



Treasury Committee

Oral evidence: [Appointment of Tanya Castell to the Prudential Regulation Committee](#), HC 308

Wednesday 9 June 2021

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[Watch the meeting](#)

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Anthony Browne; Dame Angela Eagle; Julie Marson; Alison Thewliss.

Questions 1 - 28

Witness

[I](#): Tanya Castell MBE, Appointee, Prudential Regulation Committee

Written evidence from witnesses:

[Tanya Castell appointment questionnaire](#)

[Tanya Castell CV](#)



Examination of Witness

Witness: Tanya Castell.

Q1 Chair: Good afternoon and welcome to the Treasury Select Committee commencement hearing for the appointment of Tanya Castell to the Prudential Regulation Committee. Tanya, welcome to the Committee. Can I just kick off with a question relating to your CV? You say that you are intellectually curious and a fast learner, a good strategic thinker able to absorb and analyse complex detail. Can you give us some evidence of that? I am particularly interested in the intellectual curiosity.

Tanya Castell: Thank you very much. I am delighted to be here this afternoon. One of the examples would potentially be the fact that, while I come from a banking background, I have gone on to boards in my later life, such as Border to Coast, so asset management companies, and Standard Life Aberdeen's platform businesses, because I like learning new things and stretching myself. Therefore, for me, going into the technical elements or guddling around the FCA handbook or the PRA rules actually appeals to me.

One thing that would demonstrate that would be, for example, if you are reviewing the internal capital assessment process that I would do at Handelsbanken at the moment, or actually Border to Coast as well, that involves a good understanding of the risks, how they are mitigated and what could happen to that organisation's environment. Maybe that would be a good way of demonstrating it.

Q2 Chair: Are there any areas where you already think that you might have different views to others on the current committee? Are there any areas where you feel the expertise that you have is going to be particularly valuable to the committee?

Tanya Castell: Clearly, that is an important question. I have not started yet, so at this point in time it is rather hard for me to assess. Coming from a risk management and governance background, I am used to trying to think broadly and to challenge different perspectives. I also try to come at things from a first principles basis. Just because we have always done it this way, it does not mean that is the right way to do things. Scottish Canals would be another example of that.

I do not currently know where I would sit versus the other members. In terms of where I could add value, clearly, I have over 30 years' experience in the banking industry. In addition to that, I have seen a range of cultures, things that go well and things that do not go well. Hopefully, there is a lot of learning of where things can go awry and the importance of culture.

Q3 Anthony Browne: My questions are going to be about the actions of the PRA and the FPC during the pandemic, because obviously they reduced the countercyclical capital buffer to 0% from 1%. They urged or required



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banks to suspend dividend payments. The stress tests were cancelled. They gave guidance on the usability of liquidity and capital buffers, which I know from my previous job as chief exec to the British Bankers' Association is a cause for great concern among the banking industry. Looking at all the measures that were taken, what do you think worked well in terms of helping the country and the economy survive the pandemic? Which things do you think did not work so well? What are the lessons learned from the pandemic if we were, heaven forbid, to have another one?

Tanya Castell: Hopefully we will not, or at least we will be more prepared for the next one. In terms of thinking about it, clearly the PRA and the FPC acted very fast. It was a time of extreme uncertainty. No one knew at that point in time how long it was going to last; they possibly even thought it would be quite short. With that level of uncertainty, clearly it brings increased risks and, given the way the capital rules are, it was important that there was enough capital to support the economy and that banks did not retrench. Credit provisions had the potential to increase, and therefore it was important to provide support and guidance to the regulated firms to ensure that they could continue to support the economy.

As for lessons learned, obviously I am not on the other side of the desk yet, so I have not seen all the data. Having clear, decisive action was helpful. Things such as taking away the countercyclical buffer, and then having supported lending schemes to make sure that the banks could support the economy, were all very helpful. I have not seen the report card, but overall it would seem that the sector has done very well in terms of supporting the UK economy, given where we have got to.

Q4 **Anthony Browne:** I accept that you do not have your feet under the desk yet and you have not been given a report card. I am just wondering if you have any views on reducing the countercyclical capital buffer, which is quite experimental. I think I am right in saying it has not been used before. Have you any views on whether that did support lending and increase lending in the economy, or did it not work that well? Obviously, it will be important for future uses of it to learn whether it actually works or not.

Tanya Castell: Clearly, the banks were in a much better state than they had been for the previous crisis. The tier 1 ratios were three times higher than they were previously. The banks were in a very strong state. The reverse stress testing shows that the banks can take about £200 billion of credit losses in total. Therefore, on whether the banks are actually eating into the buffers that they would have had at this point, no, probably not. I am not sure. At the end of the day, it indicates a clear message by taking that action for the sector in terms of what is expected of them.

Q5 **Anthony Browne:** On the guidance and then requirement that the banks do not pay out dividends, and certainly do not use the money from the countercyclical capital buffer reduction to pay out to shareholders, those



requirements are largely lifted now. Do you think that is right? Do you think restrictions should carry on, or do you think we are in the right place now?

Tanya Castell: Clearly, we are all hopefully focused on dates ahead and hoping that this is, maybe not coming to an end, at least improving in terms of the situation. Ultimately, the capital framework that the banks already have should enable them to take in the relevant criteria in terms of the internal capital assessment process, so that they can ultimately make the right decisions. Having said that, there are still some guiderails and having those probably is no harm at this point in time. Ultimately, the way the capital assessment process is structured should make the banks think hard before they are paying dividends anyway.

Q6 **Anthony Browne:** Clearly, the economy is recovering now. There have been a lot of positive indicators about that, and it is recovering more strongly than a lot of people expected. We have had various witnesses, including Andrew Bailey, say the same. How do you think the PRA should balance the trade-off between encouraging further economic activity and restoring pre-pandemic prudential standards as you go forward? That will be one of the key decisions you end up having to make.

Tanya Castell: The PRC's primary objective is the safety and soundness of the financial system and, therefore, that has to be the primary focus. To a large extent, the standards have not materially changed, I would argue. It would be fair to say that we do not quite know what the environment is going to do. Yes, the economy is due to grow, but we do not quite yet know what it is going to look like when all the furlough schemes come to an end. There is still a level of uncertainty, but the PRA is well set up with a range of supervisory tools and actions it can take to support the industry, in order to ensure it stays strong and can therefore continue to support the economy as it grows.

Q7 **Anthony Browne:** One of the other big questions we have going forward is the level of corporate indebtedness. A lot of companies took on a lot of debt to survive through the pandemic, and they are now loaded with this debt. Some of it is guaranteed by the Government, but some of it is private sector. There is a risk of quite high levels of default there. Do you think the PRC should respond to that in any way? Is there any action they need to take with the inevitability of a high level of corporate indebtedness and the possibility of high levels of default?

Tanya Castell: From my perspective, first, as I said earlier, the banks going into this crisis were in a very different position than they were the last crisis, so their capital levels are much stronger. From the analysis they have done using the stress testing and reverse stress testing, they have significant reserves of capital to be able to cover what is anticipated ahead, given what we know now. On that basis, I am not sure it would be appropriate to take further action but, as I say, clearly, I am not on the other side of the desk.



Anthony Browne: You have not had all the data given to you yet. I totally accept that.

Q8 **Julie Marson:** Welcome, Tanya. I wonder if you could give me your thoughts about where we are in terms of the operational resilience of UK financial services firms and what impact the pandemic has had on that.

Tanya Castell: Operational resilience is a really important topic. There has been a lot of focus on that, and the PRA has done a lot of positive good in talking about that and encouraging the sector to continue to develop its thinking. Covid and the pandemic is a very specific type of crisis in that, first, it approached slowly. It might not have felt like that at the time, but it was relatively slowly. It has also been over a prolonged period, so we have had time to adjust. Most importantly, it has affected all of us, whereas a lot of the operational resilience events that we see may only actually affect one or two organisations, quite often only one.

It has been a good test for some things: can we all work from home and let everybody in to see our intimate spaces? At the same time, there are a lot of things that we still need to work on. In terms of where the industry is, the industry is much more aware. Obviously, I am talking here about banking. A lot of progress has been made.

I have not seen a wide variety of organisations in recent years, but my perception from the events I go to and the people I talk to is that the structure that has been put out, with the concept of the impact tolerances, so determining which are your important business services from a customer perspective or a stability perspective, then having your impact tolerances, and then considering severe but plausible scenarios, is a very strong and healthy structure.

Clearly, the first deadline is only the end of March next year, and that is not to be fully resilient but to have that approach, but we have to keep on it. The more we use technology, the more things go digital, the more we use artificial intelligence, the more we need a robust structure to help protect both consumer and financial stability. I am very interested in it and will be fascinated to see where other firms have got to, beyond the ones that I have seen.

Q9 **Julie Marson:** In terms of specifics, you mentioned in your questionnaire response the move to remote working. If that becomes more permanent in some kind of hybrid way, we do not quite know how it will shake out. How do you think that firms can best remain operationally resilient if this becomes a more permanent or hybrid way of working?

Tanya Castell: For operational resilience, the key element there is whether you have the right controls. Do you have the right protections, for example, from a cyber perspective? How do you keep your software up to date? Where controls might have worked in a different way when you were all in the office, how can those work effectively? Given we have now had time, organisations are probably able to adjust and adapt to a lot of that. I suppose part of my issue with the home working piece is



actually some of the culture bit, which is still important from an operational resilience perspective in terms of how you operate and how you communicate. Some of that, I would say, is also harder when you are effectively working in a very distributed way.

- Q10 **Julie Marson:** Apart from, quite rightly, the IT and some of the cultural things, is that resilience about training staff and having that communication one of the major risks? I do not want to put words in your mouth, but you are alluding to that as being a major feature of resilience, really.

Tanya Castell: Yes, it is. I am currently on the board of Handelsbanken. It has a very strong culture and works in a very collaborative way. Other organisations that I know work in collaboration. It is harder to work in a collaborative way when you are doing it remotely. It is also how you get junior people to learn from more senior people. While there are benefits from working remotely, in terms of how you develop, how you maintain culture and how you keep everybody onside working in the same sort of way for the same purpose, which has a more subtle impact on operational resilience, we probably have more to learn and to work out how we can do that better.

- Q11 **Julie Marson:** You mentioned the cyber risk. You referred to that in your questionnaire as well, acknowledging that criminals sometimes seem to be one step ahead. They certainly move very quickly. How do you think the PRA and regulated firms should be working to assess and manage that risk?

Tanya Castell: Operational resilience was one part of that in terms of what happens should something go wrong. The PRA has been one of the leading regulators, as I understand it, in this sector, in that CBEST came in some time ago for the top organisations. Then even the smaller organisations actually get asked a CQUEST questionnaire.

It is in the PRA's business plan for the coming year that it is looking at additional ways in which it can support the smaller organisations, because the CBEST process is quite demanding, as I understand it. As a regulator, they have been very proactive and leading in encouraging firms to think about how they can test and assess their cyber strength. However, from my perspective, we are going to have to be—I was going to say on the front foot, although I am not sure how easy that is, actually—at least always trying to follow how it is developing, because with artificial intelligence and everything else this is going to get more complicated, I would suggest, not less.

- Q12 **Julie Marson:** What do you think about the prospect of bringing smaller firms into scope with some of these things, stress testing for cyber testing, and how the resilience and regulation of smaller firms and larger firms are brought together and balanced?

Tanya Castell: I know this is something that the PRA has been looking at, and Sam Woods has talked about the strong and simple. I hope I



have that right. How can one do regulation that is proportionate but still not impairing the objectives of the PRA in terms of safety and soundness? I know that they are consulting, looking at whether we should do the same regulation but lighter touch, or do more focused regulation but maybe stronger. That is very positive, to be consulting and working out what is the best way forward. Clearly, they still need to be regulated. They would have a different impact, but it makes sense to try to do that in a proportionate way and then consider how you do that, so that you do not get a cliff edge once you get to wherever the regulation structure changes.

Q13 Rushanara Ali: Good afternoon. I have some questions on culture, diversity and the senior managers regime, followed by some questions on the future of financial services. You in your questionnaire argued that diversity and inclusion are important determinants of culture at firms, but are areas where the PRA has paid insufficient attention. What changes should we expect from the PRA when you join? Do you think there should be some regulatory changes to make further advancements, particularly in relation to women in finance, but also diversity in the round?

Tanya Castell: Given what I have done during my career, diversity and inclusion is very important to me. In terms of changes from the PRA, when I wrote the questionnaire, the business plan for this year had not come out. It now has come out and I noted in there that it talks about a paper coming out jointly with the FCA later this summer. Obviously, I do not know what is in that. Clearly, I hope it will look to promote greater diversity and inclusion in the firms that are regulated. From my perspective, as I said in my comments, diversity and inclusion is a really important component of culture. Just at the very simplest level, you want to have voices heard.

As someone who has spent years and years in risk management, there is no point having what in financial services they call the second line of defence, the risk and compliance people, and there is no point us saying things, if we just get ignored. While that is not identity or gender specific, or what have you, it is still a willingness to listen and hear different perspectives. For me, it is very important. Without having seen what they are planning and what is mentioned in the business plan, I would not want to go further. I would very much hope that, in due course or if you wish to invite me back, I could report back on it.

Q14 Rushanara Ali: I am very encouraged by what you have identified about the insufficient attention. It is a very honest way to approach stuff like this. It is the best way to look at what can be improved. We need that openness in institutions. As you were speaking, I was thinking about the experience of Ursula von der Leyen not being offered a seat. It does not seem to matter how high up women are, they still get treated appallingly. It is encouraging and refreshing to see what you have said. I hope we can see change being driven through wherever is required in institutions like the PRA.



Going on to the senior managers and certification regime, which is the centrepiece, as we all know, of the post-financial crisis response. It is the one that is often referred to when we are asking questions about issues that have come up. It has been highlighted as a success, but to what extent do you think there are still limitations with the senior managers regime, and what should be done to address them?

Tanya Castell: The SMCR is an important part of ensuring that regulated firms conduct themselves appropriately. For me, as you will have picked up, culture is very important. One of the reasons I joined the board of Handelsbanken is its thoughtfulness around culture and how seriously it takes that. If I think about it, the SMCR is around accountability and people feeling accountable. Obviously, I do not have the data of how that is going in other firms, but in the firms where I do see it, clearly, it does have that resonance and have that effect, that people do take it seriously.

Q15 **Rushanara Ali:** Just on the elements where there could be improvements, have you observed any areas where there need to be improvements? What should we expect from you in terms of observations on where improvements could be made?

Tanya Castell: As I say, I would be interested to have a bit more data, if I think about where I am coming from today. For me, it is how to effectively evidence things without having to write every word down. The ultimate aim is right. I probably would like some more data, and then I would be happy to revert.

Q16 **Rushanara Ali:** Moving on to the future of financial services, the Treasury has proposed that Treasury Ministers should have sight of regulators' policy proposals before they go public. How would you respond if the PRC came under pressure from the Treasury to change a policy proposal?

Tanya Castell: The question would be how it fits with the objectives and what is within the remit of the PRA and the PRC. First, we have to meet our objectives. There are also "have regards" that we have to pay attention to. Ultimately, I am sure we all want a safe and sound financial services system. Hopefully, we would like to think that we would all be in line.

Q17 **Rushanara Ali:** Let me probe you a bit further. Let us say we were not, and you had a pesky Treasury Minister trying to throw his weight around. It is usually a man, but maybe it will be a woman someday. How would you respond? What should we expect, if they are not being respectful to the remit you are talking about?

Tanya Castell: Clearly, I am not in those relationships yet. From my perspective, maybe if I move that on to how I deal with differences of views. I would say that I am known for being tough but fair. For me, if something is not compliant with the regulation, if the law does not seem appropriate, or even if it is just the principles and values of an



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organisation, I would call it out. When you call these things out, you have to do that in the right way. You do not want to be confrontational. "What is the situation? How best can I get to the right outcome?" It is not necessarily saying, "Let us all just debate this right in the middle of the PRC," but it might be conversations outside. I tend to take a variety of approaches to discuss matters to ensure that we end up in the right place.

Q18 Rushanara Ali: If you have to be robust and find appropriate ways to tell Ministers that they are going way beyond their remit and yours, you would be prepared to do so and be robust? That is what we should expect: tough but fair.

Tanya Castell: Tough but fair. As a member of the PRC, I am charged with what that remit is and, therefore, the safety and soundness of the financial system. That for me is my ultimate objective.

Q19 Rushanara Ali: Following the UK's exit from the EU, there is now an opportunity to tailor regulation to better fit the UK market. What should the PRC's priority be for changes to the UK's financial services regulations and regulatory framework?

Tanya Castell: They are already looking at a number of things: first, tailoring Solvency II. There is a review going on in terms of ensuring it is appropriate for the insurance market as we have it in the UK. That is clearly one area they are already focusing on. The second piece is around the banks and ensuring we can get small banks to grow into large banks. In the last number of years, a significant number of banks have been authorised, but they are still really small. They have not reached the big scale. It would seem to me that the PRA has been focusing on the right things, and it is just making sure that that evolves in a safe and sound way.

Q20 Dame Angela Eagle: We are in a circumstance at the moment where there is an enormous amount of change and restructuring going on. Obviously, new technology is one of those areas, and you touched on some of the dangers for financial stability around that. There are other dangers as well, most notably climate change. The PRC's latest remit requires it to have regard to the Government's commitment to achieve a net zero economy. How can the PRA facilitate and encourage firms to advance that aim with its regulation?

Tanya Castell: Thank you for that question, because clearly climate change is a really important issue. The PRA, the PRC and, in fact, the Bank as a whole have been incredibly proactive, very strongly, over the recent years, which has been a very positive force, not just for the UK but globally. I am aware that the Network for Greening the Financial System is co-chaired from the Bank of England.

Maintaining that strength of talking about it and raising the issues is important. They already set out their expectations from a regulatory perspective in 2019, with firms having to appoint a senior management



function by October of that year. That whole risk management embeddedness has a deadline of the end of this year. Then, yesterday, you had the announcement of the climate scenarios.

All those things are helping firms to focus on it. With things such as scenarios, while it may be only focused on the top firms, other firms will be looking at that because it helps them think about the data, what they need to disclose, what they need to ask of their customers and clients. It all keeps the focus on it but helps, more specifically than that, actually to think about what it means in practice, because it makes it more concrete. It is so complex that, without something very specific, it can be hard to make it more tangible.

Q21 Dame Angela Eagle: Can it also be made into a process that does not actually change the outcome very much, a tick-box exercise where everyone says, “We have done our green observations” and then they just carry on? We all know that systems do not change very quickly unless they are forced to.

I would say that the banking and financial services systems are very conservative, with a small c, when it comes to doing things the way they have always done them. It is possible to put an elaborate glass bead game structure in place for green outcomes and not change a single thing. How can the regulatory authorities, which you are joining, try to ensure that the outcomes change, rather than just having an elaborate process that everybody gets right but changes nothing at the output end? We do not have much time left to change things.

Tanya Castell: No, we do not. From my perspective, in the way that the regulators come at this for the firms, we are talking about a risk. Firms have to be considering the risk. Here, you do not want the firms pulling out from financing the organisations. You want to help them transition, because we want to get the wider world out there to move. For me, if they do not have an impact, that would be material. I suppose, because of the way it is being done, by definition it should have an impact, because it means that banks will be talking to their customers about what their customers are doing and will be collecting the data. Therefore, that will ensure that we get clearer data. The data and the metrics are really difficult still.

Q22 Dame Angela Eagle: On the metrics and measurement point, do we not need to have some kind of recognition of global ways of measuring things that everybody accepts? Otherwise, people can make all sorts of green claims and they can be spurious.

Tanya Castell: It certainly is an issue that, because the regulators and firms are all becoming much more focused on it, is actually getting some element of consolidation. For example, the Task Force on Climate-related Financial Disclosures—TCFD—has people focused on using that way of disclosing the data. The more we are talking about it, the more we can



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hopefully get into one set of disclosures, one set of assurances, so that we can look at it in a consistent way and can truly compare.

I know the PRA is very much encouraging firms, in terms of the climate change scenario work, to disclose and to share. The Network for Greening the Financial System is done on an open-source basis. To my mind, all of that should provide the transparency, and the PRA is pushing the transparency on firms, to enable us to make sure they are not box-ticking.

- Q23 Dame Angela Eagle:** How can we close down fossil fuel extraction companies and move to net zero, in a way that is going to be fast enough for us to stop runaway climate change, if we do not do something dramatic? Again, we maybe should have been doing this 20 or 30 years ago. How can we, for example, also factor in deforestation and the destruction of environments, which are, after all, invested in by the companies that you will be regulating? What is the balance and what is the rightful role of regulators to try to get dramatic change, do you think?

We can all say we are trading in green bonds, but what are they? How can we assure ourselves as potential investors that they are actually green, not just fake green?

Tanya Castell: Some of those things may be FCA things. From the PRC and the PRA's perspective, it is clearly around the safety and soundness of the financial system.

- Q24 Dame Angela Eagle:** In terms of that stability, the risks, the increasing number of crises and the increasing frequency of crises that are causing huge costs and potential problems for countries are all about not grabbing hold of this issue at an appropriate level globally.

Tanya Castell: I do not disagree. For me, it is thinking about what the remit of the regulator is. The regulator can have an impact by encouraging the firms it regulates to think about the risks and making sure they are managing those risks. There is a wider environment where a lot of that potentially goes towards things such as carbon pricing, but I am not sure that is really the remit of the PRA. I will find out more when I get there. I know they have a climate hub, and I will find out more when I have joined.

- Q25 Dame Angela Eagle:** I suspect there is going to have to be a lot of innovation done quite rapidly in order to give us the tools to do this properly. There is a role there for regulators. Do you think you would be anxious to get on top of that quickly?

Tanya Castell: I am very keen to understand it. As I say, I know they have a climate hub with dedicated resources, so I am interested in understanding what level of expertise they have and what their perspective is of the industry, given that the industry is supposed to have this embedded by the end of the year. What the regulated firms can do to



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support that transition will be fascinating to find out about, but it is hard for me to know at this point.

Q26 **Dame Angela Eagle:** Hopefully at some stage you can come back and talk to us about that, once you have got your head around it.

Tanya Castell: I would be happy to do that.

Q27 **Mr Baker:** I refer to my registered shareholding in Glint Pay. I suppose it is also peripherally relevant that I am a Handelsbanken customer.

In your excellent questionnaire, you mention that the PRA could put more focus on a trusted means of digital identification in the UK. Can you explain why it is a matter for the PRC?

Tanya Castell: It is a matter for both the FCA and the PRC, where I am coming from. That is something that was also in the future of finance report that Huw van Steenis did. I do not know how many phone calls you have had today, but in just the last two days I have had five phone calls with people trying to extract money from me. Scamming, you could say, is potentially a customer and FCA matter. On top of that, you have cyber fraud—how you know who people are.

The world is effectively going much more from physical to digital, so the ability to identify individuals, and know that the person you are talking to is the person they say they are, is important. It is the equivalent of a passport. They have it in countries such as Sweden. Interestingly, in Sweden it was developed by the banks themselves. I feel this could make the banking and wider infrastructure more efficient, as well as more inclusive.

Q28 **Mr Baker:** You mention that the PRA could engage with the financial sector to consider requirements for a digital ID and so on. What assessment have you made of the UK digital identity and attributes trust framework that came out in February? How would that fit in with your ambitions?

Tanya Castell: The honest answer is that I have not. I would have to look into that, having moved into my role at the time. Clearly, I would be interested to know what there was and what might be feasible.

Chair: Tanya, thank you very much for appearing before us. We wish you well for the future.