

Treasury Committee

Oral evidence: Work of the Prudential Regulation Authority, HC 862

Tuesday 29 April 2025

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

Questions 1 - 51

Witnesses

I: Sam Woods, Deputy Governor for Prudential Regulation, Bank of England and Chief Executive Officer, Prudential Regulation Authority; David Bailey, Executive Director for Prudential Policy, Prudential Regulation Authority; Tanya Castell, External Member, Prudential Regulation Committee.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Examination of witnesses

Witnesses: Sam Woods, David Bailey and Tanya Castell.

Chair: Welcome to the Treasury Select Committee on Tuesday 29 April 2025. We are here today to look at the work of the Prudential Regulation Authority, a crucial part of the financial regulatory system, and I am delighted to welcome Sam Woods, the Deputy Governor for Prudential Regulation at the Bank of England and Chief Executive of the Prudential Regulation Authority. He is joined by David Bailey, Executive Director for Prudential Policy at the Bank of England, and Tanya Castell, an external member of the Prudential Regulation Committee. A warm welcome to you all, and thank you for coming today. I will ask John Glen to kick off the questions.

Q1 John Glen: Mr Woods, could I turn to recent events in terms of the tariffs and the volatility that we have seen with events from the US? What your organisation does is quite technical, and some of it is quite complex. Most people would not really understand the calibrations that you are having to deal with, but could you explain to the Committee how you feel firms that you regulate have weathered the fallout from the tariff announcements on 2 April?

Sam Woods: Thank you, Mr Glen. It is good to see you, and thanks for having us appear today.

The first impact was a very significant movement in the share prices particularly of our banks. We had share price movements of up to 20% for some of our banks. Those have since come back in. As of today, they are all trading a few points either side of 0% since before the announcement. It is unusual for us to have that much wiped off the value of our banks. In the course of a day or two, I spoke to all the CEOs of the mainly affected banks while that was happening.

What we really watch for and care about is the risk of contagion into funding, and we did not really see any of that. We did see a movement out in the senior CDS spread, which is a metric that we use to assess how expensive it is for banks to fund themselves. The five-year CDS moved out by 10 to 15 basis points on the day after liberation day. That, though, was in line with wider corporate moves, so there was nothing there to concern us. There was nothing on customer behaviour that we saw, which is a thing that we track very closely. The insurers moved off a bit, but not as much, and more in the same way that domestic UK banks did.

The main thing to mention is that on the Wednesday following liberation day, we had this very unusual move in financial markets, which was the dollar and treasuries, or US Government bonds, selling off. Normally, we see the opposite in these risk-off types of conditions, as we call them. Normally, we see a flight into those types of assets, so that was quite concerning. It is notable to me that it was the next day that President



Trump decided to announce his 90-day pause, which settled all that down.

Q2 John Glen: What about the problems in the non-bank sector and private markets? What impact have they had on PRA-regulated firms?

Sam Woods: It has been interesting, Mr Glen, and, in a way, a pleasant surprise, in that I thought it very likely that, with the level of volatility that we have seen, including intraday, there would be some problems with margin calls. That is usually the first dog to bark. We have seen nothing significant. There have been one or two minor things, but that has worked pretty well. I have been asking myself and other people why that is the case, and it is probably mainly because what we call the “dash for cash” after covid, or as it arrived, was a very extreme phenomenon. That is sufficiently close in the rear-view mirror that many of the funds had that in their minds and were better prepared. It is also the case that quite a lot of the larger hedge funds did de-risk quite significantly going into liberation day. Those two things together have made it work better.

Q3 John Glen: Since 2 April, what is the PRA doing differently? Are there yet any meaningful, enduring lessons that you have taken from what you have seen in the markets and the activity of the banks?

Sam Woods: We consider ourselves still to be in the middle of this thing. The day-to-day volatility has dropped a little bit but is still moving around quite a bit. What we have done is step up our monitoring of the firms, which we always do in these situations. We have not, though, taken it to the highest level, as we have done in previous scenarios, which is daily liquidity reporting from the banks. For the reason that I gave earlier, we do not have a reason to do that yet, but we are watching it very closely.

The thing that we are watching for next is what the macro impact of all this will be. The IMF recently downgraded its forecasts for a number of jurisdictions, including ours, and it will be interesting to see whether our banks, in the next period, choose to provide more for a different economic environment, because they do forward-looking provisions now. That is where our focus is at the moment.

Q4 John Glen: The key thing that I seem to recall is that what most banks are concerned about is the capital buffer requirements and some of the obligations that you put on them to, essentially, insure them against themselves, if you like. Is there any meaningful change that you see as likely to be necessary as a consequence of what has happened to the dollar and some of the other movements that we see in the value of currencies?

Sam Woods: In this case, we think not. We have not had major capital movements on either the banking or the insurance side, by the way, as a result of these movements. For the insurers, that movement in the dollar is unusual. Because of their hedging practices, it was quite beneficial from a liquidity point of view.



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For me, the bigger point is that when you go into these things—I will bring in Mr Bailey as well, if I might—you want to be sure that the core of your financial system is stable. That becomes a dominating thing. Ours is, and that is a very good thing to have in this situation. Perhaps Mr Bailey wants to add a comment.

David Bailey: The only thing that I was going to add previously is that, as part of our protocols when we are looking at market events such as this, there is a lot of collaboration with overseas authorities, given London's role as home to lots of international banks and insurers. Therefore, we have spent a lot of time talking to other regulators about their experiences, which seem similar.

Q5 **John Glen:** The Chair wants to come on to these matters, so I do not want to intrude on her questions, but has there been any reduction in the co-operation that you have seen since the new Administration took office?

David Bailey: Supervisory co-operation is always very close, and has been for many years, with a range of authorities. That has continued.

Q6 **John Glen:** Has it changed?

Sam Woods: In one respect, it has moved in a positive direction. We have had very good relations with our colleagues in the EU, but I can tell you that one by-product of these events is that their warmth is increasing quite considerably, which is a good thing.

In the US, as David said, we have had very strong co-operation for many years. The difference in the US is that the person who does my job is politically aligned. We have worked with both sides of the aisle very effectively. We know the incoming head of supervision at the Fed, Miki Bowman, very well, so I would expect that to continue. My only caveat would perhaps be that, as we sit here today, none of the three key heads of the agencies in the US has been confirmed. Until they are confirmed and we engage properly, the jury is a bit out.

Q7 **Chair:** Can I push on that? As you say, you have worked with people across the aisle in what you might call normal circumstances. We are using the phrase "liberation day" now. Since that happened, we have seen a rapid change in tone across the US Administration. Have you scenario-planned for more political appointees doing things in the vein of what President Trump is trying to achieve?

Sam Woods: We have done work around that. I was in the US all of last week for the IMF spring meetings in order to try to get a better feel for what was going on. In particular—and we may come on to this later—I was a bit concerned by my own reading of a speech made by their Treasury Secretary, Scott Bessent, on 9 April, because of what he said about Basel, which I read as possibly suggesting that the US would not take the Basel package forward. I was very roundly reassured by a very wide range of stakeholders in the US, both public and private, that that is



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not the right way to read that speech, but we are caught up in that dynamic.

We are also doing a bit of thinking around, going back to that Wednesday, whether this has created a bit of a dent in the way that the US is seen both by regulators and by investors. We are asking ourselves the question, "What would happen if there was a more fundamental drop in appetite for either dollar-denominated or US assets, or treasuries, or some version of that?" It is a difficult question to answer, but that is the thinking that we are doing.

Q8 Chair: There are risks and opportunities there. If they drop regulation, there could be an exodus to the US. On the other hand, good regulation is quite a good opportunity for businesses to show that they are a safe bet. Have you done any analysis of where that might fall in different scenarios?

Sam Woods: You are right to say that it is two-sided. In particular, one advantage that we have in this situation is that, on the one hand, we have been given our new secondary objective on competitiveness and growth, which we may come on to in this session. We are doing a lot on that, and it is a very clear steer from Parliament. It is absolutely clear that safety and soundness and policyholder protection come first. Of course, Mr Glen was very involved in that in his previous role. The Government and Parliament of this country are very clear about the importance of institutions and them not being political. All of that is an advantage in the current setting.

Chair: That is very helpful.

Q9 Yuan Yang: Mr Woods, you mentioned just then that your interpretation of the Bessent speech was that the US might completely scrap the Basel implementation, and you received advice that that was not the case. Could you describe that a bit more? Do you have more clarity on the US implementation of Basel 3.1?

Sam Woods: I will give you as much clarity as I can, which is a certain amount. I read the speech as suggesting perhaps a weakening of the appetite, because of the way it was framed and the suggestion that Basel might be a pick-and-mix type of option, which we do not consider it to be.

A number of things were explained to me in the US. First of all, it is very clearly the position now of the big US banks that they support Basel implementation. They do not support the version of it that was being led by my former colleague in the US, Michael Barr, which would have resulted in a significant increase in capital requirements. They have been strongly opposed to that, but they do support a version of it that is capital-neutral. It might seem curious that the position of the banks is relevant to whether they do it in this way, but that is an important input to the debate in the US.



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I have also observed that the US in general has been making it clear that it wants to remain part of international organisations. There was a different speech that Mr Bessent gave last week about the position with the IMF and the World Bank, which was very clearly in that vein, and I am told that that mood pervades other organisations as well, which would include Basel.

One more point is that Miki Bowman, who, as I say, is Michael Barr's successor, though not yet confirmed, has been on the record as being clear that she wants to implement Basel, so this has given me more confidence. I say more confidence, but it will be quite important to wait for a bit longer to see what they say, particularly once the three appointees are in place.

David Bailey: I sit on the Basel Committee, and colleagues of mine sit on the insurance equivalent. The US remains very active in those bodies and has been so over the start of the year. That points to their ongoing engagement, but, as Sam said, we need to wait for the appointees to settle in and get confirmed.

Q10 **Yuan Yang:** Thank you. That is really interesting. Mr Woods, if the US tries to implement a capital-neutral version of Basel, does that imply that you in the UK would also want to implement a similar capital-neutral regime?

Sam Woods: Perhaps I can say a word, and then Ms Castell has also been involved in our debates on Basel, so she may want to add something. Our package is already capital-neutral. We did not want to use this package to greatly increase the level of capital in the UK banking system, because we think we are at about the right level at the moment, and we can come on later to explain why that is, if the Committee is interested.

What the package does is move capital around within the system, so that it is better matched to the risks that we have. That is what it is about for us. If the US comes in with a capital-neutral package, that will be fine. It is also the case, by the way, that on most ways—indeed, all ways—that we measure it, the current US settings are a bit tougher than those in the UK and the EU. If they come in neutral, that is just not going to be a problem for us. Maybe I could bring in Ms Castell.

Tanya Castell: I agree with Mr Woods that it is fairly neutral, but more risk-sensitive and, therefore, beneficial for banks, because that gives them a better calibration. The other thing that is important about Basel 3.1 is that it then also enables the capital element for Strong and Simple, which is a benefit to the UK economy in terms of growth.

Q11 **Yuan Yang:** Thank you. Just to clarify, from your description of capital-neutral, at the aggregate level there might not be more capital raising, but, between firms, some might need to raise and to lower. Is that what you are saying?



Sam Woods: That is exactly right. There are moving parts within that. You can never land these things so that no one's capital requirement changes at all. There would not be much point in doing it. At the aggregate level, we have tried to bring it in flat, and that is what we have done.

Q12 **Yuan Yang:** I do not know if you have already consulted with banks on that proposed implementation, but what is their view on this?

Sam Woods: It is interesting: in January, we pushed back our implementation by a year to 1 January 2027, and we did that for one reason and one reason only, which was to allow a little more time for some greater clarity to emerge about whether the US is going ahead or not. As I say, that is in the process of emerging now. The reaction to that from the banks was pretty mixed. Those with substantial cross-border trading operations welcomed it, because they were concerned about the competitive aspect of us going ahead while the US position was unclear and significantly delayed. A lot of our domestic banks were not terribly happy with it, because they would rather just get on with it at this stage. In particular, Ms Castell referred to Strong and Simple, which is the name that we use for our simpler regime for little banks, and that is backed up in the yard behind Basel 3.1, which will form the base layer—pillar 1—for that regime.

There is a mixed view. Frankly, we are very keen to get on with it, and I am optimistic that there will be a chance to do that. The European Commission has been consulting on its approach, and there are some ideas there that we are looking to, and maybe we can borrow some of those.

Q13 **Yuan Yang:** How much do you see the risk of the European Commission and the European Central Bank being more positive about pushing forward with this while the UK is still waiting for the US to move?

Sam Woods: A great advantage that we have—I will perhaps bring in Mr Bailey as well—is that we can move much more quickly than the EU machine. This is a benefit of Brexit, in fact; at least, I consider it to be so. They have stated that they will come out with their direction, amid the various options that they have been consulting on, either next month or the month after. They probably will do that, because they have 1 January 2026 coming down the track for their implementation of the trading book side of this, which is known as FRTB.

We are engaging with our EU colleagues, we will watch where they land and, at that point, we will bring something to Ms Castell and colleagues at our end of the Prudential Regulation Committee to say, "This is where the EU is at. This is the best intelligence that we have at this point about where the US is getting to. We recommend this way forward." I do not know if Mr Bailey wants to add to that.



David Bailey: The EU has already implemented quite a lot of the package. It did that at the start of this year in terms of rules around credit and operational risk. The element outstanding is the trading book rules, and that is where we are having very good dialogue. As Mr Woods has mentioned, that is the piece that really matters for firms that operate on a cross-border basis. We are in regular dialogue with them, as we are with the US, and we will monitor things going forward, but there are good discussions, which point to constructive ways forward.

- Q14 **John Glen:** Can I just ask about reconciling the US's approach to the EU's approach and our approach? Mr Woods, you mentioned the opportunity that Brexit allows us to move more swiftly, but there are some that would play a narrative to you around the competitiveness of the UK banking sector being enhanced by the freedom that you have to move quickly and do things differently. In practice, is that a mistaken narrative, in the sense that, if we were meaningfully misaligned with either jurisdiction, it would cause other challenges? Can you explain whether that is a fair assessment of the discretion that you have?

Sam Woods: There is a lot that we can do. In particular, we can tailor the regulation more to the dynamics of our own market than we were able to do when we were part of a bigger club in the EU. It would be crazy to have done Brexit and not to do that, so we have been doing that, and that is a clear advantage.

You are right to indicate, if I understand the drift of your point correctly, that there is a floor—rather than a flaw—in it. There may be flaws too. *[Laughter.]*

Chair: Prudent by name and nature.

Sam Woods: We have to be alive to what is going on in the US and the EU particularly. We also consider it very important that we make ourselves compliant with the standard, because we think, if we are going to host a big international financial centre, that is an important part of it. Part of David's job—it is a very difficult one—is to try to balance where the EU, the US and other jurisdictions are going, how we stay compliant, and how we also tailor to accommodate our local needs.

Perhaps the slight frustration of the situation is that we had got to that position, including having the Chancellor content—she has to be, because only Parliament can switch off the old rules, which will require a recommendation from the Treasury—and then the change in the political scene in the US meant that we had to hit the pause button. I hope that it is just a pause button.

Chair: We could talk about the US all morning, but I will hand over to Rachel Blake.

- Q15 **Rachel Blake:** I would like to move us on to talking about growth and regulation. In your Mansion House speech, you talked about the myth of needing a bonfire of regulation towards growth. You concluded that, "The



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truth is more balanced,” saying that you “don’t see any compelling evidence for the idea that the big planks of the post-crisis regulations...have been fundamentally miscalibrated.” Are the Government wrong when they write to regulators asking for changes to the current framework?

Sam Woods: Thank you, Ms Blake. I do not think that the Government are wrong, but I will explain to you why. When we look at the really big planks, what are they? They are bank capital, bank liquidity, capital, insurance companies, and the types of responsibilities that we have on CEOs of big firms. I have not seen any convincing evidence that those have been overdone in the post-crisis reforms or what we have done on the insurance side.

That is at its root because we do not see any tension or trade-off between financial stability and growth. In fact, the opposite is true. There is a very significant trade-off between financial instability and growth, and we can quantify that because we know that the average cost of a financial crisis is 63% of GDP. That is the present value.

We know that there is a trade-off in that direction, but if you drop down one level and say, “In terms of how we pursue that objective and hold together the system, are there trade-offs to be made?”, there are. Bank capital is a good example, and I could explain that more if you like.

Also, after 10 or 15 years of very significant regulatory expansion since the financial crisis, which all of us, as well as members of this Committee, have been involved in, and with our exit from the EU, we can look at things again. There are some things where we can pull back a bit and simplify. What Parliament has asked us to do through the secondary objective is that. I read what Government are asking us to do as the same, so we do not yet have a problem with that.

Q16 **Rachel Blake:** I would like to come on to some of what is in your letter and what you intend to do, but I just want to ask about and reflect on some of the evidence that Nikhil Rathi has given about the risk of company failure, and whether the Government and consumers are going to have to accept a higher risk of company failure if a change in regulations is going to be effective.

Sam Woods: It is a wise point for Nikhil to make. It manifests a bit differently for the FCA than it does for the PRA. The reason is that, from the very first day of the PRA’s existence, we have said that we are not a zero-failure regulator. Indeed, this is not much discussed, but if you want to bring that to life, under our competition objective, which we have had since very near the beginning of the PRA 12 years or so ago, we have authorised 40 new banks in the UK—we have authorised 80, but 40 of them are genuine de novo UK banks. We have also exited about 20. Some of that has been quite spectacular, such as Silicon Valley Bank and Credit Suisse. A lot of it has required a huge amount of work by us in difficult circumstances, but has been taken care of more quietly. I judge



that we have that appetite, and that you have the appetite for that to be going on, and that is all right.

We can progress what we are doing under our secondary objective in that same philosophy. At the FCA end, it is a bit sharper. Moving some of those dials will result in higher failures, and perhaps higher costs falling back on the deposit guarantee scheme, or maybe costs to consumers. That is why he is making that point particularly strongly to you.

Q17 Rachel Blake: In terms of some of the ideas that we will come on to, how much growth do you think is available from your proposals in the letters that you have written to Government?

Sam Woods: I must be honest with you: we have not attempted to quantify the GDP impact of what we are doing, because that would tie up an enormous amount of our resource for a very uncertain outcome. I did see that the Government took a swing at it in their recent regulatory action plan. They went back to a Better Regulation Task Force report from 2005, which looked at some Dutch and American studies in this context. What we can see is that the steps that we are taking are removing some constraints in the system. We could go through some of them individually if you like.

Q18 Rachel Blake: I want to come on to your proposals around increasing the ability of the insurance sector to invest in the UK economy. How do you see the timeline of those proposals and what do you anticipate the outcomes to be?

Sam Woods: It is very early days. As we have this meeting, the full regime—Ms Castell and I spent a lot of time on this in the Prudential Regulation Committee—came in only four months ago. The matching adjustment changes came in six months before that, so we are about 10 months in.

What I can tell you is that, during that time, we have had nine firms go through what we call our application readiness assessment process, which is a new get-ready thing that we have for those investments. Those have gone pretty well, and have been quite quick, at 18 days each on average. We have had 10 firms come to us for new approvals for the matching adjustment, which is a regulatory treatment that is particularly relevant to the area that you are asking about.

Interestingly, of those 10, only two asked to have permissions for the new flexibilities that there are for these highly predictable assets. The type of assets that they were looking for were still traded assets—callable bonds and things of that kind. For that reason, it is still pretty early days.

From the Committee's point of view, if I might be so bold, the commitment that the insurance industry made to make another £100 billion of investment is not for us to track. It is not our commitment, but one that the industry made, and Mr Glen is very familiar with it from the



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time. Keeping track of where that is getting to would be a good way to keep track of your question.

Q19 **Rachel Blake:** Just so I have understood, only two firms have asked for this variation about predictability.

Sam Woods: So far, that is the case. Perhaps I could bring in Mr Bailey briefly.

Q20 **Rachel Blake:** What do you think that means in terms of the changes?

Sam Woods: Firms are taking time to adjust to the new regime, which is reasonable. Insurance is a long-term business. We should not expect it to turn on a dime overnight. We are bringing forward something else: our accelerator, which could ease this a bit. Perhaps Mr Bailey will touch on that.

David Bailey: It is early days, and the investment opportunities have to be there for the insurers as well. We are also doing two things alongside the reforms that Sam mentioned we had already implemented.

We have just put out a consultation on what we are calling our investment accelerator, which will enable insurance firms to put certain assets in their matching adjustment portfolio, without our approval, for a time-limited period, while we go through the approval process. That is a novel approach, which will enable insurers to take advantage of investment opportunities much more swiftly.

On the back of discussions with Treasury, we are also in discussions with the National Wealth Fund about how we can facilitate insurers being more active in the investment opportunities that the National Wealth Fund brings to fruition. We have already seen some announcements that indicate that that is happening. For example, Rothesay recently announced an investment in a social housing refit programme, which has come through discussions with the National Wealth Fund.

Q21 **Rachel Blake:** Thank you very much. What is the evidence that the concierge programme that you are bringing forward is going to really turn the dial? What is the timeline for implementation?

Sam Woods: The evidence really comes from Singapore. That is where they have one of these services. There are some in other places, but we have looked at that. I have been out there and talked to the team there. There is credible evidence, and I have heard it directly from firms on the receiving end of that service, that that has helped the competitiveness of that jurisdiction.

It is the sort of thing that we should be looking at in this environment, because I do not think that, if we do it in the right way, it endangers in any way our primary objectives, but it can clearly speak to the secondary. I find the framework that our team has come up with for thinking about how we effect competitiveness and growth quite helpful.



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Basically, they say that we effect it in three ways, and this is relevant to your question. One is the allocation of capital in the economy. I do not think that concierge does that much for that. The second is how well UK firms can compete abroad. It is irrelevant to that. The third is how attractive the UK is as a location for foreign firms. This speaks directly to the third.

That idea was very warmly received by the Government. We have had intensive discussions with the Office for Investment, with the Treasury, with the FCA and also with the City of London Corporation, because the Lord Mayor's role is quite closely linked to this. I expect that we will have an announcement in the summer of the opening of that unit. I should probably wait until that comes, because it will probably come from the Chancellor when it comes.

Q22 Rachel Blake: In terms of the content of this programme, will rationalising the number of principles that you are considering as have-regards really change the approach, or is it more about your internal workings and processes?

Sam Woods: It is probably more the latter, in the sense that it is just a way of making regulation less cumbersome. I may want to bring in Ms Castell on this point. We look at our have-regards. It depends on how you count them. You can get to different numbers, but there are roughly 25. They fall into a competition bucket, a competitiveness and growth bucket, Government economic policy, climate, and then regulatory principles.

For the competition and competitiveness and growth buckets, none of those have-regards are problematic or odd when you look at them, but given that we now have objectives on both of those, the question is, "What is it that a have-regard might make us do that we would not already do under the objective?"

Climate is a bit different. If Parliament wants us to have regard to climate issues, we do need something in there, but we could be a bit more efficient and constrained in how they are set up. These will be decisions for Government and for you, not for us, but I wonder if Ms Castell wants to come in as well.

Tanya Castell: By having those have-regards more focused in terms of the additional areas, as Mr Woods said, it is somewhat duplicative to have them both in an objective and in a have-regard. Mr Bailey had mentioned to me that the have-regard explanations are sometimes longer than the policy that you are trying to consider. It just somewhat distorts the perspective and perhaps the focus, so it would help in that sense.

Q23 Rachel Blake: You have said that none of them is problematic, particularly on competition and growth, and it is about looking at how the policy and the have-regards align and tidying those up.

Tanya Castell: Yes.



Sam Woods: Each of them individually is perfectly sensible. When you look at it collectively, it adds an enormous weight to the cumbersomeness of the policymaking process, which could be tidied up.

Q24 **Bobby Dean:** I am trying to work out just how expansive reforms to financial regulation might be. I sense a mismatch between what I am hearing from you today and what I have seen in your statements in the past, and what the Government have been saying. You will know that the Chancellor said in her Mansion House speech that she thinks that the reforms since the 2008 crisis have gone too far. You rejected that regulatory pendulum idea on the same evening. Just listening to you today, it sounds like there was a lower level of reform that could take place, but that, fundamentally, that primary objective stays the same. Do you register that tension? Do you feel under any pressure to go further than you would like to?

Sam Woods: There is clearly strong pressure from the Government, which is entirely in the public domain, for regulators to push hard on what the Government are now sometimes referring to quite openly as deregulation. I understand the motivation for that, which is coming from a very sensible desire to have a higher rate of growth in the economy, and perhaps some deregulation can play a part in that. Whether there is a serious tension on the substance, at the moment I would say no, for the reason that there are plenty of places where we can safely pull back a bit. It is not only simplifying. We are pulling back on some things following the big rebuild in the crisis.

One very obvious example to give you, which I have been told in this Committee before is very unpopular, is the bonus cap. That was just a mistake. I do not think that we should have done that. We have removed it. Another piece is on the deferral of banking bonuses. We have taken it out to, effectively, eight years. We look at it again and we think that that is more than we need. We have no desire to go back to the 100% cash-out at year-end process that we had back in 2008, which is, frankly, a crazy way to pay senior people in banks.

There are these areas where we are able to pull back in, and we can do that safely. There may come a point in the debate—and I do not think that we are there yet, but I see that some of the lobbying in public might lead us there—where there is a more fundamental challenge to things that are central pillars of financial stability. As yet, I have had no request or push from the Government to do such things.

Q25 **Bobby Dean:** You have made this clear distinction between primary and secondary objectives. It feels like that is a gentle pushback on the Government, who have been talking a lot about growth. You are trying to make sure that that is firmly relegated to the secondary and not the primary objective. Could you give some examples of things that you would be prepared to not do, and maybe to speak about publicly, if you felt you were coming under pressure from the Chancellor to do them?



Sam Woods: Yes, sure. On the objectives, by the way, the way that we see our job is that you set our remit here in Parliament, and you have set us the objectives in that order and with that hierarchy. As an aside, I happen to think that the way that that has been done is very sensible, but, in a way, that is irrelevant. You give us our mandate; that is what we do.

Then, of course, there is always the interests of Government, and we have to accommodate those to the extent that we can. There is a formal process for that through the remit letter, but, as Mr Glen knows well, there is a lot of back and forth between the Treasury and us, which is normal. That is how you should expect the state to function. At the moment, it is true that there is a very strong priority on those growth questions. All of it, though—and the Government and the Chancellor are very clear about this—is about stability, which you need before you can have reform and investment. In that sense, we are aligned.

The sort of thing that would cause a tension and that we would definitely have an argument about—to be clear, these have not occurred—is if the Government suggested to us that they thought that the level of capitalisation in the banking system was enormously too high and should be greatly reduced. We already had a very significant debate with the Government, when Mr Glen was in the Government, about an aspect of the Solvency UK regime. We took that pretty far. I remember being asked in this Committee whether I was going to resign about it, so I think we took that to the limit.

You will naturally have these things. The incentives and objectives of a Government and a Treasury will sometimes be different from those of the regulator, and it is natural and okay that you should have some of that tension.

David Bailey: The competitiveness and growth objective that we got in 2023 has led to a very substantial shift in how we do our work at the PRA, and it has become a real focus of the organisation. We have spent a lot of time embedding it and getting the external expertise in to advise and train up staff right across the organisation. We have changed the way that we are presenting decisions to Ms Castell and the PRC to make sure that competitiveness and growth considerations are at the forefront, and we have changed our work programme significantly.

In terms of some of the changes that we propose, Ms Castell mentioned our Strong and Simple regime for smaller banks, which is a fundamental rewriting of the capital regime for smaller institutions, which will enable them to compete better. We have done a number of other things that we can talk about, but it has led to a very significant change within the organisation, and you can see that in our work programme.

Q26 **Chair:** I wonder if Ms Castell could come in on this. You have a very strong background in risk.



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Tanya Castell: I do have a very strong background in risk.

Chair: That must be very much at the forefront of your mind as a member of the committee.

Tanya Castell: It very much is. There has been a huge amount of effort, as Mr Bailey said, in terms of making sure that we are taking the secondary objectives into account. My one comment would be that, talking about pendulums, we need to make sure that we do not go too far and forget our primary objective. That is the balance that we have at the PRC.

Q27 **Chair:** While you cannot talk about individual firms, is there any way that you can bring that to life so that we can understand how you, particularly as a risk specialist, are making sure that the judgments are in the right direction?

Tanya Castell: We have been working on it for some time, but there are a number of things that clearly make a lot of sense, such as Strong and Simple. The Basel rules do not apply to domestic banks, so there are things that we can do that clearly are not going to be damaging to the overall economy and are not a problem. In my head, the concerns are that we keep pushing and pushing, so that we can do the things that make sense, simplify regulations where they have got too complex, and reduce reporting where we are asking for too much data.

If you get beyond that and you are still pushing to find things, then, as Mr Woods said, if you are then saying, "It is too much capital," where is the evidence for that? At this stage, we are okay. If in a year's time I thought that we were still trying to find additional ways, that is probably where the concerns would come—but not yet.

Q28 **Bobby Dean:** My final question is about the distinction with the FCA, which you commented on a minute ago. Is the stuff about choking off investment, the blockers and the deregulatory drive aimed at other regulators? Is it the FCA that they are talking about? Is the PRA not really in scope of this massive deregulatory drive, because you have got it broadly right?

Sam Woods: I think that we are in scope of it. If you look at the statements that our Chancellor and the Prime Minister have made, they are clearly about all regulators, including us. Perhaps the best test of that is that I was one recipient of the letter that was sent to all the regulators off the back of that. The political language is very strong. It is less strong than the language in the US, and stronger than that in the EU. This will often prove to be the case.

I understand that there is a difference between politics and regulation, and also that, if you have a role as a very senior politician, part of your job is to set a north star and clear directions. We understand all that, but there has been no suggestion to me in anything that I have received from any part of Government that they want us to take steps that would



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undermine financial stability, and I regard that as consistent with what you have instructed us to do.

There may come a point further down the track, as Ms Castell was saying, particularly if we complete our simplifications, our removal of complexity and our rowing back to where we think we can do it without endangering it, when those tensions are stronger. The history of financial regulation tells you that that point will come, and this Committee will have an important role in it at that stage.

Chair: We certainly will.

Q29 **John Glen:** Having had the privilege of office, and a lot of interaction with you, Mr Woods, during that time, it is now interesting to reflect on the effect of anything that might have happened during that time. I want to home in, if I may, on two aspects. One is the Solvency II reforms, which were an attempt, as you have described, to liberate capital. The insurance industry—although it is not for you to say, as you said—said that it would be able to invest another £100 billion. It seems to me that you are indicating that, despite those reforms of some years ago, and the characterisation of their effect by politicians, that quantum of additional free money to invest has not found its place in those investment decisions. Is that correct?

Sam Woods: What I am saying, Mr Glen, is that it is early days. Some very bold and clear commitments were made by the sector, which were welcomed by the Government and which I judged to be the driving force behind the Government's position—or at least a very important part of it; you can tell me. You would not expect to see that happen overnight. Indeed, the industry put a timeframe of 10 years on it, as I recall. I have no reason, from what we have seen so far, to worry that that will not be the case, but the jury is still out.

Q30 **John Glen:** What do you think about parliamentary endorsement of or support for your execution of the secondary objectives? The purpose of doing so, which was to have growth and competitiveness in focus, was clear. This Government, as we have discussed and as Mr Dean has gone through, have tried to say what that means. I was always struck that there was a big gap between the technical nature of a lot of your carefully calibrated interventions on capital requirements and so on, and the rhetoric of politicians seeking to drive forward an agenda for the economy. How could that process of mutual understanding be enhanced?

Sam Woods: That is a very difficult question to answer. It is part of the job of people such as me, Ms Castell and Mr Bailey to bridge that gap as best we can and to translate the imperative that we have been given by you in Parliament and, to the extent that we can accommodate it, also from Government, into actions that we can take. It is true that, when you get to the actions, they sometimes seem modest compared with the language, but that is probably likely always to be the case.



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In our world, though, and looked at through our eyes, these are big things that we are doing. There are a couple of good examples from the Solvency II era, which you may recall. We have cut insurance reporting, or the number of templates that insurers have to give us, by a third. That is a big cut. We have cut the number of tests that we do for internal models by more than half. We can do those things without increasing risk to policyholders, because we think they were overly burdensome. I can see that, if you put things like that next to the grand ambition, there is a bit of a gap, but perhaps it will always be that way.

Q31 John Glen: Finally, on the Strong and Simple regime that you put in place for the smaller banks, I remember a consortium of them coming to lobby me on this.

Chair: Could you say when this was?

John Glen: It was when I was a Minister, sorry, which was a long time ago. You cite, quite rightly, that you have a new banks unit, and new banks being set up, but we still see in the UK a very small number of banks having a massive share of domestic banking, and a long tail that fit within your Strong and Simple regime, which hopefully will come to fulfilment after the Basel implementation. What more can be done to encourage more meaningful competition? Is it entirely about consumer reticence, or is there more that can be done? It feels like what we have done is enabled several to start up, but not to really compete with the big banks.

Sam Woods: There is a lot of truth in what you say. Mr Bailey may want to come in as well, but we see our job as setting tramlines within which the market can operate, because they contain the public interest. We do not see ourselves as a central planner, if you like, for the banking system. They fight it out among themselves. Some succeed and some do not.

The most interesting point, which was only quite loosely alluded to in a recent *FT* piece on this question but is very important, is that competition has been operating not only through the market share channel but through the product channel. The FCA would agree with the very crude summary that, if you bank with a high street bank, the quality of the app that you have may be better than it would have been without the arrival of the digital banks and all their whizzy apps. That has been quite an important part of the market, and it is that dynamism and innovation that comes with it.

Q32 John Glen: Excuse me for interjecting, but is it not that what usually happens is that they buy out a little start-up with a new functionality and then apply it to their app? Essentially, they take out the maturing of an alternative platform or entity.

Sam Woods: There is a bit of that, but also some apparently very successful and highly valued start-up UK banks that do not seem to have any interest in being taken over in that way. I regard that as quite lively.



David Bailey: When we talk to the smaller banks and listen to what they want, they want stability in the regulatory requirements, certainty over what they will be, and then the opportunity to use that to plan ahead. That is exactly what we are doing with things such as the Strong and Simple regime, in giving them simpler requirements that are taking out substantial costs for those firms. When we announced the capital changes last year, about £200 million of cost was extracted for those small firms, which is a very significant number for them.

The requirements will be more stable over time. We have deliberately designed them so that they can plan ahead and use their capital more effectively than they are able to now, all of which will help. We will keep talking to them as firms grow. We have regular dialogue with, for example, the challenger banks—the mid-tiers that have grown out of the smaller banks—around how we can remove further barriers through, for example, reporting.

Q33 **John Glen:** When we have the banks in front of us in the near future, which we may, are they going to be entirely content with what you have done for them through Strong and Simple and through prudential regulation?

David Bailey: They will recognise that we are taking meaningful steps. Of course, they will want us to go further in a wide range of areas, but that is the kind of sensible debate that we are used to having with industry. What I would say is that, in a number of areas, where we have been given compelling evidence, we have changed our approach. For example, in Basel III, we made some really important changes after consultation in areas such as support for SME and infrastructure lending, or trade finance. We listened to what industry told us, looked at the evidence that they gave, and made changes that catered for that.

Sam Woods: What they are most worked up about, Mr Glen, as you know, is the MREL threshold. This is a threshold for when banks have to issue an extra layer of loss-absorbing debt to help protect the taxpayer and depositors. We are looking at recalibrating that threshold for the passage of time. We have had some suggestions from the industry about different ways to do that. That is something that we are looking at closely. That is, of course, a Bank of England thing rather than a PRA thing.

Q34 **Yuan Yang:** Mr Bailey, I was struck by what you said just then on small banks wanting clarity and certainty about what the future regulatory framework would look like. In the Treasury's conversations with the PRA about the growth and competitiveness objectives, I wonder if you feel that there may be some trade-off introduced by changing the overall priorities within the PRA and other regulators that, therefore, then introduces some uncertainty about the regulatory regime for those banks that, as you say, are now trying to create that stability. That seems to be the case, certainly in terms of the postponement of Basel 3.1, but I was wondering if you take that as a broader consideration.



David Bailey: It is a good question. Change will always necessarily introduce some uncertainty as we go through our formal policy process, as we put forward some proposals, have a sensible discussion with industry about them, and calibrate our final proposals accordingly. For the smaller banks, we see the Strong and Simple regime as the way forward. We want to implement it as soon as possible, and we will do that as soon as we can implement the Basel package.

We have accelerated some of the changes in advance. For example, the changes to liquidity and disclosure requirements, which are very meaningful for smaller firms, are already in effect. We estimate that around 80 firms have the potential to sign up for those reforms. Over 50 have already done so without having clarity over the final capital package. We will have a very significant proportion taking advantage, and that shows that they are successful. We will give clarity on the final requirements and get them in as soon as we can after the Basel package.

Q35 **Yuan Yang:** Do you see that there is a potential trade-off between moving to more growth and competitiveness objectives and the stability of regulation for firms? Is that a trade-off that the Treasury considers as well in its conversations with you?

David Bailey: As Mr Woods has already said, there is no trade-off between financial stability and growth. You need a stable environment in which to grow over the medium to long term. What we are seeking to do is make sure that we can deliver efficiency and proportionality in our regulation in a way that maintains an appropriate level of resilience. That is exactly why it is called Strong and Simple. We are simplifying significantly while making sure that the regime delivers meaningful resilience.

Sam Woods: If I could briefly add to that, you are getting at a very important point, Ms Yang, which is that stability in our regulation is one of the things that the industry wants most. Frankly, that is pretty reasonable. After 10 or 15 years of massive change, we cannot keep on changing at the same pace, and would not want to. There is a bit of a tension, which, again, is a bit sharper on the FCA's side. Some of the things that we want to change do require a bit of effort from industry.

In terms of the reporting changes on the insurance side that I was talking to Mr Glen about, there was a cost to make the change. We had a range of how much that was, which was about £130 million for the industry, but then you get a £60 million-a-year benefit, which is a reasonably good payback. We have those sorts of tensions that we are trying to manage.

Q36 **Lola McEvoy:** Moving on to AI, the Government are pushing forward with AI growth zones. The Committee has heard, and I am sure that everyone in the room is aware, that AI has great potential to tackle the productivity problems that we have in the UK. Mr Woods, what is your assessment of the impact of the increased adoption of AI, particularly generative AI, in the financial sector on your regulatory responsibilities?



Sam Woods: In two words, it is pretty substantial. We know that three quarters of firms are now actively using AI. Within that, 41% are using it to drive efficiencies within their business, which is the sort of thing that you were touching on. We are doing that ourselves as well. You are probably doing it here in Parliament. About a third are using it for fraud, and a third for cyber-defence. We want firms to be doing that in general. We would tend to think that those were pro-safety and soundness. Indeed, if they were not doing any of that, we would perhaps be a bit concerned.

The area that is a bit more exploratory at this stage is things closer to the heart of what we do. Some 16% of firms are already using AI in some way in their credit assessment, but another 19% tell us that they will do so within the next three years. If you go to algo trading, 11% are already doing it, and another 9% say that they will do it. In terms of capital management, which is right at the heart of what we do, it is only 4%, but another 10% say that they will do it.

All of that is growing. We know from previous surveys that those leading numbers are quite a good indication of what will happen, and we need to be very close to what happens there. It will probably be our approach that, for important decisions, we expect there to be a human involved in the end. Crucially, under the senior managers regime, we will hold people to account for the machines that they are in charge of.

Q37 **Lola McEvoy:** That is reassuring. To all of you individually: where would you place yourself, both professionally and personally, on the scale of extreme sceptic to zealous advocate in terms of the impact of generative AI on financial stability?

Tanya Castell: I will go first. Can I be at both ends? As the Chair alluded to, I have a risk background, and that is where I come from. For me, there is clearly huge potential from AI in terms of firms both protecting themselves but also improving processes and doing things more quickly and differently. There is the risk that AI can, at worst, start taking over and even stopping humans intervening if it gets too far.

It is also a good thing, because it gets firms to focus on data. Historically, a lot of firms have not focused enough on having high-quality data, which really matters for effective use of AI. There are still hallucinations. You can have these catastrophic memory failures.

What I really worry about is that we have had some conversations with the FPC about big firms having strong guardrails and thinking carefully about how they are going to manage the AI issues and what governance they put around it. I worry that there is so much pressure on firms to use AI in terms of how they can do things better and more quickly and about the need to make sure that you have the right human oversight.

In terms of how firms use credit risk models, for example, which are not as far as going into the generative AI space, you still have senior



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management in places who do not necessarily fully understand the models. We know that. Dare I mention the Horizon system? That is not an AI model, and yet people could not test or challenge it.

If you were going to put me somewhere on that scale, I see huge opportunities but I am very nervous that the pressure will mean that we go too quickly.

Sam Woods: It has been well put by Ms Castell. Of course, catastrophic memory failure can affect us humans as well, but hopefully not in front of this Committee. If 1 is the sceptic and 10 is the zealot in terms of how big a deal this is going to be, I am probably at a 6 or a 7. This is really pretty material, and that brings risks and opportunities with it. It is not fair to think of this as akin to the arrival of the internet, but it is something really pretty significant. We can see that in our own work, so it is something that we are going to have to be very much across in coming years.

David Bailey: I am very optimistic about the opportunities. What is really important, though, is that we have an ongoing dialogue with industry to understand how AI is being leveraged, so that we can help manage the risks. A couple of years ago, we had a public-private forum to discuss AI with industry. We are just launching a consortium with industry to discuss exactly what the opportunities look like and how we can manage the associated risks. It needs a really detailed and ongoing dialogue with industry and a range of third-party providers to make sure that we understand the risks and can, therefore, make sure that they are managed and that firms are managing them accordingly.

Q38 **Lola McEvoy:** On that point specifically, do you have the skills internally in your organisation to understand this? We talked about the skill gap and how few people understand the engineering of it. Do you have the skills? Do you need any more? Are you hiring people with this expertise?

David Bailey: We always need to evolve our skillsets as the risk landscape changes. I would always say that, at the moment, this is an area where we need more resource with expertise in this space. We are building that, and that is where the dialogue with industry comes in place. When we put in place rules in any particular area, there is a strong appetite for industry to come and grab our staff and take them across to firms to advise on how to meet our regulations. We need to keep working on that, but I am confident that we have the right channels to build that expertise.

Q39 **Chair:** Could I just ask about the pool of people with AI skills to fish from? Is there an issue there? Although it is not directly your remit, you are a big player and will have concerns if this does not work.

Sam Woods: We have still found that we can attract the right talent. I will tell you how we are doing it. It is the most AI-aware and enabled talent that we are recruiting to work on our own digital processes. We get



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quite a lot in that way. It is typically younger staff. We have, though, recently recruited a new head of division for us up in Leeds, where we are planning to build up our presence in this area and where we know that there is a lot of talent. That is quite a good way for us to go after it. It is tough, as David says.

Q40 **Chair:** Are you having to pay them more?

Sam Woods: We have been able to do it within our pay scales. That is always a tension for us, but people do join us for other reasons: the mission and the brand of the Bank and things of that kind.

Q41 **Lola McEvoy:** I want to move on a bit and probe some of the concerns that are out there publicly. There has been reporting that AI algorithms based on trends in social media networks can amplify false messages and misleading information. How concerned are you about that influence seeping into trading decisions and your role as a regulator?

Sam Woods: I will say a word, and Ms Castell may want to come in too. A lot of that is already with us through social media, not through AI. I have personally had the experience of an entirely false social media run on a UK bank, which we had to intervene in at high speed and stop by making it clear that the rumour was just untrue. That is a relatively new phenomenon. If you look at the speed of bank runs that we had in the 2023 turmoil, particularly Silicon Valley and other banks in the US, those are stunningly fast, driven by social media, not by AI. AI could be a further exacerbator in that respect.

Certainly, in traded markets, we do have a worry that the herding that we already have in markets could be exacerbated by the latest forms of AI, but some forms of AI have been used in algo trading for quite some time. It is probably more a potential accentuation. Our colleague on the FPC, Jon Hall, gave a very good speech about all this, which is a pretty good statement of the state of play.

Lola McEvoy: My colleague Bobby Dean is going to come on to that.

Tanya Castell: Clearly, as that speech talked about, it has the potential to cause aggravation. In terms of where I would probably get concerned, banks have a lot of exposure to non-bank financial institutions. Any disruption in that market is already strained in the current volatility. Banks are financing private equity in different ways these days, and there is a lot of exposure there. If you get some kind of severe shock, that would be the area where it would have an impact on the firms that we regulate.

Q42 **Lola McEvoy:** I have just two more questions on that point. Can you tell us a bit more about the social media impact on this run on the bank, and what happened?

Sam Woods: This was in 2019. What happened was that a false rumour about the resilience of that institution was spread. This is how old-school



it was: it was spread on Facebook. We got a window into that, in the very first instance, because one of our staff members was a member of the relevant group on Facebook and saw it quickly. We were able to get on to it and deal with it very quickly, but we did have queues in that bank, with people looking to withdraw assets from it. That is just the world that we are living in.

Part of the answer to that is to try to make sure that our liquidity regulation takes account of those things. There is also a role for the central bank as a lender of last resort. If you have a catastrophic run, you will never have enough liquidity to meet that, because, at least for most banks, the point of banking is partly to lend it out on the other side. That is how I would characterise that one, but the events of 2023 also showed that.

- Q43 **Lola McEvoy:** There is a body of work going on at the moment that I am quite interested in around the marketing and identification of bot accounts on social media. Yuval Harari has come up and spoken about this, and said that you should brand bots now and take action to do that, so that, where there are fake accounts that are driving things for ulterior motives, they can be identified by an average human user. How closely are you working with Ofcom, as the regulator implementing the Online Safety Act, to make sure that your responsibilities align and are supported through their work?

Sam Woods: That is a very interesting point, and I should look at that work by Harari. We are engaged with Ofcom a bit, but not in detail on that point. Maybe it makes me think that we should be. What we are working on is on the implementation of the critical third party regime, which you have mandated us to bring forward. That is relevant in this space. One of the things we worry about is a particularly strong dependency on a few suppliers. That regime may help us in this space, but we should probably check in with Ofcom. Unless David tells me that we have done more, we should probably take that away.

- Q44 **Bobby Dean:** You mentioned how some AI systems have been around in the sector for some time, so I am interested in how well equipped you feel you are to deal with this new interest in AI. I saw in the Bank's survey that firms were saying that the key risks were "third-party dependencies, model complexity, and embedded or hidden 'models'" and I just wonder how much of that is new. You probably have experience of dealing with those risks already. Do you feel well equipped to deal with them, or do you need further regulatory powers to do so?

Sam Woods: For the moment and to date, our approach has been tech-agnostic. We have said that we think we can create regulations to deliver our objectives without specifying particular technologies. In this space, the most relevant things are our model risk management guidelines, the work that we have around operational resilience, and what we do around data.



We are debating internally at this moment, and have not come to a settled view yet, whether that still continues to hold for this particular technological development or whether it may become necessary to supplement a part by saying, "Here is the general model risk management approach. By the way, if you are using a foundation model to do something in this space, you may need also to be aware of X." We are asking ourselves that question, but it is not obvious to me that the answer will be yes.

In terms of resource and capability, answering this sort of question always makes me uneasy, because I feel that we are on top of it for the moment, but it is a very fast-evolving field, and it is, of course, always possible that we have missed something or are behind the eight ball on something important. I cannot see that at the moment, but that is something that we need to keep asking ourselves.

Q45 Bobby Dean: Focusing on third-party dependencies in particular, I am sure that it already exists in the sector, where people are particularly reliant on a piece of software or hardware and so on, but it is well documented that there are a handful of large tech companies dominating this at the moment, some from countries that we regard as allies and some not, and some that are becoming unreliable allies, you might say. Do you worry about the amount of exposure to these technologies being concentrated in so few hands?

Sam Woods: We do worry about that. It was really for that reason that we were quite keen to bring in this critical third party regime. One non-AI example of what you are describing is the cloud. There are now some very clear leaders in that field, many of them based in other jurisdictions. Having said that, our typical approach has been to be quite open to cross-border business in various shapes, either on the back end, which we are talking about now, or on the front end in terms of firms' exposures through the financial centre. We are trying to stick to that while having sensible sight and line into those dependencies. Perhaps I could bring in Mr Bailey.

David Bailey: Just to build on that, we do place obligations on the banks and insurers that we regulate to manage their third-party relationships carefully. As well as bringing forward the critical third party regime, it is really important for us that banks and insurers are doing what they can to understand, assess and manage the risks. In many cases, using third parties can make them more resilient.

Cloud is a really good example. A number of firms have moved services on to the cloud that were otherwise dependent on legacy systems that were, quite frankly, creaking. There are real resiliency benefits. We just need to understand and manage the risks, and to make sure that firms are managing them. Where you have systemic nodes of importance within the system, such as critical third parties, we have the ability to step in ourselves.



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- Q46 **Bobby Dean:** In other sectors at the moment, given the volatility in global relations and the effective oligopoly that you have in some of these sectors, people are saying that it is a matter of economic security, and that we need to develop our own industries and products. Should that be a concern for Britain's financial sector too? Given how vital the financial sector is to Britain's economy, do we need to start thinking about developing our own competitors?

Sam Woods: It is an example of the thing that we are seeing more widely, which is that the world has become massively more connected, massively more electrified, and massively more digital in terms of how we use all these things. That does mean that events can spread and propagate much more rapidly through our system and with much bigger effects than used to be the case. The power outages that we have seen in Spain and Portugal would always have been a big deal, but there is the increasing impact that, if telecoms go down, a whole bunch of stuff that people are relying on does not work properly anymore.

Whether the right response to that is for people to develop their own solutions to all these things, and to inshore them, if you like, is really a question for Government. I do not think that we would start from that perspective at all. Historically, we have, as I say, been very open. There are benefits to us from that, but you need to be intelligently and responsibly open, and that is what we try to do both on the operational side, which we are on here, and on the financial side, which we have a lot of too.

- Q47 **Rachel Blake:** In 2019, you gave some fascinating evidence about credit unions and their sustainability. I want to ask what you think is happening to the credit union market at the moment. The average of failures is going down, which could suggest either that they are becoming more resilient, or perhaps what I think, which is that we have a survival of the fittest situation going on, and that larger ones have just about been able to cope. I would be interested in your theory.

Sam Woods: You are absolutely right. I subscribe to your second theory, not the first. I remember that discussion back in 2019. It was mainly with Mr Streeting, who has gone on to other things. For me, the pattern in this area has been the same since I started this job in 2016, and is the one that you describe. When I started this job, there were 496 credit unions. Today, there are 358. At the same time, the value of assets in the sector has been going up. Since that discussion in 2020, it has gone up from £3.8 billion to £4.6 billion, so you are seeing a consolidation.

We do regard that as a natural phenomenon because of some of the fixed costs that are involved in operating even these very small operations. The only caveat that I would make is that being big is definitely not a guarantee that you will survive. I wrote to the Chair in her constituency role on 22 January about the closure of the London Community Credit Union. That was a large union, with 22,000 members and assets of £16 million. We had Dial-A-Cab quite recently as well. It is the case that we



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are seeing that consolidation, which broadly seems like a good thing to occur.

David Bailey: If I could just add one thing, I used to run the area of the Bank that supervises UK banks, including credit unions. We do recognise that they provide a really important service within the UK, often servicing communities and sectors that otherwise cannot access finance in the same way as others might. Therefore, we do apply very specialist supervision and rules, deliberately targeted to the credit union sector, to support them.

Q48 Rachel Blake: I declare an interest as a member of that recently failed one, as are some other family members. What is your understanding of the impact of simplified capital requirements that have developed since 2019? Do they have a part to play?

Sam Woods: They have been helpful. We removed a whole bunch of tricky little thresholds that credit unions had to keep an eye on, and just simplified it to be total assets. As you go up, your capital requirement gets higher. We also moved it for credit unions above £10 million to more of an income tax-type approach. There was a cliff edge where you would get to a certain size and suddenly get a bigger capital requirement on your whole asset base, which was off-putting, so that has enabled those larger credit unions to grow with more confidence.

The capital levels in the sector have been flattish throughout, which was our intention. Those have not gone up or down. As I say, big credit unions as well as small ones can have problems, but we are seeing that consolidation and it may be that our regime is, I hope, playing a helpful supporting role in that.

Q49 Rachel Blake: Given what you have said about what it will take for credit unions to survive, and their capital requirements, what do you see in terms of the current market and environment for them to still be an available product or type of firm for consumers to go to?

Sam Woods: I see the sector continuing to grow in absolute size while consolidating. That suggests to me that there is a good future for the sector. We have committed to go back to the Government with a report on mutuals by the end of the year, and credit unions are a very important part of that.

There is also an issue around something called credit union service organisations, which is where credit unions typically get together to try to share a service of some kind. At the moment, it is not entirely clear in our rules whether that is allowed. We are going to consult shortly to make it clear that it is allowed. We also need to be careful around those arrangements, because they can sometimes leave a big hole in the balance sheet of a credit union if the service provider has a problem. That is the way that I would see it, but I do not know if either of my colleagues wants to add to that at all.



Tanya Castell: In places such as Germany, credit unions often have service providers as a way of sharing the costs out to help the credit unions. That can be a challenge otherwise as they get bigger.

Q50 **Chair:** One of the things that is being discussed in Government at the moment—we had the Minister in front of us last week—is the ISA regime. There is a lot of swirling speculation about whether the cash ISA limit will be dropped from the current £20,000 in order to, as Ministers have said, encourage people to put money into stocks and shares ISAs instead. The building society sector has come back and said, “Hang on, we need this capital to lend for mortgages.” Are you watching this? Do you have any opinions on that debate?

Sam Woods: We have been engaged in that debate. It is for Government to lead. Our job is to advise on any safety and soundness aspect. The advice that we have given is that very sudden and big changes could cause an issue, particularly at a time when we are withdrawing a certain form of funding called TFSME from the market. The more gradual changes should not be constrained by safety and soundness considerations. One can then argue whether they are a good thing to do, but, in terms of that angle, that is the view.

Q51 **Chair:** So slow and steady is your approach.

Sam Woods: If there were to be changes, it would make sense to do them on a forward-looking basis. The other point that the building societies make, which is a fair one, goes back to Mr Glen’s joke about free money. Money is doing stuff in one place, and it is about moving it to another and what the effect of that is, and that sometimes gets lost.

Chair: That is very helpful clarity. Thank you very much for that. Can I thank you all very much indeed for coming? It has been a very interesting discussion.

In summary, we have discussed the work that the PRA had to do in stepping up to monitor firms after liberation day. You are reassured that, at the moment, there has not been a dramatic impact on the system, and you did not see that sudden shift in consumer behaviour that you would have been worried about if it had happened. You are watching very closely for the appointment of the new heads of the relevant bodies in the United States. That could be significant, so that is something for us all to keep an eye on.

You are very clear that there is no tension between regulation and the secondary growth objective at this stage, but Ms Castell laid out the warning markers there about what we might need to keep an eye on as a Committee.

We discussed the emerging growth opportunities of firms in AI technologies and the challenges around that. There is risk, but it can be managed. That was quite interesting and something that we, across the Committee Corridor in Parliament, are keen to keep an eye on, there being a lot of opportunities as well as risks, as Ms Castell also



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highlighted.

Can I thank you, Sam Woods, Deputy Governor for Prudential Regulation at the Bank of England and Chief Executive of the Prudential Regulation Authority, Tanya Castell, external member of the Prudential Regulation Committee, and David Bailey, Executive Director for Prudential Policy at the Bank, very much indeed? The transcript of this session will be available on the website, uncorrected, in the next couple of days. Thank you very much indeed.