



Financial Services Regulation Committee

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

Wednesday 16 October 2024

12 noon

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

Evidence Session No. 9

Heard in Public

Questions 137 - 150

Witness

[I](#): Mike Regnier, Chief Executive Officer, Santander UK.

USE OF THE TRANSCRIPT

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

Examination of witness

Mike Regnier.

Q137 **The Chair:** Welcome to the third session today. You heard what I said earlier about the transcript. Do you want to say anything by way of an opening statement?

Mike Regnier: If you do not mind, my Lord, I would love to just give a few words of introduction, because the bank I represent is a little bit different to the one that Mr Terrington represented earlier on.

The Chair: Hopefully you will be as forthcoming.

Mike Regnier: I aim to be, yes. First of all, thank you for the invitation to come along and present this morning and answer your questions. We are one of the larger banks here in the UK; we have 14 million active customers and around £200 billion of lending, which puts us very much in the MREL territory that Mr Terrington spoke about earlier. But at the same time, obviously, we are a subsidiary of a much larger international bank. That is why, for us, the importance of the competitiveness objective is fundamental. It is absolutely critical that we can continue to attract investment in our bank here in the UK because we are competing with jurisdictions all over the world. So, making sure that the playing field globally is as level as possible is really important to our well-being, and that also allows us then to grow and lend more into the economy, which is what we are here to do ultimately. So, yes, we are very pleased about this objective.

Q138 **The Chair:** Do you have any data on the relative costs of compliance in the UK versus other markets?

Mike Regnier: We do not measure that, actually. I heard you ask that question earlier, and I thought it is something we could probably generate from the group. So maybe I could go away and have a look at that, and provide a written answer on it.

The Chair: That would be helpful.

Mike Regnier: As was covered earlier, our business is definitely a scale business. There are a lot of fixed costs associated with being in the banking sector, and compliance is one of them. It makes up about 1% of our workforce, but investment in regulatory change makes up a significant proportion of that. So, on an ongoing basis, it is a big cost for the bank continuing to comply with the new rules that are introduced.

Q139 **The Chair:** I would like to ask you about the consumer duty and any issues you have had in compliance with it. It has been suggested to us that there is a degree of vagueness about what is required in order to comply, and with that there are consequent risks and possible costs.

Mike Regnier: It really has been a journey. This was a request from Parliament that the FCA was then tasked with implementing. But, as with all such requests, or many of them, there was not very much detail to

accompany it, so the FCA has effectively had to define what the consumer duty means. Through the various consultations, I think that as an industry we ended up with a solution that made sense. But it did take a bit of defining, because it is something that is brand-new. We are now obviously beyond the July deadline, where we are now complying with the duty in all respects on the front and back books of all the products that we sell and the services that we provide, and those rules are still emerging and bedding in. That is not surprising given that this is a new piece of legislation and regulation which is so far-reaching. So, I am not surprised it has taken us a while to get here, and the rules are becoming firmer as we go along.

The Chair: Has it caused you to withdraw any products?

Mike Regnier: We have not withdrawn any products. We have made a number of improvements right across the operations of the bank. In terms of customer outcomes, I would definitely say that the consumer duty has driven better customer outcomes in a number of areas across the bank. It also focuses the mind on an ongoing basis, particularly on pricing decisions, where we have to be able to demonstrate that we are providing fair value across the entire portfolio of products that we make available to our customers. Again, that has been quite a mindset shift and has required a lot of attention and work.

The Chair: What about the interaction between the ombudsman and the FCA?

Mike Regnier: It is still emerging. It is early days in terms of the ombudsman's response. The ombudsman is tracking very carefully the number of complaints that it receives from customers which have a consumer duty lens to it. At the moment, that number is quite low; obviously, we are keeping a very close eye on it. But our view remains that we comply with the spirit and letter of the duty, and so we would not expect customers to be complaining about that any more than they do any other aspect of our business.

The Chair: So, on the motor commissions issue, for example, do you have exposure there?

Mike Regnier: We do; we are one of the largest lenders.

The Chair: Was that not an example of where the views of the FOS and the FCA have created a degree of uncertainty which is continuing?

Mike Regnier: That is a very specific and challenging area. I am sure you will know the history of these motor finance commissions. The regulations have changed quite considerably; there have been a number of changes over the years during which these products have been in place. The FCA reviewed this market a number of years ago and banned certain products, which all the lenders then complied with immediately. What had been happening since that ban was introduced is that the FOS had been seeing an increasing number of complaints coming in from

customers about these historic products. So, absent guidance from the FCA around how we should deal with these things, the FOS is having to make its own judgments as to what the best way of dealing with these complaints is, and they are very complicated. In our case, we have been relatively successful in defending cases that have been brought through the county courts, for example. But the FOS was trying to define some rules around that until the FCA said, "Do you know what? We'll step in because we think it's important that we consider this holistically, take a really big step back and understand what the rules were that were in place over different periods and what the counterfactual might be", and we are waiting for it to come up with its determination. But, obviously, there are also a couple of cases that are progressing through the courts, which the FCA will have to be mindful of as well.

The Chair: I thought the FCA was planning to do that by September.

Mike Regnier: It has extended its timeline now, and that is partly because of the two cases: an ombudsman case and another case are going through the courts. They are quite fundamental, and I am sure they will influence the FCA's thinking on the right outcome when it comes up with its conclusions at some point next year.

Q140 **Lord Sharkey:** My question is about how it is going so far. Given the secondary objective for both regulators, are there any discernible signs of those having an impact on competitiveness and growth in general and within your business?

Mike Regnier: It is early days, for sure, because we are only one year in. I would say that what we are hearing is positive. We have heard about the Basel consultation; I will give an example from the PRA and then I will talk about the FCA in a minute.

Certainly, the Basel consultation is a very good example of where Sam Woods has been very careful to make sure that he refers to the considerations that he has given to the secondary competitiveness objective in defining the rules and the implementation of Basel in the UK. If I look back at what the impact of that is, it is actually not very material in terms of the overall level of capital; I think the PRA has quoted a 1% increase overall in the level of capital requirements across the whole industry as a result of the Basel implementation. That is significantly lower than it could have been.

As David Postings said earlier, during the consultation the PRA was very happy to listen to the feedback that we had on the original draft proposals, it has taken a number of those things into account and, in some cases, it has come up with some quite clever solutions. So, for example, one of the areas which under the Basel rules is not permitted is the SME support factor, so the PRA has said, "Well, if we can't include it in the pillar 1 capital requirements because it is prohibited under Basel, and we want to be materially compliant with the Basel requirements because we think that is important in making the UK an attractive place

from a competitive perspective”—I completely agree with him on that point—“we will include the impact of the support factor in pillar 2”.

Again, that is not covered in the scope of Basel, so it is something that the PRA has the ability to do, and it is quite a clever solution. I do not know whether those kinds of things would have happened were it not for the competitiveness objective, but certainly that has been explained and has definitely been at the forefront of the PRA explaining why it has made the decisions.

For me, that is something that I think I would like to see more of. I am sure that we will come on to metrics in a minute but, for me, the real measure of success with the secondary competitiveness for growth objectives is, when we hear about how decisions are made—how the regulators are making decisions around new regulation, for example—are they explaining the different options that they looked at and how they decided on option B versus option A because of the competitiveness objective and the secondary objectives that they have? As I say, we are certainly seeing that from the PRA.

I am yet to see that as much from the FCA, albeit I am very pleased to see—we have spoken about this this morning, so I will not repeat it—the changes to the markets activity from the FCA, which is massively welcome, as is the statement from the chief executive of the FCA on the need for a proper conversation around how much risk we are prepared to take. These are very important debates and I am pleased to see that. For me, that is not coming through from the FCA quite as much yet in the written proposals that we are seeing, but over time I am hopeful that it will do, because it is still only a year in.

Q141 Lord Sharkey: I just want to ask about metrics—prompted by you, of course.

Mike Regnier: I thought you might do.

Lord Sharkey: The metrics that the FCA and the PRA have adopted were essentially the metrics proposed by the Bank of England or the Treasury. Are they sufficient? People have described them as inward looking and not necessarily connected with real-world performance. Would you agree with that? Do you think that there are any metrics that should be used that are not there at the moment?

Mike Regnier: Metrics are a difficult area. They are also a bit of a distraction, because the more important outcome measure is the extent to which these secondary objectives are embedded in the culture of the regulators, right through the organisation. You can report on operational metrics, such as the speed of turning around authorisations and so on; that is fine and, yes, it might make a bit of a difference to have a faster turnaround or a faster response to an IRB application, for example—that has been very challenging; I can come on to that if you would like—but, for me, they are quite inward looking. They are also difficult, I acknowledge.

It would be much better if we could look more at international comparisons. You can do that on a capital basis, but you need to do it at an aggregated level. I have had a number of conversations with Sam Woods around international comparisons of capital, because the beauty of being a UK bank owned by a bank that is regulated by the ECB is that I have a European capital model for my assets as well as a UK capital model for my assets, and I know exactly what the risk weights are that those models throw out and they are quite different. We have that conversation regularly. Sam understands the challenges that that poses for me, and I know that it is important to him. From that perspective, I feel that works well. If you can include international comparisons, that makes it better.

You could also look at cultural measures, such as to what extent, when new regulations are proposed, is it made clear how the secondary competitiveness and growth objective has been taken into account? It would be really fascinating to be able to measure those kinds of qualitative measures as well, because it would provide a real incentive for that discussion to happen when those debates are occurring. I do not know the extent to which that is or is not happening because I do not see it.

Q142 Lord Hollick: You are in a good position to give us some international comparisons. It would be very helpful if you can provide some information about costs between different entities in different jurisdictions. The same analysis on performance on capital weighting would also be very helpful.

To pick up on metrics, one of the biggest gripes that we have had from the banks that we have seen—both privately and in public—is about performance. Going back to the time when you were a consultant, if you were given the brief of improving the performance of the FCA, where would you start?

Mike Regnier: That is a very big question.

Lord Hollick: It is a big brief.

Mike Regnier: It is. The challenge is that the expectations of what the FCA is expected to do are so broad, and the number of firms that the FCA therefore has to oversee and supervise is, again, so broad. In simplifying such a big brief, you would almost want to start with, "What is the brief?" Are there opportunities for us to look at the degree to which there might be some overlaps between responsibilities between the different regulators? We are certainly seeing that. There might be some scope to simplify.

The FCA is open to this and has said, "We would like to simplify the rulebook. Where do we start?" The right questions are being asked, and we will be very happy to help in that process—I know it is about to kick off soon—around where some of the simplification might be. It is a big task, however, because the scope is so broad. It is not trivial and it will take a long time.

Lord Hollick: Do you find the culture of regulators in other jurisdictions to be different or more effective?

Mike Regnier: Unfortunately, I cannot comment, because I am a domestic bank. As I say, we are regulated and supervised here, but we are owned by a bank that is regulated and supervised somewhere else. I know this country and these regulators better than others, I am afraid.

Q143 **Baroness Bowles of Berkhamsted:** Do you feel that the regulators expect the secondary objective to be delivered through improved productivity for the bank, or are they looking through as to how it will affect the businesses beyond the bank, so that the conditions are such that lending is easier for certain types of business that previously have been excluded? When they are looking at it, does it stop with you or does it reach through to your customers or potential customers?

Mike Regnier: That is a good question; I have not thought about that before. To start with the PRA, in the main, from what I have seen so far, the focus has very much been on international comparisons of the regulatory framework for the banks. One of the things that the PRA was at pains to point out when it published the Basel guidelines is the fact that we still need to wait and see what happens in the US. It is not entirely clear what will happen with Basel implementation in the US and, if the US comes out with a completely different perspective on Basel then, from an international perspective, we need to be mindful of the fact that there are banks in the UK that are regulated here but which have activities in the US and are competing in that market. We do not want to put them at a disadvantage by having a framework that is not comparable. From that perspective, I think the PRA is looking at the banking sector and the extent to which it can create, as far as possible, a level playing field internationally for the banks, which then allows them to provide the services into the sector.

There are some sectors that the UK banks have struggled with, and still struggle with, lending into. We have spoken about SMEs and about sub-prime or near-prime unsecured lending. These are areas that, typically, banks do not have much appetite to lend into, and good reasons for that exist today. It would be great if we could find a way to remove some of those barriers, because there is support that the banks can provide to help those segments of society that need that help from us. We would like to do that if we can, but it is tricky to do that in some cases today.

Q144 **Baroness Bowles of Berkhamsted:** If we are looking at the competitiveness and growth of the country, it is essential, otherwise we might have very healthy banks but our businesses will still not be doing very well. Whatever you could do to promote that wider view would be very good.

My other question is slightly different. Coming round to the risk point, it is easy to see how you can take more risk if you are a prudential authority, but we have had all this from the FCA and the speech from the CEO about having this conversation about more risk. How do you think

that would translate into the bank? How would you see the FCA wanting more risk when it is not to do with your capital buffers or anything to do with that? Again, is this all about loading up more vulnerable customers and those kinds of things?

Mike Regnier: We all know that various sections of society are vulnerable for various reasons, and it is our duty to make sure that we identify what that vulnerability might be and that we can take the right action to support customers—it is obvious that we would want to be able to do that. But I think the more general point that the chief executive of the FCA was trying to make was: outside of those vulnerable segments, what is the appetite that we have as a society for individuals to take responsibility for the decisions that they make, and how much of a safety net and buffer should we be providing as society as a whole? That translates into conduct regulation for the banks and into a number of other areas around how much responsibility individuals should take and how much responsibility other people should take. Whether that is the state, the banking sector or any other industry, how much responsibility should we take in supporting customers?

An example of that would be the recent changes that the Payment Systems Regulator has introduced around fraud reimbursement. Obviously, we have been a signatory to the CRM code for a number of years already, and this effectively just provides that degree of protection for all the payment providers in the system rather than just the signatories to the code, which is a good thing. But the standard of expectation of some customers around how much responsibility they should take versus the amount of responsibilities that the bank should take is very low. So the bar is very low in terms of expectation.

Just as an example, one of the more sophisticated types of fraud that we constantly try to protect customers against is romance scams, where a customer might be taken in to thinking that somebody whom they have met, typically online, is potentially interested in some form of relationship, but actually they are not interested in that at all—they just want some money. We can see time and again the characteristics that typically those customers and those fraudsters display. We have a team which we call the “breaking the spell” team, whose job is to help us try to talk to these customers and help them understand that, although they are completely convinced that the person whom they are having a romantic arrangement with online is who they think it is, they probably are not, and the likelihood is that they are going to get defrauded. The challenge we have is that in many cases we try desperately hard to break the spell and in many cases we are successful, but if we cannot manage to break the spell, it is our fault. The customer wants to make the payment and we say, “You really shouldn’t make this payment because it’s fraud”. The customer tells us, “No, I’d like you to make that payment because I really am convinced this is genuine”. We make the payment, it is not genuine, and then we are liable. You think, “Is that right?”—I am not passing judgment one way or the other, please, because this is a broader debate we need to have in society. This is the kind of thing

where there is a judgment call around how much responsibility we should take and how much responsibility a customer should take.

Lord Grabiner: You need to develop a competing spell.

Baroness Bowles of Berkhamsted: I completely get that, and the fraud thing is a very good example. But in other areas, for instance, where you are selling something, is this also to be a bit of a counterbalance to the consumer duty, which perhaps completely wraps the consumer in cotton wool? Should this be balanced against that? It seems to have been almost frozen on the spot with some of the consumer duty requirements.

Mike Regnier: The challenge that we all need to work on collectively as banks and regulators and as society as a whole is: how do we make sure that the consumer duty and other regulations—which are well intended and come with the backing of Parliament so, ultimately, that is what everybody wants—do not get in the way and leave certain groups of customers unserved? We have had the example earlier, from years ago now, of the retail distribution review, which basically meant that a number of banks and advisers stepped back from providing financial advice because they could not meet the requirements under the retail distribution review. Was the potential conduct downside of not doing that outweighed by the fact that there is now a big advice gap that those people are not getting, and so they are putting their money into cash ISAs or other savings accounts, when maybe they would be better off taking a bit more risk and getting higher returns with more volatility?

The Chair: Or being subject to scams.

Mike Regnier: There is the scam element with that as well—you are absolutely right. But how do we get that balance right? We are going to have to have a debate about some of those segments over the next few months and years to make sure that we have the balance right there. The last thing we would want to see is us having to step back because we feel that the conduct risk is too high from us supporting particular segments because of vulnerabilities they might have or other kind of characteristics, while actually we would be better off helping them because the alternatives that they are paying for might be significantly more expensive—yet we cannot serve them because of the conduct risk. I am just saying that that is a debate that I know we will be able to have.

Baroness Bowles of Berkhamsted: I get that. Do you think that the FCA is looking at this because it has already seen a backlash on the consumer duty in some respects?

Mike Regnier: I certainly have not. I think the consumer duty is a very positive thing. As I mentioned, we have done an awful lot of work to make sure that we comply with it, and it will deliver better outcomes ultimately, so that is a good thing. The thing we need to be wary of is if there are segments. SME lending is a good example. David Postings was explaining earlier that banks make up only 41% of lending to businesses;

now 59% of it is done outside of the sector. In the main, the reason for that is not conduct. It is because we are not competitive because the cost of the capital that we have to hold against those loans means that for us we are less competitive than other lenders that do not have the same capital.

Baroness Bowles of Berkhamsted: Which are probably more risky.

Mike Regnier: They might be more risky, or it might just be that for us the capital requirements are higher and we can put our capital to use in other areas more effectively because the returns are better.

Q145 **Lord Lilley:** We have heard that a far higher proportion of bank lending in this country goes on mortgages, and therefore a lower proportion goes to business, than was the case in the past or is the case in most continental countries. If it is driven by reserve requirements and so on, why does that not apply in other countries, or is it just institutional and somehow it has been recycled to other organisations here?

Mike Regnier: I never cease to be surprised by how different the models are in different countries, even in the retail banking market. Just to take the mortgage market, for example, in the UK 80%-plus of mortgages are sold through mortgage brokers, and the vast majority of those products are two and five-year fixed-rate mortgages that then revert on to some form of variable rate, at which point the customer goes to talk to their mortgage broker again and moves lender or finds another product that they can take. By the way, those mortgages sit on the balance sheets of the banks.

Looking at Europe, if I take the example of Spain—which I know quite well for obvious reasons—there is not a broker mortgage market at all; all the lending is done from the banks directly. Typically, a customer will talk to their own bank about a mortgage if they need a mortgage, because the bank knows them best. That is typically the person who will lend to them; they will typically lend on a 25 or 40-year fixed term, and it will be a variable-rate mortgage with some kind of link to Euribor or equivalent—whatever these things are called these days since we abolished Libor. But effectively, it is a different product. Again, it sits on the balance sheets of the banks.

If you go to the US, a lot of it is direct lending again, but it does not sit on the banks' balance sheets because the vast majority of conforming loans, which are standard mortgages, are securitised straightaway through Fannie Mae and Freddie Mac. Effectively they are securitised straight into the money markets, and those do not sit on the banks' balance sheets. So the structure of the market is completely different.

In the UK, as I say, it is an intermediary mortgage market with brokers, and those mortgages sit on our balance sheets. These are very large portions of our balance sheets now because, historically, the building societies dominated this market but the banks then basically decided that this was probably a good opportunity for them as well and they could see

a return there. They have been competing more aggressively for those mortgages over the past 20 years and have gained share, which is perfectly normal in a competitive market.

Q146 **Lord Lilley:** I am most interested in the sort of mirror image of this. If you here, and indeed in Spain, are a bank lending to mortgages, that means you have less lending to small businesses. Why has there been this big shift? It has been a big shift in the UK—mortgages used to be done by building societies, not banks. What has happened to the lending to businesses, and why can the other institutions that you mentioned do it more cheaply than you can?

Mike Regnier: I would not say that there is less lending available, because the sector has been growing its lending. It is not as if mortgages are substituting other forms of lending that we might like to make; I think that mortgages are being added to the suite of products and services that we can provide to our retail customers, small businesses and large corporates in many cases, depending on what a bank's target market. In our case, we would like to grow all those segments. If we can make sure that we have enough capital to do so and to make this an attractive place for that, then we should find those opportunities and lend as much as we can in those markets.

What has happened to business lending is that the banks have been losing share to the non-bank lenders—

Lord Lilley: Why?

Mike Regnier: Well, lots of them; Apollo, for example. They have identified segments of the market that they feel they would like to have a risk appetite for. However, because they are not banks, they do not have to hold capital against it in the same way that we do. When I look at the capital requirements of certain segments of the corporate market, I would not get the returns from those assets as I would if I put the same amount of capital into another market, such as mortgages, for example. Naturally, I am going to favour, and try to support and grow, those parts of the balance sheet where I can earn higher returns and meet the customer need. Over time, as I say, banks have been losing share in some of those markets and other non-bank lenders have taken share.

Lord Lilley: If they have fewer reserve requirements, they cannot be banks, and so they cannot be taking deposits.

Mike Regnier: They are not taking deposits; it is their own risk.

Lord Lilley: Does that mean that their capital is intrinsically a higher cost?

Mike Regnier: I cannot comment on that; that is for them. Obviously, the opportunity, and the reason that we are a bank, is in taking customer deposits and those deposits need protecting. That is why the regulatory framework that we have needs to reflect the fact that we have those deposits—rightly so.

Q147 Lord Eatwell: I might just follow up on this. One of the persistent complaints in report after report—there has been a recent one by the Treasury Committee of the House of Commons on SME lending—is that there is a severe shortage of appropriate lending to this sector, particularly at the second stage. I suppose you have the angel investors at the beginning, but the second-stage funding is very difficult to get. I am struck by your comments that you are in effect incentivised not to do this because of the cost of capital for you. Is that right? You said that there was a higher cost of capital in lending to SMEs and that it was the way, presumably, the risk weighting is defined, and so you are incentivised not to lend into this sector.

First, let us be clear about what we are talking about. A lot of SMEs are, in a sense, small builders, but with all due respect to small builders we are not actually talking about them; we are talking about the technological innovation firms, digital firms and life sciences firms, for example, where there is clearly quite a lot of risk in the business plan because it is all very experimental and so on. Yet these are the key, really, to Britain's future competitiveness. If we think of the company DeepMind, which has obviously been in the headlines because of Demis winning the Nobel Prize, eventually it had to go to America to be funded. The story you get time and again is that, if you are a high-tech company and you have reached second-stage funding, it is easier to get it in America than it is here in the UK. What would incentivise you to take a more American approach?

Mike Regnier: Just on your comment earlier about our not having the incentive, we absolutely do have the incentives—I would love to lend more to those kinds of businesses because, as you say, they have massive potential and growth, which is a great opportunity. They are the lifeblood of a growing economy, so it is really important that we find ways that we can help them.

For our bank, we in fact tend not to focus on that particular segment. For us, most of our lending is to individuals and to larger corporates. On our lending for smaller businesses, the vast majority of our book is still the bounce-back loans that we offered as part of Covid. It is not a major area of focus for us. Part of the reason for that is that we do not have the extensive data needed to be able to build the IRB models that you need to be able to effectively get—

Lord Eatwell: That is a decision of yours, then, not to build up that expertise.

Mike Regnier: It takes years to build the data before you can apply for an IRB application. We do not have enough data. The challenge with some of those businesses is that the amount of data that you can get as a bank is also not always significant. It is all about data, ultimately, which is the challenge that we have. For us, that segment is an area that is not really our sweet spot, unfortunately. I would love to find ways.

Lord Eatwell: It does not seem to be for the banking sector, or the

major banks, in this country.

Mike Regnier: I cannot comment on what others do. I am sorry; I would love to say more, but it is not our particular area and target market. We tend to support larger businesses that are better established, particularly those that want to trade internationally—we are very good at that. Obviously, we provide a full range of products for retail customers but in the business-banking space less so on the lending side.

Q148 **Lord Vaux of Harrowden:** On Monday, I think, you signed a letter to the *Times* which said that the Government should “use the financial services sector as a lever to achieve the step change in investment that the UK needs”. You went on to say that the “industry and regulators should now work together to deliver on the promise of the new competitiveness and growth objective so that we can support the risk-sharing required to hit the government’s ambitious goals”.

That implies a couple of things. First, it implies that the industry and regulators are not currently working together to support the objectives. I wonder if you can comment on that and how they might do it better. Secondly, it implies that you have some actual ideas of how it could be achieved and what you would like to work with the regulators on. Again, can you share some specific thoughts?

Mike Regnier: Thank you for mentioning that article. It was a joint article from the five largest retail banks in the UK. The reason that we said what we said is that we feel that one big priority for the new Government is clearly growth—growing the economy. If you are going to grow the economy, we recognise that, to take the example of housebuilding, we are going to start building more houses. People then need to be able to buy those houses and, if they are going to buy the houses, they are going to have to borrow the money. Who are they going to borrow the money from? It will be from the financial services sector.

The role that we can play as a sector is in supporting a growing economy; it is absolutely fundamental. To do that, we need to make sure that the regulatory environment, the capital requirements and the expectations that are, rightly, placed on us by regulators work to help us to deliver on that growth objective. We were not trying to say that it is not working today; we were just trying to make a forward-looking point about the fact that continuing to work on this new growth objective—which is only a year old—is one of the ways in which we feel we can unlock further growth and support the Government’s ambition to grow the economy.

Lord Vaux of Harrowden: Any specifics on the rate? We have talked about the capital requirements, but is there anything outside that? I am assuming from this that you have ideas about how we can improve the situation generally.

Mike Regnier: David Postings mentioned a few things earlier. For me, the priority area is certainly capital. As I mentioned, I think the PRA has done a very good job of Basel 3.1, but for our bank there certainly still remain discrepancies around the way that our capital requirements look if

we are in different jurisdictions, and we are working on that with the PRA. We have spoken about fraud, which is unusual—the framework that we have in the UK is unusual; we are focused on reimbursement, but we should be focusing more on prevention than we are. Again, we have spoken a number of times to government and other parties around things that we think we could be doing to do more on the prevention side, which is very important. It typically involves other industries in the supply chain that are not picking up the bill today but which could probably play a bigger role in preventing some of the fraud that starts in their channels, on their platforms and through their telecoms companies.

I guess another area for us would be regulatory co-ordination. Again, David Postings mentioned this earlier today where we spoke about overlaps—a very broad remit of the FCA—and the extent to which the remit of the FOS is clear. Some of the FOS decisions are almost acting like regulations to the banking sector, because under the DISP rules we need to pay heed to ombudsman rulings, and in some cases that is challenging because they are almost like regulations. Getting some clarity around how that will look in the future would be helpful as well.

Then, of course, only the PRA and the FCA have the competitiveness objective; the PSR does not have it, and other elements of the Bank of England do not have it.

We spoke about the countercyclical capital buffer earlier. Just as an example, the countercyclical capital buffer in the UK is at 2%, while it is at 1% in the EU and at 0% in the US. The FPC decides that is what the level should be, and the idea is that it is supposed to provide effectively some capital for when things start to deteriorate. But we are in a world where at the moment there is not much credit expansion, yet we have a 2% capital buffer. That is quite high. Again, the FPC does not need to pay any regard to international comparisons; its sole responsibility is making sure that the UK has a strong and stable financial services sector, which is very important, but it does not need to look at the international competitiveness.

Q149 Baroness Bowles of Berkhamsted: You say that you are holding all the mortgages on your balance sheet. Is that because of the securitisation retention requirements? But there are securitisations of mortgages.

Mike Regnier: Yes, sorry. We do securitise a lot of the mortgages, which releases funding, but they are on our balance sheet. In the US, they come off the balance sheet. It is a different model.

Baroness Bowles of Berkhamsted: So you are saying that they are still on despite that. I thought only the retention bit was still on—the smaller bit.

Mike Regnier: We sell a mortgage to a customer—let us say that it is for £100,000. That mortgage then goes on to our balance sheet and we have to fund that. In our case, typically the vast majority of our funding is

provided by retail and corporate depositors, so we use our funding to do that, but we also have a portion of our mortgage book that we securitise for funding. But in our case, 90%-plus of our funding is provided by retail and commercial corporate deposits, and the wholesale funding is a small proportion.

Q150 **Baroness Donaghy:** There has been a reluctance among many witnesses to share their views on the ways in which the regulators' performance and decision-making can impact on competitiveness and growth. How would you describe the nature of the regulators' relationship with your company?

Mike Regnier: We have a very close relationship with all our key regulators, and that works very well. We are very open in terms of the things that we would like to see and which we find challenging, and the regulators are very open with us around the things that they feel we should be making more progress on. We receive a formal letter from both of our regulators, one on an annual basis and the other typically on an 18-month basis, where they set out very clearly what they would like to see us do better. We find that extremely helpful, because it helps to set the priorities for us, for the board and for the management team, to make sure that we address those things that are of concern to them.

The Chair: Thank you very much. That has been very helpful and we are grateful to you for coming to the committee.