HOUSE OF COMMONS

Treasury Committee

Oral evidence: Future of Financial Services, HC 147

Monday 13 September 2021

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Watch the meeting

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

Questions 197 - 282

Witnesses

I: Richard Dudley, CEO, Global Broking Centre, Aon UK; David Sansom, Chief Risk Officer, Lloyd's of London; Charlotte Clark CBE, Director of Regulation, Association of British Insurers (ABI).

II: Chris Cummings, CEO, Investment Association; Sir Douglas Flint CBE, Chairman, abrdn; Philip Reed, General Counsel, Independent Franchise Partners LLP.

Written evidence from witnesses:

- Aon
- Lloyd's
- Association of British Insurers
- The Investment Association

Examination of Witnesses

Witnesses: Richard Dudley, David Sansom and Charlotte Clark.

Q197 **Chair:** Good afternoon and welcome to today's Treasury Committee evidence session on the future of financial services, where we are going to be focusing on both insurance and asset management. I am very pleased to be joined by our first of two panels this afternoon. This panel will appear before us for approximately an hour and, at around 4.30, we will move on to our second panel. Can I ask our first panel, please, to introduce themselves briefly to the Committee, starting with Richard?

Richard Dudley: My name is Richard Dudley. I work for a company called Aon. Aon is a global professional services firm providing a range of risk, retirement and health solutions to customers all over the world. I run a part of the business that we call the global broking centre, which is our international wholesale and specialty insurance business in the London and international markets.

Charlotte Clark: I am Charlotte Clark. I am director of regulation at the Association of British Insurers.

David Sansom: I am David Sansom. I am the chief risk officer of Lloyd's of London. I work for the Corporation of London, which oversees the Lloyd's markets, and I look after our risk management and regulatory relationships.

Q198 **Chair:** Welcome to all three of you. We may have a Division of the House at around 5 pm or 5.15 pm. In the event that that happens and we are still in session, which I assume we probably will be, I will briefly adjourn the Committee, and we will come back and pick it up after the vote.

Could I start with a question to all three of you, which I would value your thoughts on? We know that the Treasury and the Bank of England are currently reviewing Solvency II. The PRA is collecting some data for this purpose. What should the review, in your opinion, deliver? Could you also touch on what it is about the UK that is unique when it comes to insurance and, therefore, the appropriate changes that we might see to Solvency II? Would anybody like to go first or shall I pick somebody?

Charlotte Clark: I am happy to kick off. The Solvency II review is well-trodden ground now in terms of the objectives, which we agree with, that the Government have set out for reforming Solvency II, not only so that there is stability for policyholders, but looking to see whether there can be changes to the system that would make the UK more competitive and, crucially, how investment within the sector can be used for infrastructure and green investment.

The objectives of the review are well agreed by all the parties. The question is what you need to do in order to meet all those objectives. What is the right balance? We have an opportunity. Solvency II was negotiated among 28 countries, so the ability to have a system that works just for the UK, without trying to balance other people's objectives, is a good opportunity.

How is the UK different? So much of our insurance sector is in long-term savings. That is where a lot of the assets are. The nature of investments in long-term savings is very different than you would have if it was purely underwriting, rather than looking at long-term savings and at pensions. It is about making sure that the structure has that at the heart of it and that the right incentives for insurers to invest for the longer term are part of the prudential regime.

Q199 **Chair:** Could you go into a little more detail on what follows from this unique characteristic that you have outlined here? What kind of changes would you perhaps envisage as a consequence of that?

Charlotte Clark: We have put our changes into three main areas. The first one is around the change to the risk margin. This starts to get quite technical quite quickly, so apologies. That is a buffer on a buffer, and most people agree that, at the moment, particularly in the low-interest environment, it is too large and too volatile. How you change that to make sure that capital is not being used unproductively and just being held as a buffer that cannot be used in a more productive manner is the first part of the reforms.

The second part is something called the matching adjustment.

Q200 **Chair:** Just on the margin for a minute, can you quickly, technically explain why a period of sustained low interest rates leads to greater volatility when it comes to that margin and upward spikes in it that are inappropriate?

Charlotte Clark: It comes down to a mathematical calculation. When you have low interest, very small changes in it are proportionately quite large, and so it is about making sure that, as we are in this very low-interest regime, it is designed for now. Most people would agree with that. Sam Woods is on record as saying that it is too volatile and too large, and that it does need reforming. Does that answer your question?

Chair: Yes, it does.

Charlotte Clark: On the matching adjustment, this comes back to the UK context specifically. It is about how, where you have very long-term assets, you calculate those. Normally in business, it is a mark-to-market approach. If you are investing over a 20, 30, 40, 50 or 60-year horizon, that may be quite inefficient and lead to procyclicality. How you can invest and incentivise investment that is beyond the economic cycle is one of the crucial parts of the reform.

The other part of the reform is about reporting. So many of the reporting requirements come from the EU and are unnecessary in the UK context.

Q201 **Chair:** On the margin, you are saying, in essence, that the mechanism needs to be reformed, so that it is lower. Would that be broadly correct?

Charlotte Clark: Yes.

Q202 **Chair:** On the matching adjustment, should we be looking at higher discount rates? Could you open that up for a second?

Charlotte Clark: It is higher discount rates, or more in terms of the sorts of assets that you would allow within that matching adjustment. At the moment, it is about fixed returns. In some of the infrastructure stuff, they have very predictable returns but they may not be fixed. Things that have fixed returns are things like corporate bonds and government bonds. I am not going to suggest that those are unproductive things to invest in, but investing in more illiquid assets may not have quite that precise definition.

Q203 **Chair:** Thank you, Charlotte. That was very helpful. I am going to come to Richard and then to David, if I may. Can I just throw another question in along the way? If we go down this road of loosening the regulation, as some would see it, is there a danger that we are perceived as a more difficult market from an international perspective?

Richard Dudley: The perspective that I would have in my role in a broking house, as opposed to a risk-bearing entity or an underwriting entity, is that any solvency regime that improves the flexibility that insurers have to both invest capital and apply their risk-bearing capital to some of the issues that we are trying to solve for our clients around the world would be a good thing.

Some of the points that Charlotte was just making would probably offer an increased degree of flexibility, which is important, especially when you look at the degree of innovation that is going to be required. We are already seeing demand for products and services that do not exist right now, so I would see more upside to that than downside, in direct response to your question.

Q204 **Chair:** On the earlier part of the question, would you concur with what Charlotte had to say about the risk margin and the matching adjustment? Are the changes that she broadly identified ones that you would support too?

Richard Dudley: Yes, we would. In our part of the industry, the concern that we have with an insurer's balance sheet is whether it is secure enough to pay the claims of our clients. That is the most important consideration that we have as an intermediary. As I mentioned before, anything that offers those carriers more flexibility and allows us to provide even better and more extensive products and solutions would be a good thing, which is where some of the changes that Charlotte is recommending or discussing would be useful.

David Sansom: I would certainly echo those points about the importance of flexibility, and proportionality may be another way to describe it. One of the advantages of Solvency II, certainly for our business in Lloyd's, is that it allows insurers to set their own risk appetites and the capital to align to that. Particularly for our business, we are a specialist commercial market, so the risks that we underwrite are not particularly well suited to standard approaches or formulas. The ability within Solvency II to set capital using our own bespoke internal model is a particular advantage.

Having said that, of course, that is one of the areas that is ripe for reform to be less burdensome, less cumbersome and more flexible for firms. From a principles perspective, we would support the continued use of Solvency II, but there are certainly some areas to look at.

Aside from the capital models, I would also pick up on reporting, much of which comes from Solvency II and can be particularly onerous for firms. There are more sensible ways to align more practically with how insurers use their own management information to report on risks to their board. There is a chance for supervisors to look at that, so that they do not have to replicate that with some of their own reporting requirements.

We would pick out a couple of particular areas on capital models and reporting, which we would hope that the review looks at in detail.

Q205 **Chair:** Could I ask about longevity risk and this issue of reinsurance that is occurring? Presumably, you are reinsuring in jurisdictions that have perhaps lighter capital requirements than we have here. How much of an issue is that and how valuable would it be if some of that was unwound, or is that how that would work if we had a lighter regime here, for want of an expression?

David Sansom: Reinsurance is important to us and is about a third of the business we write. The most important aspect of that is the free flow of capital across borders. That is particularly important for reinsurance, because it is often supporting very large risks and events—in our case, natural catastrophes. Where we look across our reinsurance portfolio—we might come on to this in some other areas today—the biggest concern is where we see issues around barriers to the free flow of that capital, because that is particularly important to support the large type of risks that are written in a reinsurance portfolio.

Q206 **Chair:** Charlotte, could I come back very quickly to you? When we were discussing the matching adjustment, you said that it should apply to new categories of assets, or something similar to that. What sort of category of assets would you be looking at?

Charlotte Clark: It is investments in green infrastructure. There is some investment in housing and social housing, but it is about making sure that those can be done more quickly and more easily. Those kinds of illiquid investments are the ones that we are most focused on.

Q207 **Anthony Browne:** I have a follow-up question, first about Solvency II, and then most of my questions are going to be about the regulators. This is probably a question for Charlotte. I am interested in how much you think Solvency II could be changed to enable more investment in venture capital and high-tech companies by the insurance industry?

Charlotte Clark: There are changes that could be made and that would allow movements into different sorts of investment. The two that you are talking about are quite risky and probably not a natural fit to insurance.

Anthony Browne: They would need to pool the risk in some way.

Charlotte Clark: Yes. If you can find a way of pooling risk across these things, the possibility of it comes forward. We did some work with Boston Consulting earlier in the year about green investment. If you look at something like carbon capture, where there is a possibility of clear and fixed returns from something like that, but where the technology is still unproven, it is quite difficult to see how these changes would allow investment in that sort of area.

If you are looking at infrastructure for something like the electrification grid, where it is perhaps more known and more fixed, and you have an obvious pricing model, those are the sorts of things that we are looking at rather than maybe necessarily the more high-risk areas.

Q208 **Anthony Browne:** As I said, most of my questions are about the regulators and the law upholding them. The regulators have statutory objectives, and operational objectives underneath those. They then have various "have regards". The FCA has 18 "have regards". I am just interested in your overall views about how this regulatory system, with the FCA and the PRA, works, whether there are any key changes that you think should be made, and what the purpose of those changes would be.

Richard Dudley: As a broking firm, we are solo-regulated, so it is the FCA that is relevant to us, not the PRA. In general, a lot of places around the world would look at the UK and the way we designed and created our regulatory environment with some envy, partly because it is pretty stable and consistent. Those are both very important things for businesses to be able to make decisions and investment decisions in the medium and long term.

It is envied around the world also because of its emphasis on conduct, which is very important, because that, again, provides greater confidence for consumers of that financial services market, based on the way those regulations are put together. All of that is a positive.

For us, one of the key issues that we see—or opportunities to improve, perhaps—is that the FCA is quite a complex organisation, with lots of different bits to it, not all of which are necessarily focused on the same issues, so that can sometimes make it hard for firms. It is difficult to do as a regulator, because there are so many different issues to address.

One of the things that we are very keen to promote is our ability to innovate. As I have already said once today, I cannot tell you just how much of a need there is for us to innovate in our world. I do not mean just on the fintech side. We are going to have to make some very significant changes to the products and services that we develop in insurance over the next four to five years, especially with the energy transition in mind and things like that.

For us, the ability to have that flexibility to innovate, without necessarily being held back by a more general approach to regulation, is very important for us. As an intermediary, that would be one of the key issues that we would like to see addressed in any future changes.

Q209 **Anthony Browne:** Charlotte, what changes would you like to see, and why?

Charlotte Clark: It is about what has caused the changes. Previously, financial regulation has been agreed at European level. Those of us who have been involved in some of those can see the disadvantage of that approach. It has been incredibly slow in terms of changing some of that regulation, but it is difficult to doubt that the heavy scrutiny of changes would take years. We would spend a lot of time looking at changes before they went through.

As we move to a new system, the ability for it to become more flexible is there, but the disadvantage is how you ensure that the regulators take into account these broader issues that previously the European Parliament and the Commission could.

What is the right system to ensure that things like the green agenda and economic growth are balanced with the regulators' objectives—I am thinking about the PRA in particular—around economic stability? What we are talking about at the moment is largely a trade-off, and it is about how you make that really clear as to how you are making those decisions. We have called for the regulators' objectives to be broadened out and for their primary objectives to include things like economic growth, so that it is very clear that, as they are making these sorts of decisions, they need to balance between these things.

The risk is that, if you have one overarching objective, which the PRA does in terms of economic stability, everything becomes about that, whereas, at some point, the value of more stability in the system and more capital behind firms becomes less, and that money can be better used elsewhere. It is about how you make those decisions and make them transparent.

Q210 **Anthony Browne:** You said that you could include in the primary objectives something like economic growth, and there is a whole discussion to be had about that. Is there not a risk that you end up confusing the regulator, because there is no hierarchy between the different objectives, that they could ask, "Shall we promote economic growth or stability?", and that they will not know which one to put first?

Charlotte Clark: They are intelligent people. Most organisations and businesses need to trade off between competing objectives. It is right that it is internalised within a regulator. You can say that the point of a regulator is that it is just there for stability, but who is responsible for the decisions that other people make, which have these broader implications on green investment and economic growth? There is a system where the regulators are just operational, for want of a better word, but if they are responsible for policy, ultimately, policy is just a matter of trade-offs and decisions.

Q211 **Anthony Browne:** As I said at the beginning, the FCA has 18 different "have regards", and we can keep adding to them. It would also include the net zero one recently. Is there not a risk that, if everything is a priority, nothing is a priority? It will have a menu of different objectives and it can decide, "Let us just pursue this one", because you cannot possibly pursue all 18, and it becomes quite politicised as a result and is subject to pressure.

Charlotte Clark: You are right; it is a challenge. If you have 18 things that you need to do, what are the chances of doing any of them? That said, what is the point of financial regulation? It has to be at the core of it, and some of that has to be about these wider policy issues. We are arguing for a primary objective that looks at these wider issues. A big, blunt "have regard to" means nothing in how decisions are ultimately made. It is a bit of a tick box—"Have we thought about diversity and the different things that are under there?"—rather than what is driving decisions.

Richard Dudley: There is another element to that. You are right about the competing priorities and which one becomes the priority rather than the others, but that all boils down to the supervisory and accountability framework that I am sure will be reassessed as part of this review as well. With the fundamental principle that any public body should ultimately be accountable to Parliament, that would play a key role in that, too.

Q212 **Anthony Browne:** David, from a Lloyd's of London point of view, what changes, if any, would you like to see to the regulators and how they operate?

David Sansom: We are in a somewhat unique position at Lloyd's, because we are a market and a corporation, and we supervise and oversee that market. We have to look at new entrants and take action against firms that do not meet our standards, just like the PRA and FCA do, and we work very closely with them on that. At the same time, we are looking to promote our market and our franchise internationally.

Picking up Richard's point, we are really keen to encourage much more innovation. We constantly have to balance those two objectives, so I see no reason why a regulator could not take a similar approach. I do not think that they are mutually exclusive.

Indeed, many regulators around the globe have similar types of objectives, as this Committee knows. When we engage with those regulators, we do notice a difference. They all speak to us and ask about our compliance in their jurisdiction for some of the meeting. In the second bit of the meeting, they will ask, "When are you going to develop new cyber insurance products? That is the coverage that we really need for firms in our jurisdiction." It is something that we have to deal with on a day-to-day basis, and there are practical mechanisms to do that.

One of the things, by way of example, that we instigated at Lloyd's a couple of years ago is a fast track mechanism for new entrants that are innovative and bring new ideas and new business into our market. It is something that we call a syndicate in a box. We give those firms three years to grow, scale and be viable, or not, and we look at ways in which we can support them in the application process. We relax some of our requirements around capital. We do that in a thoughtful way, and there are criteria to apply there, but we are looking for ways in which we can encourage more innovation to come in, even in our supervisory role. All of that is possible and those objectives can be balanced.

Q213 **Anthony Browne:** I want to bring up a point about innovation. You have all said that you want to encourage more innovation. The FCA has its sandbox, for example, which is widely acclaimed. I have helped various financial technology companies on the banking side, rather than the insurance side, with innovative business models, in trying to get approval from the FCA. The FCA will spend a lot of time examining their business models and then say that it cannot decide whether it is allowed or to just go ahead and take a risk. It certainly was not that welcoming of innovation. I just wonder what changes you think the regulator should make to be more supportive of innovation, above and beyond the sandbox.

Richard Dudley: I would point to a couple of things there. One is that the sandbox is an existing framework. It shares that framework with a number of other regulators around the world, so it is a fairly well-trodden path. We have noticed that it tends to focus on fintech, which probably ignores some of the innovation that is going on with the existing members of the marketplace, particularly in the international marketplace, where I spend most of my time. That is one element that it should probably try to factor in.

The other one is that, back to our previous discussion, one of the overriding principles that it will have in those discussions is a deep dive into how it thinks consumer protection can be built into new product development. In our international marketplace, the vast majority of clients that we deal with around the world are quite large, sophisticated, professional buyers of the products and services that we are supplying. Finding a way to recognise that in the regulatory framework would mean that you would not necessarily need a new innovation framework. You could achieve the same goal by trying to be a little more nuanced about how it regulates different areas or subsectors of the market, perhaps.

Anthony Browne: I would love to ask you more questions, but I have a little note saying my time is up. Thank you.

Q214 **Alison Thewliss:** Charlotte, what are the key things that the Government and regulators could do to improve consumer outcomes in the insurance industry?

Charlotte Clark: A lot of things are currently happening within the regulatory environment and within insurance companies to improve customer outcomes. At the moment, a lot of the insurance industry is focused on GI pricing and the introduction of those changes, which come in in January, and how those will be implemented while ensuring that the market remains vibrant. It is the opposite challenge to the one that we have at the moment, with the issues around the loyalty premium, of making sure that the market does not become stagnant because of it, and that there is still competition within it, rather than people simply sticking with their own insurer. There is a lot of focus on that.

At the moment, there is quite a lively debate in the consultation around the consumer duty and what that looks like. For the insurance sector, without being complacent, a lot of the things that have already happened on GI pricing and the insurance directive are already embedded within insurance. What will the details of the consumer duty look like and how will it be embedded within firms?

Those are the two main possibilities. There is an awful lot of work going on around vulnerable customers as well. To me, it always sounds like vulnerable customers are a very small minority, but the FCA figures show that a large proportion of the population are either dealing with difficult life circumstances and mental health issues, or dealing with financial stress, at any one moment in time. How we deal with and support them is one of the key areas.

Q215 **Alison Thewliss:** A change of circumstances can make you vulnerable all of a sudden as well.

Charlotte Clark: Yes, absolutely.

David Sansom: From our perspective, the products we sell are quite different to retail products. We sell some of those, but many of our products are complex and are sold to professional firms that have brokers or intermediaries advising them, although we do sell products to small and medium-sized businesses as well. One of our reflections on recent events in the pandemic was to think about how those products can be simplified.

As well as pricing, which is particularly important at the more retail, commoditised end of the insurance product spectrum, when we think about our slightly more specialist or bespoke type products, there is a real drive to look at the complexity there and how that can be simplified for the consumer through the product wording. We would be keen for regulators to support those types of dialogues and conversations, as well as a focus on price.

Q216 **Alison Thewliss:** Let me bring in Richard on this. Are there areas where there are existing laws or regulations that make it more challenging to do the right thing for customers and which could perhaps be modified?

Richard Dudley: As it stands, the framework is pretty sensible. We talked earlier in the session about the principles that the FCA governs its activities by, and there are a number of frameworks within that, within which they hold companies to account. The most recent one that has come into our world is the senior managers and certification regime, which is a very strong framework and one that has made us all think really hard about who is responsible for what, and whose role it is in the company to deliver against those principles that the regulator is seeking to achieve. It is already a pretty strong framework.

What we have to avoid—and we have already used this phrase a couple of times across the panel here—are the unintended consequences. The GI pricing review is a good example of that, where Charlotte has mentioned a few potential unintended consequences within the domestic insurance market. In the world that I am most familiar with, which is the international world, I work for an insurance broker that is regulated by the FCA, but I deal mostly with international clients, so we end up with quite a lot of confusion about whether we should be pushing all the requirements of the GI pricing review into our international business, which is quite burdensome in time and money, and probably not necessary, given the nature of the customers we are dealing with.

There is an element of the overall range of what the FCA is responsible for and how it thinks about international customers that should be factored into this too. It is a slightly tangential answer to your question, but it is relevant because, if we go too far down that direction and do not think about that broader issue, it would have a potentially difficult impact on the international competitiveness of our financial services sector.

Q217 **Alison Thewliss:** That makes sense. In your initial statement, you mentioned the importance of conduct and certainty with which things operate. We are at the fifth anniversary of the senior managers regime and no enforcement actions have needed to be taken. What are your thoughts on why that has been the case?

Richard Dudley: It came into our world only much more recently, about 12 months ago, and so I do not feel well qualified to comment on the banking world, where I know it came in a few years before.

Q218 **Alison Thewliss:** Having seen it operate in the banking world and then come to you, you knew what was coming and could anticipate that.

Richard Dudley: We did. I can speak only for my own firm. I do not have a detailed knowledge of others. We have a fairly consistent and comprehensive governance framework anyway, so it was not as if we did not have any of these things or any roles and responsibilities. What the regime has really brought to bear is to give complete clarity to those, because it forces clarity on who is responsible for what. The fact that that means that there have not been any enforcement actions might be as a result of that clarity, which was one of the ultimate goals of the exercise anyway.

Q219 **Alison Thewliss:** That makes sense. David, in an earlier answer you mentioned the disproportionate nature of some of the regulations compared to the risks that they are designed to address. Could you give any examples of that or expand a wee bit more on your thoughts on that?

David Sansom: I was keen to mention the use of internal capital models. Again, our market is very specialised. We have 50 managing agents and 50 insurance companies in Lloyd's. Each of them uses its own bespoke capital model. These models, of course, need to be used with care. They are only as good as the output that they provide.

Some of the processing around that is particularly burdensome, not just for the companies that have to use them but even for the supervisors who have to approve and reapprove them, often on annual basis. That is a particular aspect that I was referring to in our discussion on Solvency II. There is real value in looking at the process around how those models are used. They are an important tool to make sure that capital follows risk in a way that is tailored to the specific nature of the insurers in question.

Q220 **Alison Thewliss:** Charlotte, you also said, in the ABI's written evidence, that you feel that unnecessary reporting templates should be removed in their entirety. Could you give us a sense of the scale of that and what kind of feedback to the PRA comes from that information that is being collected?

Charlotte Clark: The PRA has a consultation, and it is still out at the moment, which is its suggestions of things that are completely unnecessary and not really adding any value. I do not think it is a particularly radical view to suggest a bit of paring down of the reporting requirements.

The PRA estimates that 80% of its requirements come from EU legislation, so there is the possibility of getting rid of some. We are trying to work through them with the PRA in terms of the ones that do not add any value, are not particularly useful, or duplicate things. It is a fairly tedious job, to be blunt, but these are the things that people are doing within businesses that do not really add any value.

Q221 **Alison Thewliss:** Lastly, how well do you feel the financial services industry as a whole and the regulators deal with complaints, including through the Financial Ombudsman Service? Do you feel that that works well enough?

Charlotte Clark: You can always look at areas where things can be approved. On the whole, it is always easy to pick at areas where you think, "It would be good if those were addressed more quickly," and that is true within the firms. I know that the Financial Ombudsman is quite keen to try to stop complaints before they happen, and the industry wants to work with the ombudsman to understand those and how that can be done. The ombudsman has a difficult job. Through Covid, it has had an even harder job. It is easy to criticise but, on the whole, it works reasonably well.

Richard Dudley: The industry itself has matured in its approach to complaints outside of the ombudsman framework. In my own firm, we track all sorts of KPIs, a number of which are complaints-related, in every segment of the business, including the large, sophisticated customers, as well as the direct consumers. That is something that we track at board level, so it is embedded in the way we do things, which is probably a consequence of the focus on conduct here in the UK.

David Sansom: I would agree with that. At Lloyd's, we look at complaints before they reach the ombudsman. There is an escalation to us if the complaint has not been handled by the insurers in our market, so we get to see across the complaints landscape. I would agree with the comment that we are better now than we were some years ago at learning the lessons from those complaints, which is of value to us, as well as getting the right outcome for the complainant.

Q222 **Dame Angela Eagle:** Could you say how your business has been affected by us leaving the European Union? I know we are dealing with a huge range of disparate businesses but, if you could sum it up briefly, that would be helpful.

Richard Dudley: Aon is a global firm, which is headquartered here in the UK, where we have a large business. A big chunk of that business deals with UK customers, so we have not really been impacted at all as far as Brexit is concerned.

The bit of the business that I look after has been very significantly affected by Brexit. We provide insurance distribution services, as defined under the insurance distribution directive in the EU, and the model under which we provide those services to clients who are both domiciled and have risk situated in the EU has to be different. We cannot do it in the way we did before, which is where we would work in partnership with our other offices across Europe and/or deal with clients directly across Europe.

We cannot do that anymore, so we have had to set up completely separate branch operations of European companies in the UK to carry out that activity. That has resulted in some bifurcation of resource in terms of how we apply that resource, where it sits and who it is employed by. We have had to set up quite weighty and significant governance operations to manage that business too. The short answer is "quite significantly" for the business that we do in Europe.

David Sansom: It has had a significant impact on us. European business is about 15% of our business, so it is fairly significant. We set up an insurance company in Brussels, which has been in operation since 2019. We set that up, regardless of the outcome. It has given us the ability to continue to trade in Europe, especially for our direct insurance business. For reinsurance, we are still able to trade cross-border from the UK in most instances.

It has had complexity and cost associated with it. At the end of the day, for the customer, what means in practice is that they now receive, if they have European risks, two insurance contracts—one from Europe and one from London—whereas, before, they would have had one. It has introduced some complexity into the process but it has given us the ability to continue to trade since the end of the transition period.

Q223 **Dame Angela Eagle:** Charlotte, what is the general view of your members? It is a generalisation, but give us some insight.

Charlotte Clark: There have been a number of changes over the last few years. In some ways, the insurance market here can be quite nationalised in terms of who the players are. There are global players within the UK market and they have had to set up different subsidiaries. You see some UK insurers moving out of Europe and focusing their energies elsewhere. For consumers, on the issues of health and travel insurance, we have got to a good place with those, but it has needed quite a bit of work.

Q224 **Dame Angela Eagle:** Has not having equivalence with the EU impacted in a bad way? How much of an issue has that been?

Charlotte Clark: It is a big issue in terms of where we are on reinsurance and the priorities there. On insurance specifically, it is less of an issue, because insurers, such as Aviva, tend to be here in the UK and you tend to buy from here in the UK, so it is not like you are buying from a foreign company. Foreign companies tend to have UK subsidiaries, so it is less of an issue with regard to equivalence. It would be a "nice to have" rather than a "need to have".

Richard Dudley: It is a very different situation on the broking side. First of all, there is no framework for equivalence within the insurance distribution directive. Even if we had got equivalence, it would not matter for brokers, because there is no framework for it.

To Charlotte's point, a lot of what we do is providing products and services from expertise here in the UK for clients in the rest of the world, including in Europe. Those clients come here only because they have to, so what we are doing is complementary, over and above, and has different skills and expertise than they can access in the direct market, which is something that we should be conscious of as we go forward.

Q225 **Dame Angela Eagle:** What are the biggest barriers that British firms face in conducting insurance business internationally? What should we be doing about them? We have to create a system from scratch. Should that include free trade agreements, trying to venture into the services area?

David Sansom: One of the risks that we are particularly conscious of is where we see protectionism and barriers to trade come in that affect international insurance business, and particularly reinsurance business. That could be in the form of localising or ring-fencing capital. It not just the assets but also the data, where we see increased requirements to localise that, as well as people in terms of expertise. We are talking about Europe as an example here, but we see that risk in other jurisdictions elsewhere.

In terms of how that can be supported through free trade discussions, there are provisions within those discussions that are helpful. Some of the provisions within the WTO and the so-called GATT arrangements, which allow cross-border reinsurance in particular, are useful. Anything that can be done to support those existing mechanisms is helpful.

There are also bilateral or bespoke agreements that can be arranged, and a good example of that, which has been very relevant for us, is the so-called covered agreement between the UK and the United States, which, in effect, enables UK reinsurers not to have to put in place collateral assets and an established presence to back their United States liabilities.

Q226 **Dame Angela Eagle:** That was cut and pasted from the EU-US one, was it not?

David Sansom: It was indeed.

Q227 **Dame Angela Eagle:** This is an emerging part of free trade negotiations, presumably. Are you happy with the way that that is shaping up?

David Sansom: Yes. It is a good example of the type of arrangements that can be agreed, whether as part of a free trade agreement or, in this case, separately, which can support a reduction in those barriers to allow the free flow of capital, data and people. That is particularly important for our international wholesale business.

Charlotte Clark: I would agree. As we are looking at opportunities elsewhere, what are the key barriers that need to be considered? Regulatory co-operation is about ensuring that you are not going to end up being regulated twice in very different ways. That is quite a key area. Issues around data and how that is treated are quite key ones for us in the general service sector.

The growing one is around climate and green. If you are investing elsewhere, you need to understand how green those assets are and what they are, and to make sure that the way that these things are reported has an international standard to it, with a move towards international insurance standards. What we are suggesting for the Solvency II review would be very much in line with those international standards.

Q228 **Dame Angela Eagle:** Richard, do you have any thoughts about free trade agreements and whether we should try to include this particular end of services in it?

Richard Dudley: What is important for our ability to service our clients around the world is that we can deliver quite scarce resources to them from the UK. In most cases and in my firm's case, that is delivered in conjunction with one of our local operations, be that in Taiwan, Atlanta, Singapore, Australia or anywhere else.

Just to give you a flavour for it, we have a team that focuses on nothing but offshore windfarm construction. That is what their expertise is. They know exactly what risks are associated with that. It is fast-moving area where the technology is developing very quickly, and we need to develop new products and services.

It is a difficult area for insurers, because everything is new all the time, and so you cannot rely on the past to predict the future, which is a difficult thing for our business. We have to find new answers to that, and we have scarce resources, which we tend to deploy globally. It works for the clients to deploy them globally, because they have that global purview. They might deal with a client in Singapore one day and one on the west coast of the States the next, so it really builds and adds to that level of expertise.

We are really keen, whatever we do in the free trade agreements, to allow that access to continue, which is why it is proving a bit cumbersome now to do it in Europe, back to my earlier answer.

Q229 **Dame Angela Eagle:** Finally, is there a danger that, if cross-border reinsurance becomes easier, there is a financial stability risk from having reinsurance contracts in areas where capital requirements are lower, for example? Is the Bank of England watching over your shoulder?

Charlotte Clark: I hope it is. Reinsurance internationally is happening now. As David was saying, there are very good reasons for that in terms of diversification and the way that capital moves. Where, at the moment, are those decisions being made? Frequently, it is in Bermuda or the US. These are well-regulated areas, so I do not think it is the idea that they are somehow going to areas where we would have concerns. It is more about whether there is a possibility that, if the regulatory regime changed in the UK, more reinsurance decisions and more capital could stay within the UK, and an opportunity for that. The issue is not that they are going to poorly regulated areas.

Q230 **Harriett Baldwin:** I just wanted to probe a bit more on innovation and skills, and to ask what the main area is that is holding back innovation in the insurance sector. If I look back at the last 18 months, having gone through the pandemic, with all the issues around business continuity insurance, and problems around people's travel insurance and getting back to the UK, all sorts of new risks have emerged, but I am not sure that the insurance industry has reacted with new ways to cover those risks. It feels like it is now just an additional exclusion in your policy. I just wondered what you see as being the main barriers to innovation that would help consumers and businesses.

Charlotte Clark: You are right. In terms of what has happened over the last 18 months, a massive new risk has materialised. How does insurance deal with that? A growing issue is that there are these big global risks like pandemics, cyberattacks and other issues. There has been lots of work going on within the insurance industry to think about how you could approach those and what the right approach to those is. Frequently, that is going to involve public/private partnerships, because some of these risks are so significant that they are not the sorts of risks that private sector companies can have on their balance sheets.

Q231 **Harriett Baldwin:** It took the state to bring in this pandemic reinsurance for the events industry, starting in October. That was something that the industry just was not able to provide.

Charlotte Clark: I think Lloyd's is involved in that.

Q232 **Harriett Baldwin:** Has Lloyd's put capital into it?

David Sansom: Yes, although, to Charlotte's point, this is where you really need the combination of industry capital and expertise, and state support or state guarantee. It is that public/private partnership that you need in order to look at the systemic risks. Sorry to cut across your answer but, in terms of looking ahead and anticipating the next pandemic, we are doing a lot of thinking about how we address those big, systemic risks. It comes back to that partnership.

Q233 **Harriett Baldwin:** Even simple, granular risks like an individual going overseas will now just be excluded from their travel policy, will they not?

Charlotte Clark: Where the guidance from the Government tells you that you should not be going overseas, your insurance is not going to cover you in those circumstances.

Harriett Baldwin: It does not anymore.

Charlotte Clark: If the Government are telling you not to travel, and you travel, yes, your insurance will be null and void.

Q234 **Harriett Baldwin:** That is not the case. Things have shifted and are shifting. Is there something regulatory that is holding back that innovation in your industry?

Charlotte Clark: If the issue is about your travel insurance and you were to get ill while abroad in a country where you were allowed to travel, your insurance would not exclude in those situations. I cannot speak for every single policy out there, but most would cover you in that situation.

Is there something culturally that needs to happen for more innovation? It is a good challenge. As a sector, by its nature, insurance deals with risks. It is not the racy venture capital industry, but there is something about how we meet the needs of our customers as those change and as society changes quite substantially and significantly, while making sure that we are at the forefront of that.

Q235 **Harriett Baldwin:** Can you point to any countries that are doing a better job than the UK?

Charlotte Clark: In terms of innovation in insurance, no, because most of the very large insurers that we can think of are international companies. They are learning from companies like Allianz, AXA and Swiss Re. They are working across different jurisdictions and thinking about how to bring in innovation from other countries to places here. It comes back to the questions from Anthony about regulatory culture.

Q236 **Harriett Baldwin:** On that, the sandbox was set up to try to address that, and Anthony asked a bit about it earlier, but are there any specific observations about how the sandbox could help your industry more in terms of fostering innovation?

Charlotte Clark: I would not say there is a sandbox. There is something about new entrants into the market, how they are supported in those early days, how you nurture them, how you make sure that they understand the regulatory environment that they are in, and how they work with the regulator so that they set themselves up in the right way. We could probably do a bit more there. We had a conversation with an international insurtech that was thinking about the UK. It had the conversation and looked into the regulatory issues, and it just decided that there were easier places to do business.

Q237 **Harriett Baldwin:** Where did it go?

Charlotte Clark: I cannot remember.

Q238 **Harriett Baldwin:** Where is it from?

Charlotte Clark: It is a German company.

Richard Dudley: I would try to categorise it in three different ways. One is the notion of systemic risk, and you have heard from Charlotte and David on that already. That is difficult for the insurance industry, because the premiums of the many are supposed to pay for the claims of the few. When everyone has a claim at the same time, it is very difficult for the industry to work, so that is where the public/private partnership has to come in.

One of the other areas where the regulatory opportunity might exist is in product governance under the PROD 4 part of the PRA regulations. It is quite prescriptive in terms of new product development and governance, which makes it difficult in areas such as the shared economy or the gig economy, where we might be approached by a platform that then gets drivers to apply to that platform to deliver food from restaurants to individual houses.

The traditional way of selling an insurance policy for a 12-month period at a single premium or instalment premium does not really work. They want the insurance for the hour and a half on a Friday night that they are on duty, and then for another two hours on a Tuesday afternoon. To move quickly enough to develop new products there is quite hard. It does not mean that we have the wrong framework; it just means it is quite slow. That would be my perspective.

The third area is all the stuff that is just really big and new. With the energy transition and climate risks that we will see, both the physical transition and the liability risks across many different industries, not just the energy and power industries, again, we want to make sure that we have free flow of capital, so that we can solve those challenges. That could definitely form part of the regulatory framework, to one of David's earlier comments.

Secondly, it is another area where we are going to have to have consumer or buyer, insurance industry and public collaboration in order to get those answers right. Those are the three separate areas that I would describe.

Q239 **Harriett Baldwin:** If you could follow up with the case study, Charlotte, about a company that shied away from investing in the UK insurance industry because of regulatory issues, that would be really helpful for the Committee.

Can I just move on to skills and ask if you have the skills that you need to expand your industry? Is that something that members are highlighting as a particular problem, Charlotte?

Charlotte Clark: The issues around ensuring that we have a well-educated, flexible workforce are there for all businesses. There are particular challenges at the moment in particular sectors.

Q240 **Harriett Baldwin:** Which ones in insurance?

Charlotte Clark: I was going to say that I do not think that insurance has been particularly affected, but it is always a challenge to make sure that we have the right people and are attracting the right calibre and diversity of people into the sector. That is where our focus is at the moment.

David Sansom: At Lloyd's, we have a tech incubator, which we have run for a number of years. We have had seven cohorts of firms go through that so far. Of those organisations, about half have come from overseas—Israel, South Africa, Canada, Singapore and so on. The reason why those businesses have come to London is, in a large sense, because of that ecosystem of skills and expertise to make those commercial connections that exist in particular for us in the London market.

That does not mean that we have a skills shortage here. There is a real recognition internationally that the UK is a good place to go if you want to develop your insurtech business in order to take advantage of those skills. That is not, of course, to say that we should not do more to promote homegrown skills and education as part of that.

To the earlier conversation, the challenges that those insurtech firms have is scaling up, and a big part of that comes back to the regulatory and capital challenges that we talked about earlier.

Q241 **Harriett Baldwin:** How do skills and training link back to capital challenges? Talk me through that one.

David Sansom: More broadly, in terms of how those businesses scale up, that is where the issue is, but there are some regulators internationally that have that objective to develop skills and expertise. The Singapore regulator, the MAS, is one that has looked at developing, in partnership with trade bodies and the industry, an approach to develop those skillsets. That is part of thinking about how the industry can work in partnership with the regulators.

Q242 **Harriett Baldwin:** What is stopping you doing that now?

David Sansom: I do not think that anything is stopping us collectively doing that. To the earlier conversation, and certainly in our experience, the amount of insurtech and fintech businesses that want to come to London is huge. We have far more applicants to our tech lab than we can take, which is a recognition of the skills and capabilities that we have here.

Q243 **Harriett Baldwin:** Is your tech lab a big investment in terms of collective expenditure by your member firms? Is that the constraint in expanding that? If it is not skills, what is it?

David Sansom: I would say that that is part of it. As I said, the rationale for firms wanting to come and be part of a lab in our case is partly to develop those commercial operations. We have had some instances where insurtech firms have been able to partner with underwriters in our market to take the business forward. The barriers that then come in are often regulatory in nature.

Q244 **Harriett Baldwin:** Can you be specific on that?

David Sansom: That is probably something that I would have to follow up on with more specifics, if that is helpful.

Harriett Baldwin: That would be really helpful.

Chair: That brings us to the end of this panel, so can I thank all three of you very much indeed for your insightful observations? I would like to thank Richard, Charlotte and David. Could I ask the second of the two panels, please, to come forward? Thank you very much.

Examination of Witnesses

Witnesses: Chris Cummings, Sir Douglas Flint and Philip Reed.

Q245 **Chair:** Good afternoon, gentlemen. We are now on to our second panel, so we are going to be looking more at asset management, having looked at insurance. I welcome you here to us this afternoon. Perhaps I could ask each of you to very briefly introduce yourself to the Committee.

Philip Reed: My name is Philip Reed. I am general counsel at Independent Franchise Partners LLP, which is a small-to-medium-sized, institutional-only asset manager based in the West End, with a small office in Australia.

Chris Cummings: Good afternoon. I am Chris Cummings. I am the chief executive of the Investment Association, which is the industry's trade association.

Sir Douglas Flint: I am Douglas Flint. I am the chairman of abrdn, formerly Standard Life Aberdeen, which is one of the UK's largest asset managers.

Q246 **Chair:** Thank you very much and welcome. Could I start with you, Chris? I just want to ask a bit about how we can improve outcomes for consumers. What are the key things that Government or regulators should be doing, in your view, to improve consumer outcomes in the asset management sector?

Chris Cummings: This is an ideal moment in time to be reflecting on this issue. I am delighted to be able to tell the Committee first the results of some new research that we have just done. Our industry is managing some £9.6 trillion of investors' money, which is money predominantly from UK savers and investors, although a little over £2.4 trillion comes from savers across Europe, and the remainder from savers and investors globally. The UK investment management industry is one of the UK's few truly global success stories as an industry.

Narrowing that down to focus more on the UK, this is an exciting time for the industry to really serve the needs of its investors. We have an opportunity to change regulation, so that, instead of looking at barriers to saving and investing, we can work much more closely with the investing public.

As we have seen through the pandemic, there is a real growth in appetite from ordinary people to invest. At the moment, 75% of UK households use the services of an asset manager for their ISAs, pensions and long-term savings. Through the crisis, we have seen UK households increase the level of investment that they have.

Perhaps one of the standout trends has been the growth in environmental, social and governance funds, which have attracted, on average, about £1 billion a month throughout the period of the crisis. Normally when we think about regulation, it is a way of thinking about consumer protection. We would like to work much more closely with Government and the regulator to perhaps try to invert some of the discussions that we have had in the past to really galvanise a savings and investing culture here in the UK.

Research that we have done shows that people regard saving as being a good thing, but can get a little confused about investing, which they can see as risky. We think that the opportunity there is to help rebuild that investing culture that we might have had in the UK a long time ago, and to really galvanise that process.

Things that perhaps get in the way of investing at the moment include regulations, where ordinary savers are not quite sure if they have had guidance or advice. The retail distribution review reduced the number of advisers and raised standards in the industry, but too many people just do not get financial advice at all these days.

The disclosure regime is all about pieces of paper rather than helping people really understand how to save or invest, and we think that there is an opportunity to really excite people around those areas.

Finally, we have had some terrific examples of where Government, regulator and industry have worked together recently on the productive finance working group, which brought together the Bank of England, the Treasury, the FCA and the industry to look at how we can help people save long term and access less liquid assets, so that they can put their money to hard work and enjoy the benefits of that.

Forgive me; that was quite a lengthy answer, but it is an exciting moment to be acting in.

Q247 **Chair:** That was very helpful. You have identified these various elements that you would like to have addressed—making the distinction between guidance and advice clearer, galvanising people to invest and save, and so on. How? What are the nuts and bolts of what that looks like?

Chris Cummings: A lot of this starts with a recognition that innovation can be a positive good, and that the regulator and the industry need to work better together to find new ways of bringing that innovation to bear. The traditional toolkit used to do this tended to be around more disclosure, even through something like the key information document, which specified a number of A4 pages that had to be handed over—not quite 21st century technology. Areas such as innovation and a shared agenda are really where we can do more together.

The UK has a terrific reputation as an innovative centre for investment management, and we can build on that reputation at home, and certainly internationally, for the benefit of the economy and UK savers.

Q248 **Chair:** Where does that innovation come from? "Innovation" is a very general term, but, if you were to point to bits within the system or the marketplace, what is the spring of innovation? Where is it and how do you encourage it even further?

Chris Cummings: Our reputation for innovation is quite broad, from solutions through to LDI and multi-asset. The industry has shown itself to be quite forward thinking, all the way through to the latest developments around the long-term asset fund, which is a very welcome move, supported by Treasury, with strong co-operation from the Bank of England and the FCA, to help people invest in less liquid assets such as infrastructure or businesses that need a longer time horizon. Rather than daily liquidity, it takes the view that, if you invest for longer, the returns should be higher.

A lot of that comes from industry expertise. We would like to see the regulatory authorities working more closely with the industry, recognising that innovation does go to the heart of what is going to keep this country globally successful.

With the investment management industry, we have a tremendously successful industry today, but one that could be even more successful in the future. I mentioned that, here in the UK, we manage some £9.6 trillion. Of course, global AUM is around £65 trillion. The five countries that the Government have identified for the financial partner programme are worth £25 trillion. When we think about the opportunity over an eight to 10-year period, doubling assets under management in the UK feels like a stretch target, but absolutely one that is worth aspiring to.

Q249 **Chair:** Thank you very much, Chris—so the regulator working more closely with industry to drive innovation and so on. Philip and Douglas, do either of you want to come in?

Sir Douglas Flint: There is a huge and urgent need for a partnership between public, private and the regulatory system. As we come out of the Covid period, one of the things that people have learned more about is their own financial resilience. Not only is it a question of rebuilding family finances but it is a question of also thinking about longevity and how well prepared they are. There is no question that, with the demise of the defined benefit schemes in the corporate sector, the democratisation of savings is ever more urgent, and there is a huge education need for the industry, the regulator and Government to remind people of the responsibility that they have.

If I were a regulator, one of the things that I would ban is the use of the word "pension" when combined with "defined contribution", because defined contribution is not a pension at all. It is a savings. Whereas defined benefit is a pension, defined contribution is simply a pot of money that may be used to buy an annuity, or it may be taken and drawn down. People of my age think of a pension as what their grandad got when he left the firm 40 years ago until he died not very many years after that, as opposed to people now retiring and living for 25 or 30 years.

The Government have an urgent need for people to save—never mind the burden of long-term care and all the other things we have been talking about in the last week or so. People need to have more savings, and that is an industry issue. Forget the competitiveness of all of us competing to manage those funds. We need to see the pool of savings grow.

Secondly in terms of improving outcome for consumers, we need to find a way, as Chris said, to think more about the purpose of investment as well as the return on investment. Returns tend to be seen as financial returns over a relatively short period, whereas we need more focus on what this investment is doing. Is it building the infrastructure and the job creation that will look after our kids and our grandkids, or is it investing in online gaming and online dating? Those things may be very attractive from a financial perspective but do not do much for the sum of human—at least I do not think so, but perhaps it is just me.

Thirdly, there is a great deal that Government could do in something that has been remarkably successful and other people are copying. It is a bit of stealth, but it needs to be. That is expanding auto-enrolment, which has been a great way of getting long-term savings into DC schemes. That, coupled with finding ways to make our DC schemes bigger and taking some of the restrictions away from them in terms of long-term and more complex assets, which means doing something about the fee caps, because the more complicated assets require more diligence and ongoing monitoring, is one of the problems.

When you think that you have the Singaporeans, the Canadians and the Australians investing in UK and European infrastructure, and our DC schemes are much more modest in that area, you have to scratch your head and say, "Surely, we should be doing something to unlock that".

Finally, on innovation, we are very innovative as an industry, but we are following our customers. Nowadays, whether it is pooled investment vehicles in the wholesale channel, institutions, or retail investors at the younger end, they are not asking, "How do I invest in the FTSE?" They are asking, "How do I invest in the energy transition? How do I invest in water shortages? How do I invest in deep tech?" They want to be investing in the areas of the future, and the industry is very clever at creating vehicles that give people a themed investment as opposed to a market-based investment.

Q250 **Chair:** What would be a good example of that?

Sir Douglas Flint: ESG is so broad that it is almost irrelevant. The energy transition would be a good example of where people are asking, "How do I invest in hydrogen fuel cells? How do I invest in non-hydrocarbon transportation? How do I invest in water shortage? What does that mean? How do I invest in agriculture with fewer fertilisers?"

Q251 **Chair:** What level of opportunities are there out there? If I am asking those questions, do I have lots of opportunities to invest in those kinds of things?

Sir Douglas Flint: There are lots of them around at the moment, but there is going to be a wave of them coming. ESG is probably one of the best and worst examples. Too many things have an ESG tag on them in the sense that there is quite a broad range of what that tags means. Going forward, we are going to see many more particular thematic vehicles where people will be able to focus what they want to do with their money.

I really think that things are changing from giving me an investment vehicle that makes me an adequate return to giving me an investment vehicle that gives me an adequate return that is contributing to the future I want for myself, my kids and my grandkids, and I am prepared to give up something in the short term, in terms of return, particularly in the world we live in at the moment, where if the benchmark is, "What would I get from putting the money in the bank?" the answer is "nothing".

You can benchmark against market indices and so on, and some of them are quite extravagant, because they have been very dominated by tech, particularly during lockdown and Covid. Our experience is that the average consumer is quite happy for something that is reasonable. Institutional investors are looking for the last basis point, but retail investors are looking for something that is reasonable and significantly better than they would get in a bank account.

Chair: Douglas, I am going to move on at that point, but that is very helpful.

Sir Douglas Flint: They want to see their money do something good.

Q252 **Chair:** I understand. You have made that clear, thank you. Philip, given the conversation we have had, are there any quick, punchy observations that you would like to add?

Philip Reed: I will do my best. I cannot emphasise too highly that the market for institutional products is very different from the retail market. There is intense global competition for mandates from pension funds, endowments and sovereign wealth funds, and the consumer protection issues that dominate the analysis of the retail market do not apply. Clients either are or are not advised by sophisticated experts, and the due diligence processes undertaken on behalf of clients are demanding and time consuming.

There is a tremendous role for a bifurcation in regulatory standards, which recognises that some of the precautionary rules, if I can put it like that, put in place to support consumer protection, which are absolutely appropriate in the retail space, may be an unnecessary burden in the institutional space that is limiting our ability to compete in the global marketplace.

Q253 **Chair:** Give a key example of that.

Philip Reed: KIDs—key information documents—have been mentioned already. A fund that has, say, a $3 million minimum investment is not a retail product. You are still required to produce a KID. I am talking about UCITS structured funds—the structure that we have inherited from our membership of the EU. The consultants who advise institutional clients do not read them, because they do months of due diligence before they would dream of investing with the firm I work for. It is just a cost. It makes us less competitive.

Q254 **Chair:** How significant a cost? Can you qualify that for me?

Philip Reed: The way it works is that it depresses the performance of the fund vehicle itself, because it is a fund cost. I cannot give you a figure off the top of my head, but, if I can resort to the language of the retail environment, every little helps. The picture I want to paint is one of a multiplicity of small opportunities, which, collectively, I would suggest, will make a big difference.

Chair: I would love to ask you more questions, but I am well out of time.

Q255 **Dame Angela Eagle:** With the switch that has to happen in investment across the board to deal with climate change, with the transformation of our infrastructure that is going to have to happen, and with people's increasing commitment to seeing that happen, there has to be some reasonable definition of what a proper green product is. That also means that there is the potential for a great deal of fraud or greenwashing, or whatever you want to call it. Surely, we need regulation to ensure that that does not infect the whole transition.

Chris Cummings: I completely agree. The scale of ESG investment that we are already seeing and that is going to come through is phenomenal, and it is a global issue. We are already facing into a multiplicity of regulatory standards and initiatives.

Coming out of the European Commission, we have the SFDR requirements, which the UK Government said they were not going to enact in the UK, but our industry serves clients across the UK and the EU, so the industry implemented SFDR. We have just had the FCA's principles on ESG, on which we are working very closely with it to help our member firms digest what they are going to look like. We have more work going on in the US, which will have its own set of standards.

We are trying to help policymakers understand that, ideally, the industry needs global alignment of standards. We can live with coherence, but different jurisdictions having a patchwork of different regulatory standards and approaches not only adds cost but increases consumer and investor confusion.

Q256 **Dame Angela Eagle:** Where can this probably be done? Look at Basel I, II and III, or wherever we are now. Seven or eight years is quite rapid deployment, but the planet will be burned to a crisp by then, so where can we get this sorted rapidly? Otherwise, this cost will just multiply in the international arena.

Chris Cummings: I completely agree. The UK has a standout opportunity this year in particular. We hosted G7 and we have COP 26 coming up. There is a moment in time opportunity. IOSCO, which is the college of market supervisors, would normally take the lead on this. We are very keen to continue working with IFRS, because we do feel that there is a pressing need for its voice to be heard. It is not a lack of will. What we need is better co-ordination to bring this together; otherwise it is this conflict of different standards.

Ultimately, and being realistic about it, there is perhaps a degree of political jockeying for position, where one jurisdiction wants to not only set its standards but then export those around the world. During all of this, we face huge complexity for our industry, with TCFD coming in and the requirement being placed on every corporate to report, which is a good thing. We want every corporate to operate to exactly the same set of metrics, to be able to then give us the information we need, so that we can embed that into our portfolios and report that, and then work with regulators to make sure that we are reporting in a way that investors can understand.

Dame Angela Eagle: And trust.

Chris Cummings: Absolutely.

Q257 **Dame Angela Eagle:** This is the thing, because the industry has had a range of issues, especially around pensions, about mis-selling products. That mistrust about this whole area extends across the whole industry. There is mistrust everywhere. Mr Reed, you talked about sophisticated investors, but sophisticated investors bought Greensill Capital's products, and so there is an issue here about confidence in what the industry is producing and what people are investing in. I sometimes do not think that, as an industry, you understand quite how compromised and worried people are about all this stuff that goes on, where they get fleeced.

Chris Cummings: We certainly do, and I completely hear what you are saying. We set out our own taxonomy, 18 months ago, to try to bring some clarity to this. This year, we are working on a consumer-focused product label to really help people understand what different fund options are available. As Douglas was saying, there is so much opportunity now for personalisation. People do not necessarily just want to buy a fund.

They want to buy a fund, "But not with that company, because I do not like that company. I do not like how it is behaving".

There are huge opportunities for us. Otherwise what we will face into is another year where the Financial Services Compensation Scheme cost to the industry, which was about £20 million four years ago, is now at £200 million, because we are having to pay for the failures of companies way distant to our industry that have gone out of business because they have done bad things to unfortunate people. We have an absolute alignment of wanting to make sure that consumers can trust us on the basis of what we do being trustworthy.

Dame Angela Eagle: And sophisticated investors.

Philip Reed: Yes. I would respectfully suggest that I am not sure that the issue of mistrust is as great in that space, but I am not making light at all of the point that you make. Integrity is critical to what we do. Greenwashing is just another branch of mis-selling, and I would wholeheartedly support anything that can be done to eliminate it.

Sir Douglas Flint: There is a huge opportunity for the UK. I have always believed that, in complicated areas, one should try to make things better, but never perfect. There is a real danger that, in global standards and a taxonomy on environmental issues, we seek perfection and it will be like Basel. In 10 or 15 years, we will be parsing the intricacies of how you measure greenhouse gas emissions. We should just agree the big issues.

There are something like 60 bodies that are trying to be the dominant standard setter on ESG, which is crazy. We want harmonisation of some of the simple, obvious things, and to start reporting that and then add to it year by year, rather than trying to say, "We are going to go for perfection". We will never get there and it will be complicated. At the end of the day, you want a *Good Housekeeping* stamp of approval, because only the very sophisticated investors, and only those with scientific advice, will understand the language and the taxonomy of climate change. What people want to say is, "This does what it says on the tin".

One protections may be that we have seen in the last few weeks a pretty prominent legal case being brought in the US for overstating ESG credentials, which will concentrate people's minds on what they claim.

Q258 **Julie Marson:** It has been fascinating already, but maybe I can just follow up with Chris first of all. The opportunities and the ambition that you are laying out are very exciting and very impressive, and you have touched upon some of the things. Overall, what are the barriers going to be? What is going to be the drag on you achieving your ambitions?

Chris Cummings: What a very good question. The UK faces a moment in time opportunity. I look at the work that the FCA is doing on consumer investment markets. It is a really thoughtful consultation, recognising that perhaps, over the last 30 to 40 years here in the UK, there has been a direction of travel in regulation that has made it harder for people to save and invest, through giving them more pieces of paper and making the process longer, and we have not landed in a great place. That is a really interesting consultation, because it gives us the opportunity to say, "The traditional tools in the toolbox have not worked. What are the new ones?" Douglas mentioned auto-enrolment.

There is a lot more room for behavioural psychology in regulation thinking, with more nudges and so on. That is a really exciting opportunity here in the UK. Of course, we need a modernised set of products and services. There are open and closed-ended funds. The long-term asset fund really opens a new category for people to save and invest in, with higher returns.

Internationally, the UK really needs to focus on building on the strengths that we have, which are around technology. We are a world leader not only in fintech but in investment management. We launched our own fintech accelerator. We have 150 fintech member firms, which is really exciting, with a global partnership programme now connecting UK-based fintechs with high-growth centres around the world. Then there is ESG.

There is a potential alignment and it is easy to see how each thing could go well, but it is rather like the cogs in a machine: you could get one wrong. You could get the regulatory environment wrong, with extra costs of regulation, or a tax environment that is not conducive to business. If we do not deliver a UK funds regime that is attractive, other parts of the world will benefit from all the hard work that we do, because our industry is much sought after and easy to emulate for some products.

Q259 **Julie Marson:** Yes, the balance between the opportunity and the regulation. Do you think the regulators and the industry understand the risks that are going to come along with that scale of opportunity?

Chris Cummings: I do. This is something that we have been giving a lot of thought to. A huge amount of work has gone into modernising liquidity management, and we have been working very closely with the FCA. The Bank of England has been very thoughtful and very in tune as to how it thinks of liquidity management. That has also been looked at at a global level. IOSCO, the international supervisor, has been looking at it, as has the SEC. There is a great deal of thought around that liquidity management piece. It is always best to do these things ahead of time.

Q260 **Julie Marson:** Philip, what about the sandbox? My colleague mentioned the regulatory sandbox earlier. Has that been a great opportunity? How has it performed as far as you are concerned?

Philip Reed: I have never had the opportunity to use it myself. It has been an enormous success. It has been an excellent example of our regulatory soft power. It has been an example to a number of countries around the world and it is flourishing internationally, so I support it wholeheartedly.

Q261 **Julie Marson:** Would you agree with that, Douglas?

Sir Douglas Flint: Totally and absolutely. It has been one of the great successes and is much copied.

Q262 **Julie Marson:** That is interesting. Does the rest of the world look at us for examples and as a leader? Are there areas where we can look elsewhere as well?

Sir Douglas Flint: We should always remember that there are two aspects to the financial services industry in the UK. There is a domestic business and an international business. The international business is many times the size of the domestic business. The UK has always played a very significant role in the global ecosystem and architecture of supervision, regulation and, indeed, innovation.

One thing that we need to protect above almost everything else is that voice at the table, which is based upon having a dog in the fight, as it were, with businesses that are competing on a global scale, with the scale of businesses and with the intellectual capital in the UK such that people want to copy the ideas and thinking that are coming through, not just in product design but in governance and controls.

We have that respect hugely at the moment, and it is hugely important that we continue to see ourselves on the international side as a very important, if not the most important, cog in an international ecosystem, that we continue to have that respect and that people are interested in what we have to say, because we are important to them and innovative. That is a challenge but one that is important, because it has taken hundreds of years to get to that position.

Q263 **Julie Marson:** Do we have the homegrown skills to fulfil all that potential as well?

Sir Douglas Flint: Absolutely.

Q264 **Julie Marson:** Would you agree, Chris, that we have the skills we need?

Chris Cummings: As Douglas was saying, we are a global centre, and I would reflect on two things. The first is that, when I used to catch aeroplanes and go on international trips, I would always be struck by the cachet of London. If you are part of the UK financial services industry, other parts of the world look to you enviously.

People aspire to work here, because it is a stamp on the business passport, but we also have to grow our own talent, which is why, in investment management, we have a programme called Investment20/20. We have now placed over 2,000 kids from underprivileged backgrounds into our industry, and given them life opportunities that I can relate to and that I am very proud of. It is that combination of growing our own, but recognising that, if you are investing in Brazil, you probably need some Brazilian expertise around as well.

Q265 **Julie Marson:** Can I ask you about open finance, and the benefits and risks? There are both, are there not? There are huge benefits to be gained from open finance, but there are some ethical and practical risks on data sharing and so on.

Chris Cummings: Indeed, yes, and that is certainly the way that we are looking at it, having seen what has happened in open banking and how that is being further developed. From our industry's point of view, the move to technology and the greater empowerment that that can bring is a great opportunity, but it comes with some risks. In terms of mass personalisation, it is great to be able to choose what is in your own portfolio, but saying, "I do not want that company; I want that one" can change the risk profile in it. Other instances include the FOLLOWME campaign. Do you really want to follow the fund portfolio of a celebrity, a Hollywood superstar or even, dare I say, a regulator? These things are challenging and come with risks that we need to map off as an industry.

Sir Douglas Flint: We should also think about reciprocity. The tech industry is very keen to have all our data and to build a financial services business on it, but we would love to have all their data, because we would be able to personalise and identify aspects that would enable us to serve consumers better too. This is the question: is the information sharing just one way towards the tech business, or is it both ways, where they share their data with us to enable us to do our business better?

Julie Marson: Thank you very much. That was very interesting.

Q266 **Rushanara Ali:** Good afternoon. I am going to go back to the interaction with financial regulators. All of you have alluded to some of the challenges around regulation. In a short sentence, how would you describe the regulators' approach to asset management for your sector?

Chris Cummings: It is fair to say that, over the last few years, the asset management industry has been in the regulatory spotlight. That was inevitable after the banking crisis and then the focus on insurance, and so the regulatory attention has definitely turned to us. The industry and regulator have worked very well together to both address some of the issues and recognise that there were some areas for improvement across the industry.

Working with the regulator now on areas such as ESG puts us both in a better position, but we would still like to see a more innovative spirit in the regulator, and a desire to recognise that the industry and regulator have a common interest called the consumer.

Q267 **Rushanara Ali:** Would you describe the regulator as being too risk averse at the expense of hampering innovation?

Chris Cummings: The role of a regulator is always to focus on the risk. That is entirely understandable, but it needs to be offset with a view that, for the UK, financial services is a pillar of the economy. In our global position, if we want to remain a global hub, we need more competitiveness in there.

Q268 **Rushanara Ali:** If you were being pushed to answer the question of whether it is time for a move towards deregulation, would you say no or yes, or would you not frame it that way?

Chris Cummings: I am a fan of smarter regulation rather than deregulation. Too much time is spent on that discussion. We are in a highly regulated industry, which is appropriate, given what we do. Smarter regulation and one that is more internationally minded would be much better.

Q269 **Rushanara Ali:** Philip and Sir Douglas, would you concur, or would you take a different approach?

Sir Douglas Flint: I agree with what Chris said. We benefit in this country broadly from principles-based regulation, because rules get you into a tick box. If one was offering an opportunity for improvement, it would be simplification. There are so many strands, whether it is consumer protection, industry infrastructure, the whole diversity agenda or the ESG agenda. There are so many things being layered and layered, all of which are overlapping, that it gets quite complicated to map through that. We need some kind of simplification.

I am wholly in favour—and I say this openly—of very well-paid, experienced regulators, because the cost of poor regulation is significantly worse than expensive regulation, for the industry and for consumers.

Philip Reed: I wholeheartedly agree with that. Part of what we have built is a reputation for technical excellence among our regulators, which should be maintained by attracting and remunerating the right people. The answer to whether it is deregulation or more regulation is an incredibly nuanced one that needs to be taken subject by subject. I have made my views clear on how I think the institutional space should be treated, but, yes, let us bring the best people in.

Q270 **Chair:** Sorry to interrupt, Rushanara, and just to follow up on that point, are you sitting there feeling that the quality of our regulators, as a group of individuals—large number that there are—is at the level that it should be, or is there any thought that there needs to be an improvement?

Philip Reed: Sometimes, there is an unsatisfactory interface between regulatory responsibility and political pressure. Sometimes, we see some kind of scandal, the political cry goes up—"Something must be done"—and I am left thinking, "Actually, it was not the fault of the rules." It is not that we need more rules. We might have needed the old rules enforced with a little more shrewdness, or treated in a slightly different way, and there are examples of that in the remuneration rules in the new capital regime, which I would suggest has not had proper litigation and scrutiny, and simply adds to cost. That is where it goes wrong, when I see it go wrong.

Q271 **Rushanara Ali:** Can you name countries or regulators that we in the UK could learn from, where, compared to our regulatory system, they are doing some things better? I know that UK regulators have a really good reputation generally. What about the SEC? What can we learn from it? Are there others that we could learn from?

Sir Douglas Flint: Singapore, Canada and Hong Kong.

Q272 **Rushanara Ali:** What specifically would you point out that are exemplars in what they are doing that we should be learning from?

Sir Douglas Flint: In relation to the Asian regulators, they are very good at saying, "We do not think that this is a good idea in our marketplace, so do not do it". For example, in my old world of banking, the Hong Kong regulator would not allow people to come in with zero balance transfer credit cards, because they said, "This does not end well, so we do not want to see it", rather than saying, "Let us see it play through and see how it goes. Maybe it will be fine".

They are good at looking at the way that the market is going, saying, "We want to see more of this; we do not want to see this at all", and trying to shape the market to serve the purpose that they want for it, rather than setting a set of rules, seeing how people interpret them and then dealing with the outcomes. They are more interventionist, which is a good thing. You can see it around the world in how they are dealing with crypto assets.

Rushanara Ali: Would others like to come in on that question?

Philip Reed: I am not sure I have any jurisdictions to add to the list that you have given of places we should emulate.

Chris Cummings: I echo Douglas's list. Inevitably, there are things that we do very well. Are there lessons that we can learn from the SEC? Absolutely, it is a very thoughtful regulator. Close to home, the Bank of Ireland can be conducive to business and very easy to work with. Singapore is the textbook example that everybody always comments upon, because it has an attitude of wanting to attract a type of business and then working with that business for its success and protection. It is how it balances off those two objectives that is most attractive.

Q273 **Rushanara Ali:** Just going on to some of the earlier answers about the Covid period and people wanting to invest, particularly consumers, we have seen a real disparity, with household savings going up in some sections of the population, and yet the level of information, which Chris alluded to, for consumers who want to invest, as well as awareness, is much more limited.

There is a lot of online advertising and fraudulent stuff that is being hosted by platforms like Google, and the FCA has to come in and pay them hundreds of thousands of pounds to take it off, ironically. It is pretty shocking. That is the state of the sector. That is one end of the set of barriers that consumers face, and yet, as you have said, there is a lot of interest in "do good" investment, as one newspaper referred to it.

What else do we need to do specifically to create a pathway for investments by those who are not your "sophisticated" investors. Even a former Prime Minister has landed in difficulty, as we know, and we would describe him as a sophisticated individual. How do we make sure that people do not fall foul and then trust falls apart? Somebody mentioned political pressure and so on, but, when trust breaks down because of high profile failures, it is inevitable that Parliament and lawmakers are going to be interested in looking at addressing it. What should we be doing to address the landscape for investment, in terms of both consumers and your highly sophisticated, big investors? What else should be done about these things?

Chris Cummings: A very specific request would be to make sure that the Online Safety Bill includes financial services, and particularly financial services advertising, and that a requirement is placed on Google and others to run exactly the same checks as when a financial services company is going to put an advert in a newspaper. They have to have exactly the same standards.

There is some underestimation as to the scale of the damage that is caused at the moment. These are really sophisticated organisations behind it. It is serious and organised crime. Call centres of people are employed to take the calls generated from the online adverts. Sometimes the people working in those call centres honestly believe that they are working for a legitimate financial services company. Incredibly good documentation is sent out, which is entirely fake, people hand over their life savings, and then, of course, nothing can be done. We would urge that financial services is included in that Bill. That would be a huge step forward.

Sir Douglas Flint: There has been a debate between the political world, the regulatory world and the financial services industry as to whether you can have a *Good Housekeeping* stamp of approval: "This product does what it says it does. It has good governance. It invests in what it says it does. Its fee structure is appropriate for the risks it is taking. It is being managed by people who have expertise".

Could you have that kind of stamp applied to products? It would probably be at the simpler end of the range. The trouble is that people shy away from that, because they say, "That means we are kind of giving a recommendation". We are going through this debate at the moment in relation to some of the platforms, which say, "These are on the best buy list. Is that a recommendation or not?" Consumers probably would have a variety of views, from yes to no.

To help at the lower end of the market, particularly since RDR did away with the bank manager in the cupboard, to show my age, some kind of *Good Housekeeping* stamp of approval would be worth thinking about.

Philip Reed: My personal plea—and I apologise for the fact that it is no quick fix—is that anything we invest in improved financial literacy is money well spent. It will redound to the benefit of this country for generations to come.

Q274 **Rushanara Ali:** Could highly sophisticated investors sometimes benefit from it too?

Philip Reed: I am sure they could. Let me give you a serious answer to what may, in a sense, have been a light-hearted question. We could all do with learning more about this, and I would absolutely put myself in the same bucket, as well as all of our clients, although I would not necessarily say it to their faces.

Chair: I think you just have.

Q275 **Rushanara Ali:** How important is the independence of the regulators? How should that be protected? Do you see a trend towards politicisation, or influence from businesses, for that matter? I do not want to single out the most recent scandals, but there have been issues. What are your thoughts on independence, how it is protected and whether it is a good thing to have an independent regulator?

Chris Cummings: It is hugely important that Government set the context for the type of economy that they want to run, based on their manifesto commitments, and that that is then communicated to all regulatory and public authorities, but particularly in financial services, because it is such an important role. That is not a plea to politicise the regulator, but just being very clear on what Government policy is and what parliamentary oversight of that is, and then how that gets translated into the actions of the regulator.

There have been clear moments where Government policy seemed to be pointing one way but regulatory delivery seemed to be pointing in completely the opposite direction. Investment in private markets is perhaps a good case, where Government are saying, "We want DC pension schemes to invest more in infrastructure and to invest more in the UK", while other regulatory authorities seem to be almost restricting their ability to do that. I do think that it is important that we work through that context.

Sir Douglas Flint: It is hugely important that the regulators are independent, but it is also important that they strive to create a very successful industry, because the best protection is something that is successful. That does not mean that it takes excess rent; it just means that it is successful. Then it needs to be accountable for Government for the mandate that it has been given: consumer protection, consumer outcomes, and efficient, fair, transparent and secure markets.

Q276 **Rushanara Ali:** I have one final question, which is particularly for institutional investors. We have heard about lots of interest in "do good" investment. Can you point to figures around what percentage of investments—and I am thinking of ESG in particular—are not "do good", but are fuelling dirty energy and so on? I appreciate that there is going to be a period of transition, but, in your sector, could you talk through where you are at and how much work is going to need to be done to get to the point we need to get to, so that we are all marshalling in the same direction to fulfil our net-zero targets?

Chris Cummings: That is a really interesting point. In many ways, the easiest thing for my colleagues here to do, in order to have an easy regulatory life, would be to dump of all their brown stocks and to invest only in companies that were currently green. Of course, all that is doing is moving the damage to somebody else, who might be less inclined to work with management to transition those companies. Certainly, the approach that we are very strongly pursuing at the moment is for ESG investment opportunities and ESG funds to have them very clearly marked as meeting those standards.

Q277 **Rushanara Ali:** What percentage is currently not meeting the standards?

Chris Cummings: At the moment, about 49% of everything that UK investors invest in has some kind of ESG "do no harm" overlay, so about 51% do not. We are trying to sharpen up on that, but there are some major businesses out there that have long and sophisticated transition paths, and we want to work with them to make sure that they arrive there—perhaps encourage them along as well at times. The great danger otherwise is just divestment, which leaves the problem with other people.

Philip Reed: I wholeheartedly agree with what Chris has said. It is a question of engagement and of careful stewardship. That process of transition can represent, I would suggest, a legitimate investment opportunity, because it will take money to make that transition.

Q278 **Rushanara Ali:** At the moment, would that number—49% and 51%—apply to your business? I appreciate that it is a sector-wide figure, but are you able to give us some idea of what it looks like?

Philip Reed: Not really, no, because we are so small and specialised.

Q279 **Rushanara Ali:** Are asset management companies starting to do that on a company-by-company basis?

Philip Reed: Yes.

Chris Cummings: Yes.

Sir Douglas Flint: Yes, because the EU has a taxonomy of grade 6, 7 or 8. You can specify whether the funds take it into account or are purely dedicated to it. The challenge is that the taxonomy is not certain. You cannot move to a lower-carbon future without mining the minerals that would allow us to get there, and mining and processing those minerals is dirty and is done in countries with quite often very bad standards of governance and corruption. It is pretty complicated.

Some of the ESG funds include the oil majors, because they are investing heavily in solar and wind. Others exclude them because they still have a big hydrocarbon business, but that is what is paying for the investment. It is complicated and it needs to be thoughtfully thought through.

Q280 **Harriett Baldwin:** I have one question that has not come up, but which I am very keen to know about, given that I used to work in asset management. It was a factor in the success of London's financial centre that we were able to manage, here in the UK, assets that were in different time zones and areas. A lot of that was due to a legal framework where countries accept that direction in terms of the decisions on particular assets was made in a different jurisdiction. I wondered whether, in this era of protectionism and deglobalisation, you are seeing any threats to that fundamental principle of direction in terms of the asset management industry.

Chris Cummings: You are absolutely right. The principle of delegation, which is an international standard overseen by IOSCO, is the bedrock of investment management. It means that we are able to manage assets from around the rest of the world, and that contributes to growth. Looking globally, the picture is quite calm. Looking between the UK and the EU, it is a matter that often comes into the spotlight. We are about to go through another period where the European Commission is reviewing the AIFMD and UCITS, so the regulatory regime in Europe is up for review.

There have been comments made about restricting delegation and imposing quantitative or qualitative limits on it. That just adds cost to the industry and leads to a suboptimal outcome for clients, because more friction is introduced. I am not entirely convinced that, if the European Commission wants to try to move little bits of business from the UK to inside the EU, that is where it would end up. It is more likely to head off to the US or to emerging parts of the world. It is more politics than good business management at the moment. I do not think that the UK Government or other Governments—the US and Japan, and so on—that will be affected by such moves should be shy of voicing their concerns about what is in the interests of savers and investors.

Q281 **Harriett Baldwin:** Given that the sustainable financial disclosure regulation happened and we have had to put it in place for our industry here in the UK away, how much influence would, for example, this Committee or the Government have on this particular line of discussion?

Chris Cummings: It is true to say that the UK is very much a player in the game, even though we are outside of the EU. One of the things that we commend is that, in future FTAs, there is a financial services chapter that speaks to delegation as being a recognised international standard. Outside of the EU, that then raises the bar: if it is good enough in the rest of the world, why would the EU want to change that?

Q282 **Harriett Baldwin:** Is it in the Australian deal?

Chris Cummings: We have not seen the finished text, but it is pointing in that direction, which is great. We also want to make sure that IOSCO continues to reinforce the fact that delegation is an international norm, because it is in the interests of savers and investors.

Sir Douglas Flint: Can I add something slightly different to the same point? Delegation is a subset of treating customers fairly and making sure that assets are being managed where the cluster of expertise is; i.e. you would not ask somebody in Marseilles to manage assets in Chile for a domestic consumer.

One thing that is really important in Lord Hill's review and Ron Kalifa's review is that the reason why we have a slightly outdated capital market in the UK at the moment is that the expertise follows the money, and the money for deep tech, biotech and telecommunications is in America. Therefore, the analysts and the research community are all in America.

What is extraordinary is that the depth of the science base in this country that produces the technological ideas punches above its weight. Europe does generally; the UK does within Europe. We have the raw talent. Many of those companies are then getting absorbed either into Hong Kong or into US markets, because that is where the depth of capital and expertise is.

It is really important that those revisions are made, not just to attract companies to the UK but to rebuild that research base in the investment community that went with MiFID, so that we can follow those companies and those companies come here. The research will drag the money, and the money will drag the research. You get into a virtuous circle.

It is a parallel to delegation, in a way, and asking, "How do you create the cluster of expertise so that people come to you?" The UK's historical expertise is in managing money from all over the world going to all over the world. In my firm, we manage money for customers in 80 countries, so that is the huge prize that we have to preserve, but that means investing in a research base for deep tech, biotech, transition technology, et cetera, which we do not have at the moment.

Chair: Thank you for that very interesting observational point to end on. That brings us to the end of this witness session, so thank you very much indeed to Philip, Chris and Douglas for joining us this afternoon.