

Treasury Committee

Oral evidence: Banks and building societies, HC 900

Tuesday 20 May 2025

Ordered by the House of Commons to be published on 20 May 2025.

[Watch the meeting](#)

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

Questions 1-82

Witnesses

I: Ian Stuart, CEO, HSBC (UK); Vim Maru, CEO, Barclays (UK); Charlie Nunn, CEO, Lloyds Banking Group; and Paul Thwaite, CEO, NatWest Group.

Examination of witnesses

Witnesses: Ian Stuart, Vim Maru, Charlie Nunn and Paul Thwaite.

Chair: Welcome to the Treasury Select Committee on Tuesday 20 May 2025. We are pleased to have before us representatives of four of the largest banks in the UK: Paul Thwaite, the chief executive officer of NatWest Group; Vim Maru, the chief executive of Barclays bank; Ian Stuart, the chief executive officer of HSBC; and Charlie Nunn, the executive director and group chief executive of Lloyds Banking Group. Welcome to you all. We are keen to hear what you have to say about a range of issues, so we will be cantering through quite a lot of topics. I hope that you will be regular visitors to the Committee. Bobby Dean is going to start the questioning.

Q1 Bobby Dean: We are going to kick off on car finance, so it makes sense to start with you, Charlie, as the largest lender in this market. You have made a £450 million provision for compensation, and we are awaiting the Supreme Court decision, which should come very soon. If the decision is upheld, what impact will that have?

Charlie Nunn: First, thank you for having us before the Treasury Select Committee, and thank you for the question, Mr Dean. We have actually made two provisions. One was, as you say, a £450 million provision last year with respect to discretionary commissions, which the FCA was looking into. We made another provision this year of £700 million, linked to the Court of Appeal decision. Obviously, we welcome the Supreme Court looking at that decision on an accelerated basis.



HOUSE OF COMMONS

We are expecting the Supreme Court to come back in July with its view on whether it will change or support the Court of Appeal's decision. Depending on that, the critical next step, which the FCA has committed to, is to look at whether there was harm, based on the findings from the law courts, and at whether an appropriate remediation programme should be put in place. It will be important for us to respond, once we have that clarity.

Q2 Bobby Dean: Assuming that the judgment is that there has been harm, and the FCA decides to proceed with the redress scheme in the way it has announced, what impact will that have on the market?

Charlie Nunn: It is important to say that car finance is a really important market, both for the automotive industry and for consumers. About 80% of people need financing for buying a new car, and about 50% to 60% for buying a second-hand car, which is why it is such an important industry to get clarity on. As you know, less than 70% of people have more than £5,000 of savings, so they cannot afford cars without financing.

At this stage we do not have evidence of harm—that is not one of the things that has been focused on—or that we have broken the regulation retrospectively. If those things were found to be true, we would of course lean in fully to identify the customers who experienced harm, as defined by the FCA, and then support a remediation programme.

To step back, the really important point for me is about how we provide clarity to customers and to the industry, and enable the industry to continue to perform a function. As we look at the next six and 12 months, it is really important to provide that clarity, because lack of clarity will create dysfunction in the market.

Q3 Bobby Dean: Do you not think that you might just be hiding behind a legal definition of harm? I note that you just said you are not sure whether there is evidence of harm, and you said the same thing at an industry conference recently, but I have met constituents who feel like they really have been duped because there were advance commission payments that they were not aware of. They trusted their broker was an honest broker who was acting in their interests; they were told it was the best possible deal they could get, but when they dug beneath the surface, they found that they were paying sky-high interest rates and probably could have got a better deal elsewhere. But they had to put their trust in that honest intermediary. Do you not think that that kind of activity is harm?

Charlie Nunn: This industry was operating for decades under a regulatory and legal framework. As you know, the last time it was reviewed was in 2020, when the FCA looked at this.

Q4 Bobby Dean: But to go back to the individual case, my constituent depends on their car to earn a living. They had to borrow; it was a second-hand car, not a brand-new flashy car, but they still needed to finance it. Their credit history is not great and they had to trust that intermediary. Without the consumer knowing, that intermediary received huge advance commission payments from the lender. That is obviously going to make

that intermediary work in the interests of the lender and not of the consumer. That is consumer harm, isn't it?

Charlie Nunn: I have had a chance to look at a lot of individual cases as well—as you say, the specifics are in the individual cases. When we look at those cases, one issue is that the dealer is looking at four things when trying to create the right package and value for the customer. There is typically a trade-in, so what is the trade-in value of their car? There is typically a new car that someone is buying, so what is the price they pay for the new car? If they need financing, what is the cost of that financing? Finally, there are value added services. Do I get paint protection? Do I get valet service on an existing car? That is what the dealer is putting together. When we look back at the individual cases and as we get clarity from the Supreme Court and the FCA, that combination of factors will determine whether a customer actually got the right package and the right deal, or whether there was harm. As I said, at this stage, we have not had evidence of harm, although if it were identified, we would of course lean into it.

Q5 **Bobby Dean:** But when it comes to the lending element in particular, people trust the intermediary to act as an honest broker. This is not the same as chucking in some car mats or saying that a sat nav is included; this is about a financial arrangement, where people are trusting the intermediary to be an honest broker. If things like advance commission payments are being paid—maybe you can confirm whether Lloyds was engaged in that practice too, and paying dealers advance commissions—how can that possibly be an honest deal?

Charlie Nunn: First, yes, Lloyds, through its Black Horse subsidiary, was working on discretionary commissions until 2017, and then it changed its approach. Obviously, in 2021, when the FCA did its review, the industry stopped two-way discretionary commissions, which I think is the core thing you are looking at in this context.

So that does exist. It is a very proven practice in this industry and in some others, actually. When you look at the value that the customer is normally exchanging, the average price of a first-time car is £27,000; the average price of a trade-in is very significant. The value that the dealer is talking about is a very significant value package and, of course, the commissions go to the dealer, not the customer.

There is a set of standard practices. The regulators have reviewed this, and we will obviously look at that. We would obviously look at any findings and look proactively to support our customers.

The interesting challenge, of course, is when you stand back and say, how do we ensure clarity for customers and then make sure the industry can continue to function? This is a really important industry, both the automotive manufacturing industry and the dealers and the car network in support of customers. Getting that clarity is really important, and this kind of uncertainty, where the Court of Appeal seems to be at odds with 30 years of regulation, creates massive backward-looking uncertainty in



HOUSE OF COMMONS

investment in the industry and real uncertainty around investment in the UK more broadly.

We welcome the Supreme Court looking at this. We definitely welcome the FCA then stepping in. Our hope is that, if we can get that clarity, we can then move forward and focus on the individuals, which is really the important part.

- Q6 **Bobby Dean:** One decision, which you mentioned, is clear, and that is around discretionary arrangements. There is a fair understanding of what might happen next, so you might expect lenders to have already baked that in. As far as I understand it, the market is still operating fine. Do you think that it would be heavily disrupted if the Court was all of a sudden to uphold a decision that lots of lenders are already half aware of?

Charlie Nunn: It is interesting that the industry has put in place full disclosure on commissions and we have seen no material change in customer behaviour. That is a really important point, so thanks for noting that.

- Q7 **Bobby Dean:** I guess my question is, is there really a threat to the market from this decision being upheld? It seems like the market has already adjusted.

Charlie Nunn: It will all depend on the specifics of the decision. We have looked at a very broad range of scenarios. There are three or four quite technical points of law that the Supreme Court is looking at. Then, depending on how the FCA looks at those legal findings and how it interprets them, and depending on how customers and the professional representatives of the claimant law firms respond, there is quite a broad range of scenarios, and some of them could very much disrupt the industry. Lloyds Banking Group is in a very strong position, but some of those scenarios are difficult. This next six or 12 months, depending on how long it takes the FCA to fully respond, are really important for customers to be able to get credible financing, for the industry to operate, for the dealer structure to work and for the UK to remain investable.

- Q8 **Yuan Yang:** Mr Nunn, your accounts last year show that you have set aside £450 million in potential compensation provision for the impact of the FCA review. I just want you to clarify one point, because I am sure that some of my constituents who are listening, who may have been caught up in this, will be really surprised to hear what you said about harm. At the same time as your bank is setting aside quite a large provision for compensation, you are telling those customers and former customers of yours that you do not see any harm. It would be good if you could clarify what you mean by that.

Charlie Nunn: Yes, thank you, Ms Yang. It does look like the two things don't fully align at this stage. On the accounting provision, I have a legal obligation to make sure that I follow the accounting rules, which say that you have to take a best estimate when something becomes more than likely. That £450 million provision incorporates two things. One is the operational expenses of responding to claimant law firms. We have had a



HOUSE OF COMMONS

very large number of complaints that aren't even from our customers, so we know there are significant operational expenses in processing and trying to help customers. I don't know if they even had a policy with us, but there is a very high percentage of those. It is processing the operational complaints, supporting the customers and, if there is remediation linked to harm, paying out that remediation.

We haven't disclosed the split between those two things, but we obviously have experience. The operational expenses are very significant. We knew, based on actions that the FCA has announced, that we were going to incur significant costs. From an accounting perspective, we are legally obliged to do that. That is not linked to decisions that the FCA and Supreme Court will take on whether there was a breach of a law, whether there was harm, and if there was harm, whether appropriate remediation should be made. All those steps are independent of the accounting provision. I know that probably isn't helpful for the public, but that is the basis on which we make those decisions.

One final thing—my CFO has obviously gone through this in some detail—is when you look at the underlying of that provision. We looked at a range of scenarios, then probability weighted them back. We have said repeatedly that this is our best estimate. It could be zero, and there is a scenario that is zero; there is a scenario that could be higher than £450 million. Until we get additional facts, specifically on whether or not there was a breach of the regulation and whether or not there was harm, and what the FCA decides if those two things are true for a subset of customers and what kind of remediation is required, we will not be able to clarify the number.

Q9 **Chair:** We have seen a lot of adverts saying, "If you bought a car, give us your details and we will pursue a claim." When the PPP issue arose, you were employing a lot of people—not just you but other financial institutions—to chase down whether that person had ever had an account with you. May I just go through in turn what you are doing to resource that? You have highlighted that some of the money that you set aside or made provision for is for processing, but a lot of that was deadweight processing for people who were speculatively putting in. Do each of you have an idea of what you will have to set aside? Mr Stuart?

Ian Stuart: We are not involved in the motor finance industry—

Q10 **Chair:** So it is not an issue?

Ian Stuart: Well, very low. We had some customers writing in, but we have that well covered. The only point I would add is that our investors are very interested in the outcome.

Vim Maru: We exited the motor market in 2019. We had a low market share prior to that. We have had customer inquiries as well as inquiries from claims management companies, as Mr Nunn talked about, and we have sufficient resources to deal with those. The harder ones to deal with are cases that are 10 or 20 years old, and that is obviously where a lot of effort goes into trying to find those policies as appropriate.

Q11 Chair: Do you have staff dedicated to that?

Vim Maru: We do.

Q12 Chair: How many?

Vim Maru: We have a few hundred staff dedicated to this to deal with the processing, but also in preparation for the Supreme Court decision, to make sure that we have sufficient resources when further inquiries from customers come in after the Supreme Court decision.

Paul Thwaite: At NatWest we don't have a direct-to-consumer motor finance business, so we have not put any additional steps in place.

Chair: Mr Thwaite is looking relieved compared with Mr Nunn. Thank you very much indeed.

Q13 John Glen: I want to look at growth and regulation, and I hope by the end to get some clarity about what you think can be done. In the Mansion House speech, the Chancellor said that the 2008 financial crisis resulted in a system that had gone too far in seeking to eliminate risk taking, yet when Sam Woods came before us, he said that after the big planks of post-crisis reform, such as bank capital, bank liquidity, capital insurance companies, and the types of responses that we have with the CEOs of big firms, there is "no convincing evidence" that it has been overdone. There is a bit of a contradiction there; I won't want to draw you on that, but I think the whole country wants to understand what you as CEOs of our biggest banks need and want in terms of regulatory reform, and the specifics that will move the dial in growth terms. Let us start with Mr Stuart—it is good to see you again, now in a different role.

Ian Stuart: It is good to see you, Mr Glen.

First, we have written on ringfencing and asked for a review. I was the CEO of the bank just before ringfencing came in, so I have seen it end to end. The rules for ringfencing were written back in 2011 or 2012—13 years ago. We believe that reviewing some of the rules, or reviewing ringfencing in its entirety, would be a good step in the right direction.

Let me give you one example. I could give you many, but I will give you one. We have two banks in the UK today: the UK ringfenced bank, which does the bulk of the lending, and the non-ringfenced bank. We cannot move liquidity or capital across the banks, because they are separate entities. Liquidity is a particular issue. If you are a US bank in the UK, you can raise up to £35 billion from retail deposits and you can use that to invest back through your bank—your corporate and your investment bank—based in the UK. We cannot do that. Just that simple act of being able to move liquidity around would put more growth oxygen into the economy and, I think, really help businesses in the UK today. That is just one example.

Q14 John Glen: The PRA would say that they have all the tools to deal with any major disruption risks, but the argument goes that this is a legacy of comfort, which the country needs, that there is not going to be



HOUSE OF COMMONS

contamination from casino activities into our mainstream banking sector. You would say that that is a redundant, out-of-date concern that is no longer meaningful and that maintaining it stops you doing the best things you can with the money that you have available.

Ian Stuart: There are two points on that. I have always thought that ringfencing was brought in at a point in time for a very good reason, which was to protect taxpayers bailing out banks. I have no issue with that at all. Since then, ringfencing has got more elaborate—there are more controls in there—and I sense that we are overcapitalised. We have too much liquidity, and there is only so much we can do with that. I really think that a review now, to try to recalibrate that so that you are putting more oxygen into the economy, would be timely.

Q15 **John Glen:** Thank you, Mr Stuart. Mr Maru, I think you will take a different view. Barclays Capital is an entity that you have worked up over time; it is distinct from the other three banks here. Do you disagree with Mr Stuart? If you do, why do you disagree? Is it not just a convenience of your own company's corporate journey over the last 20 years?

Vim Maru: Let me try to talk about ringfencing and then maybe I will go to your broader question in a second.

John Glen: What is not compelling in Mr Stuart's logic?

Vim Maru: Like Mr Stuart, we have a ringfenced bank and a non-ringfenced bank. Let us go back to the logic of ringfencing. Its origin lies in the global financial crisis and £137 billion of taxpayer support. It has led to financial stability, to depositor protection enhancements, with the separation of the retail business from the non-retail business, and to increased trust in the sector. In the last couple of years we have seen some financial issues across the globe. We have been more immune to those, and I think that is because we have ringfencing.

Could there be enhancements to ringfencing? Absolutely, and we have had a review recently. The implementation of that happened in February this year, so only three months ago. Are there further opportunities like the examples that Mr Stuart talked about? Of course there may be further enhancements, and those should be looked at by the PRA, case by case. But we do not think repealing ringfencing is the right way forward, for the reasons I have just set out.

Q16 **John Glen:** But if the PRA have the tools at their disposal to deal with any crises that may exist with unforeseen circumstances, why does the logic of 16 or 17 years ago still prevail? A lot has been learned, and lots of other tools around the capitalisation of banks and the different mechanisms used to keep the banking sector secure have been implemented. Again, is it not really just the case that you institutionally have developed a different profile and therefore you have a commercial advantage to maintain it as it is?



Vim Maru: The key point is that we have chosen to implement ringfencing in a certain way and everyone has that available to them, including how they deal with shared services and separate the ringfenced bank from the non-ringfenced bank. To your other point, there are tools that are available, but they all complement each other. Ringfencing is one tool, resolution is another, and the capital framework is another. They all complement each other and that jigsaw comes together. Of course, if clarification is needed, that should happen.

Q17 **John Glen:** Thank you. Mr Nunn, do you agree more with Mr Stuart or Mr Maru? Are there other things, beyond ringfencing, that you would like to see happen that would be helpful for growth in your sector?

Charlie Nunn: The simple answer is that I agree more with Mr Stuart. I have one additional point, which I think is obvious but important. We think that it is right to look at this strategically. This would probably require primary legislation, if this were to be a Government policy, which would take a couple of years, and then another five to implement. This is about setting up the UK with a healthy economy that needs a healthy financial system for the 2030s; this is not about growth in the next five years.

On growth in the next five years, we think that there are some important things to look at. We welcomed the secondary competitiveness and growth objective. The PRA and the FCA are really leaning into that with this new Government. We would look at it slightly differently; we identify a number of areas, whether it is helping the housing market, helping first-time buyers, scaling up financing for SMEs or helping people take the appropriate level of investment. When we look at those kinds of themes, we have about 10 that we think will make a real difference to people and businesses in the UK. It is typically a combination of both prudential and conduct regulation that is stopping us serving customers and financing more to enable growth. Let me give one example on mortgages, which is probably the one you would look to—

John Glen: Loosen the lending criteria; I think that is well understood.

Charlie Nunn: I think it is even more than that. If you look at capital models, we have to include data on mortgages from 2000 to 2008, which do not even exist in the UK market. We have high capital levels, and we have more higher capital for first-time buyers not linked to risk. We have conduct standards that have been looked at recently with the FCA, and we really welcome the review that the FCA is doing more broadly. This economy has about £8 trillion locked up in real estate, and it is very hard to unlock it for customers and the conduct regulation prevents that. I think there is a real opportunity to ask, "What do we want society to do around these really important themes?" Let's just get the right regulation around it.

Q18 **John Glen:** I am pressed for time because we have Treasury questions, so there is a hard stop today. Mr Thwaite, is there anything that you would like to add? First, for clarity, could you describe NatWest's position on ringfencing?

Paul Thwaite: Thank you, Mr Glen. We are very clear on ringfencing and we align with Mr Stuart's position. I would add that the developments since ringfencing on the prudential side, on the resolution side and on the Financial Services Compensation Scheme provide the necessary protections. Nobody wants to jeopardise financial stability or consumer protection, but I think that those protections are in place. The current regulations run the risk of getting in the way of customer activity, which is ultimately about UK economic growth.

I agree with Mr Nunn's comments on the opportunities. I think that we have to look at both the prudential and the conduct side. On the prudential side, I think it is important that the final capital package—call it Basel 3.1 or Basel 4—supports the real economy, SMEs and infrastructure, and it is important that it aligns internationally. I welcome the deferral until 2027, but it will be important to understand where both the EU and the American authorities settle.

On the conduct side, I think there is lots of opportunity to look at mortgages. I am particularly interested in the wealth advice review. I think it is crucial that customers have more access to financial advice. We know collectively that there is a challenge there, so I welcome that review. There is also the review of the rulebook, where there is lots of duplication and overlap, such as the small examples around consumer duties, so I welcome the broader approach that the regulators are taking. I applaud their embracing the secondary objective. I think it is important that the Committee understands that a lot of these topics are at the consultation stage, so if the desire is to move forward and create growth, we need to move from consultation to action.

- Q19 **John Glen:** My final question is related to the other side of it, and what your view is of what the FCA, in evidence to the Lords, described as "tolerable harm" from the consumer point of view. How should we, as a Committee, view the conundrum of some of the changes that Mr Nunn and Mr Stuart have set out that they agree with and the tolerable harm that may be consequential on those changes?

Paul Thwaite: From my perspective, Mr Glen, ultimately this goes back to customers and risk appetite. Having high-quality regulation that protects consumers and customers is crucial. I think there is a difference between zero risk and zero harm, and proportionate and smart regulation. The challenge for the industry and for the regulators and policymakers is to find a happy balance. But everybody wants to ensure that our regulatory regime protects customers and that banks are obliged to provide simple, clear products and services.

John Glen: Thank you for your answers.

- Q20 **Lola McEvoy:** On 6 May, *Business Matters* reported that "Senior figures from HSBC, NatWest and Lloyds" were attending a meeting with Ministers to discuss the Government's growth strategy and getting more money into small and medium-sized enterprises. Were any of you at that meeting? Can you tell us a little bit about it? Do you know anything about it or have



HOUSE OF COMMONS

any views on it?

Ian Stuart: I can start on SMEs. I volunteer to start only because I am quite passionate about SMEs. I was a relationship manager dealing with small businesses in the 1980s, and that is not yesterday. I don't think the market has changed much since then. We have the privilege—that is the word I choose to use—of dealing with about 700,000 small businesses, and that market absolutely thrives on confidence. It is a market that does really well when people are feeling confident about the economy and the future, and it stalls when it has not got that level of confidence.

The good news is that we are seeing quite a material uptick, in Q1 2025 versus Q1 2024, in lending. But I caveat that by saying that it is off a very low base. This is a market that has never been hungry for borrowing, but I am always encouraged when I see more activity. We have just launched, late last year, a complete review of the way we go to market in business banking. We are going back to some basics. We are going to invest heavily in relationship managers on the ground; we think it is important to have our relationship managers close to the customers. At the same time, we are going to automate a lot of processes behind the scenes because customers want various channels. This is a part of the business where the decisions are made at the kitchen table, not the board table. It is a really important sector, and I urge everyone to lean in and help the SMEs in the UK today.

Lola McEvoy: Great—thank you for that. Does anybody else have anything they want to add?

Vim Maru: I will just echo and add to Mr Stuart's points. We serve 1 million businesses in the UK and, to the point about relationship managers, we have 600 relationship managers all around the country who are serving these businesses. It is important for us to recognise that the last five years have been a difficult period for businesses. They have been through covid, inflation, higher rates and now tariffs. Spending time with these businesses to help the understanding of their needs and issues has been really critical, and that is what our relationship managers have been doing. The confidence levels have clearly ebbed and flowed through that period, and we continue to see some challenges with business confidence, but when you look at the hard data—to the point that Mr Stuart made—we are starting to see really good growth in lending, which means that some businesses are starting to take decisions about the future opportunities and growth as well. I hope that over the coming months, as more certainty comes into the system, more and more of them will continue to do that.

Q21 **Lola McEvoy:** So do we. Can you give us a little bit more detail on those positive trends—some of the figures for that? What are we talking about?

Vim Maru: I can talk a little bit about the lending numbers. What we saw in '24 versus '23 is an uplift of around 35%, and we have seen that increase further in the first quarter of '25, as Mr Stuart was saying.

Q22 **Lola McEvoy:** Great. Is that specifically to SMEs?

Vim Maru: It is specifically to SMEs.

Q23 Lola McEvoy: It won't surprise you to know that I will be interested in the regional disparity point on this, but before we get to that, do Mr Nunn and Mr Thwaite want to add anything?

Charlie Nunn: Only in terms of data that might be helpful to the Committee, Ms McEvoy. The only thing I would add—I agree completely with Mr Stuart and Mr Maru—is that we have been running a business sentiment survey for 15 or 16 years now, and sentiment and confidence have come down in the last couple of months as we have come to the increase in taxes in April, and we have the tariffs and the uncertainty, but actually this is still higher than the long-term average. On our data, the long-term average is plus-28 points, and we are operating at plus-37 points or plus-38 points. Depending on sector and region, for the majority of small and medium-sized businesses, cashflows—I am sure we will come to this—have continued to strengthen year on year. Some tough choices are being made to enable that, but if we can get the confidence and the plan for growth, there is resilience in this sector, just as there is in households, which maybe we will talk about later.

Lola McEvoy: Excellent. Mr Thwaite?

Paul Thwaite: From the NatWest perspective, we see a similar trend of significant increases year on year in SME lending. We bank around 20% of all start-ups, so we feel that we have a good view of the health of the SME nation. We also do a regional tracker survey. Sentiment has dipped since the tariff announcements, but to Mr Nunn's point, there is underlying confidence and resilience, which is encouraging. There is a lot of supply of lending into the market.

It is a very competitive market. It is not just the large banks; there are lots of challenger banks and specialist lenders, and there is a very active broker market. The way I think about this market is that there is the supply side, but there is also the demand side. I still think there is a lot that we can do as a country to encourage awareness and understanding of the ability to access finance and make sure that policy is supportive of that and that banks are educating and training. Ultimately, SMEs are the lifeblood of the economy, so if we want a thriving UK economy in all nations and regions, we need SMEs to grow and borrow, and banks need to play their part in that.

Q24 Lola McEvoy: Why do you think that 20% of start-ups are with NatWest? What is different about what you are offering to start-ups? One of the big challenges is that microbusinesses are struggling to access capital. We had some data that said that 5% of SMEs would consider another lender if not offered the loan amount from their own bank—that is obviously a very small amount that would go shopping somewhere else. Even though there is a lot of supply, people are looking to their own banks.

Paul Thwaite: NatWest has a very strong heritage in business. It has traditionally been the biggest bank for business. I recognise that this is not



HOUSE OF COMMONS

a competition in terms of how many relationship managers you have, but we have 1,000—[Laughter.]

Charlie Nunn: So do we!

Paul Thwaite: The point I make is that those relationship managers are in all the towns, countries, nations and regions of the UK. For SMEs, it is very important to have local relationships with people who understand the local geography and the sectors in which they operate, and they get a lot of reassurance and comfort from that.

There are regional differences in terms of growth patterns—I am sure you have similar data in front of you. I have been encouraged that we are seeing growth in a variety of areas across the UK. Northern Ireland has recently been strong. Areas outside London and the south-east are strong, and other areas are growing—some at a faster rate. We see broad-based growth across the country.

When I speak to customers, SMEs want confidence that their bank is by their side and access to simple services, whether that is a relationship manager or digital services—a lot of SMEs are entirely digital in how they do their banking. We are trying to provide a broad range of services. Ultimately, business owners want to run their businesses; they do not want to spend a lot of time on their banking. Making it as simple and easy as possible is really the proposition that we deliver.

Q25 **Lola McEvoy:** Thank you. Do you have 20% of start-ups because you have such a large proportion of businesses on your books or because you have had a focused strategy?

Paul Thwaite: We have been very focused on supporting the SME community. We have 12 accelerator hubs across the country, which provide free support to people who are starting their new businesses. Those are areas where they can set up their businesses, have mentors and meet like-minded people who are setting up businesses. My view is that we have a responsibility to support initial start-ups, and hopefully they will grow into the businesses of the future.

Q26 **Lola McEvoy:** Thank you, Mr Thwaite. Mr Nunn?

Charlie Nunn: We have very similar themes. I will not go down the competitive route, but I do feel a bit disadvantaged that I have not done my sales pitch. We have a similar view. Another thing we do, which we think is important, is provide equity finance. Many SMEs don't want equity finance, but we have one of the biggest—it is called Lloyds Development Capital. It is embedded right across the whole of the UK. Actually, its primary focus is not London—we support customers in London. That is important as well. When you start thinking about scale-up financing and really supporting SMEs at their end—we are at about one in five in the UK as well—how you help them through that life cycle and having the confidence to scale becomes an important part of the dialogue.

Q27 **Lola McEvoy:** We definitely hear that a lot from constituents—that the



valley of death is a problem.

On that point, Government data says that just under 50% of SME loan applications are approved. Do you think that there is a risk problem from the big banks? Are you risk averse in lending to SMEs? Has that changed? What is going on there?

Vim Maru: The numbers for us are that eight out of 10 loans are approved. I have talked about the outcomes as well in terms of the growth in lending that we have seen. We have significant available lending to offer. We actually went out recently and talked about a £22 billion fund available for businesses.

On the earlier point on start-ups and scale-ups, one of the things that Barclays has done is Eagle Labs. There are 40 of them around the country. That is being local and helping to support scale-up. We have helped about 17,000 businesses in the last decade to raise about £4.7 billion of capital.

Q28 Lola McEvoy: Does anybody else have anything on that point that they want to add?

Ian Stuart: Just a small point. When we read some of the press commentary about acceptance rates, we really do drill into that because we think, "Gosh, is that it? What more can we do?"

We are at a circa 80% acceptance rate. More important, I think, is that we get a lot of pushback on personal guarantees. We have done a lot of work so that we are not taking personal guarantees. I think we are at about two thirds of the book now who do not have personal guarantees. We think that is really important.

The other area where we have had to really focus this year is on an SME fund for women entrepreneurs, because they could not get into business as easily. That has been tremendously successful.

We really do drill into some of the datapoints to make sure that we are doing as much as we can to support the small businesses in this country.

Q29 Lola McEvoy: The challenger banks are taking over in terms of funding SMEs. Why do you think that is? Are you going to close that gap?

Paul Thwaite: I am not sure exactly what data you are looking at, but from my perspective at NatWest, we are clearly the biggest lender to business. It is a very competitive area. We are committed to it. We continue to support it. We have capital available. We get very good feedback from our customers, and we are certainly not ceding that competitive territory.

Q30 Lola McEvoy: I have one last question about regional disparity. In the north-east, we have a smaller number of SMEs, but we definitely have a smaller number of angel investors, and we really need the big high-street banks to lend to SMEs in the north-east and in Tees Valley specifically.

With the Government's industrial strategy coming out, do you have any thoughts about how that would give you more confidence to prioritise



areas that have growth opportunities, in line with the Government's industrial strategy?

Charlie Nunn: That is a really important point. As we have all talked about, our regional presence on the ground is hugely important. We really welcome the industrial strategy. Through its providing clarity and a bit of a vision around some of the sectors that will drive the next stage of our development as our economy, and provide jobs and growth and employment, we can start to stitch together the supply chains and the small businesses working together with the large businesses.

We also spend a lot of time with universities. There are some brilliant universities in the north-east that provide opportunities for spin-out companies, which we can then scale.

My guess is that you are going to hear the same thing from all of us. We really welcome the industrial strategy, and we really welcome working at a local level with local combined authorities, the mayors, the local communities, to stitch together those fabrics that make the supply chains and the growth happen.

Paul Thwaite: The one additional thing I would add is that it is crucial that the industrial strategy is looked at through the lens of SMEs and mid-market companies and that it does not just approach the growth challenge or problem from the perspective of large corporates. We need to ensure that the proposals work for SMEs and that they work for mid-market companies, because they are the larger companies of the future.

Q31 Dame Siobhain McDonagh: As we know, both in your sector of finance and in ours of politics, once trust is gone, it is very difficult to rebuild. That is why it is important that any resolution service to companies who have been mis-sold products is as it appears. One of the most challenging discussions I have ever had with small businesses in my constituency was with one that was destroyed by the interest hedging products that were sold. That was going to be addressed by the Business Banking Resolution Service, which was presented as an organisation that was entirely independent of the banks that lent the money and the product. It has now been suggested that the BBRs is controlled by an entity called the Bank Appointed Member, and they in turn are controlled by seven banks, including Lloyds and NatWest. Is the BBRs controlled by the banks? That question is for Mr Nunn and Mr Thwaite.

Charlie Nunn: Thank you. The first thing to say is that, obviously, some of the lessons of what happened in the past around how we supported SMEs are really important. We empathise hugely with the people affected, and there were important lessons taken through. Over the last 10 to 15 years with the BBRs, we saw two things happening. First, it was being referred to less, and working on fewer and fewer cases, so we were seeing it doing less. Secondly, as the new conduct rules and consumer duty regulation came in, we had other ways of ensuring that the right customer outcomes and the right resolution services were being applied. We saw those two things coming together, and we thought—certainly, from the



HOUSE OF COMMONS

Lloyds Banking Group perspective—that the best way we could serve customers was by investing in those broader conduct rules in support of our SME customers.

We have relationships with a number of bodies, and we fund most of the bodies in the industry which provide support and regulation oversight of the banking rules, and we have clear rules around making sure there is no conflict. I would still see the BBRS as independent, and that is true of all the bodies in the industry and the regulators that are funded by the industry. We have independent ways of operating, and that is a really important point going forward for the BBRS.

Paul Thwaite: I agree with Mr Nunn that the volumes in relation to the BBRS workload were very low, despite a lot of proactive communication and advertising to make customers aware of the services. I do think there are a few answers already on the record around independence with some of the technicalities and the specifics, but, as Mr Nunn summarised, there is a distinction between the funding of certain parties and the independent governance of the BBRS. We can re-provide that, but that would hopefully give you the reassurance you wanted that there was no influence in terms of the decision-making around BBRS governance, which is different from the financing of those services which the sector agreed to provide.

Q32 Dame Siobhain McDonagh: Can you understand that for the companies and the individuals who trusted their banks—who thought they had a relationship that was built on trust and mutual benefit, only to take on a product that destroyed them and later not get compensation—they might not believe that is the case?

Paul Thwaite: I can certainly understand that perspective, and I have an incredible amount of empathy and sympathy for customers who were affected, whether that is via interest rate hedging or other things. It is critical. I like to think the industry has learned the lessons of the financial crisis, and that the dispute resolution mechanisms that are in place now, combined with initiatives like consumer duty, will absolutely ensure that there is no repeat of those activities. Where customers have specific complaints—I know we have dealt with some in your constituency previously—we are very happy to deal with them bilaterally and make sure that customers have clear, succinct answers to the issues in play.

Q33 Dame Siobhain McDonagh: Thank you. How has the consumer duty changed how you operate?

Paul Thwaite: The first thing I would say about consumer duty is that it feels very much business as usual now. When we were last in front of the Committee, we were still, in certain respects, in the implementation stage. Now it feels very embedded in the way that the organisation operates. We are wholeheartedly aligned with the goal of good customer outcomes, and it has helped to sharpen the organisation in terms of how it thinks about its customer communications and its product design. Some examples would be that we have made over 350 changes to products and services, looking at things through a consumer duty lens. For example, we



HOUSE OF COMMONS

consolidated 15 savings products into one to make it simpler and clearer for customers. It has had a positive effect, and it feels very embedded in the industry, not just in NatWest.

A slight irony is that now that it is so embedded, it is starting to surface some tensions between what is expected within consumer duty and some of the other regulations, such as the Consumer Credit Act. To me, that is a natural maturity of a helpful piece of regulation. We are working those through with the FCA—an example would be overdrafts, where complying with consumer duty might sit slightly differently from, for example, some FOS rulings. But generally, consumer duty has had positive outcomes for customers.

Vim Maru: I wholeheartedly agree with Mr Thwaite on the embedding of consumer duty and the positive impacts that it has had. We should be thoughtful about consumer duty, not as a “one and done”—implemented on a day, and it was done—but as something that is about constantly learning and getting better. We have started to see some thematic reviews also performed by the regulator, which are helping us learn about opportunities for further enhancement on things like vulnerable customers and how to support them.

I will just bring to life one particular aspect that links to the theme right at the beginning around regulatory reform. We find that we are looking at things like customer disclosure and customer understanding—one of the themes around consumer duty is customer understanding. As we have started to test our disclosures with customers, some of them are driven by regulatory guidance. Today, if you were rewriting those disclosures in a consumer duty lens and thinking about customer understanding, you would write them in a different, more succinct way. That is where some of the layering and simplification of the handbooks is a real opportunity as we go forward.

Ian Stuart: I do not have much to add, other than we always said that you cannot really argue with a policy that says: a good outcome for the customers. We want a good outcome for our customers; that is a given. We have really had to sharpen our act when it comes to communications. We have gone a long way on communications. We have reviewed every single document, and we are much more forensic on complaints so that we really understand the root cause. We have even done simple things like getting our customers involved much more. We launched our new app this year and we got customers involved to help us to design it, so it was much more user-friendly. I think it has been good.

Charlie Nunn: I completely agree with my colleagues. I have maybe only two small bills, in view of the time. The first is that the thematic reviews are really important. Consumer duty embeds us trying to improve and ensure that we deliver good outcomes, but looking at the advice and guidance role—how we help more people get advice and guidance as we look at SME scale-up financing, and the mortgage and homes market—we will not be able to self-improve without those reviews.

The second thing—I know we have talked about this with the Committee, but I am very mindful of it—is that principle-based regulation, with the way broader retrospective conduct regulation is being applied, creates additional challenges for the industry. As I have come back into the UK, what I have been most surprised by and what I am most nervous about, in this context, is whether it throttles innovation on behalf of our customers. A real focus for the industry is how we make sure we can move into the future with confidence and try to focus on our customers without opening up retrospective changes or reviews. I know the Committee is very alive to that, but hopefully it is on your agenda as well.

Chair: Thank you very much; that is an area we will look at. I will now briefly suspend the sitting for a short five-minute comfort break.

Sitting suspended.

On resuming—

Chair: Welcome back to the Treasury Committee on Tuesday 20 May 2025. We were just discussing the consumer duty and the vulnerable customer numbers. I will bring in John Glen.

- Q34 **John Glen:** Mr Nunn, I want to build with you on the point that has just been made about the advice and guidance review. You all said earlier that you want that to be a productive piece of work in terms of allowing you to grow your opportunities. In this outcome-based policy of the consumer duty, versus a rules-based policy, is there not a risk that without specific, clear rules on the advice and guidance refresh, you or your successors will have the same problem with legacy issues, where there is retrospective application of the law but somehow a consumer detriment? That has bedevilled this area for a long time. How do we resolve this in a definitive way to allow you and your organisations to provide better outcomes through the outcome of that review?

Charlie Nunn: That is very much what I was alluding to as a good example. I do not think that consumer duty will help us to solve the problem that society needs us to solve, which is that for those who most need advice on building their financial resilience for the future and today, we will not be able to change how we support those customers without a more specific set of changes to the current regulation—as you know very well, that is RDR—and a look at new advice and guidance rules that would work.

Today, when we look at society broadly, people with less than £75,000 to invest—that is the vast majority of people in the UK, even if you include their pension assets, and we are the second biggest pension provider in the UK—find it very hard to get advice. They cannot find such advice. We have been working closely in a sandbox with the FCA, the regulator, to ask, “How do we provide that advice safely and to ensure good outcomes? What are the rules that we would put around it?” We are excited about some of the new technologies and AI—that may be a theme for the Committee to come back on—which could really make that much easier for



HOUSE OF COMMONS

many customers to use, to get better outcomes and to build their financial futures.

That is exactly where I was going. We think that in some of those areas, we need specific rules, and the rules would benefit from being reviewed, based on what we have learned in the past 10 years of advice and guidance.

John Glen: That is helpful, thank you.

Ian Stuart: To build on that slightly, the consumer duty does help. We want a good outcome for customers as well. Today, a lot of customers are getting their financial planning advice off social media—fact.

Chair: Indeed. We are looking into that.

Ian Stuart: I think we are better equipped to do that. I am also very conscious that 50% of the UK population today have less than £1,000 of savings. We are really trying hard to encourage our customers into long-term savings patterns to give them the confidence to save, even if it is just a little bit, over the longer period. I do think the moral compass is on us, through the consumer duty, to make sure our customers get a good outcome. I am very much in Mr Nunn's camp: I really think it is about advice and guidance. We have tripped ourselves up there before, but hopefully we are in a different place now.

Q35 **John Glen:** But you favour a more prescriptive outcome from that review to give you comfort that you can extend the sort of assistance you offer your customers in a more wholesome and fuller way.

Ian Stuart: I am. I am sure we will come on to branches quite soon, but I want my customers to be able to walk into a branch, see the brand above it and be comfortable that they are going to get good advice and guidance to help them plan for the future. Today, I am very restricted in what I can do with that.

Q36 **Chair:** Mr Maru?

Vim Maru: There are a few things where I totally agree with Mr Stuart and Mr Nunn. On social media, four out of 10 people are turning to social media for this help and guidance at the moment.

John Glen: It is a bit random.

Chair: We were quite shocked when we looked at that.

Vim Maru: We think the gap that is left behind needs to be filled. When we talk to our customers, they are confused and they do want help and guidance. Again, it is clear there is a customer need here. I do think we need some scaffolding around the duty, because clearly the rules today say certain things, and we need either to take those away or build some scaffolding around them. But the most important thing is the point that Mr Nunn talked about, which is the sandbox: we should co-create this

between firms, clients and the FCA together, so that we build something that lasts for the future.

Q37 **Chair:** Mr Thwaite, do you have anything to add?

Paul Thwaite: To get to the heart of the question, Mr Glen, I guess there will need to be some prescription and some guidance, otherwise the potential for risks will stop the broader providers stepping into this space. That is a market failure, in my view, because consumers need good advice.

John Glen: That is a really helpful, clear answer. Thank you.

Q38 **Dame Harriett Baldwin:** I would like to start with Mr Maru, if I may. It is month end, it is payday and your systems go down twice in a row. How worried should our constituents be about the legacy systems that your bank and other banks represented on this panel have? Should they all hold cash under the mattress, use cryptocurrencies or have other ways to get around the risk of having a bank account with a bank that unfortunately has an IT failure?

Vim Maru: I want to start by saying that we are deeply sorry for the disruption that our technical issue on 31 January caused for our customers. We clearly worked very hard to recover from that and to make sure that we took the right steps from a remediation perspective for customers, too. We have learned the lessons, and we are acting on the lessons, with both work done internally and help from third parties as well. That is the first thing to say.

The second is that we have worked very hard over many years to make sure that customer disruption is as limited as possible, and we have invested many, many tens of millions of pounds to make sure that our systems are in the right place to do so. What we have been seeing is that incident levels have been dropping—for 2024 versus 2023, they are down 63%—and we continue to work hard to reduce the level of disruption there ever is for our customers and make sure we put that right. I think it is worth clarifying that the issue we had on 31 January was not a cyber or a malicious act.

We have looked very carefully at whether there are any linkages of these issues to anything to do with payday or the last day of the month, or to do with under-investment in any technology and capability. We do not find any correlation between those things, but we will continue to work hard to make sure that the uptime for our customers remains high. That is what we have been delivering: for example, in April we had 100% uptime for our customers, so there were no disruptions as a result of the issues we saw on 31 January. We have learned our lessons.

Q39 **Dame Harriett Baldwin:** It happened again a month later, didn't it? What did go wrong?

Vim Maru: We had a short disruption a month and a half later. It was in the middle of the month. It was delays rather than the nature of the—

Q40 Dame Harriett Baldwin: What was the root cause, if it was not a cyber-attack?

Vim Maru: A software issue was the root cause. We worked with the third-party provider that provides us with that software. We have learnt the lessons and have put a fix in place which means we will not have a reoccurrence. Looking forward, there is a further enhancement we are making which is in the middle of implementation right now.

Q41 Dame Harriett Baldwin: Mr Stuart, you must lie awake at night and think, "There but for the grace of God goes my firm." What worries you most about your IT vulnerabilities?

Ian Stuart: First of all, I welcome the question. This is our biggest expense in business today. We are investing hundreds of millions of pounds in systems because the system make-up in a bank today is that you have got some legacy systems and some very modern ones. It does keep me awake but for a slightly different reason, which is that I think cyber-security is now very much at the top of our agenda. It does worry me because we can be attacked, and are being attacked, all the time.

The defence mechanisms you put in are absolutely critical. To give some comfort to the Committee, I would add that the amount of money all of us banks will be spending on our systems is enormous today. It has to be, because our customers rely on digital technology all the time. To bring that to life with some data, across our group, we are processing 1,000 payments a second. It is just enormous. At the same time, every week we are making 8,000 IT changes. While all of that is going on, it has got to work 24/7, 365 days a year for your customers. We operate at 99.985% uptime. There is no excuse. We cannot have downtime. Nobody will guarantee 100% uptime, so the skill is how quickly you can recover. Every time something happens across other banks, we do not celebrate. We go straight to read across. Could that have happened to us, are we okay there, what can we do differently? That is always what we do and what we will continue to do, because our customers need us there 24/7.

Q42 Dame Harriett Baldwin: Is it the old legacy systems that worry you the most, or the newer software and threats like the quantum apocalypse and so on?

Ian Stuart: The old systems are incredibly reliable. We are diluting the use of the older systems all the time, but as a ledger they work very well. All the time you are bolting modern technology on. It is not a case of whether one is more acceptable than the other. Something can happen that maybe even takes you out for an hour, but if your customers are online for that hour it is really painful. It is always about the speed of recovery. We have made really good progress on that over the last two or three years, because we had quite a bad outage in 2023. Everything is about that speed of recovery and getting it as short as you can.

Q43 Dame Harriett Baldwin: Moving on to where we are today with IT, with artificial intelligence. Mr Thwaite, you have publicly highlighted the potential for artificial intelligence to help your workforce be more efficient.



HOUSE OF COMMONS

Does that mean you think it will reduce the size of your workforce over time?

Paul Thwaite: As an organisation we have said a number of things around AI and the potential that it offers. I do think it will be a set of tools that have the potential to improve the productivity of the economy as well as the experience of our colleagues and of our customers. As you would expect for a highly regulated institution, we are taking proportionate steps. We are very mindful of concerns around data and privacy and ensuring that any data that is used in models is used appropriately. It is probably worth context setting for the Committee: banks and the financial services sector have a long history in using models and data. In many respects, and certainly if I look at NatWest and the Royal Bank of Scotland previously, we have been using what I would call standard AI in our financial crime, credit and fraud models for quite a long period of time. We are now using generative AI. We are doing that to make our colleagues more efficient. An example would be—

Q44 **Dame Harriett Baldwin:** Specifically on the colleagues, are you expecting headcount reductions over time?

Paul Thwaite: The way we think about it, and the way I have talked about it publicly, is that we are putting the tools into the hands of our colleagues. We think that makes them more effective and more efficient. We have seen that through our software engineers, who can be more productive in the production of code. We have seen that in our relationship managers, which we talked about earlier—AI can summarise contacts with customers. We do not see a direct link between deploying technology and removal of jobs.

What I would say is that the profile of the workforce is changing a lot. We are now recruiting people who are specialists in AI, data scientists and digital experts. That is a different profile of staff than the bank was recruiting 15 or 16 years ago. It is an addition to staff, rather than a replacement.

Q45 **Dame Harriett Baldwin:** Mr Nunn, you just mentioned artificial intelligence in the context of the advice guidance boundary. It sounds as though you are exploring the use of AI as a way of helping to give extra advice to customers. Is that correct?

Charlie Nunn: Yes. I agree with my colleagues. Again, over 800 AI models have been live for over a decade in lots of areas all the way across the bank: protecting customers from fraud and economic crime, which we talked about; better credit models; safer lending; and monitoring of our own people. We use a very broad-based technology.

When we look at the latest large language model version that is coming fully into diffusion now, what we are most excited about is that it can help us to interact with customers better. We can understand them, provide them with more personalised advice and provide them with a more joined-up experience. At the moment, that is all done with what we call a human

in the loop—an HITL. We always have one of our colleagues supporting customers.

One of the reasons that I raised AI in the context of advice and guidance is that when you look at the specifics of a customer situation, you have to join up a lot of information, and then customers need a lot of education and support. We think that some of the large language model tools could be part of that solution. They enable people, in their own time and at their own time of day, to talk to a large language model and get themselves in the right place so that they can make the right decisions.

Now, we need to test it, as my colleague said, in the context of the sandboxes. The technology is moving really quickly. Already, when we look at large language models and agentic AI—keep me honest on where the Committee would like to go on this—we typically implement multileveled agents that monitor each other, ensuring very good outcomes. It will evolve quickly and we are excited about how we can help customers further.

- Q46 **Dame Harriett Baldwin:** A very quick yes/no: Lloyds of London now offers insurance to cover malfunctioning artificial intelligence tools. Have any of you taken it out?

All witnesses indicated dissent.

- Q47 **Chair:** Things going wrong when using AI is a risk, as that question highlights. Are you confident that the senior managers regime and the personal responsibility that they have in this will protect you from AI risks?

Charlie Nunn: It starts with me. Under the SMR, all the risks start with me. On this one, all my risks get delegated down through my teams. Hopefully, it was clear that when we look at AI as a tool, it is normally in the context of economic crime risk or operational resilience—outages in uptime or conduct outcomes. We have clarity of accountability down through my leadership team, but it starts and stops with me.

Ian Stuart: Every time a new piece of exciting software comes into the market, the bad actors have it as quickly as we have it. That is where the worry beads are. It is in fraud, financial crime generally and money laundering. We have to stay right on top of that. Like Mr Nunn, I am the SMF1. The accountability stops with me. We have to make sure that we get it right.

Vim Maru: The buck stops with me. The CRO and COO—SMF4 and SMF24—are the key roles that support me with this. But, as Mr Thwaite and Mr Nunn said, models have been around for a long time, so we have a lot of frameworks in place to make sure that our enhancements to that take place, given the different natures of risks that are emerging from generative AI.

Paul Thwaite: The senior managers regime is clear. The leader of the business is responsible for all the risks, whether they are new risks, such as AI, or historic risks, such as credit risk.



Q48 Rachel Blake: We have had a discussion today about savings, and I want to draw your attention to the debate about ISAs that has been going on in the sector. Yesterday, the Chancellor said: "I'm not going to reduce the limit of what people can put into an ISA, but I do want people to get better returns on their savings, whether that's in a pension or in their day-to-day savings." Mr Stuart, why do you think she said that?

Ian Stuart: Thank you for the question. I think she was right to say that. I want our savers to get better outcomes too. For the avoidance of doubt, I am a big fan of cash ISAs: I want to give our customers the choice of that product. It is a safe product—it is very, very low risk. A lot of our customers have a low-risk appetite, and that is fine, but we are probably—again, I use the word deliberately—leaving value on the table. Again, there are products that we can offer that give savers longer-term results—better results over the long term—with the right guidance and advice. They can enter into those products; they are there. I really like the idea of having a cash ISA. I think it is a very important product in the marketplace today, but at the same time, over the long term, you are probably leaving a bit of value on the table.

Q49 Rachel Blake: So you are a big fan of cash ISAs, but you are concerned about leaving value on the table—and the Chancellor may be, too.

Ian Stuart: Yes.

Q50 Rachel Blake: So why do you think the discussion around changing the levels has now landed with the Chancellor saying that, if there is a wider concern about value being left on the table?

Ian Stuart: I think it depends on what your particular appetite is for risk at that point in time.

Q51 Rachel Blake: The consumer?

Ian Stuart: The consumer—absolutely. As a slightly more mature consumer, I have a very low risk appetite, so I save on that basis. If you are in your 30s, you have more time and you might want more risk appetite, so the consumer needs the choice. Everyone has a different outlook on savings and returns, so choice is very important.

Vim Maru: I just want to say three things and amplify a point that Mr Stuart made earlier. First, in this debate around ISAs, it is important for us to remember rainy day savings. As the FCA said recently, one in five people in the UK have no savings, so doing more around rainy day savings—we have a Rainy Day Saver to help people build a savings habit—is the first priority. We publicly stated that we think there is about £430 billion in cash in ISAs and non-ISAs. Customers should think about whether they want to invest that money for the long term to enhance their returns, as long as they are willing to invest for the long term.

Then we looked at the barriers to them taking control of their money and making the decisions that they want to make. The first was the topic that we discussed earlier: help, guidance, confusion and anything that can help them simplify decision making. The second thing that we find from the



research that we have done with our customers is that many of them think of investing as gambling, so we will have to build more campaigns around the culture of investing so that people start to understand the benefits of it, as well as the risks. At the moment, a lot of people think, "This is gambling." This is an opportunity to take a more holistic view of the savings habit, as well as ensuring people have options in front of them for long-term investing.

Q52 Rachel Blake: Mr Thwaite, do you think that concluding on the advice guidance boundary review will be enough to change behaviour or, reflecting on what Mr Maru said, are there other things around culture and trust in order to change behaviour?

Paul Thwaite: There are topics to address around financial education, and trust and confidence in the advice system. When we talk about ISAs, we should have a broader discussion, as Mr Maru alluded to, about savings and investment. ISAs have been an incredibly successful part of the savings and investment landscape, but they are one part of a much broader landscape. On the wealth advice review, incorporating views on ISAs, I personally share the view that cash should be a component, because it should be about customer choice and risk appetite.

It is a broad topic. Simply changing certain limits or levels will not change consumer psychology. I think it needs to be combined with a whole set of initiatives around the pros and cons—the risks, benefits and rewards—of investment. If you look at the UK consumer, there is risk aversion. Compared to some international markets, that is very stark. The US is the easy one to cite, but there is also a much broader range of markets where a greater proportion of savings and investments goes into different types of investments. We are not going to solve a problem by fixing a limit in a short period of time, but I do think that, as a country and a society, we need a wholehearted approach to widening the way we think about savings and investments, and the benefits that they can provide in later life for people who are fortunate enough to be able to put money away.

Q53 Rachel Blake: Mr Nunn, do you think it is just that it is an appealing consumer product, or is it of benefit to the banks to have cash ISAs with the limits in place?

Charlie Nunn: No, I think I agree with most of my colleagues here. Let me first answer the question of whether it is an incentive to the bank. It very much depends on the products. Actually, many times, taking money out of savings or deposits, and putting it into an investment, is an equal return to the banks. We could have the debate about returns on savings, and I am sure we have had that in this Committee before. There is not an incentive. You would need to get more specific if they were to invest in equities portfolios or an ETF, versus a bond, versus a private credit product—you get very different economics. However, most people, as we said, don't have a significant amount to invest, and if they are going to go outside of cash, they should be getting into very simple products.



I would like to make two more points, briefly, for the Committee, and any information we could share on those would be important. First, for most people in the country, if they are lucky enough to have a home, that is their biggest source of wealth—it is number one. There is £7 or 8 trillion of wealth locked up in unmortgaged homes. The second is their pension—defined benefit or defined contribution. There is about £3 trillion locked up in pensions. The third is typically, as Mr Maru said, cash, but that is typically lower down the list. Finally, very few people really have a significant stand-alone investment portfolio, and if they do, they are in the top 5% by wealth.

If we want to help the majority of the UK have better saving habits and take the right risk, you need to be talking to them about their homes, pensions, cash and any investments. We have the biggest default fund in the UK. Pensions have been a really important point of intervention in the UK in the past few decades, as we have moved towards contributions through employers, and then a default fund, which takes risk. We think the opportunity to help provide support to employers and employees—to educate people, and to understand how they are taking risk and how that helps them in the future—is really important.

Mr Thwaite talked about the US. The US spent 30 years under a 401(k) scheme. It was introduced in the 1970s, and it was a default investment under employers, to build that education and trust. I think we need to look at the broader range of interventions to support people, and make sure we are focused—certainly, from my perspective—on the 75% to 80% of people who can't afford advice and don't have hundreds of thousands of pounds to invest.

As to the £20,000 ISA limit, Mr Maru gave the data. From our data, less than 60% of people have £1,000 of cash; 75% have less than £5,000. The £20,000 limit is not for the majority.

Chair: That is something that is going to be an issue. I think the debate will rage for a little while longer.

Q54 Yuan Yang: I am going to ask about first-time buyers. As we know, the number of first-time buyer mortgages has been at a 10-year low, and home ownership among young people, in particular, is extremely low. Recently, the FCA reminded banks of the flexibility they have in administering their stress tests and affordability tests. Many first-time buyers—such as my brother, in fact—are being stress tested at interest rates of up to 8%, and are possibly failing affordability tests for mortgages that cost less than their monthly rent. In response to the FCA's reminders, are you planning to make any changes to your affordability tests, and do you see that there is a problem? I would like to start with Mr Thwaite.

Paul Thwaite: We certainly recognise how difficult it is for people to get on the housing ladder, and, from talking to our customers, how desperate some of them are to do that—not all, but some. In direct answer to your question, we have changed our affordability stress tests on the back of the new, updated guidance from the FCA. That reduces the stress test by in



the region of 2% to 2.5%. That is now live and operational. For an average salary—and I recognise it is an average salary—that would increase the amount of borrowing by around £30,000 to £35,000 for a first-time buyer. We have also introduced a family-backed mortgage, which allows people to get on the housing ladder if they can also get support from family. We are trying to support the first-time buyer market in a number of ways.

There is also, as I am sure you know, an ongoing consultation on affordability. I am sure we are all contributing to that. I think there are further opportunities to look at, including various changes in the mortgage space that would allow more people to remortgage easily and allow more first-time buyers to get on the housing ladder.

Vim Maru: I would say three things. First, I totally recognise the point about how difficult it is for first-time buyers. Our own data shows that the average age of our first-time buyers is now 34. Two or three years ago, it was 31, so we are starting to see that continue. The key challenge there is the deposit. Of course, there is stressed affordability, and I will come back to that in a second, but finding the deposit is probably the key challenge that people face, which is why we have done a lot to support first-time buyers with a number of products, including 100% loan-to-value mortgages with the help of others, income boosters, and taking action on stressed affordability. Similarly to Mr Thwaite, that should mean that typical borrowers may be able to borrow another £30,000.

It is the combination of, "How do we help to support from a deposit perspective? How do we support from a stressed affordability perspective?" and then over time, looking again at the loan-to-income limit, which is four and a half times income, at 15%. As interest rates drop, it will probably be helpful to start looking at whether that limit is right or not in the future. There are a lot of steps that we are taking. It is tough for first-time buyers, but we are starting to see an increase in the number of first-time buyers. Certainly, because of the stamp duty deadline, we saw significant increases in first-time buyers during the first quarter of this year. We need to continue to see that momentum as we move forward.

Q55 Yuan Yang: When we last discussed this issue with the FCA, it was concerned about the potential for over-leveraging first-time buyers, and repossessions that might result from that. Does anyone on the panel have a view about the balance that should be taken in the ongoing mortgage consultation?

Charlie Nunn: Not in the spirit of competition, but we are the biggest first-time buyer provider. We supported 65,000 customers last year, and 20,000 in the first quarter. To support Mr Maru's point, because of the stamp duty, we saw a very strong first-time buyer market, but I fully recognise that getting on the housing ladder is difficult and very challenging in that context. We have also adjusted, as Mr Thwaite said, our affordability criteria. We are not concerned that that will create the risk that the CEO of the FCA talked about, because they are still very



HOUSE OF COMMONS

sensible criteria and we still see arrears at low, relative to history, and falling levels, so I do not think we are at that place.

The other thought here—my colleagues talked about it—is that owning a home is not available to much of the UK. The average income for owning a house is £75,000, either individual or joint income. We have made owning a home, for lots of reasons, unaffordable for many. When we look at getting on to the housing ladder, we would really recommend—this is one of the things we have started to talk to the FCA about, as it thinks more broadly about the mortgage market—shared ownership, which we try to lead on. Can we create shared ownership structures, where people can get on to the housing ladder and own a part of the property they are living in, if they want ultimately to build their wealth?

On the bank of mum and dad, as we just said, the average deposit now is £60,000. Our ability to help parents to free up cash, especially if they want to use their own property, is very constrained by conduct rules, but the reality is that that is a huge part of how families want to support each other. There is a real opportunity for us to think about home ownership in a more joined-up way. On affordability, it was just a sensible thing to do. I am not concerned at the moment with where we are at, certainly for Lloyds Banking Group. There really is a broader opportunity that we can work as an industry and with the FCA to go after.

Ian Stuart: It is a really important question, Ms Yang. First and foremost, as a banker, there is little that gives you greater pleasure than helping young people to get on the property ladder. I came from a background where my parents never owned their house, and I always thought that we should be doing as much as we can to get people on to the housing ladder. I really welcome the changes by the FCA, not least because we lobbied it quite hard for change. That was principally because, as per colleagues' information, it is a low-risk sector. We should try to help as many people as we can to get on to the housing ladder, if that is what they want to do.

Just to repeat: many young people do not have the luxury of bank of mum and dad, and so raising that deposit is a real challenge. You are paying rent and saving for a deposit in a very difficult environment with low salaries. We take that very seriously, and the changes are most welcome. We will manage to bring another 20,000 people into the housing market because of them. We are consulting further, which is good; I still think there is a little bit of elasticity in this market, but we really want to be leaning in and helping people to fulfil their dreams.

Paul Thwaite: If I may add just one point on a different part of the debate, another way to help the situation is around the supply side of housing and affordable housing. I know it is not necessarily the focus of this Committee, but it is important to think as well about how we can free up planning and how banks can support the building of affordable housing. That will also create a greater number of people who can access housing, so there is another part of the discussion beyond how we make sure the existing housing stock can be purchased by the population.



Yuan Yang: I think my colleague, Mr Dean, is about to come in on that.

- Q56 **Bobby Dean:** That was actually going to be my question, Mr Thwaite, so perhaps I can ask you: is there a concern that, by delivering all these demand-side measures while supply is still constrained, we could simply be driving up prices over the medium run? I know there are commitments to increase it, but there always are. That makes it harder for the next generation of first-time buyers to get on the ladder. Do you think banks should act with caution about increasing the number of demand-side measures while supply is not proven to be increased?

Paul Thwaite: Hence my reason for mentioning it, Mr Dean. I think it is important that we address the supply side as well, and there are policies that could be implemented—

- Q57 **Bobby Dean:** I appreciate that we should do that as well. Do you think that banks should act with caution, while the supply is—

Paul Thwaite: I think the changes at the moment are relatively modest, so I would not see direct causality in terms of a significant change to house prices. But, if you take a step back, in any market, if you increase demand and supply does not change, that ultimately leads to house price appreciation.

As I have said, the changes at the moment are relatively modest. What I would call for is an integrated, thoughtful, holistic approach to home ownership and house building to allow more people to either rent or own, depending on their personal choice.

- Q58 **Bobby Dean:** I guess it is not necessarily against the banks' interest, is it? Because if banks are still able to sell mortgages and they are going at higher rates, then you could still be getting a good profit from the mortgage market and would not be worried about the market clogging up.

Paul Thwaite: As Mr Stuart alluded to, as a bank, we want to support as many of our customers to buy homes as possible, should they want to do that. The larger the mortgage market, the more that we will step into that. Ultimately, we are following what our customers want to do.

- Q59 **Bobby Dean:** Changing tack slightly, I want to talk about the Financial Ombudsman Service reforms. You will know them—the changes to fees, the two-stage complaints, and generally making it harder for claims to come via claims management companies. There is concern that some of these measures will weaken protections for consumers, while making life easier for firms such as yourselves. Why do we need these reforms?

Ian Stuart: Thanks for the question, Mr Dean. Again, I think the FOS is due for a review. When the FOS first came into being, it was to look at customer complaints that could not be resolved by the banks up to a maximum of £100,000. I think the FOS has now turned into a quasi-regulator. Its remit has become very wide. My biggest challenge with the FOS is that I do not really have a right of appeal. There is an appeal process, but I have got to go through a judicial process that is very



HOUSE OF COMMONS

expensive, and even then it has to go back to the FOS for a second opinion.

I think the time is right for that review, and I say that based on some of the cases that I look at, and some of the larger cases that come across my desk, principally around fraud and investments. I see a lot of crypto fraud and I see a lot of romance scams. Some of these numbers are hundreds of thousands of pounds, and we are told we have got to refund some of these customers. I feel terribly sorry for the customers, who have been put in a very difficult position, but I sense the FOS's remit has become very, very wide.

Q60 Bobby Dean: Can I ask you about that? I know that UK Finance has proposed to remove the FOS' "fair and reasonable" remit. My understanding of that is that if, say, an 85-year-old customer transferred £3,000 somewhere overseas, then it is probably fair and reasonable for you not to have to investigate that, but if they transferred £100,000, you would have to go and investigate that. However, if we remove that "fair and reasonable" requirement, there would be no obligation on you at all. That feels like a step backwards for tackling fraud, so what is your view on the "fair and reasonable" remit?

Ian Stuart: Let me explain what happens when we look at some of these cases. I would suggest that, in about 95% of them it does not touch the sides—I would have to go and check my facts, but it is a huge number. We have a look at it and say, "Let's get the customer refunded." That happens really quickly.

The problem is when it goes outside the remit. There is a case at the moment about which I have written to the chair of the FOS, because I do not price for that sort of risk. These are people who have invested in what I think is a high-risk operation; it advertised 30% returns. It has failed, and people have lost their investment. We have been told to refund those investments. That is a total of about £4.5 million. It is not even that case that I am particularly concerned about; it is the point that, if we now have to refund investments that go wrong, I do not price for that.

Q61 Bobby Dean: But what is your view on the fair and reasonable remit? Do you think that should go?

Ian Stuart: I think "fair and reasonable" is a reasonable statement to have in anything. It is fair and reasonable. It depends on the circumstances.

Q62 Bobby Dean: So you would keep it?

Ian Stuart: I would keep "fair and reasonable".

Vim Maru: I would just say a few things. First, we have no desire to weaken customer protection. To the example we were just talking about around fraud, the PSR rules are in place now. We saw the data only recently around people being refunded. I think it was 86% for the industry. Ours are higher than that, so we are delivering good outcomes for our customers. Modernising the FOS is a good thing to look at and do.



HOUSE OF COMMONS

It should go back to what it was set up to do, which is to focus on simple cases, and allow the FCA or the courts to deal with the more complex cases where the FOS is getting bogged down. That is our view on the ombudsman and modernisation of the ombudsman.

Bobby Dean: Mr Nunn?

Charlie Nunn: I was going to say the same. We really believe we need a healthy FOS that provides quick, fair answers. It has not been able to do that, for the reasons that some of those on the panel have stated. We really believe we need a FOS that makes quick, fairness-based decisions.

On “fair and reasonable”, which is where you were rightly pushing, it is important to look at the definition. We want individual customers to be able to go to a free service that gives them a quick answer, and that is what we think the industry needs. Today, that is not really what is happening in lots of cases. We really welcome the review. As Dame Siobhain raised earlier, our industry is built on trust, and one of the reasons we believe the FOS is important is that it enables individuals to get those quick, fair answers. That is what we would like to see.

Chair: Obviously, there is going to be a change in leadership at the FOS by the autumn, so I am sure that, next time you are here, you will have things to say about that.

Q63 **John Glen:** We are quite alarmed that the FCA said that, while financial crime is one its top priorities for the next five years, it just sees it as being about having slower growth. Now you have all collectively had to implement the authorised push payment reimbursement scheme, I think, over the last seven months. I seem to recall that there was a collective frustration at the disparity between the way that regulators and Government dealt with you as banks and your culpability and the way that they dealt with tech platforms and firms. In a desire to avoid offending such great institutions that make so much money for the economy and have links to our relationship with the US and all the rest of it, probably all Governments are reticent about doing that.

For clarity, can you tell us how you are getting on with the reimbursement model? How do you see financial crime going forward, and what would the Government need to do to bring some sort of clarity on this issue, to deal with the fact that you are not the only ones who are culpable in this space when it comes to financial crime? It is a massive concern for so many who will be watching and reading reports of this session.

Paul Thwaite: I could not agree more in terms of the issue around economic crime. The statistics for 2024 are quite alarming. Victims have lost up to £1.2 billion, which is £2,300 a minute. Those are unbelievable numbers.

If you look at the crime statistics, just less than 40% of all crimes relate to financial and fraud. To me, it is a massive issue for the UK. Last time I was at this Committee, I made a plea for a coalition of the willing. That was the tech companies, the telco companies, the banks and the

policymakers. I make that plea again. While some progress has been made, I genuinely believe that we need to do more. When I share those numbers, to me, it brings to life how significant an issue it is.

Q64 **John Glen:** What specifically?

Paul Thwaite: There are ideas around data sharing. There could definitely be data sharing between all the parties, and we need to make sure that we have the right protocols and permissions around that.

Q65 **John Glen:** That is always seen across Whitehall as too difficult a thing to do. Is it realistic to do that?

Paul Thwaite: I think there are aspects of it that can be done. More than 70% of fraud originates upstream on social media. We have worked with some of those tech companies and social media companies closely, and when you get very targeted and look at particular sites that are driving fraud and share information—we worked with Meta—we as an industry brought down a whole host of sites. It is possible, but you are right that you have to take it from a generic principle to some very clear specifics. We need everybody to step up to the party, because the impacts are really significant.

Vim Maru: I agree wholeheartedly with Mr Thwaite. Obviously, it is a material issue from a societal perspective. There has been a lot of focus on reimbursement as part of the PSR rules. From what I can see, it seems to be working fine and well and delivering good outcomes for customers. We need to move the agenda on to prevention and detection. When we talk to our own customers and ask them about tech companies, three quarters of them say that tech companies should do more and 64% of them say that they should actually contribute to the reimbursement scheme. I think that is one possibility.

Q66 **John Glen:** Why do you think they do not contribute at the moment?

Vim Maru: They do not contribute anything at the moment because—well, I will leave that to your imagination. The data sharing is the other important opportunity because, if we look at investment scams, 52% of them are turning up on social media sites. We see people using AI-generated images and so on, and there is a real opportunity to do more in identifying sellers and those sites more carefully with greater identity checking.

Charlie Nunn: The point has been well made, and the Committee knows the stats, but it is really disturbing. As we talked about, the individual cases are harrowing. When we were with the Committee last year, we said that, if we focus on what we pay back to customers and not on prevention, fraud will continue to grow. It has grown; attacks are growing, 76% of which are enabled through tech companies and 16% through telcos.

The controls and our desire to work with them are not working. These are customers in that social media context and on different marketplaces. As you know, 60% of the total is with a single company, Meta, where customers are convinced to do something. They come to us with their



HOUSE OF COMMONS

credentials and passwords and ask us, sometimes after many conversations, to move their money. They think that they are doing the right thing. If we cannot intervene upstream, or if those players are not incentivised to intervene upstream, this problem is going to get worse for the UK.

As we said last time, the UK has become the home of fraud; I know that is something that we all wear very uncomfortably, not because of what we need to do, but because our customers are going through these attacks. It is increasing year on year; based on my stats, 43% of all individual crime is now financial fraud, if it were logged.

Ian Stuart: I have just a couple of points. First, if you speak to customers who have been the subject of fraud, you will find very disturbed people, because it is so invasive. That should be a concern to all of us, and it is. We are not the root cause, but we have a part to play. The glimmer of light I would give on this is that technology is helping. There is no question. We have invested more than £200 million in fraud technology in the last five-plus years, and you can see it really starting to attack some of the known problems, so that we can intervene and stop them. It is only recently that we have had the power not to make a payment. If you listen to some of the taped calls, you hear customers saying, "The payment has got to go. It must go.", but we can step in and say, "We are not making the payment." Things like that really help.

Q67 **Dr Sandher:** I will direct my question to you, Mr Stuart, but it goes to the whole panel. You are all doing really well; your profits have increased by a huge amount, with an average increase from £25 billion between 2018 and 2021 to £45 billion in 2024. Collectively, you are set to make a 14% increase in profits this year. Mr Stuart, what is going so well for all of you?

Ian Stuart: One of the reasons we have managed to make better profits in recent years is really rigorous control of costs. We had a very high cost base, and we got to work on that. That is the first point. Secondly, we have expanded in the markets where we have done really well or where we think we have a right to win. We have done very well on trade and on payments, and, as the economy rises, we rise with it. We are in over 50 markets and we are very powerful in some of those markets. So good customer service, good products fairly priced, and, really, labour on the basics, have really served us well.

Q68 **Dr Sandher:** I think it is something like a 70% increase in your profits between 2018 and 2023. Is that solely due to cost control and customer service?

Ian Stuart: Well, at the same time, you were coming through a very bad patch. If you look at what happened through the pandemic, and then out of the pandemic, we had very low profits in the pandemic—in 2020, they were very low—and then built back up from there. The global economy recovered, and we are a recipient of that economic recovery.

Q69 **Dr Sandher:** Well, that was between 2018 and 2023, so the pandemic is taken out of that particular comparison. The net interest margin increased



HOUSE OF COMMONS

a little bit, but not a huge amount across the sector, so why are you getting increased profits there? It does not seem to be the main source of your profits. Would that be correct? Is that your understanding?

Ian Stuart: Can I just pull the conversation back a bit? We have to make good profits; we must try to get a return on capital employed. We carry massive amounts of capital, so we are in many markets deploying that capital to help our customers, and that generates the profits.

Dr Sandher: Sure, but that wasn't the question I asked. I am okay with you guys making profits—I think it is perfectly reasonable—it is just about the huge increase that we have seen. That is more what I was getting at. The slight increase in net interest margin that you are seeing leads to a little bit of your profits, but probably does not explain the £20 billion increase, on average, between the big four between 2018 and today.

Ian Stuart: Scale plays a part, and the way we have gone to market really plays a part. We have also been aggressive in our growth strategy, lending more money and bringing on new customers. Your numbers are over quite a long period; I would suggest that, if you look back before that, we could not get a 10% return on capital employed, so I would say that our profits previously were too low for our shareholders, for the amount of capital we had in the business. I think that is regulating a little bit now, but we need to be at 13% or 14%; otherwise we will not get investors coming in.

Chair: Do you have questions for any other witnesses, Dr Sandher?

Q70 **Dr Sandher:** If I could maybe do one more question, then come on to the other witnesses? Collectively, you all hold a lot of assets in the form of Bank of England reserves. In 2021, obviously, you received a huge amount of these assets during covid, and there has been a huge expansion of that overall. There has been an interest payment of around £20 billion to your four banks. I think the interest payments you received have increased by 135% since 2022-23. Do you think that the windfall payments you received from the Bank of England have somehow fed into the huge increase in profits that you have seen? Let's maybe start with Mr Nunn.

Chair: It is interesting to note that the bankers get their pens out when you start mentioning numbers—clearly still doing the basic maths.

Charlie Nunn: Well, it is really important for us to make sure we listen. First of all, with what we are required to hold with the Bank of England and then any interest we get, the interest amount is a political and a Bank of England decision, so I am not going to comment on whether that is right or not.

In terms of those actual numbers, they are included in the net interest margin that you talked about, so that would be incorporated. Bluntly, we have a very complex way of calculating net interest margin against all of the deposits and where we put them, in multiple forms, sometimes through the third party market and sometimes with the Bank of England—



that is a very small percentage for us, by the way—and then what we lend out. It is the net across all of the assets and all the duration that gives you the NIM, so that is actually included as part of this.

Obviously, on how we support the Bank of England, often when the Bank looks at its liquidity schemes it asks us to participate, and we often participate in those schemes at different moments in time. Through covid, there were a number of programmes that were very important for liquidity and quantitative easing that they asked us to participate in.

Q71 Dr Sandher: My question was really about some of the payments you are receiving from the Bank of England. There was a huge increase in profits seen over that time, so I am struggling slightly to understand where the source is. Look, I am sure cost control is great, but across all four companies, it seems like quite a lot.

Charlie Nunn: Well, maybe I can come back to our version of this—

Dr Sandher: Mr Thwaite?

Paul Thwaite: I think the context is important. There was a long period of time after the financial crisis when banks could not earn their cost of capital. That is bad for a number of reasons. It is bad for shareholders, so it is very difficult to attract new shareholders, and it is harder than it should be to support customers. I think that you have seen a regularisation of profitability.

I do not agree that it is just around costs. In the P&Ls of banks, you can see that revenues have increased. That is because of more lending, whether mortgages or business lending—that is certainly the case for NatWest. Costs and capital have also been managed well, and we have had relatively low costs of impairments—Mr Nunn alluded to that in the context of mortgages. I would look at profitability through all the lenses of the P&L, and it has all contributed to an improving operating profit position. I share your opinion that that is a good thing. It allows us to invest in services for customers, to support customers with capital, and to return money to shareholders. A strong economy needs strong banks and vice versa.

In the debate around reserve remuneration, you need to consider that it is a key part of monetary policy, and it is not unusual, looking across a whole host of countries. It is a way in which the bank rates and market rates are aligned. I think it is sometimes forgotten that, as we go into a lower rate environment, and as reserves are taken out of the economy through quantitative tightening, those payments will reduce. There are a lot of dynamics, but ultimately, as Mr Nunn said, that is for the Bank of England, and political.

Vim Maru: I will add just two points, because I will not repeat the others. First, in 2024, Barclays' return on tangible equity, which is what investors use to judge us, was 10.5%. That is still below the cost of capital, so our investors continue to expect us to improve the returns that we make. We are focused on growth, and on serving our customers as well as possible.



HOUSE OF COMMONS

Secondly, as has been alluded to, it is important to judge these things through the cycle. We have a period where arrears rates are very low, partly because lots of good work has been done, but it is important to judge it through a cycle as well.

Q72 **Chair:** I have a couple of straightforward questions, which will hopefully have quick answers. We talked earlier about savings and home ownership mortgages, and we could talk about them a lot more, but I would like to talk about lifetime ISAs. NatWest provides a lifetime ISA, but the other three of you do not. Mr Maru, Mr Stuart and Mr Nunn, will you explain briefly why you have not chosen to go into the lifetime ISA market?

Vim Maru: We are actively looking at whether we should or should not enter the lifetime ISA market. There is obviously some uncertainty about what may happen from an ISA simplification perspective. Once that debate is concluded, we will work out where the lifetime ISA fits in the product range.

Q73 **Chair:** But you have not gone into it before now? It has been around.

Vim Maru: We previously had the help to buy ISA, which was helping first time buyers. That has now gone, so that is why—

Q74 **Chair:** So you leant into the help to buy ISA rather than the lifetime ISA?

Vim Maru: Indeed. From a customer confusion perspective, there are a number of choices: the innovative finance ISA, the lifetime ISA, the cash ISA, the stocks and shares ISA.

Q75 **Chair:** In summary, you chose to go for the help to buy ISA, rather than the lifetime ISA. Was there any particular reason?

Vim Maru: We did, and we are looking actively at whether we enter the lifetime ISA market, subject to it still being there.

Q76 **Chair:** So you are still considering that as an option?

Vim Maru: We are.

Ian Stuart: It is an option. We do not have it today. Quite simply, we think that we have better products that give a better return. It is always there in our thinking, but right now we think we have other options that suit the customer better.

Q77 **Chair:** You are obviously leaning into options other than the lifetime ISA. Is there a particular aspect of the lifetime ISA that you do not like?

Ian Stuart: Yes, there is one. Should you break the ISA, the break clauses can be quite heavy, so we always get nervous about that—how do you explain that to the customer? We have taken a back seat on that at the moment. It is always there, on the radar, but we think we have other, more suitable products.

Q78 **Chair:** Mr Nunn, a complication too far on top of motor finance, perhaps?



Charlie Nunn: Let me be more specific. First, the lifetime ISA is a relatively complex product for the people it is targeting. It is targeting people for three to five years, typically when they are building a deposit for their home, but it is limited at £450,000 and we see people go over it. It is then targeting people at the pension stage with a very punitive 25% out. With £100 plus 25%, minus 25%, you lose money, so we are very concerned about it from a complexity and conduct perspective. Secondly, if you want to save for retirement, there are other better options. You can, for example, put into your workplace pension.

Q79 **Chair:** So for you, it is a definite decision.

Charlie Nunn: At the moment it is. We think that those two needs—helping people with their first-time buy and building future retirement—are really important. Future retirement before your income tax, if you pay income tax, is better than the 25% bonus. How do you help people safely to make that choice? We have very high obligations on us, as you know—you rightly challenge us—so we are nervous about the design of the product as it stands, and we think there are better alternatives.

Q80 **Chair:** There is a lot of discussion going on in Government about ISAs, as Ms Blake touched on.

Finally, interest rates on your instant access accounts have all reduced since the Bank last cut the rate. Have your mortgage rates decreased similarly? I will start with Mr Nunn.

Charlie Nunn: Let's split mortgages into two buckets. There are those on variable, or trackers, and the changes happen almost immediately. By the way, as rates have come down, we are passing less than 50% of that on to interest rates on savings, and there is a 60 to 90-day window when customers can respond and choose, as you know. On fixed rates, which is where the majority of the market is, for prudential stability we have to keep them fixed. Then, those repricing are typically looking for rates based on two and five-year forward rates, so it is not linked to the base rate.

Ian Stuart: First, on mortgages, we pass the rates on very quickly. It is a super-competitive market. We like the mortgage market a lot, so we want to be competitive in it. From 2023 to 2025, we put a cap on one mortgage product—our standard variable rate—because rates were rising and we did not want to have a 7 at the front of that number. We never went above 6.99%. We have just started to reduce that as well. We really wanted to look after our customers through that period. We will have another look at that in the weeks ahead.

Chair: That is helpful—some interestingly different takes. Mr Maru?

Vim Maru: I echo the points from Mr Nunn about how the mortgage market works. There are about 300 mortgage lenders and about 80% of it happens through brokers, so it is a highly competitive market. The latest rate cut was 25 basis points, and on the main products we have seen a five basis points cut—much lower than the 25 basis points reduction.



HOUSE OF COMMONS

Paul Thwaite: I will give a simple answer: as rates have gone up, the pass-through has been the same as it has come down on the savings side, and mortgages on the base rate have been reduced.

Q81 **Chair:** And in the same timeframe?

Paul Thwaite: Correct. There are some product requirements in terms of notifying customers, but there is no disconnect between the up and the down.

Chair: The obvious comparator is the standard variable rate. Finally, Ms Yang has a quick question.

Q82 **Yuan Yang:** Mr Stuart, congratulations on your recent appointment to HSBC Holdings as a group director. I hope that you can convey to your new colleagues in HSBC Holdings how deeply concerned I and many Committee members are about the ongoing withholding of pension payments to Hong Kong BNO nationals who are now settling in the UK, of which HSBC Holdings holds about £1 billion. Under present circumstances, that will never be withdrawn. We want to see progress on this issue, and it is disappointing that HSBC Holdings has not yet appeared in Parliament to speak to MPs about it. Can you convey that point, and commit to HSBC Holdings answering questions from MPs?

Ian Stuart: I will take the question, because it is a really important question. Obviously, we have a lot of Hong Kong people settling in the UK. First of all, thank you very much for your kind remarks on my new job. I have not started yet, but I am excited about it.

This is a really difficult one for the bank, because we would have to break the law to pay the money. The law in Hong Kong states what we can and cannot do, and we have to obey the law. We are a visitor in every country outside the UK, and as a good visitor we always obey the local laws. Unless we break the law, there is very little we can do right now. We are hoping that Government influence and so on may change that, but at the moment, the law is the law.

Chair: Thank you for that candid answer. I am sure that that will be taken up elsewhere. I thank our witnesses very much for their time. There is so much we could cover, and we hope that you will come back again. Tomorrow we are seeing building societies and some of the challenger banks, so that we can get an idea of what is going on in the banking world for the British people, who we represent and you serve. I thank you for your time. An uncorrected transcript will be available on the website in the next couple of days.