



# Financial Services Regulation Committee

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

Wednesday 23 October 2024

10.05 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Donaghy; Lord Eatwell; Lord Grabiner; Lord Hill of Oareford; Lord Lilley; Lord Sharkey; Lord Vaux of Harrowden.

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Questions 151 - 165

### Witness

I: Charles Randell CBE, Senior Consultant at Slaughter and May, and Former Chair of Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR) (2018-22).

#### USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

## Examination of witness

Charles Randell.

Q151 **The Chair:** Charles Randell, welcome to today's meeting, which is the seventh oral evidence session as part of the committee's inquiry into the FCA and PRA's secondary competitiveness and growth objective.

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

I want to ask you about the governance of the FCA based on your experience as a distinguished former chairman. I read somewhere that you declined to have a bonus. The implication of that is that there are bonuses paid to executives, is that correct?

**Charles Randell:** I was a non-executive chairman. I am not aware of any report that I could have had a bonus—it is bad news if I could have; I was not aware of it obviously. I have no idea where that has come from.

**The Chair:** Are bonuses paid to executives?

**Charles Randell:** Bonuses were paid to executives in the early years. When I joined, there had been a tradition of paying bonuses to executives, but it is something that stopped under my chairmanship.

**The Chair:** Why did you stop it?

**Charles Randell:** For two reasons. First, for all public services organisations, bonuses, even if they are relatively nominal in amount, always attract criticism from the media and politicians. Secondly, at the time when the bonuses were stopped it was quite clear that the performance of the organisation as a whole was unsatisfactory. It was important that all executives recognised that, even if in their individual workstreams they felt that the organisation had been succeeding. What we needed was a sense of collective endeavour.

**The Chair:** I just wondered whether, if there were bonuses in place, that could have provided some incentive to meet particular performance criteria. For example, reducing the costs of compliance without reducing standards, or matters of that kind.

**Charles Randell:** How would you measure that?

**The Chair:** That was going to be my next question.

**Charles Randell:** I am afraid that it is a question I have to ask you. Clearly, you can reduce the costs of compliance, but the consequences of that play out over a very long period—a much longer period than the vesting period for any bonuses. It would be extremely difficult to measure the relationship between the two.

Q152 **The Chair:** We have had evidence that the costs of compliance are considerably higher than for other jurisdictions outside the UK. Do you recognise that?

**Charles Randell:** I would find that difficult to assess because the costs of compliance in other jurisdictions are not directly comparable. Take the United States. The costs of compliance for a bank are to be reckoned under a very different model, where you have an on-site team, often of hundreds of people in a major bank. In addition to the federal authorities, you have state authorities and the Federal Deposit Insurance Corporation. On top of that, you are talking about a regime in which quite a lot of the compliance enforcement is done by private litigation. To compare like with like is extremely difficult.

**The Chair:** We heard, for example, from Marsh McLennan, which is an international organisation, that the UK would be top of the list in the costs of compliance, with the next on the list at considerably less. Do you think that that organisation does not know what it is talking about?

**Charles Randell:** That is absolutely not what I said.

**The Chair:** You said that it would be difficult to measure, but it is measuring the costs of compliance in its businesses.

**Charles Randell:** What I am saying is that it is important to compare like with like. I do not know if that is what Marsh McLennan was doing. If it was just talking about its regulatory bill, it might well be true. I have no idea.

**The Chair:** Do you accept that the costs of compliance are an important part of competitiveness?

**Charles Randell:** Yes.

Q153 **Baroness Donaghy:** The main aim of our inquiry is to look at how the competitiveness and growth agenda is being applied by the two main regulators. This was not a requirement when you were non-executive chair. A distinguished academic said to us in a public session—we are not giving anything away—that, in his opinion, this was so much window dressing. Do you have a particular opinion about this requirement for competitiveness and growth for the regulators to have as a secondary objective?

**Charles Randell:** It was under discussion when I was chair. We had quite a lot of discussion about whether it was something we should support, oppose, or remain silent on. We took the decision that we would broadly remain silent; that it was a matter for Parliament to decide. We

certainly decided that we should not oppose it. One of the reasons for not opposing it was a sense that it was something that we should be doing—that we should aim to support the UK economy through our regulatory activities, and that that should be inherent in the application of principles of proportionality, transparency and so forth.

The secondary objective has obviously brought a new focus to the organisation. Our sense was that it should not fundamentally change what we are trying to do but that it can bring a spotlight on to how well we are doing it.

**Baroness Donaghy:** I noticed from the biography that you left before your five-year term was up, then there was an interim chair and then another chair.

**Charles Randell:** Correct.

**Baroness Donaghy:** Is this *après moi, le déluge*, or was this a personal career move?

**Charles Randell:** There was a variety of factors in my decision to leave early. They included the fact that my chairmanship involved a period that spanned Brexit; a wholesale change of the non-executive and management teams; Covid; and dealing with the consequences of three independent investigations that I had inherited and had to commission, including the remediation that came out of those investigations, the public apology for the organisation's failures, and so on.

At times during that period, I was working seven days a week because of executive changes and all the other things I mentioned. I felt that, after more than four years, it was reasonable to step down to be able to spend some time dealing with personal and family issues, which, when I took the job on as a three-days-a-week non-executive, I had envisaged I would be able to deal with.

Q154 **Baroness Donaghy:** Thank you for that. Do you recognise the FCA now, as an organisation, compared with during your term of office?

**Charles Randell:** The organisation was beginning to transform under my tenure as chair. The transformation has continued and still has some way to go. I think the FCA would be the first to admit that several years will be required for it to achieve its full potential. I have seen a considerable transformation in some areas that were underperforming when I was there. For example, at the point when I left, there was still something of a crisis in the authorisations function, as a result of a combination of the additional workloads of Brexit, the operational impacts of Covid and the fact that the three reviews that I have referred to led the organisation to conclude that the authorisations gateway needed to be much more rigorous. Those three things coming together created an unacceptable backlog. But we now see that the operational performance of the FCA is transformed. I see an organisation that is getting better all the time.

**The Chair:** Having said that it is transformed on authorisations, do you

think it is reasonable that people have to wait three months for an authorisation to be given for senior management?

**Charles Randell:** The latest statistics published by the FCA on senior management approvals show that the median time to authorisation, including applications that were incomplete, is around 35 days.

**The Chair:** Yes, but the process—the clock—starts again if questions are asked.

**Charles Randell:** No, as I said, it is 35 days including applications that were incomplete.

**The Chair:** So the clock does not restart.

**Charles Randell:** It is 35 days.

Q155 **Lord Vaux of Harrowden:** A lot of the discussion about competitiveness and growth as secondary objectives ultimately comes back to risk appetite. Nikhil Rathi has talked about needing a mature debate regarding the country's risk appetite. What are your thoughts on that subject, and where does it lie between the Government, regulators and industry?

**Charles Randell:** It is an extremely difficult debate to have in the abstract, and my experience as FCA chair was not abstract but concrete. Probably the defining example of it, when I was FCA chair, was the London Capital & Finance scandal. This involved a firm which, in 2015, I think, had been let through an authorisations gateway that was focused on a service culture and on green-lighting applications through as quickly as possible. The consequence of that, combined with unacceptable behaviour on the part of the people who were running that firm, was very significant consumer loss.

The blame fell largely on the FCA, but the risk framework was largely set by government. The investors were able to access these scams—these minibonds—using an exemption that the Government made regulations to determine, which says that you are deemed to be high net worth if you have £250,000 of savings. If you are aged 65 and have £250,000 of savings, you may be able to buy an additional annuity that pays you £7,000 in retirement. I may live in a bubble, but I do not think that that is high net worth, and it is very much out of line with the thresholds in many other developed jurisdictions, which look to much higher amounts.

There is a rather curious disconnect between the stated risk appetite of politicians, which is very often that we must have risk in the system and that we need more of it, and the revealed preference of politicians, which is that risk has now crystallised and we need to blame the regulator for it. London Capital & Finance was supercharged by the innovative finance ISA, which is a wrapper that encourages retail investors to buy highly illiquid high-risk investments. But although my telephone rang off the hook with calls from Ministers to initiate a programme of summary dismissals of FCA staff in the wake of that, I did not notice a similar

reaction in Whitehall. When you get down to the specifics, it is really important to understand whose risk it is, and whether those people are able to bear the risk when it crystallises.

To give you another interesting example, it is proposed to initiate an intermittent trading venue that enables unlisted companies to trade their securities in short windows, with relatively light disclosure that puts quite a lot of the due diligence requirements on the buyer. It is an institutional market in design. That is great; if an institution does not do its due diligence properly and catches a cold, that is the way things should work. But there is a very live debate at the moment about whether that market should be available to the people I have just mentioned—those with £250,000 of savings. It may well be that the regulations give them access, they lose their shirts, and that is then deemed to be the regulator's fault. You need to think about the segmentation of the market and who is able to bear which risks.

**Lord Vaux of Harrowden:** Does that not leave us in a position where retail investors are potentially disadvantaged by the fact that they cannot access products that give a better return? I am always astounded by the proportion of ISA savings in cash ISAs, which ultimately do not cover inflation. By not taking risk, are we disadvantaging the people we are trying to help?

**Charles Randell:** Retail investors can access stocks and shares ISAs; they have no difficulty in doing so. There are many investment platforms that sell low-cost diversified index tracking funds, which will give them the return of the stock market at very little cost.

**Lord Vaux of Harrowden:** But they do not have access to the advice to do that.

**Charles Randell:** That is a separate question, though. All the evidence is that, whenever government has thought it a bright idea to give retail investors exposure to, say, peer-to-peer lending or minibonds, eventually the result is investor harm and a loss of confidence in financial services by those people—and they do not come back. That distrust of the finance sector is one reason why there is low engagement. It is not the only reason—financial capability is a huge part of it, as is lack of access to advice—but if you look at the Edelman trust index and what UK citizens think of financial services, you see that while they are not as low on the list as some other people, naming no names, on trust they are low.

We really need to be careful that, by promoting risk to classes of people who cannot bear it, we do not further undermine trust in financial services products.

Coming to your question about advice, there absolutely is a very serious problem. I identified this when I was FCA chair, and I set the organisation the task of reviewing the boundary between advice and guidance and trying to come up with a better model. I must say that progress has not been good and much more work is needed to solve that problem.

**The Chair:** Is not the problem that the costs, and the burden on advisers, of dealing with people with small amounts—less than £250,000—is such that they simply decide not to service that market? The result is that people with smaller pots have no access to proper advice and then become victims to scammers and other people who are not regulated?

**Charles Randell:** I think you are right: the cost of compliance is one of the reasons why people choose not to serve customers with small pots of money. It is also that, even if the costs of compliance were lowered, those people would not individually be very profitable, and just the cost of acquiring them as clients would make them unattractive. There will be a level at which service will not be provided, whatever the costs of compliance.

The answer is to simplify the onboarding process for certain types of product, but again that would need to focus on products that were inherently unlikely to be harmful. The FCA's initial attempt at this was to try to create something around the stocks and shares ISA. That turned out, for whatever reason, not to be something that the industry was very interested in.

There are other measures that could be taken. I personally would abolish the cash ISA; I cannot see what purpose it serves. We have quite generous allowances now for interest income in tax, and providing government incentives to hold cash is probably not a good use of taxpayer subsidy. Then there is the financial capability question.

All these things need to come together in a coherent strategy. I hope that is something that the Government, who have committed to creating a national financial inclusion strategy, will look at as part of that. But the FCA has not cracked it yet.

**Lord Grabiner:** Is there not an underlying problem about financial illiteracy?

**Charles Randell:** Yes.

**Lord Grabiner:** What, if anything, could be done by the regulators about that?

**Charles Randell:** When the FSA was created and came into being in 2001, it had a financial awareness objective, and it was the sponsoring body for the Money Advice Service, which was created some years later. Those functions were taken away from it and now sit separately. The Money and Pensions Service, as it now is, sits underneath the Department for Work and Pensions, and so the FCA does not really have that financial education brief. That is probably right, because a national financial inclusion strategy needs to look at the whole system, from school to lifelong learning, and the provision of information through organisations such as the Money and Pensions Service.

What the FCA can do, in particular using aspects of its new consumer duty, is to try to ensure that, at the point of decision or sale, firms give customers relevant and useful information that they can prove customers have engaged with. I think that is the objective of the customer understanding limb of the consumer duty. I would say that it has not yet fully matured or delivered.

Over the next couple of years, I would like to see firms evidencing more that their consumers have really understood the decisions in front of them and found the materials that they are given helpful. There has been a terms and conditions culture up to this point, but we need to switch from that to a new mode of communication with customers that really engages them, using all the types of media that they use in the rest of their lives.

**Q156 Lord Hill of Oareford:** Can we talk about focus? I think one of the senses people have is that the volume of activity undertaken by the regulators keeps extending. Some of that, as you have argued, obviously stems from politicians dumping more responsibility on regulators—when an issue comes along that they do not want to grapple with, they will give it to you.

I am interested in any thoughts you might have on how one could streamline the process, starting with the mandate letter—that is to say, clarity of direction from government to regulator. If you have that, how does one then stop mission creep that might be behavioural? We all know that some things are set out in statute, but then people start putting their own interpretation on them, then the people in compliance departments add their interpretation, and then, before you can blink, we suddenly have this huge volume of requirements, with people not altogether clear where the boundary has been extended and whether there is a statutory basis for it. It feels to me that the system has got too big and spongy. Have you got any thoughts on whether that is true and how we might make something where the line of accountability is much clearer than it feels at present?

Charles Randell: When I became FCA chair, my hypothesis was that the FCA should focus on doing a few simple things well. The year before I became chair, or perhaps the year before that, the FCA had published a plan that said that it had 97 strategic objectives that year—I may be getting the numbers wrong, but not badly wrong. I said that I thought we should have four; that we should focus on areas of activity that serve the real economy, including citizens, such as providing people with access to basic transactional services, promoting people's engagement with investment and so on. It eventually grew to five or six, but that is what happened. Inevitably, over the years, you then see somebody say, "Oh, we have to do this as well". I recognise what you are saying. The question is what you do about it.

A really strong focus on operational performance is one way of ensuring that the resources of the organisation are front-line facing. Actually, the resources are quite thin in supervision. It may not feel like that to those



of you involved, as I think many of you are, with financial services in firms in one way or another, but, apart from the very largest firms, I would guess that the supervisor to firm ratio is somewhere between 1:50 and 1:100. The question of how many bobbies there are on the beat, as it were, helps to drive how many are back in HQ doing other things.

The business of operational delivery at the front line, and getting the right focus on that, helps to orientate the organisation towards basically trying to become excellent at its day job. It also helps to ensure that diversions into other public policy issues that the organisation is under enormous pressure to take on, very often from various parts of this building, can be a bit more easily resisted.

I have to say, though, that I am not sure we are talking about the right issues for the growth objective. To my mind, the growth objective is about connecting financial services with the needs of the real economy. It is unfortunate that a lot of the debate consists of grumbles about authorisation stories, such as those we have heard about one individual for whom it took 90 days. This is not where it is at. Where it is at is trying to identify where there is a shortage of financial services in our economy and what the regulators can do to help the industry develop to serve those shortages. That seems to me a much more profitable discussion than nipping away at the edges of what is perceived to be bureaucracy. It would also help the regulator to orientate itself in that direction.

**Lord Hill of Oareford:** That is an interesting observation, but it is not the focus of the work of this committee, if I may say so.

**Charles Randell:** Surely it is. If you are talking about the growth in our competitiveness, surely you need to think about the real economy.

**Lord Hill of Oareford:** I was asking a specific question, to start with, about how you feel about the mandate letters and whether they can be improved, and whether you feel that, since the FCA was set up and from your time there, the parameters—the boundaries—have got broader and broader, making the requirements placed on the regulator harder to achieve.

**Charles Randell:** It is particularly difficult if the mandate letters include things that the Government are asking the regulator to progress but themselves are not showing any evidence of progressing. The example that comes to mind, which occurred during my time as chair, was the imposition on the FCA, through the mandate letter and the statute, of achieving net zero—this a Government who were sending out very strong signals that they had lost interest in net zero. So you get a very strange dynamic, where the regulator is told, “This is your job”, but it does not have the levers to achieve it and nor do the Government seem that interested in achieving it, but it is there in statute and in the mandate letter.

Some sort of coherence between the behaviour of government and of the regulator, and, ideally, a plan, would be great. It might be a good idea

for there to be a much clearer financial services strategy that is set through government and feeds through into specific actions by the regulator, and by others. Other bits of government have a role to play. Small-business lending, for example, implicates some very significant government bodies that help to support that. It is perceived to be a gap in the economy, but the regulator has only a certain number of levers to move it.

**Q157 Lord Hill of Oareford:** So a review of the mandate letter system might be a sensible idea, in your view.

Do you think it is possible to carry out an exercise that seeks to understand more clearly what is a task set out in statute, what is own-initiative work by regulators, and what is the grey area that is behavioural, where people with the difficult job of trying to enforce a regulation perhaps interpret it in such a way that goes beyond what the strict statute might say, but because it says that, the regulated entity and its compliance people understandably do not want to offend the regulator and so something that is not actually in statute becomes an accepted custom and practice? Do you think there is anything one can do to try to narrow down some of these different categories?

**Charles Randell:** One of the consequences of moving to much more outcomes-focused regulation, which we see in the approach that the FSA and the FCA took to having principles for business and in initiatives such as the consumer duty, is that it behoves the regulator to give more guidance about what is good and not good, and what is necessary and not necessary. We went through a long period, when we were part of the EU, where the legal position taken was that directives need to be transposed and the regulator should not give further guidance as to what they mean, because that is getting into a dangerous area. But we are not in that world any more, so there can in these areas be a role for guidance.

The other side of the coin that you are talking about is where practices occur in financial services that are deeply unacceptable, and the regulator does not call them out quickly enough. Years go by and then at some point there has to be a remediation, and that can be very disruptive both for firms and for the regulator.

I agree that the more certainty that can be given to firms, the better. I hope that the FCA is beginning, through the communications that it gives to its individual portfolio of firms, to give much more concrete feedback as to what it expects to see. However, obviously I have been out for a couple of years, so I cannot comment on exactly where we are now.

**The Chair:** Lord Eatwell, you wanted to come in.

**Q158 Lord Eatwell:** I wanted to follow up what you said just now about the competitiveness and growth objective applying to the competitiveness and growth of UK plc, as opposed to simply the financial services sector. As a conduct of business regulator, the FCA has a significant impact on

market structure: it changes the rules, and the market structure changes. Do you have any proposals to change the market structure in financial services in the UK which would improve the growth and competitiveness of UK plc?

**Charles Randell:** That is an interesting question and one that I probably should have thought more about before this hearing. Some areas of the market are underserved, and sometimes those areas require compulsion or subsidy. We have seen that with Parliament's decision to get the FCA to enforce reasonable levels of access to cash around the country. The market was not delivering that and would not deliver it. Similarly, in the advice area, there is a market failure. The market is not providing advice to a lot of underserved people.

My assessment of a lot of other markets in the UK is that we have a lot of financial services.

**Lord Eatwell:** How about second-stage funding for SMEs?

**Charles Randell:** Second-stage funding for SMEs is a market which, depending on who you talk to, is either potentially quite strong in the UK or currently going through a very difficult patch because of interest rates and a number of other macroeconomic factors. I am not sure what the regulator can do to make second-stage funding for SMEs much better. Obviously, things such as an intermittent trading facility may help at the edges, but quite often the causes for these perceived shortcomings, particularly when you measure them against very different markets such as the United States, are cultural, political, social and financial. There is also just the sheer volume of capital that is available in other markets.

**Lord Eatwell:** You can shift the culture, after all. Big bang shifted the culture in the City of London overall.

**Charles Randell:** Yes.

**Lord Eatwell:** Just on the point about the impact on the structure of financial institutions, we have heard that regulators in the UK are excessively risk-averse, which then translates into excessively risk-averse institutions in the market itself. Would you agree with that?

**Charles Randell:** To be honest, it is too early to say. You need to take a 25-year view, looking back. The FSA, which was created 25 years ago, went through a period where people said that it was not doing enough to close down risk. It responded to that by introducing in 2005 a "treating customers fairly" regime. That got an immediate rebuff from the industry as now doing too much to close down risk—indeed, the Prime Minister criticised it publicly. In 2007-08, we had a financial crisis, and the verdict was that it had not been doing nearly enough to close down risk. The newly created FCA said that it was going to be much tougher. That went along for a while, until the CEO was rather publicly ejected because he was considered by financial services firms to be doing too much to close down risk. In my time, the general tenor of discussions I had when I came to committees of this or the other House was that we were not

doing enough to close down risk. Now, we are back in the phase of being told that we are doing far too much to close down risk. I would like to see what the judgment is in five or seven years, when more risk occurs and crystallises.

I see this as a cyclical discussion. We have been here before and no doubt we will be here again. Whether the judgments of politics are time consistent is another matter altogether, but I absolutely recognise the risk-aversion problem. The regulator takes very direct messages from the many criticisms it receives when risk crystallises. It is very difficult to deal with that, and to be more accepting of risk when the major judgment made of you is whenever that risk crystallises.

Do I have an answer to that problem? I am afraid I do not. I guess the best answer I can give you is that we cannot talk about it general terms; we have to look at individual markets. Who is being put at risk in those markets? Do we judge that it is right that they can accept the risks that crystallise in those markets? Is it right that they should, in effect, be buyer beware? That requires a very thorough segmentation of the different risk exposures and who is being exposed to those risks.

Clearly, at one end of the market, we need risk to be let rip—animal spirits, or whatever the last City Minister referred to, should have a very important role to play.

**Q159 The Chair:** I want to pick up on Lord Eatwell's point about the regulator being risk-averse and that then being translated to gold-plating by the firms themselves. We had evidence, which you can see, that banks do not use their buffers on capital allocations because that might expose them to more regulatory interest. To what extent do the firms themselves interpret the regulations and rules in a way that is risk-averse and then blame the regulator for the regulations?

**Charles Randell:** You see a huge variance in risk appetite across banks and insurance companies as to the amount of excess capital that they choose to hold. Some will be very comfortable being quite close to their requirements, and some will want to hold a big buffer on top of that. It varies very much from board to board. If you look across insurance companies and see how much the companies target to hold in excess of their solvency capital ratios, it is very variable. Individual boards have individual risk appetites. That is entirely right, because they will have a much better sense of the risks inherent in their business model than the regulator does.

I do not think that capital gold-plating is the worry that I would have. I would have much more of a worry about urban myths emerging in the compliance industry to say that this must be the case, and this must always be done, or you cannot do that. You see those urban myths getting embedded.

**The Chair:** Can you give an example?

**Charles Randell:** I talked earlier about terms and conditions. How do you communicate with your customer? What has to be said? Do you put the words “capital at risk” on a financial promotion, or do you put something slightly more helpful that enables you to understand the benefits of holding long-term investments, as well as the fact that you are not guaranteed to get your money back? We see a lot of rubber-stamping of the same compliance messages on products when it is not clear to me that it really helps customers’ understanding of the benefits of those products. Some of that is driven by regulatory attitudes and some of it by misinterpretation of regulatory attitudes in the compliance industry. That is one example I would give off the top of my head.

Q160 **Lord Grabiner:** We have had very complimentary evidence about the way that Singapore functions. We are told that it enforces high standards, rigorous supervision, a product-design approach to supervision processes to identify bottlenecks and so on, and a minimal level of engagement from smaller firms. Is that your understanding or experience of Singapore? If it is, what is it doing that we should be doing?

**Charles Randell:** Singapore is certainly a very useful comparator when talking about the UK, because it shows what can be done if all the other circumstances align. Of course, a lot of the circumstances in the UK do not align with Singapore when it comes to retail investment. We have a very different social structure and savings culture, and there is no real comparison that you can usefully make between Singapore and South Shields. Therefore, the types of consumer protections that are necessary in a jurisdiction that does not have a Central Provident Fund, enforced saving or a savings culture need necessarily to be different.

The other big difference with Singapore is that the number of firms that are supervised is substantially smaller and the building of the regulatory infrastructure has been substantially more recent. You would expect an organisation that has built up more recently and is supervising a smaller number of firms to probably be best in class for those reasons.

One aspect of Singapore is that it has a sort of concierge culture. The regulator accompanies firms through the authorisation process and has a developmental objective of growing the Singapore finance industry. That is because it is in the nature of Singapore that finance is inevitably going to be a huge part of its future economy. Unlike the UK, it is seeking to have very close ties to its closest neighbours and markets.

I think there are some obvious differences. What is notable is that the IMF and Financial Stability Board have expressed concerns about this closeness with the developmental objective and the risk that the regulator would become captured or compromised. In 2017, it changed its law to make it clear that its supervisory and regulatory objectives have primacy over the developmental objective. That is an important lesson for the UK. A lot of people are still banging on about having a primary growth objective, but it is really interesting that Singapore has gone in the opposite direction. Having said all that, it did have an absolutely massive money laundering scandal very recently.

**Lord Grabiner:** Taking account of those differences, which are fundamental—I understand what you are saying—are there things it is doing that we should or could be doing?

**Charles Randell:** Yes. We should be looking closely at how it achieves the operational efficiency that it does. We should also be looking very closely at both the risks and benefits of supporting firms through the authorisation process in the way that Singapore does, to try to make sure that we have a dividing line between ensuring that authorisation is an exam for firms, which it should be—being authorised is not a right but a privilege—and making sure that the teacher is not filling in the exam results. I would be very interested to know more about how it reconciles those conflicts. I think we could probably learn from that.

Q161 **Lord Lilley:** We were talking earlier about risk. There seem to be two kinds of risk: the ordinary risk of business, where you make a widget and someone else produces a better widget and you lose money; and the risk that the people running the business are crooks or not wholly honest. When you refer to risk appetite, what are you referring to? At what stage do you cease to worry about the ordinary business risk that the person or institution is not deemed experienced or wealthy enough but continue to worry about whether they are a Robert Maxwell?

**Charles Randell:** That is a very good question. You need to look at the customers the business is serving and their degree of sophistication and ability to rely on their own inquiries, as well as the consequences to the customers of that firm going out of business. A firm can become systemic in different ways. Although SVB was a very small bank, we saw that the prospect of its immediate withdrawal from the market was really quite serious. A combination of factors, including size, the market impact of withdrawal and the capacity of the customers to absorb loss, should drive your supervisory model.

However, when it comes to mass retail investment, unfortunately we know that the financial capability of many people in this country, combined with the very obvious inequalities of information that exist in any selling of financial services, mean there is a need for consumer protection. Disclosure does not always do it, so a very clear segmentation of different firms and portfolios by their risk profile is essential.

There is also a question about the Government's willingness to have risks fall back on them. That is particularly relevant to risk appetite in the supervision of banks and the prudential regulation of banks.

**Lord Lilley:** In a quite separate point you mentioned the sustainability or environmental objective. I have forgotten: did we insert that at the same time as the secondary objectives?

**Charles Randell:** No, that came earlier. I think it came in 2021; it may have been before that, but it certainly was prior.

**Lord Lilley:** Is it in law?

**Charles Randell:** It is in law. Having regard to the desirability of achieving net zero sits in the objectives of both regulators. That is fine by me; it is just a bit strange if the Government of the day are not evidencing that much interest in it.

**Lord Lilley:** It seems fairly absurd, as it is not something that the regulator can do, is it?

**Charles Randell:** It is very difficult to know what levers the regulator has that would help to get you there, other than, in the case of the FCA, imposing disclosure requirements on firms, which of course adds to the regulatory burden. That is how it is translated. It is translated into extensive reporting of the environmental impact of firms' activities, particularly listed firms. But that was the statutory mandate given to the FCA.

Q162 **Lord Eatwell:** I want to come back to market structure. It seems to me that, in a way, compliance is a restrictive practice, in the sense that in large firms it is a cost that can be managed but in small firms it can be really crippling. That is an issue with respect to competitiveness and growth. How would you tackle that problem?

**Charles Randell:** You are absolutely right; regulation generally favours incumbents because they can absorb the costs. I think you will see that the attitude of large firms to the call to simplify the FCA rulebook will generally be, "We're fine with the way it is". They can deal with it, and change is often more costly than the existing structure.

On small firms, starting at the bottom, one of the consequences of my workload during my time as chair that I referred to—dealing with Brexit, Covid and the remediation as a result of the independent reports—was some scaling back of the developmental work that the FCA did through its sandbox and other structures to promote innovation and market entry. That has now been remediated, but it is one way in which the regulator can help firms to come into the market.

There is also an opportunity to give firms different types of driving test, as it were, as they go, before they are let loose on the motorway of the entire financial services sector. You can approve firms with conditions, and you can send them through mobilisation phases, where they get started. It is worth thinking about whether there could be a more modular approach to the rulebook so that it is clearer to firms which bits of the rulebook they need to look at.

Finally, on the question of guidance, we need to really engage with firms to understand which bits have caused them to stumble and incur large compliance costs.

**Lord Eatwell:** That is very tricky for a regulator, is it not? If you get involved in guiding a certain industry and things go wrong, whose liability is it—the firm's or the regulator's? I think that is the main reason why regulators have been very loath to offer guidance.

**Charles Randell:** It is one of the reasons. As I said, the other reason was that the general prevailing legal regime during our membership of the EU was that we could not embellish what the European supervisory authorities were giving as guidance.

I agree that it is sometimes risky for the regulator to give guidance, but I think it is also necessary for the regulator to have the risk appetite to give that guidance where it is apparent that firms are struggling to understand exactly what is expected of them. It is a combination of those things.

In addition to having a sandbox for new entrants, the FCA has a scalebox to help businesses that have a foothold in the market to grow, with close supervisory assistance. Those are all good initiatives, and I hope that the FCA continues to have the resources to pursue them very vigorously.

Q163 **Lord Eatwell:** You mentioned resources earlier when you referred to the ratio of supervisors to firms. Is the FCA too small, or is its remit too wide?

**Charles Randell:** No. The conclusion I came to was that the FCA, certainly at the beginning of my time as chair, was an analogue regulator in a digital world. It was collecting quite a lot of data, but it was not always apparent that that data was very helpful for prioritising its supervisory activities.

A lot of the processing of that data was manual. Algorithms and tools could help very quickly to ingest data from both firm sources and other open-source information, which can then be processed through a variety of technologies. Eventually, artificial intelligence will have a role to play in this as well. All those things can really help a supervisory team to spend its time finding the amber lights that are flashing and then prioritising firms that need close supervisory attention.

The FCA will make do with its existing supervisory resources; I think it will have to. It is completely impossible to imagine multiplying the supervisory resources by some large factor.

**Lord Eatwell:** But they are relatively small compared with many other jurisdictions.

**Charles Randell:** They are. As I was saying, in the United States, if you are a bank, you have a team in your building of tens or hundreds of people on a permanent basis reviewing loan files. It is a very different supervisory model. As the FCA rolls out its data strategy, which we initiated when I was there—it has a long way to go but good progress is being made—the efficiency of use of the supervisory resources will increase.

**The Chair:** On that point about staff, there is quite a big turnover and quite a lot of the good people get poached by firms in order to help them comply with the regulations. Do you think that the model of the Takeover Panel, for example, where people are seconded to regulators, is a



credible way to proceed? I am very encouraged by what you are saying, but I wonder how you will get the calibre of people who will stay for long enough and have a collective memory to be able to achieve that.

**Charles Randell:** The Takeover Panel is a very special case. There is a real sense of obligation on the part of city firms to provide secondees to the Takeover Panel and a real commitment to ensure that people returning from it have a job to come back to and are seen as having advanced their career by doing it. To do that at a large scale would be extremely difficult. I do not think we have the recognition that exists, for example, in the United States, where, if you go and spend five years at the SEC, it is seen as massively career enhancing and that you will go back to your law firm with something very valuable that you did not have before.

I do not see us turning that around. I hope that people will still want to do public service, but they will tend to do it at a later stage in their career. The bank and the FCA get some value out of people going late in their career, either as a senior adviser or in some other capacity, but I cannot think that it will solve the problem to which you refer. I wish I had a solution to it.

Other people who have talked about the revolving door have done so in a very different way and have said that it should not happen; that people should not go from the private sector to the regulators or vice versa, or that there should be some massive waiting period before they do so. That is daft, to be honest, because the regulator gets great value from getting people from the private sector, and the private sector gets some value from getting people from regulators who help the regulator by going to firms and dispelling some of the urban myths we have talked about and helping firms with how to engage constructively with regulations. I am afraid I do not have a solution to the turnover problem.

**The Chair:** You could pay them more.

**Charles Randell:** You could, but it is very difficult in a public service organisation that does not have the full range of options for exiting underperformers that private sector firms have. There is a danger that the more you pay people the less likely underperformers are to leave, and, if the Treasury says that you are not allowed to pay people off, you are in a very bad place. You need to look at all those incentives together.

However, I will say that, when I was on the board of the Prudential Regulation Authority for five years and in my four-and-a-bit years at the FCA, I was very often really impressed by the quality of individuals whom I came across.

**The Chair:** Lord Vaux, did you want to come in?

**Lord Vaux of Harrowden:** You have asked my question.

**The Chair:** I do apologise.

Q164 **Lord Sharkey:** I would like to ask about how we might measure progress against the secondary objectives. Professor Kern Alexander told us that most jurisdictions have similar secondary objectives. He also told us that there is no example anywhere of a meaningful measure of progress against these objectives. The FCA—and the PRA—has published the proposed metrics. Do you have a view about how likely they are to provide a real measure of progress?

**Charles Randell:** They provide a measure of progress against the things they are measuring, as we have discussed. The rapidity of the authorisations function is now very transparent—you can see the upper quartile and the lower quartile of times that applications are taking, including applications that were incomplete when submitted. All that is there to see, and I would recommend you take a close look at it.

It shows that there are very long time periods in exactly the areas that I would hope, from my time as chair, that a long time would be taken. I see that as a success. It is a real success that the FCA is continuing to take a long time to approve crypto asset exchanges and to interrogate their financial crime and anti-money laundering controls. I think it is a real success that payment services and e-money firms are being put through quite a lengthy process to test the quality of their safeguarding, operational resilience and financial crime controls. The FCA should make no apology for the fact that those are long periods.

The published data needs to be carefully looked at to conclude whether it is telling a good story or not. I think it is telling a great story, but it does not quite capture the fundamental question, which I mentioned to Lord Hill, that lies at the bottom of the growth objective: do we have the financial services that serve our real economy?

Make no mistake: we have a lot of financial services; this country is dominated by them. The financial services sector is huge relative to our gross domestic product. The questions are whether it is good for our economy and whether we have the right services. Clearly, there are problems in public access to various financial services. That includes basic transactional bank accounts, with 1.1 million people without them; access to advice, as we have discussed; some very weak spots regionally; and some particularly weak spots around our small businesses, as Lord Eatwell highlighted.

The FCA does not have the levers to remedy all those gaps, but it would be really useful to come up with a theory of change for the UK economy that identifies the areas where boosting financial services would positively help, and then to work out how much of this is for the regulator and how much is for other policymakers. That would go to the fundamentals of the growth question.

Plenty of people say that there are aspects of financial services and a growing financial services sector that are positively damaging to our economy. When people lose money doing highly leveraged spread betting at 2 am, that is highly damaging to our economy, and when people lose

money on things that are borderline scams—high-risk investments that they should never have been given access to—that is positively damaging. It is doubly damaging because not only do they withdraw from productive work, very often with mental health problems that have resulted, but they then require the attention of our public services, which reduces the amount of taxpayer money available for productive investment.

So there is a danger. Somebody in this discussion needs to set out the broader picture of how much our financial services are serving our economy and where the gaps are.

**Lord Sharkey:** A lot of that seems to me to be very compelling. I am still uncertain about how we are actually going to measure whether what the FCA does has any effect on the growth of the economy or its competitiveness.

**Charles Randell:** I do not think you will be able to come up with a quantitative measurement of the things I have just discussed. I think you will be able to come up with a hypothesis of the problem, a statement of the steps that the FCA has taken within its powers to address the problem, and a statement by the FCA highlighting the extent to which it thinks others need to act to address the problem. I think that is the best you could do.

**The Chair:** I am conscious of time.

Q165 **Baroness Donaghy:** Could you say a little about your experience with the Financial Ombudsman Service during your term of office? Would you say that, at times, it acted as a quasi-regulator that can create a binding interpretation for the FCA and other companies?

**Charles Randell:** I do not think that its interpretation binds the FCA. It reaches decisions in individual cases but with a jurisdiction that goes beyond the law and FCA rules and includes an ability to decide cases on the basis of what it considers to be fair and reasonable. That necessarily results in uncertainty to firms as to what the outcome will be of any particular decision.

Although I would not say that it interprets and creates binding regulation, you are right to say that it is the binding constraint on firms' risk appetites. Firms will ask themselves not just whether they are happy that the FCA thinks this is okay but where this will go when a claims management company takes 1,000 of their customers through the Financial Ombudsman Service. It is a very significant function from that point of view.

It is really important that the ombudsman is, first, transparent about its decision-making, and, secondly, consistent across different decisions. Individual ombudsmen do individual decisions, and there is perhaps a case to say that, in really significant matters, the clock on their decision-making should be paused and there should be an opportunity for interested parties such as the FCA to submit suggestions on how the case

should be decided from its point of view. There clearly needs to be an independent ombudsman, but there could perhaps be more transparency around this.

There is also a communication issue. Quite a lot of the experience that I had as FCA chair was meeting chairs and chief executives of large financial services firms who would say that they had had a ridiculous decision from the ombudsman, but when I looked at it, I would think that it was not that ridiculous. There is sometimes a slight disconnect. Management is quite often likely to tell the non-executive board that they have had rotten luck with the ombudsman rather than that, five years ago, their compliance department advised them to do something pretty stupid. That is a problem, too.

It is a great service. It provides access to justice for about 100,000 people every year who would not otherwise get it. But this question of trying to enhance its predictability and transparency has not been completely solved.

**Lord Vaux of Harrowden:** Do you have any examples of that, particularly where it is inconsistent or where things are particularly lacking in transparency?

**Charles Randell:** Some of the decisions it has made about pension advice are certainly very complex and quite specialist. When you have an insistent customer who wants to transfer their pension and is advised in one way or another, there can be concerns that the fair and reasonable test trumps the regulatory obligations of the adviser.

Generally, when I looked at the Financial Ombudsman Service's individual decisions, I found that they seemed broadly plausible and right to me. It is a quick and dirty procedure that is supposed to be completed within 90 days, and it is the case that it will not achieve perfection.

There is a huge amount of abuse of the ombudsman service by claims management companies, and the question of whether those companies should pay fees for cases that they bring and whether there should be closer supervision of some claims management companies. The FCA tries to do this, but many of them are supervised by the SRA to a different standard. That is another thing that needs looking at.

**The Chair:** The committee really does not want to release you, but I think we need to draw stumps. On behalf of the committee, I thank you for the robust submission.

**Charles Randell:** Thank you. I was quite surprised by how robustly it started.

**The Chair:** I blame the chairman.