HOUSE OF COMMONS

# Treasury Committee

## Oral evidence: SME Finance, HC 805

Wednesday 27 June 2018

Ordered by the House of Commons to be published on 27 June 2018.

Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Alister Jack; John Mann; Catherine McKinnell; Wes Streeting.

Questions 245 - 357

### Witnesses

I: John Glen MP, Economic Secretary to the Treasury; Philip Duffy, Director, Enterprise and Growth, HM Treasury; David Raw, Deputy Director, Banking and Credit, HM Treasury.

# Examination of Witnesses

Witnesses: John Glen MP, Philip Duffy and David Raw.

Q245 **Chair:** Good afternoon. Thank you all very much for being here for this session on SME finance. We have had some really good evidence sessions previously on this, so we would like to put some of the points that have been raised to you all. Minister, could you perhaps introduce yourself and then your colleagues can speak too?

***John Glen:*** John Glen. I am Economic Secretary to the Treasury and Member of Parliament for Salisbury. I have brought two colleagues who can introduce themselves in terms of their responsibilities.

***David Raw:*** David Raw, Deputy Director for the Banking and Credit team in the Treasury.

***Philip Duffy:*** I am Philip Duffy. I am Director of Enterprise and Growth in the Treasury.

Q246 **Chair:** Thank you all very much indeed. I suspect that we will have questions that all of you can answer; it is not just a "quiz the Minister" session, so feel free to jump in. I have an open one to start off with to the Minister. Are you satisfied with the level of competition in the SME finance market? In 2016, the Competition and Markets Authority concluded that competition for SME funding is not working well for customers. Have things changed since then?

***John Glen:*** There is more progress that can be made. If we look at banking as a whole, we have four dominant lenders and 16 new challenger banks over the last five years; they are at a significant disadvantage in terms of their size and proximity to getting a bigger foothold in the market. The answer is that it is a work in progress. I have met with a number of challenger banks in the last few weeks and they are very determined to increase their lending to SMEs. There is more that needs to be done to improve the scheme that came out of RBS.

**Chair:** I am sure we will come on to examine that.

***John Glen:*** It will be a massive boost. It is about £750 million in different pots that have been agreed.

**Chair:** Depending on who it goes to.

***John Glen:*** Exactly. We can discuss that. There is more work to be done and I am happy to take questions on specific schemes and elements of them, but when we look at the big banks, they too have barriers in terms of lending. There is a challenge in terms of the mindset of SMEs, which represent obviously a vast proportion of businesses across the country. In a recent survey, 41% of them said that they did not think they would be accepted for a loan, yet the facts are that eight out of 10 who apply do get a loan. We then come on to the referral scheme, with that leading to alternative providers. That has a 10% success rate. To some extent, that is to be expected, given they have gone through a rigorous process with the banks to start with. We are in a dynamic environment where more options are coming to the market from the challengers and other platforms.

Q247 **Chair:** I started off deliberately—the title of the inquiry is SME finance. It is interesting that we have leapt straight into banking, which is perhaps inevitable, but of course there are other sources. We have taken evidence from people on crowdfunding but also perhaps from people offering advice such as the British Business Bank, as well as business groups. Mr Raw, last week we saw the merger between Virgin Money and Clydesdale and Yorkshire Banking Group. I think there is a view that there is going to be more consolidation. Do you see that as inevitable, and do you have any views on other sources of finance adding to the competitive market?

***David Raw:*** I am not sure it is inevitable. I do not necessarily think more consolidation is a bad thing. If Clydesdale and Virgin by merging can become a force that shapes up the product and pricing offering of the big six banks, that is not a bad thing. Other forms of finance are growing from a low base, but they are growing quickly. Peer-to-peer in 2017 had a flow of new lending of £1.8 billion. Considering that that that was £0.1 billion as recently as 2012, it is rising at a very quick rate.

Similarly, equity finance is still quite low in terms of volumes—£4.5 billion—but it is rising quickly, with 79% in the first three quarters of 2017, which is what the latest data relates to. Asset finance is also growing quite quickly—over £18 billion, which is up 12% in 2017.

We can see that other forms of finance are growing and they are growing quite quickly. There are things that we are doing to promote that, through the work of the British Business Bank, as well as some of the policy interventions that I am sure we will come on to discuss.

Q248 **Chair:** Mr Duffy, your title refers to enterprise and growth, so there is responsibility for productivity. How does this work in terms of the Treasury? How much do you have an interest in work in this SME finance space? Is it very much left to the banking team?

***Philip Duffy:*** We would say that if you do not get a good supply of finance to high growth firms, you are going to struggle with the medium-term productivity. What we found in the Patient Capital Review was that in the UK, compared with comparator economies of Australia, the United States and some of the European economies, we clearly have a problem. We have a much lower proportion of our companies seeking equity. When they do seek equity, they do not do as well in later rounds of equity raising, and they exit the market sooner. There is a view from us that to fix some of these productivity problems we need to support that.

It is not the case that we are less entrepreneurial and have fewer good firms; we have quite a good base of firms. It is not the case that we have a particular regional problem with a lack of innovation or start-ups, but when you try to match that against where the finance flows, we clearly have quite a big problem. The PCR and the work the BBB is doing is supposed to be an attempt to bridge that. It is a down-payment on that work, because it puts some public money in to help the BBB step in with some of these markets, including things like peer-to-peer and alternative lending structures.

It is not going to be enough unless we think about how we manage the really big resources—our pension funds and some of the institutional investors. That money is not reaching some of our start-up companies at the same speed that it does in other economies, and that is something that naturally really worries us.

Q249 **Chair:** Is that something the Treasury is going to look at—how some of that money can be released for lending to small businesses?

***Philip Duffy:*** Yes. We started that in the PCR and since then we have been talking and working closely with colleagues in the Pensions Regulator. We are trying to see if there are any barriers to doing what gets done in other economies. To give you a sense of scale, if you look at a typical US defined contribution pension fund, it is putting 3% to 5% of its resource into that sort of high growth, unlisted equity. In the UK, it is more like barely 1%. We have big gap there. We are looking at what those barriers are: are they regulatory or cultural? What are the kind of things we can do? We are trying to see if there is anything we can do in the guidance or with how we evaluate pension values to try to unlock some of that work. That is an important next step for us in productivity.

Q250 **Chair:** You talked about the RBS alternative remedies package. Obviously the package's implementation has been beset by delays. It is only getting going now. Can you update the Committee on where things are? We know that Lord Cromwell has been appointed. What is the timetable from here on?

***John Glen:*** There are four or five different pots of different amounts that were agreed through consultation and with the Commission as well. You are right to say Lord Cromwell has been appointed, and the chief executive has been appointed as well. I would be hopeful that in the early autumn we would get some initial steer on the process that will be taken forward. There has been concern expressed about who is eligible. The most frequent challenger is Santander. This is about the orientation of this money, which is about stimulating small business lending. It will need to demonstrate that it is going to have that effect. There is considerable interest from the challenger banks to execute on the grants that they anticipate receiving.

Q251 **Chair:** One of the submissions we had in April, from OakNorth, to this inquiry said that, "If the purpose of the fund is to increase competition in the SME banking market, then the focus should be on resolving the issues that are genuinely holding SMEs back—access to finance—not business current accounts".

***John Glen:*** I met with Rishi Khosla on Monday and we discussed this. He is optimistic about the growth that he can see in SME lending and he is hopeful that he will have a bigger contribution to make. He is quite sceptical of the barriers that appear to exist from other banks to lend. I met with the chief executive of the Lloyds Banking Group last Thursday, and he has ambitious plans to increase SME lending to £6 billion in the next couple of years. The ambitions are there.

In terms of the barriers, I would go back to my opening remarks around the culture and expectations of SMEs around borrowing. We know that two-thirds of SMEs would rather forgo growth if it means having to borrow. We need to challenge some of that.

**Chair:** That is a real problem.

***John Glen:*** It is a massive problem. As I say, that is a cultural problem that we have to deal with. What you are seeing with these challenger banks is new relationships formed on a different basis, with more flexibility. The culture of expectations is that banks will say no, when you are actually getting more and more sophisticated mechanisms to evaluate creditworthiness. Some of the work done with the Commercial Credit Data Sharing scheme has meant that the nine biggest major lenders are now accessing more data, which should inform their decision-making better. This is the sort of initiative that we need to work on to improve the likelihood of people securing loans.

***David Raw:*** The only thing I would add to that is that the business current account holders, the big banks, have access to a lot of granular transactional data that other lenders do not have. As well as the nine largest lenders, the challenger banks and alternative finance providers will massively benefit from the Commercial Credit Data Sharing scheme too.

Q252 **Chair:** One of the reasons that the inquiry was set up obviously came out of some of the behaviours by individual banks. We have seen HBOS in the news in the last couple of days, but particularly there has been RBS/GRG. We have had a couple of sessions on this. It is not just a question of people fearing that they are going to say no; it is actually a whole issue of trust in banks. A lot of SMEs feel they have opened accounts—they might have had a successful business relationship with their bank for a number of years, and then the rules changed in relation to the payment of overdrafts, security and everything else. Is that in the conversations that you have with banks?

***John Glen:*** Yes. It is very much on my mind. With every bank I speak to and have spoken to in the last five and a half months, I have raised this matter.

I just want to address both of those briefly, if I may. In terms of HBOS we are talking about criminal behaviour that is unacceptable. Those people have been locked up, and rightly so. There were wilful referrals to corrupt associates, and that has been dealt with.

If we look at what happened with GRG, it needs to be set in the context. Between the period of 2008 and 2013, there were 4 million SMEs. RBS had a million SMEs banking with it. We then look at who went into the GRG, the recovery group, which is a common experience across all banks, and we are talking about 5,900. Over half of those were in real estate, of which there was a particular problem in terms of valuations leading up to the crash. The sample that was done by the consultancy was about 286. They had about 85% or 86% where they had not been treated well. A third of those in that group were basically insolvent at the time.

We need to get into understanding really what happened. What is criminal behaviour that is totally unacceptable? What is a legitimate concern for customers? I have constituents, and you will have too, who say that sometimes they need a more intimate relationship with the bank to see them through difficult times and get them back into a normal regime. What is behaviour that is aggressive, that is leading to the demise of businesses?

One of our colleagues that I met, a hotelier down in Torquay, had a massively acceptable debt to equity ratio and, through circumstances of an extension to a hotel being stopped, it was all reset. They were put on to hedging products, of which obviously there has been a £2.2 billion redress for that.

What I am anxious to do is to make sure that we respond to legitimate concerns about bank behaviour concerning things that should not have happened, but we must not end up assuming that every single banker is corrupt, because that is hugely damaging to the sector and it does not do any favours to SMEs. Where behaviour is wrong, inappropriate and obviously criminal, it needs to be out there, and we need to examine it and make sure it does not happen again.

**Chair:** That is a very helpful clarification.

Q253 **Mr Jack:** Are you suggesting, Minister, that there is no criminal behaviour at RBS?

***John Glen:*** No, I am not saying that at all. I am setting the context in terms of the volume of numbers.

Q254 **Mr Jack:** HBOS Reading we understand, but no one at RBS has been charged with criminal behaviour.

***John Glen:*** I do not think the process in terms of evaluating what has happened there is yet fully concluded. I do not have investigative powers as a Minister. I am not seeking to restrain any reasonable work to understand what went wrong. We also have to be future-orientated and make sure that we have regulation and a regime in place that puts people's minds at rest going forward.

**Mr Jack:** We will come back to this later.

**Chair:** We will come back to it later. I think the point is that, as we all know from other sectors, one or two bad apples tarnish it for everybody else.

***John Glen:*** They do.

Q255 **Chair:** The point is we know that evidence was given by two RBS executives before this Committee, before my time, that turned out to be, let us say, incorrect; some would say that it was deliberately misleading or absolutely remote from the truth. The point is that GRG was held out; we were told it was not a profit-sharing part of the bank, which was absolutely not the case, and many people feel they were not put into it at all to be turned around or supported; they were put into it to have their assets stripped. Whilst taking the point of a broader political discussion at the moment about support for business and otherwise, also, Minister, you recognise—

***John Glen:*** I do recognise that there was poor leadership. I recognise that there was behaviour that was totally unacceptable that needs to be fully examined and we need to stop it from happening again. The Senior Managers Regime we have brought in that brings individuals to be personally culpable will help significantly. I am not saying that these things did not happen but we need to be very clear about finding solutions for the future, as well as dealing with the past.

Q256 **Chair:** This needs an answer of "yes" or "no": is it the case that the Treasury will in no way seek to influence the work of the independent body administering the alternative remedies package?

***John Glen:*** No, we certainly would not. It is designed for that body to do that work independently.

Q257 **Charlie Elphicke:** We have a situation where things have been done badly and wrongfully in the past. You are rightly saying, "Let us fix the future". There is a culture where administrators were sent into SMEs to asset-strip them, which is frankly venal. What is the solution to that?

***John Glen:*** The solution to it is to ensure that banks' behaviour is open to challenge and that there is a mechanism for businesses to be able to confidently get the right response. I would say there are four strands of working going on at the moment. There is the consultation going on that is live around the extension of the Financial Ombudsman Service's responsibility, in terms of whether it should extend up to SMEs with a turnover of up to £6.5 million. That is the first bit.

There is the Richard Lloyd review that came out of the *Dispatches* programme in March, which is imminent—I mean in a matter of weeks. I think he is coming before your Committee on 13 July.

There is work that UK Finance is doing, with Simon Walker, formerly of the IoD, looking at UK finance and what banks should be doing. Then there is the valuable work of the APPG, which will report on 11 July, on whether there should be a tribunal service or what sort of enhancement there should be as an arbitration mechanism between banks and SMEs. Those four strands of work are all going to be concluded imminently. The Government will respond to that in the autumn. Therein lies the solution that we need.

Q258 **Charlie Elphicke:** Is there not also a problem with the legislation, because Section 138D of the Financial Services and Markets Act 2000 only gives a right of action to private persons where breaches of the rules are made? A company acting in the course of its business does not meet that description. In effect, lending to business is not really regulated. Is that something that should be addressed?

***John Glen:*** A lot of lending is obviously quite small-scale. Up to £25,000 of loans is covered by the Consumer Credit Act 1974. There is a live discussion of what goes on beyond that. In terms of what legislative response is appropriate, that will be part of the response of Government to these four strands of work. What we need is something that gives greater confidence.

This extension, if the FCA is minded in its review to bring it forward in September, would be operational in December. It would only leave 40,000 SMEs outside of being covered in the regime. The evidence from industry is that if you have a turnover of between £5 million and £10 million, you are more likely to be comfortable using litigation anyway. What I am interested in is the resourcing of that entity and the skills employed to deal with what would naturally be more complex cases.

I am also interested in the fact that the compensation barrier at the moment is £150,000. Frankly, that seems very inadequate if you are taking on businesses with a turnover of up to £6.5 million. Whether the legislation is currently fit for what we need to do in the future will need to be part of the response of Government in the autumn.

Q259 **Charlie Elphicke:** You say it is only 40,000 SMEs we are talking about here and that is a very small number by comparison, but these are the largest SMEs. They might be 1% of the businesses but they are probably over 90% of the jobs. Of course, it is jobs and livelihoods that are the economic lifeblood of the country that we are worried about here. Is it the right thing to say that maybe we ought to bring the whole lot under regulation so that GRG and Lloyds, TSB and Reading—whatever it is—

cannot happen again?

***John Glen:*** We need to look at the Simon Walker review and at the efficiency of the options that exist between big banks and larger SMEs to find more efficient ways before litigation. I am sensitive to the narrative that says we took a case to a certain bank—I will just call it a big bank, otherwise I will be accused of favouring one over another—and they throw £10 million of lawyers at it and cannot get anywhere. What they do is they say, "We do not recognise this case but we will give you this compensation". That does not feel right to me.

I can understand the issues in terms of making a precedent from that engagement, but what I want to see is a better and more reliable mechanism for people who have legitimate issues to deal with the bank and resolve them quickly and effectively. We have to think about the distribution and types of resources. FOS deals with about 330,000 cases at the moment. A lot of them are PPI disputes. If we are dealing with complex cases of businesses of £10 million-plus, we have to recognise how equipped they are to deal with that complexity. Obviously the *Dispatches* programme made some allegations about the distribution of skills and the organisation of it. We need to make sure that whatever we come up with is fit for purpose.

Q260 **Charlie Elphicke:** We need a financial services tribunal then.

***John Glen:*** As I say, there are four strands of work going on. It is important to listen very carefully. To take your point about the tribunal, I recognise there is a strand of opinion that says that is the right solution. I also note that Andrew Bailey, when he addressed your Committee, said that enhanced powers for FOS was not an inferior option. I also recognise that a tribunal would require some clarity over what legal powers it would have and under what legal basis it was operating. We have to be alive to the grit of the issues here to make sure we get it right.

Q261 **Charlie Elphicke:** There are no plans in the Treasury to support a financial services tribunal.

***John Glen:*** There are plans in the Treasury to listen carefully to the four pieces of work that are ongoing, Mr Elphicke, and wait until the autumn to come forward with our response.

**Chair:** It is a listening Treasury, at the moment.

***John Glen:*** Always, and optimistic as well.

Q262 **Charlie Elphicke:** Presumably, the Treasury is also listening to the various different views. The FCA told the Committee that many SMEs struggle to resolve disputes with financial services firms and seek redress when things go wrong, whereas UK Finance, the banks' trade union, says that the vast majority of small business complaints were resolved to the satisfaction of customers. Who is right?

***John Glen:*** Simon Walker's task is to get to the bottom of this.

**Charlie Elphicke:** It sounds like he is just trying to sweep it under the carpet and it is all fine.

***John Glen:*** I do not think so. Simon is doing one strand of work. I really value what he has to say because he needs to be able to both look at what big banks are saying and challenge them, because it is not in their interest to continue to have such a poor public reputation in terms of the way they handle disputes with small businesses.

Q263 **Charlie Elphicke:** While the Treasury is listening, is it also possible that the Treasury might want to research and look at how these things might be brought into being? The Law Commission has apparently expressed an interest in undertaking detailed legal research into the financial services tribunal proposal. Would the Treasury consider instructing the Law Commission to go ahead?

***John Glen:*** I am sure we will look at all options as a consequence of the outcome of these four pieces of work.

Q264 **Charlie Elphicke:** Is there not also a structural problem in the banking system in that it is effectively an oligopoly and there is a lack of choice? That needs to be addressed as well.

***John Glen:*** I am very sensitive to that. I have had my ears blasted a number of times by challenger banks over the way that capital requirements have been applied to the 16 challenger banks, particularly Metro Bank. We have been bound by the rules as they have existed. There are new ways of looking at it. If you look at the way the banks operate in the US, there are different ways that the capital requirements can be interpreted. These are matters that will need to be considered.

We cannot be satisfied by saying that there are 16 new banks in the last five years so all is well. We have to look at the dynamics of that competition. We are in a David and Goliath situation with lots of Davids and four Goliaths. It is not my job to arbitrate on who is successful but we are in a period of disruption with fintech and open banking giving new opportunities to access customers, to market to customers and to offer new services. We need to do all that we can to enable real competition between those different entities—legacy and new entrants.

Q265 **Charlie Elphicke:** Going back to your four strands of work, it is clear that the Treasury is listening. When do you plan to bring forward a consultation document or a Green Paper to set out proposals?

***John Glen:*** These are a number of pieces of work done by organisations very close to the Treasury. All of those pieces of work will come—they are due in the autumn. I would hope that we would be able to work very closely with the outcomes of those reviews in the autumn to come back with a response.

Q266 **Charlie Elphicke:** Do you anticipate a consultation document or a Green

Paper in the autumn?

***John Glen:*** I have not discussed that with my colleagues yet. I would look at the most efficient mechanism to get on with it. I am conscious there have been 11 people doing this job in eight years. This clock is always ticking for me. I think that every day.

**Chair:** Yes. I have been there. It sounds like a nice Budget announcement, actually.

Q267 **John Mann:** The Committee has always been very strong on competition, but if you take an area like mine, people are setting up new businesses or building businesses—say building a family business. They are not going to be going to distant setups. They are going to be going local, so the real choice that they perceive is they are putting their time and effort into the production or the service they are trying to sell, and they will. That has always been the case. When it comes to their relationship with the big existing banks, the question of consequences for the banks if the banks do not behave properly to them does seem to me still to be rather a vague notion. In terms of consequences and potential compensation, there are some potential ways through, but in terms of consequences for the bank that behaves inappropriately—in your view, Minister, what should be the principles that determine what the consequences for the bank are, if they are treating the SME business badly?

***John Glen:*** There needs to be a fair outcome that acknowledges the extent of the wrongdoing and it needs to be quick and accessible to small businesses that you would see in your constituency.

Q268 **John Mann:** That is not a consequence for the bank. It is a fair outcome, which is important, but different from a consequence. If you do something wrong, what should be the consequence?

***John Glen:*** Mr Mann, it depends what the behaviour was. We are in speculation again. It depends very much on whether there was criminal activity, whether it was led by poor leadership and whether there was somebody who can be made to be individually culpable for directing people to behave in an inappropriate way. What we need is something that is effective across all of those.

I would also respectfully challenge the assumption in the first part of your question around where your businesses will be accessing. Most people increasingly have smart phones. When I look at how simple it is now to set up business accounts with, for example, Starling Bank, these sorts of options will become more accessible to more and more people, particularly very small businesses that perhaps have had adverse experiences with the big banks previously and will maybe be looking for new options. These sorts of things will become more available to more people across the country.

Q269 **Rushanara Ali:** Good afternoon. I have a factual question. Could you give an indication of how the lending rate to small businesses has changed over the last 10 years since the financial crisis. and how you see that?

***John Glen:*** Certainly in the last few years it has gone up, but in the last year to April it is flat.

Q270 **Rushanara Ali:** What is the number?

***John Glen:*** I do not know the specific number.

**Rushanara Ali:** I am not trying to trick you. I do not know the number either. I thought you could educate us.

***John Glen:*** I can write to you. I spend a lot of time preparing for these things, but I cannot give you the exact figure.

***David Raw:*** The total stock of lending, rather than the flow, is £165 billion a year. The flow of lending each month is around £5 billion a year. Obviously that is offset by repayments.

**Chair:** That is to SMEs as defined.

***David Raw:*** That is to SMEs.

Q271 **Rushanara Ali:** That is now. Do you know what it was around the time of the crisis?

***David Raw:*** It has been rising for the last few years. It dipped immediately after the financial crisis but, yes, as of April 2018, it was 0% year on year.

Q272 **Rushanara Ali:** The reason why I ask is to get a sense of it. These debates have happened for quite a long time. The last time I was on the Treasury Committee, it was a perpetual and perennial challenge—for Ministers as well as this Committee—to try to keep the pressure on for lending. That is really important.

The second thing is around regulation. You mention, Minister, the new areas and new kinds of platforms, and the Treasury is putting money into some of those platforms. What is your view on how well they are being regulated? Certainly in the States what we picked up was that some kinds of lending are moving from the traditional banking sector to elsewhere, particularly around housing funding as well. That is not directly relevant to SMEs, but in terms of the wider landscape, do you think we should be looking at some of this? Are you looking at some of these trends and should there be regulation there?

***John Glen:*** The move towards invoice financing, asset financing and peer-to-peer lending is happening. We have seen rises in asset financing, up 12% last year.

Q273 **Rushanara Ali:** My question is: are there risks there that are currently covered by the current regulatory framework and/or are you looking at new arrangements that need to be put in place to offset any risks?

***David Raw:*** Peer-to-peer would be an example where it was identified that the current regulatory framework did not work, so we created a bespoke regulatory regime that both allowed peer-to-peer to growth in a conducive environment but also put in place the necessary protections for consumers in terms of separating client money and making sure the platforms were holding capital, in terms of the marketing and promotion of those products. That was definitely an area where we identified risk.

Q274 **Rushanara Ali:** What about small businesses if they are borrowing through these new ways? I will come on to regulation.

***David Raw:*** Peer-to-peer is only within the regulatory perimeter if one side of the equation, either borrower or lender, is an individual as opposed to a small business. If one side of that equation is a small business and the other side is an individual, they will benefit from those protections.

Q275 **Rushanara Ali:** Moving on to regulation and protection to small businesses, in the past it was felt that small businesses did not need to be brought under the regulatory framework. That view is changing, and the head of the FCA recently said to this Committee that that experience has shown that it is not justified to expect small businesses to fend for themselves. You have already talked about RBS/GRG and other scandals such as HBOS Reading. Do you think that we need to bring small businesses into the regulatory framework? Is there a difference of view between Treasury and FCA in terms of direction of travel?

***John Glen:*** It goes back to these four significant pieces of work that are under way, because we do want to get the fuller sense of the APPG. In terms of the FOS and the extension, that would be bringing in a redress scheme to vastly enhance numbers of SMEs. That would be a very meaningful mechanism for them to be able to access.

Q276 **Rushanara Ali:** You will lift the compensation cap.

***John Glen:*** It would not be for me to change but I have indicated my concern that it should be raised. It needs to be looked at very carefully because it will be inadequate.

Q277 **Rushanara Ali:** You will keep an open mind about the point Charlie was making on the tribunal.

***John Glen:*** Yes.

Q278 **Rushanara Ali:** If legislation was needed after these reviews, when should we expect to see the Treasury putting this into the legislative timetable? Will it be later this year or next year?

***John Glen:*** We would aim to make a response. We will make a response in the autumn. What we decide is necessary and what sort of consultation process we need will be determined then.

**Rushanara Ali:** It could be anything between starting later this year with a view to sometime next year.

***John Glen:*** It will be as soon as possible.

**Rushanara Ali:** Hopefully while you are in post and not on to another bigger and better job, given the turnover.

***John Glen:*** I do not expect to have another job. I just look at history. What I am saying is I want to get on with this. Small businesses are very concerned about it and I want to resolve it.

Q279 **Rushanara Ali:** I have a couple more questions, Minister. On the issue of compensation for RBS and those affected by RBS, it is about £2.2 million they have paid out in the compensation scheme for SMEs. That is my understanding. Is that something you are comfortable with? Do you think that is reasonable?

***John Glen:*** There is more work that needs to be done. There are three elements to it. The first element was mandatorily issued. The second one has £7 million that has been paid out. The issue that needs more work—and I have met with the chief executive and expressed my concerns on this—is around the consequential loss. That is where we need to see more focus. Of course, it is extremely challenging to determine what the consequential loss for some of these businesses was, because a business owner would project a trajectory of growth, and that is a contestable narrative. It is very difficult to resolve.

Q280 **Rushanara Ali:** In one of the sessions we had witnesses who were affected—we have one in the Committee—and one of them spent over £800,000 on legal action and legal fees against his bank. His advice to someone else who came along was to not bother because they are going to beat you down.

***John Glen:*** This is exactly the sort of issue I spoke about earlier, where the mechanism for businesses over a certain size seems to be that they get sucked into a legal dispute and then get offered a one-off, no-culpability outcome, which they are led to take because their advisers say, "This is the best chance you have; otherwise, this is going to drag on and on". I do not think this is the ideal situation to be in at all. Beyond RBS and GRG, this is something that is not doing the reputation of big banks any favours at all.

Q281 **Rushanara Ali:** Who is driving the battle for making sure that the power balance is shifted? You mentioned earlier that it was a small number who were affected by RBS, but for some people it has driven them to suicide, as you know. Some people have lost everything. A number of people have lost everything. It is indicative of a bigger problem. Obviously you have seen some of the other sessions that we have had with more recent cases—TSB and others—where small businesses will be caught up in that situation, with over 100,000 people who are still waiting, and 75% who are still waiting for their issues to be resolved with bank accounts.

There is a trend here. You made the point, correctly, that banks still have this reputation and people should not judge them, but all these scandals are there and the power balance is still with the banks, not the citizens or the small businesses, and the Government and regulators take years and years to fix these problems. How many years is it since RBS? Many, many years. The public just does not have confidence in Ministers, whoever they are, or the regulators to get this sorted out so that people get redress. That is the issue. Can you give us an assurance that you are going to work, for as long as you are in post, day and night to make this happen and get this sorted? It is just going on and on and people are suffering.

***John Glen:*** I acknowledge what you have said to be absolutely true and the two debates we have had during my tenure, and the individual cases I have seen, including of Members of the Committee, are appalling. There has been poor leadership, there has been criminal behaviour and there have been things that should never have happened.

In terms of the redress scheme specifically, in terms of GRG, I have acted to secure, I hope, an acceleration resolution of some of those matters. That has thrown up a whole issue around how we resolve the future orientation of a mechanism for small businesses to be able to access redress. As I have indicated, these four strands of work come together in the autumn and I am very eager to find a solution that works and to avoid repetition of the sorts of appalling behaviour we have seen.

**Rushanara Ali:** You are prepared to work with this Committee to make sure.

***John Glen:*** I have made myself available frequently.

Q282 **Rushanara Ali:** My last question is about Brexit. According to Moore Stephens, 94% of SMEs believe that the Government are ignoring their concerns about Brexit, and 38% of SMEs said that the introduction of trade tariffs was their biggest concern. Do you think that max-fac or a customs partnership system will help alleviate these concerns? What discussions have you had with them, and does this resonate?

***John Glen:*** I recognise the concerns of business. I visited a business in my own constituency on Friday where I met seven members of staff from seven different countries. They produce, a few minutes' walk from Salisbury station, all the salt and pepper sachets for Burger King globally but not in the UK, and that clearly necessitates lots of cross-border transactions. I do fully acknowledge that the uncertainty that exists needs to be resolved. The Government have been very clear that we are going to seek to resolve that through the processes ahead this week and into the autumn.

In terms of the customs arrangements, that is not something I am engaged with. I am responsible for financial services. The Chancellor set out on 7 March, as you know, a very clear prescription of what we need in financial services in order to get to the outcome that we wish, based on an understanding that we are an identical position at the moment in terms of regulation and mutual recognition. We have seen some recognition from the Commission that services will need to form part of the outcome and the negotiation, but we have not seen a viable alternative with respect to an enhanced equivalence regime.

We are actively working with colleagues across Government. All officials in the Treasury are equally motivated to do the same as me, and to come up with the right platform for the negotiations when we engage in due course. I recognise the concern of business and I recognise the concern of City institutions. We can only move that forward, though, when we get into a productive negotiation. That relies on the EU 27 coming forward as well.

Q283 **Rushanara Ali:** You recognise the figure that Jon Thompson set out.

***John Glen:*** I do not necessarily not recognise it. I have not read that particular report, but I do recognise there is concern amongst businessmen, small and large, and in the City, about not getting an outcome that is right for the UK economy.

**Chair:** I do not want to get into protracted Brexit discussion, only because we mention Brexit in pretty well every session. John has a very brief point and then we are going to move on.

Q284 **John Mann:** I have one very small question. For an SME producing a part for, say, Toyota or Rolls-Royce in the Midlands, if the average part is crossing EU borders four times, under WTO rules will that mean four tariffs?

***John Glen:*** I am not qualified to answer that question.

Q285 **John Mann:** Why not?

***John Glen:*** Because I am the Minister for financial services, not goods. I am actually pretty preoccupied with the sorts of options I need to have to contribute to the discussions of the Government in that area.

Q286 **John Mann:** Should Ministers, in the context of working out the best Brexit, for those who strongly support Brexit, be very clear what the answer to that is, because if it is four tariffs, at an average of 3% to 4%, as oppose to one tariff, then the four tariffs become up to 16%, which is a big difference to that SME.

***John Glen:*** What I am saying, Mr Mann, is we have to come up with a solution that creates as frictionless an outcome as possible for goods.

**John Mann:** Could you write back to the Committee with the answer? That would be helpful.

***John Glen:*** Perhaps if you could write to me with more specifics over what the individual company is and what their components are, I will have a very good go at doing that. I do not want to come up with a hypothetical answer to a hypothetical example.

**John Mann:** It is not a hypothetical answer. It is a real question involving many SMEs.

**Chair:** They are real questions. They should have been raised before 23 June 2016 but there we are; they were not. We may well write to the Chancellor, perhaps, to ask him the question.

***John Glen:*** I am sure he would be very happy to answer.

**Chair:** I am sure the Minister responsible for HMRC will be delighted to come before us to talk about it.

***John Glen:*** He tells me he has not been invited yet.

**Chair:** He has not been invited yet and I think we may well have to write to him.

***John Glen:*** He will kill me for saying that.

**Chair:** We will tell him that you volunteered him. I am sure you will be very popular in the Treasury as a result of saying that.

Q287 **Stewart Hosie:** Before we get on to the regulatory perimeter, we all understand your position, and indeed the things you are not responsible for, but in your answer two questions ago to Rushanara you spoke about looking at the right platform for when you get into negotiations. The end of the transition period is in two and a half years' time. Even if you alight upon a max-fac, a customs partnership or something else, the fact that that is not done and the negotiations have not started means, does it not, that it is highly unlikely that that would be in place in two and a half years' time, depending on what was required to make the right platform work?

***John Glen:*** We have set out in some detail the position of the Government with respect to financial services. We are also exploring a number of options to resolve other matters. Frankly, those matters will be discussed by Ministers more senior than I to seek a resolution before we engage in that negotiation process. We need to find a resolution that works for the whole economy. I recognise that that is an urgent piece of work.

Q288 **Stewart Hosie:** I will leave it there, other than to say that at least somebody in Government recognises it is urgent. In terms of the regulatory perimeter, the FCA's actions, as you know, are limited by the perimeter of the regulation. Andrew Bailey has noted that there is a correlation between some of the most difficult issues the FCA faces and the perimeter itself. What problems do you think the perimeter causes the FCA in meeting its own objectives or defending its own actions, when financial services are offered to consumers in a way that circumvents the perimeter but nevertheless causes consumer detriment?

***John Glen:*** The issue of the perimeter needs to be seen in the context of some of the things that we have done already, in terms of actually making individuals culpable for behaviours through the Senior Managers Regime. The system and controls that are in place by the FCA to examine behaviours are wide-ranging. For the biggest institutions, banks in particular, who do hold a systemic risk to the economy as a whole, there is a mechanism for the FCA to examine matters of behaviour where they are culpable—they can be deemed culpable because of their larger standing, effectively.

Q289 **Stewart Hosie:** I will come back to the systemic issue in a short time. You talk about the Senior Managers Regime, and that certainly puts a responsibility on named individuals and that is a good thing, but it is the principle of this. Business lending was outside the regulatory perimeter, but we all have RBS cases, Clydesdale Bank TBL cases or other cases where there would appear be a prima facie case of mis-selling. Notwithstanding that it was outside a regulatory perimeter, do you not think that the FCA should have the ability to examine where there would appear to be a straightforward mis-selling case to a business?

***John Glen:*** The work that we are undertaking currently is examining an extension of the role of the ombudsman service, which will give a significant extension of the regulatory authority. We need to look carefully at what it will and will not contain, because we do not want them being in a situation where there are significant categories of activity that are not covered.

What we must also be mindful of is creating regimes that are too bureaucratic, too expensive, or that create barriers for individuals to access loans or other products. There is a carefully calibrated judgment that needs to be made on how we offer more powers to more categories of business. That is a judgment that will be made as a consequence of the work that is underway. We are carefully examining that.

**Stewart Hosie:** I hope that in that answer we are not hearing the green shoots of a future excuse.

***John Glen:*** I do not think so. I do not mean to excuse anything or be evasive.

Q290 **Stewart Hosie:** Let us just wait and see, because banks will tell us—indeed they have—that with the Know Your Customer regime and all the additional work and information they have, and the relationships they have built, there is now a pretty clear understanding of the customers that banks intend to lend to. I would hope that would speed up some of the discussions that are under way.

Let me ask the question this way. The problems at RBS/GRG are a recent example of the perimeter issue where the FCA was blamed for things that could be considered outwith its remit. Do you accept there are things beyond the perimeter that appear as though they should be within the perimeter, which could damage the reputation of the FCA?

***David Raw:*** It is probably worth saying that even if something is beyond the regulatory perimeter, if that activity is so egregious, widespread or of a particularly bad nature, and is relevant to that firm's fit and proper status, or in the case of banks their standing as a deposit taker, the FCA can take action. Three of the FCA's principles, including around systems and controls that the firms have in place, as well as whether they are communicating with the FCA in an open and transparent manner, apply to all activity of the regulated firm, whether it is unregulated or regulated. They are making use of that in the case of GRG in terms of the investigation they are doing on the back of the skilled person report. It is not quite as clear cut as saying that if it is outside the regulatory perimeter there is nothing they can do about it.

Q291 **Stewart Hosie:** Can I thank you for that? You caveated at the start of that answer by talking about activity that is egregious—effectively malfeasant. The issue we have is business after business saying, "No, we have been turned down by the FCA. They are not going to look at this because it was an unregulated product, even though it was provided by a regulated company". I have to say that I suspect many of the businesses that have been affected that are watching will say, "But they behaved in an egregious way towards me. They have taken my business, they have sold all my assets and they sent me a letter saying, 'It was an unregulated business; you are on your own'". What you have said may be technically correct but I suspect it will not ring true to lots of the businesses affected.

***John Glen:*** I will go back to what I said earlier with respect to the fact that these behaviours were abhorrent. There was a culture in some of these organisations that was outrageous. What happened with HBOS Reading, in terms of criminal activity, needs to be exposed and it has been. I recognise too that there are outstanding cases. That is why I have engaged with RBS to get an acceleration to the outstanding matters within the redress scheme.

Q292 **Stewart Hosie:** You spoke about systemic risk earlier. That is helpful because the FPC can recommend a widening of the perimeter of regulation. Do you think the FCA should have a similar formal power of recommendation to bring certain activities within the perimeter, something that Andrew Bailey has said he is fairly attracted to?

***John Glen:*** I have active conversations with Andrew Bailey on a frequent basis. Where there is activity that he does not feel he has sufficient power on, it is for him to set that out clearly and the Government should respond to that. There are, as I say, careful calibrations to be made about the impact of extending new regulations in terms of impeding access to the same products that were offered in an appropriate way.

We are in a situation where we are not sitting here passively not responding to what the FCA says. If I think about a different topic and what has happened with high cost credit, I have had deep conversations with the FCA about that, and I am very pleased with the work it has done and the outcome of its review. I have not had a conversation with him about the extension of his powers on these matters. It is caught up with this piece of work with the four stands that I spoke about, which we will address in the autumn.

Q293 **Stewart Hosie:** Given that he was broadly positive, can I ask that you have a formal conversation with him about that?

***John Glen:*** Yes. I am seeing him in a couple of weeks.

Q294 **Stewart Hosie:** Good, because the alterative, of course, would effectively mean that the Treasury were maintaining the perimeter, rather than allowing the regulators to react in a dynamic way to where they think it ought to move, given the products that are available?

***John Glen:*** I can give that undertaking, Mr Hosie.

Q295 **Stewart Hosie:** That is really helpful. The final question I have is about whether the Treasury would also consider giving the FCA a more formal scope to comment on financial activity that is not within the perimeter, but where the FCA's view, intelligence or analysis would suggest there were breaches or potential breaches of objectives, leading to the kind of difficulties we have seen in the past.

***John Glen:*** I want the FCA to be seen as a very effective regulator, and it has moved a long way over the last four or five years. Where there is a clear case for it to be doing more activities, and the basis for that is clear, I would be very keen to look at that very carefully.

Q296 **Chair:** Before I bring Alister in, we have touched on the Financial Ombudsman Service a few times. Do you have confidence in their ability to deal with some of the issues we have raised? You have mentioned PPI, the *Dispatches* programme and everything else. Are you confident they could do that or not?

***John Glen:*** I am very pleased that they moved very quickly from the *Dispatches* programme. Richard Lloyd has done 30 days of work and is imminently about to publish his outcome, which is welcome. It has not gone on for ages. It has been a couple of months.

My observation, from what I know about FOS, is that there have been some organisational changes that need to be examined in the context of delivering effective outcomes. What we need to be sure of is that whatever interventions are advised and are undertaken to improve or enhance this service give the consumer and SMEs—if that extension is granted and given—more confidence in the outcome. We cannot have a situation where people are concerned about the quality of the training, or the way that specialists are engaged within the organisation to deal with difficult cases and there is an inherent bias towards big banks, or even when an MP visits and a narrative is set up for her or him. These are some of the allegations raised last night. We need to be confident that they are well organised and responsive.

Q297 **Chair:** In terms of your answer as of today, if I asked, yes or no, whether you have confidence today, the answer is no.

***John Glen:*** I am concerned.

**Chair:** Not at present. You are nodding.

***John Glen:*** I am keen to be reassured.

Q298 **Mr Jack:** The problem with coming late in the proceedings is that a lot of the questions that you were hoping to ask have been asked. I will try to cut and paste a bit, and I will also cut to the chase. The British Business Bank reported this year that the SME demand for bank loans is at a record low level. What do you think has contributed to this?

***John Glen:*** We have seen flat overall in this year to April, in terms of SME borrowing. There is a degree of uncertainty in the economy. That is just a fact. When there is a degree of uncertainty, then clearly businessmen and women think carefully about the consequences of making investment decisions, and that would then obviously roll into the decisions they make about financing new products and making new investments.

However, we do not want to be passively accepting that. That is why we have taken forward a number of initiatives to put more money into the British Business Bank and to look at new schemes—we have £400 million going to the Northern Powerhouse investment fund and £250 million into the Midlands Engine, to try to work with partners at the retail level to actually deliver that money into projects that are required across the country.

Q299 **Mr Jack:** What do you see as the main barriers faced by SMEs that are seeking external finance?

***John Glen:*** You have to remember that 47% of SMEs are permanent non-borrowers. There is a culture of not borrowing, and that needs to be challenged in terms of, when we have a situation of low interest rates, whether that is always the right choice. There is sometimes, as I said in my very early remarks, a gap around people's perception of the likelihood of securing a loan. Eight out of 10 loan applications are granted, but 41% of small businesspeople and SMEs think that they will not get one.

**Mr Jack:** I am surprised that you have not said previous misconduct—

***John Glen:*** I have not finished my answer.

**Mr Jack:** I was hoping you might come to that one a bit quicker.

***John Glen:*** Let me just finish, then, if I may. Can I just finish my answer? One of the reasons why they have that level of pessimism is clearly because they have had adverse experiences in the past, particularly with the four biggest banks. That is why I think we have to project the new options that exist.

Q300 **Mr Jack:** Before I came here a year past June, I chaired 11 SMEs. My constituents will be pleased to know I do not anymore, but importantly—

***John Glen:*** Why was that? Were you a bad chairman?

**Mr Jack:** Because I now have a more important job looking after my constituents.

***John Glen:*** Oh, I see.

Q301 **Mr Jack:** I feel the Treasury, the FCA and the whole structure have been bad managers of what happened in the banking crisis, which was now a very long time ago. We are going back to 2008. Of those businesses, most did not want to seek finance from banks because they did not trust banks. At the risk of making a slight speech on this, I did slightly feel in your original remarks to the Chair that you were defending the numbers on RBS/GRG.

***John Glen:*** No, I was explaining them. I was also explaining that I think the redress scheme needs to be accelerated, and that there is poor leadership, bad decisions and criminal behaviour that needs to be called out.

Q302 **Mr Jack:** How many of the GRG senior managers do you think still work at RBS?

***John Glen:*** I do not know the answer to that question.

Q303 **Mr Jack:** There were 32 senior managers, and 30 of them are still there, deployed within the bank.

***John Glen:*** The question is about what actions can be taken against them. What evidence exists?

Q304 **Mr Jack:** It is not just them. This is where I think the focus has to go. The mistrust amongst SMEs is not just of banks; it is the way that banks colluded with their professional advisers.

***John Glen:*** Yes, as we saw in criminal terms, in terms of what happened with HBOS Reading.

Q305 **Mr Jack:** Also, though, within RBS we have had evidence of Alder King and we have had people write to us. You mentioned commercial property loans, and I experienced this—trumped up revaluations of commercial property done by colluding with valuers and insolvency practitioners. A lot of people rightly feel they were robbed of their assets, and Rushanara made the point earlier about people's lives being destroyed and some people taking their own lives.

I am going to put this to you: the only way we are going to get confidence in the banks again is if we see some of those people who engaged in that activity and destroyed people's lives locked up. We are not seeing enough people go to prison. Confiscation redress is important, and everyone deserves it, but for banking to clean up its act we need to see some of these people banged up.

***John Glen:*** I understand the pitch of the anger, and I have obviously seen it when I have met with individuals, with MPs and their constituents, a number of times. I saw it in your speech in the debate a few months ago, and in the previous one. I do understand.

**Mr Jack:** I did not suffer out of it but others did.

***John Glen:*** I understand, but I do also recognise—and you would recognise this, Mr Jack—I do not have investigative powers. I cannot personally attest to what those 30 individuals did or did not do, and we have an FCA process in terms of evaluating the effectiveness and comprehensiveness of the redress scheme, and whether we actually dealt with the problem is a matter that is still not completed. What I would also say is that clearly RBS has changed significantly since then, and the balance of how we actually get things right for the future versus what we do for—sorry, you look sceptical, Mr Jack.

**Mr Jack:** Slightly.

***John Glen:*** You do not think that the profile of the bank of RBS has changed since 2008?

**Mr Jack:** No. It is 32 senior managers, of whom 30 remain from the GRG days, and I feel RBS has a long way to go before it is trusted again.

***John Glen:*** Sorry, I am not clear what you are actually asking me to do, Mr Jack.

Q306 **Mr Jack:** I would like to see more and extended powers given to the FCA, to have more teeth, but also for the police to be allowed to investigate some of the perceived criminal activities not just of the bank—it is not the bank per se—but of the bankers who do wrong, and their professional advisers. I would like them to be properly investigated by the police, and criminal charges brought where they should be.

***John Glen:*** Where there is evidence that can be brought to those who have the investigatory powers, I am very keen to see that those investigations are undertaken.

Q307 **Mr Jack:** I suggest that you contact Anthony Stansfeld, the Thames Valley Crime Commissioner, who would like to give you evidence.

***John Glen:*** I have spoken to him. I spoke to him within three weeks of taking the job, but I am not personally able to investigate.

Q308 **Mr Jack:** So who is?

***John Glen:*** The police. He is the Police and Crime Commissioner for Thames Valley, I believe. When criminal allegations are made, it will be for the police to investigate and respond with the CPS.

Q309 **Wes Streeting:** Just on that point, he has asked the Treasury for additional resources to make sure he can properly investigate the seriousness of the allegations—the crimes that are alleged to have taken place—has he not?

***John Glen:*** He did not ask me for additional resources.

**Wes Streeting:** He has asked the Treasury.

***John Glen:*** I am not familiar with what he has asked the Treasury for. I have not seen anything that has come to my desk in terms of seeking additional resources. I do not know whether my colleagues have.

***David Raw:*** No.

**Wes Streeting:** That is interesting. I will come back to that.

Q310 **Chair:** Mr Raw, earlier on you very helpfully set out some figures on lending on the stock and the flow over the course of the last decade or so. Could you possibly write to us, just setting out those figures? That would be quite useful evidence.

***David Raw:*** Yes.

Q311 **Stephen Hammond:** Minister, good afternoon. Following on from the Chair's last remarks about the stock and flow of lending, I think you made the point that lending had levelled off. However, the source of lending to small businesses from alternative finance actually rose in the last year. It is relatively small in terms of the overall stock, but I am interested in the Treasury's view about the ability of alternative finance to provide resource to the SME sector, and which—if any—of those particular methods the Treasury fancies most or believes is likely to be the most successful.

***John Glen:*** That is a very interesting question. I do not think we sit and have a single policy in terms of saying, "We are going to push one or the other". We see a number of options around peer-to-peer lending; we see invoice financing, we see more asset financing and we see new challenger banks who are offering new products more easily to small businesses.

I will rely on Philip, in a minute, to talk about how the BBB is seeking to open up new options, but what I would say is, in terms of the mechanics of this—

Q312 **Stephen Hammond:** Perhaps Mr Duffy will want to come in in a moment, but what role do you see for it overall, then, if you do not see a view between particular types of alternative finance? Do you see it as an important or a minor segment?

***John Glen:*** No, I see it as a growing segment. I think the alternative sources of funding will become more popular, but it is from a small base that is growing rapidly.

***Philip Duffy:*** First of all, we are talking about quite a wide variety of companies, with differences of needs. Quite straightforward asset finance, secured against a particular asset, is clearly a sharply growing sector. All of these are quite small. We have had £18.6 billion of asset financing last year, so against the £165 billion stock of lending, £18.6 billion is actually quite small. However, it is growing, and that is clearly filling quite a useful niche in that area.

I suppose the interest I have here is trying to make more equity finance for SMEs, and traditionally that has been quite conservative, in terms of the number of equity finance deals. A lot of founders and SME managers do not want to give up control of their company; they are quite concerned about that. I think there is a role for enhanced equity finance. The numbers are still extremely small in the UK, and that worries us. Why equity finance? Partly because it can assist with cash flow in that early phase and partly because it is patient; it can wait longer for the company to grow more, and that will help productivity. That is currently our key focus. However, as the Minister says, the numbers are currently still very small.

**Stephen Hammond:** You see it as an important growing sector.

***Philip Duffy:*** It is very important, yes.

Q313 **Stephen Hammond:** I am interested in your remarks about equity finance, because in the evidence the Committee took on 6 March, one of the witnesses gave the following statement: "The Government are stuck in a time-warp, to some extent, where they are not recognising the role that equity crowd-funding is having in start-up, early-stage and high-growth businesses." Obviously the Government co-invest in certain peer-to-peer platforms, but do the Government think that there is a greater role for equity crowd-financing, and what are you doing to promote that?

***Philip Duffy:*** The first thing to say is it is not just about the money; it is about the capability and capacity to do that. What the BBB has done so far has been looking across every aspect of finance. It is looking at peer-to-peer; it is also looking at peer crowd-funded equity; and it is looking for partners who meet its risk appetite, where it can get a reasonable return, because it is required to deliver a certain level of return to the Treasury and to manage its portfolio.

We have no opposition to peer equity finance, which is what I believe your earlier witness was referring to. It has a role. However, these are quite high-risk investments, particularly for individuals, and one of the questions that we need to crack to make this change is making sure we have enough capability and a cadre of equity and venture capital investors who can effectively manage those risks and spot the right businesses.

One of the things that might be holding us back right now is a very lumpy distribution of that expertise around the country, and that is one of the things we have asked the BBB to address, because, going back to Mr Mann's comment about businesses in his constituency, it is quite unlikely they are going to come across an angel or a venture capital investor in the constituency who could offer an alternative to the four big banks.

Q314 **Stephen Hammond:** Although it may be lumpy where it is provided, are you, Minister, happy that there is enough awareness of the enterprise investment scheme, the Seed Enterprise Investment Scheme? Those are all aimed at early stage, and they would all be exactly addressing the point Mr Duffy is raising? Do you think there is wide enough knowledge of that, and what are the Government going to do to promote it more widely?

***John Glen:*** We have reviewed the EIS scheme and the SEIS scheme, to see that it can be operated more quickly, but I would go back to some of the challenger banks, as well, who are forming relationships more easily with SMEs, and that is going to be a source of lending. There is a great ambition from those to increase their share of the market and to take on those challenger banks, so that Mr Mann's constituent would not just always think about the big four.

***Philip Duffy:*** We have asked BBB to really set as one of its targets the raising of awareness of the opportunities it sees nationally. It also has its new online referral hub, which is worth looking at, in terms of how you can see what is available. It has also commissioned setting up a network of regionalised co-invested angel investors to try to boost the population of people who are doing this sort of work outside London. It cannot be right that more than half of our deals are in London. That cannot be the right answer.

Q315 **Stephen Hammond:** No, but the question is whether we are funding opportunities outside London as well.

***Philip Duffy:*** Right now, they are not in sufficient numbers. The gap between what BBB assesses as high-growth firms, which you find in every region of the UK, and the amount of money going in is quite stark in many places. I think that is a problem that we should be able to fix.

Q316 **Stephen Hammond:** The bank referral scheme started in November 2016, and so far, once they have had a refusal from a bank, less than 3% of SMEs who have then been referred have got financing. Why do you think the scheme is not taking off in the way you had anticipated?

***John Glen:*** Part of the challenge is that people who have gone into that referral scheme have exhausted a considerable process based on a long-term relationship with one of the big four banks. If they have gone through an application process, having worked with the bank for 10 years and then being unsuccessful, we have to be realistic about the fact that that means a number of factors will have been looked at. When I speak to OakNorth, they say, "System says no. There is a better conversation that we can have that will allow us to find a solution".

The figure I had was that 10% of those who have gone into the scheme have had an alternative offer made. It is never going to be 90%, because some of those were legitimately turned down from those before they were referred in. However, as we see more options and more data around SMEs and their performance, that will help, and that number should go up.

Q317 **Stephen Hammond:** Can you just be clear: what does the 10% figure refer to in terms of date? The figure the Committee has—

***David Raw:*** Some 17,000 people voluntarily agree to be referred into the scheme, and 9,000 of those made contact with one of the platforms; 800 of them got a loan. That is a 10% conversion rate for the people who had made contact with the platform. That is where the 10% comes from.

***John Glen:*** I am happy to be corrected, sort of.

Q318 **Stephen Hammond:** We just like to make sure that the numbers are correct, Minister. I have one last question on the RBS alternative remedies package, which is available to alternative lenders as well. Those are for people who are going to compete against each other, and in some cases compete against well-established banks. What are you doing to make sure that the alternative finance sector has a fair crack of the whip, so to speak, to be able to tender for that money?

***John Glen:*** I have to say that I am not familiar with the detail of the process of that allocation. What I am familiar with is that there are certain categories of money, and pots that have been delivered. I think we go back to the fact that two individuals have been selected, and in a few months' time we should be in a position where we should hear from them some details on how that process is going to occur. I do not know whether there is anything else that can be said.

***David Raw:*** I think all we can say is that some categories—of which I think there are four—fintechs and people without business current accounts who are just in business lending to apply.

Q319 **Stephen Hammond:** I know there is a clear category for fintech, and that will be kept for fintech. There is some concern that in the £800 million allocated to challenger banks, for instance, you are allowing Santander to compete in that category. It is difficult to classify Santander as a challenger bank.

***David Raw:*** It is probably worth saying that alongside the £425 million capability fund, there is also a £350 million switching fund. Part of the aim there is to get 120,000 accounts, or 3% market share, to switch. In order for that to happen, there need to be people involved who have a significant business current account capability.

***John Glen:*** Remember, this is an independent entity that will make those judgments. I am not sitting down making allocations.

Q320 **Stephen Hammond:** It is, and I accept the categories, but presumably you would want to make sure that the categories are fair in terms of what you are trying to encourage, so that people can compete in them.

***John Glen:*** Absolutely. Yes. Of course.

Q321 **Catherine McKinnell:** I just had one question to follow up from Alister's questions previously. Just listening to the exchange, there does seem to be a clear gap in the UK's corporate liability laws when it comes to economic crime and holding people accountable within the banks. Have you done any work on looking at whether Section 7 of the Bribery Act that was brought in in 2010 should be extended to all economic crime? It was something that the Government looked at, but they ruled it out as unnecessary. It does, however, seem to be something that I think the Government could potentially look at again. Do you believe the SFO and the criminal policing authorities have the right legislative powers in order to pursue these matters?

***John Glen:*** That is something I would have to examine again. It is not a matter I have looked at so far. However, I am acutely conscious of the outstanding frustration with both the adequacy of the redress mechanisms that have occurred and are occurring, and a future settlement that needs to be set fairly. I do not rule anything out, but that would be something I would need to examine carefully in the context of other issues that we are resolving in the autumn.

Q322 **Catherine McKinnell:** I also wanted to ask about—back to Brexit—the European Investment Fund, which is at risk of being lost as we leave the European Union. The Chancellor has suggested that the Government would replace any lost funding, but it is not clear whether that will be replaced in full, and whether that commitment has been made. Are you able to make that commitment today?

***John Glen:*** No, what I can say is we are acutely aware of the role that the EIB and the EIF have played across the country, in significant numbers in some parts of the country. We are conscious that as part of the process of leaving the EU we need to find alternatives that make good that gap in the financing. The detail of that solution is tied up with the negotiations, and I cannot offer any more clarity at this point today.

Q323 **Catherine McKinnell:** Gosh. That is not really satisfactory, considering the timescales involved here. I am aware of the North East Fund, in my region, which has put an awful lot into that investment and is relying on that investment, and I have to say that is not a very satisfactory answer to those SMEs who require some greater certainty.

***John Glen:*** I am sorry. What I am saying is we will make good on the gap that exists.

Q324 **Catherine McKinnell:** Okay, so that is a commitment from the Government to honour the funding that would be provided by the EIF; you just cannot say where it is coming from.

***John Glen:*** We need to make sure that the gap that is created is filled appropriately in order to ensure that the significant investment that has been made through that vehicle is available from alternative means.

Q325 **Catherine McKinnell:** Okay. That sounds slightly more reassuring, but I think it is actually really important for SMEs to be given some confidence that the Government will honour those EIF commitments one way or another. It would be good to have absolute clarity on that, if that could be given.

More generally, you say we will make sure that these funds can be found from other sources, but there have also been concerns expressed that Brexit will have an impact more broadly on the SME sector and its ability to access finance. You must be aware of the University of St Andrews study that gave very concerning signs for the future for SMEs in relation to capital investment in particular. Do you have concerns that the SME output and productivity levels might be impacted by Brexit, and what are the Government doing to mitigate any of those potential effects?

***John Glen:*** In terms of productivity, at a national level we have increased investment in the national productivity fund, which has gone up from £23 billion to £31 billion. In terms of SMEs specifically, I indicated in my earlier remarks that the degree of uncertainty that exists is not helpful to the economy and to businesses trying to take decisions for the long term, but we have discussed the way that we have invested more and are seeking ways of trying to ensure that the British Business Bank is engaged in different regions of the country with new mechanisms to make funds available. These are some of the actions we are keen to take to make sure that the range of options that SMEs have available are plentiful and do not rely on the four big banks, which themselves are seeking to extend.

Q326 **Catherine McKinnell:** Do you think there has been adequate information and communication given to SMEs about these matters?

***John Glen:*** It depends what specifically you are saying. I think there are a number of initiatives that we are taking with the British Business Bank. Obviously it is not a retail bank, but we are working through partners, through local authorities, with LEPs, to make those options available. I am not aware of any significant gaps in understanding—I do not know whether Philip wants to say anything about how the recent innovations in the British Business Bank are being rolled out across the country.

***Philip Duffy:*** The BBB is trying to regionalise itself, and trying to invest more in regional funds to improve that capacity and capability. That is a really important step, because a lot of VC in particular rests on personal networks, and if you are excluded from those networks you are not going to get it. That is a really important point.

Let me go back to one more point on the EIF question that you raised, which I think is very important. The Chancellor said that we want to, if possible, have an ongoing relationship with the EIF after Brexit. That is not unparalleled. There are a large number of non-EU states with which the EIF works regularly, and it is a relatively important player in the equity market in the UK—about £1 billion a year of supported funds go through. We stand ready to replace that if we find we are unable to make that relationship work, probably via the BBB, but we are still negotiating. It is not clear whether we need to do that yet or not, and we do not want to get into the ins and outs of that negotiation.

***John Glen:*** Hence the ambiguity of my answer.

***Philip Duffy:*** That is why we are not giving a totally clear answer on that question.

Q327 **Catherine McKinnell:** Okay. That is slightly reassuring. I just wanted to touch on open banking, because it has been talked about as transformative for SMEs. Are you satisfied with the progress made on open banking since it was launched five months ago?

***John Glen:*** In terms of the big banks, they are working and testing lots of new concepts, and I am told there will be a lot of progress made this year. Obviously, if you are rolling out new products that are open to a large number of customers, you have to make sure it is right. We have obviously seen recently some high-profile concerns where changes did not go well.

Where I see more interesting opportunities with open banking is the use of fintech companies to find new ways of interrogating our behaviours—our banking behaviours—to offer better products. You have three categories of activity: the fintech challenges, the legacy players and the big tech companies. With the dynamics of those three genres, in terms of how they interplay, do the four big banks start taking over some of the challengers and some of the fintech companies that can offer them the differentiation? Scaling up within those organisations is a big challenge. Do we see new entrants essentially using their relationship and the depth of their relationship to offer banking services? We do not yet know.

In terms of proliferation of retail offers as a consequence of open banking, no, we have not seen that yet. However, I do anticipate we will see progress.

***David Raw:*** We always thought the ramp-up would be slow. There are firms actively out there, like iwoca, for instance, that are actively building an open banking solution, so that an SME, rather than getting an answer in 24 hours, can get a near-instant answer. That is quite transformative. There is also the Nesta Open Up Challenge, where there are firms again going through it that are actively developing solutions that will be extremely beneficial to SMEs.

Q328 **Catherine McKinnell:** Are the Government or the Treasury doing anything specifically to support those fintech companies and proliferation?

***Philip Duffy:*** The BBB is going to be part of that as well, because there are a number of programmes that are aimed at supporting new entrants to asset finance and the banking sector. I can give a couple of examples of that. They work through a programme called ENABLE, which is about supporting new asset finance providers. They also provide guarantees to banks to underwrite new loans, particularly in riskier areas. House-building is one we have heard a lot about recently. One of their remits is to make sure they are looking at supporting those areas. Their investment programme has been co-investing with some of these new providers. They currently have around £800 million co-invested into new providers. That is a mix of some debt funds, asset finance, fintech firms, so hopefully we are doing quite a bit to try to support those new entries.

Q329 **Catherine McKinnell:** Is that making it to the SME sector, in particular?

***Philip Duffy:*** The BBB reports that their investment programme is currently reaching 29,000 SMEs, which is not a bad number—by December 2017—through that support.

Q330 **Chair:** While you are here, Minister, it may surprise you to know that we may have a couple of other things to ask you. I am going to bring Wes in on that in a moment, related particularly to the appointment hearings we held yesterday.

One thing I do want to touch on, which I think Rushanara mentioned earlier on, is that we have obviously been quizzing TSB in recent weeks about the IT migration that has gone so very badly wrong. I would be interested to hear your thoughts and comments on that, particularly about the fact that, as Rushanara said, some of the customers who were caught up in it are not just individuals—they are SMEs that, because of the lack of access to their accounts, have found it impossible to receive payments, make payments, pay their employees or know what their balances are. Branches are being closed, so SMEs are not able to walk in and talk to branch managers; it is all done online. It has become very clear that IT reliability is becoming absolutely critical in terms of ensuring customer confidence but also financial stability.

I do not think we have heard your thoughts on that more broadly, or thoughts from the Treasury. The FCA has been fairly outspoken—rightly—about it, as have the PRA and others. Would you care to comment on the importance of IT for SMEs and the lack of access through branches?

***John Glen:*** As somebody with a dozen years' experience at Accenture in IT consultancy, I am very aware of the risks associated with these big projects. Clearly you are absolutely right; it has had an absolutely devastating effect on consumers and small businesses not to be able to do what they need to do, with sometimes catastrophic results. Clearly, TSB needs to address those specific cases where there are individuals who have been severely impacted. It needs to find solutions quickly for them.

In terms of the vulnerability of IT systems and changes, in another way Visa had difficulties too. These will clearly be matters of great concern in terms of the stability of our banking operation, and we have a banking stability team in the Treasury that will be looking at some of the risks associated with these projects and with the fundamental geometry of these banks and what they are doing.

We are not silent on it, but it depends really on the scale of the risks. Obviously we are not, day to day, operationally aware of every single thing that is happening. Obviously for commercial reasons people are sometimes reluctant to be clear about exactly what happened. For me the issue is about what they are going to do to put it right and what confidence they can give us about it not happening again.

Q331 **Chair:** Have you had those conversations with the TSB chief executive or the chairman? If you have not, has the Chancellor or has anybody in the Treasury spoken to TSB about what went wrong and what they are doing about it?

***John Glen:*** I have not, but I am pretty confident that some of my officials have. I do not know whether David can confirm that.

***David Raw:*** Yes, we met Paul Pester. At the time in the meeting, they were still very much in the midst of the issues so he did not have a definitive answer, but we very much made clear our interest in understanding what went wrong.

Q332 **Chair:** When was that, roughly?

***David Raw:*** I do not know. It was a number of weeks ago.

**Chair:** Could you perhaps write to us and tell us? It would be helpful to know.

***David Raw:*** Yes.

Q333 **Chair:** Are you keeping a watching brief, and are they keeping you updated?

***David Raw:*** They are keeping our financial stability part of the Treasury updated.

***John Glen:*** I get a summary of that on a fortnightly basis.

Q334 **Chair:** How serious would it have had to be, Mr Raw, to escalate it to the Minister, for him to have the conversation with the chief executive.

***David Raw:*** As the Minister just said, he gets a summary on a fortnightly basis.

***John Glen:*** I am getting a summary of what has happened.

Q335 **Chair:** When would you have stepped in, John? When would you have picked up the phone to Dr Pester? TSB has now had over 100,000 complaints. At what point does the Treasury Minister say, "I think I need to do this myself"?

***John Glen:*** It is not about whether I have some Midas touch; it is about whether they are effectively dealing with the problem and the issues that have been raised.

Q336 **Chair:** We all know that, for chief executives, either appearing before the Treasury Select Committee, which we like to think is a pleasant experience—some people find it more pleasant than others—or the Minister being on the end of the telephone and phoning the chief executive's office, are pretty powerful things.

***John Glen:*** I have met a number of chief executives over the last five and a half months. I am more than happy to meet them. Obviously, there are a range of escalatory measures. We need to be confident that they are taking action.

What I can be confident about is the particular team that I know operates very effectively in the Treasury. If there is a case where they feel they are not getting the sort of co-operation that is leading to positive outcomes, they would come to ask me. They have not done that yet.

Q337 **Chair:** Do you have confidence in the TSB leadership?

***John Glen:*** I am very concerned that they should urgently address the issues that are outstanding, and I expect that to happen.

***Philip Duffy:*** I just want to make the very obvious point, really, that within the Treasury we regard these banking systems as critical national infrastructure, so that is on a par with the energy supply of the country, and we treat them in that way, with the same appropriate reporting lines. If we do find problems, they are reported very quickly and we work across Government on that. I will not go into how that works, but just to reassure you that from our point of view these are absolutely critical systems, not just for SMEs but for the wider economy.

**Chair:** Absolutely. Absolutely, I agree.

Q338 **Charlie Elphicke:** When you met Dr Pester—

***John Glen:*** No, I have not met Dr Pester.

**Charlie Elphicke:** Have you spoken to him on the telephone?

***John Glen:*** No.

**Chair:** Mr Raw was saying that the Treasury officials did.

Q339 **Charlie Elphicke:** Are you planning to see Dr Pester at any stage?

***John Glen:*** I envisage seeing him in the course of seeing all chief executives, and I would imagine I will see him pretty urgently, yes. I am not aware that I will see him in the next 10 days.

Q340 **Charlie Elphicke:** Do you think it is an important meeting to have, so that Dr Pester is fully apprised of the strength of concern?

***John Glen:*** He is fully apprised of the concern of the Treasury, because my senior officials have been talking to them throughout this whole process, on a daily basis, I would imagine.

Q341 **Charlie Elphicke:** Are you aware that we have concerns, as a Committee, that he has been misleading to us and to his customers?

***John Glen:*** I am aware of his multiple interactions with this Committee and the concerns that you are likely to have, yes.

Q342 **Rushanara Ali:** I have a brief observation. You mentioned that anything that might have an effect on economic stability is carefully watched, but this sort of case, which is affecting hundreds of thousands of people, does not necessarily have that effect. In terms of your responses—the Minister is not being briefed to actually pick up the phone and have that conversation while all of this is going on, and the Committee has expressed its lack of confidence in the chief executive. We have had a number of hearings and ongoing complaints—the last time they came here, they had only dealt with 25% of the cases—so it does not inspire confidence.

This is for the officials, by the way. No disrespect to you all, but I know how the Treasury's focus around macroeconomic stability can blind it to the micro issues of individual cases that amount to hundreds of thousands. I am afraid the impression we have today is that the two things are not given even weight. I just want some reassurance, because the Minister should have been asked to make the call. Why was he not?

***John Glen:*** I would like to comment first, and then I will allow others to respond. The bottom line is that they have an ongoing dialogue with the banks about what they are doing to address these issues. They also deal with those risks to try to anticipate and stop things from happening. I also see briefings on banks that are experiencing challenges, and on an ongoing basis I am told, "We think this one will resolve itself, in terms of where they are with their capital requirement", or a number of issues. I receive these notes on a random but regular basis.

In terms of the specific advice and why I was not asked or advised to call the chief executive, I think that is because there is an ongoing conversation at a senior official level. I agree that clearly, if they are not making progress, I am totally keen to engage with him.

***David Raw:*** It is worth just saying as well that, as Phil said, there is a framework in place in the Treasury for when things like this happen in parts of the critical national infrastructure, which involves parts of the Treasury, parts of the regulators, and the bank working extremely hard, and in very, very direct communication with TSB on this issue. It is not right to say that work has not been done on this issue. Bits of the Treasury have been working very hard and very closely with TSB.

***Philip Duffy:*** The Treasury has an operational unit—the Financial Stability Unit—which monitors these businesses. It regards this as an extremely serious incident, so I would be worried if we leave the room today with some sense that we were complacent, or that this was not a major problem. This is a very, very significant incident. That unit works at any time required—24/7, over weekends—to make sure that we respond to those incidents when they come up. We have quite well developed strategies for such things.

I can see that you are concerned about it, and I wonder whether we ought to write to you to set out how we have responded to the particular incident, to reassure you that when it comes to incidents on this sort of scale, they are taken extremely seriously by us.

Q343 **Chair:** Though obviously it is always helpful to know, even in general terms, how these sorts of incidents are responded to, I think the point that Committee Members are trying to make—and it is the reason I raise it today—is about individual businesses and consumers who have been deeply, deeply affected by this. If you are aware of the evidence we have heard, people have risked losing houses or losing businesses; people have watched money drained from their accounts by fraudsters while they wait on telephone lines for five or six hours or more to report the crimes; people's weddings have been ruined—all sorts of things.

The message I am getting is not that the Treasury has not investigated and monitored and officials have not spoken, but actually that the consumer may have got lost sight of in this. I would have thought this was a serious enough issue for the Minister not just to be briefed on, but he should actually have been asked to concentrate the mind of the chief executive by speaking to him directly.

***John Glen:*** I acknowledge the concern. I interpret that not as a criticism of the Treasury officials, but as a criticism of my judgment in not picking up the phone. I can accept that. I will go back and speak to the team about exactly why I was not asked to do that. I did ask questions about it. I did receive briefings about the journey that they were going on to try to resolve it. As I say I have lots of meetings with chief executives. I do understand the concern over it, and I am very anxious that they are taking steps—I know that they are—to deal urgently with the 75% of cases that have not been dealt with.

Q344 **Wes Streeting:** Just briefly, do you have confidence in Dr Pester?

***John Glen:*** I am actively concerned that the bank makes urgent progress in resolving the considerable concerns of customers who have been badly treated. I am concerned that those matters are resolved, and until they are it remains to be seen whether he has been effective or not. Clearly at the moment there is a lot outstanding.

Q345 **Wes Streeting:** I hope the lack of a "yes" answer from the City Minister is heard in the right places. I think you are quite right to reserve judgment given everything that has happened.

Just a quick couple of bits of washing up from some of the other lines of questioning, and then I want to come directly to the MPC appointments. I just want to be clear, in response to the Chair, is my understanding of what you said correct: that the Banking Competition Remedies fund, the RBS money, will not be made available until autumn now? Is what you are saying, or did I mishear what you said?

***John Glen:*** No, what I said was that the chairman and chief executive have been appointed. I expect them to be coming forward with their plans very soon. I cannot tell you exactly when, because they are independent of me, but I would hope it would be at the end of the summer or early autumn. I do not know for certain.

Q346 **Wes Streeting:** The reason I ask is because the package was agreed in principle in July 2017. It was approved by the European Commission in September 2017. This is good news. It has the potential to make more lending available to small and medium-sized businesses. It is pretty poor, is it not, that the Treasury has dragged its feet in this way, so that something that is good and is helping businesses at a time when they need it is not coming through, in the best case, until a year since the package was agreed in principle, but probably later?

***John Glen:*** I am frustrated that the appointment process took as long as it did. We are where we are.

Q347 **Wes Streeting:** Was that the hold-up? The appointments process is the hold-up.

***John Glen:*** I cannot give you a description of the timeline for what has happened in the last three or four months, but I did feel there was a bit of a gap between when the actual appointment of the chairman was confirmed. We are where we are now, and I am eager to see progress rapidly. We have communicated that, and I have communicated that.

**Wes Streeting:** I do not think it reflects well on the Treasury's delivery of this project.

***John Glen:*** I acknowledge your concern.

Q348 **Wes Streeting:** I am glad you have emphasised in your replies your eagerness to see faster progress.

Finally, this is not directly small-business-related, but given that you are here this week I do not think we should let it pass. There is this unedifying war of words between the Bank of England and the European Banking Authority over derivatives and the risk of £29 trillion worth of contracts being declared void. There are lots of people who are concerned about the whole process of Brexit generally and how it is going to impact on different areas of the economy and different sectors. How are we going to see an appropriate and timely resolution of this for all of those people who are watching and making decisions and anticipating making decisions about these contracts?

***John Glen:*** What I can tell you is that the Treasury is preparing for the negotiations. It has set out a very clear position. In terms of the provision for a situation where we do not have a deal, we are also engaged in making sure we have a functional regime in all areas—i.e. we are on-shoring all regulations in respect of all outcomes, but we expect there to be a deal including financial services, and we are engaged in a deep dialogue at officials-level across the EU, as we prepare for that process.

It is very important to understand that we are in a process that is characterised by public positions that are often bold and appear a large distance apart. However, as the Chancellor has said, you would expect to see that as part of a negotiation. I expect to see progress in the economic interests of the EU and the UK, because frankly the City of London is a global asset, and that is of value to the EU as well as to the UK.

Q349 **Wes Streeting:** It is very refreshing to hear a Minister saying that this week.

I want to come now on to the MPC. I do not think I can state strongly enough the level of anger—"dissatisfaction" is too mild a word—and frustration around this table at the lack of gender diversity on the MPC and at other senior levels of the Bank, to the point of pulling our hair out. That is not a reflection on Professor Haskel, who we saw yesterday; we will make our views on his suitability known shortly.

The question is really simple: at this stage, what more do you intend to do, as the Treasury Minister most regularly in contact with the City and financial services, but also with the Chancellor, and other senior officials in HMT, at the Bank? What more do you intend to do, both individually and collectively, to sort out this problem? There is no shortage of available talented women for these roles, as the Women in Finance inquiry that we conducted shows. Why are we not seeing more women at the top, and what will you do about it?

***John Glen:*** I take this matter very seriously. I am responsible for the Women in Finance Charter, and I hope that next month we will see a significant increase in the number of businesses that have signed up to that.

Q350 **Wes Streeting:** We have been trying to recruit for you as we have gone around with our inquiries.

***John Glen:*** Good. That is excellent. I will be at the Women in Finance Awards ceremony this evening, and I will be making a speech agreeing with what you have just said about how important this matter is.

With respect to the Professor Haskel appointment, I believe he was selected from a shortlist of five, four women and him, on the advice of the Committee. That is a matter that you have examined.

I do note the appointment of Julia Black and Jill May to the PRA recently. I would draw your attention to the fact that I was at the European Scrutiny Committee two weeks ago with Katharine Braddick, who is the senior DG in the Treasury and is engaged in lots of the issues around Brexit. The head of banking in the Treasury is also a lady.

I do recognise the point you are making around the challenge overall in this sector to look at the culture in terms of what inhibits the progress of women before we get to board level, so that the pool of candidates is bigger. Businesses are missing out if they are not taking corrective action earlier on. I have an extremely high regard for Jayne-Anne Gadhia from Virgin Money, who is doing a fantastic job in this area.

I think we now need to move into an area where we look at specific practices that are helpful to women, to level the playing field in the City, and to try to make those more accessible in more parts of financial services. You are right to raise it, and it is work in progress.

Q351 **Wes Streeting:** Four women were shortlisted. Is it your intention to make sure that those people have received proper feedback and are encouraged to apply? I know you are not directly responsible for this, but what is your view on making sure that those people, if suitable, are encouraged to apply again?

You mentioned your speech this evening. What have you been doing, in practical terms, since your appointment, and what do you plan to do personally to encourage as many talented, capable women to apply for these roles when they come up?

***John Glen:*** Whenever I have meetings with chief executives of banks—and there have been a few, even though I have not met the man from TSB—I have mentioned it to them. I have spoken at the British Venture Capital Association, because there is a problem, about an event on diversity designed to promote more of their smaller companies to join. I am committed to doing all that I can to promote that work. We will get to a stage where we get a critical mass of people, I hope, signed to the charter, and then we will need to measure progress against the targets they have set and the accountabilities they have put in place.

As I say, I think there is a broader set of issues around the culture in organisations before you get to board level, and I am in active dialogue with a small team of officials on what more we can do to promote this and make changes.

With respect to the four candidates who were unsuccessful, I would anticipate they would be given detailed feedback through the recruitment process. I can certainly check into that and explain what happened, and where people are unsuccessful but still made the bar, then we will do all we can to promote them in future rounds.

Q352 **Wes Streeting:** Does the Treasury adopt any form of positive action in terms of recruitment?

***Philip Duffy:*** We set ourselves targets for gender, for BAME staffing and for disability at all our grades. We are concerned currently about socioeconomic diversity, and this week started a survey of our staff to get a baseline set of evidence about the Treasury's performance in that subject. We are also very active participants in getting, particularly for socioeconomic and BAME diversity, more interns into the Treasury and sponsoring more talent through our system. We have quite an active programme on that.

We are scoring quite well on gender. We are scoring less well on disability and BAME, and that is a real concern of ours. We can give you a breakdown of the grade mix, which is a concern of ours.

Q353 **John Mann:** Would you be, as a Minister, fully understanding, if the next name that came forward for the MPC to this Committee was a male, if the Committee was to vote, purely in terms of gender diversity, to reject that appointment, whoever it might be?

***John Glen:*** I will look with great interest at the deliberations and the outcome of the work that you have done on this matter. I will look at that when you report, and respond in an appropriate way.

Q354 **John Mann:** You understand that some of us will feel that at some stage we simply have to vote people down, however competent they are, in order to force a change. That would be no reflection on them, but the problem we have is each time we have very capable people; we do not want to criticise them. I, for one, if the Treasury puts forward a male for the MPC next time, will vote against.

***John Glen:*** I acknowledge that.

Q355 **Chair:** Minister, have you been presented with any appointments where you have sent back the list, since your appointment to the Treasury, to say, "There is not sufficient diversity on this list"?

***John Glen:*** No. I have been at the start of a process where I have said that I want to make sure we go out and really seek the best candidate, and not just go through the usual categories. However, I cannot recall off the top of my head any list where I have done that, because I do not get that many in this role. I have challenged individuals based on what I have read about them, but I do not receive the volume that I used to in the arts job, where I used to them all the time.

Q356 **Chair:** Could you send back from this Committee a message to your fellow Ministers, including the Chancellor, that that is exactly what should be happening when any of you are presented with lists of appointments? I speak from personal experience. You have to say, "No, there is not sufficient diversity on this list. Go away and try again".

***John Glen:*** Okay. I am very happy to do that.

Q357 **Charlie Elphicke:** Very briefly on TSB, we all know that Dr Pester is surfing a wave of public anger, but one of our real concerns is about

Banco Sabadell and the fact that there is an element of Dr Pester shielding the fact that there are some real issues with Banco Sabadell. Will the Treasury take an interest in Banco Sabadell, its governance, and its suitability to own TSB?

***John Glen:*** That is a matter that I am sure that the officials are already aware of. I will be seeking an urgent meeting about this whole matter following this discussion this afternoon.

**Chair:** Thank you very much, all three of you, for your evidence this afternoon. It has been very informative, and I am sure we will be seeing the Minister again at some point. I can see the look of excitement on his face. There are certain bits of evidence you are going to send to us following this hearing, but thank you for your time this afternoon.

***John Glen:*** Thank you very much.