House of Commons

Treasury Committee

Oral evidence: The appointment of Andrea Enria to the Prudential Regulation Committee, HC 775

Tuesday 11 March 2025

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; John Grady; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1 - 24

Witness

I: Andrea Enria, Appointed Member, Prudential Regulation Committee, Bank of England.

Examination of witness

Witness: Andrea Enria.

Q1 **Chair:** Welcome to the Treasury Committee on Tuesday 11 March 2025. We have two witnesses in front of us in two sessions. First, I am delighted to welcome Andrea Enria, who is being proposed as the Governor's appointed member for the Prudential Regulation Committee at the Bank of England. We are here to talk to Mr Enria about his background and suitability for this post. I should stress that we have no power of veto, but there have occasionally in history been witnesses who have come a cropper because of the answers they gave this Committee, which I am sure Mr Enria is aware of.

Can I first ask you a little bit about the process? This is a new Committee and it is the first time this particular Committee has held one of these sessions. We sent you a questionnaire about your background. When you got that questionnaire, did you fill it out yourself?

Andrea Enria: Yes, of course.

Q2 **Chair:** Did you share that questionnaire with anyone else when you sent it back to us, other than this Committee?

Andrea Enria: I sent it to the parliamentary affairs office of the Bank of England.

Chair: Okay, that is fine. Thank you very much indeed.

Q3 **Dame Harriett Baldwin:** Good morning, Mr Enria. You have been asked to take on this role by the Governor and your background is primarily with the European Central Bank. I wondered whether you could share with the Committee what you think the European Central Bank does better than the Bank of England and what the Bank of England does better than the European Central Bank.

Andrea Enria: The Bank of England and the European Central Bank co-operate very nicely. This is not very well known. It is something that goes on in confidential channels. The collaboration on supervisory issues between the ECB, the PRA and the Fed, for that matter, in the tripartite agreements that we have is one of the bulwarks of global financial stability. It is very important. That is also why I was so excited about taking up this role.

In terms of differences, what I appreciate very much about the Bank of England PRA approach to supervision is the strong reliance on supervisory judgment. At the European level, there is a little bit more of a rules-based approach, which sometimes leads to supervisory tick-the-box types of practices. I made a lot of effort when I was at the ECB to try to push the practices of the ECB towards more judgment-driven assessments, in line with what is done here at the Bank of England. That is an element of strength.

Interaction with the firms is more based on dialogue, while on the European side relationships may sometimes be more adversarial. An important element of strength here is the focus on markets, market risk and the interaction between banks and, for instance, other intermediaries, which is particularly topical at this point. The recent system-wide stress exercise that the Bank of England conducted to understand the contagion between different sectors is a world-leading example.

On the ECB side, I am very fond of—I have been trying to convince my colleagues at the Bank of England to consider it more—the reliance on on-site supervision, so having an independent team of supervisors who go on site in the banks sometimes and assess valuations. That is particularly useful as an instrument when you are, like now, at the stage of the credit cycle when banks might be underestimating credit risk. Going into the details of valuations could be particularly important.

Another area may be, as I mentioned in my questionnaire, the investments in sup tech. The ECB, for instance, is investing a lot in new technologies and generative AI using supervision. The Bank of England could benefit from moving in the same direction.

Q4 **Dame Harriett Baldwin:** Will that be one of your priorities: to take some of the things that you think the European Central Bank is doing better than the Bank of England and argue for a change there?

Andrea Enria: No, not really. Of course, I come with my baggage of experience and views. That is what I plan to bring to the internal debate in the Bank of England.

Q5 **Bobby Dean:** Good morning. You just said there that we are at that stage in the cycle where banks may be underestimating credit risk. The Chancellor recently in her Mansion House speech talked about how the regulatory changes since the crash may have gone too far and we are now in a system that maybe seeks to eliminate risk taking. Do you agree with the Chancellor?

Andrea Enria: One point on which I agree is that the regulatory reforms and the repair done after the global financial crisis have delivered a very complex regulatory environment. This is an issue not only for the firms; it is an issue also for the supervisors. Running this machine is sometimes very complicated. I can see arguments and room for having some simplification of requirements and attention on compliance costs that they cause to firms.

If the Chancellor meant that we need to water down the requirements with a view to supporting growth, I would not be supportive. My experience has been that having strong prudential requirements, in line with the international standards, is fundamental to support growth.

If you compare what happened in the US in the last 10 years, you have had an extraordinary performance in terms of growth and capital requirements that have been gold plated with additional layers on top of the international standards. In the European Union, there have been deviations from the international standards, watering down requirements in certain areas to support lending to certain counterparts, and the growth performance has not been as strong. Strong capital requirements are supportive of growth.

Q6 **Bobby Dean:** The thrust behind the Chancellor's comments is that she wants to generate growth through regulatory means. You have said that you would only really be in favour of simplification of the rules. Do you think that this kind of simplification that you are talking about could be growth-enhancing?

Andrea Enria: To some extent, of course, yes. There are several areas in which regulation could help to pursue increased lending. Globally, we are facing challenges in terms of financing the digital and green transformations, so there are huge financing needs. You could ask yourself how regulation can help that.

The first way in which it could help is indeed by providing a robust prudential backdrop to financial activity and lending. You should be careful in the way in which you tailor the rules to the business models and complexity of different firms, noting the impact this has on competition and entry to the market. Having a vital, vibrant market with new entrants with good competition can be very effective in supporting growth. The other key point is how you support innovation in the economy around you. That is a particular area of attention, I think.

Q7 **John Glen:** We will drill into two specific examples. The Solvency II changes were consequential of the opportunities that came post Brexit. There was a really deep, fundamental dispute between the PRA judgment on what could change with the matching adjustment and what the insurance industry would say was totally acceptable in a world where new opportunities to invest gave a different profile of return to the traditional models that existed within the PRA.

The second example is around smaller banks. About 10 years ago, we had the smaller banks unit and lots of small banks being set up. We could probably say that they have not really led to a fundamental shift in competition. Those market actors would say that the PRA is too slow to adapt to the changing profiles and investment returns in the first example, or the relative systemic risks that do not occur with smaller banks, therefore impeding competition. How do you see your role as facilitating the optimisation of that competitive environment for growth in those sectors?

Andrea Enria: It is a difficult question. The PRA is a prudential authority. I personally would view it as inappropriate for a prudential authority to think of itself as a sort of social planner and to think that we understand better than others which sectors are more dynamic, where investments should go and how you should model risks.

Q8 **John Glen:** Your judgments are instrumental in framing the operating environment for these companies to be successful.

Andrea Enria: I speak more of banking because that is the area I know more, and I know I have some catch-up to do on the insurance side. In banking, you let the banks, especially the most sophisticated banks, estimate themselves the risks and the capital that is needed to back certain exposures. To challenge the banks, we put up a reasonable challenge. You see that some banks, maybe compared to their peers, are less accurate in measuring risk and are maybe taking too much of it. We try to play, I think, a very healthy role of challenging the industry.

In terms of small versus large banks, it is another difficult challenge, which I have seen also from my lens in the European Union. In the European Union, you have, for instance, a tradition in certain countries of very privileged regimes for small savings or co-operative banks, which have also been, to some extent, a barrier to entry for other firms into European markets and one of the shortcomings in the function of the single market. You always need to be very careful.

In my view, what the PRA is doing, for instance with the strong and simple framework, is very reasonable. It keeps the safety, let us say, and comparability of what is applied to small and large banks in a reasonable framework, but, at the same time, reduces the compliance cost for smaller firms, enabling them to maybe overcome what is undoubtedly a fixed cost that can damage smaller firms.

Q9 **Chris Coghlan:** I thought that your point that the US has had higher economic growth than the UK and Europe with higher capital requirements was very interesting. To your point around simplifying regulation, how realistic is it to simplify regulation, given that some financial products are so incredibly complex? One issue during the financial crash was that you had these incredibly complex mortgage-backed securities and everything else that no one, including the bankers themselves, actually understood.

Andrea Enria: You raise a very important point. There are areas in which simplification can be pursued relatively easily. The strong and simple is one of those examples. There are other areas where I personally think it would be easy to pursue it. For instance, we have an incredible complexity in the type of instruments that are recognised as capital and loss-absorbing. We have different layers and rules that have been superimposed on previous ones without maybe considering duplications or conflicts. When you start engaging with the industry on the simplification, sometimes you find that it is now not so convinced that this would be a positive way forward. Sometimes change is costly. It is expensive for firms.

While we should pursue simplification in different areas, you are right that the complexity sometimes emerges from the attempts of regulators to go with the grain of the market, so to reflect good industry practices, go through consultations and incorporate comments from the industry. When I started many years ago as a regulator, I was in a much simpler regulatory environment in which there were prohibitions and segmentations. That was a much simpler environment, but definitely less vibrant.

Q10 **Chris Coghlan:** Does this complexity extend, in your view, to whether some of this financial services growth is actually real or just credit expansion? I am thinking about the whole debate prior to 2008 about to what extent the financial services growth was a social good. How does that inform your view?

Andrea Enria: I have no doubts that there has been an expansion in the financial sector that has sometimes not created real growth in the real economy. There has been an excess of complexity. That was one of the reasons in the build-up to the global financial crisis, for sure. I see some of these complexities starting again right now and there are some question marks there. The role of a supervisor is not to shape the world, prohibit products or constrain financial innovation. It is just to put in the right safeguards and limits in terms of risk taking.

Q11 **John Glen:** Can I go back to this issue of the secondary objectives of the PRA and how you view them? You have competition on the one hand and international competitiveness and growth on the other. Could you start by explaining, so that members of the public who are watching can understand, how you view the trade-offs and the way that you discharge your responsibilities on those and distinguish between them?

Andrea Enria: I do not see huge trade-offs. I tend to fight the idea that the objective of safety and soundness is to be pursued at the cost of lower competition. It was something that was very strong, again, a long time ago when I started doing supervision, that you have to constrain competition to beef up the profits of the banks and ensure their stability. I do not want to bore you, but when I started in the Bank of Italy there was a need for a plan to open branches in individual provinces, because it was thought that, if you had too many banks in an area, it would be destructive of value and the banks would not be profitable enough.

Now we are far away from that model. We know that competition supports stability, and stability is important to support competition. I do not see clashes there or between the primary objective of safety and soundness and the growth objective. I find the way in which the PRA is doing it very sensible. I also find the way in which the secondary objective is framed sensible, because there is a reference to the international standards. Something that I would view very negatively is if, to attract business, so to enhance competitiveness, you were to enter into a race to the bottom in terms of prudential standards. This would not support long-term objectives or be compatible with the international financial centre status of London and of the UK.

It is important to have a focus on long-term growth, not short-term growth. We know that, if you tighten the standards, for instance, you can have a short-term adverse impact on growth, but what matters is to understand what the long-term impact is. It has been proven by many studies done at the Basel Committee, for instance, that, usually, when you reach a satisfactory level of capital, which is where I think we are now in the UK and globally, the cost of the capital requirements becomes much less impactful on growth. You can pursue growth objectives without entering into any trade-off.

Q12 **John Glen:** You have mentioned strong and simple proactively a number of times as a regime for smaller deposit-taking banks, but we have a sense from the Government and some who offer commentary on these matters that there is an expectation that, as my colleagues have alluded to as well, there is a sub-optimal level of regulatory oversight.

If we look specifically at effective domestic competition in the banking sector, back to the point I made slightly earlier, we have four or so dominant banks. We have facilitated new entrants. They have the strong and simple regime, which is less onerous because they are not systemically important, yet we do not have the sort of competition domestically, arguably, that many people would expect to see. How do you view that assertion? What role or evolution in the role of the PRA could help to change things in that regard?

Andrea Enria: I might not be knowledgeable enough about the dynamics within the UK banking sector, to be honest with you. Looking from a distance, honestly, I do not see this as an issue in comparison to other financial centres. I understand that around 80 new banks have been granted the licence since the 2013 or 2014 cut-off date. I have seen a number of new banks as well as these tech banks that are mainly app-based that have developed their business. It is an open financial centre, so there has been entry from banks in other jurisdictions.

I do not know. Maybe I missed the underlying analysis, but I do not see any major issue to be fixed. If there is an issue to be fixed, I would not argue that the strong and simple is the magic wand that will make any issue go away, but it still is a new attempt to tackle this issue. I understand that it is not yet implemented. That could provide even more room for enhancing competition in the country.

Q13 **John Grady:** That is all very interesting, Mr Enria. I have one macro question about the role of a regulator in financial services. All regulators fall into the fallacy sometimes of fighting the last battle, be it the tulip boom, the railway boom, property in the 1970s or the last financial crisis. Do you feel that the regulatory community understand the current and future risks in the system as well as they should do, or are they focused on the preceding risks?

Andrea Enria: It is a fair question. It is true that I have seen these dynamics where you have problems materialising in the industry and the debate immediately goes into how we fix it with new regulations. The key lesson I learned through my career is that there is quite a long way you could go with effective supervision. By effective supervision, I particularly mean engagement in the definition of supervisory priorities with the macroprudential analysis and the analysis of risks going forward.

When I was at the ECB, I tried to develop a framework in which every year you had a horizon scanning of the risks that were coming. That enabled the ECB to define the priorities for supervisors for the next year. Supervisors were then able to allocate their time across, of course, the specific issues that were relevant for their individual firms, but also to some horizontal reviews that tried to cover the risks identified by our board as important in a forward-looking manner. I cannot say that this is working perfectly, but I think that it is important to have a risk-based supervisor.

Q14 **John Grady:** With all your experience, what are the two things that keep you awake at night?

Andrea Enria: The nut we have not cracked yet is risk culture at firms. If you look at the PRA, the Fed, the ECB and the number of findings and shortcomings that they find in firms in their supervisory processes, most of them are in internal governance, internal controls and board effectiveness in actually focusing the attention of senior management on risks. This generally is built into the risk culture of the firm. Risk culture is not something that you can change as a supervisor by manoeuvring your usual tools, with capital requirements or sanctions, so the board needs to own it.

How to make the board change views and take ownership of these issues is a real challenge for supervisors. When I was at the ECB, we also used a team of organisational psychologists at the Dutch central bank. They went on site, witnessed the dynamics within the firm and reported to the board of the firm, trying to put them in front of a mirror and show them where there are weaknesses. In some cases, this approach worked, but that is a difficult nut to crack for us as supervisors.

Q15 **Yuan Yang:** In terms of future risks, in your questionnaire you write that there is still some way to go to set clear supervisory expectations for the management of climate risk. Could you say a little bit about where you think the biggest gaps are when it comes to the management of climate risk and what the PRA should be doing about this?

Andrea Enria: The PRA has already done a good job in setting out high-level expectations for the firms. My experience in general is that it is sometimes very difficult for firms to step up their ability to measure and manage climate risk. The argument they usually put forward is that they do not have enough information to manage that risk because the customers have not provided them with the right information. My point as a supervisor needs to be that, if there is a risk and you tell me that you do not have the information to manage it, we have a problem. You need to step up your ability.

As supervisors, we need to identify clearly, firm by firm, what they need to do to fix this knowledge gap that they have in terms of setting a risk appetite framework for climate risk, having stress-testing capabilities on climate risk and, in the longer term, having an effective transition plan. Sometimes the firms tell me "The political environment is changing. There are different jurisdictions pushing us in different directions". I think that that will be the new normal. They will probably have to navigate different environments going forward on climate risk, so it is important that they are well equipped to do that.

Q16 **Dr Sandher:** I wanted to pick up on that climate point. In your answer to the questionnaire, you focused a lot on the transition risk of net zero and less on the physical risk of climate-related events. What physical risks do you see as being particularly relevant to the financial sector or, indeed, those that are being supervised?

Andrea Enria: The last months, even, have shown us plenty of physical risk materialising with the wildfires in California. There are quite interesting maps provided by dedicated organisations, NGOs, that identify the areas that are more subject to wildfire risk, flood risk and the like. This risk is already materialising. It is particularly relevant, of course, for the insurance industry, but also for the banks when they take long-term exposures into certain segments of the economy. This is something that needs to be understood and factored into the risk management process of the banks.

Q17 **Dr Sandher:** Thinking further on the PRA and its own supervisory expectations of firms, how do you think the PRA should be updating its supervisory expectations relative to those physical risks of climate-related events?

Andrea Enria: The key point is measurement. I mean understanding and being able to measure the risk. If you do not factor into your scoring process when you vet potential customers the risk that the collateral you are taking could be strongly devalued because of floods, because it is not insured, or because of wildfire risk, you are taking additional risk. The valuation of collateral and taking into account these aspects in the lending process is a key element.

Q18 **Rachel Blake:** In your questionnaire you wrote, "If we look back to the major episodes of failures at financial firms, we can always identify a root cause in poor culture—especially risk culture—and ineffective governance". At the same time, you said that culture is a difficult area for supervisors to intervene in: "It is not easy to show evidence of an inadequate risk culture, as most frequently poor behaviour and decision making are driven by internal non-codified norms, behaviours and attitudes". What can you bring to the committee and what focus will you bring on culture in your new role?

Andrea Enria: I am very keen to engage in this conversation. I cannot say that I have the solution to bring to the PRA on this topic. I can say that there are already a number of tools that are deployed by the Bank of England. I am already at the Bank of England now as a senior adviser. Sometimes the Bank of England deploys board effectiveness reviews, which, in my view, are a very interesting tool. You observe and engage with the board, the committees of the board and individual members, trying to understand how the dynamics develop.

In my reply to the questionnaire, I say that sometimes it is difficult to go deeper. The example I mentioned in my answer to Mr Grady is that sometimes it is interesting to deploy other tools. This specialised team at the Dutch central bank, for instance, does interviews and questionnaires with middle management and staff more broadly, trying to get feedback from the people working for the firms.

There are also interesting tools being developed. I know of tech companies, for instance, that are developing artificial intelligence mechanisms based on the use of metadata. They see, for instance, how the communication between the risk management and the front office goes in terms of who is activating the mails and how long the others take to respond. They do not look at the content of the mails, because that would, of course, be in violation of privacy requirements, but they look at the dynamics of communication inside the firms to understand how relevant certain functions are and the status of different functions internally. This can help you understand better how the firm inner working can affect risk taking. We should all be trying to understand how these types of tools function and whether they could bring value added to supervisory work.

Q19 **Rachel Blake:** Given the significance that you have apportioned this within your questionnaire, are you concerned about a slow rate of progress to use these tools and the level of visibility of this type of risk?

Andrea Enria: We should not think that this is the golden tool that will give us all the answers. I am saying that this is such a difficult area for a supervisor to engage in that we should be open-minded, test different tools and see what works best to try to push the progress that I think is needed in this area.

Q20 **Rachel Blake:** Are you surprised at the slow progress with this, given the significance of the risk?

Andrea Enria: I would not like to convey to you the idea that there is a widespread problem affecting all firms. There are firms that have shortcomings in this area. The problem is remediation. If I have a problem in a credit portfolio, I tell the firms. I use the indicators. I have the evidence. I tell the firm what I want to see within the next six months and check the progress. When I see a problem in governance, it is much more difficult. Sometimes the board itself does not recognise the problem and the discussion can become very adversarial and difficult. I do not have clear metrics to push the progress and the tools are not simple to manoeuvre. That is why we need to experiment with additional and maybe new tools to deal with this topic.

Q21 **Rachel Blake:** In terms of the political environment in the United States, how worried are you about a change in risk culture within US firms and the impact that this could have on UK firms?

Andrea Enria: As I said before, in the banking area the US has adopted very strict requirements compared to other jurisdictions, including the UK and the European Union. It has quite a long way to change the rules before this starts becoming a concern in terms of comparison of standards.

It is important that the US shows its commitment to be respectful of international rules that we agreed together at the Basel Committee table. I am sure that the US agencies are very much in that camp. That would be important. Throughout my career, I have always placed a lot of emphasis on the need for having robust international standards that all jurisdictions globally abide by. I am confident that this will happen also in the US, where banks have not required a lot of adjustment to be in line with the international standards.

The area that we should look at with some interest, but also, personally, with some concerns, with regard to the US is the regulatory developments in the area of cryptoassets and stablecoins. That is an area where we need to see how this affects not only consumer protection globally, but also potential engagement of financial firms globally with these types of products. Major differences in regulatory approaches across the globe would, of course, require important discussions at the global tables, such as the Basel Committee.

Q22 **John Glen:** Can I move you on to Basel III implementation and the consistency point? Often, representatives of banks used to say to me, "We are concerned that the ECB or the US are going to take a different line or come up with a different interpretation". In, I think, answer 7 in your written evidence, you talk about the importance of consistency. It is also important, surely, that we customise and align as much as we can, within the broad adherence to global standards, the right solutions in the UK.

Can you explain to us how you see the alignment to international norms but also the optimisation for UK institutions in a world where the US's new President and new leadership is inclined to make executive orders that somehow muddy the waters a bit about the independence of regulators? How do we remain competitive in the UK in this context?

Andrea Enria: I have to be candid with you.

John Glen: That is great.

Chair: We love candid witnesses.

Andrea Enria: I have a rather extreme position on this point. My view, which I know is a bit utopian, is that, in an ideal world, I would like to see, for prudential standards for banks, the same approach, for instance, that the European Union adopts for accounting standards. Basically, you have an automatic transposition into legislation, so you do not have room to change. The international standards are designed for international banks. I have been sitting for years and years at the Basel Committee table, where all these specificities of the US, German and UK markets are brought to the table, heavily considered and factored into the international standards. These concern international firms.

I cannot remember the figure of banks that are involved, but, if I am not wrong, it is around 140 firms or something like that. We are talking about a relatively small sample of banks. I would really like it if, for these firms, we have a truly homogeneous environment. That is not the reality. I understand that each jurisdiction, in some way or another, deviates from international standards. I understand that. I can live with that. In some cases, this goes through legislative processes. As a regulator, I have to apply what Parliament decides.

Q23 **John Glen:** In reality, Parliament does not really decide. We do our best, but we are not somebody with all your experience. What I am trying to get at is that your commitment to those global standards, which I respect and I am sure the Committee broadly would agree with, has to sit alongside the opportunity, within the optimisation parameters that exist in other jurisdictions, to do it as best possible in the UK for our sector and to be globally competitive. How can we be sure that you will optimise the way that plays out in the UK for our sector? Frankly, the US, ECB and others look at slight deviations to respect the different culture and heritage of their banking sectors.

Andrea Enria: For me, the real argument is evidence. I would like the industry to bring evidence in a consultation process that shows me that the calibration of the international standard is not appropriately capturing the risk of that line of business. I am a technical authority. Evidence matters for me. So far, honestly, also on the European side, I have seen that sometimes this evidence is not there, even in certain areas.

John Glen: That is what I used to say to them as a Minister, because you cannot do much from just instinct.

Q24 **Chair:** Thank you very much indeed for a very interesting session. I wish we had longer. Finally, you obviously have your footprint in Italy. Are you planning to live in the UK?

Andrea Enria: Yes. I live in the UK already, yes.

Chair: You live in the UK. Fantastic, thank you very much indeed. We will be considering the appointment and our comments back to the Bank in a private meeting after our next session.