House of Commons

Treasury Committee

Oral evidence: Future of Financial Services, HC 147

Monday 17 January 2022

Ordered by the House of Commons to be published on 17 January 2022.

Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 417 - 532

Witnesses

I: Martin Coppack, Director, Fair By Design; Claire Tunley, Chief Executive, Financial Services Skills Commission; Professor David Aikman, Director, Qatar Centre for Global Banking and Finance, and Professor of Finance (Practice), King's College London.

Written evidence from witnesses:

FFS0093 - Fair By Design

FFS0034 - Financial Services Skills Commission

Examination of Witnesses

Witnesses: Martin Coppack, Claire Tunley and Professor David Aikman.

Q417 **Chair:** Good afternoon and welcome to the Treasury Committee hearing on the future of financial services. We are going to be focusing today particularly on consumers, skills and financial stability. I am very pleased to be joined by three witnesses in person this afternoon. I am going to ask them to very briefly introduce themselves to the Committee.

Martin Coppack: I am Martin Coppack. I am director of Fair By Design. We exist to eliminate the poverty premium. That is the extra cost that poorer people pay for essential services. I am also a member of the Financial Inclusion Commission and a member of the consumer protection advisory committee for the federal regulator in financial services. In a past life, I was a technical specialist at the FCA, where I specialised in consumer representation and consumer engagement.

Professor Aikman: Hello, everyone. Thanks for inviting me. My name is David Aikman. I am the director of the Qatar Centre for Global Banking and Finance, which is a research centre at King's College London, focused on central banks and financial regulation. Prior to taking this role, I was an economist at the Bank of England, working on research and policy, focused on financial stability mainly.

Claire Tunley: Good afternoon. I am Claire Tunley. I am the chief executive of the Financial Services Skills Commission. The commission was set up in 2020 in response to work commissioned by the Treasury. I am looking at the importance of skills to future competitiveness in the financial services sector in the UK. We are a membership body. We have over 30 members, representing firms across all of financial services and based across all of the UK. Our focus is on tackling the skills challenge, increasing and diversifying the supply of skills into the sector.

Q418 **Chair:** Thank you very much and welcome to all of our witnesses. David, can I start with a question to you? The Government have a lot of reviews going on, now we are out of the EU. We have Kalifa, the wholesale markets review, the Hill review on listings, and the proposed changes to the secondary objective for the regulators—the PRA and the FCA. Is there any part of you that is concerned about financial stability in that context? Is there a danger that some of this activity pushes us too far away from the lessons we learned in 2008?

Professor Aikman: That is a great question to start us off with. I do have some concerns. We are seeing a cycle in financial regulation, and this is not a new thing. It is a common experience after crises that we tighten requirements and then loosen them again. After the last crisis, we obviously tightened requirements quite a lot in the financial system. We recognised that this is a high-risk sector that has the potential to create a lot of economic instability if it is not regulated appropriately.

If we move towards a phase where we are gradually undoing some of those regulations, we are effectively increasing taxpayers' contingent liability if something goes wrong. That is the lesson from 10 years ago. They are not major concerns at this stage, but it feels like the pendulum is beginning to swing.

Q419 **Chair:** As you look at that, the Government have a lot of decisions to take that have not yet been taken, so we do not know exactly where we are going to land. What are the kind of areas or specific issues that, at the back of your mind, you are concerned about at this point?

Professor Aikman: I would point to the secondary objectives we have given to the Financial Policy Committee and how they have changed over time. Similar changes have been mooted for the Prudential Regulation Authority: a greater emphasis on competition, growth targets and international competitiveness. We have tried these things before, and they did not end terribly well.

It is then a question about how the regulators interpret these secondary objectives—whether they interpret them as read, where your goal is stability and, subject to that, you have these other considerations in mind. That is one thing, but it risks diluting their focus on what their main job should be, which is keeping the system safe.

Q420 **Chair:** I read your blog, where you made this point about the FPC specifically. In addition to focus, you talked about workload being an issue: do they have the capacity to do what they would need to do if there is this additional, secondary objective? Can you talk a little bit about that for the Committee?

Professor Aikman: It is a broader issue to start with. We have designed a regulatory system that is incredibly complex. You have heard evidence in that space already. A lot of regulators' efforts, even within the sphere of their primary objective, is about staying on stop of the rules and making sure they are being enforced correctly, rather than focusing on the big and emerging risks. There is that.

Q421 **Chair:** Are you comfortable that they have the capacity to keep on top of the existing objectives and remit? Do you think they are struggling a bit already and this is going to make it worse?

Professor Aikman: It is a concern. The Bank has an excellent staff of people working for it, but there is this high turnover in the institution. The business model is typically to hire the very best economists coming out of universities. These people stay for four or five years and then move on to the private sector. It has been a long-running concern: do we have a sufficient depth of expertise within the staff to implement the rules as they have been written?

Q422 **Chair:** I think, in your blog, your argument was that it may be unsatisfactory to have the secondary objective, for the reasons we have just discussed of focus and workload, but, if that were to happen, it would perhaps then be important to measure in a different way the effectiveness of meeting the primary objective. Does that suggest that, at the moment, you do not think appropriate measures are there for that assessment? How would you change that assessment?

Professor Aikman: First, thanks for reading my blog.

Chair: It is quite interesting, actually. I cannot promise to read every other post that you come forward with.

Professor Aikman: There is an issue. In a nutshell, the issue is the primary objective for the committee, protecting and enhancing resilience. That is a vague notion that cannot be measured very easily. The secondary objectives are about competition, growth and competitiveness. They are easier to measure. I do not see this happening immediately, but the concern is that, over time, you focus on the thing that you are being held to account for and that can be measured in a very clear way.

I would like to see the FPC in particular make more efforts and take steps towards quantifying in some way its primary objective. I am saying that, recognising it is a very difficult question. Pinning down what financial stability actually means has eluded economists for a long time, but there are steps it could consider in that direction.

Chair: It would be helpful, because I know it is a very specific question, but you have raised quite an important issue, if you can write to the Committee with any further thoughts and specific ideas you have as to how that might operate. That would be quite helpful for us to consider.

Professor Aikman: I would be very glad to.

Q423 **Chair:** Thank you. If that secondary objective were already in place, or had been in place for some time, what kind of decisions do you think would have been taken differently? What kind of measures would be different now if that secondary objective had been there for the last few years? In what kind of areas would we have seen a different outcome?

Professor Aikman: It is a question about how that secondary objective is interpreted. It might literally be to pursue financial stability, and only then, if you are faced with two options that have the same financial stability ends, consider the one with the better competition impact. If that is the interpretation, there would probably have been very little impact on the decisions the regulators have taken, but presumably the reason the Government are considering expanding the secondary objective in this way is that they want to see slightly different, more growth-focused policies.

Chair: Yes, you have to imagine they expect different outcomes—

Professor Aikman: That must be fair, yes. You could look at a range of the rules that have been written for banks, for example around bank capital requirements, and say we could have ended up in a slightly softer place, whereas we transitioned from these requirements being cuts during the Covid crisis, maybe we end up at a slightly weaker place than we were otherwise. These are the types of things I would be looking at.

Q424 **Chair:** We will come into that in more detail a bit later. If I could turn to Claire, let us talk for a minute about skills and international competitiveness. How do we, as a financial sector, compare internationally on the skills front?

Claire Tunley: It is broadly a positive story. I know others will be able to produce work on this, such as the City of London Corporation. We are in a good position, in terms of graduates coming out of university. High numbers have business IT, for example, as their discipline. We hear that there is a really strong talent offer and that the UK is a place people want to come to if they want to learn and innovate. The attraction of talent and that innovation is a self-perpetuating circle.

We do know that other financial centres are investing in upskilling. Singapore, in particular, was investing a lot, and other financial centres are attractive places for talent to go. It is certainly something that the UK should pay attention to, and that is really the basis for the commission, to make sure that the skills are in place to maintain competitiveness, innovation and productivity for financial services.

Q425 **Chair:** In terms of my question, which was about how we are doing compared to the rest, what is the short answer to that?

Claire Tunley: It is broadly a good story, but we cannot rest on our laurels. We have to maintain focus. We need to invest to maintain that position.

Q426 **Chair:** Where do we need to do better, and how do we achieve that?

Claire Tunley: It is around digital. The primary skills gap that our members really talk to us about is around digital and technological skills. There very much is that demand for high-level skills, but it is a little more nuanced than that. It is not just about more and more graduates in software engineering or data, for example. It is around the skills that underpin that innovation around digitalisation and allow that transformation to occur. It is around things like agility, adaptability and consumer focus. How do you build better products and services that use IT? The FinTech sector is driving ahead on that, but the whole sector is moving forward.

It is very much around investing in those skills. One of the areas that we focus on at the commission is around re-skilling the existing workforce. If we look forward to 2030, 80% of the people who will be in the workforce in financial services are already in the workforce today. Employers and individuals need to look at upskilling. Those people have left full-time education. We really need to look at augmenting and enhancing the skills of the existing workforce to build on their knowledge of and expertise in financial services, whether it be in cyber, data analytics or some of those behaviours that I mentioned, to make sure that we have the skills at our fingertips that we need.

Q427 **Chair:** Thank you, that is helpful. Martin, if I can focus again on this potential change to the objectives of the regulators, focusing on competition, competitiveness and growth, how do you see that move impacting consumers? What are your concerns? Can you talk to us about that?

Martin Coppack: At Fair By Design, we are able to comment much more on the domestic agenda and domestic policy. Our main concern actually is that we move resource on to competitiveness when there is limited resource within regulators, for example, and we have not got the basics right for people back here, at home. I could talk a lot, but if there is one thing I can get across in this session it would be that the FRF represents the biggest opportunity to make a systemic change in how financial inclusion issues are tackled in the UK today.

I have worked in this field for 20-odd years, and I am very excited about this. I know you all had a letter sent to you in February, with over 40 organisations saying that this is the best thing to do. Underneath this, there are three main arguments of why we should be doing this: the existence of the poverty premium, which is increasing, especially within insurance; the loophole that exists right now in terms of the social policy regulatory gap and the way consumer organisations have to go to and fro between the Treasury and FCA to try to get action on certain things around financial inclusion; and the state of consumer representation in the UK today. I am very willing to dive into one of those in terms of your interest.

Chair: We have a section on inclusion a little further down the line, so let us do that then. Thank you for those opening remarks. That is really helpful.

Q428 **Anthony Browne:** My questions are going to be about leaving the EU. They will probably be more about wholesale markets. We have obviously left the EU. We do not have any agreement with the EU in terms of financial services. There supposedly might be some agreement on a memorandum of understanding, but I would not bet a huge amount of money on it. We do not have any equivalence relationship agreements.

This was supposedly about taking back control. Most of our wholesale financial regulation came from the EU and we have imported it wholesale into UK law. My question is first to David; I will come to the other two but it is probably more his area. What approach would you take? Now that we can control and change our financial services regulation as we want to, are there any things that you would change?

Professor Aikman: That is a great question. The first point I would make is that the UK regulators were incredibly effective in designing regulation 10 years ago. We did actually design a lot of the rules in the way we wanted them. It was the US and the UK that won those battles. It will not surprise you to hear me say that, on day one, I do not think there are going to be really big-ticket items that we would want to change entirely.

There are a number of smaller technical things that we have learned over the last 10 years in terms of how these rules are working. I would point to things like the way the capital buffer framework is operating in Basel—"not as hoped" is my answer to that. That needs a rethink. I would point to the leverage area as another area that is having potential unintended consequences and may need a rethink. You have no doubt heard about aspects of Solvency II, which I will not get into because I am not an insurance specialist, around the risk margin and matching adjustments.

If I was going to point to something much bigger which would take a much longer time, it would be about the complexity of the rules, which I have touched on already. We have designed a regime of financial rules that are almost too complex to be understandable by anyone other than perhaps Sam Woods at the PRA. The way that has happened is that each incremental step has made sense in its own isolated way, but then you take a step back and you realise neither the regulators nor the firms truly understand the system we have built.

That is the area that we need to see tackled medium term, but we cannot do that in isolation. You have seen that the PRA has helpfully put out some thoughts on how we might do this for smaller firms, but it needs to be tackled across the board. It is a much bigger issue.

Q429 **Anthony Browne:** Can I pick you up on some of that, on the complexity? I also want to come back on the capital buffers. In December, the heads of Norway's and Denmark's financial supervisory authorities both attacked the complexity of EU law, essentially agreeing with what you just said, that it is too complex for limited prudential benefit. Given that, as you say, you cannot cherry pick one little bit and each little bit is part of the jigsaw, how would you go about simplifying it?

Professor Aikman: The biggest problem is the reliance of models in the framework itself. We allow firms to model their own risks, which leads to really disparate outcomes that cannot be compared. It opens the door to regulatory arbitrage. Intellectually, if we think regulation is needed, it does not make sense to ask firms to model the risk themselves. I would like to see that rolled back.

Anthony Browne: You are on the American side of that argument, rather than the European side.

Professor Aikman: Yes, I am, because I think it is the right answer. We need to see a gradual move away from the direction we have taken for the last 10 years in this space.

Q430 **Anthony Browne:** In terms of the regulations themselves and all the different prudential regulation, MiFID, EMIR and so on, are there particular ways you would simplify that or go about trying to simplify it?

Professor Aikman: It could be very simple: "Here is a minimum requirement; here is your buffer requirement", possibly a leveraged version of that and you are done. I forget how many buffers are in the framework now, but it would be a much simpler system. At one stage, New Zealand was consulting on an approach like that. I do not remember if it actually pursued it in the end, but it was very simple: "Here is a minimum. Here is a buffer. This is what your requirements look like". That is what I would like to see, ideally.

Q431 **Anthony Browne:** Lots of people push the leverage ratio for simplicity reasons, in that it is one number, you can understand it and you can compare different organisations, but you did say in your remarks just now that there are some unintended consequences from the leverage ratio. What were you referring to there?

Professor Aikman: There is one that we fixed, which is about the treatment of central bank reserves in the leverage ratio, where the UK did some sensible things. My concern more broadly is the impact it has on dealer banks' capacity to intermediate markets that are suffering stress, so where they suddenly need to expand their holdings of corporate bonds, say, their inventories, before they are moved on—these types of roles. There are at least arguments to look again at whether the leverage ratio is one hindrance in those markets.

Q432 **Anthony Browne:** One other thing struck me. Most of our regulation comes from the EU, but we did also have our own regulation—things like the ringfencing rules that are UK only. The cumulative impact of the UK regulation and the EU regulation was not always compared and they often have the same objectives. Is there an argument for looking at the UK regulation as well as the EU regulation and how they interact—things like bank recovery and resolution, when you have ringfencing, as well as CRD?

Professor Aikman: That is a good question. As a general rule, we should be looking at all these things because the likelihood of getting them right first time is very low. I do not think I would single those things out as in urgent need of attention.

Q433 **Anthony Browne:** I want to put the same question to the other two. I realise that Europe is not quite so big in your thinking as for the wholesale markets. Martin, there was some retail banking regulation from the EU, which the UK generally tried to resist the whole time. Are there particular things that you would want to see in your area that would change, now that the UK can change what it wants?

Martin Coppack: Not in terms of anything that has already been brought in so far. We see this more as a great opportunity to look at the domestic side, especially around bringing in a "must have regard to financial inclusion" for the regulator.

Q434 **Anthony Browne:** Which being in the EU did not stop us doing in the first place.

Martin Coppack: Exactly, yes.

Q435 **Anthony Browne:** Claire, I am not aware of EU regulation affecting skills at all, but presumably, on that front, there is nothing that you would do differently.

Claire Tunley: No. We focus on the UK domestic talent market. Of course, the sector does rely on those individuals working in the sector who are not born in the UK. It is hard to see how that is changing given the pandemic, et cetera, but we are very focused on building the UK's domestic supply of skills.

Q436 **Anthony Browne:** Professor Aikman, I want to come back to you with one thing. We had evidence from Lloyd's of London, which warned against any material deregulation because it would increase the costs for UK firms in the short and medium term in terms of compliance. Clearly, any change of regulation leads to short-term cost. Do you think that would lead to reluctance from firms and the public sector to change because they are worried about the short-term cost of change?

Professor Aikman: Yes, and it seems like a fair point. We should not be changing rules too frequently. There are adjustments costs. It is not to say we should not look at them routinely. Regulators do ex ante cost-benefit analyses of their rules, which are extremely heroic exercises and in my view we are unlikely to get these right. It is really important that, after the fact, we go back and look at how all these things are actually working. I take the point that there is a cost to going back and tearing things up. That is a very valid point.

Q437 **Anthony Browne:** I want to come back to a comment you made earlier: that the UK was very influential in EU rule making, which I completely agree with; far more influential than we normally gave ourselves credit for. You could say that the rules are designed to be useful for our financial markets, but there were some battles that we lost. Are there particular areas where you think things did not go our way? The bonus cap was the one that got all the headlines and I want to move on from that. Are there other areas where we did not get our way and where we might think the rules are not really designed for the London markets?

Professor Aikman: Yes. I think we would have liked some to be slightly simpler. It was over some stability aspects, to be honest. Debates about the definition of bank capital, which are very technical, ended up being watered down a little to make them palatable to some European member states. This type of example is what I would point to. Ideally, you would change them, but I go back to this point that there is a cost to actually ripping up what we have done in the first place.

Q438 **Anthony Browne:** You mentioned the PRA looking at the capital rules for smaller banks and challenger banks. What do you think about that? There has been a lively debate about that in terms of restricting competition, but at the risk that you change the rules and it might be more likely that some of the smaller banks fail. They are obviously not systemic.

Professor Aikman: I suppose it depends on how they are changed in this case. Provided the PRA can convince itself that it is not watering down the rules, there is scope for simplifying them. That is a barrier to competition, which I think is some of the evidence you have heard in this room. I like the direction of travel. The thought seems right.

Q439 **Anthony Browne:** In what particular ways do you think they could be simplified?

Professor Aikman: That is a good question. I will probably go back to what I said about the large number of buffers within the framework and just having a very simple regime, possibly even a leverage ratio regime. I am not sure. There are so many avenues you could attack there. I would like to hear some options on the table, and then they could be discussed. It strikes me as an area, at least, where there is plenty of scope to simplify rules without watering down the standards.

The cost of it is that the regime will then be less risk sensitive, which is another aim of the regime, but there is an inherent trade-off there. We could have a simpler regime.

Anthony Browne: But it would be less risk sensitive, as you say.

Professor Aikman: Totally, yes.

Q440 **Harriett Baldwin:** David, I wanted to press you a little more on the market in financial instruments directives, because I remember how they were resisted by the City when they were brought in. I do not know if you think that there is a case for changing that approach in the UK now that we can. Similarly, in terms of financial stability risk, the argument against the bonus cap at the time was that it raised fixed costs at the expense of variable costs and, therefore, was unhelpful in terms of helping banks keep their capital levels at an appropriate level. I just wondered if, again, that was an area where you were sympathetic to change.

Professor Aikman: I will take them in reverse. I do recognise that implication of the bonus cap. It is the same answer, in that, now it is in place, I do not think it would be worth removing it. We are not hearing huge complaints about its operation. It feels like a second order issue.

I was not close to the design of MiFID when that was happening. I understand there are some potential impacts on market liquidity as well, but it feels like an area where it would be of no interest to diverge from these rules now they are in place, because we want to have a regime that does not depart enormously from the rules of our neighbour.

Q441 **Dame Angela Eagle:** Professor, we did have a big influence on the way in which these rules were written when we were in the European Union. By definition, we are not going to have that now. Over the next period, there will be a divergence, which may well concentrate more on the EU's—which has smaller financial services sectors—detailed, legalistic approach, whereas we tend to take a more risk-based approach. Do you have any observations on what tensions that might create if there is such a divergence and how we ought to respond to it?

Professor Aikman: That is a great question. It seems like a fair risk that we should be aware of on the horizon, given that we have forced a lot of European member states to have a regime that looks like it does right now, that, over time, it gets unpicked.

I would like to make a point about how we can continue to have influence. The effect we did have is quite remarkable, despite being a very small country, in some regards, albeit a large financial centre. It raises the onus on or the importance of the Bank and the other regulators in being a thought leader in this space.

The best way we can have influence is through having good ideas. That speaks to issues around skills at the regulators and making sure we have people with a depth of expertise coming up with ideas that the rest of the world would want to follow. This is one observation. Relatedly, the best way to guard against this is through setting global standards rather than treating the EU as a bilateral partner, in some respects. If we can effectively make our case in Basel for the global standards that we think are appropriate, that will be a good safeguard against the risk you have identified.

Q442 **Dame Angela Eagle:** All too often the rhetoric about regulation and whether it works is that we have to regulate for competition, but the regulation around banking is so technical and so international that it is hard to know what regulation for competition is. Some banks are more systemic than others, if I can put it that way. How can we ensure that, in regulating the banks at Basel or in other places nationally, we do not create a circumstance where we destabilise the whole market, as has happened with the way that the energy markets have been regulated to create false competition in this country, which is now causing such trouble?

Professor Aikman: The focus of regulators is the risk these firms pose to stability. In the event that we had another crisis, if a large firm were actually to fail, what impact would it have on the system? That is the focus, rather than a competition one, where, at least to date, regulators have been debating in Basel. I do agree that, if we change those objectives and make competition more important for regulators in how they interpret their mandates, there is a risk that we end up with weaker standards and a less safe system. You would not see that on a day-by-day basis, but you would see it in a crisis situation, like 10 years ago.

Dame Angela Eagle: By which time it is too late to do anything about it.

Professor Aikman: Totally, yes.

Q443 **Dame Angela Eagle:** Martin, your expertise is in looking after consumer interests or trying to get them some kind of representation. It is quite difficult at a Basel level, so perhaps, in this context, consumer interest ought to be not to see the entire banking system have to be rescued, doubling the debt to GDP ratio. How do you think consumers can properly be represented in these kinds of structures? Generally, they are pretty absent, are they not?

Martin Coppack: As I said in my introduction, we are very much based on domestic retail policy issues. These are issues your constituents probably come to you with every day. Talking about the international competitiveness agenda is really out of scope for that, but I can talk about the opportunity here and now, because the financial regulatory framework review covers domestic policy as well. We are missing a trick if we do not make sure that, when we are looking at turning resource to an international arena, we get the very basic things right at the domestic retail policy level.

Q444 **Dame Angela Eagle:** Is transparency not important here? One of the biggest shocks, as the financial crisis revealed itself, was that it had to be revealed because of the opaque nature of the pricing mechanisms and the deliberate attempts to roll up highly risky packages into AAA packages. Surely, we should try to avoid that kind of complexity and opaqueness, as well as reaching certain ratios and ensuring that systemic banks can be resolved if they go bust.

How can the consumer be represented properly there? Clearly, the more accurate pricing is, the less opaque the packages that are available are, the more consumers are likely to be able to make rational decisions about what they want.

Martin Coppack: That is a debate that has gone on for years, in terms of transparency in financial services and the asymmetry of information. I can talk at a consumer retail level. How long have we been talking about simple products for consumers—for decades now, maybe?

Dame Angela Eagle: They have been throttled when they were introduced, like the stakeholder pension.

Martin Coppack: I can talk to you about where I think the problems are in terms of consumer representation within the regulatory structure. When it comes to the most difficult issues for consumers, they almost involve some type of crossover between social policy and regulatory policy. Despite this, and despite financial services now being essential for everyday living—credit, payment systems, insurance—the FCA still has no requirement to consider financial inclusion, never mind address it.

This comes alongside what we call the great risk transfer. We have been doing some work here with the Institute and Faculty of Actuaries. Successive Governments, of different colours, are all saying how important it is for individuals to take responsibility for themselves, look after their futures and look to the market to protect their needs, but what if the market does not want you?

We have to remember that financial services companies are there to make money. It is just a fact. With that, what is happening is that we have markets, which are amoral, and we are starting to ask them to do moral things. That is where the rub is. I would like to give you an example of how complex and difficult these problems are and how a financial inclusion "must have regard" for the FCA would help. We all know that the insurance industry is moving to a granular approach, with individualised risk profiling. With that, as a rule of thumb, and our latest research with the Institute and Faculty of Actuaries shows this, the poorer and the less healthy you are, the less attractive you are to the market.

Dame Angela Eagle: That is your poverty premium.

Martin Coppack: Car insurance is now the biggest part of the poverty premium—up to £300. This is because of things you cannot do anything about, such as where you live. I have been working in this area for many years now. In these instances, we will talk about this to the regulator and the Treasury. The Treasury will say, "Prove market failure". It is very difficult for an organisation with two or three people. The FCA is the only organisation that has access to the information. You go to the FCA. "Yes, this is quite difficult. We are looking at pricing. It is kind of social policy, though, is it not? Go back to the Treasury".

Then you might be told to go to the Competition and Markets Authority because, actually, the poverty premium goes across many products. "It is quite difficult. We have looked into this. Can you go back to the individual sector regulators?"

Dame Angela Eagle: You spend your whole time being sent from one place to another, rather like a pinball. What you want is to have regard, so that it would be part of the regulator's remit to ensure that the poverty premium was reduced or gotten rid of completely.

Martin Coppack: There is a slight nuance here, because we are not saying the FCA should be doing social policy. I can understand why the Government would like to keep hold of that. The issue is that we would like the FCA to at least consider financial inclusion across its interventions and then publish, for Parliament, the state of financial inclusion and what it can do, but then it is very plain where there is a role for social policy.

I have a couple of other examples, if I may. The loyalty premium has been stopped. How long have we known that people are not rewarded because they do not switch? It affects people who are older and less engaged. We have known it for years. We had to rely on Citizens Advice pulling its resources together to create a super-complaint, to go to the Competition and Markets Authority, to then go back to the FCA for insurance. There are many other examples I can pull on.

Q445 **Dame Angela Eagle:** Claire, given what Martin has just said, is having regard to social inclusion one of the skills you ought to be teaching and inculcating into the practitioners in financial services?

Claire Tunley: We work very closely with our members to identify the skills that are a priority. We published our future skills framework last October and it identified a set of skills. I talked earlier about digital and technical skills, which are in there, but also behaviours. One of the four behaviours we picked for last year was empathy. This directly came from members. We were aware of that before the pandemic, but it rose to the fore through the pandemic when companies were dealing with customers going through very difficult financial times. Banks were pivoting to address business interruption loans, et cetera.

The members of the commission said that this is a priority, not only for individuals in the workforce who are dealing with customers face to face, but for the whole workforce, so that this is built into the thinking and designs of new products and new systems, et cetera. Alongside things like adaptability, teamwork, relationship management, empathy was prioritised in there. We are hearing that from our members and they very much recognise the importance of that response to customer needs, going forward.

Dame Angela Eagle: That is slight progress, but I would say that empathy is after the fact when people are already in difficulty. If the incentives for earning are all designed for profit making and doing perhaps the wrong thing rather than the right thing in retail, with commission-based sales, you are going to end up with more mis-selling and lots more need for empathy, but you have not dealt with the situation that Martin was talking about.

Q446 **Rushanara Ali:** I had a follow-up on the points that Angela made and on the earlier point in response to the Chair's questions about more pressure on the FCA with some of the "due regards" and additional responsibilities. As we are looking at the future of financial regulation and so on, is it time to address things like pressure on the FCA, the poverty premium and these points around areas where those who are interested in financial exclusion, including this Committee, end up being passed from one bit of Government to another? Do we need a clearer line of sight on action that has to be taken so that the FCA does not find itself clogged up with lots of responsibilities and unable to address them?

If that is the case, what would you advise Parliament and this Committee to do in terms of making sure that happens? It seems to me that there have been a number of areas where, as you say, it takes a long time to act. What would be your specific recommendations on what this Committee should be saying to Government as part of this review so that these inclusion issues are taken seriously and you do not have it falling between different bits of the institutions?

Martin Coppack: I will go back to the point I made around having a cross-cutting "must have regard to financial inclusion" for the FCA, because it does not necessarily mean the FCA has to tackle all those things. It is around publishing the information, because that is often where we get stopped.

Q447 **Rushanara Ali:** We have established that, but what should happen next in terms of prompting, say, Treasury and other Government Departments, because often it is other Departments as well, to take action so that you are not taking a very long time to get to your result?

Martin Coppack: Ideally, once the information is in the public domain and it is clear what the situation is, I would like to think that, for example, the Treasury Committee could much more easily take hold of this. For example, it is going to be so much easier for consumer organisations to know where to go and where to put pressure, and to do campaigning.

Q448 **Rushanara Ali:** Martin and Professor Aikman, the Government have said they intend to introduce a new power for the Treasury to be able to require the FCA and the PRA, or an independent person, to review FCA or PRA rules where the Government consider that it is in the public interest. There are a number of areas, for example around inclusion, where a review could be necessary in the public interest. Does it pose a risk to regulatory independence or could it be beneficial to address some of these questions?

Martin Coppack: I am quite sympathetic to an independent regulatory oversight committee, as was called for by Mick McAteer at the Financial Inclusion Centre, with people from a public interest and consumer background on there. If you think about the present board of the FCA, it has one member with a thorough consumer background. I am hesitant to put too many other reviews on the FCA because, being an ex-regulator myself, you get criticised for being too slow, but there also needs to be a more public interest review into its work.

Professor Aikman: It is vital in a democracy that these rules are adequately scrutinised both beforehand and afterwards. I view what you are doing on this Committee as effectively that role. It is not clear to me that creating a new body would be a sensible move. I would be more worried about the unintended consequences of that—whether that would be a focal point for lobbying and this type of thing.

Rushanara Ali: The answer is that it is not such a good idea, then.

Professor Aikman: That would be my answer.

Q449 **Rushanara Ali:** For Professor Aikman again, one of the Treasury proposals is for a new statutory requirement for the PRA and the FCA to publish a framework describing their approach to cost-benefit analysis, and the creation of a new statutory panel dedicated to supporting the development of the regulators' cost-benefit analysis. Do you think these proposals would fundamentally change how the regulators approach cost-benefit analysis?

Professor Aikman: No, I do not. It is important that regulators do cost-benefit analysis, which, in my experience, they do. The term "cost-benefit analysis" can mean different things to different people. What I mean is analysing the expected impact of policies and whether they are likely to achieve their aims. The science of what we know about the financial system is nowhere near in a place where we can mathematically quantify benefits and costs, and choose the policy that maximises those net benefits.

It is a good process for the regulators to go through, but we should not expect it to be more than that. It needs to be backed up with ex post evaluations. Even then, to be totally honest, it is really hard to work out what impact rules are having because you do not observe the counterfactual of what would have happened had you not put them in place.

Q450 **Rushanara Ali:** In terms of the points made earlier in relation to the burden on the FCA with some of the new proposals, do you have any further points to add about whether these additional activities may lead to a tick-box exercise, clog up the regulator and divert it from what it needs to do in terms of its primary objectives, beyond what you have already said?

Professor Aikman: I am not sure there are really big, additional points, but the way you have framed it just then, in your question, I would agree with. There is a risk that the list of things we ask regulators to do through secondary objectives is growing quite a lot. They are all well-intentioned and well-meaning additions, but I worry that it dilutes focus on the primary objective.

Speaking to what Martin said, perhaps some of this could be about just being clear about what is expected of regulators. Putting things in a secondary objective is a little vague as to how the regulator should then interpret that. "Have regard to" is a slightly weaker standard, which has some benefits. The way the rules are actually written down, the instructions that regulators are operating under, could clarify some of these issues.

Q451 **Rushanara Ali:** We have heard from both insurers and asset managers that regulations designed to protect retail consumers, which have been applied to a wider scope, should be scaled back. How far would it be beneficial to have a much clearer distinction between retail and wholesale regulations?

Professor Aikman: It would not be a good idea to scale back regulations for retail customers. We care about the provision of credit to retail customers. It is vital that that supply of credit is not subject to huge disruptions in a crisis. We need to ensure that it is provided on a stable footing.

Q452 **Rushanara Ali:** What about wholesale regulations?

Professor Aikman: I have the same answer. I would not advocate scaling one back relative to the other.

Q453 **Rushanara Ali:** On Europe and post-Brexit regulation, Angela touched on this as well. In terms of the point about influence, you mentioned operating globally and so on. Where do you think the risks are? Are the FCA and other institutions in the UK well placed, given the new landscape, to tackle a future crisis of the scale that we saw with the global financial crisis?

Professor Aikman: That is a hard question.

Rushanara Ali: I leave the best until last.

Professor Aikman: They are as well placed as they could be. We have not diverged a lot from the rules that were put in place. We designed a lot of rules, systems and frameworks after the last crisis. We thought that was adequate to stop a repeat and we are more or less in that same position now, so I think we are in a good place.

Q454 **Rushanara Ali:** Given we now have the freedom to change things quite significantly, if we want to, what are the things you would advise against doing to avoid a departure such that we could put ourselves in a potentially riskier position?

Professor Aikman: You should just be very mindful of any attempt to water down the rules that we thought were needed to prevent a repeat of the crisis we saw 10 years ago. I would like to see you have a lot of focus on the primary objective of regulators.

Q455 **Rushanara Ali:** Are there any that you have seen the industry pushing for that could put us in that space and that you think we should be aware of?

Professor Aikman: They constantly crop up. I read the industry's response to the Bank's MREL consultation, MREL being minimum requirement for own funds and eligible liabilities. I think that is what it stands for. There were calls there to, effectively, nationalise some of the risks involved and allow the British Business Bank to take on some of those risks. Those are not good ideas.

Rushanara Ali: Like we have not paid enough out of the taxpayers' purse to deal with banking failure.

Professor Aikman: Exactly, yes.

Q456 **Kevin Hollinrake:** Professor Aikman, on that point about the wholesale market, we have had evidence from our witness Philip Reed from Independent Franchise Partners. He said that there is a tremendous role for bifurcation to a twin track of 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. He is calling for a twin approach. Do you not buy into that, from what you said?

Professor Aikman: I do not. We have firms that are operating in both spaces. I would like to see what his proposals are. Instinctively, no, I do not think you can draw a very clean line between those two areas.

Q457 **Kevin Hollinrake:** Is that not what he is arguing? They are great for consumer protection, but not necessarily for wholesale markets. Therefore you could liberate some of those markets. These are internationally competitive markets, of course, so you are more likely to attract investment in the UK on that basis.

Professor Aikman: Without seeing a specific proposal, it is a little bit hard to judge it. I cannot give you a more detailed answer than that.

Q458 **Julie Marson:** I have some questions on innovation in the UK financial services industry and some of the opportunities and risks that can bring. Perhaps I could start with Martin on open banking. We had a fascinating session with Anne Boden of Starling Bank back in September. She said that open banking has not been a success. We subsequently had a letter from various fintech companies saying that they disagreed with that. From a consumer perspective, what is your perspective on that question?

Martin Coppack: That is a great question, because innovation is the name of the game. Fintech and open banking is often mentioned to me, as a consumer advocate, not to intervene. We have to think about the fact that open banking and fintechs are still operating in a market where they have to make a return on their investment. The big worry is that we have a creation of two markets, one that works fairly well for people who have the technology and are able to engage, and then another market where people are less engaged and are just not that profitable.

I am not a fintech specialist, but I am always being invited to hackathons and fintech events as the problem to be solved. I am going to stop going to them, because every problem I give is not the problem that they want to solve. The problems I am presenting are about those people who are not really profitable in the first place. I am going back to the point that there is a real danger of two markets. For open banking's success, it needs to be judged around how well it is doing for all income groups.

The other quite frightening thing is that fintech and open banking want to know more and more about your data. First, there is something about consumer trust with that. As a rule of thumb, the more an organisation knows about your data, the more they know whether you are healthy and wealthy. That goes back to the whole argument I made earlier about risk-based pricing and insurance. As a rule of thumb, the least wealthy and the least healthy do well in those types of markets. That is where we are at the moment on that.

Q459 **Julie Marson:** You mentioned transparency. Part of the whole principle of open banking is that transparency taking data. From a consumer perspective, that was expected to have fairly general benefit, although I take your point. Absolutely, we need to make sure that it benefits everybody. Anne made the point about service being the main determinant of people moving banks. Have we gone in the wrong direction completely? Did open banking promise more than it delivered in that respect?

Martin Coppack: Many consumer advocates would be similar, in terms of saying that we are still waiting for the big bang in that area.

Julie Marson: Does anyone else have a view on those completely different perspectives on open banking?

Claire Tunley: Not on open banking, no.

Q460 **Julie Marson:** Going back to you, Martin, and what you said about consumer data, more transparency and information is often deemed to be a positive thing. Do you think that firms are taking away from just assessing on risk but, as you say, looking out for the most profitable customers, to the detriment of more marginalised groups, or even more basic discrimination based on gender and perhaps race, which is almost indirect, but is a by-product of that extra information that is available?

Martin Coppack: I am not saying that fintechs are out there trying to do bad things. There are lots of fintechs that would like to do the right thing, but they need to make money. Unless there is an expectation, and perhaps some social investment funding, for fintechs to tackle those areas, it is really difficult for them. I understand that for sure.

In terms of the discrimination agenda, we have very recently published a piece of work with the Institute and Faculty of Actuaries. It talked about big questions around the increasing amount of data and the links between protected characteristics and poverty premiums. We have published a separate piece of research with Bristol University, which makes links between poverty premiums and protected characteristics. There are lots of questions there.

When Nicky Morgan held the TSC consumer access inquiry, we had the EHRC, the Equality and Human Rights Commission, sitting next to the FCA. The Equality and Human Rights Commission was saying—I am paraphrasing here—"We do not have the ability, capability and access to the information". The FCA was saying, "We do, but it is not a priority for us". Then you go down that hole again. Lots of questions are being raised now by consumer organisations about discrimination. We really need to investigate them.

Q461 **Julie Marson:** So you do not have the answer. Are we saying we do not have the answers because we do not have the information to start?

Martin Coppack: There is no priority or push for the organisation, such as the FCA, that has access to the information to answer those questions at the moment.

Q462 **Julie Marson:** From your perspective, would you like to see the FCA leading on that? It should be leading on trying to get that information.

Martin Coppack: Yes. It has access to all the information and has the capability and the expertise. Without a "have regard to financial inclusion", there is not necessarily a reason to.

Q463 **Julie Marson:** I will open this up. Maybe David could start. More generally, there have been various takeaways from Greensill Capital, as we know. One of them was maybe getting too enamoured with innovation and people in the Government, the FCA and elsewhere not understanding the implications or being able to assess the risks. How valid do you think that is as a takeaway from something like Greensill?

Professor Aikman: It is certainly a good takeaway in that particular case. There is no simple answer to how regulators should deal with innovation. We have seen good examples of how the FCA and the PRA have worked with fintech companies to promote innovation. London seems to be leading the world in this space.

We have also seen a lot of concern from central banks about innovations in digital currencies, Facebook and Diem, and the issues around that. I do not think there is a simple answer and it needs to be treated on a case-by-case basis.

Claire Tunley: Innovation is a key priority for many of our firms, whether they be incumbents or slightly newer and smaller. We have some fintech members as well. There is a very clear sense of the competition involved. The UK is very strong on innovation, but to get the skills and the people in to enable that is a real challenge across the board. We need to invest to ensure that the UK retains that competitive advantage. That would apply across regulators as well as financial services firms. The pace is moving sufficiently quickly.

It is fair to say that the innovation piece comes across the wider workforce. It is not just some individuals within a particular highly skilled tech, be it algorithms, machine learning or AI. Those are certainly technologies that people are investigating, playing with and exploring, but we need a much greater proportion of the workforce that are comfortable with those technologies, and much more meaningful investment in reskilling, so we can respond to those opportunities.

Julie Marson: Martin, I do not know if you have anything to add from a consumer perspective.

Martin Coppack: I have nothing further.

Q464 **Gareth Davies:** I am going to cover digital currencies. I will start with you, Professor, on crypto assets. What are the implications of crypto currencies for financial stability, in your view?

Professor Aikman: What a broad question. You asked about financial stability directly. There are consumer protection issues obviously. In terms of financial stability, let me talk about stablecoins to start with and then central bank digital currency, if that is okay.

Q465 **Gareth Davies:** Let us come on to that. Could you talk about things like bitcoin and crypto assets, as the Bank of England calls them?

Professor Aikman: For stablecoins, the idea is that these are an attempt to make something like bitcoin have a more stable par value, basically. The idea is that they will be backed with US dollars or some other hard currency to prevent wild fluctuations in their value. In principle, that sounds like a good idea.

The issues are around transparency and what we know about the collateral that is backing these assets. The experience seems to be that they are not at all transparent. In some cases, they are marketed as being backed entirely by US dollars. Then you look into it and realise that it is a lot of commercial paper that is backing these assets, or other inside assets from within the financial system.

That creates straightforward run-risk type problems, akin to a bank run. People become worried about the value of these assets. They pull their money and the entity is forced to fire sell the underlying collateral, which could create a financial stability problem.

Q466 **Gareth Davies:** We are going to come on to central bank digital currencies, which are one of the options that the Bank of England is looking at. Given that cryptocurrencies like bitcoin have grown I think 200% in a very short time, do you feel that the regulatory authorities are on top of this? From a financial stability point of view, do you feel that they are doing enough to tackle this?

Professor Aikman: It is hard for me to gauge, but my sense is that they are very on top of this. I see a lot of good work at the FSB, the Bank of England and the BIS in this area. As an expectation when you have a market that is growing very rapidly and a lot of innovation, regulators will typically be behind on those issues. They probably were a little bit late coming to this. I do not recall this being a major discussion point while I was at the Bank, when the market was initially taking off, but I do not really have concerns that they are behind the curve at the moment, to answer your question.

Q467 **Gareth Davies:** Martin, can I ask you a question? The FCA has just published a report saying that 73% of those surveyed in the British public do not actually understand what a cryptocurrency is. One sixth of those who actually go and buy something like a bitcoin do not do any basic research or have any understanding of what they are buying in the first place. How concerned are you about the fast rise of crypto assets like bitcoin, for consumers?

Martin Coppack: This is not an area of my specialty. In terms of a general principle of consumer engagement, lack of knowledge and transparency is a huge foundation for many mistakes consumers make. There is something around simplicity of product and ensuring that the right product is sold only to the certain person who has the ability and capability to understand and engage.

Q468 **Gareth Davies:** What can we do about it? Things like advertising and accessibility to currencies such as bitcoin have come up in this Committee before. What would you do? I appreciate it is not your area of expertise.

Martin Coppack: It is not my area of expertise.

Gareth Davies: From a consumer perspective, is there anything you have thought about?

Martin Coppack: I am struggling on that, but I would like to have a think about it and maybe come back to you.

Q469 **Gareth Davies:** If I can come back to you, Professor, one thing that the Bank of England is looking at doing with the Treasury is copying the nine countries that have so far issued a central bank digital currency. I think there are 87 countries now globally that are actively looking at this. Is the main driver to push back against the rise of bitcoin and crypto assets, or is there more to it? Is there a geopolitical argument to it? What is your view?

Professor Aikman: Your colleagues in the House of Lords released a really good report on this the other day. I would agree with their call to have more clarity on some of these questions. My sense is that it is a defensive point initially. While these digital currencies could have some benefits for monetary transmission, as well as for the financial system, I think the reason central banks are innovating in this space is primarily that they are concerned. I do not think it is so much about bitcoin. It is more about large tech companies that could create their own versions—

Gareth Davies: Like Facebook with Meta.

Professor Aikman: Yes, precisely. There is the concern that these types of assets could take off very quickly and we could effectively have a global stablecoin that would impair the monetary sovereignty of the UK and other jurisdictions.

Q470 **Gareth Davies:** It has been said in some reports about, as I mentioned, the geopolitical aspect. From a financial stability perspective, is there a risk that a central bank digital currency makes us vulnerable to a potentially quite damaging hostile nation attack.

Professor Aikman: I see. The primary risk I am worried about is that the banking system will become disintermediated. Rather than having money in a bank, we take it out and hold it with a central bank.

Q471 **Gareth Davies:** That is well played out in all the coverage, so I am asking about the potential for a hostile nation attack to a central bank digital currency that has a great deal of power in our financial system if it is used to its full potential.

Professor Aikman: I agree. That must be a risk, given the digital nature of these assets. There is a lot about cybercrime we do not understand. That is a fair point.

Q472 **Gareth Davies:** Martin, you touched on financial inclusion earlier. It has been said that digital currencies offer a great opportunity to bring people who have been excluded previously into the financial system and give them the ability to transact at a cheaper rate or to transact at all. What is your perspective, from the consumer's point of view? Particularly for tackling financial exclusion, do you see this as an opportunity?

Martin Coppack: Do you mean there in terms of moving to digital forms of payment over cash, for example?

Gareth Davies: Yes, for example a central bank digital currency.

Martin Coppack: If you think about why some people really prefer cash, for example, it is because it is easier to budget. It is also because it is real-time management. You do not have to think, "If this goes out, I will not be able to afford something later on". There have been moves to create things like request to pay, which would give people flexibility for using the digital ways of paying bills.

By request to pay, I mean that many people need to be able to spread their bills in a lumpy way, perhaps because they are on zero hours, for example. Then you need digital ways in which they can pay, unlike direct debits, which charge you if you go over. They need these other things to come in. The problem is that these things exist but nobody takes responsibility for ensuring that banks offer these different types of digital ways to pay. Does that make sense?

Gareth Davies: Yes.

Martin Coppack: It falls again between regulators and social policy makers to ensure that, if you want people to move on to useful ways of using digital, you need to provide digital that is real time and allows you to manage a lumpy form of income.

Q473 **Emma Hardy:** My questions are mainly around skills, but I cannot resist asking you a couple of questions, Martin. I am really fascinated by everything you are saying and, basically, it seems to me, how expensive it is to be poor. On the digital ways to pay, I had an issue raised with me from a constituent who gets their pension paid every four weeks, yet the bills come out every month. That makes budgeting really difficult, because you have a four-week pattern instead of a monthly pattern. I wonder if that is an area you were looking at as well when you were looking at inclusion: the elderly, how they budget and the way that benefits and pensions are paid.

Martin Coppack: Absolutely, because everything seems to be set up for monthly payments, but the bills coming out will not necessarily be a match for those monthly payments. Request to pay is a methodology that banks can give consumers and utility companies, to say, "Your electricity bill is due at such and such time". A push message comes to you and it says, "Actually, I can only pay half of it at the moment, but I will pay the other half afterwards". You have a relationship with the utility provider as well as the bank that allows you to manage digitally how you pay and then you do not get penalised for a direct debit if you go over, for example.

Q474 **Emma Hardy:** I was going down the route of trying to get the Government to allow people to be paid their pensions monthly. You are saying that there is a technological answer now that could be the other way of requesting bills four-weekly perhaps, instead of monthly.

Martin Coppack: Yes. You give the consumer the ability to judge when they would like to pay, to match their income stream.

Q475 **Emma Hardy:** That is really interesting. Thank you. I will be disciplined now and question about skills. I found the evidence that you had put in really interesting. It will not surprise the Committee that I am going to ask a few questions about remote working. I was fascinated by the comment in your written evidence when you said that 78% of workers reported they could do all or most of their job from home. Do you anticipate that this is going to continue in those same kinds of numbers?

Claire Tunley: It is still an unanswered question. Largely, from the mood music we are hearing, it is, yes. Many employers are looking at offering a hybrid way of working going forward. There are many different options within that.

We have also seen a shift in how people want to work. Given the very competitive state of the recruitment market at the moment, employers are very carefully looking at what they offer. Candidates are saying, "I want to work in a different way. I want flexibility. I want the ability to have two days in the office and the rest from home". We know that people have moved to different parts of the country.

Also, the ability to work in a remote and virtual way has opened up the recruitment market. If your office is in London, you do not have to live in London. You do not have to live in Edinburgh if your office is in Edinburgh. You could live somewhere else. It is doing interesting things to the skills supply, but at the moment there is quite a tight labour market. I would imagine that, from everything we are hearing from members, the hybrid working model is here to stay.

Q476 **Emma Hardy:** That is very exciting. Again, it will not come as a surprise to the Committee that I am keen for lots of those jobs to be promoted in Hull. You also said that the skills needs of workers have changed and continue to evolve as a result of homeworking, which I thought was interesting. For people to be able to access these new jobs that are going to be made available for any location within the UK, as long as you have good broadband, what is the difference in terms of skills needed to be a home worker?

Claire Tunley: At the very beginning of the pandemic, when homeworking started, there was a very rapid shift for everyone working. That made everyone aware of where there were gaps in digital capability and people being able to work proficiently with a laptop et cetera. There was quite a rapid upskilling in some of the basics. We all got to know what Zoom was and how to find the mute button.

Now we have gone past that. We then begin to look at these other skills I have mentioned that are more data and technologically focused, while also remembering the behaviours that are important. The skills challenges were here pre-pandemic and pre-Brexit, but they have had this extra layer of complexity and opportunity brought on by homeworking.

Q477 **Emma Hardy:** Could you foresee organisations like colleges, UTCs and even universities offering a component on how to work remotely when they are delivering courses? Do you think it is something that needs to be specifically taught—effective ways to be a remote worker?

Claire Tunley: I have not heard any suggestion that that is possible. Firms are looking at how they can enable good productivity as well as that good collaboration, where innovation happens through homeworking. If you do not have people physically located nearby or in the same room, how do you develop that creativity and innovation that is crucial for UK financial services? I have not heard of anyone offering a "how to work from home" course.

Emma Hardy: As a component of—

Claire Tunley: Yes, of other work. For example, any apprenticeship will have a basic skills component, which will include digital skills. As I said before, the majority of the workforce has been out of full-time education for some time, so some of those perhaps basic digital skills were not picked up, for whatever reason, but they have been now.

Q478 **Emma Hardy:** You mentioned as well that the financial sector employs over 600,000 people outside of London. Sorry, it is 6 million people outside of London.

Claire Tunley: Does it say 6 million?

Emma Hardy: Then you have a four there, so I do not know if that is a typo and it is 600,000.

Claire Tunley: It is 600,000 outside of London.

Q479 **Emma Hardy:** Right, okay. That is outside of London, and you are looking at investing in retraining and upskilling to target support across the UK geographically. How are you going to look at targeting that support in areas of the UK that are not traditionally serving the financial sector community, like Hull?

Claire Tunley: It is working with our members. We very much see this as the financial services sector itself needing to lead the work on upskilling and reskilling. We work closely with others in the sector, universities, colleges, professional bodies et cetera. We are working with our members. The importance of financial centres outside London is huge. We see that 40% of members are looking to grow the number of roles in those centres. The availability of talent and the ability to skill people into roles that have been placed in different locations is really important.

We have conversations and discussions with specific locations, because those solutions are best generated locally. If there is growth in Hull, or if it is Yorkshire, Scotland or Northern Ireland, there are conversations with the local institutions, universities and colleges, as well as with the firms, within not just financial services but even professional services, which are often looking at very similar skills, as to how they can work together and create opportunities in different courses that will grow the skills.

There are some good examples. EY, for example, is working with Northumbria University on an apprenticeship chartered management degree, to develop the skills it wants. I know it is partnering with others. Lloyds has developed a digital hub, which it is placing in five different locations around the country. One is London; the rest are outside London. That is about building the skills that it needs as a business, but looking at where the opportunities for talent are.

We hear a lot about the ability to maximise the use of talent across the UK. London is very expensive for talent. Other parts of the country are not quite so expensive, so firms are very clearly looking at this. To build that supply of skills, they need to work collaboratively within the local area.

We published a report last June, *Skills for Future Success*, which looked specifically at the regions. We found that having a large employer arrive in a city or region can actually destabilise the labour market there, because lots of people suddenly come to work for them and maybe leave other firms. This longer-term planned collaboration is where the sweet spot happens, where you can build the pipeline for everybody. It is what we are doing at the commission.

Q480 **Emma Hardy:** You put in your written evidence that one way to upskill the sector was to reduce the amount of mandatory training that firms needed to deliver to employees, which I assume must be to free up time and resources, which puzzled me. With everything else saying "We need more training", you said, "But reduce this mandatory training". I am keen for you to elaborate on that. How much of this mandatory training is prompted by Government rather than the firms? Can you give some examples of the mandatory training that you think we should do less of?

Claire Tunley: It is an overall rebalancing. Financial services has one of the lowest investments in training, in terms of time, of any sector. From our work with members, it is about three days a year that people get trained, compared to professional services, where it is about nine days a year. Some of the big tech firms, for example Microsoft, I think talk about 24 days a year. In terms of the overall time given to training and the challenge of reskilling that we feel is needed, that amount of investment in learning needs to increase.

When you look at that three days, around 35% to 40% of it is mandatory-related training. It is clearly a big chunk that is given to regulatory-related training, which is very much for firms to navigate. How much of that is driven by requirements of the regulator is a much more detailed topic.

Q481 **Emma Hardy:** To push you, could you give an example of the type of mandatory training?

Claire Tunley: You have things like "know your customer", anti-money laundering et cetera, which everybody would be expected to have. When you get to the senior manager level, there is much more to meet the requirements of the senior managers regime. I know that some firms are looking at examples where they can incorporate the regulatory requirements into skills developmental training, which may be for new skill areas that they want. It is certainly an area that our firms look at. It is about getting that balance right, but of course firms have to meet their regulatory requirements, and that involves training.

Q482 **Emma Hardy:** Martin, I was interested in talking about the need to teach empathy to people who work in the financial services, which is slightly concerning. We have just been having conversations around where people work from and their backgrounds. From a consumer perspective, what do you think the key skills gaps are in financial services, which could be stopping firms from doing the right thing for their customers?

Martin Coppack: To be honest, I am thinking very much here about the regulators and what empathy and skills they need to ensure the infrastructure is correct, if you are interested in that.

Q483 **Emma Hardy:** I was going to ask about financial services in general, but you can specify regulators.

Martin Coppack: Regulators are full of super-smart people, competition specialists, economists, who would absolutely run rings around me, but we do not know what we do not know. Regulatory communities can often be a very intellectually stimulating place, but Mrs Miggins from north Wales is not in that room. By that, I mean that the role of inclusive design and creating policies and processes that match people outside Canary Wharf or the regulator head office is absolutely immense.

We have been working with Money Advice Trust and created a toolkit for regulators for how they can create policies and processes that are inclusively designed. We are talking to Ofgem right now around some of its policy makers, who are very technical. If they mixed with us and our partners in Toynbee Hall, in the east end of London, to talk about how policies and processes could be created in a way that match people, rather than institutional remits or a competition specialist's idea, we could make so much more progress. We are talking to Ofgem at the moment about a net-zero approach to that.

Q484 **Emma Hardy:** It is not that any of these people wish to not be inclusive, but maybe the lack of diversity and inclusion in the sector means that they accidentally end up being un-inclusive. Is that kind of what you are saying?

Martin Coppack: Absolutely, and that is why we are so pleased that Ofgem is going to work with us. There is a big push around the move to net zero. How do we make sure that people in poverty are not missed out in that move to net zero? Work with us and Toynbee Hall in the east end of London, and let us get people together. Naturally, a regulator will think, "This is my remit and this is a solution that meets competition theory and economics. This is how markets should work".

If you start with the person in the street, actually their life is very different. What is necessary is usually a mix of social policy and regulatory policy. There is no artificial difference between the Treasury and the FCA for somebody in the east end of London.

Q485 **Harriett Baldwin:** I had one question on this section, which was for Claire, around the women in finance charter. I take a particular interest in that, having launched it. I wondered if that has had any impact in terms of the untapped ability of this sector to retain and promote women into the higher echelons.

Claire Tunley: Yes, absolutely. We are seeing the progress. The numbers are changing. It is slow, but it is certainly going in the right direction. It is an important point that you have picked up on. For the sector to succeed, it needs to use all the talent available. We know that the financial services sector does not reflect the diversity of the UK population as a whole and there is more to do. Those are pieces of work that we are working very closely with our members on.

The women in finance charter is a great example of industry creating and setting targets, and measuring the data on that. We certainly see that there is progress, but there are still lots of challenges involved, not only on gender but on ethnicity, disability, LGBT et cetera. We are working with our members to understand what that looks like. The City of London Corporation has a task force looking at socioeconomic diversity as well, because being able to use that talent is really important.

One area that we have identified particularly for women is the impact of the menopause on their ability and willingness to participate in work. The research we published in October was quite stark in its finding that a quarter of women said that they were more likely to retire or leave work early because of the menopause, because they were managing symptoms and changes that they felt they could not manage in a workplace. We are talking about the menopause with our members and other firms to highlight the issue that women are facing. With some very simple and not very expensive interventions, you can retain that workforce in the very skilled 45-to-55 age group. Generally, that is when women transition through the menopause. We were quite surprised at that finding—that it is affecting women in that sort of serious way.

Q486 **Alison Thewliss:** This has run through many of the answers that you have given already, particularly Martin, around financial inclusion, but I wanted to ask a little more about that and about the approach of regulators. The Treasury has dismissed calls for a financial inclusion objective or principle for regulators, I suppose with the notion that everything is okay and working as it should be. Clearly, you are calling for more action on that because you think it is not. What more, other than what you have said earlier, do you think you could add to that? Why is it so important?

Martin Coppack: I only knew last Tuesday that I was coming here today. Within that time, I can list a few people who are supportive of this: Martin Lewis, Mastercard, Alzheimer's Society, Macmillan Cancer Support, Citizens Advice, Money Advice Trust, Scope, Turn2us. The list goes on. It is a well-known fact that this is a huge gap.

The only organisation that can usually fill that gap is the organisation that has the access to all the information that firms have, and the ability to analyse that and put that in the public domain. That is our No. 1 call.

Q487 **Alison Thewliss:** You talked earlier about the mismatch of who has the information, and who has the skills and everything else. Do you think there needs to be a more specialist understanding within the regulators of what the problem is? It seems very clear from your perspective and all the organisations you listed, but they seem to be missing the point somehow.

Martin Coppack: I believe that there is the capacity within the FCA to do this. It is prioritisation. This is one of the worries about the competitiveness agenda. It will take resource from the very basic things that we have not got right just yet. The mere fact that you are required to publish to Parliament each year the state of financial inclusion, what the FCA can do, and then, by proxy, what is left for the Government, will be a huge step forward for the consumer movement.

Q488 **Alison Thewliss:** In terms of that competitiveness objective and how it then measures up with inclusivity and other types of objectives, you talked earlier about the gaps there and the poverty premium—"What if the market does not want you?" Does competitiveness undermine inclusiveness?

Martin Coppack: We are more familiar dealing with competition and the FCA already has an objective around competition. From my experience and, I would say, that of many other consumer advocates, competition trumps consumer protection quite often. There is a real idealisation that competition solves all problems. "The market will provide. Always look to the market." This reflects as well a societal move, with different Governments saying, "Look to the market yourself to do this. Do not rely on the state". Something has to give then if we are asking the market to provide essential services.

Q489 **Alison Thewliss:** In terms of the people who get left behind, I suppose, who are not those very connected, articulate people involved in advocating for themselves, how do you set an obligation that those people do not get left behind? What would that look like for organisations in this space? How would they then deal with those people who are likely to get left behind?

Martin Coppack: Do you mean firms now, or regulators or social policy makers?

Q490 **Alison Thewliss:** You talked earlier about going to things like hackathons, and how the people you were interested in are not those who those currently working in that space are interested in. How do you make sure, in setting the objective, that those people do not get let behind?

Martin Coppack: If you are thinking about the new push to digital, fintechs and open banking, there is something here around making it commercially attractive to address those problems. Maybe there is something here about a lump sum of social investment, perhaps from Government, to try to get initiatives from that.

Q491 **Alison Thewliss:** Essentially, my question on that is how you make sure that the person at Glasgow Cross is not left behind. How do you incentivise companies to make sure that they do not do that?

Martin Coppack: At the end of the day, we have to realise that, with the present objectives of the FCA, it is dealing with firms that need to make money. There need to be big questions then around who intervenes when it comes to social policy. Arguably, it is a Government question. We cannot get there because we cannot get the information and the regulator to pull together the problems that exist. Does that make sense?

Q492 **Alison Thewliss:** Yes, that makes sense. You need to make the case in order to make sure that it happens, I suppose. Could you point to any practical differences that could be made if policies by the FCA had been taking into account a financial inclusion objective?

Martin Coppack: I think the loyalty premium would have bubbled up a lot earlier, because we all knew about the loyalty premium already. If you think about access to cash, we are pretty much in the last chance saloon before the infrastructure dissolves for people to access cash. That is because this area has been held between the Bank of England, the PSR, the FCA, the CMA and Treasury. They have all had a different aspect. I know when I was in the regulator that it was all talked about, but nobody wanted that political hot potato. That is another example.

You could also argue that access to basic bank accounts has been here for a while. I know that people at Toynbee Hall were talking about bank accounts and trying to get access to them many years before that was brought into place. Hopefully they would give you a bit of a picture of the types of things that could be tackled.

Q493 **Alison Thewliss:** I am getting the impression that those who are making the decisions on this are very far away from people who are actually affected by these issues. Is there more that can be done to get the voice of those people who are losing access to cash or services heard by the regulators?

Martin Coppack: Absolutely, and I mentioned before what we are doing with Ofgem. Hopefully, we will be having a multi-month project where people who make decisions are mixing with people in the east end of London who are in poverty.

I can bring it to life. I remember doing one session with people in poverty, talking about access to cash. Often regulators will say, "Just go to the post office. It is fine". If you have three kids, a part-time job and the post office is only open two hours a week, when are you going to do that? That is because the ivory tower has a very nice opinion about how things should work and you do not have people in the room.

Another example here is that it is okay if you can walk an extra 15 minutes to get your cash out, but then somebody will say, "I live in a really rough neighbourhood. If I need to take 50 quid out, I have to take my husband with me to get that money out". When you mix people in the community with people making decisions, it brings to life much better outcomes, in terms of inclusively designed policies, but it will always mean that the regulator and the Government need to work better together.

Q494 **Alison Thewliss:** That makes absolute sense. Professor Aikman, is there a bit of a trade-off between financial inclusion and firms' responsibilities in terms of risk? Some people could ask, "To what extent did institutions extending products and loans to people who could not afford to pay for them contribute to the financial crisis?" Where does the balance lie for you, in terms of inclusion and risk?

Professor Aikman: There certainly is a trade-off here. We have had numerous examples historically of this. You gave the one from pre the financial crisis, particularly in the United States, where the Government tried to encourage home ownership to a greater degree. It needs to be on a basis where people can afford the assets they are buying, where we are talking about home ownership. That is a little different from the issues that Martin is raising.

Q495 **Alison Thewliss:** Does there need to be a wider look at affordability? Some people are paying far more in rent than they would do on a mortgage. Is there a way of bringing in those types of aspects to risk, when looking at that?

Professor Aikman: That is a liquidity issue about the current expense of purchasing a house. I guess the concern is that, if interest rates were to rise a lot, maybe something that seemed affordable is not any longer. This is where things like the Government's Help to Buy scheme can be a useful way of trying to balance the trade-off that you noted.

Q496 **Alison Thewliss:** Are there other things that you would see, in terms of what more the Government and regulators could be doing to make sure they are making those right decisions that incorporate the widest possible breadth of experience of people within society?

Professor Aikman: I am sure there are. I cannot think of specific examples. We heard about the issue of whether there should be a "have regard to" notion for these regulators. It is an idea worth considering.

Q497 **Alison Thewliss:** Claire, I was wondering if perhaps you could answer. In terms of inclusion and business start-ups, I have heard evidence in other places previously that, if you are from a more deprived area or a minority group, it is harder to get funding, loans, to start up or sustain a business. Should the regulators and the Government also be looking at that?

Claire Tunley: That is not something we look at at the commission, so I cannot comment on it.

Martin Coppack: On that point, let us remember, that, as a public institution, the FCA has a public sector equality duty. I would argue that part of that is to actively promote inclusion. If you make a new policy intervention, it is not about saying, "This will not affect certain types of people". You need to promote equality. Those are the types of issues that should be looked into.

Q498 **Siobhain McDonagh:** I want to look at the consumer duty and some of the wider issues related to it. As we know, the FCA currently has a consultation out on its proposed consumer duty, which comes with a package of measures aimed at improving consumer outcomes. What do you think are the prospects of these measures successfully improving consumer outcomes?

Martin Coppack: We are still reviewing the consumer duty. We are supportive of it. We are struggling to understand the difference between the consumer duty and the treating customers fairly regime. We really want to know more detail about how the customer voice fits into it as well. It is really difficult to say how effective it is going to be until we have a better understanding about how much resource will go into enforcement and supervision, because the regulators' resource is limited.

It is really interesting that sometimes the consumer duty is used as an excuse not to worry about financial inclusion. The consumer duty does not look at socioeconomic aspects and financial inclusion. That is a myth. We are also supportive of the strongest possible protection for consumers with the consumer duty, so we are supportive of a private right of action in addition. We do not think that will bring lots of different consumers coming in, trying to sue companies.

Q499 **Siobhain McDonagh:** Firms have told the FCA that the higher standards of the consumer duty or increased compliance costs associated with it could lead to firms removing products from the market. This could impact consumers in vulnerable circumstances. Is it possible that this is a tactical claim to avoid an improvement in standards?

Martin Coppack: Would it not be great if there was a "must have regard to financial inclusion" so that was actually looked at when this was brought up? We do not know, and I wish proper attention had been brought to that.

Q500 **Siobhain McDonagh:** Is there any risk that the Financial Ombudsman Service could adopt an interpretation of what the consumer duty required that was different and/or wider than that adopted by the FCA? If so, might this create an uncertain regulatory expectation of what the consumer duty does?

Martin Coppack: This is something I hear a lot. I would often have meetings with industry where I had a member of the financial ombudsman with me. The ombudsman looks at reasonableness. It is a good question. I do not know what the answer is, but I really think that it is a good question. I am afraid I do not have the answer to that one.

Siobhain McDonagh: Does anybody have an answer?

Professor Aikman: I do not, sorry.

Q501 **Siobhain McDonagh:** We have already addressed the issue of empathy, but I wondered if I could ask Claire this time. In a recent report, as you know, the Financial Services Skills Commission listed empathy as one of the eight priority areas where skill gaps are most acute. Could you tell us more about this skill gap and how firms can address it? I am not entirely sure how you give anybody the skill of empathy.

Claire Tunley: It is one of a number of skills that firms prioritise. It is not necessarily that individuals in the sector do not have empathy. It is more that the importance has been raised, particularly in response to the pandemic. With our member firms, we have drilled down into the number of skills that we identified to really look at what it means to be good, what it means to be empathetic and how you can improve that.

It is a lot about listening. It is a lot about that understanding and adaptability of consumer needs. As I mentioned before, it is not just for people who are dealing face to face or virtually with customers. It is about workers across the whole workforce who may be developing products and services thinking through consumers' needs. It is an area that is changing.

To pick up on a few of the points about diversity that Ms Baldwin mentioned, having people in the industry with a greater breadth of experience will help design better outcomes for customers. It is not the only solution, but certainly people who have different backgrounds would help some of that lived experience to come to the fore. That is something that I have discussed with the regulator, which published its discussion paper on diversity and inclusion last year. Those are conversation that we are having with it.

Q502 **Kevin Hollinrake:** Martin, I agree with you that the consumer duty seems to be rehashed into some reinterpretation of treating customers fairly. I think what Parliament expected was that there would be some kind of direct consumer duty. On that, Professor Aikman, there is this argument of a private right of action, which Martin supports. The argument back from the industry is that that will create other problems. There will be withdrawal of products; people will be more risk averse. Is that true? Do other countries have a private right of action, or would that create chaos in the market?

Professor Aikman: Sorry, I do not really know anything about this topic, so I do not want to comment on it and give you the wrong information.

Q503 **Kevin Hollinrake:** A private right of action is a consumer duty, so an individual could take a case against a bank, a group of individuals or whatever, to say, "You did not treat us fairly". That is what is missing in the regulatory landscape at the moment. It is left to regulators, rather than individuals, to take action. Would you have a view of who should be able to take action—regulators or individuals and groups of individuals?

Professor Aikman: Instinctively, I feel that individuals should have that right, but it should not rely entirely on them. Regulators should be acting in the interests of—

Kevin Hollinrake: Both, in other words.

Professor Aikman: Yes.

Kevin Hollinrake: Do you agree with that as well, Martin?

Martin Coppack: Yes.

Q504 **Kevin Hollinrake:** My section is really about effectiveness of regulation. We have talked a lot about regulations, but not too much about regulation—the regulation of the regulations. Could I ask you first, Martin, please? There are different perspectives on this. You can look at some of the perceived shortcomings of the FCA over the last few years: London Capital & Finance, Woodford, RBS GRG, HBOS Reading. The Swift review criticised the FSA's decision. Others have said that our system is envied around the world and we have a reputation for technical excellence. From a consumer perspective, what do you think?

Martin Coppack: I am here representing the most disadvantaged within society. Often, they do not even have access to many of the financial products that we are talking about. I can only say, in terms of my interactions with people in poverty, for example, that often there is a feeling of huge mistrust within financial services. There is also a feeling of discrimination, which has been used when we have been with consumers as well in the past. I do not think that is really answering the question that you are asking.

Q505 **Kevin Hollinrake:** You used to work at the FCA. You should have a view on this.

Martin Coppack: I should, but I am here now in terms of Fair by Design, so I am not going to enter into that.

Q506 **Kevin Hollinrake:** Professor Aikman, what do you think? Do we have world-class regulators, or do they need to sharpen their act up?

Professor Aikman: They can both be true. We probably do have world-class regulators. When the IMF comes into town and looks at how well we are doing compared to other countries, it is usually giving us glowing reports. That is not to say that these things cannot be improved. Regulators are underresourced.

Q507 **Kevin Hollinrake:** There are 4,000 people working at the FCA.

Professor Aikman: The concern I have is about turnover and whether people are staying in role to develop the skills they need to be able to take good judgments and challenge senior people within the organisations—that type of dynamic. There is a temptation to leave these jobs because you can earn more money outside.

Q508 **Kevin Hollinrake:** Is that list of the shortcomings that people might level at the FCA fair? Is that inevitable in any regulatory environment, or is that because of some of the shortcomings—capability, longevity in terms of turnover of staff, that kind of stuff? What is your view on all that?

Professor Aikman: I will comment broadly, rather than on the specifics. It is inevitable that things like this will happen, particularly for the FCA. By the nature of its role, things like this will occur. There is also an issue in terms of skills in regulators.

Kevin Hollinrake: Perhaps, Claire, you might have a perspective on that.

Claire Tunley: Only to say that the regulators are obviously recruiting in the same spaces as other firms. It is a competitive market. I have been talking to the City of London Police, who are responsible for cybercrime. They need to get people in. They cannot pay similar salaries, but they are offering an advantage that you are tackling a wider public good. It is a very competitive skills recruitment market at the moment for all players in this space. The regulator is not immune to that.

Q509 **Kevin Hollinrake:** When we take these crises and all these scandals, or something goes wrong, people like us start talking in Parliament. We want more rules or different rules. Is it the rules that are wrong? Is it, as Philip Reed put it, giving evidence, that we need the old rules enforced with a little more shrewdness, rather than looking at new rules, which are bound to make the situation more complex? Is that a fair assessment?

Professor Aikman: Is he referring to old rules before the last crisis? Could you give a little bit more background?

Q510 **Kevin Hollinrake:** I do not have the rest of his evidence actually. It is from the brief we were given today. I guess it is a general perspective, in terms of regulation and always looking at everything. As things change, they tend to become more complex. I think that was his perspective.

Professor Aikman: I would certainly agree with that. That said, at least my experience of seeing how regulations are written is that it is not a kneejerk reaction to things that have gone wrong. People consider the impact of these things. We have spoken about the complexity point and I would emphasise that one more time.

Q511 **Kevin Hollinrake:** Going back to you, Martin, in terms of taking on board concerns from consumer groups and people at campaigns, such as the ones you run, how good or not good are regulators and the Government at that?

Martin Coppack: The balance between industry and consumer representation is absolutely woeful. When I started at the FSA/FCA, I was responsible for consumer engagement and the liaison with civil society. I cannot get over to you how small the resource is and how little impact, in comparison, within financial regulation, the consumer voice has. You think about accountability as one of the Government's six principles for economic regulation. Legitimacy, expertise and capability to arbitrate between required trade-offs and the resource disbalance are just so important.

I wrote some other notes here. That is one of the big things too, when we try to get over groupthink. If you, first, are not in touch with people who are not like you and, secondly, have hardly any engagement with consumer organisations, because they do not have the money or ability, it is natural that policies will be skewed towards industry.

Q512 **Kevin Hollinrake:** What about the FCA's consumer panel? Does that not work?

Martin Coppack: I am a big fan of the consumer panel. I would like to see a greater representation on the consumer panel of champions of protected characteristics, including socioeconomic status. However, it is one panel among five or six—how many are there now? I do not know; I cannot remember. I would really like to see a panel that was people with lived experience of different vulnerabilities and socioeconomic statuses, expertly facilitated to bring that voice in too.

Q513 **Kevin Hollinrake:** As one of my roles within Parliament, I am one of the co-chairs of the All-Party Parliamentary Group on Poverty. We did a report into poverty premiums, so I absolutely understand the points you are making and agree that it is something we need to tackle.

In your points you made earlier about financial inclusion and the feeding of consumer groups into that, I think you gave the example of insurance. It was the £300 premium on insurance, for example. Is that not just illustrative of the market pricing risk? If that is the case, what could the FCA do about that? Is it not just going to say, "That is the market"? There are only three things I could imagine you do: leave it as it is; blend that over the whole marketplace, but that means you are interfering in the market and other people are paying more for people with higher risk; or ask the Government to put taxpayers' money in. How is it going to help, even if it had a financial inclusion brief in the FCA?

Martin Coppack: I have been working on this subject for years now. We would not be in a situation where Government say, "Prove market failure, consumer organisation". Most consumer organisations work in crisis, credit and debt. That is what they concentrate on. There is very little voice in anything above that, such as long-term competition or insurance. The insurance market is like a black box. The only organisation that can get access to that black box is the FCA.

You cannot get the Government to move on insurance, because the information is not there. We cannot prove that the market is not working well and the status of financial inclusion. We can have a good stab at it. We can work pro bono with different organisations, but only the FCA can see a clear picture. That is usually when the Treasury or the Government will move, once market failure is proven. Otherwise, you just kick the can down the road.

Q514 **Kevin Hollinrake:** The market failure is not enough insurance companies offering insurance in those markets, you mean. Is that not the market itself operating, because it seems too risky for some companies?

Martin Coppack: The market is working as you would expect it. They are trying to increase risk and chasing the best risk. Increasingly, other people are then being priced out. It is really interesting, as a consumer representative, being asked to prove market failure. I might not be able to prove market failure, but when I am talking to so-and-so in the east end of London and she says to me, "I have to have car insurance, but I ring up my car insurance provider and say, 'I live in E1' and they say, 'We do not serve you'", that is very much like a market not working very well. That leaves people feeling extremely discriminated against.

However, if you get to the policy level, you go backwards and forwards, backwards and forwards. "It is kind of a social policy. Go to the FCA; go back to the Treasury".

Q515 **Kevin Hollinrake:** The market failure is a lack of choice in those marketplaces, because too few want to get involved in it really.

Martin Coppack: Yes. You can make comparisons to Flood Re.

Q516 **Kevin Hollinrake:** Okay, I get it. Thank you. On the Financial Ombudsman Service, from a consumer perspective, in his report in 2018 Richard Lloyd, formerly from Which?, was very critical of its ability to deal with complex cases, communications and stuff like that. Does it still have shortcomings? Is it improving? What is your perspective?

Martin Coppack: I do not really have an opinion on that, I am afraid.

Q517 **Kevin Hollinrake:** Really, even though it is pretty relevant to consumers, because that is how consumers get redress, is it not, through the FOS?

Martin Coppack: Yes, absolutely, but in terms of the poverty premium this is usually people being priced out at the beginning. If you go to the Financial Ombudsman Service about a price issue—

Kevin Hollinrake: Right, okay. Professor Aikman, do you have a view on how FOS is operating?

Professor Aikman: I am afraid I do not, sorry.

Q518 **Kevin Hollinrake:** Martin, try this one. Does the existence of the FOS, with its own interpretation of whether the financial services providers have followed the rules, create an effective regulatory environment? It can interpret the consumer duty or treating customers fairly, for example. As you said, there is the reasonableness test. Is it helpful at all? Have you a view on that?

Martin Coppack: I do not have a view on that.

Q519 **Kevin Hollinrake:** Finally, this is open to all. I think you mentioned resourcing, Professor Aikman, in terms of our exchange about the 4,000 people who work for the FCA, for example. I think there are over 4,000 who work for FOS. Are they well resourced enough? Do they need more resources? Is it capability rather than numbers of people? What is your view on that?

Professor Aikman: I will emphasise that point again. Yes, it is not about numbers. Martin at one point mentioned groupthink. I spent a little bit of time at the Federal Reserve Board in Washington and the staff there were a lot more senior than we have at regulators in the UK, people who had spent their career developing expertise in a particular area. It felt to me that they were able to challenge the views of policy makers in a way that I believe is absent in the UK. It is that type of dynamic. It is not a quick thing that can be solved.

Q520 **Kevin Hollinrake:** It is quality rather than quantity. Martin, do you have any views on that?

Martin Coppack: There are a lot of very busy people in the FCA. I remember it being very busy when I was there. There were not people just dialling it in, for sure. There is a lack of resource placed into building up the consumer issues. For example, I used to go out to consumer organisations and say, "Tell me what your issue is", then bring it back, but it is a difficult one and the evidence is not there. The FCA then, I believe, has to put in the resource to build that evidence, because consumer organisations can never create the evidence to the degree to create that change, if you see what I mean.

One thing that we have recommended too is, from the annual levy, to give some ring-fenced funding to consumer organisations to build the consumer voice outside and bring that into the regulatory space as well.

Q521 **Dame Angela Eagle:** I have one very brief question for Martin, please. My impression of the retail financial services area is that, because of the way it is structured, it is based so much on the distribution, the providers and distributors, rather than the customers. It serves fewer and fewer people in terms of income, so it chases the high-income individuals, it services those on middle incomes, but it cannot find a profitable way to provide utility-style retail services to everybody else. Is that an accurate perception? What do you think we should do to change it?

Martin Coppack: This has been talked about for a while. We need to recognise that certain financial services products are essential for life. Insurance and credit are a couple of examples, but they are not regulated in that style. The FCA having even a statutory objective around universality could be one way to deal with it—or, and this is probably more likely, a "must have regard" to look at these consumers that the market is not reaching and make it plainer for social policy to act in those areas.

You are right: there are many consumers who are slipping through the cracks. Firms are there to make money, and reasonably so. They are not charities, but they are not regulated as such and the social policy intervention is not there either.

Dame Angela Eagle: I suppose I am saying that the structure mitigates against serving lower income people because of the way the industries are structured and the way they make their money.

Q522 **Harriett Baldwin:** I wanted to finish by taking stock at this point, which was the target year for the Bank of England, when it committed to Parliament that major UK banks would be resolvable by. I wondered, Professor, if you felt that that strategic goal had been achieved by the Bank at this point.

Professor Aikman: It is a very difficult question to analyse. There has been a lot of good progress in this space, both in the UK and internationally. There are encouraging signs in the way that bail-in-able debt is priced in markets. Investors are viewing this as a credible mechanism. There are also encouraging signs in the standalone credit ratings that banks receive, which now look like they are less supported by state support.

On your question, though, I would not say that, if we were going to have a repeat of the 2007-08 episode, we have enough confidence that we could deal with that. That would seem like still quite a way away. My concerns are as much political as technical. Where you have large banks operating in multiple jurisdictions, that is going to rely on some kind of regulatory co-operation. Over a weekend, if they get in trouble, that could easily end up being a fight for resources of the Bank. That is a major issue, I think.

Another one is that I do not think we know enough about who is holding the debt of these companies that would be bailed in, in the event of a resolution. Is it retail customers? Do they have exposures to this? Is it other financial institutions that would get in trouble if they were bailed in? To my mind, we have made a lot of progress that would allow us to resolve medium-sized firms, but the ideal of being able to resolve all firms, to my mind, still seems a way off.

Q523 **Harriett Baldwin:** We have just gone through quite a big stress test, have we not? The system seemed to have responded quite well. It was the first time that the capital buffers were unbuffered by a little bit. Did you feel that the system performed reasonably well through that stress test?

Professor Aikman: It did. I am sure it did a lot better than it would have, had we not put these rules in place. There is a sense in which it was not really a stress test, because the Government ensured a lot of credit. The Bank of England pumped financial markets full of liquidity, which meant asset prices did not fall anywhere near the amount that you think they would have done otherwise. I do not think we should read too much of a conclusion into the fact that the banking system happened to do okay in this episode.

Q524 **Harriett Baldwin:** No, fair enough. Another policy decisions that was taken after the financial crisis was to try to lower barriers to entry for new banks, challenger banks and start-ups. That also seems to have been pretty successful. There have certainly been a range of them.

Our Committee received evidence on one of the policy measures, the minimum requirements for own funds and eligible liabilities, which trips off the tongue and therefore is called MREL for short. We heard quite compelling evidence, I thought, that there is a bit of a cliff edge at the levels at which that MREL regulation kicks in.

There is evidence from some of the challenger banks, some of the medium-sized banks, that that is actively preventing them from growing. It is such a cliff edge that it is a deterrent to putting in more capital that could potentially unlock more lending for the UK economy. That seems to have fallen on quite deaf ears with the Bank and the Treasury. I wondered what your thoughts were on it.

Professor Aikman: I saw that evidence and I thought that it was a really interesting discussion. I took another look at the Bank of England's paper on this after the discussion as well. What do I think? I do not think the Bank has quite done enough to explain why the thresholds are in the places they actually are.

Q525 **Harriett Baldwin:** It is different from where the US and the EU have theirs.

Professor Aikman: Yes, quite. Its paper talks about how its own experience with stress testing has suggested to it that that is where the threshold should be. I do not doubt that a lot of judgment has gone into those decisions. It will not be a simple mathematical exercise of working out where the thresholds should be, but it would be nice to know a little more about what judgment that decision was based on. That point seemed correct.

Q526 **Harriett Baldwin:** You are not arguing yourself for a change.

Professor Aikman: I would like to first know more about the rationale for it. Where challenger banks have good business models, now the Bank has allowed them to have a six-year transition process towards issuing this debt in full at least, that also feels quite generous to me. If they have good businesses, they should be able to raise the debt in a relatively cost-efficient way. That would be my sense. If it is very expensive for them, that may be the market telling us that these firms are a little more risky than we otherwise think.

Q527 **Harriett Baldwin:** One of the other policy changes was to change the way the Financial Services Compensation Scheme worked, so that consumers could feel more confident in terms of their bank deposits. How do you understand the operating relationship between the FSCS and MREL?

Professor Aikman: I thought that discussion was slightly confused and confusing. They feel like they should be unrelated, really. How we fund the compensation scheme should have nothing to do with where we set the thresholds for MREL. Those thresholds are about the financial stability consequences of a bank getting in trouble. We do not think those consequences come through insured depositors because their money is safe no matter what.

There is a genuine question about whether we should move to a pre-funded FSCS scheme. That is a question that it would be valid to look at. It is a slightly odd set-up we have at the moment, but I do not think it really has anything to do with the choice of thresholds. That is my sense.

Q528 **Harriett Baldwin:** Martin, do you have any views on the FSCS?

Martin Coppack: No, thank you.

Q529 **Harriett Baldwin:** You are happy with the way it works for consumers of all income levels.

Martin Coppack: I do not have any comments on it, no.

Q530 **Harriett Baldwin:** You are not unhappy with it.

Martin Coppack: It is not something I have looked into recently.

Harriett Baldwin: That is all, unless anyone else wants to comment on MREL, which is a bit esoteric. I assume David is the only person who wants to answer on that.

Q531 **Kevin Hollinrake:** It is on that point, Professor Aikman. The mid-tier banks are always saying that the MREL limits are wrong. The Treasury came back and said, "They are not wrong and, if we had to do it differently, you would have you pre-fund the FSCS". Is that not the argument? That was everybody having to pre-fund it, not just having this threshold in place.

Is it not all the mid-tiers basically saying, "Where we are now, it would be miles better for us to have this higher limit and we do not mind pre-funding the FSCS", but they would not have thought that when they were smaller? There is a trade-off. The ones that are growing would have to contribute to pre-funding the FSCS. Where you are about to cross the limit, it is more burdensome. Is it not just a pure swings and roundabouts situation?

Professor Aikman: It might be. Generally, the issues are completely distinct and they should not be conflated. We should consider moving to pre-funding. Presumably that would be done on a pro rata basis, so it would not matter what size you were. I would not have a threshold at all. Everyone should contribute to that if their deposits are insured. A separate, distinct issue is when we want firms to issue bail-in-able debt. That should be to do with when they create financial stability risks when they get in trouble.

Q532 **Kevin Hollinrake:** The Economic Secretary to the Treasury said that both the US and the EU pre-fund their deposit guarantee schemes in a way that places burdens on firms below the thresholds in those markets that firms in the UK market are not subject to. It would mean everybody funding it, which means you have to leave some capital behind as you are growing, I guess.

Professor Aikman: I think that is the reason we initially did not pre-fund. I am trying to remember. I suspect it was that the industry was recovering from the financial crisis. We did not want to impose an additional levy on it at that stage. Now, 10 years on, might not be a bad point to reconsider that.

Chair: That brings us to the end. Can I thank all three of our panellists for appearing before us today? As has been typical of this inquiry, it has been a very wide-ranging and sometimes quite technical discussion. What has been interesting about you as a panel is that you are coming at it from very distinctly different areas of expertise and knowledge.

My gentle apologies that occasionally we seeped from one of your areas of expertise into another and bowled a question at you that you might not have anticipated. We are very grateful indeed for the input that you have provided this afternoon.