bank rate is now 4%.

Ian Stuart: I do not want to get into it, but we have rates above 1%. We see that as a gateway product into getting our customers into good savings products. We can see that. Something like 25% of our customers who have an instant access saver account also have other savings products. I see that going up every month, which is a good thing.

From about August last year, we really saw customer activity pick up when they started to move their funds around to get better interest rates. We did quite a bit of research on why it was August. There were two things. We were not out of lockdown fully until Q2 and, at that point, you could see a lot of people, as they came out of lockdown, moving into holiday season and so they kept a lot of money in instant access to pay for holidays, et cetera. You could see that in credit card spend as well; it is 100% up on travel in 2022 versus 2021. Once the interest rates moved on 4 August, and interest rates started to get better for customers, that is when we started to see customers start to move more money. You can see it in some of the products we have today.

Hopefully, customers are now enjoying better savings rates. As I mentioned earlier, in the very first week in October we changed our fixed rate saver so that people did not get penalised.

Q25 **Dame Angela Eagle:** I want faster answers, if possible. My constituents are cynical that you put the interest rates up faster on mortgages and much higher than you give back in savings. I am talking about instant savings here because often, in a cost of living crisis, people need to have their money accessible in case that humongous energy bill comes through.

Dame Alison Rose: I would reiterate. We take it very seriously in terms of making sure we are helping our customers. Building this habit of saving is really the issue. Only one in four people have £100 in savings in their account. We focused, over the last three years, in helping build those habits. It sounds like a very small thing but we now have a million people regularly saving using round-ups. If you buy a cup of coffee for £2.70, it will round it up to £3 and the 30p will go into your savings account. It just builds the habit.

We focus very specifically on the digital regular saver to really help people build that habit. It can be as little as £1 a month going into that account, and that is paying 5% as well as with our fixed account. It is about really helping to build the habit. Eighty per cent of our customers have less than £5,000 in their account, so it is about starting to help them build those habits and build up financial resilience.

We have also focused very much on young people where there is a real concern about financial confidence in young people. Eighty per cent of young people are not confident about their financial future. We have targeted savings for young people's accounts as well. We have a range of accounts. We recognise their concern. We know people are struggling and we are trying to target support where people can help people save, and then specifically to those people who are feeling real hardship in the cost of living crisis, so those people who are in budget deficits where they do not have savings. They tend not to have mortgages or borrowings with us. That is where we are working in partnership with Citizens Advice, ScamSmart, PayPlan and different charities to put practical support in to help people.

Q26 **Dame Angela Eagle:** That is two out of four and I still do not have an answer to my question. Why are you so ungenerous on instant savers, giving so little back in terms of interest rates compared to what you charge borrowers? Charlie, see if you can give it a go. It is about profitability. It is to preserve your own profits. Is that not the answer?

Charlie Nunn: Can I give a starting point? Then I will answer the profitability one and give you a view on that. We are very much in the same place around transparency and choice to customers, to make sure that we are focusing and targeting customers who really do have savings versus those who do not. One build, which hopefully would be helpful to the Committee, is that, when you look at instant access savings, we see between 5% to 7% of all our balances churning and moving between our competitors every month. It is one of the most actively moved products or services that we have. It is an incredibly dynamic and competitive market. Even with that context, over the last two years we have seen our customers trust more money to Lloyds Banking Group. It is about transparency and choice and, for us, it is about targeting the customers who need support, who typically do not have savings.

On your point on profitability, the other context that is really important is that net interest margins as we exit 2022—we have our full year results in a couple of weeks so we cannot talk about the full year—are only now getting back to the level we had in 2018. We were at the same net interest margin in 2018, with basically 0% rates, and Lloyds Banking Group in Q3 provisioned over £650 million looking into a difficult 2023 from a recession perspective. We need to make sure we have the right capital and financial resilience to support customers through a recession, and then to be there for our customers as we come out of this. From an overall profitability perspective, that is important context.

Matt Hammerstein: The simplest thing I would say is that, on the mortgage side, we do not manage the rates relative to the base rate. Eighty-one per cent are fixed rate. That is not driven by base rate; it is driven by expectations of future base rate. The other 19% explicitly track base rate. We do not manage, if you will, that outcome.

On savings, I understand why people focus on instant access—what we call everyday saver—but it is the inappropriate point to focus on, in particular right now for the reason I said earlier. If we talk to customers, the range of needs, behaviours and interests in that everyday saver account is incredibly broad right now. Simply applying a base rate increase into that is not going to help the broad range of interests in there. We have an instant access account outside of our everyday saver that pays 5%. I would say very strongly in reply that we have definitively passed on a base rate increase at 5%, with instant access available to any customer who wants to open a rainy day saver account. We see lots of customers opening it every week.

Q27 **Dame Angela Eagle:** I will award Matt the prize for the best advert in that answer. The Financial Services Act 2021 introduced a customer duty. I am assuming that all of you are now—I know you are working with the FCA—on track to introduce that for existing products by the end of July this year.

Ian Stuart: It is "consumer duty" but, yes, we are absolutely working on that today.

Q28 **Dame Angela Eagle:** Are you going to be able to introduce it on time?

Ian Stuart: It is all about a good outcome. Yes, we have to be there by July. We do not have an option.

Dame Alison Rose: We are working very hard to be ready to implement consumer duty.

Dame Angela Eagle: Will you be ready on time?

Dame Alison Rose: We will be ready on time.

Charlie Nunn: Yes.

Matt Hammerstein: Yes.

Q29 **Dame Angela Eagle:** None of you, therefore, if you are going to be ready on time, is going behind anyone's back to the Minister asking for its introduction to be delayed or lobbying for that.

Matt Hammerstein: No.

Q30 **Dame Angela Eagle:** Well, I look forward to that being the case when it is introduced at the end of July, because that will help a lot of customers understand, much more effectively, your duties to them and how fairly all of you are putting those into effect.

I have one last question. Has there been any long-lasting impact on mortgages from the gilt market meltdown following that catastrophic mini-Budget in October 2022?

Ian Stuart: Let me start. I will build on Matt's point. It was a very, very difficult time. Let me tell you what happened in HSBC. The swap rates peaked on 27 September, and the two-year swap rate on 27 September was 5.89%. At that point, I and my team were looking at 60,000 customers in December who were going to be impacted by an increase in mortgages. I do not mind telling you that that caused a lot of consternation in our organisation because the last thing I wanted was customers to be forced into a mortgage product that was looking like 7% at that time.

Thankfully, we kept very cool heads around that and we set about asking how we get a mortgage product in the market in December starting with a four. Could we get a 4.99% mortgage for our customers? Thankfully, the markets calmed down quite a bit thereafter and we did manage to do that. But I have to be very honest: at that point I did not know if we were going to be doing that. About 80% of our time was focused on those 60,000 customers who were anxious. There were inbound calls. If you heard the strain in the customers, the anxiety for our customers was palpable and we were all hands to the pump to try to make sure that we looked after them through that period.

I am pleased to say that it has calmed down further from there. Today we have our five-year fixed-rate mortgage in the market at 3.99%. That is a really helpful mortgage but, again, it underlines the previous point that we do not link our fixed-rate mortgages to the base rate. The base rate is 4%; we have a five-year fixed-rate product in the market today at 3.99%.

Q31 **Andrea Leadsom:** Going on to savings products a little further, do any of you have an idea of what your savings business earns you in terms of profit each year? What do you make in terms of net interest on savings products?

Ian Stuart: We track the revenue from all our major products every year.

Q32 **Andrea Leadsom:** What is the revenue from savings products each year? Do you know?

Ian Stuart: I would need to come back with more detail. I do not have it broken down to every savings product. You have to apply costs against all your products, so it would be difficult to give you an exact moment. I am happy to try to come back to you in writing in detail.

Q33 **Andrea Leadsom:** Thank you. Do any of you have that information? No.

The reason I ask is that, quite a long time ago now, back in the 2010 to 2012 period when the banks had almost destroyed the world's economy between them because of their risk-taking, one of the issues that the Treasury Committee was grappling with was the inertia of customers. What was very clear then was that banks had no idea what they were making, either from current accounts or savings products. They were pressed to provide that information and it did result in changing behaviour. It is interesting that none of you can actually provide that information now. Does anybody want to comment on that and how that has changed over that time? Do you still rely on the inertia of customers moving their current accounts and savings products away from you for more competitive offers?

Matt Hammerstein: I definitely refute the idea that we rely on inertia. That is not in any way representative of either the way we design products or the way we engage customers. As colleagues have said, and particularly from a Barclays perspective, it was very clear to us and to customers last year that the base rate was going to go up. It was not clear how fast and in what increments. We spent an extensive amount of time with customers, talking to them about what they expected from us as base rate went up, in particular with respect to savings. As I said earlier, what they said to us very clearly was, "We have lost our savings habit and we need to rebuild it. We need your help".

In particular, they said four things. First, they wanted a very simple, clear product range to give them the ability to match their needs with the products. Secondly, they recognised that simply incrementing up the base rate on an instant access account probably was not the right thing to do because it would give very little incentive, so they wanted to see targeted products that gave them more incentive. Thirdly, they recognised we needed to nudge them. They lost the habit and therefore we needed to constantly remind them what the benefit of them behaving differently would be. We have designed the range that we have in place today to do that. I talked earlier about our rainy day saver with 5%. We have a reward saver with 2%, a fixed bond with 3.9% and a cash ISA of 4%. These are all market-leading rates. We have talked to 10 million customers in four months about those rates. We have opened 500 new accounts. We open 18,000 rainy day savers a week and 20,000 fixed bonds a week. There is no inertia there. It is just a matter of encouraging customers to stop and think about it and then find the right solution.

Q34 **Andrea Leadsom:** You are talking about there being no inertia on the part of the bank, and we absolutely accept that, but, as we all know, when you say you are talking to customers, you are not actually talking to 10 million customers.

For example, Ian, how do you tell customers, "Our rate is not as good as the competition"? For example, in the mobile phone world, you are not allowed now to just stick someone on your reserve rate because they were not active enough to go and shop around. You have to actually tell them, "This is what you will get and you can now shop around because your contract has ended". Is that what you are doing? Is that how you get people to shop around?

Ian Stuart: We actively reach out to customers.

Q35 **Andrea Leadsom:** How you do that?

Ian Stuart: Five and a half million e-mails went out recently to customers through the last four or five months. We are actively trying to bring customers on to the good savings products that we have launched.

Q36 **Andrea Leadsom:** Is that not marketing? Do you actually tell customers when your products are not competitive or are you just telling them that they are competitive?

Ian Stuart: I think our products are very competitive.

Q37 **Andrea Leadsom:** Obviously you do, because you earn a lot of money to make that assertion. But do you actually tell customers that they have the option to shop around and that your product is offering 0.5% but they may get a better rate elsewhere, or do you not?

Ian Stuart: I would argue that the vast majority of our customers do shop around and do try to find good rates of interest and good lending rates as well. But there is something about safety. They like the brand. They have trust in the brand. We work very hard to build that trust and, in turn, our customers reward us with their loyalty, which I absolutely respect. At the root of it are good-quality products designed for a good outcome for the customer.

Q38 **Andrea Leadsom:** I have heard you say that to a couple of colleagues. Are you therefore saying that your brand is safer and more trusted and therefore your products are better than those of Barclays, NatWest, Lloyds or HSBC? Is it not the case that you are all big brands and that all of you command loyalty, but that actually what customers need is a whacking great rate of interest and the knowledge, proactively provided by their bank, that, in shopping around, they could get better rates elsewhere?

Dame Alison Rose: We do not take our customers for granted. Very similar to Ian, we do a lot of personalised outreach to our customers. One thing that we have really focused on is something called our financial health check. We did something like 750,000 of them last year. That is bringing the whole of a customer's balance sheet together. Just to give you a sense of that, I was looking at one last weekend. One customer, a mother with a family of four, came to us worried that they had something like £12,000 to £13,000 of debt. They sat down with our team and we identified that they actually had £20,000 worth of debt. We looked at all of their borrowings and all of their income, and we got them on to a digital regular saver. We have actually saved them £600 a month in terms of that.

Q39 **Andrea Leadsom:** That is with your own bank. You are not assisting them to perhaps find something more appropriate elsewhere.

Dame Alison Rose: Those are our customers. I need to look after our customers and do a great job with our customers. What we do is help them. We are not incentivised to sell them products. We are there to help them find a solution.

Q40 **Andrea Leadsom:** It seems to me that the banks are now doing a better job of looking after their own existing customers but to retain them, not to provide them with a level playing field.

Charlie, when you have customers whose preferential first-year savings rate is coming to an end, do you advise them that it is coming to an end and they might want to shop around or do you just try to put them into another product provided by you?

Charlie Nunn: We advise them on their options with us.

Andrea Leadsom: With you, yes.

Charlie Nunn: The one build on this conversation, which might be helpful for the Committee—it is linked to the comment I made about people who are looking to shop around—is that we have an incredibly competitive market. The online aggregators in the UK, the set of third parties that do price comparison, provide most of the activity for customers to go and look at pricing. Customers can open an account with a competitor, transfer money within one second, within faster payments, and then, because of open banking, they can re-integrate that third-party provider of savings or other product back into their core relationship.

The reason we see such dynamism and so much movement in this sector is that there are very mature price comparison websites that are a really significant source of information for customers around pricing, and that provide a completely transparent and open ability for customers to open competitive products and then link them back to our current products. I agree with everything my colleagues have said. I really hotly dispute that we have been trying to lock customers in. We have been definitely trying to build transparency and availability of service, and to support customers.

The interesting thing around financial services in the UK is that we have this incredibly competitive and dynamic aggregator marketplace that provides very strong transparency with almost a unique ability for customers to choose where they put their money but still see it back through their core provider.

Q41 **Andrea Leadsom:** Is it not the case, Matt, that back in 2011 you were more likely to divorce twice than you were to move your bank account? The banks fought very successfully to not allow people to move their bank accounts the same way they could move their mobile phone contract by keeping their number with them. You now have a sort of easy switching service, but is it not the case that customers still have enormous inertia and that people find it extremely difficult, because it is administratively cumbersome, to open a new savings account or, indeed, a new bank account? Therefore you are still heavily reliant on the inertia of customers.

Matt Hammerstein: I was happily married in 2011 so I do not know the statistic on being twice as likely to get divorced. The rates of switching in the industry have never been higher. The CURRENT ACCOUNT SWITCH SERVICE is a wonderfully simple service and it works very effectively. You can see that in the net promoter scores that we would all see. The people who use it absolutely love it.

Q42 **Andrea Leadsom:** What percentage of people are switching?

Matt Hammerstein: There were over a million people who switched bank accounts last year alone, and it accelerated into the back end of the year.

Q43 **Andrea Leadsom:** Out of how many bank accounts?

Matt Hammerstein: I would not know that number off the top of my head, but a million switches is a record number and it is growing very rapidly. The confidence is there.

I would accept, with a different version of the line of questioning you are taking, that the mortgage market is a regulatory advised market and it is heavily brokered. Eighty per cent of mortgages happen through an intermediary called a broker. In the savings market, there is not that level of advice and guidance available to customers. While there is a tremendous amount of transparent information, to Alison's point earlier, the statistic that always sticks out to me is that 47% of UK adults say they are not very confident to make financial decisions. That is not inertia. Inertia describes it as laziness and I do not think UK consumers are lazy; I think they do not necessarily always have the confidence to figure out what the right option for them is.

There is a huge burden on us to try to provide better support and guidance. We have all evidenced the fact that we are doing that, but there are limitations to how far we can go in trying to provide advice and guidance to customers. We can present them with information but it is ultimately to them to make up their mind. If 47% of them are not confident to do that, there is a mismatch.

The FCA is consulting now on simplifying the boundary of advice and guidance for investments but that is at the very top end of the market in terms of the amount of savings people have. More help is needed at that lower end of savings. We can provide that but we need help to enable us to do that safely.

Q44 **Andrea Leadsom:** Ian, as a lifelong banker yourself, would you say that there is more that the banks could and should do to provide, not financial guidance about your savings or your mortgage, but just more knowledge to perhaps young people or people starting out on their career path about what finance is all about and the importance of good savings and borrowing habits?

Ian Stuart: Undoubtedly, and your question is well-made. We have been trying for some time to lobby the Department for Education to bring in life skills in financial products. We know through research that people from the age of four are very good at picking up on financial products. We have just done a sort of joint venture with a scouts group. We could not get into the Department for Education so we went through another route. That has helped 650,000 youngsters to understand money better. We need a lot more of that because people do need to understand. I have four children myself, three of whom have gone through university. It is a never-ending trial to say, "You have to save. Put some money away for that rather than reverting back to the bank of mum and dad". It really is quite a challenge. I get it. Your question is spot on.

I would just like to add one point. We are all trying. We understand that we have good research on this to help children. The earlier we get to children, the better and the better understanding they will have of finances in later life.

Q45 **Andrea Leadsom:** I have one very quick last question to Alison. What do you think about the banks working with the credit union movement, which has a strong track record of going into schools with little balance sheets and getting kids actively engaged from a very young age?

Dame Alison Rose: Getting children engaged from a young age and building, as Ian said, financial literacy and financial confidence is an enormous part of giving people financial confidence as they come into adulthood and the skills to make choices. We know, particularly at the moment, that young people are feeling very nervous about the future. There was a piece of research we did with the Prince's Trust that came out last week. For 57% of young people, cost of living is their biggest concern, and 80% of young people do not feel confident about their future or their financial skills. It is critical.

There is a lot that we can do in schools. We have a MoneySense programme that is in around 80% of the schools around the country. But not all children are getting educated in schools. We also need to make sure that we are reaching those children where schools are not the place they learn. We are sponsoring a programme in youth clubs. That is a really important aspect of reaching different children. We know that that can make a big difference.

The other aspect is that getting entrepreneurship recognised, and the skills for entrepreneurs, is really important. Our Dream Bigger programme that is in schools is teaching children about entrepreneurship as a valid career.

This point around financial capability, literacy and confidence, and building that for young children and schools, gives them the capabilities as they come into adulthood. It is a huge part of their mental health and confidence to make their choices.

Q46 **Chair:** On the statistics, apparently about a million people used the current account switch service last year out of 73 million current accounts. Should this service now be extended to savings accounts given the evidence that we have heard today of how people are on such low rates? I will take that as a no from the banks.

Charlie Nunn: It is there, actually. The core about current account switching is making sure that all of the direct debits and overdraft credits go with the service. That is the difficult thing we really need to help customers with. We have all probably been through it. On savings, you do not have that problem. As I say, the core that we have all invested in is that, if someone does move their savings account, they can actually aggregate it back and see it in a single place. That is all there through open banking. It is one step better than it is on switching. I hope we would say we have done it but we are always open to input and guidance around that.

Q47 **Anthony Browne:** I am going to ask about mortgages and then I have a few questions about fraud. Please keep your answers short.

First, on mortgages, interest rates have gone up dramatically over the last few months. For those who are not on fixed-rate mortgages, that has increased their mortgage payments dramatically. I know that that has caused a lot of distress to a lot of people. My question is about your standard variable rate. I know you have people on fixed rates and people on floating rates, but a significant proportion of your customers will be on standard variable rates. For all of you, certainly according to the data I have, it is between 6.25% and 6.5% whereas the bank base rate is 4%. Why are your SVRs so high? I am going to go in order of market share from the highest. Charlie, Lloyds is the biggest mortgage lender in the country. Why are your SVRs so high?

Charlie Nunn: This is about providing flexibility for people. There are no fees or charges if they break out of that mortgage. Setting it up and then supporting them with that variability is a different economic cost for us. That is why the rates are higher than fixed rates where we can offset the risk. The really important point on standard variable rate mortgages—you say this has been with us for the whole of the last year—is that, at the moment we saw rates increasing, we were very focused on how we make sure that we are telling customers proactively in advance about those changes and then finding those customers we thought would have stress around the income cost.

We have also had 10 years of very proactive outreach, trying to encourage customers or make current customers aware of alternatives.

Q48 **Anthony Browne:** What proportion of your customers are on SVR?

Charlie Nunn: We have about 25%. The industry is nearer 20% of customers. It has been a real area of focus for us.[2]

Q49 **Anthony Browne:** Why are you all so much higher than the industry average?

[2] Lloyd’s Banking Group made the following correction: The proportion of Lloyds Banking Group’s mortgage book on a Standard Variable Rate is in fact 6pc. For wider context, 81pc of the mortgage book is on a fixed rate and 13pc on variable rates.

Charlie Nunn: Because of the Halifax Bank of Scotland business pre the financial crisis. We have a lot of long-term SVR customers. We have had a lot of proactive outreach and then, through the last year, we have called and contacted through other channels 220,000 of those customers to try to provide offers and alternatives, and see what other ways they had of managing their costs.

Q50 **Anthony Browne:** Do you really have an incentive to do that? I know you do not have the protections you mentioned for fixed rate, but SVRs are still an incredibly profitable part of your business, are they not?

Charlie Nunn: The really important point, which is where we have now had almost a decade of contacting and spending time to really understand these customers, is that a very large number are now relatively small balances. For example, we did another survey in the last quarter of last year, and 43% of them are actively looking at alternatives and other products. About 45% of them are saying, "We still want the flexibility of this product. The absolute cost of the mortgage is not that high". When we looked at that set of customers, we found that about 1% of them, which is where we see the income stress, would be above 40% based on the new rates. That is where we have gone really deep, been really laser focused and worked to say, "How do we help you manage this? Are there alternative products?" We proactively put in place, from the summer last year, some lower-margin products from our perspective that could mitigate and reduce the risk and the cost for those customers.

Q51 **Anthony Browne:** Do you have any evidence on your mortgage book of distress in terms of people being late with payments?

Charlie Nunn: Arrears is still very, very stable. It is actually below the pre-Covid levels. We are proactively looking for and contacting customers about it but at this stage arrears is very stable.

Q52 **Anthony Browne:** That is really reassuring given the amount the payments have gone up. Dame Alison, I have the same question to you. Why are your SVRs so high and what proportion of your customers are on it?

Dame Alison Rose: It would be a very similar answer to Charlie on the price. SVR is a very small part of our book. It is less than 4%.

Anthony Browne: Yet it is 25% for Lloyds.

Dame Alison Rose: Our book is predominantly fixed, so 93% to 94% of our customers are on fixed-rate mortgages. It is split between two-year and five-year, and around 65% are on five-year. We have a predominantly fixed book. We proactively contact those customers. We extended the period before they come to the end of a fixed from four to six months, and we proactively contact them, at six months and then every month thereafter or earlier, to talk about it. We have very low SVR. We know exactly who is rolling off their mortgages through the course of this year so that we can be engaged. We have a tracker mortgage that we put into the market during the period of market volatility, which is around 3%. We allow customers to move off tracker on to a product of their choice at any point if it is more effective for them.

On the arrears point, we have a very similar situation. We are not seeing any signs of stress or an increase in risk.

Q53 **Anthony Browne:** You have so many fixed rate that their payments would not have changed.

Dame Alison Rose: Exactly. People asking for help with their mortgage in terms of deferring payments and those softer indicators remain very, very low and well below pre-Covid levels. While you are seeing anxiety and people concerned, you are not seeing distress in the mortgage book.

Q54 **Anthony Browne:** Matt at Barclays, why is your SVR so high? What proportion of your book is on SVRs?

Matt Hammerstein: We do not have an SVR in the sense that we do not manage the rate. Most SVRs have a managed rate. Ours is an explicit base rate tracker. We call it a follow-on rate. It is less than 1% of the book. Even on fixed rates, we see only about 10% of people at the moment the term ends drift into a follow-on rate, and we very proactively manage them after that moment to help them understand what the new options are. They very actively then manage themselves back into a tracker or a fixed-rate product.

To Charlie’s point, this goes a little bit back to the questioning around instant access. For banks, flexibility is expensive. Customers like flexibility but it is very expensive. That is why a lending product like a credit card is the ultimate flexibility that we can provide somebody, and it has the highest interest rate not by accident. Giving people flexibility about how they borrow, when they borrow and how much they repay creates a lot of optionality for them and a lot of expense for us. When customers go out of a fixed-term tracker on to a follow-on rate, they have ultimate flexibility. At some level, that is really great for them because they can redeem at any point in time, they can pay up and they can pay down, but there is a huge amount of optionality.

Q55 **Anthony Browne:** Can I ask the point about financial distress from mortgage borrowing?

Matt Hammerstein: Same story.

Anthony Browne: No increase, okay. Ian, HSBC is not the biggest mortgage lender, but why are your SVRs so high and what proportion are on it?

Ian Stuart: We have less than 3% of our book on SVR. The reason it is so low is that we do not think it is a long-term product. We see it very much as a short-term product. You will always have customers who are in between decision-making. Maybe they are going to be buying another home or they are waiting on money coming in to change their mortgage. We see it as a holding product until the customers can go on to a better product. We actively manage that.

It is usually quite low balances, with people coming to the end of their mortgage who are maybe going to settle it—not always, but we see a lot of that. It is not a big part of our book.

Q56 **Anthony Browne:** What about the question on distress?

Ian Stuart: I just want to put a health warning out there. The headwinds are ahead of us, not behind us. We have 222,000 customers this year who will change their mortgage. The vast majority of those customers are going to see some increase in pricing, so we are working very hard to try to get the very best product price into the market, hence my points earlier.

Anthony Browne: Because you have so many on fixed-rate deals.

Ian Stuart: We have so many on fixed and so many on tracker. Tracker, which was out of fashion for years, has come back into fashion where customers are hoping that interest rates start to fall back again. But the vast majority of customers want to sleep easy at night. They want a fixed rate, so we work very hard to keep our fixed rates as competitive as we can in the market. There is no distress today, but I put caution in there: the headwinds are ahead of us.

Q57 **Anthony Browne:** I want to ask some questions about fraud. We have done quite a lot on scams and authorised push payment fraud. We had the payment regulator here about the new regulatory regime that has come in under the Financial Services and Markets Bill, which makes it mandatory to pay compensation. Currently there is a voluntary regime and you are all members of that.

The mandatory regime does not cover "on us" compensation, where both the victim and the perpetrator of the fraud are at the same bank. Just to pick on Lloyds, if you have a victim who is a Lloyds customer and it is a payment to the Lloyds Bank, there is no legal requirement to give them compensation as there would be if they were in different banks. The Payment Systems Regulator said that he hoped the banks would pay compensation. That is clearly so ridiculous. It is just the way that the regulations apply because it does not go through faster payments. If it is just within a bank, it is not going through the faster payments system.

If you had a victim who was at the same bank as the perpetrator of a fraud—your own bank—would you pay them compensation in the same way as if they were a victim at a different bank?

Ian Stuart: I am not sure I could do fraud justice in the time we have here.

Q58 **Anthony Browne:** It is a very simple question. If the victim and the perpetrator are both HSBC customers, will they get compensated in the same way as if they are different?

Ian Stuart: We would investigate the fraud. We recompense customers. For 70% of all app scams we recompense the customers. If it is both with us, we would really work hard to understand why that has happened. If there is a fraud, we would be not only reimbursing the customer but trying to close the account of the fraudulent part of the equation.

Q59 **Anthony Browne:** I take that but you have not answered the question. If the perpetrator is an HSBC customer, you would not compensate them the same as if the perpetrator or customer were at another bank.

Ian Stuart: We would make the customer whole.

Anthony Browne: You would compensate the customer the same way.

Ian Stuart: Yes, absolutely.

Anthony Browne: This is what the PSR said you absolutely should do. It just does not have the legal powers to do it.

Dame Alison Rose: We absolutely would.

Anthony Browne: You would compensate them on the same basis.

Dame Alison Rose: We would investigate and we would compensate. To be really clear, we want to make sure that customers are protected. I note the broader question on fraud. We really need to address the issue of fraud. This is theft that is happening to UK consumers. We actually have to do more to stop the root cause of fraud. The banks are doing a huge amount. We invest £500 million and have 6,000 people in our bank working every day to protect customers against fraud and financial crime, but the fraud is happening by the criminals. Often it is happening weeks or months before it even comes to us.

We will absolutely refund and protect customers. We are part of the CRM scheme. But there needs to be more done to address the issue that 3 million people in the UK are subject to fraud and scams. It is diminished by calling it fraud and scams; it is theft. If someone broke into your house or mugged you in the street and took £100 out of your wallet, that would be taken seriously. Refunding customers is an important part but that means the criminals still have the money. We have seen an 87% increase in fraud.

Anthony Browne: We need to do more to block it to start with. I absolutely agree with that. The online industry should do far more. Can I just finish this very specific point on whether you will compensate customers?

Charlie Nunn: We would investigate it the same, and I expect we would compensate the same independently of whether we were on both sides of the transaction. I know you want to move on but we are also passionate about this. Forty million people are targeted with fraud. There are three things to prevent fraud and to stop fraud money getting faster to criminals: working with the tech industry and the telcos; working with the PSR and creating friction in the payment system where we think there is fraud, and sharing data more openly between us; and really importantly, because this is harrowing and I am guessing we all listen to calls with our customers, how we support and educate customers and make it easier for them to know what the right behaviour and activity is. "Gross negligence", as a phrase, is unhelpful for everybody. We are all going to sit down and ask how we prevent fraud.

Anthony Browne: We do not have the time, I am afraid. Can I just get Barclays to answer the same question? Would you compensate customers the same if the perpetrator was at Barclays as if it were another bank?

Matt Hammerstein: In principle, yes. The fundamental reason we cannot say black or white yes or no is that the rules from the PSR are not finalised. Charlie's point on gross negligence will have a huge influence because, if the PSR sets a vague definition of gross negligence, applying that more generally outside of the context of the PSR is not the right outcome because gross negligence, in the context of what the PSR is doing, is not the right context.

Chair: Thank you very much, Anthony. That was an important discussion. As promised at the beginning, I am now going to adjourn the Committee for five minutes and we will resume at 10.56.

Sitting suspended.

On resuming—

Q60 **Douglas Chapman:** Thanks for all the evidence and witness statements so far. In correspondence to the Treasury Committee in July 2021, we were informed that Barclays had 738 bank branches; HSBC had 511; the Lloyds network was 1,567; and NatWest had 833. How many bank branches will you all be left with at the end of this year?

Ian Stuart: In some respects, I was very looking forward to talking about branches today. I started my career in branch banking in 1979, with six people working in a branch in the Highlands of Scotland. We were open 26.5 hours a week with no real competition in the marketplace. Banking has moved on a huge distance in that time and we are going to close quite a few branches this year. I could have announced that through drip feeding. I did not want to do that. I wanted to be very transparent for all my stakeholders.

The one thing I would offer this Committee is that I have never been covert on our branch plans. We always had a number that we thought was the optimal to serve our customers really well, and I would be very happy to share that plan with you. We will be at 325 branches by the end of this year and we are absolutely committed to a physical footprint in the UK. We think it is important but we have to get it scaled properly for the long term.

Q61 **Douglas Chapman:** Does that mean you are turning into some sort of challenger bank where you do not have any, or you have a limited, footprint on the ground?

Ian Stuart: The key to this is customer behaviour. It is really interesting because people think customer behaviour has just changed in the last few years. Customer behaviour started to change in 1982 with the advent of the cash machine. It has been on a journey from that point, and it has speeded up and accelerated through the pandemic. There is no question that customers changed their banking behaviours. I checked at the weekend: 98% of our transactions in December were digital. You can see customers moving away from the branches.

However, we have a plan for a physical footprint in the UK and, as quite an exciting development, we will have cash pods. It is quite difficult creating a cash pod because you have security implications but I am delighted to say that we found an amazing manufacturer in Yorkshire and our cash pods will go live in Q2 this year, which will subsidise our branches as well. We are fully committed to a physical presence in the UK.

Dame Alison Rose: We have 678 branches at the moment. Branches are, and will continue to be, an important part of the service we provide to our customers. But they are only one of many ways that customers can now bank with us. We have more ways than ever that customers can bank with us, including the partnership with the Post Office, the hubs and community bankers that we provide.

Very similar to Ian, we are seeing significant shifts in customer behaviour but we recognise that we need to look after all of our customers and make sure that we support particularly vulnerable customers. We announced recently that we would close a number of branches, so that will take us down to 657. But, as I say, we have more ways than ever that people can bank with us with over 11,000 post offices and the biggest free ATM network in the UK. Branches will continue to be an important part, but one part, of how we serve our customers.

Q62 **Douglas Chapman:** Do you recognise that the post office network is also closing branches and making it more difficult?

Dame Alison Rose: We work very closely, when we look at branches, with the services that are available, including post offices. We have community bankers. We have 600 communities we visit every week with our mobile vans, as well as all of our online, digital and specialist support teams of community bankers who will support the most vulnerable. We are very committed to our branch network and we have more ways than ever for people to bank with us.

Charlie Nunn: We know this is a hugely important issue for the communities we serve. The number, if you include what we have announced as closures post what we have announced, would be 1,277 branches. We remain very committed to our branch network. A lot of what Ian and Alison have said is exactly how we think about continuing to support customers and being relevant in the communities we serve. I am sure you want to talk about that a bit later but the answer is 1,277.

Matt Hammerstein: We have announced closures. We have 440. There are about 41 pending, so 481 was the number at the end of last year. The thing I would say to aid further conversation is that the concept of a branch may get in the way of this conversation. I will just give you a practical example. Part of my team is in Banbury. They are in a building that used to house 200 colleagues. We still lease the entire building. There are now six colleagues in that building. They do not need to be in a building that big. I would make a distinction between cash and coin services and non-cash and coin activities. We need to be in communities to serve customers really well, to the point that I made earlier. Customers want access to the wonderful colleagues I have embedded in those communities to help them make better financial decisions. Those colleagues do not have to be in a very ginormous old building in order to provide a great service to them.

Q63 **Douglas Chapman:** What about the cash element? That is a big issue for a lot of people. There was a statement made by LINK just in January 2023 that there are still over 5 million people who rely on access to cash and face-to-face banking services. It is a huge part of the market.

Matt Hammerstein: Yes, it is a critically important issue.

Q64 **Douglas Chapman:** You should not be ignoring it.

Matt Hammerstein: We definitely are not ignoring it. I would say three things. First, on the flipside of that, 95.5% of the population lives within two kilometres of free access to cash. Of Barclays' customers, only 3% of their cash needs are served by branches. There is a wide range of ways in which customers can get access to cash today, both through the post office and through free ATM networks. We are increasingly investing in what we would call a smart ATM, which can take money in and spit it out. There are new banking hubs going in place in communities that are particularly acutely focused on those cash-dependent individuals. There is an independent process that we have all invested in now, established through LINK, to determine where those are necessary. We have set up an independent company to now build those hubs.

I know there is a lot of consternation about whether that is going quickly enough. The single biggest issue right now to that going more quickly is making sure, in those local communities where we have announced a hub, that we can find a location for the hub quickly and then get it built. That is the only impediment at this point to that happening as quickly as everybody would want.

Q65 **Douglas Chapman:** According to *Which?* customer magazine, by the end of this year, NatWest will have closed down the most bank branches since 2015 with 1,234 branches being closed down over that eight-year period. Barclays has proportionately reduced its network most with 987 branches being closed. You have all said that you have other bank branch closures scheduled going forward, and the number that we started with has significantly diminished even in the last few years. Why have you taken the decision to close these branches? Is it all about profitability and reducing cost?

Ian Stuart: It is following what the customers want. Principally, we look at the footfall in branches; we look at the products that are being used in the branches; and we work out what the right channels are for our customers. The rate of change in customer behaviour has been quite incredible in the last few years but, as I said, for me, it started in 1982. I have watched it since 1982.

Q66 **Douglas Chapman:** Is that main driver the profitability for the bank?

Ian Stuart: If it was profitability, we would not be investing hundreds of millions of pounds in the digital journey. We have to invest in the digital journeys because, if 98% of our transactions in December are digital, we have to be open 24/7, 365 days a year. When it was branches only, it was 26.5 hours a week. That was your window to bank. Customers today expect and need 24/7, 365 days a year.

If our systems are down for only 15 minutes, it causes chaos for our customers. The amount of money we have to invest to make sure we continue to keep operational resilience high is hundreds of millions of pounds. That is what we are trying to do. We are trying to make sure that our customers get the products and services that they want in the fashion that they want.

Q67 **Douglas Chapman:** Is there a minimum number of branches that you would envisage getting to? Is there a point in the continuum of branch closures that you would think, "Once we get to that figure, we need to stop; otherwise we will not have any impact on the high street"? Are you saying that social changes are such that that does not really matter?

Charlie Nunn: I will build on Ian's answer. It is definitely about customer choice. For us, Lloyds Banking Group, the number of branch interactions has fallen 60% in the last five years, just to give you some of the stats. All of us would say that the percentage of digital interactions is in the top 90s.

The other thing we are really focused on is how we improve what the branch does. I know that will sound counterintuitive. We spend a lot of time engaging with our customers at a community level and we should probably have a discussion around vulnerable customers specifically at some stage, if the Committee would like. There are a set of things we do in branches historically. Cash is one of them. Interestingly, if you look at the opportunity through 11,000 post offices, 2,000 retailers and 30,000-plus ATMs, when cash was limited to your branch network, it was far less accessible than we are getting to.

There are other things we do. One I would focus on is that we have invested in 4,500 to 4,650 colleagues who are trained and specialist in helping with financial assistance, and who have tools and are empowered to enable customers to look at some of the things Alison was talking about earlier, looking at people's financial situation, providing advice and supporting them with different products. There is no way we could build that into the frontline colleagues who are serving customers every day in a branch.

I can give you five or six examples where the combination of digital and telephony with really expert colleagues we are investing in, in centres of excellence, should improve our customers' experience. Our experience on that service, which was hard to do in a branch, is that people would rather do that at home. They would rather do it in the comfort and privacy of their own living room or their own dining room. That is a service that we would have found very hard to put in branches. We envisage that trend continuing of customer choice and our ability to innovate our services. We absolutely still believe that physical, face-to-face service will be important for some interactions for the foreseeable future.

Q68 **Douglas Chapman:** Going back to *Which?* and some of its reports, there are sometimes regional disparities across the UK. Since 2015, Scotland was the first place in the UK to lose over half its number of banks with 583 of its 1,040 branches closed and more set to go. From a Royal Bank of Scotland and NatWest perspective, are you monitoring how that is affecting business in Scotland, for example?

Dame Alison Rose: Yes, absolutely. In Scotland we have 90 branches. We have our community service and we have significant support for businesses in Scotland through the Royal Bank of Scotland. As I say, branches are just one way in which we interact with customers. There are many more ways in which we can provide service and support for them.

Branches are evolving. If you visited a number of our branches, you would find that they have pop-up areas for entrepreneurs, meeting rooms for small businesses to come together and hold meetings, and places to run scams training seminars or lessons for children. We monitor very closely what our customers' needs are. We have a network of branches across Scotland with Royal Bank of Scotland and rebank. We have one in three businesses in Scotland, one in five people and one in seven households. We monitor very closely and invest quite significantly to make sure that we have a broad range of services and means of interacting with them.

Q69 **Douglas Chapman:** In one of your earlier answers, you mentioned entrepreneurship. The FCA review of retail banking said that around 20% of SMEs with turnover of below £2 million use branches as their primary banking channel. They face other challenges as well in terms of transportation, insurance and so on. The cost of doing business for a small business, a startup, a scaleup or whatever, is under a huge amount of pressure at the moment, as you will be aware. Are you not adding to that pressure by withdrawing services, especially in some of the most vulnerable and rural areas where we need more SMEs and where we need more activity in terms of startups?

Dame Alison Rose: At NatWest and Royal Bank of Scotland, we are very focused on supporting entrepreneurs. Having a thriving entrepreneurial and startup community is really important for a thriving economy. We have 14 free accelerators up and down the country in order to support entrepreneurs. They do not have to bank with us. It is a completely free service in order to help entrepreneurs. We know that fear of failure and not knowing where to get help are the biggest reasons that they do not start up. We have the greatest share of startups through the bank, so we are providing proactive support.

There is wraparound care for entrepreneurs and small businesses. It is not just access to branches; it is access to the different skills, help and networks to support them. We are seeing—this goes to show the underlying resilience and entrepreneur nature in the country—a record number of startups in 2020 and 2021. We saw a 22% increase in the number of businesses starting up.

We at NatWest are very focused on supporting entrepreneurs. In particular, I have a very strong focus on supporting female entrepreneurs. With our free accelerator programme, we are providing very significant support for the entrepreneurial community.

Q70 **Emma Hardy:** Morning, everybody. I am really interested in climate change and the impact that that is going to have on mortgages. Dame Alison, as climate change continues, some areas become more prone to flooding. What determines whether a house prone to flooding is mortgageable?

Dame Alison Rose: The broader question on climate change, I agree, is one that we all have to face into because it is placing significant pressure. Housing stock in the UK represents 15% of the emissions that we are facing as a country. We need to make sure that we allow housing stock, homes and homeowners to transition to a low-carbon economy. There is an affordability question, particularly for houses in risky areas. We have the oldest housing stock in Europe in terms of the UK.

We are making sure that we continue to provide mortgages. We assess them fairly and appropriately. We are also trying to incentivise and provide support to homeowners to make their houses more sustainable. We have lent over £3 billion on our green mortgages. We are putting cheaper loans in place to help people retrofit their homes. Homeowners should not be worried about that. We will continue to provide mortgage support.

Q71 **Emma Hardy:** I want to particularly focus on flooding and mortgages. Are there any plans to stop offering mortgages in flood-prone areas, Charlie?

Charlie Nunn: The answer is no. For what it is worth, in our data we have a set of different ways of looking at the level of risk around flooding. About 3% of our mortgage customers are in high-risk areas and we do not include that in whether we provide a mortgage to them.

There are two builds that may be helpful in this. One is that this is an area where, on a forward-looking basis, we need to work carefully with our regulators. You could envisage a world where those are higher-risk products from a regulatory perspective where you take a higher capital charge and then we will have a more difficult choice to make. Today, we take a simple choice as a business and say we want to support customers in flood areas. But we need to make sure we have a clear and joined-up view with our regulators.

You may be about to go there, so at the risk of jumping ahead, we are also a major insurance provider in the market. The majority of our customers in flood risks we do provide insurance to. That is a more specialist market. Where we cannot provide insurance—typically because it is not just flood risks but subsidence and other factors—we refer to specialist insurance companies as well because we know it is not just the mortgage; it is also getting house cover for our customers that really matters.

Today, I do not think it is an issue, although it is a worry for our customers. It is something that I really want us to be joined up on with our regulators and the competitive space going forward.

Q72 **Emma Hardy:** Thinking about the future and the fact that many of you are offering 25-year-plus mortgages in some cases, when you are looking at whether to offer a mortgage, how much account do you take of the individual flood risk that that property might have?

Ian Stuart: I do not want to repeat what others have said on the policies, et cetera. Let me talk about climate and the wider climate debate because it is significant in the UK. In the next 27 years, 29 million homes, one way or another, are going to have to be retrofitted. With coastal properties, many people are worried about coastal erosion and we have to consider that.

There is a big challenge right now and it is not for one bank. This is where you are going to need a very, very strong financial services industry over the next 27 years because 29 million homes, on average of today, needing circa £20,000 to retrofit is a massive investment. Part of it is very exciting because it will give energy security and some things that we do not have today, but we need policies and we need clarity. I, for one, am really looking forward to that challenge but it is with us now. It is a really important part of banking for the next 27 years.

Q73 **Emma Hardy:** There are 2.6 million homes at risk of flooding in the UK. Are you all saying that there are no conditions in which you would not be offering mortgages on all those properties, or are there, as I have heard, plans afoot to increase the loan-to-mortgage ratio and make alterations in terms of the mortgage products you offer for those 2.6 million homes at risk of flooding?

Matt Hammerstein: The point is Charlie's, if I may, which is that there is an understandable regulatory focus on making sure that the risks associated with those, given the length of lending, to the point that you have just raised, is taken into account in our long-term planning. That effectively then ends up in a capital calculation. I do not think it is about whether we would lend in principle; it is more about what valuation we would attach to the property.

To Charlie's point, it is not only close co-ordination between us as lenders and those prudential authorities; it is also consumer education. I do not know whether all the homeowners or prospective homeowners in those vulnerable homes necessarily understand that the value of their home may be eroding as a consequence of changes happening in the technical areas at the back end of how banking works. That is the issue. You run the risk of creating uncertainty. That always creates anxiety and that generally leads people to make decisions that they probably should not make. That consumer education and co-ordination between banks and prudential authorities is where we really need to focus time and energy on behalf of those 2.6 million homes.

Q74 **Emma Hardy:** I am so pleased you elaborated on that, because that valuation attached to the property is a really important point. Somebody taking a mortgage out now on a property that is worth X amount in 25 years in a flood risk area might find that it is not worth the money they have paid for it or the mortgage they have taken out. How would you address that property? Are you informing customers now that "this property you are taking is in a flood risk area and this might not be worth what you are paying for it". Are those conversations happening?

Matt Hammerstein: The conversations are happening, again, between us as lenders and the prudential authorities to make sure that the capital calculations—the capital we have to hold against those types of properties—are appropriate, recognising the risk that you have just described. By definition, that is going to bleed into the way we would price or think about valuations of those properties. The point I am trying to raise is that we then have to have a conversation with either the owner or the prospective owner to help them understand that their home may not be worth as much as they think it is.

To some extent, that is not happening in as transparent a way as it could. It has to happen through the individual lender and through the individual prospective or current homeowner conversation, and that is not necessarily fair to those homeowners. We have to have a more open and public conversation about the fact that banks are now going to be required to hold more capital against those homes than they otherwise would, and that that will potentially have a consequence on the real or perceived value of those homes.

Q75 **Emma Hardy:** From a customer's perspective, that will mean they would not get, for example, a 95% mortgage; they would only be able to get a mortgage of a lower loan-to-valuation rate.

Matt Hammerstein: I would not go that far. It is more about the valuation, and then 95% gets applied to a lower number. Therefore, that is more about the mechanics of how it works rather than there being policy decisions that would make it necessarily different. That is just from my point of view; others may think differently.

Charlie Nunn: What is helpful here is that, today, the vast majority—apologies, I do not know exactly the percentage for people with flood risk—are taking at maximum a two-year or five-year mortgage. There are very few customers who are taking anything longer.

That is why I positioned this, as Matt did, as something that we need to work closely with the prudential regulator around. You will know that we did a climate stress test with the prudential regulator last year. Some of these risks started biting in 2035 in the scenarios that we went through.

My expectation is that that is where, if we look forward, especially if we do move towards longer-term products for mortgages, we need to be right on our front foot with respect to providing education to customers, supporting and making sure we are having the right discussion.

Because it is a two-year or five-year mortgage, we do not see the flood risk any different from an assessment of the evaluation of the property that we would have today. We do not change our valuations in that context.

Q76 **Emma Hardy:** In terms of your valuations, are you seeing home valuations falling in flood risk areas? There are the ones we immediately see on the edge of the coast that are about to fall into the sea, but there are now 2.6 million properties at risk of flooding. I am going to make the assumption that a lot of the people living in those 2.6 million properties have no real idea what level of risk they have towards flooding. Are we already seeing home valuations falling for those customers? Are you able to identify in your portfolio which of the customers are living in flood risk areas and which, therefore, by 2035, you would not be looking at offering long-term mortgages for?

Charlie Nunn: We can identify those who are living in flood risk areas. I gave you the number. It is about 3% to 3.5%. I was just trying to do the maths on the 28 million housing stock because we do not have a full market share, which is the interesting point that you will probably jump to. We can identify those customers today. I do not have, off the top of my head, how their house prices have changed relative to other house prices. As you know, we have the Halifax house price index, which is one of the key reference points. I am sure we have that data but I do not have that to hand right now.

Ian Stuart: To underline the previous point, it would be the valuation of the property. We get experts in to help us with the valuation—RICS people. You will get a valuation. It is that point and sometimes it is the discomfort for the customer at that point when the valuation comes in at X and they thought it was Y. A loan-to-value would not change but a loan-to-value would be on a lower valuation. We know exactly how many houses we have in flood zones. When you get to coastal erosion, it is slightly more complicated. But, yes, that is the concern. People know they are living in a flood zone. It is a delicate conversation when somebody is seeing the property valuation potentially going down.

Q77 **Emma Hardy:** Do customers really know what the level of flood risk is or whether they are living in a flood zone? My impression is that they all do not. Do you actively inform them that they are living in an area that is flooding when they renew a mortgage or take out a mortgage?

Ian Stuart: Customers understand when they go to get their insurance because their insurance premiums are usually either more difficult to get, in terms of getting a policy, or they are higher. With a lot of things with floods, it tends to be that it goes to the back of their subconscious when there is a dry spell and then, when we have a spike in weather conditions, it suddenly comes to the fore and that is when you are working hard with customers at that point.

Matt Hammerstein: The distinction, again, is the transition, in that people who are in a current floodplain will be very aware because of the insurance issues that Ian and Charlie, indirectly, referred to earlier. To the 2035 point, there are forecasts of climate change and things that are not floodplains today that may become so in the future. That is where the principal education needs to be.

Dame Alison Rose: The point that we are all touching on here is that there is a very specific and immediate impact of climate change affecting people today in the near term, and then there is a broader impact of climate change that we need to address more broadly, systemwide, in order to get the right support and to fund and finance the transition. That is the role that banks can play in financing the transition to a low-carbon economy.

This is something that I have often described as a team sport. We need to work with the regulators to make sure that those worst affected who cannot afford it are not penalised by higher capital charges, and that there is funding and financing to bridge the transition, so that we can support a move of the whole economy rather than those who can afford it being able to move and those who cannot not. It is part of a broader question around climate transition and a co-ordinated approach across public and private sector to support a long-term transition.

Q78 **Emma Hardy:** We are moving towards the insurance model—that individual property risk assessment. Therefore, I am hearing that homeowners who make their homes more flood resilient could be offered lower flood insurance. As the four big banks, would you be looking at something similar in terms of mortgages? You are talking about the value of a home being lower if it is in a flood risk area, and definitely not everybody is aware that they are going to be in a flood risk area. If individual customers were able to do more to their homes to make them more flood resilient, would that therefore impact on the services you offer? Can the banks do more to educate customers that the home they are buying might not be worth what they think it is?

Dame Alison Rose: One of the challenges with the climate emergency that we are all very aware of is moving from understanding about 1.5 degrees and the climate emergency into what you can do practically, as a homeowner or a business, to address reducing your carbon footprint, particularly for low-income households, including the cost to retrofit and insulate your home to add more value or to protect the value in the future. Those are all things that banks can practically do. We provide a green mortgage, which is cheaper. We provide green loans, which are fee free, to help customers pay and afford to do that. We worked with various partners across the public and private sector recently on a report called *Banking on a Sustainable Recovery*. There is a revenue opportunity of £175 billion for SMEs to be part of upskilling and doing retrofit.

Bringing all those elements together, the banks do have a role. We can provide information to customers. We have something in our mobile app called Cogo, which allows customers to see what the impact of their carbon footprint is. We have a carbon planner for SME businesses to say, "How would you reduce your emissions? How would you get cheaper financing?" We have to do more across all of those elements at a scale level.

Q79 **Emma Hardy:** The assumption that all homeowners have is that their house is going to be worth more in the future. I am wondering how well educated some homeowners are out there now that their home is not going to be worth more in the future and that it could be worth very little at all if it is in a newly found flood area. If that is true—I can see you all nodding—what can the banks do to inform them of this?

Dame Alison Rose: We can provide more information to customers about the impact of climate change where there are issues that affect them and things that they can do to insulate and protect their homes. We can provide financing and products, and partnerships and connections, to do that.

Climate change and the climate emergency cannot be addressed in isolation. The public and private sectors are going to have to come together to get scale impact and ensure that the most vulnerable are not left behind as we migrate the economy.

Chair: Perhaps you can keep the Committee informed in terms of what you are doing for individual homeowners.

Emma Hardy: I just want to ask you all if you will do something for me. I had a quick look on your websites on applying for a basic bank account. Barclays, you will be pleased to know that you can apply for a basic bank account on your website. Unfortunately, you cannot for HSBC, for Lloyds and for NatWest. I wonder if one thing that you would take away is to make the basic bank account offer, which you all have to provide, more visible and more easily accessible, and to enable customers to be able to apply for it directly online. At the moment for Lloyds, HSBC and NatWest, they have to apply for a normal bank account and, only if they are not eligible, they are looked at for a basic bank account, unlike Barclays, which allows them to apply for it from the beginning. I just wonder if you would take that away as an issue.

Q80 **Chair:** That is a very good point. We will also have further questions on the map of access to cash and bank branches as well, which we will do by letter.

The bell is about to go and I cannot let you leave without asking each of your firms to give your firm view on two very important regulatory consultations that this Committee is scrutinising. The first is the change to the ring-fencing regime and the second is Basel 3.1. Could you just give a firm view on the ring-fencing regime consultation and Basel 3.1, and the impact on your firm?

Matt Hammerstein: On ring-fencing, we would take the view that the Skeoch review had the formulation right. It asked the right questions in terms of the balance of that as an intervention relative to post-crisis reforms on recovery and resolution. At the time the ring-fencing intervention was put in place, those post-crisis reforms had not been finalised, let alone put in place and matured. They are now in place and rapidly maturing.

It is about keeping an open mind about the UK in the context of competitiveness, because competitiveness for the UK is not just about the domestic market or foreign direct investment; it is about the UK exporting its financial services capabilities elsewhere in the world as it has been for many decades. Getting that balance right between ring-fencing and what it is trying to do in those post-crisis reforms feels right. The technical adjustments to things like relevant financial institutions also feels like a positive opportunity to make it even more effective.

On Basel 3.1, the biggest issue is just international alignment. The UK and the EU are not necessarily aligned, and getting that alignment is going to be fundamentally important in the context of UK competitiveness.

Charlie Nunn: I have two quick things. We as well, at Lloyds Banking Group, are committed to the Skeoch report. We thought the findings were helpful. There are two things that we are focused on. One is how we make it easier for customers to work with us when they work across our ring-fenced and our non-ring-fenced bank. There is a lot of complexity and administration. Then some of our businesses we cannot book inside the ring-fence, which stops us from doing things we could do to help UK corporates, institutions and businesses. Those are two very specific things that were covered well in the Skeoch report.

My only build on Basel 3.1—and we are working closely with the Prudential Regulation Authority on this—is that there are a few key areas where we are concerned about whether we can support customers properly as an SME scaler, which will impact our ability to make lending available to entrepreneurs, businesses and SMEs. There is a change in the way we are looking at how we calculate mortgage costs for customers who could have a similar impact. Those are two or three areas where we are in active consultation with the Prudential Regulatory Authority.

The broad point is the one Matt said. Let’s make sure we have the right outcome for the UK from a financial stability and a competitiveness perspective. Then we are focused on how we make it right for our customers in that context.

Dame Alison Rose: On ring-fencing, I would echo the points around making it easier for customers. We support the Skeoch review. The resolution regime has moved on very significantly and, therefore, is doing the job that ring-fencing was put in place to do. We would absolutely recommend simplification there and then pursuing those.

On Basel 3.1, again, we are consulting with the PRA. On competitiveness and alignment, we have two concerns that are very similar: the SME scaler, which would make it harder to lend to SMEs; and the scaler for infrastructure at a time when we want to be investing significantly in infrastructure, particularly for the growth of the economy. Those are two areas. Competitive alignment would be true of both of those—ring-fencing and Basel 3.1.

Q81 **Chair:** Are you saying you want alignment?

Dame Alison Rose: Competitive alignment. We need to make sure we are competitive. At the moment, on Basel 3.1 and on ring-fencing, Europe and the US have moved into more resolution type regimes and we still have ring-fencing. On Basel 3.1, we need to make sure there is no deviation so we have higher scalers than Europe, for example.

Ian Stuart: The Skeoch report gives us good things to consult on. There are some unintended consequences of ring-fencing we can tidy up quite quickly, taking equity, et cetera. I look forward to working through the outputs.

On Basel 3, I cannot add much more other than to say that I see Basel 3 as an opportunity to keep the UK very competitive. If we keep it competitive, that has to be a good outcome for our customers. Do not waste the opportunity.

Chair: I mentioned some of the other things that we will be following up in a letter. We also note, on the subject that Anthony raised on the push payment frauds, how often the ombudsman finds in favour of your customers and against you in terms of the resolutions now. We will be keeping an eye on that going forward as well.

The final piece of information that we will be asking for is this. We get a lot of anecdotal evidence from businesses in our constituency that get told to close their bank accounts. We will want some factual information on what would make you do that and whether you are doing more or less of it in historical numbers.

There are quite a few things that the teams will be in touch with your teams about afterwards. Thank you all very much for giving up your time today. This has been a very informative session.