



Financial Services Regulation Committee

Corrected oral evidence: The FCA and PRA's secondary competitiveness and growth objective

Wednesday 11 September 2024

10.05 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Baroness Donaghy; Lord Eatwell; Lord Grabiner; Lord Hill of Oareford; Lord Hollick; Lord Lilley; Baroness Noakes; Lord Sharkey; Lord Smith of Kelvin; Lord Vaux of Harrowden.

Evidence Session No. 4

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Questions 57 - 74

Witnesses

I: Carol Knight, Chief Executive Officer for Membership Services, The Investing and Saving Alliance (TISA); Lisa Laybourn, Director of Technical Policy and Risk, The Investing and Saving Alliance (TISA).

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Carol Knight and Lisa Laybourn.

Q57 **The Chair:** Lisa Laybourn and Carol Knight, welcome to the committee. This is the fourth evidence session as part of the committee's inquiry into the FCA and PRA's secondary competitiveness and growth objective.

A list of the interests of members attending the inquiry is available online. The session is open to the public, broadcast live and subsequently accessible via the parliamentary website. A transcript will be put on to the parliamentary website. A few days after this session, you will get a copy of the transcript to check for accuracy, and it would be helpful if you could advise us of any corrections as quickly as possible.

If, after this evidence session, you want to clarify or amplify any points made during your evidence, or have any additional points to make, you are welcome to submit supplementary written evidence to us. Do you want to make a short opening statement, or shall we go straight to questions?

Carol Knight: If I may, that would be lovely. First, thank you for the opportunity to come and talk to you again today. We are very interested in the FCA and how it performs and interacts with the industry, so the opportunity to share with you today some of the things that we have found is very welcome. Thank you again for the opportunity.

Q58 **The Chair:** I will begin by asking this. Do you see any improvement or change in the attitudes to the regulators for growth and competitiveness as a result of the new requirement placed upon them by the statute?

Carol Knight: Yes. There has been noticeable change. Recently, there has definitely been a more open approach to engagement and to looking at taking views from the industry and at consultations in that process. Without a doubt, there has been an encouragement in developing the technologies. The development of the regulatory sandbox, for example, and the innovation hub have been helpful drivers in helping firms to develop new products and services and test them in an environment that, we would hope, gets them in a better position by the time they come to market.

The message that we have in everything that we are going to say today is that it is early days. There have been some great starts. It is early days and more can be done, but the general path is going in the right direction.

Lisa Laybourn: I agree with everything that Carol says. Where we have seen the focus on improving the speed and efficiency of authorisations, for example, that has been welcomed by the industry, as well as the look at simplifying the rules. There is an open consultation at the moment on the consumer duty and any duplication in the current rulebook. That drive towards simplification has also been welcomed. I agree that it is early days and, although we have seen that the commitment and intention

have been well demonstrated, we await more substantial improvements to come.

- Q59 **The Chair:** You talk about the improvements in speed of authorisations; can you give me an example of what it was before and what it is now?

Lisa Laybourn: I do not have the exact figures on that, but I am happy to come back. The perception among our members is that the authorisation process was very slow, and this impacted the ability particularly of new firms and smaller firms to come to market. This is now seen to be having incremental improvements.

The Chair: You rely on anecdotal evidence.

Lisa Laybourn: Yes, from our members.

- Q60 **Lord Smith of Kelvin:** You make some encouraging statements about the attitude of the regulator, but what further action would you like the FCA and the PRA to take to ensure that the approach to the regulation actually advances the secondary objective, the SCGO? What would you like them to do?

Carol Knight: Can we cover a couple of things each as we talk through some of the answers to that? We have a few suggestions that we feel would help. One of the key aspects is proportionality, and that is definitely something that the FCA is very aware of. There is an assurance that it is looking at proportionality with regard to smaller firms, and there is some evidence of that.

One of our concerns is that proportionality appears to be judged just by the numerical size of a firm—how big it is—whereas, in fact, the requirements of consumer duty are all to do with the interaction with the consumer. So the requirements for consumer duty tend to be quite heavy on smaller firms, because they are very often the ones that have the interaction with the consumer, whereas the large firms that have big departments to deal with a lot of regulations are well resourced internally. The regulatory burden on them can be dealt with by more people, but they do not have the same requirements for something like consumer duty.

When you are looking at proportionality, it would be helpful if the FCA was clear about what data it uses in order to determine which firms are caught by the proportionality rules and whether it takes that into consideration when looking at the impact of the regulations on the firm, if that makes sense to you.

On the whole question of proportionality, yes, they have made a great start, but it is an example of where they probably need to look next in order to take it a further in being useful and impactful with a good end result.

- Q61 **The Chair:** Normally, when people argue about proportionality, they argue that the larger firms are more able to look after their businesses

dealing in wholesale markets than the smaller firms. That is the reverse of what you are arguing: you are arguing that the smaller operators should have less regulation.

Carol Knight: Not necessarily less, no. It depends on their market. Smaller firms are very often the advisory firms, the distributing firms—those that have the interaction with the consumer. For consumer duty, that is where the burden of the regulation lies. They have fewer people to deal with the regulation, but that is where the burden of responsibility lies. It is the front office, basically.

The Chair: I get that, but what is the remedy?

Carol Knight: A lot of it is looking at the problems and how they can be sorted, and then looking at simplifying and making rules consistent, but not necessarily opening the doors to rogue traders, for example. You still need to have a degree of control and supervision, without a doubt.

It is a balancing act, and you also see it in innovation in technology. The development of technology is important for the future. That is where the world is going, and there are huge advantages. We were talking earlier about the benefits of AI. There are some fantastic advantages, but there have to be some controls on how it is used, because it is easy for people to be taken off quite quickly. Speed is often a detriment of technology; things can happen very quickly.

There still need to be controls there. The more you can make rules consistent helps, because you are not constantly duplicating or trying to do slightly different things in order to meet different regulations. One of the things we touched on before with consumer duty was that, when you are looking to apply the principles of consumer duty across other regulations, there are some conflicts, which the FCA is still working through, as to how you solve this and apply the principles of consumer duty in other regulations.

It is that balancing act between making sure that there are sufficient controls but that they do not slow down the development of things like technology or firms' ability to ensure that they are protecting consumers appropriately. "Appropriateness" is probably a key word here: what is appropriate as well as what is proportional. It is the market-facing part of it that needs to be taken into account, not just the size of the company.

Lisa Laybourn: Picking up on the consumer duty point, I would like to give you a specific example, if I may. With proportionality, consumer duty talks about proportionality throughout the policy statement, but the proportionality really relates, as Carol said, to the materiality of the impact that that firm has over the end consumer's outcome, which is often heavier on the smaller firms.

It does not talk about proportionality of reporting or of measuring, for example, and that is where the burden has impacted the smaller firms. There has been a reporting requirement whereby firms are required to collect certain data and to have a board report that the FCA may call on

to review at any time, but there is no clear guidance as to exactly what that should contain and how the proportionality will be applied in the circumstances of different sizes of firms. That is one example of where more guidance would be helpful.

Q62 Baroness Donaghy: Good morning. We are finding it quite difficult to get from anecdotal statements to evidence. As a committee, this is becoming increasingly frustrating. We are told that people are reluctant to say certain things in public. They might talk to us in private.

Secondly, we are getting anecdotal evidence that your members are drowning in consultation from the regulators; that they are doing too much, which in itself is a burden on regulators.

In addition, I hesitate to ask this if there is already too much consultation going on, are there any gaps that the regulators are not filling? That is a rather general issue, but you can see that this is an issue that is already developing as a difficulty for the committee in producing its report.

Lisa Laybourn: Yes, absolutely. Just going back to the previous question, one of our suggestions there was on monitoring. The FCA's measures and targets at the moment are more attached to process. One of our recommendations is that they move their monitoring to being more outcomes-based, so they have KPIs and targets that are fixed on real tangible improvements.

The difficulty for an organisation such as ours is being able to assess any improvements, because, as you quite rightly said, it is reliant on anecdotal evidence from members, and on members sharing that information. Often, our members will not allow us to share that publicly either, and obviously we respect our members' privacy in that regard. So that would be our recommendation to solve that issue of being able to monitor the improvements: moving the KPIs that are tied to regulatory efficiency and competitiveness—something that is very measurable.

On the issue of consultations, there is a balance, and there are two sides to this. On the one hand, the industry will welcome that consultation and the opportunity to feed back. The consultation processes that we have seen recently have gone well. The consumer duty consultation leading up to the final policy statement and regulations went well. We have seen a good process of engagement with regard to the advice guidance boundary review.

We had a lot of engagement with our organisation and with other trade associations in the industry leading up to that policy statement. There was lots of informal and formal engagement. The final policy statement was no surprise, and there was very little work for the industry to do in responding to that, because a lot of the thinking had already been done. They are good examples.

Members sometimes think that that consultation burden relies on them where there is a sense of the FCA asking them to do the thinking. It is almost a consultation that gives a blank piece of paper, saying, "Where

do we go with this?" The current consumer duty consultation looking at the rules might be an example of that. It requires a lot of work by members to go through that rulebook and think about where the FCA might have to change some of the rules or make rules obsolete in order for consumer duty to be able to work effectively.

It is a balance between consultation, laying out suggestions for the industry to comment on, or giving them a blank sheet of paper and saying, "What do you want us to do?"

Carol Knight: It is also about a timetable. As Lisa says, we all welcome the opportunity to feed information in, because the more you can talk through the problems and potential solutions, the more likely you are to get an outcome that will be effective, rather than just something that is theoretical, so that is helpful.

Allowing sufficient time is important. I know it is frustrating if you have a few things that you just want to get on with and get done, but, again, it is that balance. We have to accept that you cannot do everything at the same time. You have to take it in stages, otherwise you try to do it all too quickly and none of it works because you have just rushed the job.

So being able to get an idea of the timeframe and letting people know in advance what the timeframe will be is also helpful. When the industry has taken a lot of time to input, and you are expecting a response from that, finding out that it has been delayed by another quarter and you are still not getting the outcomes can be frustrating as well.

Maybe a more pragmatic approach to setting a timetable in the first instance, allowing sufficient time and accepting that we cannot do everything at once, but this is the direction we are going and these are the steps that we are taking might help solve some of those problems.

Baroness Donaghy: Are there any more gaps?

Carol Knight: Nothing is perfect.

Lisa Laybourn: In terms of industry engagement, another of our recommendations that we have noted here is that, as well as the formal consultations, we need a more regular and informal feedback mechanism to enable firms to communicate with the regulators and inform them of where there is impact from the rules so that they can assess how that competitiveness objective is being advanced. There is not really that informal feedback mechanism.

Again, it goes back to the point about firms' confidence in approaching the regulator to talk about a certain matter and in raising matters when there is not the framework for doing it outside the consultation process, in case that raises red flags.

Carol Knight: One of the things we have seen an improvement on in recent years is the FCA's willingness to have speakers at industry events. That was challenging at one point and has become easier. That is a good

mechanism, and we would encourage that to happen more. I know that it is pressure on its people, but the opportunity for it to have people presenting to the industry is beneficial, because, first, it allows people from the industry to hear the thinking from the horse's mouth, as it were.

Allowing questions at that time is also helpful, because it gives the FCA the opportunity for direct feedback in that sort of environment. I accept that sometimes it is not going to say some things publicly, but it is another step towards more of the informal rather than just potentially formal written consultations. The opportunity to engage verbally through small informal meetings but also to present at industry events is a helpful device.

- Q63 The Chair:** You said that the focus should be on outcomes and that the consultation on the advice boundary had been very successful. Just to translate that jargon, you need to have £250,000 or so to get advice on your investment, because, if it is less than that, the regulatory costs and burdens are such that no one wants to hear from you. What has been the outcome of this consultation? Are you now finding that people with less than £250,000 are able to get advice, and on what scale?

Lisa Laybourn: We have not been able to look at the outcome yet, because, again, it is not completed. The consultation process that I referred to was successful in that the departments and the staff at the FCA looking after that piece of work were very engaged with the industry on a formal and an informal basis. By the time we got to consultation, there were three proposals in the policy statement that the FCA may take forward into regulation to help the industry to start to provide more targeted support or simplified advice and guidance to people who are not able to take advice.

Where it has stalled—Carol referred to this—is that, although the consultation process was excellent, we have still not seen the final regulations.

The Chair: Forgive me, but what you are describing is just process, not outcomes, and it is over a considerable period of time. Are you not concerned by how long all of this takes and what the remedy is? What is the expected output as a result of all of this?

Lisa Laybourn: The expected output is the finalised regulations, and yes, we are concerned that that has taken some time.

- Q64 The Chair:** What will the final regulation say, and how will it achieve people who have considerably less than £250,000 being able to get good financial advice and not becoming the victim of fraudsters?

Lisa Laybourn: Of the FCA's three proposals in the final policy statement, one was for simplified advice, which would be chargeable; one was for targeted support, which takes a certain amount of personal data and circumstances that they will know about a customer to guide them towards some suitable investments and decisions that they could make,

although the final decision would still lie with the investor; and one was for clarification of the current rules.

Of those three options, TISA favours targeted support, because we think that would help the broader cohort of people who are not taking advice. However, as I said, we still have not seen that final regulation. We are keen to see that in play so that firms can start to design that consumer journey, which will move the dial for the number of UK adults who are not able to take advice. Around 8% of UK adults take advice at the moment, so 92% of people over the age of 18 are unable or unwilling to take advice because of its cost.

Carol Knight: The outcomes that you are looking for are numerical. It is numbers of people. Trying to reduce that 92% will take time, but that is what we should be looking at. Has it made an impact on people? Is it reaching people? It comes down to the concept of personal responsibility. We have moved into a world, for example with pensions, with automatic enrolment. There is a gradual shift in people's personal responsibility to plan their income for their retirement. The shift is going from employers through the direct benefit system to the employee on direct contribution systems, but we are not giving people the tools in order to help them to make those decisions.

That opens up wider when you look at investing as a whole. From some of the research that we did at the back end of 2022, the number of people who have their savings and investment in this country is low. It is disproportionate across genders and across geographic areas of our country. Why is that? You ask people, "Do you have some savings?" and they say, "Yes". You ask, "Are your savings invested or in cash?" Most people in this country say cash, because they do not have their money in investments.

Then when you say to them, "Do you have a pension?" most of them will say yes, because they have a pension through their work. They do not tie up the concept of investing with their pension. They do not understand that their pension money is invested, and they have control over where that money has been invested. They do not know that.

This is a related conversation. How do you help support people to build their personal responsibility to care for their future financially? There are lots of things that you need to do on that process, a lot of which is about financial education, right from school and through adulthood. That financial education enables good-quality guidance. Targeted support is a key driver in order to help people to understand how to manage their money better, but it is a big picture, and the outcome that we would be looking for is more people more able to make more informed decisions because they understand better how their money works.

Q65 Lord Vaux of Harrowden: You spoke earlier about new technology. You talked about AI, and your manifesto talks about things like digital ID and open banking. Innovation in technology is a key driver towards greater competitiveness and growth. Has the secondary objective pushed the FCA

towards being more open to supporting innovation? Do you have any good examples of where that has happened? Do you have any thoughts about how they could do it better? Is there any area where government or Treasury need to step in to push it further?

Carol Knight: The development of the regulatory sandbox and the innovation hub have been fantastic. All the pieces of work that the FCA has undertaken over recent years have been helpful, and firms have benefited from being able to participate in those activities.

One of the things about measurement comes in again there. The FCA can provide data on how many firms have gone through it, but is it looking at what then comes to market? We do not have any data on the firms that go through those systems. Are we seeing a higher proportion of firms with those initial ideas being more successful in coming to market by the time they have been through that? They are the sorts of outcomes that we would be looking for, but the FCA is doing good work.

The conversation around open finance started some years ago off the back of open banking. We are supportive of open banking. It was a great start, but it is just a start. We need the bigger picture of open finance, because open banking covers only personal current accounts. Most people have their money in all sorts of places, and it is not until people can put their money together so that they can see a complete view of it that they get an understanding of how much debt they have or how much money they have available, where it is and what is happening to it.

The ability of open finance to enable people to do that in a safe environment is important, but the legislation on that has stalled. It is getting stuck, which is causing a lot of frustration. The fact that the legislation is getting stalled means that firms are backing off and saying, "We don't know what's going to happen with regulation, so we're not putting any time or money into exploring it". We need time to develop what is possible and explore the opportunities, so that is causing some frustration. The Treasury, for example, could be in a position to help push the legislation through more quickly.

Digital ID is a prime example. A lot of work has gone on on the development of digital ID, and the legislation has got stuck again, so everybody is waiting for the next stage. Those things are inhibitors to moving it forward.

Lord Vaux of Harrowden: These are not the regulator. It is a government/Treasury issue.

Carol Knight: It is combined, absolutely. The more you can get a push for something to change from different directions, the more it will work. The FCA is supportive of the concept of open finance. It has the Smart Data Council, and we have people who sit on that, but it is all in a bit of a hiatus. We need something to help to encourage firms to continue to put the commitment of people and time into the development, rather than just waiting for the legislation to go through, and to do some early work

on that, because that is what will be important in getting it to work, and it has to work.

Digital ID has to be available for the pensions dashboard to work, for example. It takes too long. The pensions dashboard needs to be implemented. Digital ID is critical to that. It is critical to open finance being successful. There is more work to be done to speed up the process.

- Q66 **Lord Hill of Oareford:** We touched briefly on metrics before, and you said that they were a bit process-heavy rather than outcomes-related. Do you have any suggestions as to how the metrics that the FCA and the PRA have come up with are doing against their statutory objective, and how those metrics could be improved?

Lisa Laybourn: Carol briefly mentioned the suggestion about outcome-based innovation and success rates in the number of those ideas that come to market, and what impact that innovation has had on the growth of the firm and on the market. There could be some measures looking at that.

In terms of the processes that the regulators are dealing with, such as the authorisation process, publishing figures of how many applications they have reduced the queue by and so on would help. They could perhaps look at firms' outcomes of reporting requirements or at issues that firms have raised. All of that could be more transparent. Looking at the impact of all their processes, the regulation and their support for innovation would be very helpful.

Lord Hill of Oareford: Do you have any practical suggestions as to how that might work? If you do, it would be helpful if you sent them to us. What you have said I understand, but it is all quite vague. It would be helpful for us to think practically about whether there are ways in which it could be improved.

Lisa Laybourn: Yes, I would be happy to come back to you on that.

- Q67 **Lord Lilley:** I am interested in the growth objective. What, if anything, could the FCA and the PRA do to increase the growth of this country? I am not talking about the growth of the financial services industry but the growth of the whole economy. Presumably, it would be to increase saving investment and the proportion of saving investment that is invested in the British industry. Could the FCA do anything that would contribute to either of those outcomes? The answer may be no. It may be somebody else's job.

Carol Knight: It is everybody's job, to be frank. We all need to contribute to that, because the growth of our country is critical to our success going forward. The financial infrastructure is important to everything happening, so it has a role to play.

You are right that encouraging investment in British industry is important. The FCA can do work on that on several fronts. It is about making sure that the regulations are consistent. It has a responsibility.

Lord Lilley: Making sure that they are consistent may be desirable in itself, but I do not see what it has to do with growth.

Carol Knight: Internally, firms' processes will be swifter and cheaper if the rules are consistent across the piece. It helps to control the costs from that perspective. The other important thing is that, when we are looking at helping people to understand the value of our industry and of investing, the FCA has a responsibility for consumer communications. This is critical here. It needs to make sure that communication documents that go out to people are understandable, in a language that they can access.

In a lot of the work done on disclosures and risk warnings on all investments, for example, we see that you get this stark, "You may lose all your money", which frightens people, to be frank. In some cases, it inappropriately frightens people, particularly in some sectors of our society. Women, for example, are more risk-averse than men. The data is showing very clearly that women invest far less than men, because they have a lower risk appetite.

The FCA looking at how the disclosures and the whole customer communication process work is part and parcel of encouraging investing, which will help investment in British firms. It is generic across a lot of the FCA. All those things, including the development of technology, add to improving the confidence of people in our country to invest more.

We always felt that the introduction of a British ISA was not going to be effective, because we could see no value in putting up the subscription limit of an ISA to £25,000. Most people do not subscribe to the £20,000 anyway, so why would you need to put it up to £25,000 in a completely separate ISA that just complicated the process?

The hold on that is beneficial, because we need to avoid making the whole system too complicated. We need to make it understandable and pragmatic; that is a useful word on that front. There is no reason why ISA providers cannot have British funds anyway.

One of the things that would probably help is looking at the rules for IPOs and private equity investment. There are very stringent restrictions on people, as individuals, investing in start-up companies. Is that always appropriate? They often have very good returns. Why are they restricted, effectively, to wholesale markets? Why are some of them not available to private investment as well? Looking at those types of rules from an FCA perspective could be very valuable.

Lord Lilley: I have one trivial point. Why is the consumer duty called the "consumer" duty? Surely it should be called the "saver" duty.

Lisa Laybourn: It is because it applies to consumers of all financial products, including debt.

Lord Lilley: That means people who save and invest. However, that is a trivial point, so I will pass on to the next person.

Q68 The Chair: It also applies to firms. You are enthusiastic about the consumer duty, which requires firms, for example, to treat their customers fairly, but if you ask the regulator, "What does that mean?" they cannot tell you. Therefore, it creates an uncertainty and gold-plating, and it adds additional cost. Does that not concern you?

Carol Knight: It is a problem. The other thing that we find is a problem is that the "S" in ESG regulations stands for "social", and there is very little clarity from the FCA about what that means. That is causing a lot of confusion, and we would appreciate working with the FCA to try to get more clarity on what that means.

We are very aware of attracting young people into our industry, looking at the future workforce. We find it hard to get young people interested in our industry. Some of it is down to the lack of trust in the industry and a lack of trust in investing. If anyone has ever watched "The Wolf of Wall Street", yes, it is a throwback to the past, but those things taint people's perception of what our industry is like. We have to stop that somehow, show that the industry is an attractive, valuable part of our country, and attract young people in by showing them the attractiveness of investing and what difference it can make.

Lord Lilley: Do we not have a higher proportion of people working in financial services than almost any other country? We have been quite successful in attracting people.

Carol Knight: There is still work to do.

Q69 Lord Grabiner: Ms Knight, the answer you just gave is relevant. You mentioned in answers to questions from Baroness Donaghy and the Chair the problem of the lack of financial literacy. That was in the context of the affordability of financial advice. My sense is that certainly universities and the schools should have a lot more responsibility on that front. At the moment, little or no effort is made in that direction.

You also mentioned the fact that people leave cash in the bank, so they are getting a low-interest return on their money in a period of inflation. They are just looking at the money dwindling, but they probably have no conception in their own minds as to what is really going on, and they are just losing out. What suggestions, if any, do you have for getting the FCA to do something about this?

Carol Knight: That is a direct FCA responsibility. A lot of it comes down to the "S" in ESG. They have an opportunity here to do something about it. If you could clarify what that means, from our reading of the document it looks as though firms have a responsibility to take care of their people—their staff—as well as people in their local and regional geographic areas. That is a huge area for firms to look at, and something that the FCA has not regulated before. Financial education and financial literacy sit very nicely within that package.

The FCA has an opportunity to use that to say, "How are you supporting people's understanding of how their money works? What training, by the

way, do you give your staff when they join you? Do they understand managing their money?" It is very common to think, "Somebody is coming into a large financial institution. They must understand how money works. Therefore, we don't need to help support them and help them understand how the pension system works, how the tax system works or what their pay slip means". The young people joining our industry do not necessarily know that any better than somebody who is doing any other job in the industry. What training do firms give their staff to help them personally manage their money, or do they just teach them about the products and services that the firm sells? There is no oversight of that.

How do firms help people in their communities to understand better? There are lots of vulnerabilities. Worries about money are one of the greatest contributors to poor mental health. As an industry, we could help with that. What are we doing as an industry to help support people in their geographic areas to learn more about money and how they can manage it? That would help to improve their mental health.

Lord Grabiner: What could the FCA do about this?

Carol Knight: It could use that "S" and take a view on what firms are doing. It could provide some guidelines on suggestions for what firms could do to help better support their people and their communities.

Lord Grabiner: It is within its powers at the moment to do something, but are you saying that it is doing little or nothing in that direction?

Carol Knight: We have seen no sight of that.

Q70 **Baroness Bowles of Berkhamsted:** I am beginning to wonder whether we have got this all a bit back to front. Has there been too much of a continuum that starts with people believing that they are protected? There are retail restrictions, as you have already suggested, so people think, "If I can buy it, I'm safe. Therefore, I don't really need to read the investor information, because it's safe. I can buy it".

The number of key information documents that are downloaded and read is in single figures, and that is probably me in my mystery shopping, which I confess to doing. They are so standardised that they do not really give you any information. You get a lot more if you read the analysts' reports, which are not written in daft language; they are relatively understandable. We are filtering everybody away from that to these simplistic assumptions, instead of educating them better about the opportunities that there are. Has mollycoddling gone too far and had a completely counterproductive effect?

Carol Knight: I will let Lisa answer that, because we will both say exactly the same thing.

Lisa Laybourn: This also relates to the previous question. First, we need to open up the debate about personal responsibility versus regulatory protections, because what underpins all of that is financial literacy.

Going back to this question and the previous one, there is a lot that the FCA can be doing and is engaging on—again, it is quite slow-moving—on enhancing consumer communication and disclosure requirements, strengthening those rules, and supporting firms in issuing guidance on how certain information could be displayed so that consumers get the right information, and right amount of information, that is not buried in jargon and is presented in plain language. It could mandate that. That is within its powers at the moment. There should be clear explanations of costs, risks and benefits. That would help consumers, particularly those with lower levels of financial literacy.

The FCA could also increase support for financial inclusion-focused firms through the regulatory sandbox and the innovation hub by prioritising and fast-tracking innovations that are focused on inclusion. It could do more engagement with vulnerable customers by deepening engagement with them and their representatives. It could also work with schools and employers to support financial education and look at how to read those kinds of documents.

Where the FCA might benefit from broadening its powers is more scope to oversee digital innovation in relation to financial inclusion and the way that sort of information is presented. Looking at how consumers who are unable to access digital journeys can also be supported—of course, we are still in a world where people in certain demographics, geographical areas and age groups are unable or unwilling to use digital services. The FCA could set financial inclusion targets for firms if it was empowered to do so, particularly those with systemic market influence such as major retail banks. It could also, if it had the powers, set a mandate for firms to include low-cost basic products.

Baroness Bowles of Berkhamsted: I am not sure that was where I was aiming with my question. I was not aiming at financial inclusion and, if you like, the bottom end of things. I was aiming at the more ordinary person who by definition is perhaps not financially excluded but could do more on investment. By oversimplifying it, you are making it harder for them to choose what to invest in. You have the straplines of, “You could lose all your money”, or warnings that grade it between 1 and 5.

I test myself on these things from time to time, and where I think I am is never where I end up. If I run through the tests and have answered the questions to say that I am quite adventurous, the things they give me are far from adventurous, so it is not delivering in the real world.

Lisa Laybourn: We also reference the contextualisation of risk warnings in our research, because those warnings are stark and apply to everything from 1 to 5, which gives you no sense of the level of risk. That is a problem. We certainly do need to put those into context. We need to graduate the risk warnings, which is where targeted support will help. If those final rules can be designed in such a way that firms are able to understand more about their customers, using that personal data without fear of straying to the advice boundary, they will be more able to direct them to products that are more suitable.

Carol Knight: The whole conversation is around customer communications. Your question about what the FCA can do is a big area, but it is critical. Right through to when you first try to get that information, at what point do you just switch off and think, “This is meaningless”? At what point do you switch off because it is getting too complicated? At what point do you switch off because it has given you something that you think does not even relate to you and so will not be appropriate? Customer communications and how we do them is critical. Digital technologies will definitely be beneficial to a large proportion of our culture.

Coming back to one comment, and yours about outcomes and metrics, you could use some of those regulatory sandboxes to test some of the access to information that will be required through the digital sandbox, so that you can look at how the key features document can be presented in a way that is not just sheets and sheets of closely typed words. How can it be presented digitally? Does that improve access? You could then measure how many people fall out of the processes of downloading the documents and reading them.

Those could be the outcomes that we could be looking for so that we can say, “This process is now beginning to work, because people are paying more attention. They’re getting the information they need. They are getting something at the end that’s more appropriate to them as an individual because of the inclusion of the targeted support aspect”. That in itself should drive up levels of investment, because people would grow in confidence, and that should help to develop the growth. They are tied together.

Baroness Bowles of Berkhamsted: Is it not because the firms have to be fail-safe in what they write.

Carol Knight: Yes.

Baroness Bowles of Berkhamsted: Therefore, you have this much that is just, “I’ve said everything I should under the consumer duty”, and then they are left with next to nothing—“This is graded 4”, or something—when you come to make your choice. We have squeezed out the useful information, because you have to have so many disclaimers. What is the point? Why can they not just put all the usual disclaimers on it and have done with it, instead of copying them out?

Carol Knight: A lot of it is absolutely down to the risk appetite of the firm. How risk-aware is its compliance department? How many barriers does it want to put in place just so that it knows that it will be safe at the end of the day?

Baroness Bowles of Berkhamsted: Every barrier possible. That is its job.

Carol Knight: Yes, absolutely.

Lisa Laybourn: A lot of the rules that are in place today, certainly on PRIIPs, were driven by MiFID and the EU. At the moment, the FCA is open to reviewing. It will be an ongoing process, and the timescale that I have been given of the total process for the whole review of all the EU files is probably around three to five years. One of the first files that they will be looking at is PRIIPs, which will look at the disclosures and at how we, as the UK, can better present that information, because a lot of those rules are driven by the EU.

Baroness Bowles of Berkhamsted: Why can we not say that standardised disclosures do not count, because they filter out information instead of putting it in? Would a good consumer duty not be for each firm to write down what it really believed it was about and have that out there? If they try to do it right, will that not end up giving people more information instead of them being fear-bound?

Carol Knight: It sounds logical.

The Chair: That is a yes, is it?

Carol Knight: It sounds good.

Q71 **Lord Eatwell:** I was intrigued by the discussion of proportionality earlier, where you argued that smaller firms, in the consumer duty, had more contact with consumers and were then being overloaded with respect to compliance issues.

I want to look at size from the other end, so to speak. A recent report by the Treasury Committee in the House of Commons highlighted the lack of flow of funding to small and medium-sized firms in the UK. It seems that our whole savings mechanism is geared towards investment in larger firms. We do not have the same flows towards smaller firms, which comprise a very large part of British industry and are important for the fulfilment of the growth and competitiveness objective.

From your perspective, could the regulators do anything to improve the flow of funds and the attractiveness of investing in small and medium-sized industry?

Carol Knight: Yes, absolutely. I will hand over to Lisa on that, but that is really what I was referring to when I answered the question about enabling retail investors to invest in small start-up companies, for example. I will just hand over to Lisa for more detail behind that.

Lisa Laybourn: Access to private markets for retail investors is a problem. Private equity, venture capital and private debt, et cetera, are still very limited for retail investment opportunities. These asset classes often give a good return over time. The regulators could consider expanding the availability of diversified private market investment options in a structured and safer manner for retail investors. That could, for example, encourage the creation of lower-cost pooled investment vehicles with exposure to private markets.

Retail investors also often miss out on the higher growth potential of IPOs, which are generally reserved for institutional investors or high-net-worth individuals. Again, the FCA could encourage greater participation from retail investors in IPOs by simplifying that process for them to participate. Additionally, they could collaborate with platforms to create easy access channels for IPOs for retail investors to take part.

I just want to touch on sustainability and green investing, with growth sectors such as green finance, renewable energy and sustainable infrastructure. Carol and I had a conversation about hydrogen last week, for example. The Government and regulators could incentivise and support the development of green investment in products that are specifically designed for retail investors. This could include tax incentives, for example, and easier access to ESG funds or green bonds that are targeted at individual savers.

Q72 Lord Hollick: You said earlier that you have seen some improvement in the effectiveness and performance of the regulator. Indeed, it claims itself that it has improved its operational efficiency. That rosy view rather collided with some evidence that we took last week from Marsh McLennan, which said that the cost of regulation in the UK was six times more than the cost that has to be borne by the nearest regulator.

We like to operate in the world of metrics and facts rather than anecdote and, dare I say, rosy claims. What steps have you taken to collect that data from your members to be able to create a metric-based report card on how we are performing, not only year on year but against competitors?

Lisa Laybourn: It is too early to take that evidence.

Lord Hollick: The evidence has been there for ages. Finding out the cost from your members is something that you can gather on an annual basis.

Lisa Laybourn: It is. I agree. I was referring to the metrics relating to improvements. That is too early, but that is a good direction, thank you. We will take that away and look at that. It is too early to look at the metrics on improvements. We have seen intention and some incremental improvements, but we are certainly waiting to see more substantial outcomes where we could measure those improvements.

Q73 Lord Hollick: It would be very helpful if you could write to us and tell us how you are going to proceed to collect that data on behalf of your members and be able to present it publicly to the regulators.

I have a second question. There is a great deal of discussion about broadening investment strategies, and we have touched on that. This Government are keen on it, as were the previous Government. Everybody is keen on it. What is the role of the regulator here? Is it the goal of the regulator to look at and consider these broader investments from the point of view of protecting people and making sure that they understand, which we have already talked about, or is it its job to promote some of these things?

You will recall that the FCA, the Pensions Regulator and the PRA were guilty of promoting LDIs, which did not end well. That was helped a little by the Prime Minister's intervention, but in reality is it not their job to look at and consider these things rather than promote the Government's perfectly reasonable desire to have broader investment opportunities?

Carol Knight: Yes, it is definitely their role to make sure that there are appropriate protections in place.

Lord Hollick: Is it their role to promote it in the first place? It seems to me that that is potentially creeping regulation into promotion instead of regulation.

Carol Knight: I will ask Lisa to offer a view, but my view is that the FCA should provide an environment for firms to develop the appropriate products and services that meet government policy but also drive up and support the country, and to provide an environment that makes it possible for firms to deliver and make sure that there are appropriate protections in place. I have never seen the FCA as a marketing organisation.

Lisa Laybourn: I agree. I strongly feel that it is not the regulator's place to promote a certain type of investment or product. Carol is right: it is its role to look at what is available, at the government strategy and at investor protections, to consider its secondary objective and, with all that in mind, to create a regulatory framework that enables the right access to the right products and investments. That is its role.

Q74 **Lord Sharkey:** What do you think are the top three concrete reforms that would have the largest material impact on fulfilling the secondary objective? I mean here reforms to the regulations and to the application of those regulations. If we are running out of time, I would be very happy for you to write to us with those three concrete suggestions.

Carol Knight: I will just take one and leave Lisa to cover a couple. The work on finalising the regulations and regulatory requirements on the development of digital ID and on opening up open finance are key drivers to developing many opportunities and improving access from a consumer perspective. That development of the digital technologies with the associated regulations and guidance that sits around them is an important part of that future view.

Lisa Laybourn: Our second suggestion would be the creation of a long-term savings commission. That could play a significant role in enhancing the UK's competitive and economic growth by fostering a stronger investment culture, improving financial resilience and channelling capital into economic activities. If we can increase this pool of domestic savings and increase engagement across retail investors, that could be funnelled into longer-term investments in infrastructure, including green projects and innovation, which are all key drivers of economic growth.

Lord Lilley: I wonder why you thought they were a driver of economic growth if they have to be subsidised and give us the highest energy costs

in western Europe. We are not here to discuss that issue, but I was surprised that you took a partisan view.

Lisa Laybourn: The third suggestion would be the streamlining of regulatory approvals and authorisations. The speed and efficiency with which firms, new market entrants and innovators can gain access to regulatory approval is crucial for fostering that competitive environment.

The Chair: Thank you. That has been an interesting session. A lot of homework was given to you, so we look forward to receiving your further evidence in due course.