



# Financial Services Regulation Committee

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

Wednesday 11 December 2024

10.05 am

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

Evidence Session No. 21

Heard in Public

Questions 254 – 269

### Witnesses

**I:** Debbie Crosbie, Chief Executive Officer, Nationwide Building Society; Robin Fieth, Chief Executive Officer, Building Societies Association; Julie-Ann Haines, Chief Executive Officer, Principality Building Society; Steve Hughes, Chief Executive Officer, Coventry Building Society.

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## Examination of witnesses

Debbie Crosbie, Robin Fieth, Julie-Ann Haines and Steve Hughes.

Q254 **The Chair:** Welcome to today's meeting, which is the 12th oral evidence session as part of the committee's inquiry into the FCA's and the PRA's secondary competitiveness and growth objective. Thank you to Ms Crosbie, Mr Fieth, Ms Haines and Mr Hughes for attending.

A list of the interests of members relevant to the inquiry is available online, this session is open to the public, is broadcast live and is subsequently accessible via the Parliament website. A verbatim transcript will be taken of the evidence and will be put on the Parliament 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 the evidence session, you wish to clarify or amplify any points made during your evidence, or any additions you want to make, you are welcome to submit supplementary written evidence to us.

I should just warn you that because I have to be in the Chamber at 11 am because today the House is sitting in the morning, which is unusual, I shall have to leave the meeting at 11 am, and Lord Hollick has very kindly agreed to chair the remainder of the meeting. So, Debbie, would you like to make an opening statement of some kind?

**Debbie Crosbie:** Yes, thank you, Lord Chairman. First, I welcome the committee's emphasis on growth. We can all agree that growth is essential for raising living standards, funding public services and, of course, the UK's international competitiveness. I will just make four very brief points which build on the evidence that I submitted.

First, the interplay between outcome-based regulation and the current complexity of the overall regulatory landscape makes firms overly cautious and stifles innovation and growth. The fact that we have eight main regulators and multiple additional public bodies run by 13 different MoUs creates a very complex environment. A particular example is the Financial Services Ombudsman's interaction with the FCA. I really welcome the FCA's and HMT's work to clarify the ombudsman's remit, because it has become a quasi-regulator, which drives a level of uncertainty which is quite unhelpful. Just to be clear, I very much support an outcome-based system, but what is critical in that outcome-based system for it to work effectively is simplification and clear remits.

Secondly, we have a very congested regulatory pipeline of change, and that is particularly acute in the payments arena. I welcome the *National Payments Vision*: that gives the Government an opportunity to consider streamlining the delivery mechanism. UK Finance recently suggested that 90% of firms' budgets in regulatory change and payments is spent on the regulatory environment, so there is a great opportunity there to reconsider how those initiatives are delivered, streamline them and move them to a more commercial basis.

Thirdly, in my evidence I have suggested a couple of changes that could help promote growth in the number of first-time buyers. This is a really important issue; neither of the issues that I suggested for some change would impact the overall core regulatory objectives and would be very helpful to first-time buyers in getting on the housing ladder.

Fourthly and finally, it would be really helpful for Parliament to request that the regulators report on the building society environment on an annual basis. It is very important that the reviews of rules that apply to the Companies Act, banking regulation and the Building Societies Act be reviewed at the same time to keep them in step. That would be very helpful. So I will pause there and I will be delighted to build on those points further during the session.

**The Chair:** Robin, would you like to make a statement?

**Robin Fieth:** Just a brief one, if I may. The Building Society Association has existed since 1869 with a single purpose: to champion and support the whole of the UK building society sector, and nowadays that includes some of the larger credit unions. Members will be aware of our scale, but we represent 24% of the UK mortgage market, 19% of all cash deposits in the UK and 40% of cash ISA balances, so a sizeable part of the financial services sector. We employ well over 50,000 staff and, increasingly important in the current environment, maintain 1,300 branches, which is now 30% of the total presence on the high street. The sector's standing is actually growing and has been growing consistently since 2012.

As an organisation we have long been calling for more proportionate and appropriate regulation, rather than one size fits all. By proportionate we mean in terms of size and complexity and appropriate to business model. Too often we see plc banking regulation trying to be applied inappropriately to building societies, and that is problematic when it comes to thinking about just how the sector flourishes.

As you would expect, we are delighted with the Government's commitment to doubling the size of the co-operative and mutual economy. We welcome the secondary objectives of both the PRA and the FCA to support both international competitiveness, but also thinking about competitiveness within the UK economy. As part of the mutual sector we are, of course, customer-owned and play a vital role in providing that competition and greater choice for consumers. But also that structural diversity and resilience to the banking sector, which is something that particularly the prudential regulator has increasingly recognised in the past 10 years, is something we welcome. Thank you.

**Julie-Ann Haines:** Thank you very much for the opportunity to join you today. I am here representing Principality Building Society, a building society headquartered in Wales. We serve 500,000 members and it is really great to be able to bring a regional perspective to what is a mid-tier mutual building society.

We are a simple business—we take money from one group and we give it to another—and yet the complexity that sits behind the business can be astounding for people joining our organisation as one of our 1,100 colleagues, or indeed when you start to talk to members. Just to give you some examples, we have 29 active legal and regulatory change or watching brief projects open that are requiring resource commitment and investment. We spend £20 million on our change activity, and that is to cover all the things that our brokers, our clients and our customers would want, but, at the end of the day, this year 70% of that investment is focused on regulatory operational resilience and legal change. So that means the ability to deliver really what members need and what will safeguard the future of our organisation so that it lasts another 165 years. This means that the opportunity becomes very difficult and there are very significant trade-offs that we need to make as a board and as a management team because we hear from our members, and take very seriously, that safety and trust is paramount to them, and it is right that we therefore prioritise that.

I guess there are three key messages I would wish to bring to the committee's attention. First, a one-size-fits-all approach to regulation is not providing the right framework for competition and growth. It imposes unnecessary burdens on institutions such as ours, and we are inherently less risky because of our business model and our focus. We are about long-term, sustainable thinking, and when you look at the arrears performance of building societies, you can see that that long-term attitude to risk does provide safe, sustainable returns.

Secondly, we recognise and welcome the Government's commitment to supporting the mutual sector and the introduction of the secondary objectives for the regulators. These aspirations, though, need to be embedded in regulatory culture to ensure that there are tangible benefits for mutuals and customers, and make sure that the economy and financial exclusion are working hand in hand.

Thirdly, when I look at the cost and proportionality, this does mean that the level playing field does not exist. There are too many points where there are cliff edges for organisations in the mid tier, as a building society, to manage. I look forward to discussing these topics in more detail with you.

**Steve Hughes:** Thank you, Chair. I am CEO of Coventry Building Society. We are one of the top three building societies in the UK, the eighth biggest mortgage lender, and the third biggest buy-to-let lender in the UK. We represent 3 million members and 3,000 colleagues, with a balance sheet of £64 billion. At that scale, I believe we are a true alternative to many of the bigger financial institutions.

I welcome the opportunity to discuss three areas with the committee today that can make a meaningful difference to growth. Clearly, my perspective is primarily around the mortgage and savings market within the UK. They are: proportionality in terms of scale, but also in terms of

risk of balance sheet; a regulatory framework that maintains strength but is simple and focused; and a regulatory framework that takes in to account the variance in and difference between business models, which is very important and confirms my colleagues' view that one size does not necessarily fit all. Thank you.

**The Chair:** Thank you for that. Debbie, can I just pick up on the splendid and very helpful written submission that you provided for us? In that, you say that Nationwide alone received 4,519 pieces of direct correspondence from your regulators in one year, in addition to 488 meetings during that period. Do you have some indication of what the cost of all this compliance is, and how on earth are you able to cope with that volume of material?

**Debbie Crosbie:** I hope the information is helpful; we wanted to provide a broader context. One of the challenges is if you focus only on data requests it gives you quite a narrow view of what I describe as the overarching regulatory burden.

The cost for Nationwide is very high. We can take away an action to look at specifically, but it takes a lot of senior management time, and we have to employ a number of people who are charged specifically with making sure that our regulatory interactions are compliant, because they are very frequent, are well managed. I would just say that this year has been particularly high because of the acquisition, but we have provided statistics for the previous year just to give you some helpful context. So, yes, it is costly, and the burden is very high.

**The Chair:** Another example you gave was an attestation requested in relation to account closures, where you said it required input from 14 teams of Nationwide across a five-month period to provide the senior management with appropriate reassurances to give the attestation. Would you not have had to have done that anyway, or was this an unnecessary request?

**Debbie Crosbie:** The point that I am trying to make clear in the written evidence is that with the SM&CR regime that is already in place, which does very clearly give senior management accountability, the addition of personal attestations is often not necessary. I accept that it is an important regulatory tool, and there may be occasions where it is required, but you can see in my evidence that in the last 12 months Nationwide has had 12 examples of individuals giving personal attestations.

This particular one was very burdensome and complex because it involved a lot of data collection and individual file reviews, and a huge amount of analysis. These are the same people who perform roles such as helping us innovate to combat fraud so, as well as it being a cost to the organisation there is an opportunity cost as to the other work that these people could be doing, if they were given the opportunity to focus on different matters.

**The Chair:** Robin, you are wearing your hat as representing all the building societies. Debbie mentioned the role of the FOS acting as a quasi-regulator. There is a major problem arising with motor commissions, where businesses that have been following the FCA rulebook provisions now find that they are not in line with the proceedings of the court, and that has huge implications for those businesses. Do you see any possibility of contagion going beyond mission structures that are related to motor commissions?

**Robin Fieth:** That is a difficult question to answer at this stage.

**The Chair:** That is why I asked it.

**Robin Fieth:** The reason it is a difficult question to answer at this stage is because clearly the court process has not necessarily completed. So, if this case goes to the Supreme Court and the Supreme Court finds as the High Court has done, then we have one situation. If the Supreme Court finds in the other direction, we are in a very different position. But the theoretical question then is: is any product sale at all that involves a commission that is not completely disclosed potentially at risk? I do not think we can give an opinion on that at this stage, but it is certainly something that Parliament and regulators need to be very conscious of.

**The Chair:** But it does illustrate the position of the FOS relative to the FCA.

**Robin Fieth:** At this point we cannot necessarily even conclude on that because this case went through the courts, not the ombudsman. So that is why we cannot conclude that.

**Baroness Noakes:** Can I just follow up on attestations? The use of attestations is increasing, is that right?

**Debbie Crosbie:** It is. Certainly, in Nationwide we saw more requests of attestations last year. Now that may be particular to Nationwide, but we did see more requests than we have seen previously.

**Baroness Noakes:** Are they in circumstances you would not have expected in the past?

**Debbie Crosbie:** My view is, because of the SM&CR regime, it should be almost a very special set of circumstances where it is required. In the large majority of cases we believe that there are other mechanisms that could be used and it is not required.

**Baroness Noakes:** Is this specific to you, or is it something that is felt elsewhere?

**Debbie Crosbie:** I do not believe that Nationwide is a particular outlier, but that is something that I do not know.

**Baroness Noakes:** It is a point that has not been made to us before.

Q255 **Baroness Donaghy:** I would just like to echo what the Chair said about thanking you for the information that you provided. What we are trying to sort out is the extent to which some of this is culture, and the extent to which either clear government guidelines or further statutory instruments might be required, as well as the interaction between the various regulators, which seems to add complexity.

The Chair was quoting some of this, but the FCA alone accounts for 1,950 pieces of correspondence and 106 meetings over that time just for Nationwide. Do you have any suggestions about picking out the extent to which it is overlap of regulation, culture within the organisation, or the need for clearer government direction on the detail, as opposed to the overarching guidelines they have already given?

**Julie-Ann Haines:** Thank you for the question. Unfortunately, it is a combination of the three factors that you have pulled together. Between us we could absolutely provide examples of where there is duplication with multiple consultations and papers coming out from multiple regulators on the same topics. Simplifying that consultation process and therefore simplifying the rules that come to firms would really help and ensure that there is more joined-up thinking, and that would reduce burden and overhead in terms of the number of consultations and changes that we need to drive in our business.

On the culture point, ultimately there is a role that Parliament can play within that. Getting a risk appetite is really interesting. It is very difficult to say that you cannot take any risk in a business, and it is about trying to have a really open dialogue about what and where is the right risk to take. So having very restrictive regulations can mean you exclude customers from getting advice for products, or necessarily being able to get on to the housing ladder; what we need to encourage is a much more fulsome debate about this.

**Robin Fieth:** As a mini-example I would just add that there was a consultation two or three years back. To start with it was a joint discussion paper from the Bank of England, the PRA, and the FCA on diversity, and whatever your views on the idea of diversity being a regulated activity, it was a joint discussion paper.

When we came to the consultation paper, the FCA and the PRA both issued over 250 pages of consultation paper on the same day, on the same subject, because they decided they wanted to do it separately, not together. So we all had to spend a lot of time, first working out what the differences were, but actually dealing with 500 pages of new consultation where we could have probably dealt with 300. Of course, both regulators will have spent a lot of time putting those two together. So there is an example there.

The second question, which is quite live at the moment, is having seen the full implementation of consumer duty, we have now had the first call for input from the FCA on what should be done to the existing rulebook. Our overarching thought is that in some parts it is a little too early to say

because we have no track record of the consumer duty in action, in play. So we welcome that first review, but there will need to be a second review. The second review might actually prove to be much more beneficial in terms of identifying parts of the rulebooks that could now be superseded by consumer duty. So there are a couple of examples there that we can think about.

**Lord Grabiner:** I just want to ask you about those Nationwide figures, which are very interesting. Apart from the pieces of direct correspondence, have the 488 meetings over the last 12 months all been at head office or have they included meetings in branches?

**Debbie Crosbie:** I would have to confirm, but I would say the overwhelming majority will be with people in the head office. We have also had the FCA visit some departments; for example, we had it come to visit our fraud department to understand the workings. So there are occasions where the FCA will, if you like, come behind the scenes, but I would say the large majority of those meetings are head office-based.

**Lord Grabiner:** I worked out that if you ignore weekends and holiday time, that is something like, ballpark, three times a day.

**Debbie Crosbie:** It would depend; obviously, certain individuals will be called very regularly and other individuals less regularly.

**Lord Grabiner:** What do they talk about in all those meetings?

**Debbie Crosbie:** It is a very broad range of subjects.

**Lord Grabiner:** It is a serious question.

**Debbie Crosbie:** There would be very regular dialogues on particular topics; for example, economic crime would be something that we would have probably monthly sessions on and there would be a lot of meetings on things such as consumer duty. It would be a very broad range of topics.

**Baroness Donaghy:** Do you ever question in those meetings—not necessarily you personally but other senior managers—whether something is actually necessary, whether it is disproportionate? Without breaking confidentiality, do you query the extent to which this information might be unnecessary and never used afterwards?

**Debbie Crosbie:** Yes, there have been occasions where we have asked for clarification as to why information is required, and we have asked for opportunities to remind the regulator about previous submissions, et cetera. So there is normally a very constructive dialogue with the regulator about the information and the meetings it requires, and it is open to suggestions about how best to achieve its objectives, so that is constructive.

**Lord Eatwell:** I was just wondering about this what seems to be excessive interaction between the regulated community and the



regulators, as to whether this might be a product of our commitment to principles-based regulation.

In this country we are very proud of going for principles-based regulation, where the broad framework is set down and then the rulebook is rather more flexible, in adaptation—and indeed should be in permanent adaptation. It just seems to me so extraordinary that I am wondering whether this is the overall product of the system, that we have created a monster which we did not realise we were creating.

I wonder whether you have any comparisons with other countries. For example, the Netherlands has a housing finance system relatively similar to ours. Are the Netherlands' equivalent to building societies bombarded with the same amount of interaction by its regulators?

**Robin Fieth:** I do not think we are in a position to answer that question. There is quite a lot of focus at the moment on the FCA, and I am thinking about the smaller end of the building society market; what is quite instructive is the evolution of supervision, particularly by the PRA in the last 10 years. Ten years ago we were in the aftermath of the financial crisis and, as you would expect, it was pretty ferocious, and that was the world we were living in.

In a funny way, the period of the pandemic caused the regulators, particularly the prudential regulators, to stop and significantly revisit how they supervised the smaller building societies, because they could not send teams of six or 12 people out to occupy a building society for two weeks. They moved to much more regular touchpoint type conversations, and that has largely continued since the pandemic in a way that we would view as very constructive.

It is very easy to sit and criticise, and we have our criticisms, but we have seen that response from the PRA over a 10-year period, as the sector has strengthened, the sector has done a huge amount of work in terms of its business model, its governance and its capital levels. The PRA has responded appropriately to that in terms of modifying its supervisory approach so that it is not so burdensome.

The comparison that we perhaps can draw—which is never favourable for the United States—is the United States supervisory regime, which has best been described to me as a total patchwork. When we take groups of building society folk over to the States to meet their counterparts, they understand what it is to have the regulator, or regulators plural, living in your office all the time, in effect, even if you are not systemically important.

It is certainly not all bad here, but we then come back to the big issue that we should perhaps explore of where improvement is needed: that relationship between the FCA, its developing approach to consumer harm, and how that is then reflected by the ombudsman. We talk a lot about prudential risk appetite in the UK, but we talk less about conduct risk

appetite, and conduct risk appetite is something that certainly affects all our members.

**Q256 Lord Vaux of Harrowden:** Thank you. In your opening submissions you all talked about the need for proportionality in regulation. Can you give us some examples of where you think the regulators are not getting it right, in terms of perhaps where the differences are between you and the wider banking industry, where they are getting it disproportionately wrong, and how that actually is an inhibition on growth and competitiveness? Related to that, a couple of you mentioned cliff edges: we have heard from the banks about the MREL situation, and I would be interested to understand where those cliff edges exist in your industry.

**Steve Hughes:** My opening point would be that capital regulation needs to be proportionate to the business model risk. So, if I were to start with MREL and the backstop there, I was really encouraged to see the PRA talking on 29 November about reviewing the thresholds: £15 billion to £25 billion currently being talked about moving to £25 billion to £35 billion. Then there was an announcement for that sort of stress testing that it would be placed at 5% of all lending to businesses and residential borrowers. That would be £105 billion, where currently that kicks in at £50 billion. So I am really encouraged that the regulator is listening, and I would like to see that sort of agenda moved forward.

In terms of Basel 3.1 and the IRB models, which I am sure the committee has heard about, let me just give an example in terms of a data point. My view is that monoline low-risk lenders are penalised as a consequence of the changes. Something that I read this morning about my own business is that on a 50% loan-to-value mortgage under Basel 3.1 and IRB modelling, I will end up holding five times more capital.

**Lord Vaux of Harrowden:** Five times more than what?

**Steve Hughes:** Five times more than I hold today. Equally, for a 95% LTV mortgage, which you would deem to be high risk, I would hold 30% less capital. So these data points have been shared with the PRA. Chair, I am really happy to put those in to our final submission to the committee.

**The Chair:** Can you just explain how that could possibly come about?

**Steve Hughes:** I just think that the regulator is saying that there is more risk in low LTV lending than the models are actually calculating, and I do not believe that that is the case. But we will happily share that in detail in the submission, and that has been communicated to the PRA, so it will have seen my arguments on that topic.

**Julie-Ann Haines:** I absolutely echo Steve's points. We have had significant challenge over the last five years, whether that be coming through Brexit, Covid and the pandemic, or now a very significant cost of living crisis, but when you do the stand-back test the arrears data from the mutual building society sector shows that that has performed extremely well. There have been some modest increases, as you would

expect, but if I look at my repossessions data currently versus where we were 10 years ago, we are 85% lower than we were. So that is the stand-back test, and we would absolutely echo having to hold more capital. We understand that the objective is about financial resilience within the system, but the stand-back test just does not seem to pass muster.

**Steve Hughes:** Just to sort of add to Julie-Anne's point, since 2007 the cumulative losses in my organisation are £92 million, and that included the previous financial crisis. Under the final regulations, I will end up holding £300 million more capital, and I will hold capital that is eight and a half times the cumulative impact of the last 15 years of losses. So it just gives a sense of the level of capital we are having to hold for the risk in the balance sheet.

**The Chair:** Could you translate that in to either what that would mean for the cost of people's mortgages or the availability of the number of mortgages?

**Steve Hughes:** Yes, we did a calculation—again, I will confirm this in the final submission—and we felt that that was around 0.67% on a mortgage rate. Equally, the £30 million of incremental MREL cost that I have to put through the profit and loss account every year equates to £400 million of incremental mortgages I could have done. So we will bring this together, Chair, in our submission.

**The Chair:** That would be really helpful.

**Robin Fieth:** There are two points I would make. One is we have been very supportive of the PRA's approach to Strong and Simple, which is now nearing completion. But, as I have said previously to committees in the other House, it has taken far too long to get there, and we are still not there yet. We pitched that idea to the Treasury in July 2016 and we are now heading up to 2025, so it gives you an idea of the timeframe. Even within that there are points where we are saying to it, "Actually, are you really following the data?" The one that stands out for us, which is in Basel 3.1 and then translates in to Strong and Simple as well, is around custom and self-build housing, which may sound like a niche area. Actually, when you put it together, it is the fifth-largest housebuilder in the UK.

We provided a lot of data with our submission to the PRA that showed that arrears on custom and self-build in the last 10, 15 years have basically been zero. We were actually struggling to find a complete default, and yet in the final numbers, the PRA decided to put an arbitrary—at least, it appears to be arbitrary—20% haircut on the valuation of customer self-build projects going through the process. I say arbitrary because it has not been able to provide the data to support its 20%, and it sounds like a remarkably round number. So that is one where perhaps, when we are looking for proportionality, we are also looking for that proportionality to be properly data led. I really like the

phrase strong and simple in regulation because this is not about dumbing down or watering down, it is about thinking very hard about what is actually the simplest regulation we need for each form of business and each form of business product, to achieve the outcomes that we want, which is a flourishing financial services sector that is safe and sound.

If we go back to a Companies Act project from many years ago, that actually points far more towards moving to a “think small first” approach to regulation, which historically—of course, this comes out of the European Single Banking Act rulebook as well—has been, “No, we have the same regulation for everyone, and then we might chip away a bit and call it proportionate”. If you did the sums bottom up and the sums top down, there would be quite a big gulf in the middle.

**Debbie Crosbie:** Chair, I am not going to add much. We are the second—largest mortgage lender and the largest buy-to-let lender in the country. We do not face cliff edges, because of our size and scale, so while the issues that have been outlined do not directly apply to Nationwide, I would just support the general sentiment and I probably will not add any more.

**The Chair:** It means you have less competition. Can I just ask you to clarify that point about the self-build? You said a 20% haircut: does that mean that you can lend on only 80% of the estimated completion valuation, and then on that 80% you would also take a reduction, or would you lend the 80%? It was not clear.

**Robin Fieth:** We will come back to you with the full detail on that if we may, because you are getting in to that level of technicality that is beyond my capability.

**The Chair:** I am afraid it is a problem with this committee.

**Robin Fieth:** Not at all.

Q257 **Lord Hill of Oareford:** You have talked a bit about the effect of regulatory requirements on the organisation: the amount of compliance, the number of meetings. Can the three of you who run businesses perhaps just give us a feeling of how much time in the board you spend talking about regulatory compliance and these topics, as opposed to talking about how you are going to build the business, make more money and do innovation? It is not a science, but is there any sense of how that has shifted, and whether there is any sort of shift among your colleagues in terms of thinking, “Maybe we have reached peak regulatory requirement and within the board we can start thinking more about other things”? Could you just give us a sense of what it is like in the board?

**Debbie Crosbie:** There is a high percentage of time dedicated to what I would describe as governance and regulatory matters, and I would say that that is largely appropriate, given the size, scale and reach of our firm, but it has certainly increased. This is a helpful moment to step back. This committee is asking the right questions about whether the balance

of overall requirements has gone too far. It is really easy to focus on small, individual rule changes, but this is a really helpful moment, and this committee can play a significant role in stepping back and saying, "Has the balance gone too far?"

**Lord Hill of Oareford:** In broad terms, then I will move on, would you say 70% of time?

**Debbie Crosbie:** I would say roughly 50%, at a guess.

**Lord Hill of Oareford:** It is not exact, I know. Some people have suggested slightly higher figures, but what about you two?

**Julie-Ann Haines:** I would say similar to Debbie. Our board has very much tried to reduce the amount of time spent. Obviously, it is still a significant chunk but just to that very point, over the last 15 years there has been maturity through all the work that we have done with the regulators, and that flows through the multiple levels of our board governance—so trying to get the delegated authorities of subcommittees, which are still board committees, working very well, and really trying to make sure that we protect member investment strategic aims. But it is a significant chunk, and more often it is in the management committees where I see significant burden as well. So when you add up all the various subcommittees that management are involved in, that then report up to the board, it is really more management time that is taken.

**Lord Grabiner:** Actually, the regulator would expect to find that because the regulator has access to all your board minutes and the relevant subcommittee minutes. If the regulator sees that you are not discussing regulatory matters, you will have a problem, will you not?

**Julie-Ann Haines:** There is an alignment of objectives, is there not? We want to do the right thing to protect our members, and obviously so does the regulator.

**Lord Hill of Oareford:** The question obviously is whether the time is well spent in order to make sure you are ticking the boxes that the regulator is requiring you to tick.

**Julie-Ann Haines:** That is the point you have heard from a number of us: some is not value add now. The controls, the rigour and the governance are mature. The world has shifted significantly from where we were in 2008-09 and, as Debbie says, it is a good opportunity to pause and reflect.

**Steve Hughes:** For us it is a similar percentage to the others, although I would say it is important that boards oversee the recovery plans of the institution, the capital plans, the liquidity plans and good outcomes for customers. So some risk and governance focus is an absolute requirement of a board. Just based on committee structures across the audit committee and board risk committee, I would say it is at least 40%, but probably in a board meeting as well there is inevitably a risk debate

and a governance debate. But I do feel that it is important that boards focus on some of that.

**Lord Hill of Oareford:** There is a specific question as well, if I may, for Ms Crosbie. I see you are on an FCA practitioner panel, is that right?

**Debbie Crosbie:** Yes.

**Lord Hill of Oareford:** What is that like? Is it worth doing? The serious underlying point is, do the regulators understand how the business they are regulating works? The point, I guess, of the practitioner panel is to try to—

**Debbie Crosbie:** Yes.

**Lord Hill of Oareford:** How does that work and are there ways we could strengthen the links between regulator and regulated?

**Debbie Crosbie:** Giving practitioners the opportunity to provide input is important, and there have been a number of very useful debates on the practitioner panel. There are occasions where not everything that the FCA decides to do comes through that practitioner panel. The FCA's remit is very broad, and the agenda is very congested, so it is challenging to give focused input. The FCA makes efforts to consult on many matters. In fact, I would suggest that sometimes the consultation periods are actually too long and too lengthy.

So they are useful when that practitioner experience can be in these debates at the beginning. One thing that would strengthen the practitioner panel's input is maybe ensuring that some input was earlier on in the process, which is a suggestion that we have made. We have examples where, if a topic comes up, I have invited members of the FCA to visit Nationwide, and other panel members have done that. We have recently had members of the consumer panel visit Nationwide, for example, to give them more context. So my view is that is very helpful and we should work collectively to strengthen that practitioner panel input.

**Lord Hill of Oareford:** Are there any other observations on the practitioner panel, or how we could encourage more co-operation and sharing of knowledge between the industry and the regulator?

**Steve Hughes:** I do not have personal experience, but broad representation and a broad set of views from a broad set of organisations are very important in terms of the construct of the panels, so that regulators and government are hearing a broad set of voices on those panels.

**Robin Fieth:** There is an important role here for the trade associations as well, and it is a role of responsibility because the regulators are wary, rightly, of too much pre-consultation, too much discussion before they

have gone out, because there is always a range of views, many of which are vested interest.

We are not a public interest organisation in constitution but, as far as we can, we try to behave in a public interest manner. There are occasions when we can have incredibly useful conversations with regulators pre consultation. When you look back at the history, particularly of some of the FCA consultations, it picks up on an issue and you sense that it has an incomplete grasp of the issue and is drawing early conclusions before it has started consulting. The more we can do to help it understand the issues at an early stage, the richer and the better the consultation, and then the outcomes.

That is all theoretical. In practice, there is that lovely phrase, “regulatory capture”, and there is always the suspicion that our job is to capture the regulator. It absolutely is not, but perceptions can be very different. So there is a real responsibility, both on trade associations and practitioners, in their engagement with regulators, as far as possible, to be trying to set aside their own self-interest.

**Lord Hill of Oareford:** Do you want to come back on that, Debbie?

**Debbie Crosbie:** Yes, I feel that it is really important to make the distinction between individual rule setting and individual issues, and the collective impact. The practitioner panel is actually pretty successful at receiving input on individual issues. The challenge is that all these issues look sensible in isolation, but it is the collective impact, which is where this committee plays a very important role, because you are stepping back and looking at the collective impact. The more that we can consider the system impact of these individual rules—what they add up to in terms of complexity and regulatory burden is the core issue—the better. I would urge the committee to think about that issue rather than the individual rule setting.

**Robin Fieth:** Could I just add two facts to that, just to illustrate, if you like? First, if you look at the *Regulatory Initiatives Grid*, it was first published in May 2020 and it was 21 pages long. The most recent edition was published in February 2023 and was 61 pages long, so that gives you an idea as to the volume.

I apologise that this is old data, but we did some research back in 2015 on the proportionate cost of regulation across the building society sector. We excluded Nationwide because it is so systemic it would naturally skew the rest of the sector. But, broadly, the cost of regulation for a large building society then was about £40 per £1 million of assets; for a small building society it was about £400. So when we come back to what we mean by proportionate regulation, that is a fairly crude measure that gives you a sense of the size of the challenge that we were facing into. I am not convinced that that ratio would be much different nowadays.

*Lord Hollick took the chair.*

Q258 **Baroness Noakes:** Ms Crosbie, I was very interested in Nationwide's submission when it said that consideration could also be given to including supervision in the scope of the secondary objectives, which made me go back and look at the legislation. I had not actually realised that supervision was not within the scope of the secondary objectives, and I cannot remember why that is. Could you explain how you see supervision changing if the secondary objective was to be extended?

**Debbie Crosbie:** This is a really important point. The secondary objective is only to the FCA and the PRA. That is the first point that I would draw the committee's attention to. There are a number of other regulatory bodies, important ones, that are outwith that. You rightly say, Lady Noakes, it is only about rulemaking and not supervision.

One of the earlier questions was on culture. Having everyone in the main regulators with a mind to focusing on not just safety and soundness but the trade-offs and the balance between safety, soundness and growth, would be a really helpful addition to trying to ensure that we have the balance right. Having supervisors mindful of the burden, the impact and the cost-benefit analysis of the individual rules, the data requests, the personal attestations, all the matters that we have discussed in this committee, would be very helpful, so that they are not focused purely on safety and soundness. It is that trade-off on how to maintain safety and soundness but encourage firms to innovate and grow at the same time that is important.

**Baroness Noakes:** I imagine the contrary argument is that you should not be asking supervisors to make individual trade-offs at the level of the institution.

**Debbie Crosbie:** No, but it is a growth mindset. The point has been made, and I actually believe the industry has benefited hugely from a lot of the regulation post GFC. Lending standards are higher. We see arrears performance being much better than previously, and while of course there will always be bad actors in the system, the conduct regime has proven largely successful in driving the right behaviours. It would be very helpful for the mindset of the regulator to be as focused on growth in terms of supervision as it is on rule setting.

**Robin Fieth:** We have been having some quite interesting conversations with the PRA in the context of the Strong and Simple regime as it comes in, and the supervision of it, because it has made a substantial difference in terms of the regime for those smaller societies. The question is then: how do we maintain those benefits over the long term? There are a number of tensions here, but supervisory gold-plating is one. It has to be said that non-executive directors, advisers and others may well contribute to that as well. This is an ecosystem, not a single point. We are having very active conversations, therefore, with the PRA about how it is going to brief and train its supervisors on the implementation of Strong and Simple in a way that maintains its objectives of being what it says on the can rather than reverting to something that is large and complex and, indeed, builds capital on capital.



Q259 **Lord Kestenbaum:** Thank you very much for your submissions, they were extremely helpful. I wanted to ask you to help me understand in a little more detail one of the underlying themes of your representation, which is the word proportionality, or disproportionality. You have all addressed it in one form or another. Perhaps you could place it in historical context. You are all long-standing executives—I was not going to say veterans—in the industry. Therefore, you can see it in context.

Let us take as a point in time 2008; it is as good a point as any. How can we understand what has given rise to this disproportionality? Is it that sense of trauma that we all experienced, what some might call an overcorrection, from which we have never fully recovered? Is it, as some suggest, some kind of mission creep, a wider building of power and authority, which is irrespective of the 2008 trauma? Is it perhaps something to do with the remit that comes down from this building? What has given rise to this? It would help us to understand.

**Debbie Crosbie:** As one of the largest and most systemic firms, I would encourage my colleagues to comment more on proportionality, but having a long career, I can certainly offer you some perspectives. My view would be that post GFC there has been a lot of excellent work in raising standards, and that is a very important thing not to lose. A lot of what has been done is very effective and has certainly provided consumers with a lot of excellent protection and made the markets function much more sensibly. That context is very important.

I turn back to the fact that we have eight regulators. We have several quasi-regulators, some by accident. We have a complex myriad of MoUs. So we have gotten ourselves into an issue where the complexity in the system is hard to manage, and it is very difficult for firms to respond to that. What you naturally get is a level of risk aversion to try to cope with that level of uncertainty, whether that is holding additional capital, deciding not to provide certain services, or overdoing some administration behind the scenes. It is probably several of the issues, and that is why now is an excellent time to step back and consider how to respond appropriately. There is so much good in a lot of what has been done that it is also very important not to lose. Responsible lending standards, for example, are significantly better. We should be very proud of our track record in mortgage arrears and so on. I just think it is time to say it is an opportunity to revisit the balance.

**Steve Hughes:** In relation to capital, given that is where I started on proportionality, this relates not just to 2008, it relates to 1982, 1992 and 2008. For me, there is no doubt that we have made a lot of progress in the primary objectives of good customer outcomes and system stability. In terms of healthy competition, proportionality is absolutely key. That is in relation to not just capital but regulatory burden, which Debbie has outlined. History is driving the current risk aversion, if we describe it as that.

**Julie-Ann Haines:** I would add a couple of points to echo comments made. Things are done in isolation and have built up, and it is the stand-

back test to say, "What is the system view that we need to take of where we are today?" An example I would give is that I remember, as we headed into the peak of inflation and base rate increases, sitting in a meeting with regulators and fellow chief executives, where there was a very heated debate about what level of arrears would transpire as we moved through the cycle. People were anchoring back to previous experience and not recognising the very significant changes that we have all made, whether that is through mortgage market review, through the European Mortgage Credit Directive, or through the conduct risk and consumer duty lens. The reality is that those regulations have been successful in ensuring that the industry increased and provided protection to consumers and financial stability. So it is standing back and saying that the world is different. We are moving into a different phase, with new competition coming in. Is this regulatory burden that we have all talked about fit for the future or does this committee provide an opportunity to stand back and say "What needs to be designed now at that holistic level?"

**Robin Fieth:** We come back to the question of risk appetite here, do we not? We have spoken a lot in this part about prudential. If I may, I will switch back to conduct, because conduct risk appetite is far more difficult to pin down. We can go through as many exercises as we like and then something happens and we find out what our actual risk appetite is. Quite often they are very different propositions. With the FCA as a new regulator—clearly, it had its history in the FSA—we have seen it go through that period of seeing harm in everything and then starting to understand that its role is not to stop all harm but to create an environment where significant harm is minimised.

In the days after the mini-Budget, I remember very clearly a conversation with one of the senior executives of the FCA where I said, "Look, we cannot at this point in time tell someone whose mortgage is up for renewal now what a good outcome is, because the market is so uncertain. Whether you fix, whether you go variable, over what period, you just cannot tell". So what we are trying to do here is minimise harm, but there are periods and trade-offs where you cannot avoid it.

Perhaps we should think more about promoting good rather than avoiding harm. Avoiding harm is important, but sometimes the lens does not focus enough on promoting good. Let me give you one example. I do not think anyone decries the loss of Wonga. But when the FCA was taking action in the high-cost credit market, the question it was unable to answer, and we asked it, was: what is the demand for high-cost credit in the UK from those members of the community who genuinely need access to it rather than just wanting something on a Friday night? How is that going to be met absent high-cost lenders? It could not tell us whether or not the credit union sector would have the capacity because it did not know the size of the market.

We often talk about unintended consequences. That was one of those examples where you could look at it and say, "If we do not have an

alternative, as we have seen anecdotally at least, we get the resurgence of illegal and backstreet lending rather than responsible lending through credit unions, banks and other financial institutions". Those sorts of trade-offs are quite important to reflect on.

Q260 **Lord Grabiner:** Can I ask you about the function of the ombudsman? It was probably Ms Crosbie who said that the ombudsman has become virtually a regulator. As I understand it, an individual borrower might have a complaint about the way she or he was dealt with if they paid too much interest or they were badly treated in the process, one way or another. Then they make a complaint to the ombudsman, who listens to both sides and gives a ruling. Is that ruling made public?

**Debbie Crosbie:** It can be, depending on the circumstances.

**Lord Grabiner:** How is it that the ombudsman has achieved your concern that he is virtually a regulator? What is it about what he does that produces that criticism?

**Debbie Crosbie:** First, in dispute resolution we think the ombudsman is very effective and it is particularly important for individuals to have that opportunity. It has a fair and reasonable jurisdiction, which is different, so the standards on which it is judging cases are different from the rulebook of the FCA. That is the first point that it is challenging for firms, because the standards which it is applying are different.

Secondly, when it comes to a large number of complaints, which are often generated by claims management firms, when certain levels of complaints are reached, there is an obligation on firms to apply those judgments, and those rules can go beyond the FCA rulebook to people who have not complained in certain circumstances. Therefore, that is when I would describe it—

**Lord Grabiner:** It operates as a test case, and then it has to give effect to it, or feel it does, to people in similar circumstances.

**Debbie Crosbie:** Yes, and the uncertainty of the fair and reasonable test, which is different from the FCA's rulebook, creates a situation where firms want to make sure that they are not going to fall foul of the ombudsman's ruling further down the line, which is why you get this potential risk aversion in a lot of the decision-making. When it comes to dispute resolution, it is very important, but it is when those circumstances emerge. I gave one example in my written submission of packaged bank accounts to illustrate the point, where the ombudsman was suggesting that it might consider going further than the FCA rules. That is an example of where uncertainty drives risk aversion.

**Lord Grabiner:** How would you suggest this should be corrected?

**Debbie Crosbie:** The work that is currently under way by the FCA and the Treasury to clarify its remit is the opportunity to do that. The remit has to be reconsidered, as well as the impact of how it considers the FCA

rules. It needs to be streamlined and simplified to make them both come much closer together to provide more certainty.

**Lord Grabiner:** One person's fair and reasonable is somebody else's overbearing unpleasantness.

**Debbie Crosbie:** You have highlighted very well the challenge that firms face in understanding how they would deal with those decisions.

**Lord Grabiner:** I want to ask something else on an unrelated matter. I am trying to pin you all down on this point about capital retention. Do you say that the way the regulator operates the capital retention requirement undermines your business and the position of the consumer at the present time?

**Debbie Crosbie:** In Nationwide, we are not capital constrained, so it would be better for my colleagues to answer that. We are in a different position from many of my other colleagues.

**Lord Grabiner:** You are a sort of clearinghouse for the other building societies. Is that unfair?

**Debbie Crosbie:** No, that is not correct. I do not think we are the clearinghouse, but we have a different scale to the rest of the building societies. We have different issues.

**Steve Hughes:** I do not think it undermines the business, but it does mean that we have to make trade-offs on growth. A different capital regime means that we could lend more to consumers, and safely, and our arrears prove that. I have an arrears rate of less than 0.3 of 1% versus a market average of 1%, and I believe that a more proportional approach to capital for a low-risk monoline lending business means that I can do more for consumers in the UK housing market.

**Lord Grabiner:** Is that where your £400 million came from?

**Steve Hughes:** That was just based on one data point. I could utilise the incremental £30 million I have to pay for MREL capital in the £400 million per annum growth of mortgages. We will provide some other data points in the submission.

**Lord Grabiner:** Your risk assessment is different from the one that the regulator is applying to you.

**Steve Hughes:** Yes. If I think of the IRB—the internal ratings models that we have built—under the revised guidelines and legislation I will end up holding five times more capital on a 50% LTV loan than my models say that I need to.

**Julie-Ann Haines:** We are in a similar position with 150% more capital being held. The other challenge is the amount of change in this area. If you look at the IRB programmes to rebuild models, we are nearly four years in the process of trying to get existing models recalibrated and re-

agreed with no firm commitment yet. We have really good working relationships with the teams on the ground—my concern is less with the specialists; they are very open and willing to spend time with us—but the lack of clarity that it provides to the business as you are trying to develop five and 10-year business plans is very significant.

Of course, that has now been followed by Basel 3.1 and a very big debate about Strong and Simple, which for Principality's size of business balance sheet could be an opportunity for us. We are a £14 billion balance sheet. We could fit within the Strong and Simple regime, but because we had chosen previously to invest in our own internal model capability through IRB we are excluded from that. We would very much welcome the regulator considering an appropriate mid-tier proportional regulatory framework, which I understand it has ruled out on the basis of cost.

These are some of the challenges: long-term planning, unpredictability and being able to feel that you have a really good view of the direction of the future. It is the uncertainty, then, as we move through all the stages of consultation, redevelopment and awaiting final rules, as well as very short implementation timelines.

**Steve Hughes:** In relation to business models, I think there is a role for big and simple as well as strong and simple. That is an ongoing discussion that I have with regulators.

**Robin Fieth:** That was one of our criticisms when it first promoted Strong and Simple. There was no road map, so you had systemic at one end, and then there was the exploration of Strong and Simple. The question was mooted: should we do large and simple? What do we do for the non-systemic larger institutions? It would seem entirely logical to have a regime there, but as Steve said, there is no sign of anything coming forward yet.

For the smaller firms, one of the upsides of the Basel 3.1 implementation is that it has reduced the standardised weighted mortgage lending from 35% to 20%, so it actually narrows the competitive disadvantage they had against all the larger firms and the major banks. But we have not really touched on the other question, which is: what is the opportunity cost of regulation? Coming back to the question you asked at the beginning about how much it actually costs an organisation to comply with all the regulation, that cost comes off the bottom line. If it is two or three times as much as it needs to be, particularly in mutual businesses, you are constraining the ability to generate profit to reinvest in the organisation.

Someone said to me the other day, "Shouldn't we be looking for tax incentives from the Government to reduce the tax burden to increase the profit so that we can reinvest?" Actually, the answer is no, we should probably be looking far more at how we moderate the excess cost of regulation and bring that cost down. This is where proportionality really comes back in again. What do we need in order to maintain the safe and

sound prudential regime and the strong customer outcomes and release more funds to be reinvested? We come back to economic growth to be reinvested, in our case in the housing market or in the savings market, to help first-time buyers or people to save for their futures. That is the ultimate equation.

Q261 **Baroness Noakes:** Can I clarify on the amount of capital? Is it because the PRA is slavishly following Basel 3.1 and not finding a way of adapting it to the UK circumstances, which is the model we have developed here of a building society sector that does not necessarily equate to all the other countries that are looking to implement Basel 3.1, or is it something else?

**Steve Hughes:** My understanding is that the PRA has adopted Basel 3.1. It is not its legislation.

**Baroness Noakes:** It is very keen on complying with international standards, but it has abilities to derogate or to implement it in a way that is necessary. Is it setting its face against that?

**Robin Fieth:** I would make two points: one is positive and one is negative. The positive one is that we put in a very detailed submission on the response to Basel 3.1 consultation, and the PRA effectively picked up every one of the points that we wanted it to pick up. It adopted all the adaptation to the UK environment that did not affect material compliance with Basel 3.1. It has also used broadly the same calibration for Strong and Simple. That might be subject to further debate, but part of that is how you transition from one to the other. So you can see the logic in doing that.

The bigger issue, which we raised and it declined to respond to, was that the whole of the building society sector in the UK is domestically focused. Basel 3.1 regulations apply to internationally active banks, so there was a big choice to be made about whether it wanted to take the approach it has taken, which is to apply Basel 3.1 across the whole board, which is closer to the European single rulebook, or to just apply it to the major internationally active banking institutions and instead go down more the US route. That was the choice it made.

**Baroness Noakes:** It was the choice it could have made.

**Robin Fieth:** The choice it made was to go down the first way, not the second.

Q262 **Lord Lilley:** Our focus is on the secondary objective of improving growth. A lot of what you have said implies that the primary objective could be done much more cheaply and efficiently, and that would release some resources, one hopes, for the rest of the economy to use more productively. You have implied that it could be used to increase lending. If it increased lending, unless you are just switching between the banking sector and the building societies, which would again release resources elsewhere, that can only increase the number of first-time buyers getting houses if more people die, get married and merge their households or if

more houses are built.

I presume you are not trying to encourage people to die and release houses for first-time buyers. Marriage is very desirable, but it is not the primary objective of the building societies. To what extent are you helping build houses? You mentioned that self-builders are collectively the biggest builder. I had not realised that. That is very important. But do you help small builders to build? How could you do more of that if the regulatory systems were changed?

Q263 **Lord Eatwell:** Can I add a corollary to that? Lord Lilley has hit on a vital point. Your contribution to the growth of the UK economy is extremely small, because you provide funds for buying existing assets, not for creating new assets. There is a small creation of new assets, we know, but it must be tiny compared to the stock of overall spending. In answering Lord Lilley's point, I would be grateful if the three CEOs would give us an estimate of the proportion of their lending that actually creates new assets as opposed to enables people to buy existing assets.

**Debbie Crosbie:** First, we have around £2.5 billion of lending for social house builders, so that is a very important part of our funding. We have ambitions to expand and do more of that.

**Lord Eatwell:** How much is it as a proportion of the whole?

**Debbie Crosbie:** It would be a very small proportion of the whole, but we have an ambition to increase that.

**Lord Lilley:** Do you do any non-social housing?

**Debbie Crosbie:** We also provide mortgages for people buying brand new houses. We do not provide business lending to businesses at the moment. We do that through Virgin Money. We will look to expand that in the future, but right now we are a domestic lender in the main.

**Julie-Ann Haines:** In terms of our business, we have what we call a commercial lending team that comprises about £800 million of lending out of the £14 billion on our balance sheet. The £800 million basically splits down in to three groups: housing associations, which is about a third; development, which is a third; and other commercial, buy-to-let portfolio landlords—these sorts of areas.

To give an example, we have worked for 14 years over four chief executives to look to fund a project that is just coming to completion with 800 homes being built in Cardiff. It was a brownfield site, an old paper mill. It had a lot of contamination. It needed infrastructure funding and a new business model, and that has created 800 homes with a mix of tenure: buy-to-rent, first homes and housing-association. I believe that the mutual sector can do more of that. The measure you talked about is one of my strategic key performance indicators. We need to use our convening power. I talked in my introduction about the long-term decisioning: very few other businesses would be able to invest 14 years in a project to develop 800 homes, but if we had not done that the

development would not have happened, and it has created a thriving new community.

**Steve Hughes:** We are a domestic lender only, so a very small proportion of our overall lending would be new build. You are probably talking less than 10% of the overall lending of the organisation.

Q264 **Lord Lilley:** We have heard that the reserve requirements for lending to a builder to build a house are much higher than lending to a buyer to buy a house. Ultimately, the house is a house, and it will be worth whatever it is unless the builder builds something different from a house. What justification is there for different reserve requirements? If they were the same, would more of you go into the business of financing building?

**Julie-Ann Haines:** In effect, you are taking on development risk. You have an empty piece of land. You have to go through planning and through the build, and you have to make sure that the valuation of the property meets what the developer is expecting. We understand the need to hold more capital, and of course inevitably the housebuilder gets charged a higher price as a result. That is the risk. That is why not many building societies are in this. We have a team of people who are very focused on this. I am sure Nationwide is the same.

**Lord Lilley:** What about once you have the planning permission? You have to spend a lot of money getting planning permission, but you are not actually spending on the building until you have it. That is when I would have thought you would want the bulk of your finance.

**Julie-Ann Haines:** It is a matter of contractor risk. We have seen a number of failures. There is just more risk in it, which is why, in effect, we understand that the capital requirement is higher.

**Robin Fieth:** We come back to the requirements set out in the Building Societies Act. Building societies are here to do mortgage lending, and that is what is set out in the Act. Seventy-five per cent of their lending has to be on residential mortgage lending. Anything else will always be a minority.

**Lord Lilley:** It would require a law change.

**Robin Fieth:** The important point that perhaps we should come back to is all Governments seem to have ambitious housebuilding targets. If those targets are met, a good proportion of those houses will be built for owner occupation.

The role of the building site is disproportionately in first-time buyer lending. Nationwide in particular is a very big lender to first-time buyers. That provides the ultimate finance, if you like. It does not provide the development finance, but it does provide the exit finance for the developer, which is critically important too.

Almost the first meeting I ever had in this House doing this job was discussing broadening the remit of building societies. Actually, there is a



real purpose in having specialist organisations that focus on their purpose rather than diversify, and broadly that is what our sector does.

**Debbie Crosbie:** At the moment, we are supporting about 20% of the first-time buyer market, and I have made two suggestions that would help us to increase the amount of lending that we can do. We are not capital-constrained, and the two suggestions I have made are about rules that prevent us from doing more lending in that very important sector. In the future, we will be examining the opportunity to do more commercial lending, and that is something that is very front of mind for us in Nationwide.

Q265 **Baroness Bowles of Berkhamsted:** I am casting my mind back to when I was deeply involved in Basel things over 10 years ago. How much communication do you have between the bank and the PRA about what it is doing at Basel and what it is inputting? A lot of the things that I found I wanted to change and put in, like simplicity, had already been ruled out, and in particular the UK had been a strong proponent for ruling those things out. So the dirty work has happened at an early stage. Are you engaged in that?

**Debbie Crosbie:** We would say that we had extensive engagement that was very constructive. We were very pleased to see that a number of the suggestions that we had made—not just Nationwide but throughout the industry—were reflected in the final pronouncements in 3.1. Although I accept all the points that my colleagues have made about the overall capital requirements, I think the recent 3.1 announcements very much attempted to stay within the remit of international compliance and the decisions that had been previously taken. The PRA did its very best to get the best position it could. We were pleased with the 3.1 announcement. The consultation process there was a good success, and we were very happy with it.

**Robin Fieth:** If I understood it, you were asking a slightly different question, which is: what is our ability through the bank to impact on the creation of the Basel standards themselves? I would say that it is minimal.

**Baroness Bowles of Berkhamsted:** Because if you do not get in at that level, a lot is lost.

**Robin Fieth:** Yes, exactly. As a trade association, we tend to take that angle through the European Association of Co-operative Banks, which you will know from your days in Brussels.

Q266 **Baroness Bowles of Berkhamsted:** I have another question, which is completely different. Where do you think regulators get their information from, apart from the numerous and voluminous inquiries to your institutions? Particularly if it comes around to conduct, where do they get their information from other than from yourselves?

**Debbie Crosbie:** My understanding is that they have extensive consultation with the ombudsman and get extensive information from

consumer groups. They also get a number of individual complaints which they reflect on. I would say that they are very active in a number of industry forums, and their broad consultation process is extensive in my experience. They have multiple ways of gaining insight.

**Julie-Ann Haines:** They also do a lot of primary research with customers to understand their perspectives on literature or what product needs exist and how those are being catered for.

**Baroness Bowles of Berkhamsted:** Has this changed over time? If you go back to the financial crisis and Northern Rock and maturity mismatch, people said, "Oh, we didn't know that was going on", yet you would only need to walk down the high street to see the adverts in the windows to know what was going on. Are they being a lot more proactive now in information gathering?

**Julie-Ann Haines:** That would be my assessment.

**Debbie Crosbie:** That would be my assessment. I think they are.

Q267 **Lord Eatwell:** I have a couple of questions, or maybe even three, which have come out of listening to this very interesting discussion. First, you discuss the inefficiency of having a large number of regulators. What immediately comes into my head is that if you amalgamated them all and had just one, it would be monstrous. One already says that the FCA is too big; that it should be split up; that it is dealing with too many elements in its brief, which is extended too far; and so on. That is a slightly different point. Is it not the point that the relationships between the regulators are not clearly defined rather than that there are a lot of them? Maybe it is good having specialist regulators, but is that really your point?

**Debbie Crosbie:** The overlapping is a particular issue. Payments are a good example. The National Payments Vision recommended that the JROC, which consisted of four main regulators, be disbanded and the main supervisory remit be handed to the FCA. That would be an excellent example of where simplification is working or will work much better. I agree with you that it is important to clarify people's remits, and the fact that we have to have 13 MoUs to operate the eight regulators would suggest that the complexity and overlapping remits is a significant issue.

Q268 **Lord Eatwell:** My second question applies very much to Mr Hughes, because he is about to acquire a bank, although it applies to you all and concerns the relationship between building societies and banks. Evidence has been put before us that Lloyds Bank is essentially a building society and not really a bank, because most of its lending is in mortgages. In Ms Crosbie's submission there are various hints that the relationship between regulation of building societies and that of banks is a bit unfair. How do you see the relationship between building societies and banks in this country with respect to the competitiveness and growth objectives?

It seems to me that not only do you folks mostly only lend to existing assets, but the entire banking sector, or at least the big ones, mostly lend only to buy in the secondary market or on existing assets. In other

words, nobody is contributing to growth very much. Is there something in this relationship between building societies and banks that could be sorted out to enhance a real growth objective and produce real investment?

**Steve Hughes:** Let me briefly comment on why we are acquiring or combining with a bank. That will be about a remutualisation of an organisation under mutual ownership. As a mutual organisation, we will offer—a bit like Debbie has already announced—full banking services but through a mutual ownership model. I am not going to speak for colleagues, but I am sure Robin will come in. The points that have been raised about banks versus building societies are sometimes about the regulation. We have SS20/15, the Building Societies Act, the Building Societies Sourcebook, where additional regulation is placed on building societies versus banks, yet our business model is fundamentally lower risk. They are some of the points I am sure Robin will call out in the sector's response to this committee's focus on growth.

**Lord Eatwell:** Thank you very much, and good luck with your endeavour.

**Steve Hughes:** Thank you.

Q269 **The Chair:** Can I come back to the final question, which is on the breadth of the remit? It is very clear, from all the testimony that you have given us and that we have heard from other parties, that the cost and time involved in dealing with the regulators was possibly disproportionate to the task of providing growth in the economy. If that is so, what in the remit should be changed to facilitate building societies and other financial institutions to provide greater growth in the economy? I am thinking particularly of the comments you made, Debbie, in your note about the very large amount of time required to deal with the rising tide of conduct and behaviour issues.

Robin, you referred to diversity, which is a very good public policy, but is it really the job of the regulator, which should be concerned more about risk and protection, to deal with those kinds of behavioural issues? Would it be possible, for instance, for the institutions themselves to take responsibility for fulfilling those obligations, rather than having their homework marked by the regulator? I would invite you to comment on whether the remit could be narrowed so that the regulator focused more on protection. We do not want to put protection at risk with growth, but on the other hand we could perhaps reduce the burden of regulation so that more time could be spent on providing growth to the economy rather than serving the interests and very extensive demands from the regulators.

**Robin Fieth:** Diversity is a very good example, because it is a governance issue. We are not talking here about structural diversity but diversity of boards and staff. It is a matter of governance. It is actually most appropriately covered in the UK governance code under the FRC. Under that code, there is absolutely no reason why any board should not

be required to explain how it has achieved proper diversity among its composition.

Let me be very clear—in our response to the original discussion paper we were very clear—this is not about gender and ethnicity; this is about the whole spectrum of diversity. It is about different ways of thinking, whether you call it neurodiversity or whatever, but it is about how you get a group of people around a table, or a management team that will bring that whole range of views and reduce the risk of group think.

If that sits most comfortably with the FRC—it is a marvellous example of where you should be on a complier explain basis—why would you have detailed regulation from a prudential and a conduct regulator? Even in the listing rules you should be referring back to the FRC as the keeper of the governance code, so why would you feel it necessary to go out with a major consultation?

It is not our area, but we were quite critical about the listing rule requirements, because it was very much about gender and ethnicity and no more, and it did feel like it was yesterday's issue, not today's issue. We are very interested in things like socioeconomic and cognitive diversity, because that is where you start bringing in very different views and do not end up with a board that looks diverse but all went to the same college, for example. Why did they feel the need to go off in that direction and create a huge amount of work for themselves and us when actually it was most appropriately dealt with by another regulator?

**The Chair:** Are there any other examples, Debbie?

**Debbie Crosbie:** I would agree. Clarifying each regulator's remit to be focused on the core issues is really helpful. This is a complex issue, and it needs a piece of work where we stand back and consider how the whole system comes together. I agree with you that simplification is very important. Anything that can simplify and focus the regulators on the core issues would be welcomed.

Finally, in response to the point about the uneven playing field between the building societies and the banks, for me the key issue would be to have a mechanism where, when banking regulation is updated, the Building Societies Act is considered at the same time. I do not think there are that many differences. We have managed to achieve some amendments to the Building Society Act, but keeping it relevant and having a mechanism for it to be updated as regularly as Companies Act or banks regulation is the really important thing I would leave you with.

**Julie-Ann Haines:** I have no further examples to add. I am happy to take that away as an action and feed that back in my written piece.

**Steve Hughes:** I want to comment on the diversity and inclusion focus of both regulators. I absolutely believe that they can collaborate more closely on that. I believe that diverse organisations lead to better outcomes for customers, better results, better thinking, less risk and a

more successful organisation. I can understand why both regulators are focused on good outcomes for customers and healthy competition as an important driver of business performance. My one ask of all regulators would be that they collaborate where they can so that we get questions once. That allows a consistent response and can give us some efficiency in how we run our business and where we deploy our resources.

**The Chair:** You have answered many questions, and you have given yourselves some homework. We are obviously looking at this capital weighting issue, and so specific examples of what the impact is on your business model and the cost to the consumer would be very helpful indeed. Thank you all.