

Treasury Committee

Oral evidence: Work of the Financial Conduct Authority, HC 417

Tuesday 10 June 2025

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

Questions 294-359

Witnesses

I: Ashley Alder, Chair, Financial Conduct Authority and Nikhil Rathi, Chief Executive, Financial Conduct Authority.

Examination of witnesses

Witnesses: Ashley Alder and Nikhil Rathi.

Chair: Welcome to the Treasury Committee on Tuesday 10 June 2025. We are here today to have one of our regular sessions questioning the Financial Conduct Authority about its general work. We will be slightly reprofiling this in future because of the extra responsibilities that the FCA is taking on, so this is the last of our more general sessions. In future, we will maybe theme our questions a little more.

I am delighted to welcome to today's session Nikhil Rathi, who is the chief executive of the FCA and was just recently reappointed by the Treasury. After this session, we will be having a separate session with Mr Rathi about his reappointment, on the basis of a questionnaire that he filled in for the Committee. Thank you for that, Mr Rathi. I am also pleased to welcome Ashley Alder, the chair of the Financial Conduct Authority.

Q294 **John Grady:** On Friday, the BBC reported the FCA had participated in an international crackdown on finfluencers—a topic of a previous hearing with the FCA—with three arrests made, and on how people across Britain are losing their life savings and suffering terrible misery as a result of financial crime. Is the FCA planning to increase its prosecutions so more of the perpetrators of that crime face criminal consequences?

Nikhil Rathi: Finfluencers are an increasingly significant phenomenon across social media. Our latest Financial Lives survey suggests around



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36% of adults access social media to get financial information and advice. Financial crime is one of the four pillars of our five-year strategy, and we have placed tackling financial crime, including illegal financial promotions and money laundering, right at the top of our work programme for this year. We have been very proactive with the big tech firms, to make sure that they only allow paid-for financial promotions from firms that are registered with us. We see that finfluencers often operate cross-border.

We have made a number of charges; we will not get to trial until 2027 for some of them because of the backlogs in the court, but we continue to undertake arrests. These gangs operate cross-border, which is why we have collaborated with our colleagues in a number of other jurisdictions. We have massively scaled up our work to take down problematic financial promotions. Last year, we asked for amendment or withdrawal of 20,000 compared with 570 a few years ago.

In terms of numbers of prosecutions, this is an area where we are incredibly active both in prevention and in enforcement. We will see each year whether that means the number goes up.

Q295 John Grady: Do you think the number at the moment is satisfactory, given the prevalence of this crime?

Nikhil Rathi: We are probably the most proactive international regulator in this domain, and we led that cross-border work. This is a growing problem, and we have to use our full arsenal here: prevention, work with the big tech firms and enforcement. To get the successful prosecutions will take time, because these things have to go to trial and we have to wait to see what the judges say.

When we look at our overall financial crime work, however, that is just one aspect of it. We are also looking at anti-money laundering and sanctions breaches, so we have to make choices around our resources across the breadth of financial crime. Over the last few years, the FCA's work has evolved to take in a much broader range of criminal activity, in addition to the traditional work we have done on market integrity and market abuse. We are one part of an overall system, and we are leaning in heavily, but we have to make some choices about how we deploy resources as well.

John Grady: Dame Meg, it might be helpful if the FCA followed up in writing with the number of prosecutions it has initiated over the last five years, and then we could look at that at another hearing.

Chair: Thank you. We had some interesting evidence from staff members of the Financial Conduct Authority on this, which we will pick up on.

Q296 Bobby Dean: Following on from that, I appreciate that you say you are incredibly active on this topic and you are working with the tech firms, but I want to know whether the tech firms are working with you. We heard evidence from Lucy Castledine last time, and she was quite critical of Meta for being quite slow. She said that generally, all the big tech firms are very much reactive rather than proactive, even though they have the technology to be proactive. Have you had conversations with Government

Ministers about this or with executives of the big tech companies about doing more?

Nikhil Rathi: Yes and yes. Thank you to the Committee, Mr Dean and the Chair for the follow-up you initiated with respect to Meta after Steve Smart and Lucy Castledine's evidence here. We have to operate within our powers—we cannot force the tech firms to take down promotions that we see as problematic. We rely on co-operation from them.

I would not say that all tech firms do not co-operate. There are some that have invested very significantly: they are proactive, they are responsive and, once they have decided to move, we have seen significant improvements on their platform. You heard evidence about Meta; the issue is not only the speed with which in certain cases the takedown requests are processed but the speed with which new accounts can be created with almost identical content to what we have just asked to have taken down. We have to deploy our resources to keep searching for that, rather than the firms themselves, who have vast capabilities, deploying their capabilities to prevent those repeat promotions coming so quickly on to their platform.

We worked very closely with successive Governments, including Mr Glen MP on the Online Safety Act with respect to making fraud a priority offence. We are working closely with Ofcom as it delivers that. In terms of Ofcom's priorities, quite understandably, some of the child protection and sexual exploitation offences are taking priority in its roll-out of the Online Safety Act, and it will get to fraud next year.

Q297 **Bobby Dean:** Do you think the powers in the Online Safety Act will be sufficient in the long run, or will the Government need to introduce further protections to address this area and force the tech companies to act?

Nikhil Rathi: This was vigorously debated, and there are two questions. The first is about the extent to which we have powers to direct these promotions to be taken down, and the second is about who pays when things go wrong. Successive Governments have so far stepped away from asking the big tech firms to share the costs. That has been a political decision, which was debated here and in Government, and I know Ministers periodically look at that.

Q298 **Bobby Dean:** I have one final question. Is this indicative of a broader concern for financial regulation, in that these tech firms are so big and so powerful that they are quite difficult to hold to account, and if they decide to enter other areas of the financial industry—AI and so on—it will become an increasing problem for the FCA to keep a handle on?

Nikhil Rathi: I think this is going to be one of the most profound issues facing financial regulation and regulation generally for the next several years. You talk about big tech firms entering financial services. Many have already entered, and they already provide systemic services in areas adjacent to core financial services—for example, cloud infrastructure providers and payments providers—and they operate on a global basis.

I listened to a podcast by Mark Zuckerberg of Meta just a few days ago,



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and he talks about having 3.5 billion global customers for some of his products. When they are thinking about new products, that is the global scale they consider. The ability to track how they are making those decisions is going to be an important question for regulators here and around the world.

We should also say, though, that some of these products can bring considerable efficiency, benefits and convenience to consumers. Some of the AI roll-out helps to tackle financial crime as well as potentially being a vector of financial crime for criminals, so there is a balance to be struck here. Some of the payments products are very convenient for consumers. We are not in the business of trying to inhibit beneficial innovation or some of the scale and cost benefit that these products can bring, but we do need good, active co-operation with the regulatory and law enforcement community to tackle the downsides.

Q299 John Grady: Distilling Mr Dean's question down to its essence, you face a growing challenge with financial crime, and it seems Meta does not always answer the phone quickly enough to get stuff taken down. That engages a wider question, which might be one to come back on in writing: in your work on financial crime, do you have the requisite powers, or do you need more powers, and what would those powers be?

Nikhil Rathi: We are stepping up considerably on financial crime. As I said, last year we had record criminal prosecutions across a range of areas—not just influencers, but crypto—and a lot of regulatory action on money laundering. I would be hesitant to come here and make a case for more powers. They would, of course, be beneficial, but these issues have been actively debated in very recent times in Parliament, so I do not think I would want to say that.

It is our job now with Ofcom and others to implement what Parliament decided in the Online Safety Act, to get on with it and not to seek to reopen the debate necessarily, although I do make the point around liability. I think the banks and the building societies have a point when they say that, when it comes to APP fraud and other forms of crime, they and their customers are having to pick up the bill, but I recognise that that is a political judgment that has been taken under successive Governments.

Q300 John Grady: How many prosecutions has the FCA initiated this year?

Nikhil Rathi: In 2024-25, the number was 21. I have not got the precise figures for April and May this year yet, but I can share those with you. It was a record number of prosecutions last year.

One of the challenges we face, particularly for complex cases, is that when we charge—obviously, we cannot say too much more once we have charged—it is taking two to three years to get a criminal court trial date. That is a challenge and it consumes our resources, because we have to keep those cases going for a number of years, and the case teams change, but we have to make sure the case remains fresh. Secondly, there is a saying that justice deferred is justice denied. The longer it takes to bring these cases to a conclusion, the more difficult it is for us to have a deterrent effect. But that is an issue in the justice system generally.

Ashley Alder: It is important to say that the prosecutions involve the influencers themselves, as distinct from the platforms, which goes to your point. We can write back on where we stand in relation to the powers we have, for example, to prosecute influencers, which is very different from the persuasive powers we have—or lack of powers; the persuasive approach we take—in relation to platforms. That is pretty much where we stand. That is a reflection on a debate around the origin of fraud, which is an important one.

Chair: We are looking at influencers quite a bit, so we can have some of this dialogue in correspondence, because we will keep a close eye on it as a Committee.

Q301 **Lola McEvoy:** Good morning. In the next iteration of Ofcom's codes, would you like to see stronger guidance for the platforms about how to take down fraud and their responsibilities in relation to the Online Safety Act?

Nikhil Rathi: I think they know what to do. I don't think they need guidance. There are plenty of cases where they can get on and do it.

Chair: Thank you, that was very clear.

Q302 **Dame Siobhain McDonagh:** Obviously, prosecution is one side of it, but could people be looking to influencers because of the lack of good advice out there? Given the restrictions about financial advisers and people with less than half a million not wanting to pay £1,500 for a financial advice session, should building societies be given more powers to give advice about what you do when you have a bit of savings and you want to prepare for your retirement and think about what legacy you leave? There seems to be a big gap in the people who can give you this advice if you sit in the middle.

Nikhil Rathi: I think you are quite right to bring out that point. According to our latest Financial Lives survey, only 2.8% of adults in the UK with savings of less than £10,000 accessed regulated financial advice. That compares with 28% of adults with savings of more than £100,000. Those with lower amounts are least likely to access advice and may seek to use social media—particularly younger generations—and potentially access inappropriate content.

That rise of digital channels is not going to change; it will continue, and we are working with some influencers to provide information, with the Advertising Standards Authority as well. There are positive benefits of influencers being able to reach audiences that might otherwise be hard to reach. Our advice/guidance boundary review is potentially one of the most transformative pieces of work that we are undertaking, jointly with the Treasury, and there will absolutely be a role for building societies and other mutuals in providing more information. We think there is quite a lot that people can do already, but it is a question of risk appetite.

We will also seek to clarify when simplified advice can be provided and put in a regime for targeted support, so that you can give advice to cohorts of

consumers, rather than just relying on personalised advice. We also want to enable digital advice journeys; we have just done a sprint to look at how we could make that much more feasible. All that is now moving at quite some pace.

Underlying all this, though, is a more strategic question on the overall level of numeracy and financial education in our society. When we look at some of the international comparators, we have some work to do there. That is another critical element of the work that we want to lean in on. We are not in the lead for that work, but we want to lean in on it over the next few years.

Q303 John Glen: Can I ask about the relationship between the FCA's rules and guidance and the FOS? As we all know, the FCA has a principle-based approach to the rules and regulations, and an outcomes-based consumer duty. When individual consumers find themselves at odds with an outcome that they have received from their financial services provider, such as their bank, they go to the FOS.

There is a perception, based on some of the evidence and representations that we get from banks, that there is a disconnect between the principle-based rules that you put out for them and the consumer duty, which was an iterative process. I think the duty got to a point where nobody was completely happy but it was generally accepted. There is a situation where they find that they have individual consumers and precedents are being set through the FOS. I would like you to address your view of any disconnects, or improvements that can be made, in how the FCA and the FOS relate to one another and function to give better clarity for both those who run our financial institutions and consumers.

Nikhil Rathi: When the FOS was established, it was intended to be an efficient way for consumers who had not been satisfied with responses to complaints made against their financial institution to get an independent view and perspective, and to avoid the significant cost of going to court. What has evolved over time, particularly with the growth of claims management companies and law firms operating at scale, is a volume of complaints, many of which have perhaps not always been proven to have merit, potentially consuming a huge amount of resource in the system.

When the legislation was established, there was a fair and reasonable test, which the FOS has discretion to make judgments on. In doing that, it has to take account of not only our rules, but other laws as well. It will look at court precedents and rules on consumer protection that go beyond purely FCA rules.

Through the wider implications framework, the FOS can draw our attention to issues that might be of significant wider importance, and we can talk about how we think a matter should be interpreted. We are looking through our work on the redress review with the FOS to see whether that could be strengthened and tightened up even more, to make sure that there is a consistency between what we ask for and how the FOS adjudicates on significant cases. We also share information when systemic



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issues emerge—as I talked about a couple of hearings ago, there is the ongoing advice charge question, which we work on closely with the FOS. We produced a good assessment of the situation, so that we can make sure that mass redress events are prevented or dealt with in an orderly way if they occur. Alongside that, the Economic Secretary, in her review, which I believe will report next month, is looking at the overall legislative framework to see whether there is further iteration that might be necessary there.

On some of what you hear from the industry, there are issues—some of the work around professional representatives has been dealt with by the FOS, in terms of their fee proposals—but firms also have rights. If they feel the FOS decision is inappropriate or has overstepped the law, they can take it to court. I have noticed that perhaps the most vocal about alleged retrospectivity sometimes are the most reticent about actually testing their view and position in court.

Q304 John Glen: When we have met representatives of UK Finance as a group, they have talked about the DISP rules—the dispute resolution rules—needing more clarity. Do you agree with that?

Nikhil Rathi: What they worry about, I believe, is that once the FOS has made a decision and an award to a consumer, under our DISP rules, we have an expectation that firms take that award seriously and pay an award promptly. We would consider it problematic if a firm were systematically not responding to decisions by the Financial Ombudsman Service. The concern then arises that if the FOS decision in a particular case has wider precedent for a larger group of cases, is that effectively regulation making by the back door? We are looking at that issue as part of this review, so that we get to those kinds of situations earlier than waiting for an individual case decision to come through the hopper.

Q305 John Glen: Debbie Crosbie, the CEO of Nationwide, thought the best way would be to maintain minimum standards that were understood and unambiguous, to avoid a situation where you could have apparent precedent setting from the FOS. Do you think that there is merit in exploring that further? The point is that the consumer duties outcome approach leaves an ambiguity in the mind of a CEO in how they organise their interactions with their customers, and leaves open, notwithstanding what you said about the right to legal disputes, FOS decisions becoming a new norm at odds with their interpretation of the consumer duty. I am just pressing you if I can, because I am trying to explore where these conventions are becoming normalised and are at odds at each other, which then has a chilling effect on market behaviour and innovation of financial services.

Nikhil Rathi: The consumer duty is a deliberately outcomes-based approach. As we are going through our rule review, with the consumer duty, we said that we would like to streamline the rulebook, not put in more rules and detail. Firms had asked for that, because there are a lot of complaints about the size of the rulebook. We can come later to some of the work we are doing, for example, in the mortgage market. The



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consumer duty allows firms a degree of discretion, as long as those outcomes are being pursued with reasonable endeavours. For example, in the way AI is used, we have not said that we are going to set new rules; firms can deploy that in different ways. We are not standing in the way of innovation.

I would pause before saying that we should come up with a lot more detailed rules and standards, because that is against the zeitgeist of the moment. What I have talked about is, do we need a different type of relationship between regulator and regulated? It could be to say that these are the outcomes we want. We are talking to the FOS about how the consumer duty is applied and having good conversations there. Together, we will try to make sure that you have confidence, as long as you are acting reasonably, to be able to take products to market.

I would be cautious about some of the claims that are made. For example, when the consumer duty was being implemented, some banks said—because of their worry about the FOS and the potential chill effects that you described—that 95% and 100% LTV mortgages would stop being sold. The facts as they stand today, based on the data we look at—we have been looking at that data since 2020—are that there are more 95% and 100% LTV mortgages on the market today than there have been for the last five years. I would pause before saying that this has somehow been a chill on innovation and caused people to withdraw lots of products.

Q306 John Glen: My final question is about the advice boundary review—I think you said it was next month, but it is certainly in the second half of the year. There is a massive opportunity in that area for the macro economy and for individual consumers to see better outcomes when more can be invested in better returns over time in equities-based, rather than cash-based, products. However, there is again a significant anxiety that, in good faith, big financial institutions will set up products and pathways to default to non-cash-based investments and, three or five years down the line, there will be a test case when we go through a blip in the markets and somehow that pathway will be deemed to have been the wrong one for that individual. Can you reassure the Committee that we will not end up in that situation and that cycle, with the risk of retrospective action by a regulator, will not occur?

Nikhil Rathi: First, I would query the hypothesis about retrospective action. Again, if firms that have made that claim really believe that the law is being applied retrospectively, they are entitled to challenge that in court. I repeat that some of the firms that are most vocal about that have not been that forthcoming in actually going to court and arguing their case, although they are vocal—

Q307 John Glen: Do you want to name them?

Nikhil Rathi: No. You have heard from some of them in your hearings over the last few months.

John Glen: We will work it out!

Nikhil Rathi: I just wanted to get that out of my system.

The advice/guidance boundary review is a collaborative project with Government, the FOS and industry. We are all aligned. We are trying to go after the big issue in the United Kingdom that a critical mass of our consumers are not getting the advice they need at a price they are willing to pay when they need it. Some of the work will be done through our rules and some will be legislation that will come to Parliament in due course. We can try to give some of the confidence that you talked about.

In doing that, we need to take on a few myths. For example, I hear myths about the current regime, the kinds of promotions that are allowed and whether we are requiring things that are too risk averse. We do not require every single promotion to describe capital being at risk, a stand-alone risk warning for every single investment product or risks to be cited before the benefits. As long as there is a balanced explanation, that is acceptable to us. We hear the claim that we are doing that, but when you press it a little bit further, it is firms' own risk appetite that is driving much of it, not necessarily what is in regulation.

John Glen: Thank you.

Q308 **Chris Coghlan:** Mr Rathi, in your evidence to the Lords you advanced the idea of metrics for tolerable harm or tolerable failure. How have those discussions advanced with the Government?

Nikhil Rathi: In my exchange of letters on reappointment with the Chancellor, which we will come on to later this morning, I raised the point of the forthcoming financial services strategy that the Government are looking at being an opportunity for the Government to articulate their risk appetite and the detailed analysis around growth and risk that is informing the overall Treasury position on this. I hope that will help us to move forward on some of these discussions. In her remit letter before that, the Chancellor was very clear about understanding the trade-offs. We are keen to get down to the next level and get to a richer debate around how both Government and Parliament would like us to calibrate some of these choices.

Q309 **John Glen:** Presumably, it is pretty difficult to measure what would happen if you loosened those standards or to measure what is a tolerable risk and a tolerable harm.

Nikhil Rathi: It is hard to measure, and we will therefore need ranges and indicators. We just suggested some ideas. The evidence we provided to the Lords was very provisional. We will have to iterate and innovate. For example, I became chief executive in 2020, and in the first plan we set out in 2021 we said that we wanted to bring the FSCS levy down, because at that time there were concerns that the levy could go as high as £1 billion, which is a big cost to the industry, including consumers. That levy has come down to one of its lowest levels in recent years. You could take that as a proxy of failure: if you allow a bit more risk in the system, some of that will come through in firms failing and having to be compensated

through the compensation scheme. That is one item that we put on the table.

We talked about the level of failures and insolvencies in the system. The more we dial back the protections on the authorisations gateway, the more likely you are to see firms fail. Mr Grady asked me about financial crime earlier. Successive Governments have set quantitative targets for the growth of financial crime, and split it out by different areas. Implicit in that is a risk assessment around what is a tolerable level. In other areas, it may be not a detailed measure but some sense of what is the appetite—high, medium or low?

Some jurisdictions around the world very clearly, politically, have a very high-risk appetite for crypto, and they are seeking to roll it out in their consumer markets at great pace and with very little regulatory protection. It is very much on the consumers who are using it to make their own judgments. What is our risk appetite here? Parliament will consider that as this legislation comes through. Is it high, medium or low? Give us some sense, because we recognise that there is a growth and competitiveness argument, but obviously there is a potential for individual and social loss, which is uncomfortable, as Ms Blake said in a recent panel.

Q310 Chris Coghlan: The Government will obviously be saying to you that they are very keen on growth, but are you worried that, at the moment, some tolerable harm could materialise and they will just blame the FCA?

Ashley Alder: That is a familiar question. We have been asked that question previously, which is why I think our, Nikhil's and the team's raising questions on this point is so important strategically for the organisation. In other respects, for example, we have talked around the question of affordability tests in mortgages and defaults, and house prices. We have talked about clarity around our regulatory perimeter, in particular. We mentioned targeted support, quite rightly a flagship, ambitious policy around getting the right level of advice to mass market effectively. But one of the potential trade-offs is that that support is not the equivalent to regulated advice that, to your point, costs a lot more and therefore is unavailable. To identify the potential trade-offs is really important in the context of regulation and the whole question of economic growth and the relationship between the two.

Q311 Lola McEvoy: I would like to move us on to buy now pay later, which you mentioned to the Committee in our last hearing. The Treasury's consultation from last October said that 14 million UK adults have used an unregulated buy now pay later product in the six months before January 2023. That is a lot of people in all our constituencies up and down the country. We also know from Citizens Advice research that nearly a third of buy now pay later users who were due to make a payment borrowed money to pay those instalments. Obviously, interest-free credit on purchases is a helpful tool. From your work so far on this, what are your thoughts are about whether the majority of people are coming to harm? How big is the problem with buy now pay later, in your understanding?



Nikhil Rathi: The Financial Lives survey from 2024, which we published a couple of weeks ago, suggested that 20% of UK adults—approximately 10.8 million—had used buy now pay later products at least once in the 12 months prior to May 2024. That is 3% higher than we saw in 2022. The latest data that we have from firms when we have surveyed this was from January 2023—10% of buy now pay later transactions had missed one payment.

Q312 **Lola McEvoy:** With the new regime that you are exploring and are going to be implementing, is there a concern that the affordability checks might end up penalising people who really need buy now pay later just to buy a new washing machine or get some Christmas presents for a family member? How do you feel it is going to fall on consumers?

Nikhil Rathi: That is the delicate choice and trade-off that we have. We do see the benefits of buy now pay later for significant numbers of consumers who find it convenient and beneficial, and better than alternatives forms of credit, particularly for borrowing small sums of money.

At the same time—I saw this when I visited citizens advice caseworkers in the north of England—there are cases of single mothers who use buy now pay later for baby food and nappies and then find themselves in great difficulty, including having bailiffs coming to their door as a result. That is clearly a very unfortunate outcome of having a product that is unregulated. We have been asking for it to be regulated for five years, and we are grateful that it is now making its way through Parliament.

We need to make an overall judgment about information provision, and about the proportionality and affordability of credit checks, because if we go too far and make it too onerous, we make the product uneconomical for lending £50 or £100. The consumer duty helps us here. There is also, as Mr Glen asked about, an important question for the FOS about how to make sure that their judgments are proportionate.

There is also a broader question about tolerable failure. I have given you the statistic of 10% of people missing a payment. How do you as Parliament feel about that? Would you like to see that number come down? Where is the social calculus about the 90% who benefit and the 10% who do not?

Q313 **Chair:** Sorry, was the 10% about only one missed payment?

Nikhil Rathi: Yes, 10% was one missed payment. That was from an informal survey in 2023. We do not have powers yet, but as and when we get powers over buy now pay later firms, we can get better data. Some would argue that that data is overstated, because if you simply miss a payment, you could catch up a few days later. You should not overinterpret that data, and we will try to get more accurate data, but that is the kind of conversation that we want to have with you about—I do not want to call them winners and losers—the beneficiaries and the downside risks.

Q314 Lola McEvoy: There is certainly a concern about people using multiple buy now pay later products to get through day-to-day spending—for example, there are some takeaway outlets where you can use it. If people are over-indexed on buy now pay later, they could get into financial trouble. Is any work being done about how to track how many people are taking out more than one buy now pay later and how regularly people are using it? Obviously the 10% could be a small number of people missing payments on a lot of different loans.

Nikhil Rath: Our survey tends to show that the actual amounts being borrowed are relatively low—in the low hundreds. There will always be a minority of cases where people go for eight, nine or 10 types of loan, and there is a discussion around how you use credit information databases, how they can be deployed in the affordability checks, and the proactivity with which buy now pay later firms provide their data to those databases, which is something we can look at when the activities come within our regulatory perimeter.

There will always be cases, when we allow in a new product like this, of people misusing it. Our choice is how onerous we get with regulation to prevent that, versus inhibiting the millions of people who use it for a beneficial purpose. I do not think there is any way of escaping the fact that there will always be some kind of trade-off there.

Q315 Lola McEvoy: It is interesting, though, because it comes down to the point about affordable credit. You have credit unions that are going above and beyond to help communities that need it, which might be a safer and more responsible way of getting a loan. You then have some of these firms that could take more responsibility for what is happening with their customers. How confident are you that you will be able to get the balance right in putting the onus on the firms and penalising people who could legitimately pay?

Nikhil Rath: I hope we are getting better at getting the balance right. We will be producing outcome metrics of levels of usage and including those who are unable to get access to the credit that they feel they need. That will help us to track some of this data. We are also doing work with the PRA in response to a letter from the Treasury around mutuals and how we can support the activities of mutuals. Some mutuals may wish to provide products like this, too, so it is not just the big digital players. You might find that others wish to innovate in this area.

We also have to face up to the fact that, increasingly, products are being provided digitally. One of the encouraging things about our recent survey is that digital exclusion has come down dramatically since 2017. We saw 6.9 million people digitally excluded in 2017 and, on our latest figures, there are 1.2 million people, so people will go to digital channels to access financial services. So I do not think the answer is trying to push them into credit unions or something else; it is about trying to make sure that the whole market works effectively.

Q316 Dame Siobhain McDonagh: I would like to look at some issues around



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car finance. Has the FCA set up a new panel to design a compensation scheme for car finance victims?

Nikhil Rath: We are awaiting the Supreme Court judgment about certain points of law, which we anticipate will be sometime in July. Prior to that, and without prejudice to anything the Supreme Court may come up with, we are engaging in consultations, or pre-consultation engagement, I should say—not consultation formally—with consumer bodies and trade bodies to talk about what a structured redress scheme might look like, should we feel that that is the right course of action after the Supreme Court has clarified points of law. Recently, we set out some of the principles around that and some of the tensions between those principles. That is what we are talking to interested people about.

Q317 Dame Siobhain McDonagh: Following an update on car finance, which the FCA published on 5 June, the National Franchised Dealers Association—a trade group representing car dealers—said on their website that they were part of the consumer redress scheme design panel. I could not find any other information about it, including who is on it, whether people involved are representing people who feel they have been defrauded, what it is working to and how long it is going to meet for.

Nikhil Rath: I will come back to you on that specifically. The point of us putting that out there, and the point of us saying that if the Supreme Court does judge that there has been harm to consumers, we would like to, more likely than not, go for a structured redress scheme, is that it is a very open consultation. We are engaging with consumer groups, firms and trade bodies, and I expect that we will obviously engage with this Committee quite intensively as well.

Q318 Dame Siobhain McDonagh: Does the panel exist?

Nikhil Rath: I am not sure about the specific title. What I can say is that we are talking to a range of consumer and trade bodies around the principles behind a potential redress scheme. So it is not simply one of the interveners in the court case; it is broad.

Q319 Dame Siobhain McDonagh: The National Franchised Dealers Association certainly think that they are on a group. Are they wrong?

Nikhil Rath: As I say, I would have to come back to you on the specific title of that.

Q320 Dame Siobhain McDonagh: Did they make it up?

Nikhil Rath: I will have to come back to you on that, Dame Siobhain. What I will say is that we are very deliberately engaging openly and widely. The purpose of us putting that on our website, and we have put an email there for everybody to—

Dame Siobhain McDonagh: Do they lead a rich fantasy life?

Q321 Chair: I think Mr Rath is saying that he hasn't got the facts at his fingertips. If he magically gets them by the end of the session, we will come back to this.

Ashley Alder: I will make just one point: there should be absolutely no special status for any of the stakeholders that we are interacting with on motor finance. I think we have said that from the point of a Supreme Court decision, it will be around six weeks until we consult on the potential redress scheme¹, but the overarching principle is that we want to see an outcome that is fair to consumers that have lost out and to ensure that the motor finance market in the future functions well. That is why we are—

Q322 **Dame Siobhain McDonagh:** That is all really laudable, but there is this group of people with a vested interest who think they are on a panel.

Ashley Alder: From my perspective, no one who we are interacting with should have a special status in so far as interactions are concerned.

Q323 **Chair:** Perhaps we can get in writing who is on the panel.

Nikhil Rathi: It is not as nerve-racking as the TSC, but I was live on Martin Lewis specifically to talk about motor finance and to take live questions from consumers on ITV about this. And we are engaging with the consumer groups. We will engage with absolutely everybody and we will seek to do that openly.

Dame Siobhain McDonagh: It is absolutely laudable but it does not really answer my question.

Q324 **Chair:** Will you commit to writing to us with the detail of who you are consulting and what panels exist, so that we are clear about the architecture and who is engaged in that?

Nikhil Rathi: Absolutely yes.

Q325 **Dame Siobhain McDonagh:** Is the £20 million diagnostic report on car finance that the FCA commissioned ever going to be published?

Nikhil Rathi: It is subject to the Supreme Court. If the Supreme Court judges that, under the law, significant harm has accrued to consumers, we anticipate that we will move forward with a consultation around a structured redress scheme. As part of that consultation, under the law, we need to set out the evidence we have gathered that meets the legal test for a redress scheme, and we would draw on the findings of our skilled person report in publishing all that evidence during the consultation. The reason for doing that report was to gather the evidence to assess whether there is a case for a structured redress scheme, and we think that is more likely than not, if the Supreme Court judges that the law has been breached.

Q326 **Dame Siobhain McDonagh:** Who paid for the report?

Nikhil Rathi: Firms.

Q327 **Dame Siobhain McDonagh:** Particular firms?

¹ The FCA later clarified that they were meant to say: “I think we've said from the point of a supreme court decision, we would confirm within 6 weeks if we will consult on a potential redress scheme”

Nikhil Rath: Firms involved in motor finance and who were the subject of the skilled person's work.

Q328 **John Grady:** Time is marching on, so let us see if we can get through this chapter fairly quickly. The charity Money and Mental Health reported that people with mental health problems can be quoted premiums for travel insurance between six and 27 times higher than a customer without a mental health problem. Has the FCA done any work to see whether that is justified and not discriminatory?

Nikhil Rath: We recently published some vulnerability guidance, with case studies, which was broadly welcomed. I will have to look and come back to you, Mr Grady, on the specifics around consumers who are suffering from mental health issues and the data that you have provided.

John Grady: That would be very helpful.

Q329 **Chris Coghlan:** I have seen reporting that cancer patients are being priced out by being charged £3,000 for travel insurance. My constituents and the cancer support charity Maggie's have raised that. Are you looking into it? If so, should you be? What are you doing about it?

Nikhil Rath: We are doing a piece of multi-firm work right now on home and travel claims to look at the claims business model and strategy and the governance and oversight. As part of that, we will get an opportunity to understand some of the market dynamics here. That is one piece of work we are doing on insurance. The other very significant piece of work we are doing on insurance relates to motor.

Q330 **Chris Coghlan:** And that will include this particular issue.

Nikhil Rath: The motor insurance work is separate, but the multi-firm review of travel claims—

Q331 **Chris Coghlan:** Specifically for cancer patients.

Nikhil Rath: I will need to get back to you to see if we have asked a specific question around cancer claims. I do not know the answer to that directly, but I am happy to look at how that is incorporated in our work.

Q332 **John Grady:** That is two examples already, which is why my postbag gets people complaining about insurance. Another example known to the FCA is the fact that if you pay your insurance premium monthly rather than annually, you can pay more than 20% extra, which is pretty high compared with what it costs to finance that on the market. The FCA described it as a tax on the poor, and rightly so. I am glad the FCA is investigating, but more widely, complaints about insurance are rising, including at the FOS. Is this something that the FCA needs to pay quite a bit closer attention to? At the moment, the insurance industry seems to be treating consumers badly.

Nikhil Rath: The market study on premium finance is expected to come out in July, so I will be able to share our findings with the Committee. As you have rightly pointed out, we have identified potential harm there, and we are looking at it in some detail. We can see the benefits for some

consumers of paying monthly, but it must be sold in a fair and transparent manner.

On the level of complaints around insurance, you are right that it is one of the sectors where there has been a modest rise in the last year. We did some specific and targeted work on motor insurance claims, in particular valuations of claims, where we made some interventions. We did likewise on gap insurance, where we worked with some providers who we felt were not providing fair value. They took their products off the market, restructured them and came back to market. The work we are doing on home and travel claims is also part of this.

There is an important limb of the consumer duty around customer service. It is not just around disclosures; it is about the quality of customer service, and we will want insurance companies to satisfy us that they are meeting the standards that they set out. You asked me last time about another review that we had done, on bereavement claims and life insurance claims. It is important to call out those firms that were doing very well, because there were some that were paying within seven or eight days—quite rapidly—but there were some that were taking six to nine months. We called out, with supervisory work, the firms that were taking a long time.

John Grady: The only follow-up, perhaps in writing, is to ask for the data for the complaints to FOS on insurance over the last few years to see what the trajectory has been.

Chair: This is an area of interest to the Committee, as you may have picked up.

Q333 **Yuan Yang:** Mr Rathi, I have some questions about the use of AI and the risks of algorithmic bias. First, on hyper-personalisation, you have previously talked about the risks that that might make some groups too hard to bother with—i.e. that they may be further financially excluded—and that the use of AI can entrench that even further. What do you see as the FCA's role in regulating the use of algorithms in hyper-personalisation?

Nikhil Rathi: The position we have taken on AI is, I think, consistent with the overall Government position on the regulation of AI nationally. We are not looking at new and detailed rules. We have an outcomes-based framework with our consumer duty, which sets out the outcomes we expect firms to pursue. We have our market integrity framework and wholesale market and, critically, in the UK we have our senior managers and certification regime, which gives accountability and governance to specified individuals in firms.

The overall approach has been to say, "Go and innovate," particularly when it comes to tackling financial crime, because we need firms to innovate and use AI to take on some of the criminals that are using AI to defraud the system and also to bring new and beneficial products to market. We expect them to measure the outcomes for consumers, and if there start to be problems, we expect them to have the governance in

place under the senior managers regime to course correct and change course. That is what we will be monitoring, to make sure that those outcomes are being monitored effectively and that the governance is working effectively.

Q334 Yuan Yang: How do you expect to pick up those outcomes when it comes to financially excluded groups?

Nikhil Rathi: Some of the data will come from our own survey evidence. We are also participating in the Financial Inclusion Committee that the Government feeds into, and they have various data streams as well. There is a broader issue here: with the scale and pace with which this technology is moving, there will be social consequences that will not be purely for a regulator to be able to navigate and deal with. That is why the Prime Minister did such a significant speech on it and why you have seen Ministers talk about it. There will be some political choices here about the speed at which some of the technology is rolled out and the potential disparate consequences for different groups in society. For example, if I talk about insurance, flood insurance is an area where ultimately, because the risk could be priced in a particular way, the Government have stepped in.

Different insurers will give us different views on whether the hyper-personalisation scenario will crystallise or not, but it is challenging for a regulator to say to a firm, "You should not price your risk as accurately as possible," unless there is an overall parliamentary or legal framework that we are operating to. That is where some of these debates will move in the coming years.

Q335 Bobby Dean: When we had the ABI in front of us, I posited to them some scenarios that could come about through advancements in AI. For instance, your step counter or maybe logging into workout apps regularly could be related to your insurance premiums. We have evidence already of some insurers saying that they will provide discounts if people keep up healthy lifestyles. To some, this seems a bit dystopian—that you will have to keep up your exercise or your bills will go up. Do you think that that is the sort of area where we should be allowing the insurance industry to go into hyper-personalisation and tracking your every move?

Nikhil Rathi: I think it is already here.

Q336 Bobby Dean: Should it be here?

Nikhil Rathi: That is a societal choice. We all have different views around the world, and this is one of the interesting things about AI. When it comes to views about personal data and civil liberties, there are different cultural preferences in different parts of the world. China and the US are in a very different position to the UK and the European Union, I would say. You will see some applications in those jurisdictions that have gone significantly further than we have here. I know that I am the witness here, but I think that that will ultimately be a political question as to where, as a society, we trade off some of those values.



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Q337 Bobby Dean: In China, it comes down to social scoring, and there have been “Black Mirror” episodes that try to explain how that might become a problem. In terms of consumer harm, where would the regulator get involved at this stage? Would it be to protect consumers who feel ill—for instance, someone might have a stomach bug, but they feel they need to keep up their 10,000 steps a day, otherwise their bills are going to go up? Would you already feel an obligation to intervene there, or do you need to wait for politicians to give you instruction?

Nikhil Rathi: In the legislation underpinning the FCA, there is a principle that consumers should take primary responsibility for their decisions. There should be disclosure around how the data is being used, but ultimately, if a consumer wishes to use these applications, as long as they are not being mis-sold or nudged inappropriately into doing things that are harmful, they can. A consumer will make a judgment as to which apps they want to use and how they want to live their lives, and I do not think it is for a regulator to come in and start trying to dictate those kinds of choices.

Chair: Thank you—there is a lot of food for thought there.

Q338 Yuan Yang: Mr Rathi, in our session with banks a few weeks ago, we talked about the risk of AI amplifying bias. One of the panellists said that they would expect to share any major use of AI with the regulator. Other panellists mentioned that there is already a schema for regulatory access and said their bank was involved in a situation where the regulator walked in and asked the bank to explain how a certain model worked. Could you explain a bit more about that full access model, when you use it and how you pick up on issues of bias?

Nikhil Rathi: We have a principle in our handbook of full and open co-operation as an expectation from firms. If we want to go and find out about how a model is being used—particularly in consumer markets or, indeed, in wholesale markets—and probe and ask questions, we would expect firms to engage with us constructively and proactively. Generally, we find they do on this topic, because we are all learning. There is a lot of innovation out there, and people are not sure how all of it is going to pan out.

One area where we have been most active is the use of AI to tackle financial crime. This is actually a collaborative endeavour with regulated firms, because we want them to use AI to be a critical line of defence against those scammers and fraudsters who are seeking to use technology in the other direction, to steal money.

Let me give you an example of a conversation I had with a bank chief executive recently, about chatbots and customer service. They are looking to roll out at quite some scale a chatbot to provide information that previously would have come through a contact centre. They have done research with the consumers they have piloted this with, which looked at satisfaction rates and—it is not a particularly pleasant term—what they call the “containment rate”, which is the degree to which people say they are



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unhappy with the chatbot and want to phone up to speak to a person. They say they find very high satisfaction rates, and people tend to stay within that digital channel to get answers to their questions.

That is the kind of data we would be interested in seeing from firms if they are going to roll that out. We are not going to stand in the way of people rolling it out, but we want to see that they are looking at the outcomes. If it is generating better outcomes on objective measures, that is innovation that they are free to do commercially.

Q339 Yuan Yang: Do those measures include ones relating to financial exclusion, discrimination and so on?

Nikhil Rath: For example, in the motor insurance work we are doing, we are looking at the question of ethnicity penalty in particular. To the extent that firms are tracking that—of course, the equalities legislation applies across the board—we would be interested in that. We are not the primary enforcement authority around equalities legislation—that is the EHRC—but we would expect them to be looking at those questions as well.

Q340 Yuan Yang: You say you track the outcomes on several measures, and it would be interesting for the Committee to know what kind of measures you are using, if you could provide us with a list.

Chair: If you could write to us with that, that would be very helpful.

Nikhil Rath: Sure.

Q341 Dr Sandher: I would like to ask about mortgages and the plans the FCA may have. The FCA is undertaking a consultation on liberalising mortgage rules. A discussion paper will be released later this month. Can you give us a preview of the recommendations?

Nikhil Rath: We have already moved quickly this year to clarify our supervisory standards when it comes to mortgage lending and stress testing. As a result of that, a number of banks have expanded the level of credit they will make available, particularly to first-time buyers. It is something I talked about with this Committee last time.

The point I always make is that we can see potentially significant benefits to first-time buyers who otherwise would not get access to the housing ladder. Of course, over the cycle, you might see a modestly increased number of defaults. That is the choice and trade-off we have been making in making that shift to our supervisory stance. Overall, at the moment, repossessions remain fairly low, at around 1,000 a quarter, which is significantly below the level they were at pre-covid.

We have also just closed a consultation, with the results to come out shortly, on making digital advice journeys more accessible and making it easier to remortgage. For example, if you already have a loan with bank A, at the moment, you have to go through an affordability test if you want to switch to bank B, even if you are not changing the amount of the loan. Your circumstances might have changed since you did the mortgage application with bank A, which means you might not pass a new



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affordability test, but your loan level is still where it is. That has meant that some people have been missing out on lower interest rates because they have been unable to switch. We think that will inject a degree of competition into the market as well.

In our discussion paper, we want to have a broader debate. One particular area that we would like to bring into the discussion is later life lending and interest-only mortgages. There is a chequered history of these products—equity release, retirement interest-only—over a number of decades here in the UK, but we think that they have a role in a world where, for a large number of consumers, their main two assets on retirement will be their DC pension fund and their housing wealth. Increasingly, consumers have to navigate their own financial challenges themselves, including social care and other expenses. Finding sensible ways to be able to access that housing wealth is an important discussion, and it is complementary to the pensions discussion that is also under way. We want to talk about how we can make that possible in particular.

Q342 Dr Sandher: I will go back to first-time buyers. Housing costs are high for renters and buyers. The average interest rate for a two-year fixed deal is now 6%, which is clearly making it harder to get on to the housing ladder. In terms of the breakdown of the cost, how much of the cost is due to mortgage regulation, where you obviously have a role, and how much is due to the high interest rates of the Bank of England and high housing costs in general? I am thinking about land prices, for example.

Nikhil Rathi: The median mortgage rate is just over 5%, on the latest data I have. I do not think we ascribe a particular cost to mortgage regulation, because it is important to have a well-regulated market where there are proper affordability checks and proper rules around how customers are treated when things go wrong. We saw in 2008, when regulation was not as it should have been, what the consequences could have been.

You make an important point about housing supply. We are doing a lot of work on the mortgage market. We have taken some steps very fast this year, and we are seeing those benefits start to come through. What you have heard from our colleagues at the Bank of England, particularly the financial stability team, is that one has to be careful that you do not just drive up house prices. The work that the Government are doing to bring through housing supply over the next few years is critical for this intervention to work most effectively, which is something we have been talking to the Government about.

Q343 Dr Sandher: Coming back to mortgage regulation, average mortgage repayments are now a fifth lower than average rent. I know that the mortgage rules consultation will look at the affordability rules and tests. If mortgage repayments are lower than historical rent payments, could mortgages be more likely to be approved under the new system you are looking at?

Nikhil Rathi: Yes.



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Dr Sandher: That is great news to hear, and that's me done.

Chair: You took the wind out of even Dr Sandher's sails.

Q344 **Yuan Yang:** I will continue with Dr Jeevun Sandher's theme. When we had the banks in a few weeks ago, we had a general discussion in which they seemed to feel that, broadly, mortgage lending is a low-risk endeavour for them. They were quite optimistic about the potential of expanding the affordability tests to include more first-time buyers. There was a discussion about the risks of over-leveraging young buyers and increasing house prices, as you have just alluded to, Mr Rath. Does the FCA make an assessment of the price impact and potential leverage impact? Do you have a position on that debate on extending the affordability tests?

Nikhil Rath: The direction we have set, which we have put out in speeches, is that the system has perhaps been a little bit too risk averse. That is quite a difficult and uncomfortable thing to say, and this is the forum in which we want to have this discussion. Our repossession levels and arrears levels are very low; they are at 1.16% of total arrears balances, notwithstanding the sharp-rise interest rates that we have seen in recent years. That is a good thing in that it has meant that a number of customers have not gone into distress.

The question we are putting out there is: do we need to modify and relax some of those standards to provide greater access to the constituents that Dr Sandher was referring to—those who are paying high rents and may not have access to it—and to those in later life who need to access their housing wealth to live a comfortable retirement? We are saying we think that the risk dial needs to move.

The degree to which we move it is a subject of debate. It carries risk, because we cannot predict what the interest rate cycle is going to be. We live in incredibly volatile times, so we cannot guarantee that there will not be another period when interest rates go up sharply. We will have to make a judgment, and we want to have this debate openly with you and the Government to ensure that, as we finalise this, we are calibrating it broadly in the right place. We are also having that discussion with the Bank of England's Financial Policy Committee to make sure that nothing we do undermines that core tenet of financial stability.

Q345 **Yuan Yang:** Is there any benefit from not just having cross-regulator and cross-agency conversations but including cross-industry voices in house building, when it comes to the housing supply side of that conversation?

Nikhil Rath: Obviously, the Government lead on housing supply, so it would not be for us to step into their discussions on that, which I know are cross-industry. We feed into the Government everything that we are doing on the mortgage market so they can take account of that when they set their supply targets and housing infrastructure policies.

Q346 **Dame Siobhain McDonagh:** As a member of the Prudential Regulatory Committee, would you be sympathetic to a more liberal regime for



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building systems in their loan-to-income borrowing? At the moment, they are restricted; they can give only 15% of mortgages over 4.5 times income. If they were allowed to go up to 20%, they could help another 15,000 first-time buyers. These are principally people who are paying the high rents that Jeevun referred to, and they keep their rents paid and in good order. Would you support such a relaxation, because it could really help people?

Nikhil Rathi: As a member of the Prudential Regulatory Committee and the Financial Policy Committee, I am sympathetic to some adjustments to the LTI flow limit of 15%. There is a lot of technical work going on with the Bank of England, and we have a consultation that we have been doing alongside the PRA on this. It does bite for some for firms. Overall, at the system level, I think that the 15% has not been reached—it is around 7% or 8% at the system level. The problem is that, within the system, individual firms may be biting up against that limit. How do you make appropriate flexibility?

Q347 **Dame Siobhain McDonagh:** Every cautious organisation is going to come in under the limit, isn't it? If you increased it by 5%, even if people only made it to 15% or 16%, there would still be lots of people who would get a benefit from it.

Nikhil Rathi: Yes, I agree.

Q348 **Dame Harriett Baldwin:** This is a question for Mr Alder. The FCA's own research shows that the number of people who own a cryptocurrency has more than tripled since 2021, from 2.2 million to over 7 million. How do you see the FCA's work going in taking on regulation of cryptocurrency?

Ashley Alder: Thank you for the question. In the very recent past, there was a question of regulation and an apparent halo effect in relation to crypto. As we have seen, the fact that the number of individuals interacting with crypto has increased has meant that our overall approach, which is to bring the sector into regulation, is correct. That is what is happening internationally. We have published our road map, and it is sequential. One thing I would say about it is that, as we move into regulation, it will be very important that we have specific expectations on this. The sort of issues that we have seen in AML registration boil down to poor internal controls. In other words, they are not up to scratch in relation to AML.

Q349 **Dame Harriett Baldwin:** You turned down something like 85% of applicants because they were not meeting anti-money laundering criteria.

Ashley Alder: That is right. So far, I think we have approved 51 out of 372 applications, which is a meaningful statistic in the context of the broader regime and the ability of the industry to put its house in order so that it can interact with that sort of regime.

Q350 **Dame Harriett Baldwin:** Can we have a date for when you will be regulating crypto at the FCA?

Ashley Alder: Much of it depends on legislation, but we will move in sequence—

Q351 **Dame Harriett Baldwin:** But there is a road map, so does it have an end date?

Ashley Alder: Yes, through '26 and then into the early part of '27. In sequence, stablecoins are first up, which are a very different proposition or model from unbacked, which will be later.

Q352 **Chair:** So legislation is in that mix as well as that road map, as Dame Harriett said. Are you very dependent on the parliamentary timetable? When you say '27 cautiously, is that the risk to the timetable?

Ashley Alder: Yes, it is dependent on legislation.

Q353 **Dame Harriett Baldwin:** If I may, Chair, I have a question on this week's disappointing news about Wise and Alphawave listing elsewhere. Obviously, the FCA made a change to your listing rules last year, but that does not seem to have worked. Is it the general anti-wealth mantra that the Government seem to have that is causing people to list their securities elsewhere? What is the problem, Mr Rathi? Do we need to make more changes to FCA rules?

Nikhil Rathi: There are two different cases there. Alphawave is a takeover scenario. There is a question about how attractive UK companies have become, particularly to US buyers, and more broadly about the supply.

Q354 **Dame Harriett Baldwin:** I am asking about the listing, because you used to be at the London stock exchange.

Nikhil Rathi: Wise is a listing move. I am distinguishing because there is a question around the degree to which pension funds in the UK and others are investing in our domestic securities, and to the extent that they are not, whether that is impacting the valuations and then whether those alleged depressed valuations are making those firms attractive to overseas buyers. That is one question. We have seen a whole string of takeovers in recent years.

Q355 **Dame Harriett Baldwin:** What about the listing decision?

Nikhil Rathi: On the listing decision, we have made far-reaching changes to our listing rules. When we talk to firms about this—I am reluctant to get into a specific case study, but in general terms—we do not really hear that the listing or prospectus rules are the issue. I did a speech in April '23 and I set out that the issue has not had the attention of public policymakers for decades. It is now getting attention, but there is a range of issues around pension funds, tax, some of our remuneration approaches, the volatility of sterling that we have seen in recent years, and the sheer size of the US domestic market relative to the UK, so if people want to go global, they go to the US where they can access 700 million consumers versus 65 million here. All of that plays into it.

Q356 **Dame Harriett Baldwin:** It is not an FCA problem—is that what you are

saying to the Committee?

Nikhil Rathi: We will always respond to feedback, and we are making further changes to the prospectus rules, but I am not hearing that it is regulatory; I am hearing that it is much wider in terms of what is happening in UK, European and certain other non-European capital markets too.

Q357 John Glen: Building on that theme, one of the things that the FCA is seen to have done well is the sandbox principle that brings in firms as they are evolving new products, verifies the products and essentially gets them market-ready. We have had significant feedback that one of the challenges now is not so much starting up but scaling up. Do you think the FCA is doing enough to enable those start-ups to become scale-ups and therefore improve the competitive landscape of financial services in the UK?

Nikhil Rathi: We launched our early and high growth oversight scheme, which is specifically for scale-ups, with dedicated supervision teams—

John Glen: They said you'd say that, but it is not seen as enough.

Nikhil Rathi: Well, some of the data that we are seeing from our innovation surveys, which is of course only indicative, is that firms that go through our innovation services tend to have a materially higher chance of raising capital than those that do not. Is it completely scientifically proven? No, but that is what the survey evidence is suggesting to us. We have also agreed to provide dedicated case officers for pre-application support for a wider range of companies.

I am always open to feedback about whether there is more we can do, but the question that is being grappled with is only partly regulatory; it is about the availability of equity capital and the fact that the source of that capital tends to have an emphasis on US investors rather than UK investors.

One of the things we said we would do—I wrote to the Prime Minister in January about this—is to give provisional authorisation. Sometimes you get a firm that wants to scale up and get authorised, but there is a chicken-and-egg situation because they cannot get the capital to meet our standards until the investor knows they are going to be authorised, and we will not authorise them until we know they have the capital. We have said we will use “minded to” decisions much more actively, so we can say, “Look, if you do get the capital, you’re likely to get approval,” to give the investors confidence. We are moving in that direction as well.

Q358 John Glen: There is a lot more to ask there, but we do not have time today. May I move on to financial education? Your last Financial Lives survey revealed that 13.1 million people had low financial resilience. Financial education is a vexing question that I think all parties on this Committee would be frustrated by. What do you think can be done in terms of improving financial education through some of your activities at the FCA?



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Nikhil Rath: First of all, when the FCA was established, financial education was consciously taken out of our remit and given to the Money and Pensions Service. That was a parliamentary decision, so we must respect it. That does not mean that it does not matter incredibly to us, and we are leaning in, but we have to ensure we do it in a way that is consistent with those agencies that have been established to lead on it.

Funnily enough, I met the CEO of the Money and Pensions Service just last week; we are working together on questions such as the pensions dashboard and their MoneyHelper service. The advice/guidance boundary review has a significant financial education component to it, asking how we can ensure that the regulatory framework is permissive and enabling of those who wish to provide basic educational materials. We are working with influencers—those who provide high-quality material, not the other type—to reach people through digital channels as well.

This is one area where I think we all have to do a significant amount more, whether that is the FCA, Parliament or industry. Another stat from our Financial Lives survey was that 29% of adults in the United Kingdom have no savings product. One issue we have been looking at is workplace savings. There are some potentially quite positive outcomes from some of the workplace schemes launched by some of the supermarkets, for example, encouraging people to save even £10 a month from their payroll. They seem to have more confidence in doing that than in accessing other types of product, and that can help on this financial education journey. I think there is a role for workplaces too.

The final point is the curriculum. The Education Committee has looked at financial education in the curriculum, and I think there is an opportunity there if the Treasury Committee wants to put its weight behind that.

Q359 **Chair:** On the financial curriculum, there is a curriculum review going on; are you leaning in to that inside Government?

Nikhil Rath: We do not have a conscious role in that; I have made my views public through this Committee on that, but I think we would see the benefits of financial education being included. We have made significant progress in maths and numeracy, but financial education is important. I also understand, though, the extraordinary pressures on teachers and the range of things being asked of them. There is also a cost implication to training teachers, and those are not decisions for us to opine on.

Chair: On Friday, I was at City of London Academy Shoreditch Park, which is a pilot school for the *Financial Times* financial education service. That is a fantastic initiative; they have been doing it for three years now, and both teachers and pupils have been learning. Since it is the *Financial Times*, of course they are evaluating their work, so there is definitely a prospect for improving on this, if that is a good model—I am selling them, because they are doing a good job in my constituency for my young people.

I thank our witnesses Nikhil Rath, the chief executive of the FCA, and



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Ashley Alder, the chair of the FCA, very much indeed for their time in this part of our session. The uncorrected transcript of this session and the next will be available on the website in the next couple of days.