HOUSE OF COMMONS

Treasury Committee

Oral evidence: The work of the Prudential Regulation Authority, HC 415

Wednesday 23 June 2021

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Felicity Buchan; Dame Angela Eagle; Emma Hardy; Siobhain McDonagh; Alison Thewliss.

Questions 1-78

Witness

I: Sam Woods, Deputy Governor with responsibility for prudential regulation, Bank of England, and Chief Executive Officer, Prudential Regulation Authority.

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Examination of witness

Witness: Sam Woods.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the work of the Prudential Regulation Authority—the PRA. I am delighted to be joined by Sam Woods, who has been reappointed for a five-year term as the Chief Executive Officer of the PRA and as Deputy Governor of the Bank of England for prudential regulation. I should stress, Sam, that this is not an appointment hearing as such. The Committee is delighted that you have been reappointed to both of those positions and wishes you well. It is more a session about the general workings of the PRA.

Perhaps I could start with my first question, which is about Wyelands Bank. The Wyelands annual report for 2020 noted, "Delays in loan repayments resulted in an increase in loan impairment provision that totalled £66 million by the end of the financial year, at which point £191 million of £234 million loan portfolio was classed as non-performing". How on earth did a PRA-regulated bank come to have such a large non-performing loan portfolio?

Sam Woods: Thanks for having me and thank you for those comments on my reappointment, which I very much appreciate.

You are absolutely right to point to that as being an extraordinary situation for a bank, particularly a PRA-regulated bank. Indeed, the same accounts have in them £65 million of impairments, which have more or less doubled subsequent to that point. This will not take long, but I would like to take you back to when our concerns began and then bring you forward to that point.

Our concerns began in late 2018. This was after having agreed a change in control for the bank in 2016. In late 2018, we became aware that the bank had adopted a large exposures structure that seemed to us to be intended to circumvent the large exposure rules and, in effect, give it the ability to do too much lending, more than is safe, to connected members related to or part of the GFG Alliance. Having discovered that, we of course required it to be unwound and made some further investigations over the next few months.

By the time we got to April 2019—this is where the significant part of the story really begins—we decided to put the firm on to the watchlist. We had worries at that point. I should emphasise to you, though, that the watchlist itself contains many firms that are not near going under. While that denotes worry and heightened supervision, you should not over-interpret the watchlist status. Rolling the clock forward, having put it on the watchlist, we were paying closer attention. We actually became more worried than we had been before. In September 2019, we found it necessary to use our formal powers at that point in order to ring-fence the bank from the GFG Alliance precisely because we were worried about

what we had discovered on the balance sheet—the sort of figures you have just mentioned. We also prevented it from taking any more uncovered deposits from that point.

It was just after that when we came across another piece of information that heightened our concern even further. We forthwith, in November 2019, alerted the National Crime Agency and the Serious Fraud Office to that information. The Committee will understand that I cannot go into that too much but, needless to say, our worry level was increased. Off the back of that in December 2019 we did an unannounced visit—colloquially you might call it a dawn raid, I suppose—as it happens on Friday 13 December, which gave us more information. We then worked further on that and reached a view during Q1 that this firm would have to be closed down. The board supported our view as well. We decided it was in breach of threshold conditions about a month before the balance sheet date that you just stated.

We then—this is the final part of the story—decided that our strategy, which I think is the right one given the safety and standards objective that we have, should be to get the bank recapitalised and, once that was done, to get the depositors repaid. To do that, we needed Mr Gupta to provide some more capital. He agreed to do that. Between May and February of this year, Mr Gupta was basically putting in 5% of the amount we agreed, which was £130 million, every two weeks. At the same time, we tightened restrictions on the bank five times during 2020, such that the level of deposits was coming down. In all of that, by the way, we effectively had decided to regard the loans as worth nothing. What we wanted to have was enough high-quality liquid assets in our account at the Bank of England that we could pay out all the depositors.

On 10 February—I am coming to the end of this—of this year, Mr Gupta made a payment of £2.5 million, and with that payment we determined that we had enough to repay the depositors in full and a little bit extra to wind down the rest of the bank. We immediately ordered the bank to do that. We did that on 12 February. Finally—and I know we will come on to this separately—in the third week following that, Greensill went bust. That was causing a lot of noise, so we did at that point also require the bank to further accelerate the repayment that we had already ordered. We made a public announcement that the funds were there to do that and that it would be done in order to avoid a run.

Q2 **Chair:** It is good news that the depositors were ultimately paid out, but clearly what you described occurred over quite a lengthy period of time. If I go back to late 2018 when the first problems surfaced, what was it exactly at that point that pointed you towards those problems of overconcentration? Were you quick enough on the case? Might you have come to the conclusions you did at that time earlier than you did?

Sam Woods: The specific trigger was this large exposures structure, which the firm notified us of. We looked at that, and we considered it to be highly specious. The firm claimed that it was within the letter of our

rules, but we were doubtful about that. Even if it was within the letter, it certainly was not within the spirit.

Looking at it, we formed the view that it had been designed in order to allow this lending into the GFG Alliance and related entities in a way that we did not want to see. That was troubling of itself, but it was doubly troubling because the whole proposition for the bank when the change in control went through was that it should have business introduced to it from a wide range of businesses. It was not intended to be the funder of the GFG Alliance. It was allowed, of course, to do a bit of funding but within those large exposure limits. That really triggered our concern. From thereon, the picture was basically one where the more we dug, the more concerned we became.

You can always ask in these cases, "Should we have got there sooner—sometime between December 2016 and late 2018?" I suppose my response would be "maybe". It is not obvious to me, having looked at the files, that we had a flashing light at that point, but the large exposure one was flashing. From our point of view, the point was to get this thing cleaned up, which we were able to do.

Q3 **Chair:** If we now go forward to the late 2018 discoveries and the supervisory investigation that began in the first quarter of 2019, as you described it, in February/March 2020 you determined that the bank had not met its threshold conditions. It was not then until a year later that the PRA issued a statement, on 3 March 2021, noting that you required Wyelands to "operationalise an orderly repayment of its deposits".

That seems to be a long period of time before you came to that conclusion. Do you accept that some would see that as sluggish? Should it have been quicker?

Sam Woods: I can see that from the outside someone could make that observation. I will give you the very direct reason for it, which is the one I mentioned a moment ago. We wanted to get more high-quality liquid assets than we had deposits in the bank. When we determined that the bank was failing threshold conditions, that was not the case. You would have needed some of the loans to come good to pay everybody out. For precisely the reason you gave in your first question, we were somewhat doubtful that that was going to work out.

We relied on Mr Gupta to recapitalise the bank such that we could achieve that. There is always a negotiation in these things, but it did not appear that he was able to do that in March or April of 2020. If we had believed he was, we would have made him do so. We agreed that he could pay it on this schedule, which, as I say, was a two-weekly schedule. Within two days of receiving the final payment, the money was paid out. By the way, it was not all of the money he had committed to. In the end, we only needed £75 million. When we got there on 10 February this year, believe you me, we acted as quickly as humanly possible to get that money paid out.

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Q4 **Chair:** You are saying that it took that time because the time was really determined by the payment schedule, which you were confident enough that he could meet.

Sam Woods: Yes, it was a combination of that and the deposits coming down. We talked about it as a funding gap, and we wanted to close the funding gap. We could see that it was coming in. Of course, you are always nervous that it might not land in time, but it did in this case.

Q5 **Chair:** Can I just turn to when Mr Gupta acquired Wyelands Bank, which was at the end of 2016 through a change in control?

Sam Woods: Yes.

Chair: Do the conditions for authorising a change in control need to be tightened in light of the facts of this particular case?

Sam Woods: I am glad you asked that, because I have been reflecting on it. If you look back at the change in control—there is also the Commonwealth Trade Bank change in control, which is much smaller—with everything we know now, were those the best decisions we ever made? It would be hard to make that case.

There are things about how we do our own business, but there is something about the way the conditions are framed. This goes back to a change that was made in 2009. When the EU acquisitions directive came in, pursuant to that a change was made to the way the change in control conditions in FSMA are framed. The actual conditions were left more or less the same. The conditions themselves are quite sensible. They are reputation and things of that kind. But the burden of proof, colloquially, I would say was reversed. Up until that point, the regulator could refuse the change in control unless it was satisfied on those various criteria. There were six of them that were listed. After that point, the regulator is only allowed to object if it has reasonable grounds based on those various criteria.

You can see that this shifts the burden back on to the regulator. That was done in an EU context because there were concerns about national regulators frustrating cross-border activity for non-prudential reasons. As we are out of the EU, I would say that we do not need to worry about that point anymore. It would be a very good thing to make that change, both because it would strengthen our arm and because it would strengthen the culture around how these change in control decisions are made. They are made within a framework and you can see that the current framework is one that is less conducive to a really robust approach than the former one.

Q6 **Chair:** Is the PRA going to reach a point in time where it has something formal to set out and say about that particular matter? If so, when might we expect that?

Sam Woods: If it would be useful to the Committee, I can send in those details and say, "Here is a change that we think would be suitable". We are raising it with Treasury more or less in parallel. I can do that forthwith, because I believe it is a very simple change to make, if Parliament wants to make it.

Chair: We would be very interested in that, thank you. We would like you to do that.

Q7 **Felicity Buchan:** Sam, congratulations on your reappointment. I am going to follow up on the Chair's questions. Is Mr Gupta a fit and proper person to have owned a bank?

Sam Woods: Thank you for those words. We currently have an enforcement investigation underway. That enforcement investigation is into the firm, into individuals and into the question that you have just asked. That is very obviously something that we should look into, given the way things have played out. I am afraid that I am given very strong advice that, if I form a view at this point or, even more so, if I utter a view at this point, it could prejudice the course of that investigation. I can assure you that it will be an extremely thorough investigation.

Q8 **Felicity Buchan:** I appreciate your sensitivities. How much of the information and your concerns about Wyelands did you pass on to the Treasury?

Sam Woods: I can tell you something about that and also about the timing of it. We have a process whereby our resolution directorate—that is the directorate that takes cares of banks that go into insolvency, which was always the alternative for this, or that need a resolution intervention—looks at the PRA's watchlist and it has regular discussions with the Treasury about that. That would have become visible to the Treasury when Wyelands went on to the watchlist in April 2019.

However, there are quite a few firms on the watchlist and, as I mentioned earlier, lots of them are not about to go bust in the way that this one might have been. It would not really be fair to suggest that the Treasury had any kind of close appreciation of the situation at that point. The point at which the Treasury certainly became more fully briefed, quite appropriately, was later in 2019 after we had discovered this piece of information that led us to involve the SFO, which is quite an unusual situation for us to find ourselves in with a regulated bank, and also when we did this unannounced visit in December 2019.

From that point onwards, we were sharing information pretty fully and fairly regularly with the Treasury about what we were up to with Wyelands Bank. Of course, to a limited extent, because of the opacity of the GFG Alliance, that did throw some light on the GFG Alliance as well.

Q9 **Felicity Buchan:** In your analysis of the concentration risk to the GFG Alliance, did you encounter the symbiotic relationship between GFG and Greensill?

Sam Woods: Now, I can tell you what we knew about Greensill. The first is a general point, which is that of course we were aware that Greensill was a funder of the GFG Alliance. We did not have any means of getting direct visibility into that, but we were aware of it. In the numerous discussions between our team and Wyelands about the quality, or in our view the lack of quality, of its assets, the bank made representations about their quality and how funding was going to come from various places. One of those places was Greensill, so we had a general awareness of Greensill's role. Although we had no reason to speculate in this way, it was not unreasonable to think that, given the problems we were discovering at Wyelands, which was another funder of the GFG Alliance, there might be some issues at Greensill as well.

The first concrete information that we had came from another regulator in March 2020. It will be obvious from what I say here that I am talking about BaFin. I do not think they will mind me saying that, although we do not usually do that. It is important that you understand that. In March of last year, BaFin reached out to us. In fact, we had first of all got in touch with them earlier in March about Wyelands, because there were some German depositors and we thought they ought to know where we had got to. We got in touch with them. It also occurred to us that it might be useful for them to know this information, given that they were the regulator of a German bank called Greensill.

They then got back in touch with us a week or two after that. Their concerns at that point, though, were about systems, controls and things of that kind. Again, there were some concentration issues, but they were not stating to us at that point a concern about the solvency of the bank that they regulated. They then did come back to us a week or two after that with some reassurance that they had got, which they put some weight on, about those concerns, including some insurance that they considered to be in place.

We had that information, and then the next bit of information we got from the same source was in October 2020. At that point, there was a much stronger concern from BaFin about Greensill Bank, and the situation escalated from there. None of that was very surprising to us, because we were already a long way down the track with the strategy to close down and pay out Wyelands.

Q10 **Felicity Buchan:** Did you pass on your concerns about Greensill to the Treasury or to any other institution?

Sam Woods: As I said, we were giving the Treasury a fulsome update on the issues we were dealing with around Wyelands. We had only a very partial view from that through into Greensill, as I just said. It would come up glancingly, in that respect, but I believe those connections were made. The information in March did not add much to the worries that we already had about the situation, so there was no reason to add that into the mix.

I looked at Mr Roxburgh's evidence, and I see that he said that they chose to pass on in some form the information that we had been supplying them about this situation and about the GFG Alliance to BEIS. I believe that was done, according to Mr Roxburgh's evidence, in May of last year. In the Chancellor's letter to Ms Dodds, I saw that the decision taken independently by the British Business Bank on Greensill and CLBILS was taken in June. That is how the information passed through the system.

As a last point, we have a gateway to the Treasury. It is quite a full gateway; we can share with it confidential information. We have no such gateway with the British Business Bank, nor indeed with the Secretary of State for Business in his role as the Minister for CLBILS. The only gateways that exist to BEIS are very narrow ones in cases where the Secretary of State has appointed individuals to undertake Companies Act investigations.

I am sorry to go on, but can I add one very brief point to that? You may well be thinking—I am not sure—that those gateways should be much broader. I am not sure about that, because, if I look at it—perhaps this is too narrow a view—from the point of view of our responsibilities, if firms felt that information passed to us would be passed in a generalised way into Government, it could quite seriously impede what we do. Parliament is being quite wise in putting quite tight constraints on this. Whether they are in exactly the right place, one can debate. Tight constraints are quite sensible for what we do.

Q11 **Felicity Buchan:** Let me ask a follow-up question there. Given that Greensill was accredited as a CBILS lender, do you regret the fact that you did not reach out to the British Business Bank?

Sam Woods: I do not regret it at all, because it would have been illegal for me to do so. What we were doing, which was very sensible, was keeping the Treasury posted. Although it is impossible for me to second-guess Treasury officials, my reading of the evidence that you have heard here is that they found a way to pass on that information to the relevant Department at a sensible time. That is how it looks to me.

Q12 **Felicity Buchan:** Focusing on the timing, you said that when the German regulator approached you in March 2020 it was about possible weaknesses in controls rather than a solvency issue. When did you first become aware that there could be a solvency issue at Greensill?

Sam Woods: That was in October 2020 when the German regulator reached out again. It was clear by that point that its concerns had become a lot more serious. As I say, we were very deep down that path already with Wyelands, so that was interesting information to us.

From what the Government have said—I am obviously not the prime source on this—I understand that the British Business Bank suspended

the guarantee to Greensill in October. That was all happening around the same time.

Q13 **Felicity Buchan:** You were aware of the solvency issues after Greensill was accredited as a CBILS lender.

Sam Woods: Yes, that is correct.

Q14 **Felicity Buchan:** I have one final broader question on shadow banking. How comfortable are you with the banking sector's exposures to and relationships with shadow banks such as Greensill?

Sam Woods: It is a source of concern to me. I have to admit it is not so much in the Greensill case, although that is a worry. From a PRA point of view, the exposures both to Greensill and to GFG Alliance of the banks and insurance companies we oversee are very small. In fact, the largest exposure is one that I believe is in the public domain, which is the $140 million funding line from the London branch of Credit Suisse. As I understand it, that was in the end the proximate cause of Greensill's failure in that first week in March, when they pulled it having gated their funds.

To put that $140 million in context and to illustrate why I am worried about the thing you asked about, the family office—it seems to have been rather more like a hedge fund—Archegos, which went bust recently, delivered a $10 billion hit into the banking system, including a $5 billion hit to Credit Suisse. Now, Credit Suisse did not breach its capital requirements; it was able to absorb it, but it is extraordinary that a single entity can deliver a hit of that size. Of course, we are still waiting to see where the losses from Greensill will land. I am not worried about it in relation to PRA firms.

Q15 **Rushanara Ali:** Hello and congratulations again on the reappointment. I have a couple of supplementaries on Wyelands and Greensill. Given what you have said about non-banks and some of the potential risks, can you talk us through what you would like to see happen and what you would like to do to try to mitigate future risks? You mentioned the $10 billion. If that happens on a number of fronts, that is pretty serious, is it not? What should be done about non-banks? What are the two or three things that you would want to see happen?

Sam Woods: I completely agree: that is the worry. It is the worry that a single one can deliver a hit of that size. If that happened several times over, you might have a much more serious problem. This is a very live discussion at the moment internationally among regulators, both the prudential regulators of banks and those who oversee the markets.

I am hoping that we will be able to come at this from two ends. First, from the banking end, we need to overhaul the way these types of exposures are managed within the banking sector. There are basically two angles to that. One is how they are risk managed. We have an investigation underway currently, jointly with supervisory colleagues from

other jurisdictions, into the Archegos affair. It already seems obvious to me that one of the main learnings will be that some firms do not have sufficiently dynamic margining. Basically, the collateral they have does not keep up with the positions. If it all goes wrong very suddenly, they are caught short. It seems like an amazingly obvious thing, but I am afraid that is one of the things that happened here. That is an important thing that needs to be sorted out.

Q16 **Rushanara Ali:** Can I just check one more thing? Presumably the senior managers regime does not apply to non-banks in the same way. Should it? One of the issues that came up with Greensill is that the regime does not apply to Greensill either.

Sam Woods: It depends. It does not apply to Greensill; you are right. By the way, as an interesting side point here, Mr Gupta is fit and proper as a controller, but he is not an approved person within the senior managers regime. That is another interesting distinction here.

Greensill was outside the senior managers regime. Had they had a bank in the UK, we of course would have had them inside our senior managers regime.

Q17 **Rushanara Ali:** Well, they did have a bank elsewhere—in Germany. Given that they have a banking function over there and given the interconnection in banking, should they be?

Sam Woods: That is a question for the German Parliament. They should follow our Parliament’s lead and have a senior managers regime themselves. This is a point that we frequently make to our colleagues. We have not yet made much headway on it in Europe, but we have made headway elsewhere. That is a valid line of questioning.

Q18 **Rushanara Ali:** When can we expect some of these risks to be mitigated as part of these international discussions? Next time round, you could envisage a situation where this happens on a number of fronts and it does become a systemic risk. I know that everybody has told us in this Committee, including from the Bank of England, that this particular case does not pose a systemic risk. If you had it on multiple fronts, it would. When can we expect some action on both the domestic and the international front so we can tidy this up and non-banks on multiple levels do not pose a systemic risk?

Sam Woods: As I said, there are two ends of this. One end is easier than the other. On the banking regulator end, within the next month we will have completed our investigation of this hedge fund blow-up. From that will flow various bits of supervisory action and there may be policy as well. If there is policy, that takes longer because it has to be agreed in Basel, but we will be straight on to the supervisory aspect. Judging from the interest from colleagues around the world—it is of course not particularly a London issue, but London is involved—others will want to do the same.

The more difficult end, where I slightly share your frustration, if I am honest, is the oversight of the non-bank institutions themselves. It is hard work to get the global regulatory community to agree that more action needs to be taken on some of these entities. We have been pushing it from the UK end. We are making some progress, but it is not as fast as one would like. The Archegos case illustrates it perfectly. This was a New York fund, and some of the hit came into London.

Q19 **Rushanara Ali:** I just have one final one on this, with two sub-points. First, could this be the next subprime mortgage-type equivalent problem in the future, if we do not get our act together internationally and domestically?

Secondly, given that you identified and referred the Wyelands case to the SFO and the National Crime Agency back in 2019, and given that the Treasury was made aware of some of the concerns and passed it on to BEIS, notwithstanding the barriers that you point out, which are legitimate, between what the Bank does and information sharing, should this coronavirus large business interruption loan have been picked up, given that the information was shared and given that the British Business Bank is accountable for this?

Sam Woods: On the first question, subprime, at this point I do not think it is going to play out in that way. One of the big problems with subprime was that it was developing at the time when the banking system was massively overleveraged and undercapitalised. We have spent the last decade—members of the Committee have been involved in this, too—sorting that out. We may come on to this later in the session, but we are in a stronger place.

Notwithstanding that point, we absolutely have to get a better grip on that, in particular this issue about how the margining works for some of these prime brokerage businesses. It is actually pretty shocking that this sort of a hit can come in, although there is enough capital to absorb it. That would be my response to that. Time will tell if I am right or wrong on that.

On your second question, I have no insight into the thinking of the British Business Bank and how it makes its accreditation decisions beyond what is published, because of the Chinese wall that exists between us. I imagine it will be asked that question either by this Committee or by one of the other Committees looking into this.

I suppose the only point to make is a point of context. If you look at the bounce back loans scheme, that is £46.5 billion. That was a very good thing to do, but everybody knew going into it that the loss rate might be very large. We have been operating in quite an extraordinary period where the Government's risk appetite, quite appropriately, has been quite high in order to bridge the economy through. It is possible that that has been a conditioning factor in their decision-making, but that is purely speculation on my part.

Q20 **Rushanara Ali:** Yes, sure. If the risk appetite is skewed by high-profile lobbying by a former Prime Minister, that then raises some much more problematic issues, as we have found, which is the subject of this inquiry.

Sam Woods: It would do; I agree. I have no insight into that.

Q21 **Dame Angela Eagle:** Mr Woods, were you aware of the intensive lobbying being done on behalf of Greensill and also, by implication, GFG by David Cameron?

Sam Woods: Yes, I was aware at least of the part of it that was coming into the Bank of England. You had a very full account of that from Jon Cunliffe and Andrew Bailey when they were with you, and it is also set out in Andrew's letter. Yes, I was aware of that. Jon was handling that. He is quite capable of handling himself, in my experience. Both because he is on the Prudential Regulation Committee and because we are executive colleagues, he was also well sighted on everything we were doing on Wyelands and GFG.

Q22 **Dame Angela Eagle:** You were not personally lobbied yourself, but you knew what was going on because colleagues told you.

Sam Woods: That is right.

Q23 **Dame Angela Eagle:** Did you offer any advice or insight to colleagues as to what you were doing from the point of view of Wyelands and some of the worries that had been in the minds of you and your colleagues doing your job from 2016 onwards?

Sam Woods: Yes. As I say, our concerns developed a bit later than that, but certainly our concerns were in a full-blown state by the time that the lobbying that you refer to began. The approach I took was that we were sensibly dividing the work we had in front of us in that extremely testing time. Jon was in charge of this. I made sure that Jon was fully sighted on what was going on and, because Jon pays close attention to our business, he was.

Beyond that, I thought he could take his own counsel on how to handle it. For what it is worth, I think he handled the situation correctly.

Q24 **Dame Angela Eagle:** You have talked about the Chinese walls, but, given what was going on, and the fact that there had been references and reports to the Serious Fraud Office that you were in the middle of developing, did nobody think it was reasonable to let the British Business Bank know what was going on before it gave Greensill uninterrupted access as a potential lender to £50 million loans at that time? We know that they almost certainly then exceeded their lending authority by lending eight loans of £50 million to the GFG group. Although the guarantees have been suspended, that does not mean that the Government and taxpayers are not on the hook for the losses that have occurred.

Sam Woods: If you look at it from our point of view, our objectives led us very directly to the strategy that we pursued: get the bank recapitalised and get the depositors paid out. At the same time, just as you say, because we were discovering things that we considered could be relevant to the interests of other authorities, we very promptly advised them of those as they came along. The two that we did were the NCA and SFO together, and the Treasury, because we would always keep the Treasury posted in a case like this.

As for the flow of information to the British Business Bank, as I say, we literally do not have a gateway, so I would be in breach of the law if we did that. I thought I understood, and I may have misunderstood, from Mr Roxburgh's evidence that the Treasury had found a way to pass this information to BEIS in May before the decision on CBILS was made by the British Business Bank. As I say, I have no ability to second-guess how Treasury officials do this, but to me it seemed like a sensible thing to have done.

Q25 **Dame Angela Eagle:** It makes it all the more extraordinary that the British Business Bank did what it did, then.

Sam Woods: I have no insight into how they make their decisions. I am sure they have to weigh a number of things. Of course, it was a time when the Government were going to great lengths to support companies in various ways. I am sure that must have been present in their decision-making. As to the specifics, and as to what exactly they knew and how they weighed that, it would be inappropriate if I did know, and I do not know.

Dame Angela Eagle: Thank you for that. Obviously, we are trying to get to the bottom of how this happened and whether the lobbying had anything to do with it, so those are questions that have to be asked.

Sam Woods: No, I understand.

Q26 **Dame Angela Eagle:** One of the other issues that alarmed me about all of this is how easy it seems to be to use a change in control effectively to get a banking licence, whatever your previous history, so long as you can engineer a change in control. Is that a weakness of the system as it currently is? Is it almost like a loophole that, if it is left open, is going to cause you even more sleepless nights than you have been caused already?

Sam Woods: I would not describe it as a loophole, because there is a process there. If you looked at the criteria in FSMA, you would find them perfectly sensible. I find them perfectly sensible. You are absolutely right: as I was mentioning to the Chair, the way it is framed is unhelpful. It puts too much of the burden of proof on the regulator. If we changed that, it would help. Would it have made a difference in this case? I do not know. You would need to go back in history to test it again, which is obviously impossible to do. It could have done. As I say, that change

would also help in conditioning the way in which these sorts of decisions are taken by the regulators.

The only other point I would make, though, is that we have often discussed in this Committee the importance of our secondary competition objective. We have allowed 25 or so new banks to come into operation while we have had the PRA, which is eight years or so now. I think that is the right thing to do, but of course it is not going to work out for all of them. The thing we discuss less—this is a much bigger learning from this—is the fact, which the Committee may or may not be aware of, that we have had 15 banks exit during the same period, one of which we are talking about here.

We have been doing some work on this to take it forward, and my reflection is that there must be things we can do here. We need ease of exit as well as ease of entry to make this whole system work from a competition point of view.

Q27 **Dame Angela Eagle:** Yes, but we also need to make certain that rogues do not take charge of banks by having change in control mechanisms that are somehow more lax than if you were setting up a bank yourself. It is easier to acquire a bank by change in control than by going through the fit and proper person criteria, I suspect.

Sam Woods: You are definitely on to something there. We would not knowingly allow a rogue, so-called, to take control of a bank. We would not do that, and we resist people trying to do such a thing. The way the test is framed—I agree with you—makes the prosecution of the test a bit weaker than it should be. That is a learning from this case.

Q28 **Dame Angela Eagle:** Perhaps we need to look for some reform there. Perhaps in another area where we are looking for reform, part of the Greensill business model was about the securitisation of assets. It became more and more obscure, what was in the assets that were being securitised, which has a familiar ring to it, as somebody who was in the Treasury in 2008-09.

Sam Woods: It does; I agree.

Q29 **Dame Angela Eagle:** This is coming from a shadow bank in a non-regulated area, which appeared to rely on insurance to give those who were investing in the securitised assets reassurance. There are potential weaknesses there, are there not?

Sam Woods: There are a number of bits in there. Mr Rathi and Mr Randell talked to you about this, and I would defer to their view. As I understand it, the securities issued by Greensill to these funds were not considered—this is a rather extraordinary thing to say, in a way—securitisations under the securitisation regulation because there was no tranching of risk. That meant that the various protections that would apply under that regulation did not apply under the law. I am not very

close to that because it is more on the FCA's side of the fence, but, to be honest, that does seem a bit bizarre. That is one thing worth looking at.

The other thing, which the Committee has also already put its mind to, is the appointed representative regime. Again it is an FCA thing, but my understanding is that it was set up in 1986 for self-employed salespeople. It is now being used for regulatory hosting of companies like Greensill. That seems to me, again, to be quite a strange state of affairs. I would have thought that was worth a good look as well.

Q30 **Dame Angela Eagle:** Simply because investors have lost so much money in the Credit Suisse funds and the entire edifice seemed to rely on insurance, it seems to me to create uncertainties about what is being securitised, whether it is called securitisation or not. The people who lose are those who are investing in these so-called assets, which turn out not to be assets at all.

Is there anything else that we need to be looking at? It is a bit difficult to judge before the thing has happened, but are there any similar weaknesses in the shadow banking sector that you think may resemble what happened in 2008 and cause potential problems? If people are investing in assets that are meant to be insured, and yet they turn out not to be worth anything and they lose a lot of money, it might be bad for individual investors for a while, but in the end it destroys confidence in the system as a whole. That has big implications for the rest of us.

Sam Woods: Yes, there is a particular point on how trade credit insurance works, which it is worth the Committee being interested in. I saw Mr Greensill's evidence to you, and I was puzzled by something he said. He said he considered that the regulation of trade credit insurance was procyclical.

Dame Angela Eagle: Yes.

Sam Woods: I was puzzled by that, because I took it that he meant that the regulation had made him pull back. I am afraid I just do not agree with that. It is of course true that capital requirements for insurance companies in the UK, the rest of the EU and Australia tend to react to the risk environment around them. When risks go up, they can go up. The reason that insurance is withdrawn is very rarely that; indeed, it never is, in my experience. It is the fear of loss.

I think that was the case here. My understanding is that Tokio Marine had a look at what was going on in the Bond and Credit Company in Australia, decided it did not like the look of it—it has been reported that one of the underwriters exceeded its limits; I have no way of verifying that—and pulled the plug. It is pretty obvious that that is what happened.

Q31 **Dame Angela Eagle:** They may have carried on issuing insurance but charged more for it. You are saying that, basically, they suddenly realised that they might be insuring sand and, therefore, they pulled out, which is a different thing entirely from charging more for the insurance.

Sam Woods: Exactly, that is my assessment of what occurred there. Mr Greensill also said something that I did agree with, which is that it is a very dangerous thing to be overly reliant on trade credit insurance. I agree with him. That is why his business went bust, along with various other reasons.

There is a much broader point as well. We may come on to this later; I am not sure. Although I think he is wrong about procyclicality as being a big deal in the regulation of that type of insurance, it is true that that type of insurance can be pulled back in times of stress. You do see that. That is more about the way the insurers behave. The reason they can do that is that, typically, the exposures are very short-dated: three, six or maybe 12 months at the outside. Some of the Greensill stuff might have been a bit of an exception to that, by the way. Therefore, as the trade credit insurers get into a crunch, they have the ability to pull back. If you look at their claims ratios, they are pretty good from the insurer's point of view. They are 50% in most years, and they were not even much more than 90% in the global financial crisis.

What you see happening is our Government and other Governments stepping in in the crunch. They did step in in this crunch. This is the question for the Committee: is it better to try to bring in new regulation that stops that happening so that it has to carry on being provided, a bit like a universal service obligation or something like that, through time, or is it just more efficient—I know this might sound like an odd thing to say—for the state to insure the very end tail of that? It will be tempting to reach for the first, but I am not sure. Maybe the second does make sense.

Q32 **Dame Angela Eagle:** I suppose, Mr Woods, that depends on how many of these crises we are going to have and how regularly they occur.

Sam Woods: That is true.

Dame Angela Eagle: They seem to be speeding up.

Siobhain McDonagh: I am really sorry to take you away from Greensill. I would like to carry on.

Sam Woods: I am not.

Q33 **Siobhain McDonagh:** My questions will examine whether banks depleted their capital buffers to support lending through the crisis, as the Prudential Regulation Authority intended, and how the PRA will handle the resumption of stress testing and dividends, and the pandemic's impact on competition in banking.

The PRA has encouraged banks to deplete their capital buffers and maintain lending through the pandemic, but there has been concern about their willingness to do so. Have there been problems with buffer usability in the UK?

Sam Woods: I am actually quite worried about that. I was very worried about it in March or April of last year, because at that point it was reasonable to expect that one path of the crisis could take us a long way down in bank capital ratios, given that at that point all we knew was that the economy was about to contract more than it had done for hundreds of years.

I was very worried about it. It was not at all obvious to me at that point that the banks would be willing to draw on their buffers in order to continue lending to the economy, which is what we want them to do through downturns. As it happened, because the Government stepped into the breach to such a massive degree in this crisis, the hit has not yet arisen for banks. To give you a sense of that, the latest CET1 ratio, which is a key ratio that we use on banks, is 16.1%, which is the highest it has been. Indeed, it is a point or so higher than when we started the crisis.

If you like, it did not hit, but we had enough of a glimpse of that issue at the beginning. I do worry that, between the regulators and the investors, we have created a system in which banks will be very reluctant to do that. We are actively engaged in Basel to see if we can get some changes.

Q34 **Siobhain McDonagh:** Do you think there is anything more the PRA or the Government could do in future downturns to stimulate lending and to encourage banks to use their buffers?

Sam Woods: I do, but the best solution would be to get something agreed in Basel. One of the most difficult bits of this is that, if banks go into their buffers, various restrictions start to apply not only to dividend payments but also to coupons on AT1 instruments. Many of the bankers, possibly all of them, believe that if they cut those coupons in particular it will be taken as a devastating signal of trouble at the bank, and that would be a huge problem.

I do not know whether they are right to think that, but I think it would be sensible to remove some of those automatic restrictions and do instead what we did this time, which is to put it back with the regulator. We can make the call; we can do it across all banks; we can hold the money in. That is a much better way of doing it.

Q35 **Siobhain McDonagh:** Stress testing is going to return this year. How have capital buffers been affected by the crisis? At what pace will you require them to return to normal?

Sam Woods: As I say, we have not really got near to the buffers. I gave you that figure of 16.1%. The top of the buffer requirements, which sit on top of the minimum requirements, is 11.6%. There is tonnes of room even between the top of the buffers and where banks currently are, which is good news. There is also another five points or do before you get to the minimum requirements.

The question for us is always, "Is that enough to handle it if things go really badly?" We are running another stress test at the moment, and we will publish some results, once finalised, in two or three weeks' time. That will be a desktop stress test across the whole system, and then we will do individual bank results at the end of the year, which will be back to normal for us. To give you a quick sense, in the one that we have published, we judged that it would take £120 billion in impairments to draw down that capital ratio by about five percentage points in aggregate, which is what we expect to happen to banks in the stress test.

What has actually happened is that banks took £22 billion in impairments last year and they have now started to write those back a bit. We will see what happens in the next phase now. It would be reasonable to expect some more defaults to come through now, and we are going to withdraw a bit of the transitional support that we have provided. I am expecting a little bit of pressure to come on to bank capital ratios in the coming period, but nothing remotely like that five-point draw-down.

Q36 **Siobhain McDonagh:** At the start of this year, the PRA relaxed its restrictions on dividend payments at the onset of the pandemic, but some remain in place. Why did you allow limited dividends to resume?

Sam Woods: We made a very unusual judgment in March of last year: that we should ask all the big banks not to pay out any dividends at all. We did that for the reason I gave a moment ago. We were looking over the cliff. We had no sense of what types of parachutes were going to be available or anything of that kind and we had about £7 billion about to walk out of the banking system. When we looked at our statutory objectives, we thought, "Safety first: we have to keep that in". That was very difficult for the banks, because they had already announced that they were going to pay this money out. They were a long way down the track, so in the end it needed a regulator to come in and do that.

Wind the clock forward to the end of last year, which is when we made that judgment. The capital position at the banks at that point was actually 16.2%. It was 10 basis points higher than the most recent number. That is a lot of headroom not only against their minimum requirements but even above their buffers. With that in mind and with the imminent progress on the vaccines coming, we did think it was appropriate to allow some small payments to go out and to put that decision back with boards.

On the other hand, we did not feel confident to say, "Pay out whatever you want", so we put these guardrails in place to contain that. By the way, that was able to encapsulate what the banks would have done anyway, as it happens. We then have a decision coming up next month based on our latest stress test. Do we stick to that stance, do we remove the guardrails or do we do something else?

Q37 **Siobhain McDonagh:** In her appointment questionnaire, your PRC colleague Jill May expressed concern that the pandemic has damaged

competition in retail banking because Government-backed lending schemes were dominated by the larger banks. Do you share those concerns, and what do you intend to do about this, if so?

Sam Woods: I am afraid it is much easier to answer the first half of your question than the second. To the first half, yes. The reason is that, if you look at the stock of lending to SMEs in this country, as we went into Covid, 73% of that was provided by the big banks. Coming out of Covid, it is 78%. That is because an enormous amount of the Government-backed schemes were channelled through the big banks. They also went to a significant extent through the small banks, but not as much.

There are a number of reasons for that, but one is a simple one, which is that the big banks still have a disproportionate share of the business current account market. The one check that had to be done on these loans was KYC and AML. That should never be waived. If you had a business current account, that would have already been done. That naturally meant it gravitated towards the big banks more. By the way, this was a moment of emergency. The money needed to get out very quickly. It was the right thing to do. It is unfortunate that it has walked back the progress in that stock share. Basically, we have gone back to where we were a few years ago. That is a bit unfortunate and I am a bit concerned about it.

What to do about it is much more difficult. One interesting question, though, that the Committee might want to keep an eye on is, "What are the arrangements going to be as and when firms come off those loans, wish to refinance and things of that kind? Can we ensure that process works in a way that promotes competition?"

Q38 **Siobhain McDonagh:** Can you foresee circumstances in which the FPC would want to impose limits on borrowing by businesses, as it already does for household mortgages?

Sam Woods: It is pretty unlikely, I have to say, but we are monitoring the aggregate level of corporate indebtedness, which of course has gone up in the UK through this crisis. It is a bit of a varied story, though. The biggest institutions drew down a lot at the beginning from the banking system through these rolling credit facilities, and then they spent the rest of last year basically paying it off again when they decided they did not need it, whereas SME indebtedness has really gone up a lot. It has gone up further, in a way that is more concerning, in the US.

It is an unfortunate fact of Covid that we come out into a more heavily debt-laden world, both sovereign and corporate, but not so much personal. Within "personal" it is very skewed. Some people have got richer and other people, unfortunately, have got poorer.

Q39 **Siobhain McDonagh:** Do you think the increase in the UK public debt poses any risk to financial stability?

Sam Woods: No, I do not, but it is fair to observe—this is the point I made a moment ago—that overall indebtedness is up. It would be bizarre if the Financial Policy Committee was not interested in that and keeping a close eye on it. You asked about rebuilding buffers. The key one that we move up and down is something called the countercyclical buffer. We have said that we will not raise that until the end of this year, but we will regularly update that statement, and we will do so again next month.

Q40 **Emma Hardy:** My questions are looking at the insolvency of the insurance sector and the problems facing businesses in regards to insurance. When you appeared before the Committee in April 2020, you told us that insurers had "largely weathered the first storm". More than a year on, how well is the insurance sector weathering the crisis?

Sam Woods: They are weathering it, financially and prudentially, quite well but, from a reputational and customer point of view, less well. That is basically my take on it. From a financial point of view—it is probably easier just to give you the numbers—the key measure we look at is something called SCR coverage ratio, which is by what percentage they exceed the capital requirement we set for them. If it is 160%, which is what it was before the crisis, that means they have 60% more capital than we need them to have.

As we went through the first quarter of last year, with a lot of stress in the system, that dropped by about 10 points to 149%. By the end of last year, it was back up to 156%. The latest number I have is 165%. That latest move, by the way, is significantly driven by movement in rates back up. Lower rates tend to be painful for insurance companies. If I look at that and if I look at the stress testing we did last year, I am still in the same place as I was when I gave that evidence to the Committee.

On the other hand, we have had a huge claims event here. Particularly around business interruption, that has been a very difficult episode for many policyholders. The FCA did absolutely the right thing to take the case, get it sorted and get it sorted quickly, but, in a way, it is pretty unfortunate that that is how this has to be sorted out. That may bear further examination.

Q41 **Emma Hardy:** I absolutely agree. Just from dealing with constituency issues, there has been some real difficulty with some insurance companies. Which parts of the insurance sector have been the worst hit?

Sam Woods: The life side was hit initially by the movements in markets, the credit downgrades that have come through since, and the effect of the movement in rates, which was quite significant. On the general side, there have been a lot of claims coming in for things like travel. Of course, in other areas the opposite has occurred. We have car insurance being the other way round. Then business interruption is a big one. There is an issue here related to the questions that we were discussing earlier on trade credit. There are some forms of insurance that get withdrawn,

either in a time of stress or more permanently, given learnings from a stress, and we are seeing some of that.

Rates have gone up, which is okay. To give you a high number, professional indemnity has gone up by 26%, but that is after a long period of decline. Then there are things that you are probably aware of: liability insurance for care homes, where it is just difficult to get it, and TV and film events. As we go forward, communicable disease exclusions have now become standard in commercial property contracts for small companies and in business interruption contracts. Unfortunately, that creates a bit of a gap around certainly pandemic-related things.

Q42 **Emma Hardy:** I am really pleased you mentioned that, because you pre-empted something I was just going to ask you about. It is to do with UKHospitality and trade associations from the hospitality sector, which have been telling us that their members have found it really difficult to renew their insurance, as well as businesses facing rising premiums and certain specialist insurance products, as you have just mentioned, such as trade credit and live events, that are yet to come back to the market. Do you think the situation is going to resolve itself without Government or regulator intervention once the economy fully opens, or do you anticipate the need for Government or regulator intervention?

Sam Woods: I think it will resolve itself only partially. The way in which I think it will resolve itself is on the pricing. We have a very competitive market. Pricing goes up; it goes down. It has been through a very long period of going down, and now it is going up again a bit. Although that is annoying for all of us when we take out our policies, my view anyway is that we should accept a degree of that. What we should not accept, and which I am very glad the FCA is cracking down on, is the loyalty penalty stuff, the so-called trail pricing. That is where we need to intervene on price. These contract terms will also settle down into a new form.

The bit that is not going to be resolved by itself is insuring for the next pandemic, whenever that comes, because you just get to a point that the insurance model breaks down. Obviously, some hard lessons have been learned by the insurers and by policyholders. For that, it may be that in time there needs to be some kind of public-private partnership of the sort we already have for Pool Re and for Flood Re around pandemic. There were discussions about that last year that we were supporting, but they fell away because it turned out the pandemic that we are in was going to continue for longer. That is something the Government may want to come back to.

Q43 **Emma Hardy:** It is really interesting that you have mentioned that. You are anticipating potentially a similar model to the Flood Re model. Are you having any of these conversations with Government or offering any advice on how we can ensure that any future pandemics, which we are all desperately hoping are not going to happen, are insured?

Sam Woods: There were quite active discussions last year between the industry and the Government. We basically provide a technical supporting role to the Government when that sort of stuff is going on. As I said, they then fell away because it turned out we were still in the middle of this pandemic. At some point, I hope that discussion will come back, but it is just going to be a choice for the Government. Do they want to put something in place ex ante to deal with that, on the Flood Re and Pool Re type logic; do they want to do nothing; or do they want to go the other way, which is more the trade credit thing, where Government will step in when it hits? You can make an argument for each of those.

Q44 **Emma Hardy:** That is really interesting. Do you think there is going to be any difficulty in getting insurance and is that going to hinder the economy fully opening? Do you think, if some companies or some sectors of the economy are unable to get the insurance they need, they might choose not to full reopen or not to open at all?

Sam Woods: We have a very near-term thing about events and stuff of that kind, which is really near term. More strategically, I doubt it will play out that way. I would doubt that the lack of insurance will be the balancing item for a viable business that would otherwise open. My guess is that the business owners of the UK will decide to take some risk. I hope that is the case.

Nonetheless, there has been a very unpleasant lesson learned here about the very large costs that can arise, particularly for small businesses and hospitality businesses, when a pandemic hits. That is why we have to have that discussion about whether something is put in place for that. In a sense, it has been sorted out another way this time around, by the massive provision of loans to small businesses directly by the Government. If an insurance model could somehow take a bit of that strain, that might be a way of doing it in another crisis, I suppose.

Q45 **Emma Hardy:** Just finally, digging into that a little further, do you think the Government therefore should step in to provide or subsidise trade credit and live event insurance, particularly, as you have said, in the short term for the live events industry?

Sam Woods: I cannot really give a view on that, because it is about use of public funds. I will leave that decision to the wise people at the Treasury to make.

Q46 **Emma Hardy:** What could you see as the advantages and disadvantages of the Government doing that if they chose to?

Sam Woods: Of course, if a number of events can go ahead, a lot of people, including some younger members of my household, will be very happy about it. If that comes with a cost to the Government, there is a question of whether that is the priority use for public funds at this point. It is worth looking at what has happened on trade credit, which we have not had to be too close to, but the Government have run what appears to be a successful trade credit insurance scheme, which has provided a lot

of backstop in that area. As far as I know, the Government are happy with that scheme. Maybe that is a model for other things that could be done but, as I say, I am a bit reluctant to put my head in the jaws of that one, just because it is really not my call.

Emma Hardy: Fair enough, but hopefully we will get Britain dancing again soon.

Q47 **Harriett Baldwin:** I so agree with what my colleague Emma Hardy was just saying then. Also, I would encourage you, Mr Woods, to carry on with those conversations with the Treasury about pandemic reinsurance. It seems to me that ultimately what happened here is that the Treasury ended up being the insurer of last resort, effectively, for the wider economy. If we could have a "Pandemic Re", which then allowed private capital to come in from the insurance policies to back that kind of insurance, we would be in a more resilient position. I think I am right in saying that, on the terrorism and the flood reinsurance, the Government have never had to pay out a penny. It would just catalyse some private sector capital into something that is clearly very needed. Please, do carry on with those conversations.

Anyway, I am digressing but, as my topic is to talk to you about the post-Brexit review of Solvency II, I just want to get an update from you on timings, but also your policy primary objectives for the insurance industry in terms of contributing to the securing of an appropriate degree of policyholder protection and promoting the safety and soundness of firms. Can you give us an update on how the consultation is going, from your point of view, and how long you would expect it to happen for, until we actually get an announcement?

Sam Woods: This is a very important topic for us, and this is one of the main things post-Brexit that we are doing. We are basically seizing the opportunity that we now have to tailor the rules to our market, which I think is the right thing to do. Solvency II is a slightly odd beast in this respect. It is the Treasury's review, because it owns quite a bit of this, but we also own other bits. In a separate debate that they were having in Parliament, this is why we need to sort out this spaghetti that we have. There is a proposal to put more of it down into the regulators' rulebook, which we of course support.

On timing, the next stage is for the Treasury to come back with its response to the call for evidence. I think it is the Treasury's intention to do that before the summer break, so within a few weeks. We ourselves have also said that we are going to publish something called a QIS, which is a quantitative impact study. The reason for doing that is that these are big bits of machinery that we are planning to move around here.

We need to understand how, if we move various things, that could impact the insurance companies. We need to go out alongside that response to the call for evidence to say, "For various types of changes, to none of which we are yet committed, what would the impact be on you in the

insurance sector?" We need to give them, unfortunately, three months to do that work. I say "unfortunately"; it would be good to go more quickly, but it is very important that it is done properly, and they need that time. Once we have that back in, we will then be in a position to analyse that and hopefully come forward with some proposals next year. That is broadly the timeline. Would you like me to say a word on the substance as well?

Q48 **Harriett Baldwin:** Yes, I would, because I am interested to know how it is going to benefit the UK economy, but also our constituents, what differences they will see, and what impact it is going to have on those two statutory objectives that I just outlined.

Sam Woods: You can think of this review having two main objectives in its sights, one of which really is the Treasury's and the other of which is ours, though the Treasury has a strong interest. One is that the Treasury clearly has a strong and sensible interest in getting the right level of investment in the economy, including from the private sector and insurance companies, for all sorts of reasons. The Treasury is hoping and has some reason to hope that we can change the regulation in a way that better promotes that type of investment in communities around the country. That seems to me to be a good objective.

The other main objective—and we are focused on this, of course, given what you said—is policyholder protection. That is our other primary objective, along with safety and soundness. We want to be sure that, as we make any changes, we are not reducing the levels of protection that there are for policyholders. Particularly, I always think about an annuitant. If somebody is putting potentially their whole life savings into a private company on a promise that they will keep paying them for the rest of their life, we need to be pretty sure that is going to work when that happens.

The whole review is going to be about a balance between those two things. I can go into some specifics if you want, or not, as you please.

Harriett Baldwin: No, please do.

Sam Woods: There are two big things to look at here. One is a thing called the risk margin. This is, if you like, an extra liability that we ask insurance companies to carry in the event that an insurance company is taken over by another company, because that company would probably come along and say, "You say your liabilities are worth X, but I am going to take a slightly prudent view on that and just add a bit". So it is quite important that that funding is there in order to enable those sorts of transactions to occur.

The idea of the risk margin is a good one; it is actually common sense, but the way it is calibrated is problematic and, indeed, I would say wrong. It has been made much too sensitive to interest rates, and in particular when interest rates are very low it becomes a very large

number. The current value of the risk margin in the UK, on the latest figures I have, is £45 billion. Now, because we are transitioning in the regime over 16 years, would you believe it, it is only £22 billion after the effect of that transition, but obviously these are very large sums. We want to change that. We want to sort it out and we think that will help free up insurance companies' ability to invest.

Q49 **Harriett Baldwin:** It could just make them more profitable, and they would not necessarily invest more. I also wanted to come on, because you might be getting to it, to the question of the matching adjustment and the impact that these changes might have on that. The scale, currently, of the amount of matching adjustment that is being recognised by you in terms of capital, effectively, seems to us, as external observers, to be very significant. Are you considering relaxing that matching adjustment even further? How would you explain that to policyholders?

Sam Woods: I am very glad you have raised both those points. I completely agree with you. It is not an objective of this review, neither of ours nor of the Treasury's, to boost the profitability of insurance companies. They are quite profitable already, including over the last year, and we do not need to boost their profitability. We have said repeatedly that we do not want there to be a significant reduction in policyholder protection or release of capital to shareholders off the back of this review, and that is what we will aim to achieve. That is the PRA view, and it is also my view personally.

When you come to the matching adjustment, therefore, as you say, I am glad you have noticed how big it is. I can give you the latest number, which is probably a bigger one than you have had before, which is £81 billion. This currently delivers a benefit of £81 billion to the capital positions of insurance companies in this country, which is roughly evenly split between more capital resources, because it allows them to apply a higher discount rate to their liabilities, which therefore creates more capital, and a lower capital requirement, because the matching adjustment shields them from some movements in stress. To put the £81 billion in context, if you add up bounce back loans, CBILS and CLBILS, you get to 75 billion quid. This is a very large number.

Now, the matching adjustment is a good and sensible thing to have, because it gets insurance companies to match very precisely the amount of money that they are going to have coming in, from the assets they invest in, to the commitments they have made to pay out money on the other side. That is a really good thing. That is genuinely risk-reducing.

I do not foresee a world in which we would not want to have a matching adjustment and in which it was not large, but we will want to do a couple of things. First, the insurance companies complain that there are some good assets that throw off sufficiently fixed cash flows, of which infrastructure assets are one example, but which currently cannot get into the matching adjustment. We think there is scope to look at that

question, obviously subject to appropriate constraints. They also complain that some of the processes we have inherited from Europe in this area are a bit bureaucratic. We agree with that. I think we can sort that out too.

The other thing we have to look at is the allowance for uncertainty within this construct about what the default rates on assets will be. There is currently not much allowance, if any, for uncertainty. You just take some period in the past, project it forward into the future and assume it will be the same. We have to have a bit of a look at that.

Q50 **Harriett Baldwin:** I am very interested in the fact that we have just gone through the worst economic recession for 300 years, a massive stress test in many different ways for insurers' balance sheets. I just wondered, as you go through the process of looking at these rules, whether you can assure the Committee that you will take into account that stress test, but also the potential for even worse stress tests as you do so, just to make sure that you can give reassurance to policyholders in the way that you described.

Sam Woods: Yes, I can absolutely provide that commitment. Indeed, what we did last year to inform our position on insurance companies' capital positions was run our own stress testing for it. Basically, just to give you a flavour for it, on the life side we looked back for the worst year in history for credit downgrades, which was 1932, and used that as the basis for the stress we put insurance companies through. When we looked at the impact of the stress of Covid, which at that point looked pretty bad back in May 2020, we did not consider it stressful enough.

So we do that, but I am glad that the Committee is looking at all these questions with a careful and somewhat sceptical eye, because this is an area of the regime that we need to be extremely careful with, given the importance of the companies being robust and the sheer size of what we are doing.

Q51 **Harriett Baldwin:** At this stage, would it be possible for you to quantify what you think the impact on the UK economy would be from the kind of changes that the Treasury is proposing and that you are working with it on?

Sam Woods: We will have to wait for the results of the QIS, because we first of all need to know what this might do to insurance companies. That said, my hope has been that what we can do here is a reform that makes the regime work better, makes it easier for insurance companies to invest in good stuff, but does not make life any more dangerous for policyholders. With the goodwill from the industry and with a meeting of minds between the Treasury, Parliament and the regulator, I think we can do that.

Q52 **Rushanara Ali:** I have some questions on climate change. A report came out in May 2021, published by Greenpeace UK and WWF. They found that

UK financial institutions are responsible for 1.8 times the UK's annual net emissions of CO[2], and the finance sectors are driving the high-carbon economy, yet there is currently no requirement for it to reduce the emissions in line with the Government targets, unlike other industries. That is the context. I just wondered what you make of that report and what your thoughts are on what the finance sector should be doing.

We have had a number of banks come and give evidence in the decarbonisation inquiry. They have talked about what they are going to do in the longer term, but there seems to be a huge gap here in terms of what is happening now and what is being promised for the future.

Sam Woods: We are doing more and more on this through time, particularly because the Government have just added climate change as a "have regard" for our activities. Actually, Parliament also added it as a "have regard" for the piece of legislation that just went through to implement Basel 3.1. We are glad to see that, because we have been doing more and this will make us go further. One caveat I would have is that, in my opinion, it is a decision for Parliament, Parliaments around the world and Governments as to what the transition path is actually going to be. That is not a decision for central bankers or regulators, in my view. That must be set from above.

We then do have a pretty important supporting role. The main one, in particular relation to the PRA's business, is to make sure that firms are on this, that they understand the risks they have and that they are managing them actively. Our strategy on that has basically been that we published a statement back in 2019 saying, "Here is how we think this should be done". I then wrote to all the firms in July of last year, notwithstanding everything else that was going on at that point, to provide some pointers on good and bad things that we have seen, and to say that we needed to see compliance by the end of the year that we are currently in. That is becoming a big issue for supervision right now. Indeed, we have firms for which we are elevating this as a key risk, where we think they are off against the expectations we have.

The other big thing we are doing this year is this exploratory scenario, which I can come on to if you are interested.

Q53 **Rushanara Ali:** You launched that, and this is around stress tests. I suppose one of the questions for me is about capital requirements. Why are you not planning to use the outcomes to set capital requirements?

Sam Woods: Basically, we think firms need to be getting across this. We do not yet have, either in the UK or globally, by the way, the detailed mapping of the transmission mechanism from climate through into banks' capital positions that we would need in order to calibrate a capital requirement.

The Basel committee has published very recently a very good paper that sets this out and that shows we do not need some new category for climate, which is quite useful. We can use the existing bits of the Basel

framework, credit risk, market risk and all the rest of it, to capture this. The evidence base at the moment is a bit too macro, so it tends to be about, "What is the impact of this going to be on economies?" and that sort of thing. We will use the exploratory scenario to start building up some of that. We are also asking insurance companies to lay that out in something called their ORSA, to say how they get confident that they have this covered. We will be able to learn from that.

Q54 **Rushanara Ali:** What is the timeframe, then, by which we can expect much more granular data that helps to get past this point you are making about it being too macro, so that we can start to see climate risk being priced into what companies do?

Sam Woods: It is partly the granularity question, which comes to disclosure and taxonomy. The Government have committed to take forward a UK taxonomy in the context of COP26 and are intending to deliver on that. That will help. Related to that, we need much better disclosure from companies. We have expected our firms to have decent disclosures in place by the end of this year. That is part of a wider Government-led initiative to have all UK companies doing it by the end of 2025. We need the international solution to this as well, and the best shot on that is this proposal from the IFRS Foundation, which could really get it into the accounting world. We are supporting that.

I am sorry; you would probably like me to say it will all be known and sorted tomorrow or next year, but just realistically I do not think it is going to be.

Q55 **Rushanara Ali:** When is it going to be? Just on that, you mentioned about providing a supportive role. Is there not a leadership role for the Bank to take? The former Governor of the Bank of England was very proactive. The current Governor has expressed some reticence in one speech he recently made.

Is there the leadership at the Bank now on climate change, getting companies to understand climate risk better and putting in the measurements and the changes that are required, so that you can answer this question, if not now, by next year? Then you would have a line of sight to answer the question of when we can expect clarity as to when companies will be ready, so they do not come to this Committee, as they did in the last inquiry we had, to say, "Yes, we have a plan for the long term, but you are going to have to give us time, and in the meantime we will carry on being one of the largest emitters". The financial sector and the City of London are causing grave harm in other parts of the world through what they are investing in.

Sam Woods: I completely understand your frustration. On the narrow question of leadership, I really think we have that. Andrew is very committed to this. My colleague Sarah Breeden puts a huge amount of energy into this topic and she has also just been appointed to the

Financial Policy Committee. I imagine she will appear before this Committee at some point.

Q56 **Rushanara Ali:** That is great; that is really reassuring to hear. There is a report saying, according to Reuters, that Mr Bailey was unconvinced by carbon capital rules. I just wondered if you wanted to comment on that.

Sam Woods: I think the reason that Andrew said that is the reason that I just gave, which is that there is not yet a prudential—

Q57 **Rushanara Ali:** It is data-based.

Sam Woods: Yes, there is just not the evidence to do it. We could just invest something, but I do not think we should do that. The elephant in the room here is that, until it is clear what the path is going to be, which, as I say, is a decision for Governments and Parliaments, not for us, it is very hard to work out what you should capitalise for.

Q58 **Rushanara Ali:** Somebody needs to work it out, and the Government are not going to be doing it. You have a limited amount of time, between Government and the central banks, to save the planet. I will leave that to you to ponder. Perhaps next time, Mr Woods, we can have more clarity about how the data is going to be generated.

Sam Woods: We must do better.

Rushanara Ali: There is no pressure, just one target, which is how to save the climate, coming through the financial services leadership dimension to all of this.

Q59 **Alison Thewliss:** I want to continue with the questions on climate change. The New Economics Foundation and Positive Money have a report out today, I think, on greening finance to build back better. They suggest in the report that we need a regulatory system that does not just protect banking and finance from climate risks, but one that protects the climate environment from banking and finance. Which way around do you view it from where you are sitting?

Sam Woods: Given that our objective is safety and soundness of banks and insurance companies, we naturally start thinking of it from the other end of the telescope from NEF. This is part of the point of NEF, which I have worked with for a long time and has often been a source of good ideas: to look in at the other end of the telescope. The two can come together, but until this is properly on the agenda and on board tables, until it becomes a standard part of risk management within banks, it will not get mainstreamed. By pushing the way we are pushing, it will also serve from the other end that NEF is coming from.

Q60 **Alison Thewliss:** You highlighted in your answers to Rushanara that there is a lot of unknown about how you work and how you regulate in this area. Do you think the firms you regulate have a good understanding of what is going to be required of them for the transition to net zero? Are they beginning to price in climate and carbon transition risks

appropriately?

Sam Woods: The answer to both is no. They are very clear on what our expectations of them are in the very near term—that is, by the end of this year—which are all about, "Do you have a grip on this stuff or do you not?" allowing for the uncertainties that are in the wider world. They will not be clear on the path, because the path is not yet clear. There is a bit of "push me, pull you" in this. That will take a bit longer to come through. Although it is a bit dry, this discussion around the taxonomy, the disclosure and all of that, and equipping investors who increasingly care about this to express their preferences in a way that really bites, is going to be how this gets driven.

We are trying to make sure that comes through in a timely and orderly way. Otherwise, what would happen, which is bad for our objective, is what we would call a climate Minsky moment, where suddenly everyone goes, "Gosh, now this stuff is hitting; all this stuff, like transition risk and physical risk, that the Bank of England has been going on about is real", and you have a sudden shock to the system. In our exploratory scenario, we are going to explore a version of that, as well as the more orderly version. The difference between the two will be quite revealing.

Q61 **Alison Thewliss:** Are you going to use the exploratory scenario? How are you going to use the findings from that? I understand you are not planning to use the outcome to set capital requirements. Would that not be a useful thing to do?

Sam Woods: We do not think that, of itself, it will provide that kind of granularity to go into what we would call a pillar one requirement or possibly a pillar two requirement. It certainly will give us a picture, based on banks' exposures at the end of 2020, if you roll that forward as a stylised thought experiment, of what sort of hits would emerge related to climate, given the movement in the carbon price. That is going to be a very useful bit of information for us and for boards.

As I mentioned, we are separately saying to banks and insurance companies, "Tell us how it is that you have got confident that you have this covered". My experience in this sort of area is that, quite often, you will have a few companies that are very forward-leaning, and you can basically find out what they are doing, grab that and then project it back to the others. I am hoping that will be part of the dynamic here.

Q62 **Alison Thewliss:** It seems as though there is not really sufficient urgency about this. You are almost waiting for that crisis to happen so people will act, rather than getting ahead of it and trying to smooth that transition for people.

Sam Woods: I do not think that is really fair. A criticism could have been made of us, before we got the climate "have regard" from the Government, as to whether we were actually doing rather more than our statutory objective of safety, soundness and policyholder protection would imply. I would have resisted it, but someone could have brought

that charge. They did not, of course. I think we are moving at the right speed. There is a huge amount of energy in this. As I say, it says something quite important that our most senior overseer of UK banks, Sarah Breeden, has spent a lot of her time on this agenda and will be taking it into the financial stability area. I hope we are moving at the right speed but, of course, we will listen to views as we go along.

Q63 **Alison Thewliss:** For those firms that are leading in this, there is clearly not much need to incentivise activity for them. They are already doing it. How can you incentivise those other ones that are lagging way behind and just do not have it on their agenda?

Sam Woods: That part of this is pretty straightforward. We are doing that right now. Any firm we find that is not meeting the base requirements that we expressed in that supervisory statement from 2019 is being pulled up by supervision. I personally have been engaged with firms saying, "Of the smallest things we are most concerned about, this is one. The reason we are concerned about it is that you do not seem to have yet met the requirements that we have set". That is a tractable way in the near term to advance this while we have all this uncertainty. We just have to do a bit of that until the wider picture clarifies somewhat. I do not want you to think that is us doing nothing. We are not. We are pushing it quite hard.

Q64 **Alison Thewliss:** That is interesting. I am just curious what kind of response you get back when you push on them.

Sam Woods: It depends on the firm. To be fair, they tend to be embarrassed by that, because they do not want to be off on this and they undertake to do better. We are just in that phase right now, because the deadline is for the end of the year, so the rubber is hitting the road at the moment.

Q65 **Alison Thewliss:** That is useful to know. I noticed that there is a discussion paper out for consultation options for greening the Bank of England corporate bond purchase scheme, which closes on 2 July. What is the level of responses that have been coming into that?

Sam Woods: I do not have that figure with me, I am afraid, but there has been a lot of interest in it, for obvious reasons. I am sure we will provide that figure when we publish the response to the call for evidence. For that one, we did have to wait for the MPC's remit to be changed, because people would have rightly challenged us, saying, "Why are you greening the corporate bond portfolio?" Now it has been changed with the "have regard", we have taken it on.

Q66 **Alison Thewliss:** That is useful. Will there be other discussion papers or consultations in different areas coming forward on this?

Sam Woods: We will carry on doing lots of things in supervision. The way you can think about what the Bank of England is doing overall is that we have one role, which is to try to increase the understanding of these

financial risks in the system generally, and stuff like the exploratory scenario will help with that. Then there is the real PRA bit, which is just making sure that firms are on this and risk managing it. Then there is making sure that our own operations are suitably green, and that is where the corporate bond piece comes.

Also we have our own operations. We are having a debate around how much we should haul down our travel in view of climate and what we have learned from Covid, and we have just published our second disclosure, which is very full. The reason it is so full is partly that we think that is a good thing to do, but also, if we are going to lecture others about this stuff, we had better make sure that we at least think we are doing a decent job ourselves.

Q67 **Alison Thewliss:** Absolutely, I would agree with you. Lastly, I understand that the Bank of France did a climate stress test in May. I wondered if there was anything in particular that they have shared with you or that you have learned from that. The suggestion was that they need to speed up the response that they are having.

Sam Woods: Yes, the teams have been talking about that and it has been useful. It has helped us do a bit of our own exercise in how we think about it. Ours is going to be a much more intensive affair, I believe, given the timeframe over which we are running it. We have this combination also of banks and insurance companies all in one test. As you can judge in this area, there is a bit of competition between regulators as to who can be ahead on it and who can do the best job. That is a healthy dynamic, so I am glad you have noticed that they have done something there.

Q68 **Alison Thewliss:** It will be very interesting hearing what comes of your own later down the road. A differentiated approach, because obviously insurance is very different from other sectors, seems to make some sense.

Sam Woods: Yes.

Q69 **Mr Baker:** I refer to my declared shareholding in Glint Pay, because I am going to ask about crypto assets and central bank digital currencies, which seem adjacent. Before I do that, can I go back to Harriett Baldwin's question about matching adjustment? If I understood correctly, to summarise, you said it is about capital being set against expected cash flows. Could you just tell me something about the risk profile of those expected cash flows?

Sam Woods: The way the matching adjustment works, crudely, is that if insurance companies can prove to us, to a very high standard, that they have achieved a fixity of cash flows coming in from the assets, which maps on to what they have to pay out on the other side on liabilities, we then allow them to use a higher discount rate for their liabilities. What we do not allow them to take over into that higher discount rate is something called the fundamental spread, because the fundamental spread is meant

to capture the risk that those bonds go wrong. A lot of work went into calibrating the fundamental spread when Solvency II was set up.

The point I was making was that, under the construct that we currently have, there is not an allowance for uncertainty around that going forward. If we were looking at broadening eligibility somewhat, if we were looking at de-bureaucratising somewhat, if we were reducing the capital strain from the risk margin, in the mix of all that it would make sense to look at that question. There is probably a way of making that work better, which leaves the whole thing square.

Q70 **Mr Baker:** Obviously, there are people concerned about matching adjustment, some of them experienced in the field of prudential regulation. The rules that you apply are in public, I take it.

Sam Woods: Yes.

Q71 **Mr Baker:** Presumably the application of those rules to individual firms is a matter that is commercially in confidence.

Sam Woods: Yes, although of course we give you the aggregate figures. The firms themselves to various degrees disclose how their capital figures come together. It is plain. Basically, firms in the annuity business and with heavy credit exposure will be heavy users of the matching adjustment.

Q72 **Mr Baker:** I find myself listening to various figures, and they seem to be quite alarmed about the capital position that some firms might be in because of the matching adjustment. What would your advice be to them if they wish to bottom out this argument? What argument would you want to listen to in order to try to bottom this out?

Sam Woods: I am glad people make that side of the argument, because the insurers make the opposite, and it is good to be attacked on both sides. Honestly, I think it is a good thing, because there should be a debate around how we do this, given how important it is. The argument I would make to them is this. Their contention is that basically you should only ever discount liabilities at a risk-free rate. That is a perfectly respectable worldview. It is a worldview that, in my opinion, would have two negative aspects.

First, it would very significantly increase the pricing of annuities. I do not know if you have looked around lately, but the annuity you get for putting away 100 grand is not particularly appetising. There is just a trade-off in there between the degree of risk that we choose to run and the amount of benefit that consumers can get. That is inevitable. They have a corner solution view on that. That is one obvious downside of what it suggests.

The other big downside is that the thing the matching adjustment does, which is genuinely very helpful and risk-reducing, is the incentive it provides for them to match. It is a very good thing that, as we go

through something like last year with the markets going all over the place, insurers can actually ride that out, because they have achieved that matching. That is a good thing. Those are the counterpoints to them, but it is a good thing that they push us around on it.

Q73 **Mr Baker:** I have used about of half my time, so I had better get on to these other matters. Can you tell us a bit about what you think the framework will be for the prudential regulation of firms and their use of stablecoins and cryptocurrencies? In particular, what is your attitude towards banks owning cryptocurrencies and other digital assets?

Sam Woods: Yes, I can tell you my view on that. Indeed, Basel has just published a paper on this, which we have been heavily involved in and which we support. The construct is basically this: that we should group these assets into two different groups. One group, called group one, would be tokenised traditional assets or stablecoins, you might say. For those, the assessment of the committee, which we agree with, is that it should be possible to apply the normal Basel risk categories, maybe with a top-up for some novelty, if that is one aspect of it, to capitalise those types of exposures. By the way, the firms are not currently reporting to us any significant exposures in this area.

Q74 **Mr Baker:** Are they under an obligation to report significant exposures to cryptocurrency to you?

Sam Woods: It is not a separate regulatory form, if you like, but we have asked them to keep us posted about their exposures and they are quite good at doing that. They have also been keeping us posted about other ways in which they might possibly get involved with these markets. To the best of my knowledge, they are keeping us quite well posted on that, but it is something we are going to need to land. I wrote to them back in June 2018, just to say, "Do not treat this as currency", because the concern was that, if you treat it as currency, from a market risk point of view all you have to worry about is FX risk.

It would plainly be, in my view anyway, extremely unwise for a bank to hold crypto assets and only worry about FX risk, given the way that they move around and the difficulty of hedging them. That is our stopgap. The Basel thing is more measured and I think will be the right way to go.

The other group is group two, which is crypto more colloquially understood, so bitcoin et cetera. For that, the proposal—you may or may not agree with this, but I do—is that it should have a 12% to 15% risk weight, which is effectively to deduct it from capital, which is as severe as it could be. That is appropriate given the nature of those assets. You will immediately see that a key question is how you police the border between group one and group two, and prevent everybody claiming that they are group one. That will be the trick here.

Q75 **Mr Baker:** For what it is worth, I do not disagree with you about the risk of cryptocurrency, which is why I drew the distinction between Glint,

which I declared, and cryptocurrency. Anyway, it is by the by. You particularly just said there that bitcoin should not be used as currency. Do you think that bitcoin, or cryptocurrency more broadly, is capable of becoming a currency? Do you see that they are capable of becoming monetised and used as money?

Sam Woods: My personal view is that unanchored crypto, like bitcoin, will not ever be suitable as a currency, because of the likely enduring nature of the extreme volatility in its value. I just do not see how that is going to be useful. I saw in the paper or on the news that El Salvador is going to introduce it for that purpose. I would be interested to see how that goes, but I am deeply sceptical about that, certainly for the UK.

A different question, though, is for the so-called stablecoins. Now, stablecoins could come in many different forms, some more stable than others, but imagine a coin that is properly backed by something that most people would agree was a stable asset. That is a form of money that could come into existence, and indeed I think will come into existence. The question for us has been under what conditions that is acceptable. We have basically said there are two. If it is going to be used for payments, it should be regulated to the same standard as payment systems. If it is going to be used as a store of value, it should be regulated to the same standard as banks. That is basically the proposition. We have sketched out more recently the different models of regulation that would allow that to occur. I could mention them briefly, if you like.

Q76 **Mr Baker:** No, there is so much I want to discuss, and I know we are going to run out of time. I suppose the key point for me is this. You were just talking about bitcoin. If I may, I will enter into evidence a Misesian reading about the supply and demand to hold cash balances. Is it not a problem that, if any commodity becomes money, whether that commodity is a metal or a cryptocurrency, the supply and demand of that commodity will be volatile? In particular, the demand to hold it will be volatile as people take different decisions about whether or not they wish to hold that thing as money.

If that is the case, does that volatility in the demand to hold the commodity as cash, as a cash substitute or as a money mean that any new money, when it becomes widely held, will have a widely fluctuating value? It seems to me that, if that is true, the problems you have just elaborated with bitcoin as money will apply to stablecoins as money, just because people's demand to hold them will change.

For the record, you are nodding. I am going to shut up in a minute and hear from you. Perhaps most importantly, with central bank digital currencies, they are from a consumer point of view going to look quite different from holding deposits at a bank. In a nutshell, do they all not suffer from this similar problem?

Sam Woods: This is an absolutely key consideration. Looked at from the PRA's objectives, it is actually the consideration. If digital money takes off

in a big way in this country, CBDC being one form of that, to what extent will money move out of banking deposits into it? We have actually done this kind of illustrative scenario, which looked at ways in which that could occur, but it is highly speculative. That could have a couple of negative effects. One is the safety and soundness effect. If you had a run on the banking system, either in good times or particularly in bad times, if everybody herded out into a CBDC, that could present a considerable problem for us.

The other part of it is slightly more nuanced. If money moves out of banks into digital money, which is more backed by high-quality liquid assets and not by loans to the real economy, more of the loans to the real economy will be financed by other, more expensive, forms of finance, probably wholesale funding. There may end up being a bit of a trade-off here between the optimal credit intermediation setup and what is optimal in terms of payment systems. Those are concerns.

The work we have done does not suggest that those are obviously things that should prevent any of this from going forward, but they are things we are asking people about to see what people's views are. It seems to be extremely likely that, if some version of this does go forward, we would want to begin with a transitional phase with some caps or limits, to see how it plays out.

Q77 **Mr Baker:** I have run well over time and I could certainly keep going for an hour on this. I sense that you have at least an hour's worth of material in your head. Finally, are you guys considering the historic problems of bimetallism and how they might apply to a system with central bank digital currency running alongside normal deposits at commercial banks? It seems to me you have this problem that, even though it is commercial bank deposits versus direct access to reserves, in a sense it will raise some of the problems of bimetallism, will it not? What is the exchange ratio between the two?

Sam Woods: I must confess that I myself have not turned my mind yet to bimetallism, but I hope that my colleagues in the Bank who are working on CBDC in particular have. I will report your comment to them and check that they have done so.

Q78 **Mr Baker:** I will commend the work of the great economic historian George Selgin to you and to your colleagues. He is a friend of mine. I hope he is listening, and I hope he would make himself available to you, because he is an expert in these matters.

Sam Woods: Very good, thank you for that.

Chair: That brings us to the end of this session. Sam, thank you very much indeed for appearing before us. We have covered a very wide range of issues, everything from Wyelands, Greensill, CLBILS and the British Business Bank, shadow banking, the issues around that and the capital buffer usability, large banks' dividend policy, concentration of lending to

SMEs by larger banks, the health of the insurance sector, the whole debate around Flood Re, Pool Re and how to insure pandemics, Solvency II issues with the risk margin and matching adjustments, climate change, crypto assets and, finally, bimetallism.

You have covered quite a lot for us in this session and illuminated much of our thinking. Thank you very much indeed for that. Can I once again express the Committee's satisfaction that you have been reappointed? We are very pleased to see that having happened. We look forward to you appearing before us, no doubt, on a number of occasions over the coming months and years.