HOUSE OF LORDS

Financial Services Regulation Committee

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

Wednesday 27 November 2024

11.05 am

Watch the meeting

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

Evidence Session No. 20 Heard in Public Questions 242 – 253

Witness

I: Andrew Griffith MP, Former Financial Secretary and Former Economic Secretary, HM Treasury.

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Examination of witness

Andrew Griffith.

Q242 **The Chair:** Welcome to the committee. Thank you, Andrew Griffith, for attending. I would be interested in your thoughts on the consumer duty, because we have had pretty mixed views about it. Perhaps you may want to make a general statement to the committee based on your very considerable experience as the City Minister. I know you have thought about these things very deeply.

Andrew Griffith MP: Thank you. I am afraid that "not waving but drowning" is my view about the whole corpus of financial regulation and the way in which we have fettered this incredibly important sector, a sector without which there will be no economic growth. It contributes to such a large part of the UK economy. It is one of our leading exports. It is a contribution that we can make to all parts of the world. I am afraid that my sad conclusion is that, notwithstanding efforts from me, the previous Chancellor, Chancellor Hunt, my successors and others, there is still a great deal that needs to be done if we are to fulfil the ambition, which I think all of us, including this Government and this Chancellor would share, of the financial and professional services making an outsized contribution to UK growth.

I will start, if I may, with where the previous session concluded, which is that this is ultimately about culture. There is a great deal that one could do in the way in which regulations and incentives are structured. But, ultimately, we have lost the culture of caveat emptor, of people being able to embrace risk and accept the consequences of risk, of those of us in Parliament and accountability mechanisms being comfortable with people taking risk, and occasionally with people accepting the consequences of a risk taken but a return not fulfilled or delivered. That is inimical with successful financial services; you cannot have capitalism without capital.

The practitioner voice has been eroded and excluded over the years such that we have a professional salariat administering all the conduct and prudential regulations that culturally and incentives-wise are not comfortable with taking risk, not incentivised to take risk and not even necessarily understanding risk. These people have gone through their entire careers without ever having to balance a trading book, a PNL or deliver returns for their enterprise and organisation.

I suspect this will not be entirely new to this committee, given the thrust of the inquisitions that you gave me and others over the years, but there is a great deal to do. There is a lot that we should be concerned about, and it will need interventions on a greater scale than those which, humbly, I and others were able to advocate to get back the important mojo that our financial and professional services require.

The Chair: Could you give us specific examples?

Andrew Griffith MP: Motor finance is a topical example after the event where cleverer people than me will identify the interplay between statute and common law. Essentially, a large-scale number of bargains are being re-litigated after the event, which produces a lack of certainty and clarity for consumers and regulated entities alike. That has a very material impact. Whichever way you look at it, there will always be a value judgment, a balance of harms, that has a chilling impact.

You mentioned the consumer duty. I came late to the Bill. The consumer duty had already left the stable before I arrived, bolts in hand. My issue with the consumer duty is not the unobjectionable desire to protect consumers, but the fact it unleashed into the wild a new duty of care that was not clear, had not been clarified, did not benefit from precedent, and created a vast amount of rework from a regulatory corpus that itself had always had regard to protecting consumers, in some cases overprotecting consumers from themselves. I will try to keep my remarks as short as possible, but I have given you a couple of examples there. You can push me on individual areas.

The Chair: On the consumer duty, we have had quite a lot of evidence, and there have been mixed views, but, generally speaking, one of the criticisms has been lack of clarity in the definition of the consumer duty and treating consumers fairly and what that means. Practitioners, financial firms and so on, find it very difficult to get guidance from the regulator as to what it means and then find themselves having to hire big four people at great expense to find out what everybody else thinks it means. The intention was clearly good, but what is the remedy for moving from where we are now to where we should be?

Andrew Griffith MP: Intention is always good, but financial services are a particular example in practice of the law of unintended consequences. There is not enough regard to unintended consequences when making laws and, in my view, in the regulatory bodies themselves when they weigh the merits of action versus the merits of inaction. One of the reasons is the lack of wise heads around the table with experience at the sharp end of being practitioners.

I do not say this in a pejorative sense, although some people may take it as such, but if you end up with a class of professional theoretical regulators, whether it is in financial and professional services, or in the Competition and Markets Authority or any of our other big economic regulators, they will have a tendency, I observe, to end up with overly theoretical, overly bureaucratically informed regulators rather than those who end up at the sharp end of having to interpret opaque guidance. It is extremely hard to kick a ball through the goalposts if those goalposts continue to move, which is what we have been doing for too long to our financial and professional services.

Q243 **Lord Hill of Oareford:** Where are you on the previous discussion about a potential retail/wholesale split?

Andrew Griffith MP: I am dissatisfied with the status quo. To bring this to life, when, for example, one looked at the role of the regulator in dealing with interparty contracts between a globally large insurer like an Aon or an Allianz, and one of the most sophisticated financial institutions like a JP Morgan, a Blackstone, a Goldman Sachs, when both parties were well advised and no consumer was directly involved in that, we would nevertheless seek the regulator to be in the room. There are other examples. We see regulators mandating themselves to attend the board meetings of private commercial companies. I would love to find the debate in Parliament where that was a direct consequence as opposed to mission creep and role expansion.

From what I heard from the witness in the previous session, there are a lot of incentives. This is not about the malice of anybody who operates in the system but about the incentives and the lack of black-letter common-law precedent that prevents those roles expanding and expanding. There is a point of accountability for us in this place to be comfortable with the risk that not every harm can be fully remedied. I observed as City Minister that every time anybody found some perceived or real harm, there was a clamour for additional regulation and legislation. It takes a certain fortitude—I see a lot of fortitude in this room—to have a restraining hand on the temptation to come up with another regulation.

That is not quite answering the question. I briefly looked at the merits of changing the regulatory structure. A lot of consumer protection could be put in a more clearly consumer-protective front end, but a lot of it is actually about the people around the table and the culture that we set them around, if that makes sense.

Q244 **Lord Hill of Oareford:** Given the changing context worldwide—America, the regulatory debate that is clearly going to change on financial services more broadly, the changing climate in the UK, the growing emphasis on growth and competitiveness—if we accept that there is more of an opportunity to have some of these discussions, what would you be concentrating on if you were back in your old job thinking how you could get to grips with some of the things that obviously frustrated you a lot last time but were not able to get to grips with?

Andrew Griffith MP: Fewer, bigger, better—in terms of the calibre of people. Again, I do not want that to sound damning: there are lots very good people operating systems that we here in this building are responsible for setting up, but it is not just about the raw volume of people. It is also true that if you seek in any way to reduce the size and role of the state, you will end up with people who will always look for problems and seek to aggrandise their roles and positions. So we need fewer people, and we need to accept that, when you are trying to engage in a symmetrical fashion with very sophisticated financial counterparties, you may sometimes have to step outside the pay bands. We need a third of the people but pay them at least double and have good performance management, because these are sophisticated organisations that we are trying to seek lead. That is one point.

Next, we need more practitioners around the top table. Again, everything I say will sound pejorative taken out of context, and no doubt someone will do that, but there is a tendency for a revolving door from one regulator to another regulator, from the Treasury to a Treasury arm's-length body and back again. One decries experience at one's peril, but we are all in favour of diversity these days, are we not, so some cognitive diversity and more voices of practitioners would be welcome.

I was in no way a believer that one can accomplish that by setting up lots of subsidiary panels. The rejoinder when I challenged why we did not have more practitioners around the top table was always, "We've got this panel here, and we've got this panel there". But those panels were carefully guarded by the salariats, and they were not effectively hardwired into a decision-making system.

We may have talked about this in the past, but there was quite a lot about the role of regulatory impact assessments and some of the accountability mechanisms. You may have a complaint about how you have been treated by a regulator. Again, it is perfectly possible that a well-meaning, diligent regulator in a human organisation can nevertheless make mistakes and not reach an outcome that a regulated entity is happy with.

It seemed to me that there was a shocking conflict of interest in that there was no external independent regulatory body. Indeed, the financial regulatory review commission—the FRRC—was appointed to any creature of the FCA. That seemed to me wholly inappropriate. That is a conflict of interest that we would not allow in any other walk of life. We took steps to remedy that, but I believe there is still a resourcing issue and an issue ultimately about the things that bring to accountability the way in which regulators do their job.

Let me just make one final comment; one is unburdening to oneself. There is also an awful lot of mission creep amongst the financial regulators. This is not a value judgment, and it is not that government in all its different forms should not look at this elsewhere, but I was aghast to discover the amount of time one found regulators devoting to agendas like net zero, which is a subject of this House and not something a regulator was ever elected to look at, the diversity agenda, which seemed to me very fulsome, and other agendas.

If one's financial and professional services were growing like Jack's beanstalk and we were knocking it out of the park and as an economy delivering productive outcomes and wealth for our citizens, one might conclude that, at 3 o'clock on a Friday afternoon, the day job having been done successfully for the week, there may be time to turn one's hand to other agendas. I found that that was very often inverted. There was a lot of time and focus on these agendas right up to the most senior levels of these organisations, lots of speech-making, lots of conferences to be attended on things that our citizens may think are not the proper scope

of these regulators, even if they are the proper scope of this House, this place, our role as legislators.

Lord Hill of Oareford: To be fair, they were doing that stuff because politicians dumped those responsibilities on them instead of taking them themselves. So when we are pointing the finger at mission creep—I have a lot of sympathy with what you said there—I have to say that the responsibility for a lot of that lay with your colleagues dumping it, because they did not want to take responsibility for it. So they were obliged to do this stuff.

Andrew Griffith MP: I think that is fair. I suspect it is a little partial in that some of it was indeed mandates that were imposed on them. Some were mandates they sought, solicited and lobbied for. Others, as with any organisation, were faced with a probably bewildering set of objectives from the various different regulators and stakeholders. To a degree, there is an element of shopping which particular priorities the executives felt most interested in or passionate about pursuing. Is that fair? Certainly, coming from politics, I have never eschewed the fact that we, as leaders, have a lot of responsibility, and I do not blame any of the individuals in the system who are operating frameworks that, ultimately, we are creating for them whether by statute or by culture. Smart people would try to go up stream and get those things right.

Q245 **Lord Vaux of Harrowden:** You just mentioned culture, and in your opening statement you talked about the fact that we have lost the culture of caveat emptor. That seems to me to be a rather wider problem. I am curious to understand how you think the regulators can deal with that wider cultural issue. In particular, as we heard from Mr Afolami, when anything at all goes wrong—because there was a risk that went the wrong way—the regulator is attacked by the MP, the consumer groups, et cetera, and the buck seems to stop there. How can the regulators deal with that, or do Parliament and the Government have a greater responsibility in making sure that those risks are defined and in changing that overall culture? Within that, how do you think the remit letters work? If you want to, please comment on the latest remit letter that went out.

Andrew Griffith MP: We have a lot of agency, and I do not shy away from that. All too often, something goes wrong before there is proper objective diagnosis of what has gone wrong, whether it has gone wrong, and whether the data says that a particularly bad outcome in proper statistical context is not actually a materially different outcome than that which could have been expected. Nevertheless, in a cycle of 24-hour news and social media, there is often a pile on, and we could all be a bit wiser and exhibit self-restraint there.

As I say, there is the law of unintended consequences. I see that daily in the legislation that comes before me as a Member of the Commons. Every successive Session of Parliament seems to make it a point of virtue that it is passing even more laws in even less time for scrutiny than its predecessor. That does not seem a good thing to me.

There are a lot of upstream issues about the time that Members of Parliament are allocated to debate and scrutinise, the background experience of those who serve and put themselves forward, and the way we make the best use of both Chambers. It is a much bigger issue than just financial regulation. I see exactly the same thing in competition policy, quite esoteric theories of harm that fly in the face of actual consumer patterns, and a lot of time and money being spent which has a chilling effect on the economy. That is not a perfect answer, because what I am saying is I do not think there is a magic silver bullet to that.

Q246 **Lord Vaux of Harrowden:** I was going to say that I do not think there is an easy solution to all that. We have seen the latest remit letters that have been published that attempt to try to reset the risk appetite of the regulators. Do you think those are adequate or too vague?

Andrew Griffith MP: Within the realm of the current structure and with the exception of adding in additional goals and restoring the net zero objective, you cannot profoundly change everything that I have said in the preceding 10 minutes or whatever by means of a remit letter. Ultimately, if you want to change the culture of an organisation, you have to change the incentives, often change the scope of what it does, and change the people. You will need to have different people around the top tables of these organisations if you genuinely want a different approach.

My time in the City and my interaction with it as a long-standing finance director was much more in the era of self-regulation. It preceded a lot of the statutory regulation, and the dynamic, agile economies of the world will combine the best of the practitioner voice and the agility of the common law with the minimum effective viable product in terms of statutory regulation.

Q247 **The Chair:** Do you think there is a tendency among the big boys, the big organisations, to be less enthusiastic about deregulatory activity, because the impact on them of having huge compliance departments is less, and therefore there is a symbiosis between the regulators? It has been quite marked, in the evidence we have received, that a lot of very big organisations have come along and said, "Everything's fine. Everything's wonderful". Did you come across that in your experience?

Andrew Griffith MP: Yes. The biggest thing I came across is financial organisations, almost to a man and a woman, privately expressing profound frustration on every topic that we have talked about, whether it was the consumer duty, Basel 3.1, Solvency II or Solvency UK, the day-to-day conduct of the FCA, the omnipresent inability of regulators to give any sort of clarity of guidance.

It is what I called the first bottle of wine test when you are having a perfectly convivial conversation around the table. There would be the trigger pullers—the people who are actually running money and making those very difficult decisions to locate capital in the UK and put hires in the UK, often straddling multiple jurisdictions where we never even see the loss of business from London to Amsterdam or London to New York

because it happens at the stroke of a single executive's pen or a single product line on a dealing desk. At that level, there will always be a little bit of bias. People will use those occasions as opportunities to unburden themselves of their frustrations.

Every business has to deal with and rail against a certain level of regulation in a modern economy. But there was a very asymmetric situation between what would be said to me as the Minister in private as to what should and would be my focus as it related to the regulators, and what was said face to face with the regulators or on a public forum. It is not the only industry in which one sees that. One sees that in many other industries, but that was definitely a feature.

To answer your point, there was a big difference between those who were fully vested in the success of the UK regulatory situation and who could not merely arbitrage the latest onerous or inappropriate regulation by moving said dealing desk or said product line offshore, versus those who were fully vested in the UK, either because they were a significant regulated UK entity or because their business practice meant that they were firmly in the UK and who were always, of course, much more vested in the outcome here. Others would be fairly indifferent but would say to me privately, "Look, if this goes ahead, we're just going to move capital into a different market".

The Chair: The committee shares your pain.

Q248 **Baroness Donaghy:** You launched the call for proposals in May 2023 on the metrics that the regulators would be required to publish for their secondary competitiveness and growth objective reports. We have heard from witnesses that the metrics were a good start, but that there should be more clarity and more development in them. If you were able to influence that development, what would you like to see in it?

Andrew Griffith MP: Forgive me, because it has been a little while since this was front of mind. It was very important to me that we did not just do what people have done in the past, which was to throw another objective over the wall with no tracking and measurement. So the focus on metrics was designed to give some credibility to that and drive behaviour and performance over time. The metrics that I certainly advocated at that time came from the industry. They were things that industry participants had suggested, and I went directly to them to obtain some of those.

The key thing to me is not the metrics themselves; it is very rare that one metric is a universal law of gravity. It was the fact that there was a set of metrics that were correlated to what everybody believed would be a success and that there would be a regular drumbeat of monitoring and accountability that would drive compliance against that. I have not subsequently revisited that topic, so I do not want to say anything.

Baroness Donaghy: Fair enough. Some were suggesting that perhaps more international comparisons could be included. I am sure you will

agree that as those metrics develop over a period, the picture is painted and become more reliable. Is there more of a role for the cost-benefit analysis in all this? We have asked the FCA this question, and some panels are in very early stages or have not even started at all. Would you see any benefit in that area being developed much more?

Andrew Griffith MP: Absolutely, 100%. It is in the Cabinet Office guidance anyway for legislation, but it seems to me that any properly conducted cost-benefit analysis is key to making regulations that, at the stroke of a pen, can change the employability prospects of thousands of people in the UK and can deny people products, the access to credit that allows them to improve their lives, and the ability to invest past wealth between generations.

You absolutely have to get it right, and if my key theme is the law of unintended consequences in financial services, there are mitigants. One, which I have identified, is having more wise practitioners around the table. Another mitigant is a diligent cost-benefit analysis that goes as wide as possible to try to anticipate those unintended consequences. So you are absolutely right.

Baroness Donaghy: But would you not say that one person's unintended consequences are another person's risk? There are a lot of bad guys out there—and girls; I apologise.

Lord Grabiner: Hear, hear.

Baroness Donaghy: There are a lot of bad people out there, and it is the FCA's job, first and foremost, to catch them or stop them.

Andrew Griffith MP: History teaches us that they are not very good at that either. So I would argue that we have the worst of all worlds. One does not know the counterfactual, to be very fair to everybody, but we nevertheless seem to keep changing the regulatory set-ups every few years. None of those set-ups—and I am not sure they ever should or would—will completely extinguish the prospect of another type of what people would regard as financial mis-selling or an LDI balance sheet-type scandal. They are somewhat inimical, but my point is that, despite what many would say is an overweening, crushing level of risk aversion in the system, we nevertheless keep finding additional examples where people say that the regulations are deficient. So I am not sure we have the best of any of these worlds.

Q249 **Lord Smith of Kelvin:** I would like to know your views on the mandating of UK pension funds to invest in UK assets. I am old enough to remember when that is what they did, but they do not now. Are you in favour of mandating them to do it? If not, what incentives would you suggest?

Andrew Griffith MP: I am not in favour of mandating. That was a red line that I did not wish to cross. It is a very dangerous point in time, and we have all sorts of nudges in regulatory systems, but I am not in favour of an explicit mandate where Parliament, or indeed any particular

Minister or Chancellor, is overreaching what are normally incredibly nuanced asset allocation decisions. There is a practical point about what one would mandate anyway. It is easy to say at a superficial level that we should put 5% of assets into the UK. I have heard that rehearsed a number of times. No one ever quite agrees on what assets are, and no one ever quite agrees on what the UK is. So there is a huge amount of definitional challenge even if one thought that in principle it was a good thing to do.

Conversely, there are vast amounts of frictions in the system that are militating against people investing in good UK growth assets and, indeed, the pipeline of UK growth assets even being able to find sources of UK capital. So although it feels less like there is one silver bullet or one magic lever that a Chancellor can pull, I much preferred to work on a very large collection of regulatory changes that sought to remove those points of friction, whether it was about how people could get advice, how you had a stable fiscal framework that allowed people to build and accumulate pension capital—something I regret the Government have put somewhat in play—or the detail of the financial regulations.

If you want to get better investment in UK assets, the answer is found in a subclause of a subparagraph of a paragraph of the DB code book. That is quite dull. That is not retail stuff, and it does not even make it to a Mansion House speech. But some of the presumptions about liquidity and how one should be holding a certain level of liquidity for the entirely theoretical risk of immediate access being desired for something that people have tied up for 25, 30 or even 40 years is a much bigger lever to pull, albeit quite a buried one, than it is standing up and making a speech about mandation, which would be hard to do in practice and wrong in principle.

Q250 **Lord Hollick:** I am rather puzzled. We have heard from you. We have heard from a previous witness. We have heard from many practitioners on a private basis, and sometimes on a public basis, echoing all the same issues and concerns. You have been on deck for the last few years, so why have there been no changes?

Andrew Griffith MP: There have been changes, so the thesis I am happily sharing with you is that there have not been enough, but it is not true to say there have been no changes. There have been quite material changes. There has been a new secondary duty of growth.

Lord Hollick: Has that made any difference at all?

Andrew Griffith MP: Change will take time. With respect, your thesis was that there has been no change. I am more balanced. I think there has been some change, but we would desire further change. Without seeking to lecture any of your Lordships, the process of change takes a very long time. There are consultations only now concluding that were in the Edinburgh reforms that must have been announced in 2022, I think. So there is a process point, and one of the things we could do ourselves tomorrow is relieve the FCA's duty to consult.

Again, there is a balance. Sometimes one person's consultation is a chance for industry to shape a regulation that will have a very deleterious effect, but another person's consultation is a very slow way of making changes happen. Most Ministers you will take evidence from will share a degree of frustration, having been democratically elected and often coming in with a very clear mandate to make change. It is probably pretty rare for a Government to come in without a desire to make changes in the status quo and find themselves unable to make appointments or remove individuals as required.

That was a battle that I lost. There would have been some personnel changes I would have made in order to get the culture of the financial regulatory system to move more quickly. It can still happen in time, but it is slow. We fetter our democratically elected politicians, and then we put around them a framework of judicial review, of endless consultations, of consultations that happen once at the level of the Treasury and then again at the level of the PRA or the FCA.

It all militates against making change at anything like the speed that I would like and which many of the people in the industry would say is an adequate response to the speed of modern life and the fact that, as a nation, our competitive set is much broader. I rail against anybody who says that our competitive set should be the G7. It is not the G7. The G7 is a group of other countries that are slowly growing, except for the US. At the very least, our competitive set as an economy should be the G20. Even outwith that, some economies are coming up on the inside and would happily eat our lunch for us in this as in so many other industries.

I do not think we did not make any change. I am proud of many of the things that we did. We started to unlock our freedom once again as an independent sovereign legislator to make changes. The Financial Services and Markets Act 2023 was a very significant body of change, but I hope I can say that and at the same time be open-minded enough to say that that change was linear in a non-linear world, and we need to up the rate of change.

Q251 **Lord Hollick:** The change we have seen and heard from witnesses about is the dramatic increase in the cost of compliance. The biggest growth seems to be in the compliance departments of most of the financial institutions. Yet, with all your good intentions to do this and the criticism on both sides, you are saying that the system itself is against making change. If you were given the opportunity to lead the FCA, what changes would you make to remedy and reflect these problems?

Andrew Griffith MP: I would very significantly reduce the size of the rulebook. Everybody talks about outcomes regulation, but that is not in any way the experience of somebody who is regulated. You can have a perfectly good outcome, yet you can be fined because you have not kept the right records. You can be fined because of some conduct failing, even when it has not led to a deleterious outcome. That is an example of walking the walk on outcomes-based regulation rather than process. We should understand that the human condition tends to fall back on

process. It is much easier to see whether you have an A-to-Z file and the entry for P is missing than it is to unpick a bargain and relitigate that with hindsight. That is why you will tend to end up with much more process regulation.

It is true in most walks of life, sadly, that we see an expansion in the number of compliance staff. That is true in an area I know very little about, employment law, just as it is true in financial regulation, and it is probably true in planning law. So we have a proper job to do to get back to much more of a common law system. That will not be easy, but for 40 years our two legal systems were intermeshed and it seems to me, inexpertly, as I am not a lawyer, that we ended up with the worst of both worlds. Historically, we had the benefit of common law and a predilection for contentious litigation in the common law, but we also ended up with a vast corpus of statutory law and implied duties of care. As a result of the mishmash of those two things, in many domains we end up with a lot of people if not actually litigating then adding protective layers against that.

Q252 **Lord Eatwell:** I am struck by your discussion of the practitioner role, because I used to be on the board of the Securities and Futures Authority, which was a practitioner-run board. I was an independent member; I was not a practitioner. I am also struck by two other things. First, as has been mentioned, a significant number of major financial institutions have sat where you are now and have told us that regulation is terrific in this country and is an ace thing to do.

The other thing that struck me is your pessimism about the speed of change, because, if we look over the last 30 years or so, we changed our financial regulatory system here quite dramatically. We used to have the SIB and the SROs, then we changed to the FSA, and then we changed to the FCA-PRA structure that we have now. At the same time, there has been a significant development of international financial regulation to which we are committed in a sort of soft-law structure, as it is called. So British institutions sit on committees in Basel and Madrid, and we agree to the rules that will be the framework for international financial regulation, which has grown and grown.

Given that, as you quite rightly say, we have a very successful financial services industry that has to operate in a global market and is very successful in that global market, the issue is how it changes if it is breaking away from everybody else, in the sense that if we do not build equivalent structures, it will be very difficult to sustain our growth in the global market. The process of change can be quite quick, although you need a crisis to do it—you get the crisis, and then you will get the change quite quickly—but the process of change has to be at a different level from just changing our rule book, surely.

Andrew Griffith MP: You are right. There are a lot of international standards. That is a good dynamic in any natural market, whether it is agreeing on a particular type of socket for your phone or something else. I have no issue with any of those, but they still tend to be principle-based. A lot of the issues that we are talking about that would come

before this committee, and when we think about the competitiveness of the UK, are actually about the proportionate application of regulations: the proportionality. I did not see a lot of proportionality in the system.

Probably the best single argument for financial regulation is the stability aspect, because otherwise you are externalising a lot of private problems to the state, and we have seen that happen. Stability regulation tends to sit within international frameworks, but the level with which that is then applied all the way down the banking system, while still entirely missing issues like Silicon Valley Bank UK, is not proportionate. Again, that is not to say that FSB frameworks or the Basel frameworks are not things to have adherence to. Even in Basel, the US and the European Union took very different approaches within an overall agreed framework.

Q253 **Lord Lilley:** As we are approaching the end—you have made many very interesting points—are there one or at most two points you would most like the committee to remember and incorporate in its report that will change the universe?

Andrew Griffith MP: I would like you to take away the point about practitioner regulation, because, ultimately, the only way through is by writing lots of detailed codes but having things that are proportionate and tolerant of risk. We have overly ivory-towered some of the financial regulators, and we should look at the financial regulators not as articles of faith that descend bearing tablets of stone but just as organisations and economic regulators like any other. That is particularly true of the Bank of England, but it is also true of the financial regulatory structures. We should look at them in terms of how we scrutinise the actual outcomes, the processes and the people within them who are discharging those functions.

The final point, which is a much broader point, is the philosophy of risk that Parliament, sitting not always at the top but on many occasions successfully at the top of the financial legislative tree, is willing to have. It could be through mechanics like cost-benefit analyses, it could be through better scrutiny of legislation, and it could be through the operation of this or other committees. I would like to see that.

The Chair: That is a good point to finish on, and we are extremely grateful to you for your answers and for everything you did as a Minister to move this agenda forward. Thank you very much.