HOUSE OF LORDS

Financial Services Regulation Committee

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

Wednesday 15 January 2025

11.15 am

Watch the meeting

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

Evidence Session No. 27 Heard in Public Questions 322 - 330

Witness

I: Andy Briggs MBE, Chief Executive Officer of Phoenix Group.

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Examination of witness

Andy Briggs.

Q322 **The Chair:** Welcome to the second part of today's meeting, which is our 15th oral evidence session as part of our inquiry in the FCA and PRA's secondary competitiveness and growth objective. Thank you, Mr Briggs, for attending and for your written evidence, which I thought was really helpful. I enjoyed reading it and learned quite a lot from it. A list of the interests of the Members relevant to the inquiry is available online, The session is open to the public, broadcast live and subsequently accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check it for accuracy and it would be helpful if you could advise us of any corrections as quickly as possible. If, after this evidence session, you wish to clarify or amplify any points made during your evidence, or have additional points to make, you are welcome to submit supplementary written evidence to us. Would you like to make an opening statement?

Andy Briggs: Yes, please. Thank you, Lord Chairman. It is probably helpful to talk about two things: a little bit of background on Phoenix Group, so you understand who we are and what we do, and a few comments relevant to the topic. It is a pleasure to be here; thank you for inviting me along.

On Phoenix, we are the UK's largest long-term savings and retirement business, so we look after £300 billion on behalf of our 12 million customers. One in five adults in the UK is a customer of Phoenix Group; Standard Life is our best-known business within our group. We employ about 7,000 people, the main sites being Birmingham, Telford, Edinburgh and London. Our market is huge; there is about £5 trillion of assets in pensions and insurance in the UK and it is growing strongly, with around £200 billion of annual flows. We see ourselves very much as a purpose-led organisation. We say we are here to help people secure a life of possibilities, to help more people to and through retirement. We put sustainability at the core of what we do. It is critical, because in the UK only one in seven people is saving enough for a decent retirement, and only 10% of the population are getting advice as they journey to and through retirement, so this is an important area.

On the subject matter of this session, we are strongly supportive of the benefits of strong economic growth in the UK. Obviously that is good for the broader economy and society but, when it comes down to our customers, a strongly growing economy means that they will be more prosperous and be able to afford to save more, and it means they will get better returns on the money they invest. So our view, when it comes to considering the governance and regulatory environment around that, is that it is most important to focus on the key outcomes. There are three key outcomes related to the savings and retirement sector. The first is to get more of the £5 trillion of pension and insurance capital in the UK

invested in UK productive assets. By productive assets, I mean things like growth equity, scaling start-ups and things like infrastructure investment, which have a multiplicative benefit on the economy. The second would be to make the UK more attractive for overseas investors to invest in the UK, and the third would be to address pension adequacy—8% auto-enrolment contributions is not sufficient—and address the fact that only 10% of the population are getting advice as they journey to and through retirement, so 90% just are not getting the help and support they need.

How do we go about achieving those outcomes and goals? From a regulatory perspective, it is important that we have strong regulation. I think we have good regulators in the UK, and it is important that we have strong regulation and that consumers are protected, as are investors as they invest in UK assets.

We need to recognise the scale of the challenge here. For well over a decade we asked our regulators to be prudent; that is the one thing we asked them to do, and they did it very well. We are now asking them to take account of growth and competitiveness as well, and that is a huge cultural shift. It is absolutely doable. As I run my business, I need to focus on the outcomes for consumers, colleagues and shareholders, and I need to find strategies and plans that optimise outcomes across those. So that is doable, but it is a big shift.

Specifically against the three outcomes that I talked about at headline level, what are the things we think are most important? When it comes to the UK pensions capital flowing into productive assets, it is all about the Government, the National Wealth Fund, the pensions and insurance sector and the regulators working together to focus on that outcome. There are a lot of good initiatives in train. There are probably some gaps as well that we can address and we can talk more about, but we should work collaboratively with that outcome in mind and none of us should be satisfied until that outcome is achieved.

When it comes to overseas capital flowing into the UK, there is something that we could do. Overseas investors, who I talk to regularly, perceive a significant risk premium from regulatory retrospection in the UK, and we need to deal with that. We need to remove the perception, and indeed the reality, of retrospection that goes on where rules change retrospectively.

On pension adequacy, we need to increase auto-enrolment contributions from 8% to 12%. In my view, to leave consumers labouring under the misapprehension that saving 8% will give them a decent retirement is fundamentally wrong. We need to create an environment, and drive through on the targeted support consultation that is going on, so that far more than 10% of the population get advice as they journey to and through retirement. Those are my opening comments, Lord Chairman, and I am keen to dig into a broad range of topics.

Q323 **The Chair:** They are extremely helpful, although if I were you I would be

anxious to be polite about the regulators. You point out in your written evidence that Solvency UK took five years to implement, so the pace is absolutely glacial, and in your written evidence to the committee you also point out its importance. What are the three things that need to happen now to bring that to a conclusion, and why is it taking so long?

Andy Briggs: There is an urgent need to focus on the outcomes that I talked about. Historically, we have satisfied ourselves with discussing the problem, admiring the problem and coming up with a few ideas. It has to be outcome orientated and we have to see the flow of capital go more significantly.

On what specific things I would do differently, we have a lot of good things in train. The Mansion House compact is excellent in getting 5% of DC pension funds into growth equity. The Government's plans around consolidating the pension funds are good and helpful. There are two specifics that I would drive at. One is tax incentives. At the moment, when we decide how we allocate our customers' money between the UK and overseas, basically we pay slightly more tax if we invest their money in the UK because of stamp duty, which does not happen overseas. Other countries put a significant tilt in their tax incentives. There is still consumer choice, but there is a significant tilt and benefit in investing domestically versus overseas.

I would get the government regulators, the National Wealth Fund and the pension sector together to focus on how we could get the flows of capital into those areas where they are most needed. Take offshore wind or onshore wind: we know we can produce power and clean energy through wind much more cheaply than fossil fuels, so how do we scale that dramatically? The Government have a mission around 1.5 million new homes, many of which will be social housing for underprivileged groups. I am sure that many or all of those homes will be ESG and climate change friendly, so how do we bring about the end-to-end things that need to happen to lead to that outcome?

On the overseas capital flowing into the UK, I would face into and address the question of retrospection. I will give you a specific example. In the last week of October I was in the US for a week, coast to coast, seeing 12 different large investors and trying to persuade them to buy Phoenix shares. It was the week after the UK motor finance retrospective legislative piece and, even though that was legislative rather than regulatory, and even though they knew I do not do motor finance, in all 12 meetings every investor asked me about that as their very first question, because they are trying to assess the scale of the risk premium of investing in the UK because of retrospection.

The single biggest thing that I would do is move the FOS underneath the FCA. The FCA sets the principles and standards of consumer protection and consumer regulation, but then the FOS has to work within those FCA rules rather than a different set of rules. That would be a really beneficial symbolic action to overseas investors to say, "This Government are going to face into this fear of retrospective regulation".

Another thing I would focus on is pension adequacy. I would review auto-enrolment and look to move gradually, over a reasonably long period of time so that it was affordable for people, to higher contribution rates. I would be looking closely, as we rolled out targeted support, to see that that led to materially more customers, a multiple of 10%, getting advice and support as they journeyed to and through retirement.

The Chair: These are all good and important points but you did not really answer my question: why was progress so glacially slow in respect of such an important thing as insolvency—sorry, solvency, rather than insolvency?

Andy Briggs: It comes back to the point I made earlier: when we engaged initially with the solvency reforms, the regulator had one objective, which was to be prudent. It engaged in that whole exercise with a focus on being prudent. Now, in the last 18 months or so, we have asked it to consider the secondary objective of growth and competitiveness. My observation is that it is embracing that and looking at the secondary objective. That needs to lead to a material increase in the speed of change. There is an issue here of the balance of principles-based versus detail. This is an example from elsewhere, but the FCA was looking at PROD 4, which is basically insurance product governance rule books. It issued a data request back in March 2023 but it took until August 2024 to get the findings back, largely because of the scale of the data. These things get approached at a really large level of detail, rather than trying to get to core principles and driving through from those. Having more principles-based regulation would definitely increase the pace materially.

The Chair: If you are a regulator faced with this secondary objective, you know that, if you relax things or move towards a principle and something goes wrong, then you will be in front of a parliamentary committee—not necessarily this one. The press and the media will be saying "Why didn't you do this?" and many politicians will jump on that bandwagon. Are you not always going to be risk averse, unless you are given specific direction from the Treasury or the Government as to where the risk appetite should be?

Andy Briggs: That is exactly right, and I agree. This is particularly relevant in conduct regulation. It is a conversation that I have, constructively and positively, with the FCA. But what it does in our sector at the moment, basically, is about wanting to ensure that if anything happens, it is perfect. Hence the 10% get advice and they pay £1,500-plus for that while 90% of the population are not going to pay £1,500 for advice, so they get nothing, but nothing has gone wrong on its watch at that point because nothing has happened. It is a really poor consumer outcome.

What we then need to accept is that by having a guidance regime in the middle ground for that 90% of consumers, it will not be as perfect as the full-fat advice but it will be at a price that customers are prepared to pay.

Overall, people will get materially better outcomes but there will be a segment of customers somewhere where it is not as good as it would have been had they had full-fat advice. Ultimately, we need to set that risk appetite through Parliament because, if we ask the regulators to do that but if there is that segment of customers who do not get an outcome quite as good as they would have with the full-fat advice and the regulators are then hauled over the coals, they are not going to do it.

It is very important that we set the right risk appetite on this. It seems to me that something which is better for the vast majority leads to better outcomes for consumers overall.

Q324 **Lord Eatwell:** I am intrigued by your emphasis on real investment, which is one of the issues that has come up quite a lot before this committee. We discovered that when most British banks refer to investment, they mean buying assets in secondary markets rather than real investment. You referred particularly to the role of the pension funds, operating together with the national wealth organisations. One of the striking things is the level of investment in infrastructure by Australian pension funds. Can we learn something from that? A remarkable amount of British infrastructure is owned by Australian pension funds.

Andy Briggs: There is a huge amount that we can learn from that. Let me give you some facts on this: of the £5 trillion of UK pensions insurance assets, about 14% is invested into what I call productive assets: growth equity, infrastructure and so on, exactly as you described. Those things have a multiplicative benefit to the economy. Among the other seven largest pensions nations globally, the average would be 20% but, when you get into the Canadians and Australians, it would be materially higher than 20%, so we are a long way short of others. That means, in practice, that if you look over the last decade, UK defined-contribution savers have had a real net return of 4% per annum. Their Canadian counterparts have had 5.2%; their Australian counterparts have had 5.5%. If you put that over a lifetime of saving for retirement, the retirement income is one-third to one-half higher.

In the UK, we have had a cultural obsession with having the very lowest charges; therefore, the investment strategies have been focused on passive investment to get the very lowest cost. Our strong view at Phoenix is that that is not giving the customer the best outcome. Low charges are really important in customers getting good outcomes, but having a diversified range of investment so that they get a better, risk-diversified return is more important. The overall outcome is what is most important.

The background facts are that that is the position. There is a lot going on in this space. I will say that the work on the Mansion House compact is excellent. The proposal that we are going to invest 5% of defined-contribution savings into growth equity is great, but we are nowhere near that at the moment, so we need to drive through to that outcome.

Lord Eatwell: Can I just follow up on that? You have made a distinction

between passive and managed, but that distinction could apply just to secondary markets. What we are looking at is the primary market, which you rightly emphasised, and how one has an emphasis on that particular area as opposed to passive or managed, which could apply to secondary markets as well.

Andy Briggs: I strongly agree with you. As I was saying, there are two areas to look at there. One is growth equity. The UK has four of the top 10 universities globally for innovation. What happens is that those innovations and start-ups get funded by overseas capital. All too often, their capital providers then persuade them to redomicile—to the US, say—so not only do UK savers not get the benefit but the UK economy does not get the benefit of that growth and those jobs.

Through the Mansion House compact, we will be investing 5%. That will be about £50 billion of the £1 trillion of DC pension assets in the UK, but it is going to take time. We have created a joint venture with Schroders called Future Growth Capital, focused specifically on this. It is the first new asset manager set up to focus on this growth capital opportunity. We have all the regulatory permissions now and put across our first £50 million in November. The next £50 million goes through—

Lord Eatwell: Do we have the institutions to do this? Do we actually have the people and the institutional frameworks for investing in real capital, so to speak, or growth equity, as you call it when banks and other financial institutions are increasingly moving towards algorithmic lending, which does not really work very well when you are looking at new innovations and so on?

Andy Briggs: There is some capability to get going from in the UK, so we can get started. We will definitely need to build it more over time, but that is why we set up Future Growth Capital. When you want to get a good outcome for customers, you want a very diversified range of sectors—some biotech and fintech, and a broad range of things such as clean energy. You want multiple vintages as well across that, so that an individual consumer is not exposed to whether Britishvolt succeeds or not but gets a very diversified range.

No one asset management group in the UK can do all those things, so when we set up Future Growth Capital our view was that Schroders was one of the strongest in this space, so it is the core asset manager, but we will then partner with other asset managers in other sectors to get that diversified outcome for customers. To get to a point where we have £50 billion deployed in this space, we will need more capability build than we have but there is definitely more than sufficient to get started. My biggest concern here, from a regulatory perspective and more broadly, is that people do the thinking by admiring the problem and coming up with a solution, but that needs to be executed and delivered in practice to get it to that outcome.

This is tangential to your point but, if I take the example of advice, I have worked in this industry for nearly 40 years and sat through multiple advice and guidance reviews. None of them has achieved anything as an outcome for consumers. We have to put the customer centre stage and get to the outcome that we are trying to deliver for customers.

Lord Eatwell: So we do not just have to hire lots of Australians and Canadians?

Andy Briggs: We have a lot of the core capability here. We can then develop and grow that capability, which is exactly what economic growth is all about, is it not?

Lord Eatwell: I was being facetious, actually.

Andy Briggs: We will have plenty of people with a lot of the relevant skills that we can grow and develop to be this next generation.

The other part of it is on the fixed-income side—the debt side. The way I would characterise this is that if we are trying to find the solution for clean energy through hydrogen, we do not yet have a business model for it that is clear and scalable and it needs growth equity. That is the equity side, the DC pension side. When you come to bulk-purchase annuities and the defined-benefit side, that is mainly fixed income which is then the debt funding to scale technologies that are known and used. When we invest our annuity assets into private debt—infrastructure debt, which we do a lot already—we typically get a 50 to 70 basis points yield uplift because it is illiquid, relative to the liquid credit. We should see far more of a fixed-income element of UK pensions invested into those private assets. You will get better long-term returns. You need to manage liquidity but, ultimately, in a long-term game, you do not need liquidity tomorrow on all your assets. It will lead to better outcomes for consumers as well.

Q325 **Lord Vaux of Harrowden:** You have given us some pretty stark numbers about where we sit relative to other countries in terms of our ability to invest. What you have not said is why that is. You mentioned fiscal and cultural reasons, but this inquiry is about regulation, so I am curious to understand to what extent the current regulatory environment is the cause of that or whether it is other factors.

Andy Briggs: When it comes to the growth equity side, the regulations two years ago would not allow us to invest in liquid assets with DC pensions, so that needed to change and has now changed. We have an environment where we can do that, now that the regulatory change has been made.

Another example—it relates to multiple regulators, which we may come on to—is on the charge cap in pensions. That is a good thing but, when you invest in productive assets, you get a much higher return, but the charges are higher. We have seen the Pensions Regulator change its regulations to exclude those additional investment fees from the charge

cap. The FCA has not done that yet so, for contract-based pensions, there is a constraint in terms of the charge caps.

There are DC pensions, with consumers saving to retirement through the workplace; defined benefit, which is the big defined benefit schemes; and the annuity segment, which is insurers doing bulk-purchase annuities. The annuity segment is where Solvency II comes into play. I think that we have made some progress there, but I agree that it has been slow. I would like to see the pace continuing to accelerate there. Again, to give a couple of specific examples, we have an excellent initiative that the PRA is working on, which is the matching adjustment sandbox accelerator. I apologise for getting technical but, basically—

The Chair: We understand that; we had Sam Woods.

Andy Briggs: Perfect. The MA accelerator means that, if we have an asset that we are really confident will comply with the regulations and will get approved, we can start investing in it now and treat it that way and then get the approval subsequently. That is very helpful.

However, when we crack hydrogen or carbon capture and we want to scale it at pace, we do not know today what the investment will look like. It is hard for the regulator to write policy rules on how that will be treated in advance, because it has not been invented yet. At the moment, we still have to go through that lengthy process to be confident of how it will be treated before we prepare to make that investment. We would therefore like to see another version of the sandbox that is for investments where the treatment is less clear.

The accelerator is something where you are 99% confident that it will get approved and you get it quicker. But what about if you are only 80% confident? The reality is that we will not make that investment because unwinding it again as a liquid asset would be very detrimental to our customers and to our business. So how can we get a much faster engagement around those assets where they look a bit different? We are not quite sure.

That leads to that sense of collaborative working, as I have mentioned. Ultimately, with these new types of investments, Governments will have a key role to play and the National Wealth Fund will have a key role to play in how they are structured. How do you structure the different elements of the investment? How could you create a debt proportion that works for the regulator and for insurers, which leaves substantial capital? That is best done as a real-time, engaged conversation.

Q326 **Lord Sharkey:** I shall ask about outcome measurements and touch on the metrics that you helpfully provided in your written evidence. Before I do that, I wonder if you could very briefly explain a little more about why putting the FOS under the FCA is a good idea. What problems does that solve?

Andy Briggs: I will give you a specific example, as I understand you find that helpful. Very often these things are quite retrospective in the past, hence this is quite a good example. We have a product called reviewable whole of life. If someone wants life insurance, there are a couple of options. You can buy a term insurance, where you pay a flat premium over the period of the insurance. Typically, you end up paying a high premium early on relative to the cost of the insurance, because you are less likely to die when you are younger. Then, latterly, the premium is, in effect, low relative to the likelihood of dying and hence the cost of insurance, so it becomes level.

Reviewable whole of life is particularly for people who would struggle to pay that higher premium initially. The premium is reviewed as people get older and goes up as they get older. It is an attractive proposition in the market for consumers, but obviously the challenge is that the cost gets greater as people get older. That is a market, therefore, that regulators look at closely.

The Chair: It is a bit like pet insurance.

Andy Briggs: Yes. In 2016, the regulator issued more regulation around reviewable whole of life. The industry therefore took that on board and changed their practices prospectively based on that regulation. We now have a whole host of claims across the industry from, say, a group from 2013. We are looking at the moment at where the FOS is applying the 2016 regulation to communications and business sold in 2013. That is a specific live example.

There is then the way that the overseas investor interprets that. I am not saying that this is financially material for us but, when any financial services organisation in the UK ends up with a particular cost because retrospectively it has changed and the goalposts have moved, they just put a big risk premium on. That is why overseas capital does not flow into UK financial service stocks in any great scale; they fear this retrospection. That is just a specific idea, as I understand that is what you are looking for.

The FOS will form its own view on what is fair treatment and what is not. It is really important that consumers have an independent place to go if they have a complaint that they are not satisfied has been answered by their provider. I strongly support having a FOS. However, the FCA as the conduct regulator should set the principles and the rules by which we operate. It should then supervise and regulate us so that we operate in line with that. Then, when a customer wants to complain to the FOS, it should be against the same set of rules that the FCA has set out, not a different set that it then creates, because that just creates this environment of retrospection and of things changing, which does not work.

The Chair: Just before you leave that point, you mentioned your experience following the motor commission row. Is not the issue, then,

that the handbook and the rule book have to be consistent with the common law?

Andy Briggs: I agree with that as well. That is an interesting topic. There will be some things you hear from different people that will be very consistent, and some things will be different. A lot in the industry feel quite strongly that they like detailed, prescriptive rules from the regulators, because they fear this retrospection of interpretation. My strong view would be that it is best to have principles-based regulation but then a strong supervisory environment that gives us the comfort that we are interpreting those principles in the right way. I think that you would get more innovation than under prescriptive rules set up front.

Lord Grabiner: The problem there is that you will get the danger of different conclusions. The FOS may apply a reasonable standard on the correct interpretation of the FCA rule, or you might get something else. If you went to the court, you might get a completely different outcome.

Andy Briggs: I agree. Ultimately, the way that we will get the best outcomes for consumers and drive economic growth by attracting more capital into the UK will be by minimising and limiting the sense of retrospection that goes on.

Lord Grabiner: To go back to Lord Sharkey's point, how would the problem be resolved by putting the FOS underneath the FCA? Under the current arrangements, it still has a very precise jurisdiction, which is different from a court jurisdiction.

Andy Briggs: The suggestion to put the FOS under the FCA would give quite a powerful, symbolic message to overseas investors that this Government are tackling this question of the regulatory burden and retrospection. It would be a symbolic gesture. I do not disagree that we need to get to an environment where the principles and rules, wherever they land, are set by the FCA and the FOS is judging against them. The point about the courts is also well made. My focus was primarily on the regulatory side.

Lord Sharkey: I wanted to ask about metrics, essentially. You have shown your proposed metrics to the regulators, I take it?

Andy Briggs: We have talked about them, yes.

Lord Sharkey: What was their response?

Andy Briggs: I find that, generally, the regulators are keen to engage and talk about exploring how they address their new objectives. The way I would think about the metrics, though, is at a macro or more societal level. If we have only 14% invested into productive assets, we should say that we want 20% to 25%. That is not uniquely down to the regulators. It will need the pensions industry, the Government, the National Wealth Fund and the regulators to all work collaboratively to drive towards that outcome. But the macro level is where I would focus because only 10%

of the population getting advice is unacceptable. We should have 20%, 30% or 40%—pick a number—and we should not be satisfied until we get to that point where far more of our consumers get that help as they journey to and through retirement.

We can use international standards as benchmarks here. In other countries, far more than 10% get advice. The average of other countries is 20%, among the seven largest pensions nations globally, but some are up at 25% or 30%. We should pick where we want to get to and then line everyone up behind trying to make that happen.

Lord Sharkey: We have heard evidence that international comparisons are very challenging, to say the least, and perhaps do not even exist in any meaningful kind of way, or they have no effect on the behaviour of people in the marketplace. Your evidence suggests that that is not the case and that we could make meaningful international comparisons. Can you briefly tell us which jurisdictions we could look at?

Andy Briggs: From a pensions perspective, I would look at Australia, Canada and the US in particular as the main ones. They are three of the largest pensions nations globally to benchmark against. As far as the flows of capital are concerned—this is a multisector point, not just about financial services—when I see the CEOs of other listed companies in the UK, those in oil and gas or telecoms would all say that they are valued at somewhere between one-half and two-thirds of their North American counterparts. Regulators should be concerned about that. They should be focused on the market valuation of our businesses, because it is a sign of the balance of buyers and sellers.

Any stock like ours is more of an income stock. Historically, we were owned by UK income funds; those income funds are general in structural outflow, because more of the market is moving to passive or productive investment, so every month they sell some of our shares. This will be true of banks and insurers across the piece, and going into other sectors of income stocks. Unless we attract overseas investors who want to buy the shares, the share price is going to keep tracking backwards. That is why the FTSE has underperformed other markets and indices, so having a focus on those sorts of comparative metrics and valuations is also important.

Lord Sharkey: We have heard people be sceptical about whether it is possible to run a proper CBA on the metrics. Some witnesses have told us that a causal connection, which you need to have a proper CBA, is simply not possible. But I notice that the PRA believes that it is possible to establish a causal connection between the metrics, as data for a cost-benefit analysis. Do you have a view about all of that?

Andy Briggs: As I say, I would start with the macro metrics: one in seven people in the UK is saving enough for a decent retirement. We can measure that and assess it. Looking at what a decent retirement looks like, we can measure how many are saving enough and we need to say

that one out of seven is woefully adequate. It needs to be far more than that. We need to set a goal and then set about getting to it. The CBA of that is self-evident. If we do not do something about it, in 20 to 30 years' time we are going to have a generation of impoverished pensioners. The societal and economic consequences will be severe and we need to take action soon.

The Chair: Would it be possible for you to give us more data on those overseas comparisons that you alluded to?

Andy Briggs: I am very happy to. We could do quite a considered piece. Would productive asset investments be the main area that you are interested in?

The Chair: Yes, and we have had a lot of evidence on the differences in attitudes of the regulators and their involvement. We have heard a lot of evidence saying that Singapore almost operates as a sort of concierge. We have found it quite difficult to get hard data, so the kind of examples you have given would be very helpful to the committee.

Andy Briggs: I am happy to and I will work with the ABI—I know that Hannah Gurga was here before—because it will obviously be able to hook into other firms. As Phoenix Group, we are largely a UK business, but I am more than happy to do that.

Q327 **Lord Eatwell:** I would like to come back to your confidence that we have the resources to build growth equity funding activity here in the UK. When you think about it, 30 years ago there was a particular sort of bank manager who would be involved in relationships with his or her customers. Those relationship managers have almost entirely disappeared from the banking sector, which relies primarily now on algorithmic lending. We just do not have the cohorts of people—do we?—who have the experience of going out and building a relationship. Famously, we know that if you borrow from Handelsbanken, you get the mobile phone number of your banker. That is always cited because it is such an exception. Do we really have the institutional capacity? I know that you have established the growth company, but it is tiny compared to the overall scale of the balance sheets of UK financial institutions.

Andy Briggs: I am not that close to the banking side or the shorter-term lending activity that banks undertake in support of growth businesses. What I am closer to is long-term growth equity investment, which is what we are focused on. We are not awash with talent, as I say, but we have sufficient to get going because we start with very little.

If we have a goal of 5%, maybe 1% of our UK-defined contribution savings are in growth equity at the moment, so we have a very small proportion today. We need to get moving. My view is: I do not see any material barriers in terms of capability to getting going with that. We will definitely need to build more over time. The most important asset here is having the initial start-ups, ideas and innovation coming in the first place. We are well placed on that as the UK, with four of the top 10 universities

globally. That is the bit that will be hardest to create if you do not have it. There is definitely work to be done, but if I draw the analogy across to the returns that Australian and Canadian savers have got, the prize is well worth it if our consumers end up with income in retirement that is one-third to one-half higher as a result.

The Chair: Do the regulators have the necessary talented people?

Andy Briggs: Generally, the regulators have very good people. I would not underestimate the scale of the cultural change—I say this openly to Sam and Nikhil, and I think they would agree—to shift from over a decade of "Be prudent, be prudent, be prudent" to "Be prudent and consider growth and competitiveness". Mindset-wise, it is a huge shift and shifting mindsets is tough and challenging.

There will be some areas, I am sure, where they need to build and grow capability, but I would say that this is much more a question of culture than of capability.

Q328 **Baroness Donaghy:** I would like to pick up on that, if I may. Thank you for the submission that you sent in. In your answer to question 1, about predictability—no surprises, no overlap—you summarised in about one and a half pages what it took five or six sessions to get out of witnesses. It is, if you like, a bit more pedestrian than the area that we have been covering, but it is about the process and about whether there could be improved co-operation between regulators when it comes to, say, consultations.

We were given examples of where the PRA and FCA sent out issues on consultations—I think it was about equality issues—at different times. They were very long, complex questionnaires; you could not answer one questionnaire and let it apply to the other. These issues were cited as examples of added cost and frustration. You have obviously summarised your awareness of those issues. Would you like to say a bit more? I know it is a bit more pedestrian than the wider issues that require government activity or government influence. Would you like to elaborate a bit on those issues?

Andy Briggs: There are two areas that I would talk about. The first is the volume. To again give you some facts, in our business, we are just UK savings and retirement, so we are quite focused as a business. We have had an average of 47 regulatory and legislative changes per year over the past three years—so about 150 over that period. In the last 10 months, we have had 12 ad hoc data requests from the PRA, each of which are pretty substantive for our finance teams to do a whole load of work on. The reality of these things is that that they are a huge amount of work, we need to employ lots of people to do it, and the cost of that ends up being reflected in the prices that we charge customers. There is an opportunity to think about what really matters and the detail versus the key.

The other thing I would say—again, this comes back to the comments on overseas investors—is that there are a lot of different regulators in the UK. The regulatory comments do not just relate to financial services; I get lots of comments from investors on the CMA, for example. I think that there are some obvious areas where regulators could do more to work more closely together. I have already talked about the FCA and the FOS; that is a really important one. The world of defined-contribution pensions is split between the FCA for contract-based pensions and the Pensions Regulator for trust-based pensions. When it comes to looking at investing in productive assets and the charge caps, the Pensions Regulator has made changes, but the FCA has not.

Another example is around liquidity in markets. Defined-benefit schemes are covered by the Pensions Regulator and the PRA covers insurers, yet the approaches to liquidity and the rules are different. We saw that play out through the volatility post the Truss mini-Budget. Again, that could be brought more closely together and made more consistent. That would be simpler, clearer and better all round.

Lord Vaux of Harrowden: Related to that, we have heard some quite compelling evidence about the level of the regulatory burden and the costs of compliance in this country compared with others. Do you have any thoughts on where we sit in terms of the cost of compliance and supervision?

Andy Briggs: That is why I would be more in favour of principles-based regulation rather than rules-based. There is a real tendency to dive into detail. I will give you another example; it is a live example, and quite a good one. There is a plan to have life insurance stress tests. Life insurers do stress tests which are then published. I was talking to Sam Woods about this yesterday with other insurance CEOs. It was very engaging; Sam wants to listen to and engage with us. It is the early stages of that whole process, which is good. The current plan, however, is that we publish very detailed analysis of these stress tests—far more detailed than the stress tests on banks—and a very detailed split down of the matching adjustment and the fundamental spread under stress.

I do about 100 investor meetings a year. I have not had a single investor ask me about matching adjustment and fundamental spread, whether stressed or not—not once. I think we just need to get into the mindset of thinking about what we are trying to achieve. In fairness to Sam, he is listening to this. Decisions have not yet been made on it and there is ongoing engagement. Publishing some level of stress test, consistent with the banks, is a sensible thing to do. It is very sensible for the regulator to ask us to do these stress tests and understand what stresses could stress the system, so that we have prudent regulation. I am very supportive of both of those. However, I can say with a high degree of confidence that if you give a generalist investor in North America, who could invest in any stock in any sector in any geography, a very detailed tome on the matching adjustment and fundamental spread under stress, they are

going to say, "Do you know what? I'll look at a continental European utility, actually, because this just looks too complicated for me".

It is so important that we stand back and try to get in the mindset of thinking about what we are trying to achieve here. If we believe that we have well-regulated insurers—and I firmly believe that we do; we had the global financial crisis and insurers went through unscathed while banks had lots of challenges—the objective of the exercise should be twofold. First, the PRA internally needs to be able to really understand what happens under stress and where there might be issues in the system that it then needs to regulate. Secondly, it needs to issue a communication to the market that gives confidence that these insurers are really well regulated and that, even under stress, they will come through well. Giving all that detail will have the opposite effect.

That is just a specific example and it is in train, so I do not want to be overly critical. There is plenty of time and the PRA is consulting and listening.

Lord Vaux of Harrowden: Overall, do you think that the cost of compliance in this country acts as an inhibitor to people investing compared with, say, the cost of compliance in the States or Europe?

Andy Briggs: The cost of compliance is significant, which has an impact on consumer outcomes, but it is more on those consumer outcomes. The issue from an investor perspective is different. About 18 to 24 months ago, I was seeing international investors who were exploring the Phoenix Group. They do not take a meeting if they are not interested in exploring it, so these are people who are interested. Their questions were very concerned with political instability in the UK. They were asking—and I am quoting them, nothing more or less than that—"Why did you do Brexit? It didn't make sense to us at all". Then the Truss mini-Budget definitely had a very detrimental effect on international confidence in investing in the UK.

I would say now—certainly from the trip in October—that that has disappeared. We are in fact seen by most international investors as more stable politically than most of continental Europe. This whole regulatory retrospection matter is the biggest concern. From their perspective, therefore, if regulation costs quite a lot, it does not particularly impact them that much. It is consumers who are impacted more by the cost of regulation. It is the sense of the broader burden of it and retrospection that is the issue. If we could convince overseas investors that this retrospection that the UK has done is a thing of the past, that would make a huge difference to those flows of capital coming into the UK across all sectors, not just financial services.

The Chair: So you are really saying that they need stability, not uncertainty.

Andy Briggs: Yes, exactly.

Lord Grabiner: I will just follow up from Lord Vaux's question, and then there is one other thing that I want to ask you about. Has Phoenix ever costed the regulatory burden, looking at it, say, in FCA terms?

Andy Briggs: Not directly, no. You have to comply with the regulations, so we just get on with it. We have not explicitly costed it.

Lord Grabiner: Would you care to give us a guess as to what it might be?

Andy Briggs: Sorry, no, not without doing more work on it.

Lord Hill of Oareford: Do you think it is costable?

Lord Grabiner: I agree entirely, but what do you think, Mr Briggs? The suggestion is that it is costable, and I suppose the question is, why have you not done it?

Andy Briggs: I guess, from our perspective, the question is: to what end? The regulations are there and therefore we need to comply with them. We are a commercial business and focus our energy on the things we can influence and change, so we have not done the work to calculate the numbers.

Lord Grabiner: But maybe, if the cost is extortionate, things should change.

Andy Briggs: We have not done the work, but that is a good challenge.

Q329 **Lord Grabiner:** I would like to ask you a separate question. To what extent is Phoenix free to set its own risk appetite, without constraint from the regulator? That is a big-picture question, but what is your sense of the answer?

Andy Briggs: We set our own risk appetite. We do a lot of work on it and discuss it at our executive committee and boards, where we make decisions on what we think. We are doing that in the context of the broader political, economic and regulatory environment, which definitely has an influence on how we set that risk appetite. We then actively engage with the regulators on our risk appetite as part of that strategy and listen to any issues or concerns they raise. The short summary is that we are free to and do set our own risk appetite, but we do it very much in the knowledge of the regulatory environment.

The risk of retrospection is a reality. Let me give you quite a good example. I spend an hour a week call-listening with customers, as I like to keep close to what is really going on in the business. Regularly, I get a call with a customer—let us say they have £50,000 in their pension pot—who calls us and says, "I want my £50,000 pension, please". Our first question is to ask them to give us a sense of what they need it for. They will say: "I need about £10,000 because I want to do something to the house or change my car. The rest I just want to be mine".

We would love to say: "If you don't need it all now, it wouldn't be a good idea to take it all because you'll push yourself into a higher tax bracket and pay far more tax than you need to". We cannot say that. We cannot say: "Just take £12,500, the 25% tax-free cash, and leave the balance invested. It will get gross roll-up and it's there for you whenever you want to take it and spend it". The regulations do not allow that, so I listen to our brilliant, wonderful people take about 20 minutes to dance around the topic and end up getting to a place where the customer says, "I see what you're saying—if I take all of it, I'd pay far more tax, and I can take it any time I want to so I'm better off leaving it invested".

Lord Grabiner: And you say "I couldn't possibly comment".

Andy Briggs: At that point we are okay to say, "Yes, that does make sense". What we are trying to achieve with targeted support, which is in the consultation stage, is to be able to say: "People like you tend to". Sometimes our colleagues do not get to the point where they manage to dance around for 20 minutes and the customer gets it, so the customer takes the £50,000. We saw a big spike across the whole industry in outflows from customers worried prior to the Budget about the loss of tax-free cash. All those customers ended up paying a whole load of tax and now have their money in a taxed environment rather than an untaxed one going forward.

Lord Grabiner: If you have some other examples along those lines, it would be very helpful to us if you could provide them in writing.

Andy Briggs: I am more than happy to.

The Chair: Given that this is clearly absurd, why is there not a huge pushback from the industry and why do the regulators not respond to it?

Andy Briggs: We have asked the regulators to be prudent. If ever something goes wrong, they get hauled over the coals in front of Parliament, so the cultural approach they have taken is to say: "Let's have this absolutely gilt-edged wonderful advice regime where nothing can go wrong and nothing happens elsewhere". We do not do the common-sense thing of saying "It's not a good idea to take your £50,000" because we fear the retrospective action if there was some reason for that customer to do so and we had not done the full advice and fact checking. That environment definitely impacts our risk appetite.

Lord Grabiner: Is there a specific prohibition on giving advice? Is that the limitation?

Andy Briggs: There is clear regulation. There is what I call the full-fat advice regime—it is fee-based, of £1,500-plus—which covers everything. It is excellent; the 10% of customers who have that get a brilliant outcome. The advisers there do a great job that is really fantastic. Then there is regulation that says: "You can do basic education information down here, but you cannot step over these lines". There is a big chasm in the middle. That is basically how it works.

Q330 **Lord Kestenbaum:** I assume that in turn goes back to what you called the huge cultural shift. What you just described as the various regulatory constraints and restrictions emerge in some measure from the cultural background you explained to us—what you called "Prudent, prudent, prudent".

Andy Briggs: I cannot emphasise enough that Sam and Nikhil in particular I engage with regularly. They listen and talk to us, and they would describe exactly that. The broader culture in the UK—the media and Parliament—is that nothing can go wrong. If you want that environment, you have the gilt-edged advice and nothing happening for the rest. You have to accept that, if you want to offer ordinary consumers the help and support they need, there will be occasions where it is not fully perfect. That is a risk appetite you need to accept.

The Chair: When you say they engage with you, in another inquiry we are doing in parallel with this into the proposals to make public enforcement regulations, one of the things we heard from the FCA was that it was hugely surprised by the reaction across the board from industry against this proposal. That made me think, "How can it be engaged with business and customers if it is surprised by the pretty obvious, inevitable reaction to bringing forward a proposal of that kind, particularly from quoted companies?" How extensive is this engagement? You talked about the need for a partnership and so on, and from the evidence I see there is perhaps some kind of dialogue between the regulator and the larger companies, but is that engagement real?

Andy Briggs: On the things that are important to us, like advice and guidance, they will always sit, engage and have a constructive and proactive conversation about them. That is an example of something that came from the regulator. I was not personally consulted on it and I do not believe we were as an organisation.

My broader point is that for over a decade we asked them to be prudent, and that is what they have done. We are now asking them to do something quite different. I would not underestimate the scale of that change. It will take a period of time. Having run businesses for a couple of decades, in my experience one of the best ways to bring about cultural change is to take big symbolic actions that get everyone to stand up and say "Wow, this is serious". It changes investor behaviour and colleague behaviour in the organisation. I would recommend we do that more broadly with things such as retrospection, specifically when the regulator gives examples of things it does that colleagues will look at and say, "Wow, this feels different now", and people will start to march to a different beat.

Lord Hill of Oareford: My question is on the same area. I understand and agree with a lot of the analysis you have set out and, as it happens, I will refer to the example the Chair has used. Since it has had the growth and competitiveness objective and since politicians have been indicating that we need to think differently about risk, on its own initiative the FCA published those proposals without consulting you on them. That suggests

there is still a long way to go, because the symbolic signal it demonstrated was the opposite of the one you would like to see.

We have talked a bit about there being quite a crowded regulatory landscape and, if you are on the receiving end, quite a lot of overlap. Do you feel that the parameters within an individual regulator are clear as to what you might expect? There is what it is required to do by legislation, which is fair enough; it will respond to what Parliament tells it to do. Then there are whole areas which are its own initiative, of which that recent publication was a good example. It was not asked to publish proposals on naming and shaming. Then there is supervisory behaviour, where its teams interact with you and your teams. That in itself can shift the behavioural boundary. As someone who is regulated, do you know what you are likely to expect to come at the organisation?

Andy Briggs: My answer to that is broadly yes, but there are definitely examples of areas of regulation and work that do not feel like a problem that needs fixing. I would make a couple more general points. The understanding of how it will land with investors, in the case of the financial regulators and our financial stocks, is weak and that needs to step up materially. Again, the reaction from investors to the name and shame bit, from the investor meetings I was doing around that time, was very negative. It was: "Here we go again with burdensome regulation". Equally, if people are doing wrong, they should be held to account and dealt with. One reason that people are not saving enough in the UK is that there is not enough trust in the system. Bad actors need to be found out, dealt with and removed.

I go back to where I started, Lord Hill, which is understanding what some of the key overall outcomes that we want to achieve are. It is not something that I am close to but I understand, for example, that in Singapore, which I know is held out as a good example—the Lord Chairman mentioned it earlier—the Government there will say to the regulator, "People are not saving enough. The saving rate's too low and we need you to do something about it". It is a much broader economic policy point. The regulator is then really focused on trying to bring about that outcome.

I would articulate those high-level outcomes, where I started, and that is a key part of what "good" looks like for the regulators. In many ways, they should not be off doing other stuff. Unless an issue arises, they should be focused on those core objectives. That is the way I run my business: we set an overall strategy and then each area of my business—my business units and functions—has clear objectives. We have three outcome-based objectives per quarter that they are focused on in a broader strategic context. I do not want people running around doing other stuff. I want them focused on the core things we are trying to achieve that are most important to us.

The Chair: On that note, we will conclude this session. Thank you very much, both for your paper and for your forthright responses to our

questions, which have been very helpful. We have got the message.